



**Submission to the Productivity
Commission Inquiry into First Home
Ownership**

Darebin City Council

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Productivity Commission Inquiry on First Home Ownership

Introduction

Darebin City Council (Council) welcomes the opportunity to make a submission to the Productivity Commission Inquiry on First Home Ownership.

This submission focuses on the operation of the total housing market in Darebin, particularly by highlighting barriers that exist for households seeking to become homeowners for the first time. Of particular concern is access to affordable and appropriate housing in the private rental market and the effectiveness of government housing interventions, such as rent assistance and social housing.

Due to the short timelines to prepare submissions to the Inquiry, this submission is unable to discuss issues relating to regulatory planning processes, or local government fees and charges relating to the provision of housing.

Background

The Treasurer of the Commonwealth Government of Australia, Peter Costello, requested the Productivity Commission undertake an inquiry to evaluate the affordability and availability of housing for first home buyers, that is, those intending to purchase a home for the first time.

While the Terms of Reference primarily focus on issues relating to first home ownership, there is also consideration of issues concerning the operation of the total housing market, including the supply and demand of public housing and private rental housing.

Context

Profile of Darebin

The City of Darebin is located to the north of Melbourne within the inner and middle metropolitan area, and is home to approximately 128,500 people.

The municipality covers 53 square kilometres and extends from Heidelberg Road in the south to Mahoneys Road in the north, bounded by the Darebin Creek in the east and the Merri Creek in the west. Darebin includes the suburbs of Kingsbury, Reservoir, Preston, Thornbury, Northcote, Fairfield and parts of Macleod, Alphington and Bundoora.

Darebin is home to a culturally diverse community. Just under a third of Darebin's residents were born in a non-English speaking country, and approximately 40% of the population speaks a language other than English at home. Despite high levels of redevelopment occurring in the municipality, the population of Darebin continues to age.

There is a strong trend away from traditional manufacturing towards more managerial and professional employment. The increasing diversity of employment and educational choices of Darebin's working residents reflects the diversity of Darebin's population across a range of socio-economic indicators.

Economic restructuring has resulted in relatively high levels of unemployment in Darebin. While the unemployment rate in Darebin has declined from 15% in March 1998 to 9% in December 2002, unemployment rates continue to be significantly higher than in metropolitan Melbourne¹.

Darebin has relatively high proportions of its population experiencing socio-economic disadvantage. While the 2001 ABS Socio-Economic Index For Areas (SEIFA) was not available at the time of writing, 1996 SEIFA data indicates that the precincts of Reservoir East and Preston East rank highest in terms of socio-economic disadvantage².

Darebin as a whole is more disadvantaged compared to other municipalities in the Northern Metropolitan Region, Melbourne and Victoria. According to the 1996 ABS Census, 22% of people living alone and 40% of families had incomes below the poverty line. This places Darebin as one of the poorest communities in metropolitan Melbourne³.

Council policy responses relating to housing affordability

In 2000 and 2001, Council conducted a major research project regarding the causes and manifestations of poverty. The *Darebin Poverty Inquiry* found that access to affordable and appropriate housing was becoming increasingly difficult for low to moderate income households, due to the impacts of gentrification and high levels of unemployment⁴.

Council's *Integrated Housing Strategy*, adopted in October 2002, indicates that accessing affordable and appropriate housing is proving to be very difficult for many members of the Darebin community⁵. Council is not a direct provider of social housing and has limited legislative and planning powers to intervene in housing markets.

Further, there are tensions in encouraging medium density housing development in established suburbs to maximise use of physical and social infrastructure in the face of concerns regarding maintenance of population diversity and protection of neighbourhood character. Hence there are significant challenges for all levels of government in ensuring that households are able to access a diverse range of housing forms that are affordable and appropriate to their needs.

For more detailed information regarding Council's housing priorities, the *Integrated Housing Strategy* can be downloaded from Council's website <http://www.darebin.vic.gov.au/ihs.pdf>

¹ *Darebin Facts*, Issue 6, June 2003.

