

Sent: 10 February 2004 2:17 PM
To: housing@pc.gov.au
Subject: First Home Ownership Discussion Draft

Margaret Clarke
NSW

9 February 2004

Productivity Commission
Locked Bag 2 Collins Street East
MELBOURNE VIC. 8003

Dear PC Commissioners and staff

The following comments are in response to some aspects of the Productivity Commission Discussion Draft on First Home Ownership (December 2003).

They are framed from a 'bottom up' perspective of someone who has lived in 'housing stress' for over a decade, with attendant poor quality housing and insecurity of tenure in the private rental market, whilst trying to recover from major injury and illness. As a consequence, finding and/or creating sustainable affordable housing is a major mission in my life. At 45, with limited income, I want to go "home", rather than spending 40-60% of my income just to have 'somewhere to stay' but nowhere to "live".

GENERAL COMMENTS

Overall the Discussion Draft is patchy and seems skewed towards the short-falls of State and local government costs and development limitations, while not going far enough to deal with systemic problems at the Federal level.

The Discussion Draft does identify SOME OF the barriers to home ownership (or even security of tenure) faced by people in housing stress, but does not adequately acknowledge their crippling effects on socio-economic participation, or the vital importance of the human and social capital that is generated by security of housing.

Consequently, the Discussion Draft fails to recommend adequate and appropriate actions to address our nation's housing affordability crisis. In particular, by focussing on 'first home ownership' for two income families, the housing and home ownership needs of single people and divorcees are virtually ignored, despite the fact that they comprise nearly 30% of households and around 70% of households in housing stress.

LIMITS OF COMPARATIVE ANALYSES FOR HOME OWNERSHIP

Comparative analyses of overseas home ownership rates neglect several factors unique to Australia.

Firstly, although we have one of the highest home ownership levels in OECD countries, other countries have stronger and more secure social and private housing rental systems (particularly in Europe) or a significant 'ghetto' problem (particularly in the Americas). Australia's current 'affordability

crisis' is heading us towards the 'ghetto' scenario for low cost housing in both home ownership and rental markets, with unconcionable social and economic costs to the community as a whole.

Secondly, our home ownership level of 70% is also misleading, as many households are living in very expensive mortgages, still technically owned by their lending institutions. Our private debt is the highest in the OECD as well, making us extremely vulnerable to interest rises and economic downturns.

To reduce our extremely high levels of housing stress, we need to:

increase home ownership to 75 or 80% of households;

increase the security and affordability of our rental housing systems (both private and public); and

redress the increasing imbalance between the current oversupply of high cost housing and the urgent unmet demand for modest affordable housing.

HOUSING COSTS

Are recent price and affordability trends unusual?

What has happened to housing 'affordability'? Have prices 'overshot'?

YES, but this decline in affordability had been in genesis since the late 1980s, when short-term measures were introduced to alleviate the late 1980s rental affordability crisis without addressing the underlying problems in the housing system.

The current affordability crisis has culminated from the combined effects of excessive untargetted tax incentives for property investors, numerous home ownership taxes, reduced public investment in social housing, the FHO grant, slow and uneven income growth for low income earners, and the cumulative impacts of the GST increasing home construction and living costs. Together these resulted in massive increases in after housing poverty for many Australians, even as they buy their first home.

The 'demand market' can only bear so much, and homeseekers are already unable to pay the inflated prices of this 'off the boil' but still super-heated market. Interest rate increases may even destabilise new home owners, fueling the potential for a 'crash'.

The cost of rental accommodation has also risen alarmingly, reducing the capacity of renters to save a home deposit, or even to pay regular bills. Incomes have not increased at anywhere near the rate of housing costs.

Most affordability analyses deal with capital city housing costs, whereas many coastal areas are suffering affordability losses of similar magnitudes, and inland towns and cities are not far behind. For example, Byron Bay's housing price increases are similar to Sydney's North Shore, and university students in Lismore face significant rental increases because home prices have almost doubled in the past few years.

