PRODUCTIVITY COMMISSION

FIRST HOME OWNERSHIP INQUIRY

Submission of the
Construction, Forestry, Mining and Energy Union
Construction & General Division

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Introduction

The Construction, Forestry, Mining and Energy Union – Construction and General Division (the CFMEU)(the Union) welcomes the opportunity to make a submission to this important inquiry. The Union believes this process is a potentially useful way of allowing concerned citizens and organisations to play a role in federal policy formulation on this crucial community issue.

The CFMEU and its predecessor unions have a long history of taking an active interest in the formulation of housing policy in this country. The Union has always taken the view that construction workers build the nation's infrastructure, and this uniquely positions us to provide input into the critical social questions involved.

At the outset, the Union is critical of the narrowness of the terms of reference set by Treasurer Costello for this inquiry. The Inquiry is focused solely on the issue of first home ownership. The focus of the Inquiry should have been broader, to enable the Commission to inquire not only into the issue of the affordability of first home ownership, but the question of housing affordability in general. This would include the role of investment ownership in housing, and also the important public and private rental markets.

While the Union recognises the terms of reference set for the Commission for this Inquiry is largely a matter to be taken up with the Treasurer and his department, the Union would request that its criticisms of the terms of reference be noted by the Commission.

The Union believes that Australia is in the grip of a housing crisis. This crisis is not only characterised by declining affordability in first home ownership, but by increasing levels of housing stress among low to middle income participants in the private rental market, the degradation and running down of public housing stock across Australia, and finally, by growing levels of homelessness in the community. The Union believes that this trend comes at a time when a select few grow more and more wealthy off the back of a speculative boom in house and land prices, that serves to make the already rich even richer, while locking many ordinary Australians out of home ownership, and affordable rental housing.

The rhetoric surrounding this Inquiry and this issue in general seems to be limited to a sentimental, philosophical focus on the Australian suburban dream of home ownership. The Union believes this issue is about far more than that. Is about a fundamental political and moral issue concerning the type of society in which we live. It is the Union's view that Australia cannot claim to be a healthy democracy or a just society, when certain members of the community are forced into serious housing stress and even homelessness, while other members of the community grow wealthier from the ownership of multiple housing properties. The Union believes it is a smear on any affluent, industrialised nation that any members of the community are left without adequate provision for housing.

The Union will use this brief submission to paint a picture of a society in housing stress, based upon evidence that has emerged from a few important studies over the last few years. The Union will then outline what is sees as the cause of this serious problem. The submission will then focus on a number of solutions the Union believes could go a long way toward alleviating the problem, before ending with some concluding remarks.

The Housing Crisis in Australia

Serious evidence points to a decline in housing affordability, and a corresponding rise in the number of households in Australia that are experiencing housing stress. In September 2001, the Affordable Housing National Research Consortium (the Consortium) released a major report on housing affordability. The first part of that report deals with the issue of housing affordability across Sydney, Melbourne and Adelaide.(1) It looks at the number of private rental households that could afford to rent or buy categories of units and houses in those three cities across the ten years from 1986 to 1996.

The results of that study were, and remain, worrying. They led to the Consortium completing a great deal more work on affordability options, which this submission will come to shortly. In terms of what the Report found about affordability trends, there is evidence of significant decline in affordability across categories in the cities analysed for low income private renters. That is, renters in the bottom 40% of the income range. Put differently, the figures refer to private renting households with income of 40% or less than the median household income.

The report established an affordability criteria, including the ability to raise a deposit of 5% of the total purchase cost, and the ability to maintain loan repayments over a 25 year period of no more than 30% of gross weekly income. For renters continuing to rent, the affordability criteria established was the ability to pay rent at no more than 30% of gross weekly income.

For renters in the above category wishing to buy a house in either Sydney, Melbourne or Adelaide, the results were as follows:

- No households could afford to buy a three bedroom home in any metropolitan location
- Only 39% of Adelaide's and 15% of Melbourne's households could afford to buy a one bedroom unit in those centres respectively, and no households in Sydney could afford to purchase any dwelling
- Only 9% of Adelaide's and 3% of Sydney's households could afford to rent a three bedroom house in those locations respectively, and no Melbourne household could afford to rent any three bedroom dwelling in that location
- Only a very small proportion of households could afford to rent a one bedroom unit in inner Melbourne or Sydney locations, and only 38% of households could afford to rent such a dwelling in inner Adelaide.

The report went on to show that based on these figures, the number of households in "housing stress" was growing at an alarming rate, and if such a rate continued, large numbers of households would find it increasingly impossible to meet rental and other living expenses, let alone participate in the home purchase market.

