

# A BI-PARTISAN AGENDA FOR AFFORDABLE HOUSING

PRESENTATION TO THE 'FUTURE OF AUSTRALIAN HOUSING' CONFERENCE

SPONSORED BY BRISBANE DEVELOPMENT ASSOCIATION & FUTURE HOUSING TASK FORCE

BRISBANE – 15<sup>TH</sup> APRIL 2016

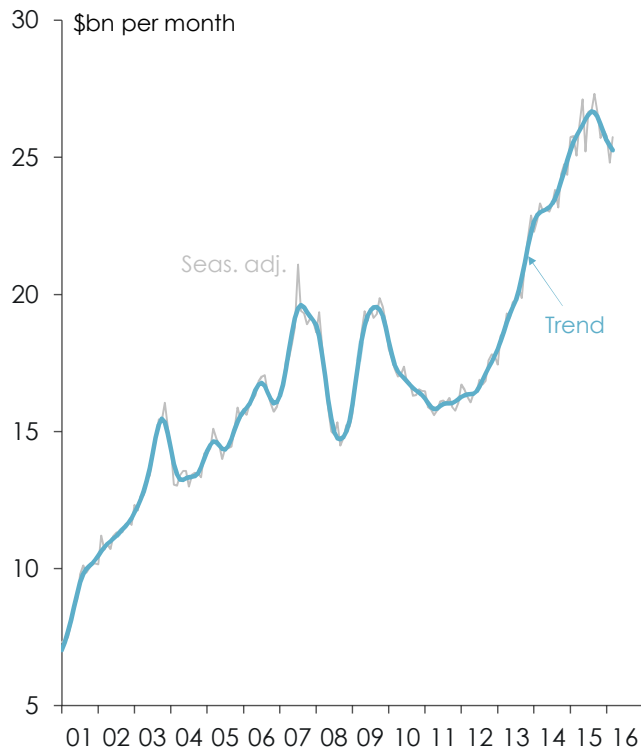
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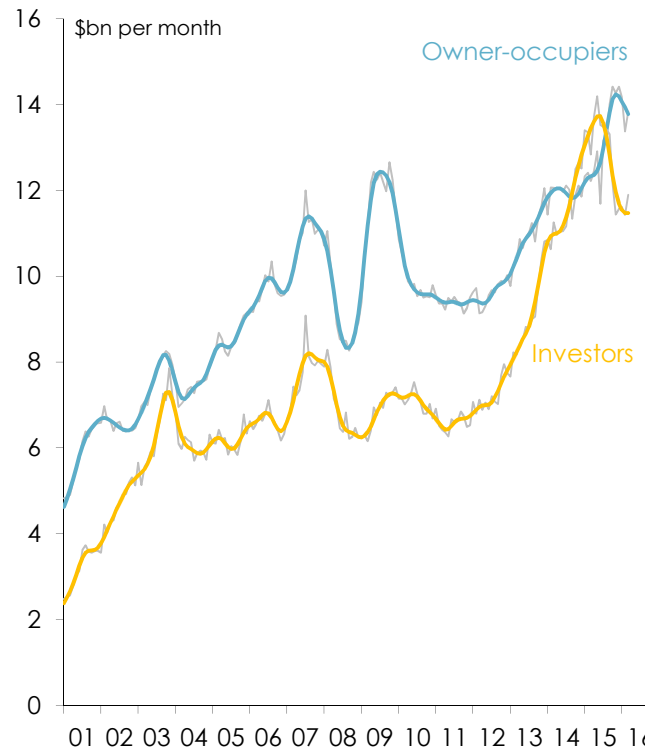
**SAUL ESLAKE**

# Record-low interest rates have stimulated a substantial rise in housing demand – leading in turn to further escalation of housing prices

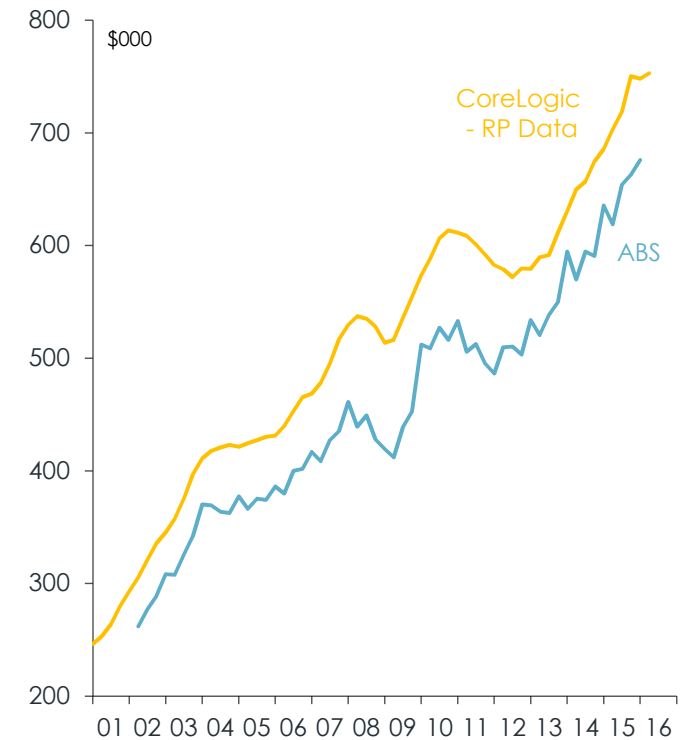
## Lending for housing



## Lending for housing, by type of borrower



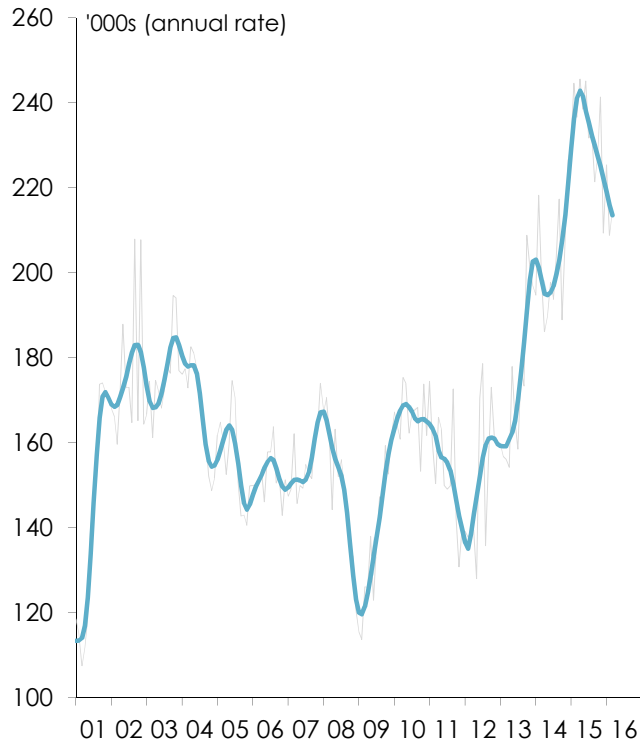
## Capital city residential property prices



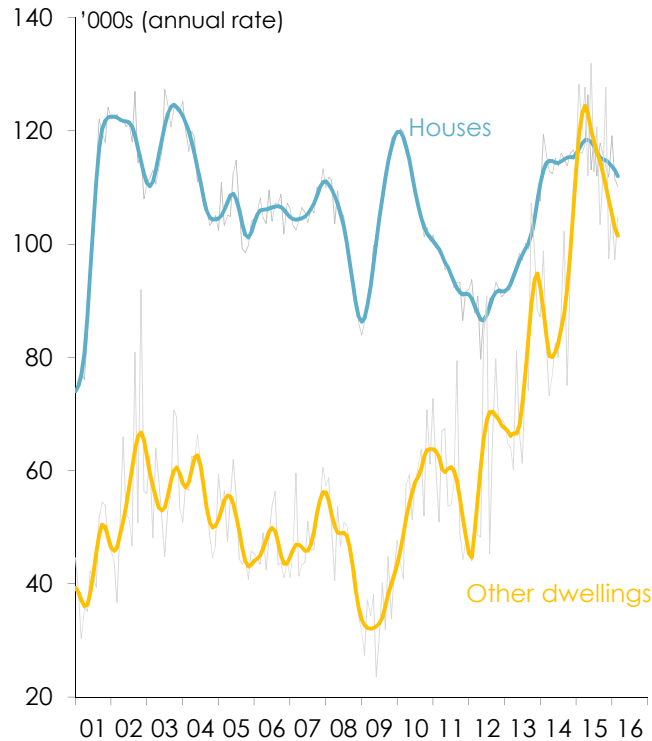
Note: grey lines in first and second charts above show seasonally adjusted data; thicker coloured lines are the ABS 'trend estimates'.  
Sources: ABS; CoreLogic - RP Data.

# Housing supply is also now rising more strongly – but much of that is being driven by foreign investors (and very little by local investors)

