



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON HOUSING AFFORDABILITY IN  
AUSTRALIA

**Reference: Barriers to homeownership in Australia**

TUESDAY, 1 APRIL 2008

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE SELECT COMMITTEE ON  
HOUSING AFFORDABILITY IN AUSTRALIA**

**Tuesday, 1 April 2008**

**Members:** Senator Payne (*Chair*), Senators Bartlett, Colbeck, Fifield, Lundy and Moore

**Senators in attendance:** Senators Bartlett, Colbeck, Fifield, Hutchins, Joyce, Ian Macdonald, Payne

**Participating members:** Senators Abetz, Adams, Barnett, Bernardi, Birmingham, Mark Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Bushby, George Campbell, Chapman, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fierravanti-Wells, Fisher, Forshaw, Heffernan, Hogg, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, Nettle, O'Brien, Parry, Patterson, Polley, Robert Ray, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Watson, Webber and Wortley

**Terms of reference for the inquiry:**

To inquire into and report on:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

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**Committee met at 8.59 am**

**CHAIR (Senator Payne)**—I declare open this meeting of the Senate Select Committee on Housing Affordability in Australia. The Senate established this select committee on 14 February 2008 and it is due to report on 16 June 2008. The terms of reference for this committee are as follows:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

This hearing, which is the first hearing of the committee, has been convened to receive evidence in relation to the committee's terms of reference. We have a further ambitious program of hearings which will see the committee meeting in Sydney, Western Sydney, regional New South Wales, Perth, regional Western Australia, Brisbane, the Gold Coast, the Northern Territory, Melbourne, suburban Melbourne, regional Victoria and Tasmania, just for starters.

These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may also, of course, be made at any other time. Any claim that it would be contrary to the public interest to answer a question is one which must be made by a minister and should be accompanied by a statement setting out the basis for the claim.

The Senate has resolved that an officer of a department of the Commonwealth or of a state should not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

[9.02 am]

**WALL, Ms Clare, Branch Manager, Office of Housing, Housing Group, Department of Families, Housing, Community Services and Indigenous Affairs**

**WINZAR, Ms Peta, Group Manager, Housing Group, Department of Families, Housing, Community Services and Indigenous Affairs**

**CHAIR**—I welcome our first witnesses today, from the Department of Families, Housing, Community Services and Indigenous Affairs. Do you have an opening statement that you wish to make to the committee?

**Ms Winzar**—Yes. The barriers to homeownership need to be considered in the context of broader housing affordability trends in Australia. Housing affordability in Australia has fallen due to significant increases in house prices and rising interest rates. The benchmark that we commonly use when considering people in housing stress is when lower income households—that is, those in the bottom 40 per cent of income quintiles—spend 30 per cent or more of their gross income on rent. Data from the 2006 census of population and housing indicates that one in 10 households with a mortgage that pay over 30 per cent of their incomes in rent are also in the lowest 40 per cent of household incomes.

When we have a look at all private rental households, some 30 per cent of private rental households pay over 30 per cent of their income in rent. Of those private renters, three-quarters are in the bottom 40 per cent of household incomes. The importance of that is that high rent levels limit the capacity of renters to save for a deposit for homeownership. The Real Estate Institute of Australia figures for the December quarter 2007 show that, after we adjust for inflation, rents have increased in all capital cities since 2002. Some of those increases, as you would know, have been quite significant. Low rental vacancy rates push up the rent levels. The higher rents mean that people have less and less opportunity to save for a home deposit.

Across Australia rental vacancy rates are below three per cent in all capital cities and below two per cent in Sydney, Melbourne, Brisbane, Adelaide and Perth. ABS data also shows that house prices have gone up in all capital cities between March 2002 and December 2007. Over about a five-year period house prices in capital cities have gone up by between 35 per cent and 161 per cent. Obviously, that severely constrains the capacity of particularly first home buyers to get into homeownership. Interest rates have also gone up and that, combined with the high purchase prices that people are facing, results in the cost of paying off a home being beyond the reach of many. Other costs of purchasing homes, such as stamp duty, are correlated with the price of the home that is being purchased and thus those costs have also gone up significantly. Our estimates based on data from the 2006 census suggest that there is a demand for about 180,000 extra dwellings each year. In the 12 months to December 2007, only 150,000 new dwellings were commenced, so we have a shortfall there.

Our particular responsibilities in FaHCSIA relate to, obviously, the Commonwealth-State Housing Agreement and associated agreements with the states, such as the Supported Accommodation Assistance Program and support for Indigenous housing programs. Obviously,



we pay rent assistance via income support payments to a large number of people as well, and we have some broader responsibilities around housing policy. There are also a number of the government's new election commitments which we are in the process of implementing to address some of the supply-side issues facing potential homeowners.

**CHAIR**—Thank you. Is the department considering making a formal submission to this committee as well as appearing today?

**Ms Winzar**—Yes, we are.

**CHAIR**—Can you give us some idea of when that might be forthcoming?

**Ms Winzar**—I think we have sought an extension of around two weeks, so it will be around 14 or 15 April.

**CHAIR**—Your department only recently gained housing in the new administrative arrangements post election. Is that correct?

**Ms Winzar**—That is correct.

**CHAIR**—What has that added to the department in terms of staffing and arrangements? Is it a big input into what was formerly FaCSIA?

**Ms Winzar**—It is a significant increase in our responsibilities. One of the most significant is the creation of an Office of Housing, which Ms Wall heads up. That did come with a modicum of additional resources but I cannot remember off the top of my head exactly how much that was. We have recruited about another 20 staff since December to address some of the responsibilities around implementing the government's election commitments.

**CHAIR**—They are the ones that you referred to as the broader responsibilities around housing policy?

**Ms Winzar**—They are that but also some specific measures, including the Commonwealth Rent Assistance scheme, which is designed to help reduce the cost of renting by providing commercial incentives to investors to invest in low-cost rentals. We also have responsibility for something called the Housing Affordability Fund, which is about half a billion dollars. That is designed to speed up planning processes and address some of the high infrastructure costs and the holding costs that developers face, with a view to making it quicker to get houses to market. We are setting up a National Housing Supply Council, which will allow the government to have much better forecast information up to 20 years ahead based on demography, mobility, changing house and family composition patterns and housing need into the future. I have probably forgotten a few.

**Ms Wall**—There is a homes for the homeless program, which will provide an additional \$150 million over five years for homes for homeless people. We are also working with Treasury and the Department of Finance and Deregulation on a couple of other measures.

**CHAIR**—Could you outline those, Ms Wall?

**Ms Wall**—We are working with Treasury in relation to the first home saver accounts, and we are also working with the Department of Finance and Deregulation on the land audits. They have primary responsibility for that.

**CHAIR**—How will the National Housing Supply Council be constituted?

**Ms Winzar**—We are seeking nominations for membership of that council as we speak.

**CHAIR**—Do people self-nominate?

**Ms Winzar**—We have asked for nominations from our colleagues in state and territory jurisdictions. We are after, particularly, expertise in economic modelling, demography and so on. The exact composition of the Housing Supply Council has not been resolved at this point. It is due, I think, to provide its first interim report by the end of this calendar year.

**CHAIR**—As I understand what you have just said, it is going to be a federated arrangement where states and territories make—

**Ms Winzar**—No. We are not asking for representatives of any particular organisation or jurisdiction; we simply thought that they were well placed to help us identify some suitable candidates.

**CHAIR**—You also made a passing reference to the work that your department and your area is doing on supply-side issues. Could you elaborate on that, please?

**Ms Winzar**—There are three most important ones. The first is the Housing Affordability Fund, which I mentioned, which is meant to speed up planning arrangements to address high infrastructure and development costs, and increase speed to market. Our estimate is that that will help perhaps up to 50,000 homebuyers over a five-year period. The other supply measure is the National Rental Affordability Scheme, and that is aiming to help 100,000 lower income rentals over a 10-year period. Finally, as Ms Wall mentioned, there is the release of excess government land which is not being used—state, territory and Commonwealth land. We expect that to address some of the supply problems.

**CHAIR**—What is the time frame on the land audit and how is it being progressed?

**Ms Wall**—As you are probably aware, there was some work done last year in relation to Commonwealth land. So, much of the work has already been done in relation to the availability of Commonwealth land. There is still some work around the assessment of that land and to what extent it can be released and to what extent we still need to go through environmental assessments. More specifically, work is also being done with the states and territories, asking them to undertake similar processes to identify surplus land that they have, that can also be made available. As I said, the Department of Finance and Deregulation is leading that.

**CHAIR**—Is the work that was done on Commonwealth land last year publicly available?

**Ms Wall**—Some of the information is obviously publicly available, yes.

**CHAIR**—Can you identify the time frame that you or the Department of Finance and Deregulation are working under with the states and territories? Can you identify for us the time frame by which the states and territories are expected to come back to the Commonwealth to say what is available?

**Ms Winzar**—I think our current plans are that we will have a fairly comprehensive assessment by about mid year.

**CHAIR**—One of the issues that is coming through in the submissions and in the public discourse on these matters is, particularly in relation to the release of new land, whether it is state or Commonwealth owned, around the provision of infrastructure that must occur if you are to construct large numbers of new dwellings in potentially outer parts of large cities, for example. What coordination or discussion is there between the Commonwealth and the states and territories about that aspect of the housing affordability issue and support for purchasers and investors who might be looking at buying in those areas?

**Ms Winzar**—Most of these new measures are being progressed through a COAG housing working group, which is chaired by Minister Plibersek and has representation of officials from each jurisdiction. In relation to the Housing Affordability Fund, there was certainly violent agreement that some of the incentives available under the Housing Affordability Fund for new developments needed to have very careful regard to location, transport, jobs and other amenities so that we do not have perverse incentives for people to be stuck right out on the fringe of cities where there are no supports, and unlikely to be in the future, for them to improve their incomes or their circumstances.

**CHAIR**—On the question of the Housing Affordability Fund, which is \$0.5 billion in terms of allocation, you talk about speeding up planning processes. In that context, how is it envisaged that, in the complexity that is local government, state government and federal government, putting money into that is going to speed up any planning process?

**Ms Winzar**—One of the first things we have done is to allocate \$30 million of that funding for councils to upgrade their electronic development application processes so that developers, potential homeowners and purchasers can follow online the progress of their development applications or their applications for extensions, upgrades or whatever they are doing to their house. The other thing that that will do is give us much better data about how long it is taking and where the blockages are in the system. I think, from memory, only New South Wales and South Australia can actually provide us with good information, council by council, on how long it takes to get approval for a pergola or for putting an extension on a house, let alone for larger developments. That will enable us to see exactly where things are slowing down and what needs to be done to speed up things.

The other issue which has been raised with us, which we are currently considering, is skill shortages around planners. The idea might be that, if you could get relatively simple things like pergolas and so on approved by paraplayers, perhaps the more skilled planners could be devoted to the larger and more complex developments. That should also speed up things. There are a whole range of things potentially in play there, but it is very early days yet.

**CHAIR**—I think a paraplayer is a beast I have not come across, Ms Winzar.

**Ms Winzar**—We are aiming for someone with a certificate IV or a diploma qualification rather than someone with four or five years of tertiary qualifications going to ticking off on pergolas.

**CHAIR**—Let me just think that through while I ask Senator Hutchins if he has any questions.

**Senator HUTCHINS**—Ms Winzar, in your opening remarks you talked about how much of people's income has to be contributed towards not only rent but repayments and the stress that that causes. Has that been a consistent figure over the last 10 years? Has it risen or dropped? Do you have those figures?

**Ms Winzar**—Can I clarify: are you asking me the proportion of income that people are spending on home purchase?

**Senator HUTCHINS**—Yes, and also are there different areas of Australia where it is over 30 per cent, where it goes up to 37 per cent? Do you have those figures available?

**Ms Winzar**—There are different figures, obviously, for first home buyers than there are for all homebuyers. We have the figures for all homebuyers through various Australian Bureau of Statistics publications. I can pull those out in just a minute. I am not quite sure if you are asking me about what the financial institutions will approve or what the people are actually paying.

**Senator HUTCHINS**—I am asking how much of people's income they are now paying. Are people paying more of their income to repay their loans in 2007 or 2008 than they were in 1996?

**Ms Winzar**—Our response to that would be certainly, yes.

**Senator HUTCHINS**—Do you have those figures available—not right now, but could you supply those figures to the committee?

**Ms Winzar**—Yes, we could. But the point I was making was that the group that we in FaHCSIA are most concerned about are those in the bottom 40 per cent of incomes. Frankly, if someone on \$180,000 is paying more than 40 per cent of their income in rent, I do not care. But I do care when it is somebody who is only on perhaps \$25,000 or \$40,000.

**Senator HUTCHINS**—But do you have the figures not just for rent but for repayments as well?

**Ms Winzar**—For homeownership, yes.

**Senator HUTCHINS**—If they could be supplied to us at some point, that would be great.

**Ms Winzar**—Certainly.

**Senator HUTCHINS**—Local government is not mentioned in your statement, except towards the end, Ms Winzar. Senator Payne and I know that, particularly in New South Wales, some councils are serial offenders in not approving planning issues at all. I think Leichhardt stands out in particular as one council in Sydney that takes a long time to approve things. What sort of

involvement does local government have with COAG and the other various groups that are set up to look at affordability and housing?

**Ms Wall**—The Australian Local Government Association are, I understand, not included on COAG. They attend housing ministers conferences, for example, but they are not full ministers. They certainly are involved with local government and planning ministers conferences as well. In fact, some of these initiatives have actually been developed through the local government and planning ministers conferences, rather than through the housing ministers conferences. But we are now starting to see a little bit more integration of that work.

In relation to housing, as I said, at this point we have not had a lot of direct involvement with local government. But, obviously, the new programs that we are now looking to implement—particularly the Housing Affordability Fund—very much do involve local government.

**Senator HUTCHINS**—So what Ms Winzar was saying about transport, employment and all that is now part of assessing where people live—the release of government land—and they are not just dropped in the outer west of Sydney in the hope that there will be train and bus lines, jobs, schools and all the rest of it.

**Ms Winzar**—Those remarks were in reference to how we would use the Housing Affordability Fund and how we would assess projects proposed for assistance under that bucket of money rather than any general comment about new planning processes.

**Senator HUTCHINS**—I think it is very important for us to be aware that those sorts of issues will be taken into account, rather than as has happened over the last few years where they just seem to dump them out there and the only way that state and local government seem to respond is to try to put another levy on the people buying those houses.

**Senator FIFIELD**—I would like to go through some of the ministerial responsibilities within the portfolio. You briefly touched on those areas for which your department has responsibility, and you said that your department works with Treasury on the first home saver account. Is it Minister Swan who is responsible for that account?

**Ms Winzar**—Yes.

**Senator FIFIELD**—And it is Minister Plibersek who has full ministerial responsibility for the Housing Affordability Fund?

**Ms Winzar**—Correct.

**Senator FIFIELD**—And it is Minister Plibersek who has full ministerial responsibility for the Rental Affordability Scheme?

**Ms Winzar**—She has lead responsibility, but we are consulting closely with our colleagues in Treasury on that one too.

**Senator FIFIELD**—You mentioned that you work with Finance on the supply of land. So Minister Tanner is the minister with the responsibility in that area?

**Ms Winzar**—Yes.

**Senator FIFIELD**—You mentioned that Minister Plibersek chairs the COAG Housing Working Group?

**Ms Winzar**—Yes.

**Senator FIFIELD**—So the five housing initiatives which came out of the COAG on 26 March will be addressed by that working group, which she chairs?

**Ms Winzar**—That is right.

**Senator FIFIELD**—As I am sure you are aware, there is a fair bit of debate about housing affordability, the price of houses and what drives up the prices—and there is a bit of debate as to whether the lack of supply of land is a significant factor. Some people contend that, even if you free up more land, that will not do a lot of help to relieve the price pressures because the demand is in places that are closer to town. Given the land initiative which the Commonwealth is pursuing with the states, I take it that your department has the view that freeing up more land can make an important difference to the price of housing?

**Ms Winzar**—I think it is an important contributing factor. I would not say it is the entire answer by any means because, as you know, people will have a preference for housing which may not be where the land is available. But certainly we think it is something we cannot ignore.

**Senator FIFIELD**—For instance, you would disagree with Michael McNamara, Operations Director, Australian Property Monitors, who said:

... we totally dismiss the argument that releasing more land on our cities' outskirts is going to affect affordability.

**Ms Winzar**—His reference is to land on the cities' outskirts. It will be interesting to see what the land audit throws up by way of available land—Commonwealth and state holdings—which is not on the city fringe. Examples of that might be schools in more inner- or middle-ring suburbs which are no longer required which could perhaps be more attractive than those on the city fringe.

**Senator FIFIELD**—I might quote another property developer—and we can ignore the person he is referring to because he has since left politics:

Every time I see John Howard blaming land supply (for low affordability) I see red because it's just not true ...

You would not agree with the contention that land supply is not a factor? That quote is from Peter Icklow, managing director of Sydney developer Monarch.

**Ms Winzar**—I would think that land supply is a contributing factor but, as I indicated, I do not think it is the whole solution, by any means.

**Ms Wall**—The Reserve Bank of Australia has suggested that there is a demand for 180,000 additional dwellings a year and at the moment we are only providing 150,000, so the suggestion would be that we need to provide more housing somewhere.

**Senator FIFIELD**—The reason I quoted those two gentlemen is that those quotes were in a media release by Minister Plibersek on 13 September last year, prior to her becoming a minister, which was in response to the previous government's announcement of a land audit and that freeing up more land would actually help housing affordability. I just thought that they were interesting statements to be cited by Minister Plibersek, given that the focus on finding additional land is such an important part of the work that you are doing in conjunction with Finance now.

**Ms Winzar**—It is an important part of the work we are doing with Finance, undoubtedly, and, as I indicated, also with state and territory jurisdictions. But a key feature of the Housing Affordability Fund, which will support speedier moves to market for new housing opportunities, is that we are particularly taking into account its location and where these new developments might be. The issues which might dissuade people from wanting to take up housing or land opportunities on the city fringe or beyond are particularly addressed and taken into account.

**Senator FIFIELD**—Does the department have a handle on what number of additional dwellings each year are required?

**Ms Winzar**—As I mentioned, the Reserve Bank's figure is that we probably need around 30,000 additional dwellings to what is currently being provided. Until we get our Housing Supply Council set up and are doing our own analysis in that area, we would have no reason to question the Reserve Bank's analysis.

**Senator FIFIELD**—Will the Housing Supply Council seek to form an independent view to that of the Reserve Bank or the ABS, or will it use those inputs to form a whole-of-government view as to what is required?

**Ms Wall**—It will certainly use those inputs but it will break them down and get to understand some more detail of the elements, rather than just the bald figure.

**Senator HUTCHINS**—I hope you do not mind me interrupting, Senator Fifield, but, in the Reserve Bank figure of 180,000 houses needed and 150,000 supplied, is there a break-up into categories—such as families and people over 55—or is that just a figure that the Reserve Bank has chosen, without categorising who the 180,000 should be supplied for?

**Ms Winzar**—I am not across any compositional analysis that the Reserve Bank might have available on that shortfall, but that is certainly something we would expect the National Housing Supply Council to have a very close look at.

**CHAIR**—We can ask them in due course.

**Senator FIFIELD**—Does the department have a view or have responsibility for forming the Commonwealth's view in relation to state tax issues which affect housing, or is that something that falls more within Treasury's responsibility?

**Ms Winzar**—I think the issue of state taxes and charges is one that you would perhaps be better to take up with our colleagues in Treasury.

**Senator BARTLETT**—I was rereading some of the questions from estimates around this just to make sure I do not double up totally. The 30,000 gap in dwellings—the difference between 150,000 and 180,000—has come up a few times today. It also came up back then. You indicated then the source of that. Were you basing that on industry estimates?

**Ms Wall**—It came from the Reserve Bank. I think they may have been quoting industry, but it was certainly in the Reserve Bank's monetary statement. We can provide you with the details of that source.

**Senator BARTLETT**—I will try to drill back to where it actually comes from and what it is based on. It is not that I am suggesting that you are making it up or anything; I would just like to nail down the hard data on it.

**Ms Wall**—It was the Reserve Bank statement on monetary policy, but I do not think it was the one that has just come out. It might have been the one six months before that. We can confirm that.

**Senator BARTLETT**—People have gone through some of the responsibilities you have in the expanded area of the department. Under the new government, my impression is that with a minister specifically responsible for housing this would be an expanded role for housing in general. Would that be an accurate impression, compared to previously?

**Ms Winzar**—Yes, Senator.

**Senator BARTLETT**—You clearly have responsibility for some specific programs that are being developed such as affordable rental and that sort of thing. Are you also responsible for a total overview of housing policy, housing research and those sorts of things? Or is it just program by program?

**Ms Winzar**—No, the Minister for Housing has lead responsibility for broader housing policy. One of the things which are under development at the moment is the shaping of a national affordable housing agreement which would bring together a whole lot of these different elements—rentals, homeownership and broad issues around housing availability and affordability—more coherently than they have been to date perhaps.

**Senator BARTLETT**—So that agreement could touch on pretty much anything, whether it is land release or taxation incentives.

**Ms Winzar**—Including homelessness and all factors of housing.

**Senator BARTLETT**—There are 150,000 dwellings being built each year and there is demand for 180,000 dwellings. What is the rough understanding of the reason for the shortfall? Is it skill shortages, land shortages or planning delays? I have seen some suggestions that at least part of it is to do with the tightness in the labour market in general and not being able to get enough people to do the building.



**Ms Wall**—We have certainly seen media reports along those lines too, but we have not been in a position to independently assess them at this point. That will be part of the work of the National Housing Supply Council when we get it up and running. We are to some extent going on media reports too and reports from industry organisations.

**Senator BARTLETT**—Similarly, things like the role of population growth, whether it is migration or birth rates here, all get factored into that in terms of its impact.

**Ms Winzar**—There are so many different issues at play. Certainly there are skill shortages, development delays and changing household formation, which is a big one. If a family separates then they require two houses whereas before they required one, at least until there is some re-formation of family. There is the ageing of the population and the increasing trend of people to have larger houses, for example, and its impact on affordability: these are all things that we are expecting the Housing Supply Council to shed a lot of light on.

**Ms Wall**—There is also internal migration as well as immigration from external sources.

**Senator BARTLETT**—Do you have figures for the total number of empty dwellings around the country and the amount of land that is freed for development but not built on?

**Ms Winzar**—No, we do not have that information.

**Ms Wall**—There will be some information from the 2006 census on unoccupied dwellings. They might be unoccupied for a range of reasons obviously. But we do not have that information about the land at the moment. Once again, that will be part of the work of the National Housing Supply Council. State or local governments would potentially have better information in that respect than we would at the moment.

**Senator BARTLETT**—There were some questions in estimates about where the CSHA was at. That is still being renegotiated, I presume. It is due to expire at the end of this financial year. There has not been any new agreement reached whilst I was out of the country or anything, has there?

**Ms Winzar**—No, there has not. There has not been any further announcement since the estimates hearing that we can help you with.

**Senator BARTLETT**—One of the comments that were made at that time by Mr Leeper, I think, was about things like the pool of money for Commonwealth rent assistance, which is about \$2.2 billion a year for private renters currently outside of the CSHA but potentially inside the boundary of the national affordable housing agreements. Is that an indication of all of those things being up in the air and all of those pools of money being potentially reapplied?

**Ms Winzar**—At this stage, we are taking a fairly open view on all of the things that might go to helping people's housing costs. No doubt we will progressively rule out some of them, but at the moment we are in the very early phases of design and consideration.

**Senator BARTLETT**—According to an answer I got in the Senate from Minister Evans, there is obviously work being done on some of these issues, but there is currently no work being

done on assessing the impact of federal tax arrangements in regards to impact on affordability. Is that accurate?

**Ms Winzar**—There is certainly no work going on in FaHCSIA in that regard.

**Senator BARTLETT**—Is that likely to be something that will be factored into that grand plan theory of everything that is being developed?

**Ms Winzar**—I am not really in a position to answer you yea or nay at this point.

**Senator BARTLETT**—There is a lot of talk—and it is obviously something that this inquiry will examine as well—about the impact of state taxes and charges on not just costs but the market, incentives and those sorts of things.

**Ms Winzar**—Sure.

**Senator BARTLETT**—I assume you would also be looking at federal taxes, charges, grants and all of those things.

**Ms Winzar**—I assume we would be likely to look at those things too but, as I say, we are in the very early stages of our thinking at this point and it is simply too early to give you an answer on that.

**Ms Wall**—I should just add that there is some work that is being done by the Australian Housing and Urban Research Institute, which is partly funded by us but it has a bit of an arms-length arrangement in terms of the details of its research projects that could touch on some of those sorts of issues that you have just asked questions about. Some of that work has been completed; some of that work is still in the pipeline. As it is completed, it is put on their website, so it is all publicly available information once it is completed.

**Senator BARTLETT**—Can I touch again just briefly on the CSHA. Given that expires on 30 June this year, is it expected that there will not be a whole new agreement reached by that stage and that it will be rolled over?

**Ms Winzar**—I think that is a very reasonable expectation.

**Senator BARTLETT**—How far it will be rolled over is still to be decided?

**Ms Winzar**—That is correct. That has not been advised yet.

**Ms Wall**—There is some information of relevance in the communique from the last COAG meeting around a housing specific purpose payment arrangement.

**Senator COLBECK**—Just going back to the Housing Supply Council, are there terms of reference for that body?

**Ms Wall**—Not as yet.

**Senator COLBECK**—There will be?

**Ms Wall**—Yes.

**Senator COLBECK**—What is the time frame for that to be made available?

**Ms Winzar**—We are hoping that we can resolve the membership and the terms of reference by the middle of this year if not a little earlier. I am mindful that it is now April. Again, these things are under development.

**Senator COLBECK**—Will the terms of reference direct the targets for the interim report in November?

**Ms Winzar**—Interim report by the end of this calendar year?

**Senator COLBECK**—Yes.

**Ms Winzar**—I think the focus of the council was set out in the government's election platform, which was really to provide government with advice on a 20-year forward time horizon about matters affecting housing affordability and supply in Australia. It was an extremely broad remit.

**Ms Wall**—But it will not be a policy-making body as such; it will have an analytical role.

**Senator COLBECK**—I understand that. Is it likely that some of the outputs from that would have inputs into the Commonwealth-State Housing Agreement?

**Ms Wall**—Certainly the broader national affordable housing agreement, which is potentially going to engulf the Commonwealth-State Housing Agreement.

**Senator COLBECK**—Moving to some of the initiatives, particularly the National Rental Affordability Scheme, who is actually eligible? It talks about eligible tenants. Who is the target group and what are the parameters around eligibility?

**Ms Winzar**—We are still refining the precise eligibility criteria but, essentially the target group is lower- to middle-income families. We are particularly interested in housing affordability for some of the key worker groups like teachers and so on. But this is not welfare housing, so we are not confining eligible tenants to simply those receiving income support, for example, but looking at perhaps families earning up to around the \$50,000 mark or something of that order.

**Senator COLBECK**—It has been put to us in one of these submissions that as a country we have moved away from public housing to welfare housing. Would you see this as a move back towards the provision of public housing in the context which you have just put to us?

**Ms Winzar**—It is certainly the case that public housing has become more and more a residual or almost last resort housing option for people on extremely low incomes or who are otherwise unable to obtain housing in the private rental market. This is a measure which aims to keep

people in private rental; more particularly, it is aimed at increasing private investment in lower income rentals, and I think that is an important feature.

**Senator COLBECK**—I think we are saying the same thing but in different terms. Have you done any work that is available on the reduction in numbers in public housing?

**Ms Winzar**—The number of people or the number of houses?

**Senator COLBECK**—The number of houses, the number of properties.

**Ms Wall**—Yes, that information has been provided previously to a Senate estimates committee, so, yes, we are happy to provide that information again. I should add that there is a question about whether we are talking about public housing or community housing as well. We can probably give you both sets of figures.

**Senator COLBECK**—I think it would probably be helpful if we had both of those sets of numbers so that we can make distinct comparisons. With respect to the first home saver accounts, particularly given the lending practices of the banks, which were somewhat highlighted last night on *Four Corners*, is there any concern that providing people with larger deposits may in fact just drive prices further if they have more money to spend at the outset, given the fact that banks now no longer have the deposit ranges they require from potential purchasers?

**Ms Winzar**—I think that is something you could take up with the officials from Treasury later on this morning.

**CHAIR**—I want to ask a question about the National Rental Affordability Scheme. As I understand the ballpark figures attached to that, there has been discussion of increasing the supply of rental properties by about 50,000. How is that figure derived?

**Ms Winzar**—The estimate was to increase the supply of lower cost rental dwellings by 50,000 over a five-year period. A further 50,000 was announced by the Prime Minister about the middle of last month if demand from investors and tenants is still strong at the end of that period. I think we have done some estimates of what developments might be in the pipeline or be able to be delivered particularly within the first two years, because the lead times for large development releases are reasonably lengthy. Our view is that in the first year we might be talking about in the order of 3,000 extra dwellings which will build to a total of 50,000 by the time we get to year 5. I do not have the more detailed assessment or composition of that figure with me at the moment.

**CHAIR**—I think we would be very interested to see that. If the starting premise is properties that are already in the pipeline—I think you just said, Ms Winzar—then that is looking at about 3,000 coming on in the first year. So they have been underway for maybe 12 months already.

**Ms Winzar**—They have.

**CHAIR**—So they are inserted in this 50,000 figure.

**Ms Winzar**—Yes, but that is developments now underway. I can give you an example of how it might work. If there is a development of, say, 1,000 dwellings that is well advanced and the development was undertaken with the objective of perhaps saying 10 or 15 per cent of those would be for low-income homeownership and a further 10 per cent would be for low-income rentals or public housing, then the question is: can we use the National Rental Affordability Scheme incentives to increase the proportion that would be available for low-income rental from 10 or 15 per cent to perhaps 30 per cent? So that is how we would piggyback on the developments already coming through the pipeline.

**CHAIR**—I am still having trouble identifying how you extrapolate that to 50,000 over five years. The scheme is going to support investors and developers, both through federal subsidies and state subsidies as I understand it.

**Ms Winzar**—That is correct.

**CHAIR**—Fifty thousand dwellings is a lot of dwellings.

**Ms Winzar**—Over a five-year period—

**CHAIR**—When we are 30,000 behind each year already, and then you identify a figure of 50,000 ‘affordable’ rental properties, that seems like a—

**Ms Winzar**—In terms of pressure on industry, available builders and so on you are thinking?

**CHAIR**—Yes.

**Ms Winzar**—Yes, I think that is right but, by the time we get to year 5, we would be thinking that is around about another 20 to 30 additional dwellings at that point—that is 20,000 to 30,000 on top of the hopefully 200,000 dwellings a year that will be being built at that point. We are talking about 2011-12, so in that sense it is not that much of an increase for the industry as a whole.

**CHAIR**—On land which we are still in the process of identifying and determining the availability thereof.

**Ms Winzar**—Land availability is not simply a matter for Commonwealth and state governments; there are many developers who already hold significant landholdings—

**CHAIR**—Indeed. I work in Western Sydney, Ms Winzar; I am aware of that.

**Ms Winzar**—and this may be precisely the incentive they need to expedite its release.

**CHAIR**—When I have seen commentary from developers on this matter, I have not felt them to be displaying any particular enthusiasm. They are, if I might observe, at the best equivocal about whether they might take this up as an opportunity or not. I was watching *Insight* last week and watched a couple of investors say, ‘We’ll look at it.’ I did not exactly regard that as signing on the bottom line.

**Ms Winzar**—I think it is fair to say we have not got anybody to sign on the bottom line yet because we have not, I think, given them enough detail to assess whether or not it is worth their while signing up.

**CHAIR**—When would they expect that?

**Ms Winzar**—We have had a fair amount of consultation with both investors and developers, and there certainly is a fair amount of interest. They no doubt will do their own calculations about the rates of return available across a number of asset classes, pricing risk and so on and come to their own conclusions.

**Ms Wall**—There will be a technical paper released in the next few weeks which will provide them with a bit more of that detail.

**CHAIR**—I recall the technical paper was referred to at estimates as well. There are a couple of questions still outstanding from the estimates discussion as to how the scheme will work.

**Senator COLBECK**—In respect of the questions that Senator Payne was just asking, how is the investment of these funds to be targeted? You are talking about projects that are already in the pipeline taking up perhaps the first couple of years. That is perhaps an opportunity targeting—that some things are already there so you are going to pick them up—but how are you actually going to target this into areas where there are demonstrated areas of need? How do you ensure, if you like, a fair distribution across states as part of this program?

**Ms Winzar**—With rental vacancy levels below three per cent in all capital cities, in a sense it does not matter where they are targeted—because there are rental shortages right across Australia. So in the early stages we are much less worried about that. We will monitor the developments as they go along. Bear in mind that we are essentially receiving proposals from developers, so they will make their own judgements about where capital gains and so on are likely to be in their favour as well. After about year 2, I think we will have a pretty clear sense about whether or not we need to do something different in some particular areas which still have significant levels of rental stress.

**Senator COLBECK**—With respect, if the development community do not decide to move into a particular market and therefore this form of housing is not available to a market that is not seen as being an area of required investment, I would suggest there would people who would care. For example, if no-one decided to invest in Hobart or in some of the regional areas where investment perhaps does not tend to flow, surely there would have to be a need to target or to push funding into those particular areas.