Have the cost and availability of finance been influential?

YES and NO.

Australia's private debt levels are alarmingly high, which is potentially a problem if interest rates increase to any major degree and/or unemployment rises significantly.

Conversely, many people cannot qualify for any significant housing finance, due to low incomes, uncertain earnings and poor deposit savings capacity, yet can - and must - pay more than a modest mortgage to keep a rented roof over their heads!

TAXATION

Has taxation played a role?

YES, a significant role.

The 50% discount on capital gains, introduced in 1999 has funded unsustainable property speculation.

Negatively geared investment properties generally provide rental accommodation for the upper end of the residential market, and tourism, especially in major regional centres on the coastal strip.

New standard dwellings are prohibitively expensive for low-income earners to rent or buy, marginalising them to the (shrinking) older 'petty landlord' market.

Many 'petty landlords' are retirees, under pressure to increase rents from land taxes and the interaction Centrelink pension income/asset tests and income tax provisions, even if they own a rental property outright. Consequently, many are selling up and investing in annuities, which unfortunately leaves their low-income tenants looking for somewhere else to live when the new landlord increases the rent.

Has supply got tighter?

NOT AS SUCH, but there is a serious mismatch between highly priced up-market supply and low-cost demand.

Are infrastructure charges excessive?

YES and NO.

Most of the infrastructure in our major towns and cities was built during the post-war 'boom' of the 1950s and 1960s and is now reaching the stage of needing significant repair or replacement. This is particularly true for sewerage systems, which are often old, inefficient and incapable of expanding to meet urban consolidation demands. Roads and stormwater drainage systems are also overloaded by urban consolidation, and, in some areas, even water and electricity supplies are difficult to maintain.

Critical thresholds for upgrading existing infrastructure systems are reached incrementally, so it is difficult to determine a 'fair' rate of 'user pays' for new higher density developments in existing urban areas. Theoretically, a proportion of Council rates should be set aside to cover these recurrent costs, but many Councils are subjected to rate-pegging as well as competing priorities for Council funds.

Greenfield developments usually incorporate basic physical infrastructure costs, but the impacts of new developments on social infrastructure needs is more difficult to cost. Libraries, sports fields, parks, and other public facilities

provided by or through local government are consequently run-down or inadequate to meet new demands.

Whether through urban consolidation or greenfields growth, there is increasing disparity between State and local government requirements that the current rates base and developer contributions cannot meet.

Infrastructure and 'strategic planning'

In Byron Shire, some of these infrastructure problems result from the oxymoronic "Planning NSW" (now an arm of DIPNR) that insists on higher urban densities in the Shire's towns, which neither the infrastructure nor environment can support. Community opposition to higher densities is strong, and supported by other NSW government agencies, yet the Planning boffins continue to reject strategic Local Environment Plans which meet social, economic, environmental and community objectives.

The result is seven years of completely stalled strategic planning, while the Shire runs on an out of date Local Environment Plan that delivers unsustainable development, high Land & Environment Court costs and increasing infrastructure breakdowns (sewerage spills, stormwater floods and summer-long traffic gridlock).

Areas under high development pressure must expand infrastructure faster than the rates base can generate funds, so some combination of developer contributions and State and Federal funding is needed to deliver adequate basic services to existing and new residents.

BUILDING REGULATIONS AND STANDARDS

Are industry performance and building regulations appropriate?

The role of the Australian Building Standards Council could be strengthened to ensure consistency of building standards appropriate for various building configurations and climatic environments. Structural standards for cyclone zones may differ from standard cool temperate design standards, but acoustic insulation standards for medium and high density residential developments should not be inconsistent, or modelled for a 12 square house on a ¼ acre block.

Building regulations in relation to worksite and residential safety must again be consistent and strong. Other 'cosmetic' / 'aesthetic' building regulations set by local government can reduce housing affordability by imposing unrealistic or expensive requirements on modest new housing developments.