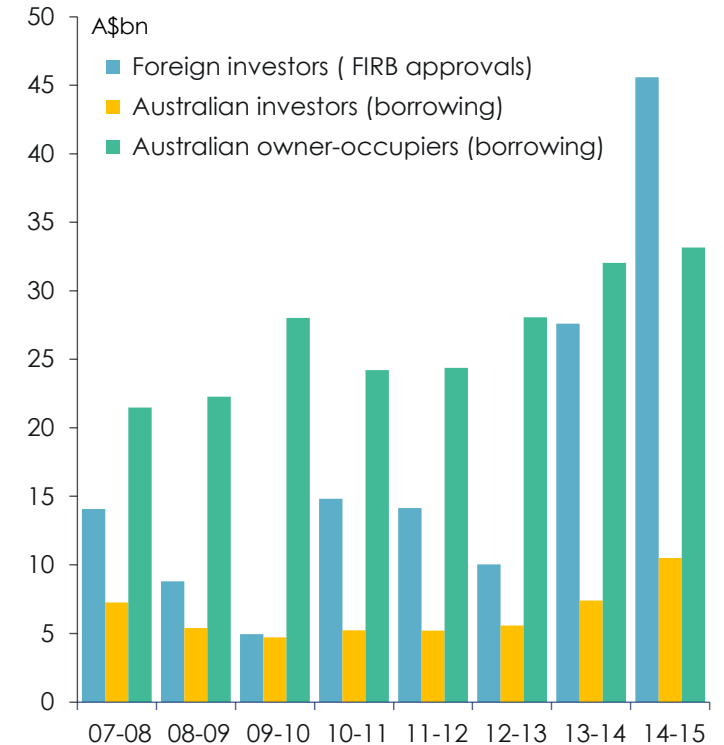
## Residential building approvals



## Private residential building approvals, by type of dwelling



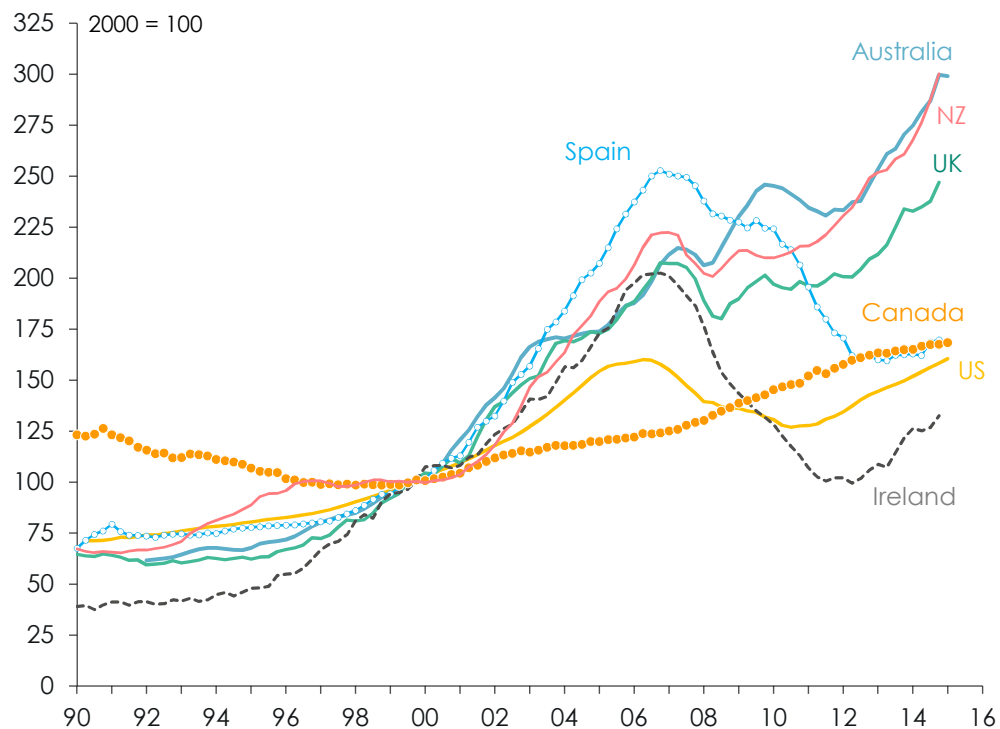
## Financing of new dwellings



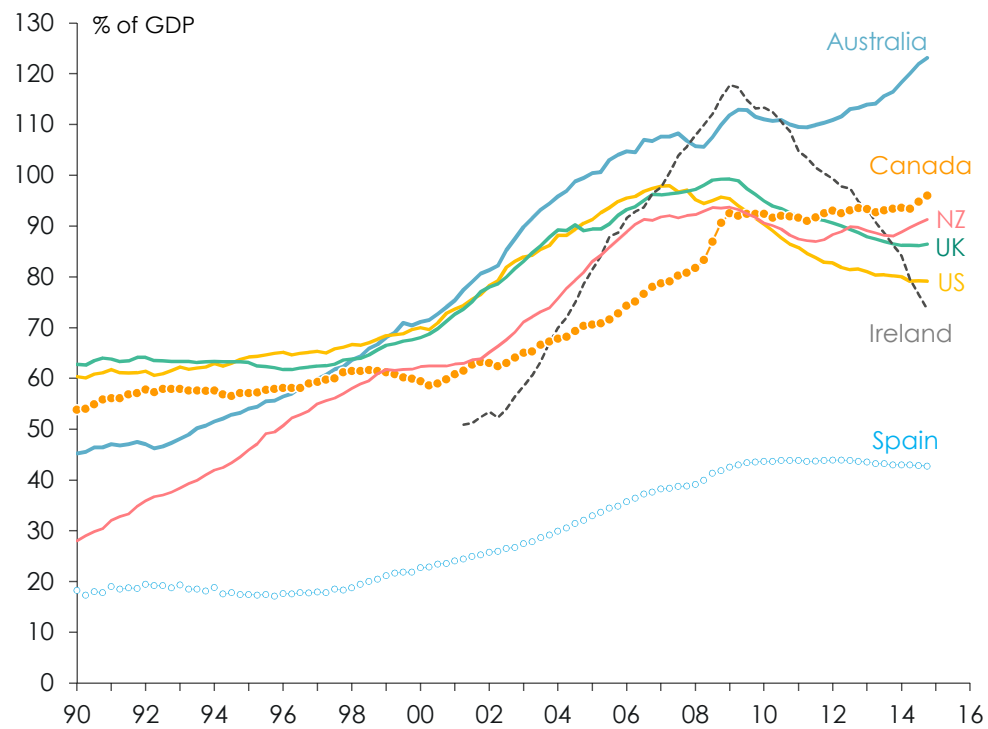
Note: grey lines in first and second charts above show seasonally adjusted data; thicker coloured lines are the ABS 'trend estimates'.  
Sources: ABS; Foreign Investment Review Board (FIRB).

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

## House prices – Australia vs other 'advanced' economies



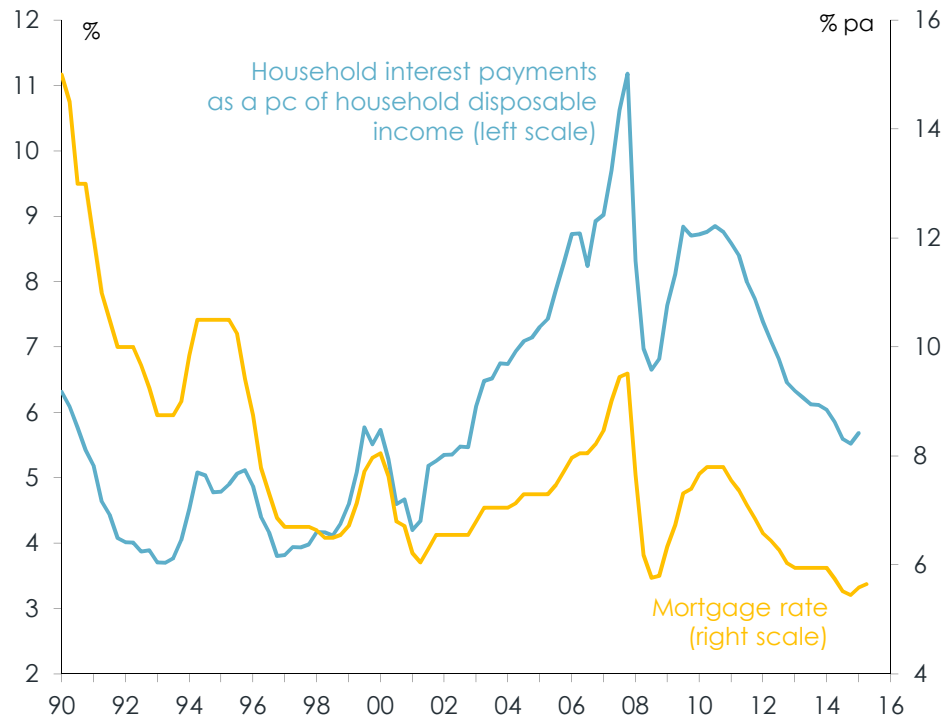
## Household debt – Australia vs other 'advanced' economies



Sources: RP Data-CoreLogic; S&P; Bank for International Settlements (BIS).

# At current interest rates, households can fairly readily service their debts: and most of the increase in borrowing has been by rich households

## Debt servicing burdens and mortgage interest rates



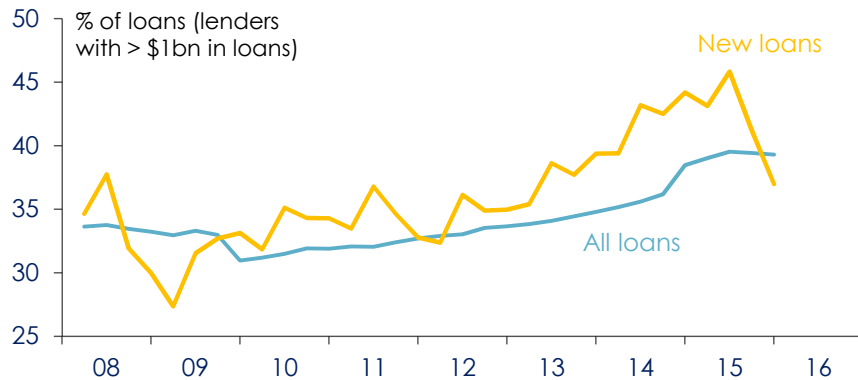
## Property loans outstanding by net worth quintile



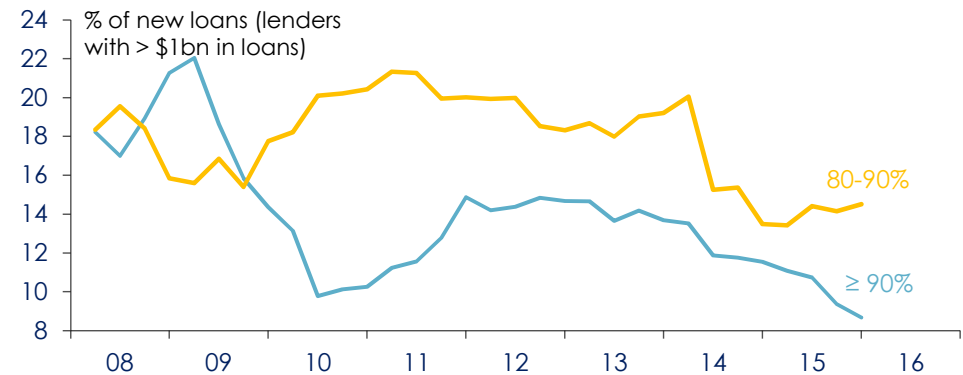
Sources: ABS; author's calculations.

