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INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

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1 INTRODUCTION

The McKell Institute welcomes the opportunity to respond to the NSW Legislative Council's *Social, public and affordable housing inquiry*. This submission commends the NSW Parliament for identifying housing affordability as an important area for policy development in 2014.

The McKell Institute officially launched in May 2012 with its inaugural report *Homes For All*. Since that time the Institute has been a contributor to the policy debate surrounding housing affordability.

This submission draws from the body of work previously compiled by the McKell Institute while also bringing new insights from the latest available data and research. The submission will examine the current state of play for the affordability of NSW's housing market while also outlining how rising house prices have negatively impacted Sydney's rental and social housing markets.

The submission seeks to make the social and economic case for increasing housing supply and improving affordability. Several recommendations are made on possible planning and tax reforms pursuable by the State Government, as well as the potential for government to pursue new schemes which will grow the social housing sector while increasing NSW's home ownership rates.

The proposed planning reforms focus on enhancing certainty for builders by introducing a broad system of code assessable development and reducing red tape during the planning approvals process.

The proposed taxation reforms will focus on reforming developer levies to reduce costs for first home buyers and facilitating the replacement of stamp duty with a broad based land tax.

Other recommendations involve a proposal to facilitate significant private investment into social housing stock through the use of Housing Supply Bonds as well as the implementation of a new means tested shared-equity scheme to allow a gradual progression into home ownership for low income households.

This submission calls on the State Government to increase its current housing targets in light of the significant housing shortage that was created between 2000 and 2010. Specifically, this submission calls for an increase in Greater Sydney's housing target to 35,000, inclusive of a specific target for growth in the social housing stock of 5,000 new dwellings per annum.

Together these recommendations will help remove Sydney's title as one of the world's most expensive cities in which to own a home. The expansion in housing supply will also provide substantial economic benefits through an increase in Gross State Product and the creation of thousands of new jobs.

2 THE CURRENT STATE OF PLAY

2.1 Sydney: Australia's most expensive city, and rising

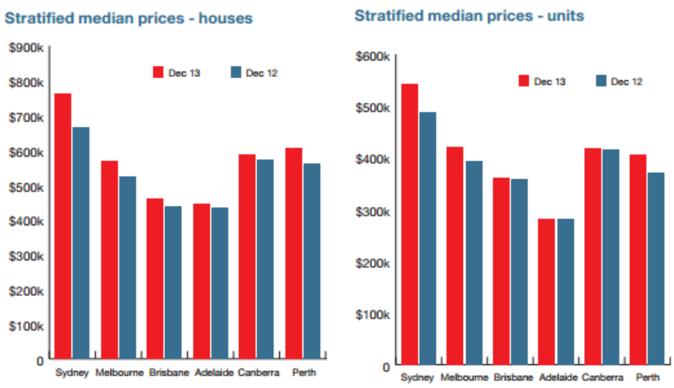
According to the latest Demographia International Housing Affordability Survey, Sydney is the fourth most unaffordable city for home buyers after Hong Kong, Vancouver and San Francisco.[1]

The Demographia survey calculates its affordability "median multiple" ranking by dividing the median price of a house in each city by the median household income of that city. The long term international benchmark for housing affordability lies between two and three times the median household income – median multiples above 5.1 are considered "severely unaffordable". In the United States it now takes 3.5 times the median household income to purchase a median priced house, while Canada, the United Kingdom and Singapore have median multiples of 4.5, 4.7, and 5.1 respectively.[2]

In comparison, it takes 6.7 times the median income to buy a home in Australia, and with a median multiple of 9.0, Sydney is the nation's most unaffordable city.[3]

According to the latest Australian Property Monitor (APM) data (Fig 2.1.1), Sydney now has the most expensive houses and units as well as the fastest growing house and unit prices. Sydney's median house price ($763,169) is now 28% above the national capital city median house price ($597,596) while the median unit price in Sydney ($541,992) is now 18% above the national median unit price ($458,906).[4]

Figure 2.1.1 Australian Property Monitors House Price Report December 2013



Despite already having Australia's most expensive housing, Sydney has experienced stronger price growth than every other major Australian city. The median house price in Sydney increased by 15.1% (or just over $100,000) in 2013 compared to the average growth rate of 9.8% for Australia's other capital cities, while median unit prices increased by 10.9% versus a national capital city average of 8.0%.[5] It is worth noting that in the final quarter of 2013, Sydney median house prices increased by approximately $274 each day – more than the average daily income in NSW of $208 a day.[6]

In other words, property holders have earned more income from capital gains each day than the average NSW employee earns through working. This trend shows little sign of ending with Sydney experiencing the strongest growth of every capital city for median house and unit prices in the final quarter of 2013.[7]

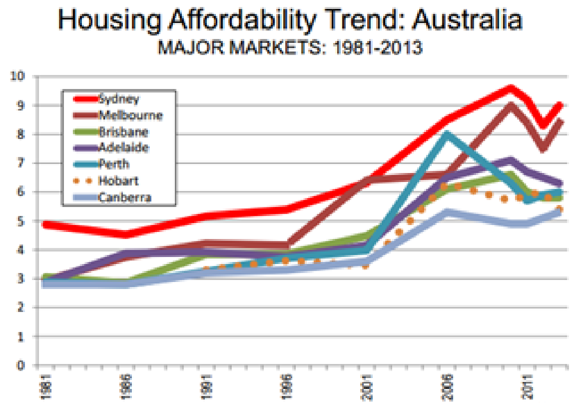
While forecasts vary, Sydney dwelling prices are highly likely to continue to grow at a faster rate than both inflation and household income.

APM has forecast a further 7% growth in Sydney dwelling prices through 2014;[8] AMP has forecast an 8% increase;[9] McGrath forecasts growth of between 5%-10%;[10] and SQM predicts growth of 15% to 20%.[11] The midrange of these estimates is a 10% increase, which would increase the median house price to approximately $840,000 and the median unit price to just under $600,000.

Over the next three years, BIS Shrapnel predicts house price growth of 19%, which would take the Sydney median house price to just under $910,000 while the median unit price would rise to around $645,000.[12] In contrast, the Australian Treasury's David Gruen has indicated that real household income growth will slow to just 1% per annum over the next ten years[13] whereas the Productivity Commission is forecasting average annual growth of 1.1%.[14] This indicates that even under the most conservative assumptions, the median multiple measure of affordability is likely to deteriorate further for Australia and for Sydney especially.

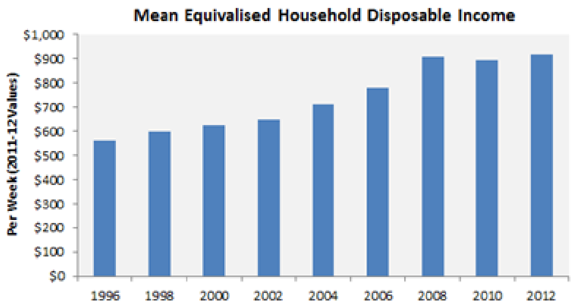
As Sydney's median multiple edges upwards towards 9.5 or even 10, it is worth noting that for almost all of the 1980s, Sydney's median multiple remained between 4.5 and 5.[15] It is only since 1996 that Sydney's house price growth began to sharply outpace income growth.

