

INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

Organisation: Youth Action

Date received: 28/02/2014



February 2014

Inquiry into social, public and affordable housing

**Submission by
Youth Action NSW**

YOUTH ACTION

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About Us

Youth Action is the peak organisation representing young people and youth services in NSW.

Youth Action works towards a society where all young people are supported, engaged and valued.

To achieve this, it is the role of Youth Action to:

1. Respond to social and political agendas relating to young people and the youth services sector
 2. Provide proactive leadership and advocacy and shape the agenda on issues affecting young people and youth services
 3. Collaborate on issues that affect young people and youth workers
 4. Promote a positive profile in the media and the community of young people and youth services
 5. Build capacity for young people to speak out and take action on issues that affect them
 6. Enhance the capacity of the youth services sector to provide high quality services
 7. Ensure Youth Action's organisational development, efficiency, effectiveness and good governance.
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Introduction

Youth Action would like to thank the Committee for the opportunity to comment on this important issue.

Youth Action has worked with young people across NSW for over 20 years, and the decreasing affordability of housing has had a substantive impact on young people's ability to lead fulfilling lives and access education, employment and services.

It is our perspective that in the next 5 years, housing affordability will become the biggest issue facing young people in NSW, if it isn't already. Increasingly, young people are locked out of home ownership, squeezing the already over-stressed rental market and locking young people with particular vulnerabilities out of access to even the most basic housing.

What follows is discussion of three areas of housing reform that Youth Action believes is vital to ensuring a robust, sustainable housing market and sector, that services Australian's need for affordable, safe and appropriate housing.

These three areas are:

- **Housing Tax Reform**
- **Reforms to the Social housing sector**
- **Reforms of the private rental market**

We have included a number of recommendations and issues that we are aware sit outside the jurisdiction of the NSW Government, including issues that are reliant on reform from the Australian Government. We have included these, as we believe that the NSW Government has a role, as the largest state in Australia, in pushing for national reform processes. This includes encouraging these reforms through public campaigning and through the Council of Australian Government's processes.

Social Housing

Recommendations

1. That the NSW government is aware of the deficit of social housing supply and deals with the issue holistically with the affordable housing crisis.
2. That the state government engages in stock transfer to Community Housing Providers that are able to leverage additional investment and maintains consistent policies and funding regarding CHPs.
3. That the state government actively incentivises opportunities to increase social housing stock such as the NRAS.
4. That young people are the clients of housing providers whether they be public or community providers that are best equipped to meet their needs, particularly their need access to services. Both public and community providers should continue to assist young people in linking to services.
5. That the state government looks to diversify areas of high concentration public housing, without losing inner city stock.
6. That the state government funds promotional activities aimed specifically at young people to address the issues they face when applying to the social housing system of transience and a lack of knowledge.
7. That the state government promotes the need for youth-specific training for Housing NSW and community housing providers through:
 - a. Funding training for Housing NSW

- b. Funding a state-level seminar involving Housing NSW, community housing providers, youth services and youth advocates to promote best practice regarding the treatment of youth in the social housing system.
- 8. That young people are allocated to public and community housing based on housing design that meets their specific needs.
- 9. That housing is considered to be an investment in the social capital of young people. What is needed is:
 - a. The implementation of a system of housing standards by the state government that considers how well social housing is meeting the needs of tenants and investing in their social capital.
 - b. Housing NSW and community housing providers promoting young people as key stakeholders in decision-making processes.
- 10. That the state government provide funding to increase linkages between public and community housing providers and mainstream services to improve the provision of services to young people in social housing.
- 11. That housing young people is undertaken through a whole system approach that integrates housing and service provision such as in the foyer model.

Introduction

Evolution of social housing

Public housing in Australia has changed significantly since its inception. According to the Productivity Commission, 'following World War II, the CSHA was established and used to initiate a large post war public housing construction program, with the resulting housing stock used to accommodate

returned servicemen'.¹ Public housing was used to house working class low or middle-income earners, such as those in the manufacturing industry. The aim was also to get people out of substandard housing and provide an opportunity to increase social mobility. Tenants in public housing could save money to buy their own house or even buy the Housing Commission house they lived in.² As AHURI highlights of this period, "investment in public housing was seen as necessary to maintain economic growth".³ Over time however the public housing system has become increasingly residualised. State and Commonwealth funding has decreased, housing stock has grown increasingly dilapidated and available housing is now used only for the most disadvantaged, "many with high social needs and reliant on government welfare".⁴

The 'failed endeavour' of social housing

As Atkinson and Jacobs suggest, the national discourse on public housing shows it as a failed endeavor that 'contains poverty' rather than seeing housing as a 'key lever enabling economic participation'.⁵ Access to housing is not only a basic human right, but also offsets a number of issues that are socially and economically costly to Australian society. According to AHURI:

"housing instability is linked to high levels of drug and alcohol abuse (Maunder, Liddell, Liddell & Green 1999), poor mental and physical health (Cashmore & Paxman 1996) and considerable educational and employment deficits (Clare 2006)."⁶

¹ Productivity Commission, 2010, 'Appendix A' in *Contribution of the Not-for-Profit Sector, Research Report*, Accessed on 24/02/2014,

http://www.pc.gov.au/data/assets/pdf_file/0003/94548/not-for-profit-report.pdf, pg. 1.7

² Plibersek, Tanya. 2009, *Room for More: Boosting Providers of Social Housing*, speech by Minister for Housing, Sydney Institute, Accessed on 17/02/2014,

<http://www.chfv.org.au/database-files/view-file/?id=882>

³ Jacobs, K., Atkinson, R., Spinney, A., Colic Peisker, V., Berry, M. and Dalton, T. 2010, *What Future for Public Housing? A Critical Analysis*, Research Paper, **Australian Housing and Urban Research Institute**, pg. 10

⁴ Jacobs, K. et al. 2010, *ibid.* pg. 9

⁵ Atkinson, R and Jacobs, KA, 2010, 'Damned by place, then politics: spatial disadvantage and the housing policy research interface', *International Journal of Housing Policy*, vol. 10(2), pg. 158.

⁶ Johnson, G., Natalier, K., Bailey, N., Mendes, P., Kunnen, N., Liddiard, M. & Hollows, A. (2009), *Improving housing outcomes for young people leaving state care*, **Australian**

Atkinson and Jacobs further give the example that “stabilising housing environments... has been shown to have dramatic benefits on children of school age in their outcomes.”⁷ It is important to help young people avoid entering negative cycles by enabling access to stable and affordable housing options. As the COAG outlined in Objective 6 of the National Affordable Housing Agreement in 2008, ‘the aspirational objective is that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.’⁸

Young People in public housing

Figures from 2009 show that 19.4% of household members in social housing were aged 12-24. 1.9% of lease-holders in public housing and 6.3% in community housing are between 16 and 24.⁹ However young people are over-represented amongst the homeless, comprising ‘the largest single group of Support Accommodation Assistance Program (SAAP) service users in NSW’ with 22.7% aged 15-19 and 13.7% aged 20-24.¹⁰ It is clear that whether they are renters or part of households within the social housing system, they are a vulnerable group that need support (as the homelessness statistics show) and should be an important part of any policy decisions in relation to social housing.

