

Making Housing Affordable – Pearls and Irritations - May 2017

[Pearls and Irritations](#) recently posted a series of articles on the theme **Making Housing Affordable**. The series focuses on Australia's housing affordability crisis. Most of the articles were posted just before the Federal Budget, but a few were posted afterwards, by way of a reflection on the relevant Budget reforms (or lack thereof). The date of publication of each article on Pearls and Irritations appears after the title.

The series features articles by well-known independent economist Saul Eslake and Grattan Institute CEO, John Daley (with colleagues), and includes contributions from a range of other experts in the field – Professors Hal Pawson, Peter Phibbs and Nicole Gurrán, Dr Tim Williams, Michael Perusco, Dr Marcus Spiller, Rob Koczkar, Damien Webb, Jack de Groot, Susan Ryan and Ned Cutcher.

Making Housing Affordable explores the values and principles that should guide policy makers. The nature and extent of the housing affordability crisis, its origins and causes are viewed from the perspective of both those seeking home ownership and those who rent. The series also examines a range of policy options to address the problem. Specific proposals for improvement are put forward.

Contributors to the series acknowledge that there are no simple fixes and that change will take time. They recognize however that tangible reform is within reach.

Making Housing Affordable canvasses many critical or contentious aspects of the housing affordability debate, including the importance of addressing both supply and demand, the politics of urban planning, distortions caused by current fiscal settings, the scope for institutional investment in rental housing, protection for those who are forced into or opt for long-term rental, homelessness, impacts of the housing crisis on older women and, finally and importantly, how to revitalize the social and affordable housing sector.

This **Making Housing Affordable** series has been organised by **John Menadue, Susan Ryan and Oliver Frankel**

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**JOHN MENADUE. Principles to guide housing policy and programs
(1/5/17)**

Good housing policy and programs, as with other areas, should be based on values and principles that inspire and enthuse us. Otherwise housing policy can easily become a discussion about technical and management issues.

Housing policy should be based on three important principles. First, we should value housing for its use-value, not its exchange-value. Second, housing policy should be part of community and neighborhood building. Third, housing policy should promote social mixing and sharing, rather than stratification.

We can accept that political leaders must make compromises from time to time, but we need to know what they stand for. Compromises should only be made against a framework of generally agreed values and principles. In short, we expect our leaders to have conviction in what they tell us.

We need to discuss housing, education, health or tax reform in such a way that it does not become a technical discussion. Too often housing policy advocates see the issue of housing as a technical problem concerning debt, prices and 'bubbles'. Technical and management issues are important but there is much more at stake. What is really needed is that the policies in these areas reflect the sort of society that we want to live in. 'Housing' policy is not an end in itself. It needs to serve certain values and principles.

We need leaders and political parties to express themselves in a clear set of principles which accord with the best of Australian values. Otherwise the political contest is reduced to satisfying short-term materialist aspirations, appeasing vested interests (such as the Property Council) or managing the media cycle.

From broad community values a set of principles can be developed. These principles can underpin a coherent set of policies and programs which implement those principles.

Values > principles > policies > programs.

Before addressing the principles that should guide housing policies and programs in particular, I suggest there are some overriding values that should inform us:

- FAIRNESS – which is primarily about economic opportunity which promotes social mobility and limits division and resentment.
- FREEDOM – in which we all have rights to the extent that they do not lessen the rights of others.
- CITIZENSHIP – in which we are more than individuals linked to market transactions.

- STEWARDSHIP – in which we have inherited a stock of assets, both physical and human. We must maintain and if possible enhance that stock of assets.
- ETHICAL RESPONSIBILITY – that those in prominent office should promote those qualities which draw on the best of our traditions and the noblest of our instincts.

With those broad values as a background, what guiding principles should we apply to housing policies and programs? These principles should apply to both house ownership and rental.

The first is that we should regard housing for its use-value. Too often we value housing for its exchange-value. We need to decommodify housing. We must build houses to provide ourselves and others with shelter, comfort, a place where we can grow as individuals and a base from which we can develop as full members of society. We must avoid regarding houses as instruments of exchange as is so often the case today with taxation incentives for investment in housing for short-term capital gain.

In the iconic film 'The Castle' Darryl Kerrigan put it this way: 'I'm really starting to understand what the aborigines feel. Well my house is like their land. Their land holds their memories, the land is their story, it's everything, you can't just pick it up and plonk it down somewhere else.' Kerrigan added 'It is not just a house, it's a home. A man's home is his castle. ... This is as clear as day. It is right and fair that a family be allowed to live in their own house. That is justice..'

As Saul Eslake in this series recalls, Robert Menzies said in 1942 '*One of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours so that we can withdraw and in which we can be amongst our friends and into which no stranger may come against our will.*'

It is an important principle that everyone should be able to live in a house or apartment appropriate to their needs. Good housing is a human right, just like the right to a good education and good health care. It is essential for a social wage.

Housing is not a commodity or a market transaction. It is where we develop as members of a family and community.

The second principle is that housing must be part of a neighborhood.

We are more than individuals linked by market transactions. Meaning in life comes from relationships both personal and communal. Our life in the public sphere is no less necessary than our private lives. As citizens we engage and contribute to the common good. It is in communities and neighborhoods that we learn respect for others. It is where we abide by shared rules of civic contact. It is where we build social capital, networks of trust with our neighbors. We need to behave in ways that make us trusted members of our neighborhood.

Unfortunately many housing developments are becoming sterile and hostile to the building of strong neighborhoods. They promote exclusion rather than inclusion. More and more of our physical and metamorphic space is being enclosed by the market. The worst consequences of this are on show in the US. This alienation from neighbors takes many forms in gated enclaves – high walls, roller doors, CCT cameras, private entertainment, which all have the consequence of avoiding contact with neighbors and hinder the development of community. Good housing policy should be about building strong and vibrant neighborhoods and not just isolated houses.

The third important housing principle should be the promotion of social mixing and sharing. It should be a basic requirement of good housing policy to avoid stratification or ghettos whether on the basis of income, employment, religion or other grounds.

Our health service is increasingly discouraging social mixing through the massive subsidizing of private health insurance which is separating out services for the more wealthy. Our schools are becoming more stratified with wealthy parents aided by enormous government subsidies, sending their children to separate private schools.

In NSW, the fight against local government mergers is primarily about opposition to social mixing and sharing. The rich councils want to maintain a defacto layer of government for the rich, rather than share with less wealthy councils or councils with different social or ethnic mixes. They want to maintain their more homogenous populations by resisting mergers with councils of greater diversity. The people of Vacluse are not keen to mix and share with the people from Maroubra. The small wealthy councils oppose what they call 'inappropriate development' in their leafy suburbs i.e. densification and social mixing. They don't want smaller houses on smaller blocks that might be owned by people different to themselves. The trend to social alienation through housing, education and health must be reversed.

Housing policy and programs must support social mixing through for example setting minimum and substantial levels of social inclusion in all major new developments.

In the post-war years, there was always a senior Commonwealth minister as Minister for Housing. That is no longer the case. We need to reassert appointment of a senior minister as Minister for Housing along with Ministers for Education and Health. Appropriate housing, education and health facilities are important human rights for everyone. These should form what should be regarded as part of a 'social wage'.

And housing policies and programs must be anchored in key principles. ; use value and not exchange value; building communities and neighborhoods and social mixing and sharing.

JOHN DALEY, BRENDAN COATES AND TRENT WILTSHIRE. Why should we care about housing affordability? (1/5/17)

Housing affordability includes a grab-bag of concerns: less money to spend on goods and services other than housing; falling home ownership rates; worsening access to jobs; increasing wealth inequality between and among generations; and increasing risks of a housing-led economic downturn.

Responding to these concerns requires careful analysis of the underlying drivers and of the potential impact of policy changes.

“Housing affordability” is the barbecue stopper of the moment. Both [State](#) and [Commonwealth](#) governments have declared it a priority.

But before launching into policy reform, it’s worth understanding what is the real problem. “Housing affordability” is a catch-all banner for a grab-bag of public concerns linked to rising house prices. Some resent spending more of their pay packet on housing. Some fear that younger Australians will be locked out of the housing market. Economists are worried that many people can’t live in housing with good access to jobs. Patterns of home ownership are increasing inequality between and among generations. [Others fret](#) about the risks higher house prices pose to the economy.

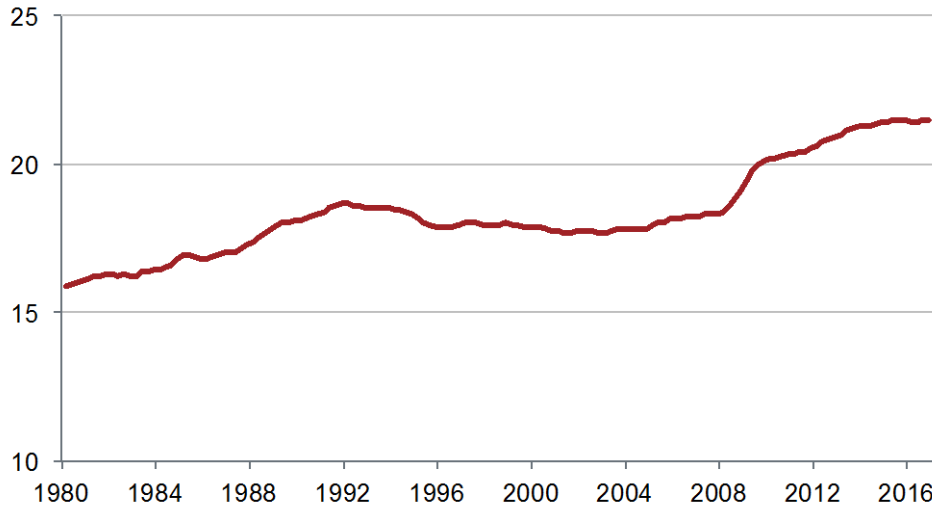
It’s worth teasing these issues apart to understand what should really keep policy-makers awake at night.

[Australians are spending more on housing and house prices are rising](#)

Most literally, “housing affordability” is about how much a person spends on housing relative to everything else. Overall, spending on housing has [increased](#) from about 16 per cent of all spending in 1980 to more than 20 per cent today. And this means households have less to spend on other goods and services, from healthcare to entertainment.

Spending on housing has grown significantly

Spending on rent and other dwelling services, per cent of final consumption expenditure, current prices, four-quarter sum

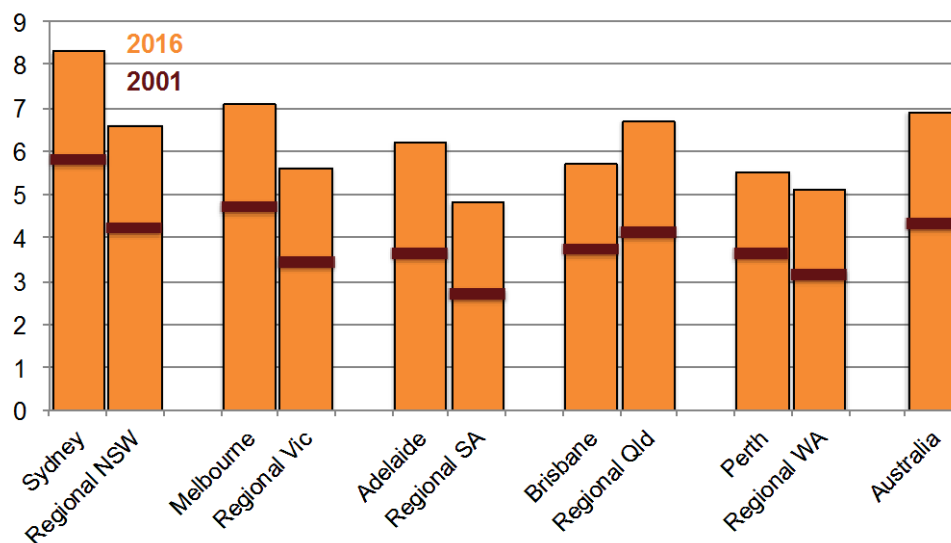


Notes: Includes rent paid by households to the owners of dwellings, plus imputed value of housing services accruing to owner-occupiers from their occupation of both their principal residence and any additional residence such as a holiday home.
Source: ABS 5206.0 - Australian National Accounts - Table 8; Grattan analysis

Australian house prices have more than doubled since the mid-1990s in real terms, far outstripping growth in incomes. [Attention may be focused](#) on the rapidly rising prices in Sydney and Melbourne (a typical house in a capital city currently sells for around 6-7 times annual incomes, up from around 2-3 times annual incomes three decades ago), but prices have also risen strongly in the regions.

House price to income ratios have jumped in cities AND regions

Ratio of median dwelling price to median annual gross household income



Notes: median household income from ANU analysis
Source: Core Logic Housing Affordability Report - December 2016

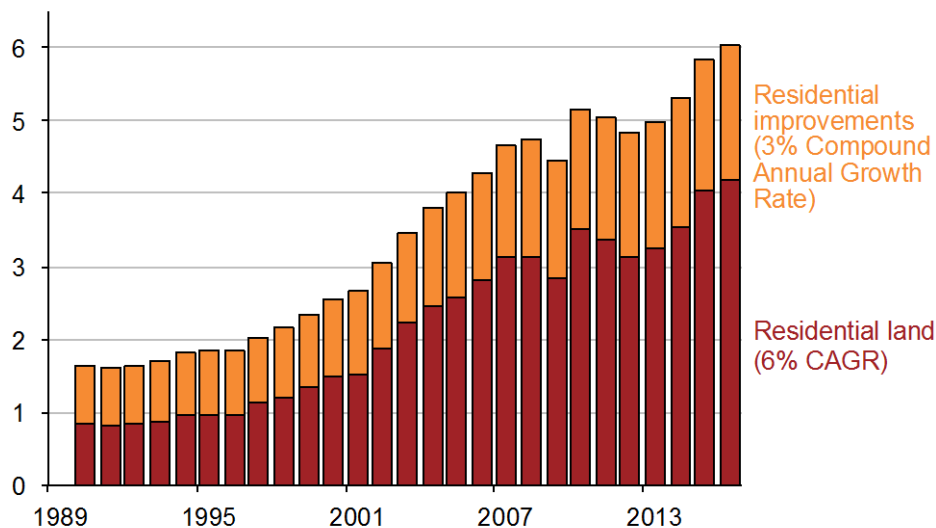
Of course, house prices were always going to rise as incomes increased and [finance became cheaper and more readily available](#). These changes have helped people to access more and better housing. Since the late-1980s, the average floor space of newly constructed houses [has risen by around 45 per cent](#). The number of spare bedrooms has also [risen rapidly](#).

But most of the increase in the value of housing reflects increases in the price of land, rather than the quality of the dwellings. These [higher land prices mainly reflect restrictions on the effective supply of residential land](#) – both limits on rezoning for urban infill and limits on developing land at the urban fringe – at a time when demand for land is growing strongly.

Some increase in prices reflects more and better dwellings, most reflects land values



Real market value of Australian property, \$2016, trillions



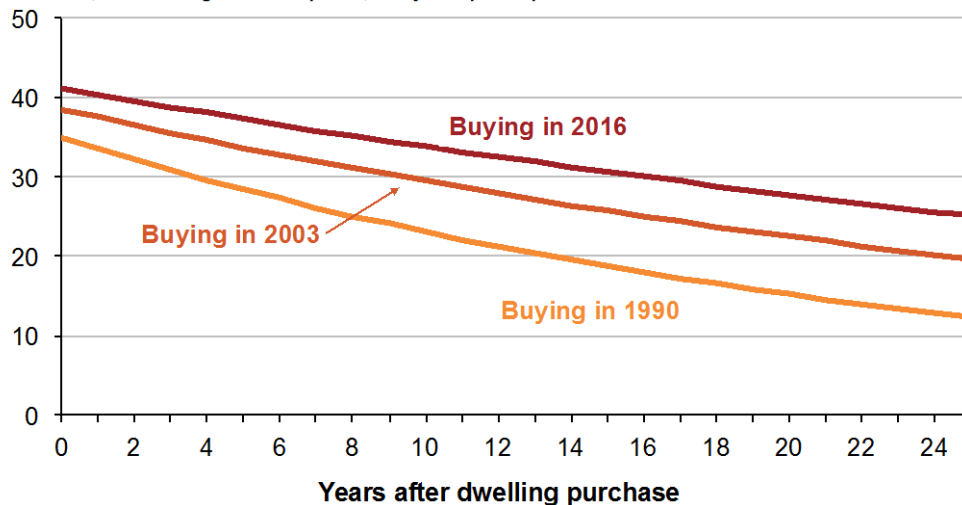
Notes: 'Residential improvements' consists of the value of the stock of dwelling construction; historical figures are deflated by the Consumer Price Index to \$2016.
Source: Australian System of National Accounts, 2015-16, catalogue number 5204.0; Consumer Price Index, catalogue number 6401.0; Grattan analysis.

Most measures of housing affordability have worsened

Of course, most Australians don't buy a home outright: instead they borrow to purchase a home. Housing affordability is falling mainly because it takes longer to pay back the principal on a mortgage. Paying back the principal takes longer because house prices have risen much faster than incomes. And nominal incomes are not rising as fast to overtake the nominal amount originally paid for a home.

A home is harder to pay off given larger loans and low wages growth

Mortgage repayments on an average house as a proportion of median household income, assuming 20% deposit, 25 year principal and interest loan



Notes: 2016 average dwelling price is \$644,000; 2003 house price is \$317,000, 1990 house price is \$140,000. Mortgage repayments on an average house (20 per cent deposit), 25 year principal and interest loan. Average wages and interest rates over life of loan. Current wage growth and interest rates projected forwards. .
Source: ABS; RBA; Grattan analysis; CoreLogic Australia (2016).

While it is harder to pay down the *principal*, paying the *interest* on a new mortgage on the average-priced home is no more difficult today than in 2003: the rise in house prices has been counteracted by the fall in interest rates. As for rents, they have more or less kept pace with wages over the past 20 years. Because mortgage and rent costs haven't risen much relative to incomes, households are under relatively little financial stress. As a recent [Reserve Bank of Australia article](#) found, more homeowners are further ahead on their mortgage today than in 2006, and fewer households are reporting financial stress events such as being unable to pay a bill.

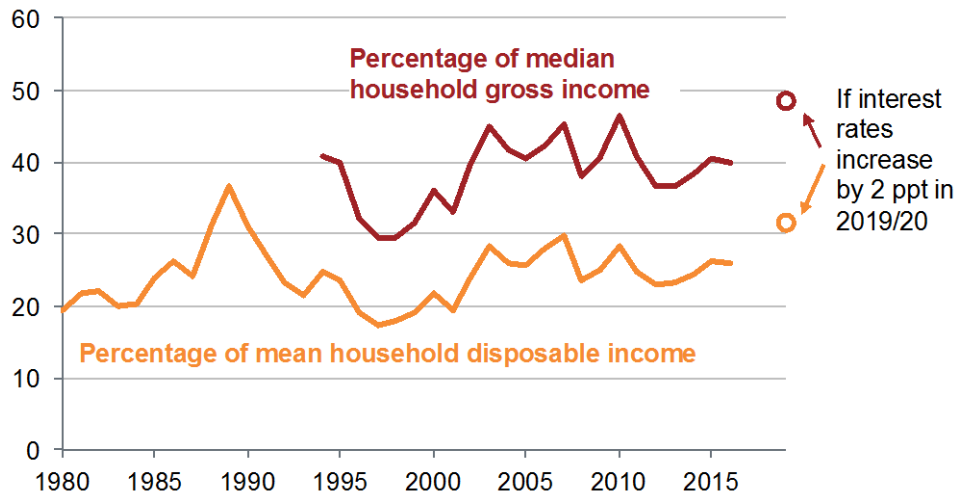
Of course, averages conceal problems for some groups. In particular, it is getting harder for low-income households to pay the rent, particularly if they live in large cities. About 47 per cent of low-income households in capital cities now spend more than 30 per cent of their pre-tax income on rent, up from 36 per cent of households in 2007.

Higher house prices have also made it harder for buyers to save a deposit – historically 20 per cent of the purchase price. In the early 1990s it took around six years to save a 20 per cent deposit for an average dwelling; it now takes around ten years.

Higher house prices and debts may not *currently* mean higher mortgage payments, given lower interest rates. But they do increase the risks. If interest rates rise by just 2 percentage points, then mortgage payments on a new home will cost more of a household's income than at any time in the past two decades. With interest rates across the globe at [historic lows](#), the risk of an interest rate rise is real. And because wages aren't rising fast, households are burdened by big interest payments for much longer.

