Tasmania

Productivity Commission – Inquiry into First Home Ownership

Tasmanian Government Submission and Response to the Discussion Draft

February 2004

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1. Introduction

Shelter is a fundamental human need and housing is recognised as being one of the key determinants of health and wellbeing. A satisfactory housing standard is one that provides a foundation for physical and mental health, personal development and the fulfilment of life objectives. Historically, home ownership has been seen as the great Australian dream[1], representing both a practical and symbolic way for Australians to acquire wealth and to ensure accommodation for themselves and their families[2].

The Tasmanian economy has shown significant growth recently and there has been an associated fall in overall unemployment, especially long-term unemployment since 1998. Nevertheless, the Tasmanian Government recognises that not all Tasmanians have shared in the benefits of the State's improving economic position.

The Tasmanian Government has the task of addressing key social policy issues as its priority in 2004 and beyond. Affordable housing is a key factor associated with many of the social issues that will be a focus for effort over the coming years in Tasmania. The Tasmanian Government's broad policy includes three major elements that impact on housing and related social issues are:

- Tasmania *Together*;
- The Industry Development Plan (IDP); and
- Partnership Agreements.

Tasmania *Together* is the overarching social, environmental and economic plan for Tasmania, and has been developed through broad consultation with the Tasmanian community. The broad goals provide the framework for both government and non-government decision-making. Ultimately, Tasmania *Together* is about the Government and the whole community working together to achieve a shared vision for Tasmania by the year 2020.

Tasmania *Together* provides the links between other major Government policy initiatives. The strategies and goals of the Tasmanian Government's Industry Development Plan, State and Local Government Partnership Agreements, *Learning Together* and other major policy initiatives, all focus on achieving the vision and goals in Tasmania *Together*.

The Tasmanian Budget process has been modified to address community aspirations set out in Tasmania *Together*. Tasmanian *Together* provides the framework to link long-term policy objectives and financial planning to achieve the communities' goals for the year 2020 through the budget.

The Tasmania *Together* targets are the key to achieving the results and measuring progress along the way. Reports on progress are made to Parliament and widely circulated throughout the community. The Tasmania *Together* Progress Board is responsible for monitoring and measuring progress as well as having to help create the coalitions of interest in the community to achieve the results outlined in the plan.

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[1] Cameron P (2002), Condition Report: Low Income Earners in the Tasmanian Private Rental Market; Social Action and Research Centre, Anglicare Tasmania, Hobart.
[2] Mudd W, Tesfaghiorghis H and Bray J R (1999), "Some Issues in Home Ownership" in Australia's Housing Choices edited by J Yates and M Wulff, AHURI, Melbourne.

Tasmania *Together* contains 212 specific benchmarks, a significant number of which set targets for poverty, employment, education, health and other indicators related to community and individual wellbeing. Many of the targets reflect outcomes that will be affected by the structure of housing availability to the community.

The Industry Development Plan (IDP) provides a structured and systematic approach to building the Tasmanian economy. In 1998, the Tasmanian Government wanted to make sure that a strong foundation for the IDP was in place so business could grow and flourish. The foundation is based on four cornerstones:

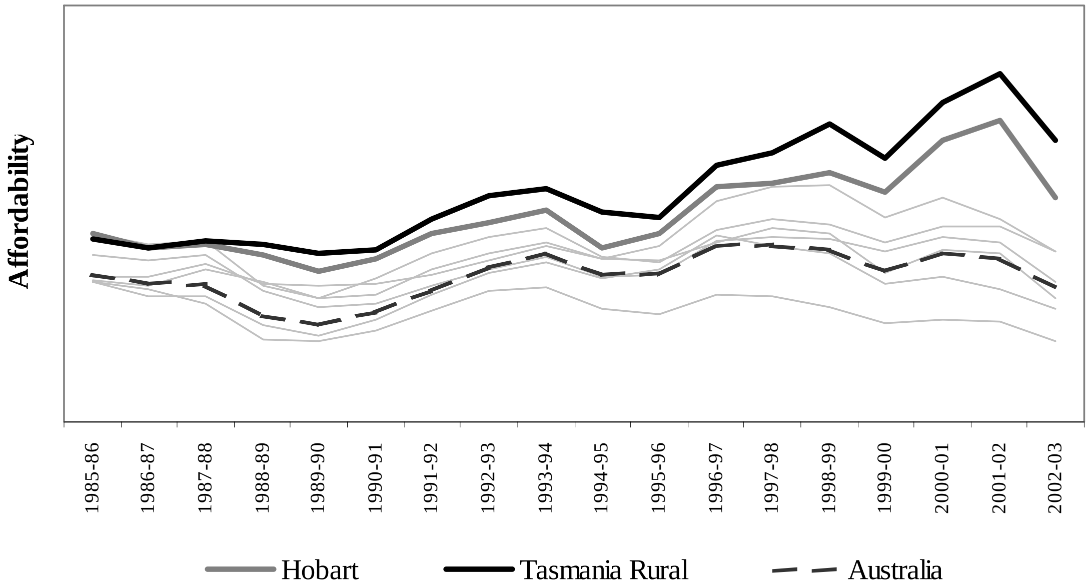
- An effective industry arm of Government, the Department of Economic Development, which identifies and converts industry development opportunities into economic growth realities;
- A statewide industry audit identifying local business capability and opportunity across eight industry sectors;
- The delivery of 10 industry based programs to address the barriers to local business growth, particularly for those businesses with a focus on export and import replacement; and
- Partnerships with local government so that new industry development proposals suggested by local communities and businesses have a formal link to IDP resources.

Partnership Agreements are a key element of Government policy for strengthening working relations with Local Government, and other important sectors such as the University of Tasmania and the volunteering community. The Government recognises that committed progressive local communities and sound local economies are fundamental to the social and economic development of the State. The process for developing Partnership Agreements takes into account consultative mechanisms at the local level, encourages local input to community and economic development decisions and promotes shared responsibilities for improved targeting of service delivery.

While Tasmania's house prices have risen sharply in recent years, Tasmania has been able to retain its position as having the most affordable housing of any State or Territory by a considerable margin. In fact, despite the recent declines in Tasmanian affordability, the current differential between Tasmania and other jurisdictions is significantly greater than was the case almost two decades ago. Based on data produced by the Commonwealth Bank of Australia, in the June Quarter 2003, Hobart had a housing affordability index of 187.4 and the rest of Tasmania 235.1, compared with an affordability index score of only 118.8 for Australia as a whole.

The apparent severity of Tasmania's recent declines in affordability has also been exaggerated by the fact that affordability in Tasmania was still improving in 2001-02, whereas in all other jurisdictions was in decline. Chart 1 illustrates that housing is more affordable in Tasmania in 2002-03 than it was in 1985-86.

