



AUSTRALIANS FOR
**AFFORDABLE
HOUSING**

HousingStressed.org.au

ADDRESSING HOUSING AFFORDABILITY IN AUSTRALIA: A 4 POINT PLAN FOR THE NEXT 5 YEARS



Increase the supply of affordable rental housing



Improve housing affordability through tax reform



Improve rent assistance



Set benchmarks for all levels of government to deliver affordable housing



Executive Summary

Across Australia hundreds of thousands of households are struggling to get, and keep, a roof over their heads, whether they are in private rental, home ownership or public housing. Our housing system, which used to support people to get affordable housing whatever their circumstances, is broken.

- House prices have risen nearly 150 per cent over the past decade while earnings have increased by just over 50 per centⁱ.
- Rents have risen 49 per cent while household incomes have grown 20 per cent in the last five yearsⁱⁱ.
- Two out of five of the very lowest income rental households are in housing stressⁱⁱⁱ.
- Almost 240,000 people are waiting for social housing across the country^{iv}.

This crisis in housing affordability affects different people in different ways at all stages of life. Young couples are having to choose between having kids or buying a home to raise them in. Households are falling deeper and deeper into credit card debt to pay the bills as well as keep up with the mortgage or rent. Families are choosing between paying the rent and putting food on the table, and children are forced to move schools as their families go in search of cheaper housing. Older people who have lived for decades in one area are being forced out of their homes and communities at a time in life when they most need security.

These are just some of the costs and consequences of the crisis in housing affordability in Australia. They are not isolated incidences but the choices that one in ten households face every day as they struggle to keep a roof over their heads^v.

Australia's housing affordability crisis can be fixed. It will involve significant financial investment, but smart strategies could produce significant savings to offset these costs, and produce a more sustainable housing system for future generations.

i Phillips, B (2011), *The Great Australian Dream - Just a Dream?* AMP/NATSEM Income and Wealth Report, Issue 29, July, AMP Sydney.

ii Australian Bureau of Statistics (2012), *2011 Census of Population and Housing: Basic Community Profile*, CAT no. 2011, June, Commonwealth of Australia, Canberra.

iii COAG Reform Council (2012), *Affordable Housing 2010-2011: Comparing performance across Australia*, COAG Reform Council, Sydney.

iv Productivity Commission (2012), *Report on Government Services 2012*, Commonwealth of Australia, Canberra, tables 16 A.5 and 16 A.7.

v Australians for Affordable Housing (2011), *Housing costs through the roof: Australia's housing stress*, Australians for Affordable Housing, Melbourne. Modelling commissioned from the National Centre for Social and Economic Modelling (NATSEM).

Australians for Affordable Housing are proposing a four point plan that will deliver 30,000 new affordable housing units each year and lift 250,000 households out of housing stress. This plan outlines a blueprint to address Australia's housing crisis and to ensure Australians have access to a housing system that works for everyone.

The four points are:

1. **Increase the supply of affordable rental housing:**
 - establish an Affordable Housing Growth Fund that would fund at least 20,000 new low-income rental properties each year for the next five years, to lessen the demand on public housing and stop vulnerable people falling into homelessness, and
 - provide investment security to private financiers, investors and developers to double the number of property incentives under the National Rental Affordability Scheme and to transform the low-cost end of the rental market.
2. **Improve housing affordability through tax reform:**
 - change the tax breaks for housing investors, like negative gearing and Capital Gains Tax discounts, that not only make housing more expensive but are a drain on the economy, and
 - help state governments to abolish stamp duty and introduce a broad-based land tax.
3. **Improve rent assistance:**
 - establish a Productivity Commission review to enhance the effectiveness of Commonwealth Rent Assistance, and
 - increase the current maximum rate of Commonwealth Rent Assistance to restore its real value to the household budget. This would be an increase of between \$22 and \$27 per week, depending on household type.
4. **Set benchmarks for all levels of government to deliver affordable housing:**
 - develop a national housing and infrastructure plan, with transparent funding and accountability arrangements to ensure that major investments in housing by all tiers of government deliver the best possible value for money.

Australians for Affordable Housing is a coalition of national housing, welfare and community sector organisations, established to highlight the problem of housing affordability in Australia.