Income required to service a mortgage is below pre-GFC peak, but will increase if interest rates rise

Per cent of household income to service an 80 per cent Loan-to-Valuation Ratio mortgage on average residential dwelling at then current interest rates



Notes: Mean income is gross disposable income from National Accounts measure of income (based on ABS), which includes superannuation income and imputed rent. Median household income is gross household income from ABS 6523.0 - Household Income and Wealth, Australia, 2013-14. Future scenario assumes house prices and incomes grow at 3 per cent per annum.
Source: Grattan analysis of ABS

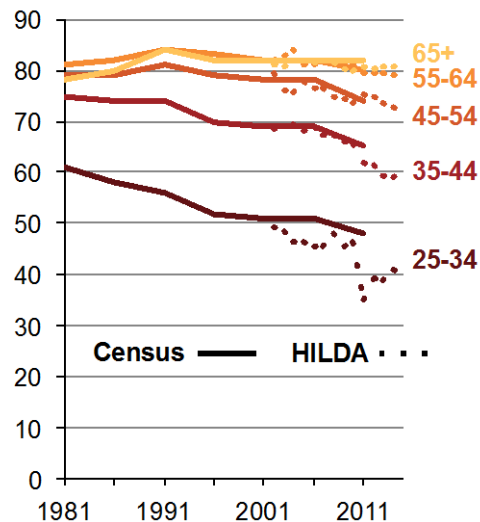
Many younger Australians risk being locked out of the property market

These risks may explain the second big concern about housing affordability: the worry that “my child can’t afford to buy a house”. While buying a first home might be “affordable” if only looking at mortgage payments relative to income *today*, it now involves a lot more risk.

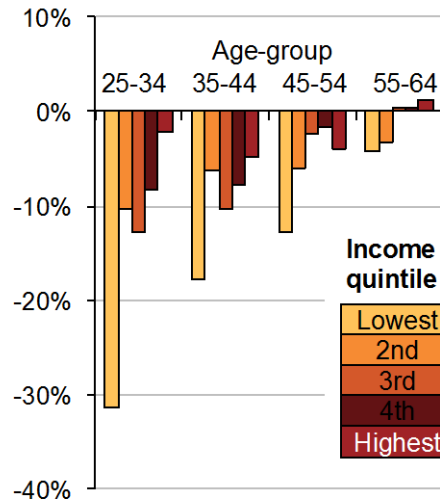
Home ownership rates are falling quickly for those under 55. Falling home-ownership among 25-34-year-olds might be explained away because people are forming long-term partnerships and having children later in life. But this explanation doesn’t wash for 35-44-year-olds. Home ownership among this group has fallen from about 75 per cent in 1991 to about 60 per cent today. The fall has been particularly steep among low-income households.

Home ownership is falling for younger ages, particularly for low-income earners

Home ownership rate by age
Per cent



Percentage point change in home ownership rates, 1981 to 2011



Source: Grattan Institute, Wealth of Generations; HILDA release 15

There are plenty of [reasons to care about home ownership](#). Owning a home can provide a sense of community belonging, a sense of prosperity, the motivation for additional savings, and the basis for investing in a business. Under current policy settings, it provides [higher after tax returns on savings](#), and effectively higher income in retirement. Of course, home ownership also has its costs: for example, home-owners may be more reluctant to take on a better job that would involve the emotional and financial costs of moving.

Given current rental markets and policies, [renting is relatively unattractive](#): it is generally much less secure; many tenants are restrained from making their house into their home; and they miss out on the tax and welfare benefits of home ownership. Tenants are [forced to move much more often than home-owners](#), and are less satisfied with their housing.

So it's not surprising that younger generations still [want](#) to own their own home. There is little evidence that falling home-ownership is due to lack of desire; rather it seems to be due to lack of opportunity, and the heightened risks.

It's becoming harder to access affordable housing close to jobs

Housing *in the right places* is also becoming less affordable. [Australia's large cities are increasingly divided](#) between the middle and inner ring with good access to jobs, and an outer ring whose residents can't get to many jobs. This divide is becoming more important because much of the [net growth in jobs is occurring in the large capital CBDs](#). Relatively few people commute [from outer suburbs to the centre](#) – the travel time is just too long. And whereas new housing on the city fringe 40 years ago still had reasonable access to the centre, the city fringe with new housing in Sydney and Melbourne today is

typically [much further out](#). As a result, the [price differential between inner and outer city is increasing](#). And so, it's getting harder to buy a home that has good access to the places where a lot of the jobs growth is happening.

Concerns about “housing affordability” also reflect worries about increasing wealth divides between generations, and among generations. The wealth of older households increased rapidly over the past decade – the average household aged between 35 and 55 in 2004 [increased its wealth by \\$50,000 a year](#) over the decade to 2014. Wealth was boosted significantly by the rapid run-up in the price of houses and other assets. A younger generation is unlikely to get this kind of free kick.

The increasing divide *between* generations can easily transmit into an increasing divide *within* generations. If home ownership relies more on the “[bank of mum and dad](#)”, then getting a home depends more on the success of one’s parents than on one’s own endeavours. Rising house prices are also likely to boost future inheritances, which [tend to transmit wealth](#) to children who are already well off.

Rising house prices and debts increase risks to the economy

Finally, concerns about “housing affordability” may reflect concerns about economic stability. House prices are rising faster than incomes. And households are borrowing more, particularly to invest in housing. As a result, household debt in Australia is now a [record 190 per cent](#) of household after-tax income, up from about 170 per cent between 2007 and 2015. [More households are exposed](#): in 2002, 20 per cent of households had a debt of more than twice their income; today it’s 30 per cent.

Higher levels of debt increase the risks of borrower default and thus the risks of banks getting into trouble, with all the economic chaos that would create. But overall, [the risks of Australian banking instability are low](#) given relatively few households with high leverage of loans to total assets, and robust bank capitalisation.

[Much more concerning](#) is the risk of a rapid fall in household spending. A fall in house prices, or a relatively small rise in the interest rates paid by households, would force many households to save more – and to consume less. This would probably slow economic growth, potentially increasing unemployment and further reducing house prices.

Addressing housing affordability requires careful analysis, and expectations management

Thus “housing affordability” includes a wide variety of concerns: less money to spend on goods and services other than housing; falling home ownership rates; worsening access to jobs; increasing wealth inequality between and among generations; and increasing risks of a housing-led economic downturn.

Responding to these concerns requires careful analysis of the underlying drivers and of the potential impact of policy changes. Not all policy changes will in fact make a difference to the problems that really need solving. We will look at potential policy reforms in a subsequent article. But even then, policy makers need to be honest about how there are limits to what governments can do to get the barbecue started again.

John Daley is Chief Executive Officer of Grattan Institute. John is one of Australia's leading public policy thinkers, with 25 years experience in the public, private and university sectors. He has worked for ANZ and McKinsey in a career that also includes expertise in law, finance, education, and workers compensation.

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JOHN DALEY, BRENDAN COATES AND TRENT WILTSHIRE. *Sorting reality from the appearance of action on housing affordability (1/5/17)*

Governments have raised expectations among voters anxious to see action on housing. There is no shortage of proposed policy solutions. But how do we sort the good from the bad? Many policy ideas sound good, but won't do much in practice. Some will make housing affordability worse, drag on economic growth, or subtract from budget balances that are already in trouble.

There are reforms that would make a big difference, but none is politically easy. If governments want to be seen as serious on housing affordability, they're going to have to make some tough choices.

The politics of property prices are shifting rapidly beneath the Turnbull Government. After declaring that housing affordability would be the [centrepiece](#) of next month's federal budget, the Government is now [backtracking](#).

This shift in rhetoric is not surprising. Despite all the talk of options on the table, the Government is yet to show that it's serious about addressing housing affordability. Few proposals emanating from the Federal Government would make much difference. And some would make the problem worse.

The Federal Opposition [announced](#) its own housing strategy last week to capitalise on the Government's indecision. While most of Labor's ideas are [sensible](#), not many will make housing much more affordable, with the exception of the previously announced reforms to negative gearing and the capital gains tax discount.

State and Commonwealth Governments have raised expectations among voters anxious to see action on housing. Governments now need something concrete to point to. There are reforms that would make a big difference, but none is politically easy. If governments want to be seen as serious on housing affordability, they're going to have to make tough choices and avoid the temptation to do the easy (and stupid) things.

[First, face up to the problem](#)

The first step to making housing more affordable is to face up to the size of the problem.

Australian house prices have more than doubled in real terms since the mid-1990s, far outstripping [growth in household incomes](#). And while low interest rates make it relatively easy to service a loan today, slow wages growth is eroding the burden of the mortgage more slowly than in the past. Home ownership rates are falling, especially among the young and the poor. Without change, many young Australians could be locked out of the housing market.

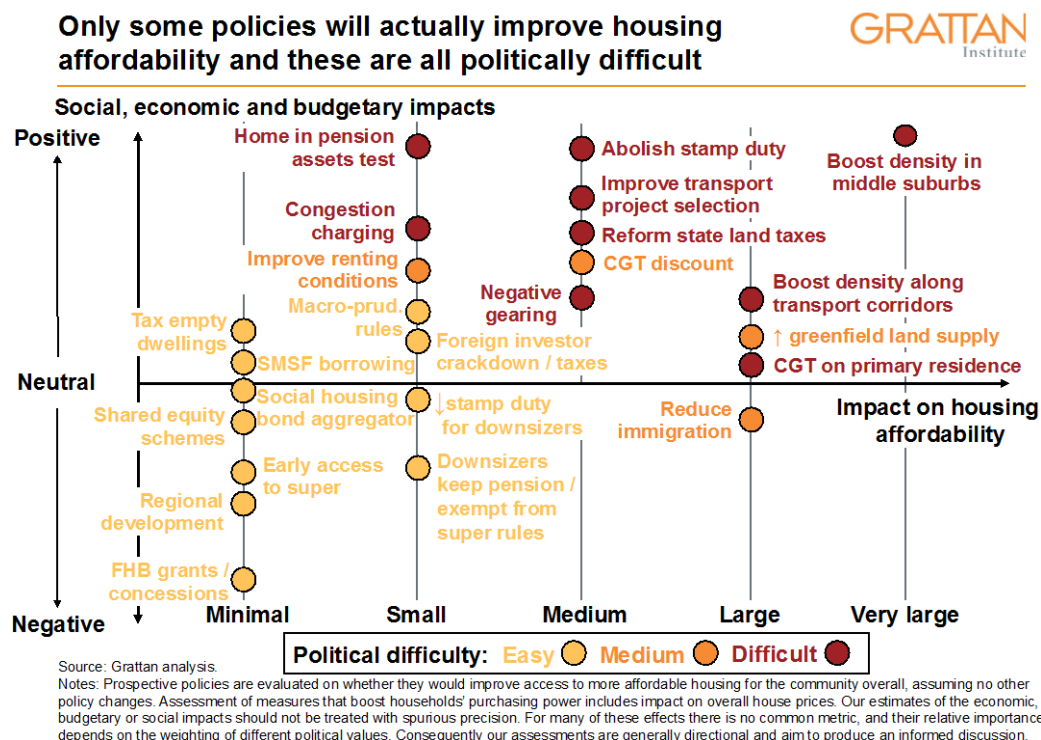
Governments have [long promised](#) to improve housing affordability, yet all the while house prices have continued to rise. The politics are hard. More

Australians own a house than are seeking to buy a house, and making housing more affordable means house prices will be lower than would otherwise be the case. And many people who live in the established middle suburbs don't like the idea of more density in their neighbourhoods. If governments really want to make a difference, they need to explain why improving housing affordability matters – and why doing nothing will only make the problem worse.

Some of the policy ideas may be popular, but they won't make much difference

There are many policy ideas around housing affordability. Most simply won't have much effect. Some will make housing affordability worse, drag on economic growth, or subtract from [budget balances that are already in trouble](#). A few will make a difference, but all of them are politically difficult.

While making the hard decisions, governments should also set realistic expectations. Although government policy can help, housing is unlikely to become much more affordable overnight. It took neglectful governments two decades to create Australia's housing affordability crisis, and it will take just as long to improve matters. There are limits to what even a brave government can do.



Many ideas sound good, but they won't make much difference

Many of the policy ideas on housing affordability sound good, but won't do much in practice. They live in the north west of our diagram.

Treasurer Scott Morrison has shown [great interest](#) in “**shared equity**” **schemes**, which sound like a way for first-home buyers to clear the deposit hurdle, without significant costs to taxpayers. Although such schemes can have many variants, government would likely stump up some of the capital to purchase a home, and get its money back, and a share of any property price growth, when the property is sold. Such schemes already exist in Western Australia and South Australia, where government lenders have [issued](#) thousands of loans for people to purchase their own home.

There is [some evidence](#) that these schemes increase home ownership rates. Yet they are unlikely to make much of a difference to housing affordability, at least not without big public subsidies. Only [one in five loans](#) approved by the WA lender in 2015-16 were genuine shared-equity loans. Most were low-deposit loans to borrowers, some of who may have borrowed from a commercial bank.

Treasurer Morrison is also keen on a ‘**bond aggregator**’ for the **social housing sector**. The Government would borrow on behalf of community housing providers, and on-lend to the providers — giving them access to cheaper and longer-term finance. While this may help to boost the supply of social housing, a substantial increase in the stock is unlikely unless there are additional large public subsidies to cover the costs of providing housing at below market rents.

Restricting foreign investment in housing may have some impact on house prices, but again only at the margin. [Treasury research](#) suggests foreign investment has not been a major contributor to recent growth in house prices. Of course the Government should ensure that foreign investment rules are being followed; there are reports that foreign investment rules are still being [broken](#), despite a recent [crackdown](#).

Increasing taxes on foreign investment in housing, as [several state governments have already done](#), and the Federal Opposition has now [proposed](#), may be a sensible way to raise revenue but is unlikely to hit house prices unless the tax hikes are very big.

Taxing vacant dwellings, a policy recently announced by the [Federal Opposition](#) and the [Victorian Labor Government](#), sounds attractive, but will [be difficult to administer](#). Accountants are likely to be able to fit most vacant homes within one of the exemptions for those temporarily overseas, holiday homes and those who need a city unit for work purposes. A similar tax introduced in Vancouver this year is yet to show that it has overcome these challenges.

[Other ideas involve big risks to the budget or the economy](#)

While the ideas discussed so far won’t do much to make housing more affordable, they won’t do much harm either. Several other ideas in the south west of our diagram are less benign: they involve big risks to either the budget or the economy.

The Turnbull Government is reportedly still [considering](#) allowing people to **use their superannuation to buy their first house**. Politicians are understandably attracted to any policy that appears to help first homebuyers build a deposit. Unlike the various first homebuyers' grants, which [cost billions](#) each year, letting first homebuyers cash out their super would not hurt the budget bottom line – at least in the short run. [But as we wrote in 2015](#), such a change would push up house prices, leave many people with less to retire on, and cost taxpayers in the long run. [Alternatives](#) that allow first homebuyers to withdraw only voluntary super contributions are less foolish, but are [unlikely to make much difference](#) to housing affordability.

The Government is reportedly [considering](#) providing **incentives to encourage seniors to downsize** their homes, thereby freeing up larger homes for younger Australians. This idea, too, should be rejected. [Research shows](#) that downsizing is primarily motivated by lifestyle preferences and relationship changes. These considerations dwarf the financial trade-offs between having more cash to spend, but less Age Pension. According to surveys, no more than 15 per cent of downsizers are motivated by financial gain. Stamp duty costs (which are analogous to the threat of losing pension entitlements) were a barrier for only about 5 per cent of those thinking about downsizing. [A study](#) that compared downsizing by those who do and don't qualify for a pension suggests that the financial considerations prevent at most one in four pensioners from downsizing. Most of the incentives would go to households that would have downsized anyway. As the [Productivity Commission found](#), these incentives have a material budget cost, and distort the housing market by adding even more to the long-term tax and welfare incentives to own a home.

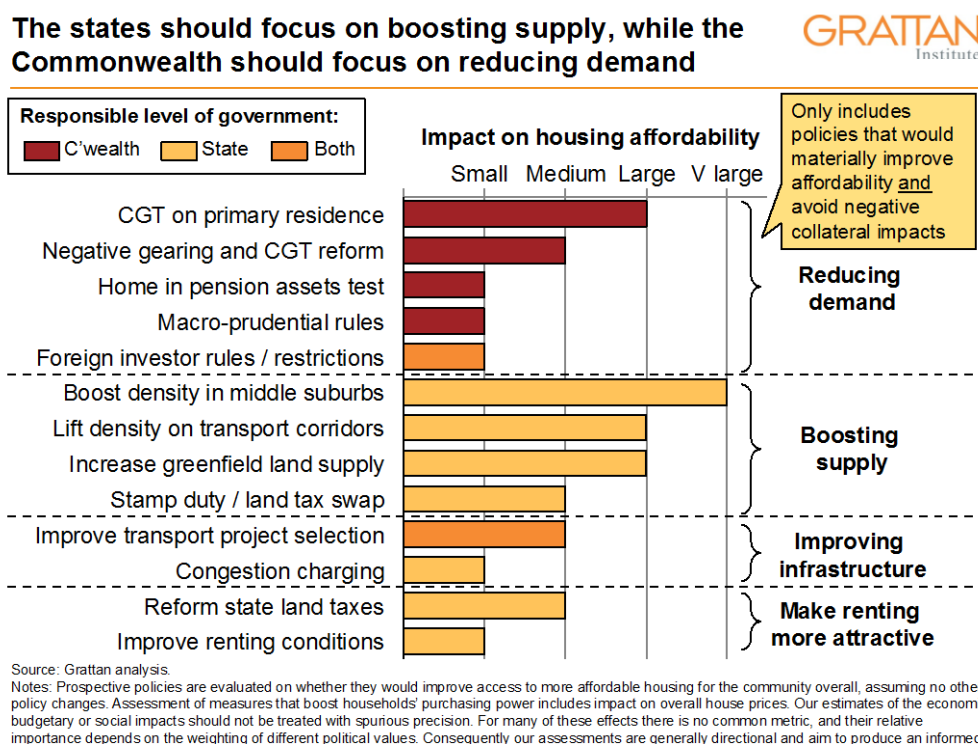
The Government should also resist the temptation to **push people to the regions**. Since Federation, State and Commonwealth governments [have tried](#) to lure people, trade and business away from capital cities. It has consistently proved an expensive policy failure. Despite government policies of decentralisation, the trend to city-centred growth has accelerated in the past decade. [Half of all jobs growth](#) in Melbourne and Sydney is now within a 2km radius of the city centres, reflecting the rapid growth of jobs in services industries where physical proximity really matters. In the unlikely event that government policy actually succeeded in encouraging more people to live in regional areas, it *could* reduce house prices in the major cities, but it would also slow growth in incomes.

The Government should also tread carefully when it comes to **curbing immigration**, as [proposed](#) by former prime minister Tony Abbott. Slowing immigration *would* have a big impact on house prices. Australia's resident population is [increasing](#) by about 350,000 a year, and [over half of this due to immigration](#). But curbing migration could also slow growth in incomes. Recent [Productivity Commission modelling](#) concluded that continuing Australia's approach of taking younger, skilled migrants could result in GDP per person being up to 7 per cent higher in 2060 than if there was zero net migration.

There are reforms that would make a difference, but none is easy

So governments need to focus on the policies in the top right of our diagram: policies that will make a material difference to affordability, but won't substantially drag on the economy or the budget. Everything in this category is politically difficult.

Given the allocation of federal responsibilities, the Commonwealth can primarily intervene to reduce demand. States have more ability to boost supply through land use planning and zoning laws, and greenfield land release. They can also make renting more attractive by reforming state land taxes and residential tenancy laws. Both levels of government can improve access by making better decisions about which transport infrastructure to build, and then introducing congestion charges.



The Commonwealth should reduce unnecessary demand for housing

The Commonwealth government could materially reduce housing demand – which would have an [immediate impact](#) on prices.

The most obvious opportunity is to [reduce the capital gains tax discount and abolish negative gearing](#). The effect on property prices would be modest – they would be roughly 2 per cent lower than otherwise – but would-be

homeowners would benefit. There would be economic benefits too. Current arrangements distort investment decisions and make housing markets more volatile. Reform would boost the budget bottom line by around \$5 billion a year. Contrary to urban myth, [rents wouldn't change much](#), nor would housing markets collapse. If phased in, the reforms would be easier to sell politically and would dissuade investors from rushing to sell property before the changes come into force. An alternative flagged by the government – limiting the number of properties a person could negatively gear – would be much less effective because [few people](#) negatively gear multiple properties.