Young people seeking to live independently face major obstacles in accessing housing. Young Australians tend to be in low wage, low skill and casualised employment¹¹ and have low incomes and limited savings, making

Housing and Urban Research Institute, pg. 1

⁷ Atkinson, R. and Jacobs KA, 2010 op cit. pg. 167.

⁸ COAG, 2009, *National Affordable Housing Agreement*, Accessed on 24/02/2014, <http://www.hpw.qld.gov.au/SiteCollectionDocuments/NationalAgreement.pdf>, pg. 3

⁹ Housing NSW, 2010 *Youth Action Plan 2010 – 2014*, Accessed on 24/02/2014, <http://www.housing.nsw.gov.au/NR/rdonlyres/4F1D1B1B-E4D1-4251-B5E3-EE4F1630FFA7/0/HousingNSWYouthActionPlan201014.pdf>, pg. 4

¹⁰ Housing NSW, 2010, *ibid.* pg. 5

¹¹ Ling, Sean, 2000, *Good Practice for Improving Disadvantaged Single Young People’s Access to Community Housing*, The National Youth Coalition for Housing and The Community Housing Federation of Australia, Accessed 20/01/2014, <http://chfa.com.au/resources/other-chfa-publications/good-practice-improving-disadvantaged-single-young-peoples-access->, pg. 8

independent private rental difficult to afford:

“Of young renters living alone, 66% pay more than one quarter of their income on rent and 45% pay more than 40% of their income on rent, based on the proportion of income paid on rent, 25% of young people are living in housing related poverty, nearly two times as high as that of the general population”.¹²

They also face stigma in the rental market and lack rental history. Certain groups are particularly vulnerable, including 18 year olds who have just aged out of foster care who lack the knowledge or support to find private housing¹³, young people exiting the juvenile justice system,¹⁴ young people with disabilities and young indigenous Australians who are ‘over-represented in social housing’.¹⁵ According to AHURI, “State housing authorities are often relied upon to provide accommodation for young people, but they are under considerable pressure in fiscal terms and the residualisation of public housing has decreased the availability of low cost accommodation to the broader community.”¹⁶

Difference between public and community housing

Social housing is an umbrella term that covers both public and community housing. Public housing refers to government run or owned rental housing for low-income earners. Community housing is run by not-for-profit groups, some with specific targets in mind such as the elderly or homeless, as a way to provide affordable housing to those most in need.

¹² Housing NSW, 2010, op. cit. pg. 5

¹³ See: Johnson, G., Natalier, K., Bailey, N., Mendes, P., Kunnen, N., Liddiard, M. & Hollows, A. (2009), *Improving housing outcomes for young people leaving state care*, **Australian Housing and Urban Research Institute**

¹⁴ Commonwealth of Australia 2008, *White Paper: The Road Home: A National Approach to Reducing Homelessness*, Accessed on 24/02/2014, http://www.dss.gov.au/sites/default/files/documents/05_2012/the_road_home.pdf, pg. 27

¹⁵ AIHW 2013, *National social housing survey 2012: a summary of national results*, Accessed on 24/02/2014, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129543382>, pg. 6

¹⁶ Johnson, G. et al. 2009, op. cit. pg. 2.

1. Availability and Supply of Social Housing

It is clear from scholarly articles and housing data that social housing has been subject to a lack of investment by State and Commonwealth governments for more than a decade. This reality has had a clear impact on the supply of social housing in Australia and in New South Wales.

“The limited funds made available for public housing have, in practice, forced state and territory governments to reduce the stock. The number of social housing units has declined from about 400,000 dwellings in 1996 to an estimated 390,000 in 2008. If social housing had maintained its proportion of the total dwelling stock, there would be as many as 480,000 dwellings in 2008”¹⁷

Since 2010 and 2011 there has been a notable increase in new public sector developments, stimulated by the National Affordable Housing Agreement (NAHA) and other government action.¹⁸ However, according to Dr. Lucy Groenhart, “even with the stimulus package funding from 2009, social housing supply has not kept up with overall growth rates in Australia’s population and housing stock.”¹⁹ Groenhart’s conclusion on social housing is not positive, revealing:

“...the overall stagnation of social housing supply in Australia over the previous decade, combined with evidence of stock loss in areas of renewal in major metropolitan centres. Although the stimulus spending achieved its intent of supporting the economy, it also *just* delivered an increase in the supply of social housing by 2011. Transfers of stock to community housing providers do not yet seem to be generating the asset based leveraging of dwelling numbers promised. Without another global economic crisis that channels new funds into social housing

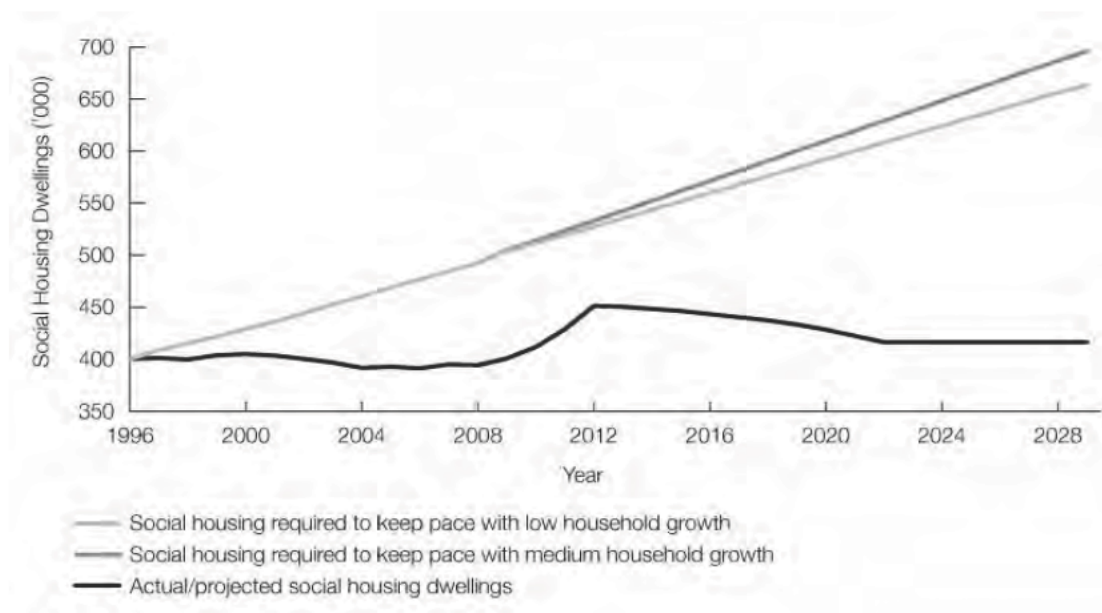
¹⁷ Atkinson, R. and Jacobs KA, 2010 op cit. pg. 158.