The notion of "housing stress" was defined by the National Housing Strategy 1991 (2) as follows:

"Income units (households) *are said to be in housing stress if they spend more than 30% of income on housing, and are in the lowest 40% of the income distribution range"*

The Consortium adopted this analysis, and proceeded to analyse state and territory capitals for housing stress trends. The results were complex, but can be abridged here as follows:

- Of households in the bottom 40% of median income range, nearly three out of four private rental households across all state and territory capitals are experiencing housing stress
- Across all private rental households in all state and territory capitals, the number of households in housing stress increased by a massive 74%
- If the number of households in housing stress continues to grow, **the number of households in housing stress will double in fifteen years, and reach nearly one million within 20 years.**

These figures expose a deep crisis developing in housing in this country. They correlate with growing amounts of evidence of increasing levels of homelessness, and its associated problems. The Union believes that Government policy is failing in the area of housing, and in some cases, aggravating the problem. This submission will now move on to outline what it contends are the underlying problems with government policy in this area.

Fueling the Fire: Federal Policy Failures

The Union believes that a crisis in housing affordability is being fueled by a complex system of federal taxation and payment subsidies to investment housing ownership. In turn, this phenomena is pushing up the speculative value of housing, and locking increasing numbers of people out of ownership. In addition, a system that encourages investment ownership, as opposed to first home ownership, in turn places increased pressure on rental prices. It is evident from the data above that rental prices are increasingly out of reach to low income Australians. This is a major problem given the importance of private rental dwelings to the provision of affordable housing in Australia.

The Union believes that the biggest problem facing affordable housing is the scandalous running down of public housing stock, and the failure of the Rent Assistance program of the Federal Government.

According to a research briefing paper released in April 2003 by the then Shadow Housing Minister (3), public housing in this country is in crisis. Since coming to office, the Howard Government has cut in the order of $1 billion of funding from the Commonwealth-State Housing Agreement (CSHA). This is turn has led to the degradation of the public housing stock, with state governments being forced to put what money they have into the maintenance of existing stock, selling renovated stock to the private sector, or adopting leaseback strategies. There is increasingly no replacement of public housing stock.

A reduction in available stock is pushing the price of available rental stock up. In short, there is a supply-side problem in the affordable housing market due to demand far outstripping supply. Added to this, the Howard Government has increased to $1.7 billion expenditure on Rent Assistance (3). Yet because of increasing rental prices arising out of limited supply, Rent Assistance is money into a black hole, because it is simply absorbed into higher rental prices. Additionally, spending of that type does nothing to alleviate the supply side problem identified above. To the Union, this type of an approach to Commonwealth provision of housing subsidy is public policy insanity.

Given the problems identified above in terms of the increasing inaffordability of rental housing for low income households, the increasing stress of such inaffordability further reduces any capacity to save a deposit necessary to debt finance the purchasing of a home.

Compounding this problem, the Union believes that there is in place at a federal level a series of tax and direct grant incentives that both reduce the affordability of first home ownership, and encourage investment ownership that prices aspirant first home owners out of the market.

The first of these is the First Home Owners Grant (FHOG). Currently, the grant is not means tested, so it is available to any first home buyer who can meet that criteria, rather than being targeted at low income groups to assist them to meet the cost of any deposit. The Discussion Draft, released by this Inquiry in December 2003 (4), has questioned the maintenance of this scheme, and warned against the broadening of the scheme in an untargeted way. Indeed, the Reserve Bank of Australia, in its submission to this Inquiry (5), gave a similar warning:

"…we have no specific suggestions for assisting first home owners by adding to their purchasing power. However, if this path were to be chosen, it is important to remember that simply adding another source of purchasing power to the existing demand would lead to some further rises in prices. For this not to occur, any measures that add to purchasing power (such as the FHOG) *need to be carefully targeted to limit their effect on overall demand, and balanced by a reduction in demand elsewhere"*

As well, the Union is critical of other taxation measures which it argues add incentive to home purchasing for investment. These include the regime of negative gearing, the reduction in capital gains tax as part of the New Tax System introduced by the Howard Government, and the failure of the Government to crack down on the use of family trusts and the like as tax avoidance measures.

The Union contends that these measures are significant public subsidies to investment in property, and serve to exacerbate a housing bubble, fueled largely by inflated unit prices in the inner city. The speculative frenzy around investment property is driving up prices, and having a significant impact on affordability.

According to the same Reserve Bank submission:

"A big attraction of property is the relatively modest after-tax holding cost of even a low-yielding property, due to the way that investments in rental property are taxed…the fact is that when we observe the results (of RBA research), *resources and finance are being disproportionately channeled into this area, and property promoters use tax effectiveness as an important selling point"*

Proposed Solutions

The Union believes that the following proposals represent effective and workable solutions to the problems of affordability that have been identified.

