HOUSING AUSTRALIANS – A SUPPLY AND SOCIAL CHALLENGE

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(Australian) Housing Industry Association Limited
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Access to shelter is a basic human need and together with 'affordable living' is critical to allow all persons the opportunity to participate in society to their full economic and social potential.

Affordable living is not just rent or mortgage costs. It includes the total cost of living in a particular dwelling. This necessitates consideration of the performance of the built structure in terms of energy and water consumption, the location of the dwelling and proximity to transport, jobs and community services.

When considering their role in improving the supply of appropriate housing, government must firstly acknowledge that housing affordability is a function of housing supply, good design and the provision of appropriate infrastructure, all of which contribute to supporting affordable living.

Good housing policy must include consideration of needs of different groups in society, for example, the homeless, crisis accommodation, public housing, private rental housing, first home buyers and existing home owners and buyers.

To assist in highlighting the connection between each part of the housing supply chain, HIA has developed the concept of the 'housing continuum'. This allows all stakeholders (including government) to better understand the broad variety of housing types that make up the supply chain and provide a comparison of these housing types by tenure and delivery mechanisms. Examples of procurement of supported housing, subsidised housing and owner/occupier housing delivered by government, 'not for profit' and private providers will be explored in the context of the housing continuum.

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The Importance of Access to Housing

Access to shelter is a basic human need and is critical to allow all Australians to participate in society to their full economic and social potential. Yet despite being a developed and economically advanced nation, housing affordability remains a challenge for many Australians.

Australia maintains a high rate of home ownership by international standards and ensuring that home ownership remains an attainable objective for Australian households is a high priority of policy makers.

One of the big challenges for Australia is that it has one of the fastest growing populations amongst developed economies and much of the growth is being driven by migration. Over many years Australia has built too few homes to meet the needs of the growing population.

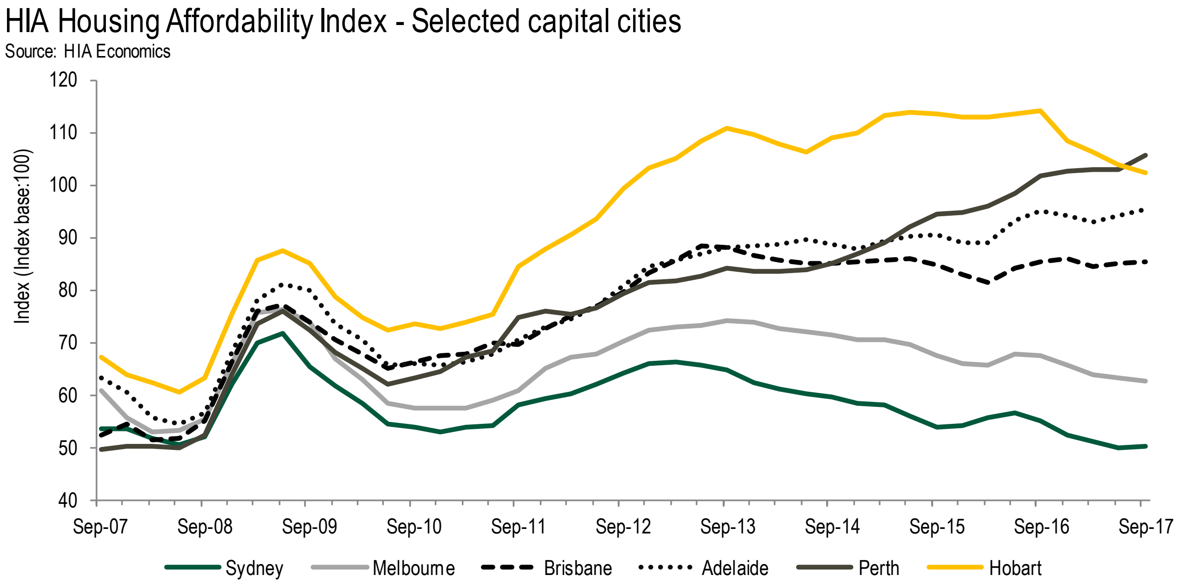
While there are many other factors that influence housing affordability, the resulting supply/demand imbalance has put pressure on affordability which is felt most acutely by those on lower incomes. As a consequence there has been growing demand for public and community housing.