¹⁸ Groenhart, Lucy 2012, ‘Reflecting on a Decade of Australian Social Housing Policy: Changes in Supply and Geography, 2001–2011’, *Geographical Research*, vol. 51(4), pg. 389. and Plibersek, Tanya. 2009, *Room for More: Boosting Providers of Social Housing*, speech by Minister for Housing, Sydney Institute, Accessed on 17/02/2014, <http://www.chfv.org.au/database-files/view-file/?id=882> pg. 2.

¹⁹ Groenhart, L 2012, *ibid.* pg. 396.

construction, the next decade is looking bleak for Australia's social housing sector."²⁰

Figure 1: Social housing demand and supply projections²¹



Source:

While funding for public housing has declined, the Auditor General predicted 'spiralling growth' in applications to the social housing waiting list in 2013.²² As seen in the above graph, demand in the social housing sector has been fast exceeding supply in the last few decades and has become an option that is accessible only by those in the greatest need. The McKell Institute refers to this as a 'race to the bottom', as limited supply of public housing goes mostly to people with specific issues, leaving low-income earners with fewer options.²³

The 2013 release of the social housing waiting list has shown the reality of

²⁰ Groenhart, L 2012, *ibid.* pg. 396.

²¹ Jacobs, K. et al. 2010, *op. cit.* pg. 8

²² Goward, Pru. 2013) *Media Release: Waiting List Transparency Drives Results*, Accessed on 19/02/2014, <http://www.housing.nsw.gov.au/NR/rdonlyres/2DFA92C3-C307-4B8C-8D84-24FC300B4948/0/WAITINGLISTTRANSPARENCYDRIVESRESULTS.pdf>

²³ Williams, T. and Macken, S. 2012, *Homes for All: The 40 things we can do to improve supply and affordability*, McKell Institute, pg. 33

this supply deficit. The 2013 Overview reveals that wait-time for properties in most Sydney (which makes up well over half of available social housing properties in NSW) and Central Coast areas exceeds 5-10 years.²⁴ Rural areas fare better but have their own issues of access to services, transport and employment opportunities. Transparency of the waiting list has enabled applicants to change their preferred area in order to find available housing sooner, however the waiting list as of 30 June 2013 still had 57,451 applicants waiting to be housed.²⁵

The shortage of public housing resulting from a decline in funding has also been 'exacerbated' by Australia's growing housing affordability problems.²⁶ In general housing prices in Australia have been escalating since the mid-1990s²⁷ and real house prices have increased more than the increase in per household income. According to National Shelter, these 'pressures' push lower-income households into the rental market, where they encounter 'a significant shortage of affordable private rental dwellings'.²⁸ This has been felt most strongly in New South Wales where rental stress is the highest in Australia. (Rental stress refers to spending over 30% of income on rental or housing costs) According to the National Housing Supply Council State of Supply Report, 57% of low-income households renting privately in NSW experience rental stress, over 10% more than any other state.²⁹

Ultimately the issue of affordable housing does not stand-alone as increasing housing prices push more people away from buying property and into the rental market, driving up rental prices, and a lack of affordable rental housing pushes more people into social housing.³⁰ Social housing has become an

²⁴ Housing NSW, *Expected Waiting times for social housing 2013 – Overview*, Accessed on 24/02/2014, http://www.housingpathways.nsw.gov.au/NR/ronlyres/85ECAFA9-8F41-4946-95F0-5DA83746B8F5/0/Expected_Waiting_Times2013.pdf

²⁵ Housing NSW, *ibid.*

²⁶ Productivity Commission, 2010, 'Appendix A' *op. cit.* pg. I.15

²⁷ Productivity Commission, Appendix A, *ibid.* pg. I.15

²⁸ National Shelter, 2009, *Housing Australia Affordably*, Accessed 24/02/2014, <http://www.qshelter.asn.au/files/NS%20Policy%20Platform%202009%20long%20final.pdf>, pg.

²⁹ National Housing Supply Council 2011, *State of Supply Report*, Accessed on 24/02/2014, http://www.afr.com/rw/2009-2014/AFR/2011/12/21/Photos/34648d1a-2b7a-11e1-8d63-cda11eae121_housing%20report.pdf pg. 139.

³⁰ Williams, T. and Macken, S. 2012, *op. cit.* pg. 65

option only for the most disadvantaged due to decreased investment and increased need. It is important to look holistically at the issue of increasing the supply of affordable housing, and solutions should involve at least a basic consideration of NSW's housing affordability crisis.

2. Community Housing Providers:

2.1 Stock Transfer and Funding of CHPs

Traditionally community housing providers (CHPs) have been small not-for-profit organisations with a core role of tenancy management and 'niche' focuses, such as people with disabilities or those on low incomes.³¹

Historically, State and Commonwealth governments have mostly supplied social housing in Australia. However this is beginning to change and 'not-for-profit housing providers are playing an increasing role. The number of mainstream community housing dwellings increased by around 27 per cent between June 2007 and June 2010, and further growth of the sector is expected.'³²

The National Housing Supply Council's State of Supply report from 2011 suggests that one solution to increasing stock of social housing is through 'transferring assets to community housing providers to leverage additional investment'³³ CHPs can utilise housing stock in ways the government cannot, by leveraging assets and undertaking project development to increase their housing stock. According to the McKell Institute, there should be 'urgent debates' regarding a 'radical program of stock transfer from public housing providers into the community housing and not-for-profit sector.'³⁴ The McKell Institute supports the UK model of social housing that has involved large stock transfers to CHPs, as it:

"has enabled record levels of new social homes to be built by such providers at less than half the cost to government of the

³¹ Productivity Commission, 2010, 'Appendix A', op. cit. pg. I.1

³² National Housing Supply Council 2011, op. cit. pg. 82

³³ National Housing Supply Council 2011, op. cit. pg. 84

³⁴ Williams, T. and Macken, S. 2012, op. cit. pg. 34

previous situation where massive subsidies were required from government. Subsidies are now less than 50% of the build cost with the rest coming from income leverage and borrowings, partly from banks and partly from bond finance.”³⁵