**Ms Winzar**—The good thing about this is that the Commonwealth's tax incentive is \$6,000 per annum per dwelling for up to a 10-year period, and the requirement for state and territory governments is to make a contribution of at least \$2,000 a year for each dwelling. But if particular state governments saw that there was a need to provide some greater incentive in their state to attract investors then it would be open for them to do so, of course.

**Senator COLBECK**—I understand where you are coming from from a Commonwealth perspective, but I would not be confident that all the states are actually going to necessarily do

that. It is a big if—if state and territories decide that there is a variable in the level of achievement of investment in public housing across the states and territories. I suggest that that record may be something that impacts on this. I think it would be responsible for the Commonwealth to have something in mind with respect to how it might target this to ensure that there is a reasonable distribution, not necessarily just in capitals where investment funds tend to flow but also in some of the outlying and, importantly, regional areas.

**Ms Winzar**—That is quite right, Senator. If we simply look at the New South Wales housing market, yes, there are people in significant rental stress in Sydney. But there are also people in significant rental stress outside Sydney and it may well be that, for an institutional investor, the entry price of such a measure as the National Rental Affordability Scheme is not attractive in Sydney, notwithstanding the prospect of longer term capital growth, and that they would prefer to see an investment in Wollongong, Newcastle or Dubbo or in one of the regional centres. We certainly are interested in where the proposals come from and how widespread they are, but we are also certainly interested in the sorts of incentives that state governments are prepared to put on the table to match the Commonwealth's investment. At least in the early years we will be a little opportunistic, I think, in terms of developments that are more than just a twinkle in the eye.

**Ms Wall**—The National Housing Supply Council, once again, will be able to help us in identifying where there might be hot spots emerging for rental accommodation and for people in housing stress. As we get information coming in from that source, that will assist us down the track with location.

**Senator COLBECK**—Is there a likelihood that there may be some performance criteria placed on the states to ensure that they participate to a desired level within the program?

**Ms Winzar**—We have not contemplated that sort of requirement at this stage. The only requirement we were looking at from the states' and territories' perspective was their willingness to provide at least \$2,000 as a matching incentive.

**Ms Wall**—We have been engaging with the states and territories through the COAG working group process, and they are certainly very interested in this scheme.

**Senator COLBECK**—In respect of Senator Payne's questions on supply capacity: have you had any discussions with industry about the capacity to meet targets which might be over and above the existing ones?

**Ms Winzar**—We have had some discussions with the Housing Industry Association and a number of other players in the game. I am not certain that we have actually asked whether the industry is capable of delivering another X-thousand houses within this period of time. I do not think we have asked it in such a closed manner, but the industry associations are well aware of what the government is trying to do in this space.

**Senator FIFIELD**—In the department's monitoring of mortgage stress, do you keep tabs on home repossessions as a result of defaults in mortgages?

**Ms Winzar**—Yes, we do keep a bit of a watch on it.

**Ms Wall**—Once again, though, the information is largely collected at the state government level but we collect the information that we can from those sources.

**Senator FIFIELD**—I was watching *Lateline* last night, and Tony Jones said that the ABC had collated Supreme Court orders for repossessions and it had calculated that nationally it is around 10,000 per year now, so people are losing their homes. That was put to the Treasurer, who said that the figure did not surprise him. Is that figure about right?

**Ms Winzar**—That sounds about right to me.

**Ms Wall**—Once again, you might like to discuss that with our Treasury colleagues later.

**Senator FIFIELD**—Is that sort of indicator something which is monitored by Treasury or by your department?

**Ms Winzar**—I think we both keep a bit of an eye on it.

**Senator FIELDING**—Would you be able to take the question about the annual figure for repossessions on notice?

**Ms Wall**—At this point, all we are able to do is to collect information from other sources. We have no primary collection process.

**Senator FIELDING**—I appreciate that. If the Commonwealth is not collecting it on a national basis, probably no-one else is.

**Ms Winzar**—There are certain industry analysts that do monitor that on quite a regular basis. Although 10,000 repossessions are of some concern, another factor that needs to be taken into account is the proportion of homebuyers who are ahead in their repayment schedules. So 10,000 as a proportion of all the homebuyers is not really that large a number. My recollection is that, while repossession of mortgaged houses is going up, the figure remains fairly low as a proportion of the total number of homebuyers. But we can certainly provide that information for you.

**Senator JOYCE**—You might have already given this information: are there any costings on the proposed government policy of the National Rental Affordability Scheme? How much will it cost the taxpayer?

**Ms Winzar**—The Commonwealth contribution to that is around \$150 million over a five-year period.

**Senator JOYCE**—I have a couple of questions about that. From the outside it seems to be something that plays into the hands of certain developers who want to utilise that scheme. Why can't we go more direct—straight to the families who want to buy a house, rather than creating a rental house which someone else will make some money out of?

**Ms Winzar**—There are a couple of ways of coming at that question. The taxation provision for negative gearing has demonstrably increased the amount of rental housing that is available in



the broader market so, in a way, this is saying that there is already a fair amount of investment there but that perhaps what is missing is investment in lower income rentals, and what is certainly not there to the degree that we think would be helpful is institutional investment in residential properties. So one of the other supply-side emphases of the National Rental Affordability Scheme is to try to get institutional investors into the rental housing market.

On the question about why we would not just subsidise people into homeownership, I think there is a bit of an issue about the extent to which the government should be subsidising the acquisition of privately held assets. I suppose that is a key question for me.

**Senator JOYCE**—But surely we are just subsidising the developers in the acquisition of another asset?

**Ms Winzar**—They will already have purchased the asset. This is an extra incentive to make sure that the rental return is a bit more comparable with the sort of return that they might get from other asset classes.

**Senator JOYCE**—Correct me if I am wrong—I am doing this from memory—but isn't the window something like seven years?

**Ms Winzar**—Up to 10.

**Senator JOYCE**—How do we stop areas at the end of that time—and I am thinking of public housing schemes in my area—from developing into slums?

**Ms Winzar**—I think the best sorts of developments are those that have fairly mixed tenant profiles or homeowner profiles. Public housing has certainly gone well away from the development of the broadacre public housing estates of the past and are now much more likely to take a view that public housing, subsidised rental housing and low-income homeownership and market based homeownership should be a mix in a development.

**Ms Wall**—We also have the first home saver account which is also targeted towards helping people get into homeownership. Potentially people who are tenants of this National Rental Affordability Scheme could have some sort of stability in their rental arrangements while they are saving over that five-year period to acquire their first home.

**Senator JOYCE**—How many banks have actually said that they will offer those first homeowner accounts?

**Ms Wall**—They are not operating as yet, so that is probably a question to ask Treasury when they appear later.

**Senator JOYCE**—Because at this point in time they are only going to work if banks come on board with them, are they not?

**Ms Winzar**—That is correct, but Treasury has also released a technical discussion paper on the first home saver accounts and no doubt they will be able to tell you what sort of feedback they have had.

**Senator JOYCE**—So you have things in your current policy that are just going to stop. If we look to the past, public housing schemes have always been a conduit to a poverty trap slum. They have not got a brilliant record of having sunny uplands of prosperity into the future, so how are we going to stop that? What sort of caveats have you got in this current legislation to stop that happening in this current project?

**Ms Winzar**—I think that might be a little unfair on public housing. In the early stages at least, there was a fair amount of translation of public housing from rental to homeownership. That is much less likely to happen now, but under the Commonwealth-State Housing Agreement—and Ms Wall can perhaps give you more information—a number of states have home purchase assistance for public housing tenants.

**Senator JOYCE**—I will just go back to follow up something that Senator Fifield was saying. How many defaults, arrears and repossessions did you say there were a year? Was it 10,000?

**Ms Winzar**—I thought it was a bit over 9,000, but 10,000 is probably a more recent estimate.

**Senator JOYCE**—There are 10,000 more potential clients for public housing. Would it not be better to put \$150 million into trying to keep them in their houses rather than have them add to the problem?

**Ms Winzar**—It may well be. One thing which is not clear to me is the reason why people are defaulting on their mortgages—whether or not they have oversubscribed, bought more than they can afford, there has been some personal calamity, income has changed within the household or they have got sucked into excess credit usage.

**Senator JOYCE**—Perhaps the whole lot.

**Ms Winzar**—Perhaps the whole lot of those things, yes. One of the issues is that the banks do have provision for some relaxation or accommodation for people who are in temporary trouble as long as people know that they can contact their banks to think about renegotiation early. I suspect that information may not be widely understood.

**Senator JOYCE**—Are you finding that defaults, arrears and repossessions are associated with certain suburbs or specific geographic areas? I imagine things are pretty all right in Ascot or Bellevue Hill, but you might be having a few more problems in Blacktown and St Mary's.

**Ms Winzar**—I am afraid I do not have that information to hand. I am not sure if we would be able to get for you but we will see what we can do.

**Senator JOYCE**—Thank you.

**Senator HUTCHINS**—In the previous government, what portfolio was housing in?

**Ms Winzar**—I beg your pardon?

**Senator HUTCHINS**—In the previous government, in your department or section, what was housing covered by—which ministerial portfolio or department?

**Ms Winzar**—The Minister for Family and Community Services had the responsibility for the Commonwealth-State Housing Agreement, rent assistance and a range of related housing policies.

**Senator HUTCHINS**—You have mentioned on a few occasions the Reserve Bank figure of 180,000 dwellings per year that are needed and that only 150,000 are being constructed. Do we have the figures going back a decade or so? Would you be able to supply them to us?

**Ms Wall**—We would certainly have the number that were constructed. I do not know if we would have the equivalent estimate—

**Senator HUTCHINS**—If the Reserve Bank said that this is what they think is needed, clearly there must be a figure that says what it was in 2005, 2003, going back. Would you be able to see if you could find those for us?

**Ms Winzar**—We will see if we can find them for you.

**Senator HUTCHINS**—Thank you.

**CHAIR**—Ms Winzar and Ms Wall, thank you both very much for appearing today. We look forward to seeing the submission of the department. There are a number of issues which you have taken as questions on notice today and we would appreciate your assistance with returning those as soon as it is practical for you to do so.

**Ms Winzar**—We will do our best.

**CHAIR**—Thank you very much.

[10.06 am]

**HARNISCH, Mr Wilhelm, Chief Executive Officer, Master Builders Australia**

**JONES, Mr Peter, Chief Economist, Master Builders Australia**

**CHAIR**—Good morning and welcome to this inquiry of the Senate Select Committee on Housing Affordability in Australia. We received your submission overnight and we thank you very much for making that submission and for your assistance to the inquiry in that regard. I invite you to make an opening statement and after that we will go to questions.

**Mr Harnisch**—Thank you, I will make a short statement. We certainly welcome the invitation to appear before the Senate inquiry. As you have noted, we lodged our submission yesterday; we take the submission as read. The focus in the submission is on homeownership but we do touch upon the issue of public housing and social housing. I would like to note that because of time constraints we did not focus on labour issues but that, certainly in the short term, labour is likely to play some critical role in housing affordability. We would also like to note that we made a submission to the Treasurer on the first home owner savers account.

Going to the critical issue that we believe needs to be looked at, housing affordability has been with us from time to time mainly due to cyclical issues, so what we have done in our submission is look at what has changed over the last decade in terms of some of the structural issues that might have affected homeownership and housing affordability. Our analysis shows that there are probably two key issues that have changed and that we believe need to be addressed if there is going to be any long-lasting effect on housing affordability. Those two issues are the whole issue of infrastructure charging and policies, which are fundamentally state and local government issues, and the whole issue of land release and development approvals at state and local level. Obviously there are other matters that impact upon housing affordability, but we believe those are the core supply and structural issues that governments should be looking at.

This inquiry also needs to go beyond the current instability caused by interest rates and look at the structural issues affecting housing affordability. Housing plays a critical role in the economic and social fabric of Australia; therefore, Master Builders would support a collaborative approach between Commonwealth, state and local governments addressing the major structural issues that we believe need to be addressed if we are going to make a significant long-lasting benefit to Australians, particularly our young people entering homeownership.

**CHAIR**—Thank you, Mr Harnisch. I think you should perhaps take your submission as part-read, rather than completely read. We thank you for the effort you have put into producing your submission for the committee; it is very helpful to us. In your opening remarks you referred in passing to labour issues, which you indicated you have not concentrated on in your submission. Could I invite you to make some observations about that? When you talk about labour issues are you including, for example, both workplace relations matters and skills issues?

**Mr Harnisch**—Both. The feedback we are getting from our members is that, despite the current gloom that may be around the direction the industry is heading in, there will be a

recovery in the housing sector, particularly when the interest rate environment becomes more favourable. The reality of the unmet pent-up demand is that there is the potential for a surge, as has been demonstrated in previous cycles. The issue is whether the industry has the capacity, particularly with the current labour shortage situation, to meet that demand without causing undue inflationary pressures. Simple economics tells you that when you have a shortage in one area of inputs and you have strong demand the resultant outcome is an increase in prices. There are already concerns being expressed by builders about their capacity to secure labour to meet future housing demands. You may well say, 'Given that we are in a downturn, there should be plenty of Labor around.' The reality is that state governments and this federal government have a very ambitious infrastructure investment program. And of course the resource boom is still going, which is where a lot of the trades and the skilled labour is going—so the construction industry is competing with other sectors. We are watching that part of the market very carefully to see what needs to be done in labour market policy, the area of migration and the use of 457 visas and the like.

**CHAIR**—You just asked whether industry has the capacity to meet this pent-up demand. There are lots of numbers flying around, even from our discussion today with the Department of Families, Housing, Community Services and Indigenous Affairs. They talked about the National Rental Affordability Scheme contributing 50,000 new dwellings over a five-year period, which are, as I understood the numbers, over and above the figures that the department indicated they used from the Reserve Bank. The Reserve Bank figures indicated that we really need about 180,000 new dwellings per year. We are currently building about 150,000, so there is a shortfall of 30,000. When you combine that with the observations that you have made about the skills across the industry and the capacity of the industry to meet that demand, how do you make those numbers work?

**Mr Harnisch**—It is going to be hard work. I think the industry is very closely working with government and the immigration department on the immigration program to make 457 visas more flexible and more streamlined to get the required number of skilled people into Australia. Certainly they are the short-term measures that we are focusing on. In the longer term, we need to look at how we train our young people. We need to maintain incentives. We certainly need to reform our current training systems to make it more attractive for young people to join this industry and, more importantly, stay in this industry. Unfortunately this industry has a large dropout rate, and that needs to be redressed because, if we do not do that, our own projections show that we are likely to have a shortfall of semiskilled and skilled labour of about 40,000 people over the next five or so years. So it is a major challenge facing the industry and, obviously, governments.

**CHAIR**—You talk about the dropout rate; where do they go?

**Mr Harnisch**—A lot of them stay, unfortunately, in the industry; they operate as unqualified persons. The young people are attracted by a high salary—they are the 'now' generation, who want their BMW and their black V8 ute.

**CHAIR**—Probably in reverse order!

**Senator JOYCE**—There is nothing wrong with a V8 ute.

**CHAIR**—Mine would always be red, though!

**Senator JOYCE**—As long as it has a wireless!

**Mr Harnisch**—It is a major issue, so we have been working with the government and the CFMEU in trying to get more young people into this industry.

**CHAIR**—On page 11 of your submission you talk about maintenance of the First Home Owner Grant scheme, and then you go on to talk about indexing the First Home Owner Grant scheme. In other submissions that we have received, and in other observations about this particular issue, it has been put that all that really does is to increase the cost of the dwelling—it does not actually make a real difference to the capacity of the individual to purchase it. What is your comment on that?

**Mr Harnisch**—People have to understand how the scheme was brought in. It was a compensation for the GST. It was not, as such, an assistance program; it was a GST compensation package. We believe that that GST compensation is still valid today, and on that basis we believe that the First Home Owner Grant should be increased to reflect the increased GST that first homebuyers have to pay to get into homeownership.

**CHAIR**—So you disagree with the proposition that the effect of those sorts of incentives is just to increase the price of the property.

**Mr Harnisch**—That was not the reason why it was introduced.

**CHAIR**—I understand that. I am asking if your organisation disagrees with that proposition.

**Mr Harnisch**—There is an argument that perhaps it has been capitalised into house prices. I have not seen any definitive studies to demonstrate that.

**Senator HUTCHINS**—Mr Harnisch, you said there were two critical issues that had changed over the last decade. The first was the infrastructure charges and policies at state and local government levels, and the second was land release and approvals. Do you want to expand on what you see as the problem and, maybe, offer solutions?

**Mr Harnisch**—We have had quite considerable and long discussions with the Australian Local Government Association in terms of urban infrastructure charging and the levies that have been introduced over the last 10 years. We accept the fact that local governments have been put under considerable pressure to meet community expectations in services that, they would argue, they have been elected to provide.

**Senator HUTCHINS**—What sort of services? Could you expand for us. When you make a statement like that, are the states different? Is New South Wales different from, say, the situation in Tasmania?

**Mr Harnisch**—Certainly in terms of charges New South Wales would stand out, I believe. There are various policies.

**Senator HUTCHINS**—I just want you to expand in your comment about what sorts of services are expected. Are there different expectations, say, in Queensland to those in South Australia—two different states?

**Mr Harnisch**—I obviously cannot give it to you shire by shire or local government by local government.

**Senator HUTCHINS**—As best you can.

**Mr Harnisch**—Generally I have been advised that local governments are asked for contributions for community facilities, whether that be playgrounds, halls, libraries, swimming pools et cetera. These sorts of things are then levied against the development industry, and of course they simply pass that on to the first home buyer in particular—well, to all homebuyers. That brings up the whole issue of equity in terms of whether the immediate homebuyer in that area should face the responsibility for providing infrastructure, because it has a broader benefit to the community. It will not just be used by the homebuyers in that particular area. A swimming pool will be used by others, and roads and other things will also be used by the broader community.

So what has happened is that the costs of these facilities get added on to the developer charges. For instance, I heard that a few months ago the Hornsby Shire Council levied an extra \$1,100 a block for the construction and maintenance of a library. I have nothing against community libraries, but the argument there in terms of policy is: should only a few homeowners pay for that or should that be a broader community responsibility and therefore the taxes should be carried across from rates, for instance, or raised in some other way?

In residential land approval, it is quite clear that developers are frustrated by the rate of release and also the approvals process. When we talk about land release, we are talking about both greenfields and what we call urban consolidation. So the issue is not just about greenfields but also inner city redevelopment, where, perhaps due to community standards, there is greater opposition to the types of developments that are being proposed—for instance, small lots, high densities et cetera. They are the ones that we believe have contributed significantly, not exclusively, to the problems of housing affordability we have today and they are the ones we believe need to be addressed. That is not to say other matters should not be addressed as well.

**Senator HUTCHINS**—On the Hornsby council example, would this happen in Queensland or in Tasmania, to your knowledge? Is that sort of attitude adopted by local governments in other states?

**Mr Harnisch**—You get anecdotes from here and there. Obviously the Hornsby one was the latest ‘industry outrage’ and example of how the system is not working.

**Senator HUTCHINS**—In terms of land release and all that, are there problems in different jurisdictions about, say, if someone wants to object to this Commonwealth land being turned into a housing estate and then there are all these planning steps? Is it different in different states?

**Mr Harnisch**—Generally the same problems are being reported around Australia. The degree of difficulty obviously varies, but what we are hearing from the industry is that New South Wales seems to be the most difficult state.

**Senator COLBECK**—I would like to take up where you left off previously, about building the cost of this community infrastructure in at such a base level of the whole process, with the compilation of costs on top of that. Taking the library example, where there is \$1,100 a block placed on that, the developer has to put that onto his costs and he has to put his holding costs for the land on top of that, and that then goes into the cost that the purchaser pays for the block, whether it is a homeowner or someone else developing downstream. Do you think that actually has the potential to increase the cost to the community of this infrastructure across the board?

**Mr Harnisch**—It would seem to me that community expectations are rising. The local councillors are obviously feeling the political pressure of rising community expectations. I think in policy terms the issue is really about the equity of who pays for it. You will find in our submission we ask that a major review be undertaken to examine the fiscal arrangements between Commonwealth, state and local governments to address this, because we believe that unless this matter is addressed this will become, as you said, Senator, a problem that will continue to occur where, in particular, the first home buyer will be disadvantaged in terms of equity and obviously cost in entering homeownership—and obviously in the provision of other social and public—

**Senator COLBECK**—It just seems to me that the cumulative costs that go through the system of providing that piece of infrastructure potentially would cost the community more than through the imposition of all of those costs had it not been provided by some other perhaps more traditional means of providing it to the community.

**Mr Harnisch**—I would hope that such a review would be able to undertake that analysis.

**Senator COLBECK**—We discussed the capacity of the industry to meet the potential future demand for housing infrastructure. You have made mention of apprentice training and the number of apprentices within the system and the drop-out rate. The industry has been notorious for fluctuations in training based on demand itself. I think the number of apprentices in Tasmania increased fivefold in the three or four years from 2002 to 2005, based on the fact that there was an upsurge of demand in the industry. If there is no work for the industry, they basically do not train. Based on the fact that the growth spurt in the industry has promoted additional training, is there a projected growth in the number of trained tradesmen coming out the other end, or is this drop-out rate having an impact on the over all rate of those with qualifications?

**Mr Harnisch**—The good news is that over the last three years we have had a lot more young people entering into apprenticeships. The other good news is that a lot more apprentices are finishing their course. But despite that we have a very large drop-out rate, or withdrawal rate. I think last year that was roughly around 11,600.

**Senator COLBECK**—And what is that as a percentage of the overall cohort?

**Mr Harnisch**—There are 20,000 who have come in and 11,000 who have dropped out. It is a huge drop-out rate.



**Senator COLBECK**—Much has been made of the type of property that people are demanding as they go in. Community expectation is something that has been mentioned this morning. Can you give me a bit of a sense of the general specification of an entry home, say, 10 or 15 years ago versus what it might be today?

**Mr Harnisch**—Senator, I think you are alluding to the fact that the aspirations and expectations of first home owners today are certainly higher than they were. The expectation of quite a number of first home buyers, certainly if they want to live in an apartment, would be for inner-city living, which is obviously more expensive. In terms of what I would call stand-alone housing, there is an expectation of certainly three bedrooms, ensuite, a double garage and reasonable appliances, which obviously all increase the cost of a home.

**Senator COLBECK**—I suppose I wanted to make that point, but if you lay that alongside the construction cost index, which is increasing at a reasonable rate, I think, in respect of CPI, then I was really just trying to get a sense of what the differential might be in the base specification of entry level now versus what it might have been when I started 20 odd years ago. I acknowledge that community expectations or purchaser expectations are different.

**Mr Harnisch**—I will have to take that question on notice unless Peter knows—

**Mr Jones**—Not the specifics, but in general terms the construction costs have not really got out of kilter with the general increase in cost as measured by the CPI. As we demonstrate in the submission, it is the cost of land that has actually increased exponentially over the last 10 years. When we delve down to what has changed over the last 10 years we are talking about the two aspects: infrastructure taxes, charges and levies and the land release and development assessment process.

**Senator BARTLETT**—Assuming we go with the rough suggestion that there is about a 30,000 shortfall each year in dwellings needed versus what is being built, is labour availability a component of why that 30,000 is not being built? If we did have the labour there, would some of those dwellings be built? Do you know how big a component it is?

**Mr Harnisch**—The question that I think you are asking is: is the lack of labour the reason that we are not building?

**Senator BARTLETT**—Is it part of the reason that we are not meeting that 30,000 gap?

**Mr Harnisch**—No. I think the reason that there is underbuilding is really the fact that housing is in many cases out of reach. There is also uncertainty about where things are at. That is why the market is not reaching the underlying requirements. The issue of underbuilding is not related to the shortage of labour.

**Senator BARTLETT**—The problems you have outlined about potential labour shortages go more to costs.

**Mr Harnisch**—Yes, and being able to meet demand in the future.

**Senator BARTLETT**—So it might become a factor down the track?

**Mr Harnisch**—Correct.

**Senator BARTLETT**—Accepting your argument about supply being a key factor, have you any figures about just how much land has been released for development or is sitting undeveloped at any stage around the country, whether it is large blocks or individual undeveloped blocks?

**Mr Harnisch**—No, we do not have that data. Obviously, some of that land is held by state governments, by the Commonwealth and by developers. I think Treasury was attempting to compile those numbers, as I understood, last year but I am not quite sure whether they were able to complete that task.

**Senator BARTLETT**—One of the issues that I have seen raised from time to time in reading about this issue purely in terms of private landholdings—putting aside government for the moment—is that when land is released to developers, they sit on it for a long period of time, obviously not wanting to flood the market and dealing with demand. I can understand why they might do that but if we have an argument that supply is a serious component in affordability then should there be some limit on how long people can sit on land, some sort of use it or lose it requirement in development approvals?

**Mr Harnisch**—Developers do hold land. They buy up land where they believe there is potential for future residential development. That has been the practice for decades. There is nothing new about that. That has to be regarded in the positive because, unless people do make forward plans in making land available for residential purposes, then you do suffer major crises. We do not believe there is any particular need to legislate or mandate the time for which you can hold a particular block of land. We believe that is the market. There is also an assumption that land developers unduly and deliberately withhold land. Given the fact that land developers are there to be in business and the cost of holding land is quite expensive, it does not make economic sense to do that. If you believe in a market, most developers would like to turn off the blocks as soon as they can.

**Senator BARTLETT**—I am not alleging there is some dark conspiracy where people are holding everything back; I am just trying to get the full pile of information about all the data—how much land is available, has it been released but just not opened up for development and is that a factor or not. I fully appreciate it is the market and these sorts of proposals of putting in place a constraint—time limits—on when people have to use stuff that is their property have a habit of creating unintended consequences. I am not suggesting it is a magic solution. But people come to us and argue that supply is a problem, and I am just trying to get a handle on exactly what the data is about how much land is out there now that is not being developed and how much of a gap there is when development approval goes ahead.

**Mr Harnisch**—We certainly do not have that.

**Senator BARTLETT**—You mentioned this being cyclical. I appreciate there is a cyclical aspect to things, but my impression is that at least to some extent this has become much more structural and entrenched. The figures about the deposit gap—and eight times average earnings compared to five and so on—do suggest that it is much more than a cyclical problem.

**Mr Harnisch**—Yes.

**Senator BARTLETT**—Given that you are talking about supply being a key problem and therefore demand based measures not being terribly helpful on their own, what about other measures in the tax system, such as the capital gains tax exemption on the family home, for example? Negative gearing is one that people often talk about. I have heard the First Home Owner Grant talked about. They all in different ways can impact on demand. Do you think they need to be looked at at the same time?

**Mr Harnisch**—In our submission, on pages 10 to 12, I think, we talk about negative gearing. The comment we make is that we do not believe negative gearing has unduly, if at all, distorted the market. I also make the point that negative gearing is part of a modern tax system. It is not exclusively for the residential market; it applies to other sectors of business. Arguments have been put that the capital gains tax exemption somehow has unduly distorted the market. There certainly have been no studies to demonstrate that. Once again we would note that the capital gains tax concessions are part of a broader tax system. They are not limited to the residential market. In fact, we would argue that what we need in terms of capital gains tax is more reform. We need to secure long-term investment. We have argued, and we are arguing, that governments need to introduce a stepped-rate capital gains tax where after, say, 10 years there is no capital gains tax applicable. This will mean you will get investment into the rental market. It will be long term—10 years—and that must provide stability for the rental market; therefore we believe it is something that perhaps the Senate may wish to consider in this inquiry.

**Senator BARTLETT**—Wouldn't those sorts of measures be demand-type measures?

**Mr Harnisch**—We consider that a supply type, in the sense that it would encourage long-term investors to come into the market, therefore increasing supply. The thing about the stepped capital gains tax proposal is that it will actually encourage investment for the long-term holding of investment properties.

**Senator BARTLETT**—Capital gains exemption for your primary place of residence is not a bad investment, though.

**Mr Harnisch**—No, I am talking about rental investment.

**Senator BARTLETT**—So what value does the capital gains tax exemption have? Perhaps I am bouncing around the different measures.

**Mr Harnisch**—In terms of the step-rate capital gains tax, I was talking about rental properties; I was not talking about the family home.

**Senator BARTLETT**—I appreciate that, but if we are looking at the whole suite of all the different tax measures that are around—all of which have impacts in terms of overall Commonwealth budget if not market impacts—what is the actual value of the capital gains tax exemption?

**Mr Harnisch**—In terms of the step rate?

**Senator BARTLETT**—No, on the family home. Are you thinking we should keep it? My understanding is that it is quite a large tax expenditure. What benefit does it have? You have only touched on it very briefly in your submission. I am not expecting you to have a comprehensive view on it, but if you are suggesting it should stay—

**Mr Harnisch**—I understand the question. Treasury has put out some numbers on that one. I am assuming Treasury is appearing.

**Senator BARTLETT**—Yes.

**Mr Harnisch**—We have the table there, but I have not got it in front of me.

**Mr Jones**—Is this the 50 per cent exemption on capital gains? I think it is \$6 billion to \$7 billion. The Treasury puts those figures out.

**Senator BARTLETT**—I will follow up with Treasury on that. That is fine. Thank you.

**Senator FIFIELD**—Mr Harnisch, in your submission the association calls for the phasing out of stamp duty, particularly for first home buyers. Is there a jurisdiction which you view to be a model jurisdiction or one which other states should follow?

**Mr Harnisch**—In Australia?

**Senator FIFIELD**—Yes, in Australia—in terms of stamp duty.

**Mr Harnisch**—We recognise, and certainly welcome, those states and territories where they have reduced stamp duty significantly for first home buyers. We acknowledge that, but we believe that needs to go further. I think if state governments in particular want to make a contribution to housing affordability that is one area where they can do so.

**Senator FIFIELD**—Which is the worst state and which is the best state in terms of stamp duty from your point of view? It would be helpful so we know.

**Mr Harnisch**—I do not think I want to make that comment. We just have the policy proposition that, particularly for first home buyers, stamp duty should be phased out altogether.

**Senator FIFIELD**—Are you sure? There is one last chance! It would be helpful for us to know where we should look. I do not think previous coalition governments at state level necessarily did much better.

**Mr Harnisch**—Thank you for the opportunity.

**CHAIR**—He does not really mean that, you know!

**Senator FIFIELD**—We are in the business of providing opportunities!

**Senator HUTCHINS**—You are not prepared to name a state Labor government either.

**Mr Harnisch**—We do not take sides.

**Senator FIFIELD**—Ideally, you would argue for the total abolition of stamp duty for first home buyers as a starting proposition—

**Mr Harnisch**—Yes.

**Senator FIFIELD**—but ultimately—.

**Mr Harnisch**—We believe it is a very inefficient tax, but obviously it does provide a solid revenue base for state governments. That is recognised.

**Senator FIFIELD**—Indeed. Sadly, when the new tax system was being prepared and the states were asked to list which taxes they would be prepared to abolish, stamp duty was towards the bottom of their list—for obvious reasons. The First Home Owner Grant, I think you indicated to the chair, is one that you think should continue because it was introduced as a GST compensation measure.

**Mr Harnisch**—Yes.

**Senator FIFIELD**—Therefore you would be disappointed if the First Home Owner Grant were abolished as part of introducing the first home saver account.

**Mr Harnisch**—Yes, we certainly would be. We do not see the first home saver account as a substitute for the First Home Owner Grant scheme. The First Home Owner Grant scheme is an upfront payment. The first home saver account is longer term. I suppose the first home saver account is a substitute in a sense, but the First Home Owner Grant is accessible to the first home buyer without having to save and go through the ‘benefits’ of the first home saver account.

**Senator FIFIELD**—I think it is important to have that as part of the evidence because we are in the prebudget period and the government is not ruling things in or out at the moment. They were thinking of abolishing that in favour of the home savers account. It is good to have that evidence. As you would be aware, the government are going to abolish the Australian Building and Construction Commission, I think, at the end of 2010. Does that cause you concern in terms of potential increase to union militancy and intimidation on building sites and a consequent increase in building costs?

**Mr Harnisch**—The ABCC in part covers the residential building sector under the act. The concern that we have in terms of behaviour on building sites relates more to the commercial building sector and obviously to those developments that incorporate residential and commercial. The studies that have been undertaken independently by the ABCC, the previous government and others clearly show that there has been a significant increase in terms of industrial harmony, a significant increase in productivity and a significant drop in construction costs. One would hope that by 2010 the industrial players become more responsible and appreciate the productivity gains and the reduction in costs that have been achieved and the economic and social benefits that have delivered.

This speculation about whether we are going to return to industrial thuggery after 2010 at this stage I would have to say is speculation only, but we would hope that the new inspectorate that is being proposed by the Deputy Prime Minister can deliver the same level of industrial harmony and maintain the productivity that is there. If that were not to occur the cost savings that are being made will perhaps be reversed, and it will be true to say from studies that the cost differentials between non-residential, which is the unionised sector, and residential, which is largely the non-unionised sector, are up to 20 per cent. So the argument could well be: if the industrial relations climate changes substantially it could transcend through osmosis to the residential sector and therefore put upward pressures on the costs of residential housing.

