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SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA

Reference: Barriers to homeownership in Australia

WEDNESDAY, 7 MAY 2008

CANBERRA

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SENATE SELECT COMMITTEE ON

HOUSING AFFORDABILITY IN AUSTRALIA

Wednesday, 7 May 2008

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

Senators in attendance: Senators Colbeck, Fifield, Hutchins, Payne and Siewert

Participating members: Senators Abetz, Adams, Barnett, Bernardi, Birmingham, Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Bushby, 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, Ray, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Watson, Webber and Wortley

Terms of reference for the inquiry:

1. That a select committee, to be known as the Select Committee on Housing Affordability in Australia be established to inquire into and report upon:

The barriers to home ownership in Australia, including:

the taxes and levies imposed by state and territory governments;

the rate of release of new land by state and territory governments;

proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;

the role of all levels of government in facilitating affordable home ownership;

the effect on the market of government intervention in the housing sector including planning and industrial relations laws;

the role of financial institutions in home lending; and

the contribution of home ownership to retirement incomes.

That the committee present its final report on or before 16 June 2008.

WITNESSES

Committee met at 8.31 am

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

To date the committee has held public hearings in Canberra, Sydney, Campbelltown, Karratha, Perth, Brisbane, the Gold Coast, Ballina, Geelong, Melbourne, Adelaide and Launceston. This is the last public hearing for this inquiry.

These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question the witness should state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

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

[8.33 am]

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

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

CHAIR—I welcome our first witnesses this morning, officials from the Department of Families, Housing, Community Services and Indigenous Affairs. Do you wish to start with an opening statement?

Ms Winzar—No, Senator.

CHAIR—Okay. We will go to questions then. I might kick off with a couple. I think that, when we met before in Canberra in April, you said that we would be in receipt of a submission from the department—I think you estimated by 15 April.

Ms Winzar—I did, Senator, and we are still just concluding the submission.

CHAIR—When should we expect it?

Ms Winzar—It will not be too long. I think it is pretty close to finalisation.

CHAIR—We would look forward to that.

Ms Winzar—My apologies for the delay.

Senator FIFIELD—Is that likely to be before or after Tuesday of next week?

Ms Winzar—I would think that it would be before Tuesday of next week.

Senator FIFIELD—Before budget day. Thank you.

CHAIR—That would be helpful. We have been taking evidence, as I noted in my opening statement, literally from around Australia and have some interesting contradictions, I suppose, which are intellectually interesting and factually challenging for us to deal with. One would be, for example, the evidence from the Reserve Bank of Australia. In the view of a number of lenders, in their experience and data—and they are mostly ADIs, I acknowledge—repossessions and arrears do remain relatively low, but the media would have us read, and a number of welfare agencies certainly give us very clear evidence, that they are dealing with a much larger number of families who are seeking assistance due to difficulties in meeting mortgage repayments and also rental payments obviously. I wonder whether you can assist us in reconciling these two perspectives.

Ms Winzar—I have seen the data from the Reserve Bank which does suggest that in aggregate the number of people who are more than 90 days in arrears or who are defaulting on their loans is extremely low—and I think we are talking in the low tens of thousands here. That is not to say that welfare agencies would not be seeing some increased demand from people who are less than 90 days in arrears with their home loans or, indeed, who are keeping up with their home loans but who are extremely pressured on other fronts due to things like credit card repayments or other debts that they are trying to juggle. So I am not sure that there is necessarily a consistency in that space.

Ms Wall—I think that there would also be a number of households where the householder would actually know that they are in arrears and would choose to sell the house before there is a formal foreclosure process, so they would not necessarily appear in those statistics.

CHAIR—I see. I think that on the last occasion we met we asked about the media reports around the 10,000 applications for repossession a year and you said at the time that both your agency and Treasury keep an eye on that data. In the month and a half or so since have you done any further analysis of that sort of data?

Ms Winzar—No, we have not, Senator.

CHAIR—Do you have any plans to do any analysis of that data?

Ms Winzar—As I indicated, we keep a broad watching brief on it but we would not analyse it. I think that one of the questions you asked us last time was whether we had any information available at some level of geographic detail about which suburbs or which regions were experiencing the most mortgage stress. We do not get down to that level of detail.

CHAIR—Are you aware of any other federal government agency which does do any analysis at that level?

Ms Wall—I understand that the consumer affairs portfolio is looking at some work in this area at the moment but, once again, I do not know. We rely on the information we would generally receive from the Reserve Bank. We obviously keep an eye on newspaper reports from state government sources.

CHAIR—They are like court reports and sheriffs' analyses and things like that.

Ms Wall—There is some information that is obviously made available through FOI requests to various state governments.

CHAIR—Again from evidence that we have taken, and we have had some discussions about taxation issues—capital gains tax and negative gearing—there are arguments both in favour of maintaining the current situation and significantly changing it obviously depending on the perspective from which you come. I think that on the last occasion when we were talking about negative gearing you indicated that the view from your perspective was that negative gearing has had a beneficial effect on rental housing, increasing the amount of rental housing. You said it demonstrably increased the amount of rental housing. Given that we have had witnesses talking to us about it almost being a compensation for low yields on rental housing, I am wondering what material you can provide the committee about your perspective on negative gearing in terms of provision of rental housing.

Ms Winzar—I do not know that there is any particular set of data that would assist the committee that we would have. There is much information around on trends in rental yields over the last decade or so and there is lots of data on the number of people who are investing in rental property as a deliberate investment as opposed to an accidental investment. I am not sure that there is anything particularly that we could add to that. What do you think, Clare?

Ms Wall—We do not have any information from our own sources.

CHAIR—So it is just the publicly available data?

Ms Wall—Yes. We do fund the Australian Housing and Urban Research Institute.

CHAIR—With which we are now very familiar.

Ms Wall—And the research that they do is available on their website. There is some work—not all of it very recent—which might touch on that issue.

CHAIR—All right, we can have a look at that. I just have a couple of other questions before I go to my colleagues. We are still dealing with the estimate of the shortfall of dwelling stock and the big 30,000 number, which some people suggest is not large enough. We understand that there are estimates in the department's *Making housing affordable again* document which refer to 30,000. There is an RBA statement which refers to 30,000. I do not have an understanding of how that has actually been calculated. If you could elaborate or assist the committee with that, it would be helpful. Where does the Commonwealth draw its housing demand and supply figures from to guide that sort of policy making? Let me start with that.

Ms Winzar—The source of the 30,000 shortfall referenced in the National Rental Affordability Scheme documents is in fact the Reserve Bank's estimate. It does not particularly help you now, but one of the things which will help us in the future, of course, is the formation of the National Housing Supply Council which will examine a range of factors particularly around population demand and composition including migration, changes in household formation, demand for different types of accommodation as the population ages and so on. It will attempt to match that against current trends in dwelling starts and the existing stock of houses and also, we hope, be able to give us a forecast some twenty years hence about what the likely demand will be.

CHAIR—How will they go about collecting that data?

Ms Winzar—It will draw a fair amount from the Bureau of Statistics, but there are also a number of other commercial agencies that do quite an amount of modelling in this space in terms of demand and supply of housing.

CHAIR—I know that the chairman, Dr Donald, has only recently been announced and that the members were only announced at the end of last week. When do you expect them to release the first of their reports?

Ms Winzar—We are expecting that they will meet before the middle of this year and I think their first interim report is scheduled for completion by the end of this calendar year.

CHAIR—Okay, thank you. On the feasibility of increasing the supply by 30,000, we have got evidence about skills shortages in the construction industry and difficulties in addressing that through the immigration processes. We have evidence about land supply shortages. We have evidence about planning delays and the list, as you can imagine, goes on. How feasible is it to aim for an increase of 30,000 new dwellings a year?

Ms Winzar—It will be a challenge—no question. But I think all of those dimensions have to be tackled in parallel. I would say that fixing the housing shortfall cannot be done within a 12-month period. That is certain. A couple of other measures that are relevant in terms of the planning delay, forward plans for release of land and so on will be addressed, we hope, in part by the Housing Affordability Fund. We are shortly to release a technical paper on the Housing Affordability Fund, but its—

CHAIR—When do you expect that to be released?

Ms Winzar—I think it is within about the next month. But its explicit objective is to try and engineer some reform of planning processes across the country. The first down payment on that, I suppose, is about $30 million worth of funding to local government and state government to have an electronic development application process which will speed up some of those planning processes.

The other key issue is trying to reduce some of the holding costs which developers incur at the moment while they endure sometimes very lengthy planning delays. Their money is tied up and ultimately that cost is passed on to the eventual land purchaser. So, speeding up the planning processes and doing something about release of new land is a key focus of the Housing Affordability Fund.

The other issue that you mentioned in terms of the lack of availability of skilled workers is something that we have certainly begun to look at. Again, I do not think there is any short-term solution to that, but clearly we need to do a little more to encourage young people to go into the building sector, and we certainly need to make the best use of the system that we have available. Whether or not that means more innovation in building arrangements, such as prefabrication plants and so on, I do not know, but I am sure there are some better ways of doing things than we have at the moment.

CHAIR—Relying on the encouragement of young people to go into the building sector is not going to build us 30,000 dwellings a year in a hurry.

Ms Winzar—Not in a hurry, that is true. As I indicated, I certainly do not think that this is a short-term solution. It is a long-term challenge because our need for 30,000 houses is not just a need this year and next year; it is going to be an ongoing need, so we have to make that investment of increasing the number of skilled workers in the building trades. Ms Wall may have something else to add on that front.

Ms Wall—There is some work being done through Skills Australia—which is obviously not within our portfolio—to increase the supply of skilled workers. There is also some work being looked at through the temporary visa program, to attract additional workers into the industry. I do not have much more detail about that.

CHAIR—I will come back to which specific temporary visa program that is.

Senator HUTCHINS—This is a technical question. You might wish to take it on notice. We asked you last time whether you could verify a media report that there are currently around 10,000 applications for repossession a year. You noted that while both your department and Treasury keep a bit of an eye on this figure, there is currently no primary collection process on this data at Commonwealth level. Will the National Housing Supply Council be the central collection point for data on housing repossessions, and will this data be broken down by postcode or region?

Ms Winzar—I think that would be beyond the purview of the Housing Supply Council. They are more concerned about projecting demand and supply issues rather than dealing with the financial dimensions of it. Having said that, obviously availability of finances is a key component in housing affordability.

Senator HUTCHINS—Who might a question like that be directed to then, Ms Winzar—to Treasury or to Infrastructure?

Ms Winzar—I think it would probably fall to Treasury. That would be my view.

Senator HUTCHINS—I am sure the secretariat and the chair will consider it. One thing that I want to ask about the National Housing Supply Council relates to the shortfall in houses, which is one of the things the chair highlighted. Where we have gone across the country there are different codes for building, and even different standards that might be expected. Is it the anticipation of the council that it will be one-size-fits-all for market trends or forecasts? As the chair would recall, we got different views about housing in Karratha than we did in Campbelltown.

Ms Winzar—Different views about standards?

Senator HUTCHINS—What sort of housing and the standard of housing.

Senator SIEWERT—Whether you have your McMansion or your three by one.

Senator HUTCHINS—Or even the type of housing. If I recall, in Karratha there was a suggestion that it did not matter all that much whether it could stay up. That was my opinion. I will try to find my notes. But in Campbelltown there was certainly a view by the local government professionals down there that people still wanted their McMansions, even though they were building nice, good high-rise units next to train lines that get them into the city of Sydney in 35 or 55 minutes.

Ms Winzar—I do not expect that the Housing Supply Council will go to examining the different building codes and building standards across Australia, but I do think that will be taken up in the context of the Housing Affordability Fund and trying to engineer some broader reforms to planning processes.

In terms of the second part of your question, I suppose it goes to the question of does what is being built match the needs and aspirations of those who are potentially going to live in it. We have had a fair bit of contradictory evidence about that also. I am not sure, really, that I can help you much in terms of where the truth lies. People do want a certain amount of amenity, and maybe there is something between the McMansion and the apartment block which might meet the needs a bit better.

Senator HUTCHINS—I am just not sure whether anybody can come up with trying to meet people’s aspirations if they are prepared to pay for it. Ms Wall, did you want to add to that?

Ms Wall—There is some work being done in the regulatory review context. There is a bit of background information on that on the COAG website and also in the communique from the March COAG meeting under the regulation review heading, where there is also a bit more information about regulations around governance of lending bodies and lenders for homes as well. That is on the COAG website—www.coag.gov.au—and then the March COAG meeting and supplementary information. There is some background information on that.

Senator HUTCHINS—One final question: can you tell the committee how the green paper on homelessness is progressing, and what is the likely date of its release?

Ms Winzar—It is progressing well and the steering committee has met, I think, half a dozen times—both face-to-face and via the telephone. My understanding is that the paper is currently awaiting clearance from ministers, and we would expect it to be released within the month.

Senator FIFIELD—Ms Winzar, in the lead-up to the budget there are some areas of policy and some programs that the government is happy to indicate will not be altered. Sometimes government willingly comments on those things; sometimes government is prompted to do so—as we saw in the case of carer payments. In relation to the first home owners grant, when Treasury were before this committee I asked them if they could indicate whether the first home owners grant was something which would not be altered. They fell back on what I call the ‘US Navy’s nuclear response’—refusing to either confirm or deny the presence of weapons, or in this case, confirm or deny that there could be a change.

I appreciate that Treasury has responsibility for crafting the first home owner grant and liaising with the states in relation to its administration. But your minister is the lead minister in terms of housing issues—we have heard a great deal about how she is the first minister for some time to have the word ‘housing’ in her title. It is part of the department’s role in the caretaker period during an election to monitor the commitments of an opposition in order to assist that opposition should they be successful in implementing their agenda. In that context, are you aware of any indication by the then opposition that they would in some way seek to change the first home owners grant—whether it be by introducing a means test, by its abolition or by some other change?

Ms Winzar—No, I am not.

Senator FIFIELD—If a comment or commitment had been made to that effect the department would have picked it up so that they could assist the government in putting that policy into place.

Ms Winzar—It is a standard part of our operation in the lead-up to the election to monitor statements in the election commitments of each party.

Senator FIFIELD—Since the change of government are you aware of any indication or comment publicly by your minister that the first home owners grant would not be changed, that it would be preserved in its current form?

Ms Winzar—No, I am not aware.

Senator HUTCHINS—Are you, Senator?

Senator FIFIELD—I am not, but I am figuring that the department probably has a closer and greater appreciation of their minister’s public comments than I have. Ms Winzar, we have a situation where the current government, in opposition, gave no indication to the Australian public that there would be a change. We also have a situation where the minister, since the election, has not given any comment to give comfort to prospective first home buyers that the first home owners grant will continue in its current form. We appreciate the situation of a department and what they can say in relation to advice to government and what government may be considering, but are you able to give any comfort to prospective first home buyers that the first home owners grant will be continuing in its current form?

Senator HUTCHINS—I am not sure that the public servants at the table can answer that.

CHAIR—I am sure that Ms Winzar will indicate if she can or cannot.

Senator FIFIELD—I did indicate that I appreciate the situation of departments making comment in relation to advice to governments. It is just whether Ms Winzar is able to reflect a government commitment to the first home owners grant.

Ms Winzar—It would not be appropriate for me to provide you with any information on that front.

Senator FIFIELD—Thank you. I just wanted to establish whether there was any comfort in terms of government policy or commitment by the government to the first home owners grant. It would seem that you are not able to reflect a government commitment to that.

Ms Winzar—That is a matter for government.

Senator HUTCHINS—Maybe it is the government you should ask, rather than public servants.

Senator FIFIELD—Ms Winzar, you would be aware that we have heard often through these hearings that, if you spend more than 30 per cent of your household income servicing your mortgage, that places you in housing stress. When we had the Deputy Governor of the Reserve

Bank before us, he indicated that, while that may have been a useful figure in years gone by, if you were going to recalibrate, probably a figure of something of the order of 47 per cent would be more appropriate, given that the figure of 30 per cent was one which was used five, eight or 10 years ago.

Ms Winzar—I do not think he actually said that. What he indicated was that incomes have risen and, if you compare it over time, while in the past 30 per cent of average income would have brought you a certain amount of housing amenity, now you could afford to spend 47 per cent of average income, because incomes have risen. So I think that is a slightly different take on it.

Senator FIFIELD—As I said, he said: 'If it were recalibrated to take account of things such as the rise in real wages.'

Ms Winzar—I think the point he was making was that, because incomes have risen, families could spend 47 per cent of their incomes on housing without being in housing stress. That was his point.

CHAIR—I think you are in agreement.

Senator FIFIELD—I think we are in heated agreement here.

Ms Winzar—Which is not necessarily to say that 47 per cent is an appropriate measure for determining whether people are in housing stress, because I think the other point that he made was that, while it might be appropriate to talk about the 30 per cent benchmark when you are down the bottom of the income spectrum, it is not necessarily possible to reference that across the whole of the population in terms of their housing costs—as some of the commentators have done.

Senator FIFIELD—My next question was on whether you think that 47 per cent figure is an appropriate and more useful measure, which you have answered.

Ms Winzar—Our primary concern is those in the bottom 40 per cent of households in terms of their income. I think we would still consider that paying 30 per cent of your household income on housing, for that group, puts you in housing stress. Those in the top 60 per cent of households can spend a much greater proportion of their income on housing and still have quite enough left over to live.

Senator FIFIELD—Thank you for that. I should hasten to add that the Deputy Governor of the Reserve Bank was not indicating that paying at levels below that was not stressful, but just that he was trying to apply a more up-to-date measure. One of the observations which the deputy governor also made was that, if you look at these sorts of figures around Australia, Western Sydney is the area that is, perhaps, doing it toughest and is where the term 'housing stress' would most readily apply. Does your department have a view as to which part of Australia is particularly feeling the stress?

Ms Winzar—We certainly would not disagree with the Reserve Bank's observations about the situation in Western Sydney. I thought that the explanations that the Reserve Bank gave about why that is so were quite telling in terms of, amongst other things, the fact that wage rises had been lesser there than in other parts of the country, which I thought was an interesting observation.

Senator SIEWERT—You have obviously read the submissions. We have had a lot of positive submissions around the issue of community housing and from housing associations. In fact, on Friday last week I was at a Western Australian Council of Social Service conference, and we had a submission there from the Western Australian Department of Housing and Works. They were talking about how they are working with community housing associations. In fact, they presented evidence to this committee. They talked about handing over quite a large amount of public housing to community housing associations and said they had to talk to the Commonwealth about it, so I thought I would take the opportunity to ask if the Commonwealth has an issue with state departments handing over the management of public housing to community housing associations. Is there an issue there? I was quite surprised to hear that it might be an issue.

Ms Winzar—It is something we are actually having a look at at the moment. One of the distinguishing features, I suppose, between community housing and public housing is that community housing tenants can attract rent assistance payments from the Commonwealth whereas public housing tenants do not. So on the one hand we would be concerned if there were massive cost shifting from state governments by transferring their stock into community housing, which would then generate a rent assistance payment. The reason, I suppose, given for not paying rent assistance in public housing is that the Commonwealth has already made a substantial contribution to the cost of that housing, so to subsidise again through rent assistance would be a bit of a double dip. However, having said that, the other side of the argument is pretty convincing also—that is, that community housing, and particularly the tenancy support that they can give people, is certainly a quality product. In many cases they do a fantastic job, so as a model for sustainable housing for low-income people it is very attractive. So we are weighing that at the moment.

Senator SIEWERT—Where are you leaning towards? What policy initiatives are you putting in place or thinking about that may, in fact, deal with this issue?

Ms Winzar—I think the challenge for us is to have the right mix of social housing. I do not know that we have actually come to any firm conclusions on any of that, but clearly there is a place for some public housing of some sort—I suppose as housing of last resort. Some parts of the community housing sector are very keen to expand their operations, and they offer a somewhat different style of product. I think it is a very valuable product as well.

Senator SIEWERT—It would be fair to say, I think, that every single housing association we spoke to talked about expanding, and in every state there seemed to be a good relationship with the state departments. I think in every situation they provided better services to the community than public housing did. In fact, in every state, public housing stock has gone down and community housing has gone up. That seems to be where the future lies, in terms of social housing.

Ms Winzar—Yes.

Senator SIEWERT—I apologise that I missed the first Canberra hearing. How significantly are you factoring that in to the Housing Affordability Fund?

Ms Winzar—We have a very open mind at the moment; there are pluses and minuses on both sides. We do think there are some particular strengths in the community housing model that we need to explore. Whether or not the community housing sector has the capacity to manage significantly larger numbers of housing stock, I do not know. There is also, for me, a bit of an issue about whether or not it is necessary for community housing organisations to own the houses, to have long head leases on the houses or whether or not they can in fact provide that tenancy support effectively to people in private rental also, which could be another option.

Senator SIEWERT—One of the issues that has come up and, as you would be aware, has also been heavily reported on in the media, is the First Home Saver Account. In fact, there has been a lot of analysis saying that it will actually help people who are a bit better off and that it will not be supplying the same sort of support where it is needed—that is, to low-income earners. Have you been looking at that, and is the criticism valid?

