

Myths and mortar

Forget about releasing new state and commonwealth land. If we want to get serious about housing affordability, maybe it's time to re-think stamp duty, so that you pay it when you sell the house rather than when you buy it. Better still: why not stamp out stamp duty entirely and replace it with a land tax? Sure, these ideas may be taboo in election campaigns... But then again, the solutions to our housing problems lie beyond the horizon of a three-year political cycle.

Transcript

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Peter Mares: New figures released by the Housing Industry Association and the Commonwealth Bank confirm what most of us know already: housing affordability in Australia has plunged to its lowest level on record.

If you're a full-time worker on an average wage, then an average house will cost seven times your annual salary. Twenty years ago, median house prices were 3.5 times the average annual income.

And let's not forget that about 2 million Australian households are in rental accommodation, where vacancies are tight and rents are rising.

What is to be done? For an expert perspective I'm joined in the National Interest by three people deeply engaged with housing issues.

Saul Eslake is Chief Economist with the ANZ Bank, and he joins us by phone. Hello, Saul.

Saul Eslake: Good afternoon, Peter.

Peter Mares: Associate Professor Kath Hulse is Director of the Swinburne-Monash Research Centre of the Australian Housing and Urban Research Institute. Kath Hulse, thanks for joining us.

Kath Hulse: Hello, Peter.

Peter Mares: And Steve Bevington is Managing Director of the not-for-profit company Community Housing Limited. Welcome, Steve.

Steve Bevington: Hello, Peter.

Peter Mares: Saul Eslake, why is Australian housing so expensive?

Saul Eslake: Essentially, it's a by-product of how well the Australian economy has been doing over the last 15 years. We've had 15 years of more or less uninterrupted

economic growth, during which average earnings have risen by close to 90 per cent, while over the course of that period the standard variable mortgage rate has roughly halved. That's meant that the amount which a typical, home-buying household can afford to borrow - under rules which aren't as strictly applied as they used to be - has more than doubled. Over the same period, rising immigration and falling average household size have meant that the number of households looking for accommodation has risen by about 1.5 million, that's around 200,000 more than the number of dwellings has increased by. So, you've had a substantial increase in the purchasing power of households, no net increase in the supply of housing and, hence, all of that additional purchasing power has gone into pushing up the price of housing.

Then on top of that, some other changes... Such as the halving of the capital gains tax rate which, by enhancing the appeal of negative gearing, brought more landlords into the market competing directly with first-home buyers. [That] has also pushed up the price of housing, with the result that, as you said in your introduction, housing affordability today is as dire as it was in the late 1980s and early 1990s, when interest rates peaked at 17.5 per cent. But in contrast to that occasion, when the solution to housing affordability is a problem with lower interest rates, there is no easy solution to a problem which is essentially the result of high house prices.

Peter Mares: Kath Hulse, do you agree? I mean, we've got the cheap credit, we've got rising population, rising expectations, rising incomes - meaning people can afford to pay more. And that's all pushing up the cost of housing.

Kath Hulse: I think that's basically it, in a nutshell. And the problem for governments is that's very complex. It's not easy to come up with a quick solution that will deliver outcomes during the term of a government. And I think that's why they're struggling with it. I think some of those factors... immigration, I think, is important. The change in the nature and composition of immigration [means] people are moving straight into the housing market...

Peter Mares: Because we've got skilled migration now.

Kath Hulse: We've got skilled migration. People have got money, and so that's additional demand. Families are breaking down, so one household becomes two - that's an additional demand and I think that's important. And the other important change I think is people borrowing against equity in their existing homes to buy another home, which is something that we've picked up has change between the 2001 and 2006 census.

Peter Mares: That is, people borrowing back on the mortgage to buy an investment property.

Kath Hulse: That's right, they feel...

Peter Mares: As Saul Eslake mentioned, that then means there's a lot more competition out there pushing up prices again.

Kath Hulse: That's right. They're competing with aspirant home purchasers.

Saul Eslake: And you can see that in the figures, Peter, where the proportion of taxpayers who are claiming rental income as part of their taxable income and in most cases claiming interest as a deduction against that income has risen from about 10 per cent in the mid-1990s to almost 14 per cent, as of 2006.

Peter Mares: And Steve Bevington, that should mean - with all these people, mum-and-dad investors buying second properties for investment purposes - that should mean there's lots of rental accommodation out there, shouldn't it?

