Executive Summary

The housing affordability problem

The majority of Australians aspire to home ownership. It should be an aspiration that through prudent management of household finances they are able to realise. Currently, there is a significant problem with housing affordability in Australia. In certain regions of the country the problem is particularly acute (see chapter 8).

On some measures, housing affordability is at a record low (see chapter 3).

- the average house price in the capital cities is now equivalent to over seven years of average earnings; up from three in the 1950s to the early 1980s.
- only a third of transacted dwellings would have been accessible to the median young household in 2006–07, compared to a long-run average of almost a half
- around two-thirds of households in the lowest 40 per cent of the income distribution with a mortgage or renting were spending over 30 per cent of their income on housing, the established benchmark for 'housing stress'.

Other calculations would suggest the problem may be less widespread:

- a low income household that in 1996 was devoting 30 per cent of its disposable income to mortgage repayments would today be able to devote 47 per cent of its disposable income to servicing debt while maintaining the same standard of living. Only around five per cent of households have low incomes and spend more than half of it on housing.

As house prices have increased, so too have rents and there are many more renting households in stress than home buying households. Of greatest concern, as many as 100 000 Australians are currently homeless (chapter 2).

Demand

The problem of affordability in Australia has been a function of *both* strong demand and limited supply. Several factors have contributed to the strong demand for housing (chapter 4). They include:

- higher average real incomes and an increase in the number of double income households;
- a decrease in the size of the average household due to later marriage, fewer children and increased incidence of separation and divorce;
- relatively strong population growth underpinned by higher immigration rates;
- the decline in standard home loan interest rates from the mid 1990s to early 2002 reflecting a low inflation environment;
- greater availability of credit, including from non-bank lenders;

- the taxation system's incentives which have encouraged investment in second and third properties (through negative gearing provisions and the 50 per cent capital gains tax discount) and have benefitted owner-occupiers over renters (through the capital gains and land tax exemptions on owner-occupied housing).

Supply

It is estimated that there is currently an annual shortfall in housing supply—relative to underlying (population-based) demand—of 30 000 dwellings. Several factors have been blamed for the shortfall in housing supply: three are of particular concern (see chapter 5).

First, state and local governments' planning processes are too complex and often involve long delays and high costs. These impediments to releasing and zoning land add to developers' costs, some of which are then passed on to the homebuyer. The state governments should reform and simplify their planning processes so that local governments can process planning applications more quickly. The committee urges state governments to act swiftly on the various planning reviews and reform processes they currently have in train. It welcomes the Commonwealth government's proposal for local governments to compete for federal grants to cover part of their new infrastructure costs on the basis of their proposals to cut red tape and reform their planning processes.

Secondly, some witnesses argued that developer infrastructure charges are excessive and have restricted supply. Previously, infrastructure was paid for by local and state governments out of rates and taxation revenue, and was often only installed after residents had moved in. Now, the infrastructure is installed as the land is developed and is increasingly being funded by specific charges on developers. These charges are significantly higher in New South Wales (perhaps because of rate-pegging by the state government) and may be significantly reducing the supply of land for housing in that state.

Thirdly, there is a shortage of skilled labour in the construction industry. There is widespread concern that skills shortages will prevent the industry from meeting future housing demands, particularly as the planned investment in national infrastructure projects commences. The committee welcomes collaboration between the federal government and the construction industry to make section 457 skilled worker visas more flexible and streamlined. It sees an important role for the National Housing Supply Council to track the construction industry's current and future skilled labour needs based on both the underlying and effective demand for housing.

The right kind of supply

The committee stresses that an adequate supply of housing is not simply a matter of constructing a certain number of dwellings in greenfield sites.

Housing supply must be well located and well serviced with supporting jobs, public transport and social and community infrastructure (see chapter 5). The way to improve housing affordability is not to build cheap houses on the outskirts of cities away from employment, services and public transport links. This simply shifts costs from housing to the cost—in dollars and time—of transport. Rather, the aim must be to build affordable housing in areas where infrastructure can provide for and attract new residents. In considering longer-term changes in the housing stock, thought must also be given to it being environmentally sustainable for it to be truly 'affordable' in a broader sense (chapter 11).

These are major planning challenges. The Victorian and South Australian governments have both devised 'urban growth boundaries' to contain urban development. Future housing development is planned around targeted 'activity centres' near existing transport and shopping precincts. The committee argues that while these boundaries are sound in principle, they need to consider carefully projected population estimates which are vulnerable to government policy decisions on issues such as immigration. It is also essential that state and local governments ensure the support of developers, home buyers and local communities in moving toward a more compact city design.