Ms Winzar—The First Home Saver Account has not yet quite begun; it will shortly. I suppose the big issue, if you are looking at whether it is targeted at low-income earners, is that it is very difficult to predict at the end of a five-year saving period what the household income is going to be of the people who are going to use that fund to pay for a deposit on a house. I do not think that we are making any particular projections at this point. But, certainly, low-income earners will benefit from the first home saver account in terms of it helping them move from rental accommodation to eventually saving up enough money to have a substantial deposit.

Senator SIEWERT—The point being made is that the account is likely to help those that are maybe not in need of as much help as people that are on lower incomes.

CHAIR—The more you earn, the bigger the break you get.

Senator SIEWERT—Yes, the more you earn, the bigger break you get.

Ms Winzar—Again, the First Home Saver Account is a Treasury measure, essentially, so if you have any particular questions on that I think it is probably best to direct them to Treasury.

Senator SIEWERT—Except that it is supposed to be addressing the home affordability issue.

Ms Winzar—Of course.

Senator SIEWERT—The issue around land banking has come up several times. Some people are saying that it does not happen and others are saying that it does. Is that issue being dealt with by the land supply council?

Ms Winzar—I do not know whether or not the Housing Supply Council will take that up, but certainly, in terms of the Housing Affordability Fund and whether or not there are any incentives that can be created to get land to market more quickly, we would hope that that would be a key instrument.

Senator SIEWERT—I would have thought that it would have been a significant issue for the supply council to deal with, because the proposition being put was that land is in fact being held up by developers.

Ms Winzar—Yes, that is possibly an issue around the fringe of some cities. The extent to which that is a driver of housing costs is unclear to me at this point.

Ms Wall—Certainly the Housing Supply Council will be looking at the land that is in the development pipeline, so to speak, and how many years away it might be from actually being available to homebuyers. So, to the extent that there is some land that may be there—and we do not have a very good database on this at this point either—if it is a fair way down that developer pipeline, then yes, we would obviously be interested in tracking where that land is and whether it is progressing or just sitting there.

Senator COLBECK—On that particular point, there seems to be quite a wide opinion depending on which side of the discussion you are on, whether you are a council or a government that is saying there is plenty of land available or you are a real estate agent or property developer saying that there is not a lot of suitable land available—and ‘suitable’ seems to be a pretty key term in this whole process. So there is a very wide opinion in the market as to the availability of land and how it actually should be managed, and it appears that a lot of that comes down to how it is actually zoned and how states or councils determine it to be zoned.

Ms Winzar—I think that is a fair observation.

Senator COLBECK—You mentioned the work that is being done in respect of trades and the availability of tradespeople to fill the present shortage. You mentioned work that is being done, firstly, through Skills Australia and, secondly, through one of the visa programs. We have heard through the industry that they are not necessarily all that keen to bring in building workers through any particular scheme, in particular because of language, which relates to OH&S issues. But, with the current housing market in a state of flux—I suppose that is a fair way to put it—there is certainly some uncertainty in respect of prices and I think it would be fair to say the rate of growth is slowing. My time in the construction industry would indicate to me that that is going to have a negative impact on the uptake of apprentices and trainees through the construction industry, which is going to put another layer of pressure onto the recruitment of additional people and is going to potentially be a threat to the skills targets that are being set, I suppose not just in the construction industry but across the economy. Are you aware of anything that is being done to try and sort that out? If you do not have work to do, the most expensive part of your business is your labour, and it is generally the first to be sacrificed.

Ms Winzar—It is an interesting set of challenges. While it is true that in the first quarter of this year housing and construction stats did fall away, it is certainly still the case that the housing shortfall remains in terms of demand for new dwellings. So, while the total number of houses being built may have dropped a bit, there is still quite a strong demand. Whether or not this is partly about the location and availability—where the housing demand is is not necessarily where the builders are—and whether or not there is some broader set of information about likely developments coming downstream, perhaps that is another dimension to the puzzle. If it is taking a long time for developments to get approval from concept to delivery, then it is perhaps a little difficult for builders to schedule their work and plan whether or not they can commit to a three-or four-year apprenticeship program. Again, I do not know that there are any simple answers to that question.

CHAIR—We are out of time, but there are a number of other questions which I would not mind the committee putting on notice to you for a response, please. As you have indicated, we should have your submission with us in a short time. Perhaps some of them may be answered in that context, but we would appreciate your assistance with responding to those as well. Thank you very much for your time this morning.

Ms Winzar—Thank you.

[9.15 am]

FARNSWORTH, Ms Penelope Anne, Director, Social Policy and Implementation, ACT Chief Minister's Department; and Member, Affordable Housing Steering Group

TOMLINS, Mr George, Executive Director, Strategic Priorities, ACT Chief Minister's Department; and Chair, Affordable Housing Steering Group

HEHIR, Mr Martin, Deputy Chief Executive, ACT Department of Disability, Housing and Community Services; and Member, Affordable Housing Steering Group

CHAIR—Thank you very much for your submission and for appearing this morning. I now invite you to make an opening statement and we will go to questions after that.

A PowerPoint presentation was then given—

Mr Tomlins—I will go through this presentation fairly quickly in an impressionistic way, if that is okay, and then we can come back to any point you would like to talk about. The Chief Minister made affordable housing the highest priority for the government, and the Affordable Housing Action Plan was commenced in 2006 and released in April 2007. It was a broad, multifaceted strategy aimed at both attacking the affordable housing gap that had appeared and over a period of time reducing or removing that gap. It was comprehensive. It looked at all aspects of accommodation, from the homeless through shared accommodation, supported accommodation and rental accommodation to homeownership. It had a broad number of recommendations.

Broadly, as you are well aware, housing prices just after the turn of the century escalated right across Australia. I will not go into the causes in too much detail but there were a number of issues on both the supply and the demand sides. But certainly one contributor was that an enormous amount of liquidity came onto the market when the supply was unable to respond as quickly. As an example of price rises in the ACT, Dunlop is a far western suburb in Belconnen, and you can see that prices there went from about $50,000 in 2001 to about $130,000 in 2006, so they more than doubled. In terms of first home owners, the numbers took a dive but we are now back to a reasonable rate in the ACT. The number of rental properties also declined but you can see, again, the numbers were increasing. The actual vacancy rate is very erratic. But I guess the good news is that, if you can get into rental accommodation, the housing stress is certainly not an issue there.

This slide shows perhaps the key diagram, and it indicates the problem. In 2001 you could get into a house for about $100,000, at an income level of about $27,000, and by 2005-06 you were looking at between $200,000 and $300,000 to get into a house which might not be the ideal accommodation or in the ideal location that you required, and of course the income level needed is around $70,000 before you can get into the market. The problem is between the $27,000—although when you scale that up, allowing for the change in years between 2001 and 2005-06, it would be around $33,000—and $70,000. So between $33,000 and $70,000 is an affordability gap that we are trying to address. The ACT is doing quite well in terms of affordability across the board. I think we are the second best of the various jurisdictions. But that is the affordability gap between $33,000 and around $65,000 that we are trying to address in terms of rental accommodation and homeownership.

As I said, the strategy is to address both short-term and long-term issues. We are looking at improving land supply: already this year, there has been around a 30 per cent increase in greenfield land supply, and we are going for an increase of between a third and 50 per cent. We are improving our land release systems and also breaking them up with buffers so that they can be more responsive and turned around more quickly. We are looking at introducing new forms of housing and new housing purchasing products and ramping up the community housing sector. We introduced an institutional investment product as a direct attack on private rental vacancy rates. And then there is 'other support and implementation'.

With the increase in land supply, the aim is to stabilise greenfield land supply prices while incomes grow and essentially reduce the ratio between median household income and median block price over a 10- to 15-year period—and that is across the board, not only for the affordability gap but for all land prices. All our land releases in greenfield areas now require at least 15 per cent of the stock to be affordable, so we are looking at housing in the $200,000 to $300,000 bracket and we are also targeting land in the $60,000 to $120,000 bracket, whereas previously it would have been very difficult to find a block under $150,000 in Canberra.

With the regular in globo land sales, we are trying to build up an inventory of land so that the issue of supply-demand can be simply tested—if there is land available over the counter then we are meeting demand—and we are improving monitoring systems. As for streamlining the land supply system, it takes five to seven years to ramp up land supply, so essentially it is a bit like trying to turn around the *Queen Mary*. We are trying to break it up so that there is a buffer at the end of each pipeline and turnaround can be a six- to 12-month exercise, not five years. There are other initiatives in terms of infrastructure, a new planning act, a territory plan review.

The red line on this slide indicates that there is an affordable house and land package which is again attacking that affordability gap and also going a bit beyond that. I have mentioned the $200,000 to $300,000 mark. To introduce a new product, the private sector spends somewhere between $¼ million and $½ million in terms of marketing it, educating the builders and the public et cetera. We are trying to do exactly the same thing with our compact blocks: there are design awards, there are demonstration villages, there are demonstration estates, and we have got a panel of select builders who are committed to the product. This photo shows one example: this house here is on a 15 by 15 metre square block. It has a cut-off edge, so it is about 120 square metres. It does not stampede the horses. It fits in nicely, yet it is quite affordable.

This slide is of a duplex. It is an example from Melbourne of the sort of thing that comes in under the new code. There is one access hidden there, one front door there and one front door over there. There is a driveway crossing that is shared with the driveway that comes in here and also goes into the house next door. There is a similar arrangement on the other side. Driving down the street, they fit in with the normal run of houses. There is a difference in the cost based on whether it is north-south facing or east-west facing. The pricing is $181,000 and $213,000, so we can do that. We are talking about an 85 square metre house on a block which is 144 square metres.

Essentially we are talking about having to acknowledge the current market situation but develop a very acceptable product which fits in with the economic parameters. I do not plan to take you through all of it, but the planning authorities very quickly responded with a new code that allows blocks to be cut down to any size but essentially in the range of 150 to 250 square metres. You can see in this slide that they can be fitted in so what would normally have been one block, as you can see from the houses behind and across the road, has been broken into two blocks and still fit in with the rhythm of the suburb. We do not want concentrations of these and essentially there is not a great amount of backyard on the blocks but if they are close to open space and amenities those sorts of objectives can still be achieved.

Community housing and land rent are also major initiatives. Land rent is essentially where the government keeps the economic value of the land and rents out the land. If we take a $300,000 house, 45 per cent of households could purchase that. The mortgage that you pay for the land is $260 a week. This was worked out on a slightly different interest rate. The land rent would drop that from $260 to $61 a week and so 70 per cent of households could now buy the same house but rent the land. If we go to our compact product you will see that you need an income of $33,000, so 80 per cent of households can now buy a $100,000 house on a small block. That is, again, attacking this affordability gap.

On Community Housing Canberra, we have transferred $40 million of equity, 132 dwellings and the equivalent of the extra three. We are direct selling sites for about 120 units a year to Community Housing Canberra. That is at market price from the Land Development Agency. They have a $50 million revolving loan from the government at a government rate and they are required over 10 years to develop 1,000 affordable dwellings. They will keep the equity in some of those and they will sell some off, so there will be a long-term solution as well as a short-term one.

Shared equity is also being sponsored. Housing and Community Services ACT are introducing shared equity—and Martin can talk about that if need be—for people whose incomes are rising and who we want to encourage into that stream. Community Housing Canberra is also following that up and we are encouraging private schemes as well.

We introduced institutional private rental, again to attack not only the affordability gap but the rental vacancy for higher level housing as well. What we are essentially doing is putting out land and requiring the developer not only to service the land but to build and rent a proportion of houses on that land. We have also provided assistance to tenancy services and we are working with the national rental scheme that the Commonwealth has introduced. There are a range of public housing initiatives in place, obviously to address a different gap, with priority tenants being housed within three months and the stock being restructured. Housing is part of the builder, apprentice and client education in terms of purchasing some of our new products—the eligibility reviews, the moving of tenants, shared equity and a stairwell model to meet the needs of clients with multiple needs.

For other accommodation, we are looking at home-share aged accommodation as well. A number of financial incentives have been introduced and expanded by the ACT. There is a major skilling thrust going on and we have also introduced accommodation for skilled workers moving to the ACT. We are improving our data systems and have introduced an implementation team.

CHAIR—Thank you very much. Ms Farnsworth and Mr Hehir, did you want to add anything at this point? We will go to questions. So that I have a proper understanding, Mr Tomlins, of the requirement of 15 per cent affordable housing stock in greenfields estates—not just the pictures but the concept—does that mean that you impose on developers a requirement for them when constructing estates to include 15 per cent affordable housing?

Mr Tomlins—Yes, that is right.

CHAIR—So that is housing that must fall within the $200,000 to $300,000 mark?

Mr Tomlins—That is right. Essentially, the government owns the land, it sells the land and this is a requirement upfront. In the ACT we have always required a mix in our housing markets, so that is a very explicit requirement.

CHAIR—If a greenfields estate comprises 15 per cent of stock between $200,000 and $300,000, which is regarded as affordable housing, how would you characterise the rest of the stock which is constructed?

Mr Tomlins—I am aware of one of the early estates which is currently running at, I think, 38 per cent in that range. If the developers choose to go there, it is a minimum requirement and many developers are in fact finding that it is a market that they want to target more aggressively. It is fair to say that the development industry was fairly wary of this when it was introduced, but in fact we are now being told that the compact blocks and affordable end is the fastest seller in Canberra at the moment.

CHAIR—That is interesting because that contrasts interestingly with other evidence we have received. That is good. It gives us some contestability in our evidence.

Mr Tomlins—It is certainly the case. We could provide data on that.

CHAIR—If you could that would be helpful.

Mr Tomlins—Okay. Regarding your question about the rest of the blocks, some of them do become unaffordable in terms of the normal definitions; others go into the rental market and are rented by that segment. But essentially it is fair to say that the reason for setting up the steering group was that housing was going beyond the reach of a reasonable sector of the community and that was a concern of the government.

CHAIR—How long has that provision been in place?

Mr Tomlins—Since April of last year.

Senator HUTCHINS—Mr Tomlins, in your plan do you plan for a number of one- and two-bedroom houses or units? How do you make the decision about how much of that type of accommodation is needed there? One of the things we have heard in a number of submissions has been that there are plenty of three- and four-bedroom, two-bathroom houses but there are not enough one- and two-bedroom houses or units.

Mr Tomlins—I did talk about the fact that Housing ACT are restructuring their stock. We leave the private sector, generally, the opportunity of choosing how to respond to the market, but Community Housing Canberra and Housing ACT do address that issue of yours.

Mr Hehir—If you have a look at some of the examples that Mr Tomlins has put up in terms of the small-lot development, quite a number of those properties are two-bedroom. That is probably the most common form within that. At 85 square metres, that is a pretty generous two-bedroom house. Certainly within Housing ACT that is a product that is of significant interest to us. We think it produces much better social outcomes not having large-scale two-bedroom stock in tower blocks, or whole suburbs of it. We are looking with a great deal of interest at the two-bedroom small-lot development in terms of allowing us to place public housing tenants within the general community, get better social outcomes and, from our perspective, get a better product in the end, because we actually get the land value at a much higher rate. In terms of our asset base, that is where the fastest-growing assets that public housing has are.

In the greenfield development, you would generally see far less one-bedroom stock. It is generally regarded as not being flexible enough. From my perspective as a significant rental provider, we prefer two-bedroom stock because it allows a little bit of flexibility in terms of who can go into it and whether people have access to children. It also allows families to grow, at least in part, within the same property. Within the greenfields, you will not find too much one-bedroom stock. You will get a little bit of that in some of the slightly bigger developments, but predominantly quite a bit of the small-lot product is two- or 2½-bedroom stock, where there is some flexibility in the design, where you can have, if you like, a couch which can turn into a bed in part of the house.

Senator HUTCHINS—I am not familiar with the rating here in Canberra. One of the things we came across in New South Wales—again, I am a New South Wales senator—is the rate capping that goes on. A number of councils, particularly in new estates, have imposed charges for roads, water, sewerage and parks on those new estates. What is the ACT's view? Is that something that is imposed upon the new estates or is that something that should be shared across the community?

Mr Hehir—I think you are referring to the section 94 contributions that the New South Wales government levies. There is no such levy here. That is a function of the land tenure within the ACT. All greenfields sites are owned by the ACT government. To do a section 94 contribution, we would be levying ourselves. Predominantly that levy is applied to either the seller or the developer in that sense. So when we sell land we sell it with the specific requirement for the development. As Mr Tomlins said, that does now include a 15 per cent affordable requirement. Accordingly, the developer is fully aware of what their development costs are going to be, and they price the land accordingly, depending on their view of what the final sale price will be. To apply charges would just reduce our land price, so, no, we do not do that.

Senator HUTCHINS—Do you have access to, or are you aware of, repossession sales in Canberra in units or in houses?

Mr Tomlins—I do not know what data there is, but we could follow it up if you like, to see what information we do have.

Senator COLBECK—With the smaller blocks, particularly the small duplex type residences that you are putting on the compact blocks, is there a targeting process for entrance to that, or is it basically just at market?

Mr Tomlins—At the moment there is a targeting process for some aspects associated with land rent, but for the small blocks, no, there is not a targeting process. Essentially, they will be released to the market, and whether they are taken up by owners or whether they are taken up by investors they will still be, in our terms, targeting a particular need. We see that by targeting them we might be reducing the opportunity for people to build them.

Senator COLBECK—Just going back to the tenure issue that you talked about, the ACT government owns all of the land that rolls into these greenfield sites. Are you actually selling the land or are you selling a long-term lease on the land?

Mr Tomlins—Yes, we sell a 99-year lease for the land. It is done in a number of stages: we sell a holding lease that requires the developer to develop all of the individual blocks and then we hand over 99-year leases of those blocks, which the developer can then sell off.

Senator COLBECK—We heard, particularly when we were in Geelong last week or the week before, some discussion about the capture of the betterment value. My understanding is that the process you have here, where you actually own all the land, allows the ACT to do that. You reap the value of that once the developer is selling off the final leases?

Mr Tomlins—In a nutshell, that is the situation. The value of the land sale does include a component of the land price. It varies but it is northwards of $50,000 a block.

Senator COLBECK—You mentioned before maintaining the amenity, particularly with the compact blocks, which could have a real capacity to create congestion and difficult areas within a development. In your interactions with the developers, do you apply stipulations to that process to minimise concentrations and spread them through a development?

Mr Tomlins—Yes, the code both talks about locations where they should be in relation to open space, public transport, shops and that sort of thing, and limits clustering. I point out, though, that these sorts of blocks we are talking about are really no different from what you would have seen in cities right across the country, typified by blocks in Paddington and Glebe et cetera. They are different, but the amenity does not need to suffer.

Senator COLBECK—We have come across some examples where the amenity is not all that flash, I have to say, so that is why I ask the question. While a 15 per cent inclusion—which is your set target—is a minimum requirement in a development, you did say that it was up to 38 per cent in some developments. How do you actually manage that process?

Mr Tomlins—That is managed by the planning approval system. There is an assessment of the amenity. I acknowledge that everywhere, I suppose, has made mistakes in terms of planning approvals, so there have been some areas where amenity has suffered. It does need to be looked at more closely. Essentially, if the planning is done in an integrated way, so that you do not have just a house plonked down willy-nilly when you are dealing with these smaller products but a house that actually has an integrated design, you get far better amenity and you also get economies in construction.

Senator COLBECK—So you have specific design requirements built into your planning processes?

Mr Tomlins—Yes—that code that flashed up in the PowerPoint presentation.

Senator COLBECK—Has there been any significant growth in your interaction with housing cooperatives within the ACT? That is something that we have seen across other states.

Mr Tomlins—Yes, dramatic growth, because we have put a major emphasis on community housing. Martin can talk about the numbers, but Community Housing Canberra will become a major player in the housing market in the ACT, with 500 of its own houses. Martin, would you like to comment?

Mr Hehir—The ACT currently has about 700 properties under community housing style management. Many of those properties were head leased from Housing ACT, the ACT government public housing provider; that was the case up until recently for Community Housing Canberra. It has about 135 properties, and those properties were head leased from Housing ACT on 20-year headleases. I think it is probably worthwhile saying that the ACT government has taken the position that there should be social housing growth but that social housing growth should not be at the expense of public housing. We need to see the system grow, not to have just a straight transfer from public housing to community housing.

However, given that Community Housing Canberra already had effective management of 135 properties, a decision was made to transfer the 135 properties to it formally. That gave it the capacity to borrow against those properties. It now has the equity in those properties and can utilise that equity to grow. It gets access to Commonwealth rent assistance, which the public housing authority does not. In addition, at the moment, I think the AAA rating of the ACT government gives it an effective two per cent benefit in terms of its borrowing costs against other housing providers. That was quite a conscious decision. We are doing everything we can to maximise its cash flow so that it can grow. Of the 1,000 properties that we expect it to develop over the coming 10 years, we anticipate that it will retain 50 per cent for its own purposes. So, for people in Canberra, it will have 500 houses available at 75 per cent of the market rent. In addition, it will have developed another 500 affordable style rental houses that will have been sold out to the market.

Senator COLBECK—What has happened with the total number of public community houses in the ACT over, say, the last five to 10 years?

Mr Hehir—Over a 10-year period, there has been a reduction of about 1,000 properties.

Senator SIEWERT—What sort of housing is that?

