

Queensland Shelter's Response to Productivity Commission's Discussion Draft on Home Ownership

Our position

Queensland Shelter agrees with the Productivity Commission's view that debate on first home ownership is inseparable from distributional issues (ie who benefits, who loses) and that "policies must deliver a level of home ownership where social benefits and costs are approximately equal for the 'marginal' home-owner". We agree too, that it is unlikely that home ownership will ever be possible for everyone. Similarly, we were encouraged by the Commission's observation that any discussion about assistance for first home owners must be in the context of its impact on the complete range of housing.

Our concern is that the Commission asks whether alternatives to the First Home Owners' Grant and other direct assistance mechanisms currently in place might provide greater assistance to low income households.¹ However the draft report does not follow up on this question by addressing the serious impediments to housing access and affordability across tenures in the Australian housing system. Without such an analysis it is impossible to assess the social and economic impacts (including impediments to home ownership) of present policies on those in housing tenures other than ownership. We suggest that this is a short-sighted perspective. The current "housing boom" has been evident for a relatively short space of time. We would argue that it is but one feature of a more general decline in housing affordability over the last decade, due to long-term structural changes across the Australian housing system².

First Home Owners' Grant

The Commission's draft shows that the highest proportion (60%) of first home owners are in the top two income quintiles³. As observed in the draft, in its present form, the First Home Owners' Grant (FHOG) is untargeted and inefficient if its intent is to assist low to moderate income earners into home ownership. In November 2003 the Australian Housing and Urban Research Institute (AHURI) released its predictions on which tenants might be assisted into home ownership by the FHOG.

- The FHOG is predicted to provide most assistance to younger, middle-income single person households in white-collar jobs.
- Fewer than 10% of FHOGs will go to people in the bottom 40% of the income distribution.
- The FHOG will make only a small positive impact on the proportion of Australians who will become homeowners at some point in their lives.

¹ Productivity Commission's First Home Ownership Discussion Draft

² Qld Shelter's Submission to Productivity Commission – First Home Ownership

³ Productivity Commission's First Home Ownership Draft

- It assists people who would most likely have become homeowners anyway, enabling them to enter the market earlier.
- The FGOH may achieve an increase in the rate of home ownership in the short term, but as the majority of those taking up the FHOH are not low income private renters it is unlikely to achieve long-term increases⁴.

If the FHOH (at its current level) was targeted to low income earners it could assist prospective first home owners in some areas (eg low growth regions). It is questionable whether it would significantly alter the capacity of low to moderate income earners in high growth areas to enter the market. In principle, Qld Shelter agrees that the FHOH should be targeted towards low income earners. However, Qld Shelter argues that the FHOH has been a contributor to the inflation of house prices with a consequent decline in affordability and access in private rental markets as well as home purchase. From our perspective, targeting the FHOH is simply tinkering at the edges of crisis:

... since 1986 the number of low- income urban households in dwelling stress across Australia has grown from 90,000 to over one quarter of a million households. This covers only the major capital cities; the number is higher when regional figures are included. The research suggests that on present trends, and in the absence of new policy measures to redress the situation, the number of stressed households will reach one million by the year 2020⁵.

Qld Shelter offers the following arguments to support our view that the draft report needs to expand its analysis to encompass the structural shifts in the housing system in the last decade, the inequities created by current policies and the socio-economic impacts caused by these factors.

Increase in long term private renters

In their national study, Yates & Wulff ⁶employed census data to show that between 1986-1996 there was a 34 per cent increase in the number of households in the private rental market. As well, over 40% of households in the rental market had been renters for 10 years or more. With the decline in affordability due to the housing boom, the proportion of households in long term rental would certainly have escalated even further.