The government should also include the value of the family home above some threshold – such as \$500,000 – in the Age Pension assets test. This would encourage a few more senior Australians to downsize to more appropriate housing. More importantly, it would make pension arrangements fairer, and contribute [up to \\$7 billion a year](#) to the budget.

Making [owner-occupied housing liable for capital gains tax](#) could also reduce demand and improve the budget bottom line. But such a change might have unintended consequences. It would discourage people from moving house since home sales would trigger liability to pay capital gains tax. Young purchasers would be tempted to choose oversized housing to reduce the number of home moves they make over a lifetime. It would be difficult to resist calls to allow deduction of interest payments (given taxation of the gains), which would [wipe out most of the benefit to the budget](#).

The States should boost supply

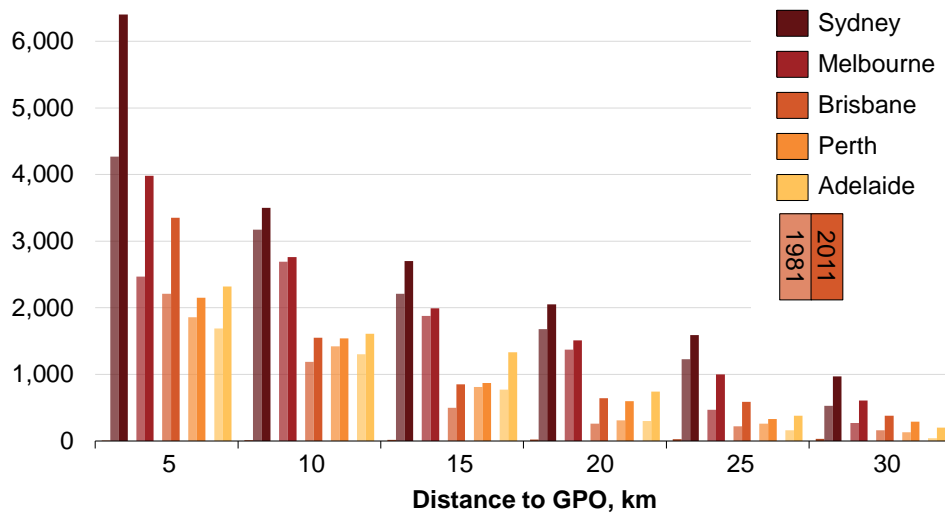
Affordability would improve much more if the States did the heavy policy lifting over a number of years to increase supply.

The middle rings of Australia's large capital cities generally have good infrastructure, and good access to city centres [where most of the new jobs are being created](#). These cities are [sparsely populated](#) relative to other large cities in the developed world outside the United States. Grattan research shows that people [want more](#) townhouses and semi-detached dwellings in established suburbs.

Current rules make it reasonably easy to build apartments in the CBD and to develop new housing estates on the fringes of the major cities – so that is what we're getting. But the rules make it very difficult to subdivide and create extra residences in the middle rings of the capital cities, up to 20 kilometres out of the CBD. Population density in the middle rings [has hardly changed in the past 30 years](#) yet urban infill could [supply](#) a lot of the new housing needed.

Housing density has increased, but not by much in the middle ring

Population density (per square kilometre), 1981 and 2011

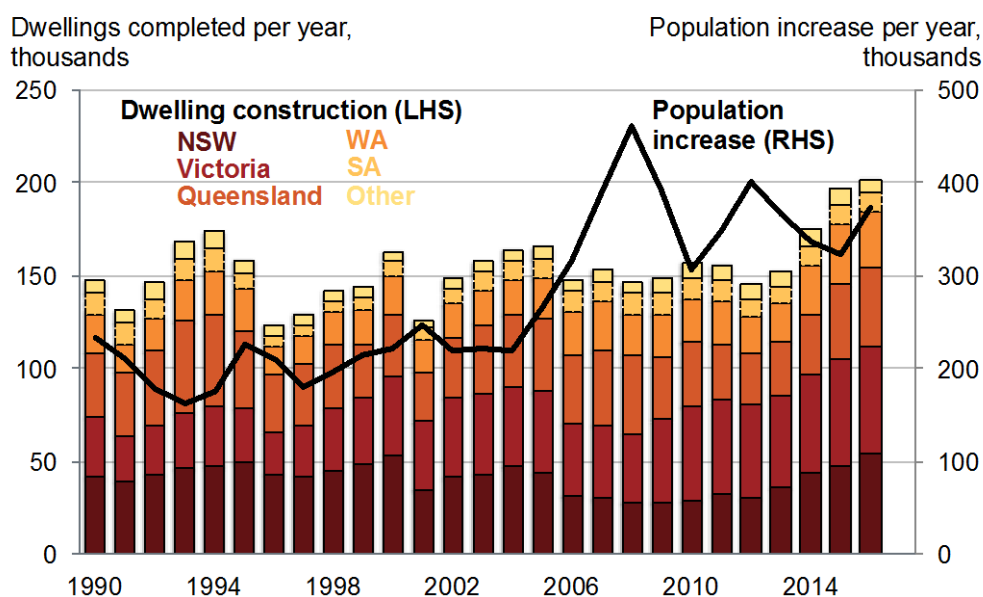


Source: Coffee et al 2016, 'Visualising 30 Years of Population Density Change'.

State and local governments need to change planning laws and practice to make it easier to subdivide in middle ring suburbs. They also need to [increase density along transport corridors](#), which would both boost housing supply and use existing transport infrastructure better.

Increasing supply will only restore housing affordability slowly. Migration increased substantially from about 2006, so that Australia's population increased by around 350,000 per year, rather than the 220,000 per year as was typical in the previous decade. Dwelling construction [did not match demand](#), particularly in NSW. It increased by about 30 per cent in the past four years, but it is still only keeping pace with current population growth. Several years of construction – probably at even faster rates than currently – will be needed to erode the large backlog that accumulated between 2006 and 2014, estimated to be a [shortage](#) of about 200,000 dwellings.

Housing construction lagged population growth for much of the 2000s, but picked up recently GRATTAN Institute



Source: ABS 8752.0 Building Activity, Australia; ABS 3101.0 Australian Demographic Statistics; Grattan analysis

This is primarily a State government problem. While the Commonwealth Government can release some of the limited stock of Commonwealth land, it does not directly control planning rules. It could provide incentives to state and local governments to increase the supply of housing in good locations, but its budget will struggle to provide incentives sufficiently large to overcome the reluctance of a State government that is not motivated to take on the political difficulties anyway.

State tax reforms would help

State governments should also abolish stamp duties and replace them with a general property tax, as the ACT Government is doing. Stamp duties on the transfer of property are among the most inefficient taxes. They discourage people from moving to better jobs, or to housing that better suits their needs. Abolishing stamp duties would encourage people to move as their circumstances change, making more efficient use of the housing stock. This would mainly improve economic growth rather than housing affordability. But it's a big prize: a national shift from stamp duties to a broad-based property tax could [add up to \\$9 billion a year](#) to gross domestic product.

Reform of progressive state land taxes, which levy a higher rate of land tax if a person owns more investment property, could improve conditions for renters, because institutional investors would be more likely to offer long-term leases to renters seeking greater certainty.

Such tax reforms might be encouraged if the Commonwealth provided incentive payments to the States, which would reflect how Commonwealth revenues will ultimately benefit from the increased economic growth. A recent

COAG [agreement](#) to encourage states to enact economic reforms is a step in the right direction, but more needs to be done.

Improving infrastructure would also help

Governments need to improve transport networks by using existing transport infrastructure more efficiently and building more effective transport projects. This will make fringe suburbs a more attractive alternative to established suburbs closer to CBDs, limiting price increases in inner suburbs.

First, the Commonwealth Government should [work with states](#) on the possibility of [introducing congestion charging](#) to ensure existing roads are used more efficiently. A congestion charge needs to discourage only a small proportion of people from driving to enable a big increase in traffic speed.

Second, governments need to improve transport infrastructure investment decision-making. Governments have [tended to favour](#) projects in swing states and marginal seats, rather than projects with the highest benefit-cost ratios. Governments should only commit money to a transport infrastructure project if Infrastructure Australia or another independent body has assessed it as high priority, and the business case has been tabled in Parliament.

Remember, failing to act will have consequences

Housing affordability has vexed Australian governments for two decades, as politicians have tried to appease aspiring first homebuyers without upsetting existing homeowners. Governments have eschewed the hard choices that would actually make a difference, preferring policies that were cosmetic but politically painless.

Inaction will further reduce home ownership, increase inequality, dampen economic growth, and increase the risks of an economic downturn. The public has figured out that there is a real problem. Unless governments improve reality rather than appearances, [public trust in political institutions will continue to fall](#). Pretending there are easy answers will only make things worse.

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SAUL ESLAKE. *The causes and effects of the housing affordability crisis, and what can and should be done about it (2/5/17)*

Treasurer Scott Morrison is right in saying that “there are no single or easy solutions” – even though he (and others on his side of politics) tend to ignore this advice in emphasizing ‘supply-side solutions’ and decrying any suggestion of policy measures which are intended to dampen demand, especially from investors.

Trends in home ownership

Once upon a time, from the late 1950s until the mid-1980s, Australia had one of the highest rates of home ownership in the world. That hadn't always been the case. From the time of federation until after the end of World War II, the proportion of Australians owning their own homes had been fairly steady at just over 50%. But between the Censuses of 1947 and 1961, Australia's home ownership rate rose by more than 17 percentage points, from 52.6% to 69.9%. By the 1966 Census, it had reached 72.5%. As John Howard has [observed](#), this “was a measure of the success [Sir Robert] Menzies had in delivering a sense of prosperity and stability to middle-class Australians [and] one of the explanations for his continued political success”.

The unprecedented expansion in home ownership during the Menzies years is all the more remarkable for having occurred in the face of [a large and sustained increase in Australia's population](#), averaging 2.2% per annum between 1949 and 1966 - and in particular, in the population of Australia's capital cities, which grew by an average of 3.4% per annum over this period. That's twice the rate at which the population of our capital cities has growth over the past seventeen years.

It occurred because governments – Commonwealth and State – paid at least as much attention to expanding the supply of housing as they did to supporting the demand for it.

Successive Commonwealth Governments assisted would-be home buyers by providing access to finance directly through the War Service Home Loans Scheme and, after 1956, indirectly through building societies as part of the Commonwealth-State Housing Agreement.

But they also sought actively and directly to boost the supply of housing, both by building dwellings themselves (for rent and for sale) as well as by encouraging and facilitating the construction of new dwellings by the private sector. Between the [1947](#) and [1966](#) Censuses, Australia's population grew by 53% - but the stock of housing increased by 67%. Largely because supply outpaced demand, housing prices actually declined relative to incomes during this period: John Howard [notes](#) that the number of weeks' work at an average wage required to purchase a median-priced house in an Australian capital city declined from 301 in 1950 to 200 in 1955, and remained at that level through to 1970.

The 1966 Census represented the high water mark for home ownership in Australia. Since then, the home ownership rate has gradually drifted down to 67.0% at the [most recent Census in 2011](#) – the lowest at any Census since [1954](#), and lower than all but eight of 35 OECD countries according to the [Reserve Bank](#) (the 2016 Census results, to be released on [27th June](#) will likely show a further decline, based on findings from the ABS' biennial [Survey of Income and Housing](#)).

Moreover, the 5.5 percentage point decline in the aggregate home ownership rate since 1966 conceals much larger declines in home ownership, not only among the archetypal first home buyers in their mid-to-late 20s or early 30s, but among people up to their mid-50s.

In particular, since 1991 the home ownership rate among people aged 25-34 has fallen by 9 percentage points, to 47% (having fallen by 5 pc points over the preceding 10 years); among people aged 35-44 by 10 pc points, to 64%; and among people aged 45-54 by 8 pc points, to 73%. But the effects of these quite large declines has been largely offset by the increase in the proportion of the population aged 55 and over, among whom the home ownership rate dropped by only 5 pc points between 1991 and 2011.

Causes of decline in home ownership

The decline in home ownership rates reflects a combination of demographic, social and economic factors – not all of which should be seen as cause for regret, or needing remediation. The decline in home ownership among 25-34 year olds, for example, began in the early 1980s, and reflects (among other things) a gradual reversal of the immediate post-war decline in the age of first marriage and parenting, and an increase in the length of time spent in formal education compared with previous generations. There is no reason why government policy should seek to counter these trends.

However, it seems unarguable that the larger part of the decline in home ownership, especially among people aged between 35 and 55, since the early 1990s is the direct result of the ongoing deterioration in housing affordability – best summarized by the rise in average capital city dwelling prices from between 2 and 3 times average household disposable income in the 1980s to around 5 times average household disposable income since the early 2000s, the reverse of the trend which John Howard found so admirable about the Menzies era.

Fundamentally, this rise in the price of capital city housing relative to incomes is the result of the demand for housing rising at a much faster rate than the supply of it, over an extended period.

Factors inflating the demand for housing

The demand for housing has been materially boosted by Australia's relatively high immigration intake, especially since the turn of the century – which has been both a result of and a contributor to our economic performance; and by the substantial decline in interest rates since the early 1990s – which for most

of this period was also regarded as a measure of successful economic policies (until more recently when it has become an indicator of the failure of other measures aimed at boosting economic growth).

But these are not the only factors which have inflated the demand for housing. Ever since the mid-1960s, when the Menzies Government introduced the Home Savings Grant Scheme at the suggestion of the New South Wales Young Liberals (whose President at the time was John Howard), policy responses to perceived difficulties in attaining home ownership have taken the form of measures which allow people to spend more on housing than they otherwise would – that is, on increasing the demand for housing – rather than, as they did prior to the mid-1960s, on increasing the supply of housing.

Housing as an investment asset

Nowhere has this been more apparent than with regard to the demand for housing as an investment asset, as distinct from a place of abode.

In the early 1990s, first home buyers and residential property investors each accounted for about 18% of total [housing finance commitments](#) (with the remaining 64% going to existing home owners 'trading up' to their second or subsequent home). By 2014-15 the share of housing finance commitments going to first home buyers had fallen to less than 10%, while the share going to investors had risen to more than 50%. Over the same period, the number of first home buyers as a proportion of the population aged between 20 and 64 fell from over 0.9% to less than 0.7%; while the proportion of taxpayers who are landlords rose from less than 10% to more than 15%.

There could be no more compelling evidence of the way in which first home buyers have been, in effect, 'squeezed out' of the housing market by investors – a clear case, if ever there were one, of 'supply [of rental housing] creating its own demand'.

While the decline in interest rates and an easing in the criteria used in making and pricing loans to investors have played a significant part in expanding the demand for residential property as an investment, policy decisions – in particular, the change to the capital gains tax regime in 1999 and the 2007 decision to allow self-managed superannuation funds to borrow in order to purchase property – have also played a key role.

This might not have been a problem if the majority of property investment were directed into new housing – thereby boosting supply. But since the early 2000s more than 90% of lending to property investors has been for the purchase of established housing (compared with less than 75% in the early 1990s). The overwhelming effect of this increase in the flow of funds into residential property investment has therefore been to inflate prices, rather than to boost the supply of housing.

Successive federal governments have long been aware of the role that property investors have played in pushing up prices. But the only investors they have been willing to deflect away from bidding up the price of existing

housing towards increasing the supply of new housing have been foreign investors – and even then, regulations intended to enforce that objective have been at best only loosely enforced, until quite recently.

Constraints on supply of new housing

Meanwhile, state and local governments – particularly, though not exclusively, in New South Wales – have pursued policies which have had the effect of constraining supply (by preventing land which might otherwise have been used to provide new housing from being thus used, or adding to the cost and time involved in redeveloping established areas at higher densities) and/or adding to the cost of providing new housing (by funding the provision of urban infrastructure through ‘up-front’ charges on developers instead of, as had previously been more commonplace, through local government borrowings subsequently serviced and repaid out of increases in rate revenue).

In addition, under-investment by state governments in urban transport, both public transport and arterial roads, has (as the [Governor of the Reserve Bank noted](#) in April), “pushed housing prices up”, by adding to the premium attaching to housing from which employment and entertainment options are more readily accessible.

Reasons for concern over declining home ownership

How concerned should we be about these developments?

There are at least four reasons for being concerned about the decline in home ownership rates, to the extent that it is involuntary rather than the result of ‘lifestyle choices’.

First, to the extent that people still believe, as Menzies did, that [“one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours, to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will”](#), then it should be troubling that a growing proportion of Australians are unable to realize those “best instincts”.

Second, since Australia’s retirement income system has long implicitly assumed that the vast majority of retirees will have close to zero housing costs, the fact that [a diminishing proportion of Australians will own their own homes in retirement](#) (combined with the fact that an increasing proportion of those who have attained home ownership by the time they reach retirement will need to use their superannuation savings, in whole or in part, to discharge their outstanding mortgage debt) means either that more Australians will experience greater insecurity in retirement, or there will be greater pressure to lift the rate of the age pension, or both.

Third, the inability of a growing proportion of Australians to attain home ownership is contributing to a widening in the inequality in the [distribution of wealth](#) between those who own property and those who don’t (from an

average of \$517,000 per household in 2003-04 to \$907,000 per household in 2013-14).

Fourth, to the extent that the principal source of finance for starting a small business is the ungeared equity in a home, the decline in home ownership rates (and the decline in outright ownership) should be a source of concern for those who believe, as the Liberal and National Parties do, that there is something inherently more noble about starting and running a small business than there is about working for a large one (or for a government agency).

What can be done to alleviate the housing affordability crisis?

To the extent that these concerns are widely shared, what can be done? Treasurer Scott Morrison is certainly right in [emphasizing](#) that “there are no single or easy solutions” – even though he (and others on his side of politics) tend to ignore this advice in emphasizing ‘supply-side solutions’ and decrying any suggestion of policy measures which are intended to dampen demand, especially from investors.

But there is wisdom in the saying, attributed to (among others) [Will Rogers](#) and [Denis Healey](#): “when you’re in a hole, stop digging”. In the context of Australian housing policy, what this means is that governments should:

- at the very least, don’t adopt any more policies that would further inflate demand (as allowing people to draw down their superannuation savings in order to purchase a first home would do) or further constrain supply;
- retreat (gradually, if necessary) from existing policies which inflate demand or constrain supply; and
- pursue policies which would have the effect of increasing supply, but in so doing seek to ensure that the increased supply is of the *type* or *types* and in the *locations* that are in greatest demand.

It’s worth emphasizing that a strategy which embraces all of these areas requires a sustained commitment from *all* levels of government – Commonwealth, state and local – working towards the *same* ultimate objectives, rather than (as so often in recent decades) at cross purposes.

What the Commonwealth Government should do

More specifically, the Commonwealth Government should:

- reduce the competition prospective home-buyers face from domestic investors by modifying the way in which the income tax system treats investors’ borrowing costs and/or the way it treats capital gains;
- reduce the competition prospective home-buyers face from domestic investors by requiring APRA further to lower its ‘ceiling’ on the rate of growth in aggregate lending to residential property investors, and/or further tightening the criteria used by mortgage lenders in making residential property investment lending decisions;

- reduce the competition prospective home-buyers face from foreign investors by further tightening FIRB rules governing the circumstances under which foreign investors are permitted to purchase established dwellings, and/or bringing real estate agents within the purview of [anti-money laundering rules](#) and AUSTRAC reporting requirements;
- add to housing supply by including owner-occupied housing in the assets test for the aged pension, while lifting the assets test thresholds to account for the inclusion of the family home, and pressuring State and Territory Governments to exempt pensioners from stamp duty when ‘downsizing’;
- provide grants or low-interest loans to State and Territory Governments for the construction of more new affordable rental dwellings, either by State and Territory housing authorities or community housing organizations (as previous federal governments have done);
- provide tax incentives for institutional or individual investment in new affordable rental housing (perhaps funded by reductions in existing tax incentives for speculative investment in established housing);
- provide support (in the form of loan guarantees or interest subsidies) for borrowings by community housing organizations and other not-for-profit providers of affordable rental housing; and
- use fiscal policy more actively, when economic conditions require measures aimed at boosting economic activity or employment, so as to reduce the need to rely predominantly on monetary policy (in the form of low interest rates) for that purpose.