The second challenge is that the housing supply must reflect what home buyers need (see chapters 5, 6 and 8). The committee has taken evidence from several witnesses that there is often inadequate housing for those looking to downsize and for those with limited means seeking less expensive private rental housing or social housing. Greater diversity in the design, price, location and tenure of housing will help to address the problem of housing affordability and help strengthen local communities.

The committee argues that state governments' planning frameworks must establish a specific target for 'affordable' housing (see chapter 6). In addition, all three tiers of government should invest significantly under the new National Affordable Housing Agreement to meet specific targets for social housing.

State and territory governments' charges

An important part of the committee's remit has been to examine the taxes and levies imposed by state governments (chapter 7). Stamp duty is the most visible and substantial state government impost on home buyers. State governments have failed to adjust stamp duty thresholds to keep pace with house prices. This led to a substantial increase in the average rate of stamp duty on a median priced house. The committee's broader concern is that stamp duties are inefficient. They discourage people from moving to more appropriate housing types as their circumstances change. They may encourage first home buyers to buy a larger home than they need at the time to avoid paying further duty should they relocate.

As mentioned, state governments' infrastructure charges on developers can potentially restrict the supply of housing: they may also substantially increase the cost of a house. The committee heard a range of views on these charges:

- that they enable more land to be developed quickly than if the cost of infrastructure were to be borne by cash strapped local governments;
- that the current system allows local governments to set excessive, 'gold-plated' standards for the outlay of infrastructure;
- that higher infrastructure charges will not substantially affect housing affordability; and
- that a new infrastructure funding system is needed based on a 'betterment levy' imposed on the owners of rural land when the land is sold for urban use, often at a greatly inflated value.

The committee cautions that it may not always be the case that developer charges are passed on to the home buyer. Instead, they may be partly incurred by the developer or be 'passed back' in the form of a lower price paid by the developer for the land. The extent to which the charges are passed on to the home buyer may vary with the state of the housing market.

Assisting first home buyers

There are several current and prospective federal and state government schemes to assist first home buyers (see chapter 9).

The current First Home Owners Grant (FHOG) was introduced in 2000 as a $14 000 payment to first home purchasers of new dwellings and $7 000 for the purchase of existing dwellings. The scheme is now a $7 000 payment for all first home purchasers. The committee has received evidence that the FHOG has had an inflationary effect which has benefited existing home owners rather than those seeking to enter the market. Several witnesses called for the payment to be restricted to houses below a certain value, or to buyers below a certain income.

The committee believes there are grounds to consider the operation of the FHOG, and notes the added assistance of First Home Saver Accounts (see below). Such consideration could include the reinstatement of the scheme's original structure, which gave a larger payment to purchasers of new dwellings than purchasers of existing dwellings.

The federal government announced further details of its First Home Saver Accounts Scheme in the 2008 budget. Under the Scheme, both the government and home saver will pay a contribution to a deposit account. The government's contribution will be a flat 17 per cent (a maximum of $850). The investment earnings of the accounts will be taxed at 15 per cent and withdrawals, for the purpose of purchasing a home, will be tax free. The committee acknowledges the introduction of these accounts and believes the instilling of a saving habit is important.

The committee notes the limited but growing use of 'shared equity' home ownership schemes, offered by some banks and some state and territory governments. In principle, these schemes are an attractive avenue for lower income people to purchase a part share of a house they could not otherwise afford. However, there are legitimate concerns that shared equity schemes must abide by this central purpose and should not become a vehicle for home buyers to demand bigger and more extravagant homes.

Rental schemes

This inquiry emphasises that the current supply of rental housing is severely inadequate (chapter 10). Vacancy rates are at record lows. The committee acknowledges the federal government's National Rental Affordability Scheme and its notional target of an extra 100 000 affordable rental dwellings with 50 000 by 2012. The Scheme will provide annual tax incentives over 10 years for investors in affordable rental housing. In the absence of specific details as to how these incentives will be structured and targeted, the committee will watch growth of the scheme with interest.

The committee identifies other aspects of rental housing that require attention:

- various organisations argued that the Commonwealth Rent Assistance Scheme is inadequately funded and poorly targeted. There were suggestions to target rental assistance in line with regional rental prices and to broaden the payment to include home purchasers in temporary financial stress; and
- public housing has been financially strained for more than a decade as its client base has shifted from couples with children (with many paying market rents) to people with mental health or other social problems. There is a need to increase the stock of public housing, facilitate the entry of a more diversified mix of income earners and restore pre-1996 funding levels.

Regional development

Most of the current problem in housing affordability is structural rather than cyclical, so longer-term solutions must be considered. In the longer term, decentralisation policies offer scope to allow more people access to housing that is affordable both in regard to its purchase price and in regard to the cost of commuting from home to work (chapter 11).