

13 February 2003

## **FIRST HOME OWNERSHIP INQUIRY**

### **SECOND SUBMISSION FROM MORELAND CITY COUNCIL**

#### **1. Overview**

Moreland is a 'brownfields' municipality, which stretches from the inner to middle suburban ring to the north of Melbourne. It has a population of approx 137,000 people in 50,511 households and 56,371 private dwellings (2001 Census). Moreland has a high level of relative socio-economic disadvantage, including a high proportion of households on low incomes, high rates of unemployment, and significant numbers of newly arrived residents with poor, or no, English skills.

Moreland City Council supports the scope of this Inquiry, and addresses key issues from the perspective of a local government with a commitment to affordable and appropriate housing. Housing affordability has been recognized as a priority in the Council Plan (2003-2006) and the current Mayor's Speech.

Whilst first home ownership is recognized as a major 'inefficiency' of the housing market, there are other affordability issues in evidence in this municipality:

- Many households have incomes which are too low to responsibly enter into mortgage agreements;
- Existing purchasers, especially the 14% of purchasers who fall into the lowest 40% income group, are very vulnerable to increases in interest rates;
- Older home owners who are asset-rich and income-poor have difficulty negotiating the housing market;

- Moreland has the third highest level of Rent Assistance in metropolitan Melbourne. Many private tenants pay unacceptably high rents, even though they receive Rent Assistance; and
- Affordable housing options are limited. Moreland has a relatively low level of public and community housing and low cost accommodation in hotels and rooming houses is declining.

Paradoxically Moreland has a relatively high rate of home ownership, a low level of home purchase and a high level of housing stress- a typical profile of a relatively disadvantaged, ageing municipality. Moreland's housing and population profile is described in detail in the attached draft Housing Strategy 2003-8. Our research shows that major problems of affordability exist in the private rental market and these tenants are unlikely to become future purchasers or enjoy the social benefits of home ownership identified in Box 1.1.

Recent escalation in the price of real estate has created considerable concern for existing homeowners. They are uncertain whether their children can realistically aspire to home ownership.

## **2. Council's response to the Inquiry**

Council has chosen to focus on some key issues raised by the Discussion Draft, providing comments in areas in which we have expertise.

Council commends the Productivity Commission's Inquiry into First Home Affordability, but recommends that a broader range of affordability issues for all tenure groups continue to be investigated.

Many of the equity issues raised by Housing Justice Roundtable, the Australian Association of Social Workers, ACOSS and the joint Brotherhood of St Laurence/CEDA submissions can be found 'on the ground' in Moreland.

It is timely for the Inquiry to reconsider Federal housing subsidies, as these subsidies are not adding to affordable stock options. Council notes that government expenditure on the First Home Owner Grant, Commonwealth Additional Grant, and tax concessions such as negative gearing and capital gains tax savings to homeowners significantly exceeds subsidies to public tenants arising from the Commonwealth State Housing Agreement (Changing Pressures, Brotherhood of St Laurence, February 2003). Current CSHA funding is insufficient to generate and acquire new stock because of the expenditure required for improvements to older stock and redevelopment programs. Consequently municipalities such as Moreland, with an already low stock of public and community housing, cannot hope to address the housing needs of the estimated number of 13,286 residents living in poverty according to NATSEM. This total includes 3,839 children.

The Inquiry should reconsider the effectiveness of the First Home Owner Grant, even though the Discussion Draft and subsequent hearings found that it has made a minor contribution to affordability problems among a 'cocktail of causes'. This grant appears to have at least partly fuelled rising housing prices. It would seem that an appropriate response to be considered would be that the grant be capped, means tested and targeted towards more affordable accommodation options.

The Inquiry should reconsider the effectiveness of Rent Assistance. National Shelter and ACOSS research (September 2003) has shown that many recipients of Rent Assistance exceed the Government's own measure of housing affordability in rental expenditure. Nearly 45% of Rent Assistance recipients spend more than 30% of their income on rent, the accepted indicator of housing stress. Incentives for landlords to provide secure and appropriate housing for the lower end of the market need to be explored more fully.

In addition the possible unintended consequence of rent assistance- being the encouragement of increased pricing for private rental by providing an indirect subsidy for the property owners rather than renters through whom the money is merely channelled- needs to be evaluated.

The Inquiry needs to recognise that some households, on a rational assessment of their own capacity, choose tenancy rather than home ownership, and that more secure forms of tenancy deserve to be investigated. Very high costs can be associated with housing relocation, so that tenancy may be a 'preferred' option to accommodate particular life cycle stages and labour force mobility.

The Inquiry needs to address ways of attracting private finance into affordable housing provision, such as the Affordable Housing National Research Consortium Proposal, outlined in the Housing Justice Roundtable submission.