² City of Darebin, *Darebin Poverty Inquiry, Final Report, May 2001*.

³ Ibid

⁴ Ibid

⁵ City of Darebin, *Integrated Housing Strategy, October 2002*.

Housing market trends/issues

Dwelling type and household structure

According to Council's *Household Survey* of 2003, around three-quarters of households in Darebin live in separate houses⁶. Over half (53%) of Darebin households live in three bedroom houses, while 30% of households live in two bedroom housing⁷.

In terms of household structure, between 1991 and 2001 there has been a significant increase in the proportion of sole person and couple only households. This is attributed to the increase in flats, units and apartments in Darebin, together with an ageing population. While two parent family households are still the dominant household type in Darebin, this group is proportionately in decline compared to sole person, couple only and one parent households⁸.

Housing affordability

While affordability is a contested concept, this submission uses the conservative benchmark established by the Federal Government's *National Housing Strategy* in 1991. That is, affordable housing represents 30% or less of total income spent on housing provision (i.e. mortgage payments or rents). Those households who spend more than 30% on housing are considered to be in "housing stress".

Private housing – purchasing

There have been significant increases in house prices across the board in Darebin; particularly in suburbs formerly with relatively cheaper housing such as Bundoora, Reservoir and Preston. Median house prices between 2001 and 2002 grew by approximately twice the Melbourne metropolitan average of 7.3%. Bundoora recorded the greatest annual increase of 21%, while Fairfield recorded the smallest annual increase of 12.9%.

This would indicate that the process of gentrification is moving on from areas of Darebin closer to the city to the northern parts of Darebin with cheaper housing stock. This is particularly so, given that house prices in Preston almost doubled between 1998 and 2002, while Reservoir recorded the highest number of houses sold in metropolitan Melbourne in 2002⁹.

(See Appendices - Table One: Median Price of Residential Property Sales by Suburb, City of Darebin, 1998-2002).

In Darebin, the proportions of households owning their home outright has declined from 45.8% in 1996 to 43% in 2001¹⁰. While the proportion of Darebin households with a mortgage has increased slightly over this time to 18.2%, this is significantly lower than the Melbourne average of 27.3%¹¹.

⁶ *Darebin Household Survey, 2003.*

⁷ *Ibid*

⁸ *Darebin Facts*, Issue 6, June 2003.

⁹ *Ibid*

¹⁰ *Ibid*

¹¹ *Ibid*

Private rental housing

The private rental market is not a homogenous entity; rather, there are significant differences across rental sub-markets, in terms of price, location, availability and household needs and preferences. For example, while there may be high vacancy rates for apartments at the higher end of the rental market in the inner city, there is a critical lack of affordable rental housing suitable for low income households in areas such as Darebin.

Over the last two years, there have been significant increases in private rental housing costs in Darebin. In a number of cases, rents have increased at rates above the Melbourne average¹². For example, the median rent for 2 bedroom flats in Fairfield in March 2000 was \$155. By March 2002, this had risen to \$195, representing an annual increase of over 12%. In Thornbury, the median rent for a 1 bedroom flat in March 2000 was \$110 per week. By March 2002, this had risen to \$130 per week, an increase of 8.7% per annum.

Further, the median rent for three bedroom houses in Northcote has risen from \$250 per week in March 2000 to \$298 per week in March 2002, an annual increase of over 9%. Similarly, median rents for three bedroom houses in Preston have increased from \$190 per week in March 2000 to \$220 per week in March 2002, or 7.6% per annum. The Melbourne average increase in median rents for three bedroom houses for this period was around 5%.

(See Appendices - Table Two: Median private rents in Darebin, March 2000-March 2002).

According to Council's 2003 *Household Survey*, almost half of households surveyed are paying rents between \$600 and \$1000 per month in Darebin (\$125-250 per week)¹³. It is evident that in the southern parts of Darebin such as Fairfield-Alphington and Northcote, there is a high proportion of households paying in excess of \$1,200 per month in rent or on a mortgage¹⁴.