Chart 1: Relative Housing Affordability



Source: Housing Industry Association and Commonwealth Bank of Australia *Housing Report*.
Note: Interstate capital city housing affordability shown but not labelled.

Tasmania also has some of the lowest house prices in Australia in absolute terms. For example, a comparison of capital city median house prices reveals that, for the June Quarter 2003, Hobart's median house price was $180,000, compared to over $200,000 in all other capital cities and $465,000 in Sydney.

The Tasmanian housing market has shown significant growth recently that has contributed to an unprecedented level of economic activity in the State. Nevertheless, the Tasmanian Government recognises that many Tasmanians are finding it increasingly difficult to become home owners.

This submission provides the Tasmanian Government's response to a number of issues raised in the Discussion Draft. It also expands on the above components of the Government's policy framework and details the nature of the housing market in Tasmania.

2. Responses to Issues Raised in the Discussion Draft

2.1 Is there an Affordability Problem for First Home Buyers?

The Productivity Commission *Discussion Draft* finds that, in essence, housing affordability in Australia has declined due to the interaction of a number of factors which have increased the demand for housing while, at the same time, supply constraints have meant that the supply of residential property has not been sufficiently responsive to those increases in demand, resulting in higher property prices. However, the implications of this development in the market, affect all home buyers, not only first home buyers. Despite the Productivity Commission's terms of reference focussing on the affordability and availability of housing for first home buyers, many of the conclusions and recommendations contained in the *Discussion Draft* are not specific to the circumstances of this group.

A recent article, *First Home Buyers in Australia*, published in the Australian Treasury's *Summer 2003-04 Economic Roundup*, does, however, specifically address the impact of declining housing affordability for first home buyers. The article challenges the assertion that first home buyers are, in general, being denied access to the market.

> "*While housing prices have reduced affordability for first home buyers in recent years, first home buyer participation in the market remains entirely consistent with demographic fundamentals, suggesting that – in aggregate – aspiring first home buyers are not being priced out of home ownership.*"

The article in the *Summer 2003-04 Economic Roundup* also supports the views of the Tasmanian Government that the record levels of first home buyers activity in recent years have been driven by availability of the various First Home Owner Grants (FHOG), and that the decline in first home buyer activity largely reflects "*an unwinding of the bring-forward associated with the additional First Home Owners Scheme).*"

Even more significantly, the same report contends that the number of first home buyers was, at the time the report was produced, only slightly below its average level since the early 1990s and that, given the population of the primary first home buyers cohort (25-34 years) has remained relatively stable over the intervening period, first home buyers are "*still gaining entry into the housing market at similar rates as in the past.*"

It is interesting to note that the above article suggests too that the higher prices being paid by first home buyers, in part, reflect the fact that over 75% of first home buyers purchase large houses, and that the size of those homes – based on the number of bedrooms – has increased over the last two decades. This trend would imply that first home buyers, in aggregate, are prepared to pay higher prices for an improvement in the quality (and size) of their homes, which may indicate higher quality of life expectations and, possibly, increasing affluence when compared with previous generations of first home buyers. It is also reasonable to suggest that a component of increasing housing prices, in general, may reflect improvements in the quality of both new homes and the established housing stock, and not just a decline in affordability.

2.2 Is there a Case for Direct Assistance?

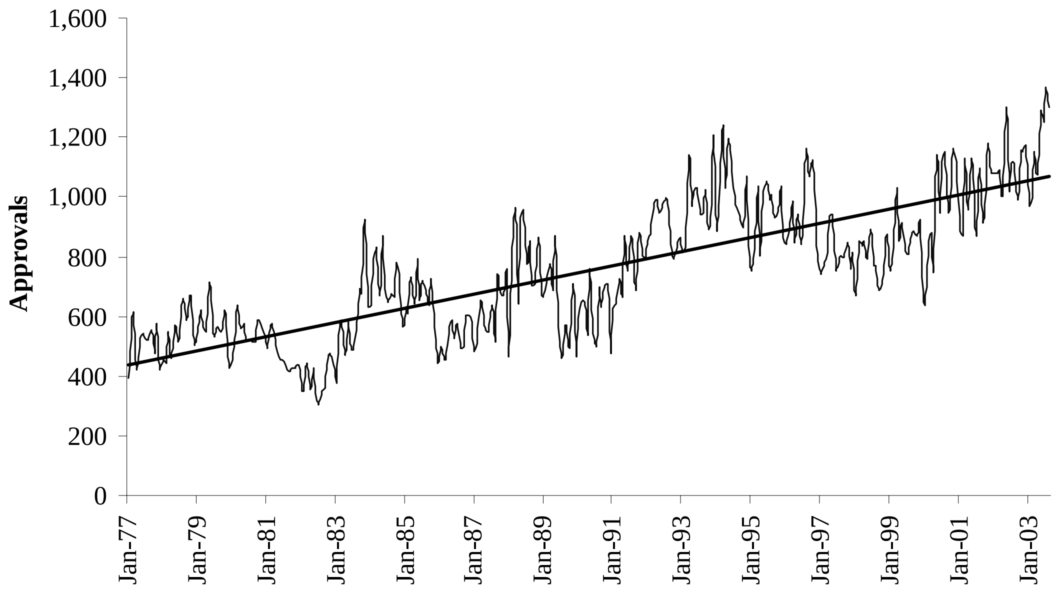
For a variety of reasons, there will inevitably be people within the wider community for whom home ownership is either unsuitable or unaffordable, and it would give a distorted incentive for government to promote home ownership through public policy intervention in circumstances where home ownership may give rise to financial hardship, or not be in the best interests of an individual household. Given the level of support currently provided to first home buyers, and remembering that there are generations of Australians who have previously purchased their first homes without any form of government assistance, the Tasmanian Government is yet to be persuaded that there is a crisis in housing affordability for 'typical' first home buyers that requires significant changes in current policy settings. This is particularly true when the circumstances of the average home buyers, (defined in the Australian Treasury's *Summer 2003-04 Economic Roundup* as being a couple aged between 25 and 34 years, in full-time employment with relatively high average incomes), are considered, and their need assessed against those of the genuinely disadvantaged within our community.

