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First Home Ownership Inquiry  
Productivity Commission  
Locked Bag 2, Collins Street East  
MELBOURNE VIC 8003

Dear Sir/Madam

### **FIRST HOME OWNERSHIP INQUIRY**

Thank you for the opportunity to comment on the Inquiry into First Home Ownership. Council staff have considered the issues paper and make the following comments.

It has been noted that this inquiry only targets the affordability of homes to first home buyers and accessibility to purchasing based on a deposit gap. Housing stress applies to both purchasers and renters, and contributes to preventing renters from becoming purchasers. The narrow focus of the inquiry fails to address the social impacts of low levels of affordability and accessibility.

#### **Housing Affordability – Historical Context, Trends and Housing Markets**

The trends in affordability discussed in the paper indicate that housing affordability was declining, to a point even lower than today, up until about 1989 (Inquiry into First Home Ownership, Figure 2, page 6). At this time interest rates occupied the upper teens and access to a housing loan required substantial savings and an established relationship with a bank.

The deregulation of capital markets and mortgage finance in the mid-1980s took hold by the end of this decade and increasing competition in the mortgage markets pushed costs down. This change along with the stockmarket crash in 1987 influenced the investment market and interest rates began to fall. The combination of these factors created an increase in the affordability of housing that continued through the 1990s to about 1997 (Inquiry into First Home Ownership, Figure 3, page 7).

Within the Newcastle Local Government Area (LGA) increases in affordability were experienced between 1996 and 2001 for those with low and moderate incomes seeking to purchase homes as shown in **Table 1** below. However this trend has ceased and since 2001 affordability has declined as the number of home purchasers in housing stress continues to increase.

**TABLE 1****Low and moderate income home purchasers in housing stress**

	<b>% 1996</b>	<b>Number 1996</b>	<b>% 2001</b>	<b>Number 2001</b>
<i>Sydney Statistical Division</i>	55%	38167	54.1	43762
<i>Newcastle Statistical Sub- Division</i>	41.4%	5148	34.2%	5790
<i>Newcastle LGA</i>	41.2%	1442	33.3%	1526
<i>NSW</i>	53.5%	60200	50%	66192

Source: Centre for Affordable Housing, NSW Department of Housing (DOH): 2003  
(Newcastle City Council – Draft Affordable Housing Strategy, 2003.)

**Table 1** - reveals that the proportion of low and moderate income home purchasers in housing stress in the Newcastle LGA and the Newcastle Statistical Sub-Division was almost identical, with significant improvements in affordability between 1996 and 2001. At the same time that there was a reduction in the proportion of low to moderate income home purchasers in housing stress, the number of those in housing stress actually increased over this period.

It would seem that the high interest rates that dominated the housing market in the 1980s had suppressed the housing market and housing affordability for an extended period. The changes to the financial market in the 1990s resulted in lower interest rates for home ownership and ultimately a decrease in interest rates related to housing investment for the rental market. However this increase in accessibility to finance has generated a renewed interest in housing investment beyond just home ownership.

The continuation of low interest rates, the changes to the taxation of capital gains and deductibility rules for borrowing (Inquiry into First Home Ownership, Box 2, page 21) has enabled existing home owners to upgrade their properties, purchase new housing and invest in the rental market, as a means to increase wealth. This increase in housing investment however has increased competition in the housing market, affecting both housing demand and ultimately impacting on housing affordability.

Consequently, the progressive increase in 'Pricing Trends' that has been experienced Australia wide, has in Newcastle, generally resulted in decreasing affordability from 2001 onwards, as the annual growth in median house prices continues to climb.

## **Housing Accessibility - First Home Buyers**

The paper identifies that the largest proportion of first home buyers is couples in the 25 – 34 year age group (Inquiry into First Home Ownership, Table 1, page 9). This has been the case since the 1990s and continues to climb. *However what is the economic make up of this group?* Given their age it is expected that this group includes university graduates, qualified trades people, an unskilled labour force and sole parent families. Therefore the ability for this group to achieve the 20% 'deposit gap' (20% of purchase price) that enables them to secure a loan and enter the housing market is dependant on the level of income received by these individuals.