**Senator FIFIELD**—Would you like to see the Building and Construction Commission continue beyond 2020?

**Mr Harnisch**—Our official policy has been and continues for the continuation of the ABCC.

**Senator JOYCE**—With housing affordability, is it that houses are unaffordable everywhere or in certain areas?

**Mr Harnisch**—It is two things. Housing affordability does not impact uniformly throughout Australia and across all households. WA is a classic one. The latest resource boom has seen house prices literally double over the last five years and that has caused major problems there in terms of housing affordability. In the state of Tasmania, similarly there has been a massive increase in house prices and that has caused problems in terms of housing affordability for certain households. In the recent cycle a number of households, unfortunately, were caught by a housing price bubble. They are now suffering negative equity and the mortgage and financial stresses that we have all been hearing about and that no doubt you will continue to hear about during this inquiry. It is not uniform across Australia and it is certainly not uniform across households. Our policy proposition is that government policy should focus on first home buyers and those low-income and disadvantaged groups to formulate policy.

**Senator JOYCE**—Does it seem peculiar that we always seem to be trying to take the mountain to Mohammed? Houses in certain regional areas are decidedly cheaper and in fact quite affordable. If we have, as has been proposed, \$150 million to spend, why do we not put at least some of that energy into moving the employment resources and the stimulation to employment to regional areas, where the land base is cheaper and where the base product of the house is decidedly cheaper? Has your organisation ever considered that or lobbied or done anything about that?

**Mr Harnisch**—We have been lobbying for greater investment in transport infrastructure, particularly in New South Wales but also in other states. Investing in fast transport modes, whether road or rail, so the population can live outside the capital city—where, as you say, land is more reasonably available and therefore likely to be cheaper—improves housing affordability. However, Commonwealth and state cooperation is required to facilitate that level of investment.

**Senator JOYCE**—As the current program is envisaged, certain developers are going to get a financial incentive to provide public housing. Do you think all your members will have an equal chance to be a part of the National Rental Affordability Scheme, or do you think it is more likely to go to certain large developers?

**Mr Harnisch**—My understanding of the scheme is that it is likely to be more attractive to large developers, who have access to equity. It may be attractive to institutional investors, but the issue for both those entities is the rate of return. While they may give some discount in terms of their return given the nature of the development, the reality still is that the private sector and institutional investors have a duty to maximise returns.

**Senator JOYCE**—We do not want to get into a position where we end up with New-Age slums or New-Age poorer housing projects. What would you suggest to avoid that, because, as you said, it is all about return? Return is based on buying the land at the right price, so you have to buy it where it is cheap, and making sure your fixtures, fittings and fit-out are in such a form that you are trying to do it for the best possible price, so inevitably they will be cheap. You know that you will be there for seven to 10 years, so if I was the accountant for the durability of the product I would definitely be taking that into account and making sure that the tiles sticks to the wall for at least 10 years—then they can fall off. My involvement in public housing projects has taught me that they seem to have a bad habit of collecting all the problems that are currently in the district and concentrating them in one area. Do you think there is any reason the National Rental Affordability Scheme will do anything more than what every other public housing scheme has done in the past?

**Mr Harnisch**—It is difficult to speculate on what might be the outcome in terms of whether it would generate a slum. My understanding is that it is going to be a mixed development. Perhaps you can argue that, because it is a mixed development between subsidised and non-subsidised rental dwellings, that might militate against a slum occurring. Slums are likely to occur regardless of whatever scheme may be put into place. The point I would make is that you certainly need to look at the policy intent of what is being proposed. The way we see it is that it is an attempt to provide a subsidy to assist that cohort within our population that you could argue deserve or require government assistance to access affordable and appropriate housing.

**Senator JOYCE**—I should defer to Senator Colbeck. As a builder, he would obviously have far better knowledge of this than I would. But if I actually owned a house and the subsidy was to me direct, as the owner of the house, then I would make sure that the builder put in enough studs, that we did not have a flex in the walls and that the builder did not cut corners. For example, once you have the gyprock on, you cannot see what is behind it. There is the potential when a corporate entity is building a dwelling for returns rather than a family building it for a house for certain corners to be cut, which inevitably means that the house is deficient in areas. As those deficiencies become apparent, the house becomes less enticing to the top of the rental market and slowly starts heading towards the bottom of the rental market. The reality is that in the end you have those amazing things that go wrong in public houses such as the breaking of toilets. I have never broken a toilet in my life, but in some public housing they manage to go through quite a few. So one thing leads to another and down the slippery slope the dwelling goes until in the end it is not a choice place to live.

**Mr Harnisch**—Just for the record, builders have to build to the Building Code of Australia. I do not want to leave the impression that builders build substandard dwellings.

**CHAIR**—Quite!

**Senator JOYCE**—Quite!

**Mr Harnisch**—As a minimum, they have to build to the Building Code of Australia and to Standards Australia standards. The issue about whether it can lead to slums is really all about the management of the tenants and which tenants go in there. I think it would be true to say that there are some difficult tenants out there. Certainly there are difficult tenants in the public housing sector, but my understanding of what is being proposed is that it is not targeted towards that cohort. But obviously if that cohort were to be housed or accommodated in this accommodation then perhaps it could lead to the proposition that you have put. But that is a risk whatever. That cohort does exist in the community now.

**CHAIR**—Mr Harnisch and Mr Jones, thank you both very much for appearing. May I thank the MBA again for their submission. There may be some questions which we would like to ask you on notice which are revealed through further examination of the submission. I hope you will accept those questions when they come through.

**Mr Harnisch**—Yes, that is fine.



[11.07 am]

**GALLAGHER, Mr Philip Francis, Manager, Retirement and Intergenerational Modelling and Analysis, Department of the Treasury**

**GARTON, Mr Phil, Manager, Household and Labour Unit, Department of the Treasury**

**PRESTON, Mr Robb, Analyst, Department of the Treasury**

**CHAIR**—Welcome. I imagine that I do not need to go through the guidelines in relation to answering questions. If you do object to answering questions, you know the procedure; it is the same as for estimates and everything else. Is there going to be a submission to the inquiry from Treasury?

**Mr Garton**—No, we are not planning to provide a written submission. That is due to other work demands, preparing the budget et cetera.

**CHAIR**—Oh, I knew there was something else on. Thank you, Mr Garton; we appreciate your presence here today nevertheless. Thank you for your assistance to the committee. I now invite you to make an opening statement.

**Mr Garton**—I will start with a brief opening statement on the general issues. I think Mr Gallagher wants to make a statement on his aspects. Basically, I think that almost however you look at it measures of housing affordability have declined over about the last decade, although that was from the point where affordability was quite good, around 1996. So I am talking about affordability in terms of, particularly, the share of income that a first home buyer would need to allocate to buying a home. Depending on how you look at it, it is either the worst on record or around the worst on record. Either way, it is relatively low by historical standards.

There are two factors that affect affordability: one is house prices relative to incomes; the other is interest rates. Over about the last five years interest rate rises have obviously contributed, but over time a rise in house prices has been the key factor. Interest rates basically have gone back to around 1996 levels. Since that time the decline in affordability has been entirely due to the rise in house prices. Essentially that reflects the fact that demand has been growing quite strongly and supply has not been able to respond. On the demand side we have had a number of contributors. One is the fact that growth in incomes and employment has been quite strong, so that has improved the capacity to afford housing loans. There has been a long period of economic stability, which has increased people's confidence. There are some signs that confidence is declining at the moment, but that has been true over most of the period.

Recently we have had quite a strong population growth, particularly from immigration, so that has boosted housing demand. There has been, broadly, an increase in the availability of credit over the last 15 years. Again, that is probably something that may unwind at the margin. As a result of the subprime situation, there may be some marginal tightening of lending standards, but that has not nearly been the same issue in Australia as it has been in the US, so that is probably

more of a marginal effect. Also, compared with the situation over the two decades up to 1996, interest rates have been lower. They have gone up recently but that is still only to 1996 levels.

On the supply side there are various factors that are likely to have impeded the supply response. Some of those are inherent restrictions—the fact that there are only so many houses in the suburbs where most people want to live. They are in the waterfront suburbs. They are the areas where house prices have risen more strongly than in any other suburbs. The second factor is probably some issues related to planning and approvals processes at the levels of state and local government. That is a fairly complex issue, but there are some issues that were raised in the Productivity Commission's report in 2004. Although I understand that steps are being taken to improve those processes, that still seems to be an issue. The third factor is that more recently the economy has been at full employment, so there are some resource constraints there. For housing construction, particularly, there is the fact that construction in other sectors has been growing very strongly, particularly mining related construction, and it is quite likely that those sectors have been bidding away resources from the housing sector.

As a result of all that, the conclusion you can come to is that probably the key to improving affordability is to address the supply response, and that goes to some of the issues around addressing capacity of constraints, skills, infrastructure et cetera, labour force participation and the more specific issues to the housing sector relating to planning processes and approvals at the state and local government level.

**Mr Gallagher**—I just want to make some numbers available to the committee. It is original research looking at the housing situation of Australians aged 55 years and older. We can probably provide more details on this. In particular, I want to give you evidence on change in tenure type for older Australians, change in the level of housing debt for older Australians who do have debt and change in the level of housing stress, and some detail on the expenditures of older Australians in relation to housing.

There have been two income housing surveys from the ABS that we have taken, the same as NATSEM, in 1995-96 and 2005-06. If you look at those surveys you see that people aged 55 to 64 who are owners have declined from 72 per cent of all home reference persons in 1995-96 to 54 per cent—so a decline from 72 to 54 per cent who were owners. And there has been almost an equivalent rise in the proportion of 55- to 64-year-olds who are buying: from 13 to 27 per cent. In the group who are aged 65 to 74, in 1995 81 per cent were homeowners; in 2005 the proportion was 75 per cent—so again a decline, although a much smaller change, in that group. Although we cannot explain all of these things, there are certain factors such as later marriage, later childbirth, associated with later purchase of housing, which appear to be delaying the point at which people finally pay for their homes.

If we look among those who have a mortgage, it is interesting to compare the size of the mortgage, because one hypothesis would be that, given financial deregulation, people such as me are just taking home loans so that they can fund other things—home improvements—and these are not serious mortgages. But in fact, if we look at the entire group, from 1995 to 2005 the proportion amongst older Australians with a mortgage which was over \$50,000 in real terms went from 30 per cent to 61 per cent and the proportion with a mortgage over \$100,000 went from 12 per cent to 38 per cent. That is amongst the group with a mortgage. So that is a sizeable

increase in the level of housing debt of older Australians and that is of interest to us in terms of retirement income policy and the setting of retirement income policy.

Although Treasury will not support any particular indicator of housing stress, the common measure often used is if housing costs more than 30 per cent of disposable income. If we look at all the age groups aged 55 years and older, in 1995-96 we would have said that 5.8 per cent of the older households were in housing stress on that definition, whereas in 2005-06 we would have said it was 9.6 per cent.

It is also important when looking at retirement to consider the level of housing costs in retirement. The fact is that the housing costs of renters are far higher as a percentage of total expenditure. For owners aged 65 to 74, housing costs were 9.9 per cent of total expenditure, but for renters the figure was 29.6 per cent in 2003-04. It is also the case that renters appear to have lower incomes and lower retirement savings, which makes sense, and the consequence is that renters have a lot less to spend on other things. But if you look at the pattern of expenditure on other things after housing then it seems to be fairly similar across tenure types, with very small percentage differences. Renters have a very slight tendency to spend slightly more of their remaining expenditure on food, alcohol and tobacco, where it is quite clear that owners can spend a bit more on health, transport and recreation. So this would appear to be a difference between spending more of your remaining budget on the necessities of life versus some of the good things in life. I just thought I would make those figures available to you, and I suppose we could make more of those results available to you if you give me a question on notice.

**CHAIR**—That is a promise, Mr Gallagher. Thank you very much. Consider it done. Thank you for both of those presentations. Mr Preston, did you wish to add anything?

**Mr Preston**—No.

**Senator FIFIELD**—I might just start on something I referred to earlier with the department of housing. On *Lateline* last night the ABC put to the Treasurer their collation of Supreme Court orders for repossessions for people who have defaulted on their home loans, of which they said there were about 10,000 per year. The Treasurer said he thought that sounded about right but he did not want to commit to confirming the figure. I am wondering if you are able to give us a steer as to what the figure is.

**Mr Garton**—Yes, 10,000 is roughly the figure for 2007 across all states.

**Senator FIFIELD**—How does that compare with the previous years?

**Mr Garton**—I think roughly it has slightly more than doubled over three years.

**Senator FIFIELD**—Slightly more than doubled over three years?

**Mr Garton**—Three or four years.

**Senator FIFIELD**—I thought you would be in a position to know, so thank you for that. Your very good summary of the supply and demand issues indicated that it was really the supply side that needed to be addressed to respond to housing affordability issues. In the government's plan,

*Making housing affordable again*, it looks as though two of the items are on the supply side and there is the first home saver account on the other side. Do you think that the first home saver account is actually going to assist? Clearly it cannot do anything on the supply side. Doesn't it run the risk that it will actually help increase demand, that it will help force prices up? Is that a concern for Treasury?

**Mr Garton**—In saying it is mainly about the supply side, I was not necessarily ruling out any measures to assist buyers or renters. In terms of the effects, it is true that, if you give people assistance to buy a home, that will tend to increase demand. How that affects price will depend on the supply response. If supply is not responsive than the price will go up more; if supply is more responsive, the price will go up less. I think one thing to point out with the home saver accounts is that there is a four-year period before people can make withdrawals, so that gives some time for various measures to improve the supply response to have some effect.

You noted there are some measures intended to address the supply side. The Housing Affordability Fund is funding programs to address local government planning policies, infrastructure shortfalls et cetera, so that is a supply side thing. There is also the National Housing Supply Research Council, which will look at the issues around supply—how much supply needs to expand and what the barriers to that are. Also, there is the National Rental Affordability Scheme, which is trying to improve the supply of low-rent dwellings. More generally, there are various efforts at state and local government levels that are already underway to try and improve planning processes and to speed up approvals. So there is some prospect that all those things together will help to improve supply response.

I think a second point is that, even if prices did rise, the position for first home buyers who are getting this assistance should still improve because that will depend on the price net of the assistance they are getting from the government. So you can still have higher prices but a lower cost to those people. Also under the scheme there will be incentive for people to increase their own saving for a deposit. To the extent that they do that they can buy the same or a more expensive house for possibly a lower loan size.

**Senator FIFIELD**—I asked the Master Builders Association earlier whether they would be disappointed if the first home owners grant were abolished or means tested in some way. I appreciate that the government is reviewing most things in a pre-budget context, so I am not endeavouring to catch you out or anything, merely to establish what is the government's position in relation to the first home owners grant. Has the government made a commitment that the first home owners grant will continue as is, that it will be neither abolished nor means tested?

**Mr Garton**—As I understand it, it is to be as previously announced.

**Senator FIFIELD**—So the government's position is clear. It is not going to be touched; it will continue as is.

**Mr Garton**—What might happen is a policy issue which you should ask the government about.

**Senator FIFIELD**—Sure. Again, I am not trying to be difficult. You probably have a better idea than I do as to what the then opposition's commitment at the time of the election was in relation to the first home owners grant.

**Mr Garton**—Would you like me to explain that?

**Senator FIFIELD**—Yes

**Mr Garton**—Firstly, there has been some modification of the scheme since the election. I think the original proposal was that essentially people would pay 15 per cent tax on—

**Senator FIFIELD**—Sorry, I am talking about the first home owners grant.

**Mr Garton**—I misunderstood you.

**Senator FIFIELD**—The government would have made a commitment to the first home owners grant, I am assuming, when they were the opposition.

**Mr Garton**—I am not aware of anything that was specifically said on that.

**Senator FIFIELD**—Are you aware of anything since the election where the government has stated a commitment to maintain the first home owners grant?

**Mr Garton**—I am not aware of it. As it is ongoing policy, there has been no statement.

**Senator FIFIELD**—Sure, it is ongoing policy. I am trying to establish whether, when the government says that pretty much all things are for review in the budget context, the first home owners grant is one of those things or is it something which is not subject to that?

**Mr Garton**—That is not something I can comment on.

**Senator FIFIELD**—Okay, I will take it that all things are possible in the budget in relation to that. Could you tell me what the cost of the first home owners grant was in the last financial year?

**Mr Garton**—I do not know the cost. I would have to take that on notice.

**Senator FIFIELD**—If you could. Also the first home owners grant money comes from the GST revenues, I think. Is that correct?

**Mr Garton**—I am really not sure on that either.

**Mr Gallagher**—The nature of the scheme is that the costs are incident on the states. I think it is via the GST mechanism.

**Senator FIFIELD**—I think I saw a figure that there is expected to be \$4 billion in first home saver accounts in 2012.

**Mr Preston**—That is correct.

**Senator FIFIELD**—What is the cost to the Commonwealth between when the scheme is introduced and 2012? What is the cost to the budget, because there is a government contribution as well, isn't there, into the accounts?

**Mr Gallagher**—We will take that on notice. I am sure I actually have that with me. The other thing is I do not know that we would have out to 2012 as a cost. I have the discussion paper that is unlikely to get a run to the issue of how much money we are spending.

**Senator FIELDING**—Although to know that there would be \$4 billion in those accounts you would have to have a rough idea as to what the Commonwealth contribution would be.

**Mr Gallagher**—I think \$4 billion was the estimate given in a press release from Tanya Plibersek and the Treasurer. So that number is around.

**Senator FIFIELD**—If you could take that on notice, that would be helpful.

**Senator COLBECK**—Is that a Treasury figure? Where did that number come from if they have put it in a press release?

**Mr Gallagher**—The Treasury figure would be slightly higher than that so it was a conservative estimate.

**Senator FIFIELD**—So the number in Minister Plibersek's press release was a number from Treasury?

**Mr Gallagher**—I am not familiar with the source of the number.

**Senator FIFIELD**—If you could take the number and its source on notice, that would be helpful. Is it correct that the Treasurer has ministerial responsibility for the first home saver account?

**Mr Gallagher**—Yes.

**Senator FIFIELD**—So the Housing Affordability Fund is something that is in the Department of Families, Housing, Community Services and Indigenous Affairs?

**Mr Garton**—Yes.

**Senator FIFIELD**—The National Rental Affordability Scheme comes within the Department of Families, Housing, Community Services and Indigenous Affairs—although the department did indicate that they work very closely with Treasury on that particular scheme. What is the nature of Treasury's input and involvement in the development of that scheme?

**Mr Garton**—It is a scheme that works through the taxation system, so by virtue of that Treasury is involved in the policy development process.

**Senator FIFIELD**—So Minister Plibersek has ministerial responsibility for something which is administered by the ATO, is that correct?

**Mr Preston**—It will also be administered in part by her department, reflecting the fact that the scheme will be competitive and the application process will obviously need decision making. But, yes, to the extent that they are tax credits being provided, there will be ATO involvement in that.

**Senator FIFIELD**—So is it a bit like the family tax benefit scheme, where it is kind of in the Treasury portfolio and kind of in the Centrelink portfolio as well—there is dual responsibility?

**Mr Preston**—I think it is fair to say that there are broad responsibilities.

**Senator FIFIELD**—Had Treasury ever looked at such a scheme before it was given as policy by the government to Treasury and the other departments to look at? Had Treasury ever taken a look at this as a good idea—as something that was worth pursuing?

**Mr Garton**—I do not think we can answer to the extent of policy advice that may or may not have been provided.

**Senator FIFIELD**—In relation to increasing the supply of land, the Commonwealth has done an audit. There is the COAG working group, which I think Minister Plibersek is chairing. Does Treasury have any involvement in that or is it purely the department of finance?

**Mr Preston**—We have representatives on that.

**Senator FIFIELD**—Has the audit or any other processes of government come up with a figure yet for the dollar value of surplus Commonwealth land?

**Mr Preston**—No. I am not aware of a dollar value.

**Senator FIFIELD**—I remember Mr Rudd before the election nominating a figure of \$6 billion worth of land. I am just wondering whether that figure has been narrowed down at all.

**Mr Preston**—As I understand it, the audit process is ongoing. As it has been progressed through the housing working group with COAG, there is also a state and territory component, looking at potentially getting joint release where possible and so forth. So I do not think it has been finalised to the extent of knowing which parcels of land will be released at the end of the day. To the extent that we do not know what land will be released, it would be difficult to put a dollar figure on that with a lot of precision at this stage.

**Mr Gallagher**—To answer immediately the question about the fiscal impact of the first home saver accounts scheme out to 2011-12: page 35 of the discussion paper shows that the costings over four years are: \$850 million for the government contribution and \$100 million in terms of concessional tax treatment of earnings, meaning that, on a fiscal balance basis, the total cost over the four years is \$950 million.

**Senator FIFIELD**—That is not going to make a big dent, when you consider that, I think, the states collect \$11 billion a year in stamp duties.

**Senator BARTLETT**—I know you have taken the cost of the First Home Owner Grant on notice. Are you able to give us—on notice if necessary, although if you have it here that would be nice—data on the overall cost in terms of tax expenditure of negative gearing, capital gains tax discounts and, particularly, the capital gains tax exemption on the family home?

**Mr Gallagher**—The tax expenditure for owner-occupied housing is not currently costed in the tax expenditure statement. It is just an indication that it is a very large tax expenditure. It has been estimated by several academics and groups in Australia—Dr Judith Yates of the University of Sydney has published a number of estimates of the tax expenditure for owner-occupied housing, and the Australian Housing and Urban Research Institute have also published estimates of the tax expenditure. One thing to consider when looking at those estimates is that the Commonwealth has a principle of mutuality, where a taxpayer's dealing with themselves cannot itself be taxed and, under the Commonwealth definition in consideration of tax expenditures, that would exclude the consideration of tax expenditure on imputed rent from any Commonwealth view of the related tax expenditure.

**Senator BARTLETT**—Leaving aside the issue of imputed rent, are you not able to isolate out, for example, the cost of the capital gains tax exemption on the principal place of residence?

**Mr Gallagher**—There have been a number of experimental estimates done. None of them at this point have found their way into publication, because of the quality issues concerned, so I do not think I will take a stab today.

**Senator BARTLETT**—What about negative gearing?

**Mr Gallagher**—If you look at the taxation statistics for 2005-06, which were published a bit over a week ago, then you can see the extent to which people have interest costs which exceed their rental income. I can take that on notice if you wish.

**Senator BARTLETT**—That would be good. I am trying to get an idea of the overall budgetary impact of these various measures.

**Mr Gallagher**—Looking at Dr Judith Yates's estimates on the tax expenditure on owner-occupied housing, she considers there to be a very large subsidy to owner occupation of housing.

**Senator BARTLETT**—From memory, I think we are hearing from her tomorrow. I am just trying to consider all the different measures, proposals and costs that people are putting forward—certainly we will be looking at Dr Yates's material—but any data you have got about what even the estimates of costs are or tax expenditure amounts are in these areas would be helpful. I saw on Peter Martin's blog a few days ago something about the recent tax statistics that suggested about one million Australians are now losing over \$8.7 billion as landlords. That does not mean an \$8.7 billion tax expenditure I presume. But it is presumably quite a sizeable one if that is the loss that they have been claiming through tax. So you are able to give us the figures out of those?



**Mr Gallagher**—I think we should be able to do something from the published data.

**Senator BARTLETT**—Has there been any modelling done on the potential impacts of these sorts of exemptions, whether it is negative gearing, the capital gains tax exemption on the family home or the potential inflationary impacts on the price of housing. Negative gearing is often justified as increasing availability and keeping prices down in private rentals. Does Treasury do any modelling on that?

**Mr Gallagher**—I am not aware of any Treasury modelling on that.

**Mr Garton**—No, we do not have any modelling capacity like that. I am not aware of any modelling either.

**Senator BARTLETT**—Even if you boil it down to just the first home owners grant, which is a fairly simple one, or Commonwealth rent assistance—I think it is about \$2.2 billion a year; quite a sizeable amount of money. Is there any sort of assessment being done on the actual impact of these sorts of expenditures? We got calls to drop taxes and charges over here in various areas. We do not seem to have a lot of data on the impact of all of the existing charges, taxes, rebates, grants et cetera that are around the place.

**Mr Garton**—No, we do not have any model that will allow us to do that. Basically, to do that you would need some model of the demand and supply sides of the housing market. It would have to be reasonably sophisticated but, again, I am not aware of any such model.

**Senator BARTLETT**—The land audit that you talked about that you are responsible for overseeing, as I understand it, is that just government land? It is not looking at privately owned land that is not released?

**Mr Preston**—No. That is correct.

**Senator BARTLETT**—Are you aware of any data around the amount of privately owned land that is undeveloped.

**Mr Preston**—There has been some discussion; I am only aware of what I have read through media reports and so forth about land release practices that have occurred since house prices have fallen in parts of Sydney, post-2004. But, in terms of the scope of the land that is available or being held by developers, I am not aware of any data.

**Senator BARTLETT**—I have two more questions I want to ask about the issue, which I think you have already touched on, of labour supply for housing construction and the like. Is the impact of the labour supply in regard to costs something that you have examined in any of your modelling in these sorts of areas?

**Mr Garton**—No, not specifically in terms of the housing sector.

**Senator BARTLETT**—That is really an across-the-board, economy-wide assessment?

**Mr Garton**—Yes, when we do our forecasting for the economy, obviously we look at these issues of labour market tightness, what that means for wages growth et cetera. But we do not do it specifically for particular industries.

**Senator BARTLETT**—I have one final question. A few years ago, as you will probably recall, there was a Productivity Commission report into the cost of housing for first home owners. I think that was in 2003 or 2004. There were recommendations from that—six or so, from memory. At the time, the previous government rejected the recommendations that applied to the federal government. Has there been any change in that position that you are aware of? Is the new government re-examining those recommendations that apply to the federal level?

**Mr Garton**—That is a policy question that would need to be addressed to the government, but I am not aware of anything having been announced.

**Senator HUTCHINS**—Mr Gallagher, you gave us some startling statistics on the 55 and over age group. I was a little distracted, but I think one of the figures you gave was that, in 1995-96, 72 per cent of people in that age group owned their own homes.

**Mr Gallagher**—Seventy-two per cent of 55- to 64-year-olds.

**Senator HUTCHINS**—And in 2007 it was 54 per cent?

**Mr Gallagher**—In 2005-06 it was 54 per cent.

**Senator HUTCHINS**—There was another statistic that something was 13 per cent in 1995-96 and has now risen to 27 per cent. What was that for?

**Mr Gallagher**—That was the proportion who were buying their house in that age group.

**Senator HUTCHINS**—I see that you have the word ‘analysis’ in your title. Can you offer any commentary on what has occurred in that period, without touching on policy, that you might want to illuminate us of?

**Mr Gallagher**—In general, we have seen a pattern of later household formation, but it is not particularly clear. Although that is clearly affecting first home buyers currently, and has done over the last 10 years, it is not a pattern that I would have expected to have affected the baby boomers. If you consider the people who are aged 55 to 64 in 2005-06 to be baby boomers, it is not clear that the patterns which are affecting first home owners are affecting them. I am a little bit surprised at these numbers and what may be driving the numbers in terms of home equity. This is just an initial analysis to look at the situation and how it has changed. At this point, I do not think I am able to explain the trends for older Australians in any satisfactory terms.

**Senator HUTCHINS**—That in itself is disturbing, isn’t it? We may be seeing a phenomena occurring that we really do need to come to grips with. Rather than it being just people under 30, we are looking at an increasing problem with people over 55. The number of people over 55 owning their own home is declining.

**Mr Gallagher**—Yes, but in 2005-06 we still had 75 per cent of the 65- to 74-year-old age group who were homeowners. Yes, homeownership is being achieved; it just seems to be achieved later. It appears to be the case that people in their fifties have more housing related debt than they had in the past. It is also the case I suspect that they are far more likely to have children at home because they have had their children somewhat later who have stayed at home, so they perhaps have not reached the empty nest stage—particularly people in their fifties—which is often associated with the final payout of the family home before entering retirement.

**Senator HUTCHINS**—You quoted the figure of people from 64 to 75. They are people generally born before 1950.

**Mr Gallagher**—Obviously, if they were 65 in 2005, that would imply they were born in 1940.

**Senator HUTCHINS**—So they have children in their early 20s and they have moved on from them. Because that is a big difference between 55 to 64 and 64 to 75, isn't it?

**Mr Gallagher**—It is this issue of cross-sectional versus cohort statistics, and we have to see what the evolution to the cohort is. It is still the case that the proportion of Australians who end up owning their own home in retirement is around 80 per cent, and there are still significant public policy issues around those who have not done that because of the importance of homeownership as something which underlies the adequacy of retirement income, and that is my particular interest in this.

**Senator JOYCE**—If someone is still paying off their home and that is a problem, then I imagine it is going to be just as big a problem if they are renting. Would that be a fair statement?

**Mr Gallagher**—It means that if they are buying and if they are renting their expenditure on housing will be larger and the housing costs will be larger. I do not want to particularly say that that is a problem; it is just saying that that is their state.

**Senator JOYCE**—But in essence, wouldn't it be the case that if people are paying off a house they would have a fairly good chance of approximating what that cost will be? They will also have equity, should it come unstuck; however, if they are renting a house it is completely a determinant of the market. The market for rentals can go up. If they are a pensioner and their income stream is finished, they are in a very precarious position.

**Mr Gallagher**—I will give you some numbers in relation to that. Over the 10 years between the two income and housing surveys, we looked at the proportion of renters aged 55 to 64 for the household referenced person and the renters increased from 14 to 17 per cent; from 65 to 74, 13 to 16 per cent; and for 75-plus, it decreased from 16 to nine per cent. Given the nature of the standard errors in surveys, the proportion renting has not significantly increased amongst older Australians would be my conclusion.

**Senator JOYCE**—The purpose of my question, Mr Gallagher, is to say: rather than putting it into public housing where they rent, we should be encouraging people to get into a position where they own. The premise of why I say that and, correct me if I am wrong, is that at least when you are owning an asset, you have an asset to sell. More to the point, if you are on a fixed interest rate you have the capacity to lock in and have a more defined sense of what your

repayments will be as opposed to the market-driven component of rentals. We know that this public housing scheme has a 10-year life but after that the market will determine where the rent goes. The market might determine that the rent should double, and these people's income streams will be locked in and that will be a concern, won't it?

**Mr Gallagher**—It is clear that renters can have financial risk and less control over assets than nonrenters.

**Senator JOYCE**—I will go to another area—it might affect your modelling. We know that we have currently got 40,000 people who are in arrears on payments. We know that those people in arrears are in certain sections. They are not evenly spread over every house in every street, but there are certain pockets where there are a great number of people in arrears as opposed to other pockets where probably they have got the house paid off. How many houses have to go on the market by reason of forced foreclosures before the price of houses in those areas goes down?

**Mr Garton**—That is rather a difficult question to answer. It is going to depend on total demand and supply in that area. To some degree, houses in different areas are substitute, so not everyone is going to say, 'I'm going to live in this suburb,' regardless of the fact that some people may change their locational decision depending on what happens to price.

**Senator JOYCE**—Prices of houses in that particular area go down because of the forced foreclosures. We know that a foreclosure is really the final event. Long before they become a nominated foreclosure—if I am right—they were probably under immense stress from the bank. So they were probably selling their house by reason of pressure, although it was not nominated as a foreclosure; they got out of the house because they could no longer afford it. Do we have any sense, away from the foreclosures, that we have people who are selling by reason of financial pressure?

**Mr Garton**—Not directly. I guess what we know is the aggregate figures, so despite 10,000 repossessions per year house prices are still rising by around 12 per cent over the past year.

**Senator JOYCE**—Everywhere equally?

**Mr Garton**—On average across all capital cities.

**Senator JOYCE**—Or in certain areas of those capital cities?

**Mr Garton**—Well, it is quite unequally distributed. The key area where there has been downward—

**Senator JOYCE**—Let us talk about the Sydney market, because is a big market, even though we are from Queensland.

**Mr Garton**—I was about to get to that.

**Senator JOYCE**—Let us talk about where the houses are going up the most, and where they are not going up much at all, in Sydney.

**Mr Garton**—I do not have detailed data by suburb on what is happening to prices, but we know that generally Western Sydney has been a bad area for house prices. Prices have tended to fall since around 2004. I think the key reason was that Western Sydney was particularly affected by the property investment boom that happened around 2003, and it looks like prices overshot in that area, so they have come down. Generally, also, that region has probably not performed as well as the rest of Australia economically, so that has exacerbated those problems. I think all we can say is that we know there has been a big pocket of problems in Western Sydney, but it is difficult to go beyond that.

**Senator JOYCE**—So the western suburbs have gone down and the eastern suburbs have gone up—and up substantially if the price has gone up by an average of 12 per cent. Would it be fair to say that the vast majority of the debt load is also in the western suburbs as opposed to the eastern suburbs?

**Mr Garton**—From what the Reserve Bank has reported, one of the sources of problems in Western Sydney is the high concentration of people with high debt-to-income ratios. Again, that is probably related to the property boom around 2003, which was associated with a big run-up in debt, particularly for investor housing, around that time.

**Senator JOYCE**—I do not like the term, but I will use it anyhow because it is part of the lexicon; we will just run it out there. These areas would be the so-called McMansion suburbs in the west where you would be likely to find a very high debt load because the houses are recently built and are full of consumable goods that are probably also on some sort of financing. Would that be a fair statement, or am I off the mark there?

