



Daring to dream again: the Federal government's role in tackling housing affordability

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You would have to have been living under a rock recently not have got the message that we are facing a crisis in home affordability in Australia at the moment.

I want to talk to you today about some of the practical ideas federal Labor has for improving affordability, and also some of the principles we'll apply when making decisions about housing policy.

When I speak about housing I keep in mind that we're talking about a broad range of housing types. I see my responsibility as covering emergency accommodation, public, community and private rental and home ownership. I'm committed to improvements in all those areas.

I spend a lot of time reading or listening to the news - and in housing it seems the news is mostly bad. It is bad for first home buyers who are giving up on their dream to own a home and it's been bad for them for some time.

But it's now become bad for renters - even middle income renters - who are suffering very high rents in capital cities and even in some regional and remote areas. There are reports of landlords holding rental 'auctions' for their properties - leasing the home to renters willing to pay the highest price, and tenants who are offering to pay their rent one year in advance.

I want to be careful to deal as factually as possible in this area. While it may serve Labor's political interests to talk up a "crisis", I want to be very careful that I'm not adding fuel to the fire. The more politicians and real estate agents talk up price rises and rent jumps, the more buyers and renters are softened up to pay big bucks.

So, while I believe things are bad, I also believe that with co-operation between levels of government, and sensible policy settings, we can improve housing affordability over time.

Where's the Manual?

I had a call from a journalist the other day who wanted me to tell him the thing we needed to do to make housing more affordable. The one thing. The five second grab. The trouble with housing affordability is that there is no one thing; no simple answer - no manual to fix the problem.

Any policy to tackle un-affordability has to:

- 1) Acknowledge there are different housing types for different household needs - not everyone wants to or is able to buy their own home;
- 2) End the blame game. Ensure all levels of government work co-operatively, with housing affordability as an explicit aim. In particular, we need to adopt incentives for the private sector to build houses for a range of household types - not just for first home buyers in the outer suburbs of our cities, or for investors buying off-the-plan city units.
- 3) Tackle the factors that lead to un-affordability, while keeping in mind that a policy lever pulled to alleviate one problem may create problems in another area.

On the positive side, the great thing about problem solving in this area is that there are so many terrific organisations and individuals who have been working on constructive, evidence-based solutions for years.

There is certainly no lack of policy options.

We've got a wealth of experience - examples of good and bad practise in various states and overseas against which we can test policy options.

So while there's no manual for fixing home affordability, there is a huge body of practical and theoretical knowledge. This means once we have a *commitment* to solve the affordability problem for low and medium income Australians, we might have some arguments about the best way of doing it, but we can do it in an informed context.

There might not be a manual - but there are a lot of great mechanics around.

The mechanics

While people with an interest in policies to improve the affordability of housing may argue about whether low-cost private rental or helping first home buyers into the market should be the priority, there is one thing that I'm sure we'll agree on.

Nothing happens without a government committed to housing affordability.

The federal government is not committed to this aim.

Indeed the Prime Minister has said on many occasions when asked about housing affordability, "I've never heard anyone complain about the value of their home rising."

That's true. But it completely misses the point.

Of course home owners are happy about any increase in the value of their asset, and both home owners and investors rightly expect growth in the value of their asset over time. But for Australians who can't afford to buy a roof over their heads, and who spend ever-growing proportions of their income on rent in the private market; or who have been waiting what seems a life time for public housing, the Prime Minister's refusal to acknowledge the problem is frustrating.



How did we get here and what can we do?

The single most important impact government policy has on people who own their own home, or who want to, is obviously interest rates, and associated policies which regulate finance and the availability of borrowings.

Australians have experienced four consecutive interest rate rises since the last election and eight back-to-back rises since May 2002. Australians with a mortgage are now paying the highest proportion of their disposable income ever to service their mortgages; and the highest proportion of their incomes on paying the interest on those borrowings.

To keep interest rates low the Howard Government must combat inflation, in particular invest in training and education policies so that there is a significant and permanent lift in Australia's productivity.

Investing in the skills of young and middle aged Australians would put downward pressure on inflation and thus downward pressure on interest rates. Low interest rates - which are achieved over the long term only through good economic management, including continuous microeconomic reform and productivity improvements - are the major influence over housing affordability for home buyers.

