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Mr Gary Banks
Chairman
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Dear Gary

RE: INQUIRY INTO FIRST HOME OWNERSHIP

Attached for your consideration is the Northern Territory's Submission to the Inquiry into First Home Ownership.

The submission focuses on issues that are of particular relevance to the Northern Territory.

Yours sincerely

JENNIFER PRINCE
Under Treasurer

31 October 2003



Northern Territory's Submission to the Inquiry into First Home Ownership

The recent decline in home ownership affordability, which has been the subject of much debate and has provided the impetus for this Inquiry, raises many important and difficult questions. The focus of this short submission is limited to issues of particular relevance and importance to the Northern Territory in the context of this Inquiry.

As a small and remote jurisdiction with a young and comparatively transient population, home ownership is an important issue for the Territory. The Territory also has a very diverse population, whose needs in respect of housing vary substantially. The home ownership aspirations of many individuals, couples and families in the Territory's main population centres are not very different from those of people in cities and towns around Australia. In contrast, for many Indigenous Territorians, particularly those in remote areas, significant unmet housing need, high cost of living, high levels of welfare dependency and land tenure issues, all work against any aspiration for home ownership.

Housing prices in the Territory

Darwin's average house price was \$239 000 in the 2003 September quarter – an annual increase of 9 per cent. House prices have also increased in other Territory centres, which reflects, in part, the combined impact of railway construction activities and land supply constraints in Alice Springs. Unit prices in Darwin have remained fairly steady over the past year.

In the medium term (last 5 years) the Territory has not mirrored the significant price increases seen in most other States¹. Overbuilding during the mid to late 1990s (particularly in Darwin), a general economic downturn and a slowdown in population growth contributed to an extended period of stagnation in Territory housing prices. The upturn over the last 12 months reflects more balanced demand and supply conditions and a positive outlook for economic and population growth as the Alice Springs–Darwin railway operations commence in early 2004 and construction begins on the pipeline and LNG plant for the Bayu-Undan natural gas project.

Figure 1: Average House and Unit Prices (\$'000)

Year	Darwin Urban:		Darwin Rural: Houses	Alice Springs: Houses	Katherine: Houses	Tennant Creek: Houses	All Centres: Houses
	Houses	Units					
1997-98	198	161	193	165	160	70	186
1998-99	197	152	203	153	149	61	181
1999-00	207	183	214	164	169	51	193
2000-01	196	163	205	169	140	61	186
2001-02	209	176	217	187	135	72	200
2002-03	211	177	221	189	136	70	202

Source: NT Treasury

Darwin median house prices have always been below those of Melbourne and Sydney, but have historically been above those of all other State capital cities. Recent sluggishness in the Darwin housing market and strong growth in most other capital cities has pushed median

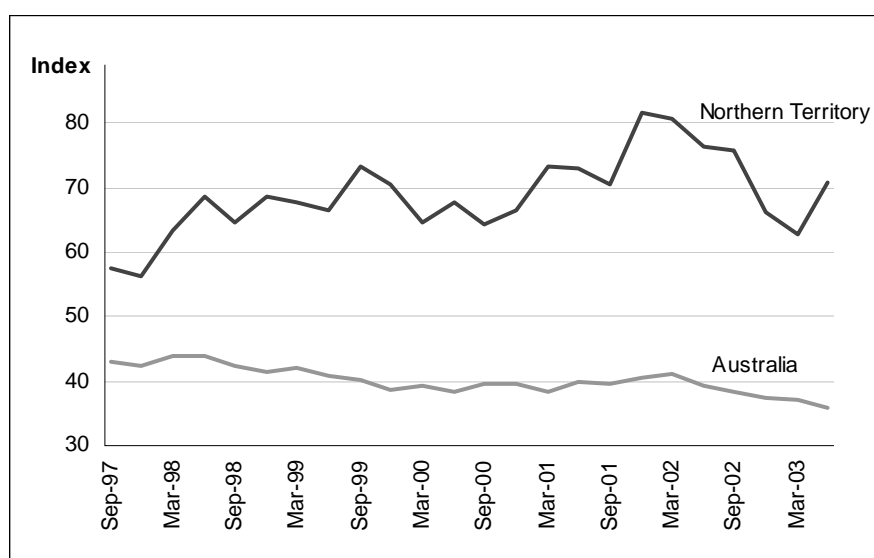
¹ States refers to all Australian States and Territories, and State Governments to all Australian State and Territory Governments, unless specified otherwise.

prices in Brisbane and Canberra above Darwin. Median house prices in Darwin remain above those in Perth, Adelaide and Hobart.

