



Submitted by Senator Andrew Bartlett  
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Australian Democrats spokesperson for Housing

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## SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

### *Executive Summary*

The Australian Democrats believe this Inquiry is too narrowly focussed on first homeowners. There are many Australians for whom home ownership is a long way out of reach and that they, too, are potentially first home owners if the economic, employment and subsidy settings are right.

Indigenous Australians are amongst the most poorly housed and are least likely to achieve home ownership. We request that the Productivity Commission particularly investigate their access to home ownership.

Given the fundamental nature of housing the focus of government must include adequate funding for public and community housing options and the promotion of a strong, fair and affordable private rental market. Currently public and community housing is under-funded and the private rental market is a classic example of market failure.

The costs of housing include the purchase or rental costs as well as the costs of occupation. In Australia the link between amenity and housing costs is most apparent in our major cities. The proximity of housing to jobs, services and transport should be considered as a cost of occupation. Achieving home ownership is one thing, sustaining that ownership is quite another.

Labour market change is impacting significantly on the ability of low income Australians to achieve home ownership. Casualisation impacts on people seeking to house themselves and their families. The Australian Democrats argue for a review of industrial relations and corporations laws to place greater emphasis on job security.

The location of jobs is changing and shifting to the cities where housing is more expensive. This can create barriers for people seeking to move to where the jobs are if housing is too expensive. Government investment in regional employment initiatives is required.

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The taxation treatment of investment housing has fuelled the housing market, driving up prices. Negative gearing should be reformed so that tax losses from property income should be quarantined and only offset against future property income. Capital gains tax on investment housing should also be reformed and concessions removed.

Finally, the problem of housing affordability in Australia has arisen because the federal government has chosen to deal with individual aspects of housing in isolation. For instance, by introducing the First Home Owners Grant to fix one problem whilst ignoring other problems.

A national approach to housing affordability is required. The federal government needs to show leadership and a willingness to take a holistic view of the housing market. The Australian Democrats argue for a national affordable housing strategy that clearly identifies federal and State respective roles, looks at land supply, promotes the maintenance and development of a sustainable rental market and the role of housing within the Australian economy. We strongly support the development of a more co-ordinated approach.

### ***1. Introduction***

This submission is on behalf of the federal parliamentary team of the Australian Democrats.

Housing is a basic human need as well as an important way in which Australians have achieved social stability and financial security. Supply and demand for housing is overlaid by the importance of home ownership in the Australian psyche. The housing market is also both a driver of the economy and also seen as a key indicator for the health of the domestic economy. Housing has been a focus for Australian governments, particularly since WWII.

However, in many parts of the housing market – particularly in the rental market – there is a classic case of market failure<sup>1</sup>. As the Industry Commission found in 1993<sup>2</sup>, there are many population groups who are unable to access suitable housing at an affordable price. Emerging data on the composition of home ownership shows that there is a slow decline in home ownership and that first home owners are becoming older. At the same time, many more renters are spending longer in the rental market and the structure of that market is changing as well.

In recent years, governments have taken a ‘hands-off’ approach to the housing market and have assumed that low interest rates would alone deliver affordability. This submission argues for a re-examination of the role of the federal government in housing and in the housing market. As the Productivity Commission itself notes:

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<sup>1</sup> *Public Housing* Report of the Industry Commission Volume 1 page 51, 1993

<sup>2</sup> *Ibid*

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*Government plays a significant role in the Australian housing market, directly through housing assistance and indirectly through policies associated with land planning and taxation. Commonwealth, State and Territory governments share responsibility for housing assistance.<sup>3</sup>*

We argue for a more strategic and holistic approach by government to moderating the highs and lows of the housing market and ensuring there are both jobs and employment arrangements that enable ordinary Australians to pay for their housing.

We also argue that there is a responsibility on the federal government in particular to consider the impacts of its current and future subsidies on the housing market – including negative gearing, capital gains concessions, Commonwealth Rent Assistance and the First Home Owners Grant. It is not sufficient to view any of these in isolation – however, it appears this is what happens all too often.

In particular we argue for an increased focus on the provision of housing assistance for low income earners – including those who would be first home owners if only they could afford it.

We also argue for a longer-term rethink of the private rental market and the need to ensure that the provision of housing is the primary purpose of investment in property. As the RBA<sup>4</sup> so effectively shows in their submission, investors have other motivations. They do not invest in property with the long-term aim of providing rental housing. Rather, they seek speculative capital gains.

The resulting lack of focus on rental housing means that the market serving more than one fifth of the nation's households is not addressing the need of that segment of consumers (tenants) and is driving up housing prices across the board.

This submission is a summary of the Australian Democrats' concerns about housing affordability in a number of key areas.

## ***2. The cost of housing***

### **Affordability – renters and purchasers**

There is substantial recent research available into housing affordability. The majority of that research has been brought together in the very comprehensive report commissioned by the Affordable Housing National Research Consortium. The Consortium's report effectively outlines the affordability problems that currently exist in the Australian housing market. Its work concentrates on those who miss out on home ownership and clearly defines what the affordability issues are<sup>5</sup>.