The Yates & Wulff study shows that changes in the structure of the private rental market make home ownership entry inaccessible for a larger proportion of Australians than in previous eras. ACOSS⁷ estimates that households in the lowest 40% of the income bracket experience significant difficulty in accessing home ownership. This is not surprising, given the ratio of house prices to income has risen sharply in the past decade. Low and moderate income earners in private rental have great difficulty raising a deposit. Many of these households have been identified as the 'intermediate housing sector'⁸. They are characterised as:

- Working households

⁴ AHURI Predicting the Outcomes of Home Purchase Assistance Schemes Nov. 2003

⁵ Affordable Housing Research Consortium: Pressing Need – Effective Solution

⁶ Yates & Wulff 1999: W(h)ither Low Cost Private Rental Housing?

⁷ ACOSS Submission to Productivity Commission – First Home Ownership

⁸ Affordable Housing Research Consortium: Pressing Need – Effective Solution

- Unable to qualify for public housing or rent assistance
- Not able to benefit from FHOG
- Paying more than 30% on housing

In the past, private rental was seen as a stepping stone to home ownership. Rather than 'preferring to rent' as the draft report observes, many more low and moderate income earners are now locked into private rental for the long term. A large proportion of these people could be classified as the "working poor". Factors such as the deregulation of the labour market, the 'hollowing out' that has occurred in middle-income brackets and the lack of affordable housing options means that many low and moderate income earners are under constant housing stress, unable to find stable ground anywhere in the housing market

Decline in affordable rental housing stock

The increase in household numbers in private rental between 1986-96 was accompanied by a decline in affordable housing stock. In that time, not one unit of affordable housing was added to private rental stock. In 1986 there were almost a quarter of a million low rental dwellings. By 1996 this had fallen by 28% to 70,000 low cost dwellings. The Yates & Wulff study indicated a need for 150,000 units of additional housing⁹. The national currency of this problem is underlined by the Australian Bureau of Statistics¹⁰, which found that 54.7% of private tenants were living in housing that was unaffordable.

All three regions surveyed by Qld Shelter reported a serious decline in housing stock at the affordable end of the rental market. This translates into an overwhelming demand for housing assistance in the State. There are over 30,000 people on public housing waiting lists. Community and welfare organisations also report increased demand for crisis and support assistance. Recent studies into homelessness have revealed a growth in the numbers of Aboriginal people, women, as well as families with nowhere to go. There are also more victims of 'mortgage stress' presenting to emergency relief agencies.

There are strong arguments for the Commission to propose that governments need to address supply side responses in relation to the provision of affordable rental housing. This could be achieved by a variety of measures such as those proposed by the Australian Housing & Urban Research Institute - replacing the Australian Government Building Write-off Allowance with a low income housing tax credit and by amendments to state and territory land tax and stamp duty.

Housing Stress and Rent Assistance

The Rent Assistance program is predicated on improving housing affordability for low income people living in private rental housing. It was also intended to provide recipients with the flexibility to relocate to areas of high employment or to exercise other choices in relation to their housing and location.

The fact that there are over one million recipients of Rent Assistance attests to the decline in housing affordability in private rental across Australia. Over 35% of Rent Assistance recipients (330,360 people) exceed the Government's own housing affordability measure by spending more than 30% of their income on rent. Of these

⁹ Yates & Wulff 1999: W(h)ither Low Cost Private Rental Housing?

¹⁰ ABS Housing Survey 1998

recipients, 9% (over 85,000 people) receiving Rent Assistance are in severe housing stress, spending more than 50% of their incomes on rent¹¹.

A recent study¹² looked at rents between 1998-2003 in the 200 kilometre urban region encompassing Brisbane, the Sunshine Coast and Gold Coast. It found that particularly within the last two years there have been significant rent increases in many localities:

Area	<i>Jun-98</i>	<i>Jun-03</i>	<i>Increase 1998-2003</i>	
	<i>Rent (\$)</i>	<i>Rent (\$)</i>	<i>Increase</i>	<i>% Increase</i>
Brisbane	103	132	28	27.3%
City Inner	123	166	43	34.5%
North West - Inner	98	110	12	12.1%
North West - Outer	89	106	18	19.8%
South - Inner	98	110	12	12.1%
South East - Inner	98	110	12	12.1%
South West - Inner	108	143	34	31.7%
Gold Coast (C) Pt B	148	161	14	9.2%
Sunshine Coast ~	96	110	14	14.4%

