

# A BI-PARTISAN AGENDA FOR AFFORDABLE HOUSING

PRESENTATION TO POWER HOUSING  
FORUM / Q SHELTER AGM

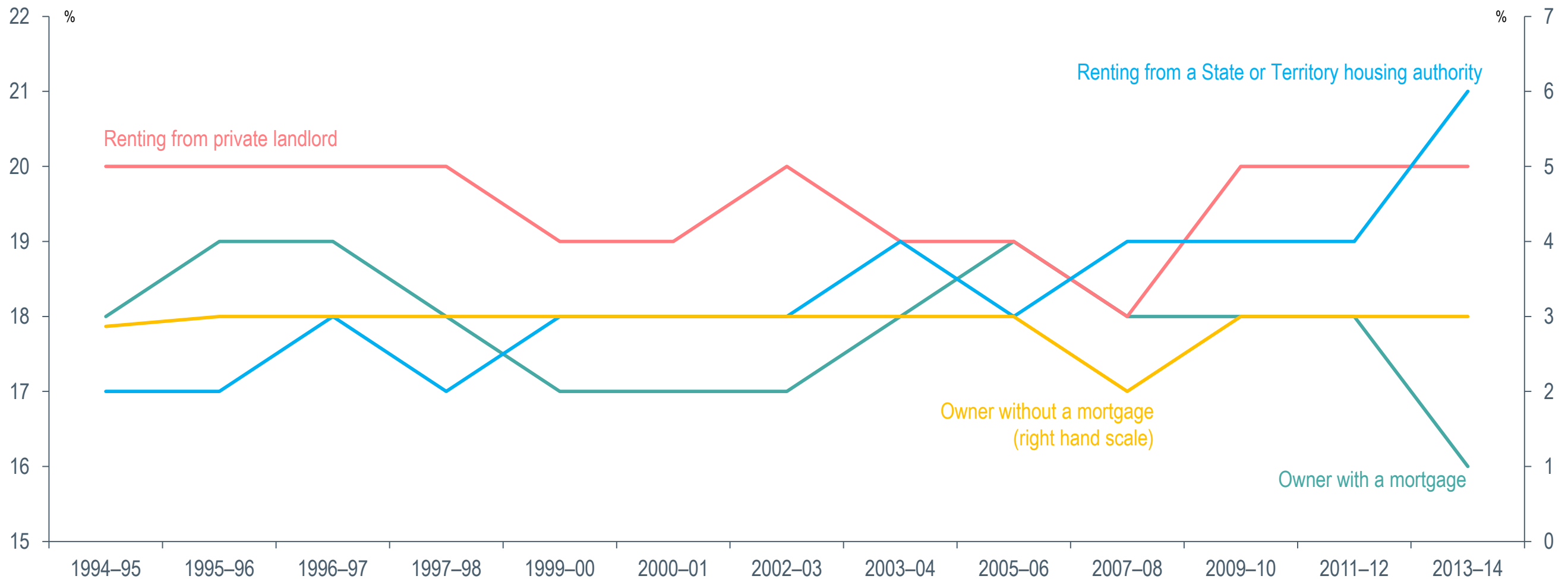
BRISBANE – 22<sup>ND</sup> OCTOBER 2015

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**SAUL ESLAKE**

# Owner-occupier housing costs have actually fallen in recent years – thanks to lower interest rates – but for renters, housing costs have gone in the other direction

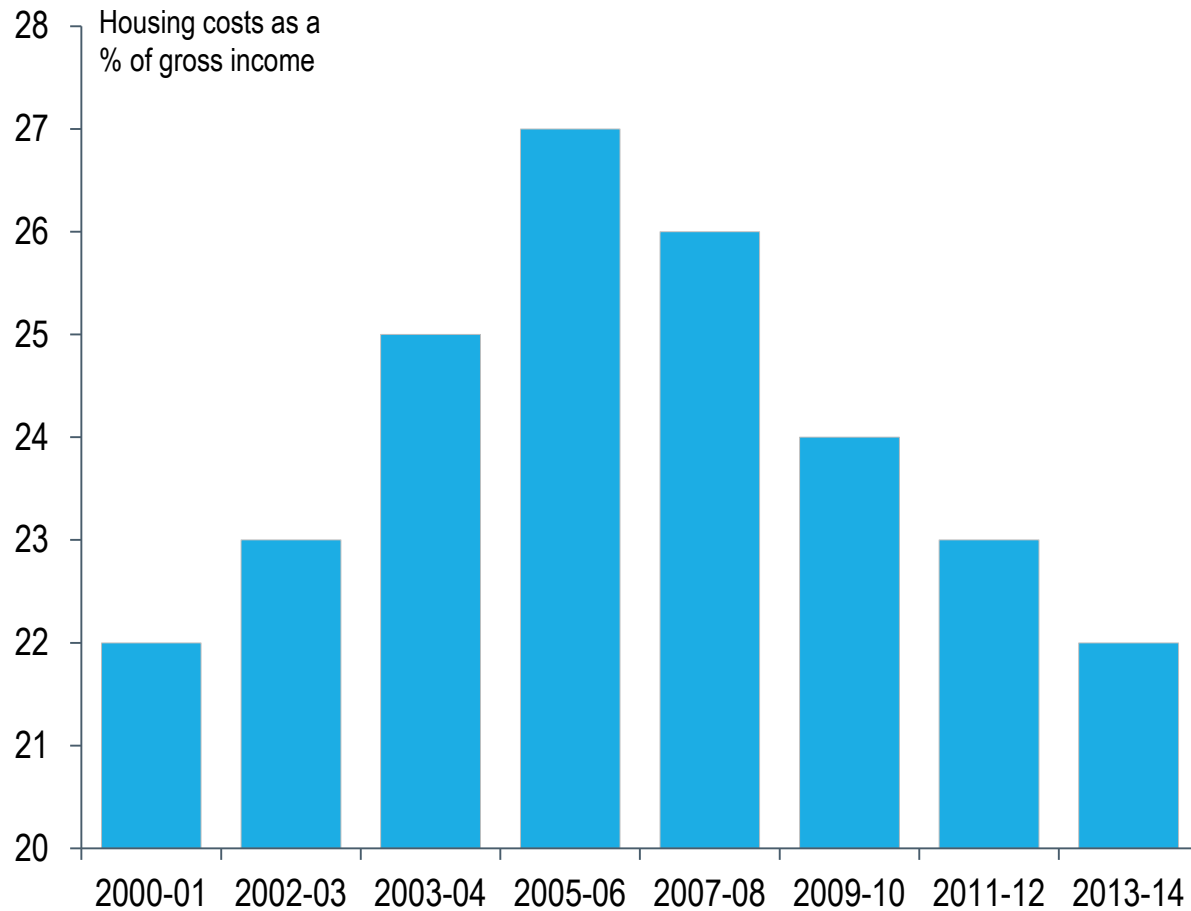
## HOUSING COSTS AS A PC OF GROSS INCOME, BY TENURE TYPE



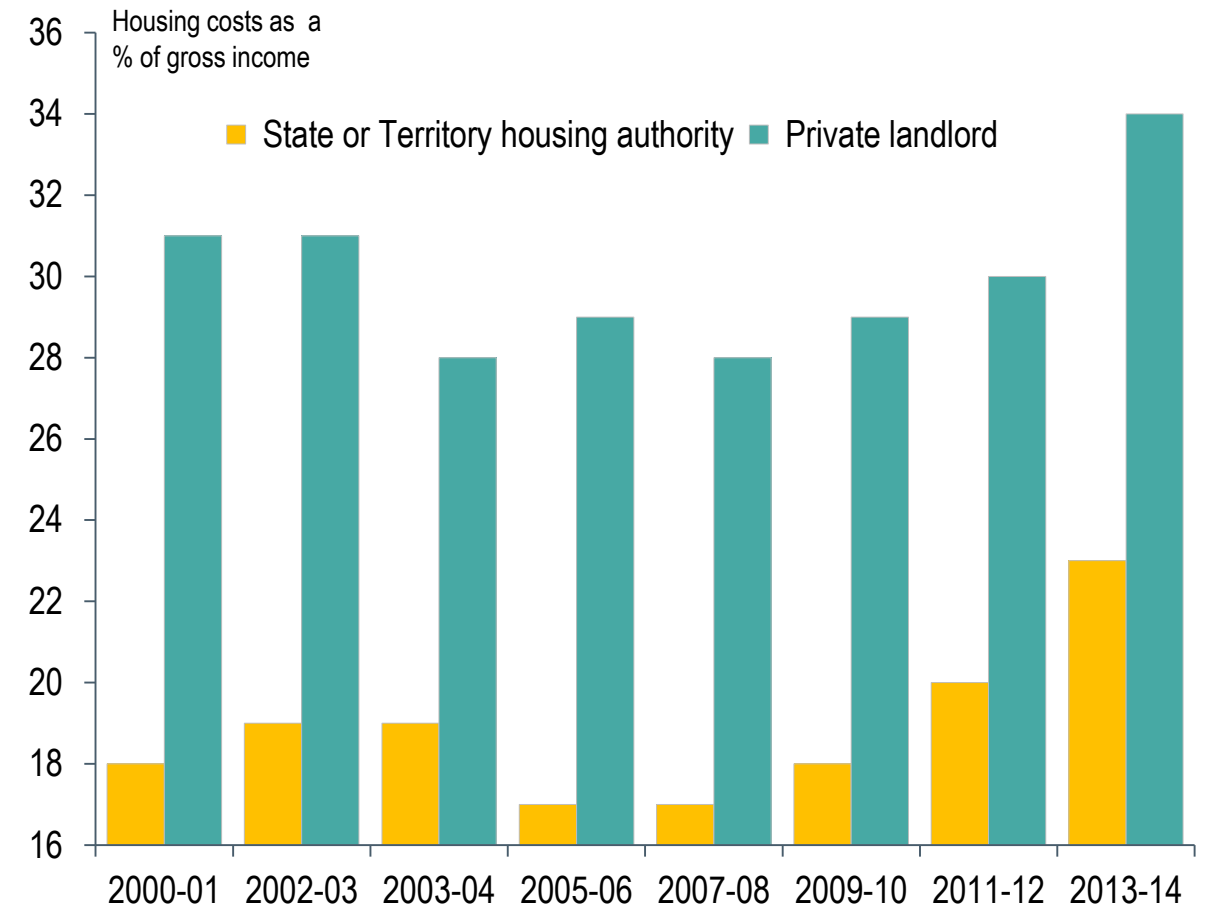
Source: ABS, *Housing Occupancy and Costs* (catalogue no. 4130.0), 2013-14 and previous issues.

# Housing costs have fallen for recent first home buyers, but risen for low-income tenants

## HOUSING COSTS: RECENT FIRST HOME BUYER HOUSEHOLDS



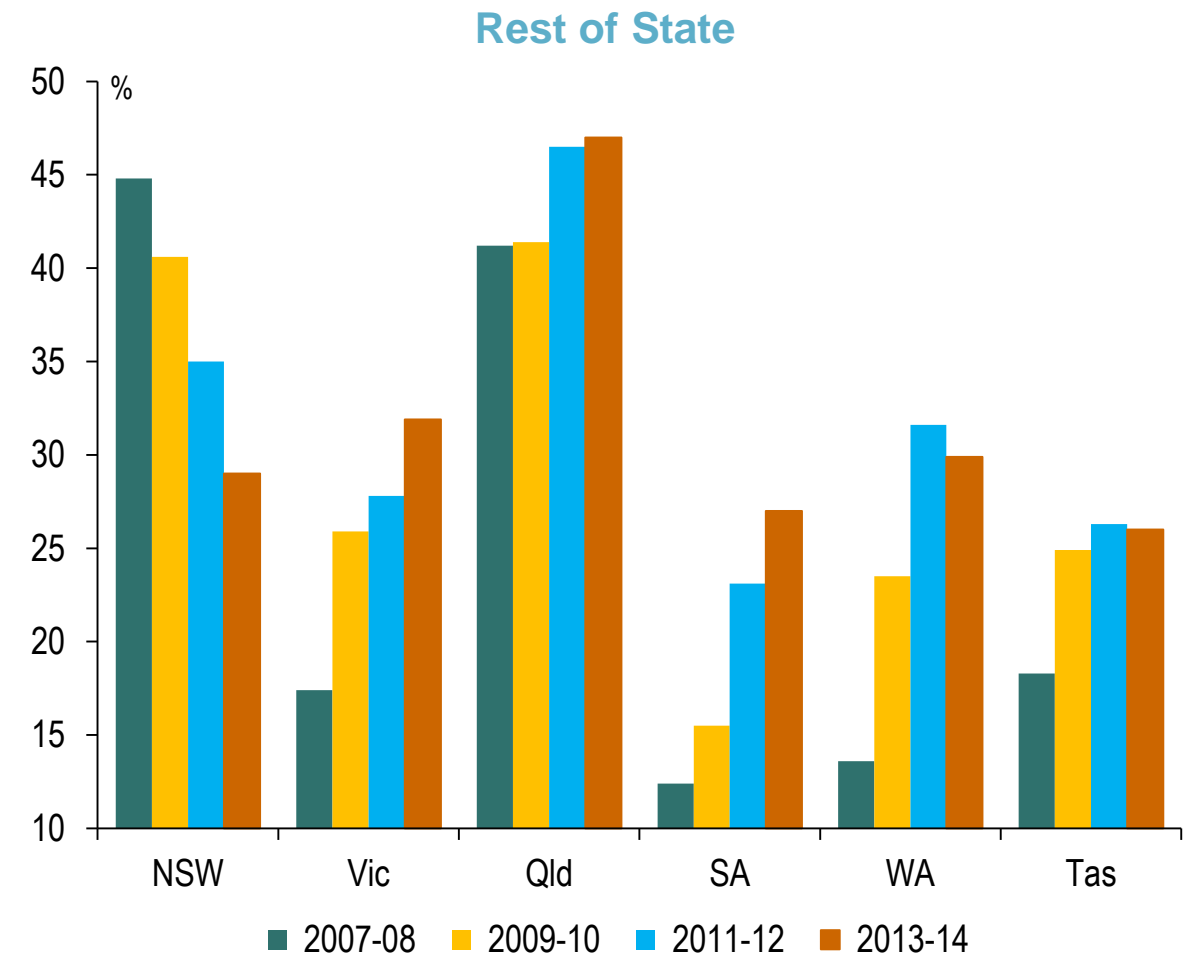
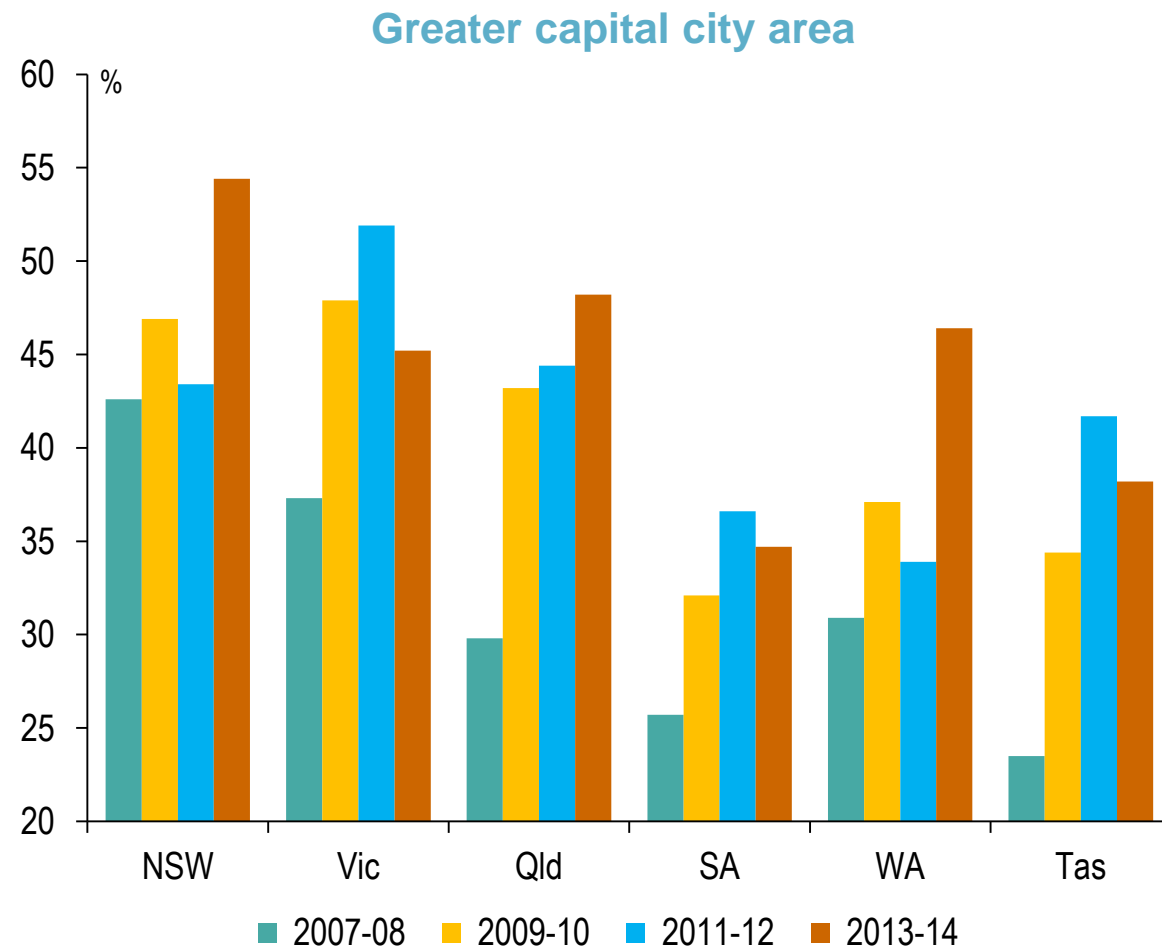
## HOUSING COSTS: LOWER-INCOME RENTER HOUSEHOLDS



*Note:* 'Recent first home buyers' are those who bought their dwellings in the three years prior to the survey (with a mortgage). 'Lower income households' are households in the lowest and second equalised disposable household income quintiles, excluding the 1st and 2nd percentiles (which are excluded due to the high wealth and expenditure characteristics those household exhibit, and the prevalence of income types other than employee income and government pensions and allowances). *Source:* ABS, *Housing Occupancy and Costs* (catalogue no. 4130.0), 2013-14 and previous issues.