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<sup>3</sup> *Report on Government Services 2003*, [Chapter 16: Housing](#) Productivity Commission page 16.1, 2003

<sup>4</sup> Reserve Bank of Australia Submission to the *Productivity Commission Inquiry on Home Ownership*, <http://www.pc.gov.au/inquiry/housing/subs/sub199.pdf> November 2003.

<sup>5</sup> The reports can be found at [www.consortium.asn.au](http://www.consortium.asn.au) and have also been provided to the Productivity Commission by the Dr Kim Hawtrey on behalf of the Consortium.

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It is clear from this research that there are an increasing number of people who are unlikely to achieve home ownership – but should be considered as potential first home owners. The Australian Democrats refer the Productivity Commission to the Consortium's research and the data contained within it. We also note the submissions by a number of key community groups who are concerned about housing affordability – for example ACOSS<sup>6</sup>, National Shelter<sup>7</sup> and the Housing Justice Roundtable<sup>8</sup>.

### **Mortgage insurance costs**

Almost all first homeowners borrow from Australia's financial institutions to fund their purchases. The competitive market has reduced the upfront application fees and banks are offering reduced short-term 'honeymoon' interest rates. However, banks have reduced their risk exposure by ensuring that borrowers pay for Lender's Mortgage Insurance.

Lenders' Mortgage Insurance covers the lender in the event of the borrower defaulting on their loan. If the property is subsequently sold, and the amount from the sale is not enough to pay off the loan in full, this insurance will cover the lender for the shortfall.

The lender, not the borrower, applies for Lenders' Mortgage Insurance (LMI) and the insurance should not be confused with Mortgage Protection Insurance.

The fee for Lenders' Mortgage Insurance is paid as a once only fee at loan settlement and varies depending on the amount of money being borrowed and the size of the borrower's deposit.

The companies that offer LMI tend to be captive subsidiaries of the banks, or at least partly owned. Banks and insurers have earned massive profits from LMI in the booming market. Defaults have been low in recent years, and even in the case of the default, the selling price of the property has more than covered the outstanding mortgage.

Some basic calculations that have been provided to us indicate that for a \$250,000 home, a loan of \$225,000 (or 90%) would require a minimum \$3,898 LMI fee. If the borrower only has a 5% deposit, the fee increases to \$5,882, nearly all the First Home Owners Grant.

We submit that due to a lack of understanding of the LMI, banks have been earning significant profits from this compulsory product. In the unlikely event of default and a disposal for less than the outstanding mortgage value, the customer is still liable for the LMI loss that has been paid to the bank.

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<sup>6</sup> Australian Council of Social Service <http://www.pc.gov.au/inquiry/housing/subs/sub147.pdf> October 2003

<sup>7</sup> National Shelter <http://www.pc.gov.au/inquiry/housing/subs/sub157.pdf> October 2003

<sup>8</sup> Housing Justice Roundtable <http://www.pc.gov.au/inquiry/housing/subs/sub181.pdf> October 2003

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### Costs of occupation

The costs of housing include the costs of occupation – whether this is by home owners, purchasers or renters. These factors should be taken into account when determining the lifetime cost of the property. First home owners and those seeking to become home owners may well take on properties that have high, unsustainable occupation costs.

The rental market in Australia is diverse and includes new, luxury unit developments as well as older, run-down housing. Lower cost rental properties are rarely purpose built and were at some stage owner-occupied housing. The households renting at this end of the market are often on low incomes. The cost of living in a rental property extends beyond the rent and usually includes costs such as heating and cooling. As the Greenhouse Office says:

*The single parent family may be living in less than desirable accommodation, with little ability to influence some of their major energy usages. For instance, the prevalence of high running cost for electric hot water systems in flats and units can be the single highest component of energy usage. Appliances owned may be inefficient, old and faulty. In this case behaviour may be a very small contributor to the overall energy load, making it difficult to manage their bills by managing their usage<sup>9</sup>*

### Indigenous households

Indigenous Australians are much less likely than other Australians to own or be purchasing their own homes. In 2001 only 32% of Indigenous households in Sydney owned or were purchasing their homes<sup>10</sup>. Indigenous households were more than twice as likely to be living in rental housing than non-Indigenous households.<sup>11</sup> Figure 1 below shows the tenure type of Indigenous and non-Indigenous households in Australia in 2001.