**Mr Garton**—I have no basis to think it is wrong, but I do not have specific information.

**Senator JOYCE**—Here is the question I am getting to. I have never agreed with the economic theory that there is some sort of decoupling—that something can happen in the United States and not happen anywhere else—because the United States is now peculiar to Australia. Do we have the potential for—or, more to the point, are we currently in the process of—our own mortgage meltdown in the western suburbs, especially of our eastern capitals, which are not reliant on the resources boom of, say, Perth?

**Mr Garton**—The thing we know in aggregate is that the sort of boom in subprime lending that happened in the US did not happen, to anywhere near the same extent, in Australia. I think the subprime portion of the market in the US was around 13 per cent, whereas it is less than one per cent in Australia. So, in aggregate, subprime has been a much smaller issue in Australia, and that suggests that these issues of over-relaxation in lending standards did not happen to nearly the same degree in Australia as in the US. Secondly, the arrears rate on subprime loans—which are less than one per cent of the market in Australia—is around seven per cent. I think in the US it is around 13 per cent. So even within that subclass arrears are much lower in Australia.

**Senator JOYCE**—Subprime is a term: something that is prime today is mediocre tomorrow and subprime next year some time. People would have gone into those houses on fixed loans; they then get to a period of rolling out to refinance, so a loan that was prime has the potential to become less than that. The terms and the security that were initially delivered to it are not apparent because interest rates have now taken up more of the excess liquidity of the family

budget. Therefore, it is a more tenuous position and a more tenuous security. On top of that, if the pressures in the western suburbs are going down, as you have said, the security that sits behind that loan has also diminished, in loan to security ratio. So that loan has gone from a prime loan to a less than prime loan, even though it may not have been initially lent out under those terms.

**Mr Garton**—I think the term ‘subprime’ relates to people who have poor credit histories, so they would not have normally qualified.

**CHAIR**—It is less than optimal—we could start there.

**Senator JOYCE**—Let me rephrase: a less than optimal position has now evolved in a vast segment of the western suburbs of our eastern capitals.

**Mr Garton**—That is true. However, we should bear in mind that, despite the situation we have had in Western Sydney of relative economic weakness—it is not a recession, but compared to the rest of the country it is not doing so well—and despite falling house prices and rising interest rates, the national arrears rate is still not that high. The RBA’s estimate is that roughly 15,000 people nationally are more than 90 days behind. If interest rates go up further clearly that would be likely to increase. However, all the interest rate rises we have had so far have only roughly doubled the arrears rate: it has gone from about 0.2 per cent to about 0.4 per cent.

**Senator JOYCE**—Through your modelling, what proportion did the banks lend to houses in McMansion suburbs? What were they prepared to lend to—70, 80, 85 or 90 per cent of the capital base?

**Mr Garton**—I do not think we have any aggregate figures. There is anecdotal evidence that there were quite high loan to valuation ratios.

**Mr Preston**—Only one aggregate figure springs to mind—and it is from memory, I am sorry. I think the Western Sydney statistical area had nine per cent of the population but 15 per cent of the outstanding mortgage debt. So it had a much higher proportion of debt per person. However, we do not have any information on actual loan to valuation ratios.

**Senator JOYCE**—It is definitely a hot spot. Obviously things trigger and then they flow across, everywhere. I was in the banking game, as you have probably guessed, and I would say that if house prices have gone down since 2004 in the western suburbs and if borrowers have been lent 80 per cent of the value of the house—and you can bet your life that they would be on interest only before they roll into PNI—we get to the point on the re-evaluation of the security where, if I were in the securities department, I would say, ‘We’re out of terms here: we now have a liquidity issue with the money that we’ve extended on this base of an asset, so we have to resolve our position.’

**Mr Garton**—I think one thing to note here is that if you look at the arrears rates in Western Sydney and if you look at repossessions in New South Wales—we do not have figures on repossessions by region—both those things have stabilised over recent months after they rose quite significantly from about 2004. That seems to suggest that a lot of the problems stemming from that episode have probably worked their way through. So, unless something else happens,

from now on it may be that that situation has stabilised. Obviously it depends on what happens from here.

**CHAIR**—That is conjecture, is it not, Mr Garton, to say that it may have stabilised and may have worked its way through?

**Mr Preston**—Evidence supporting what Mr Garton is talking about is that the Reserve Bank's *Financial Stability Review* of last year showed that Western Sydney had a disproportionately high number of people taking out loans in that 2003-04 period and those loans on their default profile had a much more pronounced result. There were much higher rates of default than in earlier years and in subsequent years. Once the relative proportion of those work their way through the system, you would expect, as Mr Garton was saying, the profile to stabilise somewhat.

**Senator JOYCE**—With the situation that is being displayed here, have you been given advice to look into this? Has the government approached you and said: 'We might have a major problem on our hands here. We'd better do some modelling on exactly what the ramifications of this will be and how we are going to handle them?'

**Mr Garton**—I cannot tell you what advice has been requested by the Treasurer. That is between him and the department.

**Senator JOYCE**—I will approach it another way: do you think it would be a good thing to have a look into?

**Mr Garton**—It is an issue that we keep under watch.

**CHAIR**—Before I go to Senator Colbeck, the questions that Senator Joyce was pursuing were about lending standards and the sorts of arrangements that have been made between banks and individuals and whether the banks really have an expectation that they are going to be abided by. You have been talking about arrears estimates and repossessions questions, but if you look at the AMP NATSEM report and, as they say, you have 62 per cent of recent first home buyers in housing stress, it is not just about arrears and repossessions; it is an ongoing issue about housing stress—that is, people paying more than 30 per cent on their housing costs.

**Mr Garton**—Housing stress is a different issue.

**CHAIR**—But they are all related.

**Mr Garton**—Somewhat.

**CHAIR**—I bet if you were in stress and you were looking at arrears you would think they were closely related.

**Mr Garton**—This definition of housing stress as 30 per cent of income is basically a rule to thumb. Like all rules of thumb, it has some inadequacies. It is not the case that anyone who is paying above 30 per cent of income is necessarily in financial stress. Conversely, you cannot say that anyone who is paying less than 30 per cent of income is not in financial stress. It is going to

depend on their circumstances, particularly income levels. Generally, the higher the income level the less likely it is that the fact that you are paying 30 per cent of your income is going to be causing financial stress. For that reason, the original definition of housing stress, which came from the National Housing Strategy of the early 1990s, was confined to the bottom two income quintiles, although it has become generalised a bit. I think we need to keep in mind when we are thinking about some of these figures that not all these people are struggling necessarily, although I take the point that some proportion of them will be and if those figures are rising then that may indicate that that proportion is rising as well.

**CHAIR**—Those figures are rising, are they not, Mr Garton?

**Mr Garton**—Yes, they are.

**Mr Gallagher**—One of the big changes in the last 35 years has been the rise of the two-income household. There have been very considerable rises in household disposable income as a consequence of the changing nature of workforce participation by women. That has meant that families have had a greater spending capacity, and it appears to have been the case that they have had greater housing aspirations as a consequence of having access to two incomes. But it does mean that households, certainly if we look in the longer term, have a far higher income and that 30 per cent does not reduce them to the extent that it did in the past to areas where they are under significant stress in terms of their living standards.

**CHAIR**—I understand that, but to take the early part of your remarks, Mr Gallagher, lenders have responded enthusiastically to those opportunities, it would appear not necessarily in a number of cases with a long-term view as to where those individuals may end up.

**Mr Gallagher**—I cannot comment on that.

**CHAIR**—No. I want to ask a couple of other questions. In the Master Builders Association submission there is a reference to the underbuild. This is the number of approximately 30,000 dwellings, we understand, which the RBA cites as the difference between the target build of 180,000 new buildings per annum and the current met build of 150,000 buildings per annum. Does that accord with Treasury's figures in this area?

**Mr Garton**—I think you are talking about is underlying demand.

**CHAIR**—Yes, and they call it 'underbuild'.

**Mr Garton**—Various people do estimates of underlying demand.

**CHAIR**—What is Treasury's estimate?

**Mr Garton**—It is around that kind of figure, 180,000 to 190,000. That is based on some estimates of population growth, migration, natural increase, and some assumption about average household size. In the long run, household size has been steadily declining, it is around 2.5. Generally, people assume that will continue. There is some assumption about the rate of housing demolitions. That is how you get to a figure of 180,000 or 190,000. That is obviously around 30,000 or 40,000 higher than the level of new housing being completed at the moment. One



thing I should note, which is an important caveat, is that kind of estimate of underlying demand is in a sense a demand approach without any role for prices. So you are assuming that if housing becomes more expensive or if interest rates go up then that does not affect people's behaviour at all. To the extent that those things do affect behaviour, demand will be lower.

**CHAIR**—I understand that. In terms of Treasury's input into other numbers that are floating around, can I ask whether you have had any input into the numbers used in relation to the initiative on the National Rental Affordability Scheme which, it is envisaged, will produce 50,000 new affordable rental properties in five years?

**Mr Garton**—I understand that is the assumption underlying the costing for that.

**CHAIR**—Has Treasury had any input into the assumption or the costing?

**Mr Garton**—In doing the costing they would have looked at the assumption.

**CHAIR**—I know, but has Treasury had any input into that?

**Mr Garton**—I cannot comment on the detail of what underlies that particular assumption.

**Mr Preston**—Sorry, Senator, input in what sense?

**CHAIR**—Coming to a number of 50,000 dwellings over five years as the result of the implementation of the National Rental Affordability Scheme.

**Mr Preston**—I do not know whether we were involved in the determination of those numbers, but we were involved in the costing of the process.

**CHAIR**—Will Treasury have any involvement in the determination of what a market rent would be to assist with the operation of this scheme in a particular area, because that is what it is going to rely on?

**Mr Preston**—I think the particulars of what market rent will be are currently under determination and there are a number of potential options involved obviously thinking about particular geographical areas and taking reference to the fact that there are significant differences from one suburb to the next. A particular decision has not been taken on what that will be. I imagine these sorts of processes will be illuminated in the technical paper that should be released in a few weeks.

**CHAIR**—'Illuminated' did you say? We can always hope. So is Treasury making input into that?

**Mr Preston**—Yes, it is in a technical paper definitely.

**CHAIR**—Good.

**Senator COLBECK**—The figures that you talked about in respect of the housing debt of the 55-plus cohort appear to be pretty basic initial analysis numbers. Have you mapped them against any of the other elements—for example, housing prices—over the same period of time?

**Mr Gallagher**—No, as you say it is an initial analysis. We were asked to give evidence on the issue. I thought I should find out something about the issue!

**CHAIR**—Thank you, Mr Gallagher. That was very good of you!

**Senator COLBECK**—Is there any intention to do any work on that so that you might be able to form some opinion and therefore provide some advice to government in the longer term? I understand that you are looking at it in the context of potential future policy requirements for retirement incomes because, as you indicated in your initial evidence, those who are still in the rental market post retirement have that additional cost cohort to their expenses and that could impact on their comfort levels and perhaps on welfare payments. Have you looked at it in the context of what the drivers for it might be and therefore potential future impacts and, against that, housing prices, lending practices of the banks and propensity to draw down on loans so you might get a sense of what is causing it?

**Mr Gallagher**—No, we have not looked at it in that level of detail at this stage. I do not know whether it will be an issue, in our work on retirement incomes, that we will be able to devote a lot of resources to. It is something that we have raised in the past in our 2002 submission to the Senate committee inquiring into retirement income adequacy. We raised the issue of homeownership and this is a follow-up to the analysis we did at that stage in terms of thinking about the issue of housing. In particular, it seemed to me that there was a gap in the NATSEM analysis, which understandably focused on first home owners, whereas I wanted to focus at the other end on age distribution.

**Senator COLBECK**—I understand. So you are not sure that you will actually do any of that work, but you are obviously cognisant of the end number, which is the percentage of people who end up owning their own home at retirement age?

**Mr Gallagher**—Yes. One of the things which I am responsible for is the projections in the *Intergenerational report*. The issue has been raised of whether we should look at housing issues separately in the *Intergenerational report*. This was part of giving myself a larger background in that because it would have implications for our rent assistance projections in the *Intergenerational report* and other work that I do.

**Senator COLBECK**—But surely you would have some interest in what the drivers of the impacts on that would be?

**Mr Gallagher**—Yes. There is an issue of what you can discover about drivers. Probably the best approach would be to actually look at changes in the cohort over successive income surveys. The median house price series, which is generally in housing analysis, is just an aggregate statistic which does not give you any distributional flavour for what is going on in the housing market. I have far more distributional concerns.

**Senator COLBECK**—Yes, it is certainly problematic in that respect. There has been comment and discussion this morning about the stamp duty revenue of the states over the last five or six years. Is there any detail within that in respect of how much is actually coming from housing rather than just lump sums out of each state's budget? Is there any indication of what percentage of that might be driven by housing?

**Mr Garton**—The advice I have here is that expected collections from conveyances are \$14.6 billion in 2007-08. That is probably not just housing.

**Mr Preston**—It could be business—

**Mr Garton**—Yes. That includes commercial property as well. I do not have separate figures for housing.

**Senator COLBECK**—So there is no breakdown of that—fine. On the work that has been done with the states on Commonwealth land and state land, has there been any discussion with the private sector on what impact a sudden burst of Commonwealth land onto the market might have on their intentions in respect of development and the overall impact on the market of supply?

**Mr Preston**—I am not familiar with any consultations that have occurred with the private sector on the land audit process.

**Senator COLBECK**—Given the nature of the private sector, though, you would expect that if government at whatever level suddenly threw a significant amount of property onto the market which might have an impact on price or returns then that may very well impact on the activities of the private sector, given its particular drivers. So wouldn't it make sense to have some sort of coordinated approach between all elements of the market? I noticed that Senator Bartlett asked whether there had been any work done on how much private land there was there that might be available for the market. If you are only concentrating on one element of it, it has the potential to provide a significant distortion, does it not?

**Mr Preston**—The clear intent of the policy is to release land that would be suitable for housing development. As we noted earlier, there are significant supply constraints at the moment, so I do not think there would be any moves to release land in a manner that would flood the market in some way or would lead to unproductive development. I think it should also be recognised that while the land audit process is in a way a bit of a first in terms of release of land on a potentially significant scale, the Commonwealth has had the practice of releasing land that it has not needed for general use in the past, so I imagine it would be involved in a similar sort of private consultation in order to facilitate that release. I am sorry I am not familiar with the particulars in this case, though.

**Senator COLBECK**—I understand that generally that release is handled through the department of finance, but I would have expected that there would be some sort of coordinated approach to that, and potentially even involvement of the private sector, rather than just government being the developer.

**Mr Garton**—When the Prime Minister announced this originally, one of the criteria for release was that it would not have an adverse effect on house prices in that region. The details of how this release following the identification of eligible properties will work are still being worked out within the processes.

**Senator COLBECK**—Okay.

**CHAIR**—Senator Colbeck, we are running very close to time—in fact, we are beyond time.

**Senator COLBECK**—I will leave it at that then.

**CHAIR**—I did want to give Senator Macdonald a question, and we are running over time. It has been a very important session, though, and I hope that other witnesses will indulge the committee and accept my apologies for the delay.

**Senator IAN MACDONALD**—I will be very brief and I do not want to rehash questions that I understand Senator Joyce asked. On the role of financial institutions in home lending, there have been reports in the last couple of days in the media that there might be some appropriateness in the Commonwealth regulating credit—and I assume that, in a one-liner, that means to stop subprime lending in Australia. Would any regulation in relation to subprime lending have any impact on the ability of some people to get a house? I am working on the basis that whilst people do get into trouble by borrowing beyond their capacity, others can struggle and actually get a house through it. Has Treasury done any work on that sort of thing?

**Mr Garton**—In relation to the first point, the recent COAG meeting agreed that the Commonwealth would assume responsibility for regulation of mortgage credit and advice, which was previously largely a state government responsibility. The specific nature of any future regulatory changes is really a policy issue, which I cannot directly answer.

**Senator IAN MACDONALD**—So you are not doing any work on that at this stage?

**Mr Garton**—To the extent that there is work, it would involve other areas of Treasury rather than mine.

**Senator IAN MACDONALD**—Okay. But could you assist me in relation to the thought that if there were tighter controls on credit it would mean that some people would not be able to get a house; that even though some people who do get a house perhaps should not because they cannot afford it, there are some who perhaps would not qualify but who would struggle and make do and so have a roof over their heads.

**Mr Garton**—It would depend on the nature of the regulations. If the regulation were in terms of the provision of financial advice, obviously that would make some people think twice about their borrowing but it would not necessarily restrict the supply of credit to people who could service the debt. But I guess there is the potential trade-off inherent in some forms of regulation.

**Senator IAN MACDONALD**—Do you have a feel for the timetable for the whole regulatory bid which would impact on housing? It is a COAG initiative, you are telling me. Without going into what it is, are you aware of work being done along those lines?

**Mr Garton**—There is a COAG working group—Business Regulation and Competition—that will be looking further at this. They are supposed to develop details by October this year.

**CHAIR**—Finally, with regard to the suite of initiatives that was contemplated recently on both the supply and the demand sides, and the work that the COAG housing group is doing—the development of the National Housing Supply Council and so on—is there any contemplation in that process for addressing the challenge of what I think Judith Yates describes as ‘marginal purchasers’ staying in their homes?

**Mr Garton**—I am not aware of anything on that.

**CHAIR**—Gentlemen, thank you very much for your time today and for staying over time. As I said, it was an important session; we do appreciate that. There may be a number of issues which we will place on notice and we would appreciate your assistance in responding to those. If there is anything further, the committee secretariat will be in touch.

[12.27 pm]

**DE CHASTEL, Ms Elizabeth Ellen, National Policy Manager, Planning Institute of Australia**

**JAY, Ms Dianne Mary, Chief Executive Officer, Planning Institute of Australia**

**SAVERY, Mr Neil, National President-elect, Planning Institute of Australia**

**CHAIR**—Welcome. Thank you very much for attending today. I am again apologetic for the delay in calling you to the table, but we appreciate your patience. Thank you also for the submission, which I understand has recently been provided to the secretariat; we also appreciate that. Do you wish to make an opening statement?

**Mr Savery**—Yes, if that is possible.

**CHAIR**—Yes, certainly.

**Mr Savery**—Firstly, I thank the committee for providing us with the opportunity to make a submission and to present it to you. The Planning Institute of Australia is the professional association representing urban and regional planners and related professions in Australia and overseas. PIA has around 4½ thousand members, with PIA divisions operating in each state and territory in Australia. Around half of our members work in local government—30 per cent for the private sector and the remainder in state and Commonwealth governments and universities.

The current lack of affordable housing in the Australian housing market has a significant impact on the lives of many Australians. Addressing undersupply is a critical issue if we are to ensure that we are able to adequately and affordably house our communities as Australia continues to grow and develop. The Planning Institute commends the Australian government for appointing a housing minister and taking a leadership role in these issues. PIA also commends the government for seeking to build a cooperative relationship with state, territory and local governments to address housing affordability and devise joint implementation plans by establishing a new COAG Housing Working Group in December last year. The most significant statistic is that housing stress, according to NATSEM, now affects over one million low- and middle-income families and singles in Australia. These households are spending more than 30 per cent of their income on mortgage repayments or rent.

While this inquiry focuses on homeowners, the rental market is also significantly affected by the decline in affordability and should perhaps be captured in the committee's terms of reference. The planning profession aims to facilitate sound development outcomes on behalf of the communities and clients it serves. While planners play a critical role in the supply, design and location of housing, it is by no means a lone role. Public sector planners work in partnership with elected representatives and other key decision-makers in terms of designing and facilitating housing outcomes. High-quality housing outcomes beyond single dwellings depend on highly integrated and effectively coordinated inputs from a range of public and private sector contributors stretching well beyond the planning profession.

Planners do, however, play a number of important roles—for example, in terms of identification of and planning for new greenfield areas, housing development and determining appropriate physical and social infrastructure; identification of and planning for infill housing development around activity nodes and public transport corridors and related infrastructure planning; identification of brownfield sites suitable for redevelopment and related infrastructure planning; working with developers on the design and approval of master-planned communities and housing developments, and resourcing and managing the development assessment process for housing estates, small developments and individual dwellings.

Planners also play a role in the formulation of strategic development plans and housing policy frameworks for local government communities; design and inclusion in development plans of specific policy settings to facilitate affordable housing, such as inclusionary zoning, density bonuses and/or development specific requirements; formulation and management of legislation, regulation and policy that influence housing and development across all three spheres of government; providing advice on specific housing related issues such as housing and infrastructure needs for an ageing population; regulation and policy to encourage energy and water efficient housing, with its potential implications on the cost of housing; and coordination of land supply and associated infrastructure to support housing development and the creation of communities, including working with other professionals and government agencies in terms of funding, community and education services, transport integration et cetera.

The Planning Institute of Australia recognises the influence planning and related development decisions across all three spheres of government can have on housing affordability. Wherever possible, PIA is keen to work with governments and stakeholders in the built environment to ensure that housing is appropriate for each community and that it is sustainable and affordable. In relation to the first term of reference of the committee—the taxes and levies imposed by state and territory governments—PIA recommends that the Productivity Commission be charged with investigating the full array of taxes and levies related to land, housing and development imposed by states and territories as a matter of urgency. PIA also recommends that a consistent national approach be taken to developer contributions. A national model should be developed through the COAG Housing Working Group. In order to set such a model benchmarking should be undertaken to determine an appropriate level of infrastructure for the purposes of developer contributions as well as to establish a suitable standard of infrastructure to which developers should be required to contribute.

In terms of the rate of release of new land by state and territory governments, PIA recommends that the National Housing Supply Council be introduced by the Australian government and be charged with: producing nationally comparable data on land release and new housing starts in each state, territory and local government area; ensuring that data is published and transparent; and analysing the data supplied to assess whether in their opinion supply in the short, medium and long term will match demand. Land releases should include an appropriate balance of land on the fringe of cities and towns for master-planned and other new housing development as well as infill and redevelopment sites to facilitate urban consolidation—and that would typically be at a higher density. A variety of housing types should be encouraged, including affordable housing—if necessary through zoning, targets or other mechanisms appropriate to local circumstances—to ensure that development is meeting market demand. Land released for housing development should be accompanied by an appropriate minimum level of

physical and social infrastructure, whether privately or publicly funded, to ensure that communities are functional and socially cohesive.

In terms of proposed assistance for first home owners by state, territory and the Commonwealth governments, and their effectiveness in the absence of increased supply, it is the view of PIA that schemes such as the Commonwealth first home owners scheme in an undersupplied market further fuelled demand and increased upward pressure on price. By contrast the Australian government's proposed new first home saver accounts, if matched with other policy settings to improve supply over the short to medium term, may have the desired effect of providing incentives for aspiring homeowners to save a deposit while the market catches up.

PIA has also proposed that the National Housing Supply Council may have a role to play in tracking skills over time and assessing the impact of actions taken to address skills shortages in housing supply and in ameliorating housing affordability. The council may also be charged with assessing the effectiveness of strategies employed to address those shortages over time by the Commonwealth, states, industry and professions.

The fourth term of reference seeks views on the role of all levels of government in facilitating affordable homeownership. PIA supports a coordinated effort from governments at all levels to work collectively to address and respond adequately to housing affordability. As a consequence, PIA commends the Australian government for appointing a housing minister and taking a leadership role. PIA also commends the government for seeking to address housing affordability and devise joint implementation plans.

The establishment of the COAG working group should support the sound work of the joint meeting of housing, local government and planning ministers, which in August 2005 established a framework for national action on affordable housing. This framework identified a number of affordable housing delivery and management successes as well as the parallel supporting policy parameters needed to put them in place. There were four commitment areas agreed to under that national action framework that are still in the process of being developed and implemented.

A wide range of planning tools to promote affordable housing can be utilised by planning authorities to suit local conditions. Planning mechanisms such as requiring social impact assessments for new developments that could threaten existing affordable housing supply is appropriate in areas where significant urban renewal is occurring. Ensuring appropriate zoned residential land such as mixed-use areas allows flexibility to promote affordable housing. Promoting increased density and nodding of development around activity centres as a means of improving sustainability and affordability is an important exercise. Other mechanisms, such as inclusionary zoning, can promote new sources of affordable housing within new developments and encourage the private sector to invest in affordable housing. Coordination of planning measures across all levels of government will assist the retention of affordable housing stock in support of and supported by broader housing policy.

PIA considers that a broad socioeconomic mix is a vital attribute of sustainable development. PIA further believes that this legitimises the use of planning mechanisms to require the provision of affordable housing in areas that would otherwise suffer a deficit in the social dimension of environmental sustainability. Further affordable housing spread broadly across metropolitan



areas is critical to ensure that low- to middle-income-earning essential workers—for instance, childcare workers, educators, nursing assistants and the like—are able to live affordably and in close proximity to where they are needed.

In terms of the effect on the market of government intervention in the housing sector, including planning and industrial relations laws, PIA sees planning legislation as an important tool that state governments use to guide local government actions and to manage development. The Planning Institute acknowledges the current debate around delays in the planning system and in meeting statutory turnaround times in assessing development proposals. PIA supports a streamlined development assessment system that is adequately resourced and operates within sound planning policy frameworks. PIA is a member of the Development Assessment Forum and supports the leading practice model developed by the forum and supported by all jurisdictions and industry groups. This model includes: support for professional determination of most applications; track based assessment, including exempt and complying and merit or performance based tracks; limits on third-party appeals; and development assessment panels to ensure that decisions are open and transparent.

In addition to planning reform, the current planning profession skills shortage and the shortage of qualified planning assistants that exist in many local, state and territory governments are impeding the turnaround time frames within the development assessment process. In PIA's 2004 national inquiry into planning education and employment, a vacancy rate in planning positions of around 16 to 20 per cent was established through a survey of employers.

The national inquiry made recommendations to address the full range of employment, workplace and professional development issues facing the planning profession, including the following recommendations to improve the supply of planners: increased overseas migration opportunities; PIA to become an assessing agency after getting planning onto the Commonwealth's list of professions in demand; increase the number of undergraduate and postgraduate planning places in universities; support rural students and other special target groups, including through cadetships and studentships; recognise the role of planning assistants and work with the vocational education sector to ensure that certificate IV courses are producing development-assessment-ready trainees; encourage the pooling of professional planners in rural and regional Australia; and promote rural and regional planning experience at universities.

PIA agrees that planning delays result in holding costs, which are then likely to be passed on by developers and will then impact on housing affordability. However, the extent of development assessment delays and their impact cannot be measured with any confidence, particularly at the national level, due to the lack of publicly available, consistent, timely data. Publishing and benchmarking would improve understanding of the underlying issues and causes in order that they can be addressed, and that could be undertaken by the National Housing Supply Council.

PIA understands that the Local Government and Planning Ministers Council, which met on 27 March, agreed, in connection with the discussion of the recent electronic-development-assessment funding decision of the Commonwealth, that data on development assessment time frames should be collected and reported. The data will allow the three spheres of government, the developers and the community to better understand where undue delays are occurring, and why, in order to devise appropriate policy practice solutions and openly test their effectiveness

over time—for example, through electronic development assessment, increasing exempt and complying development or introduction of the Development Assessment Forum's leading-practice model. It would also facilitate the targeting of financial or other incentives for the adoption of best practice, for the cutting of red tape, or to improve productivity.

In terms of incentives, the Planning Institute of Australia commends the Australian government for providing, through the Housing Affordability Fund, \$30 million to support electronic development assessment. This early action will support improved development assessment efficiency.

**CHAIR**—This is a very long opening statement and we do have time restrictions.

**Mr Savery**—Certainly.

**CHAIR**—Do you have much more to add?

**Mr Savery**—No, I don't. PIA makes three recommendations in relation to this term of reference: first, encouraging the adoption of the DAF leading-practice model as the basis for reform in all jurisdictions; second, assisting PIA to work with governments, employers and educational institutions to implement key strategies to address the shortage of planners; and, third, a national approach to reporting development assessment time frames using consistent data.

I will just skip ahead now. In relation to the role of financial institutions in home lending—whilst you would understand it is not a prime area for the Planning Institute of Australia—PIA does recommend that the Australian government encourage innovation in the housing sector, including through new financing mechanisms and partnerships, such as those envisaged by the NARI. It also recommends that the Australian government revamp and revitalise the Commonwealth-State Housing Agreement to ensure it facilitates affordable housing outcomes in line with the recommendations of the National Housing Affordability Summit's call for action. PIA also supports the Australian government in undertaking a review of the Australian taxation system to identify reforms that will improve access to housing by low-income households, as proposed by national charter.

In conclusion, rather than focusing on the contribution of homeownership to retirement incomes, PIA raises briefly in the conclusion of its submission that the issue of affordable housing for an aging population is the broader and perhaps more pressing issue that will face Australia in the coming decades. Thank you for hearing our submission.

**CHAIR**—Thank you for your opening statement and submission. In a number of your recommendations you make a reference to the proposed National Housing Supply Council. As a stakeholder, how do you understand that the council will operate? Is it the sort of organisation to which you would aspire to being a member?

**Ms Jay**—The answer to the second part is, yes. We have said in our submission that we think it is important that the supply council includes representation of people with knowledge of land use planning and planning matters generally. One of the critical roles that we believe the council needs to play is the one of bringing together nationally consistent data around development

assessment. However, we, like a number of other stakeholders, are waiting to find out a little more detail about what the actual terms of reference for the council will be. It is an area where there is certainly a need for an entity of this kind in order to ensure that policymakers are better informed than they were in the past.

**Senator BARTLETT**—In your submission you made some comments on land release. You mentioned that the data on land supply monitoring is not comparable across jurisdictions and there are gaps in the data available. Obviously you recommended that that data be improved upon. It has been a fairly constant comment by a fair few people—maybe not everybody—that supply seems to be a key problem here. People keep making these assertions, but it seems from that comment of yours that the data to back it up is not necessarily overly strong. So what is this assertion about it being a supply issue based upon—just because of the statistic about being 30,000 short in dwellings that should be built each year?

**Mr Savery**—We believe that, based on the evidence that is available through individual states and territories which is not then nationally comparable, there is a supply element to this whole equation. We are not saying that addressing supply is the panacea to the problem and certainly that the solution in relation to supply is not simply to release as much land as we possibly can on the urban fringe of the city—that is, a greenfields solution—which in past decades and very recently, as we have seen, has brought its own particular set of problems. However, we feel that, in the absence of providing additional land, the relief valve that enables us to address some of the more difficult and taxing problems associated with affordable housing will not be able to take place. We see it as an essential part of the total equation.

**Senator BARTLETT**—So the gap between dwelling completions and demand of 30,000 that you have quoted as well in your submission is basically a supply issue?

**Mr Savery**—It is a supply issue, but we also know there are a range of reasons associated with the completion of homes that either have got approval or do not require approval through the various planning and building mechanisms that the states and territories operate. So it is supply in the broader sense of land as well as construction.

**Senator BARTLETT**—There are hold-ups or delays in approval and that sort of thing?

**Mr Savery**—Delays in approval, the cost of materials, the availability of trades.

**Senator BARTLETT**—Your submission also touches, perhaps understandably, on the shortage of planners. Is that part of the problem?

**Mr Savery**—Yes, we seriously believe that our ability to both recruit and retain planning professionals contributes to some of the delays in development assessment. We are not saying that the only solution to that is to find more planners. We believe there are governance frameworks that can be put in place in local governments and in state and territory governments such as the one recommended by the Development Assessment Forum that remove the need for many classes of development to require a planning approval.

**Ms Jay**—I think Neil has made some of my points. I think it is important to emphasise the fact that the supply issue is much more complex than land alone, which is what Neil is saying.

We also we need to be conscious of the fact that supply also relates to the construction sector and its capacity to meet demand. There is some evidence that, even if there were more land immediately available, we do not have the capacity within the construction and development sector to go a lot further in meeting supply.

**Senator BARTLETT**—Can you point us to that evidence? You can take that on notice; that is fine.

**Ms Jay**—What I would say again is that we need to look a little closer at this sort of issue. PIA is a member of the Australian Construction Industry Forum and one of the things it is looking at is a Canadian model for better forecasting capacity in the construction sector. The data that we have lets us down a little in being able to understand in a detailed way the underlying issues and to be able to pinpoint the appropriate policy responses to address those issues well. But certainly we do know that in terms of engineering availability, planner availability, a number of the key professions and vocationally trained people that are necessary that we have a shortage in the market. They are some of the key areas in the employment market where demand exceeds supply. That is particularly critical in planning. We know that from our own work, but that has been confirmed by the Department of Employment and Workplace Relations in a study that they did after our inquiry in 2004. So planning is in a fairly dire situation in being able to keep pace with the demands for appropriate development assessment and that, combined with a need for reform to improve and streamline planning systems around the country, means that there are some issues that we as a profession are keen for support to look into and address.

**Senator BARTLETT**—You also mentioned in that same area the release of new land. You said:

Land release also needs to be staged to ensure that growth is managed in a way that maximises sustainability ... and minimises public and private cost.

I am interested in whether there is any evidence around about land that has been made available to developers which has basically been sat on to maximise profit—to put it bluntly. Do you have any views on that?

