



Affordable Housing

Issues, Principles and Policy Options

“Affordable housing is crucial to a country and its people. Without it, people are impoverished, families and communities eroded, jobs lost, the economy weakened, and the environment damaged.”

ACTU Discussion Paper
Affordable Housing Summit, Canberra
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Introduction

The ACTU welcomes the recent release by Kevin Rudd, Wayne Swan, Tanya Plibersek for the federal Labor Party, of its discussion paper “***New Directions for Affordable Housing: Addressing the decline in housing affordability for Australian families***” [June 2007].

The ACTU’s concern and advocacy around affordable housing is long standing, as reflected in ACTU policy over many decades. Unions’ interest and action on this issue has strong roots in social justice and the need to assist the most disadvantaged groups in society so as to prevent persistence of social exclusion across generations. It also has particular focus on the capacity of ordinary working families to achieve their dreams of home ownership rather than give up all hope of ever getting there in the face of rapidly escalating house prices and an endless scramble to bridge the deposit gap.

Labor’s ***New Directions*** discussion paper puts affordable housing policy back squarely on the national policy agenda. This contrasts sharply with the abject neglect of housing policy by the Howard government over the past decade.

Australia’s creeping crisis in housing affordability is directly attributable to this neglect by the federal government – to its failure to recognize the problem, to its miserly funding for the Commonwealth-State Housing Agreement, to its ideological belief that market forces will fix everything.

Without concerted national action, the creeping crisis of housing affordability in Australia will worsen with harmful consequences - for social cohesion, for domestic violence, for childrens’ well-being and development, for crime and personal safety - sure to follow.

New Directions sets out a suite of policy options directed to this end. This ACTU paper discusses these policy options¹, having regard to their capacity to deliver relief to those groups and regions that are under greatest stress and in greatest need.

That concerted national action is imperative, is the shared view of five national organizations that, three years ago, convened a National Summit on Housing Affordability and issued a Call for Action arising out of the Summit deliberations². The Summit Group has subsequently worked closely together developing further a suite of policy proposals, and advocating in support for them in meetings with federal and state officials and politicians, developers and finance houses.

The extent of Australia’s creeping crisis of housing affordability is outlined in section 1 of the Summit Group’s recent ‘Call for Action’, reproduced as Attachment 1 below. The Summit Group’s policy proposals set out in the Call for Action are reproduced as Attachment 2 below.

Housing – a skewed market

¹ Other policy options –such as rent-to-buy schemes and intergenerational loans – may also have merit and warrant consideration as policies to increase affordability of home ownership. The discussion below on Shared Equity arrangements is broadly relevant to these types of schemes.

² The Summit Group is chaired by Prof Julian Disney. The five organizations which played the principal roles in organizing the Summit and in subsequent collaboration around affordable housing are the Housing Industry Association, the Australian Council of Social Service, the Australian Council of Trade Unions, National Shelter, and the Community Housing federation of Australia. Other participant groups include the Australian Local Government Association, the Construction Forestry Mining and Energy Union, and the Urban Development Institute of Australia.

Housing affordability may well be an issue for all Australian families, but accessing accommodation that is reasonably adequate in standard and location is of pressing concern for lower- and middle-income households. For these families, housing must not cost so much that the household is unlikely to be able to meet other basic living costs on a sustainable basis.

For present purposes, we take ‘lower and middle income’ families to be the bottom 60% of all families. Families with incomes in the top 40% of the distribution are likely to be able to enter the housing market as owners, buyers or renters, notwithstanding that they too may feel the pressure of rising housing costs.

For very low income families (those in the bottom 20% of the family income distribution) home ownership is typically a distant dream. Overwhelmingly, families in this income bracket are *renters* in the private or public rental markets. [There are some retiree households in this family income bracket, who are homeowners, having bought their houses many years ago.]

For low-income families (those situated between the 20% and 40% marks in the distribution of family incomes), and for middle-income families (those in the 40% to 60% range) – housing affordability has declined significantly over the past decade. Families in these income brackets, who are *buying or wanting* to buy their first home, have been pole-axed by runaway house prices in all capital cities. Many are constrained to remain in *rental* accommodation for extended periods seeking to save the necessary deposit, or to buy on the urban fringes and endure lengthy and expensive commutes to and from work and civic amenities.

For high-middle (60% - 80%) and high (80% - 100%) income families, accessing accommodation that is reasonably adequate in standard and location is not typically a choice which impinges on their ability to meet other basic living costs on a sustainable basis.

