



Housing (Un)affordability for Dummies

Housing affordability in Australia has worsened since 2008, particularly in Sydney and Melbourne where prices have increased fivefold – Sydney is now the second-least affordable city in the world, behind Hong Kong, with Melbourne not far behind.¹

A series of connected forces is causing this crisis in affordability. The housing market is like a huge bowl of spaghetti ... a tangled, complicated mess.

Magnus Linder and **Philippa Yelland** examine the causes in this first paper and possible solutions in a second paper, *Housing Solutions for Dummies*.

SOME of the forces – or to put it another way, the spaghetti strands – are having a more significant impact than others and some are potentially easier to fix than others.

While house prices have doubled, wages have increased 13.5% only. This has put more than 1 million Australians² into ‘housing stress’ (households in the bottom 40% of income in Australia paying more than 30% of net income for housing).

This applies either to renters in an escalating market or as overcommitted mortgage holders who have bought-in hoping to get ahead while interest rates are low.

Home ownership peaked in 1966 at 72% – it is now down to 65.5% with private renters comprising 30.9%. The remaining 3.7% are other tenure types or not stated in August 2016.³

Worryingly, home ownership/buying among younger Australians (25 to 34 years) has dropped from 60% to 45% in the 35 years from 1981 to 2016.⁴

A. HISTORICAL

Assumption that people own their own home when retired

¹ Mark McGrindle <https://www.huffingtonpost.com.au/mark-mccrindle/in-20-years-the-average-house-price-in-sydney-and-melbourne-could-a-21874791/>

² ‘Australia’s broken housing system: homelessness and poverty amid affluence’, Dr Ben Spies-Butcher, *Thinking about poverty* (ed. Klaus Serr)

³ 2016 Census QuickStats http://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/036

⁴ Gavin Wood and Rachel Ong, Sustaining home ownership in the 21st century: emerging policy concerns, https://www.ahuri.edu.au/_data/assets/pdf_file/0007/2104/AHURI_Final_Report_No187_Sustaining_home_ownership_in_the_21st_century_emerging_policy_concerns.pdf

Australia's home ownership rate rose after World War II, peaking in 1966 at almost 72%.⁵ Contrary to the popular myth, this was not due to the Menzies Liberal Government 1949-66 – rather it was the failure of rent controls introduced during the war. As rents stagnated, landlords left the market and this gap was only partly filled by public housing. So, younger households unable to rent were effectively forced to build their own homes, fortunately at a time when land was relatively inexpensive and building regulations were less onerous.

Weak tenants' protection against no-cause evictions

This historically high rate of home ownership has meant that most rental homes are owned by individual investors. Consequently, tenure is short-term and tenants can be evicted without cause.

Inadequate old-age pension

The assumption that older people will own their own property underlies the relatively low amount of the old-age pension: the Australian government spends 4% of GDP on the old-age pension, compared with the OECD average of 9%.⁶ Not surprisingly, the old age income poverty rate in Australia is high at 26% compared to 13% across the OECD in 2015.

Superannuation

Our compulsory superannuation system is also predicated on home ownership. Without home ownership, superannuation is manifestly inadequate to maintain post-retirement living, particularly if you live in Sydney or Melbourne.

B. POLITICAL

Failure to see social/affordable housing as infrastructure

In Adam Smith's *The Wealth of Nations*, the invisible hand was the unseen market force that helped demand and supply reach equilibrium. But, this hand is increasingly arthritic and constrained in a market which sees housing as a private matter and therefore off-limits for government.

The rise of neo-liberalism in the 1980s in the UK, US and Australia under Margaret Thatcher, Ronald Reagan and Malcolm Fraser respectively began more than three decades of under-investment and decline in public housing. To quote former NSW premier Nick Greiner, both sides of Parliament have been 'absolutely crap' at public housing.