According to Dr. Lucy Groenhart, recent ‘stock transfer between public housing and community housing has been the main driver of any net ‘growth’ experienced in the social housing sector, rather than new investment in additional dwellings.’³⁶ However in NSW increasing supply from CHPs has not offset losses in old public housing stock and availability of social housing continues to be an issue.³⁷

Government policy has seen a shift towards the transfer of stock to CHPs and the not-for-profit sector, however stock transfer has essentially stopped since 2010.³⁸ The Council of Australian Governments (COAG) in 2008-09 ‘endorsed the sector as the central tenet of social housing policy moving forward’.³⁹ Additionally, in 2009 NSW housing ministers said that Community housing should make up 35% of social housing in the state by 2014.⁴⁰ Current figures show that only around 15%⁴¹ of social housing in the state is owned or run by CHPs, this percentage decreases if you exclude crisis accommodation.⁴²

However, as the AIHW underlines, the ‘increasing contribution of the community sector reflects housing policy directions of both the Australian, and state and territory governments.’⁴³ State and Commonwealth governments are both seeing CHPs as a significant aspect of the future of social housing. The most direct relationship between the government and the Community Housing sector is in terms of supply of funding and resources, which includes

³⁵ Williams, T. and Macken, S. 2012, op. cit. pg. 68

³⁶ Groenhart, L 2012, op. cit. pg. 391

³⁷ Groenhart, L 2012, op. cit. pg. 392

³⁸ The NAHA in 2008 promised \$400 million for building new social housing dwellings by 2010.

³⁹ Productivity Commission, 2010, ‘A case study of social housing’, op. cit. pg. pg. I.9

⁴⁰ Groenhart, L 2012, op. cit. pg. 390

⁴¹ Williams, T. and Macken, S. 2012, op. cit. pg. 67

⁴² Productivity Commission, 2010, ‘Appendix A’, op. cit. pg. I.2

⁴³ AIHW 2013, op. cit. pg. 2

stock transfers or land for development.⁴⁴ Government strategy has not been clear on stock transfer or the role of CHPs in the future of community housing. CHPs are concerned about stability of and long-term maintenance of policies by the state government.⁴⁵ The Productivity Commission notes that ‘consistency of government policy and funding’ is particularly vital to ‘long term planning by the sector and attracting private investment.’⁴⁶ Despite the clear shift to CHPs shown in government rhetoric and funding, and the benefits associated with the sector’s involvement in social housing, it has been assessed since the 1990s that “[the sector] was unlikely to play a large role in the provision of social housing in Australia without clear policy direction at the national level and a large increase in government funding.”⁴⁷ “The not-for-profit sector is focused on maintaining a program of capital funding and stock transfers to increase the supply of affordable housing.”⁴⁸

Youth Action suggests that there should be a level of certainty about the continuation of government policies and funding related to Community and not-for-profit housing providers, as it will benefit the overall supply of social housing in the state. The state government should continue to develop policies that increase the role of CHPs in provisioning affordable housing. Youth Action agrees with the McKell Institute’s suggestion that there should be “a fundamental policy choice by the State Government to grow the operational and financial capacity of CHPs to become a new provider of choice in a transformed housing system”.⁴⁹

The current state government should build on the previous government’s community housing strategy ‘which called for an increase in community housing stock from 13 000 to 30 000 dwellings between 2007-08 and 2016-17. This was accompanied by an Affordable Housing Innovation Fund which contained funding of \$49.8 million over three years to 2009-10... and has

⁴⁴ Productivity Commission, 2010, ‘A case study of social housing’, op. cit. pg. I.34

⁴⁵ This was found to be a concern in interviews with CHPs by Youth Action

⁴⁶ Productivity Commission, 2010, ‘A case study of social housing’, op. cit. pg. I.38)

⁴⁷ Productivity Commission, 2010, ‘Appendix A’, op. cit. pg. I.9

⁴⁸ National Housing Supply Council 2011, op. cit. pg. 96.

⁴⁹ Williams, T. and Macken, S. 2012, op. cit. pg. 34

increased stock transfers to enhance CHOs' ability to undertake project development.⁵⁰

Stock transfer is not the only way to increase community housing supply, and there are some issues associated with directly transferring stock that may be dilapidated to housing providers who do not have the ability or resources to maintain or repair these houses. The transfer of already tenanted houses would require consultation with residents.

Ultimately the history of the underfunding of social housing in NSW, and in the country as a whole, is difficult to overcome. This is why Youth Action believes the State Government should further explore innovative options such as increasing the role of the private sector in increasing social housing stock.

2.2. National Rental Affordability Scheme (NRAS)

The National Rental Affordability Scheme (NRAS) is an example of a government initiative that increased social housing stock and benefited low and middle-income earners throughout the state, allowing these renters to pay 20 per cent below market rate. The NRAS Monthly Performance Report shows that in NSW the community and not-for-profit sector accessed the scheme at a high rate.⁵¹

In a 2008 media release NSW had a target of 27% of the grants in the first two rounds.⁵² However NSW has only utilized 16.9% of NRAS incentives as of the fourth round in June 2013.⁵³ This is despite NSW having 32% of the Australian population and, as explored above, experiencing the most rental stress of all states and territories.

⁵⁰ Productivity Commission, 2010, 'Appendix A', op. cit. pg. I.10

⁵¹ Commonwealth of Australia, 2013, *National Rental Affordability Scheme Monthly Performance Report (30 JUNE 2013)* Accessed on 24/02/2014, http://www.dss.gov.au/sites/default/files/files/housing-support/nras/NRAS_Performance_Report_June_2013.pdf

⁵² NCOSS, Shelter NSW, NSW Federation of Housing Associations Inc. 2010, *NRAS in New South Wales – fulfilling the potential*, Accessed on 24/02/2014, <http://ncoss.org.au/resources/20101206-NRAS-fact-sheet.pdf>, pg. 3.

⁵³ Commonwealth of Australia, 2013, op. cit. pg. 3.

Youth Action believes that NSW should be using Commonwealth initiatives such as NRAS to their maximum potential. As discussed, the stock of both affordable housing and social housing is low, and incentivizing private sector investment is a good way to increase the stock with minimal government expenditure. Initiatives such as NRAS should ultimately be supported by the NSW government through increased subsidies or tax credits, and diversified to attract investors. In a joint release by NCOSS, Shelter NSW and NSW Federation of Housing Associations Inc, these organisations asked the NSW government for ‘a commitment to combine in-kind state contributions – such as free or discounted land, and planning contributions – with NRAS subsidies to make it easier to build and retain long term affordable rental housing in high-cost locations.’⁵⁴

State government support is vital in creating new social housing stock in the community housing sector, and the state government should not miss out on opportunities to diversify and grow housing stock. A renewal and continued commitment to NRAS, beyond the initial 10 year period, is a good example of such an opportunity.