Investment returns (encompassing both income streams and capital growth) in the top sector of the residential real estate market are sufficiently high to ensure adequate private sector supply of housing stock. That this is not the case for low and middle-income sectors of the market is the essential justification for intervention by government in stimulating the supply of affordable housing.

Social housing, incorporating both public housing and housing provided by not-for-profit community housing organizations, has historically in Australia sought to provide critical supplementary supply of suitable accommodation in the low and lower-middle income ranges of the housing market. Over the past decade, federal funding for social housing traditionally provided through the Commonwealth-State Housing Agreement, has been steadily strangled, causing public housing authorities in all states to cannibalise existing stock to fund maintenance on the remainder. With no sustained effective stimulus to supple of low-cost housing, rent assistance supplements for social security recipients has largely been consumed by price inflation - through increased rents.

Indigenous housing can be seen as a class of social housing. However, indigenous Australians remain the singularly most disadvantaged group of Australians, across all socio-demographic indicators and especially access to housing and housing affordability. In remote Australia there is no properly functioning property market and an endemic lack of rental housing. While several of the measures discussed below may assist in redressing the indigenous housing shortage, a dedicated package of assistance directed specifically to meeting indigenous housing needs will be essential.

New Directions – the Options

New Directions presents, under four broad headings, its discussion of measures to deliver more affordable housing. We discuss each measure in turn. Table 1 summarises the key points.

1 Macroeconomic policy

The specific measure identified is “keeping downward pressure on interest rates”.

This is not really an option at all. It is a fundamental requirement underpinning all social policy, including housing. Maintenance of low inflation underpins the sustained growth of output, incomes and employment, and provides the foundation for interest rates to be kept as low as possible by the Reserve Bank consistent with its Charter.

Stable macroeconomic policy assists housing affordability across all income groups. Without it, all social policy is undermined, including measures to improve housing affordability. Interest payments are the single biggest cost in buying a home, which makes low interest rates central to improving home ownership. Yet keeping interest rates low is not sufficient to deliver housing affordability, as the blowout in affordability over the past five years illustrates. Sound macroeconomic policy is necessary, but specific supplementary measures targeting affordability are needed as well.

2.1 Residential infrastructure fund and cross-government coordination: All levels of government – federal, state and local – have significant impact on housing affordability. The federal government sets macroeconomic policy, provides grants to the states, and historically has provided funding through the Commonwealth-State Housing Agreement to support state housing authorities. The federal government also sets the parameters for overall (including humanitarian) immigration levels, which impact on low-cost housing demand. The states provide public housing through state housing authorities and more recently have sought to boost supply of social housing through partnerships and collaborations with not-for-profit community housing associations. State governments establish broad parameters for land release and growth plans, including urban growth boundaries, and deliver major infrastructure requirements. Local governments have broad responsibility planning and building approvals, and importantly, for provision of local infrastructure.

The cost of new homes is affected by the cost of necessary infrastructure. Fiscal constraints emanating from federal government policies have over recent years seen the emergence of local government ‘user pays’ infrastructure charges on new housing developments, whereas previously this provision of social infrastructure was borne by the whole community.

Better planning with clear land release policies, improved coordination across levels of government, and establishment of an efficiency-conditional Residential Infrastructure Fund to spread the cost of infrastructure provision across the whole community and over time, rather than lump it all on the first inhabitants of new housing developments, have significant potential to improve affordable housing supply and access to first home ownership across the middle ranges of the family income distribution.

2.2 First Home Owners Grant: The rationale for introduction of the FHOG was to shrink the deposit gap and offset the introduction of the GST on new house prices. The FHOG does not directly stimulate additional housing supply; its contribution to reducing the deposit gap has wholly or substantially been eroded and thus offset by higher house prices, with additional lending allowed by financial institutions boosting demand for the same limited supply. Simply raising the level of the FHOG runs the great risk of more of the same. Restricting eligibility to the FHOG through means-testing, in conjunction measures to boost supply of new housing, would improve the use of scarce resources.

2.3 Tax preferred savings vehicle: Provision of a tax-preferred saving vehicle for low income families has great merit. However, it is difficult to justify limiting such a measure exclusively to saving for a home deposit. A range of other family expenses are arguably equally meritorious.

Moreover, such a savings vehicle will not greatly assist the lowest income groups which have little or no discretionary income and often no occupational superannuation; and unless properly structured will be accessed as simply another tax dodge by high income groups, with negligible benefit (relative to budgetary cost) for affordable housing supply.

However, a well structured, tax preferred, *multi-purpose* savings vehicle for low and middle income families has substantial merit, both for the families which stand to benefit directly from it, as well as for the overall level of national savings.

