



Productivity Commission First Home Ownership Inquiry

Submission of the Australian Council of Trade Unions

The Australian Council of Trade Unions (ACTU)

The ACTU is the peak council for organised labour in Australia and represents over 1.8 million union members of affiliated unions and State Labour councils.

Have House Prices Increased

Owning your own home has always been considered the “Great Australian Dream” however that dream is starting to vanish for a large part of the Australian community particularly for those on low incomes and young working families. Table 1 below shows the average Australian median house price and the average weekly ordinary time earnings (AWOTE) for the last five years.

Table 1: Average Australian median house prices and Average weekly earnings

Second quarter	Average Australian Median House Prices ('000)	Full time adult time ordinary earnings (\$/week)
1998	164.2	728.30
1999	171.7	749.10
2000	191.5	785.30
2001	201.7	824.20
2002	232.4	868.90
2003	279.3	918.80

Source: ABS Cat. NO. 6302.0 and REIV

It can be seen in Table 1 that since 1998 the average median house price increased by 70.1 per cent while AWOTE increased by 26.0 per cent over the same period. Thus the growth in median house prices has outstripped growth in average wages making it difficult for those on low incomes and young working families difficult to save for a deposit, especially if they already have a large HECS debt.

Government Intervention is Necessary

The ACTU believes that there is a clear role for the government to intervene in the housing market.

For most Australian households, the family home is their most valuable asset and their greatest store of wealth.

NATSEM estimates that in June 2002 there are 7.5 million households in Australia and the average household has wealth of \$280,000. By far the largest component of this wealth is the owner-occupied home. Equity in this house averages \$155,000 or 55 per cent of total wealth.

[NATSEM 2002; *Levels, Patterns and Trends of Australian household Savings*, in a report prepared for the Financial Planning Association of Australia Limited pg 4]

Therefore, not only is home ownership part of the Australian psyche but it also provides a savings mechanism for owners and as Simon Kelly of NATSEM points out:

The home purchase provides two mechanisms that help build wealth. The desire to reduce the mortgage motivates households to save more than they would normally and the value of the house appreciates over time adding extra equity to the wealth portfolio.

[NATSEM 2002; *Levels, Patterns and Trends of Australian household Savings*, in a report prepared for the Financial Planning Association of Australia Limited pg 11]

Clearly, there is a strong relationship between home ownership and the incidence of poverty. In a NATSEM report into the financial disadvantage in Australia it was found that the poverty rate in 2000 for owner-occupiers fell from 12.1 percent to 8.1 percent after taking account of housing costs. In particular the report found that in the 65 years and over age group the poverty rate fell from 11.2 percent to 7.3 percent.

[see NATSEM 2001; *Financial Disadvantage in Australia 1990 to 2000: The Persistence of Poverty in a Decade of Growth*, Report prepared for The Smith Family, pg 19]

Therefore, home ownership has important welfare implications, as paying off the family home reduces housing costs and as such increases financial security in retirement. As the population ages and the Baby Boomers retire there is going to be greater fiscal strain on the Federal Budget and thus home ownership needs to be considered as an important part of any government policy into helping people save for retirement.

Not only does home ownership increase a person's wealth and provide them with financial security in retirement there is a growing evidence of the social benefits of home ownership, in particular:

- homeowners are less likely to move and this has a significant positive impact on the academic and behavioral progress of the youth;
- children from homeowners are less likely than children of renters to drop out of school or have children out of wedlock;

- people that own their own home are less likely to divorce than those who do not; and
- there is a positive relationship between home ownership and physical health.
[see Sherraden, M 2001; *Assets and the Poor: Implications for Individual Accounts and Social Security*; Center for Social Development; Washington University in St. Louis]

Home ownership has both positive economic and social benefits, therefore there is a need for the government to ensure that all Australian citizens are given the opportunity to own their own home. The need for intervention and assistance is greatest amongst low income families.

The ACTU feels that the best way for the government to help promote home ownership for low income first home buyers is to put policies in place that will reduce house prices by directly influencing supply at the lower end of the housing market such as public housing

Public Housing

It follows that diminished opportunity for Australians to engage in home ownership due to declining house affordability not only diminishes savings and wealth creation but compounds poverty. People excluded from home ownership are generally reliant on private rental accommodation.

For these reasons public housing is a critical element of any package that seeks to assure all Australians have access to adequate, affordable housing.

The ACTU believes the Productivity Commission's treatment of public housing in Discussion Draft is seriously deficient. Public housing is specifically identified in part (f) of the Terms of Reference and yet there is little mention of it in the Discussion Draft.

Public housing has both economic and social benefits as pointed out in an Industry Commission Report on public housing

Public housing and headleasing¹ are assessed to be more cost-effective than cash payments and housing allowances. Discrimination and security of tenure problems of low-income people are overcome and better targeting is achieved. They avoid the monitoring and administration costs of ensuring that recipients receive appropriate housing.