# Regulators have been working to rein in riskier forms of mortgage lending

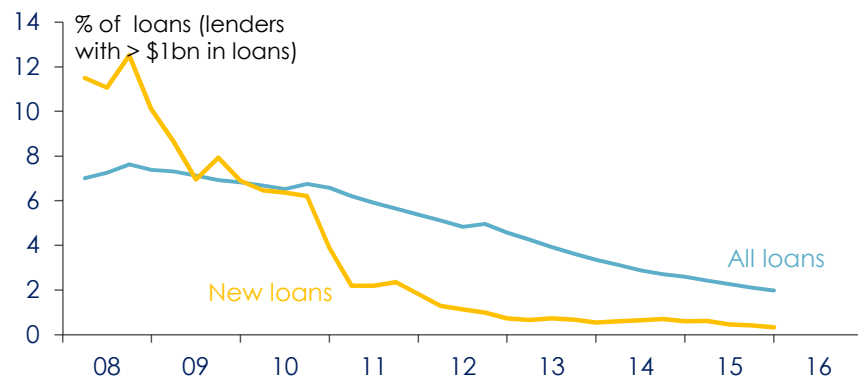
## Interest-only loans as a pc of total



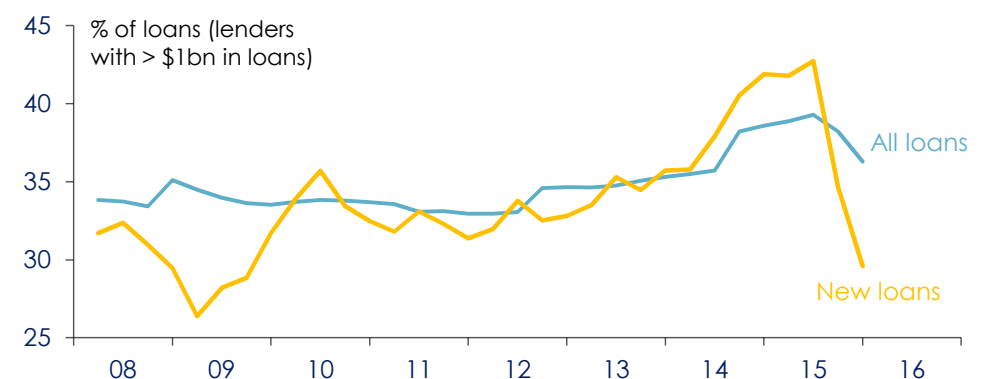
## High-LVR loans as a pc of total



## 'Low-doc' loans as a pc of total



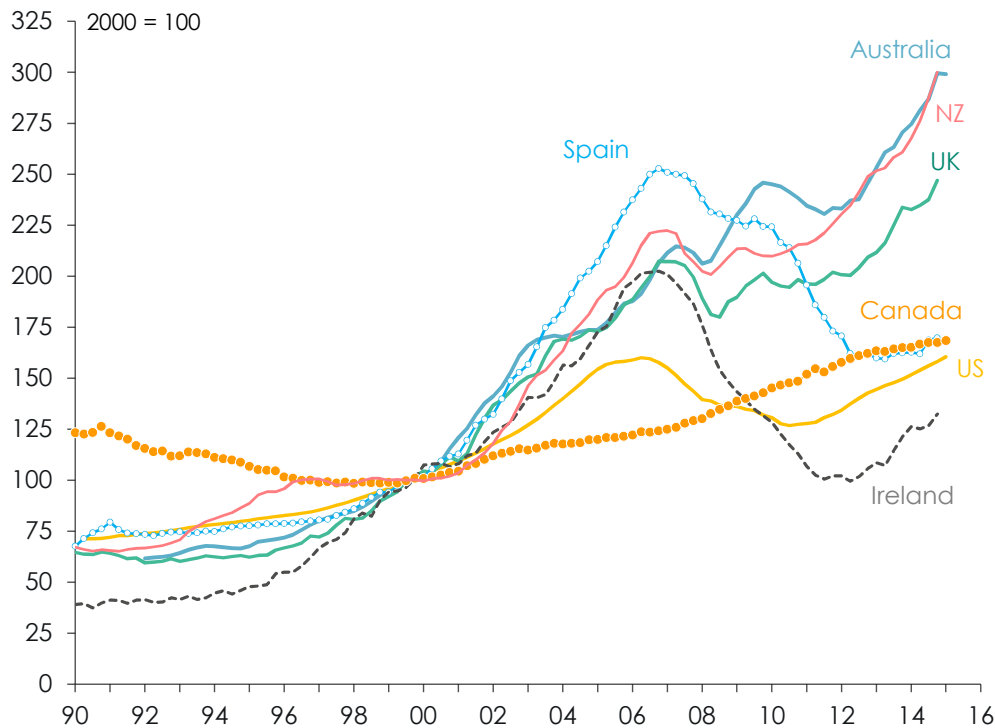
## Loans to investors as a pc of total



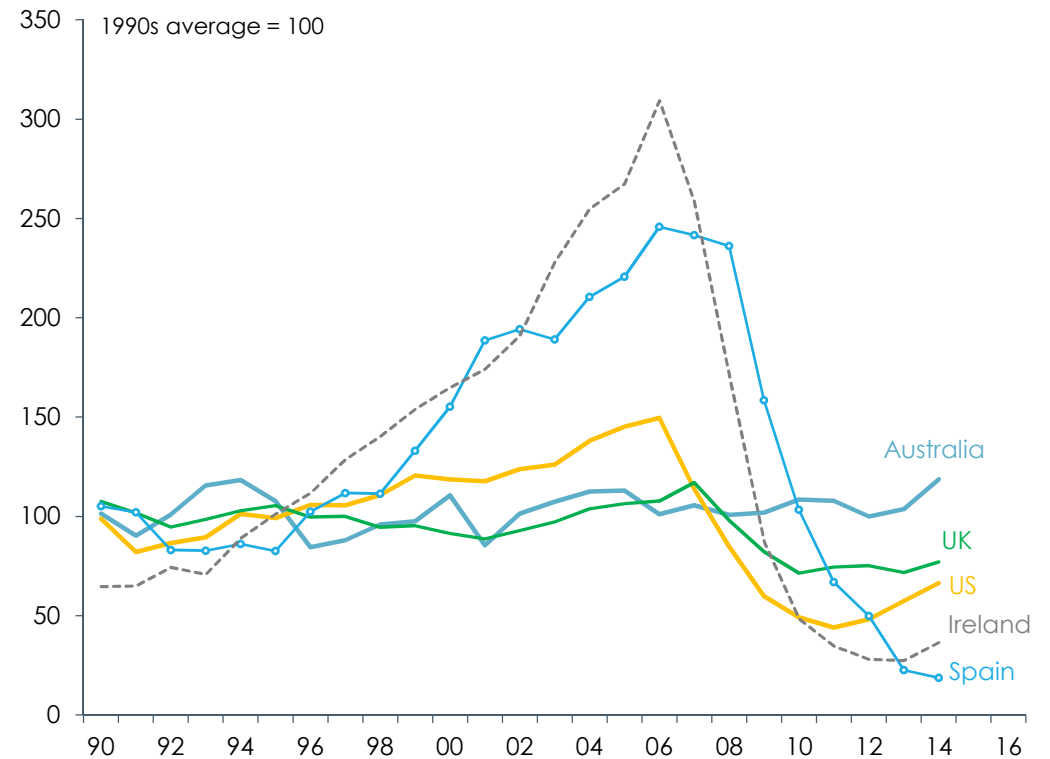
Note: 'LVR' is the loan-to-valuation ratio, ie the loan amount as a proportion of the value of the property for which the loan is taken out.  
 Source: Australian Prudential Regulation Authority (APRA) Quarterly Property exposures database.

# Overseas experience suggests that housing 'busts' occur when demand declines abruptly after an extended period of rapid growth in supply

## House prices – Australia and other selected 'advanced' economies



## Housing completions – Australia and other selected 'advanced' economies

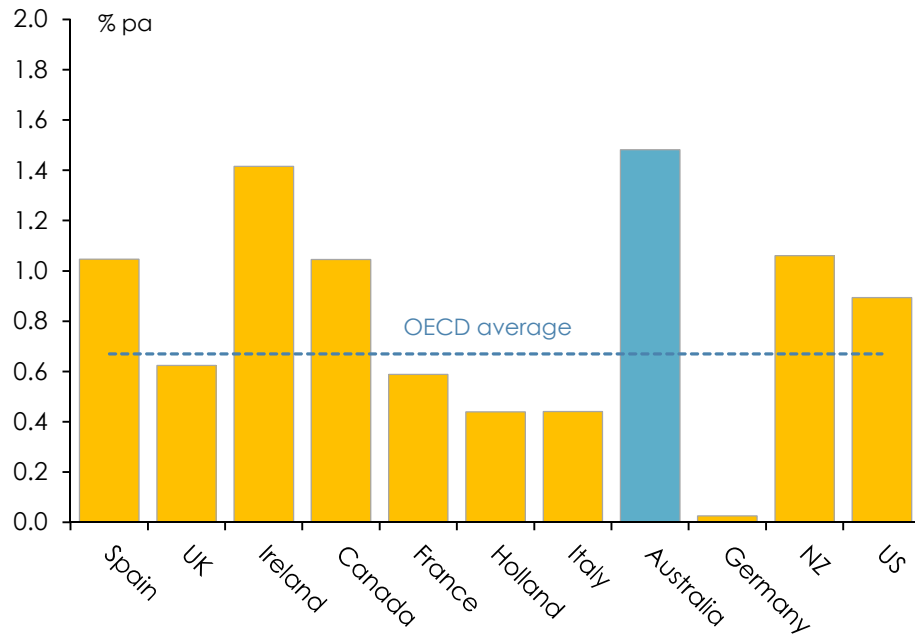


Sources: ABS; US Commerce Department; UK Office for National Statistics; Eurostat; CoreLogic; S&P; Bank for International Settlements;

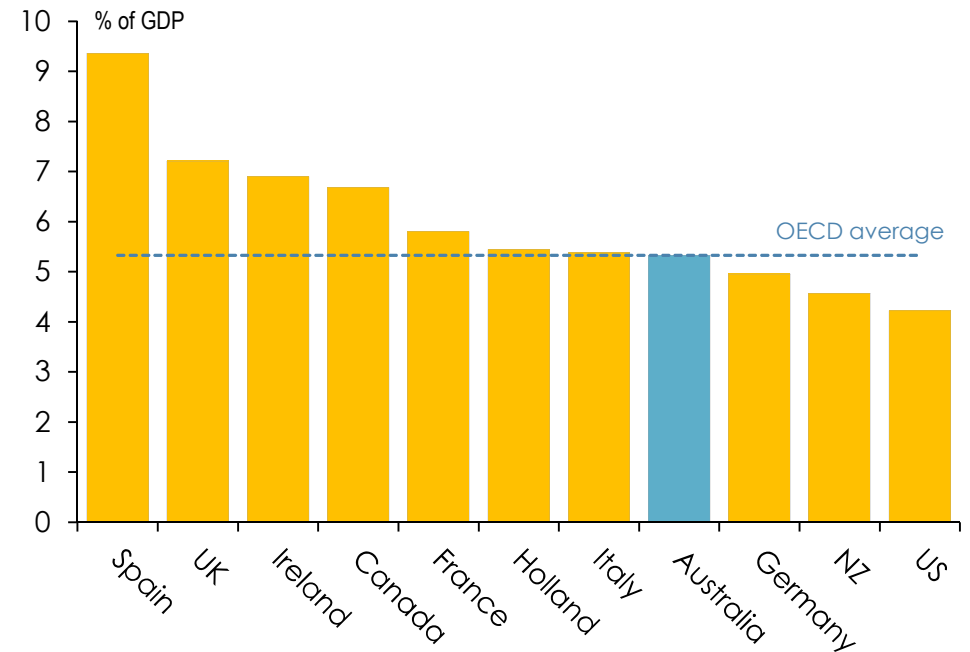
# The shortfall between housing supply and 'underlying' housing demand has been greater in Australia than most other 'western' nations

## Population growth and housing investment in Australia and other 'advanced' economies, 2000-2014

Population growth



Housing investment

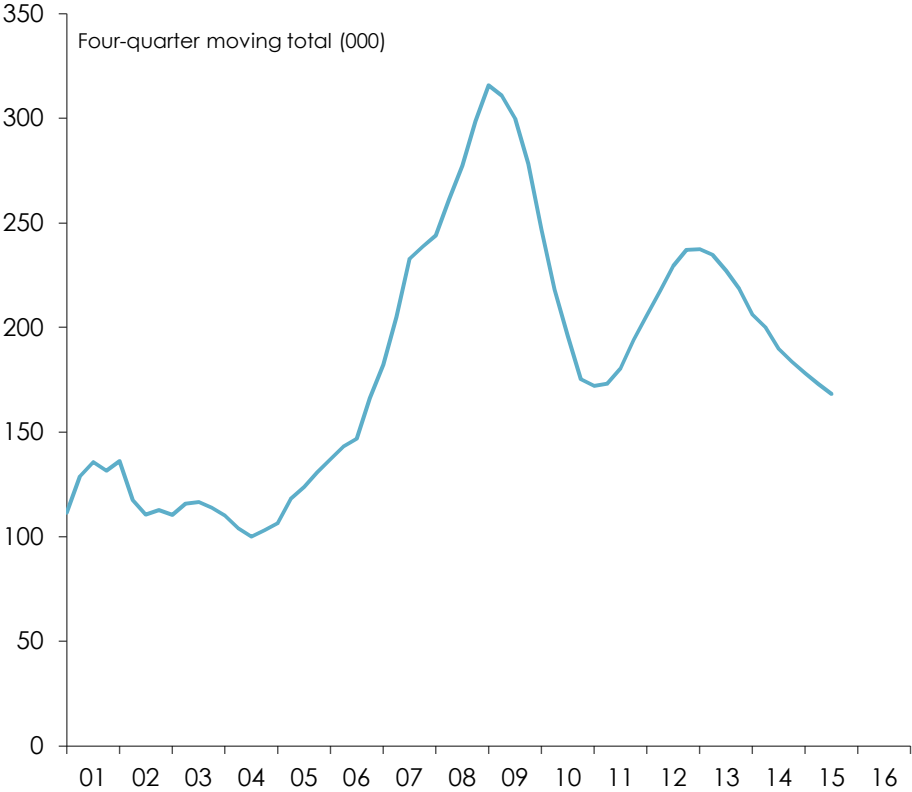


Source: International Monetary Fund, *Australia: Selected Issues*, Country Report No. 15/275 (September 2015), p. 11.