The continued deregulation of government services and the impact of 'user pays' have resulted in short term benefits and long term tax increases to this group. While they may generate reasonable income levels, they are faced with significant debt differentials in the form of additional taxes, insurance requirements, health benefits and increasing rents that previous generations were not subject to. For example, university graduates are now subject to a HECS debt, trades people require the insurance of tools, vehicles and life, if working for themselves or running a business, while the unskilled labour force are subject to minimum wage limitations and sole parents are faced with child care costs or limited welfare benefits. Consequently the achievement of the 20% 'deposit gap' that enables this group to enter the housing market is increasingly difficult to achieve given ongoing tax debts and rising rents.

In this regard, Newcastle recorded the highest annual increase in median rent for a year within the Greater Metropolitan Region (GMR), with an increase of 9.1% in median rent for a one bedroom flat/unit in the year to end March 2003 (DOH Rent and Sales Report, No 63, March Qtr, 2003). Compared to the GMR growth that has slowed to zero, and below, on median rents in Sydney.

In Newcastle growth continued from March 2003 on the median rents of two and three bedroom dwellings and increased by 8.5% and 10% respectively, in the year to end August 2003.

Similarly, median house prices in Newcastle had an annual growth rate of 26.9% in the year to end June 2003 compared to annual growth rates in Sydney of 11.6% and 25.6% in the rest of the GMR. For example median house prices increased in Newcastle from \$126,000 in September 1998 (DOH Rent and Sales Report, No 46, September Qtr, 1998) to \$235,000 in December 2002 resulting in the 20% 'deposit gap' increasing from \$25,200 to \$47,000 respectively in four years and decreasing housing affordability significantly.

## **Housing Accessibility – Government Assistance**

The issues paper discusses the connection between affordability and housing preferences, however it would seem that the provision of government assistance through the First Home Owners Grant (FHOG) Scheme has manipulated this connection.

The FHOG scheme provided \$7000 for the purchase of an existing home and \$14000 for the building of a new home or the purchasing of a previously

unoccupied home. This funding scheme directly supported the building industry by providing a financial incentive to first home buyers to build or purchase a newly built home. In the Newcastle LGA the ability to consolidate funds that would meet the 20% deposit gap for a standard house and land package was increased significantly by the \$14000 grant and provided an entry into the housing market for first home buyers.

However this funding scheme artificially increased the demand for new home construction and residential land consumption which has resulted in an increase in both land and house prices for future stages. This coupled with the application of taxation particularly compounding GST that is applied to land, materials, building services and housing as individual items and as a whole, has also increased housing costs. Consequently the price of standard house/land packages has progressively increased and once the additional \$7000 FHOG Scheme ended, future first home buyers were left with a reduction in affordability at the base level entry.

Anecdotal evidence indicates that Newcastle's urban fringe release areas experienced a marked increase in take up from early 2000 in response to the introduction of the additional \$7000 FHOG Scheme and the GST.

### **Housing Accessibility – Planning and land use policies**

The experience in the Newcastle LGA indicates that the FHOG Scheme has supported the building of new housing predominantly on the urban fringe, with consequent social impacts. The concentration of residential populations at the urban fringe creates community isolation, increased car dependency and the growth of residential populations without basic support services, facilities or transport.

This form of fringe development also results in significant impacts on the environment, as the ability of new development to meet principles of Environmentally Sustainable Development (ESD) is limited. The provision of new housing at the urban fringe results in the loss of land as a productive resource, significant clearing of vegetation, undermining of native species and habitat and change to natural topography and water catchment. The finished product consists of a three to four bedroom house that responds poorly to its natural environment with significant amounts of hard paved surfaces that generate increases in water runoff, limited landscaping that provide shade and support soil structure and require artificial air-conditioning to provide a reasonable level of occupant amenity. The result is the duplication of energy consuming buildings at the urban fringe.

Presently Newcastle is faced with a shortage of dwellings appropriate to its population, particularly one and two bedroom dwellings. This is the historical consequence of changes in household composition and the inherent inability of existing housing stock to readily respond to changes in demand. This is being compounded by a continued decline in household sizes, as shown in **Table 2** below.