Red-tape by the kilometre

Red tape hampers co-operation between local Councils, State and Federal Governments. For example, in 2009, the NSW Government launched what has come to be known as SEPP 70 [State Environmental Planning Policy No. 70 Affordable Housing (Revised Schemes)]. This was to allow specified councils to prepare an affordable housing contribution scheme for certain precincts, areas or developments within their local government area.⁷

Six Councils in Sydney now have SEPP 70 schemes: City of Sydney, Randwick, Inner West, Northern Beaches, Ryde and Canada Bay. However, the onus is on each council to demonstrate to the NSW State Government the need for affordable housing within their LGA (Local Government Area).

This process is a significant cost to councils, with no certainty as to whether the expenditure will be worth the investment. But, the Greater Sydney Commission and other bodies have already demonstrated the need for more affordable housing in all LGAs across Sydney.⁸

⁵ Australia Home Ownership Rate 1966-2018 <https://tradingeconomics.com/australia/home-ownership-rate>

⁶ <http://www.oecd.org/australia/PAG2017-AUS.pdf>

⁷ <https://www.planning.nsw.gov.au/policy-and-legislation/housing/affordable-rental-housing>

⁸ <https://www.greater.sydney/central-city-district-plan/liveability/housing-city/providing-housing-supply-choice-and>

C. GLOBALISATION

Australian housing market is now global

During the global financial crisis 2007-09, Australia managed to continue growing but the downside is that we integrated our markets with the global economy and are now exposed to international demand, supply, liquidity and credit availability issues. Housing in Australia has been a haven and a safe bet over the last decade, so is attracting investment from around the world.

Credit Suisse analyst Hasan Tevfik says overseas buyers perceive Australian property as cheap when compared with their own country and also providing better returns. For example, Sydney landlords look for a 3% return, compared with Shanghai where yields average about 1.5%.⁹

High net immigration

In 2017, more than 162,000 permanent immigrants arrived in addition to 447,772 overseas students.¹⁰ In Sydney, immigration increased the population by 84,684 people (83% of the total increase of 101,558). For Melbourne, the growth from immigration was 79,974 people (64% of 125,424).¹¹

That in itself is not the problem; the problem is that both cities are already experiencing housing affordability and supply issues, so this compounds the problem, especially in Sydney where the geography is now preventing further greenfields growth and increasing densification is unsettling existing residents.

High net immigration may not be a problem if people are more evenly distributed around the country or other cities. However, with 80% of new jobs in Sydney created in the CBD, there is a reason why people need to stay close to the centre.

Casualisation of workforce

In the past five years since 2013, the number of full-time casual employees has increased from 10.6% (of full-time employees) to 12.1%. This is about 106,000 extra people working casually.

In the past 10 years since 2008, casual employment for under 25s has risen from 47% to nearly 54%.

This lack of wage security and ability to bargain for a wage rise, combined with an inability to afford holidays is having a major social impact.¹² This tends to result in an inability to secure a mortgage as well as rental applicants appearing to be less-appealing tenants, due to insecure income.

D. FINANCIAL

Tax policies (negative gearing, capital gains tax)

In January 1985, the Hawke/Keating (Labor) government legislated for negative gearing and capital gains tax, in theory to ease pressure on government to supply public housing and to stimulate the economy. In September of that year, capital gains tax was introduced – a separate tax but often related to negative gearing.

Negative gearing drives housing prices because it provides incentives for investors and tax relief for landlords. Economist Saul Eslake doubts politicians' willingness to change negative gearing because they will lose votes. About 100,000 people become home buyers each year, while more than two

⁹ <http://www.abc.net.au/news/2017-03-24/why-chinese-investors-keep-buying-australian-property/8385174>

¹⁰ https://internationaleducation.gov.au/research/International-Student-Data/Documents/INTERNATIONAL%20STUDENT%20DATA/2017/2017Nov_0712.pdf

¹¹ <https://www.businessinsider.com.au/australia-immigration-population-growth-sydney-melbourne-2018-4>

¹² <https://www.theguardian.com/business/grogonomics/2018/jan/16/we-should-be-concerned-about-the-casualisation-of-full-time-work>

million people own at least one investment property. Eslake points out that such owners do not want lower housing prices for non-property owners.¹³

Low interest rates

More than anything else, the availability of cheap credit has whetted the appetites of investors who, until recently, reaped massive returns on investment.