What the Tasmanian Government does accept is that all Tasmanians receiving low incomes, including those with special needs, should be able to access safe, adequate and affordable housing into the future. It is to this end that the Government has announced its *Affordable Housing Strategy* which will, over the next four years, deliver improved access to safe, adequate and affordable housing for over 8 000 additional low-income Tasmanian households. This is in addition to the extensive range of assistance programmes already provided to first home buyers by the Tasmanian Government, which are discussed in more detail elsewhere in this submission. Incorporating a number of measures, including the allocation of $30 million to new and upgraded public housing, the *Affordable Housing Strategy* seeks to share the rewards of a strong and growing economy with people on low incomes who, despite Tasmania having the most affordable housing of any State or Territory, continue to face rising house prices and private rental costs.

The Discussion Draft considers that there are some policy options available to Government to assist home buyers. However, it also suggests that in the light of the likely cyclical softening of prices the case for some form of direct assistance to promote home ownership is not compelling. The Tasmanian Government agrees with the view, that the currently strong market is, to some extent, a cyclical phenomenon. The downturn in world stock markets that has arguably driven many investors to invest in the residential property market is a case in point. Once share markets arrest the present slump and show signs of a sustained recovery, it is likely that investor interest in residential property will weaken, easing demand and the recent upward pressure on house prices.

In addition to demonstrating the underlying upward trend in buyer activity, *Chart 2: Secured Housing Finance Commitments* (see below) also clearly shows that activity in the residential property market is cyclical, fluctuating around the long-term trend. The chart also shows that the current high levels of activity in Tasmania are similar to those experienced in the mid-1990s.

Chart 2: Secured Housing Finance Commitments



Source: Australian Bureau of Statistics, *Housing Finance for Owner Occupation* (Cat. No 5609)

Similarly, *Chart 1: Relative Housing Affordabilit*y (see P.5) shows the cyclical nature of the property market in Australia. It is interesting to note that, in Tasmania, it would appear that the cyclical nature of the market has become markedly more pronounced since 1994-95.

While Hobart's median house price has risen by nearly 40% in the last three years, it is also true that prior to this recent period of appreciation, it took a decade for the median house price in Hobart to rise by a similar percentage, with most of that growth occurring between 1990 and 1993. Given that the median house price rose only marginally in the following seven years, with some years actually posting decreases, it is not unreasonable to suggest that Tasmanian realty was significantly undervalued during the second half of the 1990s and that the recent price increases represent an adjustment or correction of property values.

The fact that the period of relatively stable property values coincided with a relatively weak Tasmanian economy, characterised by negative population growth, unemployment levels that were consistently amongst the highest in Australia and high levels of Government sector debt, lends support to the notion of the property market being cyclical in nature. The emergence of Tasmania's currently buoyant market has coincided with marked improvements in the State's economic performance, including a return to positive population growth, upgrades of the State's credit rating and lower levels of unemployment, lending further support to such an assessment.

All this suggests that the current high levels of demand in the property market, and the corresponding growth in property values, are cyclical. Despite the recent significant increases in the Hobart's median house price, properties remain affordable by historical standards. There is little evidence that there has been a structural change in the property market requiring Government intervention.

2.3 First Home Owners Scheme

The *Discussion Draft* suggests that the existing FHOG Scheme is deficient because of its *lack of targeting*, via means testing, and that the bulk of grants are provided to applicants who would, after a delay that the Commission views as acceptable but does not define, be able to purchase their first home without the aid of a grant. (This delay is presumably to enable those would-be first home buyers to accumulate a larger deposit.) The Commission is also critical of the current FHOG arrangements on the grounds that they are considered unlikely to assist "*those low income families that would be unable to support a home mortgage without substantial help*". The Commission goes on to recommend that means testing be introduced in relation to the FHOG.

To arrive at these conclusions is, however, to misconstrue the policy intent of the original FHOG. While the additional $7000 and, later, $3000 grants made available to first home buyers who either purchased or constructed a new residence are likely, at least in the very short-term, to have *improved* affordability for recipients of those extra grants, the original $7000 grant was never intended to assist first home buyers by increasing affordability for those that receive the grant. Rather, the FHOG was intended to have a *neutral* effect on housing affordability for eligible first home buyers. Its sole purpose was to offset both the short and longer term decrease in housing affordability for first home buyers arising from the one-off jump in house prices caused by the introduction of the GST. Owners of existing dwellings were insulated from any decline in affordability, in that the value of their existing residence benefited from that same GST-induced price rise, meaning that their financial position would be maintained when it came time to upgrade their existing home.

For those households that are at the margin of housing affordability, at least in Tasmania's case, the State Government would argue that there are already sufficient measures in place to assist first home buyers with low incomes, complemented by a raft of support mechanisms that provide access to affordable and adequate rental accommodation for those whom home ownership is either unsuitable or an unrealistic goal.

The notion of means testing for the FHOG also raises a range of policy issues, particularly the basis on which any test would be undertaken. The correlation between property value and income capacity is not absolute, for example, and the earning capacity of first home buyers is not necessarily a reliable indicator of their ability to service debt and, therefore, the value of property they might be intending to purchase. Add to this the differences in Average Weekly Earnings and property values between jurisdictions, plus the administrative complexity associated with means testing grant applicants, and attempting to replace the present relatively straightforward, consistent and administratively simple scheme with an expensive, convoluted model would offer only a dubious improvement in the equity of its outcomes.

2.4 Is there a Case for Changes to State Taxation Policy?

Tasmania welcomes the Productivity Commission's finding that stamp duty, while being a significant source of state revenue, is a relatively insignificant contributor to any measure of housing affordability, and has only a "*marginal direct impact on price* *trends*." Tasmania also notes that the recommendation contained in the *Discussion Draft* that stamp duties could be replaced with "*less distorting taxes*" is primarily focused on alleviating the extent to which duty may impede the turnover of housing stock by increasing the reluctance of home owners to sell their existing dwelling and buy an alternative property.

Tasmania also acknowledges that duties imposed on property transactions are not perfect taxes when evaluated against the principles of good tax design, such as those adopted by Victoria's recent *Review of State Business Taxes* and reproduced in the Productivity Commission's *Discussion Draft*. Despite this, the case for abolishing, reducing or even replacing duty on the transfer of title, while having some merit, is not persuasive. This is particularly the case when, as pointed out in the *Discussion Draft*, most of the immediate price effects of the abolition of, or a reduction in duty, in relation to the acquisition and acquisition of a home would be taken by the seller of property.

As the Commission notes in its report, the options available for States and Territories to derive own-source revenue through taxation policy are constrained significantly by Australia's 'federal' system of government. In addition, the range of State taxes that remain in place has already been reduced as an agreed outcome of the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). Debits tax is also scheduled for abolition by 1 July 2005, subject to review by the relevant Ministerial Council. Further, by 2005 the Ministerial Council will review the need for the retention of a number of stamp duties levied by the states, including duty on non-residential property conveyances, non-quotable marketable securities, leases, mortgages and other loan securities, rental arrangements, credit and instalment purchase arrangements and duty on cheques, bills of exchange and promissory notes. Tasmania has already abolished a number of these duties of its own volition.

