

Chapter 11

Longer-term responses

11.1 There is a cyclical element to the current problem of housing affordability in Australia. When interest rates rise, as there is a lag before house prices slow or fall, measures of housing accessibility and housing stress deteriorate. Indeed, particularly in an economy such as Australia's where home loans are predominantly at variable interest rates (Table 4.1), some increase in housing stress and subsequent slowing in consumer spending is part of how a tighter monetary policy acts to rein in inflation.

11.2 However, most of the current problem in housing affordability is structural rather than cyclical. It has been building over a long time. As Professor Yates said, it:

is not something short term that happened in the last three or four years, it is something that has been going on for up to, I would say, 30 years. I would pinpoint it to the mid-seventies when inflation took over and housing became important as an asset rather than as something that provided shelter.¹

11.3 Resolving it is also likely to take a long time, especially if policymakers are unwilling to take steps that involve large falls in house prices, which would push significant numbers of households into negative equity. If house prices remain steady, and wages grow at the recent pace of 4 per cent a year, house prices will not return from seven to three times annual income until 2030 (refer Chart 3.2).² If house prices are just constrained to growing no faster than consumer prices, then it would take until almost 2070 to return house prices to three times earnings.

11.4 The longer term outlook is worthy of ongoing analysis. The government's inquiry in 1991 looked forward 15 years. It said:

The projections indicate that by the year 2006 the vast majority of Australian will be well housed in their own homes without excessive housing costs. But if real house prices or real rents increase, younger households attempting to access home ownership and in particular lower income private renters will be vulnerable to housing stress. In both cases, the position of single-income households will be worse than has been the case in the past.³

1 Professor J Yates, *Committee Hansard*, 2 April 2008, p. 38.

2 This calculation is based on the existing stock of housing. If new stock is brought on at lower prices, it would pull down the average price and speed up the process. However, this may not be possible without also bringing down the price of existing housing.

3 National Housing Strategy (1991b, p. xiii). The projection of the majority being well placed for housing was made despite, or perhaps because of, projections that interest rates would have remained over 10 per cent by 2006.

11.5 This could be seen as prescient. It certainly identifies the groups now most likely to be struggling.

11.6 Looking forward from our own time, Yates (2008, p. 11) projects that by mid-century there could be an additional half million households in housing stress. The government currently produces an *Inter-Generational Report*, which looks at the impact over coming decades on the fiscal balance of factors such as the ageing population. Given the concerns expressed by some witnesses (chapter 4) about the current tax system which is regarded as favouring those who have housing and seek to invest in property over those who do not, it is important to consider the issue of inter-generational equity. A longer-term analysis of housing affordability could be either incorporated in the next of these reports or produced as a separate document.

11.7 This final chapter looks at two important issues that will influence housing affordability in Australia over the long term. The first is the need for regional development. The second is the environmental sustainability of future housing.

Regional development policies

11.8 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 it to work.

11.9 As one senator asked at a hearing:

Does it seem peculiar that we always seem to be trying to take the mountain to Mohammed? ...rather than trying to find affordable houses in the eastern suburbs of Sydney, how about we try and stimulate employment where there is cheaper land and a greater prospect of people getting into the housing market at the ground level?⁴

11.10 He gave a good example of this being successfully achieved. While it had more to do with Sydney-Melbourne rivalries than a concern about housing affordability, the founding fathers chose to put the national capital away from an existing city. The result was that there are now '350 000 people living on a creek in southern New South Wales'⁵ who would otherwise be adding to the pressure on housing prices in Sydney or Melbourne.

11.11 Professor Disney strongly advocates regional centres:

The other long-term priority—hard to achieve but, I think, enormously important—is to strengthen regional centres in Australia. If you try to think why it is that Australia has what seems to be about the worst housing affordability in the world...one of them is that we are more concentrated than any other developed country in a few major cities. I think that that is a

4 Senator B Joyce, *Committee Hansard*, 1 April 2008, pp 32 and 68.

5 Senator B Joyce, *Committee Hansard*, 1 April 2008, p. 69.

major contributing factor to excess demand in those areas driving up prices. ...Over the long term—40 or 50 years—I think a very high national priority should be to strengthen the proportion of our population living outside our biggest three cities. That will have a number of benefits, including for productivity of our economy, but it will also, I think, restrain housing costs and transport time.⁶

11.12 The best-known example of a push for decentralisation was the mid-1970s 'growth centres' initiative in Albury-Wodonga and Bathurst-Orange. These projects had some success, and may well have had more if government support for them had been sustained. Today, the Murray River would probably not be chosen as a site for increasing population.