**Ms Jay**—A recent study has been undertaken in Queensland by the Local Government Association of Queensland that suggests that there is some land banking going on amongst developers in that state. I cannot point you to any other evidence of which I am immediately aware. Neil may be able to add something to that.

**Mr Savery**—While I cannot point specifically to the evidence, I would be confident that each state and territory collects data on land supply with respect to land that is available for development versus where it is actually at in the sequence of development. Most state and territory governments and large local governments will have some sort of metropolitan sequence plan which assists in the early identification of capital works infrastructure—sewer, water, roads—and of course that is all being designed on the basis of a logical sequence of development. When that sequence of development does not occur in tandem with the supply of infrastructure—some of which is social infrastructure: schools, hospitals et cetera—governments are quickly alerted to the fact that there is some land in the supply chain that is not being

released for the purposes of development. So I could not say that you could go to that one source and find it, but there would be evidence available within state and territory governments.

**Senator BARTLETT**—My next question is about the issue of planning charges, which is touched on at the start of your submission. I am paraphrasing you slightly but, if I understand what you have said, it is your view that planning charges, developer contributions in themselves only have a marginal impact on house prices, which are determined by the market as long as those charges are transparent rather than some sort of de facto tax. Is that a fair enough assessment?

**Mr Savery**—If they are applied in the manner in which they are intended. They are intended to be transparent forms of appropriately apportioning the cost of infrastructure provision, whereas in the past, prior to developer contribution schemes or infrastructure charging schemes, there were a lot of underhanded ways in which money was collected from developers to provide infrastructure. It was not open and accountable. In fact, in many cases the money that was taken from a developer, presumably for infrastructure in one location, was actually spent in another location and not for the same type of infrastructure.

**Senator BARTLETT**—So your general view is that you are not against developer charges; you are just calling for maximising transparency?

**Mr Savery**—And to get some level of national consistency. Not all jurisdictions have infrastructure charging in one repository—it is located in different pieces of legislation and those sorts of things. So there are probably three or four jurisdictions—Queensland, New South Wales and Victoria are the three that I am aware of—that have specific legislation for developer contribution.

**Senator IAN MACDONALD**—You spoke about affordable housing. What do you mean by ‘affordable housing’?

**Mr Savery**—As opposed to ‘housing affordability’, perhaps?

**Senator IAN MACDONALD**—Yes. You spoke about affordable housing, I think.

**Mr Savery**—In our terms, affordable housing would be housing that, according to the ABS or whatever statistics are being used, the third percentile of the population can get access to without having to spend more than 30 per cent of its income.

**Senator IAN MACDONALD**—Could you explain to me whether, in a free and open market, affordable housing is lower quality housing?

**Mr Savery**—No. I think that is an important distinction to make. We certainly do not believe that affordable housing should necessarily mean lower standard housing, particularly when it comes to issues of environmental sustainability, which is a really difficult equation.

**Senator IAN MACDONALD**—So how do you get affordable housing, then, if the cost of constructing it is the same?

**Mr Savery**—There can be levels of innovation in the way that housing is provided—house and land packages, so that the actual land component is not necessarily the same.

**Senator IAN MACDONALD**—So it would be subsidised by a government—is that what you are talking about?

**Ms Jay**—There are a number of mechanisms. Not-for-profit organisations are emerging in this sort of market in other countries. Tax credits can be used as a mechanism, so you can also have policy settings that provide for some encouragement and assistance by governments to provide this kind of housing. The traditional model of social housing is no longer really the preferred model.

**Senator IAN MACDONALD**—In the old days, when I was growing up, there were Housing Commission suburbs—you lived there but you would not tell anyone you did. But you are not advocating that sort of thing.

**Mr Savery**—No, we are not. I will also make the point that one of the things that we believe get overlooked in this is the expectation of the consumer for what is an affordable house, so that we are constantly finding that the first homeowner's expectation is a three-bedroom house with an ensuite and a lockup garage on a reasonably sized—

**Senator IAN MACDONALD**—And a flat-screen TV.

**Mr Savery**—Yes, and all the mod cons that go with the house. So the pressure is put back on the governments, the planning profession, the builders themselves et cetera to be able to provide that product, whereas in fact our view would be that there has to be some amelioration of that expectation, certainly for the first homebuyer.

**Senator IAN MACDONALD**—Is this what you meant about education? When I had my first house, we sat on a box and borrowed a table and a chair from relatives, but nowadays people want—

**CHAIR**—And waited for the sewer to come later!

**Senator IAN MACDONALD**—That is right—well, not quite that.

**Mr Savery**—Another extension of that, though, is that you are finding that there are different land packages being provided by government land suppliers, which are typically corporatised agencies—the Land Management Corporation or the Land Development Agency—but the building product that goes on those smaller house lots is the same size. I heard Senator Joyce's comment before, when the Treasury officials were here, about McMansions. You are getting McMansions built on smaller lots instead of the building product changing to adapt to the smaller lots so that we get a range.

**Senator IAN MACDONALD**—But you then have to educate people not to want a McMansion as their first house—perhaps as their fifth house. Is that what you meant by education?

**Mr Savery**—That is part of the education process, yes.

**Senator IAN MACDONALD**—I will not continue this too long, but what impact do different planning regulations and codes and different building codes between states have on the cost of housing? Years ago, when I was involved in the Development Assessment Forum, it took five meetings of ministers, and we ended up consolidating the terminology on one word in three years. That was the sum total.

**Mr Savery**—I know precisely what you are referring to. There were 17 definitions, of which 14 were to be adopted nationally—most of which have not been adopted nationally.

**Senator IAN MACDONALD**—They still have not?

**Mr Savery**—No.

**Senator IAN MACDONALD**—Good, because it was not just my chairmanship that meant we only did one!

**Ms Jay**—However, I think the leading practice model has been a real leap forward for an assessment forum.

**Senator IAN MACDONALD**—I should not have digressed, but is there still a huge problem in the affordability of building caused by having different rules in each state which means interstate builders do not know which one they are applying to and they have to have on staff 15 sets of lawyers to deal with each state regime?

**Mr Savery**—I think it is fair to say that it is an issue. As to whether it is a distinct problem across all jurisdictions, the jury might be out on that. I need to separate building from planning. Under the building system, we have a Building Code of Australia which is generally uniform. There are variations between the jurisdictions, but generally it is a uniform national code. When a new regulation is introduced into the Building Code, it is subject to a regulatory impact statement assessed by the office of regulatory review. That obviously takes into account an impact on the cost of housing, if it is a regulation that affects housing, versus the other benefits, whether they are occupancy safety, health or amenity. And now sustainability is a new part of the Building Code intergovernmental agreement. That is distinct from planning systems of which we have eight. Whilst they generally cover the same principles—strategic planning, statutory planning, development assessment processes—

**Senator IAN MACDONALD**—Do you have a guess or an estimate of what that adds to the cost of—

**Mr Savery**—I do not think we have a figure. There may be industry figures. There is invariably a cost to regulation. I cannot suggest that there is not. The work that the Planning Institute is involved in with its colleagues like the Property Council through the Australian Construction Industry Forum and through the development assessment forum is endeavouring to find some best practice models that could be adopted as a national benchmark, which would involve trying to reduce the amount of regulation. For instance, in our submission we talk about the complying development and exempt tracks of the leading practice model. That endeavours to

reduce the number of development applications that are required. Typically, they are what we call the low-risk development applications, which is a typical detached house in a greenfield residential estate. If it is developed in accordance with the code—that is, it has a setback, a roof with a certain pitch et cetera—it does not need development approval. If all jurisdictions were to go down that path and adopt that model, we believe that it would not only reduce the number of development applications by a figure of quite some substance—maybe 40 per cent—but also free up those few planners that we talked about to deal with the more complex development applications rather than being caught up in the low-hanging fruit.

**Ms Jay**—I think it is fair to say though that the cost of development assessment as a general rule is very marginal in terms of housing affordability. Yes, there are some issues needing reform. Yes, there are supply issues. But, overall, it is a fairly marginal impact. When you look at the throughput of development proposals from the limited data that is available, a large part of that is done under delegation by professional planners and their assistants in a local government context and it is those at the more complex end of the spectrum that often take time to consider larger scale developments, for example. Certainly we can do something at the exempt and complying end of the spectrum, as Neil has said, in a number of jurisdictions to speed up the process or preclude people completely from needing an assessment.

**Senator IAN MACDONALD**—From what Mr Savery said, if you had a few more planners around it would lessen the time taken in other areas which do add costs to—

**Ms Jay**—Indeed. I have a tome here before me which we referred to in our submission on the work we have done with Colliers International research work in South Australia on capacity and development assessment in that state which is probably applicable to other jurisdictions as well. That study shows that up to 70 per cent of development proposals could be assessed by planning assistants in a codified way without the need for a professional planner to be involved. That is why the Planning Institute, who you would think would be looking to protect its own profession, is very keen to see much more emphasis put on training people in a vocational way to fill that gap. Certificate IV courses in TAFE that are designed specifically to help with the throughput of planning by assistants would help.

We also need to do more to address the undersupply of planning professionals. In the education system, as we all know, tertiary education is very squeezed. Planning is a small profession that now often sits in amalgamated schools within universities—together with architects, engineers and so on—so constant pressure is necessary from the institute and others to ensure that we are getting an adequate throughput of trained professional planners. We are starting to see a little bit of a widening of that funnel in recognition of the huge employment opportunities in planning, but it is still probably not significant enough.

**Senator COLBECK**—On the same theme, we heard evidence from the department this morning in respect of having paraplayers or certificate qualified planners doing your general pergola type work. But, if I take what you are saying as I think I should, a process of simplifying planning schemes could remove a lot of that stuff out of the system pretty much altogether—

**Ms Jay**—Yes.



**Senator COLBECK**—and reduce the workload and therefore potentially a lot of the angst—it is not necessarily cost that comes into the system in respect of planning but, to a large extent, angst at the process—through the adoption of something like your leading practice model.

**Ms Jay**—Yes. The leading practice model really is an appropriate framework. We do talk with the various planning ministers around the country and people within the planning departments in the states and we are constantly reinforcing the fact that we need to be applying this model so that we increase the exempt and complying—and your pergola example probably falls into that category—and then, with a series of tracks which are codified and very clear, a lot of that work could potentially be done by paraplanners or planning assistants. It is really at the merit or performance end of the spectrum and at the more complex end where individual development applications need to be assessed with the support of professional planning competency.

The leading practice model also proposes that development assessment panels be introduced. These panels are in operation in South Australia and it has taken a little while to go through a couple of stages of regulatory reform to put those panels in place. What that process does is make the decision making process at that end of the spectrum much more open and transparent. Those panels comprise a couple of elected representatives, an independent chair and then professional representation to make decisions at that end of the spectrum. This means it is taken out of the council chamber often and out of the hothouse environment in which some development proposals are being assessed. It provides an independent group empowered to make those decisions on behalf of the council, consistent with the strategy that that council has put in place to that area in consultation with the community.

**Senator COLBECK**—You mention South Australia quite often. How many jurisdictions are actively considering or pursuing the leading practice model?

**Mr Savery**—The ACT just introduced the leading practice model yesterday—its new Planning and Development Act became live yesterday. It is the first piece of legislation that comprehensively puts the DAF leading practice model into place. South Australia has key components of the leading practice model, so would probably be regarded as the one that is following suit. All of the other jurisdictions are looking at various elements of it, but none of them have a piece of legislation that picks it up and puts it in place. To be fair, the model itself is a set of principles and best practice—to create and put it into legislation and produce regulations is a fairly significant exercise. I think now that a couple of jurisdictions are leading the way, the others have the opportunity to follow. Because it is a leading practice model, each of them in their own way have parts of it already—that is how it was brought together—and we would not want those jurisdictions that already have features of the leading practice model to give those away.

**Ms Jay**—I would probably highlight New South Wales and Victoria where there is active debate about reform currently with direct reference to the leading practice model as a potential framework.

**Senator JOYCE**—We keep looking at this same problem of housing affordability and we seem to come back to the same solutions—getting councils to be more responsive, cutting edges and trimming down costs. Does your organisation ever look at the fundamental question of: where are houses in Australia most affordable and why are they affordable there? I suppose if

you go out to regional areas you find that they are affordable. Perhaps you could look at doing some things that might be diametrically opposed to what you have been doing in the past—that is, 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?

**Mr Savery**—I think that is a very important question because what it does is highlight the other aspect of planning which often is not talked about—that is, strategic planning. In fact that is what the planning profession is really about. Development assessment is, I would suggest, without offending any of my colleagues, a by-product. Someone has to administer a development assessment system. Planners are well equipped to do that. In a strategic planning sense you will find that virtually all the major centres in Australia have a strategic plan, and a key component of that will be looking at housing affordability in the sense of where are new employment opportunities, how do we connect those communities et cetera.

In terms of looking at it in an innovative sense, of course what planners are trying to do is remove the question mark about homeownership, because that really is not a planning issue first and foremost—it is what is the housing product and what is the quality of life that we want to create for communities? How do we make them sustainable economically, environmentally and socially? Putting all of those ingredients together in a spatial arrangement is what we are all about. One of the things we need to recognise in that process—and in some respects it comes back to the question of land supply—is that at some point some of our major centres are facing a situation where we have to ask: have we got any more land?

In Sydney there is enormous pressure on the western suburbs where they are running of supply. In Adelaide, with the Mount Lofty ranges and the sea on the other side, there are constraints to where the city can grow. Therefore we are starting to look at issues of higher density development and some of the solutions with that. It is then that you come back and address the tenure arrangements that are associated with those different products. So we may be looking at things like community housing cooperatives: not-for-profit organisations providing certain housing outcomes. That is almost a secondary issue for the planner; the first issue is the spatial arrangement and how to connect housing with employment opportunities and not put all the stress in one particular part of the city.

**Senator JOYCE**—Just picking a town—and you could pick any one you like—but does it come under your auspices to say, ‘Rather than spend \$500 million on a government project how about we have some sort of program to assist the development of employment in a place such as Roma,’ where we know that people are going to be able to get into the market and buy a house block for \$60,000 or \$70,000? We would probably be able to take a major cost burden off them there straight away. If a house is what you want to live in, there are places where you can live in a house; but you might not be able to live in a house in Sydney.

**Ms Jay**—I think the Australian community is voting with its feet in that regard in any case when you look at some of the demographic shifts that we are seeing and some of the sea change and tree change type community developments that are occurring. Certainly there is always the challenge of appropriate employment in regional centres and how you can actually provide the sort of mix that is necessary to facilitate growth in regional Australia. But we know that there are shifts occurring in terms of people’s choices about where they live. If they are in a metropolitan

area, they are also making choices that are perhaps different to those of previous generations. The first home may well be an apartment in the inner-city ring chosen for lifestyle reasons as well as for affordability reasons. Then as people move into having children they may move look to move to a middle ring or outer ring suburb, and then potentially back again as they age.

**Mr Savery**—Can I also say that, I think importantly, it is an issue around whether planning leads or planning responds. In real terms it is probably a bit of both. But if we look at, for instance, the phenomenon that is going on in WA and Queensland with the resources boom, they are building new communities where, of course, there are enormous stresses on housing. Planning is reacting in those circumstances; it has never had the ability to get on the front foot. So, whilst it might be desirable to say, ‘For these reasons, this is where we would like to put a community. We can build all the nice infrastructure around it,’ there are economic forces that are beyond the control of planning that will dictate the speed, form and shape that things take. Planning has to respond to those circumstances.

Even with your example, if a state government or the Commonwealth government were to say, ‘For economic reasons, we are going to put a facility here and you, the planner, have got to come along and sort out the issues around it,’ as opposed to planning through a strategic process, saying ‘For these reasons, this is the place to put something and we can logically build around that,’ it is not all neatly packaged up.

**Ms Jay**—Noding in metropolitan centres is also something that is being encouraged actively in a number of jurisdictions. If you look at Sydney, at the polycentric model, and if you look at Melbourne 2030 and the idea of building around activity centres and increasing density in those centres, this is about actually capitalising on existing infrastructure. Urban infill and redevelopment are important in order to address demand in those particular areas. To do that in a creative way that capitalises on existing infrastructure is also an important factor that, again, will have a marginal impact potentially on affordability, but also on people’s lifestyle and the whole-of-life affordability, if you like, for people in terms of their choice of where they purchase. If you lived close to a public transit hub, it is likely that you are going to use public transport. You are less likely to be using fuel driving your car. Those things have impacts on the individual’s costs of sustaining a lifestyle in a particular location. So, from a planning perspective, we tend to look a little more broadly. As well as the initial cost of the dwelling and the affordability of that dwelling, we think much more about the broader implications for people in terms of where they live and how they live.

**Senator JOYCE**—If we look at even where we are right here with basically 350,000 people living on a creek in southern New South Wales, if they were not living here—and it was obviously an assertive government campaign to do that as we are, I think, down to 40 per cent public servants in Canberra now and the town is making its own way forward—that would be another 350,000 who you would be trying to squeeze in between the Blue Mountains and Bondi Beach in Sydney, or out in the western corridor of Brisbane or in between the Mount Lofty Ranges. Obviously, you have to come to a different solution. If the problems remain the same, surely at the end of the day you have to come to a different solution in which we create the mechanism of employment somewhere else and then the growth will happen around that at a more affordable rate, rather than trying to improvise or somehow manipulate affordable housing when you know you are at capacity. You have just talked about Sydney being at capacity. Even

former Premier Carr used to continually say, ‘For goodness sake, don’t send any more people here.’

**Mr Savery**—In your question there is, I think, a very significant point around population policy for the nation. Planners can speculate on where a certain population might go, the demographic changes that result from that, the environmental implications and the economic implications, but to have a fundamental understanding of the population shifts that are going to occur over the next 20, 30 or 40 years in Australia is the means by which we can make those sorts of decisions or offer advice to governments about how we make those sorts of decisions. Recognising that planning operates in a marketplace where land tenure is largely freehold and there are people wanting to invest and optimise the value of their land, even if a planner or a planning regime says, ‘This is the outcome we want to achieve because we think it is the best of the sorts of things you might be raising,’ there are landowners who want the direction to shift in their favour because they want to optimise the outcomes. They have made a strategic investment in a piece of land. That is the constant tension that planning is finding itself working within.

**Senator JOYCE**—I refer to the Australian government document *Making housing affordable again*, where they say:

Average rents for three bedroom homes have risen by 82 per cent since 1996.

Rental vacancies are at critically low levels ...

Let us take the instance of a person who bought a house and had a structured loan, as opposed to the person next door who rented their house. Do you believe that the renter is extremely exposed to an increase in their cost of housing, as opposed to the person who owns their house and has a structured loan and therefore has the capacity to put that structured cost into their budget? I ask this question because, if this is what the government say in their own document, then surely that should be enough evidence for them to say, ‘Where we want to head with any major package is towards people owning their own homes, not to be renting a home, because if they are renting a home they are in a market that is going through the roof and they will be unable to afford the rent in the future, especially when they are retired.’

**Ms Jay**—I would refer you to some of the remarks made by the Treasury officials who were here earlier. We are not in a position to comment other than to point you to some of the research that exists on these things by not only groups like Treasury but also some of the research institutes around the country, a couple of which are named in that document before you; there are also bodies like AHURI and some of the key housing research bodies around the country. We tend to draw on their expertise in these sorts of areas.

**Senator JOYCE**—Thanks.

**CHAIR**—Thank you very much for appearing today and, as I said earlier, for your submissions to the committee. If there are matters which we need to raise on notice, we may come back to you as the inquiry progresses. Inevitably, that is often the case.

**Proceedings suspended from 1.22 pm to 2.00 pm**

**LINDSAY, Mr Richard, Chief Executive Officer, Urban Development Institute of Australia (National)**

**SCOTT, Mr Michael, Past President, Urban Development Institute of Australia (National)**

**CHAIR**—Good afternoon and welcome to this hearing of the Senate Select Committee on Housing Affordability in Australia. I thank you for your submission and accompanying material which we have received. We have not all had time to read it in the time available to us since it was received but we are going through submissions as they are coming in, so we appreciate you appearing with us today. Would you like to make an opening statement and then we can go to questions after that?

**Mr Scott**—Yes, I would, and I will keep it brief. UDIA, the Urban Development Institute of Australia, is a wide-ranging organisation. Our members include valuers, planners, engineers, architects, surveyors, community consultants, local councils, banks, state and local government authorities and product suppliers as well as developers and home builders. So we take the view of being a wide tent, a big group, that represents the whole industry. We would like to also note that the UDIA state bodies, because of the particular nuances of the affordable housing problem around the various states and various cities, see the landscape being very different in various cities. We will also be making submissions to this group as you go around the country, so thank you in advance of that.

We would also like to state our appreciation and support for the recently announced new government initiatives that address affordable housing. We think they are very beneficial and we look forward to more. I will quickly address the problem. We think the problem of affordability has many causes, but one which we would like to highlight is obviously the recent increase in interest rates by almost 50 per cent, from six or 6½ per cent to 9.3 per cent, which represents almost a 50 per cent increase in monthly repayments for most families. It is not dissimilar in proportion to the increase in repayments that we endured during the recession and the correction of the early nineties, which is considered by many to be much worse, because we moved from a fixed interest rate of 13½ per cent to about 17 or 18 per cent, but in fact by scale it is a 50 per cent increase similar to what we are enduring now.

We would also like to highlight the disproportionate increase in income across the community from highly paid workers to low-paid workers. We think that has contributed to the affordability problem, particularly in the bottom end of the market. We think investors moving out of the market—particularly in Sydney in 2004 and post 2004—and into the stock market has reduced the amount of rental stock dramatically and is leading to very low vacancy factors and increasing rents, particularly in the inner suburbs of our major cities. We also think demographic change is a contributor, particularly to the housing crisis and affordability in the inner city, with generation Y's aspirations for inner city living and empty-nesters often moving back to higher lifestyle locations in our major cities. We see these things adding pressure to the affordability situation, particularly in inner locations.

We would also like to identify the GST, which came in almost seven years ago, as a major cause. Coming in a rising market, costs are easily absorbed; whereas now I think we are

seeing—particularly where all state government and local government charges and taxes have the GST on top of them, so you have a tax on a tax—the real impact of those additional cost bases on the market through the industry. I think that might do for an opening statement, just bearing in mind that I said I would keep it brief. Thank you for your time.

**CHAIR**—One of the aspects of your submission which I thought was interesting was in the early part, where you identify under part 6 causes of the affordability crisis. You run through 18 dot points of factors leading to the problem and then, in the next paragraph, say that those factors do not necessarily operate at the same time. Is the circumstance in which we find ourselves now that there is a much larger number of those factors operating together and rubbing against each other, which exacerbates the problem even more significantly than would otherwise have been the case?

**Mr Scott**—Absolutely. I think there are always those variables out there operating in different cycles and different time frames. Then when you get effectively an aligning of the planets, or those variables, you get the compounding impact of that, which is what we are seeing now.

**CHAIR**—It is hard to sheet that back to any one area of responsibility or any one solution, for that matter, because it is such a complex mix of factors. Is that correct?

**Mr Scott**—That is absolutely correct. I think it requires changes on several fronts from the current circumstances if we are going to make an impact.

**CHAIR**—You make some recommendations in your submission as well, which I briefly looked over this afternoon. Which would you pick out of those as the key recommendations in terms of responses and solutions that you would highlight to the committee in our consideration of this inquiry's subject?

**Mr Scott**—Supply of land—or dwelling opportunities, I suppose, not just land supply, because that suggests just blocks on the fringes of our major cities. In the case of smaller cities such as Adelaide, Hobart or Canberra that may well be appropriate, but in our larger cities—Melbourne and Sydney, for example—it is also about urban renewal and releasing or re-releasing land for urban redevelopment, which is a significant issue going forward.

**CHAIR**—If you think about where land has been released in major cities in recent years in inner city areas for urban renewal and development, and if you take the banks of the Yarra River and perhaps the Pyrmont, Ultimo, White Bay area of Sydney as an example, you end up releasing very expensive land which becomes very expensive dwellings. I am not sure how that assists the 'affordability crisis'.

**Mr Scott**—Particularly with the demographics, with the baby boomers moving into the empty-nesting phase—

**CHAIR**—To take your gen Y and empty-nesters example.

**Mr Scott**—If they are moving out of family homes into that more expensive accommodation, the person that moves into that family home is moving up from another home. It is a dwelling added into the supply cycle of the housing market. So additional dwellings at any level in the

market, I think it can be argued, address affordability. There is no doubt lower priced additional dwellings address it more directly, but through a ripple effect of sales I think that even high-priced inner city location dwellings do have an effect on affordability.

**CHAIR**—In 6.2, where you talk about costs and charges, you make some reference to infrastructure. If you go backwards in that line that you are just describing and you go to the person who moves from perhaps their second home into the home that the empty-nesters have released while they are moving back into the inner city, at the beginning is the first home buyer. Is one of the challenges that we face managing expectations about the sorts of environments into which first home buyers are expecting to purchase? There is a reference, for example, in the Planning Institute's submission to the fact that you used to purchase a housing block in an unkerbed, unuttered area knowing that you were making an investment in establishing your own home and the kerbing and guttering would come. That no longer seems to be the case, and with the diversity of groups you have in your organisation I am sure they would have an interesting appreciation of that.

**Mr Scott**—Yes. I do not know if we can manage expectations. There is no doubt we have heightened expectations as a society in 2008 about wanting everything now and wanting the best of everything now. So I do not know that you can take those things backwards, but I think people are already adjusting the size of the dwelling they want to live in. As we are seeing the demographic bubble of baby boomers, who are very much the 'move up house' generation of the last decade or so, move through the demographics, I think we are seeing smaller households, people with one or two children, actually quite happy to have a more modest sized dwelling. I think the short answer to your question is that expectations will manage themselves, depending on what people can afford. The question they always ask is: what can we afford? And the natural tendency is for them to borrow up to the maximum that they can afford.

**CHAIR**—Is it leading us to a point where it looks like they are borrowing more than they can afford?

**Mr Scott**—That is probably well put, yes.

**CHAIR**—Thank you for that.

**Senator BARTLETT**—I will just go back to that list of 18 factors that you have detailed in your submission. I notice that does not mention at all some of the factors that some people suggest such as negative-gearing concessions, the capital gains tax discounts, the inflationary impacts of the first home owners scheme and those sorts of things. Do you think all of the existing tax breaks and tax expenditures in that area have no impact on the market in an inflationary sense?

**Mr Scott**—I would not say that they have no impact on the market. In our summary document that we have put up, which you have not had the benefit of reading, we talk about the first home owners scheme. At the time that the GST was introduced, sitting before a group not much different to today's, we argued vehemently that it should be a new homebuyers grant because it was given in regard to covering the cost of the GST. GST does not apply to existing dwellings; it only applies to new dwellings. So it could be argued that giving a rebate or a grant to everybody as a first home buyer that had an inflationary effect. The magnitude of that being \$7,000 when

house prices are \$500,000 I think is quite arguable, but it is difficult to say. It is very difficult to say that it did not have an effect.

In terms of negative gearing and capital gains tax treatments, again it is difficult to say. They talk about taking them away, which would give less incentive to investors, so you would think you would end up with less dwelling stock. Given that we almost have zero vacancies in some places, it is hard to see what we would replace it with. Those individual tax benefits obviously do not flow to institutional investors. I think a question going forward is how we can engage institutional investors in rental housing trusts and add to the supply of rental housing dwellings.

**Senator BARTLETT**—With these sorts of things—whether it is the First Home Owner Grant or the impact of tax deductions and concessions—regardless of whether they are inflationary, even if they are only a small component they are not insignificant whacks of money. The First Home Owner Grant I think is over \$1 billion a year now. I wonder if that is actually helping very much and whether there is a much better use that we could put that amount of money to—for example, you suggested removing the GST off stamp duty. I do not know what the cost of that would be. I do not know if you do off the top of your head—

**Mr Scott**—No; we have not had it costed.

**Senator BARTLETT**—I suppose that is one of the things we need to think about. If we are going to recommend those sorts of things, we always have to look at costings. Part of it is trying to assess potential market impacts and part of it is just looking at how much it costs and whether we can get better value for people. Rent assistance is another example that is often used. It is \$2.2 billion that might not do much more than help people tread water, if that. I suppose that is part of the issue there. I appreciate that might not be your area of expertise, but I suppose the question is whether you have turned your mind to those things as well.

**Mr Scott**—With the First Home Owner Grant it is worth acknowledging that it came in in 2000 and after that we did have a very bullish market for many years in Sydney until about 2003, and in other capitals it appeared until about 2006. The first home buyers who were targeted with that and who did get into the housing market now have substantial equity or a reasonable amount of equity in their property that they might not have had if they did not enter market with that scheme. While it might have an overall minor impact on the market from a price inflation point of view it is at least a targeted program to get first home buyers into the market. I think that is the question because the housing market does not need first home buyers to continually make it grow. We already have eight million home owners and with the lack of supply they can simply buy investment properties, trade up or acquire through inheritance. The idea of a targeted program that gets people into the market or assists them in getting into the market is certainly something of value.

**Senator BARTLETT**—You quoted a couple of figures in your cover submission in regard to the stock deficiency. I do not want to get hung up on the last dwelling number but we have had a few people this morning use the figure of a shortfall of 30,000 dwellings per annum compared to demand. You have quoted John Simon's paper which suggests—

**Mr Scott**—I think it says 64,000 by 2009-10.



**Senator BARTLETT**—Yes, and a little bit later. BIS Shrapnel suggests a shortfall in the vicinity of about 23,000 per annum. Whether it is 23,000 or 30,000 it is still a fair bit per year, and I do not want to get too pedantic about it. Do you have a view whether that is a more accurate figure than the 30,000?

**Mr Scott**—Yes, I do. I think that is a more accurate figure. Coming from Sydney I am probably distorted in my view because of the way the market is operating in Sydney at the moment, but I would say that figure is potentially understating it. In Sydney this year we will produce about 3,000 blocks for a city with four million people because of the pricing affordability constraints around the costs of contributions and taxes. In the new release areas we now have a total of \$120,000 per block in government taxes and charges across the three layers of local, state and federal governments. The price that you have to achieve to make the land viable just simply does not make it viable. I think Sydney needs something like a supply of 30,000 dwellings a year. If they are getting 3,000 out of new release areas then they need 27,000 out of existing areas and multiunit redevelopment. With the constraints, understandably, of local council democratic processes, the flow of those sorts of supply numbers is just not there.

**CHAIR**—That statement may have been a little oblique for me. What do you mean by ‘local council democratic processes’?

**Mr Scott**—I just mean the decision on urban renewal projects. You cited earlier the Pyrmont-Ultimo peninsula, New Farm in Queensland and the Honeysuckle Precinct in Newcastle. There are a whole range of projects that came out of the former Building Better Cities program about 15 years ago where seed funding from the Commonwealth was used to open up a coordinated approach to urban renewal projects. All of those areas, including East Perth and Subiaco, that have been a great success came through that program. When you leave it up to the local councils, as they are elected by a local constituency to protect the local constituency’s interest, they do not take a regional view of the city or the need for housing across the city so that process can be slow. They do not tend to have adequate resources to coordinate urban renewal projects because those projects require large infrastructure contributions, a fair bit of planning and a lot of consultation, so they tend to get bogged down if they are just simply handed to councils to run and not run by some sort of authority or through a program like Building Better Cities.

**CHAIR**—Thank you for clarifying that.

**Senator HUTCHINS**—Do you think any powers should be taken away from local governments?

**Mr Scott**—No, not entirely. But I think that for certain designated new release areas and urban renewal projects they should be.

**Senator HUTCHINS**—On that basis, they would be designated by the state or federal authority. I am from Sydney as well and I am referring to all that land out towards Badgerys Creek.

**Mr Scott**—If you are from Sydney you would be aware of the Growth Centres Commission model currently operating in Camden. I think that is a good model because, if Camden is charged with the responsibility of organising that growth area for Sydney, which represents

effectively something like a 120 per cent increase in their own local population over the next 10 years, and they are left to resource it themselves, what chance have they got? Plus, to represent their local constituency properly on the local council, any time they are concerned about local issues impacting on a regional outcome, obviously they are going to look after the local issues. I am not suggesting that they should be squashed but there certainly needs to be coordination or a support role. I do not know about taking away all the powers, but the Growth Centres Commission certainly works concurrently with the councils and, ultimately, the areas, once they have been developed, will be handed back to those local councils for their management.

**Senator BARTLETT**—I do not know if you know a lot about the example, which is just being set up in Brisbane, of the Urban Land Development Authority dealing with the inner city. Do you know much about that?

**Mr Scott**—I know it has just been set up but I do not know too much about its charter. I am aware of the Brisbane Housing Company and very much aware of the operations of the various other state development agencies, but I do not know too much about their charters.

**Senator BARTLETT**—We might be able to ask people in Brisbane about that when we are up there. I know the local lord mayor is not happy about it so it is probably the sort of thing you are talking about—an authority taking away council powers for a designated big chunk of land in the inner city to redevelop former industrial estates, for example.

**Mr Scott**—The frustrating part of trying to make a change is that, contextually, every place is different. As a developer, I hate planners telling me that every place is different, but it is. In Brisbane, where a very large local council runs the city and the jurisdictions around the city, they are very well resourced and very capable. They are a large organisation and they deal with things with a certain capacity. However, in Sydney, which we were just talking about and where there are something like 45 local councils, as you can imagine, you are starting well and truly behind the eight ball when trying to do anything in a coordinated fashion and resourcing it properly.