While Tasmania concurs with Western Australia's argument that any reduced reliance on property taxes by State and Territory governments would need to take place in the context of reform to Commonwealth-State financial relations, the Commission's recommendation that the scope of the 2005 review of State taxes should be extended to encompass the abolition of stamp duties on housing is an entirely different proposition.

Notwithstanding the merits or otherwise of changes to the States' taxation mix, the review of a range of stamp duties being undertaken by the Ministerial Council by 2005 is not the appropriate forum in which to consider changes to the mix of own-source revenue measures employed by the States. From the States' perspective, the primary purpose of the review is to determine whether the States can afford to abolish certain State taxes, not the reform of State taxation per se. The reference to a range of State taxes already previously chosen as priorities for abolition as "*inefficient*" in the IGA also reflects the Commonwealth's view of those taxes and the Commonwealth's taxation reform agenda, which is not necessarily that of the States.

Similarly, the definition of affordability adopted by the Commonwealth, in relation to the review of State taxes, is at odds with that of the States, which will be adopting a much broader definition than the Commonwealth's exclusive focus on whether the states, individually and collectively, have left the IGA's Guarantee Period.

The composition of any State's tax regime is a matter for individual State governments to determine. It should be noted that the States have all shown a willingness to evaluate the efficacy of their taxes and to undertake taxation reform, as demonstrated by the reviews of taxation which are undertaken periodically in each jurisdiction, and the abolition of various taxes by State governments, including Tasmania.

There are a range of issues that State governments could consider in making changes to their tax mix, and the question must be asked 'would the reform of conveyance duty be a high priority?' This is particularly pertinent, given the considerable redistribution of the tax burden that would accompany, for example, a reduction in, or the abolition of, conveyance duty and an increased reliance on either land tax or payroll tax. It is certainly not clear that the community would support such a change, particularly if the policy objective was to remove conveyance duty in relation to residential property, even if the beneficiaries of the reform were to be home buyers in general, rather than first home buyers only.

Tasmania is also of the view that any suggestion that States should rely more heavily on the GST as a source of income is seriously flawed.

Natural growth in GST is forecast to ensure that all States will eventually derive more revenue from the GST than they would have from the combination of Commonwealth grants and State taxes that were abolished as part of the A New Tax System (ANTS) reforms. However, that incremental growth is unlikely, and was never intended, to compensate the States for further erosion of their own sources of revenue in the form of the abolition of additional State taxes.

In relation to the Productivity Commission's finding that stamp duty on the transfer of title acts as an impediment to the reallocation and adaptation of Australia's housing stock, there is, in fact, likely to be a range of factors which impact on the efficiency of the housing market. It is far from clear that the stamp duty is the most influential of these, and that the removal of duty, or a reduction in its levels, would yield the desired improvement in the turnover of the housing stock. The extent to which duty is even responsible for a loss in market efficiency is also difficult to ascertain, particularly given a level of market activity in recent years amongst existing home owners that suggests duty has not been an impediment to 'upgrading' the quality or location of their home during a period of unprecedented market activity and price rises more generally.

2.4.1 State Taxation Policy – the Tasmanian Government Perspective

The sources of revenue available to the Tasmanian Government are limited, and stamp duty represents an important component of the total revenue required to meet the Government's ongoing commitments to provide services in areas such as health, education and public housing. In 2002-03, Tasmania raised $93.7 million from stamp duty on conveyances, or 16.5% of its total own-source taxation revenue.

The decline in Commonwealth funding in critical areas such as health and social housing highlights the importance of stamp duty revenue to States. Any reduction in stamp duty in relation to the acquisition of a first home would clearly have implications for the State Budget. Therefore, any such proposal needs to be considered in the context of the development of the Budget as a whole, taking into account competing expenditure priorities, including the current level of support for the disadvantaged in our community.

Increasing real estate values will always make home ownership a more expensive proposition for all Australians. However, the significant increases in property values that have occurred in Tasmania over the last three years are considered exceptional and are not expected to continue. It would be irresponsible for the Government to provide on-going tax reductions in response to isolated or short-term increases in revenue, just as it would be viewed as unacceptable by the community to increase taxes in response to unexpected short-term shortfalls in revenue.

Stamp duty is a tax on wealth and represents a mechanism for the community, via the government, to recover a share of the wealth that has been generated, through rising property values. This dividend can then be returned to the community through the provision of government services. In fact, the Tasmanian Government has taken the opportunity to set aside a proportion of the budget surpluses that have arisen, in part, because of higher than anticipated conveyance duty, for use in funding projects of significant benefit to the Tasmanian economy and the community as a whole. This includes the Governments substantial financial commitment to the recently announced *Affordable Housing Strategy*.

2.5 Planning, Land Use Policies and Building Controls

The Tasmanian Government recognises that the planning system can compel or encourage affordable housing through ensuring that current affordable housing is protected, new developments include affordable housing, and by containing the costs of developing affordable housing.

Although affordable housing is a key social policy objective of the Tasmanian Government, individual affordable housing developments must be approved under the planning system, which is a statutory process. The primary role of planning is to ensure that planning authorities (municipal councils) consider social, economic and environmental effects of an application. The Government recognises that, potentially, planning has a significant impact on the housing and property market and this, in turn, affects first home buyers.

In Tasmania, planning is generally administered at the Local Government level, through the Municipal Planning Scheme. Each Scheme is required to further the objectives contained in the *Land Use Planning and Approval Act 1993* and be prepared in accordance with State policies. However, individual planning authorities retain considerable autonomy in the development of their respective planning schemes.

Additionally, it is well recognised that the development standards found in planning schemes often vary. To rectify this problem, the Government is working to streamline the process through the Simplifying Planning Schemes (SPS) Project. The aim of the SPS project is to promote a common look and feel to planning schemes to make them easier to use for planning authorities, industry and the community. This will be achieved through the use of a common format and structure, including some core provisions and schedules.

The simplification of planning schemes and processes will encourage and support overall development. Within the planning system, various Acts establish the process and requirements for land use planning, protection for the environment and cultural heritage and the establishment of State Policies. An important principle that the Government is seeking to reinforce in all Acts is that of sustainability. This principle is reflected in the Affordable Housing Strategy objectives.

2.5.1 Possible Statutory Planning Mechanisms

Research and overseas experience suggests that there are three groups of possible planning measures that could assist in the provision of affordable housing. These are:

- Developer contributions;
- Zoning requirements; and
- Flexible standards.