11.13 Professor Disney commented:

There are some parts of Australia to which this is much more suited than others. I think Victoria and Queensland stand out as the two that have the best prospects—and, of course, Queensland is already much more regionalised than others. I should also emphasise that I sometimes talk about them as clusters rather than as centres; in other words, if there are three substantial cities of 70 000 to 80 000 within an hour's drive of each other, that is the same as one centre. So, in the case of Victoria, I always felt that Ballarat, Bendigo, Castlemaine et cetera had a lot of potential; in fact, it was the original proposal for where a multifunctionpolis might be. I think it would have worked very well with high-speed transport between those centres creating a cluster, which is what you have in Europe—a lot of people and organisations that play a major role in national life live and work in quite small centres.⁷

11.14 As Professor Disney pointed out, the European experience demonstrates that cities do not have to have populations in the millions to offer good jobs and attractive lifestyles. For example, arguably the richest town in Switzerland is Zug, the headquarters of, among others, multinational mining company Xstrata, and it has a population of only 25 000. The world's largest food company Nestlé is headquartered in the smaller town of Vevey. Basel, with a population of under 200 000, is home to the headquarters of the global pharmaceutical companies Roche and Novartis. Geneva, with a similar population, hosts many international organisations. As well as offering good jobs, these cities are culturally rich with excellent rail connections.

11.15 Another feature of making regional living attractive is providing high quality communications in country towns:

In country towns you will often find that the post and telegraph office will have been a very handsome building in the centre of town—it was recognised how fundamental post and telegraph was to country towns but,

6 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 30. Similar views were put by National Shelter, *Submission 57*, p. 3.

7 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 35.

nowadays, it is about videoconferencing, high-speed broadband and those sorts of things. So those are crucial.⁸

11.16 A good way of developing the right incentives is 'to ask why one would not live in a regional centre—"What is it that I think I would miss?"—and try to counteract that'. So cultural, educational, sporting and entertainment facilities are important.

Table 11.1: Demographic comparison

	Urban population (% of total)				
	Urban population (% of total)	Population density (persons per km ²)	Detached houses (% of total)	in two largest cities	In cities between 500,00 and 1 million people
Australia	89	3	77	54	0
Austria	66	96		21	0
Belgium	97	340		48	9
Canada	80	3	56	43	20
Denmark	85	125		25	0
France	76	112		49	13
Germany	88	231	31*	20	22*
Ireland	60	56		32	0
Japan	77	336	59	19	8
Netherlands	66	391		28	8
New Zealand	86	14		66	0
Sweden	84	20		61	33
Switzerland	68	178		18	12
United Kingdom	89	245	26	18	4
United States	80	30	61	17	10

Sources: Ellis and Andrews (2001, p. 16); Ellis (2006, p. 22); Lawson and Milligan (2007, p.20); Reserve Bank of Australia (2003, p. 29); SBS World Guide. *west Germany

11.17 'Medium-sized' cities are defined as having between 500 000 and a million inhabitants. Professor Disney notes that 'most developed countries have quite a number and they have 20 per cent, 30 per cent or 40 per cent of their total population living in cities of that size'.⁹ This is true of Europe and the United States.

8 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 36.

9 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 32. Australia's urban structure is also cited as a reason for high house prices by Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, p. 59.

Significantly, it is also true of Canada, the closest geographical parallel to Australia.¹⁰ (Table 11.1) In Australia the only 'city' of around that size is the Gold Coast, and in some ways it functions more as an outlying suburb of the greater Brisbane conurbation.¹¹ Among reasons Australia may have developed this way is that its major population growth occurred well after the advent of the car and its federal structure favoured a small number of cities.¹²

11.18 Another way that promoting regional centres would improve affordability is through boosting productivity, and hence incomes, by reducing congestion.

11.19 Admittedly, encouraging regional development is challenging, and requires government to take a lead in moving employment centres there:

Around the whole world there is very little evidence to show that public policies that are explicitly oriented towards deliberately decentralising population and economic activity work. The overwhelming evidence is that they do not. You can try to develop growth with strategic infrastructure investment. The role that the Commonwealth has played in Townsville, for example, with the military base and that sort of thing, is a case in point. Certainly governments can play a very large part...most of the successful larger towns in Australia have a very substantial public sector base to their employment—in the order of 22 and 25 per cent in just about every case. That is related to things like big base hospitals and health infrastructure, regional offices of federal and state government, educational institutions, regional universities, TAFE colleges and the like. I certainly would suggest to you that there is a very explicit and direct role that governments at both the Commonwealth and state level can play in enhancing the greater success of places outside metropolitan areas that are a success, but I cannot foresee a situation where you are going to really stop the continuing attraction of the large metropolitan region. Around the Western world, the big cities are growing bigger simply because of what are standard agglomeration economies and the much more diversified labour market of those big metropolitan conurbations.¹³

11.20 Again the example of Canberra is illustrative. While initially a 'public service town', the majority of jobs are now provided by the private sector.