Affordability

In line with the recent upturn in house prices, and consistent with national trends, housing affordability in the Territory has declined over the last 12 months, however the Territory continues to have the most favourable housing affordability of any jurisdiction and is considerably higher than the Australian average (see figure 2). Caution should be observed, however, in using this simple summary measure, which does not capture the diversity of the housing market and the many important factors other than price, interest rates and incomes that restrict access to home ownership.

Figure 2: Home Loan Affordability Index ^(a)



Source: REIA and AMP, *Home Loan Affordability in Australia*

(a) Home loan affordability index = $\frac{\text{median weekly income}}{\text{average weekly loan repayment}} \times 10$

Indigenous housing needs and home ownership

Surveys and censuses over the past decade have shown that Indigenous households are twice as likely as other Australian households to be in need of housing assistance. The data also shows that Indigenous people experience high rates of (before and after) housing poverty, homelessness, overcrowding, and lack of adequate standard of housing, infrastructure and basic services. These poor living environments are factors that contribute to and exacerbate Indigenous people’s poor health. Addressing this continuing high level of unmet need is a key issue for the Territory in delivering affordable housing.

Unmet housing need in Indigenous communities is estimated to be \$2 billion nationally, of which the Territory has an outstanding need of over \$800 million. Demographic projections point to a further explosion of housing need in Indigenous communities over the medium to long term, exacerbated by the youthful profile of the population. In Wadeye, for example, where the current occupancy rate is 14 people per household, a further 144 dwellings will be needed by 2023 to maintain the existing occupancy rate. An additional 448 dwellings would

be required to 'normalise' occupancy rates. Any consideration of home ownership affordability should be considered in the context of this unmet need.

Housing needs for Indigenous Australians is recognised as a joint responsibility of both the Commonwealth and State governments. A key concern for the Territory is both the quantum of funding provided by the Commonwealth and the distribution of funding among the States. On the question of funding distribution, the Territory receives just 21 per cent of national funding, based on data from 1987. The latest data justifies a Territory share of 40 per cent, which would translate to an additional \$20 million. The Territory is involved in discussions with the Commonwealth on this issue; however, additional funding from a fairer distribution formula will only go a very small way toward addressing the substantial level of need.

For many Indigenous Territorians, home ownership is not a realistic option. The Territory's Indigenous population has the lowest rate of home ownership of any group. Data from the 2001 Census highlights that the income gap between Indigenous and non-Indigenous people is growing, with remote areas in the Territory showing the largest difference between income of Indigenous and non-Indigenous Territorians.

One of the distinguishing features of housing in remote indigenous communities is the complete lack of private sector finance. The Territory is currently examining options in this area, including solutions developed in the US and Canada, although there are additional complexities related to individual land ownership.

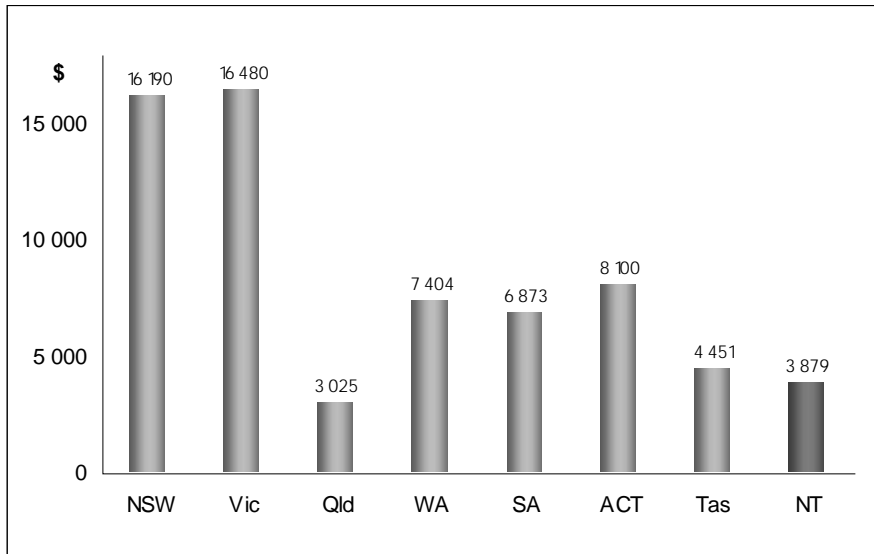
Territory assistance to first home buyers

Notwithstanding significant broader housing needs, the Territory Government provides generous incentives to encourage home ownership in the Territory. These initiatives aim to address the traditional transience of the Territory's young population and encourage long term residency, as well as recognising the impact of the higher cost of living in the Territory.

