

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

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The location and quality of housing stock on offer to potential home-owners can influence both housing costs and occupant income. The Productivity Commission in its Issues Paper has identified these as critical factors in housing affordability and accessibility. These impacts on affordability include:

1. Impact upon home occupancy costs
2. Impact upon occupant income earning potential
3. Impact upon transport costs

1. Impact upon home occupancy costs

Whilst the cost of servicing a mortgage is generally the most significant cost of home ownership, the provision of utilities including electricity, gas and water also constitute a significant proportion of the ongoing costs of housing, particularly for lower income households. The adoption of energy efficiency principles in the design and construction of houses can reduce energy costs by at least \$200 p.a. when comparing a four star home with a five star home. In the case of poorer quality housing stock that first home owners typically target, the ongoing savings offered by five star homes could often be closer to \$1,000 and in some cases in excess of \$1,000¹. Redirecting savings of this magnitude to servicing a mortgage could allow an additional \$10,000 to be borrowed, or could save around \$20,000 in principle and interest repayments over the term of the loan². These sums are similar in magnitude to the stamp duty on the transfer of many first homes, and greater than the First Home Owners Grant (FHOG).

As the federal government has implied that stamp duty of this level is a significant obstacle to first home owners, steps should be taken to ensure first home owners benefit from greater energy efficiency and the cost savings it allows. Possible approaches that could be explored include linking the amount of the FHOG and stamp duty concessions to the energy efficiency of the home.

Higher levels of energy efficiency would thus become a stronger point of differentiation for house vendors and provide significant incentives for the incorporation of energy saving design principles in home construction and renovation.

Whilst mandated improvements in energy efficiency can lead to marginally higher construction costs, there is strong evidence that these costs are more than outweighed by savings in recurrent energy and water consumption costs, and net benefits to the economy as a whole³. The benefits of this up-front investment should be recognised by financiers as contributing to greater debt servicing ability over the life of occupancy, and by government when considering Commonwealth and state taxation and assistance arrangements as they relate to housing.

Furthermore, aside from issues of affordability, greater energy efficiency also equates to more comfortable homes for the occupants, a built environment that is more consistent with the federal government's Sustainable Cities Programme, and reduced greenhouse gas emissions.

¹ Australian Consumers Association, July 1997

² Sustainable Energy Authority Victoria

³ *Cost-Benefit Analysis of New Housing Energy Performance Regulations - Report for The Sustainable Energy Authority and The Building Commission*, The Allen Consulting Group, April 2002

2. Impact upon earning potential

When viewed from the demand perspective, the affordability of housing depends upon the disposable income of the potential homeowner. Whilst the primary determinants of income earning potential in any given job market will relate to skills and experience, in practice the actual job market will be defined by location and the accessibility of opportunities. It follows that housing in areas with poor transport linkages to significant commercial centres will offer fewer good income earning opportunities than areas that are well connected. The impact of this factor will be magnified in circumstances where use of a private motor vehicle is not an option, such as for some people with disabilities. In order to maximise the affordability of housing, development should take place in areas that are close to commercial centres, well serviced by public transport or where commitments have been made to significant upgrades in local public transport infrastructure.

3. Impact upon transport costs

As the inquiry's Issues Paper correctly identified, the scarcity of land with good transport amenity will affect the affordability of housing from the supply perspective. It follows that enhancing the coverage of public transport infrastructure increases the supply of land with good transport amenity and works to moderate the price of such property. As discussed in point (2) above, transport linkages act to enhance a resident's income earning potential and consequently the affordability of housing for them. Conversely, the lack of good transport linkages harms their income earning potential and/or increases the transport costs they incur in accessing income earning opportunities.

These additional transport costs, such as owning an additional car, higher fuel consumption and wear and tear, are a drain on the household budget and reduce their ability to service a mortgage.

In this light, the provision of extensive and reliable public transport services could assist housing affordability from two perspectives:

- i. increase the amount of housing with good transport amenity (increase supply)
- ii. increase the income potential of homeowners (increase ability to pay)

Conclusion

The affordability and accessibility of housing can be improved by mandated improvements in energy efficiency where supported by government taxation and assistance measures (which can also help to ensure consistency with other policy objectives in the economic, social and environmental spheres). Renewed investment in public transport infrastructure can increase the supply of land with good transport amenity.