Public provision of rental housing is shown to be more cost-effective than headleasing over the longer term – that is, there are benefits in terms of financial savings. This finding is subject to the condition that housing administration in the public sector is efficient, or at least not so inefficient as to negate these savings. There are often inefficiencies in public

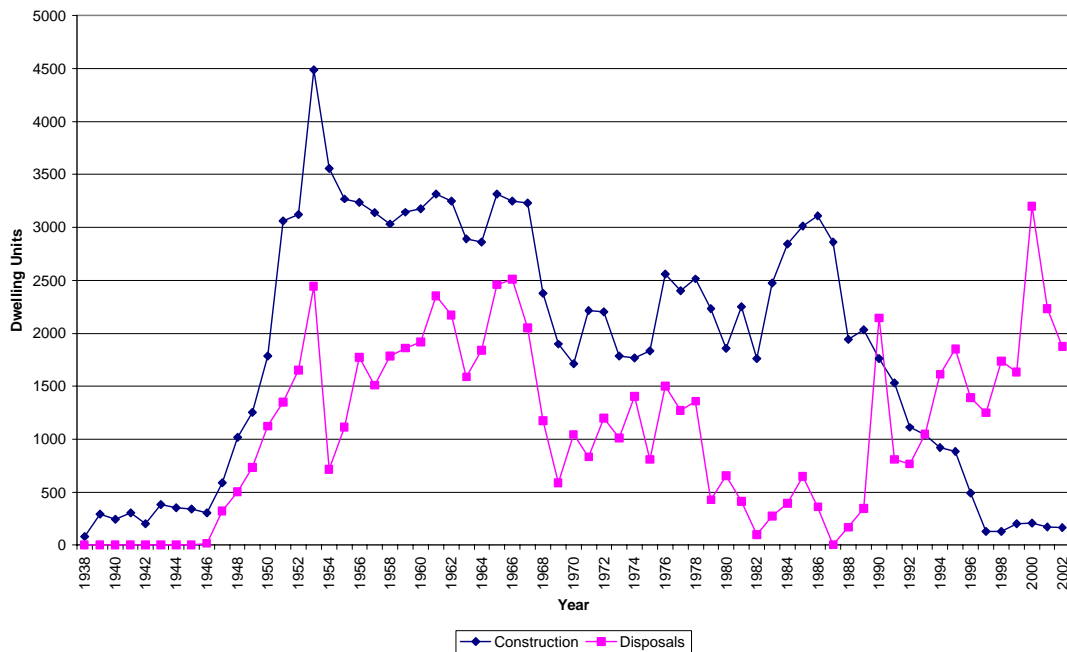
¹ Headleasing occurs where, for example, a community group funded by the State housing authority, leases properties in the private market and then sub-lets the properties to people on the public housing waiting list. [Industry Commission, pg 58]

provision, but with public housing there is also potential efficiency gains through economies of scale, scope and density.

[Industry Commission, *Public Housing, Volume 1: Report*, Report No. 34, 11 November 1993, pg xviii]

The effect of State Housing Authorities (SHA) and funding through the Commonwealth State Housing Agreement (CSHA) has been to smooth volatility in the housing market over fifty years, especially at the bottom end where first home owners are concentrated. This is illustrated in Figure 1 which shows the number of new dwellings constructed and the number of disposals by the South Australian Housing Trust (SAHT)

Figure 1: South Australian Trust



Source: SAHT 'Trust in Focus 2001-2002'

Figure 1 shows from 1938 until 1991 the number of dwelling units construct by the SAHT was greater than the number of units disposed off. However, since 1991 the number of newly constructed units has been no where near enough to replace the dwelling units sold by the SAHT therefore reducing the supply of housing in the market. The SAHT has been forced to sell housing stock to fund maintenance as CSHA funding has been severely cut in real terms.

This highlights the situation at the bottom end of the housing market which is severe, with unacceptable and avoidable levels of housing stress, where affordability and accessibility are low.

An Industry Commission report into public housing in 1993 recognised the need for urgent attention in the area of public housing

The findings of this inquiry point to many areas of unmet need – areas which warrant additional funding. Governments have a long way to go in assisting Australians who are most in need of housing. Many Australians remain in housing stress and in urgent need of assistance. For example,

Bisset, Blaskett and Siemon (forthcoming) estimate that currently there is an additional demand for public and community housing from people in the private rental sector of over 300 000 income units. To meet this additional demand would require a major expansion of public and community housing stock which is unlikely to be achieved in the short-term.

The Commission considers it important that governments assess now what role they want public and community housing to take in the future and begin reforms so that people do not suffer needlessly.

[Industry Commission, *Public Housing, Volume 1: Report*, Report No. 34, 11 November 1993, page 157]

However, it is obvious that the findings of this report were ignored as the attrition and clamp on CSHA funding has continued over the past decade. This is evident in Table 2 which shows the real and nominal decrease in CSHA funding and the number of public housing units. The real value of CSHA funding has actually decreased 28.4 per cent since 1992-93 and the number of public houses has decreased by 1.9 per cent.

Table 2: Government expenditure on Commonwealth State Housing Agreement assistance in nominal and real terms since 1991-92 and the total number of public housing units.