2.3. Benefits of Community Housing

Youth Action sees that diversifying housing stock has benefits for the social housing system as a whole. Community housing groups offer more choice by extending the range of options for housing clients⁵⁵ and overall have more positive outcomes in terms of tenancy management than public housing.⁵⁶ For example, community-housing organisations have lower rates of overdue rent,⁵⁷ ‘with most long term housing providers writing off less than 2 per cent of their rent each year in bad debts and vacancy costs.’⁵⁸ Overall CHPs also reveal better maintenance records. For example the latest National Social Housing Survey Summary shows that 10% of community housing tenants

⁵⁴ NCOSS, Shelter NSW, NSW Federation of Housing Associations Inc. 2010, op. cit. pg. 3.

⁵⁵ Groenhart, L 2012, op. cit. pg. 390. And Productivity Commission, 2010, ‘Appendix A’ op. cit.pg. 1.17

⁵⁶ Plibersek, T. 2009. op. cit. pg. 5

⁵⁷ Plibersek, T. 2009. op. cit. pg. 5.

⁵⁸ Productivity Commission, 2010, ‘Appendix A’, op. cit. pg. I.16

reported three or more structural problems in their dwelling compared to 20% of public housing tenants.⁵⁹

Youth Action particularly sees the benefits of community housing for young people in the social housing system. Young people in social housing have specific housing needs, in particular access to support services that go beyond the provision of housing such as access to local services addressing mental wellbeing, health and the development of education or work-related skills [refer to Section 4 for an in-depth analysis of these needs] It has been indicated that CHPs 'can better understand the local environment and make linkages to other local organisations and individuals, to serve clients.'⁶⁰ CHPs offer "wrap-around-services" that go beyond solely housing provision. The sector is known for its approach to tenancy management and engagement, and 'represents a responsive and client focussed approach to social and affordable housing provision.'⁶¹

AIHW's 'National Social Housing Survey' data shows that of social housing households accessing community and health services in 2012, community housing providers assisted tenants more in obtaining these services than public providers. This assistance was at times at double the rate of public housing providers in relation to services such as drug and alcohol counselling (8.3% of people in public housing received assistance from their provider to access these services compared to 14.7% in community housing), mental health services (5.4% to 10.5%), and life skills/ personal development services (5.8% to 17%).⁶² This suggests that CHPs may be able to assist young people in the areas that impact upon them the most. As the report states, 'A considerably lower proportion of public housing tenants received assistance from their housing provider when accessing community and health

⁵⁹ AIHW 2013, op. cit. pg. 1

⁶⁰ Productivity Commission, 2010, 'A case study of social housing', op. cit. pg. 1.17

⁶¹ COAG 2009, *Implementing the National Housing Reforms: A progress report to the Council of Australian Governments from Commonwealth, State and Territory Housing Ministers*, Accessed on 24/02/2014, http://www.dhs.vic.gov.au/data/assets/pdf_file/0009/564381/Implementing-national-housing-reforms.pdf, pg.16.

⁶² AIHW 2013, op. cit. pg. 22

services.⁶³ For more information on the importance of service provision for young people in social housing and the role that services can play in the development of these young people refer to Section 4.

Overall however, the rate of assistance is low and as outlined in Section 4 we would suggest that the more support young people access from their housing providers that young people can access the better. Section 4 further outlines the needs of young people and the role of housing providers in helping fulfil these needs.

3. High Concentrations of Public Housing

One of the issues seen in the social housing system is the ‘concentration of disadvantage’.⁶⁴ Public housing developments are often confined to certain buildings or certain suburbs, bringing together ‘the worst-off households’.⁶⁵ As Atkinson and Jacobs underline, “the clustering of public housing in specific neighbourhoods further generates negative reputations which exacerbate the exclusion of residents, further impacting on their life-chances and opportunities”⁶⁶ These areas are what often feed the discourse of a failed social housing system in Australia.

A way for the government to combat this is to sell some properties in high concentration areas to private owners. This form of ‘estate renewal’ generates income for the government and diversifies the demographic of marginalised areas. Community housing providers are a good example of avoiding high concentrations of disadvantage, often making sure they have a mix of housing types. Dwelling mix benefits housing providers as it mitigates against the disruption to revenue flow that can occur with high needs tenants. This would also combat some of the stigma young people feel is associated with living in social housing. [For an exploration of why reduced stigma is an important need for young people in social housing please refer to Section 4].

⁶³ AIHW 2013, op. cit. pg. 23

⁶⁴ Productivity Commission, 2010, ‘A case study of social housing’, op. cit. pg. 1.17

⁶⁵ Jacobs, K. et al. 2010, op. cit. pg. 1

⁶⁶ Atkinson, R. and Jacobs KA, 2010 op cit. pg. 158.

However with estate renewal comes the loss of old public housing stock as areas are diversified through the introduction of private renters. This is particularly an issue for inner-city areas. Moving public housing further out of 'locationally advantaged'⁶⁷ city areas, with good access to public transport and employment opportunities, to suburban areas of disadvantage is clearly not the best outcome for those in social housing. According to Groenhart the 'stagnation of supply in the inner urban area of Sydney' and 'subsequent suburbanisation of disadvantage (Randolph *et al.*, 2004, 492) make the preservation of affordable housing in these locations a policy imperative.'⁶⁸ The state government in this case should examine the idea of attaching minimum requirements of community housing in new, large-scale, private developments to counter the loss of inner city stock and diversify the range of public housing options and locations.

4. Youth Needs

4.1 Information that young people need about the social housing system

As mentioned in the introduction, young lease-holders make up only a small percentage of the total lease-holders in the social housing system. However, this is not a reason to ignore the distinct needs of young people applying for social housing. The Going Home Staying Home Reform Plan (which lays out the NSW Government's reforms of the NSW specialist homelessness system) identified that homeless young people have distinct needs⁶⁹. Similarly, Youth Action sees that young people being processed in the social housing system have needs that are different to the needs of other groups in the system such as families and older people. The Community Housing Federation of Australia and the National Youth Coalition for Housing said that young single people

⁶⁷ Groenhart, L 2012, op. cit. pg. 396.

⁶⁸ Groenhart, L 2012, op. cit. pg. 396.

⁶⁹ NSW Government Family and Community Services, 2013, *Going Home Staying Home Reform Plan*, Accessed on 03/02/2014
<http://www.housing.nsw.gov.au/NR/rdonlyres/F015C82C-B9E7-490C-AB3A-75828BAED085/0/GoingHomeStayingHomeReformPlan.pdf>

are regarded as having a lower need compared to families and older people⁷⁰. Youth Action believes that all young people including single young people have significant need based on the obstacles that they face mentioned in the introduction.

