

Commission Chairman
Inquiry into First Home Ownership
LB2 Collins Street East
Melbourne, VIC 8003

23 October 2003

Dear Mr Banks,

The ACTU intends to make a written submission to this Inquiry following the release of your “exposure draft” in mid December.

This letter outlines the core issues we will address in our submission, in addition to responding to the “exposure draft”.

It is our strong view that there is a clear role for government intervention in the housing market. For most Australian households, the family home is the most valuable asset and their greatest store of wealth.

NATSEM estimates that in June 2002 there are 7.5 million households in Australia and the average household has wealth of \$280,000. By far the largest component of this wealth is the owner-occupied home. Equity in this house averages \$155,000 or 55 per cent of total wealth. [NATSEM 2002 pg 4]

Therefore, not only is home ownership part of the Australian psyche but it also provides a savings mechanism for owners and as Simon Kelly of NATSEM points out:

The home purchase provides two mechanisms that help build wealth. The desire to reduce the mortgage motivates households to save more than they would normally and the value of the house appreciates over time adding extra equity to the wealth portfolio. [NATSEM 2002 pg 11]

Clearly, there is a strong relationship between home ownership and the incidence of poverty. In a NATSEM report into the financial disadvantage in Australia it was found that the poverty rate in 2000 for owner-occupiers fell from 12.1 percent to 8.1 percent after taking account of housing costs. In particular the report found that in the 65 years and over age group the poverty rate fell from 11.2 percent to 7.3 percent. [NATSEM 2001, pg 19]

Therefore, home ownership has important welfare implications, as paying off the family home reduces housing costs and as such increases financial security in retirement.

It follows that diminished opportunity for Australians to engage in home ownership due to declining house affordability not only diminishes savings and wealth creation but compounds poverty. People excluded from home ownership are generally reliant on private rental accommodation.

For these reasons public housing is a critical element of any package that seeks to assure all Australians have access to adequate, affordable housing.

Public housing has both economic and social benefits as pointed out in an Industry Commission Report on public housing

Public housing and headleasing¹ are assessed to be more cost-effective than cash payments and housing allowances. Discrimination and security of tenure problems of low-income people are overcome and better targeting is achieved. They avoid the monitoring and administration costs of ensuring that recipients receive appropriate housing.

Public provision of rental housing is shown to be more cost-effective than headleasing over the longer term – that is, there are benefits in terms of financial savings. This finding is subject to the condition that housing administration in the public sector is efficient, or at least not so inefficient as to negate these savings. There are often inefficiencies in public provision, but with public housing there is also potential efficiency gains through economies of scale, scope and density. [Industry Commission, pg xviii]

Public housing schemes can also be structured to create opportunity for tenants to acquire equity and ultimately, ownership.

The South Australian Housing Trust (SAHT) as early as 1946 saw the economic benefits in promoting home ownership as well as providing rental accommodation to low-income families.

Its homeownership scheme was targeted at the better off, and its two programs (building for home ownership and building for tenants) were kept largely separate concerns. Nevertheless, the trust deliberately structures its housing operations to encourage its tenants to buy a home of their own once they could afford to. Public tenancy was not intended to last for life. Rather, it emerged from an enduring belief that the State had a crucial role to play in promoting industrial development, with the SAHT playing the role

¹ Headleasing occurs where, for example, a community group funded by the State housing authority, leases properties in the private market and then sub-lets the properties to people on the public housing waiting list. [Industry Commission, pg 58]

of a large residential and commercial developer whose scale of operations would keep a lid on housing costs... [Hayward, 1996]

Whereas public housing provision impacts on the supply of housing for low income groups, action is also needed on the demand side. A key initiative here is the proposal for Matched Savings Accounts

The basic idea behind Matched Savings Accounts is that low income earners aim to reach a savings target over several years. In a parallel account the Government, community groups and 'community conscious' businesses would make matching contributions. The second account could not be touched until the participants' savings target was met.

If this type of program was taken up nationally and with the support of other community and business groups they would be able to help low income earners save for a home deposit as well as give them a savings record and credit rating that would help them when they are trying to find funding to buy their own home.

Please contact Donna Hristodoulidis in this office [ph 9664 7346] should you require further information or clarification on any of these matters.

Yours Sincerely

Greg Combet
ACTU Secretary