Housing Affordability

Edited by Justin Healey
Housing Affordability is Volume 400 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC
The ‘great Australian dream’ is a belief that home ownership can personally lead to a better life and long-term financial security. Although this standard of living is already enjoyed by many, rising housing prices compared to average wages are making it increasingly difficult for many to achieve this dream, especially for those living in large cities.

The affordability of housing in Australia is a major concern for many people. High house prices and rents are often beyond the reach of younger people in particular. What are the facts about housing in Australia – how do factors like low-interest home loans, tax breaks such as negative gearing, immigration and foreign investment impact on inequality in the housing market?

This book presents the latest information on housing affordability and supply, and explores possible ways Australia can tackle housing unaffordability. What are the economic and social costs involved in putting a roof over your head?

SOURCES OF INFORMATION
Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:
- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION
As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES
The ‘Exploring issues’ section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH
This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The ‘Web links’ section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
Housing affordability is a major concern for many Australians. *ABC Fact Check* investigates the facts about housing in Australia.

Negative gearing, foreign investment and immigration are just some of the factors identified as pushing house prices beyond the reach of younger people in particular. That’s despite interest rates being at historically low levels, banks being willing to lend more than in the past, and a higher number of two-income households.

So, what are the facts about housing in Australia? *ABC Fact Check* investigates.

1. There are approximately 9,000,000 dwellings in Australia. The 2011 Census found that 67 per cent of households own their home or are purchasing it through a mortgage – most of the rest are renters. That home ownership figure was 1.1 percentage points lower than the 2006 Census. Tasmania has the highest home ownership rate at 70 per cent, and the Northern Territory the lowest at 46 per cent.

2. The proportion of home ownership has been fairly stable for more than fifty years, after rising from 53 per cent in 1947 to 63 per cent in 1954 and hitting 70 per cent in 1961.

3. The level of home ownership increases with age: for those aged 15 to 24 only 22 per cent own or are buying a home, while 75 per cent rent. It’s pretty much 50-50 between 25 and 34, and by the age of 75 close to 85 per cent of people own their home outright, less than 3 per cent have a mortgage and less than 10 per cent are renting.

4. One way to assess housing prices over time is to compare them to income. In 1981-82 the median after tax household income was around $15,000 while the median dwelling price was $48,000. That works out as a price-to-income ratio of close to three, or in other words in 1981-82 it took a little over three years’ take-home pay to buy a house. Nationally that ratio has now passed six, or more than twice as much, and in places like Sydney it went above nine during the property boom of the early 2000s.
5. A measure of housing affordability is the per cent of income spent on housing. In March 2015, an average of 31.5 per cent of income was spent on home loan repayments, while renters paid an average of 24.8 per cent of their income.

6. While our homes are getting more expensive, they are also getting bigger. New homes in Australia are bigger on average than anywhere else in the world at 245 square metres for new freestanding homes and 215 square metres for new homes overall – up around ten per cent in a decade.

7. We have more spare rooms; in 1976 there were 3.1 people per household in Australia, that has since fallen to around 2.6, yet the average number of bedrooms per dwelling has risen in that time from 2.8 to 3.1.

8. Sydney has the hottest property market in Australia. In the year to December 2014 prices in Sydney shot up 12.2 per cent. The next largest increase was Brisbane’s 5.3 per cent, followed by Melbourne’s 4.5 per cent. All other capitals had growth of 2.5 per cent or less. The average price of residential dwellings across Australia was $571,500 at the end of 2014.

9. While in dollar terms people with mortgages spend the most per week on housing at around $408, that represents only 18 per cent of their income. Renters spend an average of $275 but that’s a higher proportion of their income at 20 per cent.

10. Owners like freestanding homes. Of owner-occupied households, 88 per cent live in separate houses, compared with 57 per cent of renters.

11. Three-quarters of Australia’s almost $2 trillion in household debt is borrowing for housing. In 1990 housing represented only 47 per cent of household debt.

12. Less than 3 per cent of Australian households have investment loan debt, compared to around one third of households with home loan debt, and 12 per cent with debt over property other than their home.

13. More than 100,000 Australians are regarded as homeless. On Census night 2011, 6,813 were sleeping out in tents or improvised dwellings, 17,721 homeless people were in boarding houses and a similar number, 17,369, were staying at someone else’s home temporarily. Fifty-six per cent of homeless people are aged under 35, and one quarter are Indigenous Australians.

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Housing affordability, high house prices and rents are attracting plenty of media attention right now. The latest figures on house prices, mortgages, number of first time buyers and so on are dissected by journalists and commentators as if this is an issue of recent origin. In fact what we have here is a long-term structural problem that has been neglected for decades.

Back in 1982, the ABS Survey of Income and Housing revealed that 168,000 or 10% of home buyers spent more than 30% of their gross household income on housing costs. Nearly 30 years later in 2011 these numbers had soared to 640,000, equivalent to 21% of all home buyers.

The trends in housing cost burdens reflect rising real house prices. The history of house prices over this timeframe is one of booms in which real house prices escalate to higher levels than they peaked in the previous boom. Periods of house price stability punctuate these booms, and give household incomes some breathing space in which to catch up.

But at each peak in house prices, household incomes have fallen further behind. According to the same ABS data source, households in 1990 on average valued their homes at a multiple that was four times their average household income. By 2011 this multiple had climbed to nearly six times average household income.

A generational threat

It is therefore not surprising to find that young first time buyers are finding it increasingly difficult to purchase a home. As our first table shows, on a person basis the rate of home ownership in the prime 25-34 year age group has slumped from 56% in 1982 to only 34% in 2011. Delayed entry into home ownership is a factor, but it turns out that these declines have set in across all but the post-retirement age group. The ‘Australian dream’ of home ownership is under threat.

How have we reached this position? To be sure population growth, low interest rates, deregulation of mortgage markets and rising real incomes have helped fuel the demand for housing, and pushed up real house prices. But there are deep seated structural problems that contribute to an inflationary bias in land and property markets.

Fiscal concessions in the form of capital gains and land tax exemptions to home owners, negative gearing and concessionary capital gains tax for ‘mum and dad’ investors, and asset test concessions to home owner retirees offer powerful incentives to accumulate wealth in housing assets. As a result, the supply side problems are not so much about a shortage of housing, but an...
inefficient distribution of the stock of housing.

According to the 2010 *Household, Income and Labour Dynamics in Australia* Survey, roughly 1 in 6 Australian households own two or more properties, and for 30% of these households the second property is a holiday home. Growing numbers of ageing ‘empty nester’ households are deterred from downsizing and releasing housing equity by stamp duty, the taxation of alternative investments of the equity released, and the lack of suitable housing opportunities in the communities they would like to stay in.

Meanwhile according to the latest census more than 100,000 Australians are homeless, and many more than this are struggling to meet housing payments.

**The supply issue**

Back in the early 1980s these fiscal drivers did not matter so much, because there were ample greenfield sites on which new housing could be constructed. These sites still offered reasonable access to amenities and jobs. But such opportunities are drying up, and state governments have introduced curbs on urban expansion, as well as developer charges and fees that have increased the costs of construction on the urban fringe.

Adding to supply side problems are planning controls that impede higher density development in middle ring suburbs, as ‘insider’ home owners understandably seek to protect the ‘leafy character’ of their communities.

**PERCENTAGE OF HOME OWNERS WITH A MORTGAGE DEBT**

What we have here is a long-term structural problem that has been neglected for decades.

We are left with a problem that has wider ramifications because it has created a housing system saddled with growing indebtedness. In the 21 years illustrated in the chart below the average mortgage debt has soared relative to the average household incomes of mortgagors in all age groups.

Moreover, the proportion of home owners with outstanding mortgage debt has increased, especially in the 55-64 year cohort that is typically approaching retirement (see chart below). Interest rates were much higher back in 1990 and so household incomes in 2011 can comfortably service loans that are larger relative to household income.

Nevertheless repayment risks and investment risks (house values falling short of outstanding mortgage debt) loom more prominently, and for a larger number of precariously positioned households. These risks could test the resilience of local economies and the national economy.

The Australian housing system weathered the global financial crisis much better than did many of its counterparts in the developed world.

Does this suggest a resilience that we can bank on in the future? Federal and state governments might be well advised to introduce structural reforms to housing finance that strengthen that resilience.

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Housing costs for owners steady while housing costs for renters increase

Housing costs for owners with a mortgage remained steady in real terms between 2011-12 and 2013-14, at $453 a week, according to the latest figures released by the Australian Bureau of Statistics.

An increase in average household incomes has seen owners with a mortgage spending 16 per cent of their income on housing costs in 2013-14, down from 18 per cent in 2011-12.

Caroline Daley from the ABS said the figures show the difference in the impact of housing costs on weekly household budgets for those renting and for those with a mortgage.

"With housing costs for owners with a mortgage remaining steady, and gross weekly income increasing, mortgages, on average, became more affordable in 2013-14."

"The data did show that lower income households are continuing to devote a significant portion of their income to servicing housing costs.

"Lower income households with a mortgage paid $326 a week on average, or 27 per cent of their gross weekly income on housing costs," said Ms Daley.

Renters have seen an increase in their housing costs, from an average of $328 per week in 2011-12 to $340 in 2013-14. Despite this rise, the housing costs to income ratio remained steady over this period, with renters spending, on average, 20 per cent of their gross household income on housing costs.

Lower income households renting from a private landlord paid on average $313 per week, which represented 34 per cent of their gross weekly income.

The majority of lower income private renters paid, on average, over 30 per cent of their gross weekly income on housing costs. Since 1994-95, the proportion of households that own their home outright has declined from 42 per cent to 31 per cent. The proportion of households with a mortgage has increased from 30 to 36 per cent and the proportion of households renting privately has increased from 18 to 26 per cent between 1994-95 and 2013-14.

More details are available in the 2013-14 issue of Housing Occupancy and Costs, Australia (cat. no. 4130.0) available for free download from the ABS website at www.abs.gov.au

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Owner households between 2009-10 and 2011-12 from 69% to 67%.

The proportion of Australian households who rented their dwelling also remained stable between 2011-12 and 2013-14 at 31%.

As shown in Graph 2, since the first Survey of Income and Housing (SIH) in 1994-95, the proportion of Australian households that own their own home with or without a mortgage has declined from 71% in 1994-95 to 67% in 2013-14 and the proportion of households that were renting from a private landlord has risen from 18% in 1994-95 to 26% in 2013-14.

Numerous factors are likely to have influenced the fall in the proportion of Australian households who own the home that they occupy. These factors include increased household mobility and changing household formation patterns, such as couples partnering and having children later. It is also likely that economic factors, principally the cost of purchasing a house, are having an effect on home ownership levels, especially for households with younger household reference persons (that is, a household with a reference person under 35 years).

The fall in total ownership reflects a decrease in the proportion of households that owned their dwelling outright, from 42% in 1994-95 to 31% in 2013-14, as shown in Graph 1. Over the same period there was an increase in

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**GRAPH 2: HOUSING TENURE BY AGE OF REFERENCE PERSON, 2013-14**

- Owner without a mortgage
- Owner with a mortgage
- Total owners
- Renter – state/territory housing authority
- Renter – private landlord
- Total renters

Footnote(s): (a) Includes other landlord type, which account for about 1% of all renters in 2013-14. Source(s): Graph data SIH.

**GRAPH 3: AVERAGE NUMBER OF PERSONS AND BEDROOMS, 1994-95 TO 2013-14**

- Average number of bedrooms in dwelling
- Average number of persons in household

Annotation(s): Survey not run in 1998-99, 2001-02, 2004-05, 2006-07, 2008-09, 2010-11 or 2012-13. Values have been interpolated for these years. Source(s): Graph data SIH.

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the proportion of households that owned their dwelling with a mortgage (from 30% in 1994-95 to 36% in 2013-14).

Households with a younger household reference person have seen significant falls in home ownership. In 2013-14, just over a third (34%) of all households with a reference person under 35 years were owner occupiers, a decrease from 48% in 1994-95.

Since 1994-95, the proportion of owner occupiers with a reference person aged 35 to 54 years has declined from 77% to 68% in 2013-14. This has been accompanied by an increase in the proportion of renter households (from 21% to 30%) from 1994-95 to 2013-14 for this age range.

**GRAPH 1: AVERAGE WEEKLY HOUSING COSTS, TENURE AND LANDLORD TYPE, STATE AND TERRITORY, 2013-14 – AVERAGE WEEKLY HOUSING COSTS, ALL HOUSEHOLDS**

Footnote(s): (a) Households in SA1s defined as Very Remote were excluded, accounting for about 23% of the population of NT.

Source(s): Graph data SIH.
The proportion of households with a reference person aged 55 years and over that own their own home however has remained stable over this time period at around 85% in 2013-14.

In 2013-14, households had an average of 2.6 persons per household and 3.1 bedrooms per dwelling. This remained stable between 2011-12 and 2013-14.

As shown in Graph 3, since 1994-95 there has been a decrease in the average household size from 2.7 to 2.6 persons per household. The average dwelling size has increased over this period, from 2.9 to 3.1 bedrooms per dwelling.

Around 78% of households had at least 1 bedroom spare in their house, according to the Canadian National Occupancy Standard of housing utilisation. This is similar to 2011-12. For more information on CNOS see the ‘Explanatory Notes’ section of Housing Occupancy and Costs, 2013-14.

HOUSING COSTS AND AFFORDABILITY

The regular housing costs reported in this publication cover housing-related mortgage payments, rates payments (general and water) and rent payments.

In this publication, housing costs are defined as the sum of: rent payments; rate payments (water and general); and mortgage or unsecured loan payments (if the initial purpose of the loan was primarily to buy, add, or alter the dwelling).

Average weekly housing costs for different tenure and landlord types vary significantly. The complexities in measuring different types of housing costs mean that care should be taken when comparing housing costs and affordability ratios for different tenure types.

Owners with a mortgage paid an average of $453 per week on housing costs. This has not changed significantly from 2011-12 in real terms.

For owners without a mortgage, the average weekly housing costs were $47 a week, representing the costs of rates (water and general) paid by those who own their home outright. This is a rise of $5 in real terms from 2011-12.

