



Jon Stanhope MLA

CHIEF MINISTER

ATTORNEY GENERAL MINISTER FOR THE ENVIRONMENT
MINISTER FOR COMMUNITY AFFAIRS

MEMBER FOR GINNINDERRA

Mr Gary Banks
Chairman
Productivity Commission
LB2 Collins Street East PO
MELBOURNE VIC 8003

Dear Mr Banks

First Home Ownership Inquiry

I am pleased to enclose the ACT Submission to the Productivity Commission's inquiry into first home ownership.

The ACT notes that the inquiry extends to the operation of the total housing market, including the availability of a range of public and private housing types. This provides the opportunity to view first home ownership in the overall context of housing affordability.

As the Commonwealth has a leading role in shaping the economic factors that affect the housing market (including the first homebuyer market), it should facilitate the preparation of a national housing policy that is integrated with the broader national economic and social policy agenda. The ACT considers that the absence of such a national policy is the single most important impediment to understanding and dealing with issues of housing affordability.

The ACT looks forward to a comprehensive report by the Commission.

Yours sincerely

Jon Stanhope MLA
Chief Minister

ACT LEGISLATIVE ASSEMBLY

London Circuit, Canberra ACT 2601 GPO Box 1020, Canberra ACT 2601
Phone (02) 6205 0104 Fax (02) 6205 0433

ACT GOVERNMENT SUBMISSION TO THE PRODUCTIVITY COMMISSION’S INQUIRY INTO FIRST HOME OWNERSHIP

I.	INTRODUCTION	1
II.	THE DEMAND FOR HOUSING IN THE ACT	1
	House prices in the ACT	1
	ACT Building approvals.....	2
	Investor activity	2
	The influence of population growth and household formation on the demand for housing.....	3
	The underlying estimate of housing demand.....	3
	Summary.....	3
III.	THE SUPPLY OF HOUSING IN THE ACT	4
	Land availability	4
	Urban consolidation.....	4
	Building costs	5
	The impact of Territory taxation	5
IV.	THE NUMBER OF POTENTIAL FIRST HOMEBUYERS IN THE ACT	6
	Take-up of the First Home Owner’s Grant Scheme (FHOG) in the ACT	7
	The findings of the ACT’s Affordable Housing Taskforce.....	7
V.	WHAT THE ACT GOVERNMENT IS DOING TO ASSIST FIRST HOMEBUYERS.....	8
VI.	WHAT THE COMMONWEALTH COULD DO.....	8
VII.	CONCLUSION	10

I. INTRODUCTION

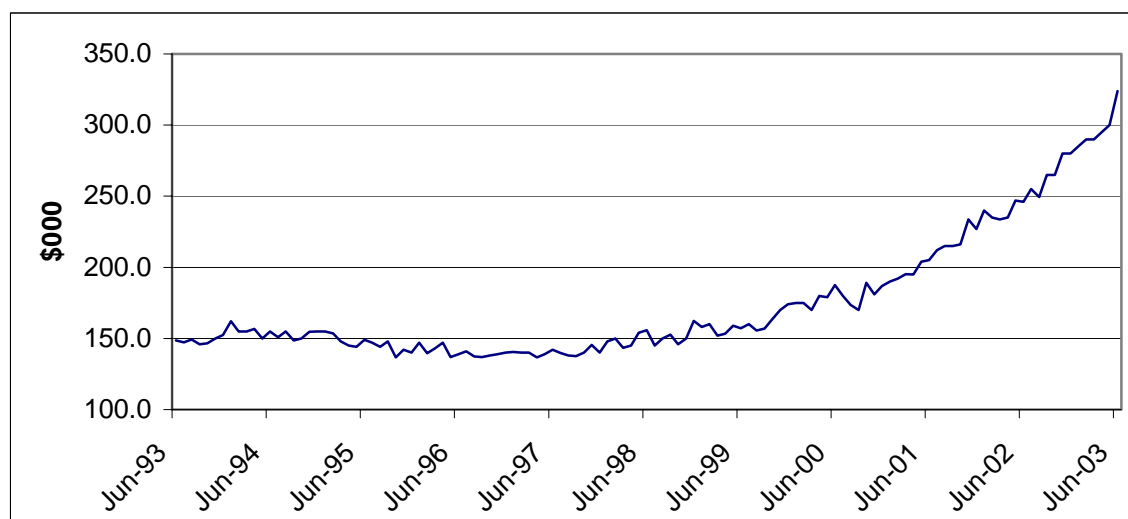
1. The ACT Government welcomes the inquiry and looks forward to the Productivity Commission producing a report that examines first home ownership in the overall context of housing affordability.¹ The Government is pleased that the inquiry extends to the supply of housing generally and to the operation of the total housing market, including the availability of a range of public and private housing types.
2. This Submission has seven sections. Following this Introduction, Section II provides information about the demand for housing in the ACT, examining sale prices, building approvals, investor activity, population growth and household formation. Section III looks at the supply of housing in the ACT including land availability, policies for urban consolidation, building costs and the impact of Territory taxation.. Section IV estimates the number of potential first homebuyers in the ACT who might be affected by the recent increase in house prices. Section V sets out some of the mechanisms being taken by the ACT Government to assist first homebuyers. Section VI examines the actions that the Commonwealth Government is taking or might take in the future, in order to encourage first home ownership and housing affordability in general. The final Section concludes the Submission.

