



Community Housing Federation of Victoria

Submission to the Productivity Commission Inquiry into First Home Ownership

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17 October 2003

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There is much talk of a housing price 'bubble' within the Australian housing market, making it ever harder for people to enter the market as first home buyers. Research by the Australian Housing and Urban Research Institute (AHURI) found that between 1986 and 1996 home ownership rates declined generally across all age groups in metropolitan regions and amongst lower aged households in non metropolitan regions.

Rising house prices have been reinforced by tax breaks on investor and owner occupied dwellings, low interest rates, easier access to credit, and low inflation rates. This has led to a property boom that has not only priced more and more low income earners out of home ownership but also forced them into what is also an inflated private rental market.

Therefore one of the biggest problems low income Australian households face today is finding affordable, secure and appropriate housing. For many, home ownership will never become a reality and as a result they may be reliant on expensive private rental housing for their entire lives.

The current forms of housing assistance favoured by the Federal Government are based on "demand side" grants and subsidies, which provide "in the pocket" funds to individuals and families. However it is clear that this approach is failing to address the current affordability crisis, in either the home ownership or rental market.

For example, the First Home Owners Grant has encouraged more people into home ownership, which it is widely acknowledged, has increased demand and placed upward pressure on prices. The untargeted nature of the FHOG meant that during 2000-2002, over \$15 million was paid out to assist people buying houses worth more than \$500,000. More than 550 Victorians received grants to purchase homes worth more than \$500,000 and 25 to purchase homes worth more than \$1million (Brumby 2002).

Therefore it can be argued that this grant does little to assist lower income households into home ownership. Instead, it may only serve to bring home ownership forward or it may increase the amount of money the first home owner is able to spend on a home. Many low to medium income households are unable to take advantage of this scheme because they are unable to save for a deposit, often because of high rents and/or limited incomes or because they are unable to meet mortgage payments without assistance.

At the same time, the supply of low cost 'social housing' has diminished and the number of households needing it has continued to grow. This is exacerbated by the fact that state housing authorities are in such dire financial straits that almost all funds under the Commonwealth-State Housing Agreement (CSHA) go into meeting debts rather than adding to the supply of new housing.

As with the FHOG, the Commonwealth Rent Assistance (CRA) program - which costs \$1.8 billion per annum to provide a “demand side” subsidy to income support recipients in the private rental market - is also increasingly being found to be inadequate in delivering affordability, especially in cities and other locations where jobs are more plentiful. Rents are rising, while the number of private rental properties at the low end of the market are declining. As a result of spending more than 50% of their income on rent, more than 85,000 RA recipients are considered to be living in “housing stress”.

The Commonwealth Government says it is trying to strengthen community capacity and reduce pressure on communities in need or crisis (as articulated in the 2003/4 budget papers). However, funding approaches such as Commonwealth Rental Assistance (CRA) do not appear to do this.

Improving housing affordability, especially for low income Australians, requires both supply and demand side responses. Problems of affordability and shortage of low cost housing will continue and be exacerbated if policies continue to pursue demand side subsidies alone.

While the terms of reference for this Inquiry focus on home ownership, this submission argues that urgent action is needed to increase the stock of affordable rental housing available to low income earners both in the public and private sectors. The Government should consider not only those options which support home ownership, but also which address how to increase the supply of affordable housing more generally, including incentives to attract private sector investment into the provision of social and low cost rental housing.

Traditionally, it is public and community (social) housing that has provided cost effective, secure and affordable housing for many low income Australians. But although it was originally designed to accommodate working families, public housing has become increasingly targeted to the most disadvantaged. Just being on a low income no longer ensures access to public or community housing. Most current tenants are in receipt of Centrelink payments, and are described as having “high” or “complex” needs. Public housing is therefore carrying significant maintenance and re-development costs, and the system faces a severe cash flow crisis.

Levels of publicly provided housing in Australia are well below international benchmarks. It is imperative that urgent action is taken to increase the supply of appropriate social housing in the places where employment opportunities are good and where a broad range of essential services can be accessed by working families. These families should be able to enjoy the same economic and social advantages enjoyed by home owners - including stability, security and the ability to establish and maintain community networks.

RECOMMENDATIONS

In summary, the housing market in Australia is subject to significant government assistance through such financial incentives as the first home owners grants, negative gearing on investment properties and capital gains exemptions on

profits realised from the sale of owner occupied properties. These government incentives have resulted in a housing boom for 'well off' Australians and a deteriorating housing climate for low income Australians. Governments need to tailor housing assistance programs to ensure a supply of affordable housing options in locations that offer opportunities and services for low income Australians.

It is recommended that the Commonwealth Government develops a strategic framework which looks at the root causes of housing need and responds to them in a co-ordinated way. The National Housing Strategy should address deficiencies in both the supply of low cost housing, and in the system of public subsidies for private and social tenants. This strategy to include:

1. A policy shift away from housing assistance in the form of income support supplements towards the direct provision of housing.
2. A commitment to the expansion of the provision of social housing, facilitated by a special increase in funds under the Commonwealth State Housing Agreement, to assist State Housing Authorities to renew existing housing stock.
3. The establishment of options to encourage private sector investment in the supply of low cost rental housing, including the introduction of a government subsidy stream to support investment and the reform of social housing financing structures to ensure viability and sustainability. Any such reforms should be aimed at expanding eligibility/access for social housing and creating predictable and adequate income streams that are capable of attracting finance for additional housing.
4. Reform planning legislation to require local authorities local authorities to impose a 20% component of social housing into every planning permit granted for proposals containing 100 or more units of housing.

The Community Housing Federation of Victoria (CHFV) is the peak body for community housing providers in Victoria. Community Housing providers are community based not-for-profit organisations which develop, own, and manage many forms of housing for those on low incomes or with special needs.