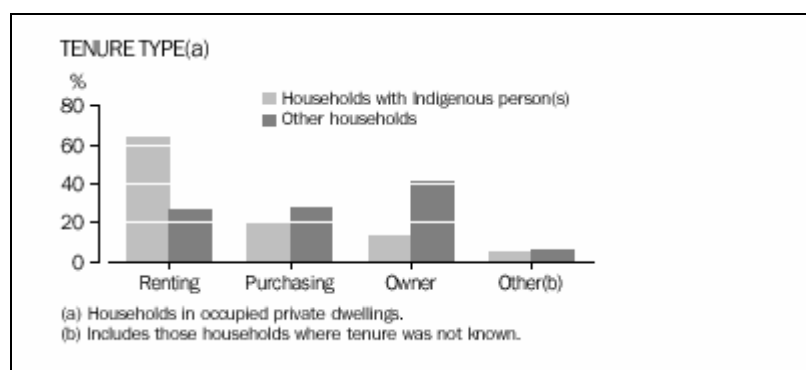


Figure 1<sup>12</sup>

<sup>9</sup> <http://www.greenhouse.gov.au/coolcommunities/audit/section5.html>

<sup>10</sup> Australian Bureau of Statistics *Population Characteristics Aboriginal and Torres Strait Islander Australians 2001* ABS Catalogue 4713.0 p.93

<sup>11</sup> Ibid

<sup>12</sup> Ibid

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Indigenous households in rural and remote areas were less likely to own or be purchasing a home than those in metropolitan areas in the 2001 census.<sup>13</sup> Table 1 below shows the level of home ownership rates by ATSI region at the 1996 census.

ATSI Region	ATSI Region	ATSI Region	ATSI Region
	%	%	%
Hobart	55.5	Wagga Wagga	31.8
Wangaratta	45.5	Darwin	30.8
Ballarat	41.5	Roma	28.3
Sydney	37.3	Rockhampton	28.1
Brisbane	36.3	Narrogin	27.7
Coffs Harbour	35.7	Bourke	27.6
Queanbeyan	34.3	Kalgoorlie	27.2
Perth	33.8	Tamworth	27.2
Adelaide	32.6	Townsville	22.1
		Mt Isa	21.8
		Cairns	21.5
		Geraldton	20.5
		Broome	17.7
		Port Augusta	17.7
		Alice Springs	17.6
		Ceduna	16.3
		Torres Strait	13.7
		South Hedland	13.3
		Derby	9.8
		Kununurra	9.4
		Katherine	9.1
		Tennant Creek	8.8
		Aputula	7.1
		Warburton	3.7
		Cooktown	2.8
		Jabiru	2.5
		Nhulunbuy	0.4

Source: 1996 Census Indigenous profile data.

**Table 1 – Indigenous home ownership rates (1996)**

The 2001 Census and other data collections identify the following important aspects of Indigenous housing.

- a) Indigenous people experience more overcrowding - nationally, there were 3.5 people in Indigenous households. Over crowding is more likely to occur in remote areas than in the major cities. However 10% of households in major cities still reported overcrowding.<sup>14</sup>
- b) Around one third of Indigenous households in major cities reported rent costs that were greater than 30% of income and 34% reported mortgage payments that were greater than 30% of income.<sup>15</sup>
- c) 13.1 per cent of all Indigenous households were determined to be in 'before housing poverty'<sup>16</sup> compared to 4.5 per cent of non-Indigenous households. Similarly with 'after housing poverty'<sup>17</sup>, the figures were 16.4 per cent and 8.6 per cent respectively. The regions with the highest poverty rates were Sydney, Coffs Harbour and Brisbane.<sup>18</sup>

<sup>13</sup> Ibid

<sup>14</sup> Australian Bureau of Statistics *Population Characteristics Aboriginal and Torres Strait Islander Australians 2001* ABS Catalogue 4713.0 p.97

<sup>15</sup> Ibid p.95

<sup>16</sup> 'Before housing poverty' refers to a household whose income before paying housing costs is less than the poverty line.

<sup>17</sup> 'After housing poverty' refers to a household whose income is reduced below the poverty line by its housing costs.

<sup>18</sup> Jones, R., *Indigenous Housing 1996 Census Analysis – Indigenous Housing and Living Environments*, ATSI, Canberra, 1999, pp 41-47.

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- d) About 3 per cent of Indigenous households lived in improvised dwellings<sup>19</sup> (the largest numbers were found in the rural and remote regions of the Northern Territory). On average, these households consisted of 4.9 people, which were much larger than non-Indigenous households in the same type of accommodation, which had 2.0 people.<sup>20</sup>
- e) Indigenous people represent 2 per cent of the total population but over 14 per cent of Supported Accommodation Assistance Program (SAAP) clients (i.e. those who are homeless and seeking assistance).<sup>21</sup>

The Australian Democrats argue the option of home ownership is an important part of reconciliation. As an indicator of wealth, housing serves as a “proxy of accumulated savings and command over resources”.<sup>22</sup> Reconciliation cannot be achieved while Indigenous Australians have comparatively less assets and resources, including housing, than non-Indigenous Australians.