The perverse effect has been rising prices due to insatiable demand, so in the end people are paying more for the same thing because they can afford to. Unfortunately, low rates do not assist lower-income home buyers when the median price has already risen to \$1 million.

This gold rush in housing has also seen an extraordinary number of people enter the market as landlords, many of whom have no experience and sometimes no interest in being a landlord. Others, because they are already overextended in their financial commitments, may refuse to provide even basic repairs.

First Home Owners' grants & similar schemes

These schemes are politically popular but of little value as they fuel extra demand in markets that have limited supply, thereby forcing prices up accordingly. It is an easy way for a government to boast about their achievements in tackling affordability while the real result is a price increase straight into the pocket of the owner or developer.

Land tax

Land tax was initially designed to encourage large landowners to subdivide and therefore generate smaller lots for families to buy. With prices now beyond affordable for many families, land tax is now working against them. The current structure of land tax is also working against large institutional investment (think super funds). A progressively rising land tax on larger holdings makes super funds and other larger investors uncompetitive in comparison with small mum'n'pop investors. Similarly, companies considering build-to-rent schemes – where blocks of units are not sold nor strataed – are also facing large land tax bills.

Land tax, in NSW, is paid on the total value of taxable land above the threshold of \$629,000. The tax is \$100.00 plus 1.6% of land value between \$629,000 and the premium rate threshold of \$3,846,000. Thereafter, the rate is 2%.¹⁴

Home Building Compensation Scheme

The Home Building Compensation Fund (HCBF), previously known as Home Warranty Insurance, provides a safety net for home owners in NSW faced with incomplete and defective building work done by a builder or tradesperson.

Licensed contractors who take on residential work valued at \$20,000 or more need insurance cover through HCBF. They must obtain this cover before starting any work or taking any money under the contract, including the deposit. It is a good scheme to protect owners in case of disreputable builders.

However, there is an issue when this is also levied on affordable housing. Affordable housing is often developed by a registered community housing provider (CHP) and sometimes by private companies. These are build-to-rent and not for sale, often to higher quality standards to reduce long-term maintenance and to make them energy efficient and affordable to live in for prospective renters.

¹³ <https://www.news.com.au/finance/real-estate/simple-reason-negative-gearing-will-never-be-scraped/news-story/0718b841cd273ce6c8bca1306fd360d2>

¹⁴ NSW Government, Revenue Land tax <https://www.revenue.nsw.gov.au/taxes/land>

Ultimately, we have a situation where the builder or CHP can be insuring itself in case they go bankrupt. This is ludicrous apart from added expense, red-tape and a slowing of the whole building process.

Growth of SMSFs with investment house/s as the sole asset/s

Since 2007, Self-Managed Superannuation Funds (SMSFs) have been allowed to borrow up to 70% of a house's price, thus putting housing as an investment within the reach of most SMSFs. This brought a new class of investors into a market already fuelled by excessive demand. However, by the end of 2018, the four major banks had stopped writing new mortgages for SMSFs.

E. SOCIAL

Short-term letting platforms

Online accommodation platforms, such as Airbnb, are enabling tourists and short-term visitors to displace permanent dwellings in high-demand cities and worsening housing affordability for low-income groups.

Studies by two urban and regional planning professors at the University of Sydney, Nicole Gurran and Peter Phibbs, show that Airbnb rentals concentrate in popular tourists areas such as the City of Sydney and Waverley in the city's east near Bondi Beach.

Gurran and Phibbs have found that Airbnb rentals in Waverley are more than three times the usual vacancy rate in that Local Government Area – Airbnb rooms/beds as a proportion of total housing stock are 4% in Waverley, compared with the overall Greater Sydney rate of 0.9%.¹⁵

NIMBYs prevent medium-density housing

High-income, high-education, high-resource neighbourhoods have become associated with the Not In My Back Yard (NIMBY) syndrome.

NIMBYs are frequently found in inner- and middle-ring suburbs that are ideal for medium-density affordable housing such as six townhouses on an 800 sq m block. However, NIMBYs also tend to be very effective and very vocal at opposing such developments in the very suburbs best-equipped and situated for affordable housing.