II. THE DEMAND FOR HOUSING IN THE ACT

House prices in the ACT

3. Median house prices in the ACT have increased rapidly over the last three years after a lengthy period of relative price stability (ACT median house prices actually fell 1.6% to \$145,000 between July 1993 and July 1998). However, the median ACT house price in June 2003 was \$324,000, an increase of 79.5% since July 2000 and an increase of 119.3% since July 1993. The trend of house prices in the ACT over the past ten years is shown below.

Chart I– ACT Median House Price June 1993 to June 2003 (Source: ACT Treasury)

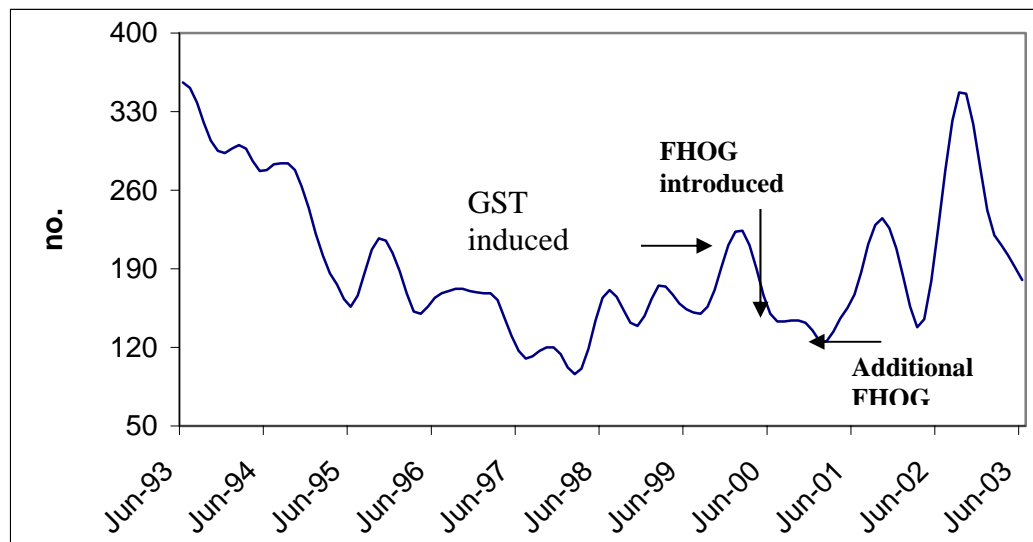


¹ In this Submission, housing affordability refers to the affordability of purchasing a home (including the deposit, and the ongoing cost of servicing the mortgage), as well as the affordability of rental housing.

ACT Building approvals

4. The trend in building approvals in the ACT in the past ten years is shown in Chart II. It shows the pull forward of construction activity in late 1999-2000 that was induced by the looming introduction of the GST in July 2000. In anticipation of the increase in construction costs and likely impact on new homebuyers, the Commonwealth Government introduced the First Home Owners' Grant (FHOG) on 1 July 2000 offering \$7,000 to first homebuyers.
5. Despite the incentive of the FHOG, the combination of the GST and increased interest rates contributed to a slump in building and economic activity in the second half of 2000. With world economic growth weakening and a contraction in the Australian economy in the December quarter 2000, the Reserve Bank of Australia began cutting interest rates in February 2001 and the Commonwealth Government extended the FHOG in March 2001 (offering an additional \$7,000 to first homebuyers). Building activity lifted substantially in the ACT in the second half of 2001.