Figure 2.1.2 Demographia 20th International Housing Affordability Survey 2014



This has occurred despite strong real income growth in the decade preceding the Global Financial Crisis (GFC). Strong income growth normally heralds a reduction in house price to income ratios – this has not happened in Australia.

Figure 2.1.3 ABS Cat 6523.0 Household Income and Income Distribution, Australia, 2011-12

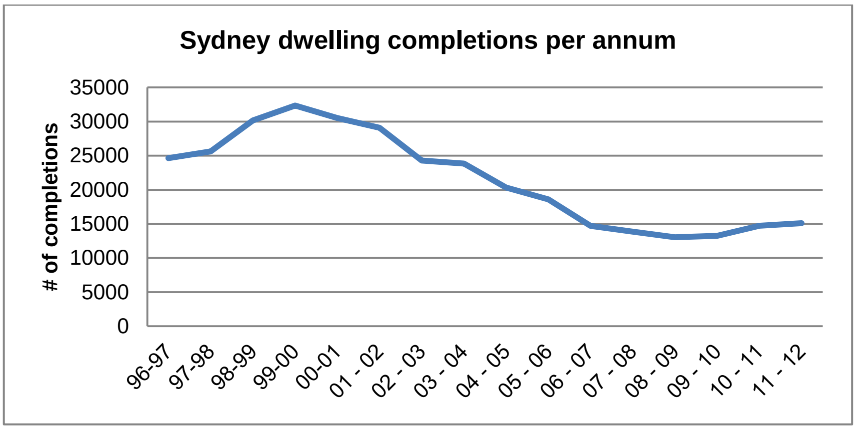


The fact that Sydney's price-to-income ratio has increased despite rising incomes indicates that Sydney's housing market is experiencing a serious affordability crisis.

2.2 The decline in housing completions and worsening vacancy rates

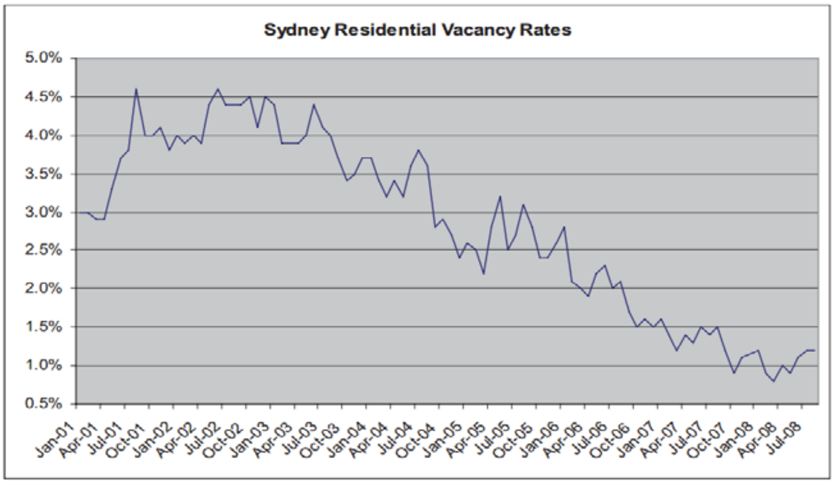
The single largest contributor to high house prices has been a decline in housing construction since the beginning of the 2000s. Sydney's new dwelling completions between 2006 and 2011 averaged just 13,916[16] – down from an average of 23,232 between 2001 and 2006, and down further on the 28,660 new dwellings averaged in the five years prior to that.[17]

Figure 2.2.1 NSW Metropolitan Development Program Annual and Quarterly Reports & Applied Economics report: Residential Building Activity in Sydney 2010



The National Housing Supply Council (NHSC) estimated that between 2000 and 2010, Sydney had accumulated a total housing shortage approximating 73,700 dwellings.[18] This decline in dwelling completions across this period was eventually followed by a decline in rental vacancies.

Figure 2.2.2 SQM Residential Vacancy Rate Data 2001-2008



The high level of dwelling completions delivered between 1996 and 2001 provided a buffer of new rental supply that kept vacancy rates at higher levels for a short period of time following the dwelling completions peak. However, significant declines in completions beyond this period have led to an eventual decline in rental vacancy rates, a trend that continues to this day.[19]

A rental market is considered to be in balance (neither favouring tenants nor landlords) when it has a vacancy rate of 3%. Vacancy rates that remain persistently below 3% tend to result in upwards pressure on rental prices.

According to SQM, Sydney's vacancy rate in January 2014 was 1.7%.[20] This is significantly below other comparable cities such as Melbourne, which has a vacancy rate of 2.9%.[21]

The McKell Institute notes that the period between 2006 and 2011 saw significant stagnation in Sydney's housing market.[22] During this period, the NSW Government oversaw a level of housing delivery that fell well short of its own Metropolitan Strategy 2036 (Metro 2036) targets.[23]

Specifically, Metro 2036 called for 23,300 new dwellings to be built across Greater Sydney each year between 2006 and 2036.[24] However, between 2006 and 2011 only 69,851 dwellings were delivered – a shortfall of 46,919 homes, or approximately 40% less than required under the Metro 2036 target.[25]

3 THE TRICKLE-DOWN CONSEQUENCES OF SYDNEY'S HOUSE PRICES

The lack of new housing supply has pushed prices in Sydney to unaffordable levels. This has left many young households renting longer than they otherwise would, which in turn has resulted in more households competing for an insufficient stock of rental housing.

This has led to what the NHSC deems to be a shortage of affordable and available rental property, which has resulted from the majority of available and affordable rental property stock being allocated to the most financially well off, while lower income, or less ideal tenants face growing difficulties in obtaining affordable rents.[26]

These consequences form part of a 'trickle-down' impact of high house prices on society's most disadvantaged and vulnerable. High house prices affect more than just those who are interested in purchasing a property. Instead, the impact of expensive housing has cumulative negative impacts that grow as they trickle-down from Sydney's middle income earners to those who rely on public housing and government welfare for survival.

3.1 The 'silo mentality' and housing policy

There is just one housing market in Sydney. Although at face value this seems to be a statement of the obvious, discussion on housing in Sydney and across Australia is often artificially divided into separate components, which the McKell Institute has previously dubbed a 'silo mentality'.[27] The silo mentality of public policy, whereby one policy challenge is focused on to the exclusion of all others, has infiltrated the discussion of housing and housing policy.

In recent years the issue of housing at both a State and Federal level has been divided into various portfolios and held by different Ministers including Housing, Planning, Social Housing, Community Housing, Indigenous Housing, and Population and Communities. Although the silo mentality also exists in broader public debate, it is generally divided into four categories within the housing market:

- The private ownership market;
- The private rental market;
- Public or community housing; and
- Emergency housing and homelessness.

While the policy settings, challenges and regulations are different for each aspect of the housing market, they nevertheless form one market and thus have a significant impact on each other. The consequences of high house prices on one section of the housing market invariably affects other sections, often far more disproportionately.