For more on Australians for Affordable Housing visit www.housingstressed.org.au

August 2012

Introduction

The issues

House prices in Australia have risen by nearly 150 per cent over the past decade while earnings have only increased by just over one-third of that rate^{vi}.

Home ownership continues to be out of reach for many young people, and is increasingly a burden for low and middle income households who have stretched their household finances to get a foothold in the property market.

This doesn't just have consequences for the individual families. Frustrated would-be home buyers who are forced to stay in the rental market for longer add to the competition for available properties, pushing up rental prices. In the last five years rents have risen 49 per cent across the country, with Darwin topping the list at 80 per cent^{vii}. Rents have increased much faster than incomes, placing more strain on low income households and making it harder for others to save for home deposits.

The 'trickle down' effect continues. As low income households get pushed out of the private rental market and squeezed by increasing rents, more pressure is put on public housing waiting lists. Nearly two out of five of the very lowest income households in the private rental market are in housing stress^{viii}. Yet as Australia's population has grown by a million households and demand has increased for public and community housing, supply has been dwindling due to a decade of declining investment. We now have 5,000 fewer social housing dwellings than in 2001^{ix}. This has left 240,000 households across the country on waiting lists for public and community housing^x. Those households whose only problem is poverty can wait for up to 15 years for a social housing property.

The worst impact of our broken housing system is on those at risk of, or experiencing, homelessness. Ever increasing rents are pushing more and more families to the brink of homelessness and, for those that do become homeless, the lack of affordable housing helps to keep them that way.

The solutions

There is not one problem that has caused our current housing affordability crisis, and so there is not just one solution. Because of its complexity, we cannot simply expect the housing system to fix itself, nor can we rely on the market or the quick fix solutions of the past, like first home buyer grants and land release. We need innovative solutions, a national commitment, and a growing understanding amongst the community that this housing affordability crisis hurts us all.

The Australians for Affordable Housing campaign is calling for four key reforms that would deliver 150,000 new homes and lift 250,000 households out of housing stress over five years and ensure Australians have access to a housing system that works for everyone. Here are our solutions.

vi Phillips, B (2011) op cit

vii Australian Bureau of Statistics (2012) op cit

viii COAG Reform Council (2012) op cit

ix Australian Bureau of Statistics (2011), *Australian social trends, September 2011 – Housing assistance for renters*, CAT no 4102.0, Commonwealth of Australia, Canberra.

x Productivity Commission (2012), op cit

1. INCREASE THE SUPPLY OF AFFORDABLE RENTAL HOUSING

a. Build more affordable housing through an Affordable Housing Growth Fund.

What's the problem? The current National Affordable Housing Agreement (NAHA) between the state and Commonwealth governments sets a range of outcomes to improve housing affordability, however it does not deliver the necessary funding to meet them. Core funding to support social housing has been in consistent decline over the last 15 years. Combined with ageing housing stock and lower rental revenues due to greater targeting to the lowest income and disadvantaged households, this means that state housing authorities are running deficits and selling off old housing stock in order to maintain remaining dwellings. Public housing stock consists of many three or more bedroom family homes and no longer reflects demographic need, with most demand now coming from singles and smaller households.

What's the solution? The NAHA should be reformed to encourage growth in the number of affordable housing properties available. This requires a dedicated Affordable Housing Growth Fund, which could be allocated to housing providers on a competitive basis, as well as a funding stream to maintain existing public and community housing assets. A Housing Supply Bond^{xi} could be used to finance this growth fund, as it would unlock private investment in the provision of affordable housing.

With additional resources and an overhaul in the way affordable housing is funded and targeted, the NAHA will support an affordable housing system that works.

How much would it cost? In order to finance an Affordable Housing Growth Fund through a Housing Supply Bond, it has been estimated that a government investment of \$90 million a year would be required to leverage \$7 billion of private investment in housing^{xii}. Continued funding to the National Rental Affordability Scheme, Commonwealth Rent Assistance and the current base NAHA funding is required to ensure the bond is financially viable. To issue bonds over five years would cost 1.4 billion and leverage \$35 billion worth of investment into the affordable housing sector.