**TABLE 2****Newcastle LGA Population and Housing Trends**

	1971	1976	1981	1986	1991	1996	2001
Total Population*	146009	138718	135207	129460	131309	133686	137307
Intercensal Change		-7291	-3511	-5747	1849	2377	3621
Occupied Private Dwellings	45363	46588	48110	49246	50795	54299	56678
Intercensal change		1225	1522	1136	1549	3504	2379
Persons per dwelling	3.22	2.98	2.81	2.63	2.59	2.46	2.42
Total Dwellings	47568	49262	50805	52763	54349	58417	60781
Intercensal change		1694	1543	1958	1586	3798	2634

Source: ABS Census 1971-2001

\*These figures are the Census night population rather than Estimated Resident Population. (Newcastle City Council – Draft Affordable Housing Strategy, 2003.)

The national trend of decreasing household size reflects demographic changes such as an aging population and an increase in the average age of those entering first marriages, leading to an increase in sole person households. The results of this changing demographic are an increasing demand for adaptable housing and for inner urban dwellings.

The provision of adaptable housing that service both the ageing population and those with a disability is another consideration in the provision of housing affordability. Cost-benefit studies of adaptable housing consistently report that cost increases resulting from the inclusion of adaptable measures are in the order of 0.5-1.0% of total construction for most forms of housing (Newcastle Draft Adaptable Housing, Model Development Control Plan, 2001, Connell Wagner Pty Ltd). Yet the provision of this form of housing is almost non-existent and should form an additional consideration in the policy formulation of both Federal and State governments when reviewing the issues related to affordable housing.

Newcastle City Council has adopted the principles of urban consolidation to maximise the supply of inner urban dwellings and sustainable urban development through the Newcastle Urban Strategy. The Newcastle Local Environmental Plan 2003 has clearly defined objectives, policies and zones for achieving increased density around established centres and transport nodes. The provision of increased residential density within walkable catchments of 400m (5 minutes to services) and 800m (10 minutes to transport nodes) have encouraged the redevelopment of inner city suburbs, re-zoning of 'brownfield' sites and the provision of additional housing in the form of medium density outcomes therefore reducing the land component of total dwelling costs.

These policies seek to provide both an increase in housing choice and housing affordability within well-serviced suburbs that minimise the need for additional infrastructure, car dependency and unsustainable development. The provision of combination one and two bedroom dwellings provide a greater housing market for those seeking to down size within their current suburb or as entry level housing for first home buyers.

However, developers have traditionally found it easier and more profitable to provide low density housing in greenfield areas, as encouraged by the additional \$7000 FHOOG Scheme, and this has slowed the process of urban consolidation and possible improvements in housing affordability that could follow.

### **Housing Accessibility – Infrastructure**

The provision of infrastructure to new developments must take place in a coordinated manner. 'Leapfrogging' of the development fringe is significantly costly to the entire community in regard to environmental impact and long term infrastructure costs. Infrastructure costs are directly passed on from the developer to the purchaser and have in the past been based on the frontage of a lot to the street that embodies the services. Infrastructure costs generally consist of 30% of the cost of the land however an increase in the number of lots that are created within a development would assist in spreading the cost of services and minimise the cost of land.

The planning objectives and design solutions produced by AMCORD (A National Resource Document for Residential Development) encouraged a diversity of allotment and dwelling sizes in new 'greenfield' housing developments. This was directly in response to changing demographics, the change in the make-up of household structures and the need to create affordable housing options. AMCORD encouraged a reduction in street pavements, footpath areas and lot sizes from 100m<sup>2</sup> up to 600m<sup>2</sup> with an integrated approach to housing design. In this regard the provision of housing lot sizes in greenfield areas should incorporate a combination of lot sizes, lot frontages and housing size to accommodate a broad range of housing choice and increase affordability by maximising land resources and minimising infrastructure costs.

However the strategic direction set by AMCORD has not been broadly adopted, incorporated or implemented through State Government planning policies and consequently new housing developments continue to be developed with minimum lot sizes of 600m<sup>2</sup>, 20m frontages and roads of significantly large street pavements. Therefore the potential land and cost saving encouraged by this national code have not been endorsed and implemented through Federal and State policy directives.

### **Local Government Infrastructure Charges in NSW – Section 94**

Section 94 (s94) of the Environmental Planning and Assessment Act 1979 allows Councils to collect contributions for future public services and facilities, and/or to recoup costs incurred for public services and facilities which have been provided in anticipation or facilitation of development. It considers the public services and facilities required at full development, and collects contributions from development for the relevant apportionment.

The s94 developer contributions is a transparent system and requires a nexus between the new development and the demand for infrastructure, ensuring new infrastructure or the embellishment/augmentation of existing infrastructure, is reasonable. S94 can only levy for a reasonable or baseline level of service.