What the States and Territories should do

State and Territory Governments can contribute towards enhancing people’s capacity to become home-owners by:

- scaling back cash grants and tax exemptions or concessions for first-time buyers which simply allow buyers to pay more to vendors than they otherwise would;
- replacing stamp duties with a more broadly-based land tax (with no exemptions for owner-occupied land, but with appropriate transitional provisions to avoid ‘double taxation’ of recent purchasers) so as to eliminate the disincentives which stamp duties create for people to ‘move home’ as their needs change, as well as to provide State and Territory Governments with a more predictable and stable source of revenues;
- reducing up-front taxes and charges on land developers and builders for the provision of suburban infrastructure, permits and inspections (or simply revenue-raising) – whilst recouping revenue foregone through increased municipal rates or land tax, and working with the ACCC to ensure that reductions in up-front taxes and charges are passed on to new home buyers;

- reforming planning laws to reduce the scope for frivolous or vexatious objections to redevelopment of existing residential sites at higher densities; and
- increasing investment in urban transport infrastructure to improve access to and from new suburbs to places of employment, entertainment and recreation.

State and Territory Governments could also:

- improve the supply of affordable rental housing by building more of it themselves, or by funding community and not-for-profit housing providers to do so (including by transferring some of their existing housing stock to such organizations, allowing them to leverage it in ways that State and Territory Governments have become unwilling to do);
- make unused or under-utilized state-owned land available for the provision of more affordable rental housing; and
- provide support for borrowings by community and not-for-profit affordable housing providers in the same way as suggested for the Commonwealth above.

A program of measures along these lines shouldn't be beyond the range of what is politically possible. Indeed, most of it has been done before, in the 1950s and 60s – and the evidence from that period is that *it worked*, delivering affordable housing to a rising proportion of a population that was growing more rapidly than it is today. Moreover, [the evidence strongly suggests that what governments have been doing \(or failing to do\) over the last years hasn't worked](#) – unless you believe that it has been an unspoken, yet bipartisan, objective to transfer wealth to those who already own property from those who don't.

If governments continue to do what they've been doing, or failing to do, in the housing policy space for the last fifty years, then Australia is likely to become a very different, and less comfortable, place than most Australians have wanted it to be.

Saul Eslake has previously been Chief Economist of the ANZ Bank and of Bank of America Merrill Lynch Australia, a non-executive director of the [Australian Housing & Urban Research Institute](#) and a member of the Rudd and Gillard Governments' [National Housing Supply Council](#). He is currently a Vice-Chancellor's Fellow at the University of Tasmania, and a non-executive director of [Housing Choices Australia](#) (a not-for-profit provider of affordable housing), as well as running his own [independent economics consulting business](#).

SAUL ESLAKE. *Housing affordability and the 2017-18 Budget: a missed opportunity (19/5/17)*

Housing affordability was to be a key focus of the Government in this year's federal budget, according to the 'nods and winks' that traditionally precede the Treasurer's budget speech. A journalist who has often been privy to the thinking of those at the highest levels of the Abbott and Turnbull Governments [wrote](#) that the budget would represent "the most comprehensive intervention by a federal government into the life cycle of home ownership", involving "every aspect" of the housing market.

The housing measures in the budget fell well short of that breathless expectation. Perhaps the best that can be said of what the 2017-18 Budget seeks to do to improve housing affordability is that, like the proverbial curate's egg, it is 'good in parts' – although the parts where it is 'good' are fairly small – and that the parts where it is 'not so good' are not as bad as they could have been.

The 'good' elements of the Budget, from the perspective of housing affordability, are the measures which seek to improve the supply of affordable rental housing for low-income households.

This is an area which has been long neglected by governments of both political persuasions, despite the fact that low-income households – those dependent on government income support payments or minimum-wage jobs – who are renting are more commonly experiencing 'housing stress' (devoting more than 30% of their incomes to housing costs) than any other group in the population. As a [report](#) published this week by the Australian Housing and Urban Research Institute notes, "targeted government intervention [is] needed to ensure adequate supply of affordable housing" for people in this situation.

And this Budget provides some. In particular, it establishes a National Housing Finance and Investment Corporation which, based on a [British model](#), will enable not-for-profit affordable housing providers to borrow more money at lower interest rates for longer terms, enhancing their capacity to increase the supply of affordable housing. It says that States and Territories will "be encouraged to transfer [existing publicly-owned housing] stock to the community housing sector", which would in turn allow them to use it as security for more borrowings to finance more new building – something which the States and Territories could of course do themselves, but have been reluctant to for more than two decades. And it provides incentives – including a capital gains tax discount of 60% (more on that below) – for private investment in affordable rental housing.

The Budget also indicates that the Government will seek to cajole the States and Territories – with cash and with conditions attaching to a new National Housing and Homelessness Agreement – into dealing with infrastructure 'chokepoints' that are impeding new housing developments, and into undertaking planning and zoning reforms, with a view to boosting housing supply more generally.

So far, so good, one might say.

However, as I argued [here](#) earlier this month, an effective response to the ongoing deterioration in housing affordability – and especially to the long-term decline in home ownership rates – requires actions designed to dampen the demand for housing (especially established housing), as well as to increase the supply of it.

And it is in this area that the Budget falls well short of what was possible and desirable.

The ‘signature initiative’ is the proposal to allow would-be first home buyers to contribute up to \$15,000 per year, up to a total of \$30,000, out of their pre-tax incomes, into their superannuation funds, where these contributions will be deemed to have earned the 90-day bank bill rate plus 3 percentage points per annum, which will in turn be taxed at the same concessional rate of 15% as applies to superannuation fund earnings. When subsequently withdrawn in order to fund a deposit on a first home, these contributions and the earnings on them will be taxed at the contributor’s marginal rate less 30%.

The Treasurer said in his Budget Speech that this will allow “most first home savers [to] accelerate their savings by at least 30 per cent”. That in turn means that they will also be able to increase the amount they can borrow by at least 30% (assuming that their income allows them to service a mortgage larger by that order of magnitude).

So, someone who might have saved a deposit of \$100,000 towards the purchase of a house, and thus been able to borrow up to \$400,000 under normal lending criteria, allowing him or her to spend up to \$500,000 on purchasing a first home, will now be able to accumulate a deposit of \$130,000, enabling him or her to borrow up to \$520,000, and thus spend up to \$650,000 on purchasing a first home.

The people most likely to be able to take advantage of this scheme are those who would have been able to accumulate a deposit anyway. So they will simply have more to spend on buying their first home than they would otherwise have had. And we have fifty years of history to support the view that anything which allows Australians to spend more on housing than they otherwise would results in more expensive housing, not in more Australians owning housing.

The only good thing that can be said of this Budget measure is that it doesn’t allow would-be first home buyers to dip into their compulsory superannuation contributions, as the ‘Super for Housing’ scheme mooted in earlier pre-budget speculation would have done. However, to the extent that actual earnings on contributions to the scheme announced in the Budget do fall short of the deemed rate, those who use it will in fact be ‘borrowing’ from their retirement savings.

The proposal to allow retirees who ‘downsize’ to smaller or cheaper accommodation to contribute up to \$300,000 from the proceeds of selling their

home to superannuation will do little to increase the effective supply of housing. That's because the main deterrents to 'downsizing' are the possible loss of the pension (and access to the Health Care Card); and having to pay stamp duty on the smaller dwelling. The Budget does nothing about either of those concerns.

If the Government *really* wanted to do something that would improve the chances of would-be first home buyers fulfilling their aspirations, it would have done more to scale back 'negative gearing' than simply disallowing investors from taking tax-deductible trips to 'visit' their properties; and/or it would have scaled back the excessively generous capital gains tax discount.

The Government clearly recognizes that the capital gains discount affects the incentive to invest. That's why it proposes to *increase* the discount in order to encourage investment in affordable housing. But it's not prepared to *reduce* the discount in order to discourage investment in *unaffordable* housing – as it would do if it were really serious about improving housing affordability for would-be home buyers, as opposed to enhancing the after-tax returns to people who already own property.

In that sense, the 2017-18 Budget was a missed opportunity.

Saul Eslake has previously been Chief Economist of the ANZ Bank and of Bank of America Merrill Lynch Australia, a non-executive director of the Australian Housing & Urban Research Institute and a member of the Rudd and Gillard Governments' National Housing Supply Council. He is currently a Vice-Chancellor's Fellow at the University of Tasmania, and a non-executive director of Housing Choices Australia (a not-for-profit provider of affordable housing), as well as running his own independent economics consulting business.

PETER PHIBBS. *The politics of property and the role of urban planning*
(2/5/17)

The narrative provided by the property industry and by some politicians is that the planning system creates large bottlenecks to more supply. Yet the reality is that we have been generating record levels of supply in Australia in recent years. While supply is undoubtedly important, it is not the key moderator of price that it is in some other markets.

To observers of Australian housing markets the current state of the Sydney and Melbourne housing markets should come as no surprise. As discussed in other parts of this series, we have tax settings that make housing an incredibly tax effective investment when the housing market is rising. Combined with record low interest rates, we have a situation where prices have been rising sharply in our largest markets for several years.

Recently in the AFR [Philip Coorey](#) revealed that a senior Howard Minister when leaving office in 2007 described his disappointment at leaving what he described as “the perfect storm” for house prices. This was exactly what has happened – the introduction of the capital gains discount in 1999, as well as the record low interest rates have seen investors surge into the markets pushing prices to eye watering levels in Sydney and Melbourne. For example, the real estate website Domain recently reported that 78 Sydney suburbs now boast a median house price of \$2 million or more. Five years ago, the list was just six suburbs.

Political realities

Political parties from both sides have done little to alter this situation because for them a homeowner with rising house prices is a happy voter – most likely to vote for the incumbent and with the majority of the population being homeowners (or home purchasers) no one wants to rock the boat. When you add to this situation the personal story of Federal politicians – many of them are property investors - as well as the close links between the conservative sides of politics and the property lobby (eg Scott Morrison was a long-time CEO of the Property Council) it is not surprising that the policy is set in favor of the role of housing as a wealth generator and not as a place of shelter. Moreover, given the addiction of State Governments to fast rising stamp duty revenues from dwelling sales do not expect any State Government to take serious steps to rein in their federal counterparts.

However, clearly rising house prices makes it much harder for first home owners to get into the market (for them the problem is raising the deposit). Previously Governments relied on happy homeowners to carry the political argument for them, but as the situation has become more difficult for prospective first home purchasers, governments have lifted their rhetoric.

Housing prices are now causing politicians to “lose sleep at night”, fixing housing has become “a very high political priority” and big policy announcements are promised. But the last thing a politician want to do is to risk offending home owners by doing something effective and generating

some price falls. It is pretty clear to me as a researcher that the default position for many Australian politicians is to sound extremely concerned about the housing issue but do nothing effective.

Blame shifting

So how do politicians do this? The preferred strategy is a simple one - blame shifting. If you a federal politician you blame the States. If you are a State politician you blame Local Government – everyone likes blaming nimbies and planning. Take this example from Malcolm Turnbull, when speaking at Western Sydney University in early 2016..

“Why is housing more affordable in Brisbane than in Sydney? Well, developers tell me it is because it takes about a third of the time to get a DA.”

The problem with this statement is a simple one – when house prices are rising faster than holding costs for a developer (which was the case in 2016), a delay obtaining planning approval is a benefit to a developer not a cost.

In this blame shifting space, the favorite mantra for a federal politician is **more supply** (because you don't control it – the States do). Get more supply out the door and the problem will be over – no need to change tax settings or anything else. However, as I have [argued in other places](#) whilst supply is incredibly important it is not the immediate moderator of prices it is in other markets. For example, an [economist](#) who undertakes modelling for the NSW Government estimates that a 50% increase in new supply in Sydney would only reduce prices by 2%.

Record levels of supply

And while the narrative provided by the property industry is that there are large bottlenecks to more supply generated by the planning system, the reality is pretty different. We have been generating record levels of supply in Australia over recent years. The HIA record that dwelling starts increased from 153,000 in 2012 to 228,000 in 2016. This has been a sharp supply response. In NSW, the most expensive state, the housing starts have more than doubled since 2012. This is not an inert housing system – the market is responding to price signals.

<https://theconversation.com/australias-almost-a-world-leader-in-home-building-so-that-isnt-a-fix-for-affordability-73514>

In some cities, this new supply has been concentrated in the inner city. This is particularly the case in Melbourne. In Sydney, for a variety of reasons the supply response has been dispersed across the city. However, the supply response does lack variety – you have the choice of a large separate dwelling or an apartment – there is a “missing middle”. Smaller, non -strata dwellings that some households could downsize to are hard to find in many parts of Australian cities.

Inclusionary zoning

So, what are the opportunities for improvements in affordability in light of this political gridlock. There is an opportunity through the planning system in the form of inclusionary zoning. Inclusionary zoning is a system where a percentage of dwellings in large developments are required to be provided as affordable dwellings. In overseas jurisdictions this can be a large percentage. For example [in New York](#) this target is 25-30 percent. There is a current proposal in Sydney to use an inclusionary zoning provision to generate between 5 and 10 percent of affordable dwellings at the point of a change in zoning (<https://www.greater.sydney/district-plans>). Whilst there has been strong resistance to this scheme from the development lobby who argue that it will make housing more expensive, if it is applied at the point of rezoning, the costs will be passed back to the landowner. Currently land owners at the point of rezoning in some parts of Sydney are receiving windfall gains of between 300 and 400 percent. The addition of an inclusionary zoning cost to developers will reduce these windfall gains but in most markets will lead to the same costs for developers.

The careful application of an inclusionary zoning strategy has the potential for assisting the development of Australia's emerging not for profit sector. The dwellings available from an inclusionary zoning strategy could be added to their balance sheet and provide some cash flow to support debt finance. The real problem for supply in Australia is when the property market turns down. This increases risk for private developers and some will withdraw from the market. The not for profit sector in the UK has played an important role in providing counter-cyclical supply and the Australian not for profit sector could perform a similar role. This role would not only increase the supply of affordable housing stock but it would also help maintain employment in the construction sector. For this to happen, Governments would need to start investing in housing again.

Apart from the short lived national stimulus program associated with the GFC, Australian Governments have been withdrawing from the task of providing social housing.

Bond aggregator model

The [bond aggregator model](#) which has been talked about in the press and by the Treasurer, Scott Morrison, is an important element – it will provide cheaper and more effective debt finance for not for profits. However, there is still a financing gap. This can be partly filled by an effective inclusionary zoning strategy but government's must also be prepared to provide some capital or cheap land to help the not for profit sector to expand. If the only tool you are trying to use is supply and supply is limited in its ability to put downward pressure on prices in such a hot market, a direct action strategy of creating affordable dwellings that will be available into the long term is a very important strategy. An inclusionary zoning strategy is also most effective in expensive cities because in these cities a change in zoning from, say, single dwellings to medium rise apartments, or from industrial to apartments will

generate a large increase in land value. This large increase in land values allows for the imposition of the cost of inclusionary zoning by planning regulation whilst still incentivizing the land owner to sell. This means that rezoning will still provide the right signals to increase housing supply.

Record number of dwelling approvals

My final comment relates to the operation of the planning system. As mentioned above, whilst the developer lobby still rails against the “evils” of the planning system, their arguments have been dented somewhat by the performance of the planning system in recent years. For example, the developer lobby argued in 2012 as part of their NSW Planning reform process that the horrors of the NSW Planning system was the main reason why dwelling construction was so low in NSW and in particular Sydney. Since then the same old NSW planning system has been able to generate a record number of dwelling approvals. For example, in NSW the dwelling approvals have risen from 33,759 in the twelve months to the end of February 2012, to 74,622 for the twelve months to the end of February 2017. The [equivalent figures for the Sydney Metro area](#) have risen from 23,142 in 2012 to 59,474 in 2017 – an increase of over 250 percent. Given that [dwelling completions in Sydney are running at about 35,000 dwellings per annum](#) annual dwelling approvals are running at almost double the annual level of completions. Given that this trend has been occurring for many years and that most dwelling approvals last for at least 5 years, the planning system is unlikely to a major bottleneck in terms of total housing supply

In summary, we do need to do something to shake our politicians out of their default positions. The voices of Australians frustrated in their attempts to access home ownership, and baby boomers seeing their overseas travel fund being threatened by the housing needs of their children, are getting louder. We need to keep the pressure up to halt the current “game of homes” played by the political class. In a wealthy country like Australia we need smarter housing policy not more of the same tired rhetoric.

Professor Peter Phibbs is the Director of the Henry Halloran Trust at the University of Sydney as well as the Chair of Urban Planning at same University. He spent the first part of the his career compiling evidence to assist politicians in their endeavour of improving the Australian housing system and the second part of his career thinking about why they aren't interested in evidence.

NICOLE GURRAN AND PETER PHIBBS. Policy sentiment rather than substance for housing (17/5/17)

The Federal Treasurer clearly understands the housing affordability pressures facing moderate and low income renters and Australia's growing homeless. His budget speech set the scene for a package of measures to boost affordable housing supply and recalibrate demand settings. A record number of new and recycled measures recognise the spectrum of crisis housing to home ownership, but there's little in the way of substantive policy change.

Placebo policies

The underlying structure of Australia's housing system and demand distortions that have contributed to globally high house prices remain largely untouched. Rather than target or scrap negative gearing, the government opted to simply wind back some of the most excessive concessions in a series of measures best described as placebo policies.

Capital gains tax discounts on investment properties remain – and, strangely, extended by an extra 10% for landlords who lease the property at an affordable (market discount) rent for three years. This is badged as an incentive to invest in affordable housing but does little to shift investors away from short term capital gains and towards stable, long term rental housing.

Symbolic measures

The government describes its “stronger rules for foreign investors owning Australian housing” as “reducing pressure on housing affordability”. It will reinstate a limit on foreign ownership in new developments (capping the proportion of dwellings purchased in a new project to 50%); and introduce a charge for foreign owners leaving residential property vacant for more than six months. It will also tighten rules to ensure foreign investors pay capital gains tax on the sale of Australian properties.

Since foreign investment accounts for a small proportion of total investment in Australian housing and is geared towards new housing supply, it is doubtful these measures will have a significant impact on house prices. However, some higher density apartment projects may struggle to obtain finance in markets that have become dependent on foreign demand.

Allowing first home buyers to salary sacrifice into superannuation to raise a deposit (maximum of \$30,000 over two years) extends tax incentives to aspiring owners. It's unlikely this will make much difference to purchasers in high demand markets, particularly those already paying unaffordable rents. By helping those who afford an additional salary sacrifice to accumulate a bigger deposit and finance a larger home loan, counts as fuelling rather than cooling demand.

Investment in affordable housing supply

A new National Housing Finance and Investment Corporation (NHIC) will support affordable housing supply by facilitating access to low cost loans. This is a worthy initiative for a low initial cost to the government, which committed \$9.6 million in 2017-18 to establish the NHIC.

The NHIC will distribute one billion dollars to help finance infrastructure for residential development through the National Housing Infrastructure Fund - a scheme reminiscent of Labor's former Housing Affordability Fund. Expect some residential projects to move forward faster but this won't dramatically change the pace or price of new homes unless funding is tied to mandatory affordable housing outcomes.

Funding for social housing and homelessness

Funding to the States and Territories for social housing under the current National Affordable Housing Agreement will need to be renegotiated. Rebadged as a new "National Housing and Homelessness Agreement", bilateral funding agreements will need to be struck between the Commonwealth and the States tied to "aggregate" supply targets, including "targets for social and affordable housing".

There's a welcome, modest increase in homelessness funding (\$375 million over 3 years). But there's no increase in the total funds available for social housing, despite growing waiting lists and a chronic maintenance backlog across aging public housing estates.

The States are now expected to stretch funding further by "renewing" or redeveloping public housing estates and transferring public housing to community housing providers.

Further funding for the precarious social housing sector now seems tied to state planning reform and ongoing levels of housing production in the private market.

Planning reform for affordable housing?

Despite record levels of new supply in recent years the Treasurer is still convinced that regulatory barriers are holding back residential development.

State and local reforms to enable inclusionary zoning foreshadowed in the budget speech, would be a shift in the right direction rather than pushing for more land use deregulation. Inclusionary zoning schemes secure affordable homes as part of new development, leveraging value created through planning and infrastructure investment. Widely used internationally, requirements to include affordable rental or home purchase options in new housing schemes are long overdue in Australia.

Western Sydney “City Deal”

Western Sydney is singled out for a “city deal” to “incentivise” local and state government reforms and rezoning efforts to accelerate housing supply.

Planning reform and rezoning for housing supply is old news in Western Sydney. These are areas with very fast approval times, which in most cases have already rezoned available land around railway stations and centres.

What is built depends on the actions of a number of players – notably banks and developers and the Reserve Bank – over which local government has no control. In Sydney, for example, over the last 12 months there’s been about 59,000 dwelling approvals granted through the planning system, but only 35,000 dwelling completions. Getting councils to approve more housing through the planning system is no guarantee that housing supply will be delivered.