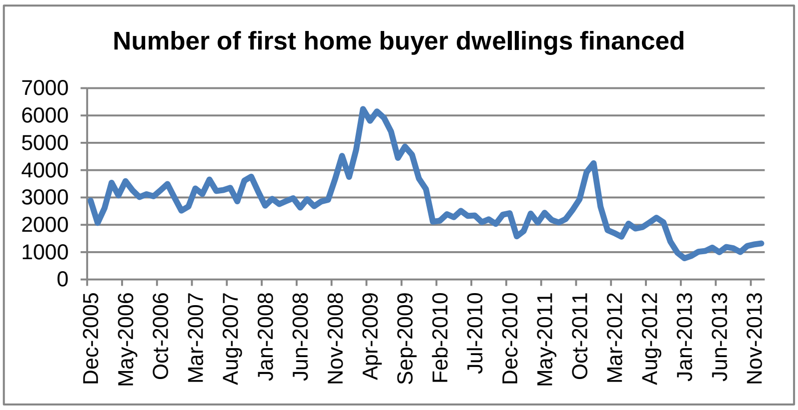
3.2 The impact of housing unaffordability on first home buyers …

Currently, the majority of financial institutions are reluctant to provide home loans without deposits of at least 20%.[28] Although loans are able to be secured for lower deposit rates on the condition that a first home buyer accept additional fees and/or higher interest rates on their mortgage, this submission notes that even a 10% deposit on a median priced apartment would cost a first home buyer more than $50,000 in upfront costs. In contrast, a 20% deposit for the same apartment would require approximately $108,000. This is a substantial amount of money, particularly if the first home buyer is renting while saving for a property.

These and other upfront costs are exacerbated by the fact that for most first home buyers, stamp duty is also payable on top of the deposit. Although some first home owners can receive grants of up to $15,000 on the provision that they purchase a newly constructed home, the reality is that very few have been willing or able to do so.[29]

This is reflected in the levels of first home buyers financed in Sydney, which fell from a peak of 4256 in December 2011 just before the new restrictions came into force, to 1321 in December 2013.[30] Since the introduction of the new policy, first home dwelling finance has remained well below the long term average.

Figure 3.2.1 ABS Cat 5609.0 Housing Finance, Australia, Dec 2013



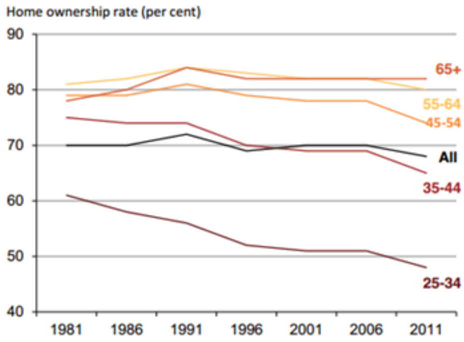
3.3 Which impacts renters …

As they attempt to purchase a new home, many first home buyers simultaneously live in rental property and incur the ongoing cost of rent. Unfortunately, the implication of higher housing prices is that mortgage repayments are inevitably higher. This is likely to result in the exclusion of many would-be home owners on the basis that their personal income is insufficient to meet minimum repayment obligations.

This factor is another crucial reason that younger households are kept out of home ownership for longer, and are forced to remain in the rental market for longer than they would were housing more affordable. This has been thoroughly researched by Judy Yates at the University of Sydney and reported in a recent Grattan Institute report, which noted the following:

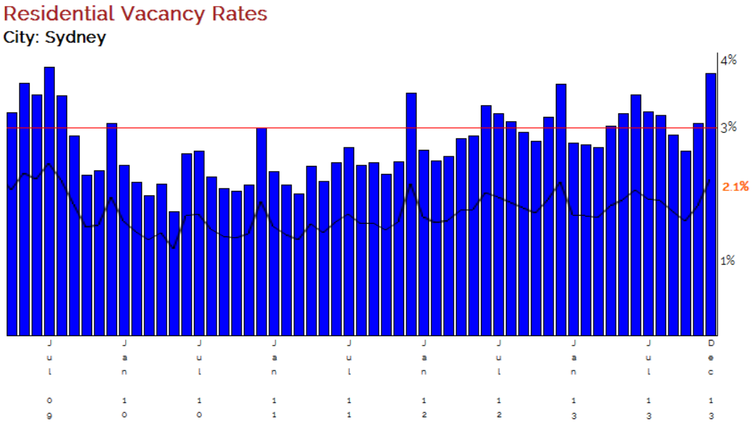
> Ownership rates have always been lower for younger households. Historically, home ownership rates have increased amongst each cohort as people age. While this general trend has persisted, since the 1980 and 1990s ownership rates have started to fall for all but the oldest households. The largest declines are among households in the 25-44 year bracket.[31]

Figure 3.3.1 Grattan Institute, Renovating Housing Policy, 2013, sourced from Yates (2011)



The fact that younger generations of Sydneysiders spend longer periods renting is one of the many reasons that Sydney's vacancy rate remains well below 3%,[32] the level where a market is considered balanced and neither in favour of landlords or tenants. Because the number of renters outweighs the existing levels of rental stock, Sydney's vacancy rate has remained below 2% for some time, increasing upwards pressure on rental prices.[33]

Figure 3.3.2 SQM Residential Vacancy Rate Data 2009-2013



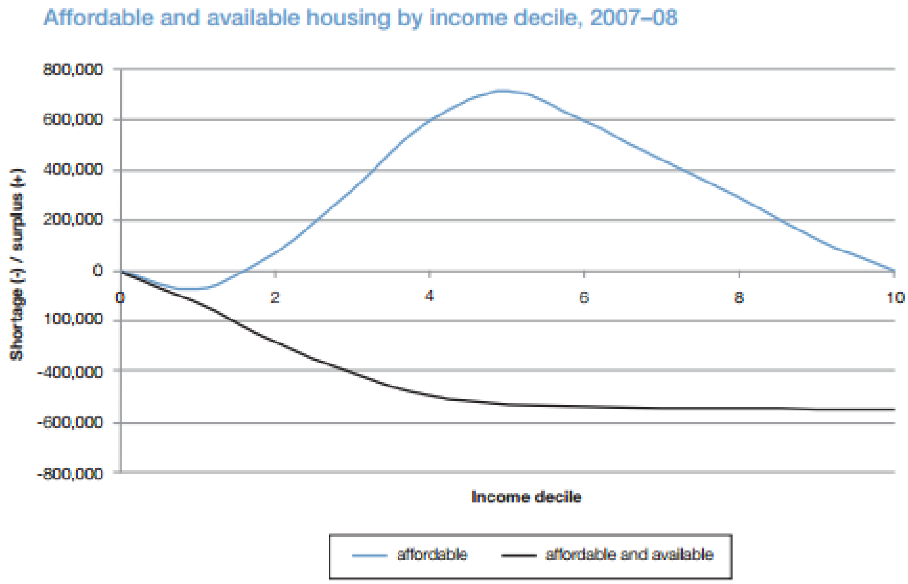
3.4 And in turn impact upon low income earners …

Low rental vacancy rates have a further trickle-down impact that affects individuals with low levels of income.

In its 2010 report,[34] the NHSC identified that Australia currently has a surplus of affordable rental properties for the lowest 40% of income earners. However, this surplus was entirely consumed by higher income earners who were willing to pay higher levels of rent than advertised in order to secure a property. The NHSC calculated that in 2007-08:[35]

- For the 1,067,000 private renter households with incomes below the 50th percentile, there were 1,777,000 affordable private rental dwellings;
- Of the dwellings affordable for private renters with incomes below the 50th percentile, 1,237,000 were occupied by households in higher income percentiles. This changed an 'apparent surplus' of 710,000 affordable dwellings to a shortage of 527,000 affordable and available dwellings; and
- Overall, 70% of all private rental dwellings affordable to households with incomes below the 50th percentile are not available to them because they are occupied by households in higher income percentiles.