Mr Hehir—Public housing. In the last five years there has been a growth, although it has been a modest growth. From the last set of figures I have, I think we have moved from in the order of 11,454 properties in 2001 to 11,567 properties. That is just over 100 properties. While it is not a huge growth, it does reverse the trend to be found across most public housing jurisdictions in Australia, in that we have achieved approximately a one per cent growth in public housing. That is, I suppose, in the context of Housing ACT, the public housing provider, holding nine per cent of the total housing stock in the ACT.

Senator COLBECK—You mention that Community Housing Canberra is required to offer rentals at 75 per cent of market rent.

Mr Hehir—If it wishes to have 'charitable' status from the tax office, it has to demonstrate that it is providing a real benefit to the needy. Part of the way it does that is to provide rent at less than 75 per cent.

Senator COLBECK—How do you peg the 'rent to market' rent?

Mr Hehir—There are a number of potential measures. At the moment, that is a test. It is just moving into this product. Typically, it has had product that is 25 per cent of income, which is much easier to manage and test. In terms of how it moves into it, that becomes a bit of a test for the tax office, in making sure that it is meeting its PBI status. However, we would also want to monitor that. The Real Estate Institute provides very good information that is broken down into very detailed levels—three-bedroom stand-alone, three-bedroom unit, two-bedroom unit and two-bedroom stand-alone and by district, such as Weston Creek, Belconnen, Woden—within the ACT. Those figures are published quarterly and we can test it fairly easily against that.

Senator COLBECK—We have asked the question before and have been given some varying views on what market rent is and, in fact, what the measures are. I am not too sure that I would like to have the tax office breathing down my neck determining what market rent is.

Mr Hehir—In terms of its PBI status, it is up to Community Housing Canberra to manage that and to demonstrate to the tax office that it is achieving it. That is not our issue with it. We are more concerned that a relatively reliable measure, which is on Real Estate Institute figures, is available quarterly and with quite a high degree of information. I certainly get those reports every quarter. They contain quite a deal of information, including different product by location.

Senator SIEWERT—I would like to go on from where we left off in terms of community housing. Can you tell me a bit about your shared equity program? It sounds as though you are in the process of developing it or have just finalised it.

Mr Hehir—We are in the processing of developing it. Within Housing ACT, a number of tenancies have been paying market rent for a number of years. However, our requirement is to sell our houses at market value. For a sale-to-tenant process, we get a valuer in to identify what the market value is and then we go through the normal process. Tenants who have been paying market rent and some other tenants find that, if they have been living in an inner suburban area for a number of years, the value of the property sometimes puts it out of reach, but they would like to own it in part. So we are introducing a product that will allow them to purchase 70 per cent or more of the property and we will take a second mortgage on the remaining 30 per cent. That makes the title issue easier for the banks to deal with, and certainly that is the financial advice that we have received. The usual borrowing rules would apply, so the bank would come in and make an assessment to see whether the tenants are able to meet the repayment requirements. As the process is gone through, we will just test their income on an annual basis to see whether they should be purchasing more of the property off us. We will not charge them rent on the remaining 30 per cent; however, we will expect them to undertake full property maintenance and to pay all rates and outgoings for the property.

Senator SIEWERT—Are you considering a shared equity scheme for low-income earners who are not in social housing? I presume you have issues here with housing affordability. We have found that, around Australia, those on lower incomes are being squeezed out of the private rental market.

Mr Hehir—I think the land rent product is probably the tool that the government has progressed first in this area. Certainly, there has been a commitment to look at a shared equity product, but we think that needs to be looked at nationally. I suppose, from my perspective, people have been slow to take up products where financial institutions get more of the growth than they do. They seem to think that is unfair. I understand that there is financial modelling that supports those products, but I think consumer take-up has been relatively slow. We think that, if we can identify a product where the equity growth is shared more equally or more transparently, people probably would be more likely to take it up. But we think that is a national issue and it is really not within the capacity of the ACT government to progress that sort of work. However, the land rent product is a form of shared equity in that the ACT government retains the equity in the land, the purchaser takes on the equity in the house and households with incomes within our target group will pay two per cent of the value of the land. They have title to that land, so it is not something that we can go in and take off them at whim. My understanding is that they will actually have a full 99-year lease—

Mr Tomlins—Yes.

Mr Hehir—for that land. Mr Tomlins showed you figures earlier that, even for the $140,000 property, were less than the median rent we did at that time. They are certainly significantly less than the median rents in the current position. I think our median rent for a three-bedroom property is in the order of $370 per week. So, in a sense, we see this as quite an innovative model and something that our land tenure system allows to us implement. While it is not a true shared equity product, it is certainly a form of it.

Senator SIEWERT—I do not know whether you were in the room when I asked the Commonwealth about the transfer of public housing to community housing organisations. How did you organise that with the Commonwealth?

Mr Hehir—We wrote a letter.

CHAIR—Revolutionary!

Mr Hehir—Certainly, it has been going on for quite a while. That is why I tried to clarify the ACT government’s position about there needing to be growth in social housing. I have a belief that a significant amount of growth within the community housing sector has been achieved by transferring public housing properties. My personal opinion is that that does not grow the social housing sector. We were very conscious of that when we were designing our scheme. We wanted not only to give our community housing sector the base that it needed but also to provide some real assistance to it in growing as an organisation. I am speaking of the ability to get land without going through an auction process. Yes, it is market valued, but you do not go through an auction process and you do not have that potential driver that you can get through an auction. You get $50 million worth of credit at more than two per cent, I think, at the moment. Discount to market rates is a significant benefit to them. In addition, I think access to CRA, which public housing does not get, is also a significant tool to allow it to grow. We did quite a bit of work with Community Housing Canberra and Treasury to demonstrate that it has a growth model. Its need to develop 1,000 affordable dwellings and retain 500 of them is a very real measure. We believe that, over that 10-year period, we will see a 500-property growth in the social housing sector rather than a decline.

Senator SIEWERT—But the Commonwealth has agreed to hand it over?

Mr Hehir—It has agreed that it could be handed over. We explained that it had been in its hands for 20 years through a headlease arrangement, anyway. In addition, it was about a growth strategy; it was not about a straight transfer.

Senator FIFIELD—Just returning to the land rent product, if you are looking to avail yourself of that product, what do you do? Do you see a house that is for sale and then go to the bank to get a loan on your component? Do you then go to the ACT government to see whether you satisfy its criteria? I just wonder, from the consumer’s point of view, how it works—what do you do and who do you go to?

Mr Tomlins—It does not apply to existing housing; it will only apply to greenfield housing that is released through the land development authority, which essentially is that housing that the ACT government development agency owns and has developed. The reason for that is that we keep the economic value in the land—the price that Senator Colbeck asked about—and we ask only for a rental essentially on the servicing cost. That is why we are talking about two per cent land rent. Two per cent on the servicing costs works out at about seven per cent or so on the total cost.

Mr Hehir—Two per cent on the total cost represents about eight per cent on the servicing costs.

Mr Tomlins—Thank you. Yes, two per cent on the total cost represents about seven per cent return on the servicing costs. So the government is servicing its money and then, if someone decides to pay out, it gets the full value of the land. That is how it works. But you can only go to the land development authority. Once you have chosen your block, the land development authority will say, ‘Do you want to pay it out or do you want to rent it? Do you want this contract or do you want that contract?’—otherwise, it is essentially the same. When you come to sell it, you put your house on the market for, say, $400,000. When it is sold for that, essentially you get the house value and the government gets the land value, or it may be that the new person can be a land renter. When we get to opening it up to the total market—the land rent is four per cent for that group—the person might decide just to pay you the house value and continue to land-rent from the government.

Mr Hehir—I think it is worth while saying that there has been a great deal of consultation with the banks around this. This idea was floated quite a number of years ago, so there has been over a period of years, particularly in the last two years, a lot of work done with the banks to make sure they are comfortable with this product. It is also worth while noting that land rent has actually been available to commercial bodies within the ACT for many years and people still choose to rent commercial land through that process.

Mr Tomlins—In fact, all land in the ACT before 1971 was land rent.

CHAIR—Mr Tomlins, Ms Farnsworth and Mr Hehir, thank you very much for appearing today and for the information that you have provided to the committee and also, as I said, for the ACT government's submission. We are very grateful for your assistance with our inquiry.

[10.01 am]

JOYE, Mr Christopher Ronald Edward, Chief Executive Officer, Rismark International

CHAIR—Thank you for attending our hearing today. I would like to ask you, if you wish, to make an opening statement and we will go to some questions after that.

Mr Joye—I would like to make a few opening remarks on a number of different issues, but I would also like to flag up-front that I have literally just flown in from the United States, so I am somewhat lacking in lucidity. I apologise for any incoherence on my part.

CHAIR—This is our 13th hearing. You think you are lacking in lucidity!

Mr Joye—Thank you very much for the invitation to present today. I do not have any specific agenda that I am seeking to advance or any objectives that we are hoping to crystallise, but I am more than happy to furnish some advice and guidance, particularly in respect of our experiences in relation to policy formulation and implementation. I wanted in my opening remarks to touch on four key areas—firstly, the development and execution of private sector shared equity solutions, particularly vis-a-vis what my organisation, Rismark, has done in conjunction with major Australian lenders over the last five years. Subsequently, I would not mind quickly summarising some of the key conclusions of my report to the Prime Minister in 2002-03 on the subject of a range of affordability innovations. This has had pretty significant consequences, particularly for the development of shared equity programs in New Zealand, the UK, the US and a number of Australian states.

Thirdly, I have recently engineered a solution to the current credit crisis that you may have read about in the press. It is loosely described as Aussie Mac. I published a paper with Professor Joshua Gans under the auspices of Melbourne University. It has received quite a significant amount of coverage and, I believe, has considerable support from within the government. It was one of the key recommendations from the economics stream of the 2020 Summit. I was away, but I certainly read that fact in the media at the time.

I will close with some thoughts on affordability and mortgage stress in general. Rismark launched what was the first mass-market private sector shared equity product in Australia's history in early 2007, after around four years of preparation and research and development. It was launched in conjunction with one of our strategic partners, Adelaide Bank—now Bendigo and Adelaide Bank. We have previously executed shared equity origination agreements with three of the top 10 lenders in Australia.

Rismark serves as the product funder, the product manufacturer and the owner of all the intellectual property. We actually hold the largest patent portfolio in financial services in Australia. Adelaide Bank and our other distribution partners are responsible for the branding of the product, the distribution of the product and the servicing. As I said, it took a long time to bring to market. We had to raise around $28 million of venture capital to fund the core operating business. I would add that to support a business model that had never existed anywhere in the world before we had to raise $100 million of initial warehouse funding for, again, assets that had never been commercially deployed before. We had to navigate a Byzantine maze of legal and regulatory complications, which obviously cost millions of dollars in legal fees. We had to secure ASIC relief, multiple ATO rulings and ACCC relief. We consulted heavily with Treasury on TOFA stages 3 and 4, and we had to galvanise accommodations from various state based consumer affairs departments. There is still considerable regulatory uncertainty in relation to private sector shared equity products, particularly in the context of the new maximum annual percentage rate (APR) legislation that you may be familiar with, which is being introduced under the Uniform Consumer Credit Code (UCCC).

How does the Rismark Equity Finance Mortgage product work and what does it entail? It is a zero interest home loan for up to 20 per cent of the value of the property in question. It is a 25-year loan that requires no repayments during that 25-year term. It can be repaid by the homeowner or the borrower at any point in time over the 25 years with no prepayment penalties and no switching costs. It is used in conjunction with a traditional home loan. You have seen that state governments and, I suspect, the preceding presenters have leveraged off our model. The EFM is used as a second mortgage together with a traditional prime ranking interest bearing home loan. The typical structure is that we will lend up to 20 per cent of the value of the property. If there is no appreciation after five years, the borrower simply repays the dollar value of the principal amount we lent them five years ago. In those circumstances, the loan would have been a free form of finance. If there is a capital depreciation and they sell their property for a loss—and we all know that property prices do decline, as we are seeing at the present time—we will wear 20 per cent of the capital losses on the home, so we share the downside risk with the homeowner. If, and only if, there is capital appreciation, we are entitled to 40 per cent of the capital growth on the property and the borrower retains 60 per cent of the upside.

The EFM is available in all metropolitan areas in mainland Australia. We expect to extend it to Tasmania shortly. The product is targeted right across the life-cycle spectrum, from first home buyers to upgraders, refinancers and those who want to release equity from their homes. The reception of the product has been effusively positive. *Today Tonight*—obviously a sound program but normally quite critical of lenders, and often referred to as ambulance chasers—have been supportive. They have featured the product twice. We have won almost every conceivable industry accolade. *Your Mortgage* magazine selected the EFM as the best new product of the year in 2007. *Money* magazine selected it as the best new product of the year in 2008. The Mortgage and Finance Association of Australia selected Rismark as best small non-bank lender of the year in 2008 and the *Australian Banking & Finance* also provided a similar award.

We have, I believe, reasonably strong political support on both sides of the political spectrum. Obviously the product—which precisely replicates the recommendations of my long report to the Prime Minister back in 2002-03—spawned from my work under the previous government. We advised the ALP prior to the last election—when I say ‘advised’, I mean rendering information and consultations. The current Prime Minister, under his ‘New directions for affordable housing’ strategy paper, tendered five solutions to the housing cost crisis. One of those was shared equity and the ALP explicitly referenced Rismark and our EFM product. We continue to work with both sides of government and I note that the ACTU, with which we have had a pretty extensive dialogue, has published a paper on shared equity advocating that as one solution.

As I noted earlier, Rismark's EFM initiative really is the first private sector shared equity market to be successful and sustainable anywhere in the world. It has led to a whole range of public and private innovations throughout the international community. The UK government, as you may be aware, has actually funded a shared equity mortgage program in conjunction with major UK lenders—specifically two of the top 10 lenders in the UK. Blair and Brown's first political platform at the last UK election was affordable housing and the UK shared equity mortgages are actually based on my 2003 report to the Prime Minister, which is explicitly referenced in the UK white papers. They are partly funded by the UK government—I think they have invested over £1 billion sterling in shared equity products. They are made available through, as I said, HBOS, Nationwide, Yorkshire Building Society and others.

We have consulted heavily with the New Zealand government in the last 12 months. I presented to the New Zealand Parliament last year. Helen Clark, the New Zealand Prime Minister, announced a few months ago a shared equity program that Housing New Zealand would be funding that I believe is partly based on our model. And in the US a few weeks ago I was providing advice to President Bush's economic advisor on shared equity and the role that it has to play in the context of the current sub-prime crisis.

By way of a quick overview of my 2002-03 report to the Prime Minister's home ownership task force: it was a pretty comprehensive 380-page paper that examined both the demand and supply side factors that had contributed to the considerable rise in the real cost of housing in Australia over the last 30 years. It sought to address whether, in fact, there was an affordability issue. I co-authored this report with leading economists, including Professor Edward Glaeser from Harvard, Professor Michael Kuczynski at Cambridge University, Professor Andrew Caplin at New York University and Professor Peter Butt at Sydney University. It was really the first academic or government study to empirically demonstrate that supply constraints had been principally responsible for the so-called housing cost crisis.

Historically, the explanations for the property price boom had really focused exclusively on demand; you commonly hear arguments that it was attributed to low interest rates, low inflation, strong wages growth—this was prior to 2002—the introduction of non-bank lenders, the growth in mortgage finance and the emergence of securitisation: that had all contributed to fuelling property prices. But, obviously, there are more nuanced issues at play here.

In addition to identifying the supply side problems and proposing a number of different solutions to improving the elasticity of housing supply, we furnished a theoretical and empirical analysis of how one could introduce private sector, market-based shared equity solutions into the housing market.

One of the things I wanted to say to the committee was—and you may be aware of this—that there is a critical tension, albeit an unacknowledged tension, that seems to underlie the housing affordability debate here in Australia, particularly in the context of the relative merits of various demand and supply initiatives. As I noted in my report to the Prime Minister in 2003, clearly the best way to improve affordability would be to encourage a reduction in house prices via a substantial increase in housing supply. But, of course, 70 per cent of the population owns their own home and has 60 to 70 per cent of all their wealth invested in owner-occupied housing. So it would be tantamount to political suicide if policy makers or politicians were to encourage a widespread reduction in house prices. I think that creates something of an issue that is worthwhile reflecting on.

There are also problems with supply-side solutions. It is certainly not a panacea to the affordability challenges, as I am sure you are intimately aware of. It takes a long time to bring new housing supply on line—between one and three years. There are questions as to who funds it and, importantly, it is very hard to increase housing supply in high demand areas where the affordability problems actually exist, because there is typically no new land and the only option is to build up or to increase densities. But, of course, we have antidevelopment movements, NIMBYism—no-one wants to see Triguboff towers in their backyards—and environmental considerations. And, if you do build satellite cities or new supply on the periphery of cities, then you have got all the attendant infrastructure challenges. What I noted in the report to the Prime Minister back in 2002-03 was that I think we need to migrate our conception of homeownership and the 'great Australian dream' from the quarter-acre block to a higher density form of tenure. Whether that actually materialises I suppose is an open question.

I also think that demand side and shared equity innovations in particular have been unnecessarily maligned. Often there are these 'straw man' criticisms that, I suppose, you find in all forms of policy debate, the most obvious of which is that it is inflationary and will only contribute to fuelling the growth in house prices. My response to that is, firstly, it is absolutely incontrovertible that the application of shared equity delivers an immediate benefit and an immediate reduction in housing costs. So the users of our shared equity products, by way of example, can undeniably cut the cost of homeownership in Australia by up to 25 to 30 per cent or potentially more.

The argument that it has an impact on house prices is, I think, a fiction as well. For example, if the government were to fund 10,000 shared equity loans, along the lines of the design that we use under the EFM available through Adelaide Bank, which would cost about $1 billion per annum, those 10,000 new loans would represent less than one per cent of the number of loans originated in Australia each year. I am not suggesting that the government necessarily does this, but it is hard to see how a government investing a billion dollars in 10,000 new shared equity opportunities each year—whilst undeniably very valuable to the users of those loans—will have any impact on house prices at all, given that this number of loans would represent such a tiny proportion of the market.

I do think there is a role for shared equity. As we have seen, HomeStart Finance in South Australia has developed a very good shared equity mortgage product, which is based on our 2003 recommendations. You are seeing other government initiatives with Keystart in Western Australia and there has been talk in other states. I do think there is a role for shared equity to play, particularly amongst key workers who are obviously priced out of major metropolises and have difficulties finding appropriate accommodation.

My third key point is in relation to my policy proposal Aussie Mac, which you might have read about in newspapers and so forth. This was motivated by the market failure that we are seeing in the securitisation markets and it could have an immediate impact on, and consequences for, the cost of housing finance in this country. I am sure you are all broadly apprised of the issues associated with the global credit crisis. $50.8 billion worth of Australian prime home loans have been securitised each year since 2003. There has been $284 billion worth of loans securitised since 2002. Roughly 20 per cent of all Australian home loans were funded through securitisation. The primary RMBS market has disappeared; it has gone for the time being—not irreversibly, but it has certainly disappeared. This is an exported financial crisis that has nothing to do with Australia. We have the lowest rate of mortgage default in the developed world. We have very low bankruptcy rates. Economic growth is very strong. We are struggling with the spectre of inflation. We have got pretty much the only central bank in the world that has increased rates since August last year—three times since November—and we have had one or two de facto rate rises effected through lenders. Those who are ultimately bearing the higher funding costs associated with the credit crisis are actually consumers—homeowners and mortgagors.

Our policy proposal, Aussie Mac, is basically a government agency that would be established by the government—it could be the Office of Financial Management—and it would leverage off the Commonwealth's sovereign credit rating. Given this, it could raise almost infinite amounts of debt at very low interest rates and it would acquire prime AAA-rated mortgages off the balance sheets of Australian lenders and out of the warehouse facilities of non-bank lenders.

In response to the credit crisis, the RBA has presented a limited solution. Its actions have not prevented the closure of the primary RMBS market and, most importantly, have not prevented the withdrawal of non-bank lenders from the mortgage market and a dramatic reduction in competition. Just to give you the details of why the RBA solution does not quite work: the RBA will only fund 90c in the dollar—that is, it will only lend 90c in the dollar; it will only lend for a limited term, so it is not actually buying the home loans; and non-ADIs cannot, in practice, avail themselves of the RBA's facilities.

To give you a feel of some of the grassroots consequences of the credit crisis—because I am sure you are all sensitive to the political issues at hand—according to Fujitsu Consulting, the new home loan market share of the big five majors since the subprime crisis materialised has increased from around 75 per cent to nearly 90 per cent. So we have basically taken a step back 15 years in time to the pre-securitisation days, where we have an oligopolistic market structure under which the major banks control housing finance in this country. We have seen the exit of competitors to the major bank lenders in the form of, for instance, Macquarie Bank, which has withdrawn, for all intents and purposes, from the mortgage market, and RAMS and others. The ANZ has shut down its Origin wholesale lending business. We have seen Adelaide Bank, Members Equity, the Credit Union of Australia, and Challenger home loans all radically reduce their new home loan volumes because they cannot avail themselves of the third-party securitisation funding sources they used in the past. And we have seen significant increases in consumer costs with the banks passing through de facto rate rises.