# The proportion of low income renting households spending more than 30% of their income on housing is higher in Queensland than in any other State

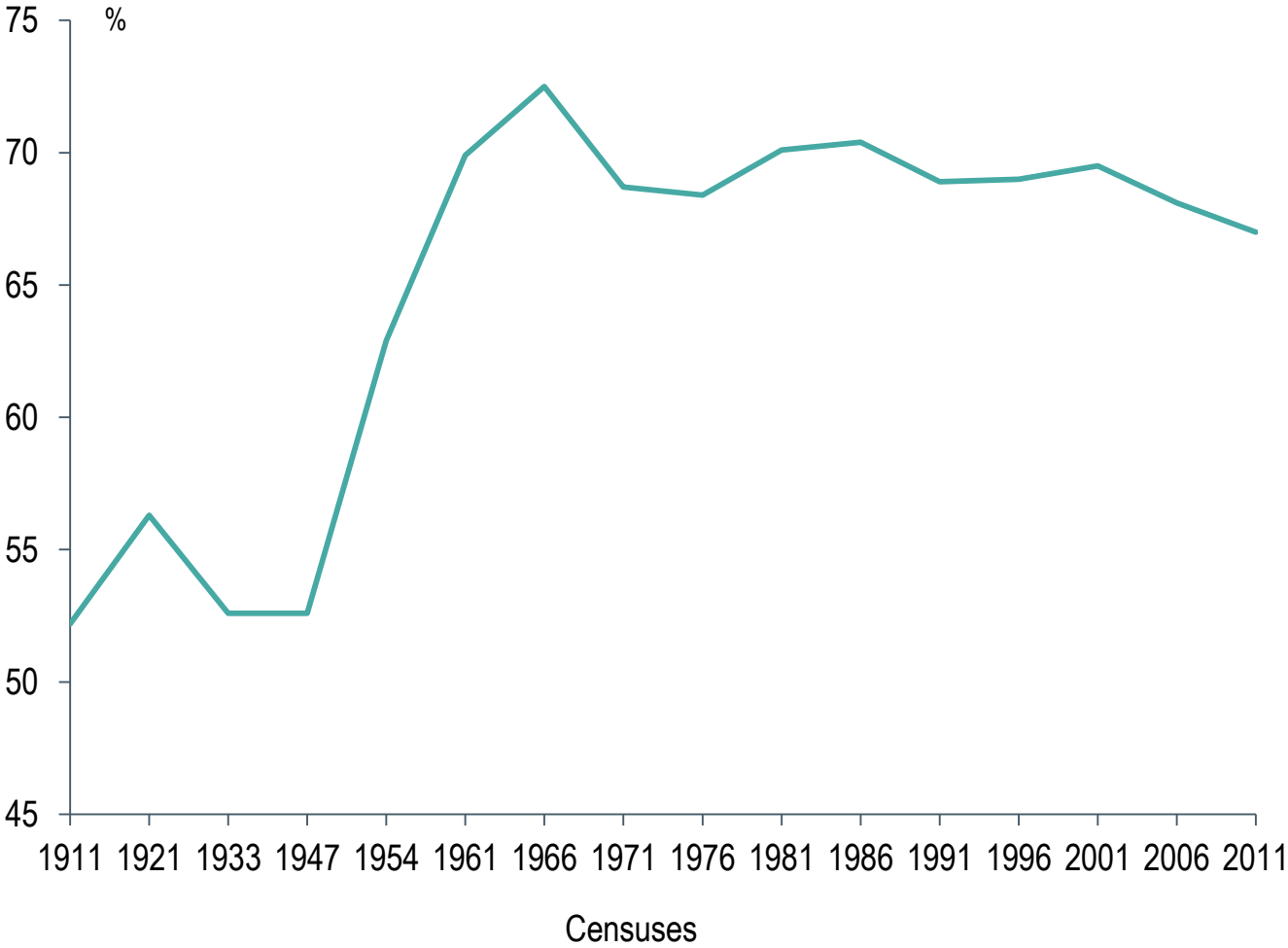
## PROPORTION OF LOW-INCOME RENTAL HOUSEHOLDS PAYING MORE THAN 30% OF THEIR GROSS INCOME IN HOUSING COSTS



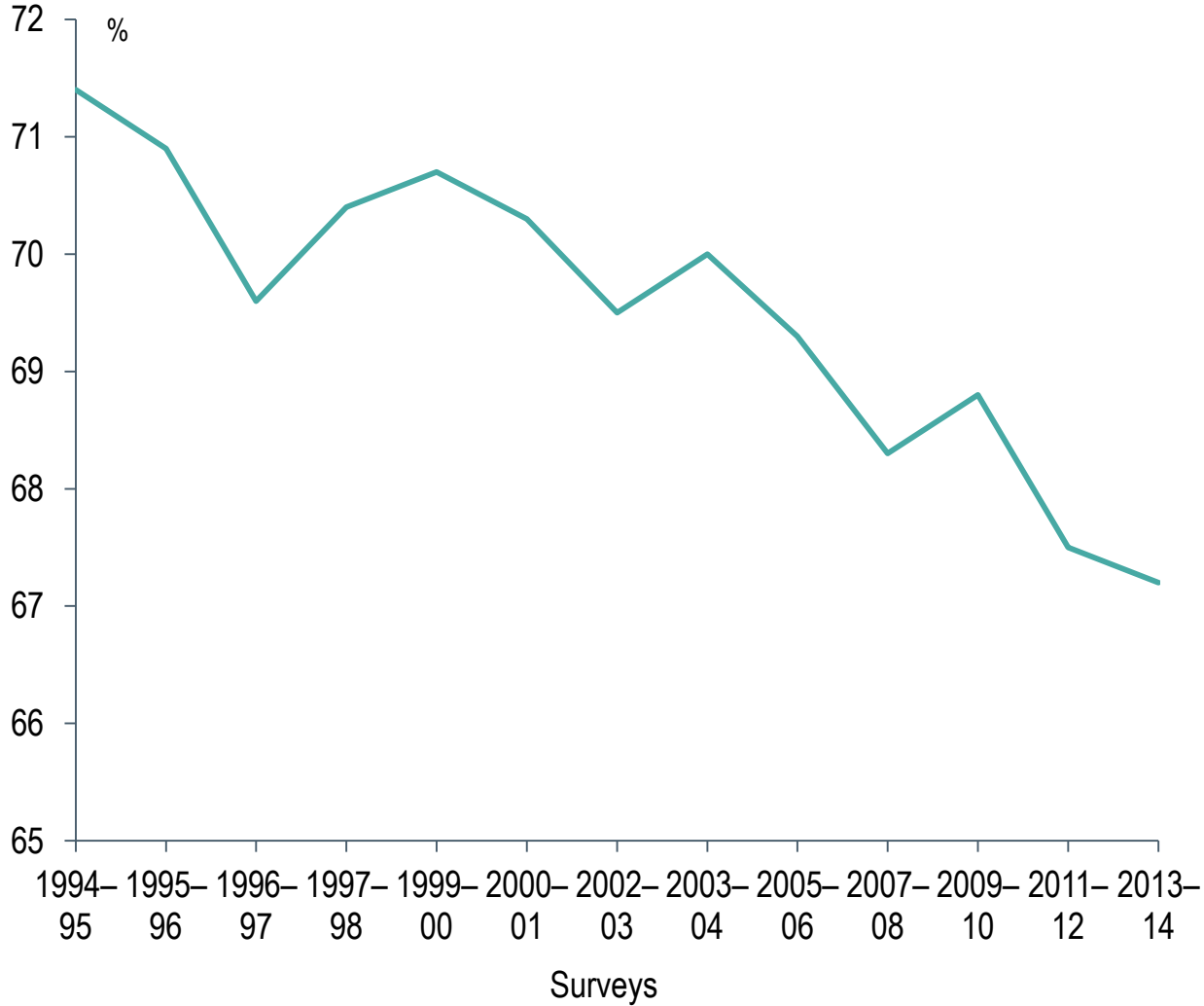
Note: 'Low income households' are households in the lowest equivalized disposable household income quintile, excluding the 1st and 2nd percentiles (which are excluded due to the high wealth and expenditure characteristics those household exhibit, and the prevalence of income types other than employee income and government pensions and allowances). Source: ABS, *Housing Occupancy and Costs* (4130.0), 2013-14.

# Australia's home ownership rate is now lower than at any time since the 1950s

## HOME OWNERSHIP RATES AT CENSUSES



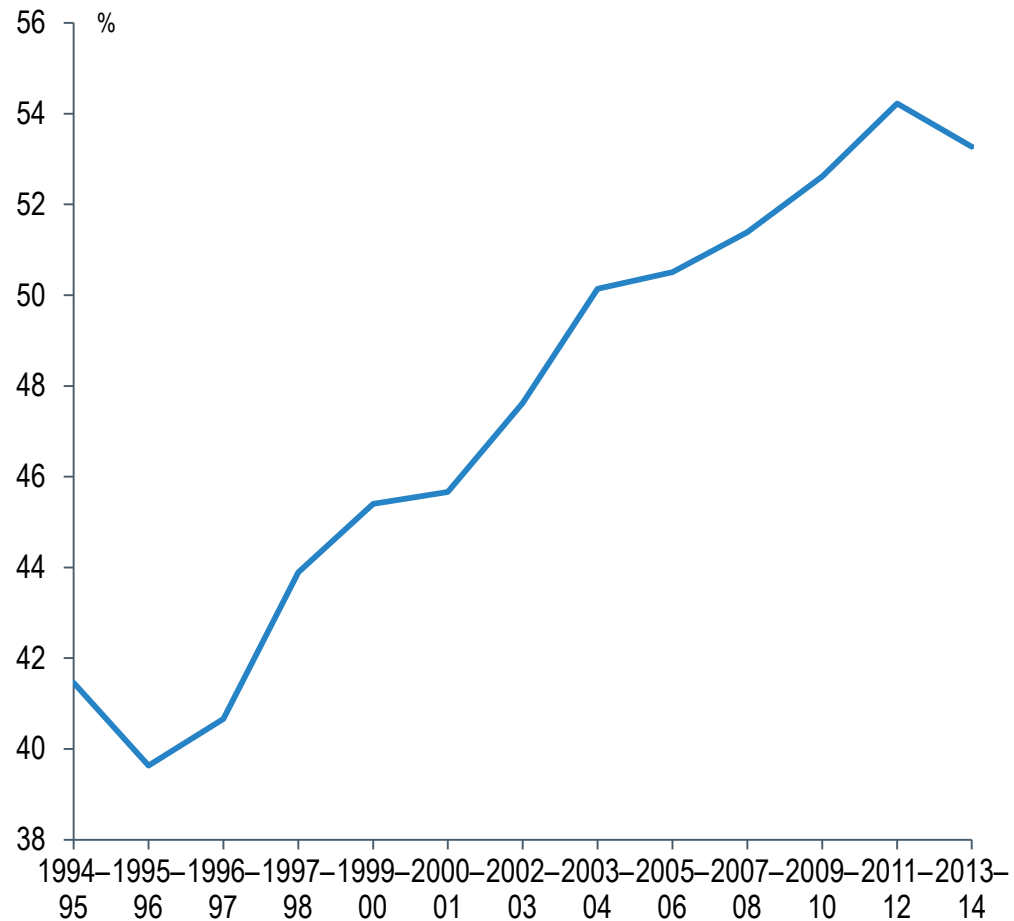
## HOME OWNERSHIP RATES AT ABS INCOME DISTRIBUTION SURVEYS



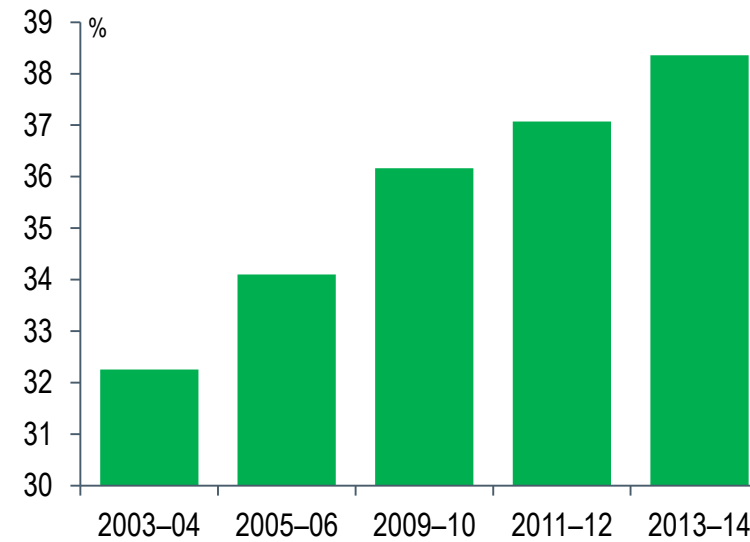
Sources: ABS Census Data QuickStats; ABS, *Household Income and Wealth* (6523.0); Advisory Council for Intergovernment Relations, *Australian Housing Policy and Intergovernmental Relations*, Discussion Paper No. 14 (1982), Appendix B.

# Home-owners now carry more debt, for longer, than when interest rates were much higher than they are now

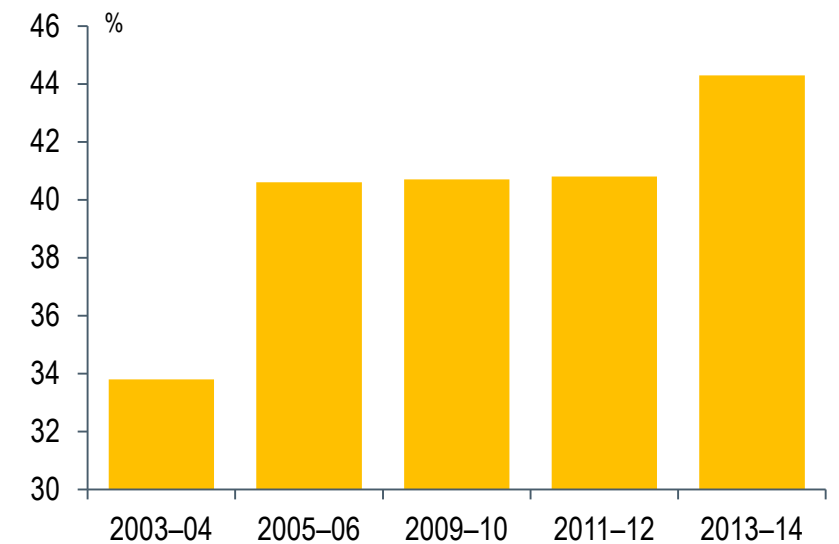
## HOME OWNERS WITH A MORTGAGE AS A PROPORTION OF ALL HOME OWNERS



## Average debt-asset ratio of home owners with a mortgage



## Pc of mortgaged home owners with debt $\geq$ 3x income

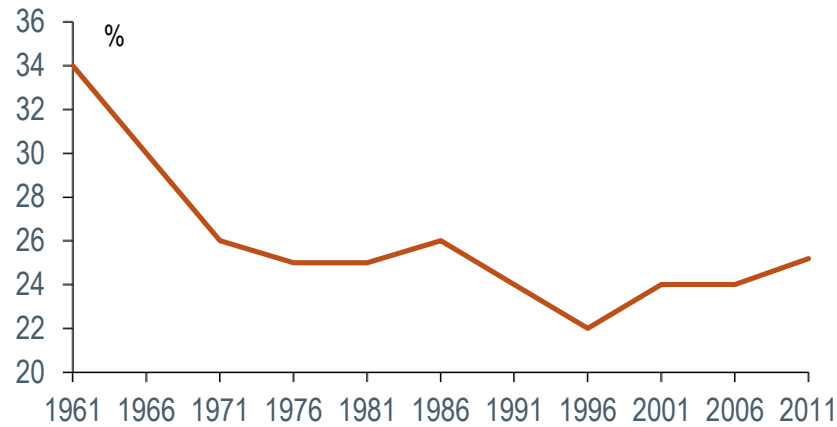


Sources: ABS, *Household Income and Wealth* (catalogue no. 6253.0), 2013-14; *Household Wealth and Wealth Distribution* (6554.0), 2011-12 and previous issues.

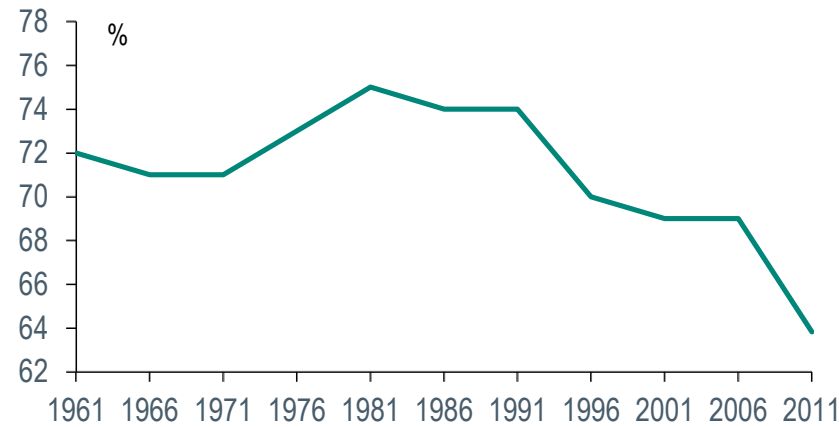
# Home ownership rates among households headed by people aged 25-55 have dropped by an average of 9 pc points since 1991