Households renting from private landlords paid an average of $376 per week, a rise of $12 from the 2011-12 average in real terms. Households renting from state and territory housing authorities paid an average

GRAPH 2: AVERAGE WEEKLY HOUSING COSTS (a), TENURE AND LANDLORD TYPE (b), 1994-95 TO 2013-14

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As shown in Graph 1, the average housing costs for renters varied significantly by state and territory. Costs for those in the Northern Territory, New South Wales and Australian Capital Territory were significantly higher than those in South Australia and Tasmania.

As shown in Graph 2, between 1994-95 and 2013-14, private renters experienced a 62% (or $144) increase in average weekly housing costs, after adjustment for inflation. There has been an overall increase of 42% (or $135) for owners with a mortgage and 45% (or $46) for public renters over the same period.

Housing affordability is affected by changes in housing costs and household income levels. One measure of housing affordability is housing costs as a proportion of total gross household income, also described as a housing affordability ratio.

Footnote(s): (a) Lower income households are those containing the 38% of people with equivalised disposable household income between the 3rd and 40th percentiles of EDHI. See Explanatory Notes for more information. (b) Excludes households with nil or negative total income. (c) Estimates presented from 2007-08 onwards are not directly comparable with estimates for previous cycles due to the improvements made to measuring income introduced in the 2007-08 cycle. Estimates for 2003-04 and 2005-06 have been recompiled to reflect the new treatments of income, however not all new components introduced in 2007-08 are available for earlier cycles.
Housing inequality is likely to be extended in the coming decade unless the government steps in to address housing policies and the disparity they create, according to the following extracts from a policy brief published by The Australia Institute, written by Molly Johnson and David Baker.

**Summary**

Home ownership is characterised as the great Australian dream. But is it more dream than reality these days? Home ownership rates are falling, people are holding mortgages for longer and renting is on the rise.

Buying a house has become much harder over the last decade. House prices have increased faster than incomes; incomes are 57 per cent higher than a decade ago, while house prices have risen by 69 per cent over the same period. Australia has the second most expensive property market of advanced economies when measured against incomes and rent. Only Norway is more expensive.

As a result, home ownership rates have declined for all age groups, even for householders in their 60s and 70s. All age groups are renting more and holding mortgages for longer. The biggest proportional decline in house ownership since 2002 is among 50-59 year olds. 18 per cent fewer own houses outright, with large increases in renting and mortgages.

Examining changes in tenure of working aged people (20-59 years) by income group, we see a disturbing picture of housing inequality emerging. Far fewer middle and low income households are entering the housing market. 19 per cent more middle income households are renting in 2012 than did in 2002, with corresponding decreases in ownership and mortgages. 10 per cent fewer lower income households own houses – a large decrease as only a quarter of low income working
Housing policy exacerbates housing inequality. Government policies are heavily skewed towards benefiting investors and existing home owners. Home owners and investors receive 90 per cent of the benefits from housing policies, while renters received virtually no benefits.

-aged Australians owned houses to begin with.

This data shows that high income households also have a smaller portion of home owners and increased portions of households who have mortgages or rent. This reflects the concentration of housing ownership among a particular type of high income earners – property investors.

Lending to property investors has skyrocketed, along with lending to existing home owners. Lending to housing investors was roughly equal to lending to first home buyers in 1994, around $15 billion, increasing to around $120 billion in 2014.

Housing policy exacerbates housing inequality. Government policies are heavily skewed towards benefiting investors and existing home owners. Home owners and investors receive 90 per cent of the benefits from housing policies, while renters received virtually no benefits.

For example, negative gearing allows investors to deduct losses incurred on their investment property from their taxable income. This works to both boost house prices and reduce tax revenue by an estimated $6 billion in 2014-15. Capital gains tax treatment of housing is another problem which favours house owners and reduces government revenue. Government expenditure on home owners, primarily through tax concessions, amounts to $36 billion per year.

It doesn’t have to be this way. Germany has tenant neutrality, which means that taxes and subsidies relating to housing treat renters and owners equally.

Housing affordability issues have changed the makeup of the housing market over the last decade. Not only are fewer households able to break into the housing market but those who do hold onto mortgages for longer. Low- and middle-income households have been most affected by higher house prices with a reduction in both outright ownership and the number of people who hold mortgages. In contrast, households with higher incomes are holding mortgages for longer but are not experiencing as much difficulty entering the market.

A broad increase in the proportion of people renting during this time has also occurred, with the data indicating that most of this change was among low- and middle-income households. Of particular concern is the increase in renting among older Australians who may face financial difficulty if they continue to rent in retirement. The interaction between lower incomes and renting rates suggests that housing affordability issues are contributing to the rise in the proportion of renters.

The reduction in home ownership and increase in rental rates has the potential to increase inequality between those who own their home and those who do not. Those who own property benefit from price increases while those who do not are priced out of the market and pay higher rent. Increases in rent place a further restriction on aspiring home owners as saving for a deposit becomes more difficult. The income breakdown illustrates that housing affordability is likely increasing the gap between high-income earners and those on low and middle incomes. A further concern is that this income disparity will be transferred across generations as those people who cannot afford a home themselves will be unable to assist their children in entering home ownership.

There is a strong income disparity between those who own investment properties and those who do not. Property investment is strongly concentrated in high-income households. This means policies such as negative gearing and capital gains discounts, strongly favour the well-off. Since negative gearing increases property prices it reinforces the redistribution of wealth further towards investors and away from those who have not achieved home ownership. Housing inequality is likely to be extended in the coming decade unless the government steps in to address housing policies and the disparity they create.
Australia’s housing affordability problem in 12 charts

Owning a home will remain just a dream for many Australians, as this compilation of chart data from *The Conversation* demonstrates.

**AUSTRALIA’S HOUSING AFFORDABILITY PROBLEM EXPLAINED IN 12 CHARTS**

“Look, if housing were unaffordable in Sydney, no one would be buying it.”

**Median house prices**

Median house prices have increased in most major cities in Australia, but Sydney has seen significant increases. The median house price in Sydney has jumped from $393,500 in 2002 to $760,000 as of June, 2014.

**Australian cities compared to the rest of the world**

The annual *Demographia International Housing Affordability Survey* ranked both Sydney and Melbourne in the 10 least affordable major cities of the countries surveyed. All of Australia’s five major metropolitan cities have been classified as ‘severely unaffordable’ for the past 11 years.

**Housing affordability in the cities**

The gap between city and non-city house prices is growing.

**Median house prices: Sydney vs rest of NSW**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sydney</th>
<th>Rest of NSW</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>$750,000</td>
<td>$250,000</td>
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<td>2010</td>
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<tr>
<td>2014</td>
<td>$750,000</td>
<td>$250,000</td>
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</tbody>
</table>

**Median prices (NSW)**

Source: ABS Housing Price Indexes, June 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sydney</th>
<th>Rest of NSW</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$760,000</td>
<td>$380,000</td>
</tr>
<tr>
<td>2010</td>
<td>$580,000</td>
<td>$320,000</td>
</tr>
</tbody>
</table>

“...I am very concerned about Sydney, I think some of what’s happening is crazy...”
– Glenn Stevens, Governor, Reserve Bank of Australia, 10 June 2015.

**Housing supply**

Lack of housing supply has been linked to increasing house prices, especially in Sydney. The number of dwelling completed in metropolitan Sydney has risen sharply in the past two years.

**House prices and rents**

House prices have increased faster than rents, particularly since the halving of capital gains tax for investors by the Howard government in 1999.

**House price and rent index**

(Index 100 = June 1987)

Source: McKell Institute using ABS Data.

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Rates of home ownership

Home ownership rates have fallen for most age groups, with the rate among younger groups declining dramatically. Only the over 65 age bracket has seen an increase in ownership rates from 74.4% in 1982 to 81.0% in 2011.

Home ownership rates of 25 to 54 year olds (1982-2011)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-34 year olds</td>
<td>-21.5%</td>
</tr>
<tr>
<td>35-44 year olds</td>
<td>-15.4%</td>
</tr>
<tr>
<td>45-54 year olds</td>
<td>-5.9%</td>
</tr>
</tbody>
</table>

Source: ABS Household Income and Income Distribution.

First home buyers and mortgages

First home buyers are finding it more difficult to enter the market. A significant proportion of mortgages are given to existing home owners (84.8%), compared to first home buyers (15.2%).

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>First home buyers</td>
<td>15.2%</td>
</tr>
<tr>
<td>Non-first home buyers</td>
<td>84.8%</td>
</tr>
</tbody>
</table>

But first home buyers are borrowing more to purchase their homes – loan sizes in NSW and Victoria have increased significantly as interest rates have fallen.

First home buyers – average loan size

- Sydney
- Victoria

Source: ABS Housing Finance.

Affordable rental housing

Housing affordability is not an issue for potential private home owners alone. Low income earners face a lack of affordable rental houses, and many are paying more than 30% of their household income on rent.

Percentage of low income earners paying affordable* and unaffordable rent (2011)

- Q1 (annual income less than $30,500)
- Q2 (annual income between $30,501 – $56,000)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Affordable rent</td>
<td>21.9%</td>
</tr>
<tr>
<td>Unaffordable rent</td>
<td>32.4%</td>
</tr>
<tr>
<td>Severely unaffordable rent</td>
<td>25.8%</td>
</tr>
</tbody>
</table>

Source: Australian Housing and Urban Research Institute.

*Affordable rent is where the rental amount is 30% or less of the total household income.

House prices and income

Wages growth is declining, making it increasingly difficult for first home buyers to save for a mortgage deposit.

Wages growth

(percentage growth from corresponding quarter of previous year)

And, on average, house prices have increased significantly more than incomes.

House price to income index

(Index 100 = 1997)

Source: McKell Institute using ABS Data.

Percentage of loans (owner-occupiers) with deposits less than 10% (i.e. LVR > 90%)

- 2008
- 2011
- 2014

Source: RBA Banking Loan Characteristics.

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Charis Palmer is Deputy Business Editor at The Conversation. Emil Jeyaratnam is Multimedia Editor at The Conversation.
Housing affordability continues to be an issue of importance to voters, with a recent Fairfax-Ipsos poll showing 69% of Australian capital city residents disagree that housing is affordable for prospective first home buyers.

Different countries have adopted varying approaches to improve access to affordable housing – with governments playing a central role in ensuring people are adequately sheltered, as well as being encouraged to buy housing where possible. In many countries there is an underlying desire by households to own their own home, although renting is the norm in others. In each case there are specific and sometimes unique-to-that-country approaches that have helped address the issue of affordability. Here’s five.

**Government intervenes in the rental market**

In some countries there is a general culture of renting for accessing accommodation, rather than assuming all households should achieve home ownership. At times, renting is cheaper than buying.

In Germany most households (54.1%) are renters due to the long-term intervention in the marketplace by the government, as well as the accepted culture that renting is suitable over the long-term. In Berlin a total of 84.4% of all households rent. Providing this amount of rental accommodation is a major challenge without substantial government intervention and/or provision of housing.

For example, in Germany a housing allowance was paid to approximately 783,000 households in 2012, equating to 1.9% of all private households. However most of this funding was allocated to single person households (57%) unable to compete in the open housing market with multiple income households.

Other countries have acknowledged the gap between (a) the maximum amount of rent a tenant can pay and (b) the minimum level of rent a landlord will charge. For example in the US, this gap is bridged by the widespread use of a voucher system which subsidies the payment of rent to private landlords. This system is funded by the US government and ensures tenants can access a minimum quality of affordable housing.

**Government provides affordable housing**

In Singapore there is a high level of government intervention in the
market with the HDB (Housing and Development Board) providing approximately 80% of all housing in the country. Approximately 90% of households in Singapore own their own home and there are also grants for first time buyers and second time buyers in Singapore.

In Hong Kong about 29.7% of residents live in PRH (public rental housing) provided by the Hong Kong government. In Scotland a large proportion of the supply of affordable housing is undertaken by housing associations and local authorities. This collectively equates to about quarter of total housing accommodation in the market. However the recent trend for many countries, including Australia, has been the provision of less direct housing by governments.

Cities embrace higher density housing

There are numerous examples of global cities making better use of limited inner-city land supply by encouraging higher density living in high rise units or condominiums, especially in Asian cities including Hong Kong, Macau and Singapore. The provision of affordable housing for purchase or renting is therefore more likely to be achieved in these circumstances due to minimal land use and higher densities. However high-rise living is not commonly accepted in many European cities or in locations with a resistance due to cultural preferences for detached housing. In each case there are specific and sometimes unique-to-that-country approaches that have helped address the issue of affordability.

Public transport allows residents to commute to less expensive housing

The main driver of where a household lives is the need to be close to their workplace. As more affordable housing is usually located away from the central business district, households can buy cheaper homes but the trade-off is additional commuting time to work. When this extended commuting time (e.g. up to 2 hours each way) is combined with improved transport infrastructure such as in Japan, it is possible to access affordable housing in outlying satellite towns and cities where land is more affordable. Therefore governments which improve road and public transport infrastructure also increase access to affordable housing.

Multiple person households are encouraged

Lower demand can be achieved by limiting population levels and underlying demand for housing. But while this may not be an option for many governments, another option is to encourage multiple person households which otherwise would remain as single person households. According to the ABS (2012) in 1911 the average persons per household was 4.5, decreasing to 2.7 persons per household by 1991.

Richard Reed is Chair in Property and Real Estate at Deakin University.
Australia had a severely unaffordable major market Median Multiple of 6.4 in 2015 and a severely unaffordable Median Multiple of 5.6 overall.

Major markets: For the 12th year in a row – each of the years the Demographia International Housing Affordability Survey has been published – all of Australia’s five major metropolitan areas were severely unaffordable (Figure 5).

Among the major metropolitan area markets the overall Median Multiple was 6.4. The least affordable market was Sydney, with a Median Multiple of 12.2. Sydney ranked as the second least affordable major market in this year’s survey and was rated as the third most vulnerable market to real estate bubble risk by UBS. Sydney’s 2.4 Median Multiple point increase from last year’s 9.8 and is the largest ever recorded in the history of the Demographia International Housing Affordability Survey. It is also the highest Median Multiple recorded outside Hong Kong, and higher even than the elevated levels reached on the US West Coast during the housing bubble.

Housing affordability also deteriorated in Melbourne, rising to a Median Multiple of 9.7 from 8.7 in 2014. Melbourne was tied (with Auckland and San Jose) for the fourth least affordable major market housing in 2015 overall, was the second least affordable in Australia. Perth had the third least affordable housing in Australia, at a Median Multiple of 6.6. The Adelaide Median Multiple was 6.4 and Brisbane was 6.1.