There is evidence that there has been slow improvement in the levels of home ownership amongst Indigenous Australian households – with the percentage of home purchasers and owners increasing from 30.2% in 1991<sup>23</sup> to 33.4% in 2001<sup>24</sup>. However, this is still well below the home ownership rate for the non-Indigenous population of 72.7% in 2001.<sup>25</sup>

As the Productivity Commission said in its recent *Overcoming Indigenous Disadvantage Report*, the low level of home ownership among Indigenous Australians means a lack of a financial asset that can either be borrowed against or passed on from one generation to the next. As most Australian families’ main wealth base is their family home, low home ownership rates contribute to intergenerational poverty among Indigenous families and will continue to affect future home ownership prospects.<sup>26</sup>

Inadequate and overcrowded housing contributes to poor health, family violence and poor educational and employment outcomes.

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<sup>19</sup> Australian Bureau of Statistics *Population Characteristics Aboriginal and Torres Strait Islander Australians 2001* ABS Catalogue 4713.0 p.97

<sup>20</sup> <http://libabs1.parl.net/abs/abs@.nsf/Lookup/A6CFCF4B4E1FA349CA2569DC007821AF> This publication presents selected data about the housing characteristics of the Aboriginal and Torres Strait Islander (Indigenous) population of Australia, excluding those living in sparsely settled or remote areas, from the 1999 Australian Housing Survey (AHS). Equivalent data for the non-Indigenous population of Australia are also presented for comparison purposes

<sup>21</sup> Australian Institute of Health and Welfare, *SAAP National Data Collection Annual Report 1999-2000*, Australian Institute of Health and Welfare, Canberra, 2000

<sup>22</sup> Altman, J C and Hunter B H *Monitoring ‘practical’ reconciliation: Evidence from the reconciliation decade 1991-2001* Centre for Aboriginal Economic Policy Research, ANU, 2003 p.4

<sup>23</sup> Ibid p.6

<sup>24</sup> Ibid p.8

<sup>25</sup> Ibi p. 8

<sup>26</sup> *Overcoming Indigenous Disadvantage: Key Indicators 2003* Productivity Commission p3.33

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We ask that the Productivity Commission specifically address Indigenous households access to home ownership in this inquiry.

### ***3. Government funded programs***

#### **Public and community housing**

There is a crisis in the provision of public and community housing. It cannot be assumed that this is a reliable avenue of assistance for people struggling in private rental. Senator Bartlett recently initiated a debate in the Senate on the Commonwealth State Housing Agreement and raised many of the concerns about the inadequacy of funding<sup>27</sup>.

The Commonwealth State Housing Agreement (CSHA) provides \$3.5bn over 5 years (in 2003 \$\$). But the funding for public and community housing, including Aboriginal housing is inadequate and there is huge unmet need.

- The level of funding for the Commonwealth State Housing Agreement decreased substantially over the last decade – about \$500m per annum in real terms (28% reduction) and will continue to reduce under the terms of the newly signed Agreement.
- States and Territory housing authorities cannot meet the running costs of existing public housing and have said they may be forced to sell their existing housing stock in order to meet recurrent expenditure including loan repayments to the Commonwealth.
- On 30 June 2002 there were still almost a quarter of a million (223,290) households waiting to be housed in public housing alone and only 36,877 housed during the year.

The Australian Democrats recommend increased funding of public and community housing and the development of new forms of affordable rental housing for low to moderate income earners. Extra levels of public and community housing stock will undoubtedly help reduce pressure on the provision of affordable housing.

#### **Rent subsidies**

The main form of rent assistance is through Commonwealth Rent Assistance available to pension and benefit recipients. In 2003-2004 the Commonwealth expects to spend \$1.922 billion on Rent Assistance.

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<sup>27</sup> HOUSING ASSISTANCE (FORM OF AGREEMENT) DETERMINATION 2003 Motion for Disallowance <http://www.aph.gov.au/hansard/senate/dailys/ds291003.pdf> 29 October 2003



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A recent report by National Shelter and ACOSS using Department of Family and Community Services data showed that more than one in three Rent Assistance recipients (330,000 people) exceed the government's own conservative measure of housing affordability by spending more than 30 per cent of their income on rent. Almost one in 10 recipients (85,000 people) spend more than 50 per cent of their income on rent.

In the face of evidence that the absolute number of low cost properties is decreasing at the same time that demand is increasing, it is clear that Rent Assistance is not delivering housing affordability. There is a mismatch of supply and demand that Rent Assistance has not been able to resolve.

### **First Home Owners Grant**

The Australian Democrats have two main criticisms of this grant. Firstly it is not means tested in any way. Secondly, the accountability and reporting mechanisms are very poor.

This year over \$900 million of federal funds will be expended on the First Home Owners Scheme. The States and Territories administer these funds but have no reporting requirements back to the Commonwealth other than the total spend and the number of recipients.

This does not compare well with the stringent and complex reporting requirements for the expenditure on public and community housing of around \$750 million, also administered by States and Territories. As a result of poor reporting, the Commonwealth has no data with which to evaluate the impact of this grant, whether it is improving affordability, and what the nature of the take-up is.

### **Shared home ownership schemes**

The Australian Democrats recommend caution with shared home ownership schemes such as those promoted by State Housing Authorities some 10-15 years ago and the current Menzies Centre proposal.