## HOME OWNERSHIP RATES AT CENSUSES, BY AGE GROUP OF 'HOUSEHOLD HEAD'

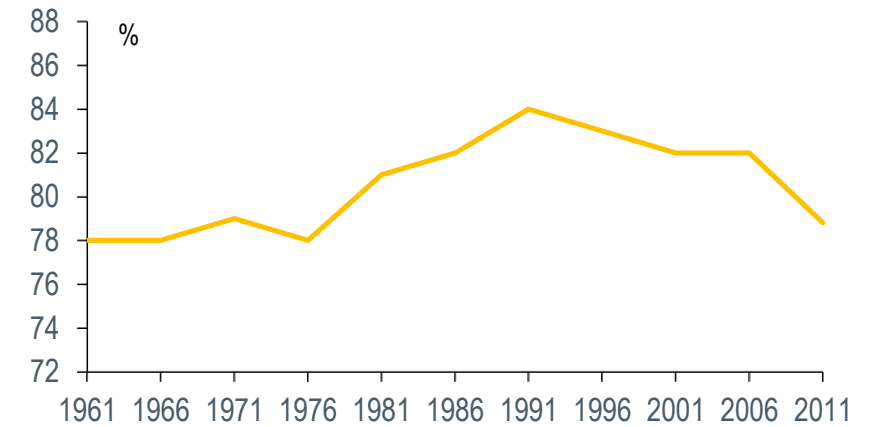
### 15-24 year olds



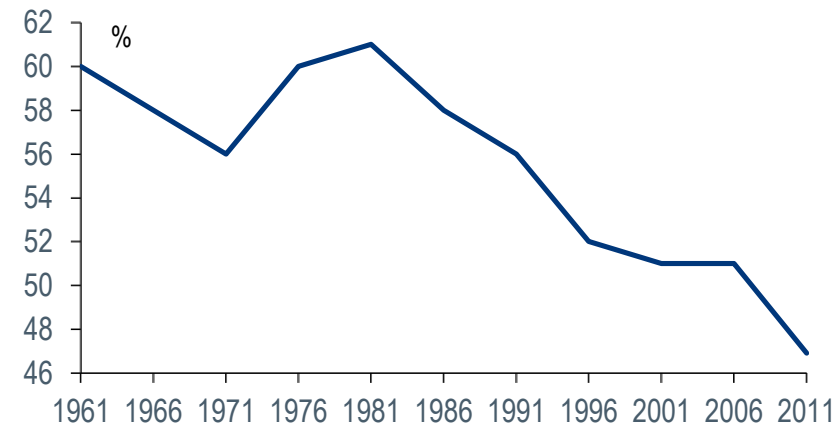
### 35-44 year olds



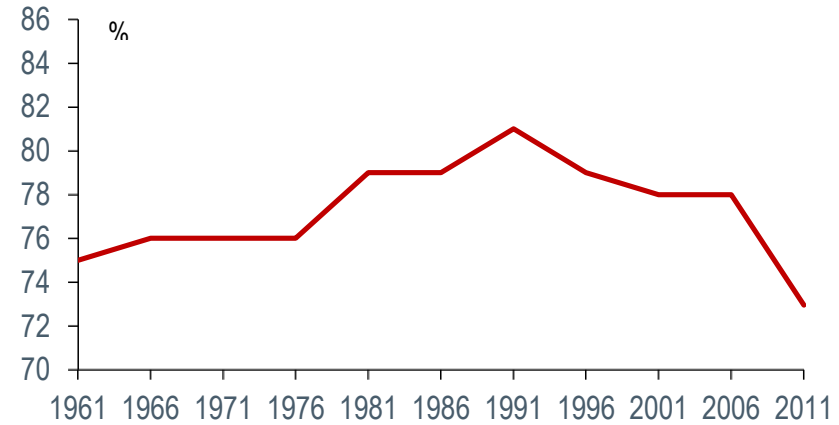
### 45-64 year olds



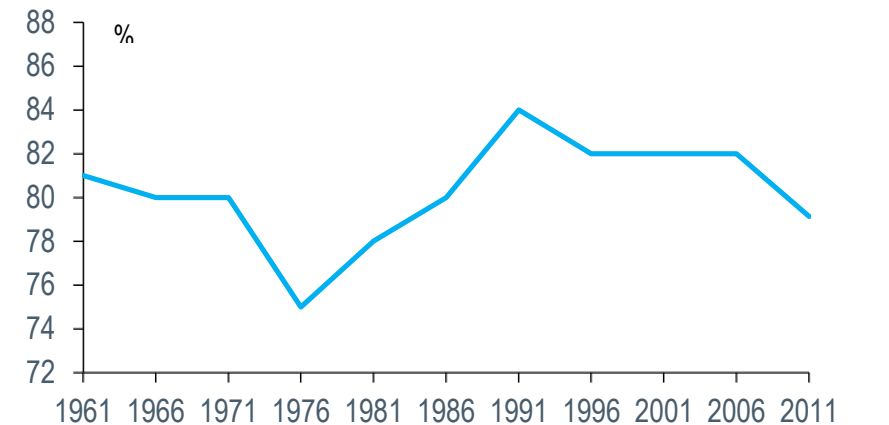
### 25-34 year olds



### 45-54 year olds



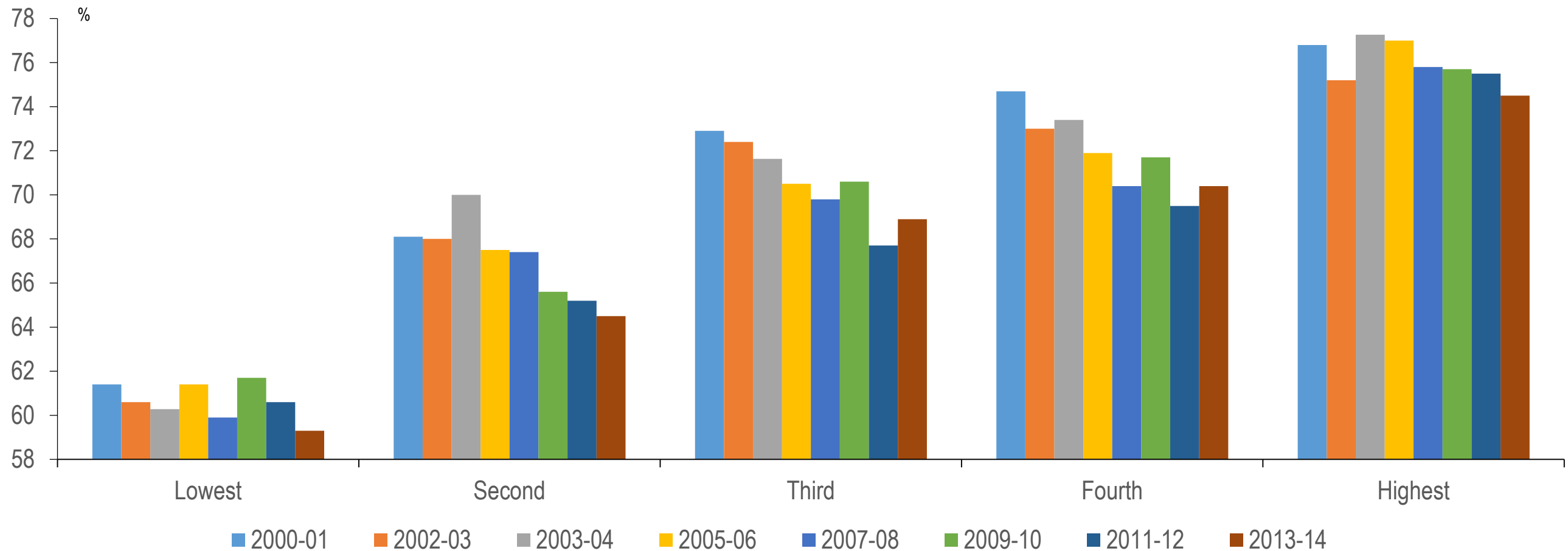
### 65 year olds and over



Source: Professor Judith Yates, Submission to the House of Representatives Standing Committee on Economics Inquiry into Home Ownership, June 2015.

# Home ownership rates have dropped by 3½-4¼ pc points among the middle-income households since the turn of the century

## HOME OWNERSHIP RATES BY INCOME QUINTILE, 2000-01 TO 2013-14

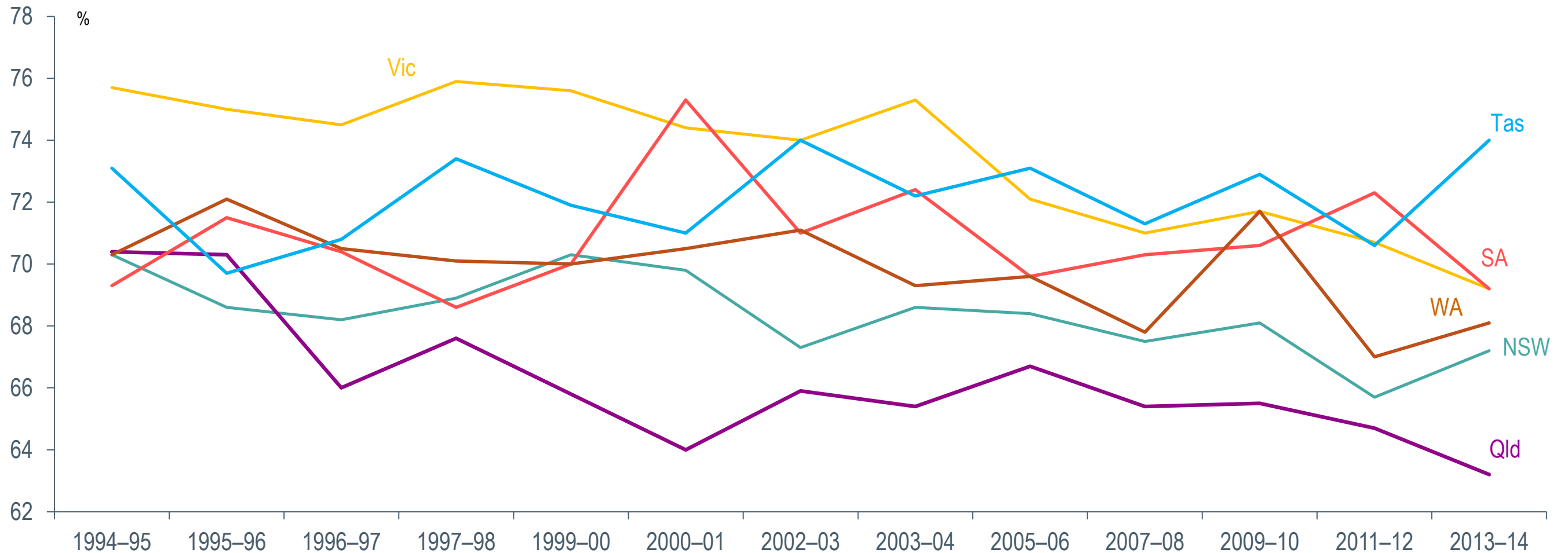


Source: ABS, Household Income and Wealth, Australia, 2013-14; Household Income and Income Distribution, Australia, 2011-12 and previous issues (cat. no. 6523.0).



# Home ownership rates are lower, and have fallen faster, in Queensland than in any other State

## HOME OWNERSHIP RATES BY STATE, 1994-95 TO 2013-14

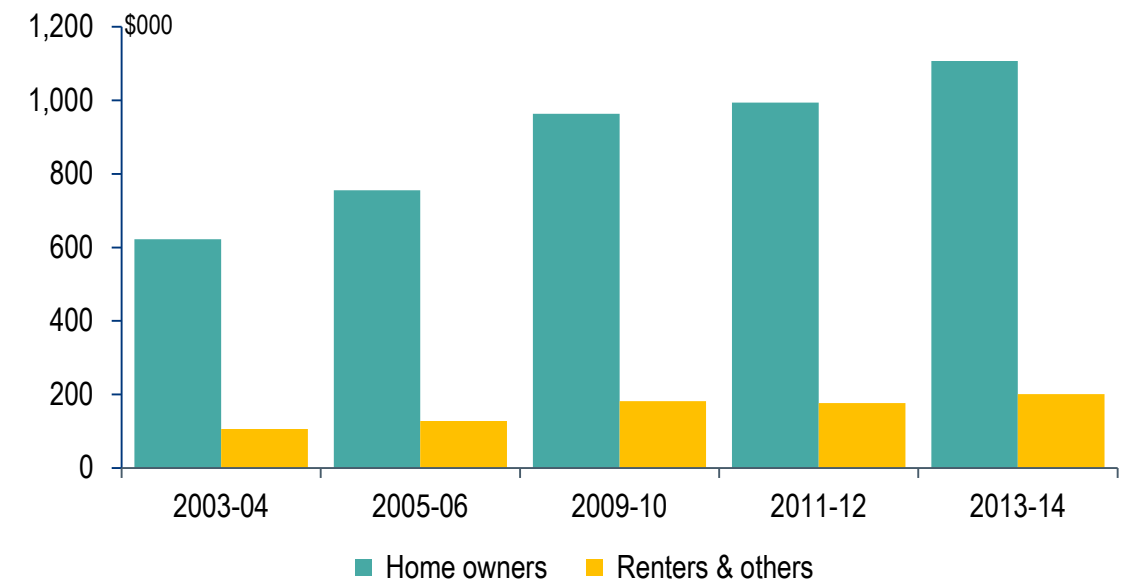


Source: ABS, Household Income and Wealth, Australia, 2013-14; Household Income and Income Distribution, Australia, 2011-12 and previous issues (cat. no. 6523.0).

# Does it matter if home ownership rates continue to decline?

- Home ownership has traditionally been regarded as providing a more secure environment for raising families and for promoting a sense of ‘community’ and ‘belonging’
  - other countries (eg Germany & France) have been able to achieve those goals with lower home ownership rates than Australia – but also with other differences including higher taxation and greater regulation
- Equity in homes usually provides the financial base for formation of small businesses
- Home ownership has been the major source of wealth accumulation for middle-income households
  - declining rates of home ownership will probably mean greater disparities in the distribution of wealth
- Australia’s retirement income system implicitly assumes that most retirees will have near-zero housing costs
- Fewer home-owners means greater demand for rental housing from people with (generally) greater economic resources than ‘traditional’ renters
  - which all else being equal means more competition for the available rental housing stock and more upward pressure on rents

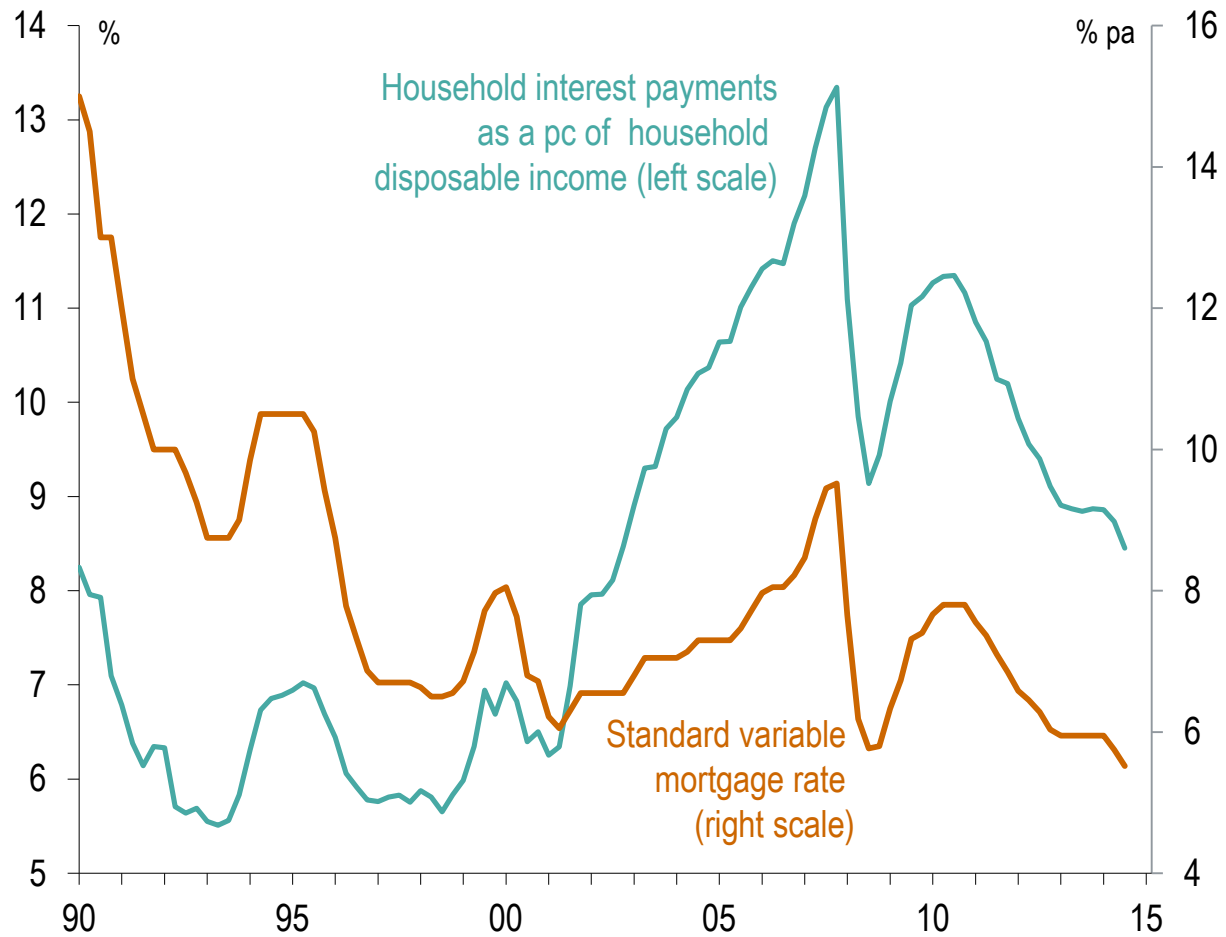
**Average household net worth, by housing tenure**



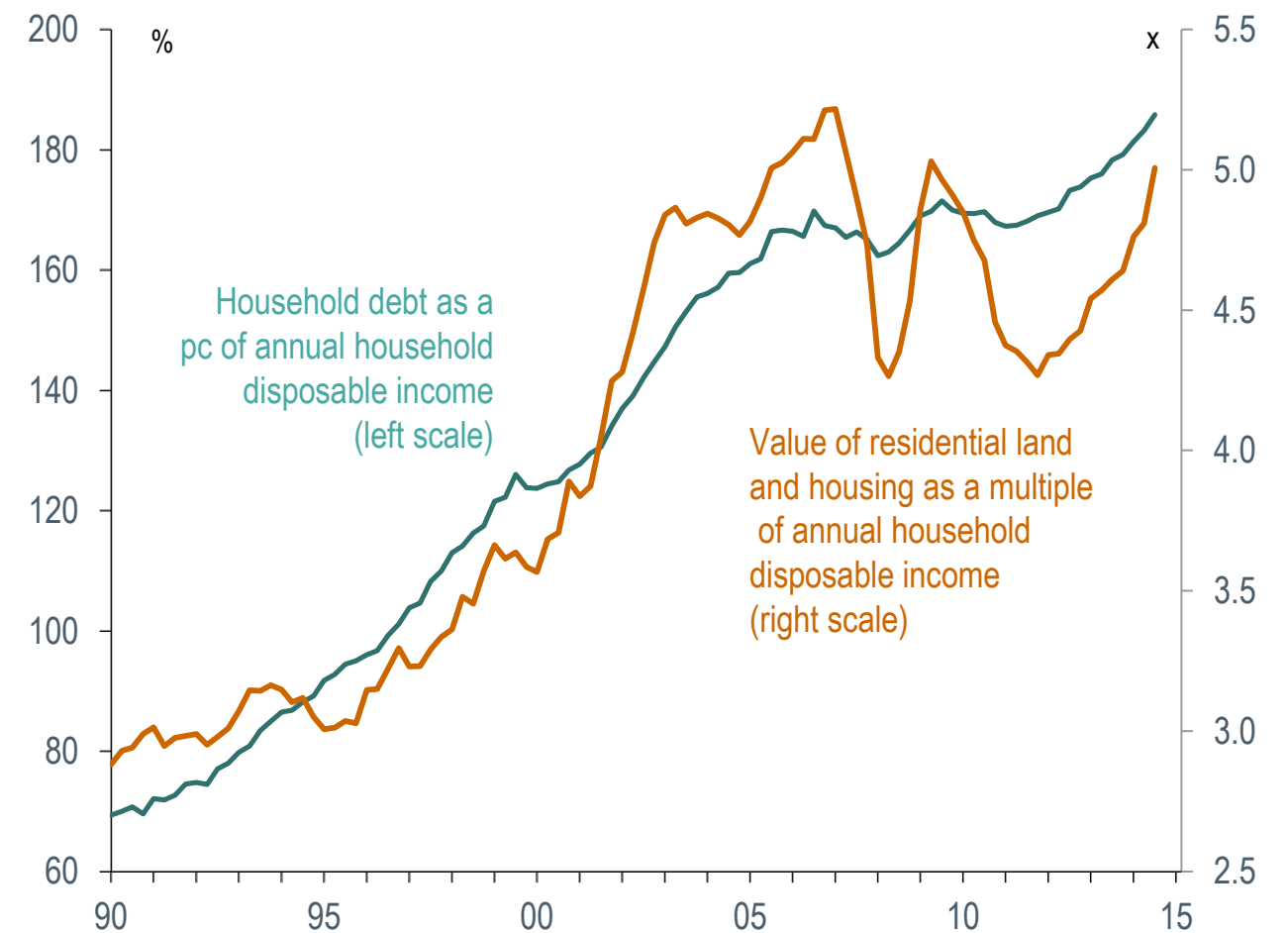
Sources: ABS, *Household Income and Wealth* (catalogue no. 6253.0), 2013-14; *Household Wealth and Wealth Distribution* (6554.0), 2011-12 and previous issues.