Steve Bevington: I think there was a growth in rental accommodation around the turn of the millennium. But that hasn't kept up with demand recently and what's happened in terms of housing prices for the owner-occupier market, in the early part of this decade, has now flowed on to the rental market and is resulting in quite substantial hikes in rents. Especially in the urban areas. One thing I was going to additionally mention to what Saul and Kath said was [that] also this slow drift towards the greater urbanisation of Australia and the emptying out of the countryside is also contributing to this as well, as everybody wants to have housing in the urban centres and in the broader urban areas. And this is also a contributing factor to the growth of housing and the difficulty of housing supply around the major cities in Australia.

Peter Mares: Saul Eslake, it's interesting that you didn't nominate any of the traditional things that we associate in the political debate with the high cost of housing. I'm thinking particularly of the argument that states aren't releasing enough land on the urban outskirts of big cities and that states are charging too much in terms of stamp duty on new housing or imposing too many costs on developers, the sort of infrastructure charges on developers for the cost of roads and sewerage and those sorts of things. Now, they're the factors we hear most about in the political debate about housing in Australia and you're saying they're not the front-line factors?

Saul Eslake: I don't think they're the front-line factors - although I would readily acknowledge that increased charges on developers from state and local governments have been a factor in reducing the supply of land for owner-occupiers, particularly in New South Wales, where those taxes and charges have increased to a much higher proportion of the typical new house and land package than in any other state. That is a reason why in New South Wales, despite the fact that the population is still larger than in either Victoria or Queensland, fewer houses are being built in New South Wales than in either of those two states and, in fact, fewer houses in New South Wales than in that state for nearly 40 years. It's become increasingly the case that developers find themselves unable to produce house and land packages at prices that people can afford and are willing to pay, but which also allow developers to make what they regard as a reasonable profit margin for their endeavours. And I guess the truth of that assertion is implicit in the fact that the New South Wales government has, in the past week, announced some significant reductions in those developer taxes and charges.

Now, of course the infrastructure which is funded through those taxes and charges, which people want in order to move into estates like that, do ultimately have to be paid for by someone. Traditionally, they've been paid by local governments borrowing to provide that infrastructure and then recouping it from rates. And I guess if those charges are reduced then rates will probably end up going up again to reflect the transfer back to local governments of the cost of providing that infrastructure.

Peter Mares: Buyers will end up paying for it one way or the other. Kath Hulse, we've seen both major parties in the lead-up up - well, longer ago for the Coalition, more recently for Labor - suggest that they will review Commonwealth landholdings and look for surplus Commonwealth land around the cities, with an aim to releasing more of that for housing. Is that going to change anything?

Kath Hulse: I think it might make a difference at the margin and it would be prudent for federal government and also for state governments to do that. But I think what we know is that's quite a long process. They have to find that it's surplus to requirements, it has to be re-zoned and housing has to be constructed. So, all of that typically takes some years. So, it might help, but it's by no means an instant fix.

Peter Mares: One of the problems here, Steve, isn't it?, that if we really want to reduce the cost of housing - the price of buying a home - and housing prices fall, that means all those people who already have a house will see the value of their asset decline. And that's hardly going to be popular with voters.

Steve Bevington: I think this is the great political bind, of course. If you try and create policies which flatten out prices you'll have a major impact on the economy and people's sense of wellbeing. So, I think in that case the government really needs to focus on a means by which they can introduce subsidies to target the development of more affordable housing at the bottom- to medium-range. And I would say that over many years, the development industry has been more focused on the medium- to high-range, where there are better capital gains and there's been a problem of affordability in the overall type of housing provided. And although there are some developers which specialise in a broad range of household types, it's not sufficient to meet the demand.

Peter Mares: Do you agree with that, Kath Hulse, that the developers are building houses for the middle- to upper-income bracket of buyers, rather than the lower- to middle-income bracket of buyers?

Kath Hulse: I think they're building for a variety of markets, but often what they're producing is quite a standard product, which is what they think that buyers will want. I think one of the areas where there is some scope for improvement is to have a better range of affordable housing products. I think that's something that hasn't been talked about a great deal.

Peter Mares: Kath Hulse, let's turn the question of rentals, because I think there are 2-million-something households in Australia who rent...

Kath Hulse: That's right, Peter.

Peter Mares: So, what proportion is that of Australian households who are renters?

Kath Hulse: That's over a quarter of Australian households and drifting upwards. And of those we calculate that about a quarter have quite significant affordability problems.

Peter Mares: So, they're in the what we call the equivalent to 'mortgage stress', that something like 30 per cent or more of their income is going on...

Kath Hulse: Yes, they're renters on low incomes who are struggling, and there's over half a million of them.

