Dissenting Report – Greens member of the committee

Young people are getting screwed

Australia has a problem with housing. A very big problem. The price of a house is, depending on where you live, likely to be high, very high or ridiculous. We have the dubious honour of spending the highest proportion of income on housing in the world. The proportion of people who own their own home, particularly amongst the young, is in decline and is now at the lowest level in 60 years. Inequality is being created on a generational scale, the economy is being distorted, and the financial system is being loaded up with risk.

In the post-war period, as income and quality of life increased, levels of home ownership rose and wealth became better distributed. There was no better depiction of the 'Aussie fair go' than the equalisation of the property market. But in the last twenty years, things have gone wrong. Housing has gone from being a roof over your head to being a financial product that millions are speculating on. Prices are well above the value that reflects the actual cost of building a house or the natural supply and demand. In some parts of some capitals cities, prices are in bubble territory.

Why is this so? Is it a supply issue? Is it interest rates? Is it lax banking regulation? Is it younger generations who want to have their house and eat their smashed avocadoes too? It is easy to play at the margins or find scapegoats, but it takes guts to address the core problems.

Australia's housing market is being driven by a tax system that favours investors above owner-occupiers. The nexus between negative gearing and a concessional capital gains tax has created an uneven playing field that gives property speculators an unfair advantage over prospective home owners. On any given Saturday, home owners are being priced up or priced out because they don't have the taxpayers shoulder's to stand on. Tax concessions for investors have supercharged the housing market by increasing the number of prospective buyers. This is what is behind the decline in home ownership rates. This is what is behind the record levels of household debt. This is the problem that needs to be fixed first and foremost.

But the Committee's report by Coalition government members will not concede the state of Australia's housing market. Reading the report is like being transported into a parallel universe. 'It's not happening.' Instead, the report seeks to perpetuate myths and half-truths. Tired tropes about 'current price cycles' and 'historical trends' are used to paper over the fact that Australians are paying more than they need to for a house and that house prices are being inflated by government policy.

Australia can't afford to ignore the issue of housing affordability if we are to avoid worsening inequality and an unsustainable build-up of mortgage debt. Unwinding the problem will be long and difficult and will require a multi-faceted response, including reform to the tax system, the banking system, and tenancy arrangements. But we need to do it. And we need start now.

The great Australian nightmare

Owning your own home—it's the great Australian dream. While the post-war suburban model of a quarter-acre block has evolved, this inquiry confirmed the fundamental role of home ownership to wealth equality and quality of life. Luci Ellis, Head of Financial Stability Department at the RBA, told the committee:

> Outright homeownership is widely regarded as key to avoiding poverty in old age. Before that life stage, homeownership is also regarded as a way to obtain the security of tenure that is so important to the wellbeing of many households, especially families with dependent children.

But home ownership is a dream that is slipping from the grasp of many Australians. And the younger you are the more likely it is that you are being locked out of the housing market.

Saul Eslake gave an account of level of home ownership in the post-war period.

> Australia's homeownership rate at the last census in 2011 of 67.0 per cent was lower than at any previous census since 1954, although it was still 4.1 percentage points above where it was then. The overall homeownership rate fluctuated between 72 and 68 per cent between the 1961 and 1991 censuses, but since then it has declined by five percentage points. That might seem like a small decline, but it masks a much more significant development.
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> Among households headed by people aged between 25 and 55 years, homeownership rates have declined by an average of almost 10 percentage points. The effects of this on the overall homeownership rate have been partially obscured by an increase in the proportion of households headed by people in older age groups, among whom homeownership rates are typically much higher.

The most recent Household, Income and Labour Dynamics in Australia (HILDA) Survey report confirmed these findings, stating that:

> Home ownership among persons aged 25–34 declined from 38.7% in 2002 to 29.2% in 2014, with much of the decline occurring between 2010 and 2014. Among persons aged 35–44, home ownership declined from 63.2% to 52.4%, and among persons aged 45–54, it declined from 75.6% to 67.4%. There was also a slight

> decline in home ownership among persons aged 55–64, from 75.1% in 2002 to 72.9% in 2014. There was essentially no change in home ownership among those aged 65 and over.