2.5.2 Developer Contributions

Developers may be required to contribute to the provision of affordable housing through an affordable housing fund. To compensate or mitigate the effects of a development that removes affordable private housing, by contributing to, replacing or retaining the housing.

2.5.3 Zoning Requirements

Zoning requirements provide a potential further opportunity to make some provisions for affordable housing in new developments. For example, developers may be required to include a proportion of affordable housing in a development. Alternatively, zoning could be used as an incentive. For example, a development may be allowed to be of a higher density than usual if a certain proportion of that development is provided as affordable housing.

2.5.4 Flexible Standards

The use of flexible standards for affordable housing may assist developers to provide homes at lower average costs. Those standards that might be changed are not related to those that affect people's health or safety, but are related to building materials, dwelling and room size, ceiling heights and density of dwellings. The lower costs achieved in the production of housing could then be passed on to home buyers.

2.5.5 Other Costs

Other costs that may affect the development of affordable housing include those associated with seeking approval for developments through the planning process, government charges and land development costs. Land cost is a key component and strategic planning can influence the cost of land through the application of residential zoning, thereby reducing land speculation on the urban fringe.

3. Other Costs Affecting Home Owners – Real Estate Commissions, Legal Costs and Lenders Mortgage Insurance

The Tasmanian Government considers that there are a number of other costs which all impact on first home owners and the affordability of housing, but which have thus far been overshadowed in the debate about housing affordability by the issue of stamp duty. These costs include legal fees, bank fees and charges, valuation fees, lenders mortgage insurance (LMI) and, in particular, real estate commissions, which in Tasmania are likely to be greater than stamp duty.

3.1 Real Estate Commissions

Using the example of real estate commissions, based on Hobart's March 2003 median house price of $165,000, the duty payable on the transfer of title would be $4450. Applying the Real Estate Institute of Tasmania's *Recommended Scale of Fees and Commissions*, the commission paid by the vendor to their selling agent would be $6564 (including GST), which does not include any contributions required to be made by the vendor towards promotional costs. While this is an expense paid by the vendor, it is, none-the-less, a cost that is recovered from the sale price, and therefore a contributor to property prices. With an increasing number of buyers now engaging real estate agents to assist with the purchase of properties, particularly at auction, real estate commissions are increasingly a direct cost for buyers.

3.2 Lenders Mortgage Insurance (LMI)

LMI represents another significant cost borne by many first home buyers. It is an expense from which they derive no tangible benefit other than the approval of their home loan, given that the function of LMI is to protect the interests of the lender in the event of a default on a loan, not the borrower. LMI is also more likely to be a requirement placed on low-income purchasers who typically will be unable to raise the large deposits required to avoid LMI premiums. In the case of a home buyer in Hobart purchasing the $165,000 home used as an example previously, were the buyer to borrow up to 95% of that valuation, depending on the insurer, the LMI premium could approach $2500.

In regional areas, where outright affordability is likely to be less of a hurdle to the purchase of a first home than in metropolitan areas, home buyers encounter significant obstacles not faced by their metropolitan counterparts. For example, lenders will typically only extend finance for a lower percentage of a property's value than would be the case for a home within a capital city, meaning that the prospective first home buyers has to raise a significantly higher deposit. Lenders will finance up to 95%, or in a minority of cases even 97%, of a property's valuation in a capital city. In regional population centres, this percentage can drop to as little as 80%, and in some cases, LMI providers will elect to decline insuring the loan. With the exception of suburban Hobart, most of Tasmania, including Launceston, is categorised as regional by LMI providers and lenders.

LMI providers are also often reluctant to insure mortgage loans in relation to non-urban residential properties involving larger than standard land sizes (four hectares or more), something that further disadvantages people living in regional Australia.

4. Impact of the CHSA on Housing Affordability

There is one area in which Commonwealth Government policy is directly contributing to reduced levels of housing accessibility, particularly for those with low household incomes that the Tasmanian Government believes should be considered in the context of the Inquiry. For many Australians, the rental market represents a preferred or the only viable alternative to home ownership, and public sector housing makes a significant contribution to the nation's stock of affordable rental properties. While 70% of Tasmanians already own or are purchasing their own home, for many, renting is the tenure of choice, free from mortgage repayments and the other expenses of home ownership.

Despite the concerns expressed publicly by the Prime Minister and Federal Treasurer about declining housing affordability and its impact on first home buyers, the Commonwealth has imposed a new Commonwealth-State Housing Agreement (CSHA), which continues the long term reductions in the real level of funding to the States and introduces new financial penalties for non-compliance with a range of onerous input conditions. The changes to the CSHA are symptomatic of the approach being taken by the Commonwealth in relation to specific purpose payments to the States and Territories in general. The public rental-housing portfolio is currently unviable and reduction in funds to support it is having significant impact on Housing Tasmania's operations. In the medium to long-term, capacity to maintain levels of public sector housing stock, let alone increase levels to meet existing demand, will pose a significant challenge.

5. Tasmanian Government Initiatives to Assist First Home Buyers

The Tasmanian Government is committed to providing assistance to Tasmania's first home buyers as part of its broader support for affordable housing. There is body of national and international research supporting the position that affordable home ownership plays a central role in achieving a broad range of social objectives. This research demonstrates that affordable home ownership programs can assist urban regeneration and tenure diversification in large, single-tenure, public housing estates and contribute directly to meeting a range of goals in areas such as training, employment and community development[3]. Home ownership confers benefits on both individuals and communities. One study has found that there are significant and positive impacts from home ownership on a large set of social outcomes due to the unique bundle of characteristics that are associated with this form of tenure[4]. The same study highlights the following areas where home ownerships confers significant benefits on society:

- Improved child welfare;

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[3] Rohe, William, and Stegman, Michael, "The Impact of Home Ownership on the Social and Political Involvement of Low-Income People", Urban Affairs Quarterly, 1994, 30, 152-174. Baum, S and Wulff, M. Housing Aspirations of Australian Households. AHURI, Melbourne, 2001.

[4] Dietz, R. The Social Consequences of Home Ownership". Centre for Urban and Regional Analysis. Ohio State University. 18 June 2003.

- Improved health;
- Greater social involvement;
- Heightened environmental awareness;
- Improved sense of community;
- Stability; and
- Reduced crime.