By way of illustration, a low-tax, low-overheads savings vehicle which operated in conjunction with superannuation accounts, could allow savings up to a threshold level for individuals with a total superannuation account balance of less than a specified amount (say \$100,000) with the savings

accessible subject to restrictions (such as period of notice for withdrawal, minimum amount, eligible purpose including but not limited to first home purchase). Such a proposal warrants careful, detailed and thorough investigation and modeling.

2.4 Shared Equity schemes: Shared equity schemes reduce the up-front costs facing aspiring first homebuyers. Under these arrangements, a share in the equity of the home is bought by another party (variously a government agency, a private financier or scheme proponent, or a combination such as in some public-private models). On sale of the home (usually within a specified time period), proceeds are split between the equity partners according to pre-agreed terms. Tax concessions, subsidies and similar mechanisms may potentially be used to increase returns for private equity partners and thus raise the attractiveness and market penetration of such arrangements. Such incentives may be offered through individual homebuyers, or to developers undertaking multi-unit or estate developments. Shared equity schemes are intended to enable first homebuyers to get a foothold in the market.

2.5 Constraining predatory lending: Increased scope for unconscionable conduct amongst players in the home finance sector is a side effect of financial deregulation. Predatory lending practices by some unscrupulous mortgage brokers trap low and middle-income families with loans they can not afford and unfair terms. Empowering ASIC to take action against mortgage brokers for such practices can reduce the resultant hardship on ordinary families.

3. Increasing the supply of affordable rental housing

For most of the period following the Second World War, the federal government directly boosted the available stock of affordable rental accommodation by funding state housing authorities through the Commonwealth-State Housing Agreement [CSHA]. Through this policy, the states accumulated substantial stocks of public housing which were made available to low-income tenants as low-rental accommodation.

For the past two decades funding through the CSHA has been reduced, leading to deterioration and diminution in the stock of public housing and consequent shrinkage in the supply of affordable rental accommodation for low-income families.

One option is simply to reverse this constraint. This would require commitment of federal funds in large and continuing amounts for decades ahead. Whatever its merits, the orders of magnitude involved to rectify the present shortage appear prohibitive if other policy imperatives facing government are to remain achievable.

There will for the foreseeable future continue to be a role for public housing, if we are successfully to manage the complex pressures emanating from de-institutionalisation, migration, and population aging. A recommitment from Labor to a base level of public housing is warranted, and would provide a key component of a renewed social housing strategy.

A complementary approach is to access the vast financial resources in the private institutional sector, to increase the supply of affordable rental housing. Institutional investment in affordable rental housing is constrained by the inability of private investors to achieve satisfactory risk-adjusted rates of return without some degree of subsidy. Any given quantum of public funding, used to leverage private investment in the low-rent housing market, will generate substantially more additional stock than public funding alone.

The following options all involve use of public funds to leverage private (especially institutional) investment to substantially increase the supply of affordable rental housing.

3.1 Capital grants or loans to social housing providers: Social housing providers include community (not-for-profit) housing organizations as well as traditional state public housing authorities. To a substantial extent, the former manage the housing stock owned by the latter.

In general, community-housing organizations do not own the housing stock that they manage on behalf of state governments. They are accordingly not able to borrow against the assets they manage to create more affordable housing stock, notwithstanding that they have extensive waiting lists of eligible tenants. [Nor, reflecting federal and state Budget constraints, are state housing authorities able to borrow against their existing stocks to expand supply.]

To increase the stock of affordable housing the federal government could (i) make capital grants to community housing organizations, against which they could raise commercial loans; or (ii) guarantee commercial loans taken out by community housing organizations, or (iii) subsidise the interest payable by community housing organizations on commercial loans they take out to build additional affordable housing stock; or (iv) transfer to community housing organizations title of existing stock that they presently manage.

Each of these alternatives would require application of robust regulatory or prudential standards to ensure that taxpayers' funds are not mis-spent.

3.2 Tax credits for affordable housing: Tax credits provide an offset to otherwise incurred tax liabilities. In essence, tax credits are an alternative or complementary delivery mechanism (to those outlined in 3.1 above) to increase the supply of affordable housing. Although a tax expenditure by government, the overall magnitude of tax credits to be provided (bid for) can be determined with certainty in advance. The same requirement for robust regulatory and prudential standards would apply. Tax credits are one way of providing the NARI discussed below.