Saul Eslake also explained the impact on wealth equality of this trend.

> Given what we know about property ownership among different age groups, this amounts to a significant redistribution of wealth from younger households to older ones, and, given what we know about property ownership among different income groups, it amounts to a significant redistribution of wealth from poorer to richer households.

It has always been the case that the young and the poor are the less likely to own their own home. But the widening gap in home ownership between the old and the young, and the rich and the poor is an enormously concerning trend. We are witnessing the creation of a structural divide in our society. Saul Eslake forecast the impact that this would have on our social fabric.

> … further significant increases in house prices from current levels are likely to cause social harm. You have already heard from the Reserve Bank today why homeownership has long been considered a good thing by Australians—because of its contribution to reducing poverty in old age, because of its contribution to providing a stable environment for raising children, because of the contribution it makes to fostering community engagement and because of the security it often provides for the financing of small businesses. Those things to which a large majority of Australians have traditionally aspired are likely to become less accessible to an increasing proportion of Australians if residential property prices continue to increase and homeownership rates continue to decline.

Paying through the nose

It's very easy to understand why home ownership is in decline. Housing in Australia is overpriced. Australians are paying world record amounts to buy a house. As a result, people either can't afford to buy a house or, if they decide they can, they are being saddled with world record levels of debt. And it's the youngest who are hit hardest. In 1990 house prices were approximately six times the income of a young Australian. By 2013 that had doubled to a multiple of twelve.

Saul Eslake set out for the committee the simple problem of housing affordability.

> The most important single factor detracting from housing affordability over the past 20 years has been the almost relentless increase in residential property prices over this period, an increase which, in most of Australia's largest cities, has outpaced the rise in

> incomes by a wider margin than in most other advanced economies.

Lindsay David from LF Economic explained the increase in house prices and household debt relative to other economic indicators:

> … between the June quarter of 1996, when real house prices first began to rise, and the December quarter of 2014, real housing prices rose by approximately 131 per cent. But, over the same period, inflation rose by 60 per cent, our population grew by 30 per cent, real GDP by 79 per cent, real rents by 21 per cent and real household income by 39 per cent. In short, the growth of housing prices has completely outstripped all economic fundamentals except for the expansion of household debt. Over the same period, total household liabilities boomed from 54 per cent relative to GDP to 118 per cent, and today Australian households owe creditors close to $2 trillion, and rising. Never has our household sector been as indebted as it is today.

Yet despite the evidence from regulators and economists, and despite what everyone in the country can see as clear as day, the committee's report does not acknowledge the reality of house prices in Australia. This is an insult to everyone who participated in this inquiry, including the former Chair and instigator of the inquiry, John Alexander MP.

The rise of the investor class

This inquiry heard consistently—putting aside those with a vested interest in the property market—that the primary reason for the rise of house prices in Australia is an increase in demand in the form of investors entering the market and that it is tax incentives that are attracting these investors into the market.

Deductions for rental losses (negative gearing) and the concessional rate of capital gains tax are separate policy instruments, but the whole is greater than the sum of the parts. Negative gearing acts as a form of taxpayer funded insurance on rental income. It provides property investors a buffer in their cash flow. It smooths out the bumps and lowers the barrier to entry. The concessional rate of capital gains tax then provides gold at the end of the rainbow. It is the prospect of ever increasing property prices, taxed at just 15%, that is the big prize.

In combination, negative gearing and concessional capital gains tax are corrupting the housing market. Investors are flooding the market and, in doing so, have created a disjoint between the market for buyers and the market for people who actually need a house to live in. The demand for housing is artificially high and is not the same as the demand for a home.

The mid to late 1990s is easily identified as the point at which house prices started to decouple from ordinary measures of inflation. This follows the liberalisation in the Australian banking sector, the stabilisation of interest rates at reasonable levels, and the beginning of gentrification of existing urban areas. But it also corresponds with the introduction of the capital gains tax discount. Saul Eslake explained:

> The halving of the capital gains tax rate in 1999 made negative gearing much more attractive to property investors than it had previously been, by turning it into a vehicle for permanently reducing income tax as opposed merely to deferring it, as it had previously been, and thus had the effect of encouraging more investors into the property market. Since the proportion of taxpayers who have negatively geared properties increased significantly after 1999 to the point where, in the last two years, borrowing for property purchases by investors has exceeded that by owner occupiers, and since over 90 per cent of geared investors purchase established properties, this has also added to the upward pressure on established property prices.