1 Bedroom flats

Area	<i>Jun-98</i>	<i>Jun-03</i>	<i>Increase 1998-2003</i>	
	<i>Rent (\$)</i>	<i>Rent (\$)</i>	<i>Increase</i>	<i>% Increase</i>
Brisbane	153	170	17	11.3%
City Inner	192	229	37	19.4%
North - Inner	138	153	15	10.9%
South - Inner	133	149	16	11.8%
Gold Coast (C) Pt B	158	187	29	18.6%
Redcliffe	108	123	15	13.7%
Sunshine Coast ~	133	157	24	18.2%
Caloundra (S) Pt A	138	157	19	14.0%
Maroochy (S) Pt A	128	153	25	19.4%
Noosa (S) Pt A	153	166	13	8.5%

2 Bedroom flats

Area	<i>Jun-98</i>	<i>Jun-03</i>	<i>Increase 1998-2003</i>	
	<i>Rent (\$)</i>	<i>Rent (\$)</i>	<i>Increase</i>	<i>% Increase</i>
Brisbane	177	191	14	7.8%
Bayside	162	187	24	15.0%
City Inner	217	238	21	9.8%
North - Inner	182	204	22	11.9%
North - Outer	162	183	20	12.4%
South - Inner	172	195	23	13.4%
South East - Inner	177	208	31	17.4%
South West - Inner	177	208	31	17.4%
Gold Coast (C) Pt A#	138	161	24	17.1%
Gold Coast (C) Pt B	192	225	33	17.2%
Redcliffe	148	161	14	9.2%
Redland	162	183	20	12.4%
Sunshine Coast ~	167	204	36	21.8%
Caloundra (S) Pt A	167	212	45	26.8%
Maroochy (S) Pt A	162	204	41	25.5%
Noosa (S) Pt A	177	195	18	10.2%

3 Bedroom houses

As an example of the underlying realities of these increases, Qld Shelter's branch representative on the Sunshine Coast reported that her organisation alone had a 40% increase in clients in 2003. Lack of affordable housing is the catalyst for poverty, homelessness, displacement and housing stress. Other growth regions, such as the Cairns area and industrial towns such as Gladstone reflect similar escalations in private rental costs and accompanying housing stress.

¹¹ ACOSS: Rent Assistance: does it deliver affordability?

¹² Seelig & Sellers 2003: Poverty & rent in the 200 km city

National Shelter¹³ proposes that to achieve affordability in the private rental market the level of housing assistance should reflect:

- The cost of housing, in particular the market rental for adequate and appropriate housing for a household; and
- The level of household income required by a household after meeting housing costs. The level of housing assistance must ensure that household income after housing costs is sufficient to ensure that a household can meet not only the cost of housing but also other living expenses, such as food, transport, health and education costs.

Qld Shelter reiterates its recommendation that the Commission flags the necessity for a review and extension of the Rent Assistance program to improve its application to households experiencing housing stress.

Social housing

In Australia housing policy to support low income earners has moved away from supply side responses (eg the direct provision of public housing) to demand side responses (offering rent assistance to social security recipients). Underlying the shift were two assumptions¹⁴:

1. Housing affordability problems derive from having a low income, rather than being a consequence of lack of affordable private rental stock
2. An increase in income support gives low income households a wider range of choices in private rental than is available in public rental housing.

As well as the research cited in this submission, the experience of service providers in Queensland also indicates that despite Rent Assistance, the private rental market falls dramatically short of catering adequately for the needs of people on low incomes on both (1) and (2).

The National Housing Strategy prioritised “developing policies to assist low-income people in the private rental market (who are paying excessive amounts of their income on rent)”. However, this priority was linked with “a concurrent increase in the supply of social housing” (ie public and community housing).