Chart II – ACT Building Approvals (Monthly Trend Data)

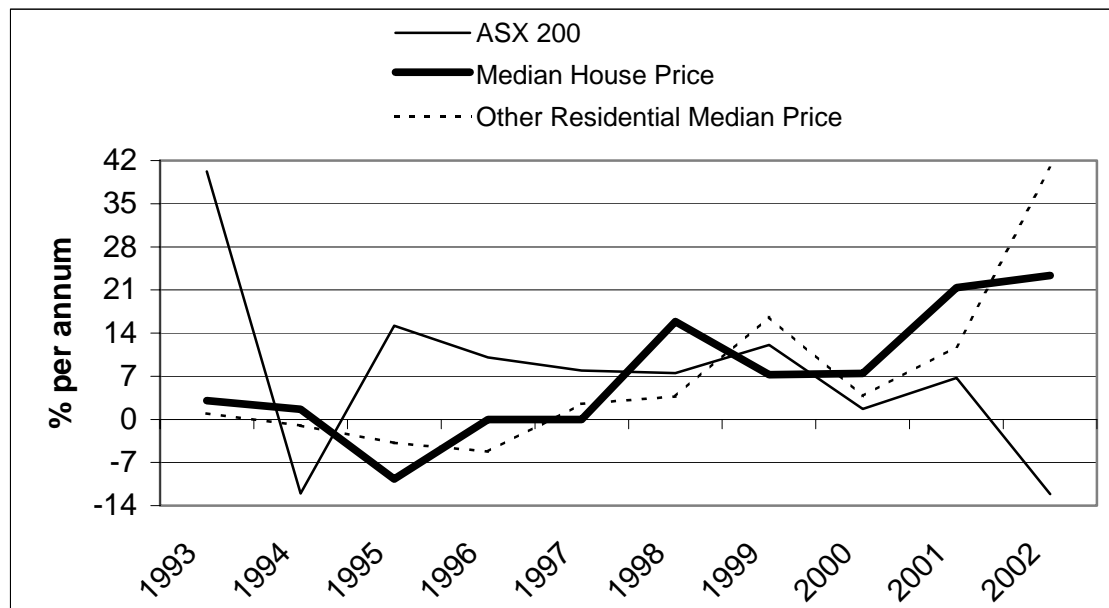


Source: ABS Catalogue No. 87310

Investor activity

6. With the rise in interest rates in the first half of 2002 and a reduction in the additional FHOG to \$3,000 in January of that year, building activity fell until picking up in the second half of the year. The pickup appears to reflect low interest rates and poor returns on the stockmarket, leading investors to view property as a more secure investment than shares. This is suggested by the trendlines of the ASX 200 and ACT median house prices shown in Chart III.

Chart III – Annual Growth in the ASX 200, ACT Median House Prices and ACT Median Other Residential Prices



Source: ACT Treasury, RBA

The influence of population growth and household formation on the demand for housing

7. Demand for housing in the ACT has historically been primarily driven by population growth (including interstate migration) and household formation. In the ACT, annual population growth has averaged 0.98% since June 1992 and, with respect to interstate migration, there was a net migration out of the ACT in 2002-03.
8. The ACT shares the national trend toward a greater number of smaller household units. Annual household growth for the ACT since June 1992 has averaged 1.8%. There were approximately 6,000 more households than new houses created in the ACT between 1992-93 and 2001-02. This indicates that, in recent years, household formation has become a more significant factor in demand, representing about 45% of the housing demand.
9. The total number of residential housing transactions in 2002-03 was around 16,000, which is well above the combined growth in population and household formation. It therefore appears that a considerable number of transactions relate to existing homeowners seeking to upgrade their accommodation to their needs and choice, in an environment of low interest rates and consequent high affordability.

The underlying estimate of housing demand

10. Current estimates of underlying dwelling demand (from both the ACT Housing Industry Association and the ACT Land Development Authority) are for 2,300 dwellings per year.