Luci Ellis, RBA, made a similar observation:

> We have made an observation that the combination of negative gearing and concessional taxation of capital gains creates an incentive for people to invest in assets that produce capital gains versus assets that do not. Even if negative gearing is not currently required given the current combination of interest rates, the fact that it is available should something goes [sic] wrong, should your rental yield not be what you expected and so forth, makes people more comfortable about taking that leverage.

The Financial Systems Inquiry (Murray Review) identified the tax treatment of investment property as a major tax distortion encouraging “leveraged and speculative investment in housing”.

Who benefits?

The government would have you believe that property deductions are all about helping middle Australia getting ahead—‘nurses, teachers and police’, according to the Treasurer. But this is a deliberate obfuscation and avoids the wider issue of inequality. The simple fact is the more you earn the more likely you are to be able to afford an investment property and the more likely you are to use and benefit from negative gearing. Saul Eslake explained:

> … the proportion of claims for benefits of negative gearing are five times as prevalent among people in the top tax bracket than they are in the general population. People earning taxable incomes of $180,000 or more account for over 11 per cent of property investor

> interest deductions, yet those people represent about 2½ per cent of total taxpayers.

Luci Ellis, RBA, agreed that tax concessions on investment properties favour high income earners:

> Dr Ellis: That is true. I think people on modest incomes would find it more difficult to fund the loss. Certainly negative gearing does make the use of leverage a little bit more comfortable, because then you know that if you do have the property vacant, or for some other reason you end up making a loss in a particular year, you are only wearing the post-tax loss rather than the pre-tax loss.
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> CHAIR: And for high-income earners that is a greater deduction than for low-income earners.
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> Dr Ellis: That is true. Of course, remembering also that you might be making a loss on your full marginal tax rate on the cash flow, but somewhere down the track you are gaining capital gains, which are concessionally taxed. So that is a difference.

However, it is true that more Australians of more modest means are becoming property investors. And this is what makes the case for the reform all the more pressing. As it stands, it is more financial advantageous for many Australians to be home owners who don’t live in a home that they own. Left to its logical conclusion, everyone will be both a landlord and a renter, but no-one will be an owner-occupier. This is absurd. We have to break the cycle.

Undoing the bind of negative gearing and the capital gains tax discount will be difficult. Policy changes should aim to gradually unwind the artificial demand in the property market because the alternative—a dramatic correction in housing prices—is likely to shock the financial system and the economy in a way that further exacerbates inequality.

Recommendation: Progressively phase out the 50% capital gains tax (CGT) discount for trusts and individuals for capital gains realised on or after 1 July 2016, by a reduction of 10% each year for five years to be phased out entirely by 1 July 2020.

Recommendation: Remove negative gearing for all non-business assets purchased by individuals, funds, trusts, partnerships and companies on or after 1 July 2016, with assets purchased prior to this date grandfathered.

Easy money

Laughing all the way with the banks

It follows that if Australia's level of household debt is world leading, then so is our banking system's exposure to housing. Australian banks lead the developed world in their exposure to the housing market. Mortgages account for over 60% of the loans book of Australian banks. Since 2002, the value of housing loans has increased fivefold. This growth in mortgages provides a good marker for the record profits that the big four banks have regularly posted since the housing boom took off.

The banks' love of housing poses a major risk to financial stability. The Murray Review identified the banks' exposure to housing as one of four sources of potential systemic risk, stating:

> Australia's banks are heavily exposed to developments in the housing market. Since 1997, banks have allocated a greater proportion of their loan books to mortgages, and households' mortgage indebtedness has risen. A sharp fall in dwelling prices would damage household balance sheets and weigh on consumption and broader economic growth. It would also reduce the quality of the banking sector's balance sheets and the capacity of banks to extend new credit, which would compromise the speed of a subsequent economic recovery.