Who would it help? People on low incomes who struggle with the cost of private rental and those experiencing homelessness who need long term stable housing. There are 856,000 households on very low income (in the lowest income quintile) who either do not own their home outright or are not in public housing. These households are either in the private rental market or in shared or crisis accommodation. This would provide more than 100,000 affordable homes for people currently homeless or struggling in the private rental market.

xi For more on housing supply bonds and the operational model see: J Lawson et al (2012), *Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?*, AHURI Final Report No.188, Australian Housing and Urban Research Institute, Melbourne, 2012.

xii *ibid*

What would an Affordable Housing Growth Fund look like?

The objective of a growth fund is to increase the amount and variety of affordable housing options available. The Affordable Housing Summit Group has proposed a 'banded' model which would provide funding to states on a per capita basis to build a target number of dwellings in each category:

- Band A provides a deep subsidy to ensure rents are set below 25 per cent of household income and provide secure tenancies, similar to the current public housing model.
- Band B provides a mid level subsidy to secure dwellings at least 20 per cent below market rent, for example further investment in the National Rental Affordability Scheme or programs that assist households in the private rental market to secure long term leases with stable rents.
- Band C includes funding to enable low cost home purchase schemes for low to moderate income households, for example shared equity schemes and community land trusts.

A shared equity scheme would help low income households who can service a small mortgage to get housing security by buying their first home. Government would assist by purchasing up to a 40 per cent share of the property and holding it as the value of the property increases over time. The home buyer is responsible for all costs associated with the property but doesn't pay rent on the share owned by the government. When the property is sold the government is paid back the value of its share.

For a \$370,000 property this means the Housing Authority would contribute \$148,000 to purchase a 40 per cent share of the property and the household would pay the remaining \$220,000 to purchase its 60 per cent share, and may take out a commercial loan to do so. When the household decides to sell the property equal shares are returned to each party. If the sale price is \$435,000 the Housing Authority is returned \$174,000 for its 40 per cent share of the property and the household retains \$261,000 for its 60 per cent share.

Community land trusts provide similar benefits to shared equity schemes in that they allow households to get the security of home ownership at a lower price. This is because in a community land trust the purchaser buys the dwelling, but not the land on which it is built. The land is owned by the trust and leased to the owner of the dwelling.

An indicative split of dwelling categories could include at least 30 per cent Band A dwellings, 50 per cent Band B dwellings and 20 per cent Band C dwellings with funding to be allocated competitively to providers who can produce the greatest number of dwellings.

A number of states, such as South Australia and Western Australia, already have programs that fund a range of Band C housing options. If states are able to produce more than the allocated target in any given housing band, the funds within that band could be reallocated to housing projects in any other given band.

For more on this model see: National Affordable Housing Summit Group *Background Papers on a National Affordable Housing Agreement*, August 2008.

b. Provide investment security to private financiers, investors and developers.

What's the problem? The National Rental Affordability Scheme (NRAS) provides incentives to institutional investors to build and rent affordable housing. Under the scheme, the Federal Government initially committed to providing 50,000 incentives, with another 50,000 if the program was successful. The scheme has the potential to transform the low cost end of the rental market. However, ongoing uncertainty about the future of the scheme has meant that businesses have been slow to make long term financial decisions about investing in affordable housing; while 40,000 incentives have now been allocated, just 8,600 properties have been built^{xiii}. Despite the inherent difficulties of attracting institutional finance in a new investment class, demand for NRAS incentives in the last two rounds has exceeded the number on offer. Investors and financiers are now showing an understanding and interest in the scheme, and there is strong support from the private sector for the Federal Government to guarantee an additional 50,000 incentives^{xiv}.

What's the solution? The NRAS needs to be expanded into a rolling investment of 10,000 dwellings per year. This could be achieved in two phases by:

- immediately announcing an additional 50,000 incentives beyond the current 50,000 to which the Government has already committed, and
- converting the scheme, once the additional 50,000 incentives have been allocated, into an ongoing allocation of 10,000 dwellings per year, indexed according to population and need, similar to the Low Income Housing Tax Credits in the United States.

Taking these steps will provide certainty to investors and affordable housing providers alike, enabling better business planning across both private and community sectors, and ensuring an ongoing supply of affordable rental housing. Existing eligibility and rent setting requirements would remain.

What would it cost? The roll-out of the additional 50,000 incentives would cost \$1.1 billion^{xv} over the first five years, assuming an allocation rate of 10,000 incentives a year.