Summary

11. It appears that the primary cause of the increased demand for housing in the ACT in recent years is investment activity arising out of the sustained period of national economic growth, weak international stock markets, low interest rates and Commonwealth Government intervention in the market (such as by way of the FHOG). The Commonwealth Government has encouraged investment in housing as an important driver of economic growth, particularly at a time when the rest of the world has been experiencing an economic

downturn (in 2001-02, Australian GDP growth was 3.8%, with 0.95 percentage points coming from dwelling investment). The weak stock market has led investors into the housing market while low interest rates have driven up demand from owner-occupiers. Ironically, the affordability that has flowed from lower interest rates and that once brought buyers into the market is now keeping many out.

III. THE SUPPLY OF HOUSING IN THE ACT

Land availability

12. While the ACT Government controls the large-scale release of land, in the past this has been sold to developers who have developed the sub-divisions and sold the developed land as blocks or, more typically, as house and land packages. In general, developers and builders have held around two years' supply of land. At the end of September 2003, there were approximately 2,600 blocks in the developers' pipeline and around 1,400 vacant blocks and unoccupied dwellings in the builders' pipeline.
13. In 2003 the ACT Government established the Land Development Authority to deliver public land development in a more orderly and sustainable manner. The annual land release program, along with indicative forward years' release program, is published and tabled with the annual Budget.
14. In view of the housing demand pressure, the ACT Government has taken steps to increase the supply of land for residential development in Canberra by planning for the release in 2003-04 of approximately 2,400 new residential dwelling sites. (A further 1,000 dwelling sites are expected to become available through redevelopment.) The release of 2,400 new sites exceeds the expected demand for new housing in 2003-04 and will introduce some flexibility to the housing pipeline and so affect land prices.
15. Based on the current land release program, the Territory aims to have sufficient land on the market to provide in excess of 2,800 additional dwellings over the estimated underlying demand in the next five years. This includes the expected availability of medium-density dwelling units through redevelopment.

Urban consolidation

16. The ACT Government recognises the importance of responding to changing and widening housing needs by adopting urban consolidation policies in appropriate areas. Urban consolidation provides an opportunity for Canberra's future growth to proceed in a manner that is more efficient, especially in relation to utilising expensive public infrastructure. The demand for dwellings created by redevelopment to date has primarily been from younger age groups who rent. There seems to be a strengthening of the preference by these younger groups for housing that is close to facilities and amenities in centres in central Canberra (such as Civic, Braddon, Manuka and Kingston).
17. Planning policies have been introduced progressively into the Territory Plan that support urban consolidation. These policies have aimed to focus activity generally in areas close to commercial centres and major public transport corridors where additional housing will increase the level of accessibility and reduce the reliance on private vehicle use.

Building costs

18. The Australian Bureau of Statistics collects data for housing material prices for the six State capital cities but does not do so for Canberra, thus making it difficult to estimate the housing material prices for Canberra. In view of the significant reliance on material supplies from Sydney, the material prices for that city may be used as an approximation for Canberra. They show a steadily rising trend,² increasing by 14% in the past five years. During the same period, wages in the ACT construction industry have risen by 19%. These price rises contrast to the increase in median house prices, which have nearly doubled (see Chart I).
19. This information lends weight to the view that the prices for established houses have been driven by higher demand that is fuelled by low interest rates and continued economic growth, and assisted by the high rate of household formation (see Section II). For new dwellings, there is little evidence in the material and wage cost indices to suggest that home prices have risen due to higher material or labour costs.

The impact of Territory taxation

20. The recent HIA report claimed that \$48,700 was the total indirect tax in the ACT on a new house and land package.³ The HIA provided a more detailed break-up (see Table I).

Table I: Break-up of ACT Taxation and Charges

House	
State and Local Fees, Levies	5,240
GST	18,128
<i>House sub-total</i>	23,408
Land	
State and Local Fees, Levies	17,170
GST	5,665
Contract built	2,095
<i>Land sub-total</i>	24,930
Total House and Land Package	48,338

Source: HIA

21. Around half of the taxes and charges in the ACT are due to the Commonwealth's GST, which is applicable only to new homes. Further, because of the way that GST is applied, the HIA Report estimates that approximately \$3,200 of the above total represents taxes on taxes (eg Stamp Duty on GST).
22. The ACT Government has been unable to obtain the further break-up of, and methodology for, State fees and levies used by the HIA. It appears that, in relation to land, around three impositions of Stamp Duty are included in these figures, representing the transactions in the land supply chain (successive purchases by the developer, builder and owner-occupier).