11.21 It is clear to the committee that if Australia is to move towards greater decentralisation of its population, government services need to take the lead. Options might include Commonwealth and State Government public service departments moving their headquarters to a regional area, rather than being centralised in the capital cities.

10 Self (1995, p. 253).

11 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 20.

12 Yates (2007, p. 7) and Ellis and Andrews (2001).

13 Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 44.

11.22 Such an approach would have both advantages and disadvantages for government departments. One of the advantages might be that departments are better able to attract and retain staff. For example, during 2006–07, 88 per cent of Commonwealth agencies reported that they had experienced difficulties recruiting people with the required skills.¹⁴ Lack of affordable housing in the ACT is seen as one of the factors making recruitment more difficult¹⁵. If a regional area offered affordable housing and good amenities, with easy access to a capital city, it may be a very attractive prospect for many seeking to work in the public sector. Departments may also be seen as less 'city centric' and more responsive to the needs of the broader community if they were located away from capital cities.

11.23 Disadvantage of decentralisation would include increased costs in terms of travel and teleconferencing, and reduced accessibility of public servants to the Minister (and to a lesser extent the Parliament) as they would not be able to attend meetings and proceedings physically at short notice. Dispersal of government departments across various regional centres may also reduce opportunities for formal and informal networking and information exchange.

The need for environmentally sustainable housing

11.24 For housing to be deemed truly 'affordable', it needs to have more than just a modest purchase cost or a manageable weekly rent or mortgage repayment. It needs to be affordable in terms of the transport and energy costs incurred from living in it. A number of witnesses discussed the 'hidden' costs that can make an affordable home (in terms of mortgage repayments) unaffordable:

People come out here thinking that it is going to be cheaper to live, but what they find is that there are hidden costs—petrol, cars and so on. They realise once they get out here that it is not as cheap as they thought.¹⁶

11.25 According to the Western Sydney Regional Organisation of Councils there is a significant relationship between 'transport infrastructure and transport costs and housing locational costs and locational disadvantage'.¹⁷ This underscores the importance of affordable housing being located in areas with good social and transport infrastructure. It also underscores the importance of affordable housing being environmentally sustainable in the longer term.

11.26 As Australia responds to global warming and moves towards a low carbon economy, the costs of running a home, including heating and cooling, are expected to rise significantly. As noted in the Garnaut interim report,

14 Australian Public Service Commission (2006, p. 54).

15 Mr D Rumbens, cited in *Canberra Times*, 13 December 2007, p. 1.

16 Ms J McIvor, *Committee Hansard*, 3 April 2008, p. 7.

17 Mrs J Fingland, *Committee Hansard*, 3 April 2008, p. 24.

... the cost of these [emissions] permits...will mostly be passed through to consumers in the form of higher electricity and other energy prices, at least in the early years of the scheme when a relatively low proportion of energy derives from alternative, low-emissions sources embodying greater economic costs. These price rises will disproportionately affect low income households...¹⁸

11.27 This message seems to have been heeded by the South Australian government. They:

see energy efficient design as being a key part of that, particularly heading into the future with issues around climate change.¹⁹

11.28 A number of witnesses expressed concern about whether the common pattern of large houses being built on the ever-expanding fringes of large cities meets the need for environmentally sustainable housing:

the McMansion bomb is not just a bomb in relation to the financial issues; it is a bomb in terms of the environment because of the destruction it does to the biodiversity of large chunks of our cities—it is very, very inefficient environmentally.²⁰

11.29 Professor Troy suggested that the expectations that many Australians have of housing involving large free-standing homes might be tempered somewhat if placed within the context of Australia's response to global warming and reducing our carbon footprint:

we are not even attempting to do that. We are not even trying to relate it and sugar-coat the pill by saying, 'This is environmentally a better way to go,' for example. There is no acculturation education program designed to get people to be more modest about their footprint on the environment. We have to do it and do it big time.²¹

11.30 Concerns were expressed that while 'affordable' (in a narrow sense) housing is important, it should not be pursued at any price. The Queensland Government, through its *Urban Land Development Act* was seen by one witness as having:

given themselves the right to override local government planning schemes and even to override their own legislation, which has restrictive measures to protect biodiversity, vegetation of high value and waterways and even to protect people from natural hazards. So they have given themselves the

18 Garnaut (2008, p.48).

19 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

20 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 117. Similar concerns were expressed by Ms P van Reyk, *Submission 8*, p. 1.

21 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

right to override anything that the people of the area care about in order to provide 'affordable housing'.²²

Recommendation 11.1

11.31 The committee recommends that the forward plans of the Australian, state and territory governments incorporate policies for mid-size regional cities to ensure they are better able to form sustainable communities, to cope with the transport impacts of peak oil and climate change, and to invest in infrastructure.

Senator Marise Payne

Chair