Who would it help? This would ensure 10,000 new affordable rental housing properties came onto the market each year, benefitting people on low and middle incomes struggling with the high costs of private rental, including nurses, teachers, emergency service personnel and other key workers in high cost housing markets.

xiii O'Connor, B, (Minister for Housing and Homelessness, Australia) (2012), *More than 8,600 affordable homes built across Australia*, Media release 16 July 2012, accessed 9 August <http://www.brendanoconnor.fahcsia.gov.au/node/85>

xiv See for example: <http://www.propertyoz.com.au/nsw/Article/Resource.aspx?p=21&media=1943>

xv This calculation assumes a CPI of 2.5% per annum.

2. IMPROVE HOUSING AFFORDABILITY THROUGH TAX REFORM

a. Change the tax breaks for housing investors which encourage speculation, drive up house prices and lock out first home buyers.

What's the problem? Current tax concessions for investors, such as the 50 per cent Capital Gains Tax discount and negative gearing, work to encourage speculative investment in housing, particularly high cost housing, and do nothing to add to the supply of affordable housing. In fact, 92 per cent of all borrowing by residential property investors over the past decade has been for the purchase of established dwellings which does not add to the total supply of housing. After the introduction of the 50 per cent Capital Gains Tax discount in 1999, investment in established housing (not new building) trebled^{xvi}.

What's the solution? There are many ways to limit the damage that negative gearing inflicts on the property market. The Federal Government could return the tax status of capital gains to the pre-1999 position, quarantine deductibility for rental expenses to rental income, or allow negative gearing to be solely for newly constructed dwellings. At a minimum, the Commonwealth Government could implement the Henry Tax Review recommendation that only 40 per cent of interest (and other expenses) associated with investments be allowed as a deduction, and that capital gains (and other forms of investment income, including interest on deposits) be taxed at 60 per cent (rather than 50 per cent as at present) of the rates applicable to the same amounts of wage and salary income.

What would it cost? The Henry Tax Review measure would **save up to \$1 billion** a year. Those savings would be better used to provide more affordable housing^{xvii}.

Who would it help? First home buyers would benefit from this change to discourage speculative investment that is squeezing them out of the market. Bringing investment gains in housing into line with other investment vehicles, alongside incentives such as NRAS, would assist to attract institutional investment into affordable housing.

xvi Reserve Bank of Australia (2012), *Table D6 Housing – Lending Commitments: All Lenders*, Commonwealth of Australia, 2012 accessed at <http://www.rba.gov.au/statistics/by-subject.html>

xvii Australian Treasury (2009), *Costing request: AFTS proposal – personal income tax*, Commonwealth of Australia, Canberra, accessed 20 February 2012, http://www.treasury.gov.au/documents/1895/PDF/09_12_03_PIT_and_FBT_package_final_write_up.pdf

b. Assist states to abolish stamp duty and introduce a broad-based land tax.

What's the problem? Stamp duties are widely considered to be inefficient taxes that stop people from moving home easily, and from downsizing their homes as they age^{xviii}. The Henry Tax Review recommended that these duties be phased out and replaced with a broad-based land tax over a long transition period^{xix}.

What's the solution? Abolishing stamp duties and replacing them with a broad-based land tax would remove one of the biggest costs imposed on home buyers and help to keep house price inflation under control.

A move from stamp duties to a land tax would need to be phased over time. If stamp duties were abolished and not replaced with a broad-based land tax, state governments would no longer be able to provide the range of services that the community expects. This means that a broad-based land tax should be phased in as stamp duties are phased out across the entire housing market. The Federal Government should provide an incentive payment to encourage states to tackle this important area of tax reform, and smooth the transition costs, particularly for households who have recently purchased a home.

How much would it cost? While this change would eventually be revenue neutral, a transition payment to households who had paid stamp duty in the past ten years would assist in making the transition to a broad-based land tax. This requires complex modelling in conjunction with state revenue offices.

Who would it help? First home buyers, people on low or fixed incomes who are currently locked out of the housing market, and all buyers looking to move or downsize their home would benefit from abolishing stamp duty.

xviii Wood, G, Ong, R & Winter, I (2012), 'Stamp duties, land tax and housing affordability: The case for reform', in *Australian Tax Forum*, Vol 27, Issue 2, 01 Apr 2012, Taxation Institute Australia, Sydney.

xix Australian Treasury (2012), *Australia's Future Tax System*, Commonwealth of Australia, Canberra p. xxii accessed 9 August 2012 at http://www.taxreview.treasury.gov.au/content/downloads/final_report_part_1/03_AFTS_final_report_executive_summary.pdf

3. IMPROVE RENT ASSISTANCE

a. Review Commonwealth Rent Assistance to improve housing affordability.