Numerically, the spread between mortgage rates and bank bills in 1992 was four per cent. Because of securitisation, the advent of the Aussies, RAMS and Wizards of the world and the competition enabled through this new funding channel, the spread between bank bills and mortgage rates fell from four per cent in 1992 to 1.4 per cent in 2007. That is what is at risk here. Aussie Mac would not cost taxpayers virtually anything at all, because it would be an immediate, for-profit, going concern, given the spread between its cost of debt and the cost of the loans it would acquire. Our policy proposal seems to have pretty strong academic support, from conservative economists like Professor Ian Harper, the current Fair Pay Commissioner, to the left-of-centre folks such as Professor John Quiggin. David Liddy, the CEO of the Bank of

Queensland, has explicitly come out in support of it, as has John Symond, the CEO and Chairman of Aussie Home Loans.

The final point in relation to Aussie Mac is that we are suffering the consequences of this exported credit crisis in Australia, and yet we do not have a public institution that can render liquidity during such shocks. In Canada they have the CMHC, which you might have read about recently because the Australian Securitisation Forum has also encouraged more or less exactly the same idea that Professor Gans and I have proposed, focusing on the CMHC, as we did in our report. In the US, there is Freddie Mac and Fannie Mae and many other quasi-government organisations that insulate homeowners from these sorts of crises.

I know I have spoken for some time. The final comment I will make is in relation to affordability. We see a lot of hyperbolic and sensationalist posturing in the press around the so-called ‘mortgage crisis’, the vast swathe of homeowners who are in mortgage stress. I think that we need to increase the resolution of precisely what we mean by ‘mortgage stress’ and whether in fact significant proportions of the community are in mortgage stress. I am not suggesting they are not but I think that inspection of objective data potentially highlights new insights. The first point is that real mortgage rates in Australia today are lower than they were in 2001, they are considerably lower than they were in 1995 and they are about 50 per cent the level they were in 1989. So in real terms homeowners are in a much better position.

As I noted earlier, if households in Australia are really in mortgage stress you would expect that to manifest most clearly in mortgage default rates. You would expect mortgage default rates to be very, very high, but, notwithstanding 12 rate rises since May 2002, three since November 2007 and an additional one or two effected through the banks, we still have one of the lowest rates of mortgage default in the developed world. In December 2007 the 30-day delinquency rate on prime Australian home loans, which are 99 per cent of the mortgage market, was just 0.94 per cent. Only 0.94 per cent of Australian borrowers had missed their mortgage repayments by 30 days or more. The equivalent default rate in the US is about four times higher, and the 30-day delinquency rate on US subprime loans is at around 16 per cent. In this context I would also note that interest rates in the US are far lower than they are here in Australia.

Trowbridge Deloitte, a very good actuarial firm, has recently published an independent analysis of mortgage stress through a survey of around 1,400 homeowners. They found that households paying between 30 per cent and 40 per cent of their disposable income to service mortgage debt—30 per cent is the common ‘mortgage stress’ benchmark—were actually quite comfortable doing so and could not be classified as being in financial duress. Based on this analysis Trowbridge Deloitte argue that that 40 per cent is the new 30 per cent mortgage stress benchmark.

Finally, Anthony Richards, the head of economic analysis at the Reserve Bank of Australia—you have probably read his recent affordability speech, which was a good one—provided a fascinating analysis, which has not really been publicly focused on, wherein the Reserve Bank measured the representative households’ disposable income after paying off their mortgage payments since 1982. That is, how, after servicing the interest repayments on their home loan, has the disposable income of a representative household—the definition they used was a householder between 25 and 39 years of age buying a property, I think, in the 30th property price percentile—changed over time since 1982? Tony Richards found that the representative household in 2007 was in a better position than they have ever been, in terms of their disposable income after repayments, than at any point in time since 1982, according to that specific definition. Now I am not saying affordability has necessarily improved, but there is a lot of hyperbole when people talk about so-called ‘mortgage stress’.

CHAIR—Thank you very much, Mr Joye, for your very comprehensive presentation. Let me ask one very quick question to start with. What is the take-up of the shared equity product that you have explained to us in some detail?

Mr Joye—I cannot talk specific numbers but I would not, for instance, agree with the statement made by the previous presenter that there will be limited consumer demand if the provider of a shared equity product takes a greater than proportional or pari passu rate of the capital appreciation on the borrower’s home. If I provide you with 20 per cent of the finance for your home and take 30 per cent or 40 per cent—in our case 40 per cent—I do not think that is in any way going to destroy consumer demand. Obviously it is better to take less, but we believe, and the independent market research suggests, that the consumer opportunity is very significant indeed based on our current product design.

Looking at our product structure, where we lend 20 per cent, take 40 per cent of the gains and wear 20 per cent of the downside risk, independent market research by Genworth, the mortgage insurer, Fujitsu-JP Morgan, our own work and the market research produced for the Prime Minister’s homeownership task force all says that between 30 and 50 per cent of all home borrowers would prefer to avail themselves of a shared equity package—a small shared equity loan used in conjunction with a normal loan—rather than relying strictly on debt. By way of background, the intellectual genesis here is that corporations have issued debt and equity for hundreds of years. Homeowners have only ever been able to avail themselves of debt—that is, mortgages. So the notion is: why not allow homeowners to issue both debt and equity?

Consumer demand has been good. Consumer demand was very strong through the last couple of months of 2007 and the first few months of 2008, but we have had to tighten up our investment and credit criteria because we only have a finite funding pie. One option for government would be to encourage—not that I am suggesting you necessarily do this—market-based shared equity solutions, given it is a pretty radical innovation and there are so many potential obstacles. The principal supporters of our product will be, in the long-term, super funds. We have done a lot of work with the super funds. But to actually galvanise that support and get super funds across the line, a government commitment to the sector would be very valuable, if only small.

In summary, the shared equity demand to date is not yet in the thousands of loans but it is certainly heading in that direction.

CHAIR—Thank you Mr Joye, we will come back if we have time.

Senator SIEWERT—I would like to pick up where we left off there. When we were talking to Bendigo Bank, they said that the amount of money available is limited because the banks cannot tie up so much equity. Where do we go when the money that you have allocated is used? I suspect that this may become an increasingly supported product or requested product.

Mr Joye—Yes. There is absolutely no doubt that there would be tens of thousands of borrowers in Australia today who would like to use an EFM through Adelaide Bank, but we cannot fund that demand. The problem here is that this is ultimately an equity or synthetic equity style investment in residential real estate, which means that if a bank were to fund it on a balance sheet, it would attract what is known as a full capital deduction—which in turn means that it is heinously expensive. Ultimately, it means that banks and lenders cannot fund these assets on their balance sheet.

There are some more creative channels available where you can get a more attractive risk weighting but, at the end of the day, it is still a very expensive product to fund. So the long-term suppliers of capital for shared equity products will be pension funds both in Australia and overseas. We have spent the last three or four years talking to pension funds in Australia and around the world and securing the support of the gatekeepers, the asset consultants. We have several asset consultants in Australia today who are actively recommending that their super fund clients invest in our shared equity products. We have never sought any form of government support whatsoever. There is no subsidisation. It is purely a private sector solution. Having said that, I think that explicit government support, if only in principle, would be a very good thing. For the government to say 'The government believes that this is an important albeit nascent sector that affords homeowners with alternative choices and flexibility' would be a good thing. Currently we are the only provider in the market. The Bendigo Bank product is only available to retirees. It is an equity release solution that really is a competitive product to a reverse mortgage and it is not available to anyone under the age of 65.

Senator SIEWERT—Do you put a cap on the value of the property that you enter into shared equity? For example, for the West Australian product that you commented on, I think the cap was $375,000.

Mr Joye—Remember that Keystart and HomeStart Finance—the South Australian product—are really government products of a kind that are seeking to provide a targeted solution to a specific sector in the market, which I think is a very good thing. Our product really is available to all Australians. It is not means tested. We do not actually have an explicit cap on the value of the property that can be used. Typically, we would not fund any home worth more than $4 million. I can tell you that in our portfolio today our average borrower age is 40 years and the average property value is around $494,000—which is slightly above the median house price in Australia.

Senator SIEWERT—$494,000 did you say?

Mr Joye—$494,000, yes. So 75 per cent of our borrowers use shared equity loans to buy a new home; roughly 25 per cent use it to refinance.

Senator SIEWERT—To refinance for another home or refinance their existing purchase?

Mr Joye—No, to refinance an existing mortgage. The classic case is you have a 70 per cent loan with CBA. Today, if you have been subject to the spectre of the rate rises or your wife has fallen pregnant and you want to refi out, you can go to Adelaide Bank and they will refinance you out of the 70 per cent CBA loan into a 50 per cent traditional interest-bearing home loan combined with a 20 per cent EFM. So your mortgage repayments have just fallen 29 per cent.

Twenty-five per cent of our borrowers use the EFM to refinance out of traditional debt and reduce their interest repayments.

Senator SIEWERT—And 75 per cent—

Mr Joye—Use it to buy a new home. And roughly 20 per cent of our borrowers are first home buyers.

Senator FIFIELD—In relation to Aussie Mac, what would be the circumstances in which, if the FMA were intervening here, they would actually purchase the loans from the banks? What would be the criteria or the trigger which would see that involvement?

Mr Joye—That is a good question. The first point is that, under our proposal, an Aussie Mac-style agency would only be eligible to acquire AAA-rated, extremely high-quality home loans. They are home loans that have a very, very low default risk. I would also note that, even if this government agency were to buy those AAA-rated home loans you can actually insure away the default risk with PMI or Genworth. So the government need not bear any of the default risk, even though it is providing this liquidity service. Non-conforming or subprime borrowers would not be eligible—by way of clarification.

In terms of when Aussie Mac or an organisation of that kind would actually supply liquidity, we have argued that it should not seek to completely disintermediate private sector activity. Currently there is no liquidity in the primary residential mortgage backed securities market. There is some liquidity in what is called the secondary market. What I mean by the primary market is that banks cannot securitise home loans, period. A securitisation has not occurred since November last year with AAA-rated prime Australian home loans.

What Aussie Mac would do, and I know the government is looking very, very closely at this right now—and you could do it tomorrow; it does not have to be a new agency; it could be the OFM or a subsidiary of Treasury—is it would just issue sovereign debt and it would buy, say, $10 billion, $20 billion or $30 billion worth of prime loans off the balance sheets or out of the warehouse facilities of Australian lenders. Importantly, it would not be discriminatory. The RBA’s liquidity solution, which is currently provided to the market, is only available to ADIs, for all intents and practical purposes. Technically non-ADIs can use the RBA’s liquidity facility, but practically it is next to impossible.

To get to my point in terms of disintermediating private sector activity, we do not believe that you should establish a Fannie Mae or Freddie Mac-style organisation which absolutely dominates the mortgage market. Roughly 40 per cent of the $6.1 trillion of US home loans are funded through Freddie or Fannie. We had, pre subprime, the third biggest secondary mortgage market in the world and a very capable market in that regard. There is no doubt about the integrity of Australian home loans or the health of our economy. Again, it is an exported financial crisis. The market has failed and demand has disappeared, for somewhat irrational reasons. So you would see an Aussie Mac-style agency stepping into the market on an irregular basis to provide liquidity subject to certain criteria. So there would have to be a charter or protocols established determining when Aussie Mac could intervene, but ultimately, I suppose, such intervention would be at the discretion of the bureaucrats who have been delegated responsibility for that, or potentially the policymakers and the politicians, to the extent they had influence or control. But it would be, I think, irregular—once every 10 or 15 years, whenever these crises occur. One thing we are noticing is that financial crises are materialising with seemingly greater frequency. We have had the 1987 crash, the 1994 bond crisis, the 1998 LTCM crisis, the tech wreck in 2001 and now the credit crisis of 2007-08.

One of the problems that is not actually focused on as much is corporate credit rationing. While the big five major banks have reintermediated, the nonbanks have more or less disappeared and the competitors to the majors have fallen by the wayside, the big five major banks have massively increased their residential mortgage market share. But one thing they have done—and we are seeing this increasingly—is ration credit to small businesses and corporates. They are rationing credit to small businesses and corporates because it is a much less profitable and more expensive form of finance for the major banks to offer because it is 100 per cent risk-weighted. A home loan under the advanced route of Basille II, which most majors would adopt, is only 35 per cent risk-weighted. So residential mortgage lending is extremely profitable for the major banks. Business lending is much riskier and less profitable. So what we are now seeing is that the majors are starting to significantly tighten up the credit they had previously made available to small businesses and corporates, and hence we are witnessing credit rationing in that sector as they reallocate capital to mortgage lending. That has been another unforeseen consequence of the liquidity crisis.

Senator FIFIELD—You indicated that the government is considering the Aussie Mac proposal. What form is that consideration taking? Is it something that the Treasurer has undertaken to have a look at or is it officer level discussions at Treasury?

Mr Joye—I believe that it has been publicly recorded that the proposal was discussed at length at the 2020 Summit. It was one of the key recommendations, according to the 2020 Summit report. I understand that the CEO of the Bank of Queensland has made direct submissions to the Treasury and the Treasurer himself about the need for an Aussie Mac style organisation. There have been many other senior financial market participants such as John Symond at Aussie Home Loans and other executives who have tendered similar calls. The Australian Securitisation Forum have publicly stated that they have met repeatedly with the Treasury in relation to an Aussie Mac style initiative. So I think both the Treasury and the other parts of government are considering this.

Senator FIFIELD—You are clearly a successful businessman but also someone who likes to take an independent, academic review of things as well who enjoys empirically, challenging received wisdom. This is your chance for a newspaper headline, should you accept the challenge. On the basis of the evidence you gave earlier, would you say that housing stress in Australia is a myth?

Mr Joye—I would say that according to the data it is clear that a very, very small proportion of the community is in mortgage stress, and I do not agree with the populist, hyperbolic headlines that you see in the media that there are millions of Australians in mortgage stress. I think that is categorically incorrect and most of the evidence seems to support that. I would note that the Reserve Bank, I think, last week or the week before last made similar comments: that the classification of housing stress in Australia had been exaggerated. The problem here, as an aside, is that the quality of housing market research in this country and in most other countries is parlously poor. Most housing experts are in fact sociologists; they are not economists. Only recently have we seen genuinely rigorous research in the housing domain, in the US particularly. But there is a significant paucity of quality research in this country and most of the purported policy experts on housing, I believe, do not necessarily have the technical and economic equipment to render the sort of advice that is required. I do not know whether that answers the question. I think you are right in the sense that it is not a myth but it is certainly exaggerated.

CHAIR—I suppose my shorthand description as a non-economist, self-declared, is that there are very broad concerns about financial stress, but it cannot all be characterised as the housing stress.

Mr Joye—Our unemployment rate, I think, is 4.1 per cent—one of the lowest levels of unemployment in the last 33 or so years. I would not say that Australian households are in financial stress. Of course, if you are in mortgage stress, you always have the option of selling your home and eliminating that stress. I am not downplaying the extent of the stress that exists. By the way, Rismark is singularly focused on delivering consumers with alternative financing options. I think that is very important. But the reams of studies that are produced on mortgage stress by various groups in Australia are perhaps, as I said earlier, exaggerating the extent of the problem. I think there is some mortgage stress but, according to the delinquency rates, only 0.94 per cent of Australian borrowers are actually genuinely in mortgage stress, which means they have just missed one repayment. That is called the 30-day delinquency rate, and that is hard to argue with.

CHAIR—I understand that and we have taken a lot of evidence on that which has led to us just asking more questions really. Mr Joye, we do appreciate you attending the committee this morning, particularly straight off a flight from the United States, and for the significant amount of information you have provided us with. Thank you very much.

Mr Joye—Thank you.

CHAIR—Colleagues, I am going to suggest we just suspend briefly enough to grab a cup of coffee and then we will start again.

[10.45 am]

MUNRO, Mr Mathew, Policy Manager, Real Estate Institute of Australia

CHAIR—Thank you for attending the hearing this morning. I invite you to make an opening statement, and we will go to questions after that.

Mr Munro—Good morning, Senators, Chair and Committee Secretary. The Real Estate Institute of Australia is the national peak body representing the real estate profession. We have a nationally federated structure, with a member in all states and territories. We represent about 80 per cent of real estate agents. The REIA has an active interest in housing affordability in Australia and welcomes this inquiry. While REIA membership does not extend to homeowners, real estate agents commonly act as intermediaries between the vendors and purchasers and in this capacity the REIA is a well-informed market observer.

The REIA is highly concerned with the continued decline of home affordability, particularly for first home buyers. The Australian median house price has risen strongly over the last decade, as you would all be aware. The REIA's median house price for December 2007 stood at $471,300. The proportion of average family income required to meet average loan repayments now stands at 37.4 per cent. It is the highest level in the 22 years that the REIA has published this measure. REIA data has, however, indicated that the property market has been cooling in recent months in the wake of consecutive interest rate rises by the Reserve Bank and independent rises by major lending institutions. This has been reinforced by the recent release of ABS data, which is expected to be consistent with REIA data for the March quarter 2008.

Ongoing undersupply appears to be at the crux of the affordability problem. BIS Shrapnel have recently estimated that there is a growing residential stock deficiency that is likely to continue for the foreseeable future. While average annual underlying demand stands at around 182,000 dwelling units, there are only around 156,000 building commencements forecast for 2007-08. The underlying deficiency in total stock is now around 90,800 dwelling units. For this reason most commentators are predicting that dwelling prices will remain high for the foreseeable future. Intervention is urgently required to arrest declining affordability and to assist Australians to purchase their own home. Any solution to the housing affordability problem will involve an innovative mix of policies that can both facilitate healthy demand and ensure that supply is sustainable and responsive to current and future demand.

In our submission to the committee the REIA have identified several issues that should be addressed. Firstly, due to the socioeconomic significance of homeownership for Australians and the implicit assumption that retirees own their own homes, the REIA believes that the federal government should explicitly recognise homeownership as the stand-alone fourth pillar of self-funded retirement in Australia. Homeownership is inextricably linked to superannuation in self-funded retirement.

State and territory property taxes represent a clear barrier to homeownership. Reliance on property taxation has grown in recent years for all state and territory governments except in New South Wales, where there has been a very marginal fall. A new intergovernmental agreement is required to consider means by which inefficient property taxes, such as land tax and stamp duties on residential property conveyancing, can be abolished or at least much reduced. In the interim, stamp duty should be immediately indexed to median house prices to avoid taxation creep as house prices inflate over time.

Stamp duty continues to apply to the GST-inclusive price of new properties, leading to a degree of double taxation. The REIA asserts that state and territory governments should immediately abolish or at least review this practice in line with the Productivity Commission recommendation made in 2004. We also suggest that there may be merit in levying capital gains tax applicable to property on the basis of a sliding tax scale.

It is broadly recognised that the imposition of development charges by state, territory and local governments is leading to undersupply and decreased housing affordability. There should be a specific review with a view to reducing this component cost of new housing developments and spreading those development costs across the broader community, as they were back in the 1950s and 1960s.

There have been concerns raised about the appropriateness of state and territory land release policies and that these policies are contributing to ongoing undersupply. State, territory and local governments should be formally approached by the federal government and asked to report against the 2004 recommendation of the Productivity Commission relating to land release.

It will take some time for supply problems to be rectified. In order to provide real assistance to first home buyers in the short term and meet the original expectations of the Commonwealth, the REIA proposes that the First Home Owner Grant scheme be immediately doubled to $14,000 and thereafter linked to the Australian median house price. Some state and territory governments could also improve stamp duty concessions for first home buyers. Ideally, first home buyers purchasing a medium priced home should be exempt from all stamp duties.

State and territory governments should also consider granting a one-off stamp duty exemption for retirees who are downsizing their primary residence. Steps should also be taken to arrest housing inflation—sometimes driven by the availability of easy money and sometimes unscrupulous lending practices. In essence, regulation must be considered to prevent the housing market overshooting its natural equilibrium position. Options for consideration may include mandatory minimum credit checks, minimum loan-to-value ratios for property purchases, restrictions on advertising targeting persons with a poor credit history, or public disclosure of the level of credit risk held or on-sold by lending institutions. The REIA also suggests the federal government could establish a broader housing affordability forum comprising federal, state and local governments and industry to review the Productivity Commission report on housing affordability of 2003-04 and make specific recommendations to government. Thank you for the opportunity to make this opening statement. I am happy to respond to any questions you may have and, if required, take questions on notice.

CHAIR—Thanks very much, Mr Munro. That gives us some material to work with in terms of our discussions with other witnesses. We have been talking about the initiatives that the Commonwealth government has pursued in recent months, including the National Rental Affordability Scheme, the Housing Affordability Fund, the Housing Supply Council and so on.

What engagement has the REIA had with government in the development of those policy initiatives?