Freeing up empty nests

The notion that empty nesters are hoarding Australia’s precious supply of larger family homes is another housing policy cliché. The government plans to “reduce pressure on housing affordability” by allowing empty nesters to contribute proceeds from selling their home into superannuation. But the asset test for pension eligibility, combined with stamp duties on property transactions, persist as fairly strong disincentives for retirees to “free up” their family homes for “young families starting out.”

Sentiment rather than substance

The Treasurer’s budget speech and “housing package” signals a change in the policy language around Australia’s housing system and chronic affordability problems. But there’s little change to demand policy settings that have fuelled these problems. Policy levers for affordable housing supply are more promising but remain in beta release.

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Professor Peter Phibbs is the Director of the Henry Halloran Trust at the University of Sydney as well as the Chair of Urban Planning at same University. He spent the first part of his career compiling evidence to assist politicians in their endeavour of improving the Australian housing system and the second part of his career thinking about why they aren’t interested in evidence.

MARCUS SPILLER. *The planning system, politics and housing affordability (2/5/17)*

Forever expanding supply on the urban fringe is unlikely to provide a solution to retreating affordability of home ownership. Housing needs to be expanded in those places where good jobs, services and infrastructure are.

The inner and middle suburbs – where the good jobs and opportunities are – represent the major battle ground for NIMBY-ism

Thankfully, it is now widely understood that the ‘housing affordability crisis’ is a two-fold problem. One issue concerns the apparent declining access to home ownership on the part of millennials. The second issue is that a sizeable number of low and middle income households cannot afford to rent private housing without putting themselves into technical poverty or serious financial stress. The first problem concerns fairness in housing tenure, the second is to do with decent shelter for all Australians.

Any discussion of the role of urban planning (and the politics associated with it) in respect of housing affordability should deal separately with these two issues.

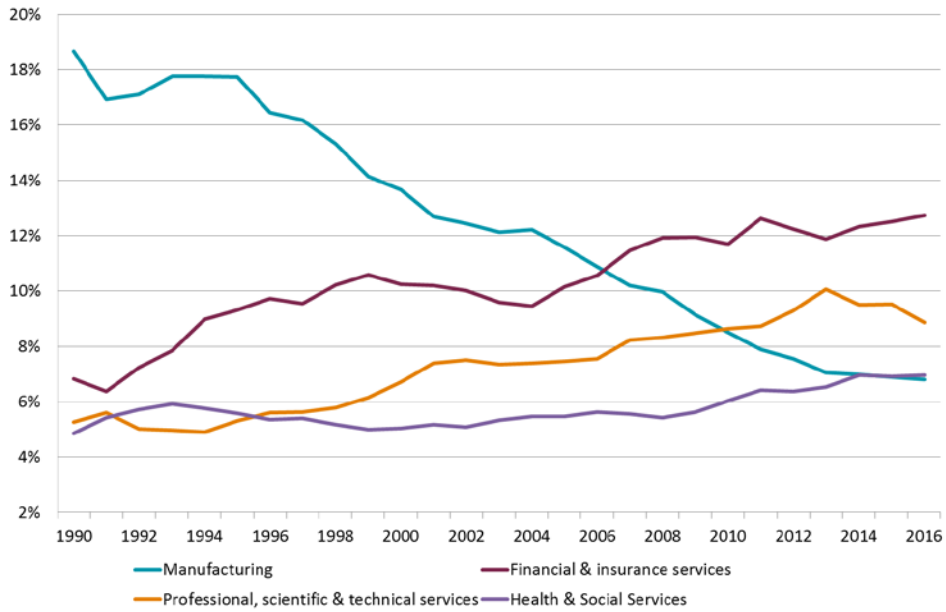
In terms of access to the traditional Australian expectation of home ownership, planning is often painted as the culprit – choking off the supply of housing and stoking price escalation.

Employment opportunity drives urban planning

Planning certainly regulates supply, but simply boosting supply in aggregate is unlikely to make a dent in the presenting problem of diminished access to home ownership. Most Australian metropolises now have oceans of land available at their outboard fringes available for development, notwithstanding notional urban growth boundaries. The constrained supply question needs to be understood in the context of structural changes in metropolitan economies.

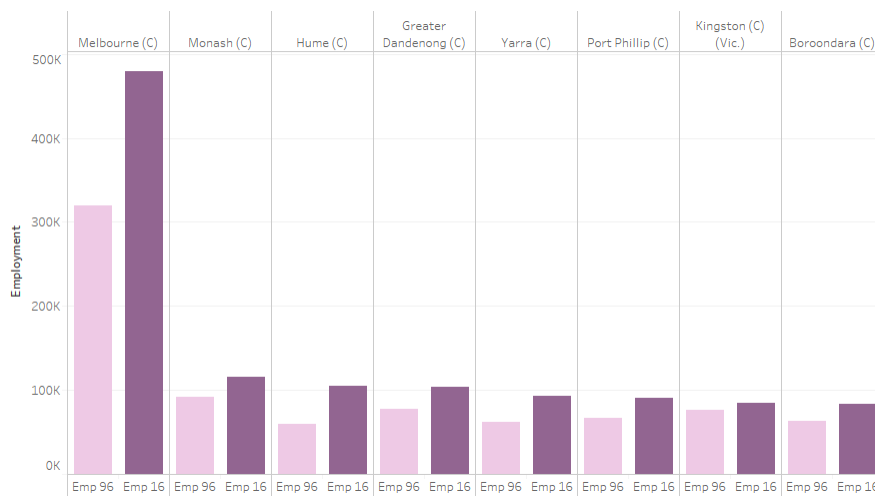
The shift to the services economy (as illustrated by changing GDP contributions in the Melbourne metropolitan area in the following figure) has meant that most new employment creation, other than that which is tethered to where households are located (e.g. retail, health, schools etc.) is in the inner city. Again, this is amply illustrated in the Melbourne experience as shown in Figure 2 and Figure 3.

Figure 1 GDP shares in metropolitan Melbourne; selected sectors



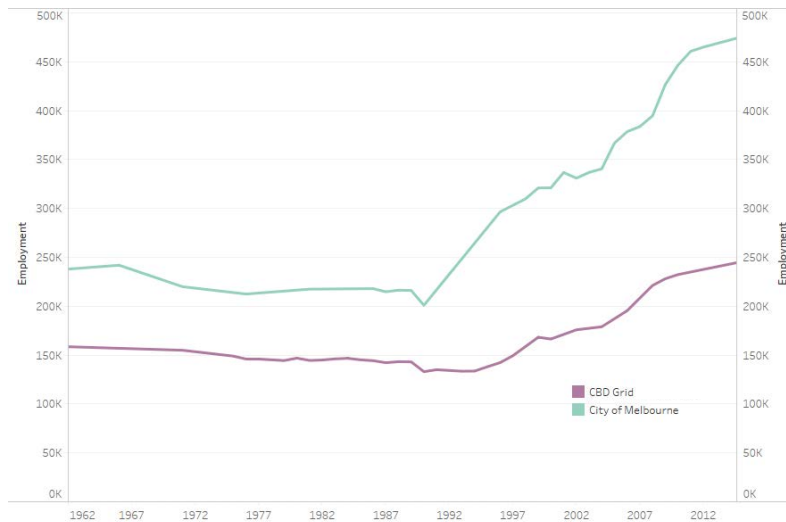
Source: SGS Economics & Planning Pty Ltd and ABS

Figure 2 City of Melbourne dominates the Victorian capital's top 8 councils for employment: job numbers 1996 versus 2016



Source: SGS Economics & Planning Pty Ltd and ABS

Figure 3 Central city employment – Melbourne – 1962 – 2013



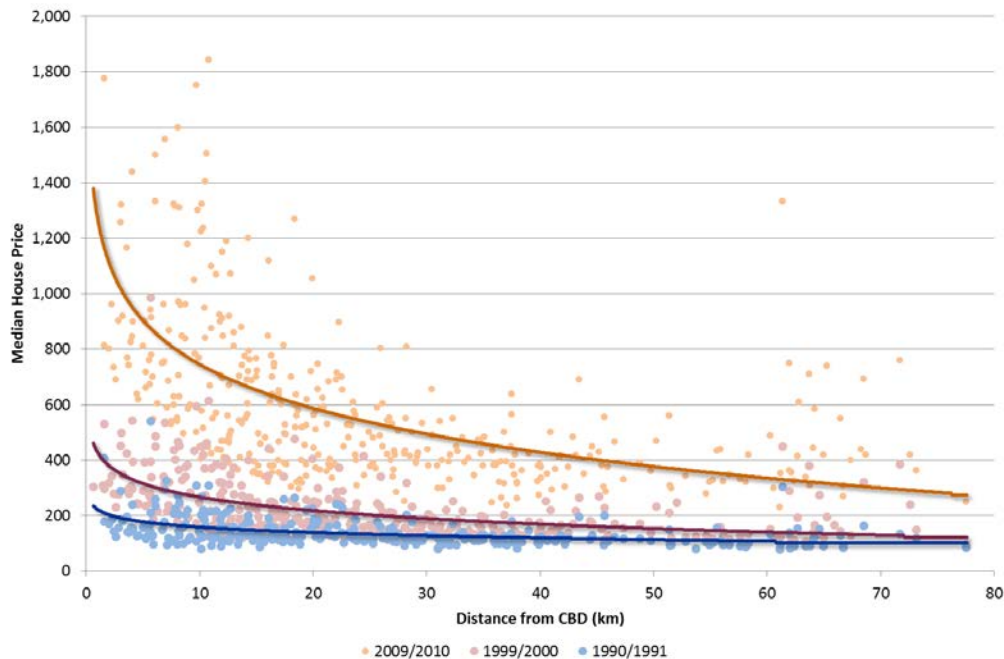
Source: SGS Economics & Planning Pty Ltd

New supply needs to be located close to jobs and services

Many frustrated millennial households could secure home ownership in the outer growth areas but choose not to. For example, a couple comprising a registered nurse and a civil engineer on a combined income of \$130,000 would have a good spread of purchase choices in newly developed suburbs. But taking up such an option would be a major risk, as it would compromise that household's continuing access to jobs and opportunities, not only for themselves but for any children they might have. Moreover, because of relative price movements, buying in an outer area is likely to mean that the household will be unlikely to move inboard, towards areas of greater opportunity, in the future (see Figure 4).

This is a dramatically different situation to that which prevailed during the long post-war boom, when suburban expansion offered *both* affordable housing and access to good jobs, and when purchasing in growth areas would assist rather diminish social mobility.

Figure 4 Median house price versus distance from CBD for 1990/91, 1999/00 and 2009/10 – metropolitan Melbourne



Source: Vic Valuer General, calculations by SGS Economics & Planning Pty Ltd

So, forever expanding supply on the urban fringe is unlikely to provide a solution to retreating affordability of home ownership. And it would be destructive of the nation's productivity by curtailing the development of human capital. Skills acquired through formal and on the job training would go undeveloped because of the limited pool of employment opportunities available to these areas.

Housing needs to be expanded in those places where the good jobs are.

Having said this, this is a necessary but not sufficient condition for improved access to home ownership. Other policy settings beyond the scope of this contribution – namely prudential lending controls and taxation reforms to counteract the effect of structurally low interest rates on housing prices – also need to be appropriately aligned.

NIMBY-ism and the politics around urban densification

The inner and middle suburbs – where the good jobs and opportunities are – are, of course, the major battle ground for NIMBY-ism. It is hardly surprising that this is the case. It is entirely rational for incumbents in these markets to 'pull up the draw bridge' and maintain local housing scarcity once they have secured their own positions. And it is the job of local councils to represent local interests. Expecting Councillors to act in the best interests of the metropolis and housing affordability, if these objectives clash with local interests, is ultimately fanciful.

Planning initiatives to open up vitally needed housing supply in these preferred locations typically fail miserably because of the inherently adverse politics. These initiatives include setting housing targets for Councils to achieve, establishment of 'collaborative' planning arrangements between state and local government to find opportunities for housing expansion, state government resumption of planning control over major sites or infill districts, creation of expert technical committees to (supposedly) take the politics out of development assessment and so on.

One of the reasons why this problem seems so intractable is because planning, along with most things that state governments do, is a silo activity pursued with little or no appreciation of the micro-economics of regulation.

A regulated market in development rights

In essence, planning represents a regulated market in development rights. Developers are not permitted to do what they like when they like. We regulate development, which means erecting barriers to entry to certain market activities in a considered way, because we get a more efficient (welfare enhancing) allocation of resources compared to what would happen in a laissez faire market. Every time a development approval is issued by a council or other planning authority, a proponent is effectively licenced to undertake a regulated business activity.

In all other markets regulated by governments in the interests of community welfare – liquor licensing, commercial fisheries, milling of timber from state forests, mineral exploration, broadcast band allocation and trading concessions in the public realm to mention a few – governments typically take a licence fee commensurate with the value of the business access that is granted. In planning, there is generally no explicit licence fee. Rather the owner of the development site in question enjoys an uplift in the value of their property commensurate with the residual after the developer has met their profit target and all construction and delivery costs, including development contributions for roads, parks, community facilities and so on.

Aside from the inherent unfairness in the community 'giving away' the value that it enables through planning and the associated investment in urban infrastructure and amenity, this lack of a licence fee in planning exacerbates the housing supply problem in the inner and middle suburbs in particular. Approval authorities inject greater complexity and negotiation opportunities into their planning controls partly to give themselves a chance to extract some value for their communities, that is, a share of the value uplift they see themselves creating. This opacity and uncertainty helps to choke off otherwise warranted investment in housing.

Value sharing through development licence fees

The dynamics and atmospherics of planning and NIMBYism in these preferred areas could change significantly if development licence fees were systematically levied at a rate that both left enough on the table for land

owners to release their land to bona fide developers and enabled these developers to meet their costs and reasonable profit targets. Were the proceeds of these licence fees to be shared with local Councils for use in discretionary spending on infrastructure and services for the local community, Councils would have a stake in promoting rather than opposing development.

The ACT Government currently applies an effective development licence fee through its Change of Use Charges scheme. Under the Territory's leasehold land tenure system, developers must not only secure town planning approvals, they are required to pay the government for the adjustment to the lease terms on the site to enable a higher value use. In principle, this mechanism can be replicated in a freehold tenure system.

Value capture and inclusionary zoning

In terms of the second dimension of the twofold problem introduced at the head of this discussion, planning must, again, play its role but it is not sufficient by itself to ensure that all low and middle income Australians have access to decent housing at a rent they can afford. Governments need to provide equity for investment in social and affordable housing, as well as finding ways of topping up returns for private investors willing to enter long term contracts to provide affordable rental housing. And Governments need to continue to assist on the demand side by supplementing the capacity to pay rent by lower income households.

Planning's contribution could include assigning some of the proceeds of value uplift enabled by development approvals and infrastructure investments to the provision of social and affordable housing. Both the Victorian and NSW Governments have recently foreshadowed policies requiring the provision of permanently affordable housing when land is up-zoned. This is a good start.

Beyond value capture, inclusionary zoning policies can be applied. These are premised on the argument that planning should be concerned with sustainable development broadly defined, that is, to include *social* sustainability as well as in respect of the natural and built environment. Through this lens, incremental development which does not include a hard-wired quantum of social and affordable housing could not be seen to be sustainable any more than incremental development without contributions to open space, maintenance of local heritage value and application of water sensitive urban development principles. An inclusionary zoning scheme based on this idea has been operating successfully in Sydney's Ultimo Pyrmont regeneration precinct for more than 25 years. It is surprising that it has not spread further.

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National President of the Planning Institute of Australia and a former Board Member at VicUrban (now called Places Victoria). He has also served on the Commonwealth Government's National Housing Supply Council.

ROB KOCZKAR. How institutional investment could help housing affordability (3/5/17)

Competition between first home buyers and investors is dominating the discussion about housing affordability, but it's what's happening a few rungs down the property ladder that is perhaps the greatest cause for concern – the challenges for people trying to rent in major cities and low-income earners waiting for social housing.

Paradoxically, greater institutional investment could be key to easing their housing stress.

It's official, housing affordability is topic du jour again. It is water cooler and barbeque stopper, all rolled into one. For many Australians, having a place to call home is unattainable or seemingly out of reach.

Shortage of social and affordable housing stock

There is a [shortage of 400,000 homes](#) across the country that are both affordable and available to low and very-low income earners.

The reasons for the shortfall are complex but there are two core issues.

First, there is not enough suitable – by design, location and type – social and affordable housing stock. In this context 'affordable housing' is housing which is rented out at a discount to the market price and only people with an income below a certain threshold are eligible to apply.

Second, where there is available affordable accommodation for those on low incomes, the homes aren't available due to higher income earners occupying the lower-cost end of the rental market.

Social housing waiting lists are also long, and there are now over 200,000 people eligible for social housing who are unable to access a home. This means people are staying in short stay accommodation like motels or transitional arrangements or spending larger amounts than they can afford on rent. On any given night, there are also over 105,000 people experiencing homelessness, whether that be sleeping rough, couch surfing or sleeping in overcrowded, unstable environments.

State governments are currently experiencing unsustainable operating deficits on their aging public housing and are seeking innovative ways of providing financially sustainable social and affordable housing.

This complex situation requires a whole range of solutions, which means that government, the private sector, institutional investors and non-profit organisations all need to work together in new and collaborative ways to achieve housing affordability in Australia.

Need to improve access to institutional funding

Currently, Australia has a mismatch between the supply of appropriate capital and the underlying demand for social and affordable housing. While restricted funding is not the only contributor to the chronic shortfall in social and affordable housing stock, improved access to capital is an important piece of the puzzle in addressing the challenge.

There is tremendous potential to unlock institutional capital to help bridge the gap in supply. The case study below provides an example of this.

Case Study - HESTA

In 2015, HESTA committed \$30 million to create a dedicated fund managed by SVA which is the largest single commitment to the local impact investment market made by an Australian superannuation fund to date. SVA and HESTA designed a dedicated fund, the Social Impact Investment Trust, to allow HESTA to make direct and indirect investments in a range of businesses, housing projects and social impact bonds that deliver both financial returns and identifiable and quantifiable social impact. HESTA's commitment therefore represents a milestone in terms of size, source and social commitment. The fund is also notable for several innovations, its impact-based incentive structure in particular. In 2016, HESTA made a \$6.7 million investment in Horizon Housing, a community housing provider operating in south east Queensland, which is focused on increasing the supply of social and affordable housing and helping low income earners achieve home ownership in targeted areas.

Compared with overseas jurisdictions including the United Kingdom and United States, the scale and sophistication of social and affordable housing finance in Australia is limited. Australia's largest non-profit community housing providers (**CHPs**) each typically own or manage around 2,000 to 4,000 dwellings, compared to CHPs in the UK managing between 20,000 and 150,000 dwellings.

This fragmentation results in less economies of scale for providers and a perception of increased credit risk from institutional investors, limiting the ability for CHPs to access low cost capital over longer terms. Institutional investors are seeking large scale (greater than \$100m) transactions lending (or investing) to organisations with a recognised credit rating.

By contrast, non-profit housing associations in the UK have secured £62 billion in loans from two million dwellings that have been transferred from the public sector. The housing sector in Australia is not yet at this size or sophistication.

The other challenge in attracting private capital is that rental yields are significantly below market returns, making it a less attractive investment. For this reason, there's a key role for government to play to enable the flow of private capital, particularly institutional capital, into the sector. As housing policy is being developed between the Commonwealth and the States, governments should determine which combination of these levers will optimise social impact

investing to stimulate and deliver new social and affordable housing stock. Our suggestions for these levers are highlighted below.

