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SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA

Reference: Barriers to homeownership in Australia

WEDNESDAY, 2 APRIL 2008

SYDNEY

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SENATE SELECT COMMITTEE ON

HOUSING AFFORDABILITY IN AUSTRALIA

Wednesday, 2 April 2008

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

Senators in attendance: Senators Bartlett, Colbeck, Fifield, Ian Macdonald, Moore, Payne and Siewert

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.

WITNESSES

Committee met at 10.00 am

CHAIR (Senator Payne)—I declare open this meeting of the Senate Select Committee on Housing Affordability. 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 the inquiry 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 has been convened to receive evidence in relation to the committee's inquiry. This is the committee's second hearing, the first having occurred in Canberra yesterday.

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. The committee will then 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 be made at any other time.

[10.02 am]

FARRAR, Mr Adam, Executive Director, New South Wales Federation of Housing Associations

CHAIR—Welcome, Mr Farrar. I would like to invite you to make an opening statement, and we will go to questions after that.

Mr Farrar—Thank you to the committee for the opportunity to provide this evidence. The New South Wales Federation of Housing Associations is an industry association representing the not-for-profit providers and managers of rental housing for low- and-moderate income households. While I note that the committee's terms focus particularly on homeownership—and, clearly, homeownership is a matter of fairly grave concern to the public very broadly at the moment—I do want to make a number of comments which place homeownership in a somewhat wider context of the housing market and to stress that the issues of housing affordability cannot in any sense be isolated to one tenure form. Unless we look at the way in which the different tenures interact, and the constraints on those different tenures in respect of interaction, then we will not understand very effectively what the outcome will be or what is driving problems within the homeownership sector. I guess that is a broad contextual comment.

There are some very obvious examples which I do not think will be a surprise to anybody—for example, if the prices in the rental market increase substantially, then the capacity of younger households in particular to save a deposit for homeownership correspondingly reduces. So, in that case, in quite an immediate way rental prices are one of the potential barriers to access to homeownership. Equally, a lack of supply in the rental market is one of the things which drives households—again, lower income households—to seek unsafe loans. When you combine that with financial deregulation or indeed unsafe lending practices then you start to see the lack of supply in the private rental market, particularly at the bottom end, transferred into high-risk loans in the homeownership market—again, a fairly critical connection between the two. So those are just two examples to make the point that, unless we consider all of the markets, we are not really going to get a true picture.

Again from a policy point of view, I think it is very important for us, if we are looking at public responses, to understand the different areas of response—call them markets if you like. We clearly have the homeownership market that we are focusing on through this inquiry. There is the private rental market, which is very distinctly broken up into, if you like, the moderate to top end and the low rental market, which has behaved utterly differently to that top end, certainly in terms of its supply.

We have had a public or social housing sector, and that is one which traditionally—in fact, since the war—provided one of the most important pathways for low- and moderate-income working families to move ultimately towards homeownership. That pathway has been significantly disrupted over the past 10 to 20 years. Increasingly we have seen not just a lack of capacity to grow with the population but an actual reduction in the supply of social housing, predominantly public housing but also—and here I guess I come to my own members' interests—the not-for-profit sector, which is a growing part of that response.

We have coined new language recently to talk about ‘affordable rental housing’, almost as though we discovered a new sector. I have to say, we are not unique in this. In Hong Kong they talk about ‘sandwich class housing’. So you get that kind of talk right across the world. However, it is really important to recognise that the old-style postwar public housing, which was all part of the postwar reconstruction, was targeted at low- to moderate-income working families, who were using that as, if you like, a normal part of the rental housing market and very often as a pathway towards homeownership.

We have, I think it is fair to say, almost entirely lost that publicly supported, government supported response. In New South Wales it is virtually explicit, to some extent in Queensland it is relatively explicit and in other states it is implicit, but across the country we have turned public housing from being a low-cost, affordable rental market into being the response that we failed to put in place after we started deinstitutionalisation 15 to 20 odd years ago. It has been recently recognised, for example, that we did not put in place the kind of mental health solutions that followed the closure of mental health facilities. It has also been recognised, but less explicitly, that the accommodation options did not follow. So you move to care in the community; it is handy to have somewhere to live in the community if you are going to have that as your response, and we did not do that.

As a result—partly, for the past 10 or 15 years, simply as a result of demand—public housing has shifted to being that response. Its client group has become people who otherwise in the past would have been either in aged care, in government youth facilities or in mental health facilities. Increasingly we are seeing that move from an implicit change due to demand to quite an explicit policy. New South Wales has made it quite explicit that that is its target group now. It does not house low- to moderate-income households and, instead, it is there to meet that demand. It has made it even more explicit by saying that those other public agencies—health departments and so on—will be able to refer their clients directly to public housing. So in a sense it is actually part of what was an institutional care system, now moved out into a housing response.

That is a big change and it has been accompanied by not just a reduction in supply. In Australia we have a unique way of funding housing affordability for people who live in social housing. In other countries, they charge the cost of providing that housing—as you would in any other kind of market—and then there is either a CSO subsidy or an explicit subsidy to the tenants which meets the gap. In Australia, we chose to do it by charging a rent which we deemed to be affordable—which was a proportion of income. So in a sense the system had to subsidise it internally. It has a perverse consequence: as you target more tightly to lower-income households your income falls. As a result, state housing authorities across the country are to all intents and purposes bankrupt. For a number of years they have been cannibalising their own supply simply to maintain their operations. This is due to the fact that we have targeted more tightly. We have targeted more tightly because we created a population whom we have stopped housing in institutions. So demand increased and, at the same time, we reduced funding for new supply and our formula reduced the income streams. It was a dire position.

That was a little bit of a diversion just to explain what has been driving the serious collapse of public housing and the shift in its role. The result is that a whole market segment has been left unresponded to—that is, rental housing for lower-income families, usually working families, and households. As a result, they have had to try and find accommodation in what used to be the private rental market as we knew it. The problem is that that rental market also underwent a major change. What we have seen in the private rental market over the past 20 years is a shift in demand away from homeownership. I think it is fair to say that that has only recently been driven largely by price—although that has clearly been a major consideration in recent times. Before that, some of it was due to choice and some of it was to do with other kinds of income constraints such as young people's HECS debts. But much more important has been the change in employment patterns and household formation. People no longer have the long-term security in their employment or, indeed, in their relationships which would allow them to say it was sensible to take on a long-term commitment. I am not saying it had a major impact. It had the impact of a two or three per cent shift away from homeownership into the private rental market. But, in terms of supply, that is quite a big challenge.

It is important to be aware that, for a long time, the private rental market worked pretty well. It met that challenge. Supply increased to reflect the increased demand. The problem was that, because of our settings—and I personally sheet this home, in part, to our tax regimes—investment kept up with supply in aggregate but all of it went to the top of the rental market, which meant we saw a declining supply in rental market properties available at low and moderate prices.

That brings me back to where I began. If we have had a major crisis in terms of a falling supply in the bottom half of our rental markets, that has had two effects. It put more pressure on the public housing system, which was disappearing. We had a disappearing public housing system putting pressure on the bottom end of the rental market and, in turn, the demand had nowhere to go. It also forced a number of people into taking out what were, in effect, unsafe loans—and we are beginning to see the effect of that as interest rates have caught up with us, along with the effect of the subprime market. If we are going to look at the higher risk and the most problematic aspects of the homeownership market, we have to understand why we have had major failures in both the public rental market and the bottom end of the private rental market. They are major drivers, which means that, in terms of public policy responses, while it will be quite important to look at other levers which affect the price of homeownership, unless at the same time we significantly address the bottom end of the private rental market or the rental market more broadly, we are not going to get a solution which will work—and that will continue to push problems into the homeownership market.

There are a range of solutions of course. Some of them are new products, such as shared equity products, which provide a capacity to enter a mixed market more or less. But those products are only useful around the margins. They are useful and they are products I would like to see extended into the social housing system because they do provide a pathway not just into a problematic private rental market but also into a form of security through homeownership. But let us not exaggerate their capacity to do a great deal.

The terms of this committee talk about land supply and no-one would deny that the cost of land is a major contributing factor to the price of housing. That is a given and it would be foolish to minimise it. It is probably not true to simplistically say that the amount of land release by state governments or indeed the planning system is going to make the difference in that regard. After all, we do have land release which is not being taken up. The state government in New South Wales has quite robust targets for land release and intends to pursue those. Those alone are not sufficient. One of the major reasons for that is location. Housing affordability is not just about the price of the house, it is about the cost of using that house. As you will be well aware, if you locate housing—even if it is affordable—on the outskirts away from employment, away from any other services, then in effect you have simply shifted the cost from the price of the house to the price of transport and usually to the price of time taken in travel.

One of the things we do have to recognise is that new household types are much more vulnerable to that kind of impact. For example, we have an increasing number of single person households. They do not always start that way. They start as a young couple but we are seeing a much greater rate of those relationships dissolving and reforming. As a result, if a sole parent, for example, is trying to manage all of the travel associated with getting children to school—all those complex trips—then the locational cost of their housing becomes even more important, quite enough in many cases to mean that they have to relocate. They cannot sustain and maintain the houses that may have once been affordable when there were two people in that household.

This does bring me to another theme that I would not mind mentioning very briefly. We have often worried about what is happening to the capacity of young people to enter homeownership. Professor Judy Yates's data, which is snapshot data, shows there is quite a clear decline in the rate of homeownership amongst young people. More recent data has shown that it is more complex than that. It is not that young people are not seeking homeownership or that they are giving up beforehand. They are in fact going into homeownership, but because they are so vulnerable to changes in household composition and changing relationships, they are dropping out of that homeownership at an increasing rate. This again goes to one of our major problems around the change in housing costs—that is, homeownership takes more than one income and cannot be sustained otherwise. The more that you have changing patterns around households then the less secure and more vulnerable people are to losing their homes. Amongst the younger cohort that is one of the most important factors that is not commented on often enough.

The last two things I want to stress in terms of the drivers of the problem are that land release alone is not a solution, particularly in metropolitan areas. However, settlement patterns are crucial. We could try to encourage, as a nation, far more dispersed settlement particularly in regional growth centres. I am not going back to the seventies and eighties but I am simply recognising the reality that, as we concentrate all our population in major metropolitan centres, we are creating constraints which have an impact on house prices. It is part of the reason we cannot look to other countries—because we have an urban settlement pattern that is unique. As a result, one of the things we should be looking at is ways to have access to cheaper land which is well-located in growth centres that are not all concentrated in metropolitan areas. That is one critical point.

The last thing I want to say is that we do have to recognise that one of the drivers of our affordability problem has been our tax system. I do not want, for a second, to suggest that we should not have tax incentives to encourage investment, particularly in rental housing and at that broad level negative gearing, which is often quoted, has played an important role. We need a tax incentive of that kind. We know that you do not get commercial returns from rental properties of any kind except maybe at the very top end without some kind of incentive. However, we had a regime which perversely shifted that investment from the bottom end where it was need right up to the top end. That was a combination of the way we used our negative gearing regime, by not limiting its application, so that you did have the capacity to offset it against a wider range of income and, as a result, you could afford to be making greater losses on your rental income stream. To some extent that was a perverse kind of pattern, but much more important was its interaction with the capital gains tax concessions, which basically said, ‘The more you can target your investment to areas of highest capital gain, the better the tax incentive.’ That shifted our investment, which we needed, up to the top end where we did not need it and away from the bottom end which was part of the major drivers.

When you combine land, tax incentives, the collapse of one part of the market and those demand pressures with the financial deregulation—which basically meant that there was more money out there looking for somewhere to go—then it is hardly surprising that you see a major increase in house prices. But we do need to recognise that, with those together, because of the complexity, there is not a single fix. It is pretty crucial to note that the growth in house prices is a long run growth; it is not just a bubble. We have managed to create bubbles at the same time but the bubbles have only exacerbated an underlying structural problem.

CHAIR—That was a very detailed opening statement and the information is useful, but it means we are going to have to be tight in questioning you.

Senator MOORE—I have two questions. One is about the role your organisation has in regional New South Wales because, listening to your evidence, it seemed that a lot of the issues were Sydney focused. I would like to know about the impact across the state. The second question is about the access that your organisation has to policy development. What, if any, is the process that an organisation like yours has with local, state and federal governments in terms of policy development and should that change?

Mr Farrar—In answer to the first bit about experience, particularly of my members, there are housing associations spread right across the state. When I say ‘right across the state’, the far west is very poorly serviced, but across the rest of the state there is quite a strong network that goes through most regional centres and some smaller towns. The experience is, as you would expect, patchy. There are some areas where there is no housing affordability problem and where the private rental market would respond to the needs of low-income households. Those tend to be smaller communities. In regional centres you have—not necessarily to the same degree as you do in metropolitan Sydney or in the inner ring of Sydney—housing affordability problems that are quite acute. New South Wales has less of the sort of phenomena that is reported, particularly in Queensland and Western Australia for example, of mining towns with major affordability problems. It does have regional growth centres, particularly the north coast which has very very acute housing affordability problems. The answer is that it is not just metropolitan centres. It is not everywhere—growth centres, regional centres and some particular locations outside of the metropolitan areas have very bad affordability problems too and the challenge is very great, particularly at the bottom end of the market.

In terms of access to public policy, I have to say that it has been relatively limited. Local government is, of course, patchy. It depends very much on the engagement of individuals with their local authority. I can say with some confidence that there are places where local government is placing housing affordability at the centre of their work. They are developing housing affordability strategies and engaging with parts of the market and providers who are our members as part of that. Recently there was a survey done. There are about 40-odd local government areas that have some kind of partnership to provide land or something of that sort to assist with very, very small amounts of affordable housing. There is some engagement. It is patchy; it is limited. We have not yet seen something which has created a really strong, even spread of engagement with local government.

With the state government—it is hard to know where to go with this—there has certainly been an opportunity to provide advice, which comes and goes with the engagement of different ministers. There is a state plan, which we also provide input to, which has housing affordability as one of its outcome areas. I think I am on the record as saying that it is very disappointing that that state plan has nothing but a land release target as its main driver or measure of housing affordability and, indeed, does not measure whether or not that has made any difference to affordability. It does mention some of its strategies in public housing, but they are the ones which are about residualising public housing in the way that, as I have already suggested, compounds the problem rather than solves it. I will not say that we have been tremendously successful. By the same token, the growth of the non-profit sector, to begin to move into the affordable rental area, is one of the objectives which the state government has adopted. Some states have adopted it and invested in it in quite significant ways. New South Wales is exploring its options at this stage.

CHAIR—We will have to take your word for that. They declined to appear this morning.

Mr Farrar—In terms of engagement with the federal government, as a state organisation we do not directly engage with the federal government. We do work through networks and, wearing other hats through my membership of other organisations, I have been involved in forums like the Labor Party’s Housing Affordability Summit before the last election and in the Summit on Housing Affordability that was sponsored by HIA, ACOSS and a number of other organisations. It has been indirect.

Senator COLBECK—You mentioned the gradual focusing of the government policy on housing. We heard yesterday of a time when it was much more focused on broader public housing rather than just welfare housing. Would you say that it has effectively made the government housing sector essentially unsustainable now across the country, particularly with the run-down in stocks?

Mr Farrar—I think the answer is yes. I am not just being self-interested in this, but I would want to distinguish between the not-for-profit sector and the publicly managed sector.

Senator COLBECK—The publicly managed stuff is what I am looking at. It appears to me that, from what you are saying and what I am hearing from other places, it is essentially unsustainable without some sort of intervention or perhaps even broadening of the focus.

Mr Farrar—There is no doubt about that. It is unsustainable for two reasons. One I did not mention was the unfunded liability on the asset, which has been a focus for a short time, but there is a long way to go just to catch up with that. The other is the unsustainable income streams. I do want to say that I think that state housing authorities across the country have done a really tremendous job in refocusing their thinking on how to do the best they can with the resources they have. Their standards of tenancy management have improved enormously. They are reconfiguring their stock to try to create more sustainable communities, to break up those large estates and disperse them throughout their community. All of that is very good, but basically their financial basis is not sustainable.

The not-for-profit sector has been more fortunate in that it has had fewer of those constraints and has therefore been able to have a wider spread of tenant group and so a stronger income stream. Also it is beginning to, I think, have the opportunity to raise finance because it is not constrained around public debt. As long as that can be done prudently and we do not replicate the history of other sectors—and it can be done prudently—then we can start to grow that. But it is off a very small base.

Senator COLBECK—So effectively a broadening of the focus could increase the sustainability through a wider capacity for different income types and tenant types.

Mr Farrar—That is absolutely right. In saying that, I want to make one thing very clear. I am speaking now from the point of view of the not-for-profit sector, and I guess just from the point of view of my members in New South Wales. There is one way of doing that and that is to basically cream—you take the higher income households and get a stronger income stream. That is not our strategy, it is not our mission and it is not what we will do. What we want to do is broaden the entire spectrum, which means you maintain your effort for the most disadvantaged households but you actually increase your capacity to do that by also responding at the moderate end, not the top end ever. I just want to make that clear: it is about broadening the spectrum; it is not about abandoning those most in need.

Senator SIEWERT—I would like to touch on the issues to do with the tax regime that you mentioned and explore what changes you think are needed. You talked about the interaction with capital gains and negative gearing. What are the key changes that you would suggest, if you are suggesting changes to the tax system?

Mr Farrar—There are 2½ changes. I do not want to make too much of negative gearing, to be quite honest. I do think that it makes sense to quarantine the negative gearing offsets—that is, the housing offsets—to expenses that have been incurred in that housing. That would put it on a par with any other kind of business activity. You certainly do not want to disadvantage it relative to any other business activity either. There were other debates that went on in the past about whether this was investment in speculative gain and therefore was not productive. I think housing is very productive, so I am not going to run that argument. I think there are modest changes that could be made there, but I do not think they are the whole thing. I absolutely think that we should not have the discount on capital gains tax, because it is crucial that we do not encourage investment to go where the capital gain is the greatest. We need it to go to the bottom end. I hope this does not sound too much like an advertisement, because it is certainly not meant to be, but we do need another kind of tax incentive that is explicitly targeted to investment in affordable housing in the sense that I have described it.

We have seen the announcement of the National Rental Affordability Scheme, which is a very good start. We are yet to see the form that that will take, we are yet to see how effective it is going to be in the marketplace and I suspect that there is a case to be made for some changes to it to make sure that it really does attract the investment. You have got to admit that this is probably the worst time that you could possibly choose to be looking to attract some more investment, but we have to go with the times we have. Those are the three changes I would suggest: a tax incentive that explicitly tries to get investment into affordable housing, continuation but a retargeting of negative gearing and the removal of the capital gains tax component, which inappropriately shifts investment up to the top end.

Senator SIEWERT—Regarding your comment about tax incentives on affordable housing, are you saying, 'Before you do some more, look and see how the current one works,' or are you saying you think the recently announced incentives are not going to work and so need to be enhanced?

Mr Farrar—I think that we need to test the National Rental Affordability Scheme in the marketplace first. I do not think there is any help in just doing some modelling. After all, this is about real investments with real investors, so we need to test it in the real marketplace. I would like to see a guarantee that the scheme can be fine-tuned in response to that. One of the suggestions that has been made is, basically, that term sheets should be developed and put out to investors. Then you could see exactly what price they will charge for their investment and whether or not the incentive, as it is structured, will bridge the gap—after all, that is the bottom line. In the development of it, we can do some market testing with that kind of approach. There are also suggestions that some other elements are pretty crucial.

One of the things that needs to be said about the National Rental Affordability Scheme is that, as it has been presented, it talks about trying to encourage institutional investment—equity investment—as opposed to debt. We certainly need something which is flexible and which can provide a subsidy for raising debt finance as well as equity investment. If we are going to equity in what was previously an absolutely non-existent asset class, particularly at a time like this, then investors are going to price it because they simply have no idea what the risks are. It would be prudent at a time like this for government to provide, even if it is only for a temporary period, some underwriting of that risk so that the market can come into the marketplace with an unknown product and some confidence that they are not going to lose their shirts on it. I think they will very quickly learn that it is not a high-risk but a low-risk business. I have heard that some individual investment bankers are already saying, 'In fact, here is one where you are not going to have a problem about demand—no worry about that at all.' As long as there is some support for incomes and you have good management, you are not going to have a problem around your capacity to keep the income streams reasonably stable. There are real worries about the standard of management because it is an unknown sector, but I think it is only a matter of time before that is tested. Again, we are seeing regulatory regimes on the management side being put in in most jurisdictions, which will provide very real assurance to investors.

In the UK, over the first 20 years of their expansion of their housing associations sector—and I have been quoting this figure for so long that it is not an up to date figure; it has been going a little bit longer than that—more than £20 billion was lent to that sector. The worth of the oversight that government in effect provided as one of the ways of standing behind those deals was estimated at 100 basis points on the cost of funds. Not one deal in 25 years has fallen over, because of the government regulatory oversight. It starts to take the risk out of the lending. I think we really need to focus on those kinds of things.

The last thing I should say is that I understand there has been modelling done—but I have not seen this and it is a pity the state did not appear today—which suggests that because the market is variable then the incentive is going to work better in places where the need is least and work less effectively in places where it is highest. There is an argument that the states should perhaps come to the party and add extra components to package up a deal that will work. I think that is the sort of thing we need. But the certainty issue is probably the main one because unless we can get the cost of the funds and the pricing of the risk brought down then it is going to struggle.

Senator FIFIELD—You have mentioned that the profile of public housing tenants has changed, particularly in the wake of deinstitutionalisation. Are you aware of any figures as to the proportion of public housing tenants who have a mental illness?

Mr Farrar—I do not, but that data is available, although it will not be complete. All that will be available is the number of tenants who have some kind of formal support agreement which their housing manager is therefore a party to. Our own members very often specialise in providing housing for people with mental illness and have those support agreements. New South Wales has a special initiative, HASI, Housing and Accommodation Support Initiative, which specifically brings mental health providers and housing providers together. But that data will understate it, because you cannot ask people necessarily to declare their health conditions to you as a condition of renting a house. I could certainly find you the data from our own sector on acknowledged support agreements but, as I say, that would understate it.

Senator FIFIELD—If you could, that would be helpful.

Mr Farrar—I will certainly do that.

Senator FIFIELD—I think the degree to which the nature of public housing and other sorts of housing is assisting people who have those issues is an unappreciated fact. That data would be useful. You mentioned that your group thinks that the National Rental Affordability Scheme—one of the government's four points for addressing housing affordability—could be a positive thing.

Mr Farrar—Yes.

Senator FIFIELD—ACOSS have a view in relation to the first home saver accounts, which they covered in their submission to us, which states:

To further enhance the equity of the scheme, we recommend that low income people should receive an equal Government contribution per dollar saved to that paid to higher income earners.

Would that be a view that you share, that first home savers accounts will be giving a disproportionate benefit to higher income earners?

Mr Farrar—The answer is yes, but I would have to declare a little bit of an interest in that ACOSS has a number of policy advisers outside its organisation and I am one of their policy advisers. So the answer is yes, but I am not sure that that adds much to your knowledge.

Senator FIFIELD—Certainly your association would share the view of ACOSS, as an association position?

