Submission No 67

INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

Organisation: Unions NSW

Date received: 28/02/2014

28 February 2014

The Director
Select Committee on Social
Public and Affordable Housing
NSW Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Director,

Re: Social, Public and Affordable Housing (Inquiry)

Thank you for the opportunity to make a submission on Social, Public and Affordable Housing.

Unions NSW is the peak body for trade unions and union members in NSW. It has over 65 affiliated unions and trades and labour councils representing approximately 600 000 workers across NSW.

Our union affiliates cover the spectrum of the workforce, stretching from workers in finance to footwear and construction to communications.

Social, Public and Affordable Housing is an important issue for unions and union members.

In preparing this submission, we have consulted with our affiliates.

Unions NSW would be pleased to discuss these matters in person or provide further information if required. I can be contacted

Yours sincerely,

Emma Maiden
Assistant Secretary
Unions NSW

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UNIONSNSW SOCIAL, PUBLIC AND AFFORDABLE HOUSING SUBMISSION

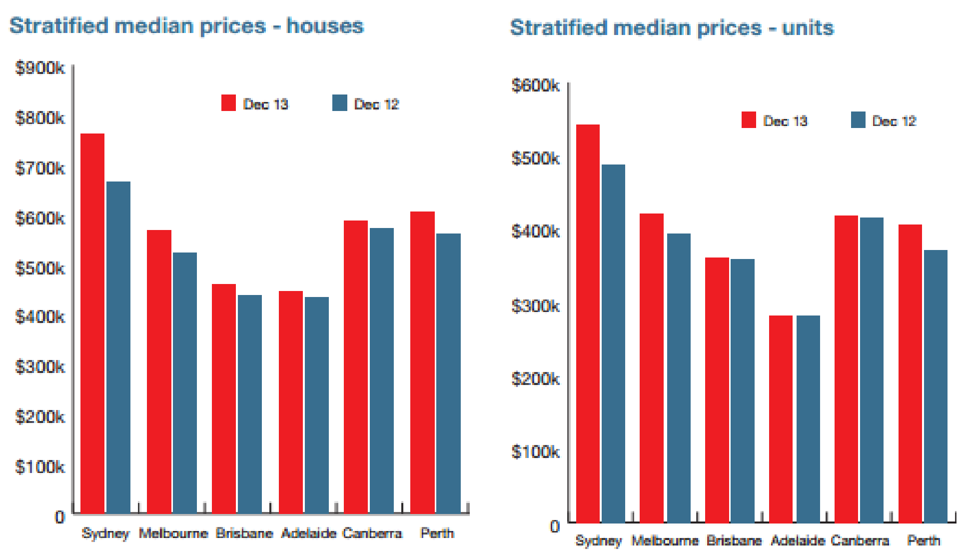
1 SYDNEY'S HIGH HOME PRICES

UnionsNSW welcomes the opportunity to provide a submission to the NSW Legislative Council's *Social, public and affordable housing inquiry.*

While acknowledging that the bulk of this submission will focus on the need for more social, public and affordable housing, any thorough analysis of Sydney's housing problems will need to view the market as a holistic entity. The housing market is not comprised of silos containing home-owners, renters, or public/social housing tenants. Issues of affordability in some sectors will have implications for other sectors of the market, and as such, any analysis of social, public and affordable housing will need to take into account the affordability of housing more broadly as well as for those on low incomes.

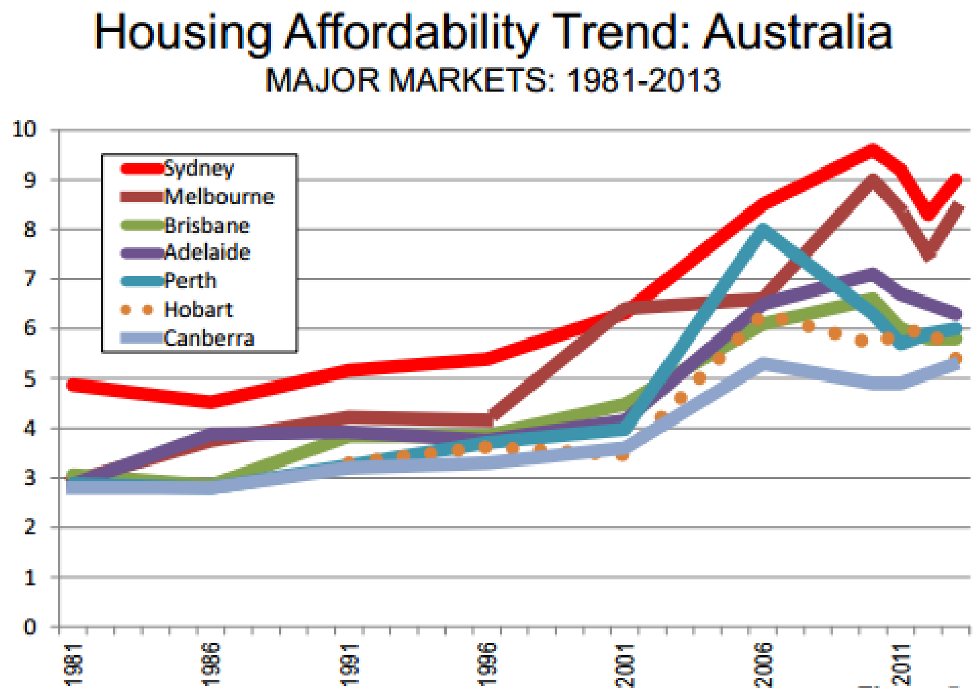
According to the latest data from APM Monitors, Sydney's house prices are at record highs, with the median house price in Sydney increasing by 15% in the last year and the median unit price increasing by 11%. The median price for a house in Sydney is now over $760,000 while the median price for an apartment is over $540,000.