Experience from housing advocacy groups such as National Shelter is that earlier schemes were poorly thought out from the perspective of purchasers and did not work well in practice. One of the prime tensions raised at the time was the apportionment of any improvements done by the occupier.

## ***4. People and jobs***

### **Labour market change**

Australian Democrats Senators meet with a wide range of interest groups including unions and consumer groups. One of the issues consistently raised with us about labour market issues is the changing nature of work and the social and economic impacts on individuals. The difficulties of obtaining or maintaining housing are raised in this context.

Since the early 1990s employers have increased their use of casuals, contractors and labour-hire forms of employment, often on a long-term basis. Approximately 60% of new jobs since the mid 80s have been in low paid, casual sectors. From 1988 to 2001:

- Casual employment for all workers grew from 18.9% to 27.2%
- Casual employment for workers aged 15 to 19 grew from 38% to 66%
- Casual employment for males almost doubled from 12% to 23%
- Casual employment for females increased from 28% to 32%<sup>28</sup>

More than 2 million Australians are casual, with the average period of casual labour being 4 years.

Changes in Australia's labour markets, particularly casualisation of the work force, are having a considerable impact on the ability of those who do not have a regular income to maintain either a mortgage or rent payments or to obtain a mortgage. This evidence given at a Senate inquiry into poverty describes the problem:

*I see casual workers struggling to work whilst they are ill and, if the illness is serious, they have to resort to a welfare benefit that often results in the repossession of their motor vehicle, the termination of their mortgage or the worker having to go cap in hand to a charity to help pay the rent.<sup>29</sup>*

And this evidence to the same inquiry:

*Mrs Adkins —From the other side of the coin, there is the issue of casualisation and people being on contracts. It is very difficult to get a mortgage if you are on contract. It really forces you into the private rental market.<sup>30</sup>*

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<sup>28</sup> ACTU *The Future of Work* <http://www.actu.asn.au/public/futurework/>

<sup>29</sup> Evidence given by Ms Cook who represents low-paid workers in the Hunter and Western New South Wales at the COMMUNITY AFFAIRS REFERENCES COMMITTEE: Poverty and financial hardship 29/05/2003

<sup>30</sup> Evidence given by Mrs Adkins for SACOSS at the COMMUNITY AFFAIRS REFERENCES COMMITTEE: Poverty and financial hardship 29/04/2003

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The Democrats are concerned about the increase in insecure work and the social and economic impact it is having on Australian families, and have called for a National Inquiry into insecure work.

### Increasing inequality

Inequality is increasing in Australia. 2003 ABS data on Household Income and Income Distribution showed that the real mean income of low income people increased by only 8%, from \$227 to \$245 per week compared to middle income and high income people, which increased by 12% and 14% (from \$792 to \$903 per week) respectively.

In a recent paper examining inequality in Australia, Professor Peter Saunders, Director of the Social Policy Research Centre, argues that:

*Since the Howard government came to office, the new figures indicate that almost half (47.3 per cent) of the total increase in disposable income was received by those in the top quintile – implying that half of the income generated by economic growth has been of no benefit to the bottom four-fifths (in income terms) of the population. Comparison with earlier research also shows that income inequality has, in some respects, increased more rapidly since the mid-1990s than during the 1980s.<sup>31</sup>*

The statistics show that inequality has increased more rapidly since the mid-1990s than during the 1980s, yet not much is made of this issue, which the Democrats find alarming.

The Democrats believe one of the key reasons for the increase in inequality is the rapid increase in insecure employment, especially in low paid jobs. We are seeing a US style “working poor” in Australia.

Increasingly more people are forced to rely on government benefits combined with casual or temporary employment that pay low wages. There is an added problem of the intersection between the welfare and tax system where those people combining government benefits and insecure employment are paying an effective tax rate of up to 87 cents in the dollar. That is, they are losing 70 cents in the dollar in benefits, and a further 17 cents in the dollar in tax.

Inequality is a point of some concern to Australians and a very unequal society is something the Australian Democrats are keen to avoid.

At the last budget, the Democrats provided details of a tax cut plan that raised the tax-free threshold so tax cuts would benefit all working Australians equally<sup>32</sup>. This could reduce the high effective marginal tax rates by 17%. The Democrats have consistently argued that maintaining or raising the living standards of low-income wage earners is

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<sup>31</sup> Saunders, P (2003) Examining Recent Changes in Income Distribution in Australia, SPRC Discussion Paper No. 130 October 2003, p1

<sup>32</sup> Senator Bartlett Budget in reply speech 15<sup>th</sup> May 2003  
[http://www.democrats.org.au/speeches/index.htm?speech\\_id=1091&display=1](http://www.democrats.org.au/speeches/index.htm?speech_id=1091&display=1)

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less effective if addressed principally through the Australian Industrial Relations Commission (AIRC) in isolation of tax and welfare policy.<sup>33</sup>

The Australian Democrats also argue for a review of industrial relations and corporations laws to place greater emphasis on job security. The outcome of a review should be to make it less attractive for companies to:

- Retrench large numbers of staff in order to deliver short-term profit gains; or
- Casualise their workforce or increase the hours of existing employees, rather than create secure permanent jobs

### **Demographic changes and shifts to the cities**

Housing and social welfare advocacy organisations have noted the difficulties for low income earners seeking to move closer to work. Many low income households are faced with a difficult choice – to stay where housing is affordable but jobs are few, or to move to find employment. Too often areas with high employment and opportunities also have high cost housing.