Mr Farrar—Yes, without dealing specifically with that position. I do think we have to recognise that that is a demand side measure and we need to be focusing on supply side responses. I think things which create greater equity and better targeting in it are desirable changes but, for example, suggestions that the total quantum should be increased are, I think, simply causing the very problem that we are trying to step back from.

Senator FIFIELD—Sure. That pre-empted my next question.

Senator BARTLETT—I guess that goes to a question I want to ask about other measures like the First Home Owner Grant, which is also not targeted in any way. One of the things I find frustrating—whether it is about that or about the impact of capital gains, negative gearing or whatever—is that there does not seem to be a lot of clear data around on how well it is targeted, what impact it is having on affordability, let alone on price. Do you think with, for example, the first home owners scheme, that perhaps, at least initially, either means testing or finding some way to target that more specifically in an affordability way is desirable? My other, wider question on that is if we are looking at some extra government resourcing, whether it be federal or state—usually, if it is state then it means it will come from the federal government one way or another eventually—we have to look at what value for money we are getting from all the money that is being expended, including areas like rent assistance. I think that is now over $2 billion a year, which is more than double the amount under the Commonwealth-State Housing Agreement—the whole amount that goes into public housing—with not a lot of evidence about how that assists affordability. Do we need to re-examine what affordability bang for our buck we are getting out of what is already quite a large number of bucks?

Mr Farrar—If the question is really about how much we should continue to build our evidence base in terms of informing public policy, particularly about expenditures, whether it be a first home owners grant or rent assistance, then the answer is absolutely yes. It has been difficult to get clear evidence on the effectiveness, for example, of rent assistance. That, as you say, is one of the big ticket expenditures. I hope that the move towards a national affordable housing agreement, rather than the silos that we had in the past, might allow that kind of consideration to be brought to bear, much more than it has been previously when it was just sitting over there purely as a social security payment. Apart from asking, ‘Is it increasing incomes?’ no-one asked the question: ‘What is it doing to affordability?’ By bringing that kind of payment into a broader agreement then we might be able to get that kind of information. Certainly, we do need the data.

If I could just say a quick word about rent assistance generally. I do think we need to concede that that is an important part of our mix. This is not a recipe that I would recommend to governments—and I will make it clear why not—but having a housing benefit, the equivalent of our rent assistance, worked brilliantly in the UK in creating a sustainable sector, a payment which, in effect, met 100 per cent of the gap. That meant there were two things: there was government investment—

Senator BARTLETT—What gap?

Mr Farrar—The gap between the affordable amount that a person could pay and the rents that you needed to charge in order to fully fund the development of an appropriate supply of stock. But it was not capped. So I guess the only point I am trying to make here is that it can be a wonderful mechanism that goes together with other things, like tax incentives, to increase investment or direct grants for government to share part of the investment. It is a third component. It is part of the mix of having a sustainable low-cost housing system. That is great. We are not going to have and we should not have an uncapped payment. We have simply capped it in a ‘one size fits all’ way. We have not asked ourselves: how do we set a cap which reflects the actual need, say, the cost of housing in particular locations? And we have not thought of it as anything but a sort of partial income support supplement rather than a payment which is there to ensure that housing affordability is genuinely met for low-income households. I do think it needs to be reformed to take into account location; hence the actual housing costs and its outcomes in making housing affordable to the households that receive it.

CHAIR—Mr Farrar, thank you for joining the committee this morning. You have given us a lot of very interesting information. There may be some matters, as our inquiry progresses, given this is only our second day of hearings, that we would like to come back to you on. I hope you will be able to assist us, if that is the case.

Mr Farrar—I would be very glad to.

CHAIR—Thank you, and thank you for your time. May I ask if the federation is planning to make a submission separately to your appearance today?

Mr Farrar—We were not going to do but, as I say, I am absolutely happy to provide information as you need it. Thank you for the opportunity.

Proceedings suspended from 10.50 am to 11.02 am

FERNANDO, Dr Nick, Executive Manager, Home Lending Products, Acquisition, Pricing and Strategy, Retail Banking Services, Mortgage Wealth, Commonwealth Bank; Australian Bankers Association

HOSSACK, Mr Nicholas, Director, Prudential, Payments and Competition Policy, Australian Bankers Association

CHAIR—I welcome our next witnesses. Thank you for your attendance today. I would like to invite you to make an opening statement and then we will go to questions.

Mr Hossack—I would like to thank the committee for inviting the Australian Bankers Association to present an opening statement and answer questions regarding your inquiry into homeownership. Representing the ABA as well is Dr Nick Fernando. His expertise is in product design.

The ABA is an industry association that represents the interests of 25 member banks that include nearly all the banks that provide retail banking services and products. Housing lending is now the dominant line of business for Australia's banks. Over half of all lending is towards housing compared with around one-quarter less than 20 years ago. The ABA member banks account for around 85 per cent of housing lending with the remainder filled by credit unions, building societies and non-bank lenders.

Housing affordability has for many decades been a community concern. Indeed, the purchase of a house has always been recognised as a major and important financial commitment and affordable rental accommodation has been viewed as critical for households that cannot generate a sufficient income or deposit to purchase a house. The standard measures of housing affordability typically compare the average price of houses with average household income. Some measures also take into consideration the household's capacity to borrow money at the prevailing mortgage interest rates.

As expected these measures do move around, reflecting changes in the variables—for example, when a house price increases, affordability falls for any given level of household income and interest rates. When interest rates increase, all other things being equal, affordability also falls. When household income increases, affordability improves.

Looking at affordability trends over recent decades, it seems correct to conclude that purchasing a home today is probably more expensive than it has been since the 1970s and around the peak levels of the 1980s even though household incomes have risen steadily in that period and interest rates are lower. One factor impacting negatively on affordability in recent years has been the increase in mortgage interest rates due to official RBA rate increases and additional increases stemming from the US sub-prime lending problems, although it should be noted that interest rates are still not high by historical standards.

The role of banks or other lending institutions in the housing affordability debate is on the one level straightforward. Banks provide a means by which those who do not have sufficient wealth to purchase a house outright can potentially access additional capital by borrowing from a bank.

In other words, banks provide finance. Banks assist households in making housing purchases. It is important that banks fulfil this role prudently and efficiently because, without the capacity to secure finance, those households that require finance today and into the future would not be able to make successful purchases. It should be remembered that not all properties have finance on them—around one-third of the housing stock is owned outright. For these properties, banks play no financing role. Roughly one-third of domestic property is owner occupied with finance on it and the remaining third is property owned by investors and public housing authorities. The majority of investment housing has debt against it.

Providing adequate access to bank housing finance, particularly for lower income people, was one of the motivating factors in the deregulation of the financial system that got underway in the 1970s and was completed in the 1980s. Under the heavily regulated banking system credit was rationed, so the banks were effectively incentivised to approve loans only to those that represented the lowest risk of default—typically higher income earners and those with substantial deposit balances.

In the modern deregulated banking system, where credit rationing is no longer mandated by government, prospective borrowers that can demonstrate an adequate capacity to repay a loan have a greater opportunity of securing credit and therefore an opportunity to buy housing for which they require credit. Lending innovations such as the ability of a borrower to access a higher loan-to-value ratio loan, where credit risk can be mitigated through other means such as insurance or family pledges, have enabled access to finance that might otherwise have been declined.

Another development which started amongst non-bank lenders has been low-doc loans where self-employed people have been able to secure loans without the information traditionally needed to verify income, such as pay slips. These changes and innovations in lending products are sometimes described as a deterioration in credit standards, but this criticism assumes that the credit practices used in the regulated era of credit rationing represented an ideal approach to lending today. The ABA does not agree with these sentiments. Our observation is that bank housing lending practices are sound. While the future is never 100 per cent certain, bank mortgage portfolios are still exhibiting very low levels of impairment, even though official cash rates set by the RBA have moved significantly higher since 2002.

An important point that is often overlooked is that it is squarely in the banks' interests that they take care to issue loans to those who have a capacity to repay those loans. It should be noted that the low level of bank housing impairment compares favourably to some impairment ratios of loans issued by non-conforming housing lenders. These lenders also typically have more aggressive repossession strategies and use different initial credit assessment guidelines. Non-bank or non-ADI lenders are prudentially regulated, meaning that they do face capital and other constraints on their activities.

How can homeownership be improved? The aim of this Senate committee inquiry is to come up with policy actions that might make a positive contribution to the objective of making homeownership more widely attainable. While this is a daunting task and there are certainly no silver bullets, the problem can be broken down by considering again the factors that determine housing affordability. These factors are: household income, mortgage interest rates and housing prices. Household income is normally a function of a household having members who are employed and are renumerated at levels that allow them to repay a loan. For housing, a loan is typically large and can extend for up to 30 years, although the average length of a loan is less than 10 years. Looking at the first factor of household income, as is well understood, economic growth driven through productivity improvements is the best means of ensuring employment demand is strong and remuneration levels increase over time. The higher household incomes are, the more affordable housing will be; and the more people are employed, the more households will have an opportunity to buy houses.

The second variable is interest rates. The lower housing interest rates are, the greater the borrowing power of a household will be for any given level of income. Currently, interest rates are in an upward cycle and it is not certain at what point the cycle will peak. This is also complicated by significant increases in what is referred to as 'wholesale bank funding' resulting from the US sub-prime crisis and the subsequent worldwide reassessment of credit risk. Yet there is broad consensus that the average interest rates will be lower if inflationary pressures in the Australian domestic economy are well contained. In practice, this means that increasing rates to dampen inflation now might mean lower rates into the future. Of course, any additional policy assistance that can reduce inflationary pressures, such as tighter fiscal policy and microeconomic reforms, will also help lower average interest rates over time.

The third variable is that of housing prices. The community has mixed views on housing prices. For those who have purchased houses, price increases represent increases in wealth and potentially higher consumption of other goods and services. For those currently renting and looking to purchase, house price increases make it harder to buy a home. This task is additionally difficult if the first home buyer has no means of parental or other assistance to support a housing purchase, as some first home buyers do. The price of a house is a function of demand and supply of houses, as with other markets. In the ABA's view, the best role for government is to ensure it does not intentionally or unintentionally contribute to house price pressures by artificially stimulating housing demand or unnecessarily constraining the supply of housing. It is reasonably well established now that, while significant real house price increases from the mid-1990s until 2003 were the result of strong demand by households to spend more of their income on housing, supply side factors did impede a satisfactory accommodation of this demand, particularly in the outer-lying suburbs of the major cities.

I would now like to talk about the government initiative to help first home buyers to save a housing deposit or a down payment. Although the government's announced introduction of the first home saver account can be viewed as a demand side stimulant to housing similar to the first home owners grant scheme, the initiative is targeted only to those buyers seeking their first home. In 2006, only about 10 per cent of house purchases where from first-time buyers.

Secondly, no demand stimulation will occur for at least four years, that being the minimum saving period before draw-down of the accumulated savings. Importantly, in ABA's view, we hope the first home saver accounts will help recreate a culture of deposit saving. This is not only important for our macroeconomy; more savings and less spending will reduce inflationary pressures, but accessible savings like deposits provide security for individuals and their families and, importantly, will reduce loan sizes when eventually housing is purchased.

Since the early 1990s household deposit ratios have fallen quite markedly measured against bank assets, mainly as a result of compulsory superannuation and concessional taxation treatment of super. This has resulted in banks relying relatively heavily on foreign sources of savings for their lending. It is a little known fact that Australia has one of the highest taxes on deposits in the world, yet this is the main savings vehicle households use to build a housing deposit. The ABA has made a submission to the government seeking to simplify the first home saver account product and to make it less costly to introduce.

Moving to other factors relating to housing price affordability, there is also scope to improve the efficiency and integrity of the regulatory framework for credit lending and mortgage broking. ABA supports a national approach to credit regulation and federal regulation of mortgage brokers. As to the myriad other factors influencing supply and demand conditions—state and federal taxes, planning processes, land release, zoning and developer charges—ABA is happy to leave discussion of those to other organisations.

CHAIR—Thanks, Mr Hossack. Dr Fernando, you did not want to add anything?

Dr Fernando—No.

CHAIR—I want to touch on a subject which was discussed yesterday, both with Treasury and NATSEM in our hearing in Canberra, about the approaches of lenders, broadly speaking. That obviously includes your organisations. When you look at NATSEM's analysis of those in housing stress, particularly the numbers that they produced in their most recent report, it seems to me that it was traditionally the case that lenders did not really pursue loans that involved households having repayments that exceeded 30 per cent of their income. That appeared to be a rule of thumb at least, and whilst it is hard to pin down as an official policy it is certainly broadly used as an assessment in relation to housing stress. What comment can you make on how common repayments of that size are now, and repayments greater than that?

Mr Hossack—I think the figures show that there probably is a higher proportion of households now that are paying more than 30 per cent of their income for mortgage repayments. However, on the question of stress, a good indicator of stress is the number or the share of households which are failing to make regular payments—that are late 30 days, 60 days or 90 days. That is a pretty good indicator of stress, we think. If you look at that, what the data shows is that over 2007 the rate of nonrepayment actually fell. So it stabilised—

CHAIR—By what proportion?

Mr Hossack—It fell marginally and now impairment is very low. About three households in 1,000 are not making the scheduled repayments—so about 0.3 per cent.

CHAIR—Those are the ABA's figures across your industry?

Mr Hossack—Yes, that is right. They are publicly available figures as well.

CHAIR—Dr Fernando, did you wish to add anything to that?

Dr Fernando—Our results are in keeping with what Nick said. When we look at our early year results, they are fairly strong and, if anything, there has been a decline over the last little while.

CHAIR—So is this the sort of line that the ABA's chief executive, Mr Bell, was drawing about a difference between banks as lenders and non-bank lenders in some of his recent public comments?

Mr Hossack—I think if you look at the data, the bank loan books do look better compared with the non-bank loan books. What I mean by 'nonbanks' is what are called the mortgage originators. Their loan defaults or their impaired assets are higher than the banks'. The banks still have very low defaults as a proportion, both historically and compared to internationally.

CHAIR—Some of the submissions that we have been receiving suggest that there should be a degree of compulsion around financial education, if you like, for consumers in the market who are taking out loans. One submission I read yesterday observed that this is a moment of high emotion for most people—loan documents are not simple documents, they are complex items for anyone, let alone a person embarking on their first significant home purchase—and that financial education should be almost obligatory in the system. What would be the ABA's view of that?

Mr Hossack—I think it is very important that any household which is going into a significant financial transaction—something like buying a house, which could ultimately be the biggest financial transaction they undertake in their life—it is very important that they read the documentation and that lenders are required to give them all the information they need so they fully understand what the financial obligations are. We would support that, certainly.

CHAIR—You would support education?

Mr Hossack—We would support education.

CHAIR—I am sure they read the documentation—that is not always self-explanatory.

Mr Hossack—Yes, and obligations on the banks to ensure they get the right information. We do have a financial literacy program at the ABA, and the federal government does as well. We have put a lot of time and effort into producing informational booklets and so on, which can assist the sort of financial decisions that households have to make.

Senator FIFIELD—Over the last couple of days a figure of 10,000 housing repossessions as a result of loan defaults has been mentioned in the press. It was collated by the ABC from court records. I appreciate that not all of those 10,000 would be people who had loans with members of the Australian Bankers Association; would you have a figure for what percentage of that 10,000 would be?

Mr Hossack—We do not have a hard figure but we have got some estimates. Interestingly, we estimate between 60 to 80 per cent of those court applications do not involve banks. They involve non-bank lenders. This is consistent with what we understand to be the repossession strategies of the non-bank lenders, which is that they are more aggressive than the banks. So if you miss repayments with a non-bank lender, you then are likely to face a repossession application much faster than if you were with a bank.

Senator FIFIELD—Mr Fernando, there has been one high-profile loan with a bank in the press over the last few days; it was a loan to a Sudanese family. I think it was by the

Commonwealth Bank. Given you are here and it has received a lot of coverage, would you like a right of reply. Is it true that a nine-year-old girl was serving as an interpreter for her parents in relation to that loan? Are the facts basically as presented by the press correct? And have some of those loans been forgiven? Also, how many of those sorts of loans are there?

Mr Hossack—If I could step in very briefly, I think the CBA has made a statement on that. It was very much an aberration and happened quite a long time ago in one branch in Melbourne. I think I am right in saying that.

Dr Fernando—That is right. There was an aberration and we have changed our lending policies as a result, and we have made good on those various loans.

Senator FIFIELD—Does ‘made good on those loans’ mean that the loans were forgiven in some way or that the term of repayment was extended?

Dr Fernando—I do not have the specifics of that. It is not really my area of expertise. My understanding is that we have talked to the individuals concerned and we have sorted it out with them.

Senator FIFIELD—Would you take that on notice. It may well be that you provide us with a copy of the statement that has already been issued.

Dr Fernando—We can do that.

Senator FIFIELD—Finally, earlier in the year there was obviously a lot of coverage of the fact that the major banks increased their mortgage rates, apart from RBA movements, for the first in a long time. There was also some discussion as to whether that was a function of there being a new Treasurer and banks taking the opportunity to test out the new Treasurer. My question flows from a comment by Saul Eslake from the ANZ, who indicated that the bank-pricing committees had not made pricing decisions in relation to mortgages apart from RBA decisions because of the fear of what the former Treasurer might do or say. Do bank-pricing committees take into account the reputational damage that an irate Treasurer can inflict?

Mr Hossack—What we saw in terms of increases in bank interest rates decoupled from the Reserve Bank cash rate was very much related to significantly higher funding costs which banks are experiencing as a result of the reassessment of risk that has come out of the US subprime crisis. So that is the fundamental driver. Those funding costs increased from about August last year. Banks waited awhile to see where it was going to stabilise. This is my reading of the situation. When it became very clear that it was a permanent increase in those funding costs, at that point—I think it started in January this year—the banks started putting up rates. As to the decisions which banks make on pricing, those are obviously up to them. They will take into consideration stakeholders, their customers et cetera, and if there is a wider set of factors that will be up to them.

Senator FIFIELD—Dr Fernando, you do not sit on the pricing committee of the Commonwealth Bank in relation to mortgages?

Dr Fernando—Unfortunately I do.

Mr Hossack—I think Dr Fernando is here to answer product questions more than those on interest rates.

Senator FIFIELD—The pricing of a product is fairly fundamental to the issue of products, I would think. Dr Fernando, is the reaction of a Treasurer something that the CBA's pricing committee takes into account when determining the prices of mortgages?

Dr Fernando—As we stated in our last press release, when we raised our rates we had absorbed up to $100 million in costs. The pricing position in the market really has not changed; if anything, it has got worse. So we are continuing to absorb those costs and in doing so we are taking into account all of our stakeholders. They include our shareholders, our customers, our staff and other related interested parties.

Senator FIFIELD—I think that answers my question; thank you.

Senator BARTLETT—With regard to some of the things in your opening statement, as the committee's name shows, we are interested in housing affordability, which as we all know has got significantly and systemically worse. You touched on a number of factors with regard to that. Without trying to sound overly simplistic I would have thought that the key problem with affordability is price. If the price of housing goes up it becomes less affordable. Things like interest rates are not necessarily directly related. One of the intentions, as I understand it, of putting up interest rates is to reduce inflationary pressures. Is there any data on the direct relationship between interest rate levels and affordability per se that you could provide us with?

Mr Hossack—I think you are right in characterising the evidence. The affordability problems for getting into the private market now are related to price, and that has been the main driver since the 1980s. We have seen strong increases in house prices, even as late as 2007. You might recall that housing prices generally peaked around 2003 and then they went into a sideways period for a while. In 2007—not in all states—there was about a 12 per cent increase in average house prices around the nation. It has gone up a little bit and that has impacted on affordability recently. Interest rates do play a role. The higher the interest rate the more you have to repay on your loan, so it eats into your income. So they do play a role, but you are right in characterising house prices as the dominant factor at the moment in constraining housing affordability.

Senator BARTLETT—Interest rates can obviously make a loan more expensive, but they can have an impact on producing price increases in housing.

Mr Hossack—There are feedback effects, yes. It is not necessarily one-to-one. Sometimes you can have situations where interest rates are increasing yet you still see price increases in houses, like we did in 2007. But, yes, there is a general idea that when interest rates are increasing they can have a dampening effect on house prices.

Senator BARTLETT—Not that I am advocating that we put them up further or anything.

Mr Hossack—I understand.

Senator BARTLETT—It is not specifically a goal of your members to assist with housing affordability per se, is it? You are trying to help people get loans but you do not factor in trying to ensure greater affordability or anything.

Mr Hossack—The banks are central to housing affordability because if you are a household wanting to buy a house and you do not have enough money then the bank or non-bank can provide the finance to do that. Banking is a critical component of the housing affordability debate.

Senator BARTLETT—Is it a factor in your lending practices and your criteria to ensure that you have a positive impact on housing affordability?

Mr Hossack—I think that providing the products that households and self-employed people need to access housing is an important consideration. Of course, the banks have got commercial incentives as well—market share incentives—so they are keen to get customers, but there is a one on one relationship there: what is good for the customer is going to be good for affordability as well.

Senator BARTLETT—I am not trying to bag you for trying to make a profit; that is part of your role. I am not trying to do bank bashing either. I guess I am just trying to get an idea whether, in developing all of your products and practices, you give any consideration at all to the impact on affordability. Frankly, I would be surprised if you did. Obviously you are trying to help people get money to afford a house, but I am talking about the overall market impacts. It seems to me that one of the issues with affordability—as in the price of buying a house and all of the flow-on effects—has been the greater access to money for people to be able to flood in, particularly if there are supply issues, which kicked up the prices and made it less affordable for lower income earners. That seems to be one of the key problems. I am not blaming you for that. I am just trying to clarify that it is not part of your charter to ensure that you are not contributing to overall price increases in housing. One of the things in your statement, I think, was that for some people it is a good thing if the price of housing goes up, because their capital return goes up. Those things are not stuff you concern yourselves with, I presume?

Mr Hossack—The banks see themselves as good corporate citizens. The banks want to make sure that their lending policies and products are consistent with the community's expectations about how they operate. I think that those wider considerations are certainly part of the modern corporate world.

Senator BARTLETT—As you said, the first home saver account and the existing first home owners grant are demand-side stimulants. Would you have any data on what the price impact of the first home owners grant is? Do you do that sort of modelling at all?

Mr Hossack—An exercise was undertaken to do that. The Productivity Commission tried to estimate the effect of the first home owners grant. I am not sure they came up with any numbers at the end, but their conclusion was that it probably had a minor effect on demand stimulation.

Senator BARTLETT—It may be outside of your role, but you mentioned that you put in some submission to the government about simplifying the first home saver account.

Mr Hossack—Yes.

Senator BARTLETT—One of the issues that have come up with regard to that is that, the way it seems to be structured thus far, it is actually going to be of greater value to people with higher incomes. That raises equity issues—which I am not saying that you do not care about, but which are probably not in your ambit—and giving subsidies to people who are comparatively better off might have a perverse impact with regard to price, which again is the key thing about affordability. Is that something you have considered at all?

Mr Hossack—We did not cover eligibility so much in our submission. We mainly focused on ensuring that when the product gets delivered it is as simple as it can be. We are going through a normal consultation with the government about how to change it, if necessary, to make it simpler. We are trying to ensure that the banks can introduce these products so that they are more like deposit products rather than investment products. That has some implications in terms of reporting obligations to the ATO, which are more consistent with investment type products.