The Inquiry should consider new incentives for the construction industry to pilot affordable purchase and rental options, especially in inner metropolitan areas of Melbourne and Sydney where affordability problems are greatest. Incentives could be funded through developer contributions and a proportion of stamp duty costs specifically re-directed towards affordable housing initiatives. The recent work of Brisbane City Council provides an appropriate model.

The Inquiry needs to evaluate whether there is a role for not-for-profit Housing Associations who could provide long term, secure rental accommodation, with rights to exchange property across Australia. Such an option could be attractive for households who do not seek to make a capital gain from their property. (This Housing Association model is broader than the current initiative proposed by the Victorian State government.)

Ongoing research and consultation for Moreland's Housing Strategy indicates that affordability is a major problem for tenants, purchasers and some owner-occupiers. Moreland is experiencing rapidly increasing rental and property prices. For example Coburg, which was an affordable entry point into the housing market in the past, experienced an increase in median house price of 47% between 2001 and 2002 (The Age, 16 August 2003). Note that Moreland is not in a position to judge the impact of the First Home Owner Grant because insufficient data is available at a municipal level.

While Council appreciates the cost of planning permit delays for developers, the emphasis in the Discussion Draft on inefficiencies within the planning approval process cannot be entirely blamed on local government. Again, there is considerable variation across local government and it is also important to note that municipalities work within a framework established by the State Government.

Officers at Moreland have found that at times very poor quality applications are submitted as 'ambit claims' and that much time can be spent 'coaching' applicants. A high proportion of applicants (50%) are asked to supply further information because their applications are incomplete. The longer average time for processing (Discussion Draft p105) is also a result of an increase in information requested due to the introduction of Rescode, ultimately leading to better design outcomes in terms of ESD and heritage requirements. Because charges are set by the State government, the real cost of processing applications is not recovered. Moreland has data which shows that in the 2002-3 financial year it cost Council an additional \$880 per application to process over and above the fees received. An Inquiry recommendation to increase the use of outsourcing or consultancy arrangements would add to this cost.

To more objectively estimate the impact of the planning approval process, the Inquiry needs to acknowledge that many homes purchased by first homeowners do not require permits.

Council would like to emphasise that there is a need for the Inquiry to investigate housing affordability problems at a local level, because of the huge variation in housing resources across Australia. Tables such as 7.1, the case study of development and construction costs between Penrith and Wyndham, are most valuable.

Moreland recommends that beyond the life of this Inquiry affordability continue to be monitored at CBD, inner suburban, outer suburban, regional and rural locations on an ongoing basis. In the Housing Justice Roundtable presentation Professor Terry Burke also pointed to the value of identifying affordable housing ‘hotspots’ and ‘coldspots’, because many households are forced to make tradeoffs between housing location and related services and facilities. This data could then be used to inform policy decisions leading to more appropriate provision of amenities and services.

Although the state wide comparisons provided in the Discussion Draft add considerably to our understanding of housing costs across Australia, the impact of the First Home Owner Grant, Commonwealth Additional Grant, and tax concessions such as negative gearing and capital gains tax savings remain unclear at a municipal level.

It would be valuable if the Inquiry would circulate data about first home ownership at a municipal level, including demographic analysis of first home ownership in relation to household type, age, gender and cultural background. This data could inform municipal housing and land use strategies.

### **3. Conclusion**

The Discussion Draft provides a general profile of first homebuyers in Box 2.2. Because Moreland has a comparatively low proportion of purchasers and because recipients of the First Home Owner Grant and Commonwealth Additional Grant have difficulty purchasing in the 'more desirable established suburbs', it is not likely that these grants have provided much support to Moreland residents who require more affordable accommodation. The State Revenue Office concurs that Melbourne's outer suburbs and regional centres have been the major beneficiaries of the First Home Owner Grant.

The picture of housing distribution and price escalation in Moreland which is detailed in the attached draft Housing Strategy highlights the need for more effective forms of federal and state intervention in the housing market, including pilot programs of new strategies. The range of schemes identified in Chapter 10 of the Discussion Draft provides a starting point. Because joint equity schemes have had such a chequered history in Victorian housing, special care should be taken before re-launching these schemes.

Moreland's socio-economic profile is very similar to neighbouring Darebin's. Much of the analysis outlined in Darebin's submission during the Melbourne hearing applies to Moreland. For example, Moreland would support the need for a National Housing Strategy (and a State Housing Strategy) and agree that local government has limited resources to enter into joint venture housing projects.

From a local government perspective it needs to be emphasised that Councils would require extensive financial and policy support to develop large-scale affordable housing projects and take responsibility for risk management.