All markets: Among all markets, Australia’s Median Multiple remained severely unaffordable, at 5.6. After major market Sydney (12.2), and Melbourne (9.7), Tweed Heads (NSW) was the least affordable, with a Median Multiple of 9.3. Other markets with Median Multiples of 8.0 or above were Bowral-Mittagong, the Sunshine Coast, Port Macquarie, the Gold Coast and Wollongong.

The most affordable market in Australia was Karratha, with a Median Multiple of 2.5, and rated ‘affordable’. Kalgoorlie was also affordable, at 2.9. Both have been hit hard by declining resource markets.

Historical context: Australia’s generally unfavourable housing affordability is in significant contrast to the broad affordability that existed before implementation of urban containment (urban consolidation) policies. As is indicated in Figure 1, the price-to-income ratio in Australia was below 3.0 in the late 1980s. All of Australia’s major metropolitan markets have severely unaffordable housing and all have urban containment policy.

NOTE
16. House price data for Australia is from multiple sources, the most important being the Real Estate Industry Association of Queensland (Queensland Market Monitor), the Real Estate Institute of Victoria, the Real Estate Institute of South Australia, the Real Estate Institute of Western Australia, Australian Property Monitors, the Real Estate Institute of Australia and various real estate internet web sites. House price data for some smaller markets is year to date data.
17. The previous record was set by Hong Kong, which experienced a Median Multiple increase of 2.1 points from 14.9 in 2013 to 17.0 in 2014.
RENTAL AFFORDABILITY SNAPSHOT

Each year Anglicare Australia conducts the Rental Affordability Snapshot, designed to highlight the lived experience of people looking for housing while in receipt of a low income. This is the sixth year it has been carried out on a national level. Reproduced below is the executive summary of the report.

Anglicare Australia believes that acquiring a secure and suitable home is a significant factor in ensuring the health, wellbeing and inclusion of individuals and their families in our community. Affordable and appropriate housing does not only provide a physical structure to house its occupants, it also enables individuals to make use of their inherent potentials to participate meaningfully in their personal and social lives, including but not limited to getting an education, engaging in the job market, caring for family members and building friendships.

Affordable housing is everybody’s business. It impacts on the everyday lives of people and touches on every demographic group in our society, including children, single parents, youth, refugees and the aged. Further, it also has a negative impact on our national productivity and economy and goes against the national ethos of ‘a fair go’; that we all hold so dear. The housing crisis is too critical an issue to be overlooked and must be acted upon immediately. To this end, Anglicare Australia advocates for a national plan for affordable housing that is supported by all levels of government. This means a serious commitment to investment and infrastructure; guided by the social welfare sector and industry.

For the purposes of this project, a suitable rental is one which took up less than 30% of the household’s income, a commonly used benchmark of affordability. Household incomes are derived from the maximum rate of Centrelink pensions, allowances or net minimum wage combined with the Commonwealth Rent Assistance (CRA) and Family Tax Benefits (FTB) where applicable.

The Snapshot was undertaken on the weekend of 11 April 2015. This year, we have partnered with realestate.com.au to collect data on rental listings across Australia, replacing previous manual collection methods. A new household type has been included this year – couple family with two children living on minimum wage and parenting payment – in our Snapshot analysis to demonstrate the stress of housing unaffordability experienced by this common family type.

Nationally, over 65,600 properties were surveyed (n=65,614). The coverage of the population and geographic area is similar to previous Snapshots, with additional coverage in the southern country regions of South Australia and northern regions of New South Wales.

Despite an increase in properties available in the private rental market this year, the 2015 Snapshot highlights remarkably well that low incomes, such as government payments and the minimum wage, are insufficient to cover costs in the Australian rental market.
The primary findings of the nationally aggregated data are:

**Overall national aggregate**

- Single people on government payments are seriously disadvantaged in the housing market, with less than 1% of the listed 65,614 properties rated as suitable.
- Single people on minimum wage would find 3.3% of listed properties suitable if they had two children (n=2,186) and 2.3% if they were living on their own (n=1,501).
- Couples in work fare better in the rental market, with 23.8% of properties suitable for a couple with two children on minimum wage (n=15,605). The same family composition on Newstart would have access to only 0.9% of the available listing (n=618).
- Age Pensioner couples would find 3.4% of properties suitable (n=2,239) on the Snapshot weekend.
- Couple income households with one parent on minimum wage and another on parenting payment – a new household type introduced this year – would have access to 6.9% of rental properties (n=4,501) without experiencing housing stress.

**Regional aggregate**

- Regional areas are too expensive for single people living on an income support payment, especially for people living on Newstart and Youth Allowance, who would have access to less than 10 suitable properties out of the 14,000 regional properties surveyed.
- Single parents on Parenting Payment would find 3.7% of rentals suitable (n=531), while single parents on Newstart would only find 0.6% of rentals suitable (n=81).
- The rental market is marginally less expensive for individuals living on a minimum wage, depending on if they are single (7.3%, n=1,047) or have children (12.5%, n=1,786).
- Couples with two children on minimum wage would have access to almost 1 in 2 regional rental properties (47.2%; n=6,733). The same family composition receiving Newstart would have access to only 3.8% of regional properties (n=548). Age Pension couples would find 11.8% of rentals suitable (n=1,683).
- A couple household with one parent on minimum wage and another on Parenting Payment – a new household type added this year – would have access to 22% of rental properties (n=3,135) in regional area without experiencing housing stress.

**Metropolitan aggregate**

- The cities are also too expensive for people living on low income, especially if they are on Newstart (<0.1%, n=1) and Youth Allowance (0%, n=0).
- People on Disability Support Payment could get 0.1% of the 51,357 properties (n=51). Age pensioners would be able to access 0.3% (n=155) or 1.1% (n=556), depending on if they are single or coupled.
- Parenting Payment recipients could access 17 or 12 suitable rentals out of 51,357 depending on if they have one or two children.
- People on minimum wage fare marginally better in the cities, with 0.8% of rentals suitable for a single person with two children (n=400), and 0.9% if they are single (n=454). Couples with two children would find 17.3% of rentals suitable on the Snapshot weekend (n=8,870).
- Couple income households with one parent on minimum wage and another on Parenting Payment – a new household type added this year – would have access to 2.7% of rental properties (n=1,366) in regional area without experiencing housing stress.

Together with the Snapshot, various pieces of work from Anglicare Australia have over the years demonstrated the negative impacts of the housing
crisis. Examples include people having to go into debt to pay their bills, and children and parents having to go without food because it is the only discretionary item in their budget. Our latest national search project Being a/apart: a study into young people’s experiences of belonging also highlighted the importance of housing for young people leaving out-of-home care and transitioning into adulthood.

To this end, Anglicare Australia is calling for a national plan for affordable housing, which includes the following five key priority areas:

1. Recognise income inadequacy as a barrier to secure housing and meaningful social participation
   - Increase the rates of Newstart and Youth Allowance and their indexation to keep pace with living standards and housing costs.
   - Undertake a review of the Commonwealth Rent Assistance and its effectiveness in protecting against the increasing costs of rent.

2. Create a tax system that makes affordable housing more available
   - Redirect negative gearing towards growing the supply of affordable housing, and improving its quality.
   - Review the impact of other taxes, such as stamp duties and land taxes, on housing for low income households.

3. Increase social housing stock sustainably and responsibly
   - Increase social housing stock.
   - Renew old stock in a timely manner so as to avoid greater costs later.
   - Encourage state/territory governments to transfer title along with the asset in the transfer of social housing stock.

4. Increase housing stock that matches changing population needs
   - Increase supply of affordable housing, including public, community and other low income rental properties.
   - Ensure new housing stock reflects the changes in Australia’s population: age, culture, single person households, fewer children per family, etc.
   - Modify and design housing to account for the needs of people, as they age or live with disability.

5. Federal Government to take national leadership and work in collaboration with the community sector
   - Recommit to independent expertise and impartial advice on housing supply and homelessness strategies.
   - Sustain housing incentive schemes over the long term to allow investors, including superannuation funds, to commit the necessary funds.
   - Gain Commonwealth acceptance of its leadership role in terms of coordinating and pursuing a cohesive national housing strategy.

NOTES
2. NATSEM (2012). Going Without: Financial hardship in Australia, Anglicare Australia, Catholic Social Services, the Salvation Army and UnitingCare Australia, Canberra.

Q & A ON HOMELESSNESS

SEE BELOW FOR SOME COMMON QUESTIONS ASKED BY STUDENTS, REPRODUCED COURTESY OF HOMELESSNESS AUSTRALIA

What is homelessness?
On the most basic level homelessness is the state or condition of having no home. But what is ‘home’? A home is merely more than having shelter – a home needs to be secure, safe and connected. There are many different definitions of homelessness. You can find some of them at www.homelessnessaustralia.org.au

What is Homelessness Australia?
Homelessness Australia is the national peak body working to respond to homelessness. We do not provide accommodation or client services. We work with organisations across Australia to do research, provide input into government policy, advocate for organisations who represent the homeless and educate the community about homelessness.

Is homelessness a human rights issue?
Yes! People experiencing homelessness face violations of a wide range of human rights. Access to safe and secure housing is one of the most basic human rights. However, homelessness is not just about housing.

A person who is homeless may be facing violations of the right to an adequate standard of living, the right to education, the right to liberty and security of the person, the right to privacy, the right to social security, the right to freedom from discrimination, the right to vote and many more.

How many people in Australia are homeless?
The most recent statistics available are from the 2011 ABS Census. It shows that in Australia there are 105,237 people who are homeless.

The ABS Census is the only 'big picture' view of homelessness we can get of Australia. Other organisations collect information and compile statistics on homelessness numbers, but these do not canvas the numbers like the Census does.

Is homelessness a rising issue?
Yes, results from the 2011 Census showed that in five years the rate of homelessness increased by 8% from 89,728 to 105,237.

Why do you say “people experiencing homelessness”?
People working in the homelessness sector often say "people experiencing homelessness" instead of the homeless or homeless people. This is because for most people homelessness is an experience (often short term) not a life sentence. Saying "experiencing homelessness" is one of the first steps to changing the perception of homelessness and recognises that the person comes before the situation.

Why are people homeless?
There is no one reason why someone is homeless. Homelessness is often a result of a number of complex issues which can include:
- The chronic shortage of affordable and available rental housing
- Domestic and family violence
- Intergenerational poverty
- Financial crisis
- Long-term unemployment
- Economic and social exclusion
- Severe and persistent mental illness and psychological distress
- Young people exiting state care
- People exiting prison
- Severe overcrowding/housing crisis.

Where do people who are homeless go?
There are a number of places that people who are homeless stay.

These include:
- Living in ‘severely’ crowded dwellings (39%)
- Supported accommodation for the homeless (20%)
- Staying temporarily with other households (17%)
- Staying in boarding houses (17%)
- Living in improvised dwellings, tents or sleeping out (6%), and
- Staying in other temporary lodging (1%).

(Source: ABS)
What is being done to help?

What is the federal government doing?
Most federal government funding for the homelessness sector is provided through the states and territories under two agreements:
• The National Affordable Housing Agreement (NAHA), and
• The National Partnership Agreement on Homelessness (NPAH).

Both the NAHA and the NPAH are in place to achieve sustainable housing and social inclusion for people who are homeless, or at risk of homelessness. However, the two agreements’ structure and purposes are quite different.

There are around 1,300 organisations around Australia funded under these two agreements.

You can read more information on homelessness funding in the fact sheet on the Homelessness Australia website, www.homelessnessaustralia.org.au

What are the state/territory governments doing?
The Commonwealth Government provides the state and territory governments with funding (under the NAHA and NPAH). The states and territories manage this funding. State and territory governments can also use their own funds. The NPAH requires joint funding from the states/territories, whereas the NAHA does not.

What are not for profit organisations doing?
Not for profits play a very important role in helping people who are homeless or at risk of homelessness.

There are a large number of charities and not for profits which do a number of things for people who are homeless.

This can include:
• Accommodation services
• Collection of resources (food, clothing etc)
• Advocacy services
• Advice
• Financial support
• Skills and employment services
• Health services.

What is Homelessness Australia doing?
Homelessness Australia plays an important role in lobbying government on behalf of homelessness organisations. We work closely with the Minister responsible for homelessness and housing and their advisors.

We also produce evidence-based policy papers on issues of importance to the sector (such as mental illness, early intervention and sector diversity).

HA assists government departments such as DSS, AIHW, DHS and the ABS when they are working in the area of homelessness.

On the most basic level homelessness is the state or condition of having no home. But what is ‘home’? A home is merely more than having shelter – a home needs to be secure, safe and connected. There are many different definitions of homelessness.

What can I do to help people who are homeless?

There are a number of things you can do to help the homeless. The world of the homeless can seem very far away – but it is often closer than you think. Sometimes a small thing can go a long way.

Some things you can do are:
• Educate – help to dispel the stereotype of a homeless person! Learn about the reasons for homelessness – every situation is unique.
• Respect – remember that people who are homeless are people too. Give people who are homeless the same respect and courtesy you would your family and friends.
• Donate – you can donate a lot of things – money, toys, clothing or food. Check out the links page on the Homelessness Australia website for a list of organisations who work with people who are homeless.
• Volunteer – you can volunteer not only your time but your skills and expertise.
What still needs to be done?

Homelessness Australia has a number of recommendations to prevent and end homelessness in Australia:

**Recommendation 1**
Renew funding for innovative homelessness services through the National Partnership Agreement on Homelessness (NPAH) for a period of at least two years.

**Recommendation 2**
Ensure funding for bedrock homelessness services in the National Affordable Housing Agreement (NAHA) includes adequate indexation and a wages component.

**Recommendation 3**
Increase funding for homelessness prevention and early intervention programs with proven records of success.

**Recommendation 4**
Restore funding for research to measure and maximise the effectiveness of homelessness spending, and to identify and develop innovations in homelessness prevention and interventions.

**Recommendation 5**
Recommence funding for the Youth Connections program.

**Recommendation 6**
Establish a long-term Affordable Housing Growth Fund.

**Recommendation 7**
Encourage private sector and institutional investment in affordable housing stock through a range of incentives, subsidies and grants and by reforming housing taxation.

**Recommendation 8**
Re-allocate funding to the Department of Social Services grants programme for Housing and Homelessness Service Improvement and Sector Support activities.