# Households' enhanced borrowing capacity resulting from lower interest rates and higher real incomes has been used, in effect, to inflate the value of the housing stock

## MORTGAGE INTEREST BURDENS AND MORTGAGE INTEREST RATES



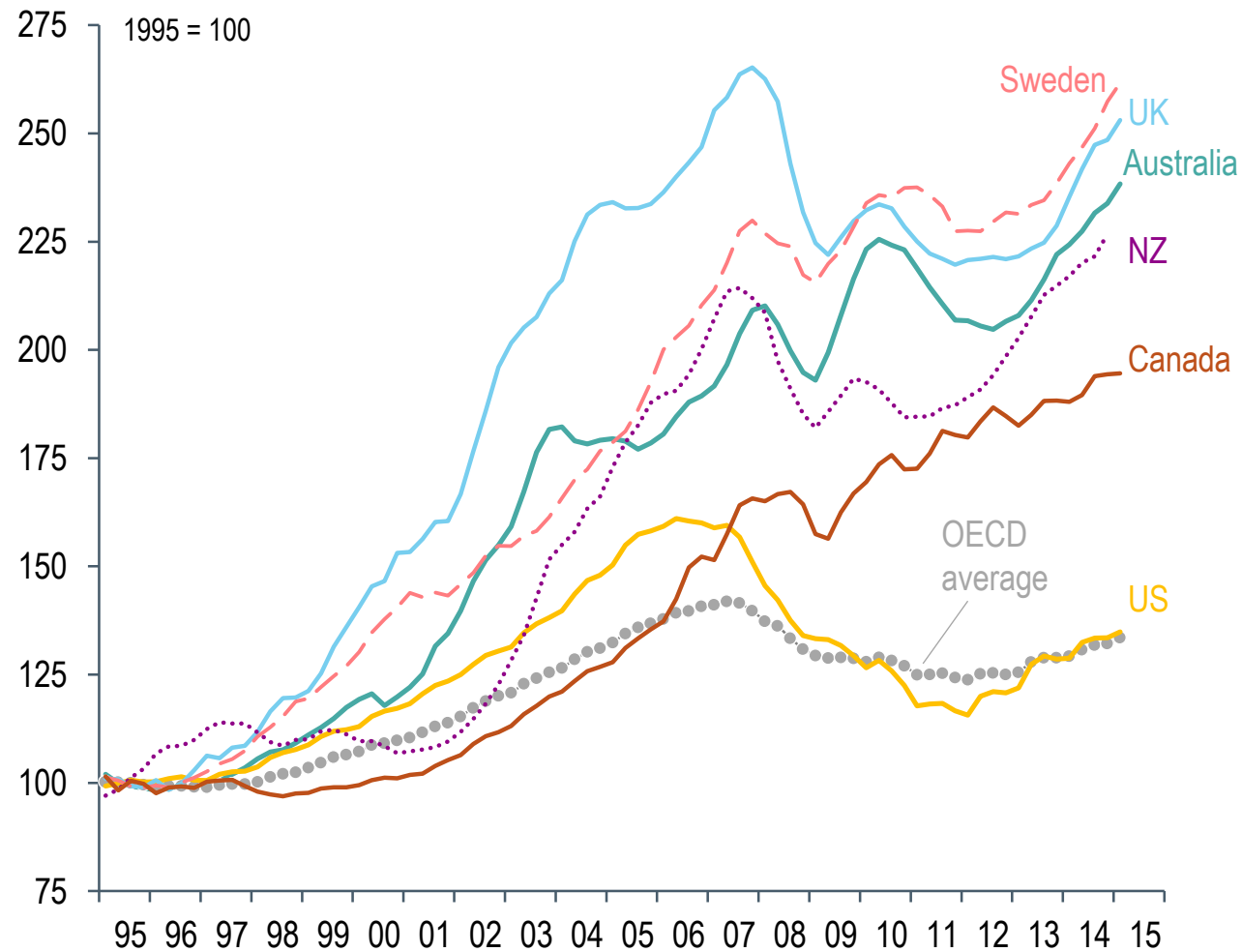
## HOUSEHOLD DEBT AND THE TOTAL VALUE OF RESIDENTIAL LAND & BUILDINGS



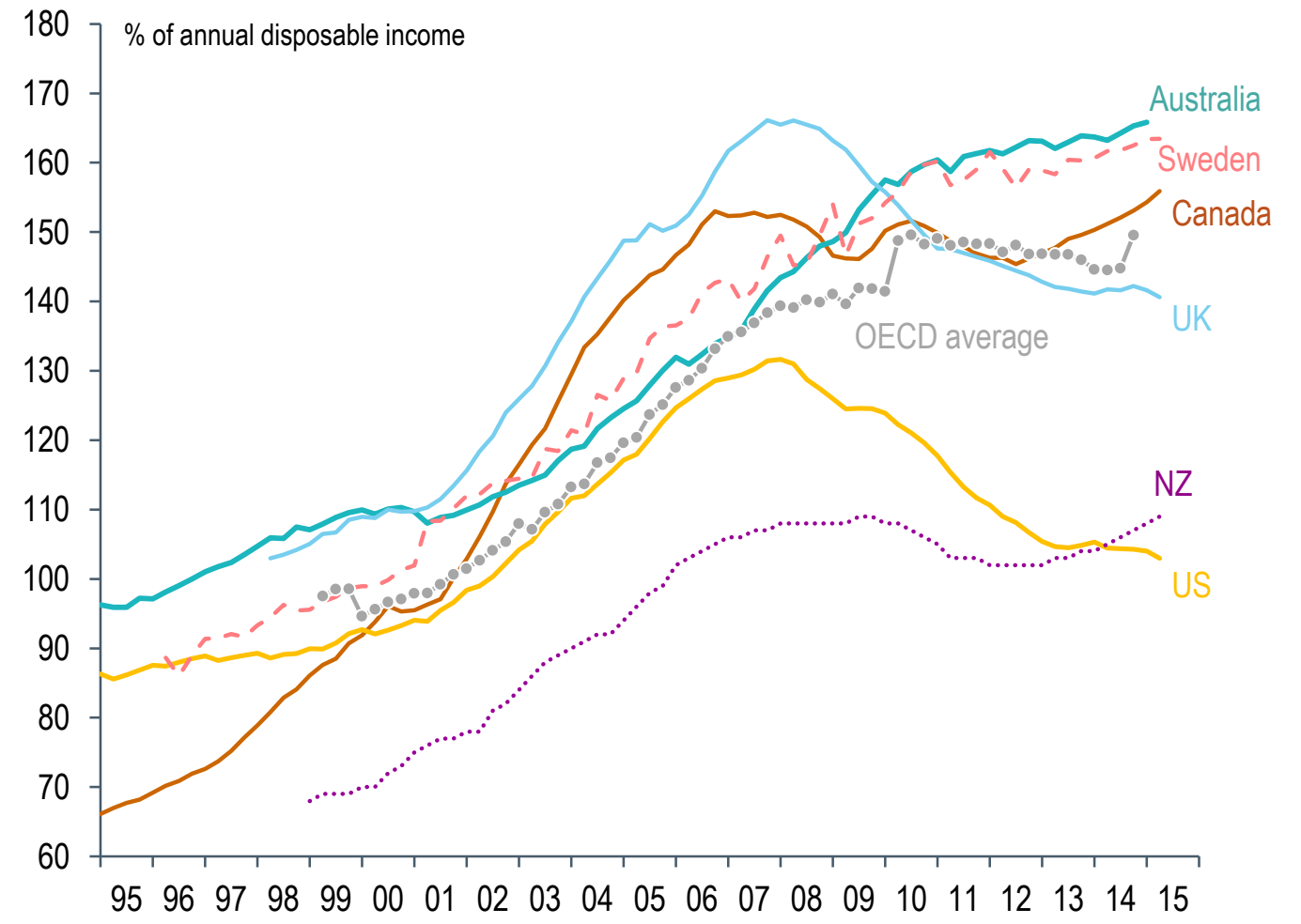
Sources: ABS, Australian National Accounts: National Income, Expenditure and Product (5206.0) and Australian National Accounts: Finance and Wealth (5206.0), June Quarter 2015; RBA, Statistical Tables E2 and F5.

# Australia now has relatively high residential property prices (by international standards) and very high levels of household debt

## REAL HOUSE PRICES – AUSTRALIA vs OTHER OECD COUNTRIES



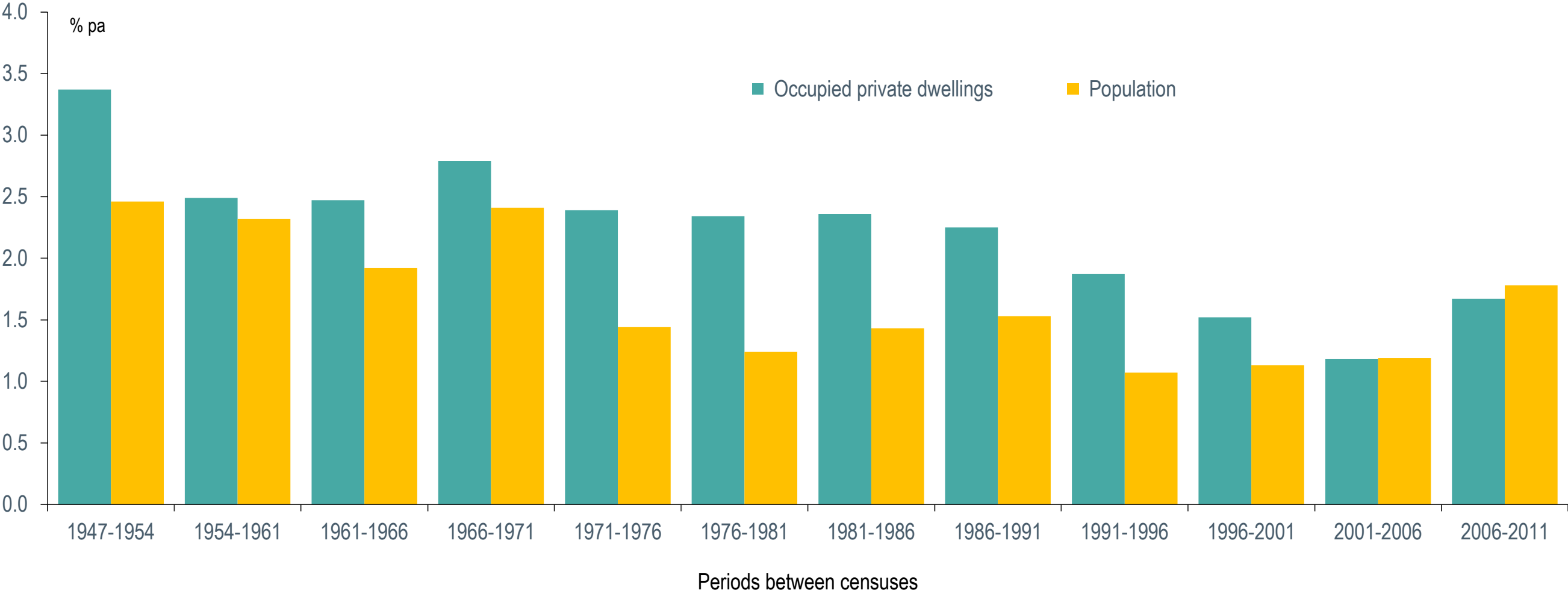
## HOUSEHOLD DEBT – AUSTRALIA vs OTHER OECD COUNTRIES



Note: OECD average for household debt to income ratio based on a limited number of countries.  
 Source: International Monetary Fund, *Australia: Selected Issues*, Country Report No. 15/275 (September 2015), p. 4.

# Until the 2000s, the housing stock grew at a faster rate than the population: since then, population growth has outstripped housing supply

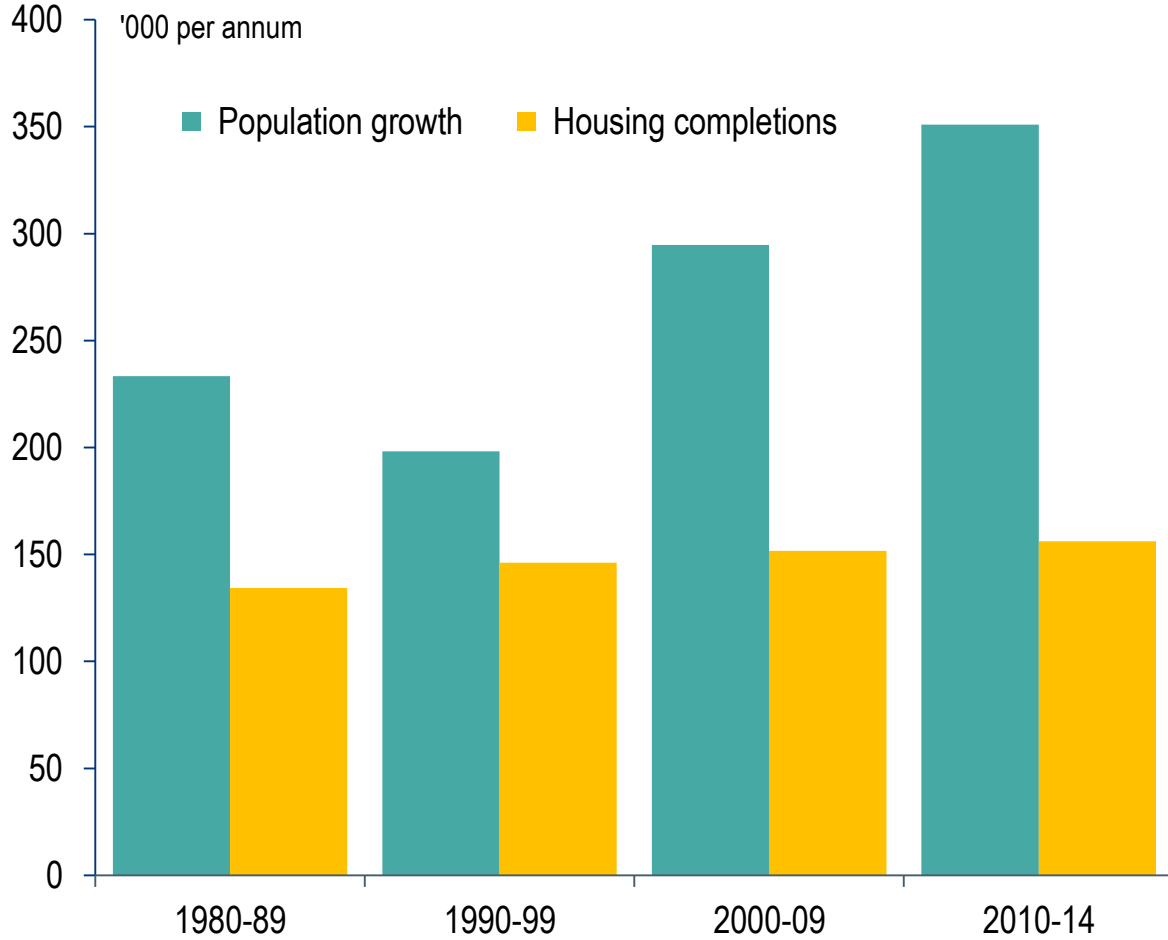
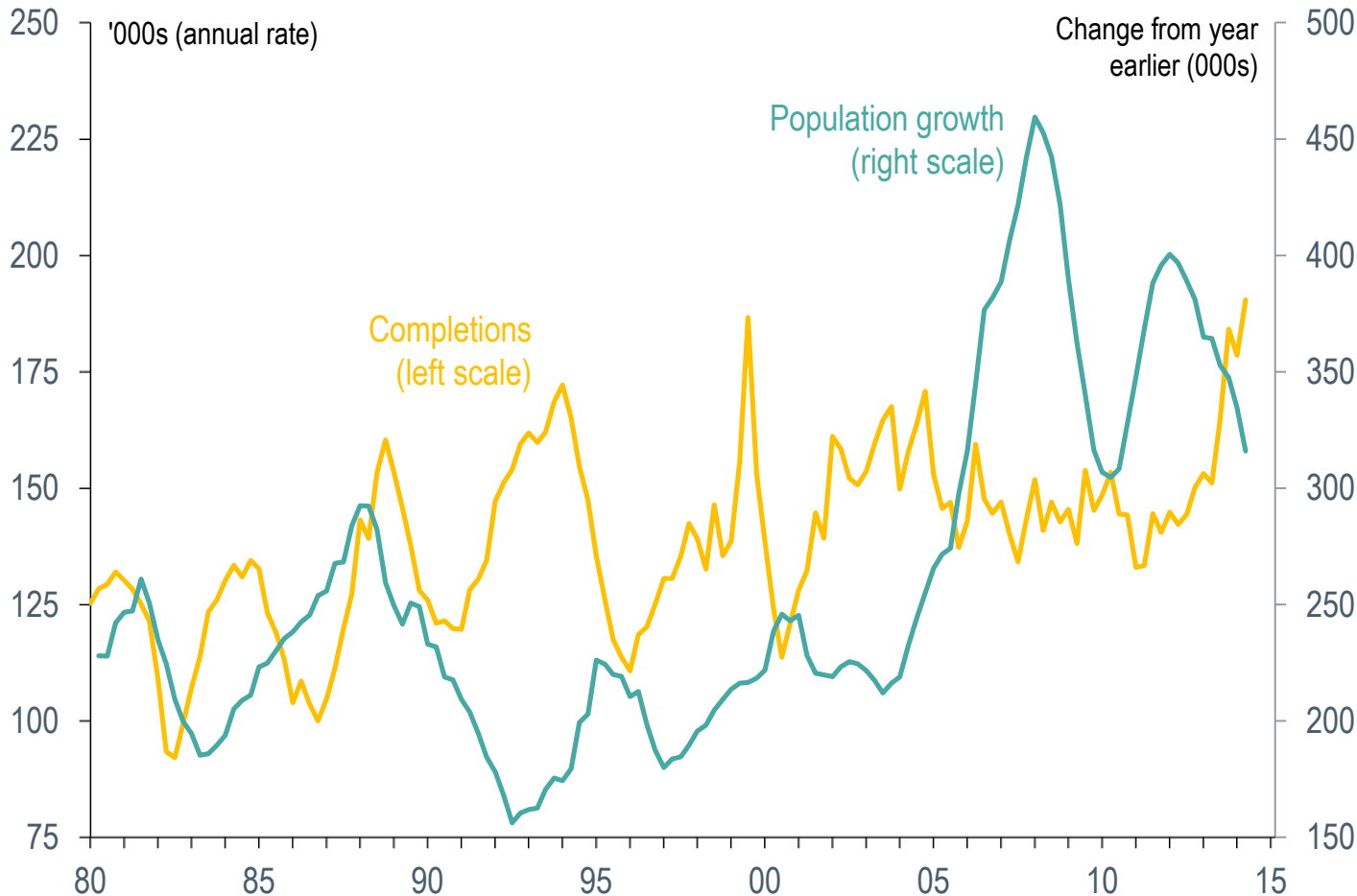
## GROWTH RATES OF AUSTRALIA'S POPULATION AND HOUSING STOCK BETWEEN POST-WAR CENSUSES



Sources: ABS, Census Data QuickStats (1996-2011), and historical data for earlier censuses (cat. nos. 2101.0-2109.0).