Levers for new social and affordable housing

Lever	Details and examples	Gov't role	Scale of Impact
Construction or development costs	<ul style="list-style-type: none"> - Innovative design and build concepts such as modular housing - Large scale development capability of CHPs to reduce project costs 	N/A	LOW
Financing costs	<ul style="list-style-type: none"> - Interest rate subsidy – equivalent of 2-3% as a cash transfer - Government guarantee administered by a financial intermediary 	Federal and State	MEDIUM
Financing terms	<ul style="list-style-type: none"> - Long dated financing tenor up to 15-20 years (funding certainty for borrowers) - Lower debt servicing hurdles where prudent 	Federal and State	MEDIUM
Management rights transfer	<ul style="list-style-type: none"> - Leverage rental income stream to develop new stock - Limited by maintenance liabilities on existing stock 	State	MEDIUM
Planning regulations	<ul style="list-style-type: none"> - Inclusionary zoning – 10-15% based on LGA needs assessment - S.94 contributions waived for CHP residential development projects 	State	MEDIUM
Income support	<ul style="list-style-type: none"> - Commonwealth Rent Assistance moved to floating mechanism linked to market rent 	Federal	MEDIUM/HIGH
Tax incentive	<ul style="list-style-type: none"> - Replacement mechanism for National Rental Affordability Scheme - Tax credit for new social and affordable housing 	Federal	HIGH
Land costs	<ul style="list-style-type: none"> - Partnership between non-profits, land banks and CHPs with alignment of mission and purpose - Land gifted or leased at peppercorn rent from the State 	State	HIGH
Land or stock ownership transfer	<ul style="list-style-type: none"> - Title transfer of social housing to CHPs with leverage commitments - Medium-long term leases (20-30yrs) of social housing to CHPs with land swap 	State	HIGH

Public policy inconsistency

Over the past 20 years, respective governments have pulled several of these different levers with varied levels of success. One of the big frustrations of both the social and affordable housing sector along with institutional investors is the frequency in which public policy has changed and therefore created uncertainty for all stakeholders. Putting aside the technical difficulties of the policy initiative,

the National Rental Affordability Scheme is a recent example of a program designed to provide incentives to investor to build new homes rented out at below market rate. While there were undoubtedly issues with NRAS, the decision to wind it down without a replacement undermined investor confidence.

Institutional investors are attracted to markets and assets with stable regulatory environments and reliable cash flows. Short term measures and inconsistent policy direction creates uncertainty that makes investors nervous and unlikely to invest in such a market.

Unlocking institutional capital at scale

Social Ventures Australia (**SVA**) has had a view for some time that institutional funds can be part of the solution to the affordable housing challenge in Australia. From the Treasurer, Scott Morrison's recent remarks at the Australian Housing and Urban Research Institute event, it appears the Commonwealth Government may also have reached a similar conclusion.

The UK has successfully implemented a housing finance aggregator which has proven to be an effective and practical financing solution. It would be an efficient way to make a significant contribution to the pipeline of social and affordable housing in Australia.

A housing finance 'aggregator' is one solution for attracting more private capital into the affordable housing market. This model addresses two of the levers in the above table, financing costs and financing terms, that could contribute to a better flow of capital into the sector.

From our research and work with institutional investors, there is strong interest in the private sector to invest in social and affordable housing if the right conditions and regulatory environment is in place. The Treasurer outlined that there is a natural alignment between superannuation funds who are managing retirement savings on behalf of police, nurses and teachers to invest in key service worker housing targeted at these same people. This is demonstrated by HESTA's commitment to the sector and ongoing investment into social and affordable housing through the Social Impact Investment Trust.

Whilst not a silver bullet, this model is a viable solution that would essentially aggregate housing providers' finance needs. The model would enable housing providers to access funding at lower interest rates and for longer terms, unlocking desperately needed 'fit-for-purpose' funding into the sector, whilst contributing to the stock of social and affordable housing across the country.

Importantly, this solution is affordable for the Federal Government and encourages them to act as an enabler to improve housing outcomes rather than just as a funder, landlord or developer.

The proposed model operates within the larger housing ecosystem, so government has the potential through policy changes within that broader system to support the model's operation. The best outcomes will be achieved

through mutually enforcing initiatives at both the state and Commonwealth levels. For example, the value of a finance housing aggregator is increased if there are planning policies that encourage large scale mixed tenure redevelopments as in NSW (Communities Plus) and support for rental income (Social and Affordable Housing Fund).

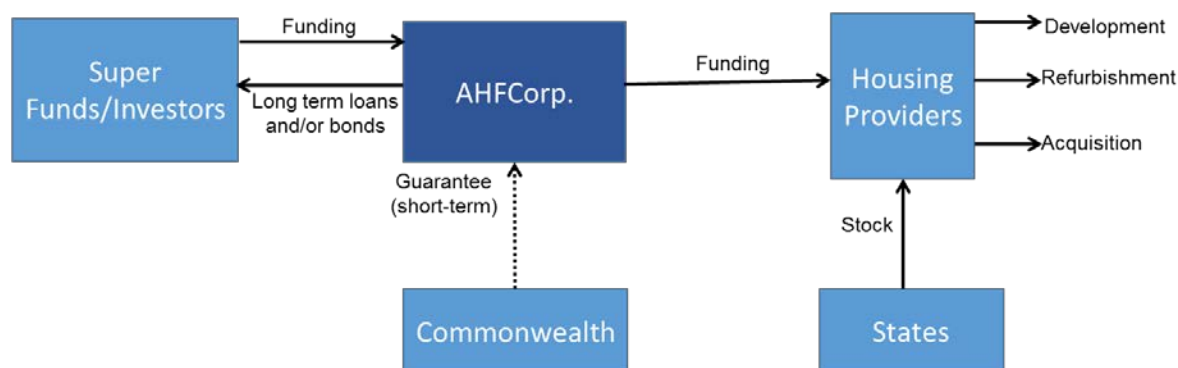
Explaining the Australian Housing Finance Aggregator

The Australian Housing Finance Aggregator (**AHFA**) would be a similar entity to the Housing Finance Corporation in the UK which has demonstrated the successful role of an aggregator in stimulating social and affordable housing finance.

The Housing Finance Corporation is the foremost aggregating funder to UK housing associations. It has held an A+ credit rating since 2003 and as at 31 March 2015, had outstanding loans exceeding £4.15 billion in value.

A not for profit entity, the AHFA would liaise with social and affordable housing providers (including CHPs, and others) to determine the amount of debt they seek to raise. It would aggregate these funding needs and source from superannuation funds and other institutional investors. The funds would be loaned to the relevant social and affordable housing providers in return for ongoing interest payments and the return of capital at the end of the loan life.

Proposed aggregator model



The AHFA would have both sector and financial expertise and resources and would:

- carry out credit assessments on appropriate housing providers;
- issue debt instruments of different maturities to institutional investors;
- liaise with regulatory bodies to ensure improved governance and regulation of the social and affordable housing sector; and
- ensure compliance to guarantee housing providers can meet their debt obligations.

Benefits of the AHFA

The establishment of the AHFA would generate a series of benefits for various stakeholders, generating improved outcomes for those most in need:

- Housing providers would have access to capital which is more fit-for-purpose, that is over longer tenor (of 15-25 years) and on lower cost terms.
- Institutional investors would have a financing vehicle to achieve long term secure and stable returns as part of their portfolio whilst also supporting the social and affordable housing sector. The AHFA would have investment characteristics such as a Government-backed credit rating with appropriate risk adjusted returns that are like other asset classes that institutional investors are familiar with.
- The Commonwealth Government would likely play a short-term support role to help establish the AHFA. This would require some form of credit enhancement, potentially a full or partial guarantee, for a finite period as the AHFA scales up and builds a portfolio of stable, predictable and risk-weighted investments. The administrative cost of the Government increasing regulatory oversight could be minimised by providing the AHFA with powers of intervention over poorly-performing borrowers. This would provide de facto regulation of CHPs who use the aggregator until funding to the sector increases in scale and sophistication and an independent regulator could be established.
- There are several state government initiatives currently underway that would complement the AHFA's function. These include but are not limited to the Social and Affordable Housing Fund (NSW), the Communities Plus Program (NSW), the Connected Living Initiative (WA) and the Renewal SA transfer program (SA).

An AHFA model is only one piece of the puzzle of the larger housing system required to address the chronic shortfall in social and affordable housing. However, this model is a proven and practical solution that could greatly contribute to increasing the pipeline of social and affordable housing across the country.

State and Federal governments have expressed a desire to increase the supply of affordable housing as a means of achieving better and more sustainable economic and social outcomes. Given the budgetary constraints that governments face, the private and non-profit sectors have an opportunity to collaborate in this solution.

The investment decisions of Australia's \$2 trillion superannuation industry could positively impact the lives of real people who are struggling to find a place to call home. Even a small slice of this institutional capital invested into the social and affordable housing sector could make a significant contribution to the 400,000 properties needed across the country, but more importantly, it has the potential to also improve prosperity, inclusiveness and social outcomes for vulnerable Australians who do not currently have a home they can afford.

Rob Koczkar is the CEO of Social Ventures Australia (SVA), Managing Director of Adamantem Capital and a non-executive director of Goodstart Early Learning. Rob has extensive experience in investing and management consulting along with a deep understanding of the social purpose sector.

HAL PAWSON. *Can Institutional Funding be Channelled into Rental Housing?* (3/5/17)

Channelling institutional finance into affordable rental housing has long been a 'holy grail' urban policy aspiration. Recent developments suggest that this may be edging towards reality.

Scott Morrison [last month re-stated](#) the long-professed 'holy grail' ambition to engage institutional investment with rental housing. 'Institutional investment' here refers to capital finance provided at scale by super funds, insurance companies, sovereign wealth vehicles and the like. Such a model differs fundamentally from the small-scale 'mum and dad investor' landlordism that remains overwhelmingly dominant in Australia's private rental market, just as in most other comparable countries such as the UK.

Ramping up investment scale

In part, the ambition to draw on institutional investment here is simply a matter of scale. Certainly all too plain is that government appetite to invest directly in expanding affordable rental housing is greatly diminished, if not entirely extinguished. More broadly, regarding the wider rental market, it has been [argued in the UK context](#) that harnessing extensive institutional investment will be essential in enabling private rented sector (PRS) expansion to continue along its recent growth path. Similarly, in Australia, the leading contention is that a large volume of preferably long-term finance will be needed to meet [forecast demand for additional rental housing](#) of over 50,000 dwellings per annum – a target unlikely to be met by existing suppliers.

While Australia's superfunds alone now control [over \\$2 trillion](#) in invested funds – including appreciable interests in infrastructure facilities like road tunnels and ports – there is as yet little if any input to rental housing provision. However, it is not only the potentially available *quantum* of funds that makes this a matter of interest. It is also the possibility that diversifying the ownership structure of our private rental market towards institutional funders could better match the quality of the 'tenancy offer' to the sector's changing role and demographic profile.

Re-shaping the private rental tenancy offer

This refers to the fact that – [as shown by our recent research](#) – the PRS now houses a growing cohort of long-term tenants and, among them, a rising number of families and older people. Especially for these kinds of households, the very limited security afforded to private tenants under Australia's rental laws is made particularly unsuitable by the standard 'mum and dad investor landlord' priority on capital appreciation. Maximising the 'tradeability' of the asset (the ability to sell at short notice, and into the owner-occupier market) is therefore paramount for these investors.

This is in marked contrast to the way that rental housing investment would likely be viewed by institutions looking for long-term, low-risk rental returns.

Within this context, as seen by [one UK commentator](#), ‘Institutions could [not only] support the necessary expansion of the sector ...[but also] shift the nature of the product the sector is able to provide because long-term security for tenants translates into predictable returns for investors’.

In a similar pitch, [the Treasurer’s 10 April housing policy statement](#) noted that ‘as institutional investors tend to take a longer-term position on their holdings, this would create greater scope for longer-term leases’. Less palatable to Mr Morrison as a case for reducing reliance on ‘mum and dad investor’ provision is that the generous tax breaks which currently incentivise this activity represent an entirely untargeted – and in that sense wasteful – subsidy. If you’re going to ‘spend’ [\\$12billion](#) a year on supporting rental housing supply, far more effective ways could be devised to do so.

A move by institutions into holding large rental property portfolios could also be expected to give rise to new professional housing management services once a market develops.

The Build-to-Rent phenomenon

Arguments of the kind rehearsed above have been increasingly to the fore in post-GFC Australian housing policy debates. As yet, however, the only significant institutional investor moves into our rental market have involved student housing (e.g. [Unilodge with over 10,000 units](#)) and a few developer builders (e.g. Meriton reportedly now leasing out [some 5,000 apartments](#) in Sydney alone, while Mirvac has recently [announced plans](#) to enter the ‘build to rent’ market). In the UK, by contrast, recent years have seen a dramatic take-off in so-called ‘build to rent’ schemes such that BTR projects recently completed or in the pipeline are now [said to total nearly 70,000 homes](#).

In summary, institutional investor engagement with market rental housing would be desirable for a number of reasons, including:

- Directly adding to supply (and thus dampening price effects)
- Facilitating a new long-term rental product suited to many who can’t afford home ownership and to those who prefer to rent in well-located areas
- Encouraging stable long-term investment, unlike the existing speculative investment regime, and
- Encouraging a more efficient and professionally managed rental sector.

Engaging institutional investment in affordable rental housing – no free lunch to be had

Beyond this, however, a far more important policymaker ambition is the goal of channelling large-scale private capital into the *affordable* rental sector, which has been in long term decline as a result of dwindling public and private investment. Indeed, we have been here before – and not so very long ago. Achieving just such an outcome was a central aim of the National Rental Affordability Scheme (NRAS) launched by Kevin Rudd in 2008. While defunded short of its original 50,000 target, NRAS remains on track to generate a not inconsiderable [38,000 new affordable rental homes](#) across Australia. Damagingly, however, at the very point where engagement with large-scale institutional investment was [on the verge of success](#) the scheme was abruptly terminated by the Abbott government in 2014.

Crucially, NRAS incorporated a government subsidy stream to bridge the ‘funding gap’ inherent in the economics of affordable housing – that is, the difference between the returns needed to attract private finance and the amount that low-income tenants can affordably pay in rent. As Mr Morrison’s own [Affordable Housing Working Group](#) made crystal clear in their 2016 report, ministers cannot pretend that there is any free lunch here. Only if aided by NRAS-style or other government support is there any realistic prospect that institutional financing of *affordable* rental housing can be made a reality.

Our [2014 research](#) demonstrated that, with the right policy support, super funds and other large scale investors remained willing to invest in much-needed new supplies of rental housing – by offering a mix of market rentals and (subsidised) affordable rentals provided key conditions were met as follows:

- Yields comparable with competing (risk-matched) investment options
- Improved industry data on rental housing performance
- Larger scale ‘infrastructure style’ deals, and
- Predictable and enduring government policy settings.

In addressing these issues, [we called at that time](#) for renewed Federal Government leadership and set out some essential steps needed for decisive progress. Crucially, these included:

- The establishment of an industry-government expert Task Force to shape a long-term rental investment strategy suited to different classes of investors
- Replacement of NRAS with a new incentive scheme designed specifically for institutional players.
- Dedicating a share of public land sales and windfall gains from residential rezoning for affordable housing developments.

In the shape of his [Affordable Housing Working Group](#) the Treasurer has arguably already fulfilled the first of these key recommendations. Last month’s speech moreover saw him creditably backing the AHWG’s central proposal for the setting up of a government-backed financial intermediary to

channel cost-effective private finance into affordable rental housing. More recently, in a welcome but all-too-rare instance of bi-partisanship, Chris Bowen has lent [Labor's backing](#) to this plan. However, only if the other essential steps highlighted above are meaningfully addressed is a genuine policy breakthrough possible. Given the government's fiscal constraints and with better targeting of housing tax expenditures apparently ruled out, an adequate funding source remains to be revealed.

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DAMIEN WEBB. An institutional scale solution for the social and affordable housing challenge – from a super fund’s perspective (2/5/17)

Many well-intentioned solutions have been proposed to address Australia’s housing affordability problem, yet fail to gain traction because the challenges faced by key stakeholder groups aren’t being addressed simultaneously. We believe success on a material scale will be more likely when this occurs.

We propose a model that potentially meets the needs of government, capital markets, and community housing providers in a simultaneous fashion, via the intermediation of a nationally owned, centralised property clearing house.

Guiding principle

First State Super invests its members’ retirement savings to achieve risk adjusted, long term capital growth above inflation, following a guiding principle of “Universal Ownership”. This principle reflects a recognition by large pension funds that they do not sit outside of markets or the broader economic system – they are an integral part of the system architecture and, have significant impact on: asset pricing; system stability; the environment; the governance of companies they own, and the communities in which they operate. In this sense, all our investments are impact investments – they all have socio-economic impacts, direct and indirect, positive and negative.

The Universal Ownership principle becomes a relevant consideration when giving thought to potential solutions to Australia’s housing affordability challenge. Large pension funds have significant capital which must be prudently invested to generate returns for the owners of that capital, being fund members.

Contemporaneously, the housing market is short of funding in a number of respects – particularly in addressing the shortfall in existing housing needs, let alone the additional strains caused by future population growth and longevity. Prima facie, it would appear logical and straightforward to bring the suppliers and users of capital together, agree commercial terms, and then get on with addressing the housing challenge. Unfortunately, history shows, that the issues are much more intractable than a simple alignment of intentions can resolve.

Challenges facing key stakeholders

Pension funds have several operating constraints that govern the way they invest; the housing market (particularly the community housing sector) is diverse and fragmented in its needs; and the most important player, government, is faced with the difficult task of meeting strong demand with limited resources. The needs of each of these sectors must be addressed together if progress is to be made towards increasing the supply of affordable housing.

Working together, these three groups (Government, Capital Markets, and Community Housing Providers) have the potential to ease the current strain on the affordable housing sector, providing their individual challenges are overcome. We see their challenges as follows:

Government

- Demand for community housing is increasing, whilst in the face of budgetary pressures housing investment by governments has fallen
- Social housing tenants receive significant rental subsidies and the existing social housing stock requires significant ongoing maintenance spending.
- Waiting lists are growing, due to chronic undersupply and the increasing tenure of tenants.
- There is a growing discrepancy between operating costs and rental collections, placing further pressure on government finances and reducing the ability to invest in new housing stock.
- Governments are also being asked to transfer large-scale housing stock to the community sector, despite its ageing and deteriorating status, which is a difficult choice as public housing is a significant asset on government balance sheets.

Community Housing Providers (CHPs)

- The community housing sector is a critical component of the framework, however is challenged with regards to scale, both in aggregate terms and as individual providers
- The sector is somewhat fragmented, with the largest providers representing only a small fraction of total stock (around 5,000 dwellings compared to a total of around 72,000 dwellings).
- Due to a lack of scale, CHPs are required to engage in non-core activities (such as obtaining finance, undertaking in-house development, and project management) in addition to their fundamental task of providing tenancy services and delivering social services.
- State governments are, therefore, somewhat sceptical of the ability of CHPs to absorb large scale stock transfers and/or develop large volumes of stock themselves.

Capital Markets (especially superannuation fund) challenges

- Superannuation funds are required by the Australian Prudential Regulation Authority (APRA) to hold high levels of liquid investments which can be redeemed at short notice by fund members
- Unlisted property investment constitutes an illiquid investment
- The current low real yields being generated by traditional defensive assets has meant that funds need to maximise returns from their illiquid portfolios
- Affordable or social housing provides a lower rental yield than alternative property sectors (e.g. retail, office, industrial). At the same

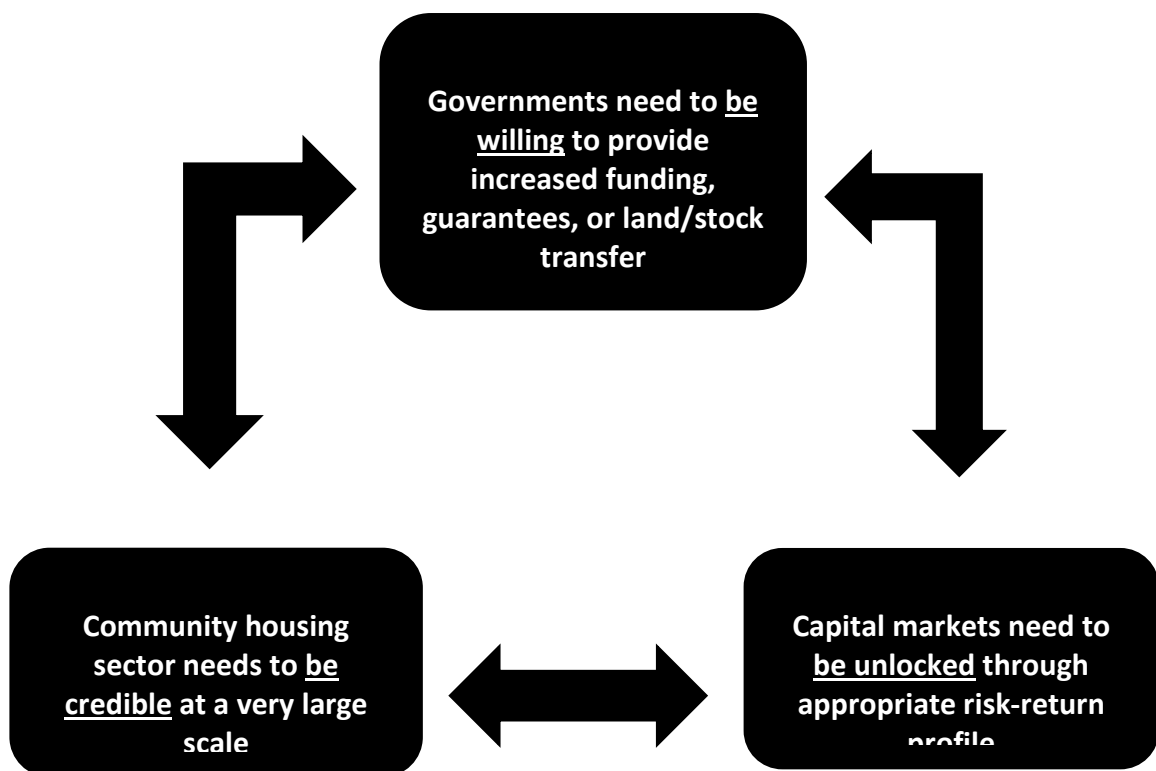
time, capital appreciation (more heavily relied on by private individual investors) is relatively less attractive.