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Homelessness Australia. *Doing a project on homelessness.*
TACKLING HOUSING UNAFFORDABILITY: A 10-POINT NATIONAL PLAN

Housing has become just another investment asset – but the consequences are unsettling. The following plan, first proposed on The Conversation by a group of experts, offers a list of priorities for Australian governments to act on a growing lack of affordable housing in Australia.

The widening cracks in Australia’s housing system can no longer be concealed. The extraordinary recent debate has laid bare both the depth of public concern and the vacuum of coherent policy to promote housing affordability. The community is clamouring for leadership and change.

Especially as it affects our major cities, housing unaffordability is not just a problem for those priced out of a decent place to live. It also damages the efficiency of the entire urban economy as lower paid workers are forced further from jobs, adding to costly traffic congestion and pushing up unemployment.

There have recently been some positive developments at the state level, such as Western Australia’s ten-year commitment to supply 20,000 affordable homes for low and moderate income earners. Meanwhile, following South Australia’s lead, Victoria plans to mandate affordable housing targets for developments on public land. And in March the NSW State Premier announced a fund to generate $1bn in affordable housing investment.

But although welcome, these initiatives will not turn the affordability problem around while tax settings continue to support existing home owners and investors at the expense of first-time buyers and renters. Moreover, apart from a brief interruption 2008-2012, the Commonwealth has been steadily winding back its explicit housing role for more than 20 years.

The post of housing minister was deleted in 2013, and just last month Government senators dismissed calls for renewed Commonwealth housing policy leadership recommended by the Senate’s extensive (2013-2015) Affordable Housing Inquiry. This complacency cannot go unchallenged.

Challenging the “best left to the market” mantra

The mantra adopted by Australian governments since the 1980s that housing provision is “best left to
the market” will not wash. Government intervention already influences the housing market on a huge scale, especially through tax concessions to existing property owners, such as negative gearing. Unfortunately, these interventions largely contribute to the housing unaffordability problem rather than its solution.

But first we need to define what exactly constitutes the housing affordability challenge. In reality, it’s not a single problem, but several interrelated issues and any strategic housing plan must specifically address each of these.

Firstly, there is the problem faced by aspiring first home buyers contending with house prices escalating ahead of income growth in hot urban housing markets. The intensification of this issue is clear from the reduced home ownership rate among young adults from 53% in 1990 to just 34% in 2011 – a decline only minimally offset by the entry of well-off young households into the housing market as first-time investors.

Secondly, there is the problem of unaffordability in the private rental market affecting tenants able to keep arrears at bay only by going without basic essentials, or by tolerating unacceptable conditions such as overcrowding or disrepair. Newly published research shows that, by 2011, more than half of Australia’s low-income tenants – nearly 400,000 households – were in this way being pushed into poverty by unaffordable rents.

Thirdly, there is the long-term decline in public housing and the public finance affordability challenge posed by the need to tackle this. In NSW, for example, 30-40% of all public housing is officially sub-standard.

**Why the “build more houses” approach won’t work**

A factor underlying all these issues is the long-running tendency of housing construction numbers to lag behind household growth. But while action to maximise supply is unquestionably part of the required strategy, it is a lazy fallacy to claim that the solution is simply to “build more homes”.

Even if you could somehow double new construction in (say) 2016, this would expand overall supply of properties being put up for sale in that year only very slightly. More importantly, the growing inequality in the way housing is occupied (more and more second homes and underutilised homes) blunts any potential impact of extra supply in moderating house prices. Rebalancing demand and supply must surely therefore involve countering inefficient housing occupancy by retuning tax and social security settings.

Where maximising housing supply can directly ease housing unaffordability is through expanding the stock of affordable rental housing for lower income earners. Not-for-profit community housing providers – the entities best placed to help here – have expanded fast in recent years. But their potential remains constrained by the cost and terms of loan finance and by their ability to secure development sites.

**Fundamentally, one of the reasons we’ve ended up in our current predicament is that the prime function of housing has transitioned from “usable facility” to “tradeable commodity and investment asset”**.

**Fundamentally, one of the reasons we’ve ended up in our current predicament is that the prime function of housing has transitioned from “usable facility” to “tradeable commodity and investment asset”**.

**Housing is different to other investment assets**

Fundamentally, one of the reasons we’ve ended up in our current predicament is that the prime function of housing has transitioned from “usable facility” to “tradeable commodity and investment asset”. Policies designed to promote home ownership and rental housing provision have morphed into subsidies expanding property asset values.

Along with pro-speculative tax settings, this changed perception about the primary purpose of housing has inflated the entire urban property market. The OECD rates Australia as the fourth or fifth most “over-valued” housing market in the developed world. Property values have become detached from economic fundamentals; a longer-term problem exaggerated by the boom of the past three years. As well as pushing prices beyond the reach of first home buyers, this also undermines possible market-based solutions by swelling land values which damage rental yields, undermining the scope for affordable housing. Moreover, this places Australia among those economies which, in OECD-speak, are “most vulnerable to a price correction”.

While moderated property prices could benefit national welfare, no one wants to trigger a price crash. Rather, governments need to face up to the challenge of managing a “soft landing” by phasing out the tax...
system’s economically and socially unjustifiable market distortions and redirecting housing subsidies to progressive effect.

A 10-point plan for improved housing affordability

Underpinned by a decade’s research on fixing Australia’s housing problems, we therefore propose the following priority actions for Commonwealth, State and Territory Governments acting in concert:

- Moderate speculative investment in housing by
  a phased reduction of existing tax incentives
  favouring rental investors (concessional treatment
  of negative gearing and capital gains tax liability).

- Redirect the additional tax receipts accruing
  from reduced concessions to support provision of
  affordable rental housing at a range of price points
  and to offer appropriate incentives for prospective
  home buyers with limited means.

- By developing structured financing arrangements
  (such as housing supply bonds backed by a
government guarantee), actively engage with the
super funds and other institutional players who
have shown interest in investing in rental housing.

- Replace stamp duty (an inefficient tax on mobility)
  with a broad-based property value tax (a healthy
  incentive to fully utilise property assets).

- Expand availability of more affordable hybrid
  ‘partial ownership’ tenures such as shared equity –
to provide ‘another rung on the ladder’.

- Implement the Henry Tax Review
  recommendations on enhancing Rent Assistance
  to improve affordability for low-income tenants
  especially in the capital city housing markets
  where rising rents have far outstripped the value
  of RA payments.

- Reduce urban land price gradients (compounding
  housing inequity and economic segregation)
  by improving mass transit infrastructure and
  encouraging targeted regional development to
  redirect growth.

- Continue to simplify land use planning processes
  to facilitate housing supply while retaining scope
  for community involvement and proper controls
  on inappropriate development.

- Require local authorities to develop local housing
  needs assessments and equip them with the means
to secure mandated affordable housing targets
within private housing development projects over
a certain size.

- Develop a costed and funded plan for existing
  public housing to see it upgraded to a decent
  standard and placed on a firm financial footing
  within 10 years.

While not every interest group would endorse all of our proposals, most are widely supported by policymakers, academics and advocacy communities, as well as throughout the affordable housing industry.

As the Senate Inquiry demonstrated beyond doubt, an increasingly dysfunctional housing system is exacting a growing toll on national welfare. This a policy area crying out for responsible bipartisan reform.

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Pawson, H, Randolph, B, Yates, J, Darcy, M, Gurran, N,
Phibbs, P and Milligan, V (24 June 2015). Tackling housing
Bubbles and bureaucrats: why housing affordability isn’t being fixed

On the same day Australia’s top economic bureaucrat accepted there’s a property bubble, our PM unwittingly identified the biggest barrier to affordable housing – home owners. Michael Janda writes in this article from The Drum

Australia’s Prime Minister has unwittingly identified the biggest barrier to affordable housing – home owners.

The nation’s top economic bureaucrat, Treasury secretary John Fraser, yesterday said “unequivocally” that Sydney and parts of Melbourne have a property bubble.

It’s an unprecedented admission from Australia’s economic leadership, one which the Reserve Bank’s assistant governor Malcolm Edey didn’t want to repeat, but also declined to refute.

While it is stunning that Australia’s financial mandarins – who have previously stayed away from scaring the punters with the ‘b’ word – are finally calling a spade a spade, it’s the Prime Minister’s response to Mr Fraser’s comments that’s really telling.

Asked during question time whether he agreed with the Treasury secretary, Mr Abbott appeared to put self-interest firmly above national interest.

“As someone who, along with the bank, owns the house in Sydney, I do hope that our housing prices are increasing,” he replied in a refreshingly truthful admission for a politician. In that sentence, Mr Abbott summed up everything that’s gone wrong with Australian housing policy over the past three decades.

Financial deregulation combined with favourable tax policies that encourage large debts have resulted in people being willing and able to take on ever larger mortgages, in many cases on multiple investment properties in addition to their own home.

That has seen Australia’s household debt balloon out to a record 153.8 per cent of income.

Most independent housing economists – those not employed by developers, banks or real estate agents – have long agreed that something needs to be done to reduce the incentives for over-investment in property.

Whether it is reducing the capital gains tax discount, winding back negative gearing or bringing in a broad-based land tax, there is plenty the Federal Government can do.

On the banking front, the Government’s own Financial System Inquiry, chaired by former Commonwealth Bank boss David Murray, recommended an increase in the amount of capital that the major banks need to hold to safeguard against home loan losses, which would push up the cost of mortgages.

However, with about two-thirds of Australians owning or paying off property and many mortgaged up to the hilt, self-interest has dominated.

A recent study of the Federal Parliament’s declaration of interests register by analysts Lindsay David, Philip Soos and Paul Egan showed that imperative is even more pronounced in the political class than the voting public.

The 226 members across both houses owned a total of 563 properties between them – only 13 didn’t have property. The two men in charge of Australia’s fiscal policies, Joe Hockey and Mathias Cormann, owned five and four properties respectively, with both paying off mortgages on at least some of those.

Is it any wonder that neither major political party has pursued with any vigour taxation reforms that might limit property price rises, let alone made efforts to send prices lower?

**FIRST-TIME BUYER DEPOSIT TRENDS IN CAPITAL CITIES**

<table>
<thead>
<tr>
<th>LGA Name</th>
<th>Years to save house deposit (June 2014)</th>
<th>Years to save house deposit (June 2013)</th>
<th>Years to save house deposit (June 2009)</th>
<th>Change over 1 year</th>
<th>Change over 5 years</th>
<th>Savings needed for 20% house deposit $ (June 2014)</th>
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<tbody>
<tr>
<td>Adelaide</td>
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<td>0.3</td>
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Politicians on both sides have talked the talk of affordable housing. Mr Abbott did so again yesterday.

“I want housing to be affordable but nevertheless, I also want house prices to be modestly increasing,” he said.

But that statement is an inherent contradiction.

With the typical Sydney home now selling for 10 times median annual income, and 6.7 years of saving required for a couple to put aside the $165,000 20 per cent deposit for a mid-priced property, there is no question that affordability is awful in Australia’s biggest city. But Australia’s other cities aren’t that far behind.

The only way affordability can sustainably improve is by incomes growing faster than home prices. Wages currently are growing at just 2.3 per cent per year nationally, so home prices should also be growing around that pace just to keep affordability standing still. At the current level of wage growth, it will take home price falls to make any real dent in the affordability crisis.

So if the current Government, or a future one, is serious about improving housing affordability it needs to either ensure that working people get better pay rises or enact policies that will cause home prices to fall – hopefully at a modest, rather than catastrophic, pace.

The solutions put forward by Mr Abbott yesterday are twofold. “This Government is trying to make housing more available,” he told Parliament.

This is a logical proposition on a basic economic supply-demand analysis. All else being equal, more homes on the market should make them cheaper, but this would run counter to Mr Abbott’s expressed preference for rising prices.

The examples of Ireland, Spain and the United States showed what can be achieved for housing affordability by engineering an oversupply. Unfortunately, so many people lose their jobs in the crash that few people can afford to pay even the firesale prices, and thousands of relatively new homes sit empty for years or are even demolished.

The other suggestion is a fallacy. “The best way to make housing more affordable is to keep interest rates low and stable and that is exactly what is happening,” Mr Financial deregulation combined with favourable tax policies that encourage large debts have resulted in people being willing and able to take on ever larger mortgages, in many cases on multiple investment properties in addition to their own home. That has seen Australia’s household debt balloon out to a record 153.8 per cent of income.
Abbott said.

Record low and stable interest rates are precisely the reason housing has become less affordable, as investors simply factor their lower borrowing costs into paying higher prices for properties.

Moreover, it is the pitiful returns on safer savings vehicles, like bank deposits, that are quite rationally driving many investors into the housing market, even though rental yields are scarcely better and (after the various costs of owning a rental property) are lower in many locations.

Current rates are the result of still sick global economies and tired domestic ones, and the good news will be when the Reserve Bank actually has enough confidence to raise them.

Except that when those rates rise become necessary, hundreds of thousands of over-leveraged property investors may hit the wall.

Australia has set itself into a trap from which there seem few escapes.

If the economy continues to worsen, even though rates will stay low, more people will lose their jobs, housing defaults will rise and prices will fall as forced sellers come on the market.

If the economy improves, rates will rise and many investors and owner-occupiers will be forced to sell when they can’t afford the higher repayments.

The best policy approach would have been for the Government to offset record low interest rates by rolling back some of the incentives to borrow money to buy housing, such as the capital gains tax discount or negative gearing.

However, with the bubble already inflated in Australia’s biggest markets, the opportune time may have passed.
At the heart of our economic ills lies the issue of housing affordability. Few care to admit it, but huge property prices lay at the heart of our economic ills. And if there’s another interest rate cut it will only entrench an underclass, writes Ian Verrender.

Housing Policy Sells Out The Fair Go

Property prices have soared, and the once humble suburban family home has been transformed from a place of shelter to a store of enormous wealth. It has become a source of hard currency.

While real estate agents and homeowners have been rubbing their hands in glee for the past three years, Australia’s soaring property market has left a vast swathe of our young disheartened and disillusioned.

One of the least considered effects of the capital city housing market boom is the potential it has to entrench wealth and to undermine social cohesion in the future.

It’s never been easy to buy a house. But we have now reached the point where, for those without an inheritance, it is nigh on impossible to save enough for a deposit let alone earn enough to cover the mortgage.