# Australia's population growth accelerated significantly after about 2002 – but growth in housing supply has only begun to increase in the past 18 months

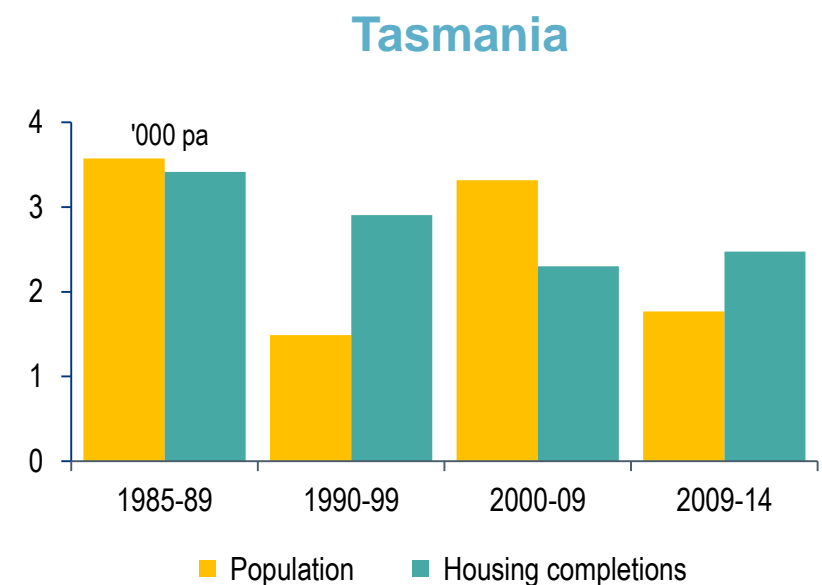
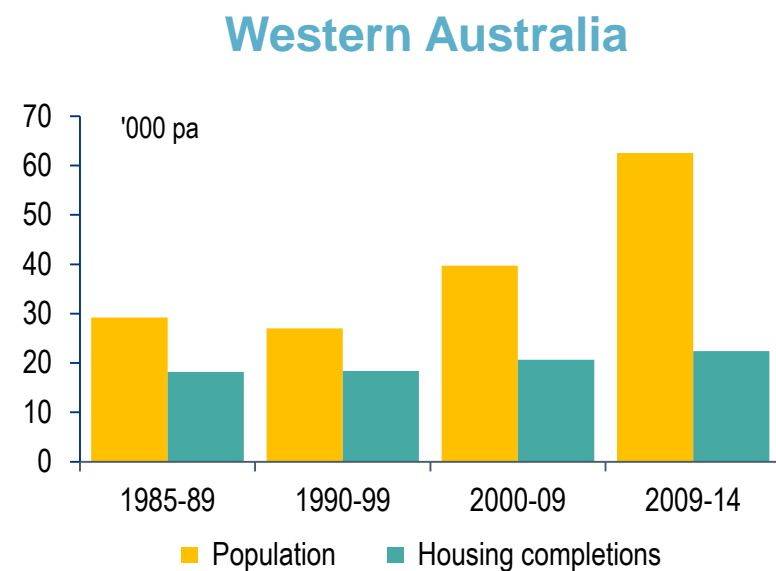
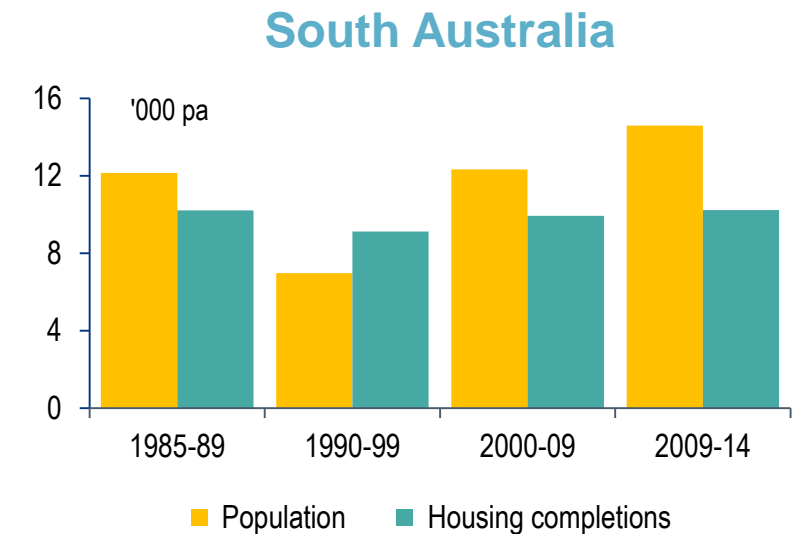
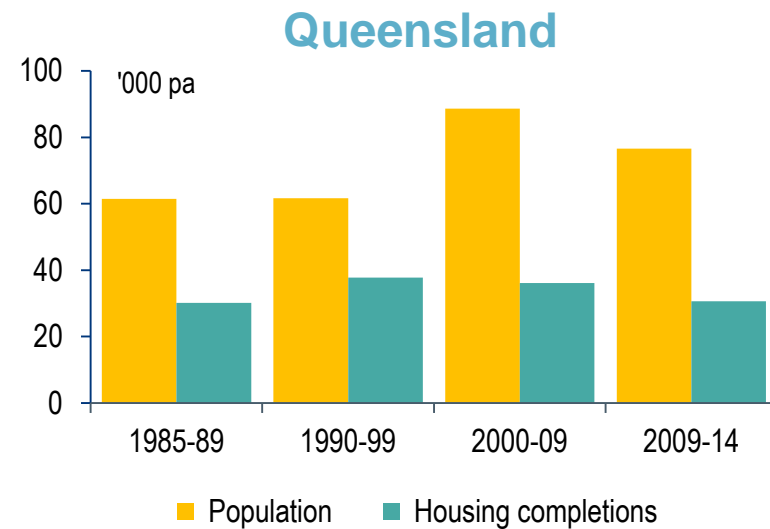
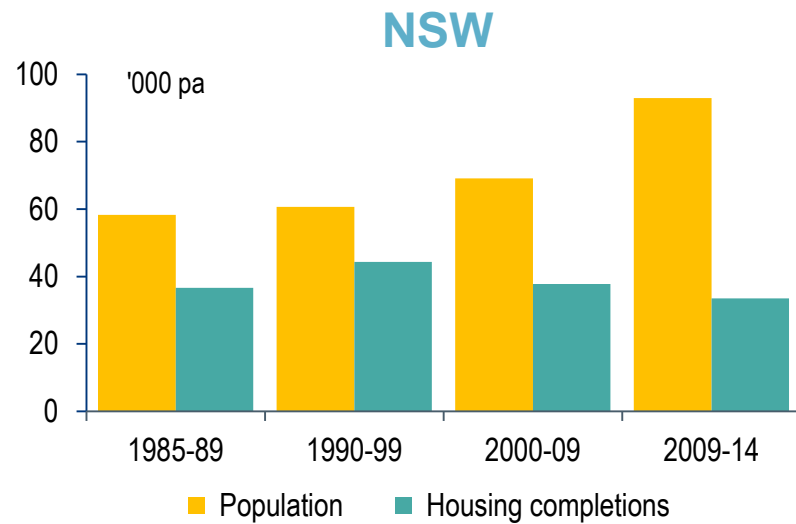
## HOUSING COMPLETIONS vs POPULATION GROWTH



Sources: ABS, Australian Demographic Statistics (cat. no. 3101.0); Building Activity, Australia (cat. no. 8752.0).

# Supply-demand mis-matches have been particularly acute in New South Wales, Queensland and Western Australia

## HOUSING COMPLETIONS vs POPULATION GROWTH

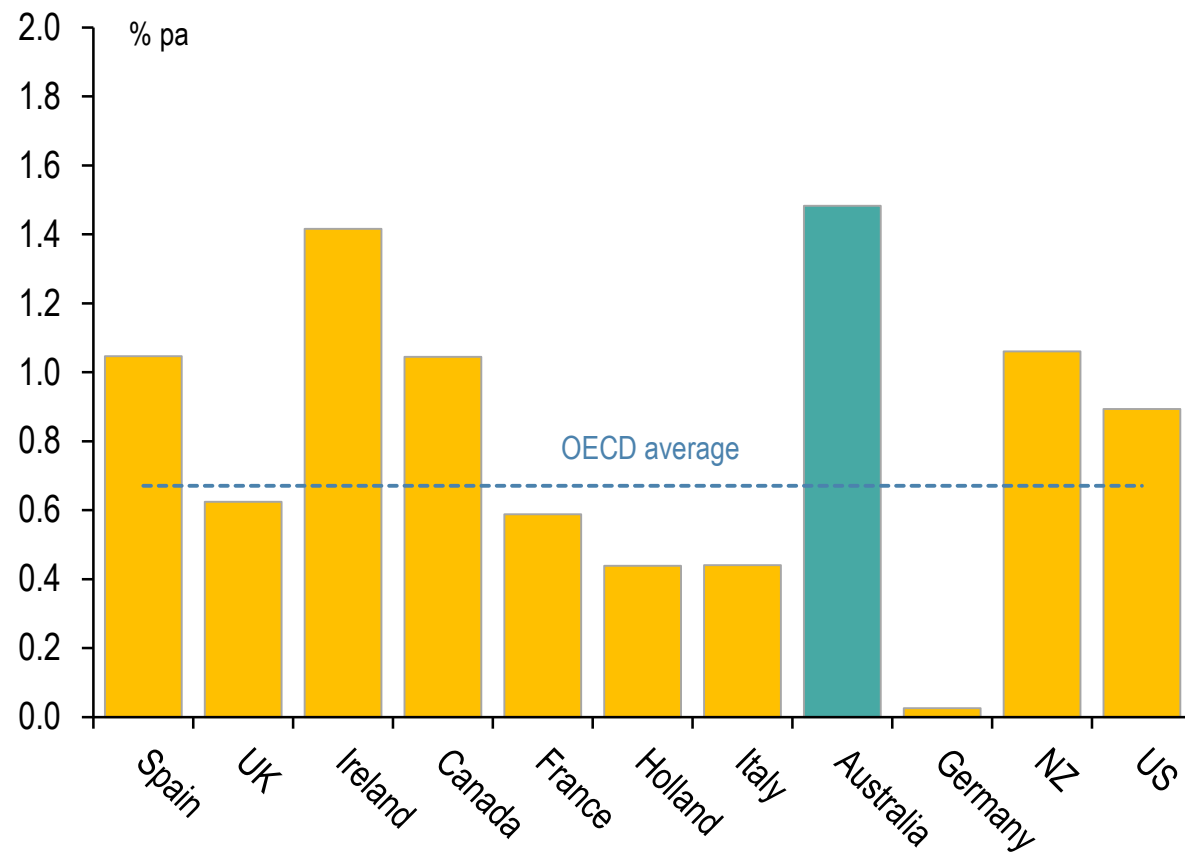


Sources: ABS, Australian Demographic Statistics (cat. no. 3101.0); Building Activity, Australia (cat. no. 8752.0).

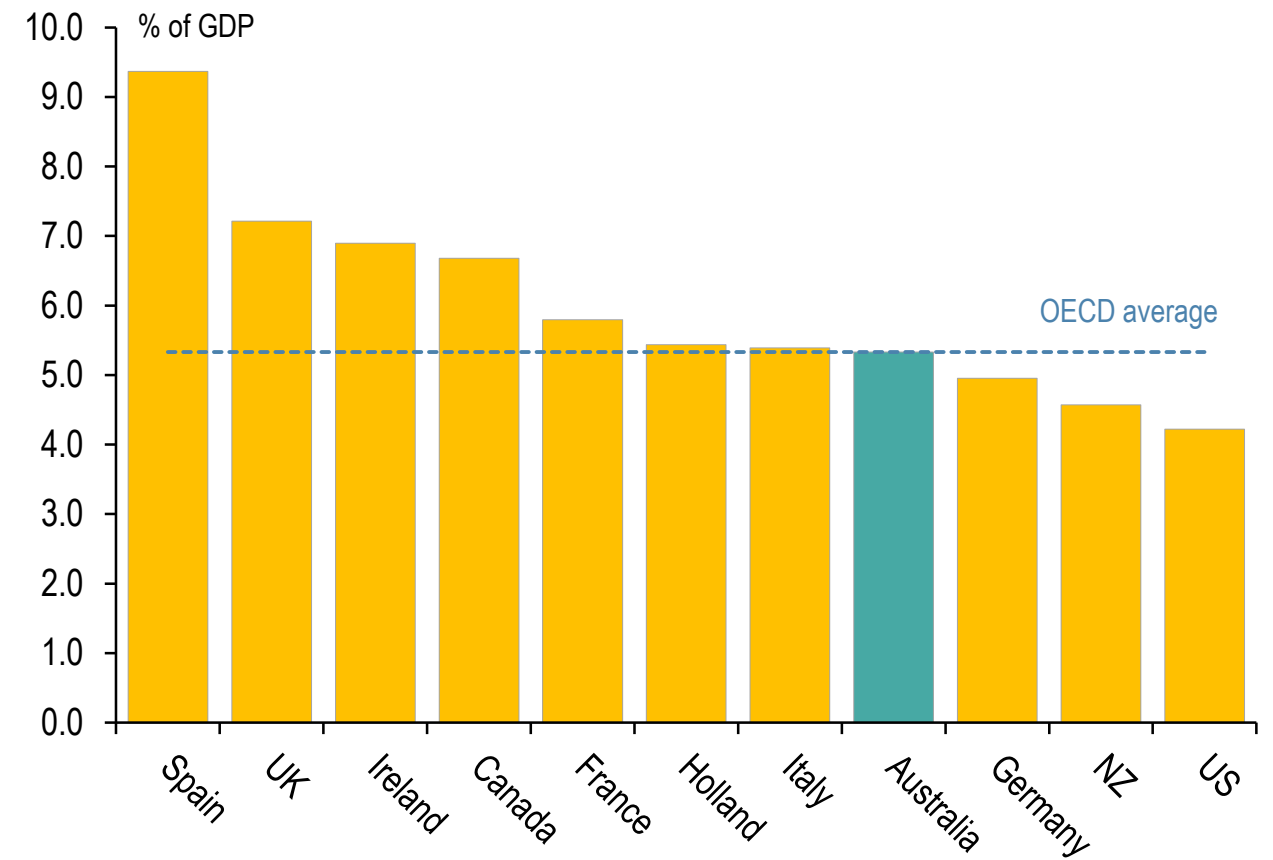
# The shortfall between housing supply growth and growth in 'underlying' housing demand has been greater in Australia than most other 'western' nations

## POPULATION GROWTH AND HOUSING INVESTMENT IN AUSTRALIA AND OTHER 'ADVANCED' ECONOMIES, 2000-2014

### Population growth



### Housing investment

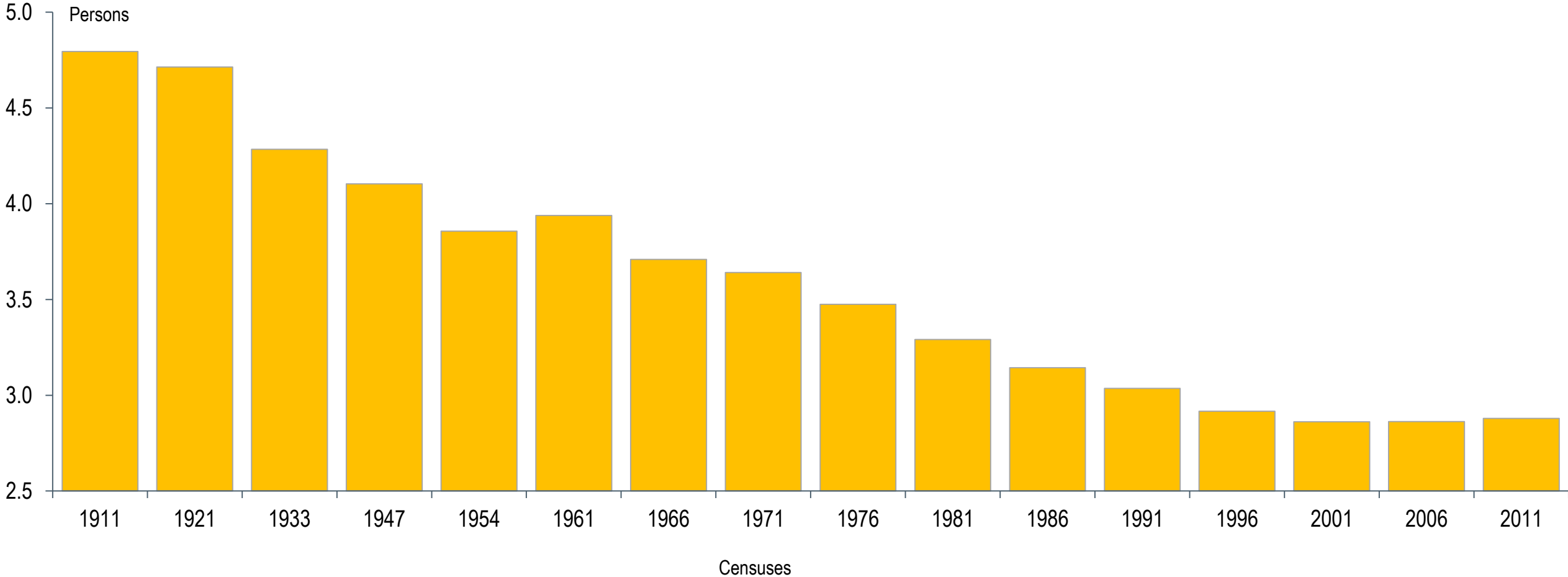


Source: International Monetary Fund, *Australia: Selected Issues*, Country Report No. 15/275 (September 2015), p. 11.



# The average number of people per dwelling rose (slightly) between the 2006 and 2011 censuses, for the first time ever

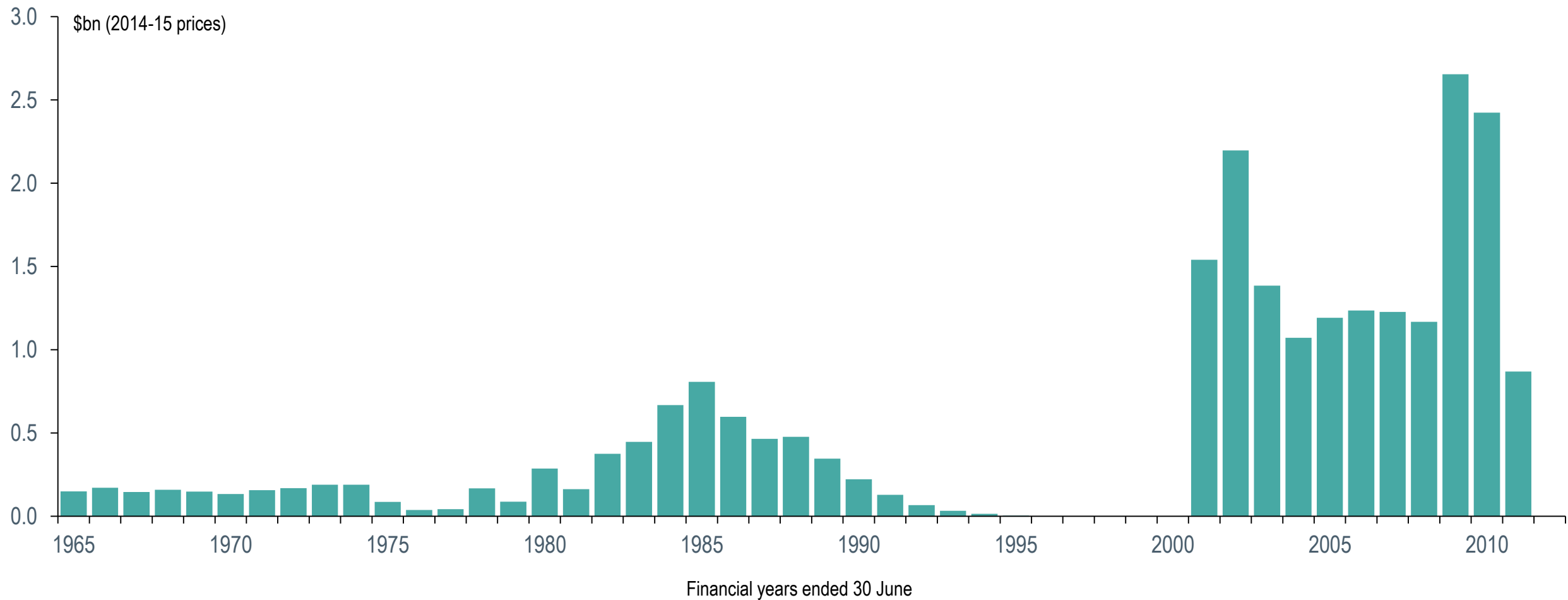
## AVERAGE NUMBER OF PEOPLE PER DWELLING AT CENSUSES, 1911-2011



Sources: ABS, Census Data QuickStats (1996-2011), and historical data for earlier censuses (cat. nos. 2101.0-2109.0).