FIGURE 1.1 AUSTRALIAN PROPERTY MONITORS HOUSE PRICE REPORT DECEMBER 2013



The 10th Annual Demographia International Housing Affordability Survey found that, relative to incomes, Sydney's housing market was the fourth most expensive market internationally. The median multiple ratio (median house price to median income) has blown out from approximately 4.5-to-1 in the mid-1980s to 9-to-1 today. House prices in Sydney have been increasing significantly faster than wages.

FIGURE 1.2 DEMOGRAPHIA 20TH INTERNATIONAL HOUSING AFFORDABILITY SURVEY



While the HIA-Commonwealth Bank Housing Affordability Index shows a substantial improvement in Australia's housing affordability ranking between September 2011 (57.2) and September 2013 (75.1), UnionsNSW notes that the core driver of this has been a reduction in mortgage interest rates from 7.05% to 5.18%. Given that interest rates are unlikely to remain at this level indefinitely, a return to higher interest rates is likely to herald a significant increase in mortgage repayment obligations, returning the HIA-Commonwealth Bank's Housing Affordability Index to a much less affordable level. This is particularly concerning for potential Sydney home-owners given that Sydney's current affordability ranking of 63.0 is already well below the national ranking of 75.1.

The impact of a mismatch between house price growth and income growth is that many aspiring home owners may now be falling short of the income servicing obligations required to secure a loan. Securing a loan requires more than just having a deposit that is acceptable to the lender, the lender must also be confident that the loan is serviceable on your current income. As loan amounts continue to increase, many low to middle income households will be unable to prove sufficient servicing capacity, particularly if the household is a single income household.

These factors are keeping younger households out of home ownership for longer. The fact that younger generations are spending longer renting is one contributing factor to why Sydney's vacancy rate remains well below 3% - the level at which a market is considered "balanced" and neither in favour of landlords or tenants. Because there are now a larger number of renters for a given amount of stock, Sydney's vacancy rate has remained below 2% for some time. This places upwards pressure on rental prices.

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 puts low income households into rental stress while also creating substantial disincentives for households to move out of social and public housing and into the private rental market. This contributes to shortages and longer waiting lists for public and social housing, which in turn contributes to rising rates of overcrowding, severe overcrowding, and homelessness.

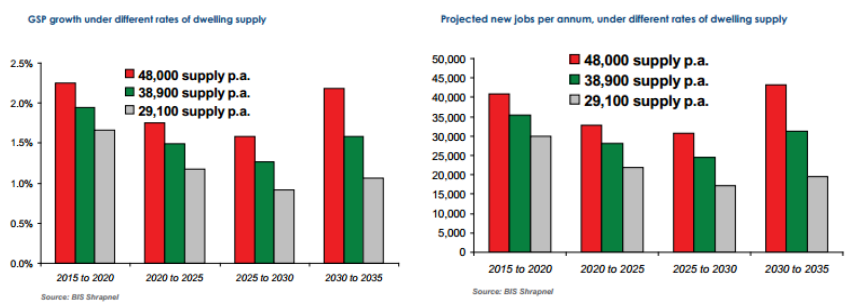
2 THE LACK OF HOUSING SUPPLY

One of the greatest contributors to housing unaffordability in New South Wales has been a lack of housing supply. The NHSC estimated that NSW was experiencing a shortage of nearly 73,700 dwellings in 2010. The shortage of supply relative to demand is pushing up prices. This submission notes that while the number of completions and approvals is increasing, housing supply will need to experience substantially stronger growth in order to ensure that supply is able to not only keep up with demand but also pay down the housing shortage that already exists.