The buying has been dominated by investors – many gearing up superannuation funds or using negative gearing – sidelining younger Australians and those from outside the cities.

The once humble, suburban family home has been transformed from a place of shelter to a store of enormouse wealth. It has become a source of hard currency.

The buying has been dominated by investors – many gearing up superannuation funds or using negative gearing – sidelining younger Australians and those from outside the cities.

There has been a great deal of dispute in recent months about the accuracy of official statistics on first-home buyer activity. Many argue the Australian Bureau of Statistics grossly miscalculated its claims that first-home buyers have been all but absent.

That may be true. But that debate is largely irrelevant. For it conveniently ignores how any twenty something starting from scratch could on their own endeavours afford the mortgage on a dwelling valued north of half a million dollars.

Without a benefactor, the future for young professionals or successful tradespeople on decent salaries will be one of permanent renters to a class of inherited property owners.

Worryingly, our central bank helped spark this latest property spike, specifically targeting housing as a potential economic saviour to the inevitable wind-down of the mining construction boom.

It’s worked, to a degree. But the broader economy remains stuck in first gear and more interest rate cuts may be required, possibly as early in 2023.

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as tomorrow, which will only send property prices further into orbit.

Concerned it may be. But the Reserve Bank has done little to curb the boom. Through the banking regulator, it belatedly imposed, but never really enforced, soft lending restrictions on our banks in a half-hearted attempt to dampen speculation and rein in the boom.

It now finds its broad economic management strategy hopelessly compromised, caught between fuelling an obvious housing market bubble or doing nothing to stop economic growth from stalling.

Few care to admit it, but exorbitant property prices lie at the heart of our economic ills.

The business lobby and media commentators bemoan our high costs. Almost universally, though, they target the soft edges. Cut wages, eliminate penalties, reduce conditions. It is a simplistic, narrow view that conveniently ignores the potential damage and repercussions such a policy would cause.

Australian wages are high because workers need to pay rent to live in some of the world’s most expensive housing.

Business costs are high because business needs to rent some of the world’s most expensive office and commercial space and pay wages to workers who need to feed the mortgage machines that our major banks have become.

Wages for most of the past year have been declining in real terms. They’ve only recently slipped back into positive territory because inflation has fallen.

A wage cut or a reduction in penalty rates may provide a shot to profits in the short term. But discretionary spending would be hit. Defaults on home loans would rise. And our banks would find themselves in a world of pain.

According to the Organisation for Economic Co-operation and Development, wealth inequality has been on the rise throughout the western world since the 1980s.

Australian wages are high because workers need to pay rent to live in some of the world’s most expensive housing.

Business costs are high because business needs to rent some of the world’s most expensive office and commercial space and pay wages to workers who need to feed the mortgage machines that our major banks have become.

According to the ABS 2011 survey that formed the basis of that OECD study, owner-occupied housing was the major asset held by Australian households.

It accounted for a whopping 43 per cent of all wealth, a dangerous concentration on any measure.

We now find ourselves in a hopeless dilemma.

Australian households, and by consequence our banks, are hugely vulnerable to a property market collapse, an event that would send shockwaves through the financial system.

But if we continue to artificially inflate real estate values, simply to protect the system, we risk creating a permanent underclass for future generations and price ourselves out of the global market.

Ian Verrender is the ABC’s business editor.

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AN AFFORDABLE HOUSING REFORM AGENDA

Peak community and housing groups have called on the Commonwealth Government to work with them in developing a national housing strategy to address the worsening housing affordability crisis in Australia. The groups, including the Australian Council of Social Service, National Shelter, Homelessness Australia, the Community Housing Federation of Australia and the National Association of Tenant Organisations, have released An Affordable Housing Reform Agenda which outlines reform priorities to achieve an efficient and affordable housing system that strengthens productivity and participation. Following is the executive summary from the report.

Australia’s housing system serves some well and fails other dismally. House prices in capital cities have reached prohibitive heights for those on, or below, average incomes. Recent projections suggest that the median house price in major Australian capital cities will exceed $1 million in the next decade.

While homelessness is the most severe consequence of housing failure, Australia’s housing supply shortfall is seriously restraining productivity. The country’s policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

It cannot be denied that stable housing is essential to raise children, participate in paid work, develop community connections and to maintain health and wellbeing. Few would deny that Australia’s housing system is broken. Yet calls for reform have been met by political paralysis.

Budget projections are demanding that poorly targeted and inefficient spending be curtailed. It is now an opportune time to examine Commonwealth/State relations, tax reform and growing concern about intergenerational equity, to overcome this paralysis.

GOALS OF REFORM

The recommendations for reform outlined below are designed to ensure:

- Affordable housing is planned and invested in as essential social and economic infrastructure through public and private investment supported by government incentives
- Housing policy has a central place in government at all levels
- Secure, long-term and coordinated public and private investment streams deliver steady and adequate growth in the stock of affordable housing dwellings to meet the current and projected shortfall
- The profile of investors in private rental shifts away from an overreliance on small-scale volatile investment to an increased component of large-scale, long-term investment
- Assistance to low-income renters better reflects housing costs and is indexed appropriately to ensure it retains adequacy into the future
- Stronger tenancy regulation delivers greater security for long-term renters
- Shared equity and similar schemes provide a pathway into ownership for low- and moderate-income households in partnership with governments and not-for-profit organisations
- Increased affordable housing supply provides exit points from homelessness and is complemented by an expansion of ‘housing first’ models
- Commonwealth/State funding agreements deliver greater transparency and accountability, and
- Funding for homelessness services is long-term and adequate to meet current and projected demand and directed towards the ending of homelessness in line with the targets contained in this paper.

Australia’s housing system serves some well and fails other dismally.

RECOMMENDATIONS FOR REFORM

Tax reform

- A common tax discount for individual investments should be introduced in the following assets (excluding active business investment):
  - Rental housing
  - Shares
  - Interest bearing deposits
  - Capital gains.
- This should be substantially lower than the current 50% discount on capital gains and deductions against such investment, including negatively gearing housing, should be similarly discounted.
- A consistent approach to the taxation of land and housing should be taken across states and territories with stamp duty progressively replaced with a broader land tax base levied according to value per square metre, with provision for the deferral of payment until sale or death and other provisions for income hardship.

Investment in new affordable housing stock

- A future national affordable housing agreement should adopt specific targets to halve homelessness by 2020; halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025, and meet the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2035. Government investment should comprise 10% or $15 billion over

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Housing Affordability
20 years, beginning with an additional $10 billion in the first 5 years.
• Intergovernmental housing agreements (including the current NAHA and NPAH) should be adequately indexed to ensure their real value is maintained.
• In order to facilitate growth in social housing, state governments should accelerate stock transfer to meet the 2009 Housing Ministers’ target of up to 35% of stock owned or managed by CHPs by 2020.
• State governments should provide land to new social and affordable housing developments as part of their contribution to meeting targets for net growth in social and affordable housing, priced at a level (the residual value) that enables providers to meet affordable housing benchmarks.

**Innovative finance models**

• The Federal Government should convene an expert panel including community housing groups, finance experts, Treasury officials and academics to provide a recommendation to the Government on the best approach to deliver long-term finance to grow social and affordable housing stock.
• This should include modelling of a range of options to leverage low-cost private finance (including housing supply bonds, guarantees and establishing a Housing Finance Corporation) to fund an affordable housing growth fund.
• The Federal Government should build on the strengths of the National Rental Affordability Scheme to increase the supply of affordable rental housing. Funding for Round 5 incentives in the 2014-15 Budget should be reinstated to deliver 12,000 additional affordable rental dwellings and maintain investor confidence in the program, while the program is reviewed and problems are addressed to ensure a viable future program of incentives for private investment.

**Urban planning, land and building regulation**

Effective planning for affordable housing should include a range of specific planning mechanisms to retain, promote and create new affordable housing. Within this framework, state housing policy and planning legislation should promote affordability and enable affordable housing creation through:
• Increasing land availability for affordable housing
• Reducing barriers to affordable housing investment
• Preserving social and affordable housing, and
• Securing dedicated affordable housing in new developments.

It should also ensure an adequate and expanded supply of flexible accessible housing for an ageing population and for people living with disabilities. To this end planning systems and building codes should ensure:
• An accessible path of travel from the street or parking area to and within the entry level of a dwelling
• Doors, corridors and living spaces that allow ease of access for most people on the entry level, and
• A bathroom, shower and toilet that can be used by most people, with reinforced wall areas for grabrails at a later date.

**Commonwealth Rent Assistance**

• The maximum rate of CRA should be increased by 30% in the 2015-16 Budget
• A review of rental subsidies in private and public rental housing should be conducted. This should include an expert review of CRA indexation with recommendations to ensure the future adequacy of the payment in the context of rising housing costs
• To ensure the future adequacy of CRA, the 3 yearly independent review of pension adequacy should have scope to regularly review the adequacy and indexation of all payments, including CRA, and
• Social housing rent setting should continue to ensure that households are not left in after-housing poverty.

**Tenancy law reform**

• The Australian Government should enshrine in legislation the right to adequate housing.
• State and Territory Governments should work to strengthen tenancy protections in the priority areas identified above.
• The interest generated by rental bonds, which are required in most States and Territories to be lodged with a government agency, should be used as a funding stream to support tenants’ advice and advocacy services. This would grow in proportion to the rental sector and hence demand for services.

**Homelessness**

**Funding agreements**

• Governments need to establish multipartisan long-term (four+ years) funding agreements for the services that prevent, intervene early in, and support people experiencing homelessness. These agreements need to be:
  - Indexed annually at a level that continues to meet the costs (including wages) of providing the services, capital and research funded under the agreements.
  - Negotiated and drafted in a manner that involves the homelessness sector and wider civil society in a collaborative fashion with government.
• Funding agreements need to include funding for ongoing service research and innovation to ensure best practice achievement of the goals to prevent and end experiences of homelessness.
Coordination of homelessness services, funding and initiatives between jurisdictions

- A mechanism for coordination of homelessness policy and service delivery should be established. This could sit under COAG but must ensure engagement with community organisations delivering housing and homelessness services.

Interim funding

- In the short term, current funding arrangements need to be maintained and extended while reform processes such as the Federation White Paper occur, and longer-term recommendations contained within this paper are implemented. In particular:
  - Governments need to extend the National Partnership Agreement on Homelessness for at least an additional two years.
  - The National Affordable Housing Agreement needs to be re-indexed to meet the costs of providing the homelessness services that it provides. This needs to include a true wage-based indexation for employment costs contained within the funding.

While homelessness is the most severe consequence of housing failure, Australia’s housing supply shortfall is seriously restraining productivity. The country’s policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

Housing, homelessness and the Federation

- Housing affordability should be elevated to Cabinet level in the Federal Government through the introduction of a National Housing Minister. This portfolio would have the responsibility to coordinate across Federal Government portfolios (including infrastructure, urban and regional development, employment and social services) and to partner with State and Federal governments.
- The Commonwealth should maintain Federal policy responsibility to ensure broadly equitable access to services and support to people across the country, regardless of where they live, including homelessness and housing policy and funding arrangements.
- The Commonwealth and State and Territory governments should establish a clear reporting framework for the NAHA and NPAH with a COAG select committee to oversee the implementation and reporting on this agreement.

NOTES

4. For more on the right to adequate housing, see the United Nations Housing Rights Program: http://mirror.unhabitat.org/categories.asp?catid=282
   For an example of the right to adequate housing in legislation, see section 26 of the South African Constitution:
   - *Everyone has the right to have access to adequate housing. The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.*
   - *No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.*

Three solutions to housing affordability other than ‘get a good job’

Matt Grudnoff from The Australia Institute offers some politically challenging solutions aimed at slowing down and reversing rising housing prices.

While the public are rightly outraged at the callous tone of the Treasurer’s ‘get a good job’ remarks in response to housing affordability, economists should be equally disturbed about the bizarre logic behind the government’s approach to the issue.

Joe Hockey seems to be increasingly confused about what housing affordability is. Hockey and Abbott believe that more housing supply will make houses more affordable, but also want house prices to continue to rise.

Surely they understand that the way additional supply makes housing more affordable is that it lowers house prices. This flies in the face of economic orthodoxy, and history. Given the stubborn refusal to look at the effect of government policy on housing affordability, it’s no wonder Hockey is at a loss for a decent answers when questioned about the issue.

Three economic indicators suggest that negative gearing, working together with the capital gains tax discount are working against housing affordability. Here they are, with three solutions other than ‘get a good job that pays good money’ to be considered:

1. Negative gearing is doing very little to increase the supply of housing and its effect is becoming smaller over time. It peaked at almost 20% in 1996 and is now down to just 6%.

Solution: If the government is keen to have negative gearing bring new houses to the market then one way it could do this is to restrict negative gearing to newly built housing only. Investors buying existing houses off owner occupiers are certainly not increasing the housing stock. They are simply reducing the amount of people living in their own house by one and increasing the number of renters by one.

2. The capital gains tax discount is encouraging people to invest in residential property. After its introduction in September 1999 there was a massive increase in the amount of money people were losing on property investments and hence the amount they were deducting off their taxable income.

Solution: Reverse the 1999 policy. Scrap the discount and tax capital gains at its nominal value like everything else. The benefits of the CGT discount flow overwhelmingly to the top 10% of income earners.

3. Investors with big tax incentives have entered the market in record numbers to outbid owner...
The problem is that any solution to housing affordability, whether it’s more supply or less tax incentives, means either falling house prices or slow growth for an extended period. If the government is serious about housing affordability then it is going to have to face this economic fact and drop the idea that rising house prices are always a good thing.

occupiers and push up the price of housing. There have been two big increases in the amount of money borrowed for investment loans. The first after the CGT discount was introduced and the second after the GFC.

**Solution:** Pushing people out of home ownership is not healthy for society. While a rental market for housing is a good thing, it shouldn’t come at the expense of those who want to own their own home. The tax incentives that investors are getting are giving them a big advantage. These tax incentives need to be restricted.

While Joe Hockey complains that releasing new land is the State’s concern, that doesn’t mean that he doesn’t have the power to make housing more affordable. The problem is that any solution to

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New report calls for action on negative gearing and capital gains tax

In a new report, ACOSS is calling for action to restrict tax deductions for negatively geared property investments and the 50% discount on capital gains tax, that are together costing the Budget $7 billion a year and fuelling housing price booms.