Young social housing applicants experience a number of issues with the system. One main issue identified in the Housing NSW Youth Action Plan 2010-2014 is that of transience⁷¹. Young people tend to be highly transient meaning that housing providers may not have the most recent contact details for young applicants. Housing NSW believes that this means that they might be unable to contact young people on the housing register when a property becomes available for them⁷². Another issue identified by the Housing NSW Youth Action Plan 2010-2014 is that of a lack of knowledge about housing options and how to access them⁷³. The Plan reinforced the conclusion that Ling came to in 2000 that young people lacked knowledge about community housing⁷⁴. Youth Action supports the National Shelter statement that “People should be informed about available housing options”⁷⁵.

The Housing NSW Youth Action Plan 2010-2014 said that in the future Housing NSW would ‘Produce youth friendly information about housing assistance available for young people’⁷⁶. The NSW Government should fund promotional activities aimed specifically at young people that explain the social housing system and how to access it. Promotion should also emphasise to young people the importance of updating their address every time they move. These promotional activities will make a positive contribution

⁷⁰ Ling, Sean, 2000, *Good Practice for Improving Disadvantaged Single Young People's Access to Community Housing*, **The National Youth Coalition for Housing and The Community Housing Federation of Australia**, Accessed 20/01/2014, <http://chfa.com.au/resources/other-chfa-publications/good-practice-improving-disadvantaged-single-young-peoples-access->

⁷¹ Housing NSW, 2010, op. cit. pg. 7

⁷² Housing NSW, 2010, ibid, pg. 7

⁷³ Housing NSW, 2010, ibid, pg. 5

⁷⁴ Ling, S, 2000, op. cit. pg. 8

⁷⁵ National Shelter Inc., 2009, op. cit. pg. 3

⁷⁶ Housing NSW, 2010, op. cit. pg. 10

to addressing the issues of a lack of knowledge and transience that young people face when applying for social housing.

The Housing NSW Youth Action Plan 2010-2014 also said that in the future it would 'Provide training and resources to Housing NSW staff to assist them to provide appropriate information on housing assistance options to vulnerable people, including young people'⁷⁷. The NSW Government should provide funding for this training. Youth Action also believes that there is a significant need for youth-specific training for community housing providers. The NSW Federation of Housing Associations (which provides training for NSW community housing providers) does not currently run youth-specific training for its members and feels that its members have not expressed a need for such training. The Federation believes that community housing providers are addressing youth needs adequately without such training, for example a housing provider would know to discuss tenant rights and responsibilities with a young person that had never been a tenant before.

Youth-specific training is necessary as it will bring consistency to the treatment of young people in the social housing system. This training is also a mechanism through which social housing providers can 'ensure [that] the needs of young people are identified as part of application and assessment processes'⁷⁸. Training will ensure that housing staff base allocation decisions on the understood needs of young applicants rather than their perceived needs or potential to be problem tenants⁷⁹. The identification of youth needs could promote adjustments to the application process that then become the norm, for example all new young tenants would automatically have relevant information on topics such as budgeting and local youth-specific services included in the introductory package that is given to all new tenants. The need for training is significant as The Community Housing Federation of Australia and the National Youth Coalition for Housing believe that community housing providers are unlikely to increase allocation to young lease-holders

⁷⁷ Housing NSW, 2010, op. cit. pg. 10

⁷⁸ Housing NSW, 2010, ibid, pg. 10

⁷⁹ Ling, S, 2010, op. cit. pg. 6-7

unless they are aware of their distinct difficulties and needs⁸⁰. They also stated that increasing the capacity of social housing providers to manage youth needs will increase the willingness of those providers to increase the amount of stock targeted at young people. Youth Action believes that the NSW government promoting youth-specific training for Housing NSW staff will emphasize the need for such training to the Federation. Youth Action recommends funding to hold a seminar at the state-level for Housing NSW, NSW community housing providers, youth services and youth advocates to reinforce youth-specific training and to promote best practice regarding the treatment of youth in the social housing system.

4.2 What Young People Need From Social Housing

4. 2. 1 Housing Design

As National Shelter Inc. observes, ‘housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs’⁸¹. Young people have distinct needs from housing design that reflect their age and life stage. There must be appropriate housing stock for the needs of young people. Family-sized stock will be appropriate for young people that are parents however single young people are more appropriately housed in one or two bedroom properties. However, most public and community housing stock is family-sized⁸². Jacobs et al. assert that Housing stock is “increasingly inadequate in meeting [Australia’s] demographic challenges...Australian households are becoming smaller and the fastest growing type is the single person household”⁸³. The Housing NSW Youth Action Plan 2010- 2014 identified that young people ‘want to live in areas that have access to reliable public transport, enjoyable youth activities, good quality learning and employment opportunities and youth friendly services’⁸⁴. Access to education

⁸⁰ Ling, S, 2010, op. cit. pg. 8

⁸¹ National Shelter Inc., 2009, op. cit. pg. 3

⁸² Ling, S, 2010, op. cit. pg. 8, Jacobs et al., 2010, op. cit. pg. 23

⁸³ Jacobs et al., 2010, op. cit. pg. 22-23

⁸⁴ Housing NSW, 2010, op. cit. pg. 5

and employment opportunities is fundamental to young social housing tenants developing as productive members of the community.

Young people also said that they are ‘wanting to play a positive role in their communities and make a contribution to overcoming the social stigma attached to social housing...[they are] wanting to remain connected to their local communities’⁸⁵. As discussed in Section 3, Youth Action recommends against concentrations of social housing for high needs tenants. This dwelling mix will contribute to social housing meeting young people’s needs as it will mitigate against the stigma associated with concentrated social housing. Young people will be able to feel positive about their housing, and their community. This mix will also mitigate against the negative impacts of the concentrated disadvantage discussed in Section 3, which is especially important for young people. Youth Action believes that these negative impacts such as unemployment and high crime rates have an especially negative effect on the potential of young people to develop positively. For further analysis of dwelling mix and how it can be achieved refer to Section 3.

4. 2. 2 Housing as an investment in young people

The issue of housing is not just about housing provision, it is fundamentally about housing needs. The McKell Institute believes that government housing policy has tended to focus on housing provision rather than housing needs⁸⁶. If housing can be built with an adequate consideration of needs such as location, education/employment opportunities and service provision then the government can make long-term savings. Money spent investing in meeting housing needs is money that does not have to be spent further down the line on other costs such as welfare. Investment in meeting housing needs is an investment in the social capital of tenants. The McKell Institute considers “...that the need is to transform not just the homes of public housing tenants but also their social capital and outcomes.”⁸⁷. Youth Action supports the

⁸⁵ Housing NSW, 2010, op. cit. pg. 5

⁸⁶ Personal Communication with The McKell Institute

⁸⁷ Williams, T. and Macken, S., 2012, pg. 16

McKell Institute recommendation ‘That the new approach to regulation will require not only that providers be assessed on the quality of their homes and financial capacity, innovation and probity but also on their relationships with tenants and the programs of social capital development they institute’⁸⁸. A mechanism for this assessment is the implementation of a system of better housing standards that considers how well social housing is meeting the needs of tenants and investing in their social capital.