# During the 2000s, governments spent \$17bn inflating the price of housing through grants to first home buyers

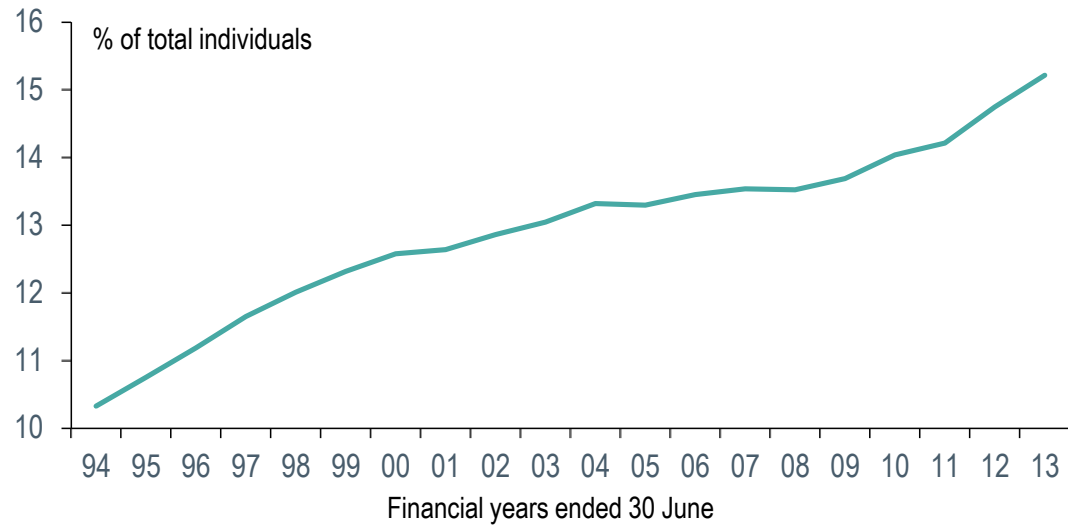
## COMMONWEALTH AND STATE & TERRITORY GOVERNMENT SPENDING ON GRANTS TO FIRST HOME BUYERS



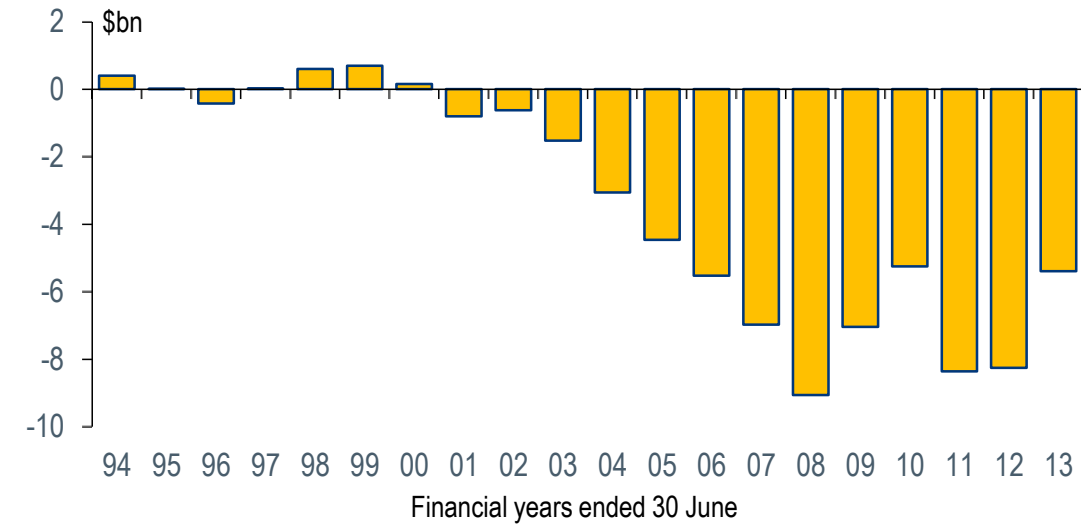
Sources: Advisory Council for Intergovernment Relations, *Australian Housing Policy and Intergovernment Relations*, Discussion Paper No. 14 (1982), Appendix G; Australian Government, Budget Paper No. 1, *Budget Statements*, 1983-84 through 1994-95; Commonwealth Grants Commission, *2008 Update Report* (Attachment D) and *Report on GST Revenue Sharing Relativities*, 2010 Review Volume 2; and CoAG Reform Council, *National Affordable Housing Agreement: Performance Reports 2009-10 and 2010-11*.

# Changes to the capital gains tax regime in 1999 greatly enhanced the appeal of 'negative gearing' as a way of financing property investment

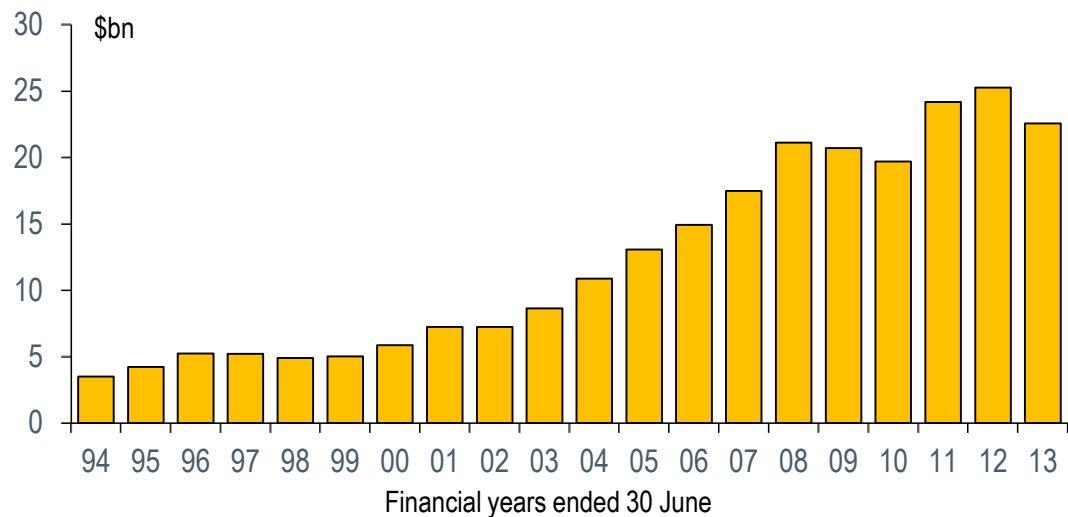
## Individual taxpayers with rental income



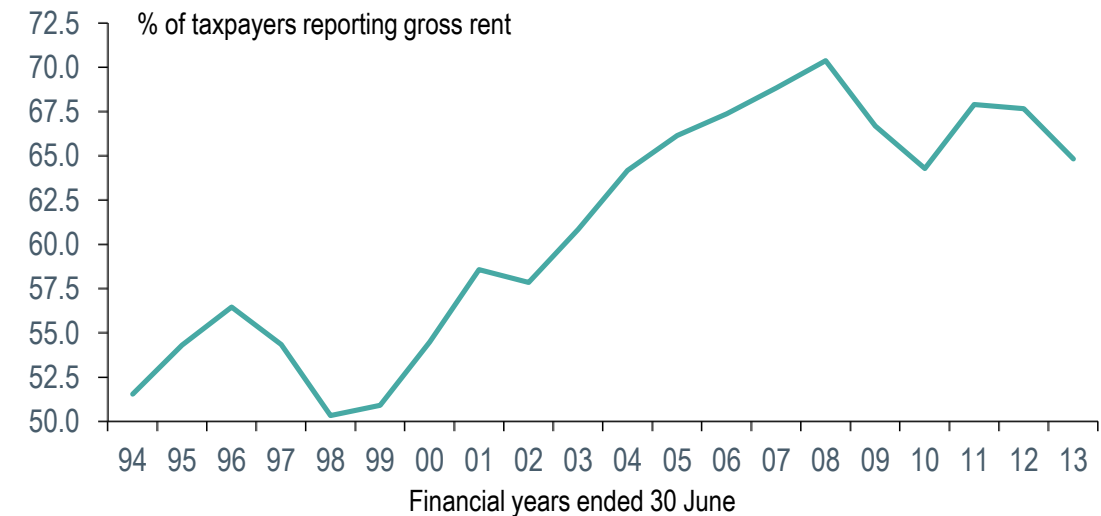
## Net rental income



## Interest paid by taxpayers with rental income

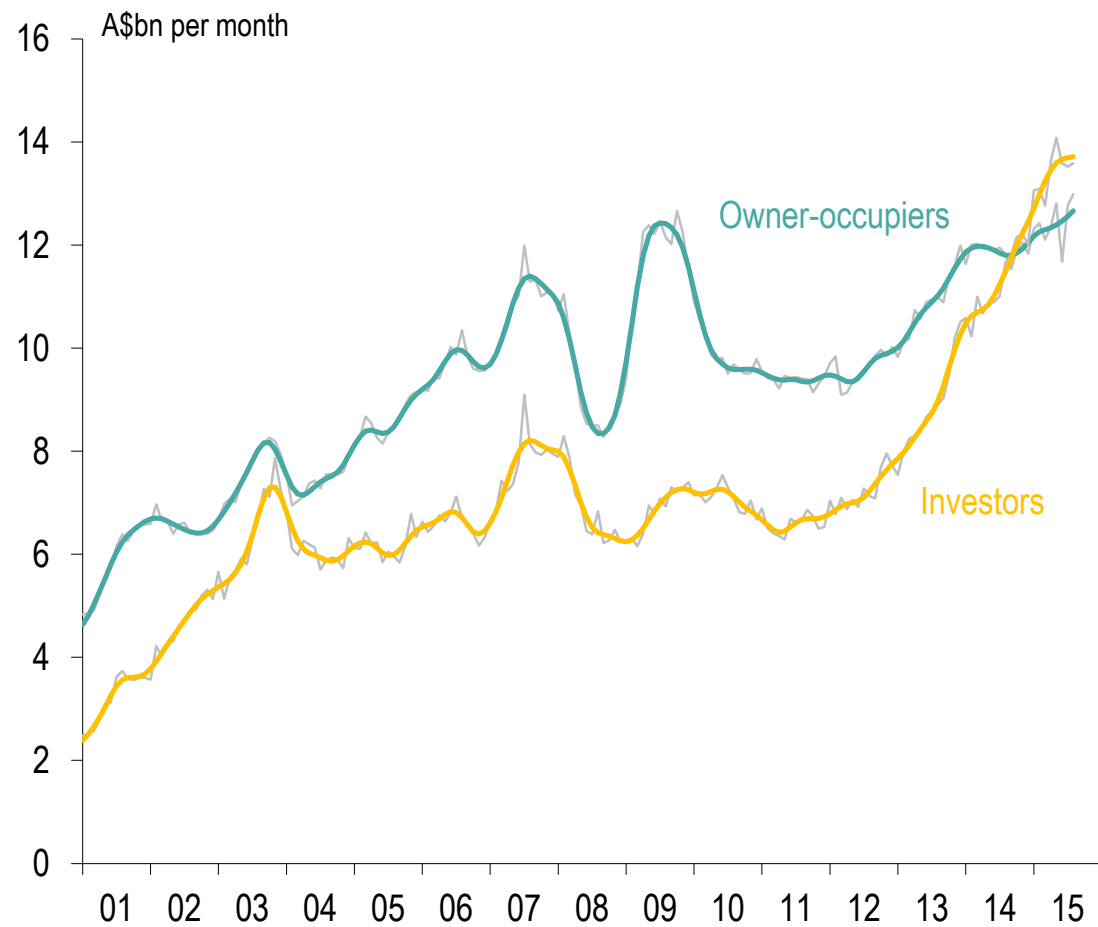


## Loss-making landlords as a pc of total

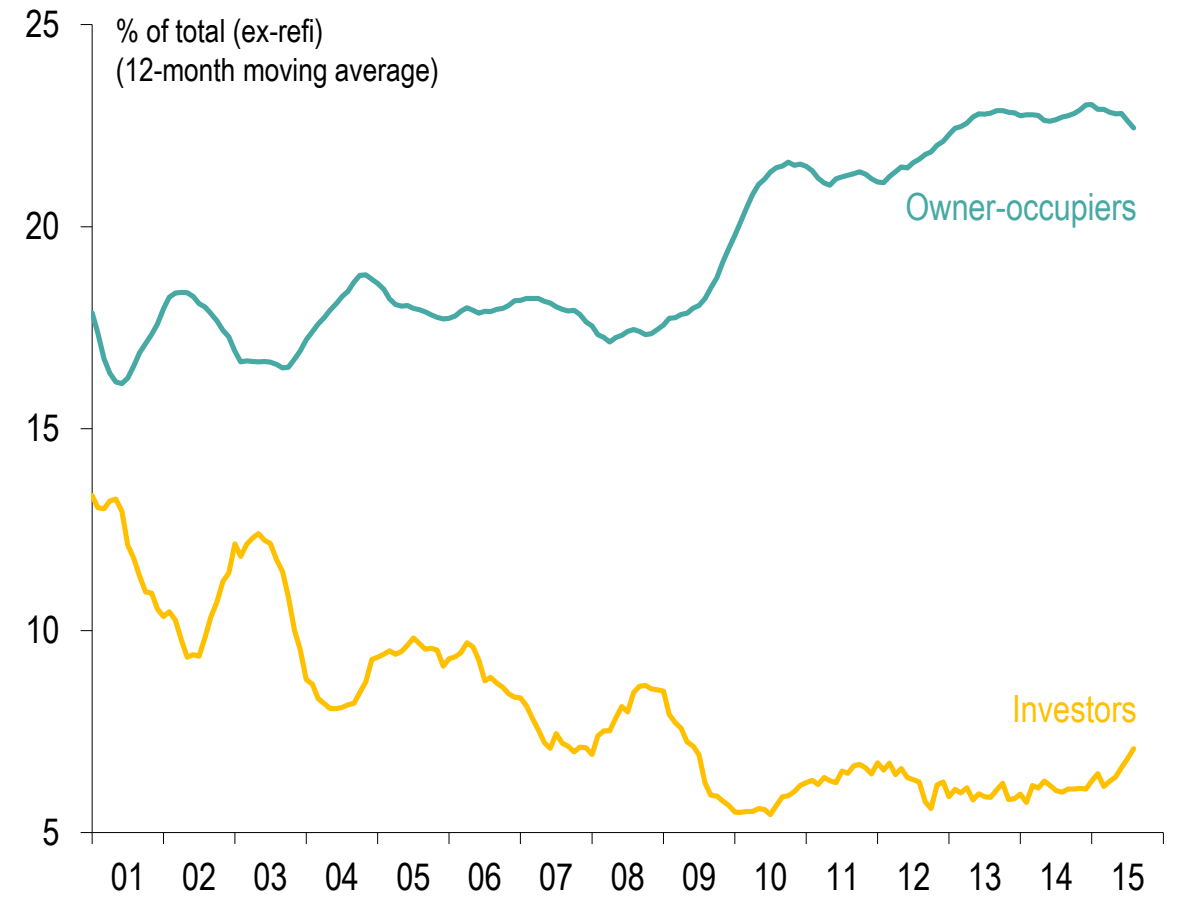


# Subsidizing property investment borrowing costs through the tax system is a very expensive way of boosting housing supply

## FINANCE COMMITMENTS FOR THE PURCHASE OF HOUSING, BY TYPE OF BORROWER



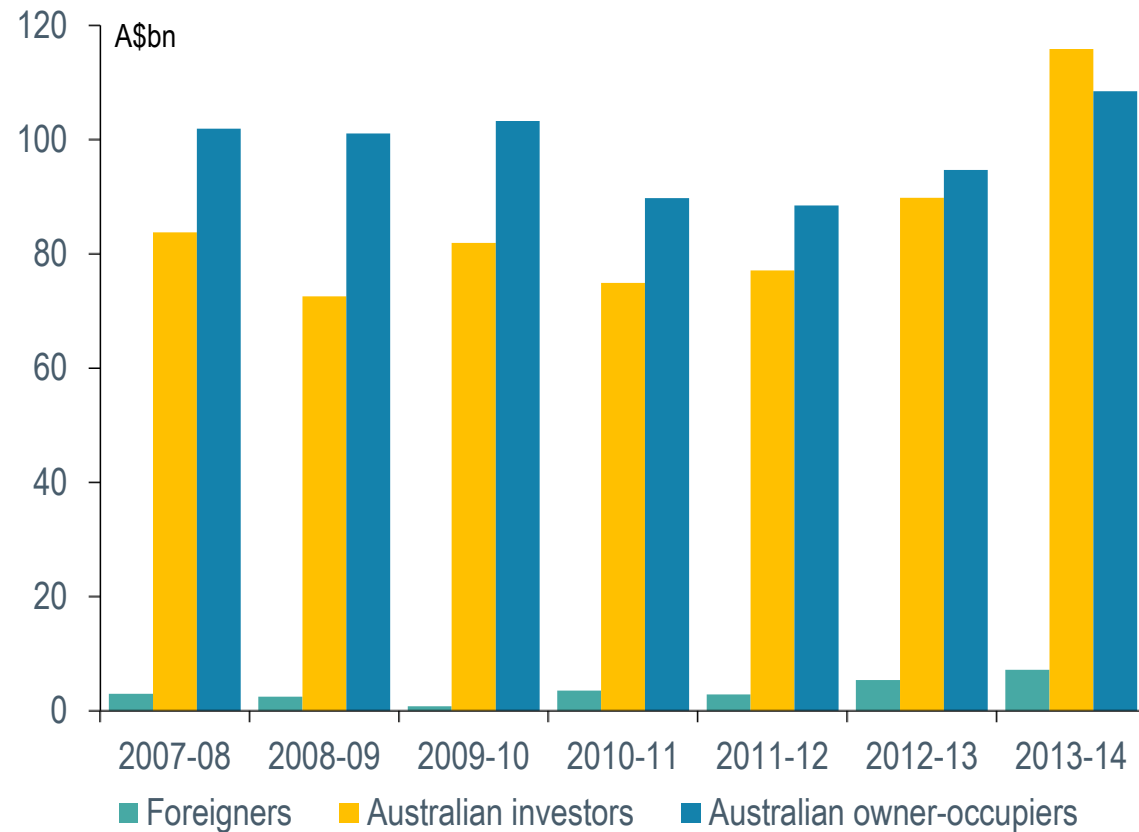
## LENDING FOR CONSTRUCTION OR PURCHASE OF NEW HOUSING AS PC OF TOTAL



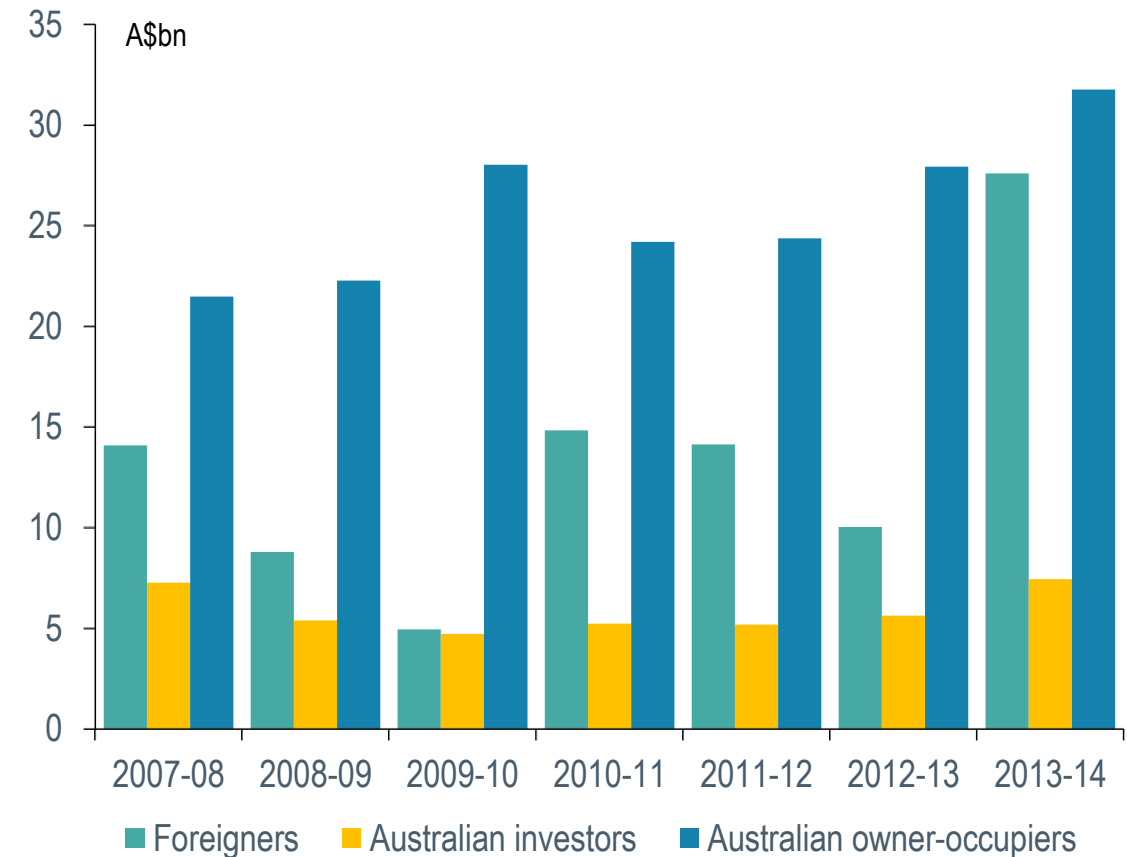
Source: ABS, Housing Finance, Australia (cat. no. 5609.0).