Figure 3.4.1 National Housing Supply Council, State of Supply Report, 2010



Considering that there has been a marked increase in rental costs since 2007, it is highly likely that the shortage of affordable and available rental properties has become more acute in subsequent years. Furthermore, it is likely that the vast bulk of the shortage will exist within Sydney where rental prices are the highest in the nation.

At a state level the extent of this shortage and its potential impact on rental stress levels is unclear. Accordingly, it would be worthwhile for the NSW Government to conduct new research on the level of affordable and available rental shortage that exists within the state using the same methodology as that applied by the NHSC.

Housing NSW compiles data on the proportion of housing stock that is affordable for purchase and rent by different income demographics as part of its Local Government Housing Kit Database. This data shows a significant decline in the proportion of rental stock that is affordable for individuals on moderate, low, and very low incomes within Greater Sydney.

In June 2001, 68.5% of rental stock was available for household with moderate incomes, 33.6% was available for households with low incomes and 8.9% was available for households with very low incomes. By September 2013, only 53.2% of rental stock was available for individuals on moderate incomes (down 15.2% on 2001 levels), 12.8% was available for households with very low incomes (down 20.8%), and just 2.8% was available for households on very low incomes (down 6.1%).[36]

The decline in affordable and available rental stock comes at the same time as a decline in the level of affordable and available housing stock for purchase by low to middle income households in Greater Sydney. Between June 2001 and September 2013, the proportion of housing stock available for households on moderate incomes declined from 35.7% to 16.1%, while for low income households the proportion of stock that was affordable declined from 9.2% to 1.3%, and for very low income households the decline was from 0.9% to 0.0%.[37]

The evidence not only makes clear that high house prices have prevented younger generations from obtaining home ownership for longer periods, but also that this decline in ownership rates has created circumstances in which lower income households are now finding it harder to secure affordable rental housing, as would-be home owners absorb almost all available rental stock.

To secure rental housing, low income households are essentially forced to spend a larger proportion of their income on rental costs, leading to higher levels of housing stress for both low and middle income households.

This was reported in the COAG Reform Council's 2011 performance report in relation to the National Affordable Housing Agreement, which found that 57% of NSW's low income households renting in the private market in 2007-08 experienced 'rental stress' – namely, circumstance in which more than 30% of household income is absorbed by rent.[38]

Similarly, Australians for Affordable Housing (AAH) analysed data from the National Centre for Social and Economic Modelling (NATSEM) in 2009-10, and found that 59% of NSW Rent Assistance recipients faced the challenge of rental stress.[39]

Figure 3.4.2. Australians For Affordable Housing, Housing Costs through the Roof, 2011

Renters	Sydney		NSW	
	Number	Percentage	Number	Percentage
Renters in housing stress who receive Commonwealth Rent Assistance (most in receipt of pensions or allowances)	34,787	58%	78,818	59%
All other renters	72,071	20%	101,383	19%
Total renters in housing stress	106,860	25%	180,201	27%

3.5 Of which welfare recipients suffer disproportionately …

Although low income households disproportionately suffer from high home prices, the upward pressure on high rental prices has yet another trickle-down effect, with higher market rents effectively expanding the gap between regular market rents and social housing subsidised rents even larger.

The median market rent for a Sydney house is currently $500 per week, while the median market rent for a Sydney unit is $480.[40] If a social housing project sponsored by the National Rental Affordability Scheme (NRAS) can offer subsidised rent at 25% below those rates, then a median NRAS priced house would be $375 a week while the median unit would be $360. This means that the gap between what a Sydneysider pays in social housing and what they would pay for the median market rent is, respectively, $125 for a house and $120 for a unit. However, in Melbourne, where the cost of renting is lower than in Sydney, the gap between NRAS rent and median market rent is closer to $90 for both houses and units.[41]

This gap is important – the larger the difference between a subsidised social rent and the market rent, the more disincentive there is for a renter in social housing to move into the private rental market as their situation improves.

A similar trickle-down problem arises with public housing. Australia's Future Tax System Review (The Henry Tax Review) identified that the current rule capping public housing rent at 25% of an individual's income provides public housing tenants with a larger subsidy than they would receive if they were in social or private housing.[42] When low-income households often need to spend 50% or more of their income on meeting rental obligations in the private market, the financial disincentive to exiting public housing is prohibitively strong.

The Henry Tax Review also noted that this gap has contributed to tenants remaining in public housing for longer than they otherwise might want to, which in turn contributes to longer waiting times for potential public housing users[43] – currently, the public housing waiting list in NSW has over 57,000 applicants, with most areas of Greater Sydney showing waiting periods of 5 to 10 years in length before an applicant can successfully access public housing.[44]

3.6 Leading to overcrowding and homelessness

The shortage of available public and social housing has led to a dramatic increase in overcrowding and homelessness.

This submission notes that when families and friends can't afford to own or rent their own home, they are often forced to live together under one roof.

According to the latest Census data, people living in 'overcrowded houses' - defined as three bedrooms short of what would be required to adequately house people - increased by 56% in Sydney between 2006 and 2011.[45] At the same time, people living in 'severely overcrowded' houses – defined as four bedrooms short of what would be required to adequately house people – increased by 76%.[46]

In combination, the number of Sydneysiders living in either crowded or severely overcrowded homes increased by around 62% from 16,413 in 2006 to 26,547 in 2011.[47]

However, not everybody has the option of crowding into houses with family and friends. Australia's 2011 census showed that total homelessness in NSW increased by 27% between 2006 and 2011 while the ratio of homeless people per 100,000 individuals increased from 33.9 to 40.8.[48]

3.7 The impact of the trickle-down effect

The consequences of the housing affordability trickle-down effect are clear. High house prices make it harder for younger generations to enter home ownership. This pushes down vacancy rates, which in turn pushes up rental prices. This then puts low income households into rental stress while also creating substantial disincentives to moving out of social and affordable housing as well as public housing. Finally, this effect contributes to a build-up in demand for these more affordable housing options, and for those who are unable to secure such accommodation, homelessness becomes a very real likelihood.

This is why housing affordability must be addressed – although all who are locked out of the housing market face significant disadvantage, the pain of housing unaffordability is too often left to trickle down to the poorest, most vulnerable members of the community.

4 OTHER NEGATIVE IMPACTS OF HIGH HOUSING PRICES

Sydney has not only historically been Australia's leading capital city, but also a leading regional capital in South East Asia. The Barangaroo development will form the newest hub of Sydney's financial services sector,[49] consolidating the city's leadership position within Australia and rivalling other financial headquarters in the Asian region.

However, if the state is unable to adequately house and transport its residents, Sydney will continue to see rival capitals such as Melbourne, Brisbane and Perth attracting new residents and seizing economic opportunities.

The foundations for such an exodus may already be occurring.