APRA head, Wayne Byrnes, recently commented that "with such a concentration in a single business line, we are all banking on housing lending remaining 'as safe as houses'."

The RBA's Luci Ellis told this inquiry that it is leverage that is "so important for financial stability, both of the financial sector and of the household sector."

But, the banks don't see a problem with the amount of leverage in the housing market. Tony Pearson, Executive Director, Industry Policy, Australian Bankers' Association, told the committee:

> … there is no evidence of a problem with the current procedure whereby banks are assessing risk in terms of loan-to-valuation ratios. Again, I would say that all the metrics we have show that in fact the bank lending standards, which is what you are talking about, are if anything getting better, not worse. At the moment, the system seems to be working well.

It's easy to understand why the banks don't see a problem, particularly the big four who account for over 80% of the market in home loans. This committee's recent review of the Four Major Banks confirmed that ANZ, CBA, NBA and Westpac enjoy a privileged position in Australian society, benefiting from both implicit and explicit government guarantees that other businesses can only dream of. This public support insulates the big four from the full extent of risk in the financial system and the broader economy as a result of Australia's exposure to housing debt. They are too-big-too-fail. This is not to say that banks don't care if there is a correction in the housing market—they're doing very nicely just now—but, thanks to taxpayers, the big four are insured against the full cost.

This is moral hazard. The structure of the banking system is such that the supply of money into housing is higher than that which would otherwise be rational and prudent. In combination with tax concessions that have inflated demand, this is a potent mix.

Recommendation: That the terms of reference for a Royal Commission into banking include the existence of implicit and explicit government guarantees on the business practices of relevant entities, including: whether the cost of the risk covered is adequately borne by relevant entities, and whether the existence of guarantees impacts upon the conduct, business practices and culture of relevant entities; and the impact of the conduct, business practices and culture of relevant entities on the stability of the financial system and the broader economy.

Prudential regulation

But are the banks culpable, or are they just rational actors responding to market incentives, and should financial regulators have done more to rein in the housing market?

APRA Chairman, Wayne Byrnes, explained to the committee:

> … we cannot and do not seek to set house prices or determine where they go and what is too high, too low or just right. All we can do is make sure that lending standards maintain a good degree of prudence, given the economic environment and market conditions we are in. What we had observed, as markets got hotter and more competitive, is that lending standards were potentially being eroded. Our efforts are really designed to make sure that the banks are keeping a sensible head in the face of a range of quite extreme market conditions. Interest rates are extremely low; household debt is extremely high; prices, even in those cities where they are not rapidly accelerating, are still at historically high levels. There are a range of factors here, and we are just trying to bring a degree of moderation.

And, Mr Byrnes again:

> We cannot have a crystal ball. We cannot know where prices will go. We cannot know where interest rates will go. But what we need to do is make sure there is a degree of, if you like, buffer

> within the system that means people have the capacity to absorb what might come along.

In line with international action to improve stability of the banking sector, APRA has increased the capital requirements on authorised deposit taking institutions, particularly the big four.

However, Phillip Soos, LF Economics, set out a case as to how APRA has failed to reign in mortgage lending:

> APRA was founded in 1998 in the midst of an exponential boom in private sector debt, specifically mortgage debt. APRA has pretty much sat on its hands, pontificating about how best to regulate the market while not doing much of anything. In December 2014, it suggested that it was implementing regulations to limit the annualised growth of investor debt to 10 per cent a year, but it is unclear on what basis it has chosen this metric. Even so, that is still too high a figure, because if investor debt is rising at 10 per cent a year and overall household mortgage credit is rising at seven per cent a year, but incomes are only rising at about two or three per cent a year, that implies a rising debt to income ratio. Also, given that nominal GDP, generously, will rise perhaps three per cent this year, that implies a rising debt-to-GDP ratio, which indicates that mortgage debt is still rising exponentially.

Recommendation: That the terms of reference for a Royal Commission into banking include the funding, performance, governance and independence of regulators and dispute resolution bodies, including any real or perceived instances of regulatory capture.