There is also evidence that there is very little affordable private rental housing available in Darebin, particularly for low income households. According to the latest data available, only 19% of all newly leased properties in Darebin for the March Quarter 2002 were considered affordable for households on statutory incomes¹⁵. Of this, only 12% of one bedroom and 16% of two bedroom rental housing stock in Darebin were considered affordable¹⁶.

Further, it is evident that the supply of affordable private rental housing is in decline, despite increased demand from low income households. Recent research indicates that between 1986 and 1996 in Melbourne, the supply of low cost rental housing shrank by 6.2%, yet the numbers of low income rental households grew by 72.5%¹⁷. It was estimated that in 1996, Melbourne had a shortfall of over 10,000 low cost rental dwellings¹⁸.

¹² Data sourced from Office of Housing, *Rental Report*, March Quarter 2000, March Quarter 2001 and March Quarter 2002

¹³ Darebin Household Survey, 2003

¹⁴ *Ibid*

¹⁵ Office of Housing *Rental Report*, March Quarter 2002

¹⁶ *Ibid*

¹⁷ Wulff, Yates and Burke, 2001, Low Rent Housing in Australia, cited in *VCOSS State Budget 2003 – Housing Analysis*.

¹⁸ *Ibid*

It is likely that this trend has continued, given the housing market boom that Melbourne has experienced since the late 1990s. For example, in Darebin a number of formerly low cost rental flats built in the 1960s and 1970s being refurbished and sold as upmarket apartments.

Government housing assistance programs – rent assistance

The Commonwealth Rent Assistance program provides only limited affordability for private renters. Even with Rent Assistance payments, significant proportions of households are not affordably housed. For example, Rent Assistance does not provide affordability for over a third of those who receive it, with nearly one in ten recipients spending over half their income on rent¹⁹.

While detailed information is not available for Rent Assistance recipients in Darebin as a whole, it is evident that 43% of single persons and 57% of shared households in areas of Melbourne's northern suburbs including Preston were in housing stress even after receiving Rent Assistance²⁰. A case study scenario, based on a shared household of one unemployed person, a Youth Allowance recipient and an Austudy recipient renting a three bedroom house in Northcote, indicates that the household would spend 39% of total income on rent even after receiving Rent Assistance²¹.

Government housing assistance programs - social housing

The provision of social housing, that is, government or community managed housing that meets social objectives such as affordability, appropriateness and security of tenure, is critical to meeting the needs of households who are unable to access adequate housing in the private market.

Historically both Federal and state governments have intervened in housing markets to address market failure. The primary mechanism has been the Commonwealth State Housing Agreement (CSHA), in which the Federal and state/territory governments jointly contribute funding for a range of housing assistance programs. The State Government is responsible for the direct provision of public housing and providing funding to not-for-profit agencies to manage community housing.

Federal and state government funding commitments for the CSHA have fallen from \$1.73 billion in 1996/97 to \$1.25 billion in 2003/04, a decline in real terms of over 30%²². Further, social housing has declined as a proportion of total housing stock in Australia, from 6.2% in 1994 to 4.7% in 2001²³.

Council has a number of joint venture arrangements with the Victorian Government's Office of Housing and community housing organisations, primarily through leasing council-owned land for the provision of public and community housing in Darebin. For example, Council currently has a joint venture partnership with a community housing provider for the provision of four three bedroom properties on council land under the Victorian Government's Social Housing Innovations Project (SHIP). These properties are targeted to large or extended families who are otherwise unable to access suitable housing in the private rental market.

¹⁹ National Shelter and ACOSS, September 2003 *Rent Assistance: does it deliver affordability?*

²⁰ Ibid

²¹ Ibid, based on median rent for three bedroom house in Northcote for the March Quarter 2002.

²² National Shelter, 2003 *Rebuilding the Australian Dream: National Shelter Policy Platform*.