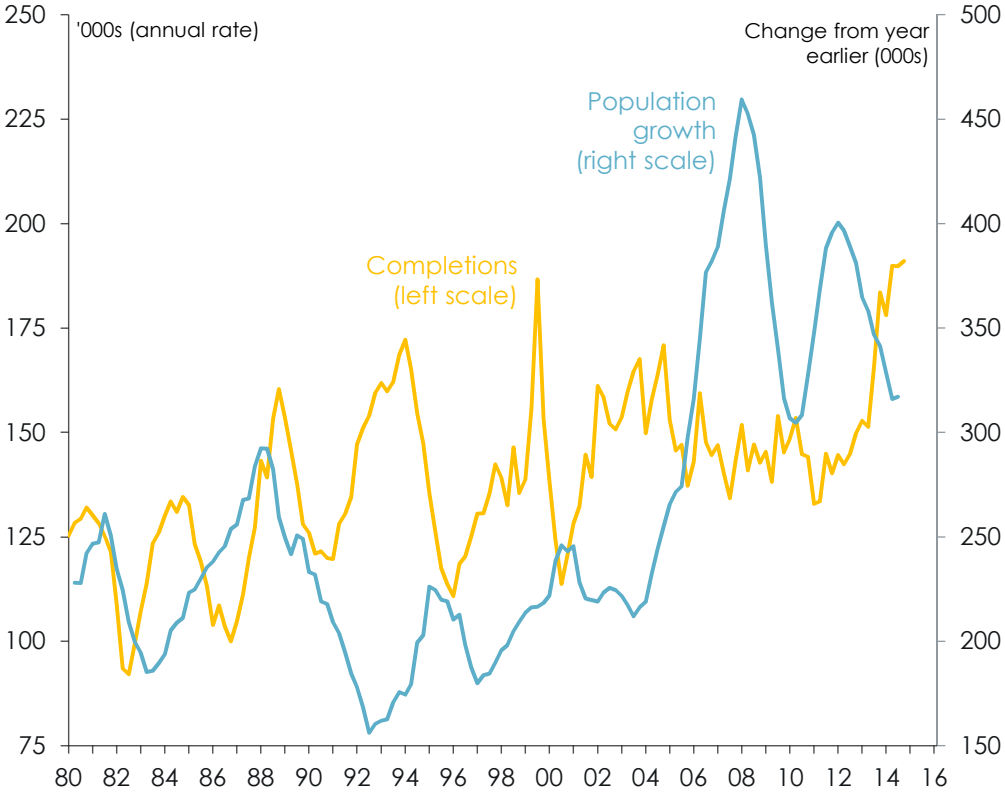


# The supply-demand balance in Australia's housing market is likely to change quite significantly over the next three years

## Net immigration to Australia



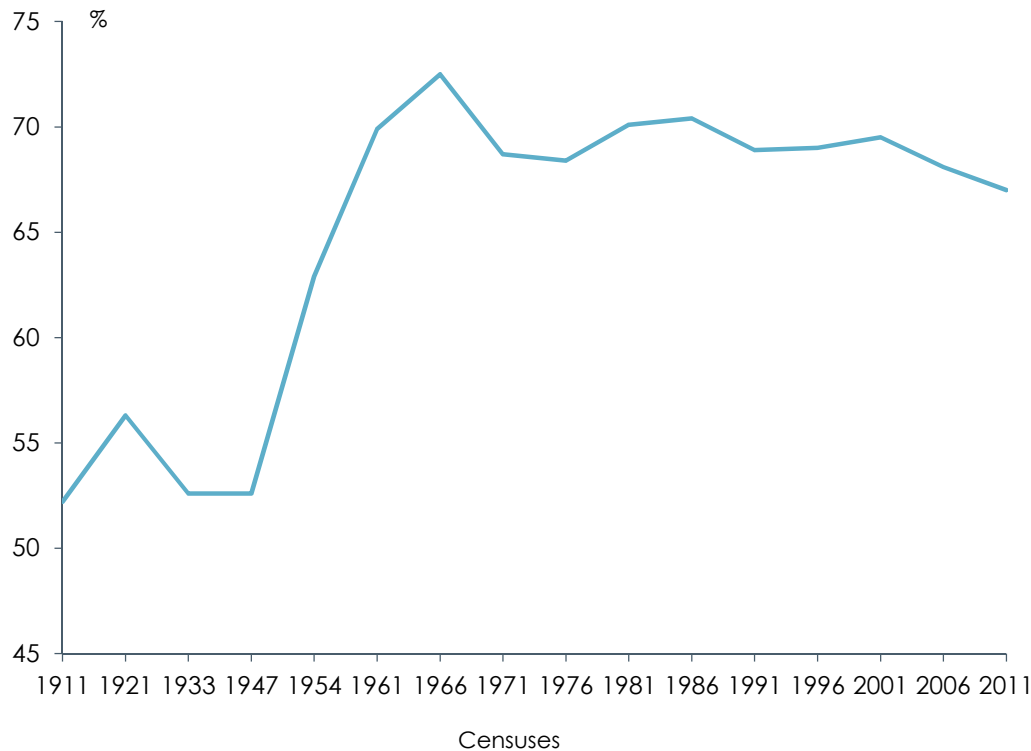
## Housing completions vs population growth



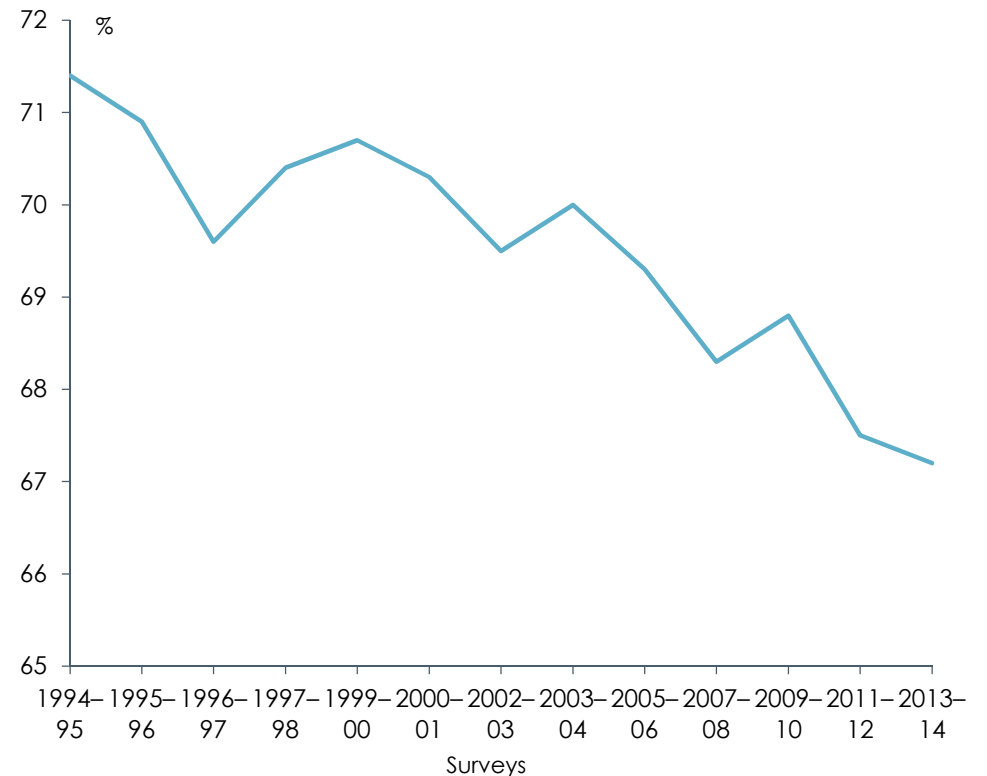
Source: ABS.

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

## Home ownership rates at Censuses



## Home ownership rates at ABS income distribution surveys

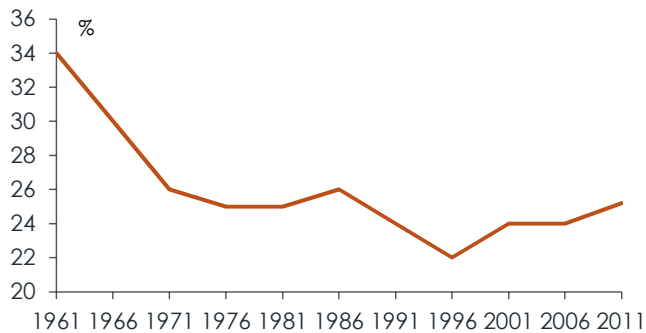


Sources: ABS Census Data QuickStats; ABS, *Household Income and Wealth (6523.0)*; Advisory Council for Intergovernmental Relations, *Australian Housing Policy and Intergovernmental Relations*, Discussion Paper No. 14 (1982), Appendix B.

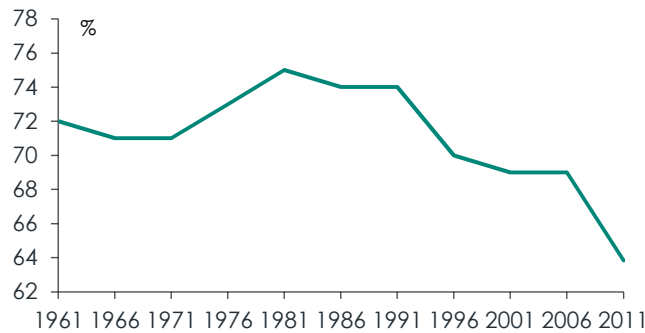
# Home ownership rates among households headed by people aged 25-55 have dropped by an average of 9 pc points since 1991