In a new report, Fuel on the fire: Negative gearing, Capital Gains Tax and housing affordability, dispels the myths that negative gearing makes rental housing more affordable and that the benefits mainly go to ‘mum and dad’ investors on middle incomes.

“The reality is that over half of geared housing investors are in the top 10% of personal taxpayers and 30% earn more than $500,000.”

“Negative gearing and capital gains tax breaks must be front and centre in the tax reform conversation. It’s vital that the Government not rule out necessary reform in this area. This area of tax policy is shrouded in myth and those myths should be dispelled so that a sensible discussion can begin. That’s the purpose of this ACOSS Report,” said ACOSS CEO Dr Cassandra Goldie.

“Negative gearing and the tax break for capital gains don’t improve housing affordability; they make it worse by fuelling home price booms like the one in Sydney right now. Less than one tenth of negatively geared housing investments are for new properties, the other nine tenths bid up the price of existing housing.

“These tax breaks also make it more difficult for the Reserve Bank to manage the economy. Overheating in housing markets is making it harder for the Reserve Bank to cut interest rates when this is needed. The tax breaks are feeding a fire which the Reserve Bank and APRA are trying to put out,” Dr Goldie added.

“This is a longstanding problem and it’s time it was fixed. These tax breaks have inflated housing costs in every housing boom since the 1980s. Easier access to credit and the cut to capital gains tax in 1999 have made the situation worse. Since then, lending for investment housing has risen by 230% compared with 165% for owner occupied housing.

“The best we can say is that negative gearing and the capital gains tax discount are not the only drivers in inflating house prices. But there should no longer be any doubt that they add fuel to escalating house and rent prices by encouraging property speculation.

“It’s not your average mum and dad investors on middle incomes who are benefitting from the generous tax concessions that have allowed two thirds of individual rental property investors, or 1.2 million people, to report tax-deductible ‘losses’ of $14 billion in 2011,” said Dr Goldie.

“The reality is that over half of geared housing investors are in the top 10% of personal taxpayers and 30% earn more than $500,000.

“The reason that negative gearing strategies are widely used is that people can claim deductions for ‘losses’ against their wages every year, even though the investment is actually profitable because the value of the property rises every year. They then get a 50% tax discount on the value of their capital gains when it is sold.

“There are better ways to support investment in affordable housing than encouraging people to borrow to speculate on home prices. A tax rebate on new housing such as the National Rental Affordability Scheme is one. That program should be expanded, not abolished.

“ACOSS proposes that ‘negative gearing’ should not be allowed for new investments in property, shares and similar assets. This means that tax deductions for ‘losses’ on new investments should not be claimable against an individual taxpayer’s other income, including wages. To protect people who made investment decisions under the existing rules, existing investments would not be affected: the current rules would still apply until the property is sold.

“We also propose, consistent with the Henry Report, that the 50% discount on individual capital gains be reduced and that the same tax break should apply to other investments such as bank accounts and rents received by housing investors. This would remove the tax bias in favour of speculation in the values of assets such as housing and shares.

“As ACOSS and major housing organisations argued last month, there is no simple ‘fix’ for the housing affordability crisis. Federal and State governments should also invest in social and community housing, improve Rent
Assistance and ease barriers to construction of new homes including planning restrictions where these are too strict. Instead of taxing property transfers though stamp duties, State governments should broaden land tax as proposed by the Henry Report.”

**SUMMARY OF ACOSS RECOMMENDATIONS**

Tax reform is only part of the solution to our housing affordability crisis, but it is a vital part.

Along with reforms of State taxes – especially a shift away from reliance on stamp duties and towards a broadly based land tax – we advocate the following reforms to federal taxes affecting housing markets.

1. **Restrict tax deductions for negatively geared property investments**

   Income tax deductions for expenses relating to ‘passive’ investment in rental housing and other assets such as shares and agricultural schemes should only be offset against income received from those investments (including capital gains) and not against other income (including wages). This should apply to all new investments of this type entered into from 1 January 2016. Investments purchased before that date would be ‘grandfathered’, that is, the current rules would continue to apply until the asset is sold.

   Revenue: $500 million in 2015-16; $1,000 million in 2016-17.

“The reason that negative gearing strategies are widely used is that people can claim deductions for ‘losses’ against their wages every year, even though the investment is actually profitable because the value of the property rises every year. They then get a 50% tax discount on the value of their capital gains when it is sold.”

2. **Use part of the revenue savings to strengthen tax incentives for investment in new affordable housing, including building on the strengths of the NRAS scheme**

   As a first step, reinstate funding for round 5 of the National Rental Affordability Scheme to finance the construction of 12,000 new affordable rental dwellings and restore investor confidence in the program.

   Cost: $40 million in 2015-16; $100 million in 2016-17.

3. **Increase tax rates on capital gains and reduce them on other investment incomes including interest-bearing deposits and rents, to improve equity and reduce distortion of investment decisions by the tax system**

   Consistent with reforms advocated in the Australia’s Future Tax System report, a common personal income tax discount should be introduced to replace the current tax treatment for capital gains, housing rents, interest bearing deposits, shares and similar investments (excluding superannuation and owner-occupied housing). This should be substantially less than the current 50% discount for capital gains.

**NEGATIVE GEARING MYTHS AND FACTS**

**Myth 1**

The Hawke Government’s restrictions on negative gearing from 1985-87 resulted in rent increases and had to be reversed.

**Fact**

The main reasons for rent increases at that time were higher interest rates and a sharemarket boom which diverted investment from rental property. Even so, this only happened in Sydney and Perth. Lending to rental property investors still rose by 42% across Australia.

**Myth 2**

Negative gearing can’t be responsible for overheating in housing markets in recent years because it’s been in place for over 20 years.

**Fact**

Negative gearing adds fuel to each housing boom by encouraging property speculation. Its impact has grown because investors have easier access to credit. The halving of tax rates on capital gains in 2000 (in place of the indexation of capital gains for tax purposes which was less encouraging of speculative investment) also made negative gearing more attractive.

**Myth 3**

The benefits of negative gearing mainly go to ‘mum and dad’ investors on middle incomes.

**Fact**

This is an illusion due to the way the taxation statistics break down deductions for rental property investment by taxable income, which is itself reduced by negative gearing strategies. Many households that appear to be ‘middle income’ actually have higher incomes before deductions are subtracted. In reality, half the value of deductions for negatively geared investments go to the top 10% of taxpayers.

Restricting negative gearing is a very inefficient way of tackling a perceived house price bubble – which in any case is restricted to Sydney – and is not about to burst, writes Ross Guest.

The perennial debate about negative gearing of residential property investments has been reignited yet again, by two reports in the past week. The International Monetary Fund has nominated taxes on housing as ripe for reform in order to improve the efficiency of the tax system. And the Reserve Bank of Australia has argued that housing credit to investors has become excessive and is driving up house prices.

Although neither report specifically recommends changes to negative gearing rules, the mere suggestion that we look at housing taxation or lending for housing investment is enough to awaken the anti-negative gearing lobby.

Before we go on, a definition: negative gearing arises where the interest on money borrowed for investment in an income-earning asset is greater than the income earned from that asset. The asset is said to be negatively geared.

Critics see negative gearing as the source of all kinds of evils: it inflates house prices making housing unaffordable for first home buyers and inflates a house price bubble that will eventually burst causing wider economic problems; it is an unfair tax handout to the rich; and it bleeds the government’s budget which is all the worse in these times of stubborn budget deficits. And according to some critics there is no upside – negative gearing serves no useful purpose.

The rules around negative gearing have not changed significantly in Australia for at least 25 years, so it can’t explain house price growth over the past five years.
gearing have not changed significantly in Australia for at least 25 years, so it can’t explain house price growth over the past five years. Persistent record low interest rates over the past few years is the main driver, which the RBA acknowledges has meant that loans remain affordable. In fact the ratio of interest payments to household income has actually fallen since 2009.

Sure, if we restricted the tax advantages of negative gearing we would dampen investor demand for housing which would slow house price growth in Sydney and everywhere else. But at what cost? It would be tougher to rent a property, hurting low-income households.

Rental vacancy rates are already low in Sydney and Melbourne and in fact have fallen in the last couple of years. Critics refute this argument. They say that the vast majority of investment demand is for existing properties rather than investments in new housing stock, which simply drives up house prices. True, but higher house prices make new housing construction profitable, which boosts the rental housing stock. So restricting negative gearing is a very inefficient way of tackling a perceived house price bubble – which in any case is restricted to Sydney and, as I’ve argued before, is not about to burst.

What about the fairness argument? The RBA report shows that negative gearing is by no means restricted to the rich. About half of all housing property investors have household incomes under A$100,000. Half of all household property investors are young – 30% are under age 40 and 60% are under age 50.

Also, if we want to be fair we have to be consistent. This would mean tackling negative gearing on other income-earning assets such as company shares and business ownership. And we would have to explain why we would want to tax the interest income received by the lender but not allow the borrower to deduct the interest paid, which would amount to double taxation.

**CONSIDER THE MANY ALTERNATIVES**

If we want to tackle fairness in the tax system, there are lower hanging fruit. For example we could bring the family home into the pension assets test, address tax avoidance through artificial structures such as discretionary trusts, and tax superannuation contributions at marginal tax rates (as long as we keep withdrawals tax-free).

The budget saving argument is also overstated. According to the Australian Taxation Office, the total losses on rental property in 2011/12 were A$6.8 billion. Applying an average marginal tax rate of, say, 35%, this amounts to A$2.4 billion in tax revenue foregone, or 0.6% of total tax revenue in 2012. However we would save much less than this if we were to abolish entirely negative gearing for rental property because investors would switch to other investments and other ways of minimising tax.

We need to be clear about what problem we are trying to fix and consider whether there are better ways of doing it.

Ross Guest is Professor of Economics and National Senior Teaching Fellow at Griffith University.

**THE CONVERSATION**

WHY NEGATIVE GEARING IS BAD POLICY

Under the current tax regime, investors and cashed up owner-occupiers are bidding up the cost of housing, argues Helen Hodgson.

In an ideal (and economically efficient) world, tax policy would not influence the investment or consumption choices taxpayers make. In reality, this neutrality is rarely achieved. External factors influence choices, which then fail to conform to rational economic models; or the tax system may be deliberately used to intervene in the market to counteract inefficiencies.

In Australia owner-occupiers compete with investors for housing property; and there is also competition within these groups. A small increase in the number of superannuation funds and foreign investors purchasing property can have a significant impact on demand; while first-home owners are finding it increasingly difficult to enter the market. Each of these groups is impacted differently by the tax system.

Owner-occupiers are the major beneficiaries of tax concessions on housing. The latest tax expenditure statement costed the capital gains tax (CGT) exemptions on owner-occupied housing at A$30 billion, on a par with concessional taxation of superannuation at A$30.25 billion.

The Henry Review acknowledged that these tax expenditures can be justified as both contribute to people’s living standards in retirement. However the CGT main residence exemption distorts the market as owner-occupiers invest more in their residence, diverting capital from other more productive investments in the expectation of tax-free capital gains.

Investors also benefit from the CGT discount, but negative gearing has a more immediate benefit.

Investors also benefit from the CGT discount, but negative gearing has a more immediate benefit. Negative gearing is the product of two of the basic design principles of our tax system.

Muddying the waters

Firstly, expenses are deducted from income in calculating the income or loss from an activity, and secondly we apply a global system under which income from all sources is aggregated to determine a taxpayer’s income for a year. Therefore, in the absence of any specific restrictions, losses from one activity can be applied to reduce the tax payable on income from other sources.

The tax statistics for the 2010-11 year show that 2.5 million rental property schedules were lodged by individuals, showing nearly A$30 billion of rental income received during the year. The deductions claimed against this income amounted to A$37.8 billion, of which A$22 billion was interest on loans. A further A$1.8 billion was claimed as capital works deductions, which allows a write-down for the capital cost of a building used to earn rental income.

There is no particular bias in the tax system to make negative gearing more beneficial for real estate than other investments: the drivers for that decision come from outside the tax system. For example, lenders may be prepared to lend a higher proportion of the purchase price on real estate when compared to other forms of investment, thus the purchase can be more highly leveraged and the eventual capital gain will represent a higher return on funds invested. However this does presume the investor has the cash flow, often from other sources, to service the loan.

The role of CGT

Negative gearing would be less attractive if the capital gain on the sale of an investment was taxed in full. Negative gearing is a negative cash flow, but it produces an annual tax benefit that would be clawed back if the capital was taxed when the property is sold.
But CGT is generally only paid on half of the capital gain as a discount is applied when calculating how much is included in taxable income. Therefore there is an asymmetry as the full amount of any mortgage interest is allowed as a deduction when incurred, but only half of the capital gain is included as income.

The Henry Review recommended (Recommendation 14) that a 40% discount should be applied across all forms of non-business investment income, including capital gains, with a corresponding reduction in the amount of interest that could be claimed each year. This would reduce both the bias to investments that produce capital gains over income, and the incentive to leverage off negative gearing deductions.

**First-home owners and renters miss out**

The group of prospective purchasers that is most affected by housing prices is notably absent from the discussion of tax incentives.

First-home owners don’t have access to tax deductibility to subsidise interest payments, and without a windfall on the sale of another property they may have difficulty accumulating a deposit.

The effect of first home owner subsidies, however, is mixed: although it boosts the deposit the subsidy can itself be inflationary as vendor price expectations rise to take account of the subsidy.

The remaining group, renters, also face increased rents as the owners of rental properties seek a return on the capital they have invested in the property.

It has been argued that any changes to negative gearing would result in increased rents, based on rental increases between 1986 and 1988 when the Hawke Government quarantined negative gearing deductions. But this is largely discredited as the evidence shows there were other issues that increased demand in the Perth and Sydney markets over this time.

These current policies all affect demand, resulting in increased housing prices as investors and cashed up owner-occupiers bid up the cost of housing.

**Ultimately tax reform in relation to housing will require the government to make some hard decisions. The two issues that need to be reformed are the main residence CGT exemption and removing the ability to offset investment losses against other income. Such reform will not be successful without public support.**

What is needed is a set of policies that would stimulate the supply of housing, for example the National Rental Affordability Scheme which provides tax incentives on new housing development.

Ultimately tax reform in relation to housing will require the government to make some hard decisions. The two issues that need to be reformed are the main residence CGT exemption and removing the ability to offset investment losses against other income. Such reform will not be successful without public support, and neither the Labor nor the new Coalition governments have been prepared to act on these proposals.