²³ Australian Bureau of Statistics, *Australian Housing Trends*, 1996 and 2001.

The provision of government funding for supply side responses, such as public and community housing, have been critical to ensure access to affordable and appropriate housing for a number of groups experiencing housing need. In fact, the predecessor to the Productivity Commission found in 1993 that capital expenditure on public housing is the most cost effective way of increasing access to adequate housing²⁴. However, as highlighted above, there are real concerns regarding future government commitments to supply side responses.

While net social housing stock is increasing slightly, total social housing stock additions have not kept pace with private housing development or increasing levels of housing need. In June 2001, there were 3,310 Office of Housing dwellings in Darebin²⁵. This represents around 7% of total housing stock in Darebin, which is higher than both the state and national proportions of social housing stock. However, total Office of Housing dwellings in Darebin have only increased by 125 units since June 1998, or approximately 40 additional units per year.

Public housing waiting lists, while not an accurate indicator of demand, remain high in Victoria. As of June 2003, there were 34,534 applicants on the public housing waiting list in Victoria. While waiting list data is not available at the municipal level, there were 3,266 applicants on the public housing waiting list for the Preston broadband area, the highest of any broadband area in Victoria²⁶.

Core Issues

In many ways, the broader impacts of the housing market boom that is being played out in capital cities around Australia are evident in Darebin.

Darebin is a diverse municipality in a number of respects; particularly in terms of its population makeup, labour markets, housing supply and physical and social infrastructure. A major concern of Council is the ability of all members of the Darebin community to enjoy an adequate standard of living. This is of particular relevance regarding relative access to affordable housing that is well located, of good quality and provides security of tenure.

Analysis of housing markets and socio-demographic trends in Darebin indicate that there is an increased tension in maintaining diversity, in terms of balancing the needs of “traditional” residents (e.g. low income families) with newly emerging higher income groups such as singles and couples without children.

While the Commonwealth Government’s First Home Owners Grant (FHOG) has arguably increased access to home ownership in the short term, there is evidence that increased demand has fueled the rapid increase in house prices, with reduced access to home ownership for low to middle income groups.

The process of gentrification (i.e. middle to high income groups purchasing low cost housing for owner occupation or investment) has now spread beyond the inner suburbs of Melbourne and the southern parts of Darebin to the northern suburbs.

²⁴ Public Housing (Report No. 34), Industry Commission, IC Inquiry Report, November 1993.

²⁵ Office of Housing, *Summary of Housing Assistance Programs, 2000-2001*.

²⁶ Unpublished Office of Housing Public Housing Waiting List data, June 2003.

Further, there is evidence that middle to high income households are staying in the private rental market for longer periods, putting pressure on the supply of low cost private rental housing. This means that it will be increasingly difficult for low income households to remain in Darebin due to reduced access to both private rental housing and social housing.

Declining levels of Commonwealth and State capital funding for housing assistance (public and community housing), coupled with increased targeting of housing assistance to high needs groups such as the chronically homeless, means that more lower income households will be forced to compete in the private rental market with higher income groups for long-term housing tenure.

Population projections indicate that by 2021, an additional 5000 more people will need to be accommodated in Darebin. Given declining household sizes and changes to household types, a diverse range of housing forms will be required. In order to meet the needs of a diverse population in Darebin, housing will need to be affordable, provide security of tenure, be flexible and of good quality and be well located with regard to services and infrastructure.

These challenges require a range of responses on the part of federal, state and local governments, as well as private and not for profit sectors. It is clear that many households who are currently unable to access home ownership will remain in private rental for longer periods, putting pressure on the bottom end of the rental market and squeezing out low income groups who already face difficulties in accessing a shrinking social housing sector.

It is recommended that both Federal and state governments undertake a range of initiatives concerning the operation of the total housing system, ranging from supply side (increasing funding for social housing) to demand side responses (reviewing taxation regimes).

