

*Submission to*  
*Productivity Commission*

First Home Ownership Discussion Draft

February 2004

# 1 Summary

The Brotherhood of St Laurence commends the Productivity Commission for the interest and activity that has been generated through this inquiry, around the issue of affordable housing for potential first home buyers.

The position of the Brotherhood of St Laurence is clear but it is not reflected in the discussion draft. In response to the purposes of this inquiry to evaluate the affordability and availability of housing for first home buyers, we propose the following:

## **The financing gap prevents access to affordable housing**

Low-income households can not afford to pay the price required to return a market rate on investment in housing. Or, the cost of financing investment in affordable housing, both rental and owner occupied, makes the price unaffordable. Currently, many lower-income households pay too much of their disposable income on housing and/or live in poorly located, poor quality and/or overcrowded housing.

## **Low-income households can't afford the price**

The price mechanism—to trigger an increased supply in response to increased demand—is failing in the low-cost segment of the housing market: The incidence of housing stress and homelessness has increased as increased demand for low-cost housing has increased price. Here is evidence of market failure and intervention is required: a subsidy to cover the finance gap will stimulate supply.

## **Subsidise the finance gap to increase the supply of affordable housing**

In addition to the financing gap as an impediment to first home ownership, the lack of affordable rental housing gives rise to an environment in which younger and lower income households are unable to save for home purchase.

The removal of the financing gap with a modest subsidy will contribute to the growth of the stock of affordable housing and will have economic and social benefits that we believe will cover its cost.

## 2 Introduction

The Brotherhood of St Laurence will limit its response to the terms of reference of the inquiry to the areas on which we feel best informed to comment. These include:

- particular attention to (f) the operation of the total housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing and the efficiency of use of the existing residential housing stock.
- the mechanisms available to improve the ability of households, particularly low-income households, to benefit from owner-occupied housing. This was to include an assessment of rent and direct ownership subsidies, loan guarantees and shared equity initiatives.

### Total housing market

The total housing market is made up of interacting segments (see table 1) and only public rental housing is targeted to low-income households. An estimated \$28 264M of Commonwealth direct and indirect expenditure (Apelt et al 2003) is housing related and already influences decisions in this market. Furthermore, the choices consumers make are constrained by their incomes and other factors.

**Table 1: Total housing market: cost and tenure type**

Cost	Tenure type		
	Owner occupied	Private rental	Public rental
High cost segment	x	x	
Low-cost segment	x	x	x

While there has been a decline in the proportions of younger and lower income households purchasing their first home, there has also been increase in the number of low-income households in private rental, a loss of low-cost (private and public) rental housing stock and evidence of higher income earners also competing for what remains in lower-cost segment of the private rental market. Based on 1996 figures, there was an estimated shortfall of 150,000 low-cost dwellings (Wulff, Yates & Burke 2001).

So while the Brotherhood agrees with the Commission that affordable rental housing also provides social and distributional benefits, we are concerned that the current crisis related to the lack of this housing is overshadowed by this focus on first home ownership. Not only as an alternative tenure, we also need to consider rental housing as a pathway to home ownership.

In response to this crisis, the Brotherhood and the Committee for Economic Development Australia commissioned The Allen Consulting Group to look into mechanisms to stimulate private investment in affordable housing. The essential policy challenge identified by the authors was to give institutional investors a reasonable return for their perceived risks. This would require government to reconcile two core objectives: an appropriate risk-adjusted rate of return for investors, and an affordable rental level for low and moderate-income households: the financing gap.

Considering only 16.4 per cent of the direct and indirect expenditure referred to above is targeted to lower income, rental households, the Brotherhood maintains that additional government assistance to cover this financing gap can be justified to make secure affordable housing a realistic outcome for lower income households.

A draft copy of the report was sent to the Commission and a final copy of the report will be made available to the Commission prior to its launch on 23<sup>rd</sup> February 2004.

## **Low-income households**

The Commission states in the discussion draft that the Government was prompted to set up this inquiry because home ownership is moving out of reach for an increasing number of young people and lower-income households. It is therefore frustrating to note, that the particular circumstances of these households receive little attention in the discussion draft.

So while the Commission has sought to assess policy according to the implications for the community as a whole, we are concerned that much of the analysis in the discussion draft concerns broad trends and ignores the particular unequal distribution of impacts.

By using average incomes and median house prices when discussing affordability, the decline in housing affordability experienced by many young people and lower income households has not received the particular attention it requires. The Commission should consider how different amounts of disposable incomes impede first home ownership and the consumption of rental housing services.