Helen Hodgson is Senior Lecturer, School of Tax and Business Law at the UNSW Australia.

Australia's capital house prices rose 10% last financial year, with an even stronger rise of 15% in Sydney. While seemingly a dramatic increase, it is important to look through the short-run variability in house prices to longer-run trends. On an inflation and quality-adjusted basis, house prices in Australia have increased by around 2-3% per annum since 1970. This is enough to yield a doubling in real house prices every 30 years or so, underpinning a long-term decline in housing affordability and the home ownership rate.

Far from being an asset price 'bubble,' this increase in real house prices is well explained by economic fundamentals. A major influence has been the decline in global real interest rates since the early 1980s. Australia's real mortgage interest rates have also declined, from around 10% in 1990 to around 3% today. This long-term decline has boosted asset values and, together with increased competition in housing finance, the borrowing capacity of households.

Based on Australian experience, a 1% decline in real mortgage interest rates raises real house prices by between 4-5%. Unless global real interest rates rise significantly in the future, the gains in house prices associated with this long-term decline in real interest rates are unlikely to be unwound.

Income and population growth are the other main drivers of housing demand. While these growth rates are subject to considerably short-run variability, they represent permanent changes to the overall level of demand. Demand suppression policies are thus unlikely to improve long-run housing affordability. The central bank has little influence over real interest rates in the long run. Tightening accessibility to housing finance might be justified on financial stability grounds, but won't change the overall demand and supply balance in housing markets when only 37% of Australian households are owner-occupiers with a mortgage. Suppressing income and population growth or immigration in the name of housing affordability would be a perverse public policy response.

An unfortunate and increasingly common response to rising house prices has been to scapegoat some buyers, such as domestic and foreign investors. But they are no more responsible for rising house prices than the typical first-home buyer. The problem is not too much demand, but too little supply to prevent upward pressure on house prices.

In most markets, rising prices would induce new supply, containing or even lowering prices in the long run. Unfortunately, the supply of new land and new homes in Australia is largely determined by regulation, preventing housing supply from responding quickly enough to rising prices.

Over the last decade, the average number of new housing lots produced in the five largest capital cities has declined by around 20%. The price of land for new home buyers in these capitals has increased by nearly 150% over the same period. New lot sizes are getting smaller as home buyers seek to economise on the rising cost of land.

Urban growth boundaries have ring-fenced our capital cities, while development and planning controls and taxes on new housing have made it increasingly difficult to supply affordable new
Eight housing affordability myths

Following is an executive summary from a Centre for Independent Studies issue analysis by Stephen Kirchner

- Australia has experienced a significant increase in house prices in recent decades.
- House prices have increased at an average rate of about 3% per annum after inflation since 1970.
- Australians are conflicted in their attitude to this long-run change in real house prices because they are both investors in housing as an asset class and consumers of housing services.
- Home ownership in Australia has declined in recent years from 71% of households in 1995 to 67% in 2012, with even more pronounced falls in younger age groups most likely to be first home buyers.
- The conflicted attitude on the part of the public is reflected in confused public policies followed by Australian governments, often in the name of housing affordability.
- Housing consumption and investment are both taxed and subsidised by all levels of government.
- The net effect of these taxes and subsidies on housing affordability is difficult to determine.
- Many of the policies pursued by Australian governments in the name of housing affordability, such as first-home buyer grants and concessions, increase demand for housing, while failing to tackle regulatory and cost barriers to housing supply.
- Declining real interest rates boost asset prices by lowering the discount rate applied to future income streams – or (imputed) rents in the case of housing.
- Lower interest rates have also increased the debt servicing capacity of households.
- The reduction in real mortgage interest rates has been a secular rather than a cyclical phenomenon, leading to permanent rather than temporary gains in house prices, although this secular trend could be reversed, at least in principle.
- In the long run, real interest rates and housing affordability are determined by factors outside the control of 7.
- The reductions in real mortgage interest rates and increased competition and innovation in financial services that have increased household leverage relative to earlier decades have been a secular rather than a cyclical phenomenon. The associated gains in house prices are unlikely to be reversed.
- In Australia, the long-run appreciation of real house prices, as well as their short-run variability, is empirically well explained by economic fundamentals and is entirely consistent with expectations derived from economic theory.
- Australia is not producing enough new land for housing due to policies pursued by State and Local governments that prevent land supply and land use from responding to price signals.
- Housing supply must keep pace not only with population growth and the rate of new household formation, but also the demolition of old homes and the demand for second or holiday homes.
- If temporary residents are not allowed to purchase dwellings, they will enter the private rental market and reduce affordability in that market.
- When foreigners buy domestic property, they transfer overseas wealth to Australians in the form of either new dwellings or higher prices for existing dwellings.
- The concessional tax treatment of saving via owner-occupied and investment property adds to demand by making both a more attractive vehicle for saving relative to other asset classes. It is also positive for housing supply by making investment in housing more attractive. The net effect on dwelling prices is ambiguous, and there is a lack of empirical work on this question.
- The focus of public policy needs to shift to lowering tax and regulatory barriers to new dwelling supply.
- Reducing the incidence or eliminating entirely taxes on housing transactions such as stamp duty and capital gains tax should be an important part of any broader tax reform effort and reform of Federal-State financial relations.
- Zoning, planning and approval processes need to be reformed to reduce the direct and indirect costs of new dwelling construction, increase the intensity of land use, and accelerate new land release.

Dr Stephen Kirchner is Research Fellow at The Centre for Independent Studies and Senior Fellow with the Fraser Institute.
An unfortunate and increasingly common response to rising house prices has been to scapegoat some buyers, such as domestic and foreign investors. But they are no more responsible for rising house prices than the typical first-home buyer. The problem is not too much demand, but too little supply to prevent upward pressure on house prices.

Rather than tackling the tax and regulatory burden on new housing supply, politicians have responded with diversions designed to draw attention away from their own role in reducing housing affordability. The House of Representatives Standing Committee on Economics inquiry into foreign investment in real estate is one such diversion. Foreign buyers of residential real estate transfer wealth to Australians, either in the form of additions to the dwelling capital stock built specifically for overseas investors or higher home prices received by Australian vendors.

To turn away these foreign wealth transfers would only serve to compound our domestic policy failures in relation to housing.

It is government policy to encourage temporary residents to come to Australia to study and work. If these temporary residents are prevented from buying new dwellings, they will enter the private rental market and increase competition in that market.

Australia already has a more restrictive policy on foreign investment in residential and other real estate than comparable economies such as the United States and the United Kingdom.

The fact that the existing controls on foreign investment are not effectively enforced only serves to demonstrate that our politicians have enacted impractical and unworkable laws and regulations that are too costly to properly enforce.

Australia needs to become more open to foreign investment, not less, but must also free up the supply of new housing to contain upward pressure on prices.

Stephen Kirchner is a research fellow at the Centre for Independent Studies. He blogs Institutional Economics.

What is driving homelessness in Australia?

There are large differences in rates of homelessness across Australian regions. Effective policy responses and interventions need to address the distinctive geography of homelessness in Australia, according to this research and policy bulletin produced by the Australian Housing and Urban Research Institute.

KEY POINTS

- Homelessness is spatially concentrated with 42 per cent of homeless persons found in just 10 per cent of the regions across Australia. Rates of homelessness were highest in remote regions and in small pockets of most major cities, including growth corridors.
- The key determining factor is demographic. Regions with a higher proportion of men, sole parents and indigenous persons had higher homelessness rates. Greater income inequality and high-density dwellings were also statistically associated with high homelessness rates.
- Despite higher service capacity in regions with higher rates of homelessness, there is still a mismatch between the location of specialist homeless services and concentrations of homelessness.
- Regional rates of homelessness were not statistically linked to shortages of affordable housing or high unemployment rates, though segmented housing and labour markets may still play a role.
- Risks of homelessness can be greater in low unemployment areas since house prices and rents are typically high, requiring the need for affordable housing in these locations. Furthermore, if those vulnerable to homelessness gravitate to where employment is buoyant, homelessness will increase in these regions.
- National homelessness rates increased in the last half of the decade (2006-11). However, this is in large part due to structural factors like demographic change. In its absence, homelessness rates would have likely declined over the last decade.

RESEARCH METHOD

The project used descriptive analyses and statistical modelling techniques to understand the structural drivers of homelessness over three Census periods (2001, 2006 and 2011). The project used regional data from the ABS Census of Population and Housing, the Specialist Homelessness Service Collection from the Australian Institute of Health and Welfare, and other relevant data. ABS measures of homelessness were used.

In order to estimate those persons experiencing homelessness in the census, the ABS has operationalised this definition by flagging six key operational groups based on living situation:

- Persons who are in improvised dwellings, tents or sleepers out
- Persons who are homeless by choice
- Persons who are homeless due to natural disasters
- Persons who are homeless due to family violence
- Persons who are homeless due to other reasons
- Persons who are homeless due to other reasons

There is no evidence that homelessness is linked with a shortage of affordable housing. Rather the opposite appeared to be true; areas with higher homelessness tended to have a larger supply of affordable housing relative to the demand.

CONTEXT

Homelessness has been linked to the circumstances, personal characteristics and practices of people who experience it. But homelessness might also be a ‘structural issue’ with, for example, expensive housing markets and weak labour markets both affecting rates of homelessness.

Key policy documents argue that homelessness is, in part, a housing problem and that employment is critical in building pathways out of homelessness. However, there has been little research to back this up. This project aimed to fill this knowledge gap by examining whether spatial variations in homelessness are linked to differences in labour and housing market conditions.
Housing Affordability Issues in Society | Volume 400

• Persons in supported accommodation for the homeless
• Persons staying temporarily with other households
• Persons staying in boarding houses
• Persons in other temporary lodging
• Persons living in ‘severely’ overcrowded dwellings.

A range of possible influences shaping the spatial distribution of homelessness across Australia were explored, including housing and labour market conditions, income inequality, climate and demographic profiles.

**KEY FINDINGS**

*Homelessness is spatially concentrated though becoming less so*

Homelessness is spatially concentrated in Australia. In 2011, 42 per cent of the nation’s homeless population could be found in just 33 of the 328 local regions (i.e. 10% of all local regions). Hotspots were found in the Northern Territory, the northern-most parts of Western Australia and Queensland, as well as in inner city areas or growth corridors of state capitals. However, homelessness is becoming less concentrated over time – it is declining in areas where it has been relatively high (regional and remote Australia), and increasing where it has been relatively low (coastal fringe and urban mainland capitals).

*Demographics explains geographical variations in homelessness*

Demographic factors proved to be the best predictors of geographic variations in rates of homelessness. Regions with higher shares of males, indigenous persons and sole parents had elevated rates of homelessness. Incidence of indigenous persons was especially important in explaining homelessness in regional and remote areas of Australia. Regions with younger demographic profiles (15-34 years) often have higher rates of homelessness, but this is mainly an urban phenomenon.

Regions with higher income inequality also had higher rates of homelessness. This is because regions with relatively unequal income distributions have a larger pool of very low income households, which intensifies the competition for low cost housing.

Particular States and Territories – including Victoria and the Northern Territory – appeared to have higher rates of homelessness after adjusting for other factors (including demographic profiles). These differences in adjusted rates of homelessness tended to disappear in a sample of urban-only regions. However, Victoria was an exception as adjusted rates were higher, even in the urban only regions sample.

*Homelessness services not affecting local rates of homelessness*

While there is higher service capacity in areas with higher rates of homelessness, it is insufficient compared to demand in these areas. While there have been reductions in the spatial mismatch between supply of services and demand, in 2011 the top 10 per cent of local regions accounted for 42 per cent of all homelessness, but only 34 per cent of specialist homeless service capacity.
Service capacity may not be an important influence on the location of homelessness – in fact, regions with less service capacity per 10,000 persons in 2001 were more likely to experience growth in homelessness over the subsequent decade. While we found no evidence of a magnet effect, further research which takes account of people’s mobility is required to conclusively rule out such an effect.

Homelessness not linked with local affordable housing shortages or unemployment
There is no evidence that homelessness is linked with a shortage of affordable housing. Rather the opposite appeared to be true; areas with higher homelessness tended to have a larger supply of affordable housing relative to the demand. Furthermore, and contrary to expectations, some stronger labour markets (i.e. with lower unemployment) were associated with higher per capita rates of homelessness.

A possible explanation for these seemingly counterintuitive outcomes is that regions with high unemployment and lower incomes (and therefore lower rents) tend to have a larger pool of people at risk of homelessness so that even if only a small fraction...
become homeless, they will be more numerous despite a relatively abundant supply of affordable housing. By contrast, regions with low unemployment tend to have a smaller at-risk population, but they are more likely to become homeless because high rents aggravate shortages of affordable private rental housing. This is consistent with our descriptive analysis of the relationship between unemployment rates and the supply of affordable housing.

Another possibility is that at-risk people relocate to regions with low unemployment, though further research is required to confirm this. If the mobile at-risk group was to gravitate to regions with stronger labour markets, they could be exposed to a greater threat of homelessness because of the shortage of affordable housing options in these regions.

**Homelessness outcomes have improved after taking into account structural factors like demographic change**

Nationally, homelessness rates declined between 2001 and 2006 before rebounding in 2011. However, modelling work suggests an underlying decline in Australian homelessness over the decade, once structural factors like demographic profiles are taken into account. Further analysis focusing only on urban regions demonstrated an underlying decline in the first half of the decade between 2001 and 2006, but a subsequent increase back to 2001 levels in the second half of the decade.

**POLICY IMPLICATIONS**

There is a need to respond to the changing spatial distribution of homelessness. For example, increases in service capacity should be targeted to locations of high demand, and especially regions with relatively high proportions of those at high risk including males, sole parents, indigenous and young people.

The research suggests that the impact of other structural factors like housing and labour market conditions is absent, or masked by interrelationships between rents and prices in housing markets on the one hand, and unemployment rates in labour markets on the other hand. Furthermore, moves by those vulnerable to homelessness could be an important explanation for the apparent absence of a relationship with structural variables, especially if at-risk persons gravitate to regions with a greater supply of relatively affordable housing.

Although many homeless people presently live in areas of relatively abundant private rental accommodation, many may still need assistance to access this accommodation, such as through brokerage or private rental support programs. Policy-makers might also look at increasing the supply of affordable rental housing, especially if those prone to homelessness are attracted into regions with strong labour markets and tight housing markets. We clearly need a better understanding of the role that mobility plays in the geography of homelessness.