Two days ago assistant Treasurer Peter Dutton said housing unaffordability is all the fault of the states: they should release more land and get rid of stamp duty.

I did a few calculations, based on my home state of NSW. Stamp duty for a first home under half a million dollars is 0. For subsequent homes it's just under \$18,000. But the last four interest rate increases add almost \$88,000 over the course of a twenty five year loan of \$450,000.

Taxation effects on housing

The Government has also largely disregarded the effect of taxation changes on housing. But taxation reform is another lever. Last year when the federal government amended the rules for superannuation contributions - and abolished the super tax - there was no consideration about how this would affect investors in the housing market. Nor, in turn, how this would affect Australians in the private rental market.

Most analysts agree that these super changes are partly to blame for investors leaving the housing market since the budget, in particular, slowing investment in new stock and exacerbating the rental crisis.

Mr Howard admitted this on Macquarie Radio last week when he was forced to expose the fact that the super policy change had flow-on effects for housing. He said:

Part of the reason they (investors) are plonking their money into super is that there are some transitional rules that allow the investment of an extra large amount of money in superannuation before the new rules come into operation.

It's a classic example of what happens when, as a Federal Government, you don't have a national housing strategy or a minister in cabinet who can point out the effects of savings and investment policy on housing. If John Howard had a Housing Minister, she or he could have warned the Treasurer that the transitional super provisions could lead to a rental crisis with a large number of investors leaving the housing market, and made sure that compensating measures cushioned the blow for renters.

The shift away from CSHA to Commonwealth Rent Assistance

Another big lever the Government refuses to use creatively is its own housing investment. The federal government spends, directly, more than \$4 billion a year, under the Commonwealth State Housing Agreement, Commonwealth Rental Assistance and the First Home Owners Grant.

This Government has disinvested in supply-side housing initiatives such as public and community housing in favour of demand-side responses such as rent assistance.

Rent assistance is good because it gets some assistance to a greater number of people than public housing, and it helps people on low incomes who are never likely to be eligible for public housing, but it doesn't increase the amount of affordable housing that's available.

Rent assistance may need to increase, but not if any increase is inflationary: just tipping extra money into the bucket is more likely to increase rents than improve affordability.

We need to look at whether rent assistance needs reform and indeed whether we have the balance between demand and supply side responses right.

We could look at proposals like the Queensland Government's Home Link, where a portion of Commonwealth spending on Commonwealth Rent Assistance is brought forward to subsidise building costs of affordable rental homes that otherwise would not be built, with state governments providing a tax-free grant to investors and lifetime tenancy services and local councils providing rates reductions.

Commonwealth rent assistance alone goes to about one million households annually. The Federal Government's focus has been on the Commonwealth Rent Assistance over the last decade, relegating the Commonwealth-State Housing Agreement to poorer cousin status. The Housing Agreement has suffered a reduction in funding in real terms by \$400 million over ten years.

The Productivity Commission's *Report on Government Services in 2007* showed that there has been a 10% rise in Australians receiving the maximum level of rental assistance since 2002. It argued that this rise showed that the Commonwealth Rent Assistance program was becoming less effective against rising rentals. But because CRA is a demand-driven subsidy, the government refuses to even estimate what it will cost in the coming years, or how the money could better achieve its aims of helping renters afford their home. While Labor is not interested in taking money away from people who rely on CRA, we are interested in smarter ways of using government money to achieve affordability outcomes.

And with vacancy rates at an 8 year low, and rental price growth of up to 10% per annum expected in capital cities over the next three years, it is time for the Howard Government to use the CRA more creatively.

I also wanted to touch briefly on the Productivity Commission's finding that the First Home Owners Grant is poorly targeted. The Grant could be improved in order to be of more practical use to low-income households.

I have noted with alarm that mortgagee repossession rates have more than doubled in the last 12 months. This is unacceptable - and it is not an inevitable consequence of an overheated property market. There is some evidence that the increase in loan defaults is related not just to higher interest rates, but to lending practices by the non-bank lending sector. Some experts, such as solicitor Amy Kilpatrick from the Consumer Law Centre of the ACT, have asserted for instance that:

These lenders are distinguished from [banks and credit unions] in that they do not offer deposit facilities and therefore are not regulated by the Australian Prudential

and Regulatory Authority...Non-bank lenders make significant use of "no-doc" or "lo-doc" loans. This means that they do not verify the borrower's income...