Mr Munro—Prior to the election we were lobbying both sides of politics and proposing very similar initiatives ourselves, particularly to the first home saver account. It reflects very closely the initiatives that we had proposed prior to the election that were more based on a superannuation-style saving scheme. Rather than it being a separate account, it would have been wrapped up with superannuation. We saw that as a better way forward—to reduce complexity and also reduce the need for another whole set of fees on those accounts. We are largely supportive of that initiative. As you have just heard, we have been calling for a forum to look at the total issue on an ongoing basis, and supply would be one of those aspects. So we are certainly supportive of that and certainly supportive of the Rental Affordability Scheme. We have been engaged in a formal consultation process, particularly on the first home savers scheme. Unfortunately, I have signed a confidentiality agreement and I cannot go into that very far. One of the things that have been a bit concerning about that process has been that those consultations are actually taking place on a one-on-one, individual basis rather than on an organisational basis. So, in my capacity in participating in those confidential Treasury discussions, I am representing myself and not my organisation, which is a little bit unusual and hampers our ability to respond. As you would be aware, there has been a paper released recently on the rental affordability initiatives, which we intend to respond to. So we will certainly be engaged in that one on an ongoing basis as well. As far as the supply council and the e-planning initiative go, both of those are certainly welcome. They will impart additional information to the marketplace. Whether or not that actually translates into action on the ground I guess we will have to wait and see, but certainly they are a step in the right direction.

Senator FIFIELD—I have a question in relation to the consultations on the home savers account. Does the confidentiality agreement that you signed preclude you from consulting with the executive of your organisation or with any of its members?

Mr Munro—Technically, yes. Because we have had such a long involvement on those issues in the past, I am well aware of the viewpoints of our members. If required we could have pushed for an additional declaration that my boss could have signed, but then every single person who wanted to be involved would need to sign one.

Senator FIFIELD—So you cannot kick that around with the membership or the executive and say: 'Here's one idea, here's a plan, here's something that's being canvassed. Do you think this would work practically?'

Mr Munro—No.

Senator FIFIELD—That is extraordinary. It is consultation in theory, but if you cannot consult with your membership and your own organisation, which you are representing, then it is—I was going to use the word 'farce', but that is perhaps too strong a word—not consultation in the fullest sense.

Mr Munro—That is quite correct. We raised that issue at the outset and that was the option I was given. Obviously, we took that option. We certainly think that could be much improved, also the time lines for consultation too. We are generally given a couple of days, maybe three or four days, to respond to draft legislation et cetera.

Senator FIFIELD—So if there are any flaws we certainly know not to blame your organisation or those consulted!

CHAIR—How many consultative bodies of a similar nature and of which you have been a member have had to sign a similar confidentiality agreement, Mr Munro?

Mr Munro—I believe I was a member of a Treasury consultation body in the past that operated similarly, but not on an issue that was as important as this to us—and also in tax design some time ago. This is the first one in several years.

CHAIR—And every participant is required to participate on the same basis?

Mr Munro—That is correct.

CHAIR—You probably can’t tell us who the others are, otherwise you would have to kill us!

Mr Munro—I can’t, I’m afraid, given that this is on the public record and I am not at liberty to disclose.

CHAIR—Well, we don’t want you to do that!

Mr Munro—But I will say, eyeballing the email addresses of the participants, that they were all work related email addresses, so obviously the individuals have been chosen—they are individuals—as they are representative of or have some experience in different aspects of the industry.

CHAIR—Interesting. You mentioned in your remarks your recommendation that the First Home Owner Grant be doubled to $14,000.

Mr Munro—Yes.

CHAIR—There is some suggestion from witnesses in other areas that the First Home Owner Grant contributes to the basic cost as it just feeds into increasing that cost. What is the REIA’S response to that?

Mr Munro—We are certainly well aware of those allegations, if you like, or those positions of other external bodies. However, in response to that I would say this. When the $7,000 First Home Owner Grant was introduced, the median house price in Sydney was in the order of $320,000. It was introduced with the purpose of offsetting the introduction of the GST, which would have been 10 per cent. The $7,000 represented about 4½ per cent of the average price of a home in Sydney. The reason that was 4½ per cent and not 10 per cent was that, while obviously the GST applies only to new properties, it was thought that through competitive effects there would be about a 4½ per cent impact in the market. So at the same time that the $7,000 was introduced people’s purchasing power was being decreased by the introduction of the GST, but that was being offset by the introduction of the $7,000. Today that $7,000 represents about 1.3 per cent of the total purchase price.

We also have to remember that that $7,000 was applicable to 20 per cent of the marketplace, as only about 20 per cent of purchasers at the time were first home buyers. You would expect that if that grant caused people to rush right into the marketplace and grossly inflate prices you would have had a lot more first home buyers in the marketplace. However, by September 2004 the proportion of first home buyers in the marketplace actually dropped to 14½ per cent or thereabouts. Rather than people running in, as the prices were increasing around that time there were actually people leaving the marketplace, so they were having a diminishing impact in the market. Of course as prices rose the $7,000 was worth less and less in real terms. So at the end of the day, if we look at where we sit now as to that situation, we have a $7,000 bonus for people, being 15 and 20 per cent of the marketplace, but over that period we have had an increase of $241,000 in the cost of a home in Sydney. So you would be hard pressed to argue that a $7,000 handout to 14½ per cent of the marketplace has led to a $241,000 price increase. That does not add up. There are obviously other factors in the marketplace that are causing this rise.

If you agree that the government's original intention at the time, when implementing the First Home Owner Grant, was that first home owners do in fact need some assistance to enter the marketplace and to have offset the impacts of the GST, which arguably is having a bigger impact today than it was back then, then if the government is to continue to provide that assistance it needs to be at a level that is realistic and actually does help first home buyers. We think that level would now be about $14,000 to rectify that situation and then that would need to be index linked over the future to make sure that continued at around that same level.

Senator SIEWERT—Can I ask you about negative gearing and a proposal that at least some people have put to us. I do not think anybody other than one or two submitters have really said to get rid of negative gearing, but they have said it needs some refinement. Specifically, they have said it should be targeted more at affordable housing to encourage affordable housing. Do you have any comments to make on that?

Mr Munro—That issue has certainly been around for a long time. As you know, there have been experiments in the past with removing negative gearing, but negative gearing is a longstanding taxation provision that does apply to other investment classes such as shares. So, if property were to be treated differently to shares, you would obviously create a distortion in the marketplace that might affect the flow of moneys. Investors might move away from property and perhaps into shares, and of course if there are no investors in property there are no properties to rent. So investors are an important part of the marketplace.

Negative gearing as it is certainly encourages the building of new property. Given that a major component in the tax offset—or write-down, if you like—of negative gearing comes from the depreciation component, that component is obviously a lot higher and a lot more attractive for new properties. So a lot of money from investors using negative gearing as it stands actually goes into new property. Obviously, if there were no negative gearing, investors themselves would need to charge higher rents to make up the difference. As we saw between 1985 and 1987, when negative gearing was reinstated, rents went through the roof. Some people argue that was for a whole lot of other factors, factors that may even be said to be present today, where you have interaction between the stock market and the property market. So we would certainly caution against moves to change negative gearing at all, particularly in the current environment.

There have also been suggestions that the tax loss experienced by the federal government is quite extreme. There is about a $5 billion tax write-down—deductions claimed against the government. What that does not take into account, however, is the total property taxation by the government. It is exceptionally high in this country. By OECD standards it is very high. So there is about $25 billion in property taxes collected directly. There is also another $11½ billion in property related capital gains tax collected annually.

CHAIR—Sorry, how much?

Mr Munro—About $11½ billion. I will give you an exact figure. It is $11.3 billion from capital gains tax collected from individuals for property related capital gains and a further $3.1 billion from non-individual taxpayers. If you add all that up, it is approximately $14 billion in property taxes collected. Like for any other asset where gearing is allowed, investors write down about $5 billion. So there is another $5 billion that I guess the government could collect but, by doing so, it would put in jeopardy the other $40 billion that the government already does collect.

Also, negative gearing is primarily used by middle-income earners, not ultrawealthy people. There is a perception that it is the very rich that are using negative gearing to get ahead, but figures that we have seen—and I believe they are ABS figures, but I might need to check that—show that, in 2005-06, 72.1 per cent of people who used negative gearing had taxable incomes below $63,000. So people who use negative gearing really are middle-income Australians that are saving for retirement. By building that wealth they are then a lower liability to the government in terms of pensions and retirement support later in life. So the government, again coming back to this $5 billion, stands to save a whole lot more down the track.

Senator COLBECK—Mr Munro, you have talked about the First Home Owner Grant and your proposal to double it and then continue to index it. We have had some discussion about means testing that assistance. What are your views on that?

Mr Munro—I think we would need to put any particular proposal to the members. Certainly it possibly could be better targeted. Governments always need to consider the best use of their moneys. At the moment we do not have a policy on doing so. However, I guess if the government were to come up with a proposal on that we would certainly consider that. We would not like to see, on balance, there to be less assistance, if you like. If the money were targeted, we think it should still be, on balance, the same amount of money. But I guess there would be more amounts for lower income earners, if you like, rather than just abolishing it for higher income earners. But certainly I can see the arguments as to why people would be considering those sorts of options.

Senator COLBECK—So rather than the net amount of money being reduced by taking a cohort out, you would see the assistance being increased at the lower end?

Mr Munro—That is right. In fact, that could be a way of funding the doubling of the amount. It is difficult for me to put an industry position forward when our board has not actually considered that as a specific issue and we do not have a policy on it. I would be making policy on the run on behalf of the industry by firmly committing to a position of being for or against that proposal.

Senator COLBECK—I am interested that it is something the board has not discussed, given that it has been in the public domain for a fair period of time.

Mr Munro—We certainly do not have a board position on it. I am sure it would have been discussed, but we do not have a position on it.

Senator COLBECK—You talked about the indexation of stamp duty to house prices. Could you run us through that a bit further?

Mr Munro—The issue there is that different rates of stamp duty apply depending upon different property values at different thresholds. It is essentially like income tax bracket creep. The same sort of issue happens in the property industry when we have large increases in property values over a short period of time. State governments tend to be a bit slow to react to change those thresholds, hence the experience of a windfall gain in tax because there are so many more property purchasers that fall into the higher tax bracket. We think it is a little unfair for the potential property purchasers to be slugged with not only more tax but a higher rate of tax. As I said, it is much the same position as the community experiences with income tax creep. We would like to see those thresholds linked in some way to the price. So the top threshold may apply to the top quintile of property prices.

Senator COLBECK—We have certainly heard evidence around the states that there have been windfall gains to state governments across the country from stamp duty.

Mr Munro—Absolutely.

Senator COLBECK—As I mentioned earlier, the reliance of state governments on property tax has never been higher. It has fallen marginally in New South Wales, but in all other jurisdictions there have been some quite large increases. Some of them have been up to eight per cent. A larger component of their budget has now come from property taxes and it has been essentially from those windfall gains.

Senator COLBECK—You mentioned 70 per cent were using negative gearing. Was it in 2005?

Mr Munro—In 2005-06 it was 72.1 per cent.

Senator COLBECK—We heard in Tasmania that about 70 per cent of those who own rental properties were mum and dad investors. Is there any correlation between those two numbers?

Mr Munro—I have not specifically seen figures that would wholly support that, but I think anecdotally that is certainly the feeling in our industry. Part of the reason for that is that, compared with other investment classes, people know property and people trust property. Mum and dad investors see property as a much easier investment. They probably own their own home, to begin with. So they know the process, they may know their local area and they may have a feeling for their community and a gut feeling about where things are going. That may not be the case trying to pick the winning share on the stock market. People are a bit further removed from that. Certainly the anecdotal evidence that we have seen is that, yes, there would be a strong correlation there. Mum and dad investors tend to be the individual negative gearers, for sure.

CHAIR—Mr Munro, I think you were here for part of the evidence of Mr Joye, who was here earlier.

Mr Munro—I came in towards the end of his presentation.

CHAIR—Did you hear any of the discussion in relation to the shared equity products and the Aussie Mac suggestion?

Mr Munro—Not the Aussie Mac suggestion, no. I did hear some of the questions later but I did not hear the proposal. Certainly we have considered the use of shared equity products and I can comment on those.

CHAIR—Thank you. Go ahead.

Mr Munro—We do support the use of shared equity products but to a limited extent. We would say that they can be an important component of the marketplace. They certainly have the potential to be. However, we would caution against them becoming the mainstream lending product. Certainly they are growing, and we think that if those products can help persons who would otherwise not be able to afford to purchase a home get into the market then they have a role to play. Rather than keeping someone in the rent cycle or in public housing for the rest of their lives, if these products can reduce the home loan repayments to a point where they can actually get in on the property ride, if you like, then we certainly support that.

We would have concerns if this were to become a mainstream lending product. If anyone could rock along and say, ‘I was going to buy a three-bedroom home but instead I am going to buy a four-bedroom home,’ and simply increase the amount that they borrow to fund that, we would caution against it. Suddenly there is more demand in the marketplace for larger homes. People are essentially bidding up prices. As a means of getting people into the market who would otherwise not get into the market, we fully support that. But if these products were to be marketed to everybody as a mainstream product—if people are told, ‘You should use this as opposed to a traditional loan,’ when they could otherwise afford a property—we would caution against that.

CHAIR—What about the Aussie Mac suggestion reflecting the Fannie Mae and Freddy Mac growth in the United States?

Mr Munro—Unfortunately I was not present for enough of that discussion. I would certainly be happy to hear about it. It sounded quite interesting. To me the flavour was to reduce the risk faced by banks, thereby increasing the amount of money in the market that could be lent at lower rates. That was how I gathered things from the questions I heard.

CHAIR—There is a considerable amount of information about it in the *Hansard* which may be of interest to you.

Mr Munro—I would be very keen to have a look at that.

CHAIR—Mr Munro, thank you for the REIA's submission to the inquiry and the additional information you provided with that and for appearing this morning.

[11.13 am]

ANGLEY, Mr John Nicholas, Acting Deputy Secretary, Department of Infrastructure, Transport, Regional Development and Local Government

PAHLOW, Mr Michael John, Acting Executive Director, Department of Infrastructure, Transport, Regional Development and Local Government

CHAIR—We appreciate you attending to assist the committee this morning. Do you have anything you wish to say by way of opening statement?

Mr Angley—Thank you to the committee for inviting our department to the hearing today. As you know, the ministers with prime responsibility for housing affordability issues in the government are the Prime Minister, the Treasurer and the Minister for Housing. Our department's involvement primarily reflects Minister Albanese's local government responsibilities, his chairmanship of the Local Government and Planning Ministers Council and our department's support for the Development Assessment Forum. I can go on and set the scene, if you like, or I could stop there.

CHAIR—Please go on.

Mr Angley—The Local Government and Planning Ministers Council is a COAG ministerial council comprising the Commonwealth minister for local government, who is the chair of the council—that is Minister Albanese—the planning and local government ministers from all the states and territories, and the President of the Australian Local Government Association, ALGA. Our main connection with the housing affordability issue is through development assessment issues, and this is reflecting the role and the involvement of local government in that process.

In 2006, COAG nominated development assessment efficiency as a hotspot as part of its national reform agenda. The Local Government and Planning Ministers Council have considered several different things in relation to that. They have developed and delivered a report card to COAG which considers the progress of all the states and territories on a series of development assessment issues. That includes a review of the legislation in each of the states' policy reforms. The states report on what they have been doing in the last year to reduce the need to refer development assessment applications to other agencies, to cut out the unnecessary referrals, and to facilitate a move towards electronic processing of development applications within their own states.

There is an organisation called the Development Assessment Forum, which is an independently chaired industry group comprising three levels of government, industry and professional organisations associated with planning and development. Our department provides a secretariat for that organisation and we are one member of that organisation along with 20 or 30 other members. This organisation, DAF, developed something called the leading practice model. That is a toolkit that can be adapted by the states and territories to suit their specific needs. The leading practice model seeks to introduce efficiencies into the development assessment process by streaming applications into processes that reflect the complexity and impact of the individual proposals. For example, simple household developments receive less assessment than significant or environmentally sensitive ones. The model is a track based system which applies the 10 leading practices to a range of assessment processes and is designed to send the application to the most relevant level of assessment.

The last thing I would just mention is that one of the other major issues that the Local Government and Planning Ministers Council have considered is electronic development assessment. This follows on from the leading practice model. The goal is to encourage states and their local government authorities to adopt electronic development assessment to move them away from a paper based system to allow consideration of applications within councils which enable faster referrals to other agencies of applications where that is required. It also avoids the applicants having to come in to the council continually to check on progress. It can be done online where the electronic development assessment processes have been adopted. That has now been picked up by the Housing Affordability Fund. Several months ago the Prime Minister announced that $30 million from that will be used to roll out electronic development assessment processes across the country. That initiative has been taken by the Minister for Housing as part of her responsibilities. Thank you.

CHAIR—Thanks very much, Mr Angley. Mr Pahlow, do you have anything to add?

Mr Pahlow—No.

CHAIR—Mr Angley, how are all of those key issues for COAG, or at least for the local government and planning ministers, such as the use of the DAF, going? How do you measure their progress and effectiveness?

Mr Angley—The progress report, the scorecard, did indicate quite a bit of movement in most of the states and territories in moving towards streamlining the processes, but unfortunately we cannot offer you a copy of that because it is a report from our council to COAG.

CHAIR—Will it eventually be made a public document?

Mr Angley—I think so, because in communiques COAG have commented on development assessment issues previously and they have indicated an interest in streamlining through their particular interest in the electronic development assessment processes.

Mr Pahlow—I think that it is fair to say that there has been good progress but each state has got its own issues. Some are required to amend legislation; some have got to change regulation; some have got to implement changes to systems etc. But overall, I think the report essentially says that there has been good progress.

CHAIR—Was it South Australia that did the first implementation of the leading practice model? Is my recollection on that correct?

Mr Angley—I am not sure about that. Variations were around for a while. The Development Assessment Forum picked up ideas from the various states. We could certainly respond to you about that.

CHAIR—Thank you. I have just a couple of questions around local government. The committee has heard a range of evidence about the requirement for more diverse dwelling stock to be produced. Some areas of local government appear to think that that is good idea. The ACT were here this morning talking about their 15 per cent affordable housing requirement in greenfields developments and so on. Others have talked to us about that as well. Some developers have provided us with evidence about where it is possible to do that. And then we have had some brick walls, where people just say, ‘Well, it does not really matter because if you build McMansions they will still come and buy them.’ What is the department’s perspective on what local government can do to increase the diversity of dwelling stock and to develop concepts of more affordable housing particularly in these new developments which are so very large and have such a significant impact?

Mr Angley—Our response is really—and I made this point at the beginning—that each state owns its own legislation and the way that local government functions within its own borders, so we as a department really do not have an opinion on that particular issue. Also, because it is about housing, I understand that a lot of those issues are being discussed in the COAG working group on housing affordability. The chair of that is FaHCSIA—

CHAIR—Do you sit around that table?

Mr Angley—We go for some items to the officials group, which provides a briefing to the Commonwealth representatives on the working group itself, but we are certainly not involved at the working group level. Our first entry to that was because at that stage we were the ones who knew more about the developments in electronic development assessment. After that it is a far bigger picture and that is really where Minister Plibersek and her department have responsibility for the broader picture certainly when it comes to stuff about housing mix and the development of different groups of housing.

CHAIR—You referred to the Housing Affordability Fund program and aspects of the comments that you were making earlier of that being moved off to that in terms of their area of responsibility.

Mr Angley—The Housing Affordability Fund was always the minister for housing’s responsibility—

CHAIR—I understand that. But there were components of your work you were talking about which had shifted into the HAF area I thought.

Mr Angley—Yes, that is correct. But really, the Local Government and Planning Ministers Council was the main group interested in the development and spread of electronic development assessment. Again, that was just as a platform for discussion between local government planning ministers all in one room, but we did not have a program. The first attempts at that were sponsored through a program called the Regulation Reduction Incentive Fund, which was run by the old department of industry. When individual local governments were interested in testing whether they could get electronic development assessment systems to work on their own councils they actually sought funding through that program, which came out in the early 2000s.

CHAIR—Your department has Infrastructure Australia—

Mr Angley—Yes, it does.

CHAIR—One of its goals, as I understand it, is making sure that working families no longer have to spend more time commuting to and from work than they spend with their children. We have had some discussions around the provision of infrastructure associated with the development of affordable housing and so on. Julian Disney, which would be a name familiar to you, emphasised the importance of having adequate infrastructure and public transport to support the development of new housing areas. He also talked about the attractiveness of regional development and decentralisation. What comment do you have on how Infrastructure Australia plans to actually make sure working families no longer have to spend more time commuting to and from work than they spend with their children?

Mr Angley—I will restrict my comment to the public commentary by the minister about the plans for Infrastructure Australia. The first role is a national audit of significant infrastructure that affects economic growth and economic activity.

CHAIR—Wouldn't that be everything?

Mr Angley—I think the states and territories are putting in some ideas about what constitutes nationally significant infrastructure. I can certainly get someone from the infrastructure area of our department to talk to you, if you prefer—

CHAIR—We might put that question on notice.

Mr Angley—but it is still being developed. They have announced the chair of Infrastructure Australia, but the rest of the process is still being considered by the minister.

CHAIR—Have they identified priority tasks?

Mr Angley—Yes: water, broadband, transport. There is a fourth priority that I can certainly write to you about.

Senator HUTCHINS—One thing that has come through in the whole inquiry is local government funding, particularly how local government proceeds with new estates. The chair just alluded to public transport as an area where there are difficulties because of new estates, particularly on the outskirts of the major cities. You referred to the report card on development issues, Mr Angley, which would reduce unnecessary referrals. That is all well and fine, but you were talking about water, sewerage, roads, playgrounds and all those things—do they come into the assessment by the COAG local government ministers or planning ministers? I am assuming they are different people from different states.