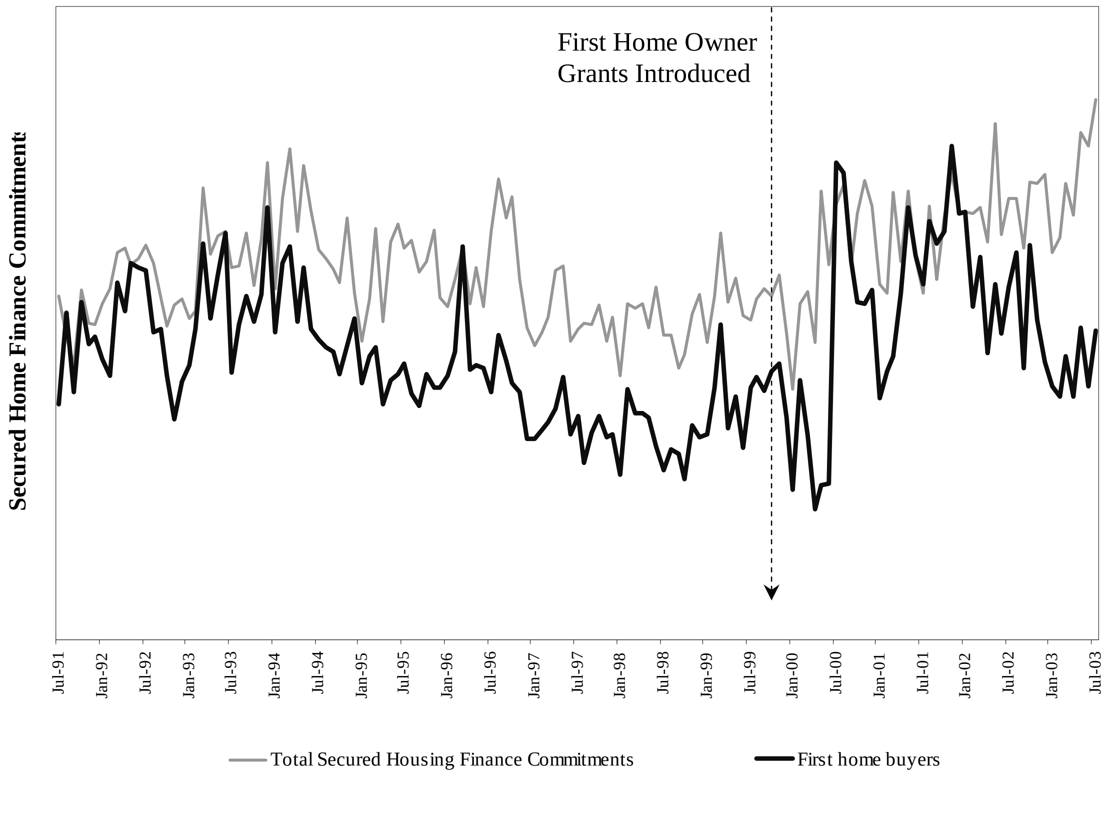
To this end, a range of programs and initiatives has been implemented to assist people in purchasing their first home.

5.1 First Home Owners Grant

In 2002-03 over $28 million in original FHOG Scheme payments were made to Tasmanian first home buyers. Under the terms of the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the cost of the Scheme is expected to be entirely born by the State from 2003-04.

It is generally accepted that the introduction of the FHOG Scheme brought forward the purchasing plans of many prospective first home buyers, significantly boosting first home buyers activity in 2000-01 and 2001-02. The following chart demonstrates clearly the increase in first home buyers activity in Tasmania that followed the introduction of the FHOG Scheme, as well as the recent decrease in demand. It is worth noting that, until the introduction of the FHOG Scheme, fluctuations in the level of first home buyers activity in Tasmania had essentially matched those of the owner-occupied housing market in general.

Chart 4: First Home buyers Housing Finance Approvals in Tasmania

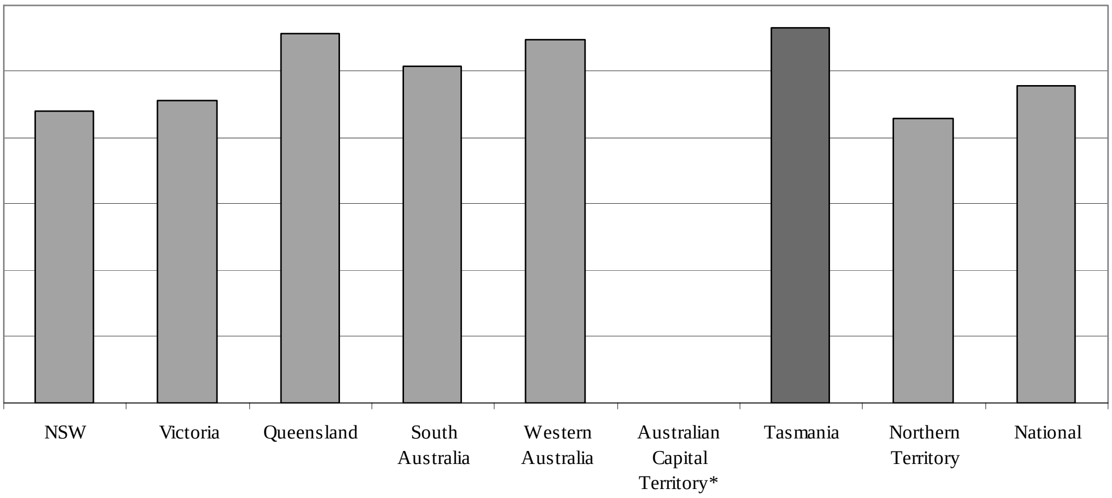


Source: Australian Bureau of Statistics, *Housing Finance for Owner Occupation* (Cat. No 5609)

The FHOG Scheme payment represents a significantly greater proportion of Tasmanian property prices than is the case interstate. As a result, the State has had one of the highest take-up rates of the grant of any jurisdiction. More Tasmanians at the margin of home affordability have been assisted on a per-capita basis to purchase their own home than in any other jurisdiction through the FHOG Scheme.

Although the number of first home purchases in Tasmania appears to be in decline, and is forecast to decrease nationally, in this State, at least, is not considered to be a response to either reductions in housing affordability or a trend that requires arresting through Government taxation policy. Rather, the reduction is considered to be the result of demand from first home buyers having largely been satisfied by the record number of purchases in recent years.

Chart 5: Comparative FHOG Scheme Take-up (Original $7 000 Grant)



** Data for the Australian Capital Territory was unavailable.*

Source: State and Territory Treasuries

Lenders typically require prospective borrowers to be able to demonstrate an ability to save as part of the loan application and approval process. While the FHOG was intended to offset the impact of the GST on would-be first home buyers' savings, in Tasmania the grant itself was frequently sufficient to constitute a deposit in its own right, such were property values in the State at the time of the Scheme's introduction. Table 2 compares the original $7000 FHOG with capital city median house prices in each jurisdiction in the quarter immediately prior to the Scheme's introduction in July 2000. At that time, even in Hobart, the grant represented over 5% of the median house price, meaning that a first home buyers in Tasmania without sufficient savings to cover both their deposit (assuming a minimum requirement for a 5% deposit) plus the out-of-pocket expenses associated with purchasing a property suddenly had access to a ready-made deposit.