More money for the CSHA

The Union contends that there is no substitute for direct Commonwealth funding through the CSHA for the renewal of public housing stock. Under the Howard Government, spending has been slashed, and that money put into the Rent Assistance programme. The Union believes that money would be better channeled into replacing and increasing public stock to reduce the supply-side shortage that had developed. The Union argues that Rent Assistance is public money wasted when there is no public policy mechanism to reduce demand-based price increases, due to an increasing lack of supply.

Tighten tax arrangements

The Union contends that the tax arrangements in place around home investment should be significantly adjusted. The Union calls for an inquiry into the operation of negative gearing, to assess its ongoing effectiveness, and to further regulate its use in situations where negative gearing is available on a rental property when there is little prospect of the property being cash flow positive for many years. Additionally, the Union believes the reductions in capital gains tax, that allow an effective "discount" in the amount on which tax is payable of up to 50%, are scandalous. The Union also questions the ongoing depreciation rate claimable against capital gains tax of up to 4%. In short, the capital gains tax regime is a massive subsidy to wealthy property investors. The Union calls for the capital gains system to be returned to the form in which it existed prior to the introduction of the New Tax System, and for the rate at which depreciation can be claimed to be carefully examined.

Additionally, the Union believes that property is often used by investment owners as part of family trust arrangements, that are often used as tax avoidance or tax reduction mechanisms. There has been much debate on this matter, but the Howard Government has refused even to discuss the issue, let alone allow a public inquiry into the operation of family trusts.

Means test the First Home Owners Grant (FHOG)

The Union believes that there is ample evidence presented in a myriad of other submissions to this Inquiry that the Grant should be means tested, to better target it to those in need, and prevent it from contributing to further upward price pressure. The Union add its weight to calls for the means testing of the FHOG.

Create policy incentive for private sector investment in affordable housing

There are a number of proposals floating around that would provide real incentive for the private sector, and in particular industry-based superannuation funds, to invest in affordable housing.

Superannuation investments are expected to grow from $500 billion to almost $1 trillion by 2010 (3). It is a major source of untapped investment capital. Given the performance of many superannuation funds in recent years, mangers are increasingly looking for a risk-neutral source of investment. Public policy that facilitated investment in affordable housing would allow the workers of Australia, through their superannuation, to invest in vital national and community infrastructure, that could go a long way toward alleviating the supply-side shortage facing the housing market. This proposal would involve the issuing of Commonwealth bonds to fund the CSHA, with a guaranteed minimum rate of return to investors, at some cost to the Commonwealth Government. There are two basic models that have been developed, and those models are explored briefly below.

<u>Debt Model</u>

The Affordable Housing National Research Consortium, in September 2001, developed an options paper for policy models to promote private sector investment in affordable housing (6). It looked at an estimated shortfall of low-cost rental dwellings of in excess of 200,000. Based on credible modeling, the Consortium estimated that $27 billion in capital funding was required to address such a shortfall.

As a mechanism to deal with this problem, the Consortium proposed a system of Commonwealth bond sales to the private sector, including superannuation funds. The return on the bonds would be guaranteed at one to two percent above the market rate, in order to attract risk-neutral investors such as superannuation funds. The money raised from that process would then be distributed to state and territory housing authorities, or to community housing authorities that manage affordable housing. It was estimated by the Consortium that that a Commonwealth outlay of $220 million would net $1 billion in private capital.

This model is explored in detail by the Consortium’s submission to this Inquiry, and we commend it to the Commission.

<u>Equity Model</u>

The Equity Model involves the creation of an affordable housing trust, either listed or unlisted, with a number of stakeholders. The Federal Government would provide ongoing rental subsidy, which would underpin rates of return by institutional investors, such as superannuation funds. State and Territory Governments would transfer surplus land and selected public housing stock into the trust. Investors such as superannuation funds would bear the bulk of the risk, but the return on the sale of bonds would be underpinned by Commonwealth guarantee, and ongoing rental subsidy.

This model will require further exploration, research, and modeling, but the Union believes it could form the basis of a viable policy option for the Federal Government.

Conclusion

The Union believes that the issue of housing affordability is a serious one. If left unaddressed, it has the capacity to systemically deny ordinary Australians not only the capacity to own their own home, but will price rental housing outside the reach of increasing numbers of people. The current policy framework has clearly failed to deal effectively with the problem. The Union believes that the policy options briefly outlined here, and in other submissions to this Inquiry, can go a significant way toward addressing this critical problem.

In short, Australia needs a robust housing construction programme, built around clever policy ideas, and the real needs of people. Federal Government policy needs to move away from the boom/bust cycle mentality of housing construction activity, heavily dependant on artificially inflated speculative bubbles, and heavy taxation subsidy.

References

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