There is currently no federal government department responsible for driving regional development or looking at the interactions between housing, employment, infrastructure and industry development. The future development of Australia and the sustainability of our cities and regions depends on a more integrated and holistic approach.

### **Key workers**

Many global cities are experiencing the situation where so-called ‘key workers’ are unable to afford to live in the places they are needed. Key workers include nurses and teachers and also those who work in the service and hospitality industries. The high cost of housing, ownership and rental, impacts on the ability of people to obtain work and the ability of business to get labour.

Last year, this article appeared under the headline “Filthy rich in the suburbs – but who’s left to wash the 4WD”

*Sydney is becoming so unaffordable that labour shortages have developed in the more expensive parts of the city for lower-paid jobs. There is also growing anecdotal evidence - though no comprehensive research - that Sydney may be developing a “key worker” shortage where some workers are priced out of the city entirely. A study by National Economics revealed significant shortages of vital workers in the CBD and in the northern, eastern and inner- southern suburbs, where the housing market has boomed.<sup>34</sup>*

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<sup>33</sup> For example see Press Release [“Senator Murray and Senator Greig, Tax Cuts Will Help End Poverty Traps”](#) 18 September 2003.

<sup>34</sup> “Filthy rich in the suburbs, but who’s left to wash the 4WD?” Sydney Morning Herald 13/08/02

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The Australian Democrats are concerned that housing in Sydney, and potentially Melbourne, is becoming out of reach for ordinary working families and individuals. This has the potential to affect future labour markets and the mobility of those seeking work. There are implications for future wealth divides and inequalities within Australia from those who own property in Sydney and those who don't.

### **External factors**

The global downturn has affected the savings and investment patterns of individuals and like many countries; Australia has seen a shift from investment in the share market to greater investment in housing. However, this investment by middle to high-income earners has been at the expense of access to housing for people on lower incomes.

### **Possible changes**

The Australian Democrats consider that the following changes could be made to overcome barriers to home ownership and to reduce inequality.

The relationship between stable and consistent employment and the ability to enter into long term financial agreements such as mortgages is not just an issue for lenders. Low-income wage earners have a well-founded concern that they cannot enter into a mortgage because of uncertainty of income. We argue that government should place greater emphasis on creating and sustaining real jobs in the economy.

- Develop policies to reverse the increase in insecure work. A first step could be a national inquiry into insecure work.
- Develop policies to create and support jobs in regional Australia where housing is cheaper, but unemployment is higher<sup>35</sup>. Possible solutions include:
  - Funding to trial a Regional Jobs Tax Credit scheme
  - Funding for a Regional Community Jobs Program based on the Queensland Government's 'Breaking the Unemployment Cycle' model, to replace the Governments Work for the Dole Scheme;
  - Enhance job network to provide more effective labour market assistance in regional Australia;
  - Expand the places available in the most successful job creation program, the New Enterprise Incentive Scheme (NEIS), into regional areas;

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<sup>35</sup> In 2002, the city-country jobs gap widened with just 22% of new jobs being created in regional Australia, where 40% of Australia's unemployed actually live.

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- Re-establishing a regional development bank;
- Reform and improve the Zone Tax Rebate Scheme<sup>36</sup>
- Review of taxation arrangements including negative gearing, capital gains tax discounts and the First Home Owners Grant. This is comprehensively discussed below.
- Reform of the tax and welfare intersection to reduce effective marginal tax rates on those moving from welfare to work. As part of this process, the tax-free threshold should be increased to at least the level of the poverty line.

As a society if we accept that additional funding is required for Government services, including housing, other means of revenue collection could be considered. One option is a wealth tax that could also be used to reduce the rising level of inequality in Australia.

- Develop an integrated housing strategy. The government has no national housing strategy and is therefore without a framework to enable it to grapple with the overall issues. Such a strategy should link in with regional and metropolitan development planning processes.

### ***5. Infrastructure, planning and sustainability***

Where there is clear evidence of market failure – as there is in many aspects of housing provision – then there is a need for regulation. The Australian Democrats argue that the value of planning regulations is for society as a whole and that good regulation can assist us to plan for the future. The provision of infrastructure and planning for sustainability are necessary parts of the regulatory system.

The costs to the environment of unsustainable housing design will be felt by all of us in the future. Similarly, it is acknowledged that we need to plan for the income support needs of an aging population – yet it is still to be recognised in land use planning. We argue that the cost of planning now is actually an investment in the future.