FINDING & FUNDING ADEQUATE AFFORDABLE LOW-COST HOUSING

What role for other demand-side forces?

The Affordable Housing National Research Consortium (AHNRC) contends (submission No. 43) there was a low-cost housing shortfall of around 150,000 dwellings with 227,00 households in housing stress as of 1996. More recent housing stress estimates suggest that nearly half a million households are affected, not counting the 110,000 homeless people.

AHNRC's analysis suggests that it would cost \$27 billion to construct new affordable dwellings to address 1996 housing stress levels. This is a prohibitive expense at approximately \$120,000 per dwelling. There are many

creative and innovative ways to supply modest low-cost housing for significantly less than \$100,000 per unit. For example, the Sydney Olympic Village's two-bedroom units met all building standards at around \$50,000 per unit. These units were later sold off at around \$20,000 each (plus removal and relocation costs).

Particular Unmet Low Cost Housing Needs

There is a strong unmet demand for modest affordable small dwellings in a variety of forms (flats, units, garden flats, small cabins and modest houses, caravans and relocatable homes), tenures and locations.

Single people are particularly disadvantaged, and little weight is given to their housing aspirations.

Particular single person household needs include:

Affordable rental accommodation for tertiary students, the majority of whom are not eligible for rent assistance.

Adequate, appropriate and secure homes for single people, both young and mature, is a high priority, as stocks of private or public rental units, townhouses and flats are inadequate outside capital cities.

Mature low income singles need access to affordable home ownership, as public housing provisions are inadequate, share housing is inappropriate and home ownership is inaccessible due to inappropriate housing stocks and high mortgage entry and repayment costs

Secure long-term housing for divorced parents who are not entitled to First Home Owners assistance and yet need to be near the original family home to maintain contact with their children. Employed divorced parents with high child support costs are often ineligible for public housing or rent assistance.

Social Housing

Under-investment in social housing must be addressed as a matter of priority.

A high priority is increased funding for the development of community housing, which generally reflects local community needs and housing for special needs clients at less cost to government than public housing, which also needs extra funding, especially in regional areas.

Emergency and Bridging Housing

Increasing homelessness must be addressed beyond the inadequately supported crisis housing sector.

In the short-term, extra funding to maintain and expand existing crisis accommodation will ameliorate the health, policing and social costs of homelessness, but funds are also needed for longer-term supported accommodation to enable people to rebuild the financial and domestic resources needed in the private rental market.

REDUCING THE COSTS OF MODEST AFFORDABLE HOUSING

Affordable Land for Housing

The Property Council of Australia's suggestion of utilising government land has some merit to relieve the immediate need for affordable land for modest low-cost housing, but could also be viewed as a 'land grab' by private developers.

There is potential merit in exploring Crown land leasehold tenure modelled on the Australian Capital Territory system, where long-term (99-year) leases are provided to affordable housing developers/providers/residents, rather than freehold title. Originally, the ACT leasehold system kept land prices within reasonable limits, but these limits have been eroded in recent decades.

To effectively meet affordable housing needs, the 'utility value' or land rental component of such a lease should be a peppercorn rate, with the up-front cost of basic infrastructure included in the lease purchase price, bearing in mind that the Government retains ownership and ultimately retains any increased land value when the lease expires.

Other Low-Cost Housing Options

The PC has completely overlooked Australia's significant 'permanent' caravan park population, and the affordability issues facing many retirees living in coastal caravan parks.

On the one hand, some of these places are lovely: safe, secure, and affordable with a strong community spirit. On the other hand, the American 'trailer-park trash' solution, where homeless people live in cars on camp sites with limited social and economic participation capacity, is undesirable.

Many caravan/relocatable/manufactured home residents proudly 'own their own homes', which are affordably priced between \$20,000 and \$60,000. The drawback of this scheme is that they do not own the land their home is sited on, and they do not have adequate security of tenure. The costs of relocating (excluding land and site costs) are around \$10-20,000 for sewerage and electricity services.