² ABS Publication 6427.0 Producer Price Index – Australia

³ HIA Ltd *Restoring Housing Affordability – the Housing Industry's Perspective*, Canberra, July 2003

23. In the ACT, Stamp Duty comprises around 3.3% of total housing costs. Based upon the current schedule, the Stamp Duty applicable to the ACT median house price of \$324,000 as at June 2003 is \$10,820 and the Stamp Duty applicable to the median flat price in June 2003 of \$272,000 is \$8,396.

IV. THE NUMBER OF POTENTIAL FIRST HOMEBUYERS IN THE ACT

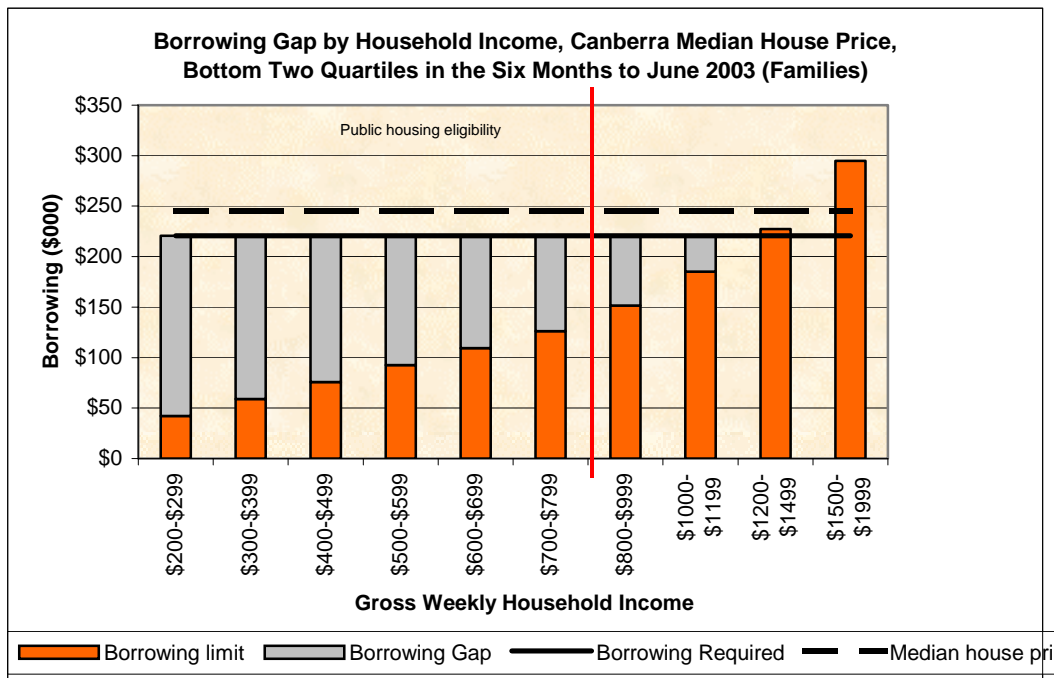
24. In considering the number of potential first homebuyers in the ACT, it is useful to examine the capacity of householders to borrow sufficient funds to meet the cost of purchasing a home in the lower end of the housing market.. For the ACT, the price of such a home is taken to be the median price of houses falling into the bottom 50% of houses sold in the six months to 30 June 2003.⁴ This median price is \$245,000.
25. The following Chart shows the “borrowing gap” by household income for a home costing \$245,000. It indicates that there is no borrowing gap for households with incomes more than \$1,200 per week.⁵ There *is* a borrowing gap (of up to \$95,000) for households in the income range of \$800-\$1,200 per week. In the ACT, there are around 5,200 private renter households in this income range.⁶ Of these, around 2,800 are single person households, which typically have low rates of entry into home ownership. This leaves around 2,400 private renter family households (including couples without children) with household incomes in the range of \$800-\$999 and \$1,000-\$1,199 per week. Available data suggests that due to lifestyle and other consumption choices, around 60% of this group may be seeking to enter home ownership, representing a demand of some 1,500-1,700 households.
26. Home ownership and sustainability of mortgage payments are generally considered to be beyond the reach of the lowest two income quintiles (those whose gross weekly household income is below \$800). Even at the current low interest rates, households with income of up to \$800 per week would be eligible for loan finance of less than \$150,000. However, this level of household income forms the basis for eligibility and targeting of public housing under the Commonwealth-State Housing Agreement.
27. For the two lowest income quintiles, public housing remains the most appropriate form of housing assistance. *It is the third income quintile where government assistance for first homebuyers may be feasible.*

⁴ Maximum loan payment assumed to be 30% of gross income, on 25-year loan at 8% per annum. The loan amount is assumed at median house price of \$245,000 less 10% deposit. Note that the deposit, and government duty and charges, are not included in the borrowing gap.