# Foreign investors have had much less influence than Australian investors on prices of established dwellings, but are doing much more to add to the supply of housing

## PURCHASES OF / BORROWING FOR PURCHASE OF ESTABLISHED DWELLINGS



## PURCHASES OF / BORROWING FOR PURCHASE OF NEW DWELLINGS



Note: data foreigners is value of purchases approved; data for Australian investors & owner-occupiers is value of loans committed (ie excludes equity component)

## Increased levels of investor activity have amplified property market risks

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“The main risk from a higher level of investor activity arises from its potential impact on house prices and its interaction with leverage ... This activity can amplify the run-up in housing prices and hence increase the risk of prices falling significantly later on.

Investors are more likely to contribute to the run-up in prices than owner-occupiers because the rationales for their purchases differ: capital gains are likely a greater motivating factor for investors, and rising prices can induce even more investor demand by increasing expectations for future price rises.

Investors also tend to face fewer barriers to exit when the market turns down.

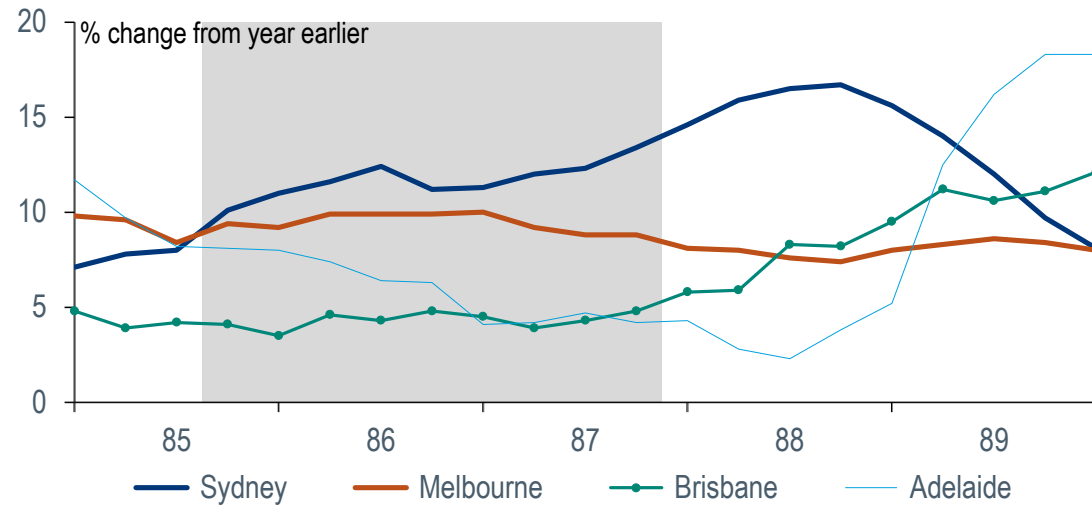
...

Another risk arising from robust investor activity is that speculative demand could lead to an excessive increase in construction activity and future supply overhang. While the housing market remains a long way from oversupply nationwide, some geographic areas appear to be reaching that point, particularly the inner-city areas of Melbourne and Brisbane.”

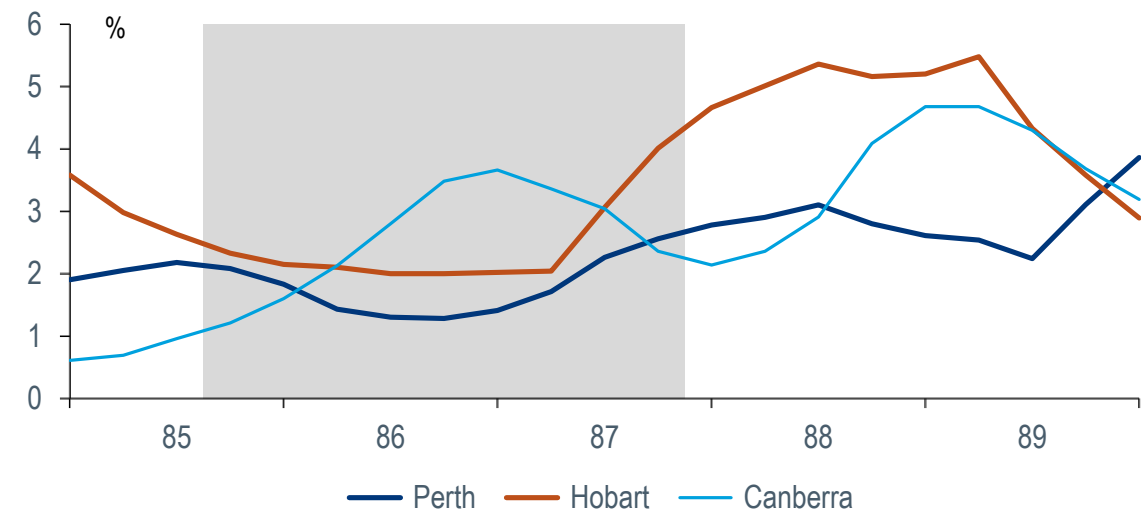
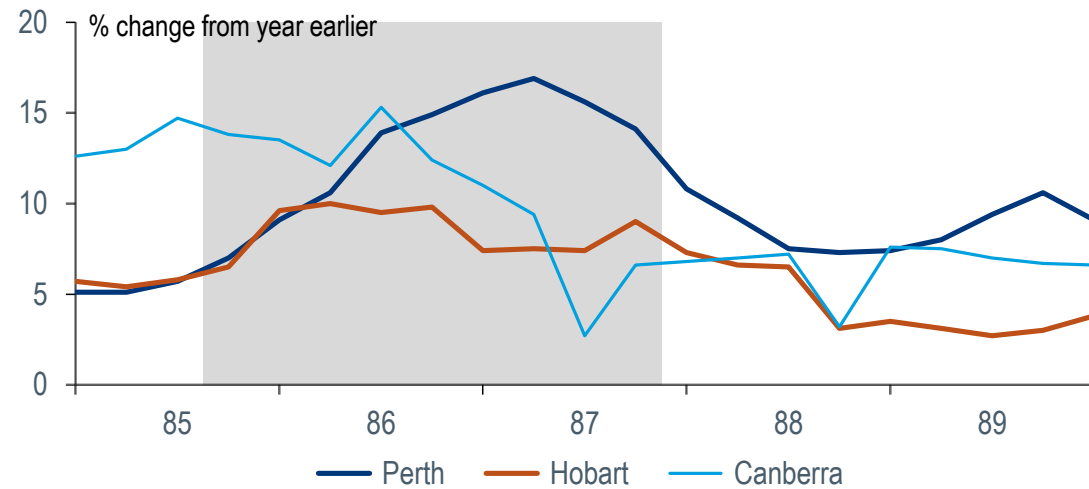
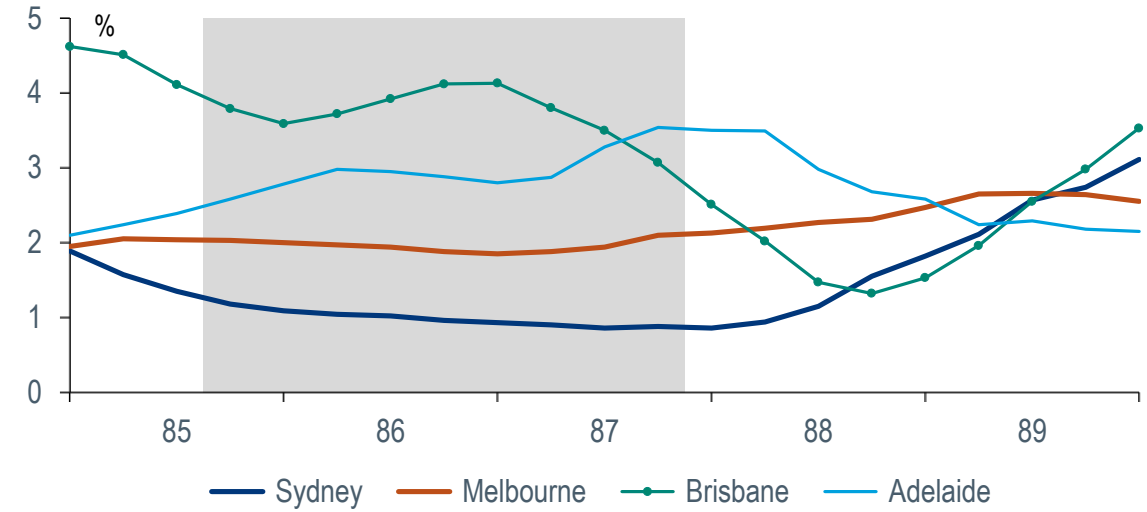
- Reserve Bank of Australia, *Financial Stability Review*, October 2015, pp, 20-21

# It simply isn't true that the temporary abolition of negative gearing in the mid-1980s 'caused' a "landlord's strike" or a surge in rents

## Capital city rents



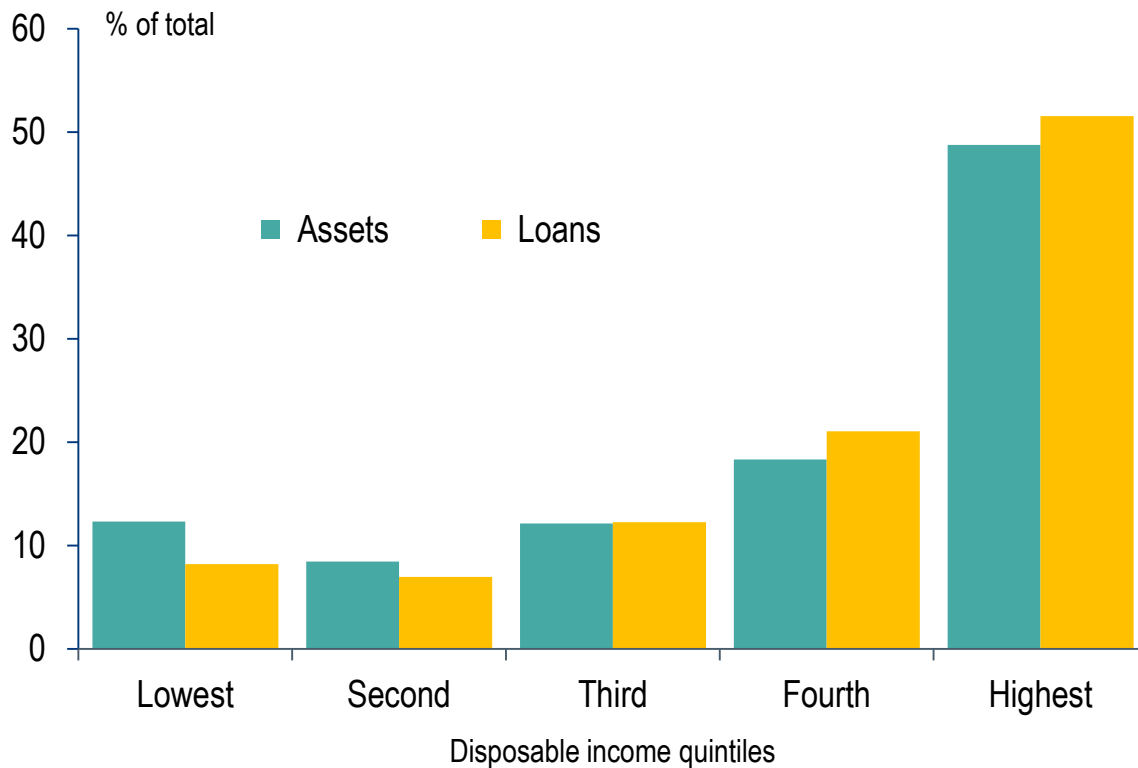
## Capital city vacancy rates



Note: Shaded areas in the above charts indicate period for which 'negative gearing' was unavailable for property investors.  
Sources: ABS, Consumer Price Index; Real Estate Institute of Australia, Real Estate Market Facts.

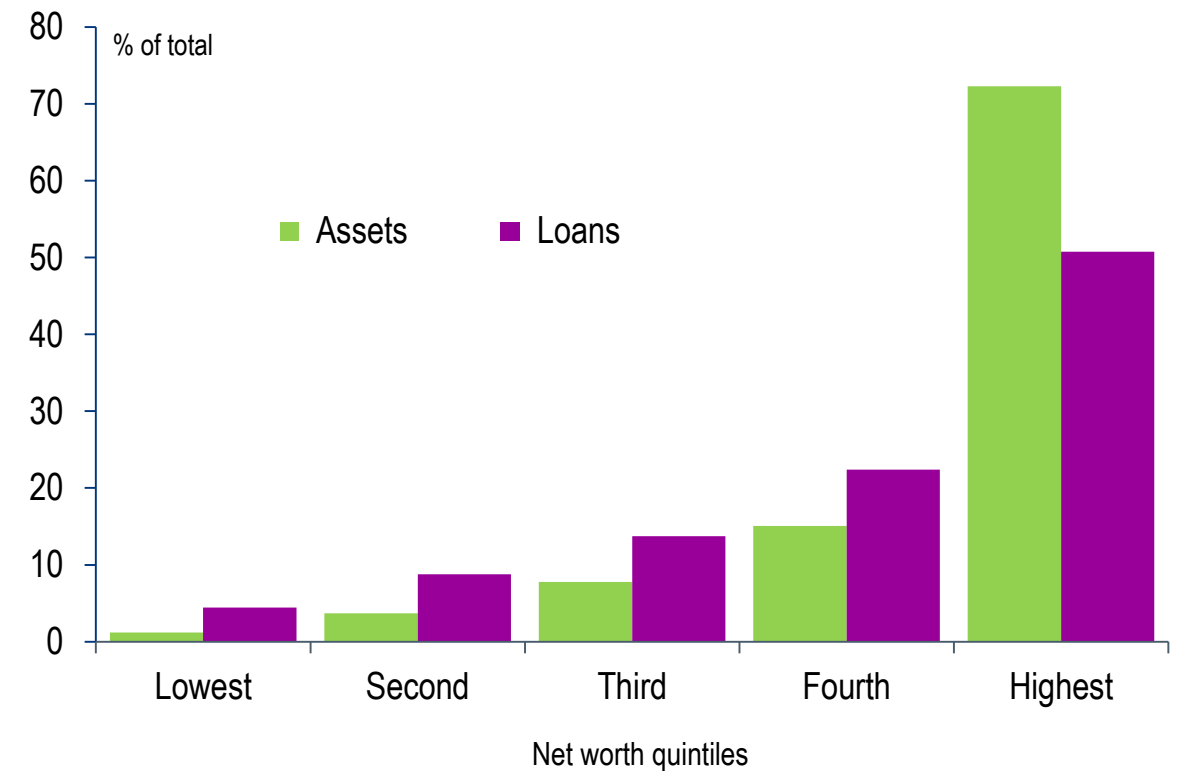
# Concessional tax treatment of property investment debt and assets overwhelmingly benefits the top 20% of households, by income or wealth

## DISTRIBUTION OF PROPERTY ASSETS AND LOANS (OTHER THAN OWNER-OCCUPIED DWELLINGS) BY INCOME QUINTILE



**49% of all investment property assets are owned, and 52% of property investment debt is owed, by households in the top income quintile.**