Senator BARTLETT—I presume if it is simpler it keeps costs down for one thing—

Mr Hossack—Yes, that is right.

Senator BARTLETT—which is in the interest of all of us. Would that reinforce your point—which is one I agree with—about strengthening that savings culture if we can make it simpler and easier to use?

Mr Hossack—The good thing about the government's initiative is that it is recognising some concessional tax treatment for deposits. Deposits are quite highly taxed in Australia. As a result, we have seen a big movement of money that would have traditionally gone to deposits into superannuation. That is important as well, but when you look at the ratios, deposits are looking pretty low compared to how they were, say, 10 years ago. One of the consequences of that is that Australian banks are now a little more reliant upon financing from overseas, whereas in other countries they have a higher deposit basis, so they are not as reliant on those foreign funds as we are. There is a sort of macro issue here. But there is, at the core of it, a culture of deposit saving, and we would like to see that improved—building up your deposit. If some tax concessionality can be used to do that then that is a good thing. That is why we like the first home saver account as well because it is providing an account where you get some tax concessionality. In this case you have to spend that money on a house, but it has a broader principle as well.

Senator BARTLETT—Rather than just a grant you can throw over the top?

Mr Hossack—Yes.

Senator IAN MACDONALD—Yesterday we had some comment about immigration putting up the demand for houses and obviously increasing the value and unaffordability. As bankers, do you have any statistics of the impact of immigration on housing? Did you identify loans to newer Australians? Are those sorts of statistics available?

Mr Hossack—We could probably look around and see if we can get something detailed for you, but the role of immigration is important. It is seen as one of these structural issues to do with housing, because it goes to the number of households that actually need a house. It is a long-term demand factor—the more people we have coming to Australia needing housing, the more that is obviously going to add to overall demand. It is an important issue, as is household formation—the number of people per household. Both issues are important long-term issues for demand for housing, and so it has an effect on price as well.

Senator IAN MACDONALD—Is it too general an assumption to say that immigrants would not be in a position, with a lot of spare cash, to put a deposit on a house or would not be in particularly lucrative employment? Would that be too broad an assumption?

Mr Hossack—I suppose the answer to that question just depends on the profile of the immigrants coming into the country. My understanding is that a lot of immigrants come here with a lot of money, so presumably they would be better placed than others who came with less under different programs and who may find it more difficult. But as to what the aggregate or balance is, I do not know.

Senator IAN MACDONALD—If you had any statistics I would appreciate getting them. Mr Fernando mentioned that the incident that received publicity was an aberration—I think that was the word. Has there been an identifiable change of policy by all of the banks on the availability of money for housing? A few years ago we went through a period where you just picked up the phone and asked for money to buy something; that was about all that seemed to be needed to be done. I wonder if there has been a noticeable or publicised change in the policy of banks towards the freeing up or the constricting of the availability of funds for housing.

Mr Hossack—I think there has been a change. The main changes really came about through regulatory change. In the 1960s and 1970s banks were regulated; credit was regulated. The government informed banks how much they could lend to housing and the banks had to fit within that parameter. But since deregulation, which really finished in the 1980s, banks have had to make those decisions on their own. They have changed their policies to fit that new world. For example, where you had a steep rise in the number of self-employed businesspeople—they did not have the typical income verification documents that you needed for a loan—banks had to look at that market and say, ‘These people can’t provide us with payslips anymore. Can we still provide loans to them?’ They looked at the product and said, ‘Yes, we can. We can provide it safely and prudently and these are its features.’ So there has been a change in the way banks lend. We do not think it is fair to characterise it as declining credit standards. Banks have good credit standards, and we think that is borne out in the statistics, but there has been a change.

Senator IAN MACDONALD—Are you able to tell us what the cost of wholesale money is on any given day? What is the margin, typically, for a bank in what they are buying their money for and what they are selling it to homeowners for?

Mr Hossack—That is a very complicated question, but we have done a bit of work on it. Looking at the housing loan book, we estimate—although this differs between banks—the cost flowing from the sub-prime crisis is probably around 50 basis points. So two Reserve Bank interest rate increases is probably indicative of the real cost which banks are facing. What we have seen is that faced with that cost banks have been passing on some of it in additional interest rate increases, which work out at about 28 or 30 basis points. So there is a significant absorption going on.

Senator IAN MACDONALD—What is the difference between what you buy your money for and what you sell it for? What rate of interest do you pay to your lenders, as opposed to what you receive from your borrowers?

Mr Hossack—What you are talking about is the increase in funds. My understanding is that a margin on a housing loan book would probably be about 130 or 140 basis points.

Senator IAN MACDONALD—So 1½ per cent?

Mr Hossack—The margin would be 1.4 per cent.

Senator IAN MACDONALD—Let me get this clear: you would borrow money from the wholesalers at seven per cent and lend it out at 8½ per cent. Is that too simplistic?

Mr Hossack—If the margin is, say, 1.4 per cent. It used to be 400 basis points rather than 140. Banks have progressively brought that margin right down since the early 1990s, and it is now seen as an incredibly competitive market. Those 140 basis points are what the banks use to pay all their costs, salaries and IT investments.

Senator IAN MACDONALD—And shareholders.

Mr Hossack—And shareholders, of course.

Senator IAN MACDONALD—That is understandable. How does that compare with non-bank lenders? Do you have any perception of that?

Mr Hossack—No, I do not. I have not seen the rate margins of non-bank lenders.

Senator SIEWERT—When you said that half of the lending that banks do is for housing, is that in monetary value or in number of clients?

Mr Hossack—It is in monetary value.

Senator SIEWERT—And 85 per cent of the money lent for housing is from banks. Is that right?

Mr Hossack—Yes, that is correct.

Senator SIEWERT—So your evidence implies that the problems we are having with housing affordability and defaulters is actually because of non-bank lenders—that 15 per cent.

Mr Hossack—That is what the statistics show: the arrears rate or loan impairment is higher for the non-bank sector than it is for the banks. For the banks, it is still low by historical standards and by international standards. It is considerably higher when you get into the non-bank sector, particularly the non-conforming lenders, who specialise in risky loans. Their impairment rates are considerably higher. Offset against that is that they are a much smaller proportion of the loan book than what are called the prime loans.

Senator SIEWERT—But they still account for a lot of the people that are now going into repossession and defaulting on their loans. If I understand you correctly, 15 per cent of home loan providers are responsible for 60 to 80 per cent of the defaulters.

Mr Hossack—Yes, that is right. I think a figure of about 10,000 was used. In 2007 there were 10,000 applications for repossession. We estimate 60 to 80 per cent of those were not banks, even though banks have the vast majority of home loans.

Senator SIEWERT—Does that then lead to the comment you just made in your verbal submission about requirements for tougher credit regulation?

Mr Hossack—We have said on credit regulation that we believe there should be a national system that is implemented by the federal government. That will make sure that you remove inconsistencies and get a better focus on how it is going to apply across the board.

Senator SIEWERT—Are you able to provide us with any further information about how you think that credit regulation should occur?

Mr Hossack—Yes, we can certainly do that.

Senator SIEWERT—If you could provide that, it would be useful. My other question goes back to the issue that Senator Bartlett was asking about—that is, the first home savers package and your comments around high tax on deposits and the simplification of the system. You said you have given a submission to government. I am wondering if it is possible for you to provide us with that submission. What I am after is your suggestions about how it could be simplified.

Mr Hossack—We understand that those submissions will be made public at some point, so we are happy to for it to be made public at that time. We are in a consultation with the government, but I can check for you to see if we can give you that. I do not have any problem with it in principle.

Senator SIEWERT—I am not sure of when that is going to be made public. Obviously we have got a reporting date and it would be useful for us to know your ideas on how to simplify it. If you cannot provide us with the submission, could you provide us with some further information about how you think it could be simplified?

Mr Hossack—We can certainly do that.

Senator SIEWERT—That would be appreciated. Thank you.

Senator COLBECK—I am interested in the percentage of mortgages that come from non-bank lenders but originate out of the banking sector and who might manage those loans.

Mr Hossack—Do you want the proportion of loans that originate from non-bank lenders? It has probably declined a little bit recently, but I think 15 per cent has been the average over the last 10 years.

Senator COLBECK—No, I am after the proportion of loans that are originated by the non-bank lenders but the finance comes from the banks themselves. That is the source of some of their funds.

Mr Hossack—I think that has probably increased a bit recently with the securities markets providing less money for the non-bank lenders. As to the precise proportion of their book that is funded by banks, I could probably get a number and come back to you on that.

Senator COLBECK—Would they manage the default process on those loans or would that default process revert back to the banks?

Dr Fernando—No, it would be managed by the end sellers of those loans.

Senator COLBECK—So there is a potential for a proportion of that default market to go back through your books, depending on what the numbers are?

Mr Hossack—I think there are two issues: the credit provider and the credit risk associated with that, and then there is the management of the loan. Quite often they can be segregated, but it needs to be clear as to who actually has the credit risk. Banks have got very strong policies in place to ensure that, if they have a credit risk, they have measured and identified it and they know it is there. That is a very important prudential principle which the banks would make sure they adopted.

Senator MOORE—I am interested in the issue of people getting several mortgages on the one property—not people getting a first mortgage but people who get into credit issues and then remortgage, and I have heard of people then remortgaging again. Is that something that banks do or is it only other kinds of lenders that actually get into the subsequent mortgaging of properties that already have a mortgage on them?

Mr Hossack—In terms of refinancing, refinancing rates are reasonably high. About 35 per cent of new loans each year are refinanced. As to the proportion of mortgage loans out there where there is a second mortgage, I am not quite sure but we could probably look into that a little bit more for you.

Senator MOORE—It just seems that there is an issue that when people are in strife they can access more credit using the same base and this can be a stimulant to further trouble. The other question is on our last term of reference, which is ‘the contribution of homeownership to retirement incomes’. Do banks have the kinds of products that we have heard about where people who are in receipt of a pension can use some form of credit with their home? We know that some people specialise in that, but is that a bank product or is it something that is another form of credit?

Dr Fernando—It is not really a mainstream product. And in answer to your first question: it is very rare for a bank to have multiple mortgages on a property.

Senator MOORE—It is very rare, but it does happen?

Dr Fernando—It could happen. I do not know too many instances where that has happened.

CHAIR—I thank you both very much for appearing today. There are probably some matters we would like to ask you on notice given that we have run out of time. Hopefully you can help us with responses on those. Thank you for your time. Is the ABA planning to make a submission separately?

Mr Hossack—We will probably put something in. Do you have a preferred time frame for that?

CHAIR—Yesterday. But in the absence of yesterday, as soon as possible. Thank you very much.

[11.51 am]

DISNEY, Professor Julian Henry Plunkett, Director, Social Justice Project, University of New South Wales

CHAIR—Welcome. I invite you to make an opening statement, after which we will go to questions.

Prof. Disney—Thanks. I should emphasise I am not speaking in my other capacity as Chair of the National Affordable Housing Summit, but I will mention a little about that group because it is relevant to what I have got to say. It comprises a coalition of the Housing Industry Association, the ACTU, ACOSS, the Community Housing Federation of Australia and National Shelter. It has been working now for four years on the issues of affordable housing, convening a lot of roundtables and making a lot of proposals about what should be done. Quite a lot of what I say in my opening statement or in response to questions will initially come from the work of that group. Much of what I say will be the views of the group, but other things will be personal views.

I am only going to mention some things that I think might not otherwise be mentioned a lot—I have no doubt you will have heard a lot about movements and house price increases—and your time will be limited. So I will talk a little bit about some aspects of the problems that I think are not always fully appreciated and then some things about immediate priorities for action. Firstly, I will outline some of the problems. I just want to note that the price increases have been so large that for the average first home buyer now the increase in the average home loan that they take out for their first home over the last 10 years, after adjusting for inflation, is the equivalent of depriving them of $150 a week in wages. So pre-tax they would have to have $150 a week in wages more than 10 years ago to be able to pay off the average mortgage loan. That brings home the gravity of the situation. Secondly, in relation to rents—I see you have Judy Yates speaking later; she is an expert in this—it is particularly important to bear in mind that we have a big mismatch in who is in low-rent housing. So it is not only that we have a shortage of low-rent housing, but also that a lot of the households in low-rent housing are not low-income households. That situation is getting rapidly worse because of the high demand for rental, which means that landlords can be more picky and choosy—to put it bluntly—and that will tend to mean that the low-income households cannot compete. Thirdly, in relation to the size of the problem, I think one can go on endlessly about precisely how many lower income households are in housing stress. I am not enormously interested in tracking it down to the last number, you cannot really, but it is clear that is at least three-quarters of a million lower income households paying more than 30 per cent of their income on rent or mortgage. By lower income I mean the bottom two quintile, so the bottom 40 per cent of households. It is probably a lot bigger than that, but there is no doubt that it is at least three-quarters of a million and most of them are renters.

But I think it is also important to bear in mind that we probably have as many of what I call ‘hidden’ victims, and I think their difficulties are at least as worthy of concern. They are the people who have only escaped paying above 30 per cent of their income on mortgage or rents by living in very unsatisfactory housing or a very long way away from the job they already have or the work opportunities that they might need and, of course, families and community services. So that is at least as big a problem: people living a very long way away, especially from their work.

That also has impacts for the economy at large, of course, as well as for the community. I think one of the things that still is not fully appreciated about what has happened in house prices over the last 15 or 20 years is the very profound impacts on our economy as a whole. I think the movements in house prices have been the major cause in inflation, particularly the fact that the measure of inflation does not adequately reflect growth in house prices. So the fact that we had inflationary pressures building was not realised quickly enough. This had a big impact on our debt levels and on interest rates but also on our trade deficit because excessive investment of national resources in housing—just bidding up prices against each other—diverts investment from more productive and particularly trade orientated aspects of the economy, which is damaging. Finally, there is the impact on productivity, which will grow, and on our world competitiveness because of increases in wages in order to try and counteract increases in housing costs. That is happening a lot in Sydney already but will get worse.

Also, the distance that people are having to travel has implications not only for them but for the economy. If you take someone who is living now on, say, the Central Coast north of Sydney and they are working in the central part of Sydney, they will be spending two to three working days a week travelling. That is an enormous cost to them and their families, but it is also bad for the economy. If, on the other hand—and I will come back to regional development in a moment—we were to strengthen our regional centres and people were focused a little more on travelling to, for example, Newcastle to work rather than to Sydney, that time would be reduced by 60 or 70 per cent.

I will mention two other things about the nature of the problem: firstly, it is increasingly a question of location. The demand for good locations has been increased greatly by two factors. One is the change in the labour market toward much more part-time and insecure work, which means that it is very important to live either near your work or near a transport hub so that you can get to work. Allied to that is the entry of women into the paid workforce and the consequential complexity of people’s travel now within a household—not only are there two jobs to be travelled to but there are side trips to children’s activities. That has meant that those who can afford to pay for more housing in the best locations are wanting to and have the extra income to bid more for that housing. That has been a major factor in this. The other thing to mention is the impact of the cut in public housing. If public housing were the same proportion of total dwellings as it was 10 years ago, we would have 100,000 more public housing dwellings. When you bear in mind that we have a shortfall of about half a million or maybe a little more in low-rental housing stock, you can see that the cut in public housing of 100,000 has been a major contributing factor to that.

I will quickly mention two priorities for immediate action and two which are for prompt action but will take quite some time. The two immediate priorities are to do with rent and infrastructure. Frankly, I do not think there is a lot you can do in the short to medium term to reduce house prices—and there is a great danger that you will aggravate things. Some of us have been calling with increasing desperation for action in this area for 10 to 15 years because we saw this coming. I think it is important, incidentally, to pay attention to those who did see it coming rather than to those who have been market boosters year after year, denying the situation that was developing, and who now are continually being turned to for advice on the current situation and what to do about it when they have been either wrong or concealing their knowledge of the position for so long. This has been building for a long time, entirely predictable and predicted. If we now try to achieve a quick fix in house prices, we may make things a lot worse. So I think rent and infrastructure are the two key things we can focus on at the moment.

In relation to rent, to try to boost low rental supply, there are two key methods. The first is direct public investment by regenerating public and non-profit housing. That involves not just putting more money into it, but clarifying and giving a greater integrity to the funding of public housing. It has been mixed up for so long that there is deep mistrust amongst all the partners in it, particularly the Commonwealth and state governments. What has been paid, what is required to be paid and what is being paid for maintenance of existing public housing needs to be separated and clearly understood, and what is being paid for growth funding needs to be separately and clearly understood.

The other thing is to attract more private investment. I think this is the single most important thing of all: to attract more private investment from major institutions, especially superannuation funds, into low-rent housing. Our summit group did propose a low-rent incentive, drawing on a number of examples. Some were just proposals—and also the United States scheme, which has been going for 20 years. The government is moving in that direction; it will be a long haul but I think it is enormously important. We must increase the rental supply, especially the low-rent supply, quickly.

In relation to infrastructure, I think the top priority is public transport to overcome some of the problems that I mentioned. Housing costs cannot be looked at in isolation from transport costs and transport time. We need to return to strengthening the infrastructure and at least providing people in the outer suburbs with the same kind of infrastructure as many others enjoy closer in. The government’s new Housing Affordability Fund may help in that respect, but I am not clear on that. It is still only described in very broad terms and there is a danger, obviously, of it being misdirected or not effectively directed. I think it will be very important to try to focus it on public transport.

The other areas are longer-term priorities but are enormously important. The first is deep underlying tax reform. There is no escaping the fact that a major cause of our problems is that we have excessive exemptions for owner-occupiers from capital gains tax, land tax and the pension assets test. They are so generous that they have driven up housing prices. They have ended up being not in favour of homeownership; they are in favour of current homeowners but they are not in favour of homeownership. I can give the secretariat later the reference to the OECD’s comment along very similar lines recently in its economic survey of the United States. You can kill things with kindness. We have seen that in the wine industry, the horse-breeding industry and the film industry over the last 20 years, with excessive tax concessions bringing in dodgy money at dodgy times for dodgy purposes. While I do not use those adjectives in this area, it has been a major factor that we have got uncapped exemptions. We really need to address that, particularly by putting a cap at a very, very high level on land tax, deferring payment until sale or death—at least, partially deferring it—and offsetting it with a reduction of stamp duty at the front end. The tax system is upside down and back to front. We need to help people to get into the market and then expect them to contribute from the gains they enjoy during that time. We also need to follow what Ronald Reagan did 20 years ago, which was to restrict negative gearing—not abolish it. I do not think anyone proposes abolishing it, but we need to restrict it.

The other long-term priority—hard to achieve but, I think, enormously important—is to strengthen regional centres in Australia. If you try to think why it is that Australia has what seems to be about the worst housing affordability in the world and you think about what it is—what is distinctive about our country—there are a number of things but one of them is that we are more concentrated than any other developed country in a few major cities. I think that that is a major contributing factor to excess demand in those areas driving up prices. It is partly caused by distortions in the tax system and by inadequate infrastructure investment in transport and communications. Over the long term—40 or 50 years—I think a very high national priority should be to strengthen the proportion of our population living outside our biggest three cities. That will have a number of benefits, including for productivity of our economy, but it will also, I think, restrain housing costs and transport time.

CHAIR—I know that you have time constraints. We will try to get through as much as we can by 12.30. When you began to talk about priorities, you initially said that it was your view that you cannot do much to reduce house prices in the short term. You then made some comments about the voices of those who were predicting this problem some time ago versus the market boosters from whom advice is now being sought. In terms of those that you identify as so-called market boosters, what sort of people do you have in mind and what sort of incorrect advice do you envisage is being obtained?

Prof. Disney—You particularly have economic or property commentators in the media. I will not digress too much, but it is a major problem for our economic policy that we have major forces in the media that have very heavily vested interests which are not always obvious, and I think that has a major impact. I can give you the analogy with the weather forecasters who, for many years, thought that it was a wonderful thing if we had another week of sunny weather with no rain. They have come to realise that that is not good for all people in the community and now moderate their descriptions of what is good weather and what is not. The same thing has happened with house prices. It still seems to be believed by far too many that high house prices and increasing house prices are good for all. They are in fact good for a very small portion of the community, and we need to recognise that. So it has been economic commentators, and finance and business commentators in particular, calling for more assistance for homebuyers and for reducing charges on homebuyers, and we may talk a bit about land release too, which I think is not going to significantly improve the position and in some cases would make it worse. Calls for increases in the First Home Owner Grant, for example, I do not think are useful; I think that would substantially aggravate the position.

CHAIR—There was a suggestion yesterday that the First Home Owner Grant should in fact be indexed.

Prof. Disney—No. I think that it should have been means tested or limited to houses of certain value and that the ideal opportunity to do that was temporarily lost—I hope not permanently lost—when the home saver account was bought in because the home saver account does in fact provide advantages to homebuyers, including those who would have been means tested off the First Home Owner Grant. So it was a good opportunity to do a trade-off, as it were, by at least cutting back on the First Home Owner Grant for those who are better off. It was brought in for a transitory purpose and there is, frankly, very little support for it within business groups. I think there are many who might be thought of as amongst its strongest supporters who are actually not and who would agree that it is no longer justifiable in its current form, and it costs a lot of money.

CHAIR—I have two quick questions on a couple of the initiatives that are part of the government's current plan. The first is one you have referred to, the Housing Affordability Fund. We had some discussions with FaHCSIA yesterday about that half a billion dollars which is broadly targeted or directed—I think 'targeted' is probably the wrong word at this point—to planning, infrastructure development costs and so on. Do you have better information than we were able to obtain yesterday about how that is going to work and how infrastructure projects, for example, would be identified? In terms of the sorts of infrastructure developments that are needed in New South Wales, for example, half a billion dollars is in fact, ironically, not going to go very far.

Prof. Disney—I only know what is on the public record, and there is not much that is on the public record. But I think it is very important that it is developed in the right way. It could end up as a bureaucratic morass if one is not careful. We need to make sure that the funding does improve housing affordability; that is the name of the fund, and we need to make sure it does improve housing affordability and not just take financial pressure off developers or local councils. So how it feeds through into housing affordability is a great challenge, but in saying 'housing affordability' I include in that transport costs because they are so linked to housing affordability. That is why I think—and I emphasise I am speaking here very much just personally—the main priorities for the use of that fund should be public transport and regional centres.

CHAIR—What about the first home saver account—how do you think that initiative will have an impact? There are two aspects to the arguments around this: firstly, as Senator Bartlett was adverting to earlier, that it looks as if the way it is going to be structured will be of greater advantage to higher income earners; and, secondly, that it just provides an incentive to increase prices again.

Prof. Disney—That is always the risk with it. It is not something that I would have proposed. I think it is less bad than increasing the First Home Owner Grant. My concerns about that kind of thing are not only to do with house prices, incidentally, and its impact on house prices; they are to do with what I would see as an unfair distinction between those who are wanting to save to buy a home and those who are wanting to save or needing to save for other purposes.

I actually think—and maybe another Senate committee could look at this sometime—that there is great merit in building on the home saver account, making it more a special savings account which is available for a wide range of purposes, subject to you keeping the money in there for four or five years. I have been proposing that kind of account, and they have been moving in that direction in the UK and elsewhere, for quite some time. It is true that bank deposits—if lower income people are saving through a bank deposit, because that is really the only option available to them—especially at times of moderate or high inflation, are overtaxed. So there is quite a strong case for encouraging saving for lower income people and for mid-term spending, not only on housing but on other purposes. I think the best thing about the home saver account is that it might provide a base for moving in that direction.