Financial year	Actual funding \$m	CSHA	GST compensation \$m	CSHA funding (less GST comp.) in real terms 2000-01 dollars	Number of public housing units At 30 June
1992-93	1 485.4	—	—	1 716.9	360 909
1993-94	1 419.6	—	—	1 623.8	366 746
1994-95	1 509.6	—	—	1 600.6	n/a
1995-96	1 489.8	—	—	1 643.5	n/a
1996-97	1 353.4	—	—	1 468.3	358 068
1997-98	1 207.4	—	—	1 293.2	360 577
1998-99	1 276.6	—	—	1 363.1	362 447
1999-2000	1 331.0	—	—	1 394.2	362 967
2000-01	1 406.5 ²	—	89.7	1 316.8	359 322
2001-02	1 392.4	—	89.7	1 264.8	354 124
2002-03	1 387.4	—	89.7	1 229.6	n/a

Source: Department of Family and Community Services data published in ACOSS Info 323, October 2002 and Annual Reports of the Housing Assistance Act

Public housing schemes can also be and historically have been structured to create opportunity for tenants to acquire equity and ultimately, ownership.

The SAHT as early as 1946 saw the economic benefits in promoting home ownership as well as providing rental accommodation to low-income families.

² Includes additional amount for GST compensation for years from 2000.

Its homeownership scheme was targeted at the better off, and its two programs (building for home ownership and building for tenants) were kept largely separate concerns. Nevertheless, the trust deliberately structures its housing operations to encourage its tenants to buy a home of their own once they could afford to. Public tenancy was not intended to last for life. Rather, it emerged from an enduring belief that the State had a crucial role to play in promoting industrial development, with the SAHT playing the role of a large residential and commercial developer whose scale of operations would keep a lid on housing costs...

[Hayward, D 1996; "The Reluctant Landlords: The history of Public Housing in Australia" in *Urban Policy and Planning* Vol 14 No 1]

Therefore, if SHAs provided both houses for rent and to purchase than not only would this help low and moderately low income earners to increase their wealth and provide for some financial security in retirement it also aids in containing house prices.

The other benefit of such a model would be to help the State Government's maintain funding for the SHAs, as the losses made in renting public houses could be subsidised by the profits made on the sales of homes and this would lessen the reliance of the States on Commonwealth grants

Public housing is by no means the only way that supply can be influenced and other methods should be considered such as community housing initiatives with both direct equity and debt financed models such as those that have been put to this Inquiry by CFMEU and others.

Not only are first home owners faced with a lack of supply at the bottom end of the market but they also face a tax system that is inconsistent and inequitable and needs to be fixed.

Taxation bias favours the well off

The Howard Government substantially reduced Capital Gains Tax in 1999 which, in conjunction with negative gearing, delivers big tax breaks for well-off investors. This tax bias has fuelled a boom in high-price inner-city apartments for well-off renters and has locked first home buyers out of the market. The Inquiry has so far glossed over this important problem and should look at a fairer system of supporting home buyers that includes means testing First Home Owner Grants

Other Policy Measures

The ACTU believes that in addition to the above there is a need for policies that help people on low incomes save for a home deposit and build up a savings and credit record enabling the low income to borrow funds such as matched savings accounts and tax free savings vehicles.

Disclosure of Interest

In oral submissions on 9 February the ACTU noted the likelihood of conflicting interests as between first home buyers, housing investors, and renters. We suggested it would accordingly be appropriate that each Commissioner on this Inquiry disclose their personal interests in this regard; that is, whether they are renters and/or own one or more residential assets.

Such disclosure in this instance would provide readers of the Commission's final Report with more complete information set when analysing the Report. We stand by those submissions.

Commissioner Banks asked whether the ACTU representatives appearing before the Inquiry would be prepared to make similar disclosures.

The ACTU will adhere to and comply with any and all requirements pertaining to disclosure of interest, which this Inquiry places on the persons and organisations appearing before it and making submissions.

All persons appearing before and making submissions to this Inquiry will have a personal interest (as home owners or renters or housing investors or developers or some combination, in public or private housing). Only the Commissioners however, exercise the judgements in weighing the contentions advanced in submissions that are ultimately reflected in the final Report.

Response to the Urban Development Institute of Australia (Victoria) (UDIA (Vic)) submission

During the Public Hearing Commissioner Shann asked if we would like to respond to the UDIA (Vic) assertion that because commercial building sites in Victoria are compulsory union sites this adds approximately 40 per cent extra to the cost of construction and makes the cost of construction 20 per cent higher than in Sydney.

The ACTU has spoken to the relevant unions and will be making a formal comment as soon as possible.

Conclusion

Public housing is a significant variable in the first home ownership equation. We believe this fact to be self-evident and incontrovertible, but nonetheless have provided data and references to this Inquiry which support the contention that public housing is a first order issue. It is incumbent on the Commission in this Inquiry, given the explicit inclusion of public housing in the Terms of Reference, to address the issue comprehensively or else to set down clearly why it is too big to include in the Final Report or - if the Commission does truly believe this to be the case - public housing is not a first order issue in terms of affordability and accessibility for first home owners.

References

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