Housing Affordability

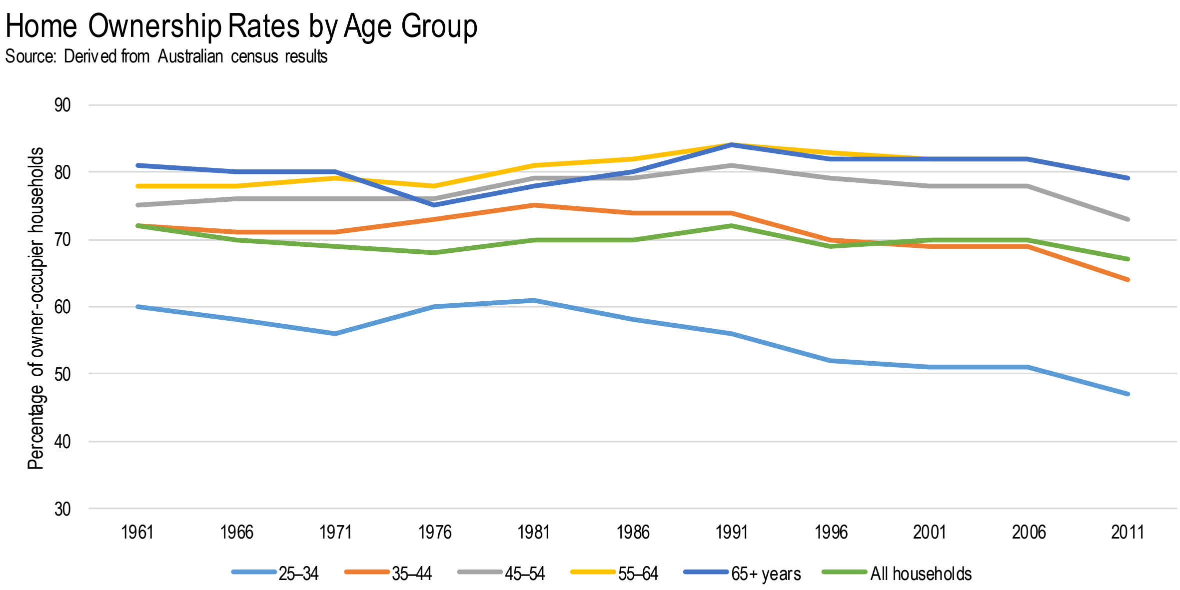
Like many developed nations, growth in household wages has been very low recently, but in Australia this has coincided with a period of particularly rapid growth in home prices. The affordability gap has been made up by households entering the market taking on larger mortgages. This has obvious impacts on the household budget.

The well-documented rise in home prices in Australia's major capital cities has contributed to a decline in affordability of housing and has made home ownership an increasingly challenging proposition for many households. HIA follows this very closely.

The HIA Housing Affordability Index shows that servicing a mortgage on median priced homes in Sydney without falling into mortgage stress now requires a household income that is double the average earnings of an adult working full time. Furthermore, accumulating enough savings to qualify for a loan to purchase a median priced home in Sydney is estimated to now take the average household around 12 years, which is up from around 8.5 years a decade ago.



As home ownership has become less affordable the rate of ownership has fallen. Figures from the latest Census of Population and Housing from 2016 show that the share of the population in owner-occupied housing declined to 62 per cent, down from around 65 per cent ten years earlier and around 70 per cent ten years prior to that. The decline in home ownership rates has been most acute in younger age cohorts, for example the home ownership rate for those aged 25-35 has declined from 52.2 per cent in 1995/96 to only 38.5 per cent in 2013/14.