3.3 National Affordable Rental Incentive [NARI]: This is another structured delivery mechanism to stimulate delivery of more affordable rental housing. The proponents³ of the NARI accept that the incentive could be provided as guaranteed cash payments for a specified period; or as tax credits for a specified period; or some other structured tax offset; or as grants of land or capital; loan guarantees; or as some combination of these. The NARI scheme can be adapted to alternative forms of delivery of subsidy, flexibly providing the basis for growing the stock of community housing.

A key feature of the NARI as proposed is the quantification of additional low-rent housing stock achieved for any given level of the incentive. As proposed, the NARI delivers at least \$3.50 of additional low rent housing stock for every \$1.00 of incentive provided, and promises risk-adjusted rates of return sufficient to attract investment from private institutional sources including superannuation funds. A simple raising of the depreciation allowance without strict additional constraints however, would see significant leakage in the proposal away from affordable rental housing for low-income families.

3.4 Doubling the depreciation allowance: Coupled with additional restrictions on the nature of properties to which a doubling of the depreciation allowance would apply, it is conceivable that this measure may raise supply of low rent housing at the margin. It would likely, however, be un-capped

³ *ibid*

tax expenditure, and its effectiveness may be offset by Capital Gains Tax payable on sale of the property. This is not likely to be a well-targeted stimulus to supply of affordable rental housing to low-income families.

3.5 *Reform of Commonwealth Rent Assistance [CRA]:* Presently, CRA costs more than \$3 billion annually. While it is a welcome transfer payment to eligible low-income families, it has not proven to be an effective mechanism to increase supply of affordable rental housing, and has substantially spent its force subsidizing rent inflation across the existing stock. CRA lies wholly outside the CSHA, and is an uncapped Budget expenditure. There are several options for improving the efficacy of CRA. Central to any coherent strategy to increase supply of affordable rental housing stock for low-income families, is greater integration of CRA with other policy measures under a National Affordable Housing Agreement (see further below)

3.6 *Tenancy Reform:* In many European countries, long-term residential leases are commonplace, but these are virtually unknown in Australia. As many as two in five Australian families in the private rental market have been long-term renters – in private rental accommodation for ten years or more. There would appear to be considerable scope for cooperation between federal and state/territory governments, to create a regulatory environment that facilitates emergence of longer-term residential leases in this country. The impact of such reform on the supply of low rent housing for low-income families, is unclear.

4 Social Housing

Australia's economic and social success during the second half of the 20th century owes a great deal to the sustained social housing policies pursued by the federal and state governments through the CSHA. The sustained post-war immigration program, and recovery from war and the preceding depression, saw concerted efforts to house low and middle-income working families through subsidized housing programs typically operated by state housing authorities.

The CSHA provided the sure cash flows which financed a steady housing construction program across the country during times of low unemployment, putting affordable housing within reach of low paid working families.

Today, after more than a decade of sustained disinvestment by the federal government, the CSHA has been reduced to an 'uncertain trickle of funds' and

“what used to be subsidized housing accessible by low-income workers has turned into welfare housing almost exclusively for the most disadvantaged. Only Australians without a job, or who have a disability, mental illness or other acute need, generally now get into public housing (although many in these categories miss out nonetheless). Australians earning the minimum wage no longer can hope to become eligible for public housing, as waiting lists continue to grow.” [New Directions, p28]

From the perspective of unmet need and social cohesion, housing fit for purpose and affordable for low and middle income families can conceivably be owned or managed by a public sector agency or a community not-for-profit organization or is privately owned. Similarly, the precise mix in any increased supply of social housing, as between affordable rental accommodation and affordable homes for purchase by low and middle-income families, is a second order issue. There is pressing need for both.

What matters is that the supply of affordable housing for low income families is increased, substantially and sustainably, and that ordinary working Australian families are not shut out of home ownership in our major cities, in locations with good amenity and access to work, transport and community services.

4.1 A National Affordable Housing Agreement: An embracing National Affordable Housing Agreement is essential, one which integrates the CSHA and other special housing programs, with a long term commitment to increase supply of affordable housing, agreed by Housing ministers, Treasurers and federal, state and territory leaders through COAG.

4.2 Increased funding for construction of new public housing stock: Government is able to borrow long-term at lower interest rates than private borrowers. Public housing is a cost effective way of providing affordable housing stock. Allowing state housing authorities some access to the NARI program along with private and not-for-profit organisations, for example, would be an effective way of providing increased funding for new public housing and preserving the efficiency stimulus that derives from competition in the housing market.

4.3 Public-private partnerships [PPPs]: There is nothing magic about PPPs, per se. The test for PPPs is value for money. In the broad, both tax credits and the NARI scheme can be seen to be forms of public private partnership.