**Senator BARTLETT**—It sounds more like a recommendation for local council amalgamations.

**Senator HUTCHINS**—People can try that.

**Mr Scott**—There is a hall of fame of people who tried that, isn't there?

**Senator BARTLETT**—They have just done it up in Queensland. They did it in Brisbane in 1920 something or other, but, anyway, I will not go off the topic. That will do me for now.

**Senator HUTCHINS**—I am sorry that I got here late for your contribution. You said the price of a home in Sydney averages about \$120,000 extra with taxes, charges and regulations. Could you roughly break that up for us?

**Mr Scott**—Yes. That would be on a house and land package of roughly \$450,000 or \$500,000. The GST on \$500,000 would probably be about \$40,000. The current state levy for infrastructure is around \$30,000. What they call the local council section 94 contribution, which is for local infrastructure, is around \$45,000. Sydney Water charges something like \$10,000 to

\$15,000. The electricity authority charges about \$5,000. Through the operation as a developer, there are various land tax, stamp duty and other fees payable to local council as part of the process.

**Senator HUTCHINS**—This morning we heard about an example of Hornsby Council applying a \$1,100 charge on houses up in that council area for a library. When you say \$45,000, are there other parts of the \$45,000 that get added if, for example, they want to have a levy for something.

**Mr Scott**—It is a combination of off-site works, which can be for local facilities such as libraries and sporting facilities, and for which you are paying a contribution to provide for the wider release area, and it can also be scheme specific things. If ownership is very fragmented, the council might take control and put in more roads and trunk drainage—open space acquisition, if you like—as a scheme cost. So all of those things go through that levy.

Under the rules for section 94 in New South Wales, the councils have to create a plan for their area that identifies the demand that is going to be created by the new population and cost it accordingly, and then the costs are contributed on a per dwelling basis. So they have to have a section 94 plan registered. Across all those councils, a mixed bag of plans has been produced in terms of the transparency of the nexus and connection between the demand and supply of the services.

**Senator HUTCHINS**—Does the local government body require a tick-off from the Minister for Planning?

**Mr Scott**—Not for a section 94 contributions plan.

**Senator HUTCHINS**—So it just goes through council and if they want to—

**Mr Scott**—They simply adopt it and if you want to challenge it you have got to take them to court. In the past we have had members of our group establish fighting funds in some councils and take the councils to court, and more often than not they have been successful in having the plan re-looked at and renegotiated. Credits have flown as a result of that.

**Senator HUTCHINS**—Does the institute have a list of councils that are offenders in this area?

**Mr Scott**—Not one that is written down anywhere. I think people might carry it around in their head, anecdotally, and have the benefit of experience in certain jurisdictions. But, with the cycle of local councils, things change too.

**Senator HUTCHINS**—I am familiar with New South Wales, but is it the same across the country that a local government can apply these charges to new housing? Is it just a matter of a council decision or do they in some jurisdictions—

**Mr Scott**—No, they are quite different. I think they are established by state entities in other places. In some places it is similar. There are hybrids. It is quite different across the country.

**Senator HUTCHINS**—Right. I see. Thank you.

**CHAIR**—On the question of skills shortages, which is in your list, how significant do you and your members find that issue to be?

**Mr Scott**—We see it as something that we are starting to see the impact of, but we see it as being more significant moving forward. I think it is fair to say that two of our kindred associations, the Housing Industry Association and the Master Builders Association, are probably more across that issue in real numbers terms because they run skills development programs, with apprentice programs and so on. But as developers who often have building operations our members are expressing concern that they are having difficulty getting labour to perform tasks at reasonable prices and that it is getting more and more difficult to hire people. So we do not have any real numbers but anecdotally it is something we are seeing the start of—and, given that the industry is supposed to be operating short of supply, we have got concerns about the sorts of skills we would need if we were to hit the adequate amount of supply.

**CHAIR**—Do you have any plans in the making to work with those other organisations to approach government on this question?

**Mr Scott**—We do not, but it is a reasonable suggestion.

**CHAIR**—Have you had any previous contact with, for example, the Department of Immigration and Citizenship on the sorts of skills and workers that you might like to see coming into Australia?

**Mr Scott**—We have not directly as an association. I would say some of our larger members probably have.

**Mr Lindsay**—From a member basis, that is right, but we as an association have not.

**CHAIR**—Right. Senator Colbeck.

**Senator COLBECK**—Going back to the development charges, the \$120,000, you are effectively saying to us that it is a disincentive or a hindrance in two ways. One is in respect of a developer's willingness to actually undertake the development of a parcel of land in the first place because of all the costs that they have as part of that process, and obviously there is a holding cost to that while they are selling down the stock of land. The other, the obvious one, is the actual final cost to the purchaser. Do you have any sense of what the holding cost might be? What would be, say, the average time frame for a particular development site—and I know it would vary a bit depending on location—that you would have to hold a block of land? What is the average selling time, for example? There is an initial spurt when you open it up and then there is a regular sales process and then you will probably have a few that hang off the end a bit. I understand that.

**Mr Scott**—It is really difficult to comment on an average selling time. For example, again anecdotally—without wanting to make this a Sydney focused presentation—in 2003 in Sydney I recall every estate had a release with people camping. We released one estate with 50 blocks of land and the blocks of land sold in eight minutes. Then we released 50 blocks in the same estate

for the same price three or four years later and it took 18 months to sell them. So, when it is that different, it is very hard to concentrate on an average. With respect to your earlier comment about the cost, what happens when you are selling a block of land for, say, \$300,000, you have to make a margin. You have your holding costs, you have to put the roads and drainage in, as well as find the \$120,000. The raw land value is something like \$50,000 or some amount that you pay the vendor of the land.

What you find in these release areas is that the vendors of the land have been sitting there for 25 years waiting for this one-off opportunity and, when the price that they are going to get for their land is not much above rural price, they say, 'We're not selling.' All of the energy coordination process that has gone in over 10 years to get this thing ready for the release of the land is just frozen because you cannot economically buy it from a vendor. There are no acquisition powers of the state that are going to play out, because you cannot force the process to buy things off people at valuation. That is where the difficulty comes in. That is why the land gets frozen. It is hard to assemble the land, firstly, to develop. Then when you develop it, you have actually got to get the end sale price. Because of the 50 per cent increase in interest rates that we have seen in the last two or three years, people can now only afford two-thirds of what they could afford two or three years ago.

**Senator COLBECK**—So it applies multiple pressures into the system?

**Mr Scott**—Yes, there is the buying assembly of the land phase and then there is the selling end pressure that it also creates.

**Senator COLBECK**—In your presentation you mentioned the provision of libraries or those sorts of services or facilities as part of these up-front costs. Given that there is a real differential between what a retail customer will pay, there is probably a bit of a discount for a developer and a further discount level for local government, state and Commonwealth, do you think it is the most cost-effective way of providing these services—in other words, by putting it through the process where it is effectively being paid for at a retail cost of money?

**Mr Scott**—I think it is even effectively paid for at a higher price than that because the developer is factoring it into their price and they are acting as the collector of the money. As it is a piece of expenditure for them, they have to make a margin on it as well. I take your point; I am just reinforcing it. It is probably the most expensive way we could procure those public services. If they could be debt funded or funded through the local council or local authority then, ultimately, the contributions could flow later on or by some other method and certainly their cost of capital, the cost of debt, is much lower.

**Senator COLBECK**—So in purely financial terms, it is a very ineffective or a very costly way of providing those services to the community?

**Mr Scott**—Also what happens is that often you will see a cross over a release area. They will start a plan for those services and then that area will grow and take off. Then they have to update the scheme and they end up short a few dollars. It all becomes very messy from an administration point of view. Quite often the local authorities will not put the first brick in place on that library or public facility until all the money is collected. Effectively they wait for the whole area to be developed before the facilities and services come in. So the new residents move

in, they get used to using two cars because the transport is not there yet. They get used to driving 10 kilometres to go to gymnastics on a Wednesday night because the facilities are not there yet. So we actually train them to live with these things because it is a fair way away before they see the facilities. It would be good if these things could come in in a little more up-front way, particularly transport. If we want to reduce car dependency, you certainly need transport in a lot earlier.

**Senator FIFIELD**—In your submission, you note that the GST on stamp duty is clearly a tax on a tax and should be removed. Unfortunately that would need the agreement of the states to do it, as you are probably aware, and they would not be that keen given that they not only get the stamp duty but they get the GST on the stamp duty, which goes back to them and they in fact recoup the First Home Owner Grant, which is paid out in effect through the stamp duty. Would it be the view of the institute that it might be simpler and better just to abolish stamp duty? Then you would not have the GST as a tax on a tax.

**Mr Scott**—Yes, that would be but, although in that submission we talk about stamp duty, it is not just stamp duty. As I mentioned earlier, it is all those government charges—of \$120,000, I think \$40,000 is GST, so there is \$80,000 in government charges to local and state councils. So we are in fact paying \$8,000 worth of tax on top of \$80,000 worth of contribution to local and state governments, with the way the GST works now under the margin scheme. Remember that a lot of those charges are recommended on a sort of value sharing—I think in the growth centres they call it value capture. It is pretty much acknowledged that that value was in the land and now we are taking part of it. The margin scheme that the GST operates under acknowledges that the price of the land does not count in the margin. So really we are sharing the costs of the value of the land with state agencies, but not only are we sharing it with them; they are now saying it is taxable. So it is a lot worse when you actually delve into it. It is a tax on a tax. We were lucky as a lobby group to get division 82 introduced on the back of division 81 with the GST about four years ago. We had to lobby each of the state treasuries to get those changes through. That was to get contributions in kind made tax free. We did achieve that, so I think it is possible to get the laws changed. I know it certainly has an impact on revenue for the states, but I think—given the appropriateness of the affordability debate and the fact that people like we saw on *Four Corners* last night have paid \$8,000 worth of tax on a tax in the purchase price for their house—that it is something worth looking at.

**Senator FIFIELD**—So your preference would be to remove the GST rather than to pick one tax, like stamp duty, and remove that?

**Mr Scott**—As long as proportionally the answer was the same. Sure, it would be good to have it administered through the one spot, but with the \$3 billion that goes to the states—or whatever the number is for GST collection on 100,000 houses a year—I do not think we are seeing it come back as infrastructure to the areas that are paying the tax. That is the big issue for us. There are not buses, transport—state-supplied infrastructure—coming into those new communities on the same basis as the GST is going out of those communities.

**Senator FIFIELD**—As you would be aware, the government is going to abolish the Building and Construction Commission in 2010. Does your institute have a view about the commission? Would the institute prefer that the commission continued in the future?

**Mr Scott**—I do not personally have a strong view about it. As land developers, our members tend not to operate directly as contractors. Again, I would probably defer to our kindred industry associations, HIA and MBA, for a view on that that is more representative of the professional members.

**Mr Lindsay**—It has not been a high priority.

**CHAIR**—As there are no further questions, I thank you both very much for appearing this afternoon and, as I said, particularly for your submission. If we do come up with further questions we would like to pursue with you, we will do that on notice and hopefully you will be able to assist us with those.

**Mr Scott**—Thank you very much for the opportunity, and good luck on your tour.

[2.40 pm]

**TANTON, Mr Robert, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra**

**CHAIR**—Welcome.

**Mr Tanton**—I have information packs for you which include copies of the AMP NATSEM housing report, *Wherever I lay my debt, that's my home*, which we released recently. There are also copies of tables that were used by the Prime Minister in a speech on 3 March. We did some tables for the Department of Families, Housing, Community Services and Indigenous Affairs in February which were then used by the Prime Minister. There are four copies of those tables in the pack and also tables from a publication that we did in 2004. There are also little things like glass wipers and things like that.

**CHAIR**—The NATSEM pack.

**Senator FIFIELD**—For wiping tears away!

**CHAIR**—Thank you, Mr Tanton, for joining us this afternoon and for that information you have provided. That is going to be very helpful to the committee. I now invite you to make an opening statement and then we will go to questions.

**Mr Tanton**—It is great to be here today. NATSEM have been doing quite a bit of research recently into housing stress and housing affordability. One of the first things I want to say is that when I was looking at the terms of reference for this committee one of the things I noticed was that it is all about homeownership and people moving into homes. A lot of the stuff that we have done on housing stress has not only been for people who own homes but also for renters, public renters and things like that. I will not touch on much of that today, but it is an issue that NATSEM are also interested in because we are into research into poverty and we tend to find that public renters are out there with the highest poverty.

One of the interesting things that came out of the latest report that we have done was that Australia, in an international survey, came out as being the second most unaffordable of six surveyed countries. The six surveyed countries were the UK, Canada, the US, New Zealand, Ireland and Australia. New Zealand was actually worse than Australia, but Australia and the UK were about equal. So, on an international scale, Australia is not doing too well. What we found in this report was that, from 1985 to 2006, incomes have doubled but house prices have increased fivefold. So there has been a huge increase in house prices without a corresponding increase in incomes. What we call in the report 'housing affordability', which is essentially the ratio of income to house prices, has gone from 4.9 in 1995-96 to 7.5—so now it takes 7.5 times your income to be able to afford the average priced house. That big change from 1995-96 to 2005-06 is one of the main things that came out of the report.

The other measure that we looked at in this report was what we call 'housing stress'. Housing stress is when you spend more than 30 per cent of your income on housing costs. What we found



was that that has increased quite dramatically from 1995-96 to 2005-06. It has gone from 19 per cent up to 22.5 per cent. All those figures are in the report. One of the things we looked at with this report was splitting that up by certain subgroups of the population. One of the striking things that came out was for first home buyers: it is now 61.7 per cent of them who are in that housing stress definition. For unemployed people, it is now 54.7 per cent of them in housing stress. Australia-wide, the average is about 22.5 per cent of people who are in housing stress. So we have double the rate for the unemployed and more than double for first home buyers.

First home buyers are the ones who have been getting into the market in the last three years. With the house price bubble, incomes have not increased as much as house prices, so first home buyers are having real trouble getting into the market. And looking at it over time, we found that that had increased quite significantly. The number of older Australians in housing stress had almost doubled from about four per cent to about 10 per cent. One issue there is that people aged over 60 would normally be expected to own their houses and have some sort of financial security going into retirement. What we are finding is that there are now fewer of those who own their house and have that financial security going into retirement. They are just some of the significant findings we have made.

In my submission, I have also included a document which essentially gives you some different definitions of housing stress and affordability. We would normally use the 30-40 rule, which is where 30 per cent of your household income is spent on housing costs and you are in the bottom 40 per cent of the income distribution. Using that definition, housing stress occurs at around 11 or 10 per cent of the population. Taking out that bottom 40 per cent of income factor, housing stress goes up to about 20-22 per cent. We did that in the AMP report: we used the just 30 rule, not the 30-40 rule. You can also have slightly different definitions of income, which makes it a bit complicated. I have defined housing affordability as essentially a ratio measure. I have also included in my submission what we have used in each of the recent NATSEM publications: the Prime Minister's speech and the AMP-NATSEM report, where we have just used the 30 rule.

**CHAIR**—Thank you very much, Mr Tanton. When Treasury were here earlier, towards the end of their appearance we were discussing housing stress as a concept. Without wishing to verbal the officers—and I would probably be aided by the benefit of the *Hansard*—they were at pains to remind me that: somebody spending more than 30 per cent of their household income on housing costs does not lead inevitably to the fact that they are suffering; the 30-40 rule does not tell me what income level they are at, so there might be spending 30 per cent of \$150,000, as opposed to 30 per cent of \$30,000; and spending 30 per cent of their income does not then automatically become a problem for them. From your research, can you give us an idea of what proportion of the 61.7 per cent of first home buyers, which you referred to in both your report and your opening remarks, who are classified as suffering housing stress are suffering housing stress as we would understand it? I am not an economist, so your STINMOD microsimulation model, to which you refer on the second half of the page you referred to in your submission, does not necessarily mean a great deal to me. Could you give the committee some idea of how that maps over that 62 per cent?

**Mr Tanton**—Essentially, we do not have information on the breakdown of that 62 per cent. One of the problems with the ABS surveys is that, if you start drilling down too much, you start to lose the reliability that is in them. The 30-40 rule that we also use—where 30 per cent of your income is spent on housing costs and you are in the bottom two quintiles, or bottom 40 per cent,

of income—essentially takes out a lot of those people who might be spending more than 30 per cent of their income on housing costs voluntarily: people who are trying to pay off their loans as fast as possible. They have a reasonable income, they are single and living in their own unit and they are paying it off because they do not have additional costs and can pay more than 30 per cent. That additional criterion takes out a lot of those people.

That is why when you are looking at the 30 rule, you tend to get about 20 to 22 per cent of people in housing stress. When you look at the 30-40 rule, you tend to get about 10 per cent. We would tend to use the 30-40 rule more than we would use the 30 rule because of that reason. For the AMP report, we used the 30 rule because there were some tables in there where we were using income. We had half median income, and so we did not want to use the 30-40 rule because we knew there were tables in there which were already going to have income in them. For the numbers for the Prime Minister's speech, they were using the 30-40 rule and so they were lower. So it depends on the definition that you are using.

**CHAIR**—Thank you for clarifying that for me.

**Senator HUTCHINS**—I want to go to the definition. I was looking earlier where we were talking about housing stress, the 30 per cent. According to the ABS statistics by electorate, the electorate with the greatest stress, paying 41 per cent, is Blaxland; the second seat is Watson, which is in the St George area of Sydney; the third seat is Reid, which is still in the inner west like those areas; the fourth seat is Barton, which is on Botany Bay; and the first seat to come up in the outer west is Fowler, which is past Cabramatta—that is 41, 39.8, 39.4, 36.3 and 35.5 per cent. How should we interpret those sorts of figures? Watson and Barton have got some pretty salubrious suburbs. Are they able to afford to pay more than 30 per cent of their income in repayments?

**Mr Tanton**—The ABS definition is like the third definition of housing stress and is slightly different again. What the ABS uses, because they are using census data to get those small area statistics, is gross income only. We tend to use disposable income, which takes into account the tax rates on your income. So the ABS is using gross income but the census only has income in groups, and so you will only know from the census if someone is earning between \$100,000 and \$150,000. You have not got the exact income they are earning, so it tends to mean that the estimates of housing stress from the ABS tend to be quite a bit higher than anything that we get out. So you were talking 30 or 40 per cent.

**Senator HUTCHINS**—Forty-one per cent in Blaxland.

**Mr Tanton**—Partly that is because ours are state wide and then we split into metro and non-metro, but partly it is because the definition they are using is gross income. They do not have the 40 per cent rule down the bottom because with the census you can only get the 30 per cent income spent on housing cost and it is, as I say, grouped income as opposed to the single incomes that we can use from their surveys. So we use data from the ABS but we use surveys rather than the Australian census, so we cannot get the small area detail but we can get state-wide detail and we can use slightly different definitions of housing stress than what they have.

**Senator HUTCHINS**—Of the first 10 in the ABS statistics, all of them are in New South Wales. I think the first one to come up outside of New South Wales is No. 14 in Queensland, but

before No. 14 is the federal seat of Wentworth, which would probably have the richest people in the country living in it.

**Mr Tanton**—I do not know Sydney—if you are talking about Canberra, I am from Canberra.

**Senator HUTCHINS**—Bellevue Hill is in Wentworth—would that be right, Senator?

**CHAIR**—If you would like a suburb by suburb analysis of Wentworth, we can provide one, Senator.

**Mr Tanton**—I am not sure what would be contributing to those. I can say that the ABS's definition is slightly different.

**Senator HUTCHINS**—I am just wondering whether or not, irrespective of the 40 per cent, the combined incomes mean that these figures suggest they can afford to pay more than 30 per cent statistically.

**Mr Tanton**—Yes. As I say, once you take into account the bottom 40 per cent of income you might remove some of those groups because they would then be above that bottom 40 per cent.

**Senator HUTCHINS**—I have not had a chance to read your submission, obviously, but in your submission do you mention housing supply as, possibly, a contributor to the housing stress?

**Mr Tanton**—No. We have essentially just looked at—

**Senator HUTCHINS**—And even rental stress as well.

**Mr Tanton**—Yes. We have just looked at the *Survey of income and housing costs* that the ABS has. There is nothing in there about supply; it is all about demographics and the incomes and costs.

**Senator BARTLETT**—You have done a lot of research, obviously, on assessing levels of housing stress and affordability et cetera, regardless of which definitions you use. Do you have any views on causes? A lot of the people we have heard from today suggested that supply issues are probably the key factor and that unless we address those all of these other demand areas will be futile or potentially just make things worse. Others suggest that impacts like taxation incentives or population growth and immigration—

**Mr Tanton**—Yes. With the work that we have done, essentially we have just looked at the house prices and the increase in house prices over the last few years compared to incomes. That is where we are placed in terms of doing demographic research and looking at housing stress, poverty and things like that. So we have not actually gone into the underlying reasons for the increasing prices. There is an article in today's paper, which I have brought along, on the population increase in Australia. I have training as an economist, and as an economist you have it all drilled into you that it is to do with supply and demand. Population—the ABS has just put out numbers—has increased 1.5 per cent Australia-wide over the last year, and that is one of the biggest increases. One of the contributors, I would suggest, would be that increasing demand for housing but, as I say, we have not gone into that much in our research. There are things that I

have read—I read through newspapers and things like that—which tend to suggest that it is supply and demand and that demand is increasing and supply is not increasing as much, but that is not something that we have touched on with our research.

**Senator BARTLETT**—You are suggesting, I think, in some of your assessments with your life cycle—in chapter 8 of your most recent publication—that, as people’s mortgages are hanging around their neck longer and longer and more and more will be hitting retirement age without having removed them from their neck, that is a serious problem coming down the line at us—perhaps not yet but certainly if we do not fix this soon. That would be fair enough.

**Mr Tanton**—I think one of the big things that came out of the report was that, compared to 1995-96, you have a lot more people now in every age group who are still paying off their loan rather than having paid off their loan. That is something that, we found, was a fairly significant change from 1995-96 to 2005-06. That is in figure 10 on page 26 of the report. Essentially, if you look at comparing owners and buyers, in 1995-96, 42 per cent across all ages were owners; in 2005-06, 34.3 per cent were owners. The proportion of renters has not changed all that much. The big increase is in the proportion of people who are still buying. That is happening in every age group. It is happening particularly in the 45 to 59 age group; where 10 years ago 54 per cent of them had paid off their house, in 2005-06 it is only 35.8 per cent who have now paid off their house. So that has decreased significantly over the last 10 years.

**Senator COLBECK**—Have you had a look at any of the factors that might be contributing to those particular numbers?

**Mr Tanton**—No, we did not go into that all that much. Essentially the AMP report is designed to highlight the numbers and highlight the trends, but we tend to do further analysis at a later time in other NATSEM reports. We have a whole lot of papers coming out later this year delving into this housing stress a bit more. They will be coming out at different housing conferences and things like that. But we have not really delved into the underlying causes and reasons for this increase in housing stress all that much.

**Senator COLBECK**—I asked the same question to Treasury this morning, hoping to see what their view was. It may be that they do do some work, but obviously understanding of those trends is going to be important in actually getting a sense of what the requirements are going to be a bit further out. Treasury said this morning, like you, that the numbers indicate that there has been an increase in the number of over-60s that are still purchasing. It went from 4.2 to 9.5 per cent. But at 70 there was still a similar number, so there seem to be a lot more people coming to completion in their 70s rather than a little earlier. Does your work follow the same outcome?

**Mr Tanton**—When we were looking at this, we only went up to the 60-year-olds. We did not go further, up to the 70-year-olds. We did a lot of press coverage after this on radio and TV, and one of the things that came out on the radio—they were not talkback sessions but interviews with the announcers—was that, once you get to the age of 65 and you hit retirement, if you still have a mortgage then you can use a lot of the superannuation that you get to pay off your mortgage. That does mean that you have a lot less in your superannuation egg to be able to live off into the future. So, if you are ending up with a mortgage at 65 and you can then retire, take your superannuation and pay off your mortgage, you might not have a mortgage at age 70 but your superannuation, the nest egg that you are living on, is a lot smaller than it would have been.

**Senator COLBECK**—So while the completions might be relatively consistent, the impact on retirement incomes also might be marked?

**Mr Tanton**—Yes.

**Senator COLBECK**—Do you know if there has been any work done on that factor?

**Mr Tanton**—No. It is hard to get any sort of information on that, because you are essentially looking at what they call a longitudinal study—going over time rather than the data we used here, which is at one point in time. To look at what happens when people retire and what happens to their superannuation when they retire, you would need some sort of longitudinal data set to track what is happening with their incomes over time.

**Senator COLBECK**—Do you know if the lending institutions have any time benchmarks with respect to getting to a retirement age that they base their lending around?

**Mr Tanton**—I have not seen anything. It tends to be fairly difficult to get any sort of data out of lending institutions. They hold that fairly tightly to their chests. But there does not seem to be all that much of that sort of administrative data around to analyse. Data on the age when somebody fully paid off their loan or something like that—none of that seems to be around at all.

**Senator COLBECK**—So you would not be aware if someone was taking out a significant mortgage at, say, 45 to 50 and the bank might say, ‘We’re suggesting that you’ll be retiring at 65, so we’ll limit the time frame of your loan to 65 and therefore expect that it’ll be paid off at that point in time.’

**Mr Tanton**—I do not know anything about the banks’ practices in terms of that.

**CHAIR**—Mr Tanton, I know you said that, given our terms of reference, you were going to concentrate on issues of homeownership, but one of the chapters of your report is ‘Which renters can afford to purchase a house?’ Perhaps you could take us through some of the issues which were raised in that part of the research and identify those sorts of challenges for us.

**Mr Tanton**—What we were looking at there was what sort of affordability renters are facing if they are looking at buying a house. So, when we were looking at the data, we only pulled out renters, and we then calculated housing affordability—the median house price divided by median income to work it out. One of the things you do tend to find with renters is that they tend to have a lower income. So the average income of renters was much lower than for purchasers—not so much for owners, because a lot of the owners are actually on fairly low incomes because they are retirees, but certainly for purchasers the renters have much lower income. So you do find much higher rates of housing affordability. They find it a lot harder to get into the housing market. Figure 6 on page 21 shows some of the numbers we got out of that. The renters who were also poor—the zero to 0.5 median income—were facing housing affordability of 26 in 2005-06, so 26 times their average income would be required to purchase an average-priced house. That has increased from about 16 times in 1995-96, which is still very high. So those people with low incomes do find it very difficult to get into the housing market, and that is what you would expect.

Looking at labour force status, those not in the labour force and unemployed, again because of the much lower income they are facing, have a lot more trouble getting into the housing market. Sole parents and lone persons—again, because of those incomes—have more difficulty getting into it. So a lot of it is driven by the incomes of these groups. They are the main results we found from that study. Figure 7 looks at it by age, and the finding is that, as you get older, housing affordability, particularly when you are 60-plus, again, is driven by the income of that age group.

**CHAIR**—This morning the Treasury representatives raised with us some interesting issues around age and the number of older people who are now not going into retirement owning outright their homes and the increase in that area. Is that something that has come across in your research?

**Mr Tanton**—That is what we were talking about earlier—the fact that you have a lot more older people now who do not own their homes. This is figure 10 on page 26. It has gone down for the 60-plus age group, from about 79.6 per cent to 74.5 per cent. What we are suggesting is that a lot more people of that age group are now going into retirement with a housing loan.

**CHAIR**—There is an issue that struck me as I was going through parts of your report. There is an observation, which I think refers to table 8, that, notwithstanding increases in the numbers of dependent children in a household, there is actually not a concomitant increase in levels of housing stress.

**Mr Tanton**—No—as you get more and more people in the household. This is a lot to do with income. If you have more children in a family, the family income tends to be higher. Where you have four or five children, some of those might be working part time. When you take the household income into account, that income contributes, too. What we were finding was that there was not much of an effect due to having more children in the household.

**CHAIR**—You also did some analysis around profession and education and what that revealed in relation to ownership. There has been a lot of anecdotal discussion around that. What does your research indicate?

**Mr Tanton**—Essentially, what we have shown is that education does not have much of an effect on housing stress. People with certificates had lower housing stress than people with diplomas or bachelor's degrees or above. All of us being university researchers at the University of Canberra were saying, 'We shouldn't have done that PhD or whatever.' Essentially, education has very little effect.

**CHAIR**—Maybe it is about being more practical and living inside your means.

**Mr Tanton**—That is right. It could be. With occupation, it is the same. Table 10 shows that the blue-collar workers and the white-collar workers had very similar amounts of housing stress. The grey-collar workers had slightly higher housing stress.

**CHAIR**—Thank you for helping me with that.

**Senator FIFIELD**—Your report does a good job at identifying the trends in affordability and housing stress. Thank you for enclosing in your pack the government's *Making housing*

*affordable again* document, which proposes some solutions. Would you mind running through the four main elements of the government's proposed solution and giving us your thoughts on how effective that they will be.

**Mr Tanton**—It is hard to say, given the research that we have done, what sort of solution is going to work. The whole housing affordability and housing stress problem is a lot more complicated than just having one solution that is going to solve everything. Having said that, it is a problem that has come up and doing something about it is better than doing nothing done at all.

**Senator FIFIELD**—Is it always the case that doing something is necessarily better than doing nothing?

**Mr Tanton**—It is not always the case. But where the government can try to do something then it is good to be doing something. You do not want to be doing something just for the sake of looking like you are doing something.

**Senator FIFIELD**—Indeed.

**Mr Tanton**—That the government is recognising the problem and trying to form some policies which will try to solve the problem is a step forward. But in terms of the actual policies, we have not really looked at them with the housing stress and affording affordability studies that we have been doing. It is not something that I would want to comment on. What we find with a lot of our reports is that they go to the government and the policymakers, who then use those reports to ask, 'What about this idea?' We do not tend to get into policymaking or advising on policy. We carry out independent research that will inform policy rather than get into policymaking.

**Senator FIFIELD**—So the inclusion of the *Making housing affordable again* document in your pack was as a demonstration of where NATSEM research had been cited rather than because NATSEM have actually looked at any of the proposed responses.

**Mr Tanton**—Yes. Essentially, it is where the numbers that we issued to the department of family and community services were used. So there is a yellow box on page 4 where they used the NATSEM numbers. And they were then using those to influence their policy making.

**Senator FIFIELD**—Okay. Thanks, Chair.

**CHAIR**—Any further questions? No. Mr Tanton, thank you very much. We found the release of the AMP-NATSEM report, in terms of the timing for our inquiry, very interesting and very helpful, so thank you for providing us with copies of that as well. Is NATSEM making a separate submission to the inquiry?

**Mr Tanton**—We were not planning to, because the report came out just as this inquiry came forward.

**CHAIR**—All right. I just wanted to clarify that. Thank you very much for appearing this afternoon. We appreciate your time.

**Mr Tanton**—Thank you. Thank you for your time.

**Proceedings suspended from 3.16 pm to 3.34 pm**



**SILBERBERG, Dr Ronald, Managing Director, Housing Industry Association****CHAMBERLAIN, Mr Scott, Executive Director, Workplace and Small Business Policy, Housing Industry Association**

**CHAIR**—Welcome. Thank you very much for your submission, which the committee has received and which we are very grateful for. I invite you to make an opening statement and we will go to questions after that.

**Dr Silberberg**—We welcome the Senate Select Committee on Housing Affordability in Australia. It was an issue that has certainly been on our radar for some considerable time. It is reassuring that at long last there is a real focus on housing affordability. There has been a lot of commentary about the drivers of higher house prices. It is to be hoped that the new National Housing Supply Council will be in the vanguard of supporting some rigorous research work on the determinants of house prices. Unfortunately the level of rigor in this area is quite skinny and, if we are to address adequately appropriate responses to housing markets, we need to have a better understanding of why housing prices increased so much from the late 1990s. I think the contribution of our economic agencies has not been as robust as it needs to be, and I can illustrate that. In its submission to the Productivity Commission inquiry on first home ownership in November 2003, the Reserve Bank of Australia indicated that it could not establish any evidence that supply side issues were a factor in influencing housing prices. In an address to the Melbourne Institute on 27 March 2008, Dr Anthony Richards, head of the economic analysis department of the Reserve Bank, said:

The run-up in prices is likely to mostly reflect an increase in the price of land.

It would have been helpful had the Reserve Bank made those statements to the Productivity Commission when the commission was doing its report, *First home ownership*, which was released in December 2004.

You might be aware that in mid-2004 we co-hosted a national affordable housing summit with the Australian Council of Social Service, the ACTU, the National Shelter and the Community Housing Federation. We made a prediction at that time—in fact, a little before that—that Australia would experience increases in the cost of private renting in an unprecedented way. You might note that, at that time, a number of economic luminaries, including in the agencies and in the financial sector, were predicting that Australia would have a glut of rental investment property and that real estate prices would drop by 30 per cent to 40 per cent. Do you remember that? They got it wrong. So, if the so-called experts in our agencies cannot explain adequately what has transpired, what possibility do we have of their identifying appropriate solutions?