#### **Environmentally friendly design**

The costs of housing do not stop with purchase as discussed earlier. For many first home owners and others, the costs of occupation can be very high. In cold climates in

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<sup>36</sup> Senator Murray has spoken about the reforms required to the Zone Rebate Scheme in the Senate. The speech can be viewed here [http://www.andrewmurray.democrats.org.au/Media/Speech\\_Display.htm?speech\\_id=1174&display=1](http://www.andrewmurray.democrats.org.au/Media/Speech_Display.htm?speech_id=1174&display=1) or in Senate Hansard for 11 September 2003

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particular, poorly insulated and sited housing can result in occupiers (renters or purchasers) facing high heating costs.

The location of housing in relation to employment, transport and services can also impact on after housing income. For instance, housing costs can still be high even though the house may cost less to purchase or rent if it requires the occupier to use a private car to travel to work.

These factors can contribute to unaffordability of housing.

The Australian Democrats commend industry bodies that promote environmentally friendly, cost efficient design and believe that governments should consider the costs of occupation into the future.

Planning controls and standards should facilitate and encourage environmentally friendly designs that reduce the environmental damage of construction, are designed to use the least possible energy for heating and cooling, and reduce reliance on private transport.

Possible measures to subsidise energy saving renovations, build adaptable housing or to give incentives for environmentally friendly design are worth giving consideration to. Such measures may be cost effective in the long term.

### **Adaptable design**

The Australian population is ageing and many argue that our housing stock will be unsuitable in the future. Disability advocacy organisations have raised these issues with the Australian Democrats. The Australian Network for Universal Housing Design recently told us that:

*Poor design will exclude, disadvantage and limit people who have a temporary or permanent disability or illness. It negatively impacts on their participation in education, employment and community life. Currently people who have a disability or are aging (and their families) often face expensive modifications and renovations to make their homes accessible at their own cost or public cost. More often, when renovations are not feasible, the person is forced to live in unsafe conditions or is displaced from their home into institutional care. The personal and public financial cost of inaccessible housing design is therefore very considerable<sup>37</sup>.*

As with environmentally friendly design, we argue that planning processes for housing development (and other forms of development) should consider who would be using the housing and related infrastructure into the future. The future needs of an aging society and the current needs of those with a disability mean that planning and design should incorporate the universal, adaptable housing standards.

Housing affordability is becoming a significant problem for Australia. A decline in the availability of low cost rental housing, combined with labour market changes and

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<sup>37</sup> Letter to Senator Brian Greig 18<sup>th</sup> August 2003

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increasing inequality is impacting on the ability of low to moderate income earners to house themselves.

### **An Indicative Planning Council**

The industry has identified significant problems in the supply of land. However, there are also environmental, social and infrastructure concerns with the uncontrolled expansion of cities.

The Australian Democrats believe there may be some utility in an organisation, such as the former Indicative Planning Council, being reinstated. The role of such an organisation would deal with land supply but should also consider the infrastructure, environmental and social planning aspects.

### **Provision of infrastructure in new communities**

The provision of infrastructure has increasingly become user pays. There is an abdication from various levels of government in the funding of infrastructure. From the perspective of social and environmental sustainability, it is important that the needs of future residents are considered before communities are developed.

The Australian Democrats argue that governments have a legitimate role in the provision of infrastructure. This should include the funding or part funding of infrastructure.

### **Planning and approval processes**

The Australian Democrats argue that there should be both a national and a locally responsive planning and approval process. An efficient system may not deliver effectiveness. Within the context of broader constitutional reform policy the national outcomes of planning and approval systems should be determined by the federal government. However, given the environmental, economic and social differences across Australia it is important that local responsiveness to local conditions is not lost.

A planning and approval system for Sydney, Canberra, Broome and Launceston will each be very different because of climatic differences, location, population and growth rates – not to mention other socio-political factors. A ‘one size fits all’ approach cannot be taken.

However, with local control comes the greater potential for corruption. It must be noted that the capacity for influence and interference in the planning and approval stages is often a perceived and real feature of some local government and State level planning processes. It is vital for the integrity of the planning system that these processes are transparent and accountable.



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The Australian Democrats recommend a stronger national framework for planning and approvals. State and federal governments must place a stronger emphasis on maintaining and strengthening a planning and approval system with integrity.

Features of the national framework must include:

- Costs of development and infrastructure and who will be responsible for those costs;
- Outcomes of the planning process that are desirable for all Australians – for example the standard inclusion of adaptable design<sup>38</sup> and disability access;
- Inter-relationships of other factors contributing to the housing market including employment and demographic changes;
- Integration of social and transport infrastructure.

### **6. Taxation**

Whilst much has been said about the impact of stamp duty and GST on the price of new houses, GST does not have a significant impact on the sale price of established houses. Established houses represent the vast majority of houses purchased by first homeowners.

The biggest price driver in recent years has been the demand for these established houses, particularly by investors. Lending for property investment in established housing has increased by 36% in the past twelve months. It now represents around \$5.5billion a month. Prior to the capital gains tax changes in 1999 (discussed below), this was less than \$2.5billion a month<sup>39</sup>.