Table 2: Original $7000 FHOG and Capital City Median House Prices Prior to the Introduction of the FHOG

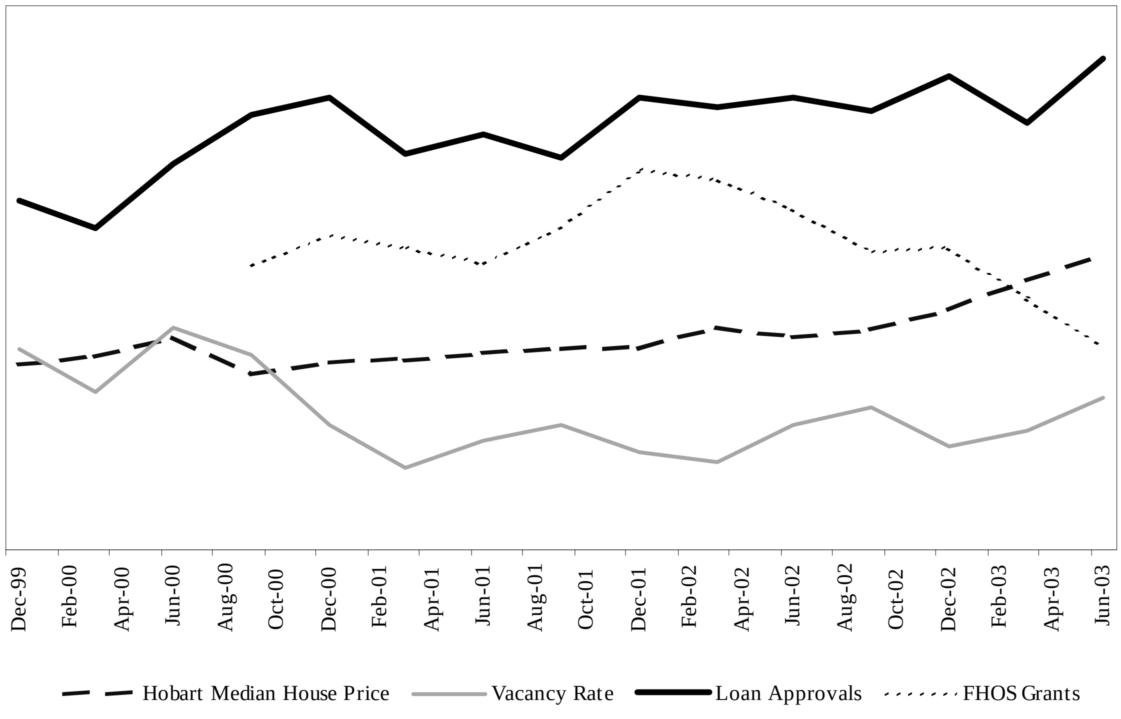
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra	**Hobart**	**L'ton***
Median House Prices ($'000)	315.0	253.0	167.0	135.0	157.8	184.0	**130.0**	**96.0**
First Home Owners' Grant as a percentage	2.2%	2.8%	4.2%	5.2%	4.4%	3.8%	**5.4%**	**7.3%**

** Launceston, Tasmania*

Source: House prices sourced from Real Estate Institute of Australia

As Chart 6 illustrates, a significant decrease in Tasmania's rental vacancy rates can be seen to occur immediately following the introduction of First Home Owner's Grants, along with a corresponding increase in secured housing loan approvals. This would appear to support the view that the FHOG released a significant amount of pent-up demand for housing amongst first home buyers and that the current level of first home buyers activity is merely moving back towards its long term base level.

Chart 6: Tasmanian Property Market Overview



Source: Real Estate Institute of Australia, Australian Bureau of Statistics *Housing Finance for Owner Occupation* (Cat No 5609.0)

5.2 *Interest Free Stamp Duty Loans*

The State Government offers interest free stamp duty loans that enable first home buyers to stagger the payment of duty on their property's transfer and mortgage instalments over a two-year period.

5.3 Home Ownership Assistance Program

The Tasmanian Government's Home Ownership Assistance Program (HOAP) helps low and moderate-income earners to buy their own homes. The aim of HOAP is to extend the benefits of home ownership to low-income earners who are able to afford it but are unable to participate in existing private sector home finance schemes. HOAP was first introduced on 20 April 1994. Loan advances have been made to 2363 clients under the program from its inception to 30 June 2003. This represents loans totalling more than $120 million.

HOAP also provides a critical role in the reconfiguration of Housing Tasmania's property portfolio. The program is self-funding with all new loans to clients, debt repayment and administrative costs being met from annual revolving funds (i.e. loan repayments and mortgage discharges).

HOAP loans are available to eligible clients purchasing homes in the private sector as well as public rental homes that have been identified for sale. The level of funds available for loans to each sector is agreed at the beginning of each financial year.

5.4 Streets Ahead Program

The Tasmanian Government introduced the Streets Ahead Incentives Program in July 2000 to provide home ownership opportunities for low to moderate income Tasmanians. There has been an extremely positive response to the Program, with 854 people assisted at a cost of $5 million, by June 2003.

In general, the Program's incentives are available to existing public housing tenants and those people eligible for public housing, based upon low-income status, residence in Tasmania and having limited assets. The incentives are made available at appropriate times to support purchasers throughout the process. For example, financial education and building reports are provided in the early stages of the purchase while financial incentives are only made available at the time the property is settled.

The majority of the incentives are specifically targeted at households within the $400 to $700 per week income range as persons within this income bracket have been identified as being able to generally afford home ownership, but require start-up\ assistance.

The Program offers a range of assistance[5], including:

- A deposit assistance scheme;
- Payment of transfer fees and stamp duty;
- The provision of independent financial education and advice;
- Mortgage insurance from those seeking funds from the private sector;
- Pre-payment of rates for the first year;
- Independent building report on property condition; and
- Contribution towards home improvements and amenity upgrades.

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[5] See Attachment 1 for more detail.

To ensure that the objective of enhancing the social mix is met, households on incomes above the $700 per week level are also able to access some incentives provided that they purchase homes in designated suburbs. These incentives take the form of cash payments tied directly to property improvements intended to raise overall amenity.