Peter Mares: Now, in Australia renting is generally seen as a temporary thing, as a stepping-stone to house ownership. But that's different to other countries, isn't it?, where somewhere like Italy perhaps, or Germany, renting it seen as just a normal part of housing provision.

Kath Hulse: Yes, that's right Peter. In some of those European countries, long-term renting is quite normal. However, we do know [that] in Australia we used to think it was transitory, short-term - mainly for younger people while they were waiting to buy - but we do know that since the early 1990s there's been an increase in people who are renting for a long time. So, I think the pattern has changed and it will probably change further.

Peter Mares: And could more be done to encourage that longer-term perspective? Because for a landlord the idea of a long-term lease with a long-term reliable tenant - that's a good idea, clearly. And for the renter too - to have that kind of security is a good idea. I mean, it seems like a win-win for renter and landlord.

Kath Hulse: I think there is a match. I think one of the areas that's lagged behind is the area of regulation of residential tenancies, which predominantly has short-term leases, which is six months, in the case of New South Wales, 12 months in the case of Victoria. And that increasingly doesn't meet the needs of either the tenants or the landlords. So, I think that's a scope for change. But that's largely an issue for state governments to tackle.

Peter Mares: Steve Bevington, where does the community housing sector - companies like yours, not-for-profit, community housing companies - where do they fit into this picture? You provide rental accommodation, right?

Steve Bevington: Yes, we do. I mean, all of the accommodation we provide currently is rental accommodation and up until now, I think, the accommodation is more for people at the higher needs end - [those who] would be on pensions, who are traditionally provided for through the public housing which has now not grown for many, many years or so. But increasingly, we're looking at developing rental products for people who are just not able to gain access to home ownership.

Peter Mares: But how do you do that? I mean, you're not a welfare agency as such. You're a company, a not-for-profit, but you still have to cover your costs and your wages, I'm assuming...

Steve Bevington: Our particular company - we're a charity, so we have some advantages through not paying the various taxes, being tax-exempt. We also receive government funding and we also are able, like any other developer, to secure financing, private finance. And finally, we get donations of land from councils, community housing organisations or other donors, and one way or the other we're

able then to provide a good quality home for around 50 per cent to 75 per cent of the market rent, which is always well maintained and [which] also provides a secure, long-term lease. And I think one of the things that probably is necessary is to try and find a way of directing funding more through organisations which are focused on providing long-term leasing and secure leases, irrespective of the current private rental sector which is more short-term and allows the investor to be able to sell the property when the market so decides.

Peter Mares: When they make a good capital gain...

Steve Bevington: Exactly.

Peter Mares: Saul Eslake, do you see community housing - I mean, it's a very tiny part of the market here in Australia - do you see that as offering anything more than a kind of marginal benefit to the overall housing situation?

Saul Eslake: Yes, I potentially do, although I guess I should emphasise that's a personal view, rather than necessarily one which ANZ as a financial institution holds.

Peter Mares: I guess ANZ, as a bank, has a pretty big interest in people borrowing to buy their own homes.

Saul Eslake: I'm sure; I think that's probably right. So, I guess I'm offering the view that I think organisations such as Steve's have, potentially, an important role to play in this area, as indeed similar organisations have done with the encouragement and support of government in countries such as the UK. And as a generalisation I think there is more that governments can do to improve rental housing affordability than things they can do to improve affordability for owner-occupiers, because of differences in the nature of the problem. The traditional way that, in the past, governments have sought to improve the availability of affordable rental housing has been to build it themselves and make it available, and that was one of the core elements of state housing programs from the 1940s until, really, I suppose, the early to mid-1980s when those kind of programs went out of fashion, partly for economic reasons, partly as the result of social concern about the concentration of low-income earners in either high-rise apartments or in housing estates remote from employment opportunities and other community facilities. It is, of course, and it would be expensive for state housing authorities to go back into that business, but I think organisations like Steve's have shown themselves capable of administering rental housing for low income earners in a sensitive and appropriate way, having regard for the social mix of the locations in which the housing that they offer is located. And in that sense they probably represent a smarter way of governments seeking to do things directly to improve the availability of affordable housing for low income earners, than governments doing it themselves.

The other advantage, I think, over schemes that are sometimes proffered that involve putting more cash into the hands of would-be tenants, such as housing vouchers and the like, is that they provide a means of ensuring that the assistance that's provided to tenants doesn't simply end up being captured by increased rents.

Peter Mares: Kath Hulse, it's not like the federal government doesn't do anything to help renters. I mean, I think in fact the federal government's spent something like \$2.4 billion on rent assistance... That is, helping pay the rents of people on pensions or on low incomes.