There are too many tax concessions that are aimed at the property market, artificially increasing prices and home affordability.

The Government has introduced legislation that reduces the tax deductibility of tax losses derived from certain non-commercial business ventures.<sup>40</sup> However, real estate property investments are specifically excluded from this process. Also, in the past few years, the Australian Taxation Office has significantly clamped down on mass marketed tax-effective investment schemes.

The Australian Democrats support both the non-commercial loss measures and the crack down on tax effective schemes, but this process has highlighted that property

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<sup>38</sup> With an ageing population, we need to ensure that the homes of tomorrow are able to be adapted for an older, less mobile population. This is most affordably done by building all new housing to an adaptable standard (eg with wider doors, accessible bathrooms).

<sup>39</sup> Australian Bureau of Statistics, *Lending Finance 5671.0*, August 2003.

<sup>40</sup> New Business Tax System (Integrity Measures) 2000

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investment, which is marketed in the same way, continues to produce tax effective returns.

Structured property investments that produce negative cash flow, with the only short to medium term benefit being the ability to reduce tax on other forms of income, diminish the integrity of the taxation system.

### **Negative Gearing**

The Australian Democrats believe that negative gearing should be reformed so that tax losses from property income should be quarantined and only offset against future property income.

The biggest myth currently being perpetrated is that removing the negative gearing tax concessions would increase rents. Rents in Perth and Sydney did increase in the mid-1980s coincidentally when negative gearing was reformed, but rents in the other capital cities simply increased in line with inflation. Prior to the decision to reform negative gearing, occupancy rates in Perth and Sydney were less than 1.5%. This was the main reason why rents in these cities went up so much, and why they did not in other cities.

It should also be remembered that, at the same time, capital gains tax was introduced and the sharemarket was booming. Today, with a public still sceptical of non-property investments and plenty of other concessions, it is appropriate to limit the negatively geared tax concessions.

A cooled property market would be only one benefit. Additionally, this would save the Government around \$2billion a year. This money could be used to fund the housing, health and education services that Australian taxpayers expect from their Governments.

Negative gearing has been reformed in Canada, United Kingdom and the United States without an adverse impact on the rental property markets.

### **Capital gains tax**

The 50% reduction in capital gains tax has been another tax incentive for individuals to invest in property. This tax concession is estimated to cost the budget \$1.8 billion in 2003-04<sup>41</sup>. This concession will only assist those Australians with investment properties and share portfolios.

The Australian Democrats do not see the need to tax capital gains at a lower rate than other forms of income. We did not support this reduction and contend that it is a significant contributor towards the investment fuelled housing bubble.

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<sup>41</sup> Federal Treasury, 2002 Tax Expenditures Statement, January 2003, Table 5.1

## ***7. A national housing strategy is required***

The supply of housing and associated infrastructure should be both efficient and effective. The Australian Democrats have long argued for a strong federal oversight role for the housing market. Recently floated ideas that housing affordability can be solved merely by reducing State stamp duties are too simplistic and are a short term fix at best. The mechanisms that we support provide a long term policy investment and a central planning and monitoring role for government.

A national approach to housing affordability is required. The federal government needs to show leadership and a willingness to take a holistic view of the housing market. The government's concern that first home owners are having difficulty affording home ownership; the importance of the housing sector in the Australian economy are two significant drivers for federal involvement that have already been acknowledged.

Market failure in the private rental market is not a matter with high public profile, yet is a further compelling reason for federal leadership in housing. The private rental market accommodates around 25% of Australian households, yet the market is largely a by-product of other drivers. It is also a highly segmented market with expensive high rise units at one end and poor quality older housing and mobile home parks at the other.

Some of these drivers, such as short-term, speculative investment in housing contribute substantially to the cost of housing for low income earners. The quantum of rental properties may stay the same, but the expansion is at the high cost end. Indeed, there is evidence that the low cost end of the market is contracting. The nature of investment is resulting in a private rental market that is unable to deliver adequate, affordable housing for many Australians.

A national affordable housing strategy that clearly identifies federal and State respective roles, looks at land supply, promotes the maintenance and development of a sustainable rental market and the role of housing within the Australian economy can only be driven at a federal level. We strongly support the development of a more co-ordinated approach.

Australian Democrat Senators were disappointed to hear at an estimates committee hearing that the Department of Prime Minister and Cabinet were not putting any future resources to developing policy for a housing strategy<sup>42</sup>. In fact, the evidence is stronger than ever that a more coordinated approach is needed.

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<sup>42</sup> (Hansard 6 June 2003)

**Senator Bartlett:** In terms of the future direction of this, have you provided any specific advice on the future of housing policy or the whole of government plan on housing issues in Australia from the PM&C perspective?

**Ms Davidson** —Some of our advice would have gone to that.

**Senator Bartlett:** But you are not generating any policy development in this area?

**Ms Davidson** —As I indicated, at this stage we are not doing any major ongoing work in this area at the moment.