Generally what is regarded as 'reasonable' is the current service provision within the surrounding area.

Generally Councils tend to be conservative in the range of infrastructure levied under s94. Due to the nature of the s94 system, Councils are often required to contribute to works identified in s94 contributions plans so the full cost is not borne by developers and subsequent purchasers but spread over the broader ratepaying population.

In recent years, the scope of works levied under s94 has been adjusting to higher community expectations and needs, as well as, the increased scope of services provided by local government. Generally most NSW Council's levy for similar traditional facilities and services including; transport infrastructure, open space and recreation, car parking, studies, child care centres, community centres, libraries and s94 management and contributions plan review. Due to the legislative requirements the establishment of new s94 levies outside the aforementioned traditional areas has been difficult and limited.

The s94 system is transparent. Currently the NSW Minister for Infrastructure, Planning and Natural Resources is undertaking an enquiry into the s94 system considering alternate funding mechanisms of developer agreements and a flat levy scheme. However a flat scheme would not have the same level of transparency, accountability and nexus as required by the s94 system.

S94 tries to establish a balance between the need for infrastructure and contributions levied. Generally contributions are higher in urban release areas where limited infrastructure exists and new infrastructure must be provided. S94 is equitable due to apportionment requirements; that is, new development contributes for the portion of new demand created.

When the housing market is strong there is a greater ability to pass-on the cost of s94 contributions to the land purchaser. Likewise when the housing market is weaker the ability to pass-on the cost of s94 contributions is reduced. However, it is highly unlikely that if s94 contributions were considerably reduced or eliminated that land prices would reduce given the large number of market and economic factors impacting on the housing market.

If infrastructure funding is not provided, or is reduced, communities must accept reduced service levels. Reduced service levels can have adverse long term economic and social impacts. Generally community expectations regarding service levels are increasing.

### **Housing Affordability – Newcastle Demographics**

The Newcastle LGA experiences housing impacts outside of its region. Its proximity to Sydney and its attraction as a holiday destination has resulted in both investors and owner-occupied purchasers gravitating to the region for housing investment due to its affordability outside of Sydney. This extends to regional NSW in addition to Sydney investors and retirees.

In the Newcastle LGA at the time of the 2001 Census, the most common monthly housing loan repayment was \$800-999, (20.6%) and closely followed by \$600-799

(19.1%). At the same time, the median gross household income was \$2400-2796 per month, which means that the average household was paying between 33.3% and 35.7% of income in housing costs. (See attached Newcastle City Council – Draft Affordable Housing Strategy, 2003.)

For NSW as a whole, both monthly housing loan repayments and household incomes were higher, with a median monthly income of \$3200-3996 and housing loan repayments of \$1,000-1,199 per month, with a range of 31.2- 30% of income expended in mortgage costs. Mortgage as a proportion of income was thus higher in the Newcastle LGA than in NSW, perhaps because of lower incomes.

In the Sydney Statistical Division, median weekly household income was identical to NSW, however monthly housing loan repayments were higher, at \$1200-1399 per month, which means that housing costs as a proportion of income were higher in Sydney, reflecting higher property values. Thus it was more affordable to purchase a dwelling in Newcastle than Sydney, but less affordable than in NSW as a whole.

**TABLE 3**

**Mean Sale Prices, All Dwellings, Sept Qtr 1999 - Dec Qtr 2002**

	1999	2002	Change (number)	Change (%)
Newcastle LGA	\$149,000	\$245,000	\$96,000>	64.4%>
Sydney Statistical Division	\$300,000	\$433,000	\$133,000	44.3%>
NSW	\$250,000	\$341,000	\$91,000>	36.4%>

Source: DOH Rent and Sales Report, No 50, Sept Qtr, 1999 and DOH Rent and Sales Report, No 62, Sept. Qtr, 2002. (Newcastle City Council – Draft Affordable Housing Strategy, 2003.)

**Table 3** - indicates that in the period 1999-2002, the purchase price of properties increased significantly across NSW as a whole, however increases in the Newcastle LGA vastly outstripped NSW and were also higher than the Sydney Statistical Division.

The issues paper acknowledges that “Over time, housing prices vary between cities and regions, and within metropolitan and non-metropolitan areas. Prices also vary depending on the quality and size of dwellings. Therefore, affordability for first home buyers depends upon their preferences regarding the location, quality and size of dwellings that they seek to buy.” (Inquiry into First Home Ownership, page 9).