Monetary policy and the redirection of capital

The already potent mix of tax incentives for investors and an accommodating banking sector has had a truck load more fuel thrown on it in recent years in the form of record low interest rates. Lax monetary policy has had a two-fold effect: it has lowered the cost of servicing a home loan, thereby further increasing the price people are prepared to pay; and it has created a 'search for yield' which has pushed even more individuals investors into the housing market.

This is contributing to a 'low growth trap', an international phenomenon that is seeing capital redirected into unproductive and speculative investment—such as housing—which is putting a handbrake on post-GFC economic recovery. This is of great concern to international regulators.

Saul Eslake explained to the committee the deleterious impact of rising house prices on the economy:

> … I think it is increasingly debatable whether continued increases in residential property prices are a good thing for the Australian

> economy, whatever you believe about the impact of previous increases. That is because, since the onset of the financial crisis, Australian households have become much less willing to borrow against increases in the value of the properties which they own in order to fund other types of spending. Indeed, it would seem that the only thing for which Australians seem keen to take on more debt is acquiring investment properties.

The OECD's most recent Economic Outlook confirmed Australia's status in so far as housing is a contributor:

> Despite the employment of macro-prudential measures to cool the housing market, the net gain from monetary easing has narrowed. Significant housing market concerns remain and there is growing discord between financial market developments and rest of the economy due to the low-interest-rate environment.

Again, the OECD's Economic Outlook made the following observation:

> In the event of disappointing growth, however, fiscal rather than monetary support should play the leading role given the housing-market concerns and fiscal leeway.

Yet this government is deaf to these concerns. The unwillingness of this government to pull the fiscal trigger has exacerbated the impact of monetary policy on house prices. Without an alternative investment avenue in the form of government borrowing for infrastructure, cuts to interest rates have translated straight into more speculation in the housing market.

Recommendation: That the federal government increase its level of borrowing to fund productivity enhancing infrastructure.

In this respect, there is a happy coincidence between the construction and provision of more public housing and greater housing affordability. With public housing waiting lists blowing out in several states and further exacerbating housing inequality, the Federal government needs to urgently work with the states to ensure the roll-out of new public housing stock. By treating public housing as crucial public infrastructure that governments have a lead role in building, not only will there be additional investment opportunities for private capital seeking the secure, long-term returns associated with government bonds, but the increase in the supply of low-rent properties will put downward pressure on the property market.

Recommendation: That the Federal government take a lead role in co-ordinating and financing, together with State governments, a significant expansion of Australia's public housing stock.

Financial regulation and superannuation

In what may be a quaint reminder of the historical view that housing is asset for use rather than speculation, investment property is not treated as a financial product under Commonwealth law. However, the effect of this exemption is no longer benign. 'Property investment advisers' are able to provide financial advice to prospective buyers outside of the regulatory framework that applies to other financial assets. These 'advisers' do not need to be qualified or licensed, and are able to receive commissions for the sale of properties from developers. This is further inflating the flow of money into housing, and often at the most risky end of the property market.

Recommendation: Include loans for investor properties within regulatory framework for financial advice to provide consumers the full range of protections.

ASIC noted in its submission to this inquiry that:

> As an alternative to investing directly in residential property, individual investors may choose to invest through an SMSF (self-managed superannuation fund). SMSFs are the fastest growing sector of the superannuation industry and investment in property through SMSFs is consequently also growing.
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> As at March 2015, the value of residential real property investments through SMSFs was $21.78 billion, or 3.7% of total Australian and overseas assets, up from $19.49 billion, or 3.6% of total Australian and overseas assets, in March 2014. There has been an increase in investment in residential real property through SMSFs of 11.78% from March 2014 to March 2015, and an increase of 58.69% since March 2011.

The Murray Review made the following observation and recommendation:

> The GFC highlighted the benefits of Australia's largely unleveraged superannuation system. The absence of leverage in superannuation funds meant that rapid falls in asset prices and losses in funds were neither amplified nor forced to be realised. The absence of borrowing benefited superannuation fund members and enabled the superannuation system to have a stabilising influence on the broader financial system and the economy during the GFC. Although the level of borrowing is currently relatively small, if direct borrowing by funds continues to grow at high rates, it could, over time, pose a risk to the financial system.
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> …

> Inquiry Recommendation 8 — Direct borrowing by superannuation funds: Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.