While Labor does not want to reduce competition in the lending sector, we will look in government for ways to ensure consumers have standard protection against unfair or unsafe practices.

Supported Accommodation Assistance Program

I also wanted to mention the federal government's refusal to increase SAAP funding when it negotiated the last SAAP agreement in 2005. Despite its own evaluation of SAAP 4 showing that in order to remain viable the Commonwealth had to increase its funding of SAAP services by 15%, it refused.

So now we have a situation where, on average, 193 adults and 111 children are turned away from emergency accommodation each day. These figures are simply unacceptable - more homeless adults and children are turned away each night than are accommodated. Labor believes that the Federal Government should actively support the homelessness sector and related crisis services.

More of the blame game

Whenever the Prime Minister has been challenged on his lack of action on housing affordability he simply blames the states. He says the solution is for the states to release more blocks of land on outer metropolitan fringes. Kevin Rudd calls this the "blame game", and has rightly said that people are sick of it.

Land supply may be part of the answer in some areas, but it's simple-minded to imagine that outer-western Sydney land releases will suddenly make homes affordable - there or anywhere else. The more likely effect would be price drops confined to the suburbs surrounding the new releases. Last month data already showed a drop in the value of land in western Sydney. So more releases in these areas could see people who are already struggling with their mortgage repayments develop negative equity in their homes - not an outcome anyone wants.

As urban planners like Dr Nicole Gurrán argue, an oversupply of vacant land zoned for residential purposes - a laissez-faire approach to development - also runs the risk of degrading landscapes and heritage, and creating places where no one really wants to live. These developments are difficult to service with infrastructure like mains water and sewerage and are often situated far from transport and employment.

New land releases are obviously necessary, but they must be phased and planned as communities where people want to live, with jobs, transport, schools and other infrastructure, as well as relationships to adjacent areas.

Ways forward

Federal Labor is interested in constructive solutions for housing affordability.

For a start, we will have a housing minister: someone charged with developing and implementing policy on affordable housing, and being a voice whenever other policies are discussed that will have a knock-on effect in housing. Labor sees this position as a critical part of our economic team, not just a social policy add on. The Housing Minister will work with the Treasurer and other economic ministers to boost housing affordability.

Secondly, we'll work with the states and territories and with local government. Home Link is one good example of co-operation; the City West project in Sydney is another: originally

set up in 1994 by the then NSW government and Labor federal government, now partially funded through developer levies.

Thirdly, a federal Labor Government will negotiate a National Affordable Housing Agreement with three tiers of government, which will replace the Commonwealth State Housing Agreement. All elements of federal housing policy will sit under this Agreement - base grants to the States for public housing, community housing support, the first home owners grant and the \$2 billion Commonwealth Rent Assistance Program. By this means, our many 'levers' can start being used to best advantage.

A Rudd Labor Government will also look at a Commonwealth role in shared equity schemes, like the \$300 million scheme recently announced by the West Australians.

There are many exciting possibilities for working with the private sector on affordable housing.

There's a good deal of money in housing investment, but very little of it at the affordable rental or purchase end of the market. I'm already talking to the superannuation industry about investing in affordable housing and to other investors who are attracted by the stable returns and in-kind incentives that all levels of government can provide.

Of course, if we're working to attract institutional investors into the low-cost rental market, much of the investment will end up being managed by community housing providers. While I'm a firm believer in the community housing sector, I'm keen to develop a robust regulatory framework and build the sector's capacity to broker private sector involvement and manage these tenancies.

Conclusions

The housing system is complex. It's segmented. Different people have different means and needs, which mean there must be different measures to assist different families. Some solutions will need to be innovative and bold, and others simply constructive and commonsense.

Affordable housing is a bedrock requirement for social inclusion. But there simply won't be affordable housing without a will to achieve it, planning and competent execution.

Federal Labor recognises that the Commonwealth has a responsibility to play a role in stimulating affordable housing, so all Australians have a stable roof over their head, whatever their income.

Ends.

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