CHAIR—If we have time I will come back to the National Rental Affordability Scheme. Thanks, Professor.

Senator SIEWERT—Picking up on what you just said about your priorities and the home saver account not being your preferred approach, what therefore would be your preferred approach for public investment in housing to help, in the first instance, low-income people trying to find housing?

Prof. Disney—There would be several priorities, and I do not want to put them in order of priority. The first is the rental incentive for attracting institutional investment into low-rent housing. I think that is an enormously important initiative. But it works better, and vice versa, if you are also regenerating and strengthening public housing. That is partly because you can actually bring public housing on stream to a certain point a little quicker than you can through the development of the rental incentive scheme, and we do need to get some runs on the board fairly soon. But it is also expensive. The cost of public housing to the public purse is much more than the cost of the rental incentive scheme, which leverages about $3 to $5 of private money for every dollar of public money. On the other hand, the rental incentive scheme provides affordability for 10 years whereas public housing provides it open-endedly. So there are merits in both. I think those two need to go forward together but I would also add using the housing affordability fund in the way that I described. I think they are the three top priorities for spending at the moment.

Senator SIEWERT—Thank you. I want to move on to the regional development aspect. I am from Western Australia, and in Western Australia we are having a huge affordability issue in the regions as well. Do you think the issues are going to be easier to deal with on a regional level than they are in urban centres? We are going to Karratha next week. I realise that the north-west of Western Australia has different issues because it is resource-boom driven, but we have similar issues in the south-west as well.

Prof. Disney—What I mainly have in mind is not responses to particular booms—it is hard to do much about those—but a stronger range of medium-sized cities in Australia. The United Nations defines medium-sized cities as those with half a million to a million people. We have none in that category. Most developed countries have quite a number and they have 20 per cent, 30 per cent or 40 per cent of their total population living in cities of that size. One of the benefits of that is that there is a greater chance of people living closer to wherever the boom may be emerging, which will take some pressure off housing costs or fly-in fly-out processes and those kinds of things. It is not an answer to everything but it does, to some extent, modify the dangers of the booms. It is very hard to do much about the booms in isolated areas.

Senator SIEWERT—I apologise; it was a bit of a red herring. But there are issues with housing affordability in regional centres that are not boom driven. Particularly, we are seeing the sea changers, and they are now associated with the higher cost of housing in regional centres.

Prof. Disney—That is one of the advantages of all three that I mentioned. They can be used in those areas. For example, as you would know, public housing in South Australia, which had a higher proportion of public housing than anywhere else, was deliberately used, mainly as a way of encouraging economic development, of encouraging employers to come to South Australia, by keeping wages down because housing costs were being kept down. One of the potential benefits of public housing or rental incentive housing, which benefits from the subsidy, is that, if some of it is located in regional areas, it takes the pressure off the pressures arising from economic development.

Senator COLBECK—We heard this morning that the narrowing focus of the state housing authorities has essentially made their businesses unsustainable, because there is not the broad spread of client base that provides them with the returns to sustain their businesses. How do you see that feeding into the investment priorities of government at state and Commonwealth levels?

Prof. Disney—That has been a major problem. It is an example of where, really, overtargeting is counterproductive. It has created such dysfunctional estates that I am afraid we are really not helping a lot of people by putting them in those estates. Even though they would be paying more in private rental, the indirect costs they bear by living in those estates are very great. It is not cost-effective for quite a lot of the people living there, and of course it is not cost-effective for the public purse at all. We really overshot, driven mainly by treasuries. It is not a failing of the public housing authorities, mainly; it is a failing, I think, of short-sighted views—especially at state level but to some extent at the Commonwealth level—of cutting back on support for public housing, which has meant that it has been overtargeted. It means not only that they cannot charge enough rent to meet their costs but also that they have higher support costs for the people who are living there. Of course, in many ways, really, things that were being met out of the health and welfare budget are now being met out of the public housing budget as the consequence of de-institutionalisation. Housing is now picking up the tab. A lot of what is now public housing was previously institutionalised housing. We really need to get back to a broader social mix in public housing and to spreading it around in a more diversified way.

But a key to that is clarifying, rationalising and giving integrity back to the structure of funding for public housing by distinguishing between what is to be maintained there now and making sure that it is adequate and that there is clarity about which level of government is bearing which share—get that separated and then say, ‘This is growth funding.’ Then you can tell whether or not you are getting the growth you have paid for, whereas at the moment you cannot and you get distrust between both levels of government. So, if we can clarify the funding structure, which should be done through the National affordable housing agreement that replaces the current Commonwealth-State Housing Agreement, we then should, at the very least, restore the funding that has been cut over the last 15 years or so. About $300 million really needs to be put back in again over the next few years. But we have to get the product right that it is being put back into.

Senator BARTLETT—You gave an analogy about weather forecasters. One of the issues was whether we need to change our culture, which is a very difficult thing to do, or our attitude about some of these issues. It seems that, for every story in the newspapers now about the housing affordability crisis, there are still 10 stories about fabulous areas where housing prices are still going up and where there are great investment opportunities, without any connection being drawn between the two. I am not trying to bag the media here, but is there some way to shift the way we think about what housing is for so that it is not being driven continually by all those measures that increased prices are actually seen as a good thing. Is there some way to shift that culture? Would that be through some of those tax mix changes or are there other ways—through public debate?

Prof. Disney—It is certainly a major problem. I think it is actually worse in the media than it is in the general public. I think the general public is a little ahead of the game in understanding the problems of house prices. The former Prime Minister was, I think, usually a very astute reader of the public mood, but I think he was actually wrong a couple of years ago when he said, ‘No-one is complaining about prices going up,’ because I must say that, even then, people were complaining a lot, especially older people in their 60s or 70s who were making a killing out of it but knew that it was at the price of their grandchildren. Funnily enough, I find that, in a lot of things, people in that age group tend to have a longer vision than those who are in their middle years about what is good for the country.

So I think that, slowly, the community is realising that this has been a rather false benefit. The media, though, is pretty slow. As you would know, the great Australian dream will come out in the first couple of sentences in any interview you do with the media and they will assume that any change from that is a bad thing. I am quite neutral as between homeownership and rental as a generality, but I think we need to recognise that, for a mixture of reasons, particularly to do with the changes in the labour market and the role of women, which I mentioned before, it will be a more rational and desirable decision for a greater number of households than it has been in the past to decide to be long-term renters and that rental is probably a little too much regarded as a poor option. It has a poor image, which I think we need to overcome. We need to provide much more opportunity for long-term leasing, as they have in Europe.

Senator BARTLETT—Yes; that was my second question about another cultural shift which would immediately be portrayed as giving up on the great Australian dream. But do we need to recognise that rental is a valid option and look at policy measures—not just things we can say in public debate—that would go to that, like reform to tenancy laws and those sorts of things?

Prof. Disney—Firstly we need to recognise that we need a broader spectrum of housing options. We have tended for most of our history to have either short-term rental or full homeownership as the housing options for people. That is gradually breaking down under the pressures of reality and we need to recognise it and encourage it so that we start from short-term rental through to long-term leases, through to shared housing, through to shared equity and through to home purchase. We need to work more on encouraging the availability of some of those options in the middle.

I would point out also that the option of full homeownership is falling away—I saw that you had some figures to this effect yesterday—and it will go much further. In the past in statistics we tended to use the description ‘homeowners’ to include people who are actually homebuyers—they had not paid off the mortgage. That reflected the fact that it was always assumed that everyone would end up as a full homeowner, but in the future I do not think that will happen. That is not just because of house prices of course but because the mortgage is being recycled to meet other consumptions. It means that in 20 or 30 years time most people will still be ‘paying off the mortgage’ through most of their retirement. That is very important in terms of the impact of homeownership on retirement security. Many people will still be, in that sense, paying substantial regular payments for much longer than has been the case in the past.

Senator IAN MACDONALD—I want to pursue your comment about regional Australia, Professor. If you could elaborate for me: is your suggestion that housing in regional Australia is cheaper than it is in the capital cities; therefore, if we can get people to live in the regions there is more chance of getting a house?

Prof. Disney—That is part of it. I emphasise that when I say 'cheaper', that is not always relative to the income of the people living there. So that does not mean that affordability there is necessarily better at the moment. But of course if you have regional centres growing you will also have income levels growing as a generality. So I am not saying that at the moment it is more affordable.

I chaired a task force for the New South Wales government here 10 years ago and I tried to get them to think more outside Sydney. It was only right at the end of pushing and shoving that we got the data that showed that the affordability problems were as bad outside Sydney as they were inside and the deterioration was as bad because there had been a huge change in relative income levels between the big cities and the smaller areas. It is partly that house prices relative to income will be lower if we can strengthen big regional centres. I am not talking about places with just 20,000 or 30,000 people—larger than that. It is also to do with transport costs, not only direct costs but the impact on families, because people will be living closer to their work. So both those things are important.

Senator IAN MACDONALD—Do you have some research—perhaps more recent than this 10-years-ago stuff—that you could refer me to that might be a basis for pursuing what you are talking about?

Prof. Disney—Yes, and I can get that to you. It is also worth looking at the Productivity Commission report on first home ownership a few years ago. They got partially into this point, particularly about the proportions of people living in medium-sized cities, and you will see there is a table in the Productivity Commission report about that.

Senator IAN MACDONALD—You mentioned before that Australia does not have many 500,000 to one million cities—we have none—but does your hypothesis still relate to cities of 100,000 to 200,000? Is that the area you are talking about?

Prof. Disney—I do not know how precise you could be. It is just that we need to build them up a lot beyond what we have now and not as dormitory suburbs for larger cities. They do need to be more standalone. There are some parts of Australia to which this is much more suited than others. I think Victoria and Queensland stand out as the two that have the best prospects—and, of course, Queensland is already much more regionalised than others. I should also emphasise that I sometimes talk about them as clusters rather than as centres; in other words, if there are three substantial cities of 70,000 to 80,000 within an hour's drive of each other, that is the same as one centre. So, in the case of Victoria, I always felt that Ballarat, Bendigo, Castlemaine et cetera had a lot of potential; in fact, it was the original proposal for where a multifunctionpolis might be. I think it would have worked very well with high-speed transport between those centres creating a cluster, which is what you have in Europe—a lot of people and organisations that play a major role in national life live and work in quite small centres.

Senator IAN MACDONALD—I come from the north. Would it work in a place like Townsville, with Ayr and Ingham about an hour each side of Townsville but with communities of only 20,000 or 30,000 people? Do you see prospects there?

Prof. Disney—I could not be too specific about any particular place. One problem, I would say, is that sometimes you do have topography with a mountain range and a coast, as in this case, that can sometimes make it difficult. One of our problems is that, for a lot of the eastern coastline, we are very linear. That is one reason why Victoria is a better option, as are some parts of northern New South Wales and south-east Queensland. But in other places you start to get a rather linear dictation of where you could spread, which can sometimes create problems and sometimes not. The other thing I would emphasise—by contrast with 30 years ago when they tried to do this, although they had more success than is often recognised—is to build on strengths: to not try to create things from greenfield, to not try to do it mainly to prop up ailing towns or cities but to look at what has already got some momentum and build on that momentum.

Senator IAN MACDONALD—Albury-Wodonga.

Prof. Disney—Yes, Albury-Wodonga and Bathurst-Orange over time, because it is a long-term process. Those two are going quite well.

Senator FIFIELD—I think your focus on transport as a factor to be taken into account in relation to affordable housing is helpful. I can see how that would bring areas on the fringe of a city closer, in effect, to where the jobs are. Just following on from Senator Macdonald’s questions about regional centres and how to decentralise, and just putting aside transport as something which could help that, what other ideas do you have as to how you could actually encourage decentralisation?

Prof. Disney—Firstly, I would not use the word ‘decentralisation’, because that makes it sounds like a negative—that you are driving people out. I would call it ‘regional development’. I would start to remove some of the factors which artificially drive people into the city, and one of them is some of the tax things that I talked about. The excessive exemptions for the family home from capital gains tax and land tax in fact attract investment into areas where you have the highest and most certain prospect of capital gains, so it makes it more attractive to invest not only in the bigger cities but in the heart of the bigger cities. So that is actually distortion.

Another distortion is the method of government budgeting and accounting, which does not recognise adequately the value of assets and infrastructure investment and is too short term. It therefore follows that major infrastructure investment decisions tend to looking at the short-term cost of extending the service around the fringes of the major cities, which always looks cheaper but over the long term is not cheaper than making a head start on something with higher up-front costs. So our methods of budget accounting and of doing cost-benefit analyses are inadequate. It is pretty obvious that transport and communications are a vital part of that. Those things played a crucial role 100-odd years ago in Australia, particularly surface transport. When you consider our topography and everything else, we should be leading the world in rapid surface transport. Things such as very fast trains are crucial to that, as are state-of-the-art communications in country towns. In country towns you will often find that the post and telegraph office will have been a very handsome building in the centre of town—it was recognised how fundamental post and telegraph was to country towns but, nowadays, it is about videoconferencing, high-speed broadband and those sorts of things. So those are crucial.

I think it is useful to ask why one would not live in a regional centre—'What is it that I think I would miss?'—and try to counteract that. The last thing is to say that it should not be underestimated how often cultural things, in a broad sense, can drive regional development. The Western Plains Zoo in Dubbo was a major factor in helping to drive Dubbo forward. If you can in a sense develop the brand of a regional centre, which can often be done through some particular events—

CHAIR—Universities?

Prof. Disney—Yes, universities are crucial. I used to be on the graduation address circuit for regional universities, and I found it very encouraging in a number of ways. One of the things that struck me was that, amongst the few regional institutions we have—those that have multicampuses—they were very close to their communities. I remember going to Charles Sturt University's graduation, and the leaders of the community were all there. If you do one at UNSW or the University of Sydney, it is just a sausage factory churning out people with degrees—I have just lost my job for next year!—but the potential for regional universities to give a sense of identity and commitment to regional development is very important.

CHAIR—I am sure the Faculty of Law wouldn't do that to you, Professor. May I thank you very much for appearing today and for your assistance to the committee. As the inquiry progresses, given this is only our second hearing, there may be some issues we wish to follow up with you. I hope you will be able to help us with answers to questions on notice if that is the case. We appreciate your time.

Proceedings suspended from 12.32 pm to 1.31 pm

GURRAN, Dr Nicole, Senior Lecturer, Urban and Regional Planning, University of Sydney

RANDOLPH, Professor Bill, Director, City Futures Research Centre, University of New South Wales

YATES, Associate Professor Judy, University of Sydney

CHAIR—I welcome our next witnesses to our hearing. I understand we have submissions from Dr Gurran and Professor Randolph.

Prof. Yates—And also from me.

CHAIR—Thank you for those. Have we seen this before?

Prof. Yates—It is a summary of what you have seen before. There are some nice pictures there which are easy to interpret.

Senator SIEWERT—That always helps!

CHAIR—We will not then rely on our intimate knowledge of the detail contained in these! I am going to ask you to make brief opening statements and then we will go to questions from members of the committee. Thank you very much for attending.

Prof. Yates—I want to make four points which are all in the paper submitted by AHURI and also tabled again today. The first one is to say that the housing affordability crisis—I think it is fair to say that it is a crisis—is not something short term that happened in the last three or four years, it is something that has been going on for up to, I would say, 30 years. I would pinpoint it to the mid-seventies when inflation took over and housing became important as an asset rather than as something that provided shelter because that made people switch to housing. I think it got worse when we introduced capital gains tax and exempted owner-occupied housing and again when we rejigged the capital gains tax system and made it better for investors, so all those kinds of things have contributed to it. You can see in the submission the underlying trend that shows house prices and incomes diverging quite dramatically. It is a structural problem and you need to pay attention to the structural problem to address it.

The second point is that you hear a lot about the 30 per cent ratio used in mortgage stress indicators in the press particularly. I think that is a very broad indicator and it is a bit dangerous to use it solely as an indicator of whether people have affordability problems. I think it is much better to use the 30-40 rule which is the bottom 40 per cent of the income distribution because if you take someone on $100,000 spending 30 per cent they have $70,000 left. They have twice as much income as a renter who has not even started to pay for housing. Housing affordability problems are much worse in the rental sector amongst low-income renters than they are amongst home purchasers generally. That is all documented in the evidence you have in front of you.

The third point is one that is actually implicit rather than explicit in the papers that have been tabled, and that is that what happens in the private rental markets, which I think is where the problems are, is driven by the whole housing sector. While we have had declining homeownership rates amongst younger households, a lot of those are households that, once upon a time, used to be able to get into homeownership; now they cannot. Some of them are relatively affluent, with moderate to high incomes. They are putting pressure on the rental market and that is feeding down the system. That is an example of the kind of interaction between things—you cannot look at one particular problem in isolation; you have to look at the whole housing system.

The last point I want to make which comes out of our research is that we have done some forward projections to match the intergenerational reports done by Treasury. Treasury did not do housing, which is a pity because housing is very important. We took exactly the same assumptions as were done in the *IGR*s. We kept housing cost to income ratios exactly the same as they were in 2001—that is before the current price boom—and said: ‘What is going to happen as a result of these people not getting into homeownership in their under-40s as they go through to being over-60s? And because the public or social housing system is stable, it is not growing, as the population grows, what are the implications of that as the population ages?’ What you find is you get more people in housing affordability stress and these are the people who are in the low-income households because they have gone past their earning age. They will be back on the pension levels of income, they will still be in the private rental market and there will be higher levels of problems amongst them. So that is something, looking forward 40 years, that is going to be a bigger problem unless we do something about it now.

Prof. Randolph—I am going to reiterate a couple of the points that Judy has made. First, we have a structural problem with housing affordability. It is not a cyclical one and it is not something that is going to go away. It has been brewing for some time and it is about the issue of overconsumption of homeownership. I would argue that in the long term we have to introduce policies which start to move the balance away from the use of a home as an asset and move it back towards the use of a home as a home. I am not going to dwell on that but there are some long-term structural issues to deal with that.

I also, like Judy, will confirm that from the research we have done the problem is with the private rental market. There is no doubt about that. But they are integrated, so unaffordability in private rental is pushed by the affordability problems or the house price escalation problems in the homeownership sector. We did some work with Judy on the rental problem and we identified two or three subgroups of renters which we think need to be targeted with specific policies. We typified them in market research terms, unfortunately, as ‘strugglers’—the renters who struggle, the people on low incomes. Of those, there were two subgroups which in particular drew our attention. One was the ‘downsliders’. These were people who had been pushed out of homeownership for all sorts of reasons—unemployment, bad health, just bad luck, household break-up and so on. I think there is a set of policies which we need to look at to assist people not to fall out of homeownership. The other group, and Judy has already alluded to these, we called ‘pragmatists’. These are long-term renters who are never going to be owners and who are going to end up in their 50s, 60s and 70s in the private rental market. There is a group of them now and there will be a much larger group into the future. I think that is another group we have to think very carefully about for all sorts of reasons about old age.

I think we need to also consider the geography of unaffordability. It is quite clear from the work we have done that unaffordability is a problem of households in the middle and outer suburbs of our cities. That is surprising, because these are generally thought of as the lower cost areas of our cities. If you look at the figures it is quite clear that low-income rental affordability problems are middle and outer suburban problems and that is partly because, quite categorically, the low end of the rental market has shifted away from the inner city out into those areas over the last 20 years. Gentrification and so on has had a big role to play, but that is where our unaffordable housing market is for renters and the same is true for homeownership.

If you look at unaffordability in Sydney, where we have done a lot of work, the unaffordability problem is in the middle and outer areas not in the inner city and that is because household income in those areas has been particularly constrained. We have had big income growth in the east and the north of our city and in similar parts of Melbourne but in the middle suburbs particularly, incomes have been constrained. That has led to a paradox of falling house prices and falling flat prices in those areas and to growing unaffordability problems. That really is quite a worry given the fact that we have gone through a decade of relatively good employment growth, we have very low unemployment at the moment and we have been relatively prosperous. That gives us a real worry about what will happen if we ever hit a downturn; but that is where unaffordability is.

There are two other broader points, which I will finish on. One is the need to think about how we integrate our planning policies and our housing policies in a way which we have not done so far. Housing policy is seen as a box over here, planning is seen as a box over there—run by other people—and I think we have to move towards a system which really integrates the two. I am not going to go into the details; we can talk about it later. The other thing to realise is that we do have a housing market failure situation in parts of our cities, which I have already alluded to, where demand has essentially collapsed. Calls for releasing land on the fringe in Western Sydney will, to my mind, only exacerbate that problem, because we have a failure of demand in Western Sydney, not a failure of supply. If you look at the figures, that is quite clearly what is happening. If you were to release more land, it would only drive house prices lower, which would be even more of a deterrent to the development industry to develop. We have a real conundrum there, and on that point I will rest my case and hand over to Nicole.

Dr Gurran—I am going to confine my comments specifically to the planning system and housing affordability. The first point that I want to make is that housing affordability is absolutely a fundamental spatial planning goal, and it relates to the spatial planning goals of social equity, spatial equity, access to jobs, services and amenities. Yet for some reason the planning sector itself in Australia—and I will be the first to admit this, as a planning academic—has been quite reluctant to accept that broader policy objective of housing affordability as well as the specific policy objective of maintaining and creating opportunities for new housing that is specifically affordable to lower and moderate income earners.

Australia is actually quite out of step with international practice in that regard. Most cities of the United States, most regions of the United States, many parts of England and across the United Kingdom accept this very symbiotic relationship between spatial planning policy and affordable housing; affordability broadly, in terms of supply—although that has admittedly been a problem in some of those nations—as well as specifically protecting and creating new affordable housing opportunities in new development. I have documented some of the cases internationally in the references I have given in my submission.

In terms of the terms of reference that the committee has asked us to look at, I just want to focus on some of the land use planning elements of those, particularly in relation to taxes and levies, land supply, the roles of government, and the impact of planning on the market. In terms of taxes and levies, there is quite a lot of debate—particularly in New South Wales but also in the other states—about the impact of planning related charges on the costs of building houses and therefore the flow-on impacts on affordability in the market. Bill and I are currently doing some research for AHURI to quantify the costs associated with development contributions for shared infrastructure. So all planning systems throughout the world routinely require contributions towards local infrastructure—neighbourhood facilities like footpaths, parks and car parking. That is actually a routine part of planning. However, in recent years, particularly in New South Wales, there has been an escalation in the amount of money that is sought through the developer contribution framework. So we are doing some research to quantify the actual impact of that. But I wanted to make the point that the amount of contribution sought through the planning system generally does not have a direct implication for house prices. There may be indirect implications if excessive contributions deter development, but there is not a direct flow-on relationship between infrastructure levies and house prices. That has been established, based on international research.

In relation to land supply, I would echo Bill's comments that simply releasing more land on the edges of cities, if the land is not related to demand and if the land is not supported by infrastructure and services, is not going to work. We know that anyway, because all of our cities in Australia have actually increased their land supply programs and it is not demonstrably improving housing affordability outcomes.