Kath Hulse: Yes, that's right, Peter: \$2.4 billion, which is a huge amount of money. What we think is that that's not a particularly effective way of assisting renters. My source says it can get diverted to other things. It's not a very well designed program: it basically gives the same amount of assistance, wherever you happen to live around Australia which, given the difference in rental levels, is plainly not good public policy. It's a problem for governments because almost a million recipients rely on it who could well be affected by change.

Peter Mares: So, what do you do instead of that? What would you propose instead of that rent assistance money which, I guess, is also pushing up rents, because it means people can pay more.

Kath Hulse: I think... Well, the landlords don't necessarily know that people are getting it, but I think it does have an effect in specific sub-markets where people do know, such as some types of boarding houses and lower cost accommodation.

Peter Mares: Where we see some pretty shonky operators.

Kath Hulse: Well, that's right. The standards are pretty poor, so there's no quality in those standards for the money that's spent on it. So, I think that that should be queried.

Peter Mares: And what do you see then as the better alternative?

Kath Hulse: I think you could make some changes to such a scheme, although probably you would have to grandfather at least some of the current arrangements, otherwise you'd have a political problem on your hands. I think there needs to be more variation by type of rental market and also some clarity about the standards so it's not paid for really poor quality accommodation.

Peter Mares: I wonder if we could think about perhaps more daring solutions to the housing affordability problems in Australia. I know, for example, that Singapore - the success of Singapore - apart from being built on authoritarianism has been built on successful housing policy, linked to what's called the Central Provident Fund, which is essentially the pension scheme in Singapore. And I think this is the subject of a future program on Rear Vision next Sunday on ABC Radio National. But Steve Bevington, we've got millions of dollars sloshing around, billions of dollars in superannuation accounts; could something be done to get that super money into the funding of affordable housing?

Steve Bevington: Well, I think it can and essentially it's all this capital funding which could be made available. But the problem is that the returns historically - although it's beginning to change - in the private rental market have not been sufficient. After all, the costs to interest the super funds in terms of the returns they're seeking to ensure that Australians have the right futures in their old age. So, what probably does need to happen is there needs to be a bridging of the gap between the returns required and the

rents that need to be charged. And this could occur either through tax credit arrangements which can focus attention on providing a subsidy there, or other direct subsidy schemes which subsidise the gap between the rental and the returns that the superannuation funds require.

Peter Mares: And the cost then to governments would be much lower than, for example, the cost of government stumping up all the money to build the housing themselves.

Kath Hulse: I think that's right. It's smarter. I think the key thing is that whatever those settings are, they need to be reliable, known and preferably non-partisan so that they continue over a period. This is not a problem that is going to be fixed in the short term.

Peter Mares: In the term of the three-year government, whoever's in power.

Kath Hulse: Exactly.

Peter Mares: Saul Eslake, what about things like putting conditions on developers - so, saying to a developer 'When you develop this estate, you have to provide 25 per cent affordable housing, or low-cost housing'?

Saul Eslake: Some councils have sought to pursue those kind of arrangements in the past - I'm not sure with what degree of success. One of the things that people would therefore have to be careful about, though, is that that didn't impact the profitability of 'broadacre' proposals to the point where developers didn't build anything at all. And so anything like that would have to be fairly finely calibrated or there would have to be some kind of recompense made to developers so that they were, at least in principle, no worse off. In other words, just as you sometimes see proposed suggestions that government subsidies for the provision of rental housing (and this might be new money, not a redirection of existing funding for those sort of programs) could be given to assure would-be landlords of a stream of rental income that's more in keeping with the returns that they could get on other assets, such as government bonds, you may need to put in some government money in these circumstances so that developers who are subject to requirements such as those that you propose, to provide a proportion of any new construction for low income housing, would not be any worse off financially as a result of so doing. If you don't have some kind of provision like that, then you may well find that the end result is a further reduction in the overall supply of housing, both for low income earners and for middle to high income earners.

Peter Mares: What about the question of tax, Kath Hulse? I mean, at the moment we know you don't get taxed on the family home. You can make a very good capital gain on your family home over the life of your ownership of it - and that's all tax free - and that leads, of course, to lots of people investing a lot of their income in their primary residence. It's a very radical thing to suggest - but should we be taxing the family home?

Kath Hulse: I think it's certainly a radical suggestion, Peter - I don't know that it would win too many votes. But I think it's an issue. I like to look at it in relation also

to stamp duty. In effect, stamp duty isn't for stamping documents; stamp duty is effectively a form of wealth tax and you pay it when you move in, when you buy, not when you realise the asset. And actually, if you're going to be radical, I think it would be preferable to have that sort of tax when you sell the asset.