**Senator IAN MACDONALD**—That, of course, is why we want you here.

**Dr Silberberg**—Hopefully, I will admit to our inadequacies. I am happy to receive questions.

**CHAIR**—Mr Chamberlain, did you wish to add anything?

**Mr Chamberlain**—No.

**CHAIR**—Dr Silberberg, you have been Managing Director of the HIA for a long time.

**Dr Silberberg**—I was appointed managing director in 1997.

**CHAIR**—You were involved before that as well?

**Dr Silberberg**—Yes, as deputy, but HIA reorganised substantially from a state base to being a nationally operating company.

**CHAIR**—That is a long time to be observing the changes in the market, changes in the political environment and changes in a whole range of factors that are contributing to the issues we are discussing here today.

**Dr Silberberg**—I hope so, but I have done other things besides watch housing markets. HIA is a \$100 million operation today and has 400 staff, so that takes a lot of my time.

**CHAIR**—Sure. In the early part of HIA's submission you describe:

The most notable 'intervention' in housing markets over the past decade has been the substantial increase in the reliance of state and local governments on residential property for taxation revenue.

You go on to say:

This is a major determinant of the current housing affordability crisis.

For the committee's benefit, how have you seen that change in recent years? Have you as an organisation taken up with state and local government or, for example, the peak representatives of local government that this is a problem and a real issue in the context of housing affordability?

**Dr Silberberg**—Yes, we have, but we have had to step back and try to understand why state and local governments have resorted to property taxation. You will see in our submission that we discuss the relationship between the Commonwealth and the states and local government with respect to the distribution of financial resources. The Commonwealth raises about, I think, 60 per cent of total taxation revenue and has about 40 per cent of the expenditure obligations. It might be a bit higher than that.

**Mr Chamberlain**—It is 80 per cent.

**Dr Silberberg**—Yes, 80 per cent. Consequently, the states raise about 20 per cent of total taxation revenue and have to meet about 40 per cent of expenditure obligations. The precise figures are in the submission, but there is quite an inequality in the sources of revenue and expenditure obligations. I think it is fair to say that HIA has for a number of years focused on the symptoms and not the underlying factors that were producing pressures particularly on state and local governments to meet mounting demands from their communities for community services and economic services. The development industry has been called upon as part of development

consents to meet a higher share of community and social infrastructure costs through development charges. You saw from the estimates that we provided in our submission that in Sydney it got to a ridiculous level of indirect taxation as a share of new housing costs. We have the invidious situation now where the market is either not able or not prepared to pay the price that the industry has to put new housing onto the market for. It is a real issue.

In our view, a durable response to the housing affordability challenge will rely in no small part on an equilibration of Commonwealth and state taxation revenue and expenditure obligations. It is no secret that one of the fastest growing areas of state budgets has been health expenditure. We do not necessarily subscribe to the view that states are paragons of fiscal virtue, but—

**CHAIR**—I am from New South Wales. It is not going to happen.

**Dr Silberberg**—No, but you had some fairly substantial windfalls in Commonwealth revenue, particularly from company taxation receipts, which were budgeted at \$30 billion and reached \$60 billion. It sounds like Monopoly money, doesn't it? There is a good argument for governments that incur expenditure to have responsibility for the raising of taxation revenue, which would increase transparency and accountability to taxpayers for the proper allocation of their funds. We see that there is a fiscal wedge between Commonwealth state receipts and expenditure obligations. Community expectations have risen very rapidly around what they require from governments, and the traditional providers of a lot of services are state and local government.

**CHAIR**—You mean services like infrastructure in new development areas and things like that?

**Dr Silberberg**—That is right. It would be convenient to say that it is all the states' fault, but we see that there are more durable issues, around financial relationships, that need resolution by the Commonwealth.

**CHAIR**—You say on page 6 of your submission—referring broadly to the question of land release, I think—that you want this committee, for example, to identify the cause of the problem in the area rather than merely focusing on the symptoms. Is that what you are talking about there—

**Dr Silberberg**—Yes, exactly.

**CHAIR**—or are you talking more specifically about development costs?

**Dr Silberberg**—We can talk about development costs as the ogre in housing affordability. There are clamourings for reductions in stamp duty. In a supply-constrained market, we would not necessarily recommend that as a desirable course of action because it will not boost supply but it will certainly change the demand for housing. If we were to jump onto that bandwagon and say that states have had all these windfalls on stamp duty, so stamp duty should be cut, we know what would happen: they would find other revenue sources. For us that is more than likely going to be new housing development charges.

**CHAIR**—So it is a catch 22 if you go down that road.

**Dr Silberberg**—That is exactly right. So our exhortation to the Senate select committee is to try and get below what we see as the symptoms of the housing affordability problem to try and see if we cannot identify some of the underlying forces that have impacted on housing affordability. There has been a lot of discussion about land supply. Again, we did beat the drum on this issue, but I have to say we do not see states as wilfully withholding the zoning of residential land. The issue about who is going to pay for the provision of infrastructure services is the question that we need to answer. To date, and increasingly, the purchasers of new housing assets have borne that load. That does represent a substantial change from what applied 10 or 20 years ago.

**Senator IAN MACDONALD**—You are saying that state governments cannot take more of the burden because they have to get their money from somewhere and you are saying that it should not be the development costs. Can I assume from that that you are suggesting that the federal government should be dealing with infrastructure costs? Am I reading you correctly?

**Dr Silberberg**—Yes, you are. That is right. We need to be aware that there are levers that the Commonwealth can change that can have substantial ramifications for the demand for housing services and infrastructure services. One of the more important variables is immigration, and there has been an uncontrolled expansion of the immigration program in recent years.

**Senator IAN MACDONALD**—That is good for your members, isn't it?

**Dr Silberberg**—Not to have inflationary pressures blow affordability out of the water. We estimate that the net permanent and long-term migration flow is now running at about 250,000 a year. I ask the question: do we need an explanation as to why there is pressure on private rental housing?

**Senator IAN MACDONALD**—Are you putting it all down to immigration?

**Dr Silberberg**—It is a very significant influence on the demand for housing and accommodation, yes.

**Senator IAN MACDONALD**—Madam Chairman, I am interrupting your line of questioning but I just cannot—

**Dr Silberberg**—We need to bear in mind that if we are going to change that lever very significantly, it does have flow-through consequences for the demand for housing and infrastructure. The pace at which it has increased has been massive over the past three years.

**Senator IAN MACDONALD**—I just want to rewind one, where you confirmed to me that the Commonwealth government should be putting more into the cost of housing, which led me to a question that I could not help but ask, recalling the GST debate. Do you think the Commonwealth should perhaps look at increasing the GST to get sufficient funds to pay for the infrastructure that you are saying developers, house owners and state governments cannot now afford?

**Dr Silberberg**—No, I do not. I think there is a much better way of addressing the issue than increasing the rate of GST.

**Senator IAN MACDONALD**—You could have got us a headline.

**Dr Silberberg**—There has been some suggestion, I see, that the rate of GST might vary as an anti-inflationary device. Well, for new housing, it is very inflationary, and when we shifted from a wholesale sales tax to the GST, the incidence of indirect tax on new housing went from less than one per cent to 10 per cent. So it had a substantial impact on new house prices.

**Senator IAN MACDONALD**—I remember your arguments of the day.

**Dr Silberberg**—I was right about that, Senator, and said that it would induce a massive bringing forward of real activity as people tried to beat the GST.

**Senator IAN MACDONALD**—Well, it did that.

**Dr Silberberg**—And Treasury attached responsibility for that change in demand profile to HIA's publicity. I did not know we were that influential.

**CHAIR**—You are a very powerful man, Dr Silberberg.

**Senator FIFIELD**—I was just going to ask if that was the pre-1996 or pre-1993 line of argument.

**Senator IAN MACDONALD**—Both, I think.

**Dr Silberberg**—The GST now takes about \$55,000 out of a house and land package in Sydney.

**CHAIR**—I want to ask you finally, before I go to my colleagues in a formal sense, about some of the numbers that we have been discussing today with other agencies. Representatives of the Department of Families, Housing, Community Services and Indigenous Affairs said this morning that they broadly agree with the estimate that the demand in Australia is for 180,000 new dwellings a year and that, broadly speaking, we are building about 150,000 a year, so there is a gap of 30,000 there. Once one works backwards—go back to the RBA, which goes back, we think, broadly speaking to a nebulous industry statistic. Is that a figure which the HIA would agree with?

**Dr Silberberg**—Roughly. That is a notional demand. It is not an effective demand. It is underpinned by estimates of demographic changes, income changes, but it is by no means an effective demand.

**CHAIR**—What would you characterise effective demand at?

**Dr Silberberg**—I would characterise it as what the market is purchasing. There is a gap in the order of 30,000 dwelling units between the new housing supply and notional demand. The notional demand is built up on the basis of demographic estimates. It is a useful reference point.

**CHAIR**—If one were to say to you, as a representative of the Housing Industry Association: ‘We’re going to fill that gap. We’re going to build the 180,000. That’s what we have to do every year,’ does your industry have the capacity to do that in terms of skills?

**Dr Silberberg**—No, it does not. There are issues around the supply of skilled tradespeople. Of the 250,000 net permanent and long-term migration flow, about 800 people are residential construction tradespeople.

**CHAIR**—Only 800 of 250,000?

**Dr Silberberg**—That is right. The MODL of the Department of Employment and Workplace Relations is the basis upon which the Commonwealth makes estimates of occupations in demand—and it is just a black box. It is influenced significantly by job vacancies—that is, advertisements. Demand for skilled people and professionals is so tight it is not even worth advertising. We could read a lack of advertising as, ‘There’s no demand,’ but there is actually excess demand. Employers are not stupid: you do not keep spending money advertising if it is getting no responses. So the department’s work needs to be far more transparent and contestable. The federal government has made some significant announcements in respect of housing supply initiatives; we are going to have to have more skilled labour available if we are going to translate those policy announcements into bricks and mortar.

**CHAIR**—To have more skilled labourer available, you are talking about training and bringing people into the training process that currently exists in Australia. As for the incoming individuals in the migration scheme, one imagines that you wish to increase that slightly from 800 as a proportion of the 250,000.

**Dr Silberberg**—That is right.

**CHAIR**—What work do you do—with, for example, the Department of Immigration and Citizenship, let alone the department of employment—to influence that number?

**Dr Silberberg**—We have met with them several times.

**CHAIR**—How is that going?

**Dr Silberberg**—We have met with them several times.

**CHAIR**—Going that well, is it?

**Dr Silberberg**—It is really going that well.

**Senator JOYCE**—Is it going well or not going well?

**Dr Silberberg**—It is not going well. I do not think the department of immigration has a proper understanding of the labour market forecasting, because that is done by another agency. Secondly, I do not consider there is an adequate appreciation of the economic impacts of changes in the immigration program.

**Senator BARTLETT**—Do you mean changes in composition or size?

**Dr Silberberg**—Everything. In residential construction, the predominant way in which homes are built is through contracting out. The 457 visa program requires employers to give, I think, at least a 12-month employment guarantee. A small business that engages or hires—as distinct from employs directly—cannot avail themselves of the 457 visa program, and it is expected that we will change the structure of our industry to accommodate the institutional arrangements in the department of immigration.

**CHAIR**—Thank you for clarifying that. I have one further question on the housing supply initiatives aspect. I think it is the National Rental Affordability Scheme which envisages the creation of 50,000 new dwellings in five years based on a subsidy arrangement from both the Commonwealth and the state governments to developers and investors. Has the HIA made comment on that scheme? What is your view?

**Dr Silberberg**—We were a cosignatory to the proposal for a very similar program back in July 2004 called NARI, the National Affordable Rental Incentive.

**CHAIR**—That was the one that came out of the summit with ACOSS, Shelter and the ACTU.

**Dr Silberberg**—That is right. Since the government made the announcement of the National Rental Affordability Scheme, there have been substantial changes in the cost of capital and if you look at rental yields at around 3½ per cent you are going to need to do more than provide \$8,000 to get rental yields up to a threshold that will induce institutional investment. So, to the extent that you want to hold on to a reduction in market rents of 20 per cent, I do not know that the equation works with an \$8,000 per dwelling rental subsidy. I think in some higher cost cities there is a challenge to make the numbers work adequately. It might be okay for Hobart.

**CHAIR**—But a challenge in Sydney.

**Dr Silberberg**—Definitely.

**CHAIR**—Even in the theoretical application of the plan for the scheme, is 50,000 dwellings over five years realistic? That is based on the scheme as it is outlined. There are still technical and working papers to come.

**Dr Silberberg**—I think they need to get out into the marketplace if the programs are going to start on 1 July. The people who are going to make the programs work do not reside in the Commonwealth bureaucracy. They are not the risk takers. The criteria need to be percolating within industry and the investment sector so that people can establish whether the criteria will be sufficient to induce the requisite level of investment and there is, as I have indicated already, a challenge on the supply side, particularly around skills.

**Senator JOYCE**—You talked about the relationship between immigration and housing. Do you think that is immigration everywhere or only in certain areas? For instance, in Charleville at the moment they have closed down the abattoir because they cannot get 457 visas into the town, so they have had to put off 105 workers. So there are certain areas where there are no pressures from immigration in Australia where people would quite happily take a range of immigrants if

they could get them into the country. In fact, it sustains employment and the economy needs it. Whereas in other places in Australia maybe your suggestions are appropriate, because there is a propensity for everybody who arrives in Australia to want to live somewhere between Wollongong, Newcastle and the Blue Mountains.

**Dr Silberberg**—You make some valid points, Senator. You have state governments sponsoring immigrants and that provides a more favourable points allocation for people who would avail themselves of that arrangement, but the reality is that most migrants gravitate to Sydney and Melbourne. The previous government adjusted the point system to provide incentive for people to locate in regional Australia.

**Senator JOYCE**—We still at this point in time need more immigrants in some areas of regional Australia. If a place like Charleville had had more immigrants they would have had more meatworkers and the abattoir would not have closed down.

**Mr Chamberlain**—Our point is that, even if there are those immigrants, our industry share of those immigrants is not sufficient to build the homes that those people would then live in. Everybody is crying out for more immigrants. The NFF recently said that they need 100,000 more workers in rural Australia. The mining industry in WA says that it needs 400,000 more people. They are large numbers. But unless our industry share of that immigration pie increases, that will not help us. It is not going to come from training. In terms of our industry, no matter what reforms we make to training, we have about a 50 per cent dropout rate of apprentices by year 2. With a four-year delay and a 50 per cent dropout rate, training reform will not help. And training reform is notoriously difficult to achieve, particularly in our industry, where there are interests on three sides of the fence, not just two. Immigration is the one area from which you are going to see a significant boost in the skilled labour force in our industry that would allow the houses to be built that everyone else's workforce is going to live in.

**Senator JOYCE**—What you are saying is that we need more trained carpenters on 457 visas.

**Dr Silberberg**—That will only work for commercial construction companies; it will not work for residential building companies. About 85 per cent of the people engaged in residential building are contracted, not employed. The 457 visa program is for employers and employees, so it bypasses substantial elements of the economy that rely on contracting arrangements. An individual business would see migration as a solution to their problems, but migration adds more to aggregate demand than it adds to aggregate supply. I do not think that there has been an appropriate recognition of that. From our perspective, to have untargeted increases in skilled migration is just going to keep more pressure on interest rates.

**Senator JOYCE**—Surely we can be more dynamic and come up with a better process to allow skilled migrants to go directly to the domestic house contractor.

**Dr Silberberg**—We have developed some proposals that are intended to achieve that. But there is a view that the residential building industry has this four-year cycle, so it might be at a high point of demand at this moment but that will be replaced by a downside. But for the past five years we have been running at a level of around 150,000 to 160,000 new home starts. The next phase will be up, and we are not equipped to handle it. We have a lot of bricks sitting idle,



but we have not got a lot of tradespeople sitting idle. There has been quite a siphoning of tradespeople into the resource sector.

**Senator COLBECK**—Are there any material constraints in the industry at the moment?

**Dr Silberberg**—Not when they are shutting brick kilns. The manufacturing sector of the building industry is afflicted with chronic excess capacity.

**Senator IAN MACDONALD**—Because you have not got enough bricklayers and carpenters?

**Dr Silberberg**—The level of output demand has not been sufficient to justify keeping kilns open. You would have seen Australia's largest brick manufactures close two kilns in New South Wales recently. They were hoping that there would be a turnaround, but it did not emerge.

**Senator IAN MACDONALD**—You say the ingredients for a house are there, the need for the housing is there, but the people to build them are not there—is that what you are saying?

**Dr Silberberg**—The constraint is not around the availability of building products, and there is a much higher level of import penetration in building products today as well—around glass, aluminium extrusion. There are more alternatives available. Vitreous china, sanitary ware, plumbing fittings and fixtures have got much higher import content. We do not manufacture much in the way of domestic appliances today. Most of our members have investments offshore.

**Mr Chamberlain**—We estimate we need another 20,000 skilled tradespeople in our industry to meet the 180,000 per year. I am not sure where they are going to come from. Another demographic issue in our industry is that a large number of the tradespeople are in their 40s and 50s. It is an industry that is hard on the body.

**Senator IAN MACDONALD**—On the question of housing affordability, you are saying it is not the affordability; it is just the inability to get people to build houses.

**Mr Chamberlain**—There isn't the supply of land, so land supply is constrained for a whole bunch of reasons. Part of that is simply delays in the planning processes et cetera. You have to be careful. It is not just land; you are talking about affordable communities. So you cannot just sell a block of land; it has to be tied into a community to be attractive. With the infrastructure charges that then get added to the new home purchaser to buy, increasingly, our developer members cannot target new home or first home buyers with their land. They have to target trade-up buyers, which is why you get big mansions on the edges of cities. So they are bigger block sizes; it is a different sort of housing stock. First home buyers are therefore driven into inner city areas to buy the worst of the existing housing stock, where again they will face local council and other restrictions about changing that local housing stock from the quarter-acre block that it was previously. On the flip side we have a shortage of trades. Ten out of our 14 trades according to our trades report are in critical undersupply, and that is across the nation. So you add that up and you end up with not having the housing stock that we need. We do not have the trades to build the housing stock that we need. Immigration into the country is fuelling demand at a much faster rate than immigration is helping our industry build that extra demand.

**Dr Silberberg**—That is absolutely right.

**Senator IAN MACDONALD**—I will begin interrupting other senators but, again, I come back to one of the problems: the cost of the development of land. The suggestion we agreed upon before was that the Commonwealth government should be putting more into infrastructure. I did not see that too clearly enunciated in your paper. Could you just elaborate on that for me; in what way could the federal government do that, do you think?

**Dr Silberberg**—We see the Housing Affordability Fund as a bridge to broader reform of Commonwealth-state relations. The federal government intends to provide an incentive for local and state governments to cut into planning approval times, for example, and there would be an incentive payment for that dividend.

**Senator IAN MACDONALD**—Out of the Commonwealth's housing fund?

**Dr Silberberg**—Exactly. That might be a bridge to a broader reform of financial relationships. The Housing Affordability Fund will rely on state and local governments and industry coming forward with proposals. We think it should be able to demonstrate if there is an interest in making progress on development approval times.

**Senator IAN MACDONALD**—Could you give us a sneak preview on what your submission would be on that basis?

**Dr Silberberg**—The Commonwealth would make payments equivalent to, I think, about \$10,000 a lot in return for some demonstrable cost savings emanating from industry, state and/or local government.

**Mr Chamberlain**—That suggestion is a demonstration project to say that with a little bit of carrot you could generate efficiencies in the planning process and therefore bring forward supply from the delay. Some projects take four years to get through even though the land is zoned residential. That is one proposal. The other part of our proposal, on page 8 of our submission, is the reform of federal and state government relations to look at some sort of redistribution of income tax revenue. GST is one level of focus but income tax revenue tends to be more tightly correlated to the actual aggregate demand for infrastructure in a particular state. Where people live is where they generate their income. It is also where you will have the demand for hospitals, schools and that social infrastructure. We think the solution lies on some sort of—not automatic necessarily—greater share of income tax revenue. Part of the basis for that is the challenge for states having got—

**Senator IAN MACDONALD**—Are you talking about giving more of the Commonwealth grants money back to where the revenue is raised?

**Mr Chamberlain**—That is right.

**Dr Silberberg**—I think we are talking about the prospect of the states obtaining a direct share of personal income tax receipts.

**Senator IAN MACDONALD**—That is a complete reversal of the old vertical fiscal imbalance principles, isn't it?

**Dr Silberberg**—It would seek to address that problem.

**Senator IAN MACDONALD**—It is only a problem if you come from Victoria or New South Wales. For those of us who do not come from Victoria or New South Wales, we like it the way it is, thanks.

*Senator Colbeck interjecting—*

**Senator IAN MACDONALD**—Queensland might be moving into the other category; that is right.

*Senator Joyce interjecting—*

**Senator IAN MACDONALD**—Thanks, Barnaby. I am relaxed now.

**Mr Chamberlain**—The problem in this area is: having got to the point where the states rely so heavily on the property sector for their taxes, if they were to rely less heavily on the property sector, then the issue is where else do they get their tax from? It is either from savings or it is from other revenue sources. Potentially there are savings at the state level in terms of how they run their governments but it is not going to be enough. Western Australia is now almost 50 per cent reliant on the property industry for its revenue. When the states come to address their taxes they will be told that there are efficient and inefficient ways of raising their revenue. They are told that out of what is left to the states, the two most efficient ways of raising the revenue are property tax and payroll tax. Payroll tax is another form of income tax. We have already raised the income tax, so how about we look at redistributing what we have already raised before we invite the states to have their own form of income tax in lieu of property taxes?

**Senator COLBECK**—I want to refer to some points in your submission. On page 4 you have a table that gives a house prices index. Are they median prices in those particular markets? What is the basis for them?

**Mr Chamberlain**—They are median house prices.

**Senator COLBECK**—They are median house prices in those particular markets?

**Mr Chamberlain**—Yes.

**Senator COLBECK**—In your experience would say that there are natural price points within the housing market that provide resistance to development?

**Dr Silberberg**—Yes, I would.

**Senator COLBECK**—Varying in different markets?

**Dr Silberberg**—Yes. In Sydney a block of land might face an effective demand at around \$280,000. If it costs us \$350,000 to put onto the market, surprise, surprise, we do not get many sales. So you have to address the cost base, in our view. The price point is not fixed. There is a substantial gap between the cost of what we can put a product onto the market for and what the market is prepared to bear.

**Senator COLBECK**—I understand that and I understand that it would vary in different markets, but I just wanted to get your sense of—

**Dr Silberberg**—It is just not profitable to develop land at a sufficient rate in Sydney to alleviate prices. It is scarce capital that is involved.

**Senator COLBECK**—With the different price points and the different markets, there would consequently be development inhibitors in all of those other markets which would play into this overall problem that we are looking at.

**Dr Silberberg**—That is right.

**Senator COLBECK**—How would you see the difference between the entry-level specification for a house now versus 15 years ago? I am not necessarily talking about a McMansion or anything; I am talking about entry level and just getting a sense of what the market expectations might be.

**Dr Silberberg**—It is much more energy efficient, in some locations, and it is much more water efficient—and that is fine but it does change the capital cost of the product.

**Senator COLBECK**—I was going to ask you about that particular element.

**Dr Silberberg**—The extent to which you recoup that over the life of the asset becomes important. People's expectations will have changed. They will have increased over time. I am not sure that the answer to housing affordability is to forgo gold taps on a first home.

**Senator COLBECK**—I am not saying that it is, but what we are looking at is an entire picture of the issue, and there are elements of that to talk about. You have talked about GST, up-front costs on blocks of land and a range of other things, including labour supply. This is one element. Fifteen or 20 years ago a three-bedroom cottage without perhaps even a garage might have been an acceptable entry-level property. Now the expectations are somewhat higher.

**Dr Silberberg**—They are.

**Senator COLBECK**—And that also is an element in the cost and the affordability.

**Dr Silberberg**—Yes, and there will be builder-developers that will have to sell into a marketplace that are going to be a little careful about the product that they are seeking to move. In a number of developments you do have covenants which are intended to influence the type of housing development that occurs. You have local council planning requirements which influence design, types of building products that can be utilised, house sizes—so it is not just a situation of generation Y wanting everything today.

**Senator COLBECK**—So what you are saying is that there is an element of that but there is also an element of community expectation, change in environmental expectations—

**Dr Silberberg**—That is right.

**Senator COLBECK**—energy efficiency and water efficiency, all of those sorts of things—

**Dr Silberberg**—And it is hard to argue against that.

**Senator COLBECK**—I am not necessarily arguing against it; I am just saying—

**Dr Silberberg**—Nor am I, though I get accused of it.

**Senator COLBECK**—The point is that these are elements in this whole process.

**Dr Silberberg**—They are part of the picture but they pale into insignificance when you look at what has happened to the underlying cost of an allotment.

**Senator COLBECK**—In respect of the overall cost of construction, which seems to have moved pretty much in line with CPI despite the fact there has been a significant increase in labour costs—perhaps offset to a certain extent by a reduction in material costs potentially due to increased levels of importation, for example—there is obviously plenty of competition in that market. I think the construction industry has done a pretty good job to maintain its cost growth somewhere in line with the CPI, but I was really just exploring some of the things that have been built into the overall process, including the transformation over time of the BCA, for example. All of those things get built into that overall cost—

**Dr Silberberg**—They do.

**Senator COLBECK**—as part of the process.

**Dr Silberberg**—That is right.

**Senator COLBECK**—You talked about a demand premium, on page 8 of your submission.

**Dr Silberberg**—Can you direct me to that, please, Senator?

**Senator COLBECK**—There is a paragraph just above the graph called ‘Underlying demand for housing’, which goes through the housing stats and underlying demand. It says:

Production of new residential dwellings is approximately 153,000 per annum. ... underlying demand for housing is such that an additional 25,000 dwellings over current production is required.

So that is slightly different to the 30,000 figure that has been bouncing around here today.

**Dr Silberberg**—Yes.

**Senator COLBECK**—The graph shows demand fluctuating over the years but with a pent-up shortfall by 2009-10 of about 75,000.

**Dr Silberberg**—Yes. We might be a little on the light side in respect of the estimate of the underlying requirement for new dwellings.

**Senator COLBECK**—And those things will also have an impact; that pent-up shortfall is a cost driver, obviously.

**Dr Silberberg**—Yes. It expresses itself in rental vacancy rates and movements in private rents. I am surprised we have not been asked about taxation.

*Senator Joyce interjecting—*

**Dr Silberberg**—I notice that quite a few commentators are drawing attention to negative gearing, capital gains tax exemptions and the like. I just—

**Senator JOYCE**—You do not believe in negative gearing? You can be sure that if we get rid of negative gearing—

**Dr Silberberg**—There was a Prime Minister, Bob Hawke, who experimented with quarantining negative gearing on residential rental investments in 1985. It was restored in October 1987 and almost overnight we closed down construction for the private rental sector. It was a highly distorting tax change because it only applied to one class of asset, residential rental investment. If negative gearing was a major driver behind changes in housing asset prices between 2000 and 2004, there is a long lag, isn't there? Because it applied from 1987.

**Senator BARTLETT**—The year 2000 was also when the capital gains tax discounts kicked in, and the GST, which you have mentioned as well of course.

**Dr Silberberg**—Yes. In 1999 we had a fundamental change in the treatment of capital gains, and I suspect that that is part of the picture that influenced demand for rental investment properties and other assets. The stock market was pretty flat during that period; funds for investment are reasonably mobile; and overnight we changed the after-tax rate of return on assets. So you would think it did play a part.

**Senator JOYCE**—If we removed capital gains tax exemptions for primary dwellings and negative gearing on rental dwellings, surely that could not help the housing crisis. That would hurt it, because the impetus to invest in housing would be lost in a lot of instances.

**Dr Silberberg**—We are certainly not going to advocate that, Senator Joyce.

**Senator IAN MACDONALD**—Would you advocate the other way, though? Should there be reforms to capital gains tax and negative gearing to make investment in housing more attractive?

**Dr Silberberg**—I would prefer to see indexation of the tax system. I think when we had a real capital gains tax, that was the bit that we got right.

**Senator IAN MACDONALD**—For those of us that are not fully aware of this—which is me only, obviously—what do you mean by indexation? Going back to the old tax system, where—

**Dr Silberberg**—The tax thresholds would be moved in line with CPI. Expenses and receipts would be treated after CPI adjustment. The interest expenses that you could claim would be after inflation, so not nominal. You would find that that would have a very similar effect on after-tax rate of return as quarantining of negative gearing, but it treats all assets the same before the tax system, so it would not be discriminatory.

**Senator BARTLETT**—I have one or two questions on that area. As you would know, the Productivity Commission inquiry from 2004 that you referred to actually recommended reviewing those aspects of the personal income tax regime regarding capital gains tax and negative gearing. It did not recommend abolishing them or anything but just reviewing the overall impact of them. That was a recommendation the previous Treasurer chose to reject. I guess one of the questions that I think is worth while in looking at all the different factors is about pulling out all of the data that is there, trying to establish even how much the financial cost is of the capital gains tax exemption on principal place of residence. The actual cost of negative gearing and the cost of capital gains tax discounts seem to be quite difficult to even establish.

You are arguing that, if we want to get rid of some of these inefficient state based taxes, the Commonwealth level should kick in more money. I am not complaining about that line of argument, but the money has to come from somewhere. We do not actually seem to have a terribly good picture even of what the existing amount of money is that is in effect being written off through tax expenditures through existing exemptions, let alone the impact it is having on the housing market.

**Dr Silberberg**—The budget papers do not reveal negative gearing as a tax expenditure, and that is actually appropriate in our view, because it applies across the board. It is not a benefit for investment in a particular class of asset. You could argue that the exemption of the principal place of residence from capital gains tax is a tax expenditure, because you have capital gains tax on other assets. But, when the previous government effectively reduced the impact of capital gains tax on other assets, the benefit of the exemption of capital gains tax on owner-occupied dwellings fell.

**Senator BARTLETT**—That just broadens the amount that people can get from a capital gain. I do not particularly want to argue over whether we should or should not do it; all I am saying is the data is not there about the impacts of it or the overall costs.

**Dr Silberberg**—No, it is not really. Successive governments have made decisions about preferred forms of saving before the tax system, and saving in superannuation and saving in homeownership have been viewed as desirable from a retirement income perspective. If people own their home at retirement and they have a superannuation fund, they are probably in a reasonable situation, certainly compared with someone in the private rental sector.

**Senator BARTLETT**—But if housing affordability has got significantly worse, as it has, then those who are not in that situation—which is a growing minority—are much, much worse off.

**Dr Silberberg**—If we have a relatively fixed supply of housing, that statement is right—that is, changes in demand will translate more into price than they will into quantities traded. I understand that. So a lot more emphasis needs to be given to how we can improve the responsiveness of the supply side of the housing market so that when demand shifts occur we can get new housing onto the market a lot faster. Because new housing has made a decreasing contribution to changes in the housing stock, we have experienced a lot more churn in the established housing market.

**Senator BARTLETT**—Does your association have a view about whether we should look at expanding the role of public or community housing in terms of value for public expenditure compared to some of the other programs like rent assistance or the First Home Owner Grant?

**Dr Silberberg**—We would argue in favour of the Commonwealth making payments to the states for affordable housing, be it private or public. We do not think the Commonwealth is necessarily good at targeting a particular sector of housing like public housing. That is, perhaps, something that the states are better placed to undertake. In those terms, we would think that the Commonwealth should be extending CRA to essentially public housing. If the states want to put more of the Commonwealth funds into public housing then that is their decision in our view, but we think that the affordable rental incentive could be extended to public housing authorities as well as private. So we are not necessarily bound to a particular tenure. Housing need is housing need.

**CHAIR**—Thank you, Dr Silberberg and Mr Chamberlain. We appreciate both the HIA's submission—as I said earlier—and your contribution this afternoon. This is the first of our hearings, and as the inquiry progresses there may be issues upon which we wish to seek your expertise. I hope you might accept some questions on notice if that is necessary.

**Dr Silberberg**—That is fine, Chair.

**CHAIR**—Thank you.

**Dr Silberberg**—I thank the senators.



[4.38 pm]

**TROY, Professor Patrick Nicol, Private capacity**

**CHAIR**—Good afternoon, Professor. Thank you very much for joining us. I am sorry about the delay in asking you to come to the table, but we do appreciate your time and also your submission—thank you for that. Do you have anything to say about the capacity in which you appear today?

**Prof. Troy**—I am Professor Emeritus and Visiting Fellow in the Fenner School of Environment and Society, but I appear here in a private capacity because nobody can speak on behalf of the university.

**CHAIR**—As I said, we thank you very much for your submission, which was one of our early-received submissions—for which we are grateful. If you would like to make an opening statement, we will go to questions after that.

**Prof. Troy**—The submission is brief enough, and if you have read it then we could get straight to discussion. But there is one point that I want to underline. It is a point that Ron Silberberg made—and it is always a pleasure to listen to Ron—but he would not and did not make it in quite the same way as I would. From a slightly different perspective to Ron's, I want to make the point that one of the reasons we have this massive inflation in the land side of property is because of the way we have planned, or not planned, our cities. As a consequence we have introduced a scarcity value in the land we do release, which has led to a massive increase in the price of the raw land because the original models were that the land would be in rural use or in urban use, that there would be a big difference in those two valuations and that that difference would be captured on conversion in the sense of being able to produce land at low cost for housing development.