Mr Angley—The report card is restricted to trying to streamline the processes for development applications; it does not go into transport and all of those other issues. That reflects, really—

Senator HUTCHINS—Is that because the government is to develop into those areas?

Mr Angley—It primarily comes from where it started. There were a lot of opinions among the public and among stakeholders that one thing affecting development, and eventually housing affordability, was that local government planning authorities were, in their opinion, taking too long to consider applications. The arrangements were too complex, and there were, in some states, too many referral agencies that had to be considered with every application. That was the push behind its identification as a COAG hot spot nearly two years ago and it was the pressure behind states talking to their local governments about how they can streamline some of those processes.

Senator HUTCHINS—Fair enough; I understand that. But one thing that comes through from our inquiry is that there are different approaches in different states—indeed, within states—about how to fund new projects. We heard from the Canberra group this morning that they think it is the responsibility of everybody in Canberra to fund new projects, those essential infrastructure items, whereas Hornsby council, I think, have put a levy on everybody for the library. So the funding structure is not part of the COAG process at this stage?

Mr Angley—It is, but a different part of the COAG process. COAG previously considered what they call local government funding arrangements back in 2006 and it remains on the agenda of COAG. It came out of the Hawker report, which is a parliamentary committee report into many aspects of local government. One of the things that COAG picked up was consideration of local government funding arrangements. The last piece of that process was the report by the Productivity Commission into the ability of the local government sector across Australia to raise its own revenue. That report was published about a month ago. The government have not responded to that yet, but that was seen at a previous COAG meeting as one of the pieces of information they were waiting for before COAG considers local government funding arrangements some time in the future.

Senator COLBECK—We talked before about the Development Assessment Forum and the adoption of the leading practice model. You indicated that there is a report back to the forum, or to ministerial council, but there is no public reporting of that process. Did I get that right?

Mr Angley—No; I think you have mixed two things up. The Development Assessment Forum is a group that reflects all of the different parties involved in development assessment type issues, so there is a representative from the Commonwealth, some from the states, some from the private sector and some from professional groups. They are the real experts.

Senator COLBECK—They developed the leading practice model.

Mr Angley—Yes, that is right; they developed the start of that. That was picked up and promoted by the Local Government and Planning Ministers Council. But, separately, what I was saying about the report was that COAG asked our council—the Local Government and Planning Ministers Council—to provide a report card on a regular basis on what the states and territories were doing to improve and streamline their development assessment processes within—

Senator COLBECK—How often does that group report to ministerial council?

Mr Angley—About once a year.

Senator COLBECK—Once a year?

Mr Angley—Sorry. Once a year is how often the Local Government and Planning Ministers Council reports to COAG.

Senator COLBECK—How often does it meet and prepare a report card on progress?

Mr Angley—The Local Government and Planning Ministers' Council?

Senator COLBECK—Yes.

Mr Angley—It officially meets once a year; in the last couple of years it has met twice a year.

Senator COLBECK—I would have thought an understanding within the relevant sector of the progress in respect of the adoption of the leading practice model would be something that would be of significant interest. I am concerned it is not being reported. I am certainly interested in what is happening in my state of Tasmania, because I think there are some real issues to be dealt with there. I would love to know, and I think it is important for the public to have an understanding of to what extent the leading practice model is being adopted in each of the states—a comparison of how that might be picked up. I am concerned that there is an understanding of what is going on, but there are only a select few who actually know about it.

Mr Angley—Perhaps at the moment that is the case, but I presume that one of the parts of the consideration by COAG will be about releasing that progress report.

Senator COLBECK—I would have thought it was very much in the public interest—given the planning and planning issues and that there is $30 million being injected into the rollout of electronic planning—and that it would be vital that we have an understanding of what is going on with respect to that, particularly in the interests of open government. I would have thought that would be interesting. We have heard a previous witness saying he had to sign a confidentiality agreement to deal with the government, so there are some issues to deal with there. In respect of the $30 million for the rollout of electronic processing, is there any requirement that the states do adopt the leading practice model? Or, if we are looking for efficiency, are they just being allowed to roll it out within their existing schemes?

Mr Angley—Minister Plibersek, the Minister for Housing, recently asked the state and territory ministers for local government and planning to offer her some ideas on how they might use the access to the $30 million, how they might use some of the funding from the available $30 million. My understanding is they have all responded to Minister Plibersek about how they might use it.

Senator COLBECK—But surely they are not going to volunteer to forgo some money if the best practice is not taken up. They are basically going to say, 'This is what we're going to do and you give us the money.' Isn't there any requirement from the Commonwealth to do what it says it wants to do and that is to streamline the system to make it easier for people throughout the industry, whether they are homeowners or developers or anybody, to interact with the system? Surely that is the objective.

Mr Angley—Presumably when Minister Plibersek is looking through the ideas from the states that is something she will bear in mind. The people who have responded to Minister Plibersek, the local and state planning ministers, have as members of the council signed up to adoption of the practice model.

Senator COLBECK—But we do not know to what extent they are adopting it because the report is still sitting in an organisation that does not allow it to see the light of day.

Mr Angley—At the moment.

Mr Pahlow—I think the communique from the Local Government and Planning Ministers Council at a higher level makes comment on it. You would have a pile of paper a metre high if it produced every single report that was put forward. But I do not think that is meant to deny people access to it.

Senator COLBECK—But this is a pivotal piece of government policy. Senator Payne and I both recall from conversations earlier in our hearings that South Australia was perhaps more advanced than other states in the implementation of the leading practice model. That is my recollection as well as hers. I am sure there would be a significant interest, if this is such a core policy angle of the government, to improve issues like housing affordability given that it is seen being as an impediment so that people understand where things are actually moving and how taxpayers' money is going to be spent.

Mr Angley—The ministerial council has reported to COAG, so it will be up to COAG to decide whether to release it or not.

Senator PAYNE—Gentlemen, thank you very much for appearing today. If, as we are finalising the previous 13 or 14 hearings we have had, there are any further questions that pertain to your particular area, I hope you will be able to assist us by responding to those as questions on notice.

Mr Angley—Certainly.

CHAIR—I think, Mr Angley, you said you would come back to me on those specific questions in relation to Infrastructure Australia if there is more information that can be provided. Thank you.

Mr Angley—Yes, we will check the transcript and write back. We can certainly immediately provide the minister's public comments, which probably cover most of the issues. We can do that straightaway.

CHAIR—Senator Colbeck has a further question before we finish.

Senator COLBECK—I just wondered whether it is possible for a request to go back through for that progress report to be released to the committee so that we have some understanding of where things are actually going as part of this process. I am happy for you to take that on notice.

Mr Angley—We will consider the logistics of how to do that. We will probably have to write to the Prime Minister as chair of COAG, who will have to write to each of the premiers.

Senator COLBECK—Thank you.

CHAIR—Thank you both for appearing this morning.

Mr Angley—Thank you very much.

[11.38 am]

SORENSEN, Professor Anthony David, Private capacity

Evidence was taken via teleconference—

CHAIR—Thank you very much, Professor Sorensen. We are grateful to you for assisting us by appearing slightly early. I understand it is not always easy to do these things by teleconference, but at least it means you have been able to stay in the beautiful New England area of New South Wales.

Prof. Sorensen—It is a wonderful day today, yes; it is good to be up here.

CHAIR—We have the benefit of your submission. Thank you very much for supplying that for the committee. I invite you to make some opening comments and then we will go to questions.

Prof. Sorensen—I have a few fairly simple remarks and I can make them quite quickly. I think that housing affordability issues like the ones we currently have are a major issue at the tail end of periodic house price booms. We have been here before, and I think we are going to be here again. Those booms in every case that I am aware of always reflect demand in excess of supply—that is, demand for housing against the available supply. What tends to happen in each boom event is that demand spikes rapidly whereas supply responses are much more long term. So, if you like, the home development sector of the economy is unable to respond to periodic sharp rises in demand.

As a result of this lag response, so to speak, booms tend to taper slowly, but always correct eventually. In other words, the condition we find ourselves in now will slowly deflate, but it usually takes around about five years. Demand events, of course, vary between booms and in the last few years we have experienced a rapidly rising demand because of an interconnected acceleration in population growth, interstate migration, economic globalisation, rapidly rising wealth and declining house size. Those, I think, are the principle factors involved.

We are not talking here just about owner-occupied housing but also rental accommodation, and both are very closely related. Obviously at the moment, with housing affordability for owner occupiers at a low level, a lot of pressure is being put on the rental sector. I would also note that housing is, to some extent, substitutable. During price booms alternative living arrangements come into being so that we get things like group households, children living at home longer, multigenerational households and so on.

I have to say that the recent very substantial boom may well unwind more slowly than most others in the last 20 or 30 years because of Australia’s strong economy, rising immigration and a large overhang of demand relative to supply. But I think, ultimately, it will unwind. Of course, the affordability problem is both spatially and socially variable. One of the major observations in the current boom is that stress is highly restricted in some of our cities, like Sydney, to what you might call the mortgage belt. In Sydney’s case that is a line of suburbs trending west and south-west from the inner, that being south of the harbour. It is notable that in the eastern suburbs and the north shore, where housing mortgages are actually often very high indeed, it appears the stress level is a good deal lower. Any boom creates winners and losers, and we have seen that Sydney's house prices have held up very well in many of the higher income suburbs but are well off their peaks and are up to 30 per cent lower—I have heard even 50 per cent below peak values—in some of the western suburbs.

In the long run, Australia's current house prices relative to income are what you might term 'obscenely' high by international standards. According to calculations of the ratio between median household income and median house prices by Wendell Cox, who is head of the Demographia agency in the United States, Australia's levels—at around 7 to 8—are the highest globally. They are higher than just about anywhere apart from the west coast of the United States and Florida, for example. This, I suspect, comes about for a range of reasons: certainly the tax breaks afforded to housing—for example, the absence of capital gains tax for owner-occupied housing and negative gearing for rental property may, I think, just simply tend to feed in to higher prices for housing—and the pricing of infrastructure at the state level with its very heavy user-pays element, especially in New South Wales under section 94 of the EPA Act. Generally, pricing is attributed to the owners of housing at the urban fringe—incidentally, that is a move away from what used to exist about 20 years ago when the pricing of new infrastructure was community-rated in the sense that all residents of the city would pay towards water and sewerage connections and so on out of their recurrent charges, rather than doing head works, as is done now essentially, to new residents. So, that has also put up the price of housing.

It used to be that 20 years was a common period for a mortgage, but more recently this has been bid up to 30 years, so people are mortgaging away their lives. Also, I have to suspect that the absence of death duties has led to larger intergenerational transfers, and a lot of these, passing down from parents to children, have found their way into housing. So we have bid up the underlying rate of house prices through those kinds of mechanisms. As a result of all that, in parts of Sydney it is difficult to get a block anywhere for under about $250,000, whereas in some comparable United States cities, you are looking at prices for blocks of $30,000 to $40,000, and I cannot understand why we are paying six to seven times that amount in this country.

Policy, I think, has to focus on longer term issues; there is no short-term fix available. I have heard of suggestions that, for example, we raise subsidies to first home owners through something akin to the first home owners scheme. But the Reserve Bank has, I think, ably demonstrated that those kinds of subsidies are almost immediately capitalised in the price of housing, leading to higher levels of house prices at the very time, now, when we require house prices to come down to make them more affordable. I have also heard about households dipping into superannuation pools to help keep them afloat, but I suspect that, too, would be disastrous in the longer term, keeping house prices higher than they would have been otherwise, bringing forward consumption and reducing retirement money.

So policy, from my perspective, really has to focus on matching supply and demand much more effectively than we have done in the past. That is a planning and infrastructure supply and construction issue. We need to reduce the cost of infrastructure supply—I have talked about that in the case of New South Wales—and perhaps revert substantially or at least partially to more community rating of infrastructure expenditure.

Perhaps you need a design element here, encouraging new forms of entry-level housing, enabling the rapid and flexible redevelopment of existing urban areas. One of the problems with urban planning—and I happen to be a member of the Planning Institute of Australia—is that existing residents in urban areas tend to be over-represented in planning processes and have various opportunities to comment on planning schemes and particular planning projects, but would-be residents of particular localities are, of course, not represented at all, except by would-be developers.

I think that eliminating some of the tax breaks for housing could, in the longer term, bring prices down, reducing the iconic role of housing in Australian society. I note also, of course, that higher fuel costs will eventually eat into house prices, as what we pay for our housing is largely residual after we have expended income on other essentials.

In summary, I would simply say that the three most important means of making housing more affordable for both owners and renters in the long term are: to assist in the supply of new accommodation and become much more responsive to demand; to apportion the cost of infrastructure across the community as a whole, rather than billing residents moving to the urban fringe; and to remove the tax breaks—and I would also point out that the capital gains tax exemption for owner-occupied housing is vastly regressive in a social sense, with nearly all the gain from that exemption going to high-income households. But I also think, as a final remark, that in any boom there are casualties and, inevitably, those are people who get in last in the boom phase. They overpay for the properties that they are buying and when the downturn comes—often associated with rising unemployment—they are squeezed, and they are often squeezed quite savagely. I am sorry that I cannot offer any short-term fixes, but that is briefly a summary of where I am coming from.

CHAIR—We will go to questions from members of the committee and I will start with Senator Siewert.

Senator SIEWERT—We have been all around Australia, so we have had heaps and heaps of presentations. We had one this morning from Rismark International. As you are probably aware, Christopher Joye has been advocating Aussie Mac or some form of Aussie bank. I noticed that in your submission you say that you think that would be too late and would not work. Could you just explain that a little bit, because there has been quite a bit of talk around that issue.

Prof. Sorensen—These are developments of Freddy Mac and Fannie Mae, which exist in the United States. They are mortgage providers. I actually think that the financial side of the housing system that we have is pretty well catered for in Australia. One of the events of the last five years and one which has actually propelled housing prices higher is the advent of a variety of secondary mortgage lenders, who did a very efficient job in forcing down interest rates for home borrowers but, in so doing, enabled them to pay more for housing with the budgets that they had, and that underpinned at least part of the rise in house prices. I am not sure that we need similar agencies to those in the United States. I think we have the supply side of finance reasonably well sorted—and, incidentally, it is quite competitive.

Senator SIEWERT—Going on to the issue of tax breaks, we have had a range of submissions, with most people saying that we need to look at negative gearing. The Real Estate Institute this morning said that we should not be fiddling with negative gearing. If I understand your submission correctly, you advocate getting rid of it completely. Most people have been saying to fiddle with it, maybe aim it towards more affordable housing, whereas the Real Estate Institute said, if we do that, because middle income earners are the main people who use negative gearing, it will actually stymie supply. Can you expand a little bit on your thoughts around getting rid of it completely?

Prof. Sorensen—Yes. I am very much against having more complicated tax arrangements by exempting some people and not exempting other people, for example. I think either you have negative gearing or you get rid of negative gearing, and my preference would be to avoid it. One of the advantages of negative gearing is held to be that it will improve returns on rental housing and encourage people to move into the rental housing market by buying or constructing appropriate premises. One way of getting more rental housing, and probably a better way from my perspective, is to reduce the price of homes because that should in fact improve the returns to owners of rental housing. If you have relatively low house prices—like some of those that exist in the United States in cities like Dallas-Fort Worth or Atlanta or in Canadian cities like Montreal or Ottawa, where the price of housing is about half or even less of the price of comparable housing in Sydney—and you own one of those premises, you could get a very much higher return on your asset without any need to have recourse to negative gearing. From my perspective, negative gearing seems to be a contributor to high house prices. We would have lower rentals combined with better returns for owners of rental accommodation, were negative gearing to be abolished. In fact, it would work in favour of both parties. Have I made that point clearly?

Senator SIEWERT—Yes. I suppose my issue is: how do we work now to reduce the price of housing without using a whole lot of other mechanisms that we have also been hearing about? We have heard a lot about changing tenure, for example, and using different tenure models. We had the ACT government here this morning talking about the process they are going into now—renting land to people who are building houses so they do not pay for the cost of land. We have heard about housing co-ops et cetera. Are you not going to need a whole lot of those mechanisms to lower the price of housing?

Prof. Sorensen—I do not think so. I tend to regard the high cost of housing in Australia as partly related to the tax system, as we have just been talking about, and partly related to the gap between supply and demand. If we could see our way forward to redevelop to a higher level many parts of our existing cities or provide a lot more home construction at the urban fringes, we could go quite a long way towards keeping house prices a lot lower, more stable and under control.

This is a bit of an anecdote. A couple of years ago I was visiting a friend in Dallas-Fort Worth in northern Texas. He was out there on the fringes of the city. I went to this huge house—much bigger than a McMansion—and asked him how much it had cost him. It had cost him about A$250,000 for this humungously large residence. Basically this came about solely because in that part of the world it is easy to develop. Incidentally, Dallas-Fort Worth is actually growing faster than a city like Sydney or Melbourne. The construction industry and the land development industry were geared to providing a very rapid stream of housing. If we could get our housing blocks down from $250,000 to $50,000 or $60,000, for example, we would wipe $150,000 off the price of a house at a stroke. It seems to me that this is where the problem is.

A lot of the other schemes that are being suggested are palliatives. They are situated a long way from the main game, which is simply to develop land more efficiently and more effectively and allow our cities to adapt to changing circumstances more easily. This is partly a planning problem, and I know that various Australian governments are trying to streamline and make their planning processes more efficient. It is partly an infrastructure problem. I think part of the reason why we have an affordability problem now is simply that state governments have been underinvesting in urban infrastructure now for something like two decades.

Not only that, but what infrastructure is constructed is billed up-front to new home owners at the urban fringe rather than, as I explained earlier, community rated so that all the residents of, say, Sydney or Melbourne pay for new urban infrastructure. I think the UDIA, the Urban Development Institute of Australia, is pretty close to the mark here. We are finding that infrastructure costs are adding $150,000 to a block of land in Western Sydney. That is where we should be starting. Why are we billing new urban residents that extraordinary sum of money when apparently in comparable US cities you might only be paying a few tens of thousands of dollars for such infrastructure? I think the main game is this supply-demand nexus—not trying to invent a whole new series of mechanisms around the edge to try and deal with what the main problem is.

CHAIR—Thank you very much, Professor Sorensen, and thank you for the very comprehensive submission that you have provided to the committee. In fact it touches on almost all of the pertinent issues that we have been considering over the past 13 or 14 hearings, which is very helpful to us. Thank you for your time today. I am very grateful that you were able to appear earlier than scheduled.

Prof. Sorensen—Thank you very much. I appreciate the opportunity to participate.

Proceedings suspended from 12.02 pm to 12.36 pm

POLLARD, Mr Paul Henry, Private capacity

CHAIR—Thank you, Mr Pollard, for joining us as a witness earlier than the advertised time. I would also like to thank you, on behalf of the committee, for the submission which you have provided to us. It gives us some interesting material with which to work. I invite you to make an opening statement, if you wish to, and then we will go to questions.

Mr Pollard—I will just run through my submission quite briefly. There are many causes for the housing affordability problem in Australia, but some of the key ones are: Australia's urban structure of a few very large cities; a fall in public infrastructure spending away from the historically successful model of borrowing loan funds and then securing that against the value of the urban area generally; the consequent rise in development charges to try and pay for new urban infrastructure on the fringes; planning processes, which have tended to delay new development, both infill and on the fringe; and allied to that, community opposition to infill redevelopment which would otherwise be justified. Another major factor has been high immigration levels without any commensurate steps being taken to increase housing to meet that immigration need.

But I would like to focus on the question of housing booms. The present level of housing prices relates basically to the flood of investment funds into housing from the late 1990s reaching a climax in the years 2000-03. This boom was based on factors such as the stalled share market, the relatively low interest rates at the time, and the capital gains tax change in 1999, which I think was more of a selling point than a significant assistance to investors. But underpinning this flood of investment funds in that period was negative gearing, which amounts in essence to much cheaper finance for investors versus home buyers—that is, the ability to tax deduct interest costs against other income.

Related to this boom period is the self-generating nature of house price rises. Most finance for housing arises from the high price already of existing housing, because people upgrading build on the increased value of their housing, and investors are then drawn in by rising prices. So you have a self-generating effect until they hit something like much higher interest rates or a recession or something. Added to this is the negative effect of high house prices on supply. Essentially, when you get high housing prices in an urban area, rather than like in some industries where more money generates further supply, higher prices actually undermine greater supply, because they drive up residential land values. As a result you get a vicious cycle whereby high prices reduce supply and that further increases house prices. I think in the first hearing of this inquiry, Mr Harnisch of the Master Builders was asked why they were underbuilding, as he put it, and he said because housing was out of reach. In other words, high house prices diminish supply. In fact, we are now building less than we did in the early 1990s when the population was some 20 per cent lower than it is now.