Additionally, the private sector is increasingly becoming prepared to provide finance to households receiving low incomes and there are products under development that are specifically aimed at people receiving low incomes. This assists many low-income earners in Tasmania in owning their own home.

5.5 Housing Tasmania Sales Program

Housing Tasmania's Sales Program targets people on low incomes, with only offers from current public housing tenants and people receiving low incomes generally being considered within the first thirty days of a property being listed for sale. In the first thirty days, offers at or above government valuation from public housing tenants are given precedence over all other offers.

5.6 Tasmanian Government Duty Assistance to Aboriginal First Home Buyers

The Government provides an annual grant to the Tasmanian Aboriginal Centre Incorporated to be used for the purpose of providing duty assistance to Aboriginal first home buyers.

6. Affordable Housing Strategy for Tasmania

The Tasmanian Government has recently released the *Affordable Housing Strategy for Tasmania*, which aims to ensure access to affordable housing for people receiving low incomes or who have special or complex needs. The Strategy has a focus on assisting low-income earners across a range of tenures – including home ownership.

There is general acceptance that the current funding and delivery of affordable housing is no longer sustainable. A more flexible and responsive housing system that is able to meet a range of diverse needs is required.

The development of the *Affordable Housing Strategy for Tasmania* has provided an opportunity for the Tasmanian Government and community to consider a number of critical issues at the policy, funding and service delivery level.

6.1 Aims and Key Objectives

The *Affordable Housing Strategy* is framed within a set of principles, which includes the following:

1. Access to safe, secure, affordable and appropriate housing is central to health and well being;
2. Housing provides the foundation from which individuals and families are linked with employment, education, health and other services and facilitate participation in the wider community;

3. Housing stress is a complex problem that requires a “whole of government”/community approach; and
4. Affordable housing should be part of an integrated housing system that promotes equitable outcomes and choice across all housing tenures.

Key objectives of the Strategy are:

1. The expansion of social and affordable housing in response to the community’s immediate and longer term housing needs;
2. Providing a range of effective and responsive housing models that meet a diverse range of housing needs, including special needs and the particular requirements of local areas;
3. Providing a vibrant housing market that underpins economic growth, area vitality and strong and resilient communities; and
4. A sustainable social housing system.

The *Affordable Housing Strategy* is not just about public or social housing. It has a whole of system approach and is involving a range of tenure types, levers and innovative housing models.

7. Conclusion

The Tasmanian Government acknowledges that, despite affordability levels that lead the country, housing affordability in Tasmania has been in decline in recent years. However, the Tasmanian Government considers this recent decline, which is largely due to rising property prices, to be a short-term market driven outcome. What is clear is that the recent and significant appreciation in Tasmanian property values is the result of supply and demand factors, as well as a market-lead correction of values, which went through a period of minimal growth during the latter half of the 1990s.

The FHOG Scheme has already delivered significant assistance to first home buyers in Tasmania. First home buyers activity is widely expected to decline towards its underlying level, as a result of the FHOG Scheme having already released a significant amount of the pent-up demand amongst first home buyers.

While much of the comment received in relation to the Inquiry relates to State taxation policy, the Tasmanian Government believes that this is a blunt policy instrument that provides little scope to impact significantly on housing affordability for first home buyers, particularly given the small proportion of the cost of home acquisition represented by State taxes.

In developing the *Affordable Housing Strategy*, the Tasmanian Government has recognised that housing affordability is driven by supply and demand issues, rather than factors such as taxation, and is taking steps to address those issues. The *Affordable Housing Strategy* will build on the extensive assistance already provided by the Tasmanian Government to assist low-income earners and the socially disadvantaged obtain affordable housing.

Summary of Streets Ahead Incentives Offered

Incentive	Calculation/Examples	Eligibility/Benefit Group
Deposit Assistance Scheme (DAS) $3,000-$6,000 to either current tenants or those on the public housing waiting list. DAS is used to offset the effective sale price and is not a cash payment useable for any purpose. Should the property be resold within 3 years of purchase, the purchaser is liable to refund the amount on a pro-rata basis.	DAS equals the effective subsidy (market rental – income based rental paid) that the tenant/applicant receives over a 3-year period. DAS is capped at $6,000 with a minimum of $3,000 payable to any tenant/applicant that does/would pay a rental below market level.	Existing tenants paying less than market rent or those eligible for public housing. (Incomes below $600 per week would be eligible but the vast majority of buyers would be in the $400-$600 range).
Transfer fees and stamp duty. Housing Tasmania will pay these costs for sales to this eligible group.	Stamp duty on a $45,000 house equals $930. Transfer fees for a purchase typically cost $250.	Existing tenants or those eligible for public housing. This includes tenants who may be paying full market rental. (Most buyers would earn over $400 per week.).
Independent financial education and advice. A one-hour session is made available with an independent financial adviser to make purchasers aware of their responsibilities with home ownership and the associated costs. It includes education about budgeting and operating a sinking fund for major items such as heater replacement.	The cost of this service is around $100 per eligible purchaser.	Existing tenants or those eligible for public housing. (Income range $400-$600)

Mortgage insurance for those seeking funds from the private sector. In some cases, private financiers require the purchaser take out mortgage insurance before they will provide finance. Housing Tasmania will contribute towards this for the eligible group. Mortgage insurance is required where the loan amount exceeds 80% of the property's value. In most cases the combination of FHOG and DAS will exclude the need for mortgage insurance since borrowings will be less than 80% of the property's value.	The maximum cost of this per loan is capped at $500.	Existing tenants paying less than market rent or those eligible for public housing. (Incomes between $400-$600 per week).
Pre-payment of rates for the first year. Housing Tasmania pays rates on its properties in bulk during July. Purchasers who settle their purchase shortly after have to refund the proportion of rates for the balance of the financial year.	This can total up to $1,000.	Existing tenants paying less than market rent or those eligible for public housing. (Typically incomes between $400-$600 per week)
Independent building report on property condition. An independent building report will be provided as a condition of contract. If the report is not to the purchaser's satisfaction they can void the contract.	The cost of this per eligible purchaser is approximately $200.	Existing tenants paying less than market rent or those eligible for public housing. (Typically incomes between $400-$600 per week)

Contribution towards home improvements and amenity upgrades. The incentive is only available for designated suburbs with a high density of public housing. (Over 30%) This incentive is designed to attract middle-income earners into broadacre estates and thus improve the social mix.	An amount of up to $3,000 would be paid towards home improvements such as garages, kitchens, bathrooms and fencing. The amount would be available for up to 12 months after purchase.	Purchasers who are ineligible for public housing and/or HOAP. (Incomes above $600 per week)