In launching the Grattan Institute's report¹⁶ in March 2018, co-author John Daley said these 'relatively small mum-and-pop developers' can be 'vociferous' in their opposition to medium-density housing.¹⁷

F. SELF-INTEREST

Rising number of empty units: units/homes as piggy banks

On census night 2016, 11.2% of properties in Australia were recorded as unoccupied, some for good reason but many others because nobody actually lived there. It is estimated that about 10,000 apartments in the Sydney CBD are empty with many more in other parts of greater Sydney. Greater Melbourne's vacancy of 4.8% of 1.7 million homes means that the city has 82,724 homes vacant¹⁸.

¹⁵ 'When tourists move in: how should urban planners respond to Airbnb?', Nicole Gurran & Peter Phibbs, *Journal of the American Planning Association*, Winter 2017, Vol 83 No 1 https://www.tandfonline.com/doi/full/10.1080/01944363.2016.1249011#_i9

¹⁶ *Housing Affordability: re-imagining the Australian Dream*, John Daley and Brendan Coates, Grattan Institute, March 2018 <https://grattan.edu.au/wp-content/uploads/2018/03/901-Housing-affordability.pdf>

¹⁷ <https://www.afr.com/real-estate/housing-supply-nimbys-preventing-needed-mediumdensity-housing-grattan-says-20180302-h0wxnn>

¹⁸ Cashmore, Catherine, 'Speculative Vacancies 8 – The Empty Properties Ignored by Statistics' Prosper Australia, Dec 2015, https://www.prosper.org.au/wp-content/uploads/2015/12/11Final_Speculative-Vacancies-2015-1.pdf

A large part of this phenomena is due to the financialisation of the housing market, where housing becomes an investment class rather than providing shelter. Over the last decade, investors may have been able to realise a 10-15% return on investment without even having a tenant.

Many units will also attract a premium on sale if sold empty and unused. Banking regulations require mandatory reporting for deposits over \$10,000, however this is not extended to the property sector.

So there may also be other more sinister motivations in buying property and simply using it as a safe and secure bank vault. All this leads to a lack of supply of actual housing, especially if possibly 10% of our housing is taken up by nobody.

Size does matter

While the average floor size of the country's dwelling has decreased, Australians are still building the world's second largest homes overall (189.8 sq ms), behind the US (204.3 sq ms). The fall in size (down 2.7% on the previous year) is due to more apartments being built.¹⁹

The CommSec report's authors, economists Craig James and Ryan Felsman, emphasise that overall 'not only are houses far bigger than those built in the 1980s and before, but the standard of fit-out today is far superior with quality kitchens, bathrooms, floor coverings and inclusions like air-conditioners'.

Gentrification

Urban sociologist Ruth Glass coined the word gentrification in 1964 to describe the transformation of blighted, poor neighbourhoods into suburbs for upwardly mobile, cappuccino-sipping professionals. As the neighbourhood becomes more desirable, rents increase and the poor are forced out. Landowners profit from the unearned income of neighbourhood improvement.

Too many reports, not enough action

Australia's housing crisis is the subject of an increasingly long congo-line of reports, inquiries, recommendations from Federal and State Governments. Inquiries include:

- 2004 Productivity Commission – first home ownership
- 2008 Senate Select Committee – housing affordability
- 2014 Senate Economics References Committee – affordable housing
- 2015 Standing Committee on Economics – home ownership

Community housing providers spend time and money on preparing submissions to government inquiries. Think-tanks and academics study and publish extensively on the problem. Agencies such as Anglicare report yearly on rental (in)affordability. The Australian Housing and Urban Research Institute (AHURI) delivers research to government and housing industries. Conferences on homelessness and housing abound and proliferate.

The time has come, indeed it is past, to act on the now very-well-documented need for affordable housing. We do not need another report. We need action and we need it urgently. ###

¹⁹ CommSec Home Size Trends Report November 17 2017

https://www.commsec.com.au/content/dam/EN/ResearchNews/ECOReport.20.11.17_Biggest%20homes_size-fall.pdf