Yet, in wilful disregard for the further build-up of risk and the further flow of speculative investment into housing, the government disagreed with this recommendation. This is a decision that should be overturned.

Recommendation: That the Government implement FSI recommendation 8.

Supply side obsessions

The conventional response of the property industry to evidence of an overheated housing market is to blame it all on the supply side. Restrictions on land release, delays in planning approvals, and insufficient infrastructure investment. That's what the problem is, not investors. This inquiry heard the story and the Committee's report has unfortunately largely accepted this on face value.

Undoubtedly, supply constraints are impacting upon prices in some cases. Lucy Ellis, RBA, described where and how supply is most likely to be a factor.

> The population is highly urbanised and concentrated in a few large cities. Housing prices are typically higher in larger cities. Australia's cities are also unusually low density compared with those in other developed countries. The urban fringe locations, where first home buyers have typically located, are therefore becoming further out—and potentially inconvenient for access to jobs and some services. Some of our major cities also face geographic constraints on their expansion. All of these factors tend to increase the price of well-located housing.

Similarly, Michael Fotheringham, Deputy Executive Director, Australian Housing and Urban Research Institute, explained the inconsistent nature of supply side issues.

> Obviously land supply and planning have key roles to play, very complex roles to play, around housing. As you have heard previously, we have a traditional undersupply in this country, but I think it is important to note we are not just talking about gross supply of housing but about the right supply of housing—the right location, the right types of dwelling. We have some markers of oversupply in particular types of dwelling in particular locations, but it is about having the right supply in the right places.

Catherine Cashmore, Vice-President, Prosper Australia, also explained how, in some cases, it is the business model of the property industry, particularly large-scale outer suburban developers, that are contributing to supply side constraints.

> The way that developers will work is that they have to get a certain price for the land to cover the margins that they have bought for. So you will find that they will drip-feed that land onto the market in staged releases.
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> …
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> Mr Craig Kelly: So some of the developers are actually land-banking areas to hold it back—to hold up the market?
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> Ms Cashmore : They have to.

But the evidence for supply underpinning the exceptional rise in house prices across the board is actually thin. Property Council of Australia CEO, Kenneth Morrison, and Executive Director Residential Development, Nicholas Proud, appeared before the committee and promised to provide the evidence on baseline levels of supply and demand:

> Mr Craig Kelly: Is there a natural level of housing vacancy in the market? So we talk about demand and supply and more people coming into the market. Is that something you have looked at?
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> Mr Morrison: We have not looked at that closely. We can provide some figures for the inquiry. There will be a proportion of housing at any one time that is vacant, because it is in the midst of being transacted, or for other reasons—rentals. There is some vacancy in the market, but why don't we provide—
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> Mr Craig Kelly: Is that tracked in any particular way?
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> Mr Morrison: I have seen some figures on it in the past, so we can do that.
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> Mr Proud: About three per cent is the general benchmark. If there is three per cent, that is fairly healthy. People can get into a vacant property, because they need to find a vacant property, but the ones that are in them are not getting in and getting out and flipping.
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> Mr Craig Kelly: The squeezing of that three per cent would obviously be one of the big factors in your demand and supply imbalance, I would imagine.
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> Mr Morrison: Yes. Why don't we provide some numbers for the inquiry, going back some years.

The Property Council did not follow through on this promise.

Phillip Soos, LF Economics, did provide detailed evidence comparing the change in population with the change in dwelling completions, and concluded that the supply of housing has been sufficient over most of the period of the last twenty year’s housing boom. Mr Soos explained, instead, that rents are a better indicator of supply issues and that they do no indicate a problem with supply.