## Home ownership rates at Censuses, by age of 'household head'

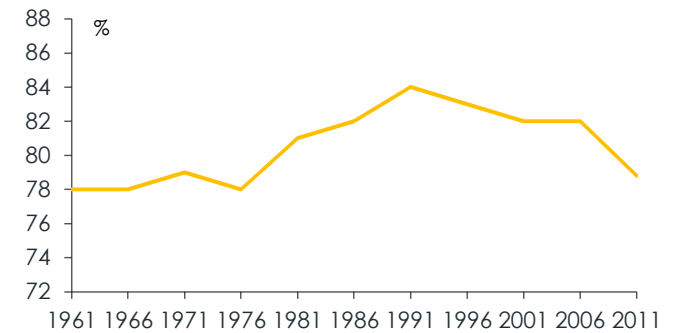
### 15-24 year olds



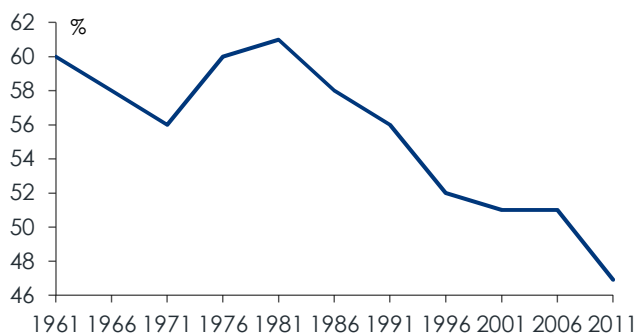
### 35-44 year olds



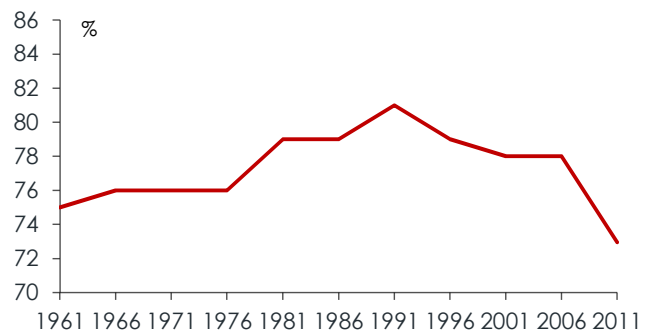
### 55-64 year olds



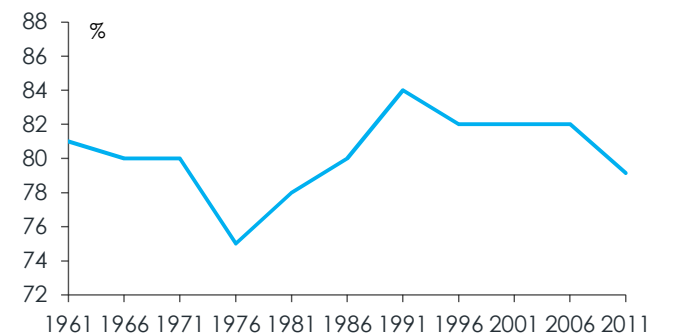
### 25-34 year olds



### 45-54 year olds



### 65 year olds and over

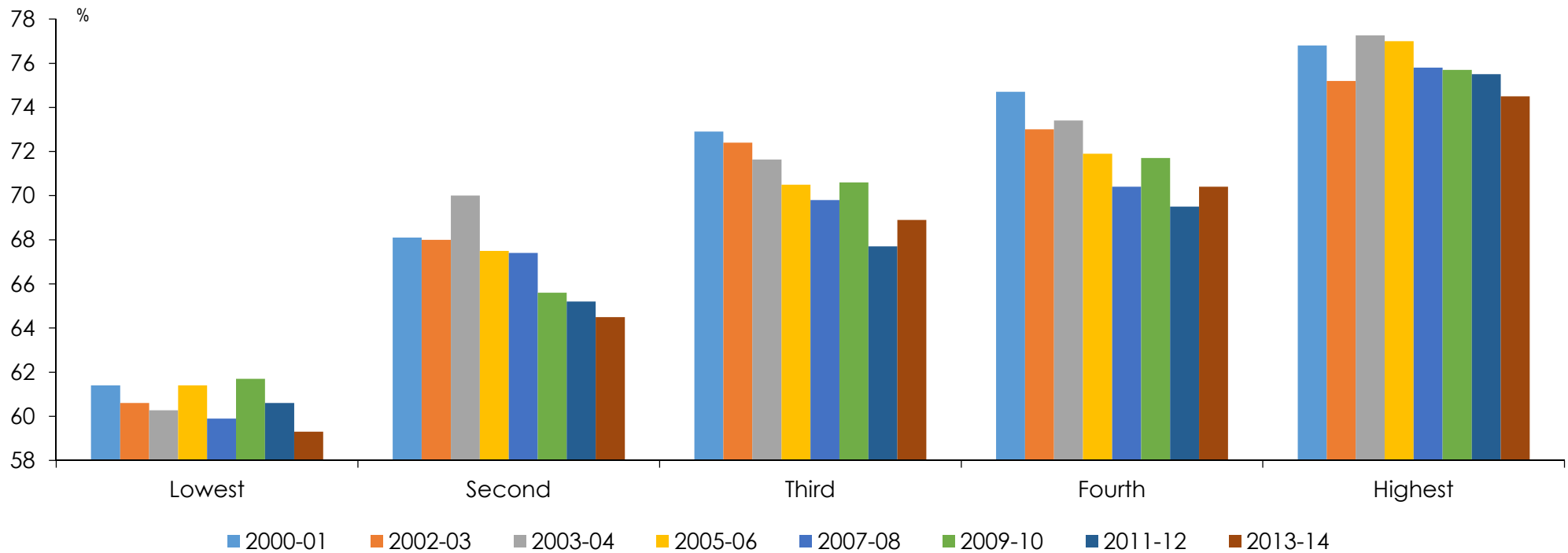


Source: Professor Judith Yates, Submission to the House of Representatives Standing Committee on Economics Inquiry into Home Ownership, June 2015.

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

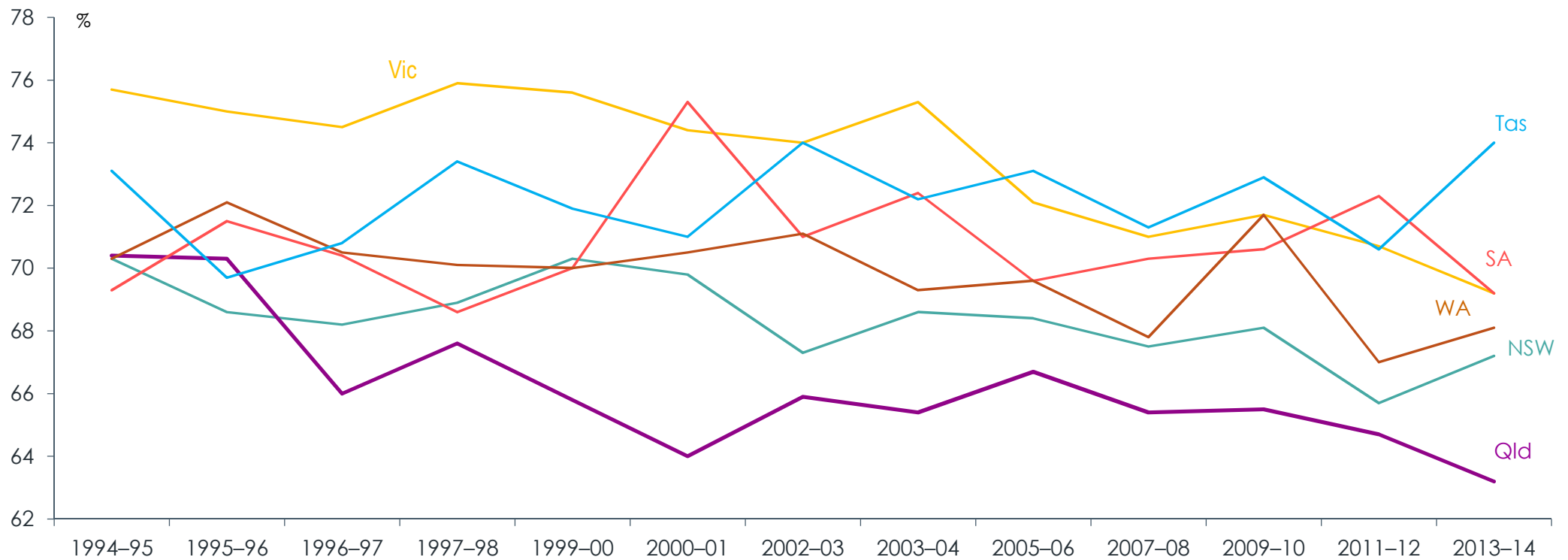
## Home ownership rates by income quintile, 2000-01 to 2013-14



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

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

## Home ownership rates by State, 1994-95 to 2013-14

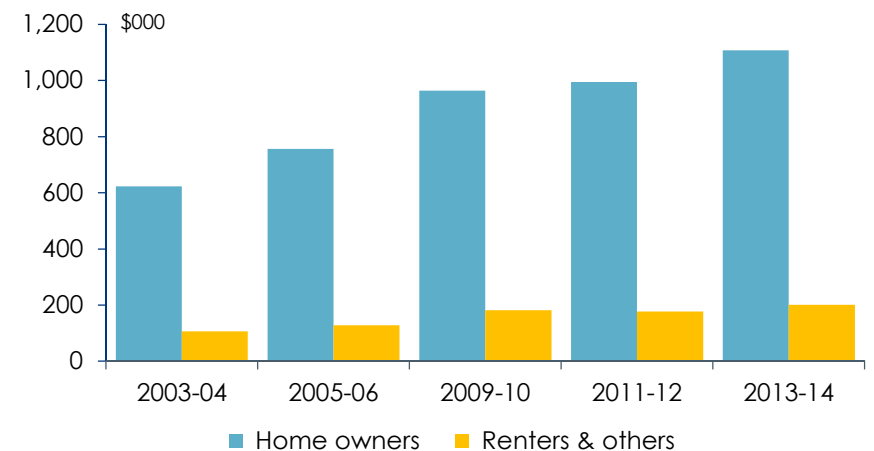


Source: ABS, Household Income and Wealth, Australia, 2013-14; Household Income and Income Distribution, Australia, 2011-12 and previous issues (cat. no. 6523.0).

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

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

Average household net worth, by housing tenure



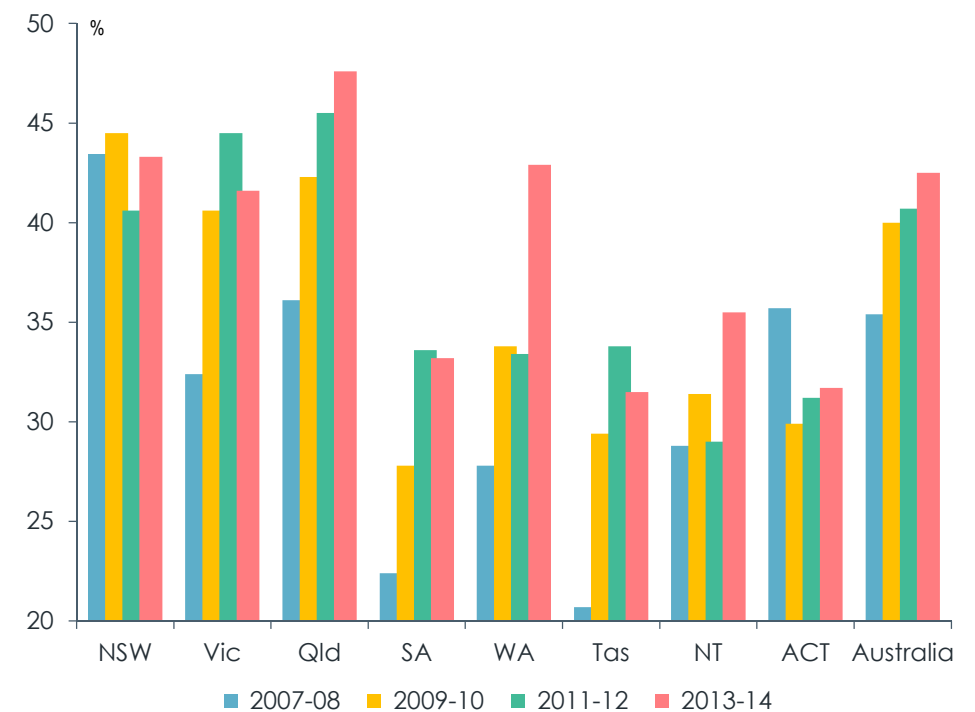
Sources: ABS, Household Income and Wealth (catalogue no. 6253.0), 2013-14; Household Wealth and Wealth Distribution (6554.0), 2011-12 and previous issues.