Recommendations

Federal Government:

1. Develop a National Housing Strategy involving all levels of government, private sector and non-government organisations to investigate range of responses to housing need in Australia
2. Review negative gearing arrangements to encourage increased supply of low cost (affordable) rental housing
3. Review First Home Buyers Grant by targeting to households below median incomes and setting a price ceiling below median house prices in the region
4. Review Commonwealth Rent Assistance by targeting to households experiencing housing stress and increasing maximum payments in areas where significant housing affordability issues exist
5. Increase funding under the Commonwealth State Housing Agreement to increase the supply of social housing relative to housing need

State Government:

6. Review stamp duty arrangements by introducing revised rates based on a sliding scale to reduce additional housing costs for first home buyers at lower end of the market
7. Direct proportion of stamp duty to programs that increase access to affordable housing and infrastructure investment in developing areas
8. Provide mechanisms to enable greater local government facilitation of affordable private housing and social housing initiatives

Appendices

Table One: Median Price of Residential Property Sales by Suburb, City of Darebin 1998-2002

	1998 (\$)	1999 (\$)	2000 (\$)	2001 (\$)	2002 (\$)	% change (2001-02)
Alphington	264,000	315, 500	342,000	410,300	478,000	16.5%
Bundoora	139,000	162,000	179,000	210,800	255,000	21.0%
Fairfield	230,000	273,000	285,000	350,000	395,000	12.9%
Northcote	219,000	248,000	277,000	335,000	380,500	13.6%
Preston	157,000	190,000	197,000	255,000	302,125	18.5%
Reservoir	138,500	160,000	172,500	215,000	250,000	16.3%
Thornbury	183,500	235,000	247,500	303,000	346,500	14.4%
Melbourne	196,000	230,000	250,000	300,000	322,500	7.3%

Source: Real Estate Institute of Victoria (REIV)

Table Two: Median private rents in Darebin, March Quarters 2000, 2001, 2002

	1 b/r flat						2 b/r flat						2 b/r house						3 b/r house					
	3/2000		3/2001		3/2002		3/2000		3/2001		3/2002		3/2000		3/2001		3/2002		3/2000		3/2001		3/2002	
	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge	Med ann cha nge	Med ian cha nge
Fairfield - Alplington	\$125	\$130	4.0%	\$140	\$140	7.7%	\$155	-	\$175	12.9%	\$195	11.4%	n/a	-	n/a	-	\$245	-	n/a	-	n/a	-	n/a	-
Northington	\$110	\$115	4.5%	\$125	\$125	8.7%	\$160	-	\$175	9.4%	\$180	2.9%	\$225	-	\$230	2.2%	\$250	-	\$240	4.3%	\$280	12.0%	\$298	6.4%
Preserve	\$105	\$110	4.8%	\$115	\$115	4.5%	\$150	-	\$158	5.0%	\$170	7.9%	\$175	-	\$185	5.7%	\$190	-	\$190	2.7%	\$200	5.3%	\$220	10.0%
Thornbury	\$110	\$115	4.5%	n/a	\$130	-	\$150	-	\$155	3.3%	\$155	0.0%	\$165	-	\$170	3.0%	\$175	-	\$180	5.9%	\$180	2.9%	\$190	5.6%
Thornbury	\$110	\$120	9.1%	\$130	\$130	8.3%	\$150	-	\$168	11.7%	\$175	4.5%	\$200	-	\$210	5.0%	\$240	-	\$230	9.5%	\$235	-	\$255	8.5%
Darebin	n/a	\$120	9.1%	\$130	\$130	8.3%	n/a	-	\$160	6.7%	\$170	6.3%	n/a	-	\$200	5.3%	n/a	-	\$220	10.0%	\$205	2.5%	\$220	7.3%
Melbourne	\$135	\$150	11.1%	\$160	\$160	6.7%	\$170	-	\$185	8.8%	\$195	5.4%	\$200	-	\$220	10.0%	\$190	-	\$230	4.5%	\$200	5.3%	\$210	5.0%

Source: Office of Housing Rental Reports, March Quarters 2000, 2001, 2002.