- Institutional investors are unable to access the taxation benefits of housing investment that are available to individuals (who ultimately set the market price);
- The level of existing bank lending to CHPs is constrained and insufficient to enable meaningful increases in supply of this type of housing. Capital markets financing would require an alternative mechanism, such as traded debt issuance.

Simultaneous housing equation

For an affordable housing financing model to succeed, it must overcome the challenges facing all groups. We describe this as the ‘simultaneous housing equation’ represented below:

The simultaneous housing equation



Bridging the “return gap”

It is necessary to further clarify the role of government in any solution seeking to increase the supply of affordable housing. Providing affordable housing by discounting market rental rates is unlikely to generate the returns, in isolation, that professional investors will require. These investors have a fiduciary obligation to act in the best interests of their members, and are simply unable

to accept rental payments of, say, 80% of market rent, when they could accept 100% of market rent elsewhere (all other things being equal). Thus, there exists a *'return gap'* which is the difference between the required return demanded from investors and the return yielded by discounted market rental properties.

Realistically, the only party able to meet this return gap is government. There are broadly three ways that governments can (and currently do) meet this gap:

- The direct provision of funds/subsidies/grants
- Guarantees of outside investors' capital
- The provision of land/housing stock for the purposes of development or redevelopment, or the supply of industrial/fringe land for conversion to residential housing lots

Various proposed solutions have advocated the issuance of affordable housing bonds backed by a government guarantee. Briefly, such bonds would provide a lower return than a similar asset in the private market (i.e. the return gap), and would have investment risk reduced by a government guarantee to fund interest and principal payments. This would make the lower return acceptable to investors. Notwithstanding widespread advocacy for such a mechanism, there is little evidence of any government supporting the option. Accordingly, we have not proposed any form of government guarantee in our model.

In conjunction with Per Capita and The Committee for Sydney – Financial Services Knowledge Hub, we have previously proposed a model which relies on the government provision of land and/or housing stock – either currently used for affordable/social housing or additional land – which can be utilised to develop new stock of mixed private, affordable and social housing. The private housing proportion will be sold at market rates. The development profits from these transactions subsidise the affordable/social housing, meeting the return gap.

Proposed new financing and development model (CAHC)

We propose an innovative financing model which addresses the challenges identified in the Simultaneous Housing Equation (as discussed above). At its core is a new Commonwealth Affordable Housing Clearinghouse (CAHC). The objective of the CAHC is to finance and develop housing stock to be transferred to CHP's and/or state and territory housing authorities. The CAHC will not manage affordable or social housing.

The CAHC would act as a central expert facilitator and clearinghouse for the development of affordable housing nationally. It would partner with state governments, CHP's and major builders to generate large scale housing construction projects. Governments would provide land for development (greenfield sites) or redevelopment (brownfield sites). Tenders will be issued for the construction of mixed private, affordable and social housing dwellings. New construction will be at higher levels of density than existing housing

estates. Upon completion, private dwellings will be sold and the development profits used to subsidise the affordable and social dwellings. CHP's will submit Expressions of Interest to manage these dwellings upon completion, and ownership will be formally transferred to the CHP's. Funding for projects will be obtained from capital markets via the issue of debt instruments in the form of Affordable Housing Bonds (AHB's).

Investment objectives met by proposed model

This proposed model will satisfy several critical investment objectives, necessary to attract capital markets participants:

- A suitable investment mechanism in the shape of Affordable Housing Bonds (AHBs). These provide the necessary liquidity sought by superannuation funds. These structured instruments would emerge from a pooling of debt capital, facilitated by a centralised entity (the CAHC), paying both interest and principal based on the underlying debt pool. Proceeds from the sale of private dwellings would reduce the debt pool and rental returns from affordable and social housing would be used to pay interest and repay principal debt.
- Sufficient scale could be achieved via the establishment of the CAHC to facilitate large, diversified, institutional grade property developments. A meaningful level of debt issuance (sufficient to attract institutional investors) would require projects on a scale approximately ten times bigger than the largest community housing development project so far undertaken in Australia. A centralised, government controlled entity, would be required to achieve this.
- Increased density within housing developments is a necessary component of greater scale. Land with sparsely developed social housing would be re-developed at an increased level of mixed dwelling density (i.e. private, affordable, and social housing). Private dwellings would then be sold upon completion. This is the key element within our proposal by which the return gap is met.
- Pipeline Volume – to achieve long term viability of such a financing model, the development of a liquid market in AHB's would be necessary. This could be achieved via a pipeline of development projects. Issuances of AHB's could then be undertaken on a semi-regular basis, improving the breadth and depth of Australia's asset-backed/secured bond debt market and the capital markets in general.
- Institutional grade counterparties are required to ensure the confidence of capital markets before they invest. The underlying housing development projects funded by the AHBs must be constructed at scale by large credible builders or syndicates. This will help the AHBs achieve the appropriate credit ratings and meet the required risk-return profile for institutional investors. Development projects can be de-risked through large, diversified building programs; secured through transparent competitive tendering processes; undertaken by

institutional grade property development companies or syndicates, and overseen by development experts.

In summary, unless the challenges facing the various parties are addressed simultaneously the problem of affordable housing will continue.

Benefits of proposed model

The proposed CAHC model goes in large measure to address those challenges and delivers a range of benefits. The model:

- Provides an innovative financial mechanism to unlock capital markets and facilitates investment in affordable and social housing
- Improves the efficiency of private, affordable and social housing development through large scale development in partnership with institutional grade builders
- Provides a separation of scaled development activities best delivered by large private builders, and bespoke tenancy and management services best delivered by CHPs and state governments. This separation facilitates the growth of CHPs while allowing them to focus on their core competencies of tenancy management and social service provision
- Leverages development land to subsidise affordable and social housing construction, via an increased density of housing development. This allows the return gap to be met without requiring significant monetary contributions or debt guarantees from government.
- Is a holistic solution which increases the supply of private, affordable and social housing nationally at scale, with the added benefit of improving affordability in the private market.

Damien Webb is Head of Income and Real Assets at First State Super, overseeing investment activity in the areas of property, infrastructure, agriculture and credit income. The model referenced in this article was contained in a March 2016 submission to the Affordable Housing Working Group.

TIM WILLIAMS. *Housing affordability is not just a supply problem*
(1/5/17)

The housing affordability debate is being wrongly understood as just a supply problem. The real cause of house price inflation is excess liquidity and debt, combined with overly generous tax incentives.

Let me ask you a question. Would you like housing in Sydney to be more affordable? As this is like being against motherhood and apple pie I suggest you all correctly answered 'yes' to that question. Let me ask another. Would you be willing for the price of your home to go down the 30% required to make it more affordable for fellow citizens on average salaries? And will you crucify the politician who dared to take away the Sydney home-owner's divine right to double digit house-price inflation?

Therein lies the policy and political problem of housing affordability – and not just in Australia. As house-price inflation is a policy problem for most successful economies, so too is it a political problem well beyond our shores. However, the difference may be that – to their credit – Australian politicians of all colours are at least calling this out as the key problem faced by our communities. The question is whether they will get to grips with the real sources of house price inflation? And more important still, will we let them?

I ask all this in a slightly world-weary manner as I've been here before. Not here exactly, but the UK between 2005 and 2010 where I advised 5 consecutive housing ministers on the economics and politics of housing. You may recall that period is known in Australia as the Global Financial Crisis – which didn't really experience it – and 'the crash' in countries which did. In the UK housing delivery halved. However, interestingly, house prices also went down in real terms by over 15%. To repeat, housing supply went down and prices went down. In Sydney, after a bumpy period, annual housing delivery doubled since 2011 but the price has gone up 40%.

Affordability is not just a supply problem

These facts are part of why I am sceptical of the link between increased supply and increased affordability. Housing prices have increased with supply partly because what has also increased is access to cheap cash in a low interest rate economy, particularly by those who already own a home. So, multiple home ownership is growing while first time buyers cannot enter the market even though we are building many more homes. Guess how many homes Australia built in 2016? Over 140,000. And the UK? 150,000. Yes, that's right, we built just about 2.5 times as many homes per head of population than the UK – and prices here accelerated faster than there. How many more homes do we need to build before the price drops? And by how much? And do we even want it to drop?

When you ask these questions, you realise that the housing affordability debate is not being properly framed in terms of the objectives of public policy. That is because it is being wrongly understood as only a supply problem.

Excess liquidity and distorting tax settings

It is better understood as a problem of asset price inflation due to excess liquidity and leverage flushing around the globe. In Australia, this is combined with an over emphasis in public policy on protecting the capital gains of existing home-owners on their journey to becoming rentier landlords. We are indeed becoming a nation of unproductive rentiers – or rather 65% of us are. The rest are just renters. This is now a zero-sum game.

From this perspective, building 35% more units a year in Sydney than at present by 2026– an emerging government target – may be socially necessary. I support it. But it will have little impact on affordability. I'd be interested to see the government modelling which proves otherwise. But then this returns us to what exactly is or should be the objective of public policy.

Key policy questions

I suggest the best framing of the policy objective, in the public interest, and to enable first time buyers to come back from the edge of extinction, is this. It currently takes 10-12 times average salary to afford a home on Sydney. It was 3-5 times in the '80s.

What interventions or policies by government would over time get us back to the levels of previous eras? Similarly, the long-term average annual price rise for homes in Australia before the explosion of the last 20 -25 years was 3-4%. It is now rising 13-15% per annum in Sydney. What would take us back to the boring but socially beneficial growth rate of the pre-bubble period?

In Sydney today, first time-buyers are below 10% of the market with investors cornering far more homes. Until the 90s they made up well over 20% of buyers.

What would enable us to rebalance the market to what it was? Beyond mere supply what about action to reduce house price inflation and the irrational exuberance around it as a money-making machine for rentiers, such as reducing tax incentives and shifting to a serious land tax regime. If we are not asking these questions, are we serious as a society about answering the affordability challenge.

However, and even more fundamentally, what if the genie of un-affordability cannot be put back in the bottle? What if this also means that the shift to multiple home ownership by those with leverage from their existing properties intensifies and leads to fewer and fewer rentier landlords owning more and more units but also accordingly to more and more renters?

Home-ownership is in dramatic decline already and that seems likely to continue. Not only could that mean politicians waking up to the fact that in such a scenario renters may have increasing clout and need looking after – greater consumer protection around leases and landlord obligations for example. It could also remind us that in most societies on the planet renting is the norm and locking so much capital in bricks and mortar is viewed as

restrictive on the movement of labour and unproductive economically in comparison with other uses for investment. From that perspective, reducing the national and divisive obsession with property is about raising capital and investment for jobs in the new economic future of Australia.

Prior to joining the Committee for Sydney as CEO in late 2011, Dr Tim Williams was the senior Special Advisor to a number of UK cabinet ministers in the Department of Communities and Local Government, where he helped develop what became the early UK City Deals. Tim is an adjunct professor at both WSU and UTS, has a Ph.D and is a qualified barrister. He has advised State and Federal governments in Australia and London Mayors Ken Livingstone, Boris Johnson and Sadiq Khan. He is currently on the international expert panel reviewing the New York Regional Plan.

SUSAN RYAN. Older women need housing too (15/3/17)

In the growing discourse around affordable housing, the federal and some state governments are edging forwards. Recently proposed changes have merit, but they may exclude poorer older women in need of housing.

Single, older women are amongst the most marginalised groups in terms of their access to safe and affordable housing. The 2011 Census found that 36% of older homeless people were women and the number of older women renting in the private rental market increased from 91,000 in 2006 to 135,000 in 2011. The numbers would have grown significantly since then. Older women in today's inflated rental market are vulnerable to big rent hikes, or to lease terminations, leaving them facing homelessness.

Their circumstances require policy focus, and it seems that with the new measures recently proposed or announced, focus is lacking.

Even if the federal Treasurer's idea of setting up an aggregated bond trust, to entice major institutional investors into providing significant funds for community organisations to build and operate affordable housing for rent does happen, there will be a long list of eligible renters. Guidelines for access must provide that older low income individuals are treated fairly along with young families. This bond proposal has attracted support from successful community providers such as the NSW Federation of Housing Associations, whose members supply and manage affordable housing successfully but are constrained by lack of funds to develop and acquire more properties. With this new scheme, as with the previous national Rental Affordability Scheme, NRAS, there is a challenge to focus more closely on the target population of beneficiaries, which must include older women as well as men and young families.

Even if the Victorian government's new package of measures succeeds in reducing the size of the deposit needed, and with government as equity partner creates a lower initial mortgage requirement, we would still be left with gaping holes in housing policy. Very few single low income older women would be likely to pursue home ownership under the new Victorian measures, important though they will be for other deserving groups.

Much media and political attention is directed to the obstacles facing young first home buyers, and for good reason. They are locked out of purchase by impossibly high prices fuelled by tax favoured investors who absorb supply, existing and new, as soon as it comes on the market. These tax cosseted investors often don't even bother to make their favourably acquired properties available for rental. Premier Andrews' proposed tax on investors who leave properties vacant is a positive move.

In the context of increasing the supply of homes that most first home buyers can afford however, Treasurer Morrison's insistence on supply as the main solution is inadequate. He has no proposals to target supply to lower income people, people who need a home to live in. As well as reducing investor

friendly tax concessions, he could encourage his state counterparts to mandate inclusionary zoning, so that a proportion of all new developments must go on the market at prices lower income people can afford, and be available only to those who will live in the properties, not to investors.

Community housing organisations are leading the way in managing affordable rentals successfully and equitably, and would continue to do so if they can get many more units to manage. They will get these extra homes if the new schemes target the intended market clearly so that rip offs and unintended consequences are avoided. The Labor government's NRAS scheme (National Rental Affordability Scheme) had many successes, but lost favour and focus because the intended beneficiaries were not clearly defined. Quantities of subsidised housing intended for poorer people went to campus accommodation. Noting that the highly successful provider of affordable rentals, Bridgestone Housing in NSW has recently brought on stream some high quality low cost apartments at Ashfield, supported by NRAS, it seems the time to revise that scheme rather than abandon it.

We have a crisis of housing affordability affecting all age groups including older women. If a substantial increase in supply of affordable housing is not forthcoming soon, there will be more cohorts of people reaching retirement each year without secure housing

Because of the obstacles to young would be purchasers, the age of people entering the first home purchase market for the first time is much higher than it used to be. Nearly 10% are attempting this purchase for the first time between 45 and 54 years, compared with a bit more than a decade ago just over 7%. Some hopeful first time purchasers are over 55 and some are over 65. There are many social and economic reasons why older people don't own a home. The pipeline effect of people getting older without being able to purchase will produce even higher numbers of homeless older people, most whom will be women.

Access to affordable housing, for purchase or as secure rental, should be the top priority for federal and state governments, who need to agree on the guiding principle that all Australians must have access to homes regardless of age. They should set up practical cooperative policy implementation across all tiers of government, and work with the successful community housing sector.

If the policy aim is housing for all, we require innovation beyond tax reform and new sources of private funding. Many older people are single. If there were more innovative home sharing arrangements in place, some could look to shared ownership. Small well designed studios near to amenities at lower cost would be the answer for others. Incentives by federal, state and local government should promote new lower cost units that are liveable and affordable, and can be shared.

At present, federal funding for homelessness and domestic and family violence crisis services via both the National Affordable Housing Agreement and the National Partnership Agreement on Homelessness is at risk. Older women need these programs, as do others.

In the case of homeless older women there is no strategy from Federal or State Government for responding to their crisis.

No targets have been set, evidence is not being systematically gathered to understand the scale and nature of the problem, and no funds have been allocated to respond to the issue.

As affordable housing gains traction at policy level, these gaps must be addressed.

Susan Ryan AO is the former Age Discrimination Commissioner at the AHRC. She was a cabinet minister in the Hawke government and led a number of superannuation bodies.

MICHAEL PERUSCO. Revitalising social and affordable housing (3/5/17)

The discussion and commentary about housing affordability in Australia has reached a crescendo in recent months. But an important piece of the housing puzzle cannot be overlooked in the debate: the role of social housing.

It is time for governments across the country to recognise that a well-functioning social housing sector is critical to balancing the housing market's equilibrium. It cannot be pushed aside for more populist political topics.

In this article, I outline the role social housing plays in the community and what needs to be done to create a vibrant and robust social housing sector that provides Australians on low incomes with secure, affordable long term housing options.

The role of social housing

Firstly, it is important to clarify what social housing is.

Social housing is short and long-term rental housing that is owned and run by government or not-for-profit agencies. If it is operated by government, it is referred to as public housing, and if it operated by not-for-profit registered housing agencies, it is referred to as community housing. Rent is usually charged as a percentage of household income – typically 25 per cent.

Social housing plays a critical role in the housing market. It provides affordable rentals for those on low incomes, connects vulnerable tenants to support services and provides a more secure tenure. One of our tenants recently told me that when she signed her lease with Unison Housing, following a period in the private rental market, she felt she could “finally take a deep breath and relax” for the first time in a decade. She has since gone on to establish strong roots in her local community and her health has greatly improved.

Social housing is in decline – rents are shrinking and costs are increasing. Over the past decade, Australia's population has grown by 16.7 per cent but the number of social housing units has only grown by 6.4 per cent. And much of this growth came from the Rudd Government's once off GFC stimulus package, rather than a sustainable investment stream.

Approximately 4% of Australia's housing stock is social housing. This compares to 32% in the Netherlands, 18% in England and 6% in Canada. In Victoria alone, 1,800 additional social housing units are required each year to maintain the current proportion of housing stock at 3.5%.

The increasing rates of housing instability and homelessness being experienced across Australia reflects diminishing housing options for people on low incomes, particularly those on Newstart and pensions who are also facing a range of challenges in their life.

Affordable Housing

In the context of Social Housing, the term “affordable housing” is used to describe housing that is made available to households on low to medium incomes, with rent set at 75-80 per cent of market rent. A thriving affordable housing market plays a key role in a well-functioning rental market. It allows people with lower paying jobs to live nearer to their work and provides options for older people who find themselves forced out of the private rental market.

The need for government support

Since the federal government’s once-off \$6.4 billion investment in social housing in 2009, investment levels have fallen to record lows. Much of the discussion over the past eight years has centred on the notion that through financing mechanisms, impact investment and other “innovative” ideas, housing could be generated without government subsidy.

There now appears to be an understanding that however innovative the financing model, significantly increasing the supply of social and affordable housing requires a subsidy from government. The reality is that the rents received are too low to fund long-term maintenance requirements and service loans. A government subsidy is essential to bridging this gap.

Initiatives in Victoria and NSW

Over the past 12 months, we have seen welcome first steps taken in Victoria and NSW.

In NSW, the government has established the \$1 billion Social and Affordable Housing Fund. The NSW Government’s investment arm, TCorp, is investing the money to provide a stable income stream to boost social and affordable housing for up to 25 years, with homes to be built over the next four years.

The Victorian government has recently set up a Social Housing Growth Fund, which will reach \$1 billion over the next four years. The government is currently determining how the income stream generated from the fund will be used most effectively.

Victoria also announced a loan guarantee program of up to \$1 billion to help community housing organisations access finance at affordable rates and a \$100m revolving loan facility provided directly by the government,

In addition, both jurisdictions have committed to redeveloping large public housing estates and transferring public housing stock to the community housing sector (35 per cent of stock in NSW and 4,000 dwellings in Victoria).