# Housing costs have risen, in some cases significantly, for low-income tenants

## Housing costs for low-income rental households



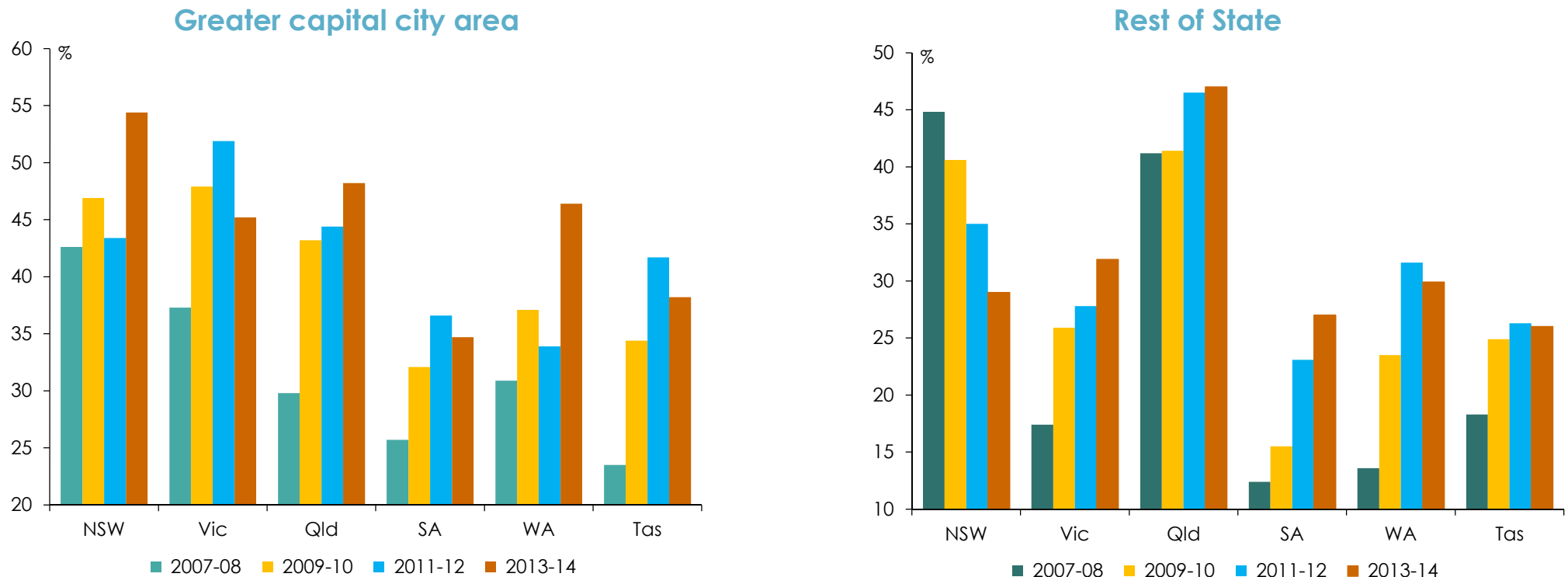
## Proportion of low-income rental households spending >30% of income on housing



Note: 'Lower income households' are households in the lowest and second equivalised disposable household income quintiles, excluding the 1st and 2nd percentiles (which are excluded due to the high wealth and expenditure characteristics those household exhibit, and the prevalence of income types other than employee income and government pensions and allowances). Source: ABS, *Housing Occupancy and Costs* (catalogue no. 4130.0), 2013-14 and previous issues.

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

## Proportion of low-income households paying more than 30% of their income in housing costs, by State, 2007-08 to 2013-14



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



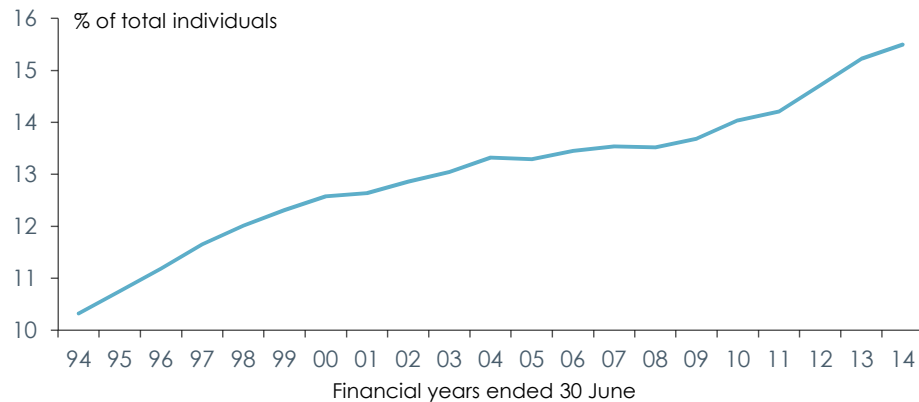
# What, ideally, should governments be doing?

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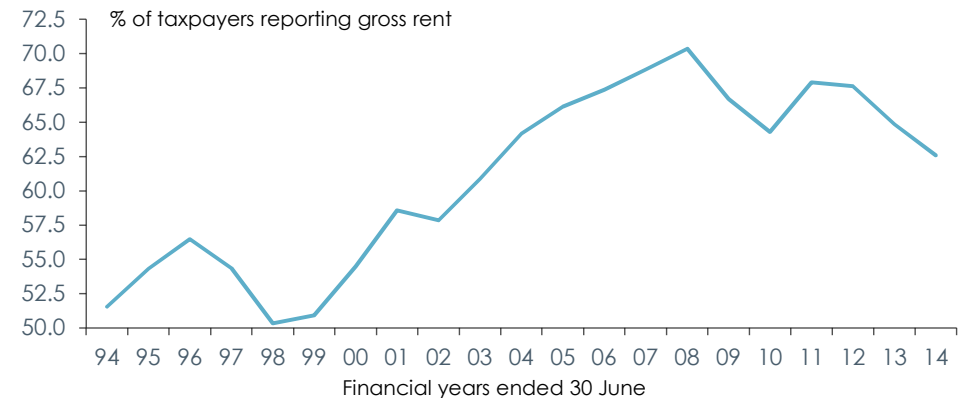
- **Stop doing things which serve only to inflate the demand for housing**
  - scale back first home owner grants for purchasers of established dwellings
  - clamp down on risky mortgage lending practices
  - tighten & enforce restrictions on foreign purchases of established dwellings
  - remove biases in the tax system which artificially inflate demand for housing

# Scaling back negative gearing would be the most effective thing any federal government could do to improve housing affordability

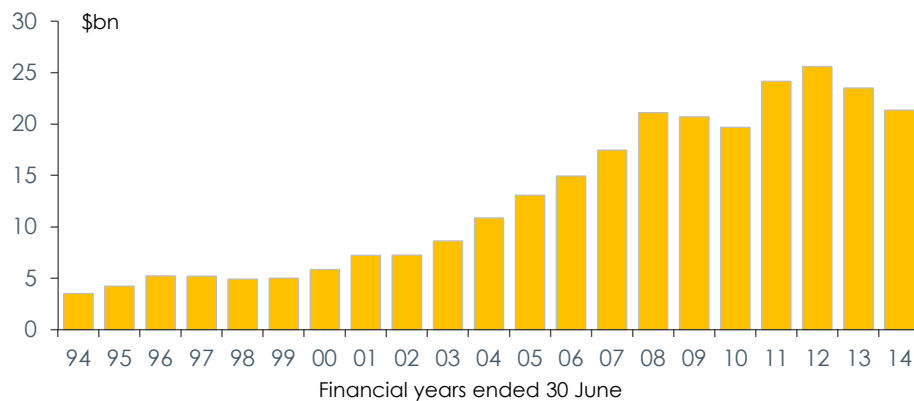
## Individuals reporting gross rental income



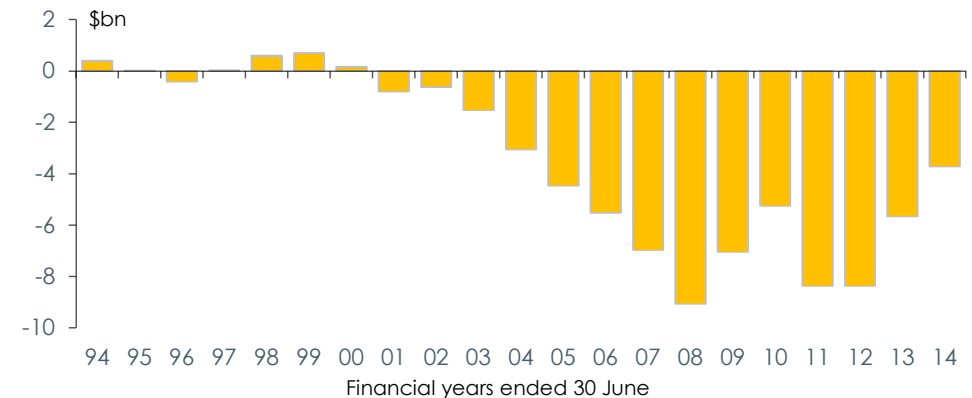
## Loss-making property investors as pc of total



## Interest deductions claimed by property investors



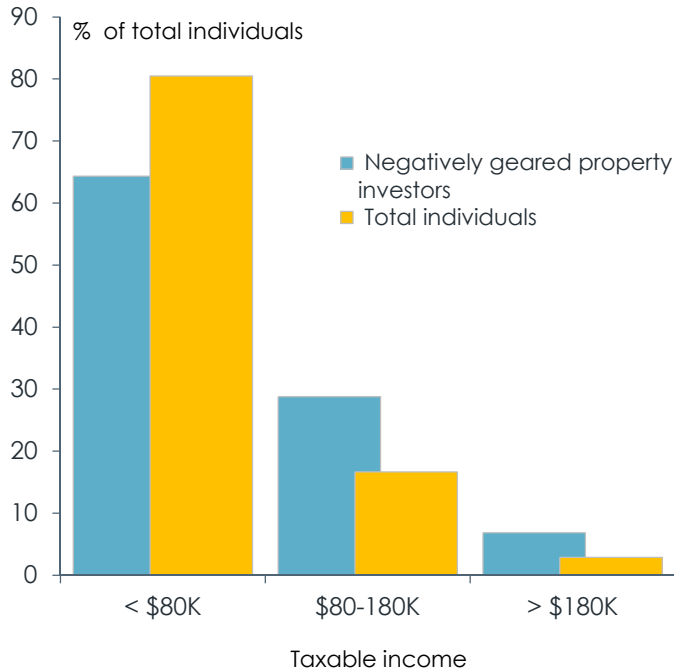
## Net rental income



Source: Australian Taxation Office, *Taxation Statistics*, 2013-14.

# Negative gearing is much more common among high-income taxpayers than among those of more modest means

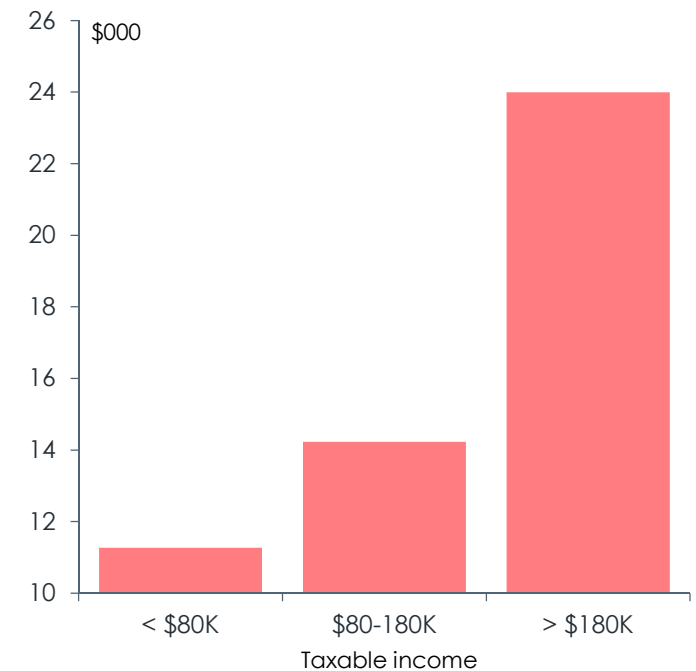
Individuals with negatively geared property investments, by taxable income range, 2013-14



Individuals in taxable income ranges with negatively geared property investments, 2013-14



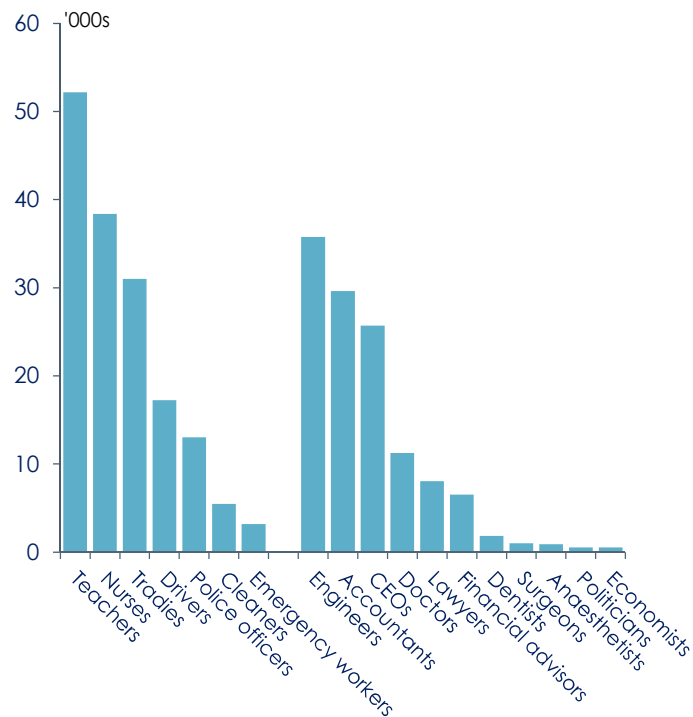
Average interest deduction claimed by individuals with rental income, 2013-14