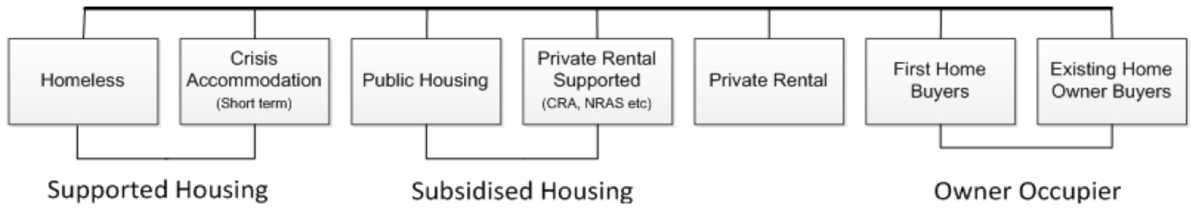


As a consequence of home price growth over the last twenty years, owner-occupier households have amassed substantial housing wealth, whereas those in other tenure types, which are disproportionately younger households, have seen housing costs rise. Housing is poised to become a point of inter-generational inequality in the years ahead.

The housing wealth accumulated by a large proportion of Australia's older population is likely to see this cohort maintain a high living standard into retirement and aged care. Like many nations, Australia experienced a baby-boom in the period following the Second World War and as this cohort of the population ages their housing needs will change. The experience in Australia is that older households increasingly prefer to remain living independently in their own homes for as long as possible before engaging assistance or moving to aged care accommodation. Referred to as ‘ageing in place’ this enables older people to remain in their own home facilitated by a range of government-funded programs. There is a wide range of residential aged care options available in the Australian market which meet the wide ranging needs, preferences and budgets of ageing households.

Housing Continuum

To assist in highlighting the connection between each part of the housing supply chain, HIA has developed the concept of the ‘housing continuum’. Pleasingly, this concept is being adopted by other groups in a number of countries as the basis of good policy focus. This allows all stakeholders (including government) to better understand the broad variety of housing types that make up the supply chain and provide a comparison of these housing types by tenure and delivery mechanisms.



The fundamental concept of the Housing Continuum is that it identifies the types of shelter that the community requires in order to provide shelter for all. The challenge for policy makers is to ensure that there is sufficient housing at each point along the continuum to meet the needs of the community.

A well-functioning economy should facilitate households to improve their socio-economic well-being and have as much of the population as possible residing in tenures towards the right of the continuum, thereby having fewer households requiring support in the form of subsidies or public housing. The benefits associated with meeting the housing needs of the community should ultimately manifest in productivity that deliver wide ranging economic benefits.

The continuum also aims to highlight the interdependencies between the various tenure types. With housing affordability deteriorating, the rate of home ownership has declined and consequently, the share of households in other tenure types has increased, most noticeably in the share of households residing in private rental housing. The deterioration in affordability has also made it more difficult for an increasing number of households to access the private rental market and has therefore contributed to additional demand for public and community housing.

Public and Community Housing in Australia

Public housing in Australia is a relatively small part of the overall housing market. Recent data published by the Productivity Commission shows there were 312,219 households residing in housing provided by state government housing authorities in 2016, which equates to around 3.5 per cent of Australian households. The most recent financial figures relate to the 2015/16 year and show that the provision of this housing costs the state governments $5.18 billion. Productivity Commission figures also show that there are also around 148,000 households on waiting lists for public housing which illustrates the demands on this sector. A further 72,410 households (0.8 per cent of households) reside in dwellings provided by non-government community housing organisations.

The majority of households that are neither owner-occupiers or reside in public or community housing rent in the private rental market. The Census of Population and Housing in 2016 shows that around 23.6 per cent of households reported reside in private rental accommodation.

While the long wait list for public housing in Australia shows that supply falls short of demand, directing disproportionate resources to address such a shortfall at a single point of the continuum will not fully address the housing affordability challenges. In order to successfully improve housing affordability, affordability improvements must occur right across the continuum. This requires governments to have a range of policy measures to support the supply of appropriate housing right across the housing continuum.

Public and community housing is typically only available to those who are least likely to be able to access the private housing market (ie the most disadvantaged households). This leaves a large number of low income households who are able to access housing in the private rental market but in doing so fall into housing stress, that is, housing costs consume an excessive share of the household's income.