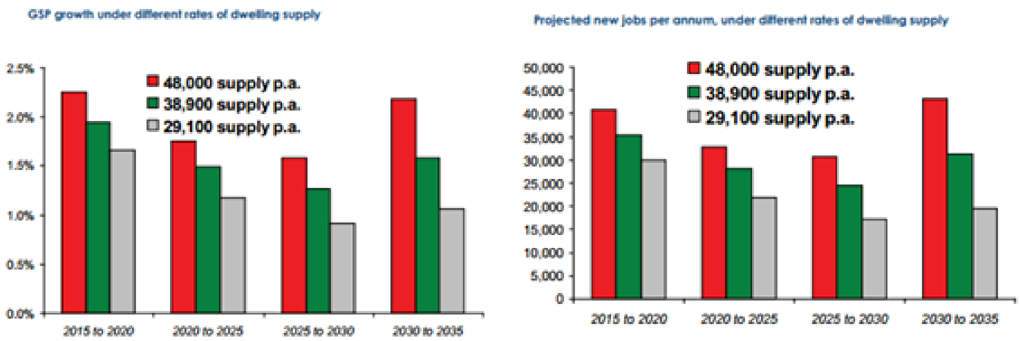
A McKell Institute survey revealed that a quarter of Sydney residents would prefer to live in another state, key drivers for this disenchantment being housing costs, congestion and cost of living pressures.[50] Over the five years to June 2013, over 486,000 New South Wales residents have left the state, while 411,000 have moved to New South Wales – a deficit of over 75,000 residents in the last five years.[51]

Bad housing policy is also bad economic policy. Between 2007 and 2010, Melbourne approved 106,000 homes, or 36% of all housing in Australia's capital cities. By comparison, over the same period Sydney approved 52,000 homes – just 18% of the total.[52]

The economic consequences of this deficit can be seen in the decline in Sydney's contribution to Australian gross domestic product (GDP) and the rise of Melbourne's. During the 1990s, Sydney's share of Australian GDP averaged 26.3% while Melbourne averaged 15.3%.[53] Between 2000 and 2010 Sydney's contribution had declined to 14.7% while Melbourne's contribution rising to 18.6%.[54]

An Urban Taskforce/BIS Shrapnel report estimated that boosting the housing supply in Sydney and NSW more broadly would have several positive impacts on gross state product (GSP) and job creation.[55]

Figure 4.1.1 Urban Taskforce & BIS Shrapnel, Going Nowhere, 2010



Urban Taskforce/BIS Shrapnel estimated that the difference between Sydney delivering 17,000 houses per annum and delivering 31,000 equates to approximately $400 million in additional GSP, and would increase annual state growth from an average of 1.2% per annum to around 1.9% per annum between 2015 and 2035. This additional housing supply would also add approximately 15,000 jobs to the economy every year.[56]

The boost in GSP, the boost in jobs and the boost in productivity that would come from increasing our housing supply all inevitably leave Sydney residents wealthier and better off. As such, action must be taken to fix Sydney's housing crisis, not only in the interests of the next generation of Sydneysiders, but in the state's current economic interests.

5 RECENT IMPROVEMENTS

This submission notes that there has been a significant improvement in dwelling construction over the past few years. Throughout 2013, Greater Sydney delivered 21,573 new dwellings, a 55% improvement on the five year average between 2006 and 2011. Furthermore, in the six months between July 2013 and December 2013, Greater Sydney approved 20,447 new dwellings.

If these levels of dwelling construction are replicated across the first six months of 2014, new approvals for the financial year will reach 40,000 dwellings, an impressive achievement in its own right. If these numbers do eventuate, it is conceivable that completions could return to the higher levels seen between 1996 and 2001.

While the number of completions and approvals is increasing, housing supply must continue to grow substantially in order to ensure that supply is able to not only keep up with demand, but also to pay down the housing shortage that has accumulated since the year 2000.

Based on the NHSC's calculated shortage for 2010,[57] its mid-range estimates for new dwelling demand between 2010 and 2014,[58] and recorded housing completions between 2010 and 2014,[59] the McKell Institute estimates that the existing housing shortage across NSW sits at approximately 100,000 dwellings. The NHSC's mid-range estimate for new demand in Sydney would require 42,000 new dwellings delivered across the state every year. The majority of these would need to be in Greater Sydney. Dwelling completions have remained far below these levels.[60]

In order to facilitate sufficient supply to accommodate both the predicted level of demand and to reduce the existing housing shortage, the McKell Institute suggested in its *Homes for All* report a target of 35,000 houses per annum for Greater Sydney.[61]

6 WHY HOUSING POLICY AND HOME OWNERSHIP MATTERS

The Henry Tax Review has made a strong argument for why housing matters:

> In its myriad forms, housing provides shelter, security and a savings vehicle to millions of Australians. Adequate shelter is fundamental not only in meeting basic human needs, but also in providing a base from which to develop individual capabilities, to raise a family and to participate in the community and the workforce…
>
> …The value of housing derives from more than the day-to-day shelter it provides…the security of tenure associated with home ownership provides an additional benefit over and above physical shelter. In many areas, a stable base of home ownership underpins social integration. Home ownership can benefit not only homeowners, but their communities too…
>
> …As well as providing vital services to individuals and communities, housing also forms a large share of Australia's savings. Houses are built to last — many people work hard to pay off their house during middle age, in order to ensure they have access to accommodation with no cash payment obligations when they are old. As a form of savings, housing has additional benefits over other savings vehicles because it not only acts as a store of value, but also reduces exposure to fluctuations in rental costs. In particular, those on fixed incomes are insulated from housing cost fluctuations, ensuring that other necessities like food or energy are affordable and they are protected from the risk of poverty.[62]

Full home ownership is a worthy objective for all Australians, as it allows individuals to eliminate the cost associated with ongoing rent – a huge cost burden that will be difficult to meet upon retirement. A recent National Seniors Australia report into the financial status of Australia's seniors noted the following:

> The decline in the proportion of homeowners and home buyers among low-income senior households, and the resultant increase in the proportion of renters, is also a concern. Rents increased 33% from 2006 and 2011, but it is difficult for people to avoid rent increases by moving to cheaper accommodation because there is strong demand for low-cost housing, and moving house is expensive. Therefore, people have almost no control over the amount of rent they pay. Rent is the second largest expense for the lowest-income (Q1) households (Table 9) and any increase in rent will have to be paid for by spending less in another area. For seniors in the lowest-income quintile, almost all their spending is on essentials, so if their rent increases the only possible options may be eating less or heating less.[63]

Many of today's seniors face financial difficulty in part because they do not benefit from a lifetime of access to today's superannuation system. However, for Australians currently in the workforce, superannuation remains unlikely to fully fund their retirement costs.

A recent MLC Wealth Sentiment Survey noted that one-third of Australians expect to face a large shortfall at retirement, with a further quarter forecast to become cash-poor once they stop working.[64] For these Australians, having to manage ongoing rental costs into their retirement at a time when their existing superannuation balances are unable to provide an adequate retirement income is an unacceptable state of affairs.

Given that it is unlikely the compulsory superannuation contribution will be lifted to 15%, it is necessary to ensure that house ownership rates remain high. Accordingly, an appropriate policy objective is needed to help minimise the risk of retirees' superannuation incomes being absorbed by higher rental prices. The risk of this scenario occurring is especially high in Sydney, given that median rents are substantially above other capital cities.

To ensure that superannuation will achieve its policy goal of providing adequate retirement income for Australians, it must be matched with another policy goal of ensuring that as many Australians as possible are able to enter home ownership. This is made more difficult while house prices and rental prices are high.