As stated in our earlier submission, the benefits of sustained economic growth—income, labour market participation and wealth accumulation—referred to by the Commission, have not been shared equally and income and wealth are now concentrated amongst fewer households. Nowhere is this increasing inequality more apparent than in people's access to housing.

Given the incidence of homelessness, housing related poverty and locational disadvantage currently being experienced by younger and lower-income households, the Brotherhood of St Laurence believes that the Commission should examine initiatives that will increase a targeted supply of affordable housing.

## **The Housing Investment Incentive Program**

There is ample evidence about initiatives to stimulate private investment in affordable rental housing that would contribute to an increase in supply and a lot of interest in them from both the business and the not for profit, community sectors. Unfortunately, these are not seriously considered in the discussion draft, despite the statement in the conclusion that affordable rental housing also provides social and distributional benefits.

A new Housing Investment Incentive Program, as noted in our earlier submission, is an initiative that fills the Commission's requirements for a mechanism to improve the ability of low-income households to benefit from owner occupied, as well as affordable rental housing. It can help to promote more efficient and affordable housing outcomes over the longer term, reduce lower cost house prices over the demand cycle and provide enduring affordability benefits to both home buyers and renters. This initiative could be implemented within a national housing focus that also addresses the factors that currently encourage excessive demand for housing (taxation) or factors that unnecessarily reduce the responsiveness of supply to increases in demand (insufficient income to afford market price).

Furthermore, according to The Allen Consulting Group (2004) the payoff from an investment in affordable housing would be substantial. The economic and social dividends would include:

- A major economic impetus, which could be tailored to the appropriate stage of the economic cycle.
- The alleviation of housing stress (and in many cases, poverty) for a significant number of low and moderate-income families under financial pressure;

- The reduced economic, social and personal costs of family breakdown, crime, ill-health and low educational attainment;
- More efficient labour markets and increased work force participation, and
- A pattern of urban and regional development that is conducive to economic prosperity, environmental sustainability and liveable communities.

We are disappointed that the Commission concludes that home ownership will remain out of reach for a significant number of households. We beg to differ. We suggest that the bulk of these households could be assisted into affordable rental housing as well as home ownership.

### **Implications for policy**

Home ownership is widely agreed to provide social benefits to the wider community and these benefits provide a key rationale for government support to increase home ownership levels. Another key rationale for government intervention is the basic requirement that all members of the community have access to affordable housing.

There is much that governments can do to improve housing affordability in the short term. The Brotherhood in partnership with the Committee for Economic Development Australia is exploring policy initiatives to increase the supply of affordable housing through alternative financing options. Furthermore, immediate increased investment in public housing would improve the life chances of those most in need and least able to compete in the housing market and would free up existing private low-cost rental housing stock.

In response to the discussion draft, the Brotherhood suggests a review of taxation policy as negative gearing and capital gains tax concessions are failing to stimulate the supply of affordable housing. Current policy appears to encourage excessive demand, raise expectations of returns on investment, unnecessarily reduces the stock of low-cost housing and distorts the market.

The Brotherhood agrees with the Commission that current support provided through First Home Ownership Scheme (FHOS) might provide a greater return to the community were it directed into other measures to help meet the housing needs of low-income households. Again, we suggest a subsidy to cover the finance gap—an impediment to investment in affordable rental housing—which may also reduce associated impediments to home ownership for low-income households.

However, we are not at all convinced that FHOS and other direct assistance arrangements (presumably the subsidies paid to public housing and private rental tenants) might provide a greater return to the community were they redirected to the reduction of stamp duties on property transactions as suggested in the discussion draft the Commission. This would do little to help those with no immediate prospects of home ownership and would be of greatest benefit to those purchasing properties with the highest values, the wealthiest and least in need of housing assistance.

### 3 References

Apelt L, Hall G & Young P 2003 Housing at the cross-roads: the case for an integrated national housing policy for Australia. Paper presented to the International Federation for Housing and Planning (IFHP) 47<sup>th</sup> World Congress 2003 – Vienna, Austria.

The Allen Consulting Group 2004 Better housing futures: Stimulating private investment in affordable housing. Brotherhood of St Laurence. Fitzroy, Victoria.

Wulff M, Yates J & Burke, T 2001 Low rent housing in Australia 1986 to 1996: How has it changed, who does it work for and who does it fail? Department of Family and Community Services: Australian Housing Research Fund. Canberra ACT.