The Territory Government provides a substantial concession on conveyancing duty for first home buyers. From 20 August 2002, the existing concession for first home buyers on the first \$80 000 of a property's value was extended to \$125 000 – increasing the concession from a maximum of \$2 096 to \$3 641. The eligibility criteria for this concession are aligned broadly with those for the national \$7 000 grant. The Territory also provides a rebate of \$1 500 to home buyers who purchase a property that will be their principal place of residence but not their first home.

The figures below compare conveyancing duty payable for first home buyers based on a median price house in each State (figure 3) and for home buyers who are not purchasing their first home (figure 4).

Figure 3: Conveyancing duty for a first homebuyer on a median price house in each State ^(a)

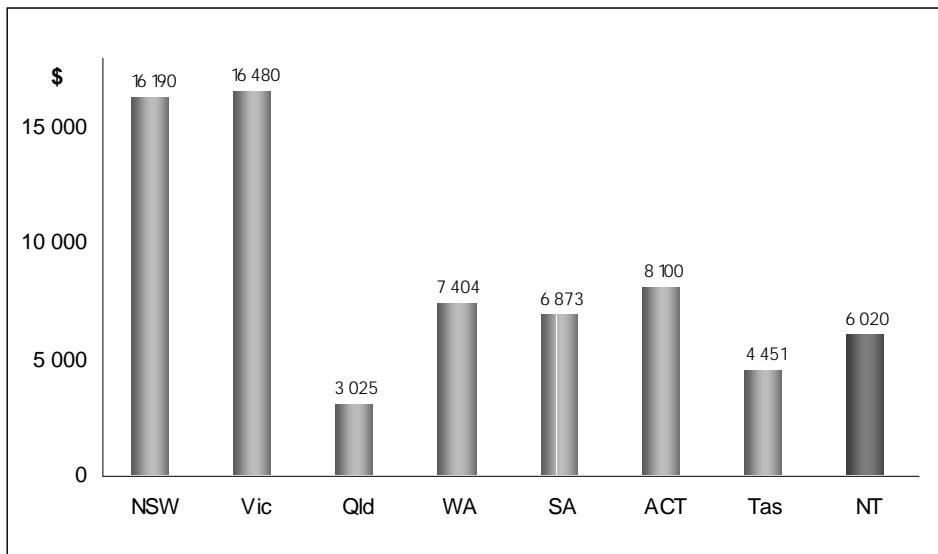


Source: NT Treasury

(a) Based on March quarter 2003 median prices in each State:

NSW	Vic	Qld	WA	SA	ACT	Tas	NT
\$460 000	\$347 000	\$265 000	\$202 600	\$201 000	\$265 000	\$165 000	\$215 000

Figure 4: Stamp duty paid on a median price principal place of residence for each State ^(a)



Source: NT Treasury

(a) See figure 3.

The Territory, like all other States, funds the \$7 000 first home owner grant, which was introduced with the implementation of the Commonwealth's *A New Tax System (ANTS)* in 2000. Additionally, all home buyers in the Territory benefit from not having to pay mortgage duty, which is levied in all other States.

Assistance for low income families

The Territory also provides targeted assistance to low income families looking to purchase their first home:

- Home Start shared equity loan: available to families with incomes below \$800 per week for properties less than \$180 000. Territory Housing will take up to 30 per cent equity in the property.
- Home Share public housing tenant purchase scheme: assists public housing tenants to purchase 70 to 100 per cent of their dwelling.
- Early Start deposit assistance scheme: provides a grant of between \$1 000 and \$3 000 to families with incomes below \$1 100 per week for properties less than \$180 000.
- Assist interest subsidy scheme: provides subsidies to families with incomes below \$1 000 per week for properties less than \$180 000. The subsidy is focused on the early years of the loan, and varies according to income and the loan amount.

Capacity of States to provide further assistance to first home buyers

The capacity of State Governments, including the Territory Government, to provide additional assistance to first home buyers is limited. The States' share of national revenues has been in decline over a long period, while the Commonwealth's share has grown. This trend is expected to continue – even though States have access to the proceeds of the GST, the Commonwealth retains exclusive access to tax income. The States are also required to review and consider the abolition of a range of taxes under the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Arrangements*, which will further constrain States' fiscal capacity.

Assistance provided to first home buyers varies between the States, however all States provide the \$7 000 first home owner grant and most provide concessions on conveyancing duty and other assistance. In contrast, the Commonwealth provides no direct assistance to first home buyers. The Commonwealth could, for example, allow interest costs for housing as an income tax deduction for first home buyers.