To reduce housing stress, low income households in the private rental market can access a rental subsidy (Commonwealth Rent Assistance) via the social welfare system. Eligibility for the rental subsidy is 'means tested' therefore the value of the subsidy varies according to a household's financial circumstances. The Commonwealth Department of Social Services estimates that rent assistance payments will total around $4.53 billion in the 2017/18 year.

In order to mitigate the substantial cost of providing public housing and subsidising private rental housing for low income households, governments have been actively seeking to encourage private sector participation in supplying affordable housing that meets the requirements of low and middle income households.

Division of Responsibilities for Affordable Housing

All three levels of government in Australia (Federal, State, and Local) play a role in the provision of affordable housing. The National Affordable Housing Agreement (NAHA) sets out the roles and responsibilities of each of Australia's three levels of government in ensuring housing remains affordable and accessible to the entire community. Importantly, the Agreement also sets out funding responsibilities for providing housing assistance, funding housing related welfare and other housing related programs. To summarise the roles of each level of government:

- The Federal government is responsible for the overarching tax-transfer system which includes the welfare system, provision of funding to the states and supporting non-government housing providers;
- State governments are responsible for property taxes, the design and implementation of housing related programs (including provision of public housing and supporting other non-government housing providers);
- Local governments are responsible for ensuring that town planning facilitates adequate housing supply.

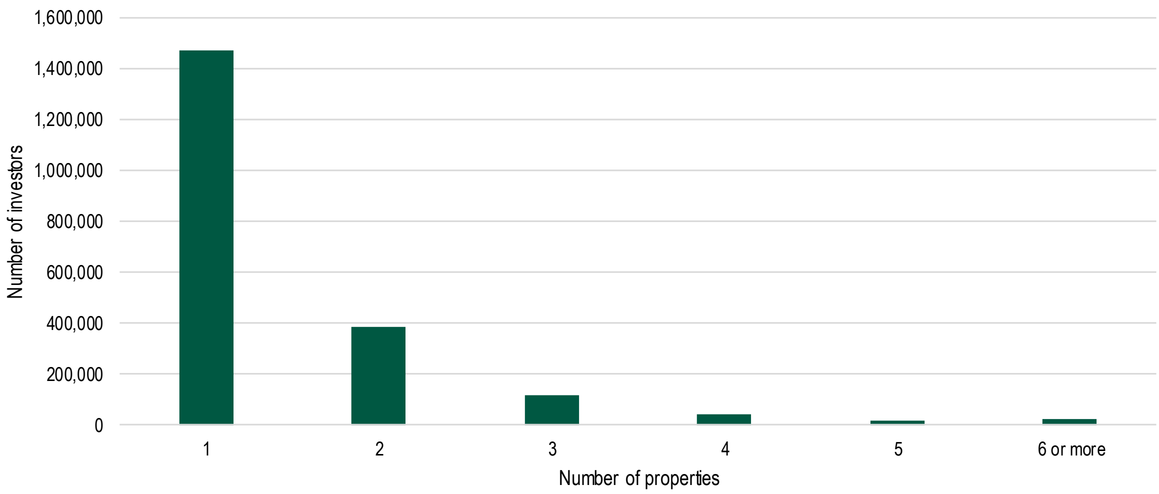
How are Governments Promoting Private Sector Investment?

There are numerous approaches that have been used by the three levels of government and these can be grouped broadly into three categories: taxation system, planning system, and financing.

Taxation System

A large share (almost all of it) of private rental accommodation is provided via direct property investment by individuals. Statistics from the Australian Taxation Office show that there were over 2 million individuals who reported receiving rental income in the 2014/15 year (this number is likely to have increased over the last two years). The majority of these individual investors (around 71.6 per cent) had an interest in only one investment property and a further 18.7 per cent had an interest in two investment properties. There were very few investors who owned three or more investment properties.