The NHSC estimates that by 2020, the housing shortage will reach 186,000. 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 Sydney. In order to facilitate sufficient supply to accommodate forecast demand and to reduce the existing housing shortage, UnionsNSW suggests a housing target of between 30,000 and 35,000 new dwellings per annum for the Greater Sydney region.

The Urban Development Institute of Australia estimated that boosting the housing supply in both Sydney and NSW would have several positive impacts on GSP and job creation.

FIGURE 2.1 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 is about $400 million extra GSP, and will increase state growth from 1.2% to around 1.9% per annum. This additional housing would also add approximately 15,000 jobs to the economy every year.

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. UnionsNSW submits that an increase in housing delivery will not only deliver social dividends in the form of improved affordability, but will also help the state secure an economic dividend through higher GSP and stronger jobs growth.

3 BOOSTING HOME OWNERSHIP RATES AND HOUSING SUPPLY

To help individuals on lower incomes enter the housing market, the Select Committee should consider the potential benefits of adopting the West Australian Government's SharedStart shared home ownership model program.

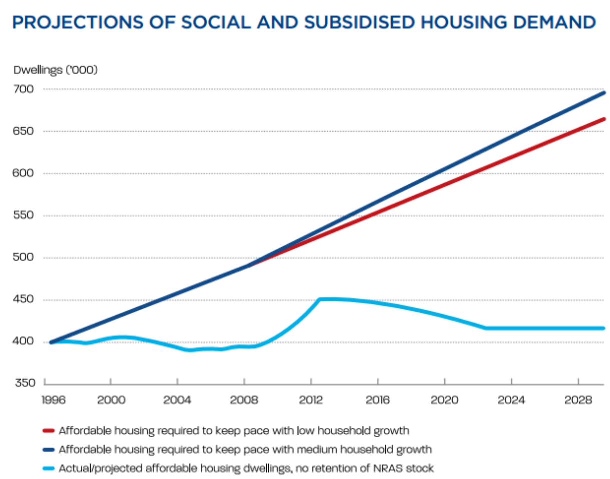
Under the SharedStart model, first home buyers are able to purchase an equity stake in an off-the-plan Department of Housing dwelling. SharedStart provides two joint ownership loan options for eligible applicants, under either a fixed or flexible equity option, with the flexible equity option offering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

Under the WA model, public housing tenants are also able to purchase their current home in a similar manner. The policy is an important enabler for households looking to progress their housing career from renting to ownership, particularly for those at the lower end of the income spectrum.

This submission acknowledges that for many individuals however, home ownership may simply never be a realistic proposition. It is unrealistic to expect that all Australians could eventually own their own home. For those Australians who are unlikely to ever move beyond renting, it is vital that sufficient affordable rental dwellings are available to meet demand from low income earners.

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.

FIGURE 3.1 NATIONAL HOUSING SUPPLY COUNCIL, STATE OF SUPPLY REPORT 2011



The Australian Housing and Urban Research Institute (AHURI) has undertaken a considerable amount of work on how social housing bonds could be developed in order to leverage new investment into social housing.

A recent AHURI report described how a model of Housing Supply Bonds (HSBs) could work in Australia. Specifically, the HSB proposal incorporates a combination of public funding (providing direct subsidy) and private bonds that are indirectly subsidised through tax incentives and government guarantees.

This submission notes that there is a substantial opportunity to direct some of Australia's superannuation wealth into housing bonds. As Australia's baby boomers begin to retire, a significant proportion of superannuation accounts will shift from growth portfolios to pension portfolios. Fixed interest housing bonds would make a solid match for retirees seeking the certainty of a fixed income stream throughout their retirement.

AustralianSuper has already publicly supported a further examination of the housing bond proposal. AustralianSuper investment manager John Hopper told the Australian Financial Review last year that a government guarantee on the proposed housing supply bonds would lower the risk profile of an investment by making it appear more like a government bond, lowering the return required.

The Parliamentary Budget Office recently costed the AHURI proposal in advance of the 2013 election. Specifically, the PBO costed:

- Zero interest social housing growth bonds – a long term revolving loan to non-profit housing organisations;
- Tax smart housing supply bonds – a long term fixed term fixed interest bond with a tax incentive (indicative 6% tax discount) to appeal to retail investors; and
- AAA Housing Supply Bonds – a fixed interest, long term AAA rated (government guaranteed) bond with an indicative 5% return to appeal to institutional investors such as super funds

A total of $2.04 billion of housing supply bonds would be required to finance the construction of 7,200 homes per annum. This is based on a third of the homes being built from prefabricated material, at $150,000 each and two thirds being standard housing, at $350,000 each. The net impact on the federal government's cash and fiscal balance can be seen below.