One way to invest in the social capital of young social housing tenants is to invest in their leadership abilities. In the Housing NSW Youth Action Plan 2012-2014 the young people who were consulted said that they “value being involved and contributing through inclusive communication strategies and consultations”⁸⁹. Housing NSW identified that one of the key themes for future action was to promote the voice of young people in planning.⁹⁰ Housing NSW said it would target young people to participate in key consultative groups such as NGO Housing Partners Reference Group, Social Housing Tenants Advisory Committee and Community Housing Tenant’s Network. Youth Action recommends the strong promotion of young social housing tenants as key stakeholders in the decision-making processes undertaken by both Housing NSW and community housing providers. This will facilitate the participation of young social housing tenants in decision-making processes around social housing policy and increase their representation. It builds their social capital, which is fundamental to success in their personal and professional lives.

4. 2. 2. 1 Services for young people in social housing

Another way to invest in young people’s social capital is to invest in the services that young people in social housing need. In terms of housing young people, there is broad consensus that ‘an integrated approach to work with young people’ is necessary⁹¹. In 2011, A Deloitte Access Economics Report

⁸⁸ Williams, T. and Macken, S., 2012, *ibid*, pg. 17

⁸⁹ Housing NSW, 2010, *op. cit.* pg. 5

⁹⁰ Housing NSW, 2010, *op. cit.* pg. 9

⁹¹ Anderson, Isobel, 2001, “Housing and Support Services for Young People: Are Foyers and International Model?” *Urban Frontiers Program* vol. 7, pg. 11

concluded that the two housing systems that were most suited to assisting young people were prevention/early intervention and 'joined-up' service delivery⁹². Based on this evidence, Youth Action supports a whole system approach to young people in social housing that integrates housing with support services. Young people in social housing are likely to come from backgrounds of disadvantage and be at risk of homelessness, for example children leaving foster care⁹³. These people are likely to need services that exceed the basic provision of housing. Youth Action believes that in the housing careers of young people social housing should be a step in transitioning to independent private rental. Supporting young people through service provision linked to their housing is a means to help them develop the ability to manage an independent private rental. Linkages between housing and services are also beneficial to housing providers as, according to the NSW Federation of Housing Associations, these linkages are essential to sustaining tenancies⁹⁴. The Commonwealth of Australia identified that 'specialist housing models that link accommodation and support should underpin our long-term response to homelessness'⁹⁵. Youth Action believes that the value of service and housing linkages extends beyond the specific issue of homelessness and should be considered essential in social housing provision for young people.

Young people in social housing need services that will contribute to their personal and professional development such that they can sustain a social housing tenancy and eventually develop the skills to sustain an independent private tenancy. YFoundations (the NSW peak body representing youth homelessness services) provides key services to support young people experiencing homelessness. These include services addressing mental health, youth health, pregnancy and parenting support, GLBT issues,

⁹² Deloitte Access Economics, 2011, *Current and future service delivery models for single adults experiencing homelessness: literature review*, prepared for the Queensland Department of Communities, Accessed on 03/02/2014

<http://www.hpw.qld.gov.au/SiteCollectionDocuments/literature-review.pdf>

⁹³ Johnson et al., 2009, op. cit.

⁹⁴ Personal Communication with NSW Federation of Community Housing Associations

⁹⁵ Commonwealth of Australia, 2008, op. cit. pg. 46

disability support, alcohol and other drug issues, legal assistance, tenancy advice, employment and training, and money and budgeting⁹⁶. YFoundations provides a Homeless Youth Support Worker dedicated to the needs of young people to join them to support services. These are the services that young people in social housing still need, as being in being in housing does not necessarily mean that young people do not need additional support.

4. 2. 2. 2 Improvements to Service Provision

There are a number of ways to improve service provision. The Commonwealth of Australia recommended greater collaboration between mainstream services (such as state and territory housing authorities, Centrelink, education and employment services, and health services) and homelessness services⁹⁷. Greater collaboration would involve mechanisms such as cross-agency assessments, case management and case planning. Collaboration is not only important between mainstream services and homelessness services, but also between mainstream services and housing providers (state and territory housing authorities and community housing providers). Youth Action supports projects promoting greater collaboration such as the pilot program to co-locate state and territory housing services in Centrelink customer service centers⁹⁸. Referral Protocols and Support Service Agreements between, in particular, community housing providers and service programs are important tools to establish effective linkages⁹⁹. Greater linkages have a number of benefits for young social housing tenants. Linkages will help to ensure that young social housing tenants are able to access support services when needed and ensure that they do not fall through the gaps. This will help prevent these people falling into homelessness because they fail to successfully sustain a social housing tenancy. Housing NSW said that providing the necessary support to young people is social

⁹⁶ YFoundations website Accessed on 03/02/2014 <https://yfoundations.org.au>

⁹⁷ Commonwealth of Australia, 2008, op. cit. pg. 39

⁹⁸ Commonwealth of Australia, 2008, op. cit. pg. 54

⁹⁹ Ling, S., 2000, op. cit. pg. 7

housing was a central theme for future action¹⁰⁰. Collaboration also saves time as Cameron found that time wasted filling out forms for each separate service provider and connecting the gaps between multiple services restricted the ability for service providers to assist homeless young people¹⁰¹. Youth Action follows the McKell Institute's recommendation that the government needs to provide funding to increase linkages¹⁰².

4. 2. 2. 3 Case Studies of Service Delivery for Young People in Social Housing

Having identified the necessity of integrated service provision for young people in social housing, different existing models of service provision need to be explored in order to consider how services can be best provided to young people. The "Grow a Star" program run by Compass Housing is an example of a youth-orientated social housing service, and it is the first program of its kind designed and operated by a community housing provider¹⁰³. This program involves weekly group sporting, music and academic activities run by mentors who provide guidance and act as good role models. Talent development programs and scholarships are organised for talented children. This program is founded in Compass Housing's acknowledgement that "children in community housing are generally thought to be at greater risk of multiple disadvantages than other members of society."¹⁰⁴. Youth Action supports youth-orientated programs run by social housing providers such as this one. This program is aimed at child tenants in community housing rather than young renters so it fails to actively seek to play a holistic role in transitioning young people from social housing to independent private rental. Service provision to young people facilitated by both public and community housing providers needs to be consistent across housing providers.