Property investors by number of properties owned
Source: ATO Tax Stats 2014-15



Property investment has proven to be an attractive asset class for individual investors. Official tax statistics also show that a large share of the investors (around 75%) had a gross income (before tax) of less than $100,000, which suggests that these are likely to be unsophisticated investors. Residential property is an attractive asset class for such investors as it is easily understood compared with many other classes of investment, particularly those that involve high levels of leverage.

The capacity to borrow a large share of the value of an investment property (or willingness of lenders to lend against residential property) is another factor that makes residential property an attractive asset class. While the potential of leverage to magnify investment returns is attractive, Australia’s income tax system also enables investment expenses (including interest on investment borrowings) to be deducted against income which enables households to lower their taxable income. Further to this, if the investment expenses exceed the income earned by an investment any losses can be offset against employment income.

This particular aspect of the tax system has been under close scrutiny in recent years when it has been argued that this has facilitated excessive borrowing by investors and has been a contributing factor in property price appreciation. However, this is premised on the perception that investors are undertaking highly leveraged investments in order to obtain a tax advantage. While it is possible that this is occurring, it is unlikely to be of a scale that would constitute a problem with this tax system. As noted above, the majority of investors are individuals on average incomes. It is unlikely that such investors would be induced into a high risk investment strategy by the potential for a marginal reduction in their tax.

The Australian taxation system also provides concessional treatment of capital gains on assets held for longer than a year, whereby only half of the capital gain is taxed at the tax payer’s marginal tax rate. While this concession applies to all asset classes, it is a feature of the tax system that has made residential property investment attractive to individual investors.

The Federal Government has tried to use the tax system in other ways to attract private investors. A number of years ago a former government created a scheme called the National Rental Affordability Scheme (NRAS) which provided tax credits for private investors who provided housing at below market rates to low income households. While the concept of the scheme was sound it proved very complex to implement and administer. After a number of well publicised examples where the scheme had been used to provide subsidised student housing (which was not the intent of the scheme) the scheme was discontinued.

The taxation system also provides support to the community housing sector. The corporate entities providing community housing maintain a ‘not-for-profit’ or ‘charitable’ organisation status which enables access to numerous tax concessions. Most significantly, both of these statuses provide an exemption to company tax, while charitable organisations are not required to pay GST (a goods and services consumption tax) and are able to receive tax deductible donations. The Federal Government’s support of the welfare system, notably Commonwealth Rent Assistance, is also an important element of support for the community housing sector.

Taxes levied by state and territory governments also have a substantial impact on the provision of housing. Around 42 per cent of state government revenue comes from property taxes, primarily land taxes and stamp duty on conveyances. Given that state and territory governments levy these taxes, there are some differences in each jurisdiction although all provide some form of concession. For example, all states and territories provide a land tax exemption for owner occupied residential property and a number of jurisdictions provide exceptions or apply concessional rates of stamp duty for specific classes of buyers (typically first home buyers).

Planning System

In terms of measures within the planning system that are used to address housing affordability, it is primarily state and local governments that have the greatest influence although the Federal Government programs also play a role.

The extent of Federal Government involvement has typically been limited to providing grants to state and local governments to support additional investment in infrastructure required for residential development. At times, the scale of Federal Government support has been substantial although investment has been sporadic. Earlier this year the Federal Government announced that it would establish a National Housing Infrastructure Fund, which aims to create an institutional framework to facilitate ongoing support for this type of investment.

While the Federal Government’s contribution to the provision of infrastructure to support new residential development is welcome, it does little to offset the substantial cost of infrastructure that is embedded in the cost of new homes. The cost of providing new homes is inflated by excessive levies and charges imposed by state governments throughout the development process via the infrastructure development contribution schemes.

Over the last decade, the charges applied through these infrastructure development levy schemes have become increasingly significant. This is partially due the large range and high quality of facilities being requested by authorities. In many cases it is a conscious decision to shift the majority of the upfront costs onto new developments rather than amortising the costs of infrastructure over the life of the asset and more broadly across the entire community.

In many cases the levies are charged without the establishment of a nexus between the infrastructure item and the community who will benefit and use it, without transparency in the collection and without any consideration of the impact on housing affordability. They are in effect a tax on new homebuyers.