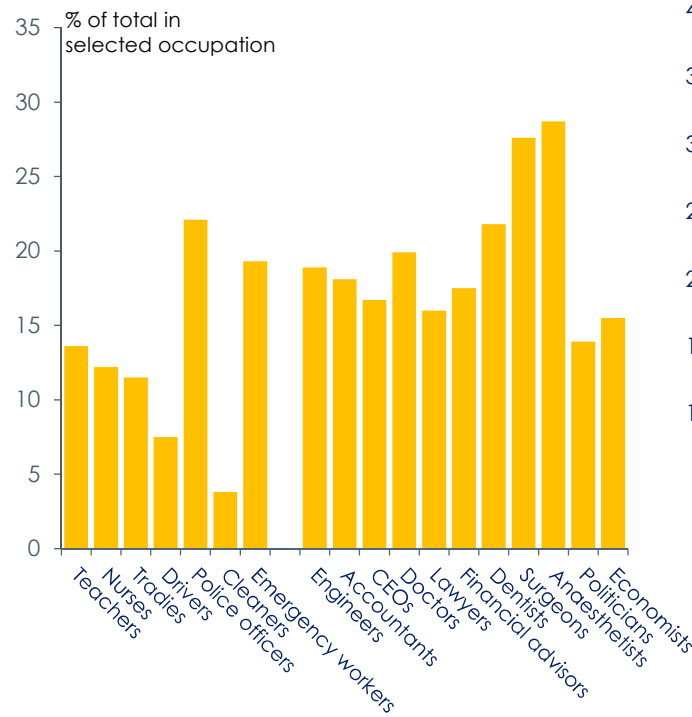
Source: Australian Taxation Office, *Taxation Statistics 2013-14*.

# Negative gearing is not, primarily, about “teachers, cops, fires and nurses” trying to “get ahead”

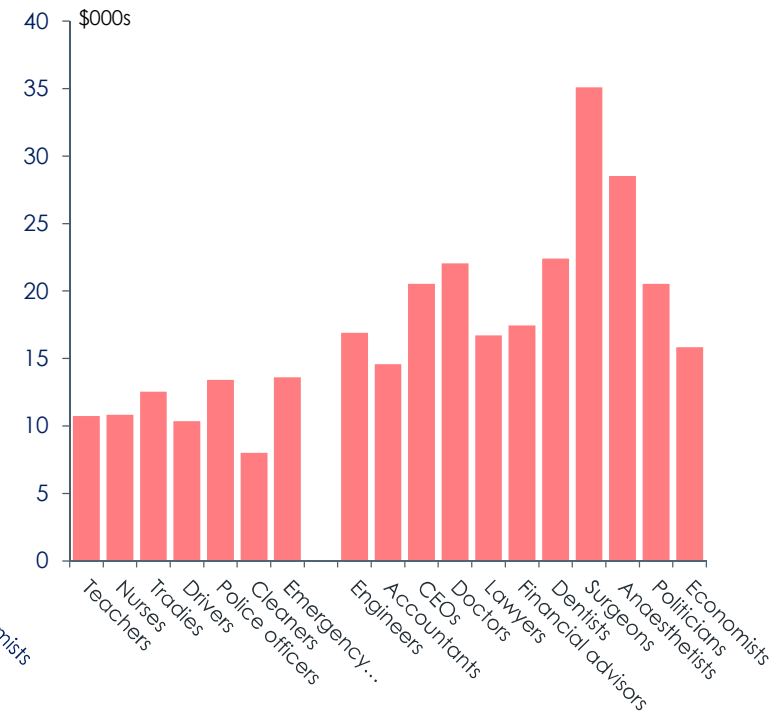
Selected occupations – number of individuals claiming net rental losses, 2013-14



Selected occupations – p.c. of individuals claiming net rental losses, 2013-14



Selected occupations – average deduction claimed for interest on rental properties, 2013-14



Note: 'tradies' includes bricklayers, plumbers, electricians, carpenters, painters and motor vehicle repair tradespeople.

Source: Australian Taxation Office, Taxation Statistics 2013-14.

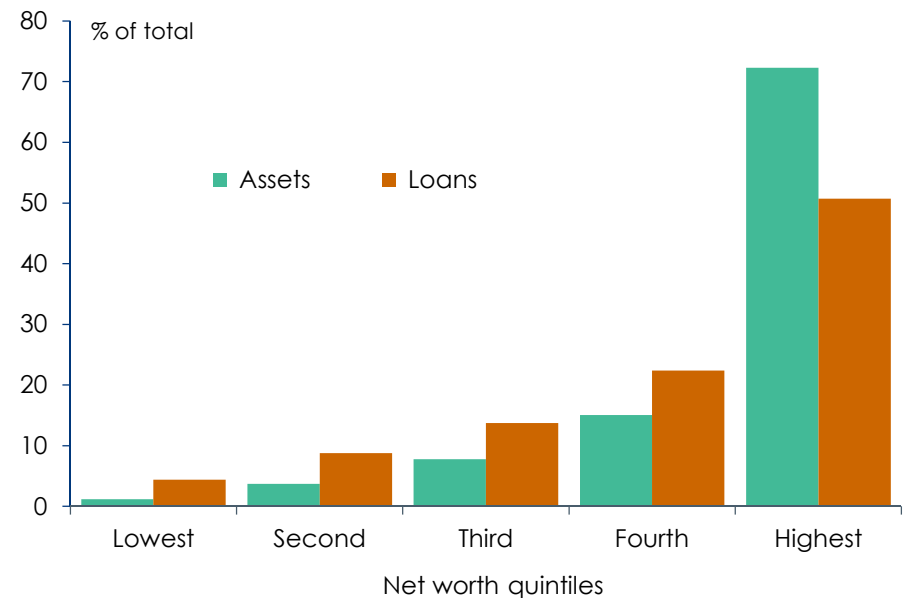
# Concessional tax treatment of property investment debt and assets overwhelmingly benefits the top 20% of households, by income or wealth

## Distribution of property assets and loans (other than owner-occupied dwellings) by income quintile



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

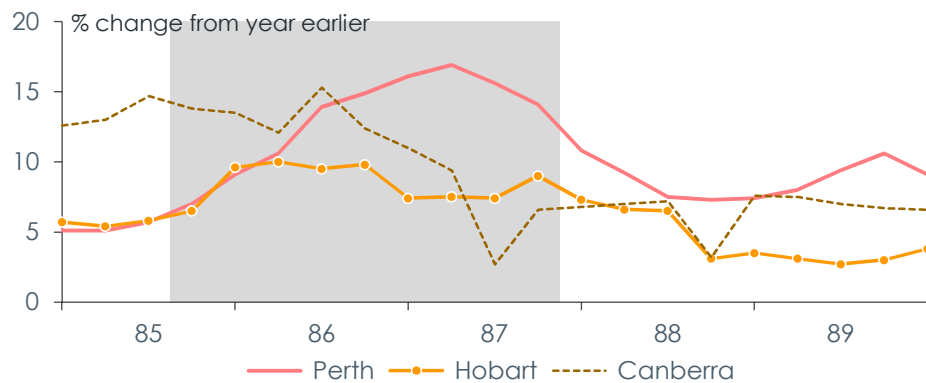
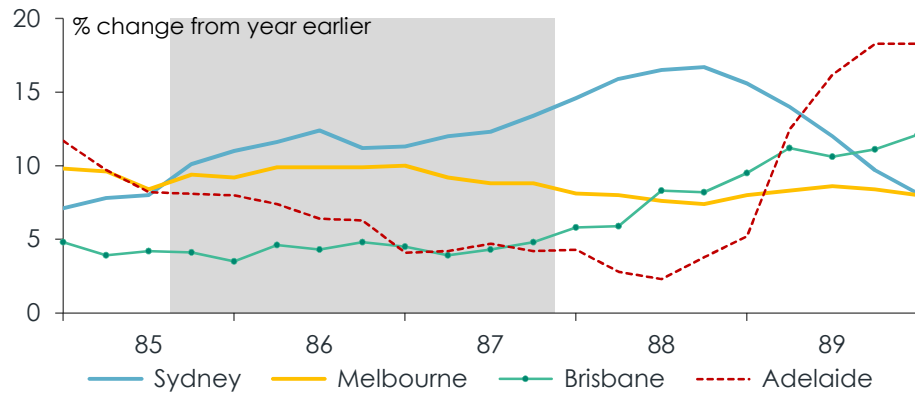
## Distribution of property assets and loans (other than owner-occupied dwellings) by net worth quintile



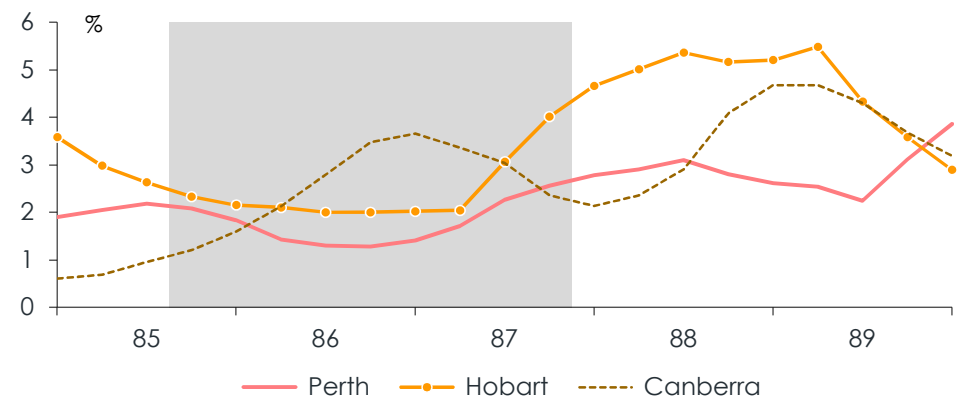
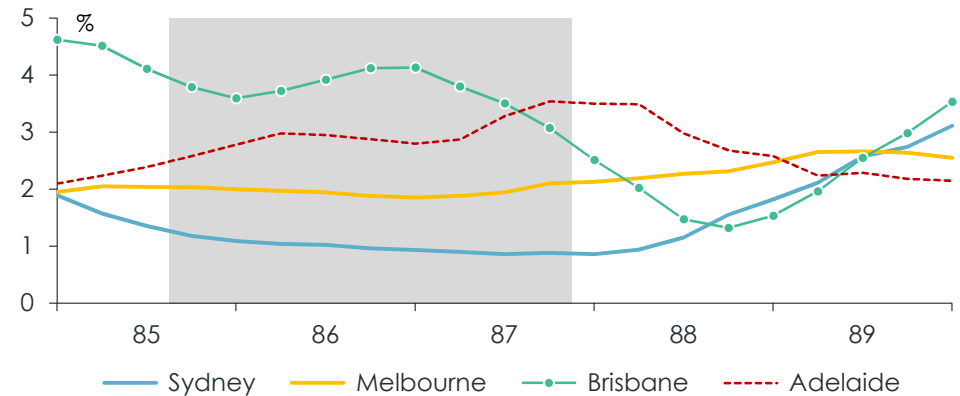
**72% of all investment property assets are owned, and 51% of property investment debt is owed, by households in the top net worth quintile. Only**