Lessons learned

What these policy initiatives demonstrate is:

- A recognition that a government subsidy is required and it can be in different forms
- Government is open to purchasing access to social housing for a period of time (in NSW, 25 years) rather than owning and maintaining the asset.
- There is land available in the community for social and affordable housing and these mechanisms can be used to flush them out
- Increased commercial acumen is required of community housing providers
- Organisations are expected to have greater reliance on debt
- Partnering with private providers is being encouraged

These initiatives recognise that a multi-provider framework for the delivery of social housing is the preferred model for government. This makes sense because the community housing sector provides not-for-profit, government-regulated social and affordable housing and is the viable alternative to the private and public housing systems. The community housing sector can:

- Access finance in a way that public housing systems cannot
- Build and develop housing more cheaply than government and for-profit providers
- Be more nimble and flexible than government
- Partner more easily than government

Bond aggregator model

There has also been movement at the federal level. The Government and opposition have indicated their support for a bond aggregator model, similar to that used in the UK. This involves the federal government establishing a finance corporation to issue bonds to investors. The finance corporation then lends the funds raised to community housing providers to increase the supply of affordable housing.

The benefits of this approach are twofold. Firstly, it enables institutional investors, including superannuation funds, to invest in social housing at scale. Secondly, it provides community housing providers with cheaper finance for longer periods. While this is a welcome move, it will only make a real difference if it accompanied by a subsidy from government.

National Affordable Housing Agreement

There is also debate about the National Affordable Housing Agreement (NAHA). Under the NAHA, the Commonwealth provides \$1.3 billion a year to the states and territories towards the cost of housing and homelessness services. While it is true the agreement can be improved, abolishing it would be a mistake because it would reduce funding to a public housing system that is already starved of funds. The Government's approach to the NAHA remains unclear however, Labor has announced its intention to work with the states to drive better outcomes and performance in the NAHA. This includes

strengthening benchmarks across the housing affordability spectrum such as housing supply, planning reform and inclusionary zoning. Such a renegotiation should also ensure Commonwealth funding is matched by the states.

The opposition's policy to re-establish the National Housing Supply Council and the Minister for Housing are very welcome steps.

National Plan for social and affordable housing

It is critical that the Federal Government leads a process to develop a plan for the increased supply of affordable housing in Australia – social housing, affordable housing and private housing that is affordable. Such a plan would first identify the scope of the problem and then set targets at federal, state and local government levels that can be monitored.

Addressing the gaps identified would require a comprehensive policy response including taxation, planning and social and affordable housing.

Sustainable pipeline of investment at scale

A key element of any National Plan must be the establishment of a sustainable pipeline of investment for social and affordable housing.

The pipeline can be achieved by:

- Creating access to low cost finance over longer periods as referred to above; and most importantly;
- Providing a government subsidy that makes the investment in social and affordable housing viable.

Given the underinvestment in social and affordable housing over the past decade, an additional 10,000 – 15,000 dwellings per year nationally is an appropriate target.

The funding required would be in the order of \$2.5 billion per year, which would need to be shared across jurisdictions. While this sounds like a large amount, it pales in comparison to funding in other areas of government and represents the minimum required.

It would be necessary to review and consolidate existing Commonwealth funding arrangements and determine how they link to the recent policy announcements by state governments. Combined, these offer a very good start that can be built upon to deliver the increased supply required.

Recycling of stock and moving to mixed tenure environments

In dealing with the future of social and affordable housing, it is also important to deal with the way in which it is delivered.

A criticism of public housing estates is that they create enclaves of disadvantage that limit the opportunities of those who live within them. As a result, there has been increased interest about the capacity of mixed tenure developments in order to improve community outcomes.

Mixed tenure developments are those with a mix of home ownership, private rental and social housing. Our experience at Unison Housing suggests these models can reduce social and economic inequalities. The concept emerged as an important public policy idea in the US and UK as a result of the concentrations of disadvantage on public housing estates.

The characteristics of a neighbourhood clearly shape households' access to resources and opportunities. Research into place-based disadvantage in Australia shows that disadvantage in particular regions is entrenched, while other research in Victoria has demonstrated that more disadvantaged areas had less access to supermarkets and a higher concentrations of fast food outlets. While mixed tenure might not be the sole answer to disadvantage, place clearly matters. This resonates with our experience at Unison Housing of delivering mixed tenure communities.

It is encouraging that recent policy announcements in NSW and Victoria recognise the importance of place and seek to create mixed tenure communities where large redevelopments of estates are taking place. It is critical that this focus is not lost.

Michael Perusco is the CEO of Unison Housing, a large community housing provider operating in Victoria and South Australia.

JACK DE GROOT. Homelessness – the potential to implement a widespread housing first policy (3/5/17)

Having a roof over one's head, a place to call home, is a fundamental right for every individual. Until all levels of government collaborate with institutional investors and the not-for-profit sector to provide more affordable housing and accessible services, housing stress and homelessness will remain a blight on Australian society.

For some, maintaining a tenancy can be as difficult as finding a rental property in the first place. People leaving crisis situations need support to sustain financial resilience and to maintain their health and wellbeing.

At the St Vincent de Paul Society NSW, we know only too well that even the most basic but safe, well insulated and affordable dwelling is not available to everyone – the lack of affordable housing is dire.

We also know that for many people who face homelessness, just having a home isn't enough. Maintaining a tenancy is something they battle with constantly. Sustaining financial resilience, managing a budget, and maintaining health and wellbeing has to be supported. That is what the community sector is best at, and what organisations like the Society have been doing for many years.

NSW Social and Affordable Housing Fund

The need for tailored support, to help households gain independence, is a major component of the NSW Government's Social and Affordable Housing Fund (**SAHF**), a key initiative of Future Directions for Social Housing in NSW.

In March 2017, the Government announced the 5 successful SAHF providers, all of whom are not-for-profit organisations. Amélie Housing, the community housing company of the Trustees of the Society of St Vincent de Paul (NSW), was one.

Under the SAHF, Amélie Housing will be building 305 new properties and acquiring 195 properties across the state. They will be a mix of social (70 per cent) and affordable (30 per cent) dwellings, helping those who can't afford to rent in the private rental market to access homes that are affordable.

Amélie Housing, a National Community Housing Provider, manages a number of Housing NSW properties. These are transitional housing properties which are tenanted through the Society's Support Services to house people leaving crisis situations and are available for up to two years, during which time a Society case manager provides assistance with their individual needs.

The Society operates in a partnership with the men, women and children seeking our assistance. They come to us because they find themselves facing many challenges that are hard to deal with—unemployment, illness, entrenched poverty, addictive behaviours, poor education, trauma, abuse, neglect, family violence, with the overlay of poor mental health.

Through the Society's Support Services and Special Works, we offer homeless and addiction services, accommodation services, case management, and community support and development.

We also connect the people we assist with other community service organisations and government services to achieve better outcomes.

They are encouraged to make their own personal goals and we help them get there.

Our work is underpinned by evidence and feedback so we can continuously improve our services, to build the integrity and resilience of those we support.

Our volunteers and employees see every day that finding a safe, affordable place to live is made even more difficult because of past experiences of trauma, stigma, social isolation and loneliness.

It is gratifying to see that the State Government has recognised these needs and has set up SAHF with \$1.1 billion in seed capital to supply 2200 houses and services. But this is just a first step and there is plenty more that needs to be done.

Housing stress

Housing costs are arguably the single biggest driver of poverty and disadvantage in Australia. With housing costs rising over the last 10 years at twice the rate of inflation, housing is the largest area of expenditure for Australian households and causes housing stress when the cost of housing is high relative to income.

It is estimated 875,000 households in Australia are experiencing housing stress.

Around 2.5 million (13.9%) of all people live below the internationally accepted poverty line – \$400 per week for a single person, \$841 per week for a family of four.

According to an [AIHW](#) 2015-16 report, specialist homelessness agencies assisted 279,000 people across Australia, equivalent to 1 in 85 Australians.

- 54% sought assistance because they were going through a housing crisis
- 29% because they were experiencing housing stress
- 24% due to living in an inadequate or inappropriate dwelling

As people wait, living in unsuitable accommodation, overcrowded conditions, on couches, floors, under bridges and in doorways, the underlying issues they face do not disappear, but rather, spiral out of control. Health deteriorates, opportunities to work and learn disappear and drug and alcohol addictions are often reinforced.

We work in partnership with these men, women and children to try and stabilise their lives and get them to a point where they can manage their own situations. We understand, respect and build trust with all the people we assist, regardless of their cultural background and the barriers that confront them.

Is the individual or family at risk, experiencing homelessness or chronically homeless? After an assessment, they are offered a toolbox of services and skillsets they can choose from. Together with the case worker they develop goals that are achievable.

All the while, we are seeking housing options so that people can move from unsafe accommodation or crisis accommodation to transitional and ultimately a long-term place of their own.

Shortfall in NSW's supply of social housing

Social housing is simply not meeting the ever-increasing demand, with Housing NSW estimating that current supply of social housing dwellings only meets 44% of the need and in 2016, the public waiting list will grow by 60% to 86,532.

Our case workers encourage the people they assist to visit GPs, have their physical and mental health assessed, and seek referrals where necessary. They support them to manage medication regimes, maintain fitness, and eat more healthily.

Budgeting and finance management skills are taught, so that householders can become independent and able to look after themselves, structure their debts and pay bills, and know where to seek help when necessary so that debts don't escalate and subsume them.

Finally, we offer pathways to employment, through education and training, so that people are work-ready. This also includes ensuring children are supported to stay at school, thrive and gain employment skills.

Through a transitional housing program managed by Amélie Housing, we have a number of properties to house people leaving crisis situations. Tenanted through our Support Services, the program is available for up to two years, during which time a case manager provides assistance with the family or individual's specific needs.

The outcomes are frequently favourable, with residents able to maintain their tenancies and, where possible, move into permanent housing.

The Society wants to enhance its capacity to deliver good housing outcomes to disadvantaged members of our community in the areas of most need – not only a roof over their heads, but a sense of security and knowledge that they are able to maintain their tenancy and look towards a brighter future. We are just one piece in a jigsaw and we can't do it alone. This national shame will not be dispelled until all levels of governments collaborate with institutional

investors and the not-for-profit sector to find a solution—more affordable housing stock and accessible services.

Jack de Groot joined St Vincent de Paul Society NSW as Chief Executive Officer in August 2016. He was formerly a senior executive with St Vincent's Health Australia, one of Australia's largest not-for-profit providers of health and aged care services.

NED CUTCHER. Running the private rental market at a loss, for profit (2/5/17)

Understanding how unaffordable housing affects renters is increasingly important, since more Australians can expect to rent for longer. How do negative gearing and the capital gains tax discount affect affordability, amenity and security for renters? Encouraging “mums and dads” to invest in the private rental market is not all it’s cracked up to be, and tenants’ advocates have been calling for reform.

Following the release of [Unsettled: life in the Australian rental market](#) earlier this year, renters have enjoyed an unusually elevated position in housing affordability discussions. The Federal Treasurer has even noticed them, suggesting they won’t be forgotten in the 2017 Budget. Even so, signs are that no meaningful change is on its way. To unpack this, we need to look at how the private rental market fits into Australia’s broader housing system, and how it is affected by the affordability crisis.

Around ninety per cent of Australia’s private dwellings were occupied at the 2011 Census. Thirty per cent of those were rented, and sixty-seven per cent were owner-occupied. We can make predictions as we await the release of 2016 Census data, but there’s no doubt owner-occupation remains Australia’s most common housing tenure. So the amount a household is willing to pay for the home they live in has significant influence on the value of Australia’s housing.

[Housing as an investment](#)

Housing is not purchased solely for its shelter function. Owning a home is regarded as a form of voluntary savings for retirement, which is the [rationale for excluding the family home](#) from capital gains tax liabilities. These savings are not only achieved by paying down a mortgage; a home’s value is also expected to rise, always. Throw in a protracted period of low interest rates, and households have been prepared to spend ever-increasing amounts on the family home. The prophesy of ever-increasing-values is fulfilled.

Investors know this. With conditions as they are, making profits from housing is all but assured, assuming you can meet significant entry costs and holding expenses in the meantime. Negative gearing plays its part, allowing investors to offset losses against taxable income while waiting for capital gains to accrue. It also encourages investors to take on higher debt, and bid up prices, for properties that are likely to achieve the strongest gains. Unlike owner-occupied housing these gains are taxed, but at half the going rate.

It’s no coincidence that house prices really started to climb after the 50% capital gains tax discount was introduced for investors in 1999.

There’s a rationale for retaining this tax treatment of property investment, too. Allowing investors to negatively gear and taxing capital gains at a reduced rate is all about encouraging “mums and dads” – small holding investors with only a single rental property or two – into the market. More of this investment

means more supply of rental housing, and less expense for governments. Treasurer Morrison himself said in his [recent address to the Australian Housing and Urban Research Institute \(AHURI\)](#): “If mum and dad investors were not part of our private rental market, there would be fewer rental properties available, meaning higher rents, further crowding out of those on lower incomes and even greater pressure on already overstressed community and social housing resources.”

Investors versus owner-occupiers

There’s a problem with this rationale. Property investors are trading in the same market as owner-occupiers. They are predominantly buying established dwellings instead of building new ones, so increasing the supply of rental housing isn’t producing much new supply overall. It comes at the expense of housing for owner-occupiers. Encouraging “mums and dads” into the private rental market has well and truly skewed the dynamics of housing.

But what’s the concern for renters if owner-occupiers are getting priced and squeezed out of the market? Isn’t it good that investors are providing homes for those who aren’t buying them? Such questions are rarely given more than a passing thought in housing policy discussions, but Treasurer Morrison has broken ranks lately. With reference to the “Unsettled” report, he noted the majority of Australians who rent do so because they can’t afford to buy.

The dream of home ownership

Of course, many of these renters *would* like to own a home one day, and despite [Senator Hinch’s assertion](#) that home ownership is an Australian dream not a right, a high rate of home-ownership over several generations has produced an expectation that owner-occupation will feature in the life of most Australians. This is more than mere aspiration; it’s part of our national psyche. It’s not that renters don’t have good jobs that pay good money; prices are increasingly hard to keep up with on a decent wage. So, when renters see a pitched battle between first homebuyers and property investors they naturally side with the homebuyer. That’s where the majority see themselves, now or in the future. They also know it’s the side with the most to lose.

When Morrison invoked the home-ownership dream during his address to AHURI, it was part of a general caution: “it is a statement of the obvious that you can’t help first homebuyers save for a deposit by implementing policies that increase their rent.”

Meanwhile, several years of price growth that excludes well-paid households from home ownership has already pushed up rents, by increasing competition in the private rental market. Unless we make some attempt to rein in house price growth, this will continue.

The need for tax reform

The best way to tackle this is to shift our focus away from encouraging “mums and dads” to invest in the private rental market for capital gains alone. We’ll need to reform rules around negative gearing and the capital gains tax discount.

In his address to AHURI, Morrison also said that “disrupting negative gearing would not come without a cost, especially to renters...” He seems worried that changes to negative gearing would cause “mum and dad” investors to leave the market, leading to a reduction in the supply of rental housing that would drive up rents. Given what we know about housing supply and demand, and how it has been skewed, this seems simplistic. A negatively geared investor needs to be running at a loss.

Annual tax data shows that even with low interest rates the most significant losses come from paying interest on loans – this is [higher than all other expenses combined](#). It’s highly unlikely that investors would respond to new tax settings by removing both themselves *and* their properties from the private rental market. That would require holding onto properties but leaving them vacant, foregoing rental income while continuing to service debt.

Instead, an investor might respond to new tax settings in one of three ways: hold onto property and continue to rent it out; sell to another investor who will continue to rent it out; or sell to an owner-occupier. In the first two cases, the property remains in the rental market, and the landlord is encouraged to adopt a longer-term investment strategy.

What makes negative gearing especially attractive is the prospect of low-taxed capital gains, so investors are buying and selling properties relatively frequently. They trade in the same pool of stock as owner-occupiers, and properties tend to move back and forth between the two. Without altering the investors’ objective of chasing capital gains driven by untaxed owner-occupied housing, coming up with new tax rules to discourage investor churn should see them hold properties in the private rental market for longer.

In the third case, the property is lost to the rental market, but with a high chance it will be purchased by a renter. In this case, there is no net impact on supply and demand in the rental market because both the property and the occupant change status. But perhaps a relatively high earning household has made the transition from renter to homeowner, changing the dynamics of competition amongst renters, and easing the pressure on rents.

Higher rentals won’t result from winding back tax concessions

Then there is the concern that investors who are unable to offset holding costs through the tax system will [look to do so through higher rents](#). Rents are a function of market forces, not investors’ costs, and tax data tells us that rental revenue is increasing faster than expenses. In [New South Wales](#) the difference between annual rental incomes and investors’ expenses grew by

\$1295 per property, on average, between 2010 and 2013. This gap is likely to be much larger today.

Despite this, rents are increasing faster than incomes, and there's not a lot of room left to move. The New South Wales Independent Pricing and Regulatory Tribunal [recently found](#) the median rent for New South Wales has increased by 125% since 2000, whereas median incomes rose by 77%.

Investors who try to increase rents outside of their usual cycles might struggle to find a renter who will pay. They'll have to meet the market, and it could backfire if they try to push harder than they already do. Any loss of income will particularly hurt investors who are servicing debt. If faced with a change to their tax settings, they may need to look for other ways to offset their holding costs. Paying down debt could be one of these.

Of course, we must weigh all this against what negative gearing and capital gains tax discounts already do to the private rental market. We've seen how they skew supply and demand, and the impact this has on rents. But it does more. It has changed the shape of the private rental market, and contributes to renters living in poorer quality housing with no security of tenure. It has led to a culture of fear amongst long-term renters.

Investors make "strategic" purchases, by buying properties with the highest prospects for rapid capital gains. This means well-appointed properties in high demand areas. Affordable stock tends to drop away from the rental market. The [National Housing Supply Council](#) was investigating this prior to its demise, and Hulse, Reynolds, Stone and Yates have continued to [study its effects](#). Their research shows how the private rental market particularly doesn't serve low-income households, as the bulk of stock in the market is becoming less affordable. The [Anglicare rental affordability snapshot](#) also demonstrates this annually. While new supply driven by an [affordable housing bond aggregator](#) will go some way towards alleviating this, the private rental market is a big dog that won't be easily wagged by a small tail.

[A significant proportion of rental properties are not well maintained](#)

Investors are conditioned to regard their properties as capital gains producing "bricks and mortar", rather than homes for the people who live in them. For an investor, a quick and easy capital gain comes from the rise in intrinsic value of a well-bought property, combined with the capital gains tax discount, rather than improvements to the quality of the dwelling.

There is no incentive to spend more than the minimum on repairs and maintenance. The majority of investors are small holding landlords who rely on rents to cover costs, and the cost of servicing debt takes up more than its fair share.

Even though there are repairs and maintenance obligations for investors in our state-based renting laws, sometimes they just don't have enough cash on hand to keep properties up to scratch.

The “Unsettled” report demonstrates the extent of this problem, with 8 per cent of renters living in a property in need of urgent repairs. Only a quarter of renters reported they have not experienced a problem with their current property.

Again, the majority of investors are small holding “mums and dads” chasing quick capital gains with only a single investment property or two. As the only sure-fire way to realise a capital gain is to sell, homes are bought and sold relatively frequently. Investors trade in the same pool of properties as owner-occupiers, so they want vacant possession when they sell. They want as broad a base of potential buyers as possible to maximise their capital gain.

Renting laws have evolved with this in mind – tenancies are established on [short-term contracts](#) that, if not renewed upon expiry, carry over but can end “without grounds”. Insecure tenancy agreements rarely survive the sale of a renter’s home. The “Unsettled” report also showed the extent of this problem, indicating that 83% of Australian renters have an insecure short-term or continuing contract with their landlord.

Renters fear raising concerns and have little security of tenure

More worrying, though, is the news that renters are fearful of raising concerns with their landlord citing fear of rent increases, eviction, and listings on “bad tenant databases”. Renters’ are not only concerned for their current housing prospects; they worry about an insecure future in the private rental market. The longer a person has rented, the more likely these fears will be present, suggesting they are the product of experience.

Issues around affordability, amenity and security combine, as renters choose to keep quiet about poor amenity so as to improve their chances of staying put. This is no doubt the lesser of many evils. Rents go up with each move, competition to find a new home is always fierce, and of course, with over a million “mums and dads” running the private rental market, renters never know what they might get next.

Reforming negative gearing and capital gains tax discounts will not fix these problems for renters on their own. Proper measures to address supply are also required, as are improved renting laws. But focusing all attention on supply, without tackling the twisted dynamics of the market, is tinkering at the edges of a very big and growing problem.

To be clear, the kinds of reform that are needed are structural, and they will produce some turbulence as the system adjusts. But when the Federal Treasurer warns that changes to negative gearing could come at a cost to renters, we need to consider: what is the cost of no change at all?

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**private rental market on behalf of the National Association of Tenants'
Organisations**