The increase in housing investment from external purchases (those residing outside of Newcastle LGA) is having a growing impact on housing affordability for local first home buyers. Anecdotal evidence indicates that Newcastle is experiencing increasing housing interest and locational preference from Sydney residents and beyond which is affecting the demand for housing within the Newcastle LGA and is impacting on housing prices artificially, further decreasing affordability.



## **Housing Affordability – Trends ‘Housing Needs in Newcastle’**

The Newcastle LGA has historically been an area in which housing for rent and purchase has been less expensive than the greater Sydney area, however Newcastle remains an area with significant housing need. This is related to marked increases in the cost of housing for both rent and purchase since 1999, high levels of unemployment and low-income levels.

Housing need ranges from those in extreme housing need, such as the homeless, to persons who on a moderate income but paying in excess of 30% in mortgage payments, and thus experiencing a degree of housing stress. Newcastle is home to persons who occupy the entire range.

Since the late 1990s there has been an increase in the costs of rental housing in the Newcastle LGA and a dramatic rise in the cost of home purchase, at the same time that incomes and unemployment levels have remained relatively stable. This situation means that thousands of low and moderate income persons, primarily those in rental housing, are currently living in housing related poverty in the Newcastle LGA and have little ability to achieve home ownership.

Housing costs whether for rent or buying, are increasing rapidly in the GMR outside Sydney and Newcastle is typical of the GMR growth and as shown in the discussed statistics in some instances has surpassed it.

As discussed above sales and rental statistics for Newcastle reveal that what has been happening in Newcastle in the last few years is a ripple effect and mimics previous years impacts on the NSW Central Coast. As the population has spread along the coast housing demand has risen and so have housing prices. This coupled with no decline in unemployment levels has led to decreased affordability and accessibility for those residents already suffering housing stress and almost certainly has increased the numbers of the population seeking affordable housing.

### **Conclusion**

The statistics show that housing affordability is continuing to decrease for an increasing portion of the Australian population. The change in demographics continues to show an increase in the number of households but a decline in household size. Consequently housing affordability must seek to support the needs of the changing population during all aspects of the lifecycle in the supply of housing variety and choice.

The implementation of planning strategy and policy that maximise residential land capacities on ‘greenfield’ sites, in addition to urban consolidation, would provide increased variety in both housing choice and housing affordability.

In Newcastle’s experience, the provision of financial assistance through the FHOG Scheme has resulted in direct benefits to the building industry and consequent increases in housing prices. The provision of financial assistance to first home buyers in the form of a tax relief should be connected to income levels, rather than a fixed sum as a once off grant. This would provide an indirect tax cut for housing purposes that would not have associated flow on effects.

Due to the diversity of this issue and the numerous factors that impact on the ability of first home buyers to enter the housing market, a solution can not be rectified by changes to a single component of this complex issue. A whole of government approach should see attention given to all the issues arising from current circumstances with regard to housing accessibility and affordability, and the development and implementation of a National Urban Strategy which provides policy solutions that benefit all groups seeking access to affordable housing.

An inquiry into First Home Ownership alone is not sufficient in the absence of a wider urban policy framework that creates and directs a 'shared vision' for the future urban development of Australia. The broader issues that relate to housing affordability vary based on locational factors within Australian cities as the political, environmental, social, cultural and economic makeup that influences the issue of housing affordability cannot be considered in isolation, outside of its larger urban context.

A National Strategic direction needs to be set by the Commonwealth from which policy and governance of our cities can be guided. "*Urban issues are neither purely local nor purely domestic any longer but central to both national cohesion and sustainability, and international competitiveness*" (Recapitalising Australia's Cities, A Strategy in the National Interest. Discussion Paper for the Property Council of Australia, 2002. The Allen Consulting Group).

Once a National Urban Strategy is formulated individual city strategies can be identified with specific desired outcomes to achieve the national vision. This would enable an analysis of the local governance framework, infrastructure, socio-economic content and policy impacts that inform spatial policy and direct policy change at a Local, State and National level.

Yours faithfully

**David Crofts**  
**GROUP MANAGER CITY STRATEGY**

Attached documents:  
Newcastle City Council – Draft Affordable Housing Strategy, 2003.