## DISTRIBUTION OF PROPERTY ASSETS AND LOANS (OTHER THAN OWNER-OCCUPIED DWELLINGS) BY NET WORTH QUINTILE

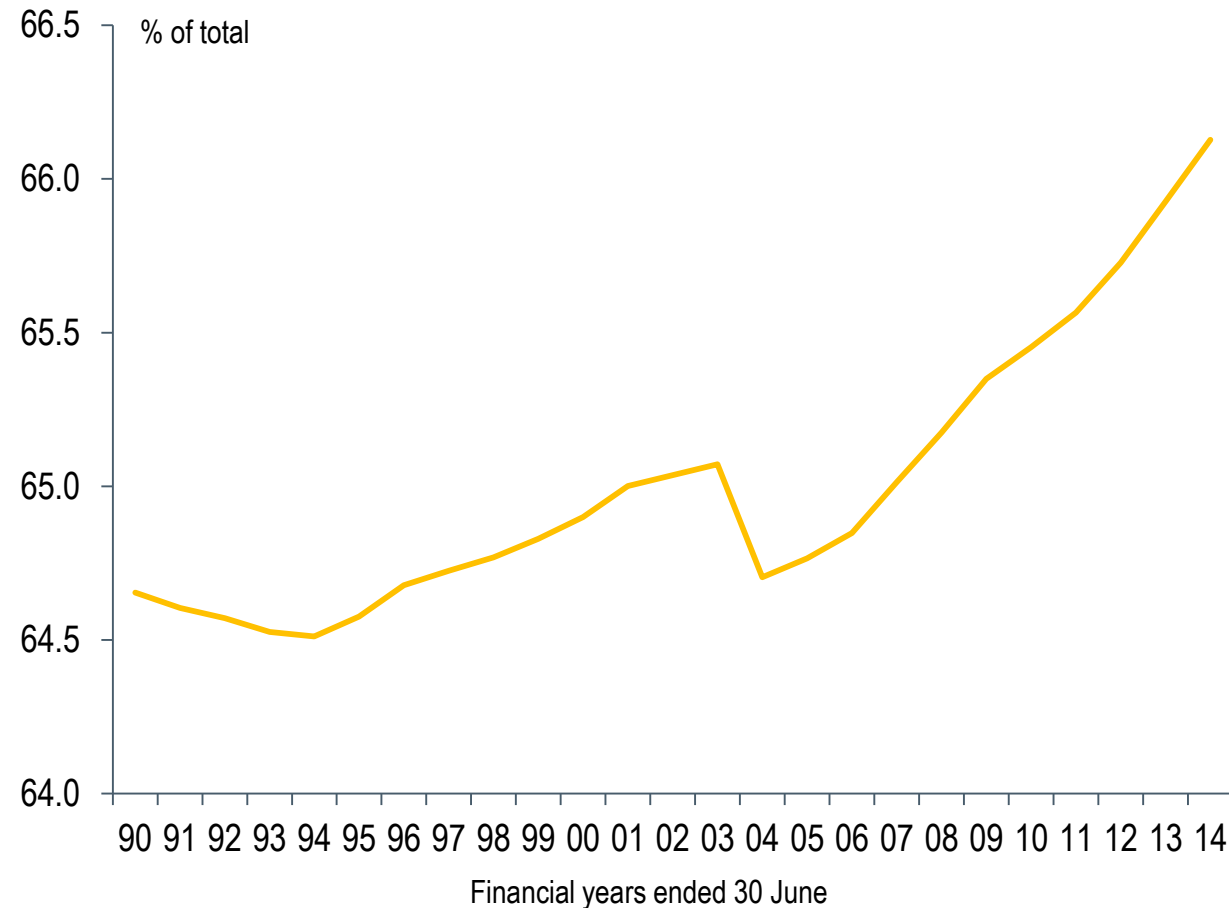


**72% of all investment property assets are owned, and 51% of property investment debt is owed, by households in the top net worth quintile. Only**

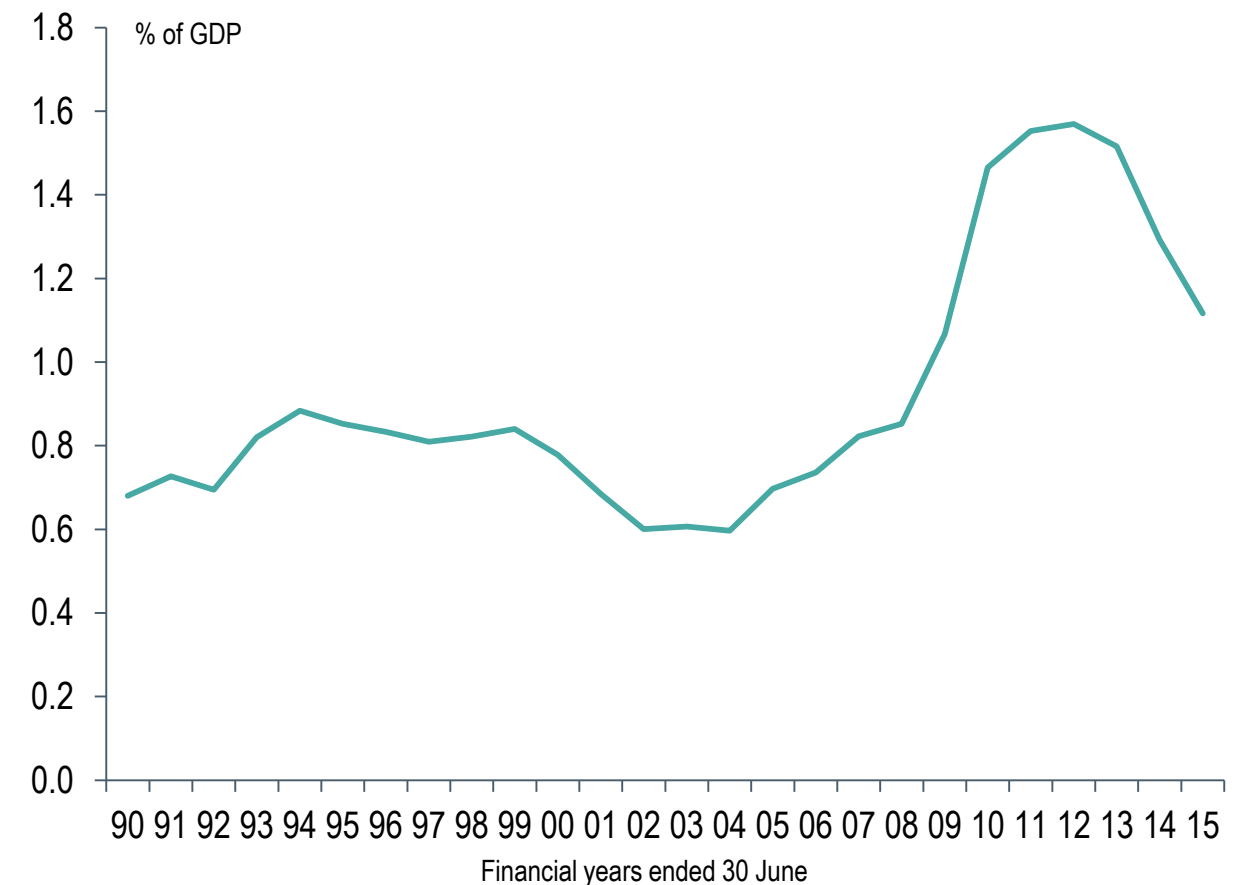


# Inadequate levels of investment in urban transport have put upward pressure on dwelling prices in well-located areas

## PROPORTION OF AUSTRALIA'S POPULATION LIVING IN CAPITAL CITIES



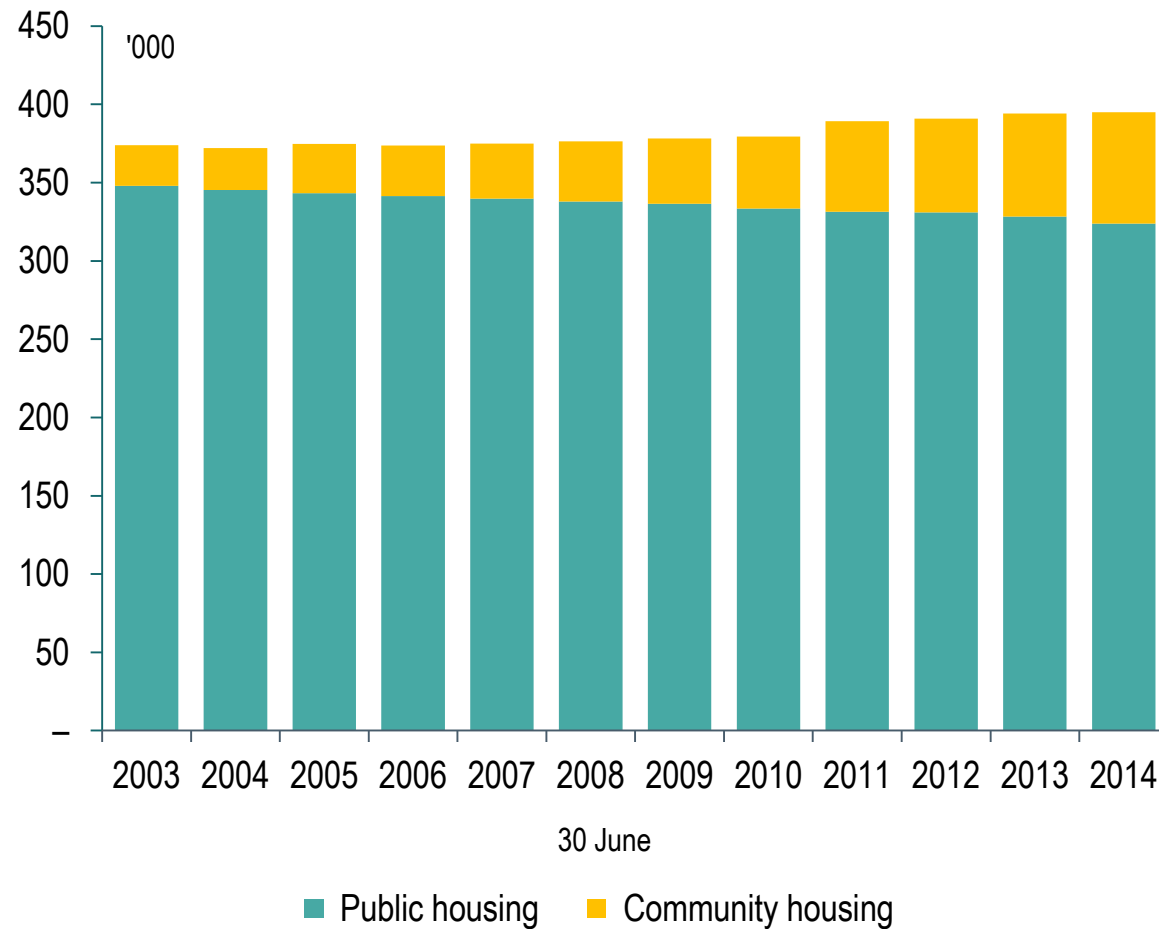
## CONSTRUCTION WORK DONE ON TRANSPORT PROJECTS BY OR FOR THE PUBLIC SECTOR



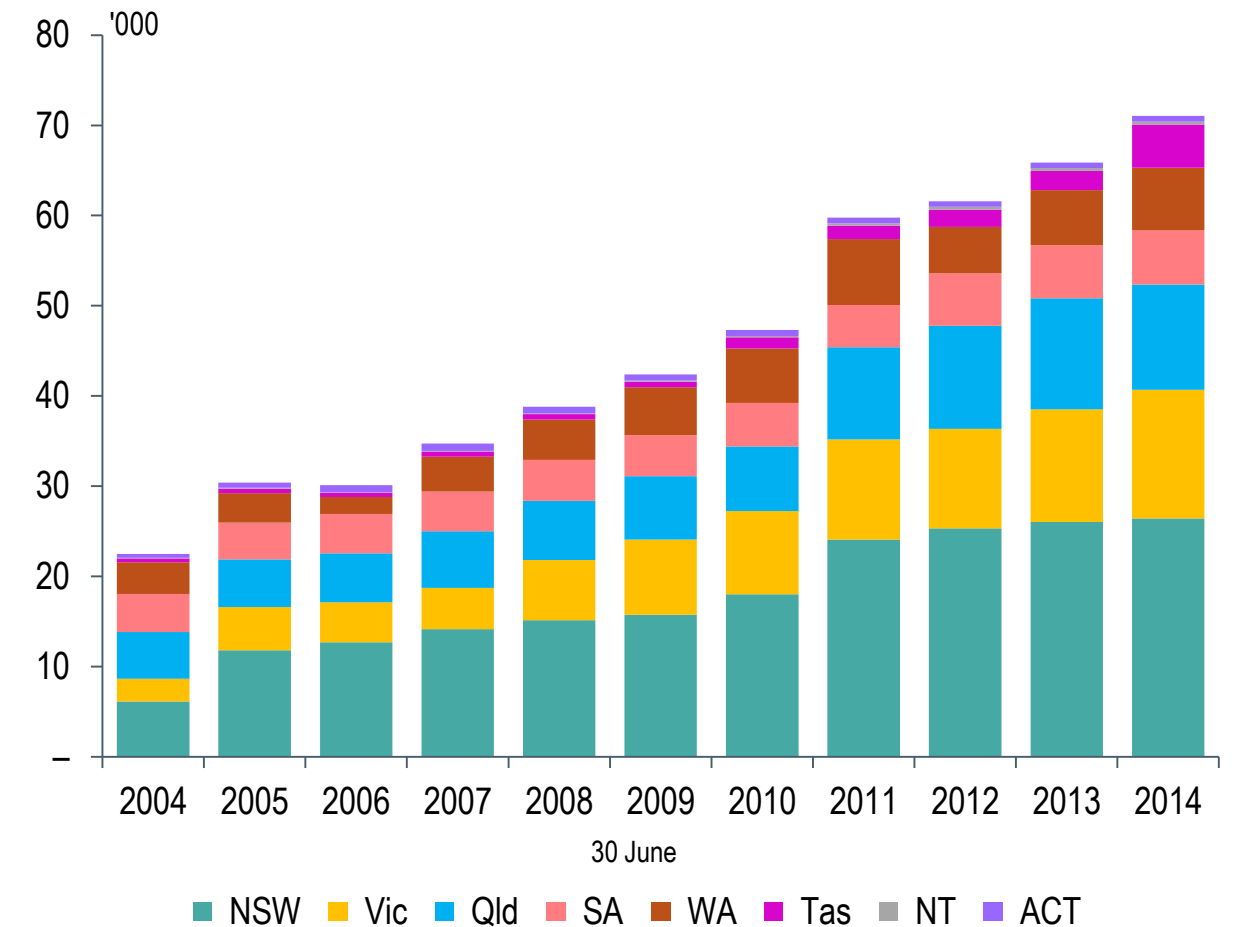
Note: 'Transport projects' include roads, highways & subdivisions, bridges and railways. Data is for the value of work done for the public sector. Sources: ABS, *Australian Historical Population Statistics*, (3105.0), 2014; *Regional Population Growth* (3218.0), 2013-14; and *Engineering Construction Activity, Australia* (8762.0), June quarter 2015.

# Community housing programs represent the most sustainable means of expanding the stock of social housing

## 'MAINSTREAM' SOCIAL HOUSING STOCK



## COMMUNITY HOUSING STOCK, BY STATE

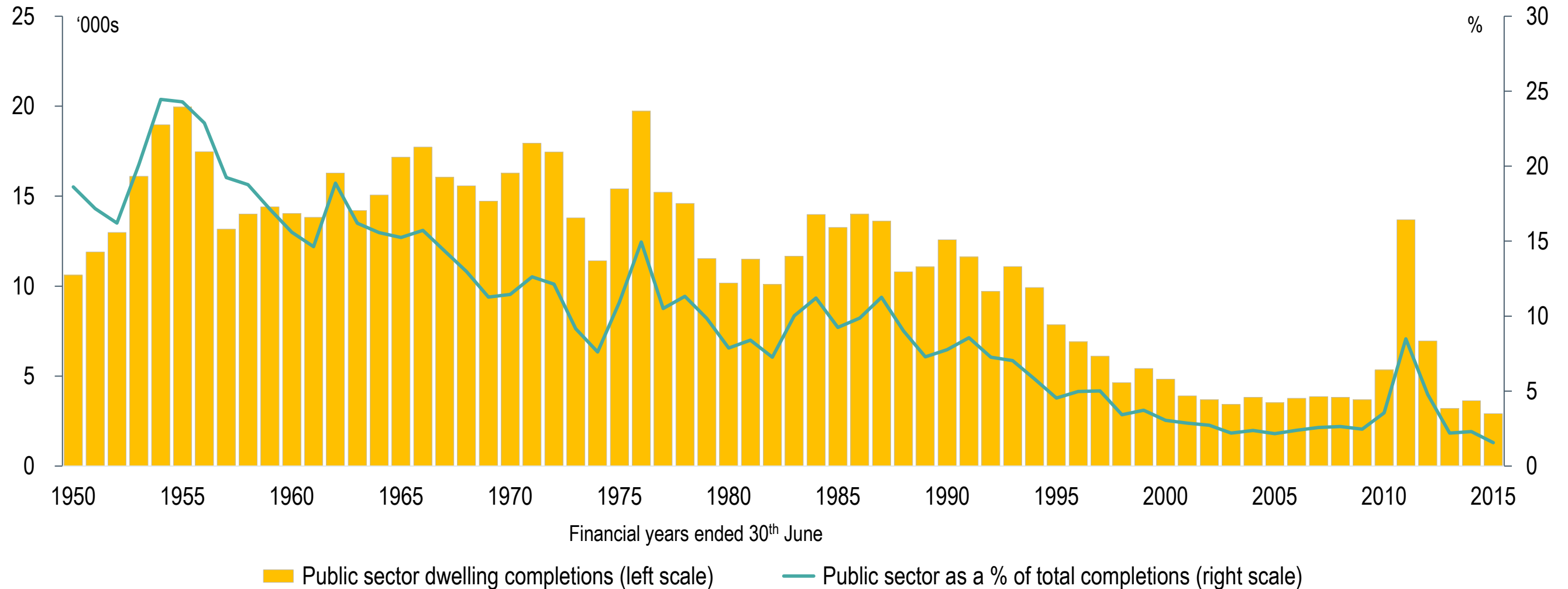


Note: The above charts exclude housing provided under State & Territory and community Indigenous housing programs.

Sources: Australian Institute of Health and Welfare, *Housing Assistance in Australia*, 2015; Productivity Commission, *Report on Government Services*, 2014.

# Up until the mid-1970s, the public sector made a significant direct contribution to boosting housing supply: since then its contribution has steadily diminished

## PUBLIC SECTOR DWELLING COMPLETIONS



Note: figures for 2014-15 re for the first three quarters of the year at seasonally adjusted annual rates. Sources: Advisory Council for Intergovernment Relations, *Australian Housing Policy and Intergovernment Relations*, Discussion Paper No. 14 (1982), Appendix G; ABS, *Building Activity, Australia* (8752.0), March quarter 2015.

# Elements of what could/should be a bipartisan agenda for improving housing affordability

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- Abandon policies which serve only to inflate demand, including cash grants to and stamp duty exemptions for first time buyers, and preferential tax treatment for investors
  - if ‘negative gearing’ must be retained for political reasons, then scale back the 50% discount on capital gains (or re-instate the 1985-99 system of taxing gains after inflation at full marginal rates) and only allow losses to be offset at the same rate as which capital gains are taxed)
- Redirect funds thereby saved (or revenue raised) towards programs that increase the supply of housing
  - including direct or indirect funding of the construction of new dwellings;
  - targeted ‘shared equity’ schemes like WA’s “Keystart”; or
  - providing some combination of grants, loans & tax incentives for greater private sector provision of ‘affordable’ dwellings (for sale or rent)
- Reform State tax systems to encourage more efficient use of land by replacing stamp duty on land transfers with a broad-based land tax (including on owner-occupied properties), with transitional provisions to avoid ‘double taxation’ of recently-acquired land
- Include the value of owner-occupied housing above location-specific thresholds in the assets test for the age pension

# Elements of what could/should be a bipartisan agenda for improving housing affordability (continued)

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- Provide greater support for the expansion of the community housing sector
  - more stock transfers (with appropriate covenants)
  - explore more innovative funding models (bond guarantees, interest subsidies and the like)
  - use of ‘inclusionary zoning’ requirements and ‘value capture’ to fund additions to the stock of affordable rental housing
- Restructure land tax provisions for large-scale investors in rental housing
  - apply tax scales to individual land holdings rather than to aggregated portfolios
- Revisit current models for financing the provision of suburban infrastructure and services in ‘greenfield’ housing estates – with less ‘upfront’ charging and greater recovery through municipal rates
- Reduce the cost, complexity and uncertainty associated with ‘infill’ developments in established areas by providing greater uniformity and clarity in planning rules, and fewer opportunities for frivolous or vexatious objections
- Take a more ‘holistic’ view of urban infrastructure investment – especially in transport – and consider the use of ‘betterment levies’ as one way of partially funding such investments

**THANK YOU!**

For more details...

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