I see each level of government in Australia having a strong role to play both in housing affordability generally and specifically in creating housing that is affordable to low- and moderate-income groups. Federal government has an opportunity to play a very big role in ensuring nationally that planning systems not only expect and enable affordable housing as a fundamental planning goal but also support that planning objective with deep funding and incentives for new affordable housing supply. That is the model that is established practice in the UK and in many parts of the United States. State governments currently have many impediments to using the planning system for affordable housing, and I cannot personally see any reasons for those impediments to remain. State government has a very important role to use the planning system as an enabling framework for affordable housing and for specific housing that is affordable to low- and moderate-income groups, as well as aligning their infrastructure funding strategies with new housing release programs. Many local councils in Australia have demonstrated a great willingness to plan for affordable housing in their areas, so they continue to have an important role, but currently that role is often frustrated by state planning legislation.

Lastly, in relation to planning and the market itself, the most important role of the planning system is, perversely, to create amenity and value in housing markets. Where that has negative impacts on housing affordability, we need to offset those by ensuring that we continue to create dedicated affordable housing for low- and moderate-income groups rather than simply removing our planning laws altogether and allowing the type of dispersed development which actually does not create demand and does not address our social or environmental goals.

In summary, we need to support new housing supply but in preferred locations that are supported by deep funding for regional infrastructure. We need to enable our planning frameworks to promote housing affordability as a fundamental spatial planning goal, as well as to create and maintain opportunities for dedicated affordable housing supply. We need to align those planning strategies with our other national policies and investment strategies for new housing supply and housing assistance more generally.

CHAIR—Thank you to all three of you for those introductory comments. One of the things we have been discussing over the last 1½ days are some of the initiatives that the current government has announced in relation to housing affordability across a range of areas, particularly the first home saver account and also things like the National Rental Affordability Scheme. I was interested yesterday when the Housing Industry Association were talking to us about the challenges that go to something as fundamental as construction. We asked them to analyse the gap and look at the popular figure which has been cited in the past couple of days—180,000—for the number of dwellings which need to be constructed per annum. We are currently constructing about 150,000, so a gap of around 30,000. There is the aim of the National Rental Affordability Scheme to encourage investors to build another 50,000 dwellings over five years. But the HIA quite clearly say that we do not have the skilled tradespeople to do that. It would not matter where you put the dwellings; it would not matter if you put them on the outskirts of Sydney or in inner Melbourne. I am interested in your comments on that. Also, what sort of an effect do you think something like the first home saver account has on the market? There is a view that the way it is targeted, which enables high-income earners to gain more government contribution than low-income earners, will only have the effect of pushing up house prices even further. I ask you to comment on those points.

Prof. Yates—I do not know too much about the building sector, the building industry and skills shortages. It seems to me that we have skills shortages everywhere at the moment, so it is not necessarily a specific problem to a particular industry. But I think that one of the characteristics of the building industry is that it is incredibly cyclical. That, to me, has to be a real problem in maintaining skills in the industry. So anything that can remove the cyclicality of the construction sector has got to at least keep the skills that are there and help to develop and maintain them. That, to me, would be the way of addressing that part of the problem.

In relation to NRAS: yes, 50,000 is not enough, but at least it is a policy which is going in the right direction. We do need, as we have all said, to attack the affordable rental supply problem. I do not know whether the details of NRAS are necessarily correct but, hey, let’s head in the right direction and fix up the details as we go along.

On the first home savers grant—I have got the same problem as you have; you know the one I mean—I think the idea of encouraging people to save is obviously very sensible. I am a little bit disturbed about whether you can guarantee that the people who are benefiting from the saving are the ones who are actually putting the contributions in, so I think there is a potential inequity. We have had home deposit assistance schemes in the past—usually the one-for-one kind of assistance, very similar to what this effectively becomes—and they were knocked back because they were inequitable: people who had the biggest capacity to save were the ones who got the best benefit from them. I think that is an issue. And I think you are right to mention the concern that it would increase demand. I think there are potentially ways around that because of the things I raised in the introductory statement. We keep on saying we are not allowed to touch taxes on owner-occupied housing, and I can see the political reasons why that is a no-no, but maybe we could start thinking about having these incentive schemes to save but as a shared equity scheme, so that when you sell your house you have to give back that bit—there is recapture of the subsidy by the back door, introducing a tax system that in the past has been seen as untouchable. The scheme is there; it is in place. We have to work out ways to make it work effectively to achieve longer-term outcomes that most probably are needed in order to see where we are trying to go.

Prof. Randolph—We were talking about this this morning, before we came here.

Prof. Yates—In a meeting we walked out of to be here.

Prof. Randolph—The example of HECS was raised in relation to this first home saver account—I have written that down so I get it right! And then there is the issue of targeting: you can target these things, and that obviously implies a cut-off at some stage where you drop off the target group, which is always a difficult thing to manage. The only thing that I can add to what Judy has said is on the capacity issue. Firstly, this notion that there is a 30,000 gap—it is bandied about that we should be doing 180,000 and we are only doing 150,000—goes back to the point I tried to make about whether it is a supply gap or a demand gap. Work we have been doing recently with Landcom here in Sydney goes to that point very clearly: there appears to be a demand gap. There is potential supply but nobody is building that supply because the demand is not there. So I think you have to be very careful—

Senator IAN MACDONALD—Because the demand is not there?

Prof. Randolph—Because demand is not there. Demand has fallen away.

Senator BARTLETT—At current prices.

Prof. Randolph—Essentially, what the developers want to develop is more expensive than what the market will bear. I think that is the conclusion we came to when we looked at south-west Sydney. That is important because it means those figures—the 180,000 and 150,000—are very rubbery. That is the point I want to make about that, so be careful about those figures. That also implies that if it is a demand gap, not a supply gap, then there is capacity within the building industry to build 180,000. So presumably the guys who are not building new homes are out there doing rehabs and renovations, which I think is the other side of the building coin. We are trying to get somebody to renovate our house at the moment and it is really difficult, so presumably there is something wrong somewhere. We are just not paying enough, I think; that is the problem.

In terms of where that capacity might come from, are we talking about 50,000 additional dwellings over five years in addition to the 180,000, or is the 50,000 part of that 180,000 a year? That is another issue you might want to think about. I know there are proposals to improve immigration of skilled trades in some way to meet that capacity gap, and that may well be a way forward. But I think we have to be careful about the numbers that get bandied about and try to understand exactly where the problem is stemming from. I am not convinced it is a supply problem. I think there is land, there is capacity to build, but there just has not been the demand there for all sorts of reasons—interest rates, mortgage foreclosures, that sort of thing. Some of the information we have given in our submission tries to point out some of that income related lack of demand. I think I might shut up there and hand over to Nicole.

Senator IAN MACDONALD—Is it a Sydney event or is it universal?

Prof. Randolph—I think Sydney is a particular problem because it got sucked up higher and has dropped. There are certainly parts of Sydney where, with house prices, we have got at least a two- or even a three-tier market. I suspect the same is true in Melbourne, to an extent, and in other places. But of course Perth, Darwin and the other cities operate under different parts of the economic cycle and different processes. Sydney is a particular problem and it is our biggest problem in a sense. So, whilst it is specific, it is also very important because what happens in Sydney is such a big part of the housing market in Australia. But, yes, we have got particular problems out in the west, I think.

CHAIR—Do you want to add anything, Dr Gurran?

Dr Gurran—No, I do not want to add anything, except for the fact that what Bill is describing indicates the potential problems of allowing your planning system to be too liberal. On the one hand you want your planning system to facilitate housing in the right place—where there is demand—and you want to coordinate the magnets for demand, like infrastructure, with your planning system. But if you do that too liberally, and you do not match where you are freeing up development opportunities to the demand, you get the scenario that Bill described. In Australia our problems are quite modest, but anyone who has visited a city in the United States, for instance, or even parts of northern England, will see that very serious problem of housing abandonment.

CHAIR—Professor Yates, I flicked through your slides from the Melbourne Institute conference last week. Under the heading ‘What can we do about it,’ your last dot point was ‘Helping marginal purchasers to stay in their homes.’ What sort of a policy initiative did you have in mind in relation to that?

Prof. Yates—One of the concerns I have is that it just seems crazy to have people who have homeownership and are then falling out of it, when we could do something like a mortgage assistance scheme to keep them in—a temporary loans scheme which can be repaid. It depends on the reasons why they are dropping out. If it is because, for example, interest rates are currently too high but they are anticipated to go down again in three years time, it seems silly to displace people if they can be taken through that three-year cycle and can then get back on route again. If they fall out into the private rental market and are then eligible for CRA, for example, it is going to cost the public sector something anyway. That was the kind of thinking I had: basically, some kind of mortgage assistance scheme for people whose problems are projected to be temporary and who can be tided over.

CHAIR—Would you see them as repaying that amount or would it be a subsidy in effect?

Prof. Yates—Yes, I do not believe in subsidies for homeownership when we have got too many other problems further down the income scale.

Prof. Randolph—From the research we did for part of the project it was very clear that people who fell out often had some equity that they took with them—because the house was sold and maybe there was a divorce or something like that—but that equity just got dissipated. They were not able to use the equity because either it was too little to get back into homeownership or they had other expenses. So, whilst they had equity, it had gone and that was, in a sense, their big opportunity lost through other expenses. So I agree with Judy; if there are measures by which the people who are on the margins of homeownership and fall out—for whatever reason—can be supported for a temporary period, that would be better than forcing them out.

CHAIR—Anecdotally, I hear from people who are working in crisis housing and in housing assistance organisations at the community level—particularly in Western Sydney, where my office is located and I work—that, rather than saying to people who are about to fall out, ‘Yes, we can find you a motel room or a caravan,’ they are actually making mortgage payments for families and individuals to keep them in their homes as ‘marginal purchasers’, as you put it. Is that something that you have come across in your research?

Prof. Yates—No. Bill has done some of the qualitative kind of interviews like that. So, in that sense, yes, it was come across in our research.

Senator IAN MACDONALD—Who is doing that?

CHAIR—Crisis accommodation support groups and community organisations are doing that instead of allowing people in crisis to fall out of their mortgage arrangements and lose their homes. They would normally have said: ‘Okay, that is going to happen. We will put you up in a motel or caravan until we can find you rental accommodation.’ But they are actually making the mortgage payments for them.

Senator IAN MACDONALD—But where is that funded from?

CHAIR—All sorts of sources. Some would receive funding from not-for-profits and others would receive government funding. I am not sure how we ended up with a question and answer session between senators. That does not usually happen in the committee environment.

Prof. Yates—It is because it is an interesting issue.

CHAIR—Yes. We can talk more about that later, Senator Macdonald.

Senator IAN MACDONALD—It follows on from what you were saying.

Prof. Yates—Yes. The cost of putting someone up in a motel for a week is the same as a mortgage payment. The UK used to have a ‘bed-and-breakfast guaranteed’ proviso, which cost it more than to accommodate them in proper housing. It seems to me that it is completely sensible to have some kind of balance like that.

However, I would raise two issues. One is that, in the entire subprime crisis, some people have been pushed into purchasing beyond what was a reasonable assessment of their savings capacity—and the US is an illustration of that. To ensure that does not happen, I do think we need to regulate the lenders. That is where the idea of having a savings history is not a bad idea in that it indicates that people do have the capacity to save. Over the course of one’s life, the purchase of a home is a huge savings decision to make.

Senator MOORE—Both Professor Randolph and Dr Gurran have made the point that there has been a divide between the planning and the actual acknowledgement of accessibility in government work. Do you think that has changed? You said that we were slow to take it up and there was this divide between the two areas. Do you think we have overcome that? Do we now have a sense of urgency about integrating effective planning around these issues?

Dr Gurran—I cannot wait to hear what Bill will say, but I think the answer is 'absolutely not'. If anything, the divide is even greater. It is quite extraordinary. We could speculate as to why that might be, but I do not think the senators would find it helpful. We could look at the planning legislation, for instance,. You might see housing affordability written into a planning policy, but I am speaking of actually being able to do something. There are some exceptions. In some states, there has been slight progress. South Australia has made some modest progress. Certainly, some local government areas have been as progressive as they are able to be within the legislation. But you would have to say that we are dramatically out of step with international practice. That would be my assessment.

Prof. Randolph—Yes, I think that is right. We speak after being coloured by working in New South Wales, which perhaps is the more extreme end of the spectrum, if I can put it like that.

Senator MOORE—Which end?

Prof. Randolph—I will let you work that out after I have said what I have to say! We have a metropolitan strategy which talks about affordable housing. It says it is there, but there are no mechanisms, as such, to deliver that. In addition, we have housing policy that delivers subsidies into the system. But the two do not work together; they are not integrated. Other countries seem to do this better. In Europe, housing policies and planning policies work together to deliver an outcome. So I think we need a bit of blue skies thinking about how that might work and what the federal government might be able to do to encourage the states, for example, to deliver that sort of linked outcome—and I think that is very important.

There is one thing with planning that we have not mentioned. We have talked about greenfield sites and land release. However, all our major cities now, as far as I can work out, have metropolitan planning strategies that will see the majority of housing in the next 20 to 25 years as high density. That is not about land release on the fringe; that is about something completely different. If we are to both deliver on our housing targets and meet any affordability targets that we may decide to have, something has to come together to help deliver affordable high-density housing in the places where we need it. I think that is another issue we will have to deal with in any of the outcomes you may come up with.

Planning and housing are integral parts. Again, we were talking about this in the lobby. In the postwar period, housing policy was seen as a way of delivering urban growth. It was a deliberate planning policy. In a way, we have lost that linkage because we believe that the market will deliver. I think we need to understand that the market needs to be assisted to deliver in some places. It certainly has not delivered affordable housing outcomes that have been appropriate. So we have to devise policies that will use planning and housing policies to assist the market to deliver what we want to see.

Senator MOORE—I know that you have been working in this field for a long time and it has been on the agenda in some areas for a long time. It is seemingly only fairly recently that it has been discussed in the wider public arena, and there is an opportunity for that. But if it has not been working in that way, how do you make it work from now? You have identified that it has not been working effectively in this way, with integration and awareness, for a good period of time—I have heard 40 years, but definitely since the 1970s, as you said in your opening statement. If it has not been working in that way, and if we think it is a good thing that it should, how do you make it start? It is not one of those things where you can say that from tomorrow we are going to do it right. Is there a stepped process that can ensure that planning is more coordinated and there is regulation? I keep hearing all the time that there needs to be regulation—but how?

Dr Gurran—I certainly cannot answer that definitively.

Senator MOORE—I know. There is not a simple answer.

Dr Gurran—Fundamentally, there is a philosophical position that needs to be accepted in Australia—and that is why I made the very simple statement at the outset that housing affordability is a fundamental spatial planning goal. But, ironically, that is actually a contentious position for some planners who think that planning is simply about the regulation of physical development. So that is a philosophical discussion, but it is very real. Then, of course, the industry rightly needs to protect its interests. Housing development in Australia has to be profitable, otherwise it will not happen. I think there is a lot of industry concern about any attempts to increase planning regulation. Planning regulation is a constraint. Abandoning planning regulation altogether could deliver a lot of profits to the industry. The industry is very cautious about the types of changes to planning policy and regulation it will accept, and it is quite aggressive about winding back existing regulations. In that context, I think it involves a significant amount of policy work and a lot of education. National leadership is critical in the nations that have got it right. For instance, in the UK, affordable housing is a material planning consideration.

Senator MOORE—For how long has it been so?

Dr Gurran—For 20 years at least.

Prof. Randolph—Since the introduction of PPG3, Planning Policy Guidance 3, in 1989.

Dr Gurran—Previously, there were other mechanisms that would allow, for instance, the release of land if there was not enough affordable housing in an area. I think that dates from the late 1970s. Similarly, in many parts of the United States, since the 1960s there has been an acceptance that planning can benefit some people but in some cases it disadvantages low-income groups. There have been deliberate regulations since the 1960s in parts of the United States to overcome those impacts. So it requires quite a lot of policy development, leadership, education and, ultimately, some regulatory change.

Prof. Randolph—You are dealing with the federal level. One of the issues we have had to face is that federal government has historically been reluctant to be involved in planning issues—since the 1950s, anyway. It is important to see planning as an enabler and not as a regulator. The Commonwealth-State Housing Agreement is up for renegotiation. It could well be that whatever replaces it could be part of that enabling framework, at the federal level, which would have obligations on state government and possibly even local government to deliver affordable outcomes as part of a renegotiated national affordable housing agreement of some sort. I think all three of us would certainly agree that the Commonwealth-State Housing Agreement has had its day and should have been laid to rest some time ago—and, whatever happens in the next few years, we will see the back of it. What comes in its place could be a way for federal government to act as an enabler, using planning outcomes which are consistent with the market delivery of a lot of what gets produced. But would it help encourage state planning authorities to plan for and deliver affordable housing?

Dr Gurran—I would just like to add one point. Some of the resistance to the planning system and housing affordability is a sense that the planning system should force developers to pay for affordable housing, and it is absolutely not about that. It is about using the land allocation development control functions to enable lower cost housing development opportunities. So it is very important to be clear. Internationally, even where there are very high targets for inclusionary affordable housing—like 50 per cent of new housing in Greater London should be affordable—the developers are not paying for that. It is critical to understand that. They are accepting some reduced profit, but—

Prof. Randolph—That is where the housing and policy interrelationship has to come into effect, because in the UK situation the developers develop because they are paid to do so.

Prof. Yates—Could I just add two bits worth, because you mentioned the importance of leadership. I think we see a need for that a lot, particularly in planning—I am not a planner—with the nimbyism. People do not want it next door to them, and there is the same problem with housing affordability. The vast majority of Australians do not have a housing affordability problem, but they are actually contributing to the problem that everybody else has. So that is why it is so difficult to get it onto the agenda. There is so much of that self-interest, and that is where I think you politicians have to do the leadership, to persuade everyone.

CHAIR—Here we have a select committee progressing, doing our level best.

Prof. Yates—There you go—a good start!

Senator IAN MACDONALD—Dr Gurran, you said in your opening statement there were state government planning restrictions which you did not agree with, or you could not see why they were there. Could you elaborate on that?

Dr Gurran—Each of the states and territories has its own planning legislation, and that legislation governs what you are allowed to regulate through the planning system, what you are allowed to consider when you assess developments and what you are able to require developers to do. In most of the United States, and certainly across the United Kingdom, planning authorities are allowed to require affordable housing as a consideration when land is allocated and when development applications are considered, and in no state or territory in Australia are our planning authorities enabled to do that, except in the broadest, most general sense of having sufficient land.

Senator IAN MACDONALD—But I cannot understand that. How do you plan for affordable housing? Is that cheap housing?

Dr Gurran—No. Firstly, of course, it is sufficient land in the right place for forecast demand. But, secondly, it is also about the type of mix, tenure, design and configuration of housing and making sure that your controls allow lower cost housing forms. So that is another way. There are many restrictions, for instance, in our existing planning legislation.

Senator IAN MACDONALD—So, for example, have a galvanised iron roof rather than a tile roof?

Dr Gurran—Yes, that might be an example. Another example might be requirements for large buildings set back from the street, extra car parking requirements or big lot sizes. Those are starting to be wound back now, because we—

Senator IAN MACDONALD—Are you saying, using that example, that allowing you to build closer to the street would allow the house to be less costly?

Dr Gurran—Actually, yes—shop top housing.

Senator IAN MACDONALD—But obviously then, if you are in a house that is sitting on the street, it is not as nice as my house with a huge lawn in front of it. So you are really creating a poorer class of dwelling.

Dr Gurran—That is certainly a subjective assessment, but that view would explain why some planning restrictions like that persist in many locations.

Senator IAN MACDONALD—Why do we set things back from the street then? I know this is a very small example but, as a planner, why do we do that?

Dr Gurran—There is an urban design preference in certain locations for that. Some people also have a particular aspiration around their housing. I do not know how far you want to go back, but there was the introduction of the motor car, which allowed us to set our housing a long way away and there was this movement towards separating houses from work. We have discovered, unfortunately, that that has created a whole lot of problems in terms of social isolation. It turns out now it is actually really expensive to drive from A to B, there is congestion—all of those sorts of things. So unfortunately we have discovered that that aesthetic preference, which was very effective, particularly with the inner ring areas, has not worked out so well. It has also had cost impacts.

Senator IAN MACDONALD—You also said something I did not quite understand: developers' costs do not directly add to the cost of the dwelling.

Dr Gurran—The development contributions, yes.

Senator IAN MACDONALD—Could you just elaborate? It seems to be common sense that if you—

Dr Gurran—I suppose I could give you an example, and maybe Judy as the economist will step in with the economic theory. If, for instance, you are a developer and a house cost you about $100,000 to produce, including land acquisition, construction costs and any charges, how much are you going to sell it for? You might sell it for $110,000. But if someone offers you $115,000, how much are you going to sell it for? For $115,000. But what if it only cost you $97,000 to build that house because you did not have a $3,000 development contribution on it and the person is still willing to pay $115,000, then how much would you charge?

Senator IAN MACDONALD—But I could sell 10 of those at $100,000, making $3,000 on 10 houses, which is $30,000. That might be all I want to make this year.

Dr Gurran—The point that I am trying to make is that housing prices are determined by the market. Your point is valid because there can be an indirect deterrent effect when the charges are too high, but it is not direct.

Senator BARTLETT—A few times you have mentioned the owner-occupied capital gains exemption. One thing that has surprised me a bit with this issue over the years is that there does not seem to have been a lot of keeping track of how much these sorts of exemptions cost. I think you have done some work, Professor Yates, not just on the capital gains but on what some people say are tax expenditures and some people say are not. They are exemptions that must have a cost by virtue of being there or they are at least a lost opportunity. Do you have any data on that?

Prof. Yates—The only time I did that calculation was pre the last house price boom, so my data is dated, but it was reinforced by the work that the Productivity Commission did a few years later using much the same kind of time period data. That gave estimates of $20 billion in tax expenditures on owner-occupied housing compared with sort of $1 billion on public housing and $2 billion on CRA. So that gives you some perspective. One problem with that is that the biggest benefits go basically to those who do not need them. They go to people like me: wealthy, high-income, no debt individuals who are living very comfortably. The baby boomer generation are benefiting hugely from those things and they are the ones who do not need the assistance. That amount of tax expenditure does vary depending on how you measure it—and I do not want to go into the details—but it would have increased hugely with the house price boom that has taken place since I did the calculations, in the last six or seven years.

Senator BARTLETT—What did that ballpark figure include? That was not just the owner-occupier exemption?

Prof. Yates—Yes, that was just the exemption for owner-occupiers and it is on the capital gains tax and on the fact that you are effectively living rent-free in your house. So, if you have the same assets and you had switched over and were an investor instead of an owner-occupier, it is what you would have been paying out in taxes as an investor compared with what you are paying out as an owner-occupier—if you swapped houses with the person next door, what the tax implications would be.

Senator BARTLETT—What about things like negative gearing?

Prof. Yates—I did not calculate negative gearing, because I actually do not see that as a housing specific subsidy. I think it is a problem, particularly when we change capital gains tax regulations, because we have deductibility of nominal interest but we only tax half the nominal capital gain so that obviously is a huge incentive for people to undertake activities where you bring forward your debt and postpone the asset accumulation. It applies equally to any assets that appreciate in a real sense. It applies to shares just as it applies to housing.