⁵ It is recognised that householders with gross weekly income above \$1,200 may feel themselves in housing stress because they would like to purchase a house costing more than \$245,000, that is, they aspire to a finer home than their income might allow. However, there is a need to distinguish between real housing need and consumer aspirations in terms of affordability. The focus of this Submission is upon householders whose weekly income does not allow them to obtain a loan to purchase a house at the lowest end of the market.

⁶ ABS, 2001 Census

Chart IV – The Borrowing Gap by Household Income



Source: ACT Treasury

Take-up of the First Home Owner’s Grant Scheme (FHOG) in the ACT

28. In 2002-03 there were 2,446 households who received assistance under the FHOG. Eighty five percent of these grants related to established properties and 15% related to new house purchases. Average property values ranged for \$205,038 in Belconnen to \$270,797 in South Canberra.
29. As the Commonwealth did not means test the FHOG, then – for the purpose of estimating demand for any measures that the ACT Government might take to assist first homebuyers – a take-up rate in the bottom 50% of the housing market would be an appropriate indicator (i.e., a median house price of \$245,000). Based on this approach, the likely level of demand for possible Government assistance again shows up as about 1,700 households per year.

The findings of the ACT’s Affordable Housing Taskforce

30. In 2001 the ACT Government commissioned an Affordable Housing Taskforce, comprising business, community and government representatives, to examine housing affordability in the ACT and to develop an affordable housing strategy. The Taskforce reported in December 2002. It found that around 2,800 low-income households in the ACT who are currently in the private rental market are in housing stress, i.e., their rental costs were more than 30% of their income. This is the higher side of the estimates of those who may be potential first homebuyers outlined above.

V. WHAT THE ACT GOVERNMENT IS DOING TO ASSIST FIRST HOMEBUYERS

31. The ACT Government has taken a number of measures to assist first homebuyers. With the establishment of the Land Development Agency (LDA) in July 2003, the Government can now exercise significant control over land development, release and sale in the Territory. The arrangement means that the price of land can be targeted to specific sectors of the market such as first homebuyers. The LDA has identified up to 100 blocks that could be readily be released over the next 18 months for the lower end of the market. This land would be released by ballot, rather than open auction processes.
32. Based on a demand of 15% of first homebuyers in new greenfields areas (approximately 250 households), this land release will provide a targeted program of assistance. An ongoing target of 100 lower priced blocks per year would be effective, and allow flexibility to change as market demand adjusts. The direct sale mechanism to owner-buyers eliminates up to two stamp dutiable transactions and amounts to a potential saving for first homebuyers in the order of \$10,000.
33. Whereas land release programs over the past few years were based on leaving approximately two years' supply of land with developers and builders, the current Government has indicated its preference for a more responsive land release program.
34. In relation to building costs, the Government is considering schemes involving the building sector in developing suitable low-cost housing options for first homebuyers (while still maintaining core building standards and regulations).
35. In relation to Stamp Duty, the ACT Government has introduced the *Home Buyer Concession Scheme* to provide Stamp Duty concessions to low income purchasers who do not already own a house or land. Eligibility for the Scheme is based upon a set of criteria including income (adjusted for children) and value of the dwelling. In the 2003-04 Budget the Government increased threshold levels for full and partial concessions. The thresholds have been increased to \$180,000 and \$249,000 respectively.⁷ In addition, the income limit has been raised to \$50,000 for a household with no dependent children, and to \$63,200 for a household with four dependent children. A full concession now represents a maximum saving of \$4,780.

VI. WHAT THE COMMONWEALTH COULD DO

36. It is clear from the analysis in Section II of this Submission that the Commonwealth significantly influences housing activity in Australia in a number of ways. Its *wage* policies determine income levels and hence, in conjunction with *retirement income* policies, influence the householder's capacity to buy a home; the Commonwealth's *education* policies impact on an individual's earning capacity and their capacity to save (particularly following the introduction of the Higher Education Charge); and the Government's *broader macroeconomic* policies influence interest rates which in turn impact on demand and affordability of mortgage. In recent years, successive Commonwealth Governments have made significant changes in each of these policy areas.