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

## Capital city rents



## Capital city vacancy rates



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

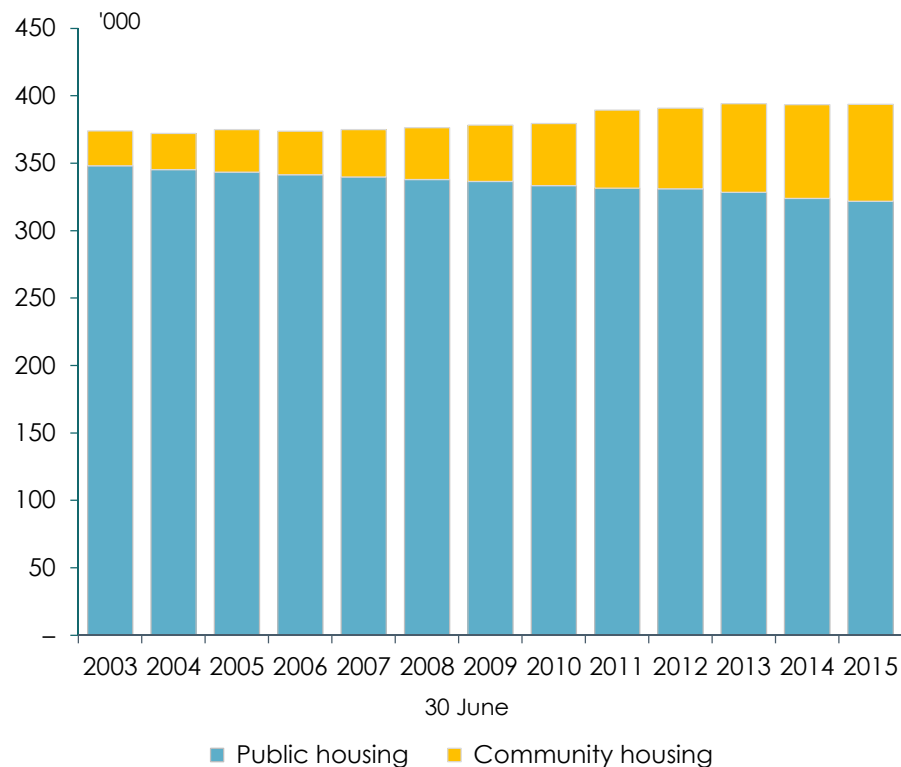
# What, ideally, should governments be doing?

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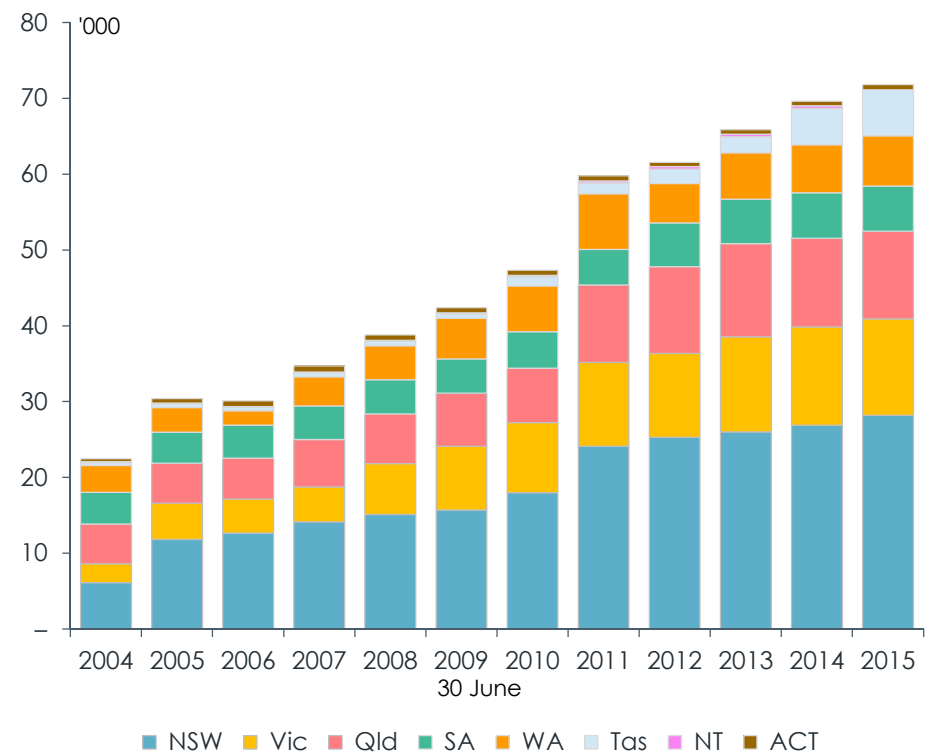
- **Stop doing things which serve only to inflate the demand for housing**
  - scale back first home owner grants for purchasers of established dwellings
  - clamp down on risky mortgage lending practices
  - tighten & enforce restrictions on foreign purchases of established dwellings
  - remove biases in the tax system which artificially inflate demand for housing
- **Think twice about doing things which (to however worthy their aims add to the cost of housing**
  - how many more ways do we need to insist that new dwellings be made 'safer', more 'energy efficient', etc
- **Stop doing things which make it harder to add to the supply of housing**
  - in particular, zoning restrictions and planning codes which prevent any kind of (re-)development whatsoever, or which facilitate vexatious and costly objections to (re-)development
- **Start doing (or do more) things which directly add to the supply of housing**
  - more transfers of existing housing stock to community housing organizations (with appropriate covenants)
  - more innovative funding models (bond guarantees, interest subsidies etc)
  - use of 'inclusionary zoning' requirements and 'value capture' to facilitate additions to affordable housing stock
  - increase direct funding for construction of new affordable rental housing

# Stock of social housing has not kept up with growth in demand ...

## 'Mainstream' social housing stock



## Community housing stock, by State



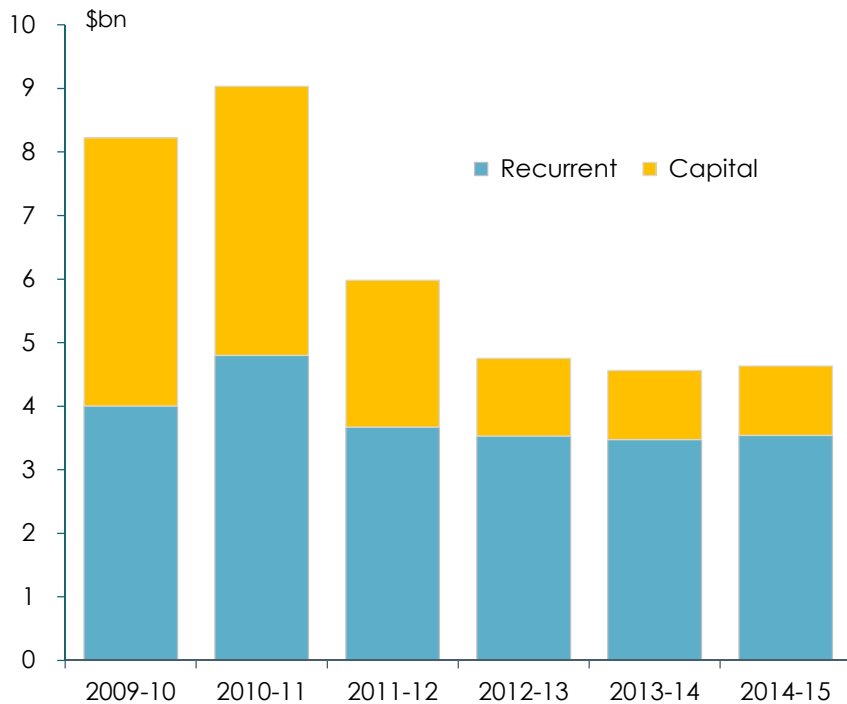
Note: The above charts exclude housing provided under State & Territory and community Indigenous housing programs.

Sources: Australian Institute of Health and Welfare, *Housing Assistance in Australia*, 2015; Productivity Commission, *Report on Government Services*, 2016.

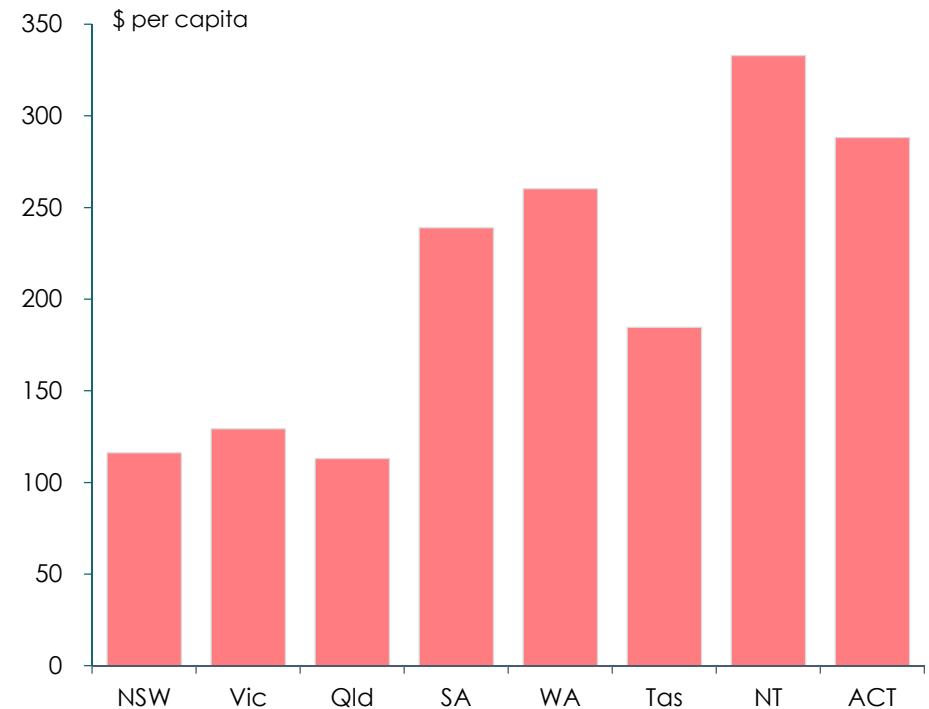


# ... which is not surprising since spending on social housing programs has declined in recent years

## State & Territory Government spending on social housing programs



## State & Territory Government social housing spending, per capita, 2014-15



Note: 'Recurrent' spending includes expenditure on public housing, SOMIH, community housing, transitional housing and grants to community housing under the National Building and Economic Stimulus Plan - Social Housing Initiative package. Expenditure for SHS agencies, other homelessness services and home purchase assistance is excluded. Sources: Productivity Commission, *Report on Government Services*, 2015 and 2016.

## Some other items that should be on the housing policy agenda

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- Reform State tax systems to encourage more efficient use of land by replacing stamp duty on land transfers with a broad-based land tax (including on owner-occupied properties), with transitional provisions to avoid 'double taxation' of recently-acquired land
  - as the ACT is now doing (albeit with municipal rates rather than land tax), as South Australia is considering and has been recommended to the NSW and Victorian Governments, as well as by the Henry Review
- Include the value of owner-occupied housing above location-specific thresholds in the assets test for the age pension
- Restructure land tax provisions for large-scale investors in rental housing
  - apply tax scales to individual land holdings rather than to aggregated portfolios
- Reduce the cost, complexity and uncertainty associated with 'infill' developments in established areas by providing greater uniformity and clarity in planning rules, and fewer opportunities for frivolous or vexatious objections
- Take a more 'holistic' view of urban infrastructure investment – especially in transport – and consider the use of 'betterment levies' as one way of partially funding such investments

For more details...

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This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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