Peter Mares: So, to turn it around?

Kath Hulse: To turn it around, yes.

Peter Mares: Saul Eslake?

Saul Eslake: Well, I'd make a couple of observations there, Peter. The first is that I have no in-principle objection - and again, let me emphasise I'm speaking personally rather than representing an ANZ bank view - to owner-occupied housing being subject to capital gains tax, provided, of course that the interest on loans taken out to acquire what would then be a taxable asset be deductible for tax purposes as is the case with investors.

Peter Mares: So, just like negative gearing, essentially?

Saul Eslake: Right. And indeed, I've proposed that one way of easing the burden on those families who are struggling with higher mortgage payments (as well as those who would like to get into first home ownership) is to allow them to elect to deduct the interest on their mortgages, subject to them agreeing to pay capital gains tax on the increase in the value of their properties when they ultimately sell them. And I emphasise allowing them to elect to do that, so that it's their choice as to whether to be treated like investors or to be treated as existing home owners currently are. When it comes to stamp duty, I'm not in favour of reducing stamp duty for first-time buyers, because I think that simply means that they will pay more for the same stock of housing and the money will end up in the pockets of those who are selling houses, rather than making it easier for people to buy them.

What I would actually favour, though I think there's a zero-chance of it happening, is for stamp duty to be abolished altogether and the same amount of money collected by broadening the base and, if necessary, increasing the rates of land tax, so that if, for example, instead of paying \$6,000 in stamp duty when you buy a home and are least capable of paying additional tax, because you've already taken on a big mortgage, instead perhaps paying \$500 a year in additional land tax over the following 12 years. And not only would that, I think, make it easier at the margin for people to enter home ownership, it would also make state government revenues less sensitive to fluctuations in the property market, because stamp duty is effectively a tax on turnover, rather than a tax on wealth as land tax effectively is.

Peter Mares: Interesting suggestion indeed. I'd like to finish by asking each of you what you'd like to hear from Prime Minister John Howard and Opposition Leader Kevin Rudd this evening, when they debate each other, in terms of housing. Steve Bevington, what would you like to hear from Kevin Rudd and John Howard about housing policy?

Steve Bevington: I'd like them to have an overall housing plan over many, many years - not just a three-year term - for ensuring that all Australians can have an affordable and secure housing future, whether that is in rental or home ownership, and that there will be adequate policy for people [to move] from rent to ownership, and for ownership also, which is adequately fair. That's the first thing.

Then I'd also like them to increase subsidy streams to ensure that people can get long-term security through leasing through a rental product, rather than simply the only available security being the diminished public housing stock and home ownership.

Peter Mares: Kath Hulse?

Kath Hulse: I basically concur with that. There is a particular problem I'd like them to address and that's the current state of existing public housing, which has been under-funded for a long time, and quite a bit of money needs to be spent to fix it up, or redevelop it. I'd like to see either or both parties commit to that. And, as Steve says, a longer-term plan for improving the supply, particularly of rental housing, since we know that people are going to be renting for a longer time with some sort of arrangement so that they can graduate on to home ownership as their circumstances improve.

Peter Mares: Saul Eslake?

Saul Eslake: What I'd like to see is both leaders avoiding promises that effectively inflate the demand for housing by putting more cash in the hands of would-be buyers.

Peter Mares: Like a first-home owners' grant?

Saul Eslake: Like first-home owners grants or stamp duty concessions. More generally, I'd like to see both sides of politics minimise the upward additional pressure they put on interest rates by promising to spend or give away in tax cuts even more of the budget surpluses than they've already done. And to the extent that they do promise anything in relation to housing - whether it be for owner occupation or rental - I hope that what they focus on are practical measures to increase the supply of housing rather than, as I say, measures which in effect only boost demand and thus exacerbate the underlying problem.

Peter Mares: Saul Eslake, Kath Hulse and Steve Bevington, thank you all very much for your time.

All: Thank you.

Peter Mares: Saul Eslake is Chief Economist with the ANZ Bank, but he was speaking, as he said, in a personal capacity, with many of those views; Associate Professor Kath Hulse is Director of the Swinburne-Monash Research Centre of the Australian Housing and Urban Research Institute, and Steve Bevington is the Managing Director of the not-for-profit company, Community Housing Limited.

And we'd welcome your thoughts on the housing issue and what could be done to make it easier to rent or buy a home.

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