> What does make sense is looking at the trend in rents, not prices. The reason prices are as high as they are, as Lindsay has noted, is debt finance speculation, which is irrational. However, rental prices cannot be leveraged. They are more likely to be efficient and determined by the interactions of supply and demand. Between 1996 and 2006, rents in real terms were flat. After 2006, when we had the period of deficits during the global financial crisis, there was a strong increase in rents and also an increase in the rent-to-income ratio. Households were paying more and more in rent as a proportion of their total budgets.
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> Since about 2013 the rent-to-income ratio has moderated. We are now seeing that rents are essentially plunging in some of the capital cities like Darwin, Canberra and Perth, while they are holding steady in Melbourne and Sydney. The major reason is the end of the mining boom in those states and also the APS cuts in Canberra. According to our supply index, that has resulted in continuing surpluses.
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> We have only provided this at the national level. The submission would be far longer if we had to provide a breakdown for every state and territory. But the main thing to take away from this is that we should be looking at the trend in rents to determine if there is a shortage. For most of the period of the housing price boom, from 1996 to 2015, rents have been pretty much flat in inflation-adjusted terms, apart from during the GFC and in some mining towns.

More recent evidence would suggest oversupply is a more pressing problem in the housing market. RLB's most recent Crane Index registered a record number of 663 tower cranes in the skies of Australian cities. This is more than what RLB registered in the entire continent of North America.

A better deal for tenants

The terms of reference for this inquiry are, essentially, a proxy for housing security. Access to secure housing is one of the main reasons people seek to own a property. However, given the nature of private investment in housing, inevitably there will be those who will not own property for extended periods of time, if ever. And, given the issues of home ownership and affordability examined by this inquiry, the relationship between tenants and landlords is a more pertinent than it has been for sixty years. Housing security for renters deserved consideration by this committee. The absence of recommendation in respect of tenant's rights in the committee's report is an unfortunate omission.

Lucy Ellis, RBA, identified the peculiar nature of Australia's rental housing market during the inquiry:

> Another area where Australia seems quite unusual is that most rental housing is owned by private individuals who are not full-time professional landlords.

Saul Eslake made a similar observation about the nature of the rental market and the problems this can cause.

> In most countries of similar incomes and social structures to Australia, the rental housing stock is overwhelmingly owned by some combination of institutional investors, public authorities, social housing organisations and corporations specifically established to invest in rental housing. They tend to invest for very long terms, whereas in Australia the overwhelming majority of the housing stock is owned by individuals. And as you said, and as others have said, these are often individuals with only one or two properties in their portfolios. That is a much higher proportion than anywhere else. Many of those investors are in the housing market for much smaller periods of time than is the case with the people or institutions who own rental properties in overseas countries, and of course that is, in turn, one of the reasons for the relatively short periods for which rental leases are available, which, in turn, leads to increased insecurity of tenure amongst that proportion of the population that is either forced or chooses to rent.

Individual, non-professional property investors have different expectations and constraints to pooled, professional investors. Institutional investors tend to favour steady returns over the long-term, and tend to seek long-term tenants and treat them accordingly. Conversely, individuals are more likely to be seeking rental returns over a much shorter time frame. Realising these returns often impacts on tenants through rent rises, lack of property maintenance and no-fault evictions.

There is evidence for these impacts in the Australian Greens' 2016 Rental Health Survey. Of the 3,190 renters who responded:

- 68% are in housing stress, paying more than 30% of their income on rent;
- 62% had been forced to leave their rental through no fault of their own in the last five years, with almost 40% having to move between 2-5 times; and
- 58% have put up with maintenance problems because they were afraid of the lease not being renewed.

These dynamics point to a tension between the interests of the landlord and the interests of tenants. Regulation is needed to resolve these tensions and to ensure that those outside the property market are not being exploited and further marginalised. National minimum standards should be implemented to increase housing security for renters.

Recommendation: Establish a new national body responsible for implementing and overseeing a new National Standard for all rental tenancies, with the view to developing a National Residential Tenancy Act. The new standard and Act should enforce minimum standards relating to: security of tenure and long-term leases; stability and fairness of rent prices and bonds; a new 'green rental' efficiency standard to ensure the home is cheaper to run and comfortable to live in; safety and security of the home; and better protection for students and vulnerable groups.

Adam Bandt MP