4.4 Resourcing homeless accommodation services: Chronic homelessness is endemic amongst some very low-income groups in Australian society, and is typically associated with multiple disabilities and disadvantage. Homelessness accommodation services endeavour to achieve long-term movement of homeless people into work and housing, but with low success rates. Better resourcing of these services would certainly help delivery of care and support, and warrants unequivocal support. This is not a measure directed to increasing the supply of affordable housing as such; rather the efficacy of these services would be greatly enhanced by greater availability of affordable housing stock.

4.5 Indigenous housing: Indigenous housing is a special case and warrants special and independent attention and effort within a National Affordable Housing Agreement. Housing is a necessary but not sufficient component any adequate program to reduce poverty and disadvantage, raise health and life expectancy in indigenous communities. Several of the measures discussed above, including the NARI scheme, capital grants and loans, and shared equity schemes, may with adaptation or modification offer effective mechanisms for increasing the supply of affordable housing for indigenous Australians. Other elements of an Indigenous Housing Strategy might include creation of Indigenous Housing Companies to achieve economies of scale; and training programs for rural and remote communities covering building and building maintenance.

Discussion

The ACTU applauds the detailed discussion paper '*New Directions*' released by Labor leader Kevin Rudd, and his commitment to hold a national summit on housing affordability.

The Howard government's record on housing affordability is one of sustained neglect and reckless disregard.

Access to affordable housing is of the utmost importance to families across the distribution of family incomes. The bedrock policy underpinning access to affordable housing is stable macroeconomic

policies that maintain downward pressure on interest rates. This is not a policy option. It is a policy imperative.

Supplementing overall macroeconomic policy, there is a need for an integrated suite of policies targeted to improve the supply of affordable housing both for purchase and for rent, for low and middle income families.

Given the accumulated magnitude of unmet need for low cost housing and recognizing the many other demands on government, policies which can attract substantial investment from private institutional investors including superannuation funds must be a priority.

Along with indigenous housing, the most pressing social housing need is for greatly increased stock of affordable rental housing for low-income families. Without government subsidy, there is little prospect of market forces meeting this need. An authoritative National Affordable Housing Agreement is essential, delivering a strong and sustained incentive to construction of additional stock. A key element of a new NAHA should be a NARI-type scheme to deliver a sustainable increase in the stock of affordable rental housing. It should be complemented with strengthened capital grants to public and community housing providers.

Whether the necessary stimulus takes the form of cash subsidy, tax credit, capital grant, guaranteed loan, some mix of these or some other form, is a second order issue. Reform of CRA should be considered as part of an integrated package of measures. A properly resourced and integrated homelessness strategy, developed across and involving all levels of government, would appropriately accompany measures directed to increasing supply of affordable rental stock.

Providing low and middle-income families with real access to home ownership is critical to long-term social cohesion. A generic tax-preferred savings vehicle would assist families to bridge the deposit gap, with collateral benefits for national saving levels.

A residential infrastructure fund would spread the cost of new developments more fairly across the entire community, in line with historical Australian practice. Better targeting of the FHOG would assist to free resources for more effective use elsewhere. Support for shared equity (and similar) schemes would give more first home buyers a foothold in the market.

Table 1: Impact of Housing Policy Measures

Measure	Family Income Distribution				
	Very Low < 20%	Low 20%-40%	Middle 40%-60%	Mid-High 60%-80%	High > 80%
1. Macroeconomic Policy					
Low interest rates	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓
2. Home Ownership					
2.1 Residential Infrastructure Fund		✓✓	✓	✓	
2.2 Targeting First Home Owners Grant		✓	✓		
2.3 Tax Preferred Savings Vehicle	✓	✓✓	✓✓	✓	
2.4 Shared Equity Schemes	✓	✓	✓✓	✓	✓
2.4 Combating Predatory lending		✓	✓		
3. Affordable Rental					
3.1 Capital Grants/Loans to Social Housing providers	✓✓✓	✓✓	✓		
3.2 NARI (eg tax credits)	✓✓✓	✓✓✓	✓		
3.3 Depreciation Allowance		✓	✓	✓	
3.4 Reform CRA	✓	✓			
3.5 Tenancy Reform	✓	✓	✓	✓	✓
4. Social Housing					
4.1 NAHA	✓✓✓	✓✓✓	✓		
4.2 Public Housing	✓✓	✓			
4.3 Public-private Partnerships	✓	✓	✓		
4.4 Homeless Accommodation Services	✓✓✓				
4.5 Indigenous Housing	✓✓✓				