FIGURE 3.2 PARLIAMENTARY BUDGET OFFICE, ELECTION POLICY COSTINGS, 2013

ATTACHMENT A: COMPONENTS OF COSTING

Table A1: Breakdown of underlying cash balance impacts ($m)[a]

Component	Cost type	2013-14	2014-15	2015-16	2016-17
Zero interest social housing bonds	Payments	-	-	-	-
	Receipts	-	-	-	-
Tax smart housing supply bonds	Payments	-	-12	-37	-61
	Receipts	-	12	27	41
AAA housing supply bond	Payments	-	-27	-80	-134
	Receipts	-	27	80	134
Departmental	Payments	-	-10	-10	-10
	Receipts	-	-	-	-
Total		-	**-10**	**-20**	**-30**

Table A2: Breakdown of fiscal balance impacts ($m)[a]

Component	Cost type	2013-14	2014-15	2015-16	2016-17
Zero interest social housing bonds	Expense	-	-90	-90	-90
	Revenue	-	-	-	-
Tax smart housing supply bonds	Expense	-	-12	-37	-61
	Revenue	-	12	27	41
AAA housing supply bond	Expense	-	-27	-80	-134
	Revenue	-	27	80	134
Departmental	Expense	-	-10	-10	-10
	Revenue	-	-	-	-
Total		-	**-100**	**-110**	**-120**

4 PLANNING REFORMS

There are several planning reforms that can also 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 New South Wales residents.

This submission supports proposals to broaden community participation in the planning process to ensure that local residents are able to provide genuine input into the future of their communities.

UnionsNSW supports the goal of providing a holistic approach to housing policy, infrastructure policy and transport policy. UnionsNSW would like to see all statutory land use and infrastructure plans (including the State Plan, Sydney-wide, Regional or Local Plans) integrated and bind-in the 'whole of government' including departments responsible for transport, energy, water, sewerage, waste, health and education.

UnionsNSW also supports efforts to reduce the transaction costs, complexities and delays of making a development application to encourage new entrants to the housing delivery market and ultimately to increase both the quantity and diversity of housing built.

UnionsNSW believes that reforms to improve public sector coordination and approval processes will benefit existing homeowners and future homeowners. New South Wales referral provisions are currently contained in 101 local and state statutory instruments. By contrast, all of South Australia's referral requirements are contained in its Planning Act. The simplification of the NSW application process would also bring benefits to all. Policy obligations should remain but the processes required to show conformity with them can be reduced in terms of bureaucracy and costs.

5 TAX REFORMS

UnionsNSW suggests that the Select Committee consider the evidence supporting a shift away from stamp duty and towards a broad based land tax. The Productivity Commission has called for a reduction in the reliance on stamp duty on two occasions, once in 2004 and once in 2013. Removal of the tax was also covered in great depth as part of the Henry Tax Review in 2010, while also being a key recommendation of IPART in 2008. The removal of stamp duty was also suggested to Victoria in the 2001 Review of State Business Taxes, while replacement of stamp duty was a recommendation of the NSW Financial Audit 2011.

In 2009, the Henry Tax Review estimated that stamp duty represents some 28% of the upfront costs of buying a home. 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. One of the most common critiques of stamp duties is that they are largely inefficient. Property transfer duties are the state's single most inefficient tax. However, property transfer duties also make up around 20% of State Government revenue.

UnionsNSW would strongly urge that any shift away from stamp duty and towards a broad based land tax be phased in slowly as is currently the case under the ACT Government's reforms. Such a transition would ideally take place over a 20 year period.

Another important caveat would be that land values below a certain threshold should not be taxed. This was an important recommendation in the Henry Tax Review. This will provide important tax relief to NSW's low income and agricultural regions. It would also provide an important incentive for businesses and jobs to relocate to these regions.

Finally, mechanisms should exist which allow asset-rich but cash poor NSW residents to defer their tax liabilities. Such mechanisms were also recommended within the Henry Tax Review and should be implemented in any future adaptation of this policy.

6 SUPPORTING PENSIONERS IN DOWNSIZING THEIR HOMES

UnionsNSW suggests that the Select Committee examine the former Northern Territory Government's housing policy in which grants were provided to retirees who chose to downsize their homes from a 3 bedroom dwelling to 2 bedrooms or less (the grants were largely used to offset stamp duty). If applied in NSW, this policy could help increase the availability of 3 bedroom dwellings and lead to a more efficient allocation of housing stock.