What's the problem? Commonwealth Rent Assistance (CRA) is a payment made to income support recipients who rent housing in the private market. Despite its real value stagnating over time, the CRA has been an important means of improving housing affordability for low income recipients. Around \$3 billion a year is spent on this payment yet 40 per cent of households who receive it remain in housing stress and many low income households who struggle with housing costs do not receive it, either because they are in paid employment or own a home, but arguably should. While there should be an immediate increase to restore the CRA to its real value, there should also be a review of current eligibility requirements and ways to ensure the policy can be better targeted to achieve its aims.

What's the solution? The Productivity Commission could review the CRA's coverage and eligibility criteria to ensure it has even greater impact in improving affordable housing for low income people and investigate any impact it has on the way the private rental market functions.

How much would it cost? Based on the cost of other public inquiries by the Productivity Commission this would cost approximately \$180,000.

Who would it help? The Productivity Commission would make detailed recommendations to ensure that the CRA is structured to have the maximum possible effect for low income households in Australia struggling to pay the high costs of rental housing.

b. Increase Commonwealth Rent Assistance.

What's the problem? CRA provides assistance to low income households in the private rental market for housing costs. Currently 75 per cent of households who get CRA receive the maximum amount, yet 40 per cent of household recipients remain in housing stress.

CRA is increased each year in line with inflation but in recent years rents have risen at twice the rate of inflation, increasing 49 per cent in the last five years and leaving rent assistance lagging behind. The maximum rate of rent assistance used to cover, on average, 22 per cent of median capital city rents but now covers just 15 per cent. For a couple with two children this means paying an extra \$27 a week, or a further 7 per cent of their income on housing costs. This makes it much harder for households to meet the other basic costs of living.

What's the solution? The maximum and minimum payments vary, depending on the type of household and kind of pension or benefit received. The Government should increase the current maximum payment to restore its value to the household budget. Depending on household type, this would mean an extra \$22 to \$27 a week.

How much would it cost? To restore the maximum rate of CRA to its 1995 value would cost \$1.2 billion a year^{xx}.

Who would it help? It would help pull almost 100,000 households out of housing stress entirely and improve the lives of 900,000 people on statutory incomes who are trapped in the private rental market and receive the maximum rate of rent assistance.

^{xx} Costs calculated using current number of recipients on each payment type with 75% on the maximum rate from Productivity Commission (2012), *Report on Government Services 2012* Commonwealth of Australia, Canberra and maximum rates of CRA as at 1 July 2012.

4. SET BENCHMARKS FOR ALL LEVELS OF GOVERNMENT TO DELIVER AFFORDABLE HOUSING:

a. Develop a national housing and infrastructure plan, with transparent funding and accountability arrangements.

What's the problem? All levels of government have some responsibility in relation to housing supply and affordability, but these responsibilities are not coordinated. This means we have government activity pulling in different directions and going nowhere. This plan highlights a number of key areas for Federal Government activity, yet state and local government also have the capacity to improve housing affordability. The way in which they fund and regulate housing is not always clear and transparent. Clearer accountability on spending would make it easier to track which areas are improving and why, and make sure that all government activities are pulling in the right direction.

Federal and state governments are already committed to a National Affordable Housing Agreement, to ensure “all Australians have access to affordable safe and sustainable housing that contributes to social and economic participation”. However it lacks the planning for implementation and monitoring to ensure that it actually delivers more affordable housing to all Australians.

What's the solution? The Federal Government is ideally placed to lead the development of a National Housing Plan through the Council of Australian Governments (COAG). This includes renegotiation of the NAHA to ensure efforts under the National Partnership Agreements are coordinated to meet NAHA's goals, and a review of associated reforms in land use planning and income support that affect housing affordability.

What would it cost? This initiative would have minimal cost but ensure that investments in other areas yield the best possible value for money.

Who would it help? All Australians would benefit from a more integrated approach to government activity and a more efficient housing system.

Total cost of \$3.5 billion over 5 years to build a minimum of 150,000 new properties and help more than a quarter of a million households out of housing stress.