Over the last decade Commonwealth State Housing Agreement (CSHA) funding for social housing has decreased by 54% to \$1.28 billion¹⁵. The growth in public and community housing envisaged by the National Housing Strategy has never materialised. In fact, public housing stock has declined from 6.2% of total housing stock to 4.7% in 2001.¹⁶ Public housing waiting lists have grown by 15% from 195,000 in 1990 to 223,290 in 2001¹⁷.

The original purpose of public housing was to provide secure and affordable housing for working families. In the past, being on a low income was the central eligibility

¹³ National Shelter: Rebuilding the Australian Dream 2003

¹⁴ National Housing Strategy 1992

¹⁵ ACOSS & National Shelter 2003

¹⁶ Australian Institute of Health & Welfare 2003

¹⁷ Ibid

criterion. Now, public housing is “targeted” towards those who are most disadvantaged and who have high support needs. This raises the spectre of repeating the mistakes of the past. In previous decades, an enormous amount of work was put into redressing the socio-economic ills associated with poorly planned public housing. The risk of the current targeted approach is that it could produce a combination of growing numbers of low income people with complex support needs living in areas of high socio-economic disadvantage.

The Industry Commission Inquiry into Public Housing (1993) concluded that public housing is a cost effective and efficient way to meet government housing objectives. Qld Shelter wants to reinforce the urgent need to balance demand side policy approaches such as Rent Assistance with a return to supply side policies focussed on increasing stocks of public housing and community housing.

Imbalance between subsidies to home owners and support for other tenures

In 2001 Australian Government funding of \$1 billion was provided to public rental housing and Commonwealth Rent Assistance of just under \$2 billion was provided for income support recipients. In the same year home-owners received direct and indirect subsidies amounting to:

- \$1 billion direct subsidies to first home buyers through the FHOG
- \$13 billion tax concessions to owner-occupiers through non-taxed capital gains
- \$8 billion tax concessions to owner-occupiers through non-taxing imputed rent

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While the funding provided to support low income earners through public housing and Rent Assistance is efficiently targeted, the estimated \$21 billion of indirect assistance to owner-occupiers is not efficiently targeted and mostly benefits those on high incomes with more assets.

It is clear that the benefits of home ownership come at a high cost to other housing tenures. Therefore we feel that the Commission's report cannot logically isolate first home ownership from the issues affecting access and affordability across the wider Australian housing system.

Qld Shelter's submission argued that many of the preconditions that encouraged home ownership in previous eras have disappeared. To restore some semblance of equity across the housing system, we seek to persuade the Commission that an improvement in housing access and affordability in Australia needs to be predicated on the following:

¹⁸ AHURI: Tax Concessions for Australian Homebuyers & Homeowners October 2003

- a. Re-commitment by Australian governments to social and economic policies which support community health and wellbeing, including households' capacity to access and maintain housing options. This includes:
 - Improved targeting of tax incentives to generate housing supply including the creation of new mechanisms to facilitate supply of low cost housing options.
 - Social infrastructure expenditure, as an investment in Australian families and households, particularly in the areas of health, education and income support.
 - A series of workplace and labour market policies, which provide for greater distribution of work and economic opportunities and are underpinned by a fair and equitable income and social support system.

- b. Re-commitment by governments to the Commonwealth State and Territories Housing Agreement and a National Housing Strategy. This includes:
 - Increased funding for the CSTHA
 - Supporting social housing innovation and community based initiatives
 - The development of mechanisms to support secure long term investment in low cost rental housing
 - Review and extension of the rent assistance program to improve its application to households experiencing housing stress
 - State Government commitment to investing a proportion of stamp duty and GST revenue to housing solutions.

- c. The development of national, state and local planning frameworks for urban and regional development, which acknowledge the central importance of housing access and affordability to community health, wellbeing and sustainability. Such a framework would promote housing diversity and choice and be a mechanism for guiding local housing market supply towards addressing actual demand.

- d. Leadership at the commonwealth level in relation to best practice tenancy legislation, housing construction (including energy efficiency and universal design principles), home loan lending and finance. This is required to ensure that housing delivery in Australia occurs within a best practice framework geared towards quality, accessible, affordable and sustainable outcomes.