I put in my submission some proposals, many of which I did not flesh out particularly, for the committee's consideration. One of them was having specific housing affordability targets in terms of income levels and housing costs, both buying and renting, in major sectors of the urban areas. I suggested a subsidy for the building of new low-rent accommodation—rather like the rental affordability scheme that the government has announced, but being more direct in its assistance to builders. In essence, I suggest that, if they just paid a subsidy of a similar nature, which is about 25 per cent of the cost of a basic dwelling, upon the building being built—in other words, up-front—that would be of more interest to developers. There are a lot of qualifications and fine print to be gone through in the present scheme, such as determining paying 20 per cent less than market rent, what is market rent, and so on. It is unfortunate that housing needs to be subsidised, but the rise in values in recent years has meant that, in contrast to other countries and Australia in the 1980s, it simply is not financially viable to build dwellings for rental. In other words, high house prices have made subsidies, through negative gearing and so on, necessary.

I suggest that the committee acknowledge the relationship of immigration to housing problems. One way of focusing on that would be to get the minister for immigration, when setting an immigration figure or justifying the immigration levels of the past year, to also explain how that level of immigration was going to be met in terms of housing.

I suggest the committee could also say something about the negative role played by community opposition in infill areas to new housing and redeveloped housing which would otherwise be justified except for their particular view on their particular area. I think the Port Phillip council in its submission referred to the need, as of right, to redevelopment in already developed areas.

I suggest also that the committee endorse the need for up-front payment of infrastructure using debt secured against the future rate income of the entire urban area in order to get away from high development charges, which increase the cost of, particularly, fringe urban land—bearing in mind, though, that any reduction in charges needs to be passed through to the homebuyer. Whenever the industry speak about the need for reduced taxes and charges on housing, to take their proposals seriously, they need to demonstrate that the reductions they are seeking will pass through to the homebuyer. If they cannot pinpoint a mechanism where the likelihood is that that will happen then obviously their proposals carry less credibility. Because of the problems of infrastructure raising and development spending on the fringe, generally the fringe development process needs to be managed, in essence, by state government agencies to ensure that lower development charges are passed through to the homebuyer.

The specific proposal that I put forward to the committee is to amend negative gearing—that is, amend the tax deductibility of interest on loans used by investors to buy houses. I do not propose that it be abolished. What I propose is that it be unaffected in terms of people who have already entered into contracts to buy houses as investors, because to retrospectively abolish negative gearing interest tax deductibility could be quite unfair and quite a drastic measure in relation to many of them. What I am proposing is that negative gearing be applied only in the case where investors buy new houses and that it not apply to the buying of established houses. The effects of this would be that investor interest in established houses would fall significantly and so we could expect that prices in future would rise much less than prices of housing generally otherwise, because the vast majority of investor finance is used on established houses—I think it is about 85 per cent versus 15 per cent on new dwellings. If you wanted negatively geared property, you would necessarily have to invest in new housing. Therefore, new housing funded by investors would be relatively much more attractive than it is now, so you could expect a higher level of investment in new housing. That, generally, would assist the housing situation. In particular it would assist the rental situation, because there would be more housing through these means.

One of the arguments put forward in defence of negative gearing is that the tax deductibility of interest assists rents because it gets investment into housing. But the fact is that, with a given block of housing, if an investor simply turns a house over from owner-occupation to investment, that on the face of it means there is more housing for renting, but they are obviously displacing one household net from owner-occupation to renting. On the face of it, investment in housing simply does not assist the renting situation. I could respond to some of the arguments put by the Real Estate Institute this morning about a change to negative gearing, but I will take it up if necessary.

CHAIR—Thank you very much, Mr Pollard. Let me start by asking you a question on your propositions in relation to immigration. We had a very brief and probably peripheral discussion with Dr Bob Birrell in one of our Victorian hearings, because he made an allusion to immigration issues as well. It seems to me, just by way of observation, that over the many years of a burgeoning immigration profile in Australia we really have not factored in the fundamentals that rub against the intake in that way, and housing would be one of those. It would be a fairly radical suggestion, though, to go a step further and say, 'If we can't do that in a fairly ready period of time'—it cannot take forever—'then we should perhaps call a halt or a slowdown to the immigration intake,' wouldn't it?

Mr Pollard—It is more a matter of giving prominence to the issue and simply putting the Commonwealth government on the spot as to the implications of its immigration policy. I do not think Australia has ever had a population policy except for a vague desire for more people. So it is mainly a matter of putting the issue more in the spotlight and putting the Commonwealth government on the spot in relation to the implications of its immigration program.

Senator HUTCHINS—Mr Pollard, in your submission you talk about the fringe areas and the development. I think you said in essence that they should be managed by state governments. Does that imply that the local government areas should lose a lot of those planning powers?

Mr Pollard—In essence it would mean that. If you have a state government agency managing the development of a new area, then necessarily the powers of the local government might be infringed in terms of rezoning and so on. But it all depends to what extent the state government already controls rezoning, which in the fringe areas is considerable. It would not necessarily mean that local government would have lesser functional powers in relation to more detailed planning. It is just the broad direction of growth and also the question of land values. In other words, I suggest in the submission that it may be necessary for the land to pass through state government ownership in order to bring down fringe land prices. This may not be necessary for all land in fringe areas. It depends on the competitive situation, but it may be necessary for land to be passed through state government ownership to quite a degree or totally just to get prices down and to manage the land price question.

Senator HUTCHINS—You suggest that there might be a need for up-front infrastructure using debt to get away from the high development charges on the fringe. I am not sure how much support that would receive as that seems to be a bit different to what we have been hearing. I am concerned particularly with the aspect of debt and not so much who should pay, but how it should be paid for.

Mr Pollard—Economic views are very much subject to fashion and it has been the fashion for a couple of decades now that government should not have debt. But, in fact, economic progress is basically built on debt because that is how you harness savings. Individuals get into debt to buy a house and that is regarded as a good thing if they can handle it. Businesses have debt. If they do not have debt, they have a lazy balance sheet, as they say. Government should have debt if the loan funds are used for a good purpose and one which is financially secure. If you have your loan funds secured against urban development and the rating base across the urban area then there is no danger in debt whatsoever. In fact it is highly desirable.

Senator COLBECK—I am interested in your perspectives in relation to infill planning and the propensity these days for everyone who wants to have a say in what is going on, to have a say. Again it has become pretty much accepted that it is, if you like, almost a right—to use an overused term—to have a say about what happens within your community. In fact in some places, if you can demonstrate some sort of interest in what is going on, whether or not it is part of your own community, you can have your two bob's worth. How do you turn that around in a planning sense? It is very difficult and politically challenging to make those changes.

Mr Pollard—In broad terms, what it probably means is that the government responsible for the whole urban area, which of course is the state government, may well have to overrule local government more. But it is a very difficult issue and the experience in a number of cities has been that local government, reflecting the local community, has been very reluctant to go along with urban consolidation—not that urban consolidation is anything like the panacea that it is held out to be but it probably means that local government in those sorts of areas and those sorts of situations must be overruled by the government with the responsibility for the city as a whole and the citizens of the city as a whole.

Senator COLBECK—It is a quantum shift in the current perception of the democratic process, isn't it?

Mr Pollard—It is, yes.

Senator COLBECK—We heard this morning suggestions of an inevitable market fall following the current rise. Switching to your economist's hat from your town planner's hat, what is your view of that?

Mr Pollard—What has happened in Australia over the last more than 20 years in house prices is what we see is a boom when investors flood in. There was one following the stock market crash in October 1987. Money flowed into houses and prices rose dramatically. Then it plateaued and from there it began to rise in the late nineties and reached a crescendo in 2000-03 with investment money flooding in and then a self-generating effect of house prices coming into play. Then it plateaued again about 2004 for a couple of years. Then it went up last year and now it has plateaued again because of high interest rates. But the picture is of boom, plateau, boom, plateau. It is not cyclical anymore; it does not go down. House prices plateau.

I think the Housing Industry Association has done some work on this and they have said that, unless things change, affordability will take many years to reach its previous levels. My submission says that negative gearing is a major problem there because in essence it is a huge benefit to investors in relation to home buyers and it forces up prices. Higher prices mean supply is less, so it is a vicious circle.

By the way, I am not proposing its abolition; I am just proposing its amendment to focus on new housing. The economic justification for interest deductibility is the creation of new capital, and by using negative gearing simply for new housing you would make it useful in an economic sense. One of the arguments used by the Real Estate Institute is that it is discrimination against housing investment in relation to other forms of investment. The thing is that housing is totally different from other forms of investment. It is a social necessity. It is already treated quite differently by government in a fiscal and tax way, for instance not taxing capital gains on the family home. So it is already quite different in terms of government policy. Also, if you use negative gearing while buying shares or gold or whatever, you are bidding against every other investor who can also use negative gearing. But in the housing market the main people you are bidding against are owner occupiers who cannot use negative gearing, who cannot use interest deductibility. So the argument that it is unfair to housing investment is totally specious.

They also said it would raise rents. The point is that rents are set by the market. If rents were based on landlords’ costs, a lot of rents would be very low because the landlord bought the house 10 years ago when it was very cheap. This is the point about removing taxes and charges on a lot of activities in relation to housing. Rents and house prices are set by the market and it is a seller’s market, so they would not affect the level of rents or house prices.

There is the 1985 argument. The only real studies on the effect of the partial removal of negative gearing in 1985 show that the claims that it forced up rents and dropped building and so on are completely unfounded. There is the Commonwealth budget argument, which is irrelevant. Negative gearing and interest deductibility are not there to benefit or not benefit the Commonwealth budget. Then there is the fact that a lot of negative gearers are on lower or medium incomes. That needs analysis statistically.

Senator COLBECK—I am interested in your comments in respect of the 1985 to 1987 period. I was going to ask you about that. There has been some suggestion that negative gearing is a cause of the current situation. Given that it has been in place for such a long time and has been there through the booms, some of the busts and now the booms and the plateaus, how can it legitimately be seen to be a contributor?

Mr Pollard—The fact is that investment in housing was quite a small part of finance for housing until the late nineties. Before financial deregulation, all lending money was more or less rationed. It was very hard.

Senator COLBECK—So it potentially relates to the fundamental changes in the market that came into place in the late nineties.

Mr Pollard—Yes. Undoubtedly it relates to the wider economic circumstances, but it did not lead to high house prices basically until the late nineties, because investment was quite a small part of total housing finance.

Senator SIEWERT—Senator Colbeck just asked the question that I was going to ask.

CHAIR—It is often the way. Great minds were thinking alike.

Senator SIEWERT—Yes. However, I do have another question. I think you were here earlier when Mr Joye from Rismark International was here. He was talking about the concept of an Aussie Mac. I think you also heard the question that I asked Mr Sorensen later. What is your opinion of whether such an institution would have a role to play in dealing with the issues?

Mr Pollard—I would not claim to be an expert on that, but as far as I can see it would be quite a positive move. It is difficult to know why it is not there already. As far as I am informed on the subject I would support it.

Senator SIEWERT—We had a similar sort of discussion in Geelong. A representative of local government there was talking about land betterment tax and the concept that the original sellers of the land sometimes make a significant amount of money out of the rezoning and that that money should be put back into a fund that is used for, amongst other things, infrastructure development. Am I right in reading that what you are suggesting is in a similar vein to what they were suggesting?

Mr Pollard—I am suggesting that debt raised by the infrastructure agencies be used to fund anything more than the immediate works required for housing and that that be secured against the revenue from the entire urban area which is being served. The unspoken reason that lies behind a lot of high development charges is betterment—trying to get some of the betterment from the original owners of the land. It is hardly ever mentioned, but the thinking is that it is fairer, in a community sense, to try and get back some of the increased value of land—in other words, the betterment—from the original owners, who are getting a higher price. That is the unspoken rationale behind it, quite often.

CHAIR—Mr Pollard, thank you very much, particularly for your detailed submission and for attending today. We appreciate your interest in having been here earlier this morning to hear some of our proceedings. Thank you for your assistance to the inquiry.

Mr Pollard—Thank you.

[1.05 pm]

SYMOND, Mr John Joseph, Chairman and Chief Executive Officer, Aussie Home Loans

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Symond—I am chairman and CEO of Aussie Home Loans and some months ago I put up a paper trying to address part of the very complex problem of tackling the housing affordability crisis—I do think it is a crisis.

CHAIR—Thank you for attending this afternoon. We are very grateful for that. I invite you to make some opening comments and then we will go to questions.

Mr Symond—Nine months ago, in August 2007, I put up a paper with a suggested way of addressing part of the complex problem of housing affordability. It is a complex problem; there is no silver bullet. There is, I believe, no one initiative that can tackle it now. My paper was addressing the serious issue, and since then, of course, we have seen the world change, which has exacerbated the predicament that we were placed in nine months ago. Since then we have seen interest rates rise by 25 or 30 per cent. We have seen liquidity taken out of the market, and a very real concern, which will impact on affordability, is what has happened with the liquidity markets.

Real competition was driven into the banking arena, which I am pleased to say I headed back in 1992. We came up with a finance initiative called securitisation, which we partnered with Macquarie Bank in 1994. That created a whole new industry because home loan brokers and originators did not exist then. It was the competition that came from outside the banking sector that ultimately forced down interest rates by about 300 basis points. Right now securitisation, whether it is for a period of six months, 16 months, 26 months or longer, does not exist and the banks are now moving on the broker movement because they see a possibility to seize the chance to make it much harder for brokers. If we lose the competition that ultimately forced interest rates to become significantly more affordable and also dropped the CPI in this country, we may well find ourselves in a situation where the community is forced to go into the bank branches, be dictated to and be paying interest rates far beyond the level at which the Reserve Bank adjusts rates.

This did not exist when I did my paper nine months ago. I tried to come up with an initiative for addressing the housing shortage, which has put pressure on the rental market. I concentrated on new housing to stimulate construction because investors have deserted that territory—why invest when you have no confidence as to who can afford to buy your product—and I concentrated on first home buyers for new housing up to a $500,000 value.

In my paper, I suggested a tax incentive for the first five years of $15,000 per annum of their income; that it would be a tax deduction. In real dollar savings, that equates to about $4,700 a year. During that first five years, it would give a young couple a chance to start a family—they may be one income down while they have children—and in the five-year period after that initial five years they would repay half of it, in a similar way that HECS works. It would not create too big a stimulus to push prices up.

My concern with the different initiatives that have been around—typically, the first home owners grant and a couple of other initiatives—is that they are really band-aid jobs. They have not addressed the problem. I felt there was merit in my suggestion in that it would create 20,000 new homes a year, freeing up 20,000 tenanted properties for new tenants and it would stimulate some construction. We now have a situation where the new supply is at its lowest point ever since we have been collecting data. That is what my research shows. The problem is just so much more complex since I put my paper forward two or three months before the election—it did not see the light of day for obvious reasons.

However, it is not just about affording a home. The social fabric of our society will be impacted, I believe, because we have grown up with this Aussie dream about home ownership. We have done research in which young people were asked, ‘What is your No. 1 desire?’ and the answer was, ‘Own our own home.’ I believe that the home keeps marriages together and it keeps your kids from going AWOL. Like hundreds and thousands of people in the eighties, I went through the situation where I lost my house and my marriage broke down and all the rest of it. So I am sensitive to what many Australians are going through.

I believe that governments have been most inactive. Unfortunately, they are not looking after and nurturing the golden goose. Governments, whether state or federal, get billions of dollars in stamp duties, land taxes and capital gains. I really do think that it will not be too long in the future when we will look back and say, ‘How in the world did we allow this to happen; to impact on the social fabric?’ I have never before seen the situation where a gap is developing between the haves and the have-nots. Australian society has never been that way. I do believe it is a serious problem that has been neglected. State governments have a lot to answer for with their bureaucracies and their slowness in releasing land and the cost of that land. Twenty years ago you would buy a block of land and the services and infrastructure were provided through taxes. Water, gas and electricity were provided. Today, 100 cents in the dollar is passed on to the developer. In New South Wales, the cost is about $130,000 to $150,000—that is before you get one cup of soil of the land you want to buy. People say, ‘How come young people borrow $400,000 or $500,000 to get into a home 30 kilometres out of the city?’ The system is broken and it is getting worse. I cannot see any initiative, federal or state, that I would classify as a significant initiative to address part of the problem. That is my summary.

CHAIR—Thank you very much, Mr Symond. I must say your name has been mentioned in dispatches repeatedly over the last 13 or 14 hearings that the committee has held. In Launceston on Monday, John Phillips from Tassie Home Loans decided that we should put you in charge of rejuvenating the non-bank lending market as you had done previously. He was looking for you to lead the charge. I do not know whether you are keen to do that again.

Mr Symond—It may be necessary because the dynamics out there today are playing very nicely into the hands of the big retail banks in this country that, thankfully, are in a very good position to handle the liquidity fallout globally. However there will be very selfish opportunities that they will seize upon and, as I have said in my summary, if that competition is wiped out, you will see interest rates start to go way beyond the RBA’s pricing.

CHAIR—We already have indicators of that. In evidence this morning and in some of his printed material Christopher Joye from Rismark International talked about the same issue around competition. He, unsurprisingly, was an enthusiastic advocate for his own products—both the equity arrangement and the Aussie Mac proposition. Can you comment on either of those?

Mr Symond—I have made comment. I am not a fan of the equity situation. There have been a couple of other propositions put up.

CHAIR—It was shared equity.

Mr Symond—I do not believe that that is something that will work when you analyse the value and benefits to a consumer. I believe that the lending conditions in this country have been so lax that you really had to be in a desperate credit worthiness state not to be able to borrow money to get into a property. This is going back pre credit crunch. I am not a fan of it and I do not believe it is good value for homeowners. They need to control their own destiny. What has impacted on affordability is, unfortunately, that money has been too free. Instead of looking at getting their ultimate home step-by-step, young people expect and want a new home with all the mod cons. They go off to a department store and borrow $20,000 for a plasma TV, new lounges and everything else in the belief that it is interest-free and the latest and the greatest. They then find out that they have been stung with a 28 per cent interest rate. So clearly credit tightening would be a good thing.

Christopher Joye's suggestion to copy the Canadian mortgage backed security model has a lot of merit. I would probably tend to believe that we need a government supported liquidity initiative. The Canadian model would have been explained to you but they have not been impacted by the global credit crunch. Homeowners in Canada still have affordable interest rates. They are not out of money. We may find that, if funds start to get rationed in this country, it will be a serious problem for everybody not just homeowners. However I have been doing some work on an alternative scheme as well and it probably needs to be a scheme that is directed more towards the people who really need the help such as first home buyers and those who are not in a position to walk into a bank or somewhere else to get a normal housing loan. Conceptually a government supported issuance of bonds would certainly be welcome in this marketplace because no-one knows how long securitisation is going to be shutdown. As I said, we introduced securitisation in conjunction with partnering Macquarie in 1994, and that was the ultimate weapon we had that forced interest rates down by nearly 300 basis points.

Clearly, if governments and the Reserve Bank continue to be inactive in this area, it will really make housing affordability far harder when interest rates start to go up another one, two or three per cent. I am fully supportive of a government supported liquidity initiative and I do hope that the government has a hard look at that. I know that there are different representations being put up to Treasury and government, but time is of the essence.

Senator HUTCHINS—In our inquiry we have had a number of reasons raised with us as to why there is a housing affordability crisis, which you did not touch on in your address to us. I am not saying that you should have, but I would be interested in your views. One of them was immigration, one was the skills shortage and one that has come through on a few occasions is that there has been a reduction in public housing and also that housing stress is not general but sporadic. In fact, on occasions people have argued that there is not particularly that much stress at all except in certain particular areas. We have had comparisons to the United States, in particular. I wonder if you would like to comment on whether, in your view, these have contributed to the housing affordability crisis. There may be a different aspect that you see that we have not heard yet.

Mr Symond—My understanding is that many factors have impacted on and contributed towards the affordability crisis. I have touched on the fact that the actual cost of land is too expensive in real terms. I also believe the fact that we are a nation of much better spenders than savers and that has contributed to us borrowing too much—money has been too free. Since the ugly 1980s and early 1990s when interest rates were double what they are today, consumer debt has increased nationally, 400 per cent. In New South Wales it has increased 500 per cent. That is a huge contributor to people struggling. You need to be in your mid-40s to remember what happened in the 1980s. Young people today have never seen blood in the streets. They have never seen an economy that has struggled. We have had virtually full employment. The economy has performed really well and young people are fearless. They have looked around and said, ‘My friends and relatives bought property and made a truckload of money. Money has become a commodity with the competition, and all you do is go out and borrow money. It is safe because no-one has got hurt.’ I think the amount of personal debt has been a huge contributor, and not just to first home buyers. Sydney has over 100 suburbs where the median price has broken through $1 million. In Melbourne there are over 60 suburbs with a median price over $1 million. How are our kids going to afford to buy homes? And in terms of immigration, was that comment about immigration suggesting that maybe we should not have it because immigrants need housing?

Senator HUTCHINS—Essentially it is because there is no plan for immigrants when they come here. There is housing stress because there are more of them.

Mr Symond—Which comes first: the chicken or the egg? I am all for increasing immigration. Again, I believe that state governments in particular have been very negligent in not releasing land fast enough, efficiently enough and priced fairly enough to ensure that we can accommodate more people. I think that, to support infrastructure in this country with the landmass we have, we need a lot more people to use those facilities.

Senator FIFIELD—Mr Symond, you mentioned that the New South Wales state government does not provided the basic infrastructure that it once did.

Mr Symond—Right throughout the country.