### FURTHER INFORMATION

This bulletin is based on AHURI project 53027, *The structural drivers of homelessness in Australia 2001-11.*

Reports from this project can be found on the AHURI website, [www.ahuri.edu.au](http://www.ahuri.edu.au) or by contacting AHURI Limited on +61 3 9660 2300.

### NOTES

WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

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MULTIPLE CHOICE 55-56
Brainstorm, individually or as a group, to find out what you know about housing affordability.

1. What does the term ‘housing affordability’ mean? (include examples)

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2. What is ‘negative gearing’, and how does it relate to housing affordability?

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3. What is the meaning of the term ‘housing bubble’, and how does it affect housing affordability?

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4. Explain the difference between public housing and emergency housing.

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Complete the following activity on a separate sheet of paper if more space is required.

“There is no evidence that homelessness is linked with a shortage of affordable housing. Rather the opposite appeared to be true; areas with higher homelessness tended to have a larger supply of affordable housing relative to the demand.”

AHURI Limited, *What is driving homelessness in Australia?*

Consider the above statement. What factors contribute to homelessness in Australia? Using the space provided, address the range of factors that can lead to homelessness. Explain the impacts these factors may have on people experiencing homelessness, and offer ways in which their negative effects could be minimised.
Complete the following activity on a separate sheet of paper if more space is required.

“The reason that negative gearing strategies are widely used is that people can claim deductions for ‘losses’ against their wages every year, even though the investment is actually profitable because the value of the property rises every year.”

ACOSS, ‘New report calls for action on Negative Gearing and Capital Gains Tax’

Consider the statement above. Are you for or against negative gearing in Australia? Form into two or more groups in your class and compile a list of points with which to discuss the pros and cons of negative gearing and its effects on housing affordability in Australia. Share your thoughts and ideas with the other groups, and take a final vote to reflect the overall views of the class.

PROS

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CONS

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Complete the following activity on a separate sheet of paper if more space is required.

“Fundamentally, one of the reasons we’ve ended up in our current predicament is that the prime function of housing has transitioned from ‘usable facility’ to ‘tradeable commodity and investment asset’.”

‘Tackling housing unaffordability: a 10-point national plan’, The Conversation

Research online the housing market in your area for both sales and rental options. Select and compare three different types of housing (house, apartment, townhouse), and include their size and sales price/rental value. Write a few paragraphs listing the statistics on each dwelling type, and address your findings in relation to housing affordability. (Include information on current mortgage repayments for sale properties).

BUY

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RENT

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This e-book is subject to the terms and conditions of a non-exclusive and non-transferable SITE LICENCE AGREEMENT between THE SPINNEY PRESS and: The Geelong College, Newtown, andrea.mcgucken@geelongcollege.vic.edu.au
Complete the following activity on a separate sheet of paper if more space is required.

Write a design brief for a flyer which explains the local options available to assist people experiencing homelessness. In your flyer brief offer options for emergency housing, rent assistance, social housing and types of financial assistance in your area. Source or suggest relevant images to accompany your text.
Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of the next page.

1. What do the letters CGT stand for in relation to housing affordability?
   a. Capital government tax
   b. Capital gains tax
   c. Central government threshold
   d. Capital gains threshold
   e. Capital gearing tax
   f. Central gains tax

2. In what year was the CGT discount introduced?
   a. 1901
   b. 1945
   c. 1978
   d. 1999
   e. 2009
   f. 2011
   g. 2015

3. Which of the following are places people experiencing homelessness commonly stay? (select all that apply)
   a. Five star hotels
   b. Improvised dwellings
   c. In other people’s households
   d. Holiday resorts
   e. Boarding houses
   f. Supported accommodation
   g. Temporary lodgings
   h. Retirement villages

4. Which of the following could be reasons contributing to a person experiencing homelessness? (select all that apply)
   a. Domestic violence
   b. Social exclusion
   c. Marriage
   d. Financial crisis
   e. University degree
   f. Mental illness
   g. People exiting prison
   h. Intergenerational poverty
   i. Salary increase
   j. Long-term unemployment
   k. Lottery win
   l. Housing shortage
MULTIPLE CHOICE

4. Respond to the following statements by circling either ‘True’ or ‘False’:

a. A common measure of rental stress is to look at the proportion of lower income households paying more than 30% of their income on housing costs.  
   Answer: True / False

b. Less than 100,000 Australians are regarded as being homeless.  
   Answer: True / False

c. New homes in Australia are, on average, the smallest in the world.  
   Answer: True / False

d. Homelessness is spatially concentrated with 42% of homeless persons found in just 10% of the regions across Australia.  
   Answer: True / False

e. Australia has experienced a significant increase in house prices in recent decades.  
   Answer: True / False

f. Housing consumption and investment are both taxed and subsidised by all levels of government.  
   Answer: True / False

g. All of Australia’s major cities have been labelled as ‘severely unaffordable’ for over ten years.  
   Answer: True / False

h. Sixty per cent of homeless people are aged under 35.  
   Answer: True / False
There are approximately 9,000,000 dwellings in Australia. The 2011 Census found that 67% of households own their home or are purchasing it through a mortgage – most of the rest are renters (ABC News, 9 million homes with 2.6 occupants – this is the Australian housing market). (p.1)

Tasmania has the highest home ownership rate at 70%, and the Northern Territory the lowest at 46% (ibid). (p.1)

New homes in Australia are bigger on average than anywhere else in the world (ibid). (p.2)

More than 100,000 Australians are regarded as homeless (ibid). (p.2)

Back in 1982, the ABS Survey of Income and Housing revealed that 168,000 or 10% of home buyers spent more than 30% of their gross household income on housing costs. Nearly 30 years later in 2011 these numbers had soared to 640,000, equivalent to 21% of all home buyers (Wood, G and Ong, R, The facts on Australian housing affordability). (p.3)

The proportion of home owners with outstanding mortgage debt has increased, especially in the 55-64 year cohort that is typically approaching retirement (ibid). (p.4)

The majority of lower income private renters pay, on average, over 30% of their gross weekly income on housing costs (ABS, Housing Occupancy and Costs, 2013-14). (p.5)

In 2013-14, just over a third (34%) of all households with a reference person under 35 years were owner-occupiers, a decrease from 48% in 1994-95 (ibid). (p.7)

A common measure of rental stress is to look at the proportion of lower-income households paying more than 30% of their income on housing costs. According to this measure, in 2013-14, 50% of lower-income renter households were in rental stress (ibid). (p.9)

The biggest proportional decline in house ownership since 2002 is among 50-59 year olds. 18% fewer own houses outright, with large increases in renting and mortgages (Johnson, M and Baker, D, The great Australian lockout: Inequality in the housing market). (p.11)

All of Australia’s 5 major metropolitan cities have been classified as ‘seriously unaffordable’ for the last 11 years (Palmer, C and Jeyaratnam, E, Australia’s housing affordability problem in 12 charts). (p.12)

First-home buyers are finding it more difficult to enter the market. A significant proportion of mortgages are given to existing home owners (84.8%), compared to first-home buyers (15.2%) (ibid). (p.13)

60% of Australian capital city residents disagree that housing is affordable for prospective first-home buyers (Reed, R, Five reasons housing is more affordable overseas). (p.14)

In 5 years the rate of homelessness increased by 8% from 89,728 to 105,237 (Homelessness Australia, Doing a project on homelessness). (p.20)

The typical Sydney home is now selling for 10 times median annual income, and 6.7 years of savings is required for a couple to put aside the $165,000 20% deposit for a mid-priced property (Janda, M, Bubbles and bureaucrats: why housing affordability isn’t being fixed). (p.27)

Recent projections suggest that the median house price in major Australian capital cities will exceed $1 million in the next decade (ACOSS, An Affordable Housing Reform Agenda). (p.31)

Less than one tenth of negatively geared housing investments are for new properties, the other nine tenths bid up the price of existing housing (ACOSS, New Report calls for action on Negative Gearing and Capital Gains Tax). (p.36)

Over half of geared housing investors are in the top 10% of personal taxpayers and 30% earn more than $500,000 (ibid). (p.36)

House prices have risen by an average of about 10% per year in Sydney and somewhat less in Melbourne in the 5 years since the global financial crisis. But in the rest of Australia house price growth has not even kept pace with inflation at 2 to 3% annually (Guest, R, Housing bubble or not, negative gearing should stay). (p.38)

About half of all housing property investors have house-hold incomes under $100,000. Half of all household property investors are young – 30% are under age 40 and 60% are under age 50 (ibid). (p.39)

Owner-occupiers are the major beneficiaries of tax concessions on housing. The latest tax expenditure statement costed the capital gains tax (CGT) exemptions on owner-occupied housing at A$30 billion, on a par with concessional taxation of superannuation at A$30.25 billion (Hodgson, H, Why Negative gearing is bad policy). (p.40)

Over the last decade, the average number of new housing lots produced in the 5 largest capital cities has declined by around 20%. The price of land for new home buyers in these capitals has increased by nearly 150% over the same period. New lot sizes are getting smaller as home buyers seek to economise on the rising cost of land (Kirchner, S, Improving housing affordability begins at home). (p.42)

Homelessness is spatially concentrated with 42% of homeless persons found in just 10% of the regions across Australia (AHURI Limited, What is driving homelessness in Australia?). (p.45)

Home ownership is becoming less affordable for younger Australians and low- to moderate-income earners. In 1981, 61% of young people aged 25-34 were purchasing or owned their homes; by 2011 it was 47% (AIHW, Housing assistance in Australia 2014). (p.47)

Many low-income households and first-home buyers received help to purchase their homes. In 2012-13, 92,000 people received a First Home Owner Grant. Additionally, around 40,000 Australian households received support from Home Purchase Assistance programs (ibid). (p.47)
Affordable housing
A dwelling available through a housing assistance program that provides for a specified level of below market rent price (e.g. public housing, community housing, National Rental Affordability Scheme, shared equity scheme for home ownership).

Capital gains tax
Applies to the capital gain made on disposal of any asset, except for specific exemptions. A significant exemption is the family home. CGT operates by having net gains treated as taxable income in the tax year an asset is sold or otherwise disposed of. If an asset is held for more than one year, then any nominal gain is first discounted by 50% for individual taxpayers, or by 33.3% for superannuation funds.

Community housing
Housing that is managed and sometimes owned by a not-for-profit organisation. See also public housing.

Crisis housing
Short-term accommodation provided for people who are experiencing homelessness.

Dwelling
A structure or a discrete space within a structure intended for people to live in or where a person or group of people live. A structure that people actually live in is a dwelling regardless of its intended purpose, but a vacant structure is only a dwelling if intended for human residence. A dwelling can include: a separate house; a semi-detached, row or terrace house, townhouse, etc; a flat, unit or apartment; caravan, tent, cabin etc, either in or not in a caravan park, houseboat in marina, etc; an improvised home, tent, camper; a house or flat attached to a shop, office, etc; a boarding/rooming house unit.

Emergency accommodation
Short-term accommodation provided for people who have recently lost their housing (crisis) or are homeless (in, for example, shelters, motels, flats or caravan parks).

Greenfield
A greenfield site is undeveloped land in a city or rural area either used for agriculture, landscape design, or left to evolve naturally. Generally large-scale developments where new community facilities (e.g. public transport) have to be built from scratch, or are often not available.

Greyfield
In Australia, greyfield sites are ageing but occupied tracts of inner- and middle-ring suburbia that are physically, technologically and environmentally failing and which represent under-capitalised real estate assets, whereby the built asset makes little or no contribution to the market value of the property compared to the land component.

Homelessness
The Australian Bureau of Statistics definition states that when a person does not have suitable accommodation alternatives they are considered homeless if their current living arrangement: is in a dwelling that is inadequate; has no tenure, or if their initial tenure is short and not extendable; and does not allow them to have control of, and access to space for social relations.

Household
A group of two or more related or unrelated people who usually reside in the same dwelling, and who make common provision for food or other essentials for living. A household can also be a single person living in a dwelling who makes provision for his or her own food and other essentials for living, without combining with any other person.

Housing affordability
A general term, used in reference to the whole housing system, expressing the relationship between housing costs (prices, mortgage payments or rents) and household incomes.

Housing affordability stress
Households which are in the bottom 40% of income distribution and which are paying more than 30% of their gross income on mortgage or rent payments are considered to be in housing affordability stress.

Housing assistance
Diversity of ways that governments assist households who cannot access suitable housing in the market.

Housing bubble
A loosely defined situation whereby house prices rise (due to increased demand or reduced supply, or both), thereby creating a financial environment that attracts investors which causes prices to rise further.

Negative gearing
A taxation arrangement whereby, when costs exceed investment income, the loss may be deducted from other taxable income.

Public housing
Housing, other than employee housing, that is owned and managed by government directly. See also community housing.

Social exclusion
A lack of connectedness and participation. Social exclusion is not the equivalent of poverty (i.e. inadequate economic resources) or deprivation (i.e. an enforced lack of socially perceived necessities). It may also be referred to as ‘marginalisation’.

Social housing
Rental housing that is provided and/or managed by government or non-government organisations, including public and community housing.

Social inclusion
The opportunity to participate in society through employment and access to services, connect with family, friends and the local community, deal with personal crises and be heard.
WEB LINKS

Websites with further information on the topic

Australian Bureau of Statistics  www.abs.gov.au
Australian Council of Social Service  www.acoss.org.au
Australian Housing and Urban Research Institute  www.ahuri.edu.au
Australian Institute of Health and Welfare  www.aihw.gov.au
Australians for Affordable Housing  http://housingstressed.org.au
Centre for Affordable Housing  www.housing.nsw.gov.au/centre-for-affordable-housing
Council to Homeless Persons  http://chp.org.au
Department of Social Services  www.dss.gov.au
Homelessness Australia  www.homelessnessaustralia.org.au
Homelessness NSW  www.homelessnessnsw.org.au
Homes for Homes  www.homesforhomes.com.au
Housing Industry Association  http://hia.com.au
Mission Australia  www.missionaustralia.com.au
National Centre for Social and Economic Modelling  www.natsem.canberra.edu.au
National Shelter  www.shelter.org.au
NSW Federation of Housing Associations Inc  www.communityhousing.org.au
The Big Issue  www.thebigissue.org.au

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