7 FACILITATING PRIVATE INVESTMENT INTO SOCIAL HOUSING

7.1 Shared ownership solutions

To help facilitate this objective for individuals on lower incomes, this submission recommends that the NSW Government consider adopting the West Australian Government's SharedStart shared home ownership model program.

Under the SharedStart model, first home buyers in WA can purchase an equity stake in an off-the-plan Department of Housing dwelling. SharedStart provides two joint ownership loan options for eligible applicants, under either a fixed or flexible equity option, with the flexible equity option offering incentives for borrowers to increase their equity to full ownership of the property over time.[65]

By recycling capital from the partial sale of new homes into the construction of additional dwellings, the WA Government has been able to stimulate new construction in the housing industry while keeping overall costs low.[66]

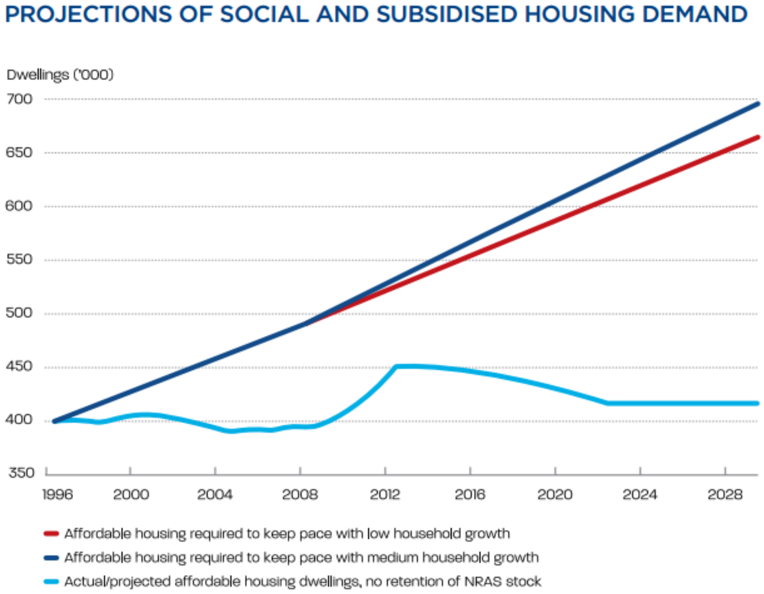
Under the WA model, public housing tenants are also able to purchase their current home in a similar manner. The policy is important in order to progress an individual's housing career from renting to owning even at the lower end of the income spectrum.

This submission notes that home ownership may never become a reality for many individuals. It is unrealistic to expect that all Australians can eventually own their own home, so for those Australians who are unlikely to ever move beyond renting, it is also vital that sufficient affordable rental options are available to meet demand.

7.2 Room for social housing bonds

The NHSC calculated that should the NRAS program begin to wind down, then the national shortage of public and social housing will reach almost 250,000 dwellings by 2028.[67]

Figure 7.2.1 National Housing Supply Council, State of Supply Report 2011



Former Federal Minister for Social Housing and Homelessness Mark Arbib has stated that despite the Federal Government spending $10 billion in the decade prior to the GFC, the gap between demand and supply in public and social housing was still allowed to grow.[68] Even at the height of the GFC, when the Federal Government used stimulus funds to deliver a massive expansion in public housing, supply was unable to significantly address this shortage.

Considering the current state of the Federal Budget and the desire of the Federal Government to reduce debt levels, it is unlikely that such an expansion of public housing will occur again, and it is unrealistic to expect state governments to entirely meet the cost of closing that shortage on their own.

The most realistic and appropriate response is to leverage new private sector investment into social housing. The Australian Housing and Urban Research Institute (AHURI) has undertaken considerable research into how new Housing Supply Bonds (HSBs) could be to leverage private investment into social housing.

A recent AHURI report described how the model of Housing Supply Bonds could work in Australia.[69] Specifically, the HSB proposal incorporates a combination of public funding including direct subsidies, and private bonds that are indirectly subsidised through tax incentives and government guarantees. The report explained that:

> HSBs are designed to reduce the cost of funding available for community housing providers below that which is currently available and, thereby, to enhance their capacity to increase the supply of affordable housing
> …
> The HSBs proposed are intended to provide a standardized instrument for retail and institutional investors, to encourage investment in affordable rental housing and to keep at arm's length the respective roles of investor in, and provider of, affordable housing. The bonds are issued by an intermediary, not by individual providers, in order to achieve this standardisation. The funds raised are then on-lent to providers. It is proposed that only regulated providers of publicly approved projects should be able to apply for finance raised by these bonds to ensure that clearly defined policy targets are met.
> …

> The capacity of government to facilitate the supply of affordable housing in a meaningful way via the suite of bond instruments outlined below is strengthened by the strong financial position of the Australian Government, with its internationally low debt to GDP ratio.[70]

Substantial work on the potential for housing bonds to facilitate new investment in social housing has already been completed by AHURI and could easily inform the Inquiry's response to the question of leveraging new investment into affordable and social housing.[71]

7.3 Improvements to the community housing sector

Finding retail or institutional investors willing to partner with community housing providers to deliver social housing is just one part of the puzzle. Policymakers must also ensure that the community housing sector is appropriately resourced and structured to deliver the significant expansion required in affordable social housing into the future.

The McKell Institute's *Homes For All* report made a number of recommendations regarding the growth of the community housing sector in NSW:[72]

> ACTION 31.
> That the Department of Housing plans accordingly for a significant program of stock transfer (with full title) and the managed growth of the Community Housing Provider sector.
> …
> ACTION 33.
> That the community housing sector and the Department of Housing need to collaborate to grow the capacity of the sector quickly and well, and that this will require regulation and subsidies to be targeted at creating fewer but better, larger Community Housing Providers, with the resources and skills to take on the new stock, attract new private funding and become a significant developer of new stock.
> …
> ACTION 35.
> That this may require that the State provides an implied guarantee that no regulated provider will be allowed to go bankrupt - bearing in mind that such an approach in the UK has seen no provider fail in more than 40 years of the regulatory regime which has levered in more than one new private pound extra for every public pound invested through subsidy, doubling the number of homes built for the public buck while enabling a million homes to become 'decent'.
>
> ACTION 36.
> That the new regulator or the Department of Housing work with the Community Housing Providers and the banks to create structures such as the Housing Finance Corporation in the UK or other similar bond financing structures such as those in Austria, to enable low cost long term bond finance to be available for affordable housing providers and products in Australia.
>
> ACTION 37.
> That a review should be undertaken by the State Government of what will secure new investment in new affordable housing products and private rented supply of scale and quality, from for example institutional investors, pension funds or superannuation funds.
>
> ACTION 38.
> That out of the process of stock transfer, the growth of the Community Housing Provider sector and the attraction of new private finance will come new business models of housing companies, both not-for-profit and for profit. Their goal will be to build a spectrum of affordable housing at sub-market rents, new private market rented accommodation, shared equity and homes for sale so as to avoid mono-tenure development, concentrations of disadvantage and a reproduction of the problems of social housing – and to contribute to an increase in supply of homes.

These recommendations remain valid in 2014.

8 NEW PLANNING REFORM STRATEGIES

There are a number of other policy measures that can be implemented to help improve housing and rental affordability in NSW while also helping to ensure that housing supply is relevant to the needs of everyday Australians.