Senator FIFIELD—New South Wales has come up in our evidence as a particular example where they basically load up costs on the developer, flowing through to the buyer the full cost of developing the infrastructure rather than using general taxation.

Another issue which has come up is the issue of land banking. A number of the state land authorities now have a commercial charter which leads them to develop land on the basis of where they think they can get the best return rather than holding land and gradually releasing it to address supply issues. Do you have a view in relation to the various state land authorities: how they should conduct themselves; what the basis is; should it be commercial or should it be simply on the basis of holding land to release it when and where it is needed?

Mr Symond—That is my view, your latter comment. Certainly, everything is now looked upon as a business and to generate as much income as you can. But these are fundamental services that a community cannot survive without. It has got to the point where—I have never been involved in developing but I speak to a lot of developers—the bureaucracy and the costs to try to get land into the system are beyond a joke. The supply versus demand scenario is so much worse even today than nine months ago. There has been a lot of talk from governments saying that they are going to do this and that but I have not seen action. Talk is cheap.

Senator FIFIELD—Show us the land.

Mr Symond—Yes, show us the land and show us the land that can be affordable rather than stinging $140,000 to150,000 before you price in the real cost of the land. The cost base is a significant problem in itself.

Senator FIFIELD—Your advice for governments is: get back to your core business of providing infrastructure yourselves out of tax revenue?

Mr Symond—Absolutely.

Senator FIFIELD—Thank you for that. I am sure you would agree that banks, in terms of pricing their product, get away with whatever they can. In affecting the price of products, one factor is the competition that they face. Another is the overall political environment of banks getting away with what they think they can. Government has a role there. What treasurers and prime ministers say, how strongly they say it and what they say privately can affect the behaviour of banks. In your view, was the current Treasurer a bit slow off the mark in condemning the larger banks when they first decoupled their rates from RBA movements?

Mr Symond—I am never one to stick up for banks. However, about 85 to 90 per cent of all our housing mortgages in this country are variable rate mortgages. Where in the world can you go and buy equity, gold, a commodity, fixed rate swaps or whatever at the price of yesterday or three months ago? Variable interest rates should be priced on the day. We have had a tradition here that they vary with the RBA movement. It is archaic. It is dumb and it does not work for anybody. As I said, you cannot ring up the stockbroker and say, ‘I want to buy some BHP shares but give me the price three months ago.’ The money markets change every minute of every hour of every day.

Because of political pressure in the lead-up to the election and media attention, the banks were on the nose. So they held back with the credit crunch and then they started to dribble a little bit of credit and wait for the first one to move. It is just like oil: the cost of oil went up globally and ultimately the full cost ended up in the bowsers. The cost of money has increased globally. The banks have passed on, in my belief, no more than about half of those costs. The banks are saying, ‘Who do we please here: our customers, our investors or our borrowers?’ And they have taken a mid-way decision. Morally, it is a totally different question. They are very profitable; each of them makes billions after tax. Could they have afforded to absorb that? They probably could if they wanted to. On the other hand, commercially, can they justify having increased those rates the way they did? The answer is: absolutely, yes. One is a moral question. On a commercial basis—and I am the first to attack the banks—there is no way in the world that the banks have fully passed on the true increases in the cost of money.

Senator FIFIELD—Until you raised the moral issue, I was about to say that the banks have a new friend in you, but I will not say that!

Mr Symonds—No. I am not a new friend of the banks. But you do have to be realistic, and commercially they can justify that increase.

Senator SIEWERT—When we had various banks and credit unions appear before us, they have all said, 'We lend this much percentage of the home loan market but we are not the people that are responsible for repossessions—that is the non-bank sector.' Is it true that it is the non-bank sector that is responsible?

Mr Symond—I get very annoyed when I hear that comment. 'Non-bank' refers to any of the players in the mortgage game that are not banks. You can take Aussie Home Loans or you can take others. It is fair to say that a big slice of these repos are by those non-conforming, non-bank players. Whether it is Liberty, Bluestone or Pepper, these are the lenders who take on customers who cannot meet the normal lending criteria of banks and non-bank lenders who offer prime mortgages. It is that very small sector of the nonbanks; it is not the nonbanks generally. It is not the non-bank lenders, who provide prime normal mortgages and who brought on the competition. These are people who are in trouble and, let me tell you, today you have to be pretty damned bad not to have been able to borrow money in this environment of free lending. I have been critical of people borrowing without a deposit or substantial deposit. There has to be a clear understanding of where these repossessions have come from. I had a meeting with the CEO of St George two weeks ago. He said that they have 500,000 current mortgages and only 74 currently in repossession. So it is blown up.

Senator SIEWERT—That is certainly reflected in some of the other evidence that we have had. What percentage of the home loan market do the non-conforming, non-bank lenders have, would you say?

Mr Symond—A couple of per cent, if that.

Senator SIEWERT—The other evidence that we have had is around what percentage of people's income they actually use for servicing repayments. The RBA, for example, said that they think that it has gone up to about 47 per cent, whereas usually it is the 30-40 rule. What percentage do you use as your guiding principle?

Mr Symond—We process a billion dollars in new home loans a month of which the Aussie home loan component is only about five per cent. The paperwork for 95 per cent of the billion is referred to the banks. We act like a supermarket broker. But generally speaking, whether it is the Aussie Home Loans or the loans we broker, it varies anything up to in the 30s, 35-38 per cent. It really depends on the quantum of income. If someone is on a very high income, they can pay 60 per cent, 50 per cent or whatever it is. But the rule of thumb is usually around 35 per cent. You use the buffer of adding two per cent to the interest rate in case interest rates go up two per cent.

On your previous question about defaults, we have a $5 billion Aussie home loan book where we look after the customers. This was the securitised lending. So we have still got a $5 billion book there. Up to 12 months ago we would average 12 or 13 repossessions a year out of $5 billion. The last nine months it has just doubled. But you are talking two a month in a $5 billion book, which is very tiny.

Senator SIEWERT—What do you put the doubling down to?

Mr Symond—Mortgage stress. But the numbers are 24 loans out of over 20,000 mortgages.

Senator SIEWERT—We have had a number of relief agencies and community organisations tell us that the amount of an emergency relief being applied for has gone up significantly; not just a little bit but significantly, the point being that they say people will do anything to service their mortgages—

Mr Symond—Absolutely.

Senator SIEWERT—and stop putting food on the table in order to service their mortgages. Do you have a sense of the extent to which that is happening, if the extent of the problem is as big as we have been told?

Mr Symond—I do believe it is not just the first home buyers who are feeling stress; it is going right through. You see, a quarter of a per cent increase today creates so much more hurt than a quarter of a per cent 10 years ago, when interest rates were higher. We have maxed out on debt; we have got four or five times the amount of debt. So the pain is so much more prevalent. I do believe that over the last four or five years, with credit being as free as it has been, people have been overcommitting themselves. A lot of these people in trouble would be people who have borrowed over the last four or five years who really should never have been able to borrow. On top of that, they have got maxed out on credit cards, drawing on credit cards to help top up their mortgage payments, and find themselves lumbered with a 28 per cent interest rate because they went out and bought plasma TVs and everything else. So a real contributor has been the fact that credit has been very easy to obtain over the last four or five years.

Senator SIEWERT—You were making comments earlier that there needs to be tightening of availability of credit. Do I interpret what you said properly?

Mr Symond—Yes. The tightening of credit which is now a necessity will be a good thing. To allow people to borrow with next to no deposit has been, I think, financially suicidal. That has been allowed to go on for the last four or five years.

Senator SIEWERT—Do I take it from that comment that you do not allow people to borrow without a deposit?

Mr Symond—We strongly advise—we have got 500 mortgage writers who work for Aussie Home Loans and we are big on training. You cannot stop people if they insist. We operate like a supermarket. Consumers demand that you have got all these different products there. We have got probably 2,000 different products, and when people want to get in there some of them would borrow, not from us, but we would do the paperwork and send them to the banks. But we do have a standard presentation to them to say that they realise that in the event of losing income—we try to counsel them. We try to counsel them and we would probably have a far lesser percentage of people who did overborrow. However, some of our customers to whom we have given advice on mortgages would also find themselves with problems.

Senator SIEWERT—That would be the service that you run as a mortgage broker rather than as the home loan lender?

Mr Symond—Correct.

Senator SIEWERT—On your home loan service you would not offer counselling but under mortgage broking that might occur?

Mr Symond—Yes, we would have done that for insignificant numbers on our own.

Senator COLBECK—I want to follow up very briefly on Senator Siewert's questions in respect of where a majority of the repossessions lie. It appears that we have gone from when the banks started with this equation and they were holding about 75 per cent of loans. They are telling us a very similar story to what you are saying in respect of the percentage of problems. So we are effectively looking for about two per cent of the market that is carrying the significant element of the problems that exist. We would like to find them.

Finally, I have a question with regard to the discussions between the banks and the securitisation that came through in the early nineties through your initiatives and the fact that that product effectively does not live in the market at the moment because of what has been going on in the US and the whole credit squeeze. If the banks had passed on their full costs—which obviously we have discussed they have not, and for a range of reasons—is it the case that their costs would have been similar to the additional costs of the securitisation market and therefore that market might still be around? Or is it that that market has just dried up because there is no funding available for it?

Mr Symond—No, the credit market has shut down. For prime, for any credit it has just shut down.

Senator COLBECK—It is not a function of the capacity of the banks versus those of the small operators? It is that there is no money?

Mr Symond—No, there is no money in the system from institutions managing billions of dollars prepared to lend to the big banks or to small banks. It has just shut down. The couple of issues that went out were at about 200 basis points over the benchmark versus 18 to 20 basis points pre credit crunch, so the numbers do not add up. So a bank or ourselves could not go out and borrow at two per cent higher than what it was previously and then pass it on to the consumers. Instead of interest rates being 9½ per cent, you would be going out there and asking for 10¾ per cent interest rates. It is just totally uncommercial. It does not add up. Who would take it for a prime loan?

CHAIR—Thank you very much for joining the meeting this afternoon. Luckily for you we have another witness, otherwise I suspect you would be stuck with us for an extended period of time to pursue these discussions.

Mr Symond—I hope something comes out of it.

CHAIR—We do too and we are very grateful for your time today. Thank you very much.

Mr Symond—Terrific.

[1.43 pm]

PISARSKI, Mr Adrian, Chairperson, National Shelter Inc.

Evidence was taken via teleconference—

CHAIR—Thank you very much for assisting the committee with our timing this afternoon. We have a submission from National Shelter and we appreciate you providing that. We have heard from some of your constituent members in the processes of this inquiry. I would like to ask if you wish to make a brief opening statement and we will go to questions after that.

Mr Pisarski—It is lovely to be with you at least over the telephone. It would have been nice to have been there in person. I want to kick off by stressing the point that, even though it is looking into problems associated with first home ownership, the inquiry really needs to look at the entirety of the housing market and the interaction of each segment of that market with each other. Really, it is renters who are suffering the greatest level of housing stress at the moment. Even though many homeowners are experiencing mortgage stress and we are seeing an increase in foreclosures on mortgage properties et cetera, renters are the ones we really need to be concerned about.

The key thing about the interaction of the market that I want to point out is that, because we now have property prices at such high levels and so many frustrated potential homeowners who cannot get into that market, we have a very clogged-up rental system. There are a couple of consequences of that. Firstly, really vulnerable people—migrants, Indigenous Australians in general, young people, single parents et cetera—are now at risk of getting squeezed out of the whole system. The rental market is in such a critical state in many capital cities but also in regional centres that we cannot find enough housing for everybody within that system. Vacancy rates are at their lowest recorded levels, rents are rising more rapidly than anywhere. Partly this has come about because of the cost of home ownership and the inability of many households to actually obtain home ownership, and that is what I wanted to begin with today as an opening comment. We really need to look at the whole system rather than just focus on one segment of it.

CHAIR—Thank you very much for that. We will go to questions.

Senator HUTCHINS—Page 2 of your submission says that existing tax breaks exacerbate the inequities in our housing system, and you comment that renters are generally worse off than owners. Why then do you not seek to reduce the tax benefits available to owner-occupiers, which is what you say on page 4 of your submission?

Mr Pisarski—It is because we think that, rather than just nominating specific taxes to be looked at, what needs to happen is an overall review of the tax treatment of housing in Australia. We cannot necessarily pick on one part of that system and look at it in isolation from the others, so we think that the whole tax treatment of property in Australia needs to be looked at.

Senator HUTCHINS—We heard this afternoon about one proposal to apply negative gearing to only first home buyers with new houses. What is the shelter's view on that, in light of the fact that we have been told on numerous occasions that, say, negative gearing allows a lot more investment and therefore allows for a lot more places to be made available for renting?

Mr Pisarski—Indeed. The reason for negative gearing being applied to housing is just that—to provide a level of support to investors to maintain a rental property market in Australia. If we were to switch negative gearing away from that purpose to another purpose, again, I would reiterate that that would need to be part of an overall examination and review of the tax treatment of housing, because you could not do one thing by itself without actually looking across the board at the whole continuum of taxes being applied. You would need to do that to make sure that you still had some kind of balanced system. We have never argued that negative gearing should be gotten rid of it. We have argued that it is iniquitous. It is not spread fairly and it really represents one of the starkest contrasts in the Australian taxation system. Looking at the government’s recently announced plan to put on the ground a national rental affordability scheme, I would point out that that will cost $1.2 billion of taxpayers’ funding over 10 years to attract investment to provide 100,000 units of housing over that same period.

Just in one year, in 2005-06, negative gearing accounted for $3.5 billion worth of taxation revenue on housing related investments. It is therefore a major draw on the tax system but it is also a major source of providing rental accommodation. We are not arguing that you get rid of it at that point but we want the whole system to be rebalanced overall. The principle that we apply to this is that if we are going to use taxpayers’ money there ought to be a social good that at the end comes out of the use of taxpayers’ funds. At the moment the only good that comes out of the use of negative gearing is the creation of rental property but, unfortunately, very little of it is at an affordable level. So we do not really get a public good out of it in that general sense of the term. What we would like to see is all of these taxes looked at to see how we get a public good out of it. For instance, the way you might do that with negative gearing is to taper it to ensure that you can only maximise the level of investment on it if you are building affordable housing. It might be something that you would want in future to connect to the National Rental Affordability Scheme that the government has announced so that we are making sure that not only are we spending taxpayers’ money but actually getting a public good at the end of that.

Senator SIEWERT—We have had a lot of positive evidence around community housing as a provider for social housing. Can you tell us a bit about how you think that is supported by both the federal and state governments? I notice that you are supportive of the South Australian model. Also, for my benefit because I was not able to make the South Australian hearing, what is so positive about South Australia’s approach versus some of the other states?

Mr Pisarski—To start with South Australia; the real benefit of the South Australian approach is that it has set up a system around its planning system to try and ensure that 15 per cent of all new developments have affordable housing on them and one third of that be social housing. South Australia traditionally has had the highest level of social housing in Australia. At one point it was 11 per cent and it is now down to seven or eight per cent. It is still higher than the national average of five per cent. Unfortunately, South Australia is in the process of having to sell off large amounts of its public housing or social housing stock to maintain the rest of it. We think that there are some really positive directions coming out of South Australia in terms of the planning system and they do have a supportive of approach to social housing.

To spread that out a bit, community housing is really a means of providing public housing at a lower cost than it would cost governments if they did it through public housing. This has got to be the bottom line for governments, otherwise they would not be doing it. One of the problems, though, that we have experienced with community housing is that when you set up community housing agencies there is sometimes a problem with people getting access to them. If they know about them, that is all well and good. Their waiting lists tend not to be as long as public housing waiting lists and if you are in the know and know about your community housing organisation, that is all well and good. But if you do not know about it, you are unable to access the entire social housing system, that is public housing and community housing, just by approaching a departmental office. That is the case in every state except for Queensland. Queensland has now pulled all of its social housing into one waiting list and one allocation system so that you only need to register for any form of social housing by attending a Department of Housing office in Queensland.

Community housing is going to be the way we grow housing in the future. Community housing, because it is better connected to its local community, can do things that a public housing authority cannot do in terms of both informal and formal levels of support that are able to be arranged by its connection to the community. It has an extremely good record in property and tenancy management, but so does public housing. Both of them are very good forms of housing, both rate extremely well with their tenants and they both seem to return on average about 82 per cent satisfaction rating whenever they are surveyed. So they are both very well thought-of systems.

But community housing really is going to be the future in terms of growth. If you look at how the National Rental Affordability Scheme is proposed to be structured, it will be by building on community housing. It will not be by building on state housing authorities. State housing authorities are a bit risk averse in the sense that if they were to build more public housing at the moment, the sort of people that they have to house do not have the levels of income that give them an income stream that enables them to maintain that public housing. It is one of the problems that we have with the public housing system. By overtargeting the public housing system, we have really cut off our nose to spite our face by restricting the income streams that come back to public housing authorities. They just simply do not make ends meet. State governments continually have to either find additional resources or cannibalise their own stock to maintain their own systems. That is partly what is happening in South Australia.

If we can set up a community housing system properly, it will have far greater flexibility than a public housing system. It can house a greater variety of people, and it can include a kind of cross subsidy into its system that is no longer available to public housing authorities. So they are the key differences between them. But we still do not have in place sufficient resources and sufficient systems to properly support either community housing or public housing.

Senator SIEWERT—What do you mean about the systems that support community housing that are not properly in place yet?

Mr Pisarski—Community housing is, by and large, housing the same client group—with some greater degree of flexibility—as public housing properties. All of those systems are restricted to charging a percentage of rent and in most states that is 25 per cent of income as rent. That level of income really does not give public or community housing agencies the ability to grow their systems. They can maintain at a static level what they currently do, but they cannot grow their systems.

In the UK, instead of Commonwealth rent assistance they have a thing called the Housing Benefit. The Housing Benefit actually meets about 98 per cent of all of the costs of housing for any social housing tenant. Compare that with Commonwealth rent assistance and you will find it meets, maybe, 20 to 30 per cent of the housing costs in Australia. So there is a big difference between where community housing is well established and well set up and Australia in terms of the support systems that surround them. We do not have a Housing Benefit like the UK. We do not have the levels of capital resourcing like they do in the UK. We do not have the legislative requirement for local authorities to house people like they do in the UK. Without those sorts of measures sitting around a community housing system, it can be stagnant. It will grow through things like the National Rental Affordability Scheme, but it will not be able to do the full job or be able to cope with the kinds of stock transfers away from public housing to community housing that we have seen in other countries.

Senator SIEWERT—Thanks.

CHAIR—In relation to the policy issues which the federal government is pursuing such as the National Rental Affordability Scheme, the Housing Supply Council and so on, do National Shelter have any engagement with the government in that policy development? Are you represented on any of the steering committees or the consultative bodies?

Mr Pisarski—We have had good access to government through the affordable housing summit group. We have had fairly regular meetings with both advisors and ministers in terms of their policy development process. I think it is fair to say that the National Shelter policy that we launched last April was reasonably influential in terms of assisting a range of policy development processes, including that of the ALP. Subsequently, many of the suggestions that they have picked up in their policy were elements of our own policy development thinking. We have had good access. I sit on a few committees. For example, I am sitting on a working group as part of the national framework looking at the regulatory system of community housing. I was just recently one of a number of confidential readers of the technical paper that underpins the National Rental Affordability Scheme. So we have reasonable access at that level.

CHAIR—Did you have to sign a confidentiality agreement to be one of the confidential readers of the textual paper?

Mr Pisarski—I did not sign a confidentiality agreement but I was happy to keep that information confidential.

CHAIR—I understand that. There has been some discussion about the use of confidentiality agreements in this policy area today.

Mr Pisarski—The other point that I would make around this is that National Shelter has not been funded as a peak body for the last 11 years. Our funding was withdrawn in 1996 and that makes it very difficult. We are dependent on the generosity of both state Shelters—so, in my case, Queensland Shelter and the management committee here—and the state governments who fund those state Shelters and tolerate us doing quite a bit of national work under that banner.

National Shelter effectively has existed as a network of the state funded bodies for the last 11 years. It means we have maintained a relevance, but it is harder and harder, especially when government is asking for more and more information as they are at the moment, to maintain our level of activity without any funding. So we can see a problem arising. We have had a chat to the government about the possibility of getting some funding and we are just awaiting an outcome from that process.

CHAIR—Perhaps next Tuesday, Mr Pisarski?

Mr Pisarski—Yes, perhaps. I am not feeling too hopeful in terms of this budget, given the emphasis on fiscal rectitude, but one can always hope.

CHAIR—Mr Pisarski, thank you for your time today and for National Shelter's submission. As I indicated, we do appreciate your assistance to our inquiry.

Mr Pisarski—Thank you, Senator Payne, and thank you to all the other senators for their time as well.

CHAIR—That concludes today's public hearing of the Senate Select Committee on Housing Affordability in Australia and, notwithstanding unforeseen events, concludes our series of public hearings in this particular inquiry. I would like to thank my colleagues, the secretariat and the support staff from Hansard and Broadcasting who have assisted in, I think, over 14 hearings in recent weeks, including those in a number of regional parts of Australia. It is very good to travel the nation, but it is also good to be in Canberra when all the systems work and everything is planned for our efforts as a committee.

Committee adjourned at 2.03 pm