In the recent coastal property boom, many coastal park owners are turfing out their permanent residents to redevelop their sites for tourism, leaving thousands of (mostly) retirees with significant capital losses and little chance of finding a comparable home in the private rental market.

As well as government incentives to encourage affordable long-term site leaseholds in both private and public caravan parks, community title caravan park tenures could provide an affordable and secure low-cost home ownership option.

Community Title Developments

There are a range of examples of community title dwelling complexes, with shared infrastructure and facilities to reduce per unit costs. However, many local governments prohibit such developments and banking finance is also difficult to secure. Removal of these impediments would enable more people to develop their own low-cost community title housing, as an intermediary form of home ownership.

Self-Build Low-Cost Housing

Many low-income people would be more than happy to be involved in the design, building and/or fit-out of their homes.

The Victorian Government has run a successful self-build housing program for many years. The NSW government initiated a program to develop similar projects in 2003. The Aboriginal Community Development and Employment Program also builds homes for participants in their communities. Community-initiated projects and partnership programs should be encouraged.

Facilitating Philanthropic Development

Not all developers want to 'maximise profits' at the expense of social contributions, and yet our housing system is set up to discourage, rather than encourage, philanthropic housing developments. At cost or minimum profit partnership projects with community and social housing providers should be encouraged through planning and taxation processes.

Financing Low-Cost Housing

The Caplin-Joye proposal is almost entirely without merit, as it is designed to return all the rewards to the finance sector, while the poor 'owner-tenant' cops all the responsibility of maintaining 'their' home, and reaps no rewards, especially for property improvements, one of the few ways that low income earners can realise capital gains from their modest housing investments.

DIRECT ASSISTANCE

A case for direct assistance measures?

The housing system is failing to deliver affordable homes to all Australians. A range of direct assist measures are needed to reduce housing stress and homelessness, to increase the domestic security of Australian citizens and to enable us all to contribute to our commonwealth.

Rent Assistance

Rent Assistance is a short-term solution to keep people 'housed', but does not, in the long term, provide secure affordable housing. Increased spending on social housing and home ownership incentives will eventually reduce the rent assistance budget. In the interim, the level of rent assistance should be increased in line with the increased cost of housing, rather than merely indexed to the CPI.

State Housing Assistance

As well as significantly increasing public housing stocks, State rental assistance programs and utility rebates for pensioners should be retained, if not increased.

Centrelink Income and Assets Tests

These provisions limit the capacity of welfare recipients to save housing deposits and to reliably meet mortgage and/or rental payments. Many people who are 'breached' lose their homes because they cannot afford the rent, compounding their difficulties in maintaining job search requirements.

Housing Acquisition Contribution Scheme

The Master Builder's Association proposal of a Housing Acquisition Contribution Scheme to fund home deposits has considerable merit, especially if coupled with low-cost Crown land leaseholds.

First Home Ownership Scheme

Although introduced to off-set the GST, this scheme has fulfilled that function. It should be retained, increased and targeted to assist low-income Australians.

Both income limits and home value limits should be set, on an elastic scale which takes account of household needs. For example, a modest home for a family with six children will cost significantly more than a modest home for a single person.

Conclusion

The Discussion Draft is cautious and underplays the vital importance of appropriate affordable housing for Australian households.

Housing is not simply a 'market'. It is the basis of civil society and social capital formation.

The chronic and critical mismatch between housing supply and demand must be addressed.

Stronger recommendations are needed if a housing crisis is to be averted.

Much as I found the ACOSS presentation to the Commission's Sydney hearing disappointing, their federal budget housing priorities statement 2004-05 (Homes for all: A blueprint for Australia) contains a range of measures that would significantly reduce housing stress among low-income Australians.

As outlined above, other direct and indirect measures are also needed to increase the availability and accessibility of modest home ownership.

Protect your inbox from harmful viruses with new ninemsn Premium. Upgrade now!