Traditionally that is what happened, so that, relatively speaking, housing prior to the Second World War was relatively easy to get into because the land component was very cheap. But that was also because there was basically no planning and there was very little investment in the way of infrastructure. That led to a problem, of course, which the Commonwealth attempted to address when it created the Commonwealth-State Housing Agreement in 1945, following the 1944 Housing Commission review. It attempted to address that issue by saying that it wanted the states to establish planning processes that would make for efficient development of the cities and eliminate the kinds of problems that the cities had been experiencing up to that point. A lot of the problems that we have got now are a direct consequence of the fact that the cities have burgeoned rapidly and that the expectations of the citizens in them have increased—and that burgeoning, by the way, has been rapidly affected by the heavy weight of the migration program. Those two factors have increased the demand, which in turn has simply meant that the people who are in the fortunate position of having the fringe land have simply held off and chased the price that they wanted, which of course was the maximum that they could get. That in turn is reflected in the underlying inflationary pressure in the land supply which has had this unfortunately increasing consequence of recent years, because the states have not only been trying to steer this in what is regarded as the most efficient and effective direction but have also

been trying to battle with the problem of infrastructure provision. The Commonwealth has consistently refused to engage with them and help them in that problem, even though the problem is essentially of the Commonwealth's making because migration policy has always been the domain of the Commonwealth.

I would say that in part, at this point, one of the inflationary pressures that come from that preoccupation with attempting to recover infrastructure costs is a consequence of a path dependency effect within the infrastructure services themselves—that is, they have not seen that there was a need to change the way they have provided the services; they have simply gone on and provided the services in the traditional way, in what we call the 'predict and provide' approach. That has meant we have not taken opportunities at various points to re-explore the way we provide services, for example water services, and that has other consequences which are not the immediate province of your inquiry but of other inquiries going on at the moment. As an example, the preoccupation with using water based waste management services has simply led to a massive increase in the costs of providing those services, partly because we have gone to more and more marginal water supplies and more expensive water supplies and partly because that leads to increasing problems about the management of the waste stream itself, which is then an expensive impost on the land where it becomes the taxing unit to recover those costs. So there are a series of inherent inflators, if you like, in that new land component of the way our cities have grown. I should stop there, otherwise you will get a different lecture!

**CHAIR**—Thanks very much, Professor. In your submission you make a range of recommendations, some of them very interesting, and in the paragraph just before your observations about what a balanced housing policy and program would contain you note that the Commonwealth Treasury has always opposed the Commonwealth's housing initiatives based on their belief in the strength of the market. I have paraphrased your observation. We did not get a chance to ask Treasury about that this morning. They were here for some time, but we ran out of time. What leads you to that observation?

**Prof. Troy**—The Treasury is full of people who have a religious belief in the efficacy of the market in spite of all of the evidence to the contrary. This is an ingrained position—it comes out of their training and probably their philosophical beliefs as well—and they cannot be shaken from this. They have always opposed Commonwealth interventions in what they think are the areas that are the province of the market. The evidence that we do have from the straight operation of the market, both from here and overseas, is that the market has never produced naturally a homeownership rate of more than 50 per cent. That is not something that applies just to Australia; the next nearest country with a high level of homeownership is the USA, followed by Canada and then the UK. But all other market economies, other than the recently emerging market economies in Asia—all other European market economies—have had a similar situation and their response has been to recognise that if they wanted to have a society with some kind of equality of treatment, it does not matter what the government's form is, then they have had to engage in large-scale public interventions in the housing market in order to secure a sensible supply of housing at a reasonable price.

Australia is no different in that respect. In fact, I would suggest that based on the evidence we have got before us, including especially the Commonwealth-State Housing Agreement, which the then Mr Menzies saw as providing a major opportunity for him to pursue his election promises of the late 1940s. He used the Commonwealth-State Housing Agreement in a very

imaginative way and managed to lift the homeownership rate from a bit over 50 per cent in 1947 to 71 per cent by 1961. That was a massive achievement and a massive change in the nature of our society. We have not been able to maintain that. There have been little blips, but in the long run there has been a slide ever since then. In spite of whatever actions have been taken by the Commonwealth to the contrary, they have not been able to hold it at that level. We are facing a real change, a sea change in the way we look at our society.

What makes this important, at the very least, is that it also impacts on the welfare system—that is, the welfare we have constructed by comparison with European welfare systems is actually very mean. It does depend on the assumption that there is a high level of either homeownership, where you have finished paying for your dwelling by the time you have retired, or you are in secure, modest, rented accommodation and you can live on a modest, low pension scheme. That has been an important equilibrating process in our society. It has given a degree of equitable treatment to the majority of the population. It has still left some people stranded, but that has been an important process. The market will not deliver that without intervention. It does not deliver that without intervention anywhere, so it does not mean that Australia is unique in this regard. I am just pointing out that that is one of the consequences of this kind of approach.

**Senator HUTCHINS**—The Urban Development Institute, I think, was talking about the market and about land and the supply of it. They made the point that people go out and buy land at a certain figure and at some point—and I am paraphrasing, of course—they are not getting any money on the land anymore and they are not prepared to release it.

**Prof. Troy**—That is correct.

**Senator HUTCHINS**—How would that be overcome with planning? You were suggesting an increased planning role or possible planning powers.

**Prof. Troy**—One of the ways which was attempted in Australia in several places at different times was to use the powers that governments have to acquire the land. That is what they did in Canberra and what they have done elsewhere. They acquire it at its existing use value and then release it into the market with particular development obligations attached to it. For example, the land commission programs that have operated in different states at different times have produced and provided a secure supply of land at a sensible price for the developers, but it was a device which had to be used to force land into the market. However, at the moment, apart from the activities of the New South Wales Land Commission, which does have those powers and does do those things—unfortunately not at the scale that is significant enough to have the effect that we all might like to see—it does not have that moderating effect on the market because the market impact is not big enough. In earlier stages when Western Australia and South Australia faced those kinds of problems and used those devices they used them through the housing programs under the Commonwealth-State Housing Agreement, where they had the funds, and they could compulsorily acquire the land and bring it into the market—and not always just for public housing; Very often the land was released so that private developers could get on and do the job, but with caveats that said that they had to put the land into production—they could not just bring it out and sit on it. They had to make sure that the land was developed and put on the market to have the moderating effect which the policymakers desired and which was desirable for the community.

**Senator HUTCHINS**—So it may be that the planning needs to be a bit more aggressive, particularly in Sydney where, I understand, there are large chunks of land out in the west and south-west that are held by a variety of individuals.

**Prof. Troy**—That is exactly right. One of the consequences of the planning system and the pressure on development which has occurred is that when the planning authorities produced the plans to show where the cities would best go that has simply been a speculator's guide to what you should do. So they have taken hold of the in globo land and they have had to hold it until they got the price they wanted, because the rural interests who held it before that had held onto that land until they got the price they wanted. That inevitably meant inflation in the price, and so it went—there was a whole sequence of those kinds of processes. That had the effect of increasing land valuation to what I regard as a really idiotic level. The land had low value in terms of agricultural production but high value in terms of urban production. Developers have been caught between a rock and a hard place to some degree, so I do not blame them for the price—that is a consequence of those activities but it is not what they have set out to do, although, clearly, some of them have had to do that in order to make sure they got a return for their investment.

This eight-page submission is a very brief summary of the position that I have taken. Because of the pressures I was put under by Mr Hawkins I thought I should respond as quickly as I could, so I did not do any additional research but just drew on what I already had, partly because I am preoccupied with addressing the problem of water at the moment and also publishing material on those issues. That is not by way of an apology but an explanation of why you do not have the same detailed level of explanation as you might reasonably expect.

**Senator HUTCHINS**—I am sure that if you want to do a more in-depth paper for us it would be received by the chair. She is generally quite reasonable.

**Prof. Troy**—I understand that, but I am being pressed to do the work on water at the moment.

**Senator HUTCHINS**—I have one final question. If you were suggesting a recommendation for our report, would you suggest that the planning authorities be far more aggressive, particularly in compulsorily acquiring land?

**Prof. Troy**—It does not have to be the planning authority, but it should be a government controlled agency of some kind which is properly funded and does actually do those things. I would separate it from the planning authority myself, but I would use real time and real interest rate money to make sure that the planning authority did not just sit on the land; you would bring it into production as quickly as you possibly could. One of the problems that is already facing Sydney and other cities, but Sydney is an extreme example, is that because the planning authorities have actually identified where the development should go—it is not flood liable or it can be relatively easily serviced and the like—speculators have used it as a guide, as it were. But, at the same time, they pursued what I regard as a really silly—because it is not founded on any evidence—policy of sustainability, based on the notion that if you consolidated the development you would actually reduce environmental stresses and the pressures on the demand for infrastructure. They also assumed that this would produce a wider choice in housing. There was never any research evidence that would support any of those propositions at any time.

The problem for us now is that they have operated on that assumption and then, in order to back it up, they have actually restricted the release of the land on the fringe—because they wanted to force this change. The reality is that that had a number of really dramatic consequences which were pointed out at the time to the various states of different political persuasions, not only by me but by others. It was pointed out that this would have an inflating effect on the market as a whole because it assumed that you could push the demand into a smaller area. The change in the way they were forced to fund infrastructure development by putting the impost on developers also had an inflating effect on house prices generally. It made the point that Ron Silberberg has made, that it just lifted the price of land generally and the price of properties generally. There was never any evidence to support the alleged water efficiency and energy efficiency gains that were claimed to be made out of medium- and higher-density housing.

It is still the truth that the conventional, traditional form of housing is the most energy efficient and most water efficient housing we produce, and it preserves biodiversity and has a better chance of resisting the changes we are facing with climate change. So environmentally it is the better proposition. On top of all that, although medium-density housing has caused massive inflation in price, it does not improve housing choice because it is actually very limited in the range of dwelling sizes which, once built, are very hard to change. You cannot add another room in a 12-storey block of flats; you can with the old-fashioned way. If you started modestly in Bankstown, as we did, and lots of other suburbs in Australian cities, you could build your house as you could afford it, as your family needs grew or as your social and cultural expectations changed. Those processes which are now embedded in the situation helped feed and create the philosophy that if you could only get into housing it would be a sure way to make a quid. That was fed on by the coincidental changes in the financing industry. It was fed on by the real estate industry. It was fed on by the newspapers that flogged houses—the money-making supplements to the *Sydney Morning Herald* are a classic illustration of that point. So we ended up with a hoopla situation, instead of the tradition of buying a house and not paying more than four times your annual salary, not paying more than 30 per cent of your income in repayment of the mortgage, having to have 20 per cent deposit before you could buy it and staying in it for five years because you knew you would not recover your outlays, the transaction cost of buying it, in less than five years.

You had all those things moving. Then they were all suddenly made fluid, and you were led to the view that you bought this house, you stayed in it for a couple of years, you got a big capital gain and you moved on. And you could spiral that up. You were also led to the view that you could take funds out of the investment in your house and speculate in housing. This is a large part of the psychology of why the market went the way it did in the past five to six years and more. I am coming at it from a very different perspective, but I see that historically. I happen to be a planner and an engineer who has spent 42 years researching these issues. I have also been in land development authorities of a variety of kinds, so I have had enough engagement with the private sector to understand what is going on. I am bringing this comment to you from that background; that is all I can do.

**Senator HUTCHINS**—Thank you very much.

**Senator FIFIELD**—In your submission, you talk about the conversion from a public to a welfare housing system as well as a social housing system post 1978. Would you mind taking us

through those terms? We have heard about social housing, welfare housing and community housing throughout the day. Could you explain what you mean by those terms?

**Prof. Troy**—Community housing is different to the other two. Prior to 1945, there had been some experiments in public housing provision by local government authorities and state government authorities in Australia in different settings at different times, but they were all small scale and modest. As a consequence of the period of underinvestment in housing during the Depression, in the thirties generally and then because of the total cessation of housing construction in the war, we faced a really serious housing problem in the nation by 1945, especially for the 50 per cent of the population who were dependent upon the rental market. Public housing was designed to address that issue. The original assumption was that public housing should meet 50 per cent of the housing demand. That was always a pie in the sky ambition, and they very quickly scaled it back and said, ‘If public housing got to being 25 per cent of the market, that would be doing very well.’ That was public housing in the sense that you could elect to live in a modest house and pay an economic rent—not necessarily a market rent. It did not matter what you did or what your income was; that was a choice you could make. Of course there was never enough housing stock to meet that, although the state housing authorities tried to maintain the notion that they would have a public housing program.

In South Australia, Playford was very imaginative in using that public housing to underpin his drive for industrial development, which is why South Australia had the highest level of public housing of any state in the country. They used it imaginatively not only to create rental housing that was available to anyone that wanted it—and there was a big queue waiting for it—but also to sell it. They shifted it off the books, as it were. They turned it over and it became the most important supply of housing. Up until 10 or 15 years ago, something like 30 per cent of all dwellings in Adelaide had been constructed by the South Australian Housing Trust. They were not all occupied by tenants—over half of them had been sold. That was the case to a lesser degree in other states because they had smaller programs. It was public housing and there was no discrimination. You went into it and it was what you lived in. You could stay in it if you chose to, you could buy it if you chose to and there was no stigma associated with it; except in the latter part of that period, there was a kind of cachet associated with it.

In 1978, under Treasury advice which I think had much more to do with the budgetary crisis than with any real argument about public housing, the policy changed. It was in response to what I think was a very spurious analysis—namely, that the people in public housing were not always poor and that all the poor did not live in public housing. Both of those propositions were true, but they were non sequiturs as far as I was concerned. However, that argument carried the day and the government shifted from a policy of economic rents for public housing to market rents, first, and then, when an outcry occurred about that, they reduced it to market related rents. In some areas the market was unrealistically high, so being market related meant that the rents being charged for what was previously public housing were higher than rents in the free rental market. So people shifted out. That was part of a deliberate attempt to get them to move out in order that the government could meet the target of providing more rental housing to people who were seen to be in greater need.

The consequence of that was that whole housing estates which had been developed on the assumption that there was this mixed population going into them were eventually filled up very quickly, because of the churning that took place, with households of multiple disadvantage. So it

went from being public housing at that point to then becoming welfare housing. But because they ended up getting the proportion of the welfare housing which was the most disadvantaged, that housing became social housing. Not only were all the people who were in that housing in receipt of the benefit of low rent under the housing commissions but they were all being subsidised because they could not afford even that low rent.

You then had the problem of the concentration of these households. There were very low levels of employment and all sorts of social problems associated with them. That is why we saw the riots in Glenfield and we have seen them in other suburbs in different cities: because we have these concentrations. As a consequence of that and the starving of the housing funds, the proportion of housing which is in public ownership and available for rental has fallen quite dramatically. We now have a lower level of public housing provision than they have in the USA.

We also do not have rent control. They have rent control in New York because they could not get workers to live in New York unless they had some kind of control over rents. Not only that; a lot of the big employers in New York own hundreds of apartments in order to get staff. The universities in central New York own thousands of apartments because they could not get staff to come and teach in those famous universities without having housing which was controlled and rent which was heavily subsidised. They are lifetime tenancies, so once they are in they are in. That is one reason why you do not get professors from some of those universities moving on. Once they have got in, they stay there. It does not matter what happens to their family size.

In Australia there has been a devastating effect on the supply because one of the important features of the housing commissions was that they did actually produce a good, modest standard of housing. They kept on adding to the supply until they got to the situation where their funds were cut, and then they could not keep it up. They tried selling the best quality housing they had in order to, theoretically, increase the supply, but in practice all that did was slow down the rate. They now have less housing than they have had for a long time and a lot of it is in places that nobody wants to be; it is poorly located. A lot of the best locations were sold. There was a stigma associated with that which became self-perpetuating: 'Do not go there; it is going to be disasterville.' That could have implied that people who lived in that housing were not capable of developing under the right circumstances.

I take personal umbrage at that because I lived in a housing commission estate in Western Australia. The family rented it. When the family could afford to, after 10 years, we moved out, because we ended up being able to get the funds together to buy. There were thousands of households that had that experience in this country, and they have made as good a contribution to the nation as the next group, who have never been anywhere near a housing estate. There is a kind of distortion in all this which I find personally repugnant but which is also not good policy. It does not help us understand the nature of what has gone on and is going on in our cities.

**Senator JOYCE**—I also was in a housing estate, but I did not take 10 years to get out. It took me about 10 weeks before I decided that I wanted to move out of it. From my recollection, it was the fibro fridge—not that I did much better. I ended up buying a house at Werris Creek for \$73,000. I managed to sell it years later for only \$69,000, which reflected the housing market. Werris Creek was colloquially known as 'Where it's crook'. I have gone through your submission and there are a couple of things in your recommendations that might terrify people a bit. You talk about the elimination of negative gearing provisions for investment in housing and

the encouragement of philanthropic investment. On the elimination of negative gearing, don't you believe that the outcome of that would be asking the government to step in in a huge way? I know that you are advocating for a greater involvement of the government in housing, but do you think that any government is prepared to take up the cudgels in the way that would be anticipated if we eliminated negative gearing?

**Prof. Troy**—You might be right in looking at the political realities, but I am talking about what is desirable. In the best of all possible worlds, this is what I would do, partly because it leads to distortion. The funds that go into negative gearing housing for rental do not go to modest or low-income rental. You do not get a decent return out of it if you do that. You want to put it into the big and expensive end and rent it if that is the objective of the exercise. It is a wasted opportunity to improve the supply of modest housing.

**Senator JOYCE**—Regarding encouraging philanthropic investment, do you think it is possible that people will say, 'Just on the basis that it will make me feel better, I'm going to build someone a house'?

**Prof. Troy**—One of the interesting features of Australian society and our response to the demand for housing is that we do not have high levels of philanthropic investment, unlike Britain, for example, where there is a very high level of philanthropic investment. There are a whole series of trusts, many of which are associated with churches. They have constructed and manage housing cooperatives and housing associations. They are sometimes in receipt of funds from the central government, but they initially started without any of that. They got tax advantages by making those philanthropic investments. There are hundreds of thousands of dwellings in the UK created by those. In trying to suggest that we should encourage that, there are today churches, social groups and individuals that have funds and think it would be a good idea to do this under certain circumstances. I am saying that we should create that opportunity and see what happens. If you get none, that would tell you something about the nature of our society. But if you got a significant amount, that would be great. We are not an ungenerous society. We make those philanthropic investments in all sorts of areas. I am simply saying that this is one way to encourage that. Some of it could be in the form of something like the Peabody Trust in London or like the Nuffield Foundation or like the housing that was provided by the great industrialists of the 19th century in Britain. You would get a different response. It would give you a choice of housing arrangements. That is my point.

**Senator JOYCE**—I thank you for your submission. There is a range of things I want to ask you. You say at point 9:

Introduction of regulations of financial institutions that they should place a limit on the proportion of a property's value that can be held as a mortgage.

In certain parts of the market in Sydney, house prices are going down. I refer to the western suburbs where, since 2006, the prices have been going down. If you were to pass a regulation like that, the banks would have to say, 'If the values of houses drop and we are restricted on the proportion of a property's value that can be held as a mortgage, then we must realise on that asset to bring our books back into shape.' Therefore, that in itself inspires the eviction of people from houses and a situation where, because people are outside terms, they ask for capital inflow to adjust terms to get them to the proper loan to security ratio, and that could have ramifications



where, when property prices decline—as they are at the moment in the western suburbs—and the loan to security ratio is out of context of what you are proposing in point 9, the banks ipso facto would have to put a lot of people out onto the street to get their liquidity back.

**Prof. Troy**—That is assuming that you have a sudden transition. I am not suggesting that at all. I am saying that we should be trying to get back to a situation where we were once at. I can remember trying to get a loan for a home and being told that I had to have at least 20 per cent equity. Commonwealth Bank used to run a very modest, appropriately conservative, housing policy. One of the reasons why we have got the problem we have now got is because the banks were absolutely ludicrous. A couple of years ago I was offered 110 per cent of the housing price. Nobody wanted to see the house, they just wanted to sign me up for the mortgage. I thought, ‘That’s crazy,’ which meant that I did not go into that proposition, because I thought, ‘There’s something wrong with this deal.’ I think that has happened all over the place, and I am saying we should try to find a transition arrangement. I would not be saying that as of today you have to make sure that this is what the situation is. You would not countenance introducing something which would have the immediate effect that you are talking about. I am saying: we should be trying to transit back to try to reconstruct our banking community so that it does actually have the kinds of innate conservatism which our banks used to have—a very important part of our financial institutions. Last night’s *Four Corners* program showed what several of the banks are doing about selling to people who cannot afford it.

**Senator JOYCE**—They used to do things called ‘third gear valuations’. I asked a valuer, ‘What are those?’ and the valuer said, ‘That’s when we drop the car down to third gear to value it as we drive past.’

You talked about a scheme in the 1920s and 1930s ‘to improve the level of owner occupation among respectable white collar workers’ but the scheme was ineffective. What do you believe was the essence of the ineffectiveness of that scheme, just briefly? Is there any commonality between issues that made that scheme ineffective and the scheme that is currently proposed?

**Prof. Troy**—Those attempts in the 1920s and 1930s were aimed at people who were regarded as ‘respectable working class’ and it was always going to fail. It never really got off the ground. That is just a reference to the fact that twice the Commonwealth looked at this and it did not work, and they could not sell it to anyone. They did not have a constitutional responsibility for housing so it would have had to work through the states, and it did not work.

**Senator JOYCE**—I know it is aimed at commercial return for corporates to get into the public housing arena, but do you have any views on the current Commonwealth government scheme?

**Prof. Troy**—No. The only view I have is that, if I were running those things, I would not be constraining them to only be providing housing for the poorest of the poor. I would try to make them more generously available to others, and I would be trying to very aggressively increase the rental stock for modest income people.

**Senator JOYCE**—You talked about how during the Menzies period homeownership was in excess of 70 per cent—

**Prof. Troy**—Seventy-one per cent.

**Senator JOYCE**—and how you believe that now it will not get much beyond 66 per cent. Is that right?

**Prof. Troy**—It is sliding, and it is sliding in those age cohorts which are going to bring it down to that level. It is now 68 per cent or something like that, and just holding at that. I am saying that the long-run balance is realistically going to be something like 66 per cent, but if you leave it to the market then you will be back at 50 per cent. It will not happen overnight, but it will happen and it will become a different society to what we now have. By the little calculation I offered you in terms of the analysis of what is the underlying rental demand for low-income housing, I am saying that you have to understand that that is going to be the sort of proportion of the population one has to make some provision for because, for a variety of reasons, they have not been able to look after themselves in our kind of economy. They just do not get the income or they have exigencies that life does not leave them with that. That is why I am saying that for something like one-sixth of the population housing does end up needing to have some kind of support.

**Senator JOYCE**—It is a tortured analogy and I have used it myself in relation to Werris Creek and I have heard Senator Macdonald talk about when they started off and they had a couple of cases that they used as chairs and you lived in a public housing estate—we all seem to run towards the metaphor of when we lived in a ditch near the road. The McMansion issue, which you talked about in your paper, is a problem. We have managed to load people with the highest of aspirations and then once we give them a big McMansion they have got nothing better to do than fill it up with consumable items which they do not have the money for either, and they also put those on tick. So we end up with a mortgage bomb stacked up against another mortgage bomb, against another mortgage bomb, against another mortgage bomb all in the same suburbs. Nevertheless, do you think there is a role for government to say: ‘Look, your aspirations when you first get into the housing market, you have to try to tone them down a bit. You have to believe that you might end up living in Werris Creek, you might end up living in a regional town, you might not live in the best house. If you keep your aspirations lower at the start you’ve got more likelihood of meeting your aspirations later in life.’

**Prof. Troy**—I agree with that, I agree that some educational process of that kind is needed. It is an important antidote to what has been a preoccupation with consumerism, which has driven our whole economy for the last couple of decades. In a sense what we are seeing in the housing market is simply a playing out of the end point of that preoccupation with consumerism and the belief that you can have everything you want now; you do not have to wait and save for it. Certainly, my generation and my parents’ generation—

**Senator JOYCE**—Anyone out of the Great Depression would have been able to tell you that.

**Prof. Troy**—Yes, that is right. If you have had that experience, you know you do not go off and do extravagant things. You do not have a brand-new big fridge when you know that what you basically need is a small second-hand one, which you will get and it will last you for seven or eight or 10 years and that will be it. That kind of built-in inflation of expectations is what has fuelled a lot of the consumption that you are talking about. The McMansions thing was also partly a response to the idea that if we buy the big house now, we do not have to extend it and it

will be so much better for us when we get to our retirement and superannuation. This is our superannuation nest egg because it is not taxed.

**Senator JOYCE**—Do you have any views on McMansions? They should be called ‘McBombs’, because that is what they are going to do to the economies of those suburbs if interest rates stay where they are—they do not have to go up, they can just stay where they are—and the problems that will cause. In your studies, do you talk about what the ramifications are when the inevitable happens and people are way beyond their ability to repay those loans or to meet those payments and other stresses become involved and these houses are all tipped back out into the market, in a very similar fashion to what they are doing in the Midwest of the United States? Do you talk to that? Do you have any views on that issue?

**Prof. Troy**—I think the difficult problem that governments have now is that they have to try to manage a deflation of expectations, which will also be a deflation of expectations in relation to housing. That will lead to pain. My view is that, if you want to hold the community together, you have got to make sure that pain is equally shared and is gradual. You cannot drop it suddenly because the consequence of doing that would be hundreds of thousands of households being tipped out on the street, and that is not going to be to anyone’s advantage. We have to try to recover that. By the way, 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.

**Senator JOYCE**—I made a couple of calls to real estate agents in Melbourne, of all places, on what you are talking about, and they say it is not a case of them having one place on the screen, they have got three, and they do not own any of them. They are all owned by credit companies.

**Prof. Troy**—Yes.

**Senator IAN MACDONALD**—Professor, were you here when the HIA were speaking to us?

**Prof. Troy**—Yes.

**Senator IAN MACDONALD**—They were suggesting that the problem of the availability of housing is because of too much immigration and not enough skilled tradesmen to build the houses. They also suggested, as I understood them, that the Commonwealth, by way of tax concessions or greater payments to the states or in some way, should be more responsible for the basic infrastructure that is needed for new housing. Do you have thoughts on any of those causes of the problem? Principally, I would like your view on whether and, if you say so, in what form the Commonwealth should be entering into a subsidy of housing.

**Prof. Troy**—I do not think that there is any argument that the energetic pursuit of large migration programs for the long period we have pursued them has had the kinds of effects that the HIA have drawn attention to, both the increase in the demand and the slow response on the supply side because the migrants are not going into the building industry and so do not increase that supply. I agree with that analysis, and that has been at the core of the states’ complaints for 55 years. They have always complained that the migration program puts them under very heavy pressures in terms of the provision of infrastructure, and that has never been responded to

adequately by the Commonwealth. Unfortunately, the infrastructure cost has got higher so the pressures have become more onerous. And the states are always, in the short run, just assuming they can get the developers to make that contribution. I think all the evidence shows that that has always been a chimera. There were always going to be tears before bedtime, as it were, as a result of following that policy. But I am surprised that the HIA suggest there should be a subsidy.

**Senator IAN MACDONALD**—Perhaps I should not put words in their mouth, but I thought Dr Silberberg did indicate that.

**Prof. Troy**—He did use that word and he actually talked about \$10,000. My view is that, if it is properly managed, there is no need for those kinds of subsidies. But it does mean some shift in the way infrastructure services are provided, especially in the water supply and sewerage areas, the ones that cause the most grief. They are the services that you have to immediately supply because of the basic requirement of water for survival but also because of the health issues associated with them. But health is not the main issue, actually, with water consumption, which is mostly to do with lifestyle consumption and so on now. We are actually consuming way above the basic requirement and we have not done anything about that. In fact, our urban water institutions have actually encouraged that increased consumption because it increases their revenue.

So my argument would be, ‘Hang on; before you charge into a subsidy, have a close look at what we need to do about what it is you really need to provide and what services you are really after,’ because our research, especially in the water services area, suggests that we could actually have a different set of water services at a much lower cost and with much less damage to the environment. We do not really need to build desalination plants or force people to drink the dreaded sewage if we have a different approach. That can then be a different kind of way to finance the services, and it will shift some of the load from the public provision back to making the households much more water independent and responsible for those kinds of services. It still preserves the health objectives and it still preserves the supply of water for firefighting services and for basic survival, but it is a different philosophy. There has been a strong institutional resistance right throughout the country to this. We see it now: their response is to say, ‘Let’s have an urban water market, and that will solve the problem.’ King Canute had a water market, but it did not solve the problem. You think, ‘Why don’t they learn?’ It just requires a different response to the different technological opportunities that are available. I am not saying there are technologies we will invent—

**Senator IAN MACDONALD**—I understand your point on water, although a lot of the infrastructure costs, of course, are from getting a pipe—any pipe—out into the new developments, as well as building the dam, the desalination plant, the recycling facilities or whatever to put water into the pipe. But even if we accept your point on water—which makes some sense, although it requires a whole culture shift not just for the new developments but for the whole of urban Australia—

**Prof. Troy**—Indeed.

**Senator IAN MACDONALD**—what about things like roads—the cost of infrastructure in drainage, roads and transport?

**Prof. Troy**—The issue of roads is an interesting one. One of the things we used to do is to allow subdivisions to go ahead, and they would basically cut a road in. It would not be sealed, very often there was pretty poor drainage, it never had footpaths and it never had curving and channelling. People moved into the subdivision. In the early postwar period that is exactly what happened; all through the fifties we had—

**Senator IAN MACDONALD**—They did not even have to cut a road into it; they just cut up the blocks on a map and the government had to put in the road.

**Prof. Troy**—Right, but they cut the track. As the local authority could afford it from the rate revenue, they built the roads. In the long run, that was an expensive way of doing it because they did not have the public capital up front to put the roads in. They then shifted to having the developer provide those roads, but the developer is not using long-term-bond-rate money to do it; he is using high-interest-rate money, and he has got to get his return now. So, whereas before that money went in on long-term-bond-rate conditions and was paid for over a long period, now the costs are all up front. So the impost—the entry fee for estates—is just that much higher. There are some areas where you cannot go back to that method, but on the other hand that helps you understand that underlying pressure for increasing costs. I would still argue that we are very generous about what we do with road supplies. We put them in to high standards, and one of the reasons why we do is that now that we have the developer paying for it the local authority can say, ‘We want an eight-inch paving because we don’t want to carry the maintenance costs, and we’re going to make sure it is gold plated.’

**Senator IAN MACDONALD**—What are you suggesting—that we should go back to where the developer can put in a dirt road, and in 20 years time the council ratepayers will—

**Prof. Troy**—What I am trying suggest is that that may be one solution in some locations where the soil structures and so on are appropriate. You clearly cannot do it on sand, for example, because everyone will be bogged forever. I go back to the point that I made in relation to Senator Joyce’s question: there needs to be a deflation in expectations to some degree and for us to be more realistic about what we can expect to be provided. At the moment, expectations are high everywhere. I found with my stepchildren that they wanted to have everything. You think to yourself: we did not have any of those things. We saved for them and when we could afford them—

**Senator IAN MACDONALD**—How you get that culture change again I don’t know.

**Prof. Troy**—I am not saying that is easy but I am saying that 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. That is another area where I think we could do better.

The other side of the planning thing which I think is important is that, with more aggressive planning, we could have less centralised cities. At the moment, a lot of the infrastructure imposed in Sydney, for example, is designed to ensure that we provide the services to the CBD. The CBD has only 14 per cent of the workforce, but that is where the infrastructure investment

goes. If we had an effective planning system, we could reduce those demands, which would include a demand for roads; it would have that effect. It is a different kind of response.

**Senator IAN MACDONALD**—Thank you very much for that. It is food for thought.

**Senator COLBECK**—This is a reflection as much as anything else and not necessarily a question. There was a time when a house would be built to a certain extent and, as the family were able to afford it, they would extend their home; they would basically build it over time. I think that comes back to the expectation issue that you were just talking about.

My other question is about the point that you were making just a moment ago, which is that the track would be cut and the services would be provided as the community could afford them, but that was not necessarily the most cost-efficient way. We have gone to the full extent the other way where people are now put into a high-standard but paid-for dwelling, with high input costs at commercial rates, plus a margin for the developer. Surely there must be some balance between those two extremes, if you like, of paying for a house all up front but with very high-cost money, which is where we are now, versus paying for it over a period of time with lower cost money based on what level of government may be able to borrow through different parts of the market.

**Prof. Troy**—I think that people have now formed views, and so you could not take that back. I have the view that, if you were to set out to develop estates by saying, ‘This is what you can expect—you buy into these estates knowing that you are not going to have all these things but that, over the fullness of time, as and when the community itself can afford them, they will be provided—there would be a demand for that kind of accommodation because the entry cost would be greatly reduced, including for the dwellings and the services side, especially the services side.

**CHAIR**—Professor Troy, on behalf of the committee, I thank you very much for both your submission and your appearance here this afternoon. I also thank you for your assistance and the stimulating discussion you have given the committee. We are very grateful.

**Prof. Troy**—I will be interested to follow your deliberations and read your final report.

**CHAIR**—Thank you very much.

**Committee adjourned at 5.39 pm**