Senator BARTLETT—I appreciate that. You are not allowed to mention the words ‘negative gearing’, because everyone immediately assumes that you are wanting to scrap it entirely, and I am not. The owner-occupied capital gains tax exemption on the other hand!

Prof. Yates—There are several possibilities you could do with it and you could do it equitably across all kinds of assets. One is what was tried for: to quarantine it so you are allowed to deduct the costs only against the incomes received from that particular activity.

Senator BARTLETT—One of the reasons I ask is that it just seems even in those sorts of things that, if we have not done the work of figuring out what the amount of revenue foregone is, we do not actually know what the cost might be of changing things like the owner-occupier exemption. I presume you would not just scrap it overnight; you would phase it in or you would apply it in certain circumstances. But we have not got that data there through Treasury or anybody else to tell us how much money that is—which in itself means we are sort of stabbing around in the dark a bit—let alone whether we are getting value for taxpayer dollars. It might be $1 billion for the entire CSHA but we have $20 billion that is in effect revenue foregone through this exemption. With the first home owners grant, we know how much that costs, but there does not seem to have been much work done on tracking where that is being spent and whether that is an affordability measure—what its affordability impact is—or just helping somebody buy a slightly bigger house. For something that is a billion-dollar government program, that sort of data does not seem to be around a lot either. Trying to pull together a lot of that data seems to be the sort of work that AHURI has been doing.

Prof. Yates—The first home owners grant data is actually very hard to get hold of. They only collect data on who it went to and the price of the property they bought; it does not tell you what their incomes were. Basically, there is very little you can do. The data that I have seen, which is now a couple of years old, suggests that the vast amount of it most probably has gone to those who people would conventionally think needed it, but I think there is a very good argument for targeting it more specifically so that there was actually an income limit put on who could access it. It is just crazy to give grants to high-income earners, who will just spend more than they need to. But I do not approve of grants to first homeowners anyway, so it is a hypothetical question that I am trying to answer here.

Senator BARTLETT—You have all said that rental is the biggest chunk of the problem. I have a two-pronged final question.

CHAIR—An Andrew Bartlett classic!

Senator BARTLETT—In terms of value for money, and with affordability as the core topic, is that best addressed through encouraging greater investment, particularly institutional investment, in private rental as opposed to returning to the old style public housing type of model? Do we also need to shift our culture, our political expectations and our policy settings to accept and support long-term rental as a housing model alongside the so-called great Australian dream?

Prof. Yates—I think that if the structural problem we have continues then, yes, we will have to accept long-term rental as being an outcome. That raises all sorts of concerns around what is going to happen to wealth distribution in society, which I think is problematic. The first question was on—

Senator BARTLETT—If we are going to be putting money in, should we be putting money into supporting—

Prof. Yates—Yes, the form of financing. First of all, I cannot see why state and Commonwealth governments cannot borrow for infrastructure. That is what everyone has always argued that you do for infrastructure: you borrow. Housing is a classic form of infrastructure. I think it is probably most cost-effective to have governments borrow to build houses that they are going to then try and allocate. I do not necessarily think they are the best at managing them. We should think about having more public involvement in the provision of what I would call either social or affordable housing. I think that 'public housing' has such a tag on it now that it is most probably too narrowly defined. If you are going to move to housing that is going to provide long-term, affordable rental for working households, then it is no longer the 'public housing' that currently exists; it is a different form.

Prof. Randolph—There are ways in which you can get institutional investors into the market. Certainly the UK example of the mixed public-private funding for affordable housing is a classic case of that. I do not know what the figure is now, but a few years ago it was something like £40 billion worth of private funding that had gone into affordable housing in the previous 15 years, which was matched with public expenditure. You make the public dollar go much further.

I think there is a real case for that to happen. Exactly how you might bridge the yield gap, which I think is what Julian Disney talks about, between what the investor market might want and what is available in terms of rents is a critical issue, but that is a choice. In Germany, for example, rental is a long-term prospect for large proportions of the population—it does not seem to do Germans that much harm—and yet we are stuck with a particular model of overconsumption of homeownership. The point about the taxation benefit, it needs to be taken on board as a long-term issue. My fear is that homeownership will just eat itself and the system may well collapse. I am thinking of retiring in 10 years time; I want to cash my house in. I am a baby boomer, I have done well. I am looking to the 40-year-olds to buy my house and I am not sure they are going to be there to pay the money I want to get for my home. That is a long-term issue and I think we as a country need to think about ways in which we readjust that balance between the amount of effective subsidy we put into homeownership consumption.

I do think there is a need for long-term rentals; I do not think there is any doubt about that. There are always going to be people who cannot afford to buy: they do not qualify for mortgages, they do not have jobs that are sufficient to cover a mortgage or they have long-term illnesses or whatever and they drop out of the system. We have to find ways of providing for them and I am not sure that the private rental market is a very efficient way in terms of tax. The tax subsidy that goes into the private rental market does not seem to me to get very good quality outcomes. It is inappropriate housing, usually very poor quality in the wrong locations, and it is very insecure. It is not a good way to live your life if you are a 45-year-old person who is going to be there until you are 80. We do have to address that issue as well as the long-term consumption issue about housing.

Senator COLBECK—Just going back to the comment you made about long-term ownership for people, say, over 60: we heard some comments yesterday from the tax office about the ownership levels and people who are still paying off their homes when they are over 60. I think it is referred to in the AMP NATSEM report. We asked the tax office in particular yesterday if they had any understanding of what the drivers of this might be.

CHAIR—Treasury.

Senator COLBECK—Treasury, sorry. Sorry for verballing the tax office. We asked Treasury about that yesterday, if they had any understanding of the drivers. The comment that we got was that they were surprised at the numbers. Do you have anything that you can enlighten us with in respect of that?

Prof. Yates—Yes. First of all, there is plenty of evidence to show that the 45- to 65-year-old age group have increased the amount of debt they have taken on, and it may well have been mortgaged against their owner-occupied housing too. The reason—the Reserve Bank have done this work—they have done this is that they are investing. They are using their property to underpin further investments. If you look at the wealth distribution, what you find is that the older households basically own all the owner-occupied housing net wealth. They also own almost all the investment housing wealth and they also own almost all of the rest of it. There is a chart in one of the things I have somewhere that shows they own almost all the rest of the wealth as well. It is on the back page, Senator. The reason why these households have increased debt is that they are using their equity to further increase their wealth. They are being sensible. There is not a problem. They can sell any of that if they want to tomorrow, subject to Bill’s qualifications.

Prof. Randolph—And as long as they do not sell all at the same time.

Prof. Yates—And subject to the share market not being entirely crashed.

Senator COLBECK—So that would explain why the completions at age 70 had not changed all that much but the debt levels in the lead-up to that period of time were.

Prof. Yates—That is an explanation, yes.

Senator COLBECK—I think it had gone from four-point-something per cent to nine-point-something per cent over a fairly recent period of time. Okay, that is interesting.

Prof. Randolph—It is one of the reasons why house prices have increased so rapidly in the last decade: it is the boomer group who are fuelling housing demand.

Prof. Yates—That aspect of the NATSEM report is quite misleading. I think they have drawn the wrong conclusions from their observations.

Senator COLBECK—Obviously the tax office were looking at the implications of requirements to support people in retirement in the longer term, if in fact that was a trend that was going to translate into more people still having either mortgages or being in the rental market longer term. You are suggesting that there may be more people in the rental market longer term. The rationale for that is a lot different to what we were talking about yesterday.

Prof. Yates—There may be more people who are already established. They have got wealth behind them and they are using that wealth to generate more wealth. The people I am concerned about are the people who have not got into any wealth accumulation phase and will not be able to by the time they have got to 65. They are the people who, when they get to 65 and their incomes fall, will not have any assets to sell, except some compulsory superannuation which might just keep them going.

Senator COLBECK—In respect of planning, you mentioned that South Australia was perhaps a little bit further progressed than others. We heard yesterday about the leading practice model in respect of planning coming out of the Development Assessment Forum. Do you have any knowledge of how that might fit in with the concept that you are talking about?

Dr Gurran—I have actually had some contact with that. I understand and locate that in relation to housing affordability through the goal that you have the system working efficiently. That means smooth and good land allocation, it means fast development assessment and it means clear requirements. So the leading practice model promoted by the DAF is about improving the planning system.

Senator COLBECK—The process rather than the—

Dr Gurran—Yes, it is the process. It is critical to get the process right. There is certainly no research quantifying the impacts of having a better process as opposed to a worse process. It will certainly contribute, but it will not solve the problem. Of course, we do not really know how bad the processes are either, because each jurisdiction and then each local jurisdiction within the state or territorial jurisdiction probably has its own performance strengths and weaknesses.

Senator COLBECK—I just want to go back to the concept that Senator Macdonald was talking about in respect of the planning charges and the infrastructure contributions. Surely they would have the effect of setting levels within the market. The market, to a certain extent, is made up of its contributing factors. So those elements would have a role in establishing what the market was and therefore must impact on it in some way.

Dr Gurran—Sorry to interrupt, but do you mean the positive amenity impacts? For instance, if you have local facilities then the market will pay more for a house that has got access to those facilities.

Senator COLBECK—There are natural price points within the market based on a whole range of factors; some of them are what people can actually afford. But there are also a range of inputs into the actual market cost. It might be that the land component is $10,000. There are physical development costs of a certain amount for the infrastructure that you have to put in. Then you have the rates, taxes and those sorts of things that apply. Then you might have the infrastructure costs that go on top of that. They all play a part in actually setting where the market is, and it might be that it means the market does not go ahead. Perhaps I am struggling with your concept.

Dr Gurran—I absolutely support what you are putting forward there. That is the indirect impact that I was describing. I might also add that if, for instance, a developer knows up front before they purchase the land that they are going to be liable for a $5,000 or $30,000 planning obligation—as it is called in the UK; it might be called a developer contribution here—then they are going to offer less when they purchase it. That would be the optimal situation. Obviously our developers here are quicker than our planners and they have often acquired the land before the development contributions have been set by the planning authorities. Certainly, over time, the market would adjust to that position as long as the development contributions remain fixed and do not become unclear. As long as the benchmarks are not continually shifting, that is one possible scenario as well.

Senator COLBECK—We talked yesterday to some people who are obviously operating in the market about the efficiency of using these essentially retail costed contributions to provide that level of infrastructure versus using money that would cost considerably less through some form of government source. Have you done any work or got any thoughts on that?

Dr Gurran—I am not sure exactly what you mean.

Senator COLBECK—A developer or a builder is borrowing money at a retail market. The developer will actually put a margin on that as well, because he has got the overall cost of bearing that; he has carrying costs and all those sorts of things. So the cost of the input for the development of that piece of infrastructure is carried at a higher marginal cost because of the cost of the money. If it were done through a different process, as it may have been done perhaps in a more traditional sense, it would effectively be more efficient as far as the cost to the community is concerned.

Dr Gurran—Bill may want to comment. We are doing a project at the moment to quantify the actual charges, the way they are collected and the full financial impact of that per development. That is research we are doing at the moment, and I would say that that data does not exist currently. It is very different in each jurisdiction, even at the local level. For instance, if you are talking about the donation of land, and the land value is converted to a financial amount but it is really the donation of land, then that worked example does not really hold up, I do not think—although I am not an economist; perhaps it does. But I would say that if you are talking about the donation of a parcel of land then you simply readjust your plot ratios, so there is a bit of shifting, and there might not even be any money that changes hands.

Senator COLBECK—The example came up in the context of a $1,100 per block charge to provide a piece of infrastructure—say, a library. The evidence we got yesterday was quite clearly that that was a very inefficient way, in a cost sense, for the community to pay for that piece of infrastructure because they were paying a retail cost for the money plus a margin through the developer.

Dr Gurran—I cannot comment on the specific case but I would like to make the point that a contribution should just be a contribution. It is certainly not the role of development to internally pay for all of the infrastructure that is needed, particularly at the regional level.

Senator COLBECK—It puts a context into it as well.

Prof. Randolph—This is the argument about whether we should have rates or user pays. It is an argument which perhaps in New South Wales has tipped too far in one direction, which is to put charges on rather than borrow long term to provide this stuff. That is the kind of philosophical argument you can have amongst yourselves. But the evidence here suggests we have gone far too far down the user-pays, as opposed to the rates and the long-term public borrowing, direction. I will leave that with you to work out which way you might want to go with that.

Senator SIEWERT—Picking up on the last point, some submissions mention that we should be planning for communities, not only planning for affordable housing. I suppose I would argue, in terms of user pays, that in the longer term we will all end up paying if we have to deal with the issues of social isolation et cetera. They are a cost on the community as well because you are dealing with a whole lot of negatives in terms of costs and societal repair. So wouldn't it be better doing the planning up-front to get it right in the first place?

Prof. Yates—Except for one thing, and that is that it is dangerous, I think, to have too much of the funding localised. Rather like income tax, where we redistribute, we should spread those costs across the whole community, not necessarily have them borne up-front by one community, because I think you run the danger of getting an increase in the inequities that exist if you do not allow for that cross-subsidisation.

Senator SIEWERT—But surely that is part of the planning process. You do not need to supply everything locally, but if you are planning for—

Prof. Yates—For funding, I suspect, as much as planning.

Senator SIEWERT—Yes, funding and planning, in combination. You mentioned that you do not support the first home owners grant. What would you see in its place?

Prof. Yates—Nothing.

Senator SIEWERT—Okay.

Prof. Yates—First, it would be nice to have, for example, better transport systems and infrastructure systems in place so we actually keep places where people can afford to buy. But there is such a huge range—housing is not 'a' particular commodity: you can buy a house in Sydney for $250,000, $300,000, $350,000, $400,000, $450,000 and so on. I would prefer to see people being constrained to buy what they can afford.

Senator SIEWERT—You are not arguing that the government should not be investing that level of resources but you would rather they invest in, for example, public housing and infrastructure?

Prof. Yates—I think we are being incredibly inefficient in having the kinds of tax assistance that Senator Bartlett mentioned. We are allowing households to individualise that, whereas we should try and socialise that. That sounds incredibly left wing. I am using the wrong words!

Senator SIEWERT—I like it.

Prof. Yates—If we are going to allow owner-occupiers to extract all the benefits that come from an expanding city then we should not provide even more subsidies up-front.

Senator SIEWERT—This morning we had the Bankers Association here. They ran the argument that, while they provide 85 per cent of the funding for homebuyers, the greatest proportion of loans that are being defaulted on are coming from non-bank lenders. Is that consistent with your research or your understanding?

Prof. Yates—I have not done any research on it but that is absolutely how I understand it. All the evidence is that there are five, six or seven times the problems with loans from non-performing lenders than with loans from the major lenders. It is exactly the same in the US as well. All the subprime crisis is about low-documentation lenders—people who have been pushing things too far.

Senator SIEWERT—You said earlier that greater regulation should be focused on non-bank lenders.

Prof. Yates—The same regulation should apply to non-bank lenders and bank lenders.

CHAIR—Professor Randolph, you talked about the conundrum of land release issues. A lot of the submissions we received have in fact advocated the release of lots more land in virtually all parts of Australia. I understand what you have said about the failure of demand. I work in greater Western Sydney and I think it is an interesting proposition. I talked to some witnesses yesterday about whether it is possible to manage expectations. If you bought a block of land in Western Sydney 20 or 30 years ago—and it was not even very far west at that stage—kerb and guttering would follow. But we have now changed our attitude and, when you build, for example, the Rouse Hill development, everything goes in first, the homes come in after that and the price appreciates accordingly. Is it possible to manage expectations about land location and those sorts of issues? Have you done any qualitative research on that? We have talked about land release in the inner cities. One of our presenters yesterday talked about disused schools as a prospect for the development of dwellings. So often it will be in the inner bands, as opposed to the middle and outer bands, simply because, ironically, the people who are moving into those areas are not having young children who need to go to school. Is there a way to address that?

Prof. Randolph—You could argue that a lot of what we see in terms of the consumption of housing is a product of the last 20 or 30 years. That is partly because we have supported homeownership in the ways that we have heard in terms of the subsidy system, so you are encouraged to consume a product. A lot of industries and businesses have grown up to support that, quite rightly in many respects. In a sense, we have come to expect high-quality housing when we buy homes that are new. There are all sorts of reasons for this. The planning system itself has pushed for higher quality standards. We have building regulations, environmental standards and so on—we have BASIX in New South Wales—and that has all added to the cost. So people now expect high-quality homes. I think it is going to be very difficult to ratchet that back.

I will go back to the point I made earlier: if 70 per cent of homes in Sydney are going to be apartments or town houses then there will have to be a change in expectations about what you get, because there will be more housing product on the market which is not a McMansion with a block in the suburbs. So, in a sense, there will be changing expectations which are being pushed, in part, by what planning system is promoted but also by the fact that demography is changing. There will be fewer families with kids who need McMansions. You might find there will be a change in that and that may lead to more affordable outcomes, because you do not need such large homes. You do not need three-car garages if you are living in Marrickville or in the inner city. That may well happen. You have to bear in mind that land release on the urban fringe is not the be-all and end-all of housing production from here on in. The game is much more about what happens in the inner city. Regarding disused schools, I would make the point that the latest census has shown there is a baby boom in inner Sydney, on the North Shore—

CHAIR—We blame the former Treasurer.

Dr Gurran—He had nothing to do with our baby boom.

Prof. Randolph—Whether the second time around baby boomer families will fade out with the baby boomers, I do not know, but I think it is dangerous to start to use underused—

CHAIR—It is interesting, isn’t it?

Senator SIEWERT—We have an example in Western Australia where they did get rid of a school and built on the land, and 10 years later we are now talking about putting in a new school and we need to fund it.

CHAIR—I am sure the planners have a view.

Dr Gurran—The planners do have a view—that is, you should never make an irrevocable decision in relation to land and infrastructure. A flexible decision is another thing. But in terms of the land supply argument, once again, you need the regional infrastructure to support demand. I think people can accept trade-offs for housing quality, and inner city residents prove that all the time, but if you do not have the regional infrastructure and services to support it I do not think you can expect results.

Prof. Yates—I think we have emphasised, almost too much, that demand is a problem, but because we have such a concentrated land settlement pattern in Australia—

CHAIR—Sure. And Professor Disney addressed that issue this morning.

Prof. Yates—that is why demand is a problem.

Prof. Randolph—It could well be that you could interpret what is happening in Western Sydney at the moment as a market adjustment to a new paradigm of housing demand. We have a lot of small households now: single-person households on one income. Single income households will be the dominant driver of housing demand for the foreseeable future, regardless of the generational trickle down of assets. We may well be entering a phase where planners and developers alike have not really got their heads properly around a new demographic out there.

What we have seen in the last few years, certainly in Sydney, was a demand, fuelled by investors, if you like; but everybody had expectations of ever-rising land prices on the fringe or ever-rising property prices, fuelled by this group of aspirationals who may not be there anymore. And of course the government fell into the same trap of demanding huge developer levies and thought they could get in on the act. It could be a very different game for the next 10 years.

CHAIR—Having started that, let me stop it now. Thank you very much. I thank each of you for appearing this afternoon and for your submissions with which you have supported the committee's work. We are very grateful for that. As our work develops over the next few weeks, because we have a number of cities and regional areas to visit, it may be that we have some questions to put on notice to you. If you could assist us with answering those, we would be very grateful. I promise they will not be too onerous.

[2.50 pm]

BLANCATO, Mr Ross, President, Urban Development Institute of Australia, New South Wales

WOODCOCK, Mr Scott Nelson, Executive Director, Urban Development Institute of Australia, New South Wales

CHAIR—Good afternoon and welcome. Thank you very much for attending this afternoon and for supporting our inquiry. I understand that you have provided the committee with some documentation, a submission from UDIA in New South Wales and some other supporting information. Thank you very much for that. We will receive that and make that public on our website in due course. I now invite you to make a brief opening statement and then we will go to questions.

Mr Blancato—If I can, I will take you through the summary of this document, and it will essentially give you the flavour of the entire document. It has taken us 20 years to get to this point, and by that I mean that, 20 years ago, we had a geographic spread of land releases that were active and supported by infrastructure that was provided through the general taxation purse. So there was an intergenerational equity, a fairness, about that. I noted in the previous discussion the expectations of the market. People nowadays expect everything, but 20 or 30 years ago they would wait for infrastructure to be provided through the rating system. We cannot go back to that time. The market, I guess, demands a certain standard of product, and we need to provide that if we are going to survive as business enterprises. However, what is happening is that a section of the market that is acquiring new homes is being unfairly burdened with twice the cost. They are being hit by taxes and charges that are generated both at state and local level and then hit by GST at the federal level. So there is an inequity about that because it does not happen with the existing homes, and those existing homes are occupied by people who have had the benefit of the more evenly spread cost base.

But we contend that perhaps the affordability issue has been intellectualised a little too much and that there are actually three key factors. Certainly from a developer's point of view—and I am a developer—there are three main factors that prevent me from making an investment in a project. The first is that I cannot find the land. There is insufficient supply and insufficient diversity of supply to enable me to go out there and build a strong business around Sydney in particular. If we go back 20 years there were five, six or seven submarkets that you played around with and invested in. Now there are really only two: the south-west and the north-west. That brings us to the second point, which is the cost structure. The costing of development in those areas has made it virtually impossible to actually buy in globo land and, having gone through the process of development, provide it to the market at a price that is affordable. So we have essentially priced ourselves out of the market. That has essentially been as a result of cost shifting by all levels of government—the feds to the state, to the local level, to the developer—a misnomer—who passes it on to the homebuyer. At the end of the day, the developer is purely an investor who says, 'I am going to invest a dollar and I expect to get $1.20 in return.' He would get $1.10 and be happy with that if the uncertainty were taken out of the system. But the uncertainty—and this is the third point—that underlies our planning system generally makes it difficult for us to invest, so we have to build in a margin.

For those who say that a developer will get a windfall gain if we reduce the cost, I say that there are two limits to the developer's margin. The first is bank interest. Why would I invest and risk my money on a project when I can get eight per cent bank interest—just put it in the bank and be safe? The other limit is the competition. If I want to go out and buy a parcel of land, I have to offer the vendor the best possible price. If I do not, someone else will. So there is a kind of limit there and the margin that we get is around 15 per cent generally. When you consider that, during the course of a three-year project, you have regulatory change, markets shifting and costs increasing, that is an enormous risk. That is the fundamental problem, particularly in New South Wales. The risk of investment in New South Wales has gone beyond what is really tenable.

But to go back to the summary, in terms of supply we have an underlying demand of about 40,000 dwellings. We are producing 29,000. In terms of land, those 20 or 30 geographic areas that were active, supported by infrastructure and paid for by government to encourage investment were generating 8,000 lots per annum in the Sydney area. Now we are doing 2,000. Companies like Australand and Stocklands—I work for Australand—will do more than 2,000 lots on their own in any one city. The city of Sydney, the global city, cannot produce 8,000 lots. All of that leads to a shortage in supply which has exacerbated the pricing of the end product. The limitations in release areas have led to the land vendors being in the box seat and the developer coming along and saying, 'If I can't negotiate with three people and I'm only limited to you, then I really have one option and that is to pay your price if I can afford it or vacate the city.' A lot of companies are actually investing their money in other markets. Unfortunately, all of the other states are travelling down exactly the same road. We can see it with increasing charges at the state level and the federal GST.