¹⁰⁰ Housing NSW, 2010, op. cit. pg. 9

¹⁰¹ Cameron, C., 2009, *Tackling Youth Homelessness with Integrated Service Delivery: the case for integration in addressing the needs of young people who are homeless, disadvantaged and at risk*, report to Melbourne Citymission, Melbourne, VIC.

¹⁰² Personal Communication with The McKell Institute

¹⁰³ Compass Housing, "Grow A Star" Accessed on 03/02/2014

<http://www.compasshousing.org/site/grow-a-star>

¹⁰⁴ Compass Housing, op. cit.

Case Study 1. The Common Ground Model

The Common Ground model is another service delivery model. It focuses on ending chronic homelessness¹⁰⁵. It began operation in NSW in November 2011 with 104 units at Camperdown managed by Housing NSW and Mission Australia Housing. This model links housing provision with tailored support services. The Mercy Foundation asserts that 'The chronically homeless need more than a roof - they need holistic solution which tailors services to their needs'¹⁰⁶. Youth Action believes that young people need the same. While this model currently houses homeless people specifically, it is a potential model for how young social housing tenants should be provided with services as it links housing and service provision. This model is based on the philosophy that if people are provided with housing, the security and certainty of that housing means they can address other personal issues. In a similar way young people in social housing can use the security of housing to fully utilize services to address their other needs.

Case Study 2. The Foyer Model

The Foyer model is significant as it is a model focused on youth homelessness¹⁰⁷. It is an integrated model of housing and service provision¹⁰⁸. Housing provision is conditional upon young people participating in education, training or employment. "The model assumes that if young people are given appropriate and coordinated support...they become empowered to move from dependence and isolation to independence and connection with the community"¹⁰⁹. This is because the stability of the

¹⁰⁵ Mercy Foundation, "Common Ground in Sydney" Accessed on 03/02/2014
<http://www.mercyfoundation.com.au/homelessness/index.cfm?loadref=41>

¹⁰⁶ Mercy Foundation, "Common Ground Key Information" Accessed on 03/02/2014
http://www.mercyfoundation.com.au/uploads/fckpg/files/common_ground_key_information_link_from_cg_page.pdf

¹⁰⁷ Commonwealth of Australia, 2008, op. cit. pg. 49

¹⁰⁸ Deakin, E., 2013, "Final Evaluation Report- South West Sydney Youth Hub Project Incorporating the Foyer Model" prepared for The Department of Family and Community Services Housing NSW, Accessed on 03/02/2014
<http://www.housing.nsw.gov.au/NR/rdonlyres/93708A24-5EE6-48ED-8114-A4965CF4638F/0/SouthWestSydneyYouthHubProject.pdf>

¹⁰⁹ Deakin, E., 2013, ibid, pg. 12

housing provided allows young people to focus on long-term independence skills. There are currently four youth foyers operating in NSW (Miller Live 'N' Learn campus, the Illawarra Youth Foyer Project, Vera Loblay House in Crows Nest and Francis Street in Darlinghurst) as well as the planned Southern Community Hub and Youth Foyer in Warilla NSW¹¹⁰.

The Miller Live 'N' Learn campus established in 2003 houses up to 29 young people aged 16-25 with low support needs who are in vulnerable housing situations. It is managed by Mission Australia and sponsored by Housing NSW. It provides a useful case study for the benefits of the Foyer model as it was a pilot program considering the potential for implementing the foyer model throughout NSW¹¹¹. A 2013 evaluation report said the outcomes of the campus have been very positive to date¹¹². The report found that the campus has helped to prevent youth homelessness as well as improving life skills¹¹³. There is evidence of residents sustaining their involvement with education, completing their courses and participating in employment¹¹⁴. Areas that the campus performed particularly well include providing transition pathways into stable accommodation for young people leaving the campus and the use of intensive case management where each young person has an individualised Action Plan¹¹⁵. "In providing a bridge to help the transition from insecure childhood to participating adulthood, the kind of unstable housing and poor life chances experienced by residents prior to moving to the Campus can be transformed to more secure futures for these vulnerable young people."¹¹⁶. This is a potential model for how young people in social housing should be treated as the approach to young people's needs is holistic through the integration of housing and services. "Foyers do not approach housing as the

¹¹⁰ See Deakin, E., 2013, *ibid*, pp. 84 for more specific information on individual foyers

¹¹¹ Randolph, B. and Wood, H., 2005, "An Interim Evaluation of the Miller Live 'N' Learn Campus", **Australian Housing and Urban Research Institute** Accessed on 03/02/2014 <https://www.be.unsw.edu.au/sites/default/files/upload/pdf/cf/research/ahuriprojects/millerfoyer/FR84.pdf>

¹¹² Deakin, E., 2013, *op. cit.* pg. vi

¹¹³ Randolph, B. and Wood, H., 2005, *op. cit.* pg. 7

¹¹⁴ Randolph, B. and Wood, H., 2005, *ibid.* pg. 7

¹¹⁵ Deakin, E., 2013, *op. cit.* pg. v

¹¹⁶ Randolph, B. and Wood, H., 2005, *op. cit.* pg. 7

end, but rather part of the means to allow young people to “thrive”¹¹⁷. The model also acknowledges what young people can offer to the community as “The foyer model has at its heart the premise that young people need to actively engage in their own development and can make a positive

¹¹⁷ Deakin, E., 2013, op. cit. pg. 12

Rental Reform

Recommendations

1. That the NSW Government examines offering financial incentives to landlords for renting out properties below market rate.
2. That the NSW Government re-examines the NRAS as a model for offering state-based support to organisations wanting to develop affordable housing for vulnerable groups.
3. That the NSW Government lobbies for an increase in the level of Commonwealth Rent Assistance.
4. That CRA be tied to increases in rental prices, rather than CPI.
5. That the NSW Tenancy Act be reviewed for its role in providing security to low-income households, rather than to provide flexibility to landlords.
6. That the NSW Government provide greater access to information for vulnerable groups, including young people, on their rental rights.
7. That the NSW Government fund innovative programs working to improve access to the private rental market, such as the Macarthur Real Estate Engagement Project

Introduction

Housing security and stability plays a vital role in young people's development, livelihood, health, education, employment and overall standard of living. With more young people expected to enter the private rental market, and renting for a longer time than previous generations, it is important to

ensure that private rental properties are affordable and accessible by young people. However, the prospects are grim as rental prices continue to surge in areas that matter the most to young people.

1. Shortage in the supply of affordable, low-cost private rental property

Shortage in the supply of affordable, low-cost private rental property has a detrimental impact on young people. The Australian Housing and Urban Research Institute (AHURI) found that while the supply of private rental property in general has been steadily increasing since 2001, supply of low-cost housing has declined from 50% to 37%.¹¹⁸ According to the Tenants' Union NSW, one possible cause for this trend is that tenants who could afford higher rents