State governments have recognised the negative impact levies have on residential development and introduced ways to slow increases through either standard development levies or capped development levies.

The lack of available land for residential use is often cited as a constraint inhibiting the supply of new housing and adversely effecting affordability. With a growing population, it is vital that governments maintain an adequate supply of land for housing in both Australia’s major cities and regional centres. In many areas, state governments have introduced policies designed to curb urban sprawl and increase medium density dwellings and apartments. Implementation of these policies have been effective in limiting urban sprawl, but have not adequately addressed the barriers to supplying more housing within existing urban areas. This has intensified concerns around the lack of land available for residential development.

In order to address these concerns, earlier this year the Federal Government announced plans to create a public database of under-utilised government land. The intention is to provide the private sector with information that would enable the identification of sites that could be used more efficiently, which includes for residential use. A number of states have announced similar plans for the creation of databases of under-utilised land owned by state governments.

As noted above, the supply of public and community housing comes at substantial cost to government and has not kept up with community demand. Through the planning system, state and local governments are increasingly imposing demands for more affordable housing in new residential developments. These demands are typically in the form of affordable housing levies or affordable housing quotas which is referred to as 'inclusionary zoning'.

While inclusionary zoning may increase the stock of public and community housing, as a method of addressing housing affordability, the concept is flawed and inequitable. Residential development is largely a private sector activity and any additional costs incurred by developments in subsidising public and community housing becomes an additional cost embedded in a higher purchase price paid by homebuyers. This in effect, further exacerbates housing affordability problems.

It is important to note that a draconian legislative or regulatory approach is not always necessary to engage the private sector in providing affordable housing. There are examples where the private sector, community housing providers and government have worked in collaboration. A current example is the redevelopment of the Ivanhoe Estate in metropolitan Sydney. A state owned site was made available to a consortium comprised of a community housing provider and a private residential developer. The site had been an older-style public housing estate of 259 dwellings at the end of their useful life. On the site, the private developer will fund the redevelopment and manage the construction of 3,000 new dwellings, of which at least 950 will be managed on an ongoing basis by the community housing provider. The project will generate economic activity in the region, increase the supply of housing including a net increase in community housing and also modernises the stock of community housing.

Financing

Governments have access to capital at much lower cost than community housing providers or households and there are a number of examples where governments are using this relative advantage to subsidise lending for investment in housing.

The Federal Government's announcement that they will establish the National Housing Finance Investment Corporation is an example of this. This newly established entity will raise private capital (likely to have some form of government guarantee) and act as a specialist financial intermediary providing long-term finance for community housing providers. It is anticipated that this will assist to overcome the challenges that community housing providers have had accessing finance on commercially viable terms and enable the providers to expand their housing portfolios.

Some state and territory governments also facilitate lending to owner-occupiers through either direct lending and/or shared equity schemes. Keystart, which is finance company wholly owned by the Western Australian government's Housing Authority, is an example of a successful and long running program. Subject to eligibility criteria, Keystart offers competitively priced loans to low-income and first homebuyer households in Western Australia who cannot meet the deposit criteria of mainstream lenders. Keystart also offers a number of more specialised lending products that complement the objectives of the Housing Authority, such as loans to assist public housing tenants transition to home ownership, loans for people with disabilities and carers for the disabled.

The Future Direction

One of the major criticisms of the structure of Australia's housing market is that the dispersed ownership of private rental dwellings amongst many small investors results in a market where there is inadequate security of tenure for residents. The duration of a typical residential lease in Australia is only one year. It is evident that there may be a mismatch between the duration of tenure that tenants prefer and the investment flexibility that small investors require. It has been suggested that institutional investors with longer investment horizons would be well suited to offering longer tenures in the private rental market. While institutional investors are actively engaged in residential property development, this has primarily been on the basis of 'build to sell' rather than 'build to rent'.

The 'build to rent' market has been largely absent from the Australian housing landscape. With the potential to better meet the needs of the households in the private rental market, which appears to be growing as the owner-occupation rate falls, it is likely that this will be the next major change in Australian housing.

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