We believe and we have advocated for a long time that the GST is an unfair tax—it is a tax on a tax—and it is imposing an unnecessary burden on the new home buyer, particularly the first home buyer, a subset of the new home buyer. We believe that, if the GST was hypothecated back to the infrastructure that is required to support an area, the levies would not be required and there would be a contribution by the federal government into the delivery of necessary infrastructure to promote investment to actually house people, which is what we all do. That is what we are about—housing people.

We feel very strongly about this, and this report refers you to a paper that was written a few years ago about the GST. By way of an example, the north-west and south-west sector release areas have an infrastructure bill of about $8 billion. There are 160,000 dwellings proposed in that. If we assume $50,000 for GST times 160,000, that comes to $8 billion. We are asking the new home buyer to pay that $50,000 plus a levy at 23 plus the Sydney water charges of 20 and stamp duty—a total of about $130,000 worth of costs. When that is added to the mortgage, it is another $130,000 of interest that the buyer has to pay. We believe that federal, state and local government need to step up and actually participate in this business. They need to open up the opportunities for investors to do what they do best. We will translate those greenfields into homes or redevelop the brownfields into apartments and deliver the vision. In Sydney, for example, there is a metro strategy. We will do that but we need the facilitating infrastructure, in support of the strategies. Scott, is there anything we should add?

Mr Woodcock—No, we really should wrap up right now.

CHAIR—Mr Woodcock is a mind reader!

Mr Blancato—We did not talk about governance but that is the other key issue. We come into a project with an expectation that our cost structure is going to be this and approval time is going to be that. There is a culture, particularly within New South Wales—and I am sorry to be New South Wales centric, but this is—

CHAIR—You are the UDIA in New South Wales.

Mr Blancato—The uncertainty that arises from that is what is causing us to build our margins or leave the city. Without us the development vision does not get translated into houses, so we need support as well.

CHAIR—Thank you, Mr Blancato. Mr Woodcock, did you wish to add anything?

Mr Woodcock—The GST is a tax on a tax. We have been examining the possibility of adding the existing state and local government taxes to the margin scheme rather than the GST applying on top of paying stamp duty and other levies. We could save the homebuyer close to $7,000 if that was included in the margin scheme today.

CHAIR—Mr Blancato, if you were to 'leave the city', where would you go?

Mr Blancato—At the moment the opportunities are in Brisbane, Melbourne and Perth. Perth is going really well. Adelaide is moving along because Adelaide is more affordable than any other city.

CHAIR—So the regions are not an option in that context?

Mr Blancato—The regions are becoming more of an option as time goes on. I guess I was trying to say that those places are going to go the same route; they are heading down the same road.

Senator FIFIELD—Mr Blancato, after your presentation I am left wondering what on earth the New South Wales state government actually do. They do not free up much land, they do not provide basic infrastructure and services and—

CHAIR—They do not come to hearings.

Senator FIFIELD—they do not come to hearings. What do they actually do? That leads me to your point in relation to hypothecating the GST to fund infrastructure. I will just pick you up on one point of fact. In your summary you refer to the GST collected during the development process accumulating consolidated revenue for the Commonwealth. Every cent of GST goes to the states, so again I ask: what do they do with it? I have been thinking for a little while that maybe it is time to actually rip up the Commonwealth-state financial agreement which delivers all of the GST revenue to the states. The Commonwealth would expect they would use the GST revenue for some of these sorts of infrastructure requirements, which clearly they are not doing.

If that agreement were ripped up, it would open the possibility of hypothecating the GST for certain purposes. Do you think that it is time to totally revisit the issue of GST revenues to the states, including, clearly as you suggest, hypothecating the GST revenue for things like the Building Better Cities program?

Mr Blancato—I am not sure about whether you should rip up the agreement. I would not presume to be that—

Senator FIFIELD—Feel free.

Mr Blancato—But I would say that hypothecating the GST is almost a necessity; it has to happen. The money might go back to the states, but it needs to be allocated to the area from which it was earned. That is almost non-negotiable from our point of view; it has to happen.

Just on what the state government is doing, I do want to balance the books here a bit. The UDIA has for a long time been calling for a strategic framework for New South Wales to make its decisions around. Over the last few years, particularly the last two ministers have worked very hard in getting metropolitan strategies, regional strategies and a whole cascading set of objectives that fall down to the LEP level. The current minister needs to be applauded for I guess being naive enough to try to make a difference. He has been criticised for it, but he and the minister before him are the only ones who have tried to address this problem. So I think they are trying to do something. We are aware of the tension within the government between the two various camps: the one that controls the money and the one that wants to spend it. Those issues have to be resolved. The minister I believe is trying to do something, but they have to follow through.

Senator FIFIELD—So the New South Wales government are talking the talk but not putting their money where their mouth is?

Mr Blancato—Exactly. I think we called our document ‘A little less conversation, a little more action’. To be fair, that applies to everybody—federal, state and local. We are of the view that it is great to have all these plans but you have to invest some money, and the economic benefit has to be measured on those outcomes as well. I think if people are housed in affordable, appropriate quality housing, a lot of these problems would be diminished.

Senator FIFIELD—Historically I have been sceptical about the Commonwealth’s involving itself in urban affairs issues. State governments have to do something and be responsible for something. However, I am increasingly coming to the view that maybe the only way to get something done in the urban affairs area is for the Commonwealth to involve itself more. Is that something that you would support? You do say in recommendation 3 that there should be an urban affairs portfolio.

Mr Blancato—Absolutely. We believe that Australia as a nation should understand, firstly, how it wants the population distributed around the country; secondly, its growth targets; and, thirdly, how it wants to house and employ those people at a federal level. Those kinds of objectives should cascade down into state and regional plans and down to the local level. Then you have a plan.

Senator FIFIELD—Hypothecating that money via the Commonwealth might be the answer.

Senator MOORE—Mr Blancato, have you raised with the previous federal government the issue of hypothecating the GST to the state? If so, what was their response?

Mr Blancato—Yes, we wrote to Peter Costello but we did not get a response. We wrote to Minister Costa and we did not get a response. But in a conversation with him it was like, 'It ain't going to happen.'

Senator MOORE—At this stage, that kind of thought process has not been in the mix.

Mr Blancato—Everyone says that it is too hard and that everybody else will want to line up to do the same thing. We say that that is fine but we represent $15 billion to the New South Wales economy. I do not know what it would be in the Australia-wide economy—it would probably be four times that—but it is an important, social, environmental and economic service that we provide.

Senator MOORE—Have you raised it with the current federal Treasurer?

Mr Blancato—We did pass our paper on to Tanya Plibersek. We have had her as a guest at a couple of our functions, but we have not followed up.

Senator MOORE—So it is actually in the mix now; that is the important thing.

Mr Blancato—We also submitted it to Kevin Rudd's summit some time ago.

Senator MOORE—The housing one?

Mr Blancato—Yes, about six months ago.

CHAIR—I want to ask about land supply. In the space of two sets of witnesses, we now have fairly contradictory evidence about land supply. Without wishing to verbal Professor Randolph and his colleagues at all—and relying on my notes—it was characterised it as a conundrum. There is land there and it has been released—these are not his words but my observation—and some we perceive to be held by developers. I am not sure about quantum or the time but that is one of the perceptions of this discussion—that if you do release land in, say, Sydney's outskirts, do you continue to use New South Wales when that is not where the demand is? That therefore becomes a problem of failure of demand. I am interested in your observations about that. You said that there is insufficient supply—I think you characterised it as diversity of supply.

Mr Blancato—I think the point is that what is happening at the moment is there are two major areas where there is concentration—the north-west and the south-west.

CHAIR—Do you mean Camden?

Mr Blancato—I mean Liverpool-Fairfield, the south-west area of Sydney down towards Camden. There was a period between 1995 and 2000 where there was this kind of increase in prices and a shortage of land which led to an artificial pricing of the south-west sector releases.

When people were selling land in the north-west, which originally had a $20,000 or $30,000 surplus over the south-west, it caught up to it. So now it is suffering because people are saying, ‘We can’t afford it, but for the same money we can be in the north-west,’ and the north-west is more aspirational than the south-west. There are market preferences at play here. Twenty years ago you had smaller releases distributed around the country. Most people buy a home within 10 kilometres of where they were raised because that is where their social networks are.

CHAIR—Is that a fact, that most people do that?

Mr Blancato—It is a fact, yes. The market knowledge that we have from the sale of our estates around the country shows that most people are within their local domain. That diversity has contained prices because there was always a ready supply. If I was not able to acquire a parcel in this neighbourhood, I could go to the next neighbourhood and still operate a business in a broader submarket. There was competition with the vendor about who was going to buy his land. That fell apart in the late nineties because of the shortage of supply.

We are proposing that there should be an amount of land—a forward train of land of maybe 20 years—that is released and serviced. The word ‘released’ is something that is very difficult to get a handle on. You will have successive governments release the same patch of land five times but not a dollar will be spent on infrastructure. When I go to my board and say, ‘I want to buy this piece of land,’ I have to tell them when I am going to deliver the revenue, how much it is going to cost and when I can start. If I have to say that I have to build $10 million worth of infrastructure before I can turn my first sod on my parcel then that is going to make the acquisition of that parcel less viable.

The government used to invest in it—20 years ago you would go out to a release like Blacktown and the main sewer carriers were in and the sewage treatment plant was built. You would go out there and you could develop this five-acre parcel or that five-acre parcel. You might do a little bit of a lead-in, connecting infrastructure, but it was affordable.

Senator MOORE—How many buildings on a five-acre parcel?

Mr Blancato—The old calculation was five to a hectare, so you would get 25. These days you might be getting 30.

Senator MOORE—I don’t do hectares!

Mr Blancato—Sorry, five to an acre; so from 25 to 30.

Senator MOORE—So when you say a five-acre parcel, you would be looking at 30 homes.

Mr Blancato—Yes.

Senator MOORE—And that would be what you would be budgeting on?

Mr Blancato—Yes. If it was not for the private sector, then Sydney would be—and is at the moment—in a catastrophic state. In the late 1980s and early nineties the New South Wales government was not able to deliver any new release areas. The big pie was the Rouse Hill area.

It was the private sector who said, 'We will find you a different way to pay for infrastructure.' They went and borrowed $300 million, they built a sewage treatment plant, provided all the pipes and wires and then were criticised for not providing the social infrastructure that was to go along with it. But they got the thing started and the New South Wales government ended up paying the residual value of $70 million 10 years later. That is a clever and creative way of spending money to get something going. That is what we need now. We need some creativity rather than just the blunt instrument of saying: 'You're a new home buyer. You're the one we can hit.' They have the pain because (1) they did not vote for it at the time because they did not know they were going to buy into that area and (2) it is sort of a hidden tax and will take two or three years for this to emerge. It has taken 15 years and it has emerged and we are in a disaster zone.

CHAIR—Your submission and recommendations unsurprisingly accord with some observations that your national office-bearers made yesterday about the old Building Better Cities program, which the cynical amongst us thought meant a lot more speed humps more than anything else. Yesterday there were some very positive remarks about, for example, the development of White Bay, and Ultimo and Pyrmont, and Honeysuckle in Newcastle.

Mr Blancato—East Perth.

CHAIR—And Docklands. Could you elaborate on how you think that would play out in the current environment if that was taken up as a proposition, or at least a sort of urban coordination arrangement?

Mr Blancato—In principle what they did, and it is the only example we have—I am not politically aligned one way or the other, but it was a Labor government that actually did that—

CHAIR—It was Brian Howe's program, wasn't it?

Mr Blancato—Yes. We are full of hope that maybe this Labor government will actually get involved in urban affairs at a federal level. What it did was to provide an incentive. It helped take away the obstacles for the private sector to come in and do what they do best—that is, satisfy a market demand. I also heard Bill talking about a change in demographics. That is true, and we are accommodating those changes in different household formations and household needs. But there is a market out there that still wants that traditional home because it is the most affordable form of housing. If you go to the urban fringe and build a single-level or two-storey home and, provided work and support services are there, it is a reasonably pleasant environment, that is a much more affordable option than building medium density. As soon as you connect houses, as soon as you start to redevelop sites and deal with existing infrastructure that has to be refurbished, you are talking twice the price.

CHAIR—How are your members in New South Wales in construction and development dealing with skill shortages issues, which have been raised with us as well in submissions?

Mr Blancato—Most of the people who worked for our organisation—and I am talking about Australand—are in Dubai. It is very difficult to compete with—

CHAIR—Not on holiday, one assumes; they are working in Dubai.

Mr Blancato—They are working over there. It is very difficult to compete with that location, but we also have a training program where we are training our own builders and apprentices. I think we have about 100 apprentices going through at the moment. We are a relatively large organisation.

CHAIR—That is Australand?

Mr Blancato—That is Australand. I think the other organisation, Stockland, is also addressing the same thing. The bigger ones can do it. I am not sure how the smaller ones are doing it, if they are doing it at all. I guess there are a lot of people rattling around between organisations, jumping from one to another. But that skill shortage is really hurting hard.

CHAIR—Are you aware of any engagement that your members have with the immigration program—talking to, for example, the Department of Immigration and Citizenship about skilled workers, 457 workers, and things like that? Are there any issues around that? There were certainly some raised with us yesterday.

Mr Blancato—I am not aware of any. My immediate reaction would be that we have a very strong occupational health and safety regime in this country. I think there would probably be an issue there in making sure that any introduced workers from overseas might need to be taken down that road. We tend to take it more seriously than other places.

CHAIR—The issue yesterday was more about quantum: firstly, of a migration stream of 250,000 individuals, 800 are trained construction workers and that simply cannot address the volume need that your industry has, broadly speaking; and, secondly, because of the requirements of the 457 visa, which is a sponsorship period of 12 months—just to bring that to absolute shorthand—and because people are contracting in and out and working for various organisations and so on, there is not that consistency in your particular industry. Could you take that on notice for me and obtain some information from your members?

Mr Blancato—Certainly.

CHAIR—I think it was certainly raised as a key issue by Dr Silberberg of the Housing Industry Association.

Mr Blancato—I think it should be recognised that the Housing Industry Association is an organisation that represents a lot of people, because there are a lot of people involved in building a house; whereas we represent more the developers and that front end, where you are talking about smaller numbers of people—

CHAIR—That is why we were interested in your perspective.

Senator IAN MACDONALD—One of our witnesses suggested that it may be more affordable to try to encourage people in this state to leave the Sydney basin and move out to larger regional centres. Do you have a view on that?

Mr Blancato—People will go where there is work. Every time you try to intervene in market preferences, you are really swimming against the tide. People are attracted to Sydney for a whole range of reasons—their social networks, their employment, the opportunity to promote themselves within their own organisations—but, apart from that, the impediment to people moving to the regional areas is employment. You generally need one job for every house.

You need to spend money—there is that word again—on infrastructure such as ports. In Newcastle one of the people whom we deal with in a project was telling me that every ship that sits out there to pick up coal costs $100,000 for every day it sits there. That organisation last year spent $100 million on waiting time for ships, and it is all because the port facility cannot cater for the demand that is being met overseas. I do not know how much expanding the port costs, but if it is $50 million—it is probably more than that—it would be worth it.

Mr Woodcock—That being said, people are also attracted to areas of high amenity. Part of Sydney’s issue is that we have the harbour and that is the epicentre of the real estate market in Sydney. Everything ripples out from there. There are a lot of people trying to get to the epicentre, to get the harbour views and get the access to employment and to amenity, whether it be entertainment or the views. If you can create amenity and employment somewhere else, people will go there. We are seeing a lot of activity up in the lower Hunter, around Newcastle. It offers the amenity which Sydney had 30 years ago now. You can have a house at an affordable price. When we did some work with Michael Matusik last year on his affordability study, the Hunter was the only area on the coast of New South Wales that was affordable. We would like to keep it that way, but the state government is looking at imposing levies up there and it will very quickly go the way of Sydney.

Mr Blancato—The Hunter, Newcastle, is a fantastic area to help address the affordability issue. It has got a fantastic road from Sydney. It takes about an hour and a half to get from there to here. It has port facilities; it has a city. It has its own economy. It has recreational activities and tourism. You can buy a block of land there for about $200,000. It is still affordable. Do not destroy it by adding cost. Let us not make Newcastle a reflection of what has happened in Sydney.

Senator IAN MACDONALD—That is a bit contradictory. I cannot imagine how any of you live in Sydney. One day here in the traffic makes me love living in North Queensland where I do. I think you are just all very proud of Sydneysiders.

CHAIR—That is why I live in the Southern Highlands, Senator Macdonald.

Senator IAN MACDONALD—You are obviously in favour of the Building Better Cities program.

Mr Blancato—I am more in favour of the federal government intervening to try and facilitate investment. I do not know whether that is along the lines of the Building Better Cities program or direct investment in infrastructure.

Senator IAN MACDONALD—That can have the result of governments then picking winners or picking where they should not. Perhaps if they put a huge amount of infrastructure into Coffs Harbour, housing would become even more affordable in Coffs Harbour compared to Sydney. Retirees might leave Sydney in droves and go to Coffs Harbour. To me it has a much better lifestyle than Sydney.

Mr Blancato—My underlying assumption is that at a federal level we should develop a population settlement strategy and cascade that through the states, down to the local level. That will tell you where the investment is.

Senator IAN MACDONALD—Can you just elaborate on that.

Mr Blancato—We have a situation where everybody wants to come to Sydney and/or Melbourne and now Brisbane.

Senator IAN MACDONALD—Most people are going to south-east Queensland these days.

Mr Blancato—They are.

Senator IAN MACDONALD—And the south-east corner of WA.

Mr Blancato—Adelaide is starting to move and is suffering price hikes, but it is a reflection of the inability to live in other areas. Perhaps there is a need to sit down and say, ‘We have got a target of 30 million people in Australia over the next 20 years. We have infrastructure invested on the ground in these areas. We want to encourage development and settlement in those areas.’

Senator IAN MACDONALD—How do you do that? How does a federal government do that?

Mr Blancato—I do not know.

Senator IAN MACDONALD—If you do find the answer to that—

CHAIR—Please let us know.

Mr Blancato—I would suggest to you that it has not even got past the first base of figuring out what it wants to do, to work out how it should do it.

Senator IAN MACDONALD—With migration, governments have said over a long period of time, ‘We’ll let you into Australia as long as you go and live at Longreach.’ This happens with doctors. So people live in Longreach for the minimum amount of time. As soon as they can, they move down here into the ghettos of Sydney.

CHAIR—I will actually take umbrage at this point, just as a senator for New South Wales.

Mr Blancato—If there is an overall objective then you can start to look for and find the solutions to how you keep those people in there. It may be as simple as making those areas attractive, which might involve bringing employment or a centre. Rouse Hill regional centre is a brand new shopping centre. It is being applauded throughout the local community—I live in the area—and at a professional level. All they have done is recreate the main street approach that existed in all the country towns and villages of the past. That in itself has generated an improvement in the status of the Rouse Hill area in just a few short months.

Senator IAN MACDONALD—Where is this place that you are you talking about?

CHAIR—North-west Sydney.

Mr Blancato—North-west Sydney. It is a brand new town centre of about 200,000 square metres, if that means anything to you.

Mr Woodcock—There is another important thing about Building Better Cities. I was on a steering committee for Ascot Waters back in the mid-90s. It comes back to an example of what we wanted to achieve.

Senator SIEWERT—Is Ascot Waters—

Mr Woodcock—Ascot Waters is in Perth, Western Australia, near Belmont. It is about the sharing of risk and cost. What we have demonstrated in our submission is that there has been a trend throughout Australia, particularly in New South Wales, for government to devolve risk and cost. That has been transferred down through local government via the developer to the homebuyer. Building Better Cities is an example of how you can cooperate and produce something as a model for good development.

CHAIR—Thank you for your evidence this afternoon and your submission. We are very grateful for those. As I am saying to most witnesses, given that we are right at the beginning of our inquiry, there may be issues raised as we spend a little time in regional and capital cities of Australia, so we may come back to you with questions on notice. I hope you would be able to assist us with answers to those.

Proceedings suspended from 3.27 pm to 3.45 pm

DAVIDSON, Mr Peter Geoffrey, Senior Policy Officer, Australian Council of Social Service

JOHNSON, Mr Andrew, Executive Director, Australian Council of Social Service

PHILLIPS, Ms Jacqueline, Policy Officer, Australian Council of Social Service

CHAIR—Welcome. Thank you for coming to our inquiry and supporting it with your interest in our work. I invite you to make an opening statement and then we will go to questions.

Mr Johnson—Firstly, we want to thank you for the opportunity to address the committee today. Housing affordability is an extremely important issue to ACOSS as the peak council for the community and welfare sector and as the national voice for the needs of people affected by poverty, disadvantage and inequality. As we all know, the housing crisis and the housing affordability crisis is at its most severe for low-income Australians and it is an extremely severe crisis in Indigenous communities around the country. Safe, secure and affordable housing is obviously essential for all individuals and families and for community wellbeing. We have reached a point in the crisis in affordability, particularly for low-income people, where we have more than three-quarters of a million Australians who are in housing stress, where the bottom 40 per cent are paying more than 30 per cent of their income for housing.

What we do know is that, while many Australians across the board are struggling with their housing costs, it is a really enormous problem for people who have a low income and are disadvantaged. As a result, most low-income people who are struggling with housing costs are in the private rental market. We will go on to talk about the elements that are exacerbating that problem, whether it is lack of community housing or the historical lack of investment. But as a result of these factors some 65 per cent of private renters are experiencing housing stress. One of the breach marks, I guess, in where we are at in the country in relation to the housing affordability crisis is that, as you all know, on any one day 100,000 Australians are homeless.

For us, due to the complex and independent nature of the housing pressures, effective responses to the challenges of affordability must include all sections of the housing market and employ a broad range of policy levers that involve both long-term and short-term measures. That is why ACOSS and many of its members have welcomed the appointment of the Minister for Housing, the National Affordable Housing Agreement, the national research council and the steering committee on homelessness and also the National Rental Affordability Scheme. One of the issues that the community and welfare sector has been talking about for a long time is not only the need to understand the pressures that exist for low-income people but also that there is just a sheer lack of supply of low-cost housing for low-income and disadvantaged people and particularly a lack of investment from the private market in low-cost housing.

We would not be here today if we were not talking about the wider picture of low-income and disadvantaged Australians. I think we need to see the housing crisis in that context, of where the people who are struggling are. Recent research commissioned by the Australia Fair campaign looked at median income poverty levels. As you all know, this is a measure that the OECD uses, and the UK uses 60 per cent of median income. Using 50 per cent of median income, it showed that well over one in 10 Australians are living in income poverty. That is one measure of how people are struggling, but certainly it is an important measure. So when we are looking at the housing affordability crisis for low-income Australians we need to understand the context and how many Australians we are talking about who are struggling already.