8.1 Sensible planning laws

New housing supply can also be facilitated through sensible planning reforms. This submission commends the NSW Government for its holistic approach to planning reform. Many of the original recommendations from the *Homes For All* report were recognised in in the planning white paper and draft legislation.

This submission also commends efforts by the NSW Government to broaden community participation at the beginning of the planning process while also streamlining the approvals process towards the end of the planning process.

As the future shape of planning reforms is still to be determined, this submission would like to reaffirm its support for the following recommendations contained within *Homes For All*:[73]

> ACTION 6.
> That the State Government have the reforming zeal and bravery to use the review of the planning system to replace the current Planning Act, which is a NIMBY's charter, with one that enables the homes and infrastructure we need to be built and that a global city needs to function. To this end the State Government should design a new Act based on COAG's Guiding Principles for the Review of Capital Cities' Planning Systems.
>
> ACTION 7.
> That the new Planning Act identifies a clearly defined hierarchy of plans with more statutory weight given to metropolitan and regional plans that contain policies to support housing, manage population growth, increase productivity and deliver economic growth.
>
> ACTION 8.
> That the NSW Department of Planning review the impact on dwelling prices and housing supply in Sydney of existing or future policies and regulations which, whatever their other merits, restrict land supply and development – such as percentage targets for housing development on Brownfield vs. Greenfield sites, SEPPs, and BASIX.
>
> ACTION 9.
> That as part of the reform of the planning system and its operation by councils and other planning authorities, the transaction costs, complexities and delays of making a development application should be reduced dramatically to improve returns for residential developers, to encourage new entrants to the housing delivery market and ultimately to increase both the quantity and diversity of housing built.
>
> ACTION 10.
> That the State Government takes decisive action to improve public sector coordination to speed up referral to, and approval processes by, the myriad of state departments and agencies.
>
> ACTION 11.
> That while some Big City thinking and reforms will be required to turn planning in Sydney from a barrier to development to an enabler, two minor reforms will have a big impact: the return of dual occupancy with suitable design guidelines in place as a proper response to enable infill development in existing areas; and a new State Environmental Planning Policy to allow small sub-divisions in areas within walking distance of a railway station or other transport node to be exempt development, again subject to compliance with suitable design guidelines.

8.2 Code assessable development

Another key policy that NSW should adopt from Queensland is a move towards a more objective code-assessable approach to development applications. This would enable development that conforms to the statutory plans to proceed without unnecessary delays.

This submission notes that the proportion of development proposals which are approved under codes in NSW is currently around 27% and that the Government is seeking to implement reforms to increase that coverage to 80%.[74] This would bring NSW into line with the code assessment regimes in Queensland and Victoria. Whilst not recommending a specific target for code assessable coverage, this submission does view the current level of 27% as too low.

8.3 Holistic approaches to planning approvals

Another key recommendation of the *Homes For All* report involved adopting a more holistic approach to planning approvals in order to reduce uncertainty for builders. Specifically, the report concluded that:[75]

> In addition to subjecting development applications to the more objective code-assessable regime we advocate, mere simplification of the application process would also bring benefits to all. Policy obligations can remain but the processes required to show conformity with them can be reduced in terms of bureaucracy and costs.
>
> Today the paperwork required for a development application can fill a small van when something much more modest would do. In the digital era an efficient, uniform development application form requiring no paper at all must be readily available and usable across all New South Wales councils. This action essentially requires that the public sector understands the unnecessary costs its own processes bring for the private sector – and re-engineer them to achieve a better outcome.
>
> The lack of coordination across the public sector in New South Wales is a major delivery barrier – and one amenable to reform because it doesn't require money. It requires common sense, good management and political will. State government is critical to this area of reform because most of the non-coordinating public bodies, which cause delivery problems for developers, are at that tier.
>
> It isn't just local councils which need to reduce transaction cost delays and uncertainties for developers or home builders.
>
> A simple reform can form part of the new Planning Act. In New South Wales referral provisions – for development applications to be considered by the myriad of public agencies which under current legislation need to be consulted – are contained in 101 local and state statutory instruments. By contrast, all of South Australia's referral requirements are contained in its Planning Act. This single reform would bring real benefit.
>
> Two other related reforms are necessary. One is to ensure that all statutory land use and infrastructure plans (including the State Plan, Sydney-wide, Regional or Local Plans) are integrated and bind-in the 'whole of government' including departments responsible for transport, energy, water, sewerage, waste, health and education.

> This 'duty to cooperate' should be required in the new Planning Act. This would mean developers can see up front what the relevant public agencies' plans are for all areas. This will reduce the requirement for long-winded referral periods at the development application stage and any uncertainty about such public bodies' intentions or requirements.
>
> The second reform is as a penalty for unconscionable delays in dealing with development applications. Either binding timeframes should be applied with limited 'stop the clock' provisions to the decisions made by referral bodies or – more radically – the failure of an agency to meet the referral time limit should be treated as a deemed approval from the referral agency. This is the practice in Queensland and the ACT. We need it here.[76]

These recommendations remain valid in 2014.

8.4 Implementation of Transit-Oriented Development

Finally, this submission supports the recommendations of the NSW Transport and Infrastructure Committee's recent review of Transit-Oriented Development (TODs). A shift towards TODs was a major recommendation in the McKell Institute's submission to the *Sydney Over The Next 20 Years* discussion paper.[77]

TOD focuses on constructing high density urban development, both housing and commercial, in close proximity to railways stations. This housing provides excellent access to transport and is generally met with less community opposition than significant development in other residential areas of suburbs. The associated benefit of reducing car usage also has positive environmental and health impacts, including a reduction in the level of congestion and carbon emissions.

Sydney's train stations generally service middle ring, low density suburbs. Most of Sydney's train stations have the potential for a significant increase in the density of housing around the station without the need for any associated significant increase in infrastructure. Despite these significant benefits, New South Wales is behind the pack when it comes to implementing TOD. In 2010, only 2% of rail precincts, or six stations in total, were implementing TODs – St Leonards, Chatswood, Hurstville, Kogarah, North Sydney and Bondi Junction.[78]

The NSW Government should implement a State Environmental Planning Policy (SEPP) that, provided it meets good design standards, exempts development within a prescribed distance from Sydney's train stations. In Perth the distance prescribed is 800 metres, a distance that could be replicated in Sydney.[79]

This submission also supports UrbanGrowth NSW's call to promote best practice principles for the delivery of more TOD in Sydney,[80] and in particular urges the NSW Government to embrace the recommendation by the Committee on Transport and Infrastructure's *Utilisation of Rail Corridors* report that the NSW Treasury find ways to facilitate value capture through tax increment financing and other similar infrastructure funding mechanisms.[81]

This will help reduce the costs associated with servicing infrastructure near new developments and will reduce the likelihood that infrastructure costs will be passed on to home owners through developer levies under Section 94 of the *Environmental Planning and Assessment Act 1979*.