⁷ The threshold is considered reasonable as the median house price for the lower two quartiles in the six months to June 2003 was \$245,000. During 2002-03, there were approximately 4,000 housing transactions below this level.

37. Against this broad background, the FHOG has been deliberately designed to encourage householders to seek to own their first home. Because the FHOG is not means tested, a wide range of householders, some with very high income levels, have utilised the scheme. However, the ACT Government believes that this is inappropriate, that the Scheme should be reviewed and that those with high incomes should not be eligible.
38. The issue of home ownership should be viewed in the wider context of housing affordability and housing stress. Any housing policy should recognise the appropriateness of different tenures for people in various phases of their lives. Home ownership is one type of tenure that may alleviate housing stress, but too great a focus on home ownership obscures the fact that, for householders in the lower two income quintiles, it is public housing that can best meet their need for shelter and security.
39. The Commonwealth Government does not have any policies targeted at facilitating home ownership by households in these two income quintiles. Instead, it relies on the provision of rental support through the Commonwealth Rental Assistance Scheme and other support through the Commonwealth-State Housing Agreement.
40. There has been a substantial increase in the number of income units in receipt of Commonwealth Rental Assistance (CRA) over the last decade. Similarly, expenditure on the CRA has seen substantial real increases, and now amounts to around \$1.8 billion. By contrast, over the same period, there has been a real decline in expenditure under the Commonwealth-State Housing Agreement (CSHA). This reflects the fact that the Commonwealth Government regards private rental as a more appropriate means of assisting low-income households than providing social housing. However, the effectiveness of the CRA program depends on the supply of affordable housing, which itself is determined by Commonwealth taxation policies for institutional and small investors.
41. Since there are no rent controls in Australia, it is possible that this form of housing allowance has had an inflationary effect on rents. While there is no consensus on the causal connection (and the extent of that connection) between increase in rents and increases in CRA funding, significant real increases in lowest quintile rents have been noted during the period of extension of eligibility for CRA and increases in funding.⁸
42. It has generally been assumed that housing allowances, and demand subsidies in general, do not contribute to inflationary pressures on house prices and/or rents. While this may be true in the United States where the proportion of recipients is small (less than 5%), the assumption does not appear to be applicable to Australia where recipients comprise more than 40% of the rental market. More work is required to assess the impact of demand subsidies on the market. Comparative studies for Australia, New Zealand, Canada and the United States indicate that in none of these countries is there any evidence of an increase in affordable rental housing from housing allowances.⁹

⁸ Wulff M, Yates J and Burke T; *Who Does the Private Rental Market Work Well for in Australia: And Who Does It Fail?* 2001. This report highlights that between 1986 and 1996, there was a 14% real increase in lowest quartile rents, compared to less than 2% increase in highest quartile rents.

⁹ *Demand Subsidies for Private Renters: A Comparative Review*, Hulse K; Australian Housing and Urban Research Institute; Swinburne-Monash AHURI Research Centre; September 2002.

43. The ACT Government considers that public housing remains the most cost effective means of alleviating housing stress for the two lowest income quintiles. The effectiveness of the CRA program as an instrument of housing policy, and its effect on rental levels, needs to be assessed.
44. The ACT Government also considers that the Commonwealth Government should seriously consider enabling individuals to access a specified portion of their compulsory superannuation savings to put down a deposit (and hence reduce the individual's borrowing gap) on their first home purchase. This would enable those individuals to make an important investment for their future.

VII. CONCLUSION

45. The Commonwealth Government established the Productivity Commission's inquiry without consultation with the States and Territories. At the time the inquiry was announced, States and Territories were discussing the development of a national approach to housing affordability that would have covered all tenure types and their supply. Instead, the current inquiry focuses upon a portion of the issue, that dealing with first homeowners.
46. The ACT Government considers that the absence of a national housing policy, integrated with the broader economic and social policy agenda, is *the single most important impediment* to understanding and dealing with issues of housing affordability. As the Commonwealth has a leading role in shaping the economic factors that affect the housing market (including the first homebuyer market), it should facilitate the preparation of such a national housing policy. The interaction between the Commonwealth State Housing Agreement, the Commonwealth Rent Assistance Scheme, the provision of short-term accommodation (provided through the Supported Accommodation Assistance Program), and taxation policy should all form part of that national policy.