We also know, and have advocated for a long time, that we need—in bureaucratise—whole-of-government approaches. What we really need are wrap-around approaches to deal with the complex problems that individuals face. If you are looking at the issue of homelessness, we need to ensure that we are looking at prevention, crisis accommodation and supports but also pathways out of homelessness. That is also the case in relation to housing affordability, particularly at the low end. We need a suite of policies to be implemented. Often the debate as it is played in the media is about a silver bullet that it is going to fix all of the problems, which is why we are so pleased about the renewed energy from the Senate, the renewed energy from the federal government to talk about a national affordable housing agreement and the social inclusion agenda to have goals and targets around where we want to get to in relation to ensuring that low-income Australians get access to safe, affordable housing.

You would have heard from many of our members already. We know you would have had submissions from the National Shelter, the Community Housing Federation, the Australian Federation of Homelessness Organisations and I understand you listened to Julian Disney this morning. ACOSS has been part of the summit group which is made up of various peak organisations that have been interested in and advocated developing policies around the issue of housing affordability for some time. This you all know, and it is one of the points that is often forgotten about what it means in relation to the unique social and economic benefits of having a secure home if you are just looking at how it plays out for the individual or a family. If a person does not have secure tenure, if they are unable to get adequate affordable housing in the rental market, then what does that mean for the stability of their lives? What does that mean for the development of their children—whether you are looking at the early years or whether you are looking at somebody coping with school pressures or whether people are at the end of their HSC? We are finding through our members that there is a complex net of problems just on the notion of the fact that there is not secure housing for so many Australians and the real effects of what that means on the individual. To give you one example, there was a family doing it tough, who were struggling, and who had one family member who was in paid employment. That person got incredibly sick. Their partner had to take on the duties of looking after that individual. They had two children. Because the nature of their private rental was insecure, they were unable to afford or make an arrangement with their landlord. They ended up with a person looking after an extremely sick partner and two children and they ended up living in a caravan.

There are stories like that all around the country, which is why it is so incredibly important that when we are looking at the issue of housing affordability we look at what is happening in the private rental market, particularly for those Australians who are struggling right now. As we all know, and as you would have heard from many other people already, there is not only the issue of supply of affordable housing for low-income people, but also the reality that rents are increasing across the board and across the country.

Community and public housing is a vital component to ensure, in a country that ensures we have a fair go to everybody, that there is safe, affordable housing. An important part of that solution is going to be public and community housing. But I guess what has been extraordinary is that over the last 10 years, given the increased numbers of people who are living in poverty and given the fact that our population has increased, the number of houses available in public and community housing, as you would have already heard, has declined. It is certainly a major area where we need to see greater investment from all levels of government, and that is why it is incredibly important that all levels of government need to be engaged in the solutions around affordable housing.

You may not have heard from many people about the Commonwealth Rent Assistance program. It is vital for people right now to be able to afford the incredible cost pressures. What we would like to see is a review into Commonwealth Rent Assistance: (a) how it meets the needs of those people who need it and (b) how it interacts with current policies and policies that are going to come on stream over the next year. While it may be outside the terms of reference, the point we would like to highlight is for the committee to consider what is going to be the role of public and community housing in the future. We have welcomed the statements from the government already about a commitment to ensuring that there are greater resources through the national rental assistance scheme, but also more direct investment by all levels of government in what is vital for low-income people. I think one of the things that you will already know in relation to public housing is that, while the numbers have actually declined and it is a chicken or egg element, it is becoming tighter and tighter for people to get into public housing. So, while you may see figures that waiting lists have declined, you need to see that in relation to the context of the fact that the criteria has got stricter.

I think one of the things that you will already know in relation to public housing is that, while the numbers have declined and there is a chicken or egg element, it is becoming tighter and tighter for people to actually get into public housing. So, while you may see figures that waiting lists have declined, you need to see that in the context of the criteria having got stricter.

In relation to some of the things that the committee, I am sure, has been talking about today in relation to assistance for first home owners, we do not see the first home owners grant as probably the most effective or equitable mechanism to improve housing affordability. We agree with the Productivity Commission, which says that if the first home owners grant continues it should be more targeted to low-income earners. In fact their suggestion, which we concur with, is that the money that is invested or put aside in the federal budget could be better used in other programs and policies around ensuring that more low-income people have access to safe and secure housing.

In relation to the first home saver account, while there has been movement to make the scheme more equitable, we would like to see further statements that it more directly target low-income and disadvantaged Australians and middle-income earners. In the wider picture what we need to be concerned about with this policy moving forward is that it may not be the best way for low-income and disadvantaged Australians, particularly, who may be cycling in and out of work, to secure housing. We would recommend that information on financial counsellors and other information be put out to the financial counsellors' network and that they advise their clients that in not all circumstances would it be the best option for low-income and disadvantaged Australians. We go back to the initial point that so many Australians live below what is a relatively austere poverty line, where unfortunately owning one's home is not possible.

In relation to the role of government, as we have already stated, we do see it as vital that all levels of government are engaged, which is why it is incredibly important, as we move forward under the National Affordable Housing Agreement, to provide a framework. We do see an important range of goals and targets for low-income and disadvantaged Australians. We have already talked about the National Rental Affordability Scheme. We do think that it is an important breakthrough in terms of increasing private investment in the area of low-income housing.

In relation to the interplay of taxes and how that affects—specifically for ACOSS—low-income and disadvantaged people, we think it would be a great thing for the committee to do a review in the future about the interplay of negative gearing and capital gains tax after the NRAS has been operating. What we want to see is a maximum bang for your buck. We are spending billions of dollars in relation to capital gains tax and negative gearing. Is that providing the best outcome to have investors build more affordable housing?

ACOSS—and you would have heard from others, and you may hear from *Choice* in the future—is concerned about the impact of the relaxed home lending regulations on lower income Australians. As I said, we point you to the work that *Choice* and other NGOs have been doing, but we also refer you to the inquiry into home loan lending by the House of Representatives Standing Committee on Economics. We will stop there; we are happy to answer any questions.

CHAIR—We heard from the New South Wales Federation of Housing Associations this morning. I do not know whether they are members of ACOSS or not. Adam Farrar, their executive director, was talking about changes in the 'profile' of public housing residents—I suppose that is the best way to put it. Public housing, broadly speaking, was typically used to support low- to middle-income families during a period in their lives. It was a traditional pathway to homeownership for them. But it changed. If I were to characterise the changes in New South Wales terms, in the post Richmond report environment, people who were deinstitutionalised as a result of those policy changes have ended up being very much the client group for which public housing is now used, along with elderly people in straitened circumstances and, to some degree, young people with serious income issues and other issues. Is that your impression as well? Professor Disney's view is slightly different—though I did not get a chance to ask him about it. He says that, in fact, there are more middle-income families in public housing than low-income families, and this is a significant problem. I stand to be corrected on that because I do not have the *Hansard* in front of me.

Mr Johnson—The stock of public and community housing has been declining in real and net terms. Due to the lack of investment in this area, as we talked about before, it is very difficult to get priority public housing. One would assume that a person in a women's refuge would move into secure public housing. But that is no longer the case; it is not automatic. We need to understand that because of rationing it is more difficult for people to get onto the priority list for public and community housing. In the private rental market there are just not enough houses, and the unaffordable prices make it all the more desperate. My colleague Peter Davidson, who is involved in some of these areas, can talk about the profile. It is obviously a state issue. Adam Farrar is very much engaged with ACOSS and would know the New South Wales example very well, but obviously it differs from state to state.

CHAIR—Let me just refer to my notes on Professor Disney's observations. He said there was a mismatch of who was in low-rent housing—you would expect it to be low-income households but it is not. That was the point that he was making—just in case he wants to come down from the Faculty of Law and correct one of the graduates!

Mr Davidson—He may be referring to private rentals as well as public rentals. Certainly in public rental it is a story of ever tighter targeting as the stock declines and the waiting lists have initially grown. There is a big difference between eligibility for housing and who actually gets housed—which increasingly requires being placed on a priority listing. In New South Wales, for example, being placed on a priority listing requires not only that you have no source of income other than income support but also that you are spending more than 50 per cent of your income on rent, which narrows it down considerably, and/or that you cannot survive in the private rental market because, for example, you have a disability and need modified housing or because you have a very large family or severe mental health problems. So there is a growing concentration of the more disadvantaged and increasingly ageing people in public and social housing, who are staying there longer.

Senator SIEWERT—Is that just New South Wales or are you talking about Australia in general?

Mr Davidson—That is specifically New South Wales but the trends are similar across the country.

Senator SIEWERT—But New South Wales is the tightest in terms of targeting?

Mr Davidson—Yes, because of the Sydney market.

CHAIR—And because of the sell-off of stock. They chose to do that.

Senator MOORE—The records we have in Queensland indicate that people do not move out of public housing—if they ever did, but currently they do not. Once they succeed in getting accommodation, that seems to be the end and it does not matter how old they are when they get it. Do you have data that indicates what was once expected: that people would go into public housing for a period of time whilst their circumstances improved—in some cases, not all cases—and then move on? It is indicated that they do not. The Queensland state minister has identified that he wants to do something about that. I am not quite sure what that is, but he wants to do something about that.

Mr Johnson—We do not, but we can take that on notice and come back to you. I think it does point to the fact that intergenerational poverty is something that this country did not experience to a great extent. But if you look over the last 20 years there actually has been a notion of intergenerational poverty and entrenchment. Whether people talk about poverty postcodes or whether people talk about certain population groups, I think we need to be considering that and why it is important to look more holistically, ensuring that we do have an agenda to include people who are currently locked out of participating in either the workforce, social life or the economic life of the country. We do need to have long-term strategies. That is one indicator that we are not doing as well as we should as a country, given our resources, to ensure that we are lifting up those people who are doing it toughest.

Senator SIEWERT—When you started speaking you touched very quickly on Indigenous housing. It is an issue that so far today we have not talked about. I was not there yesterday so I do not know if it was discussed yesterday. I suggest that Indigenous people are the most disadvantaged group in terms of housing. Do you have any specific comments that you wish to address to that issue first?

Mr Johnson—I think the first issue in relation to Indigenous housing is the historical severe lack of investment. Often people talk about the fact that we do not have enough investment or there is another tranche of money that has gone there, but I think we need to think about what has happened over the last 10, 15 or 20 years in relation to the stock of public and community housing that is available for Indigenous Australians. I think that is one of the first points.

I think you are right, Senator—and we tried to make that point—that, while low-income and disadvantaged Australians are at the most severe part of the housing affordability crisis, you then need to go to another level again in terms of severity to understand what is happening in Indigenous communities around the country. In terms of moving forward, one of the most vital things is to ensure that the communities themselves are consulted about the most appropriate housing that is needed. But right now, due to lack of investment, agencies and NGOs cannot keep up just with the maintenance. You will hear often apocryphal stories that there are so many people living in the one house. The first thing we should be saying is that it is an appalling state of affairs that we do not have enough housing stock and that we are having 10, 15 or 20 people living in the one house. We need to also understand the patterns. Particularly in more rural and remote communities, people come in and out of those communities.

So we need to be looking at those kinds of issues when we are planning, building and consulting with the Indigenous communities. It is vital that any moves forward—and we can see that some of this is happening already—involve consulting with the Indigenous groups themselves about what it is they are needing in relation to their housing.

Senator SIEWERT—So we are talking about a different set of policy initiatives to deal with Indigenous housing than we are to deal with affordable housing per se, from what we have heard today and also from what I have understood your answers to be?

Mr Johnson—That is right, but the other way is: where is the greatest level of underinvestment historically? And that is in Indigenous housing.

Senator SIEWERT—I want to ask about the lack of affordable rental accommodation for those on low incomes. After the Indigenous people they are the next most disadvantaged group. What are your policy suggestions for how we deal with both the immediate crisis and any longer term crisis?

Mr Johnson—I think that is why it is so incredibly important for all levels of government to engage in the National affordable housing agreement and look at a suite of activities, including greater investment from the private sector in low-income housing through the National Rental Affordability Scheme. We need to be seeing increased investment in public and community housing.

In relation to the most severe part of the housing affordability crisis, people who are homeless, we need to look at the problems more holistically. Particularly in relation to homelessness, we need to be looking at preventative measures, what we need to be doing at the crisis point and then working on pathways. A lot of people are talking about that right now. We have the green paper and white paper process coming up. It will be very important for all Australians to engage in getting the policy solutions right. I think it will be important, for low-income Australians in particular, to ensure that we set ourselves benchmarks and targets around what we collectively as a country are going to head towards so that we do not live in a country that has extraordinary resources but so many Australians left behind in relation to the economic prosperity. A suite of activities need to be engaged in both on the demand and the supply side.

Also we need to ensure that there is more security of tenure in Australia. Many international experts have come to the country and said that one of the things that could possibly be done under NAHA, the National Affordable Housing Agreement, is to provide a national set of standards for people in the private rental market. Clearly, they are not strong enough. I think we all understand what it means to have security of tenure in a rental property, particularly for those people who are struggling.

Senator COLBECK—We have had some discussion about changing expectations in respect of ownership, say, a long-term tenure sort of program. Have you done any work on those? What is your perspective on how those might be accepted into the market—is it really about ownership or is it about tenure?

Mr Johnson—When you are talking about low-income and disadvantaged Australians, it is beyond their dream to be able to own their own home. These are people who are struggling on very low incomes. While we would like to say that homeownership is something that every Australian has access to, it is just not the case. Low-income Australians, those people who are living on and around the poverty line, are struggling just to find accessible, affordable rental accommodation, let alone dreaming of the fact that they can own their own home. There are millions of Australians who are doing it tough and who have accepted that what they are seeking is secure tenure, affordable rental and available housing. That is where they are at right now. It is not that we do not think that it is a good thing to encourage people to own their own homes in terms of security, tenure and ability to bring up families, but the reality is that we need to remind ourselves right now that, for millions of Australians, it is not possible.

Senator COLBECK—You talked about investment into the Indigenous area. Have you had much interaction with some of the Indigenous agencies or the cooperatives that are actually running some of the local programs? Can you give us some insight into how you see the operation of those?

Mr Johnson—One of the many organisations that we deal with is the Tangentyere Council. We think that it provides a very good model about how to ensure that this system works. I am not quite sure whether Tangentyere is on your list of people to speak to.

CHAIR—No, but we are hoping to have a hearing in Alice Springs or at least hear from Northern Territory representatives, perhaps when we are in Adelaide, so we might try and organise that.

Mr Johnson—Rather than speak for them, I would suggest that you speak to those Indigenous organisations. I think I need to go back to the point that often people look at organisations and ask, ‘Why isn’t this being done’ rather than saying, ‘Isn’t it extraordinary what you have been able to do with the lack of funds that you have had?’ There has been, in some cases and in real terms, disinvestment. People are struggling to keep up with maintenance and repairs, let alone having the resources to build new housing.

The other thing to bear in mind, too—particularly in rural and remote communities—is that the population is increasing so that you have a new group of Indigenous young people. We need to take that into account. People forget. They say, ‘If the population is static, what are we doing with the current housing stock?’ The reality is that the current housing stock, due to the lack of investment, is in a poor state. There are also more people who need secure, affordable housing.

Senator COLBECK—There has certainly been a population explosion in the Indigenous communities at younger levels. The needs of those people are something that we probably ought to be looking at as part of this process.

Mr Johnson—We also need to ensure that the housing there is appropriate for the population groups and individuals in the communities. It is not rocket science: the best way to do that is to sit down with and take guidance from those people who are going to be living out their lives with their families in those houses and communities.

Senator COLBECK—We have talked a lot today and yesterday about the narrowing focus of the clientele that remain within public housing, because of the rundown in the stock and the reduction in the numbers of houses available. Have you done any work on what you see as the injection of investment requirement to start to turn that around?

Mr Johnson—Just in percentage terms, there are various people who are saying that we need to return to six per cent of housing stock available that is public and community housing. There are groups who say that we need to go much further and have another target of eight per cent and then another target of 10 per cent to ensure that we are not just going back to historical levels but ensuring that we have more stock than we did historically. We have done some modelling on what it would cost in the first year. There are other people more expert than us in relation to cost modelling. But you are looking at an investment in the first year in a budget cycle of about $500 million as the starting point to get us to a target of at least six per cent.

Senator COLBECK—So you see that as the fundamental underlying number in percentage terms that would be required to start releasing some of the pressure in the system?

Mr Johnson—Yes, at least. We need to have at least an interim figure of around six per cent to ensure that in the long term we are not recreating the problem and in 10 years time end up asking, ‘Where was our investment in public and community housing?’

Senator COLBECK—It has been put to us that a breadth is required in the cohort of people who occupy public housing to retain its sustainability. In fact, it has been suggested several times to us in the last couple of days that where we are at the moment is unsustainable in that the focus is so narrow and the return that is coming back out is so little that it cannot sustain itself. Would you support that growth in focus so that you get a broader cohort of people occupying public housing so that it can improve its own sustainability?

Mr Johnson—The point is that the situation that we have right now is not meeting the needs of the most severely disadvantaged group in the Australian population, so certainly we need an increase in the number of places in community and public housing. But it cannot just be left to public and community housing, which is why we need to see greater incentives for the private sector to ensure that they invest. We do not want to rely on just one area. This will ensure that there are greater numbers of houses available for low-income Australians.

Senator COLBECK—We heard yesterday something about the rental assistance program that is being proposed by the government, which is providing about $6,000 over 10 years. Is that right, or was it $8,000?

CHAIR—Is that the National Rental Affordability Scheme?

Senator COLBECK—Yes. It was said that the market was moving so quickly that that potentially was being eroded in the timeframe leading up to its implementation. What is your perspective in respect of indexation of these programs, so that they maintain a real value?

Mr Johnson—You would have heard from Julian Disney this morning. We have been doing work with Julian Disney in the summer group around the National Rental Affordability Scheme. We think that it is a big breakthrough, because it provides for the first time a real incentive for people to invest in low-income housing. What was your specific question?

Senator COLBECK—It was put to us yesterday by, I think, the Housing Industry Association that the market was moving so quickly that the 20 per cent reduction in market rental, which is the objective of the program, was potentially being eroded in the lead-up. It is a difficult thing for a government to wrestle with—I understand that. But in your view should those things be flexible enough to be able to move with the market so that they do not lose their value and benefit?

Mr Johnson—It is important that there is incentive for the private investor to put their investment resources into low-income housing. Our understanding is that there will be a process for it to be rolled out and for consideration of how the NRAS is going to work in the future. Fundamental to that, obviously, is the point that you are making—that there have to be returns for the private investor to ensure that that works.

Senator BARTLETT—Apologies for missing the start of your evidence today. Tell me if I am asking something that has already been asked. I notice you mentioned the first home owners grant in your submission. You made the comment that, if it is to be retained, it should be retargeted. Is that a subtle way of saying that in your ideal world it would not be retained? Do you have a view on that?

Mr Johnson—I think the point is—and this is where we agree with the Productivity Commission—that, if the scheme is going to remain, to get the maximum benefit for return it needs to be targeted at low-income and disadvantaged Australians. I guess our view would be there would be better ways to invest for the end point or for the return of having more houses available for low-income and disadvantaged Australians.

Senator BARTLETT—The Productivity Commission report I think you are referring to, the one from 2004, also recommended a review of the impact of capital gains tax and how that interfaced with negative gearing. That recommendation was not accepted by the previous Treasurer, but do you think there is still merit in reviewing the impact of those?

If I can ask a double-barrelled question, you have also called in your submission for a review of rent assistance. It is a completely separate issue, but I guess the broader theme is that there is a whole pile of measures and quite significant expenditure or forgone revenue attached to them and we are not really looking at what impact they are having, what value for money we are getting out of them in terms of affordability, and yet we are all calling for more government measures, more government investment on top of these things. Should we first review those impacts, whether it is rent assistance or the federal tax system, before we tack more things on top?

Mr Johnson—The short answer is yes, which is why we think it is incredibly important for the National affordable housing agreement that we are looking at these things holistically, that we do not just look at demand but actually have measures on the supply side for low-income and disadvantaged Australians. Very importantly, in relation to the interplay with tax, are we getting the maximum bang for the billions of dollars that are spent in this area in relation to the return of housing, particularly for low-income and disadvantaged Australians?

We mentioned in our short presentation that it would be very good, once the NRAS is up and running, to have a review into the interplay between capital gains tax and negative gearing now that there are many more measures and more planning for the future. On equity grounds, utility grounds and bang for your buck, is that really significantly reducing housing affordability, particularly at the low-income and disadvantaged end? Could those resources be used more effectively in ensuring that every Australian has access to affordable housing?

Senator BARTLETT—You mentioned security of tenure in broad terms and stronger protections for private sector tenants. As I am sure you know, the argument is put that this is a disincentive to investment. Do you have any evidence, given there are different tenancy law regimes in different states, that they have operated as a disincentive to private sector investors?

Mr Johnson—No, we have not. We can see if there is more evidence on that and come back to the committee about it. It is our understanding that, at the end of the day, it is going to be more beneficial for the market as a whole if people are in secure tenure. The reality is that part of going forward in a national approach is ensuring that the state and local governments are engaged in this. It is extremely important that no matter which state or territory you live in, you have the same rights. We need to look beyond ‘it is beneficial for the country’, both in terms of having people socially included and for the economy, that people do have secure tenure in terms of attachment to the labour market, bringing up our families and ensuring that our children have stability.

Senator FIFIELD—Mr Johnson, Professor Disney said in his evidence that you cannot look at issues of affordability in housing without also looking at transport issues, given the costs that people incur getting to and from work. You mentioned in your submission the importance of transport. How important do you think issues of transport are? Do you place as much weight on them as Professor Disney does? If so, how do you think those issues should be addressed? It has been put to us today that perhaps the Commonwealth should seek to involve itself more in those issues through something like a new Building Better Cities program. Could we have your thoughts on that.

Mr Johnson—It will not surprise you that we heartily agree with Julian Disney. Often people say, 'We need to ensure that we get new low-income houses,' but are they in places that enable individuals to attach themselves to the labour market? Are there schools, supports and services that people need? Transport is, of course, a vital issue and we need to ensure it is included. There are better experts than ACOSS to be talking about the sustainability for our cities, but certainly if you are looking at breaking social disadvantage and cycles of poverty, then access to transport is incredibly important. Access to services, access to schools, and attachment to opportunities in the labour market are all part of that. So when we are looking at ensuring that we are providing more low-income housing we need to look at what else we are doing to ensure that we are supporting the people in those houses and communities.

Senator FIFIELD—Do you think that the Commonwealth should involve itself more in issues of public transport than it has to date—given that we have been hearing evidence from developers, not surprisingly, that the state government, certainly here in New South Wales, is not doing much in the way of infrastructure, whether it be water infrastructure or public transport infrastructure? Clearly there is an issue there. Do you think the Commonwealth should involve itself more?

Mr Johnson—I think if you are looking at the issues of low-income and disadvantaged Australians, of course transport is a major issue, as is access to services, and I think that is why the national reform agenda that is moving forward will be an important opportunity to put all these things on the table and talk about the end result that we need. We do think that all levels of government, including the federal government, should be engaged in the issue of transport.

Senator FIFIELD—That sounds like a COAG cooperative federalism answer.

CHAIR—I thank all of you representing ACOSS this afternoon for coming to this hearing and supporting the committee with your submission. As I have said to other witnesses, we are at the very beginning of this inquiry, which will run for most of the month of April and into early May. There may be issues we need to follow up on. We may have to put some questions on notice to you. I hope you will be able to assist us with responses to those, if that is the case.

Committee adjourned at 4.29 pm