9 TAXATION REFORM

9.1 Curbing exploitation of Section 94 developer levies

One priority area for tax reform identified in the *Homes For All* report regards the over-use of Section 94 developer levies to finance new spending in local council regions. The *Homes For All* report made several recommendations regarding Section 94 levies and the capacity of councils to fund new infrastructure in areas in which development was occurring. Specifically the report recommended that:

> ACTION 12.
> That the State Government urgently reviews the whole system of development levies and how infrastructure is to be funded – with a view to stopping Sydney from charging on average the highest up front development levies in Australia, because this deters development and results in enabling infrastructure, which benefits the whole community being paid for not by all existing home owners but by the purchasers of new homes.
>
> ACTION 13.
> That new value capture systems such as Tax Increment Finance be explored which enable infrastructure payments to be staged as development comes on stream and reward councils and communities significantly for permitting such development.
>
> ACTION 14.
> That, as development levies have risen while council rates have been capped, there needs to be reform to the rate capping system and a phasing in of rate rises in parallel with a lowering of levies on development.[82]

The issue of overuse in development levies was first identified by the Henry Tax Review, which warned that development levies were being used to cover the costs of projects that were not directly related to the property itself, such as upgrades to the local library or park.[83] The Review recommended that levies only be used to cover the costs directly related to an individual property and called for the establishment of new guidelines for a more fair system of developer levies. The issue was then investigated in depth by the Productivity Commission,[84] the recommendations of which went on to inform COAG's best practice guidelines for the use of developer levies.[85]

Regrettably, local councils continue to use developer levies to finance projects that are unrelated to the initial developments. The Property Council's latest audit of Section 94 infrastructure levies based on local government financial statements for 2011-12 showed that local councils across Sydney have over $760 million in unspent developer levies, a 50% increase since 2009.[86] The cost of development levies inevitably flow through in the form of higher house prices, meaning that the existing $760 million windfall essentially comes at the expense of would-be home owners.

9.2 Introduction of a broad based land tax

This submission also recommends that the NSW Government consider a shift away from stamp duty and towards a broad based land tax, not only to sustain state revenue but also to help reduce house prices.

In 2009, the Henry Tax Review estimated that stamp duty represents some 28% of the upfront costs of buying a home.[87] In Sydney that proportion is likely to be higher, especially given today's high dwelling prices.

The McKell Institute covered this issue in depth as part of its *Homes For All* report, a primary recommendation of which was to abolish stamp duty and move towards a more broad based land tax.[88]

However, the McKell Institute is not the only party calling for the removal of stamp duty. The Productivity Commission has called for a reduction in the reliance on Stamp Duty on two occasions, once in 2004[89] and once in 2012.[90] Removal of the tax was also covered in great depth as part of the Henry Tax Review in 2010,[91] while also being a key recommendation of IPART's 2007 review of NSW state taxes.[92] The removal of Stamp Duty was also suggested to Victoria in the 2001 Review of State Business Taxes,[93] while replacement of Stamp Duty was a key recommendation of the NSW Financial Audit 2011.[94]

The abolition of stamp duty is particularly timely given the NSW Government's restriction of First Home Owner Grants to newly built dwellings. Whilst the policy sentiment of encouraging new supply is commendable, the reality is that the proportion of mortgage finance going towards first home buyers has plummeted.

First home buyers in December 2013 made up just 9.1% of all new loans versus the long run average of about 21% – only marginally above the all-time low recorded just one month earlier.[95] The timing of the decline would indicate that a significant reason for the decline in first home buyer loans has been the recent changes to the First Home Owners Grant. Many more first home buyers now have to cover the full costs of stamp duty on top of the already difficult task of saving for a deposit. This is another reason to abolish stamp duty.

One of the other most common critiques of stamp duties is that they are largely inefficient. Property transfer duties are NSW's single most inefficient tax.[96] However, property transfer duties make up around 20% of NSW Government revenue.[97] The breakdown below of the contribution of various state taxes to revenue was outlined as part of the NSW Financial Audit for 2011.

Figure 9.2.1 NSW Financial Audit 2011

Revenue source	Revenue 2011-12[a] ($m)	Total excess burden ($m)	Marginal excess burden (cents per dollar of revenue)	Average excess burden (cents per dollar of revenue)
Transfer duty	4,126	2,558	80	62
Emergency services levy	633	373	68	59
Vehicle stamp duty	608	188	33	31
Insurance duty and health insurance levy	893	259	31	29
Vehicle registration	1,895	474	31	25
Payroll tax rate	6,855	1,371	35	20
Payroll tax threshold	-	-	-8	-
Land tax rate	2,483	149	9	6
Land tax threshold	-	-	-8	-
Royalties	1,809	72	13	4
Gambling taxes	1,878	0	0	0
Total for state taxes	**21,180**	**5,445**	-	**26**
Personal income tax	-	-	24	16
Corporate income tax	-	-	40	23
GST	-	-	8	6
NSW council rates	3,284[b]	66	3	2

This submission strongly believes that the NSW state budget should not be reliant on a volatile source of revenue that directly restricts home ownership. The Henry Tax Review also argued that stamp duty can hinder workforce participation rates and employment outcomes by making it more difficult for workers to relocate to secure jobs.[98] Replacing stamp duty was a key recommendation of the NSW Government's 2011 Financial Audit, which recommended that the inefficient tax be replaced by a more efficient Stamp Duty Replacement Tax.[99]

Whether or not the NSW Government pursues the 2011 Financial Audit model, the Henry Tax Review model or the model adopted recently by the ACT government is at the discretion of the Parliament.[100] Removing stamp duty and developer levies will go a long way towards reducing the tax burden on NSW houses while also facilitating higher rates of home ownership.

This submission is cognisant of the existing budgetary pressures facing the State Government and acknowledges that a revenue replacement stream will need to be found if stamp duty were to be abolished. The McKell Institute has previously advocated for the introduction of a broad based land tax applied on a per metre basis as an alternative to stamp duty. The 11 core arguments in favour of this change are summarised below:

1. Evaluating land tax on a per metre basis – rather than on a total holdings basis - will incentivise institutional investment in rental housing, reducing the deficit of available and affordable housing.
2. Broadening the land tax would also shift the burden of taxation away from renters and towards the economic rent of land.
3. First home owners would find it easier to access the property market once stamp duty is fully phased out.
4. The existing housing stock would be allocated more efficiently as property transfers occur more naturally.
5. This would reduce congestion on our roads, reduce pollution, increase productivity and reduce unemployment by making it easier for individuals and families to relocate towards better jobs.
6. Investment in property both residential and business would no longer be disencentivised, and companies would have more incentive to relocate to areas with lower job densities, such as outer suburban and rand rural areas.
7. Outer suburban and regional areas might also benefit from population growth driven by lower rates of land tax. This could be particularly beneficial to country towns facing stagnant population growth.
8. NSW residents would also benefit from a government that relies on less volatile and more stable sources of revenue.
9. The reduction in excess burden would also result in an impressive increase in value in the NSW economy, driving GSP up as efficiency improves.
10. The state's most vulnerable could be protected from cost of living pressures, and taxation increases would be better targeted to those who benefit from state infrastructure initiatives.
11. It would reduce the attractions of land as a speculative investment and thus bring downward pressure on residential price inflation.

This submission reiterates its recommendation that stamp duty be scrapped and replaced by a broad based per metre valued land tax. This is because land tax is more efficient and equitable, spreads the cost load for purchasers, does not impact at times of special financial stress such as when people move house, and does not disincentivise mobility or turnover to the same extent as a transaction charge.

However, it will reduce the attractions of land as a speculative investment and thus bring downward pressure on residential price inflation while also providing more housing price stability. Land tax exemptions and/or transition arrangements should also be provided for a period of time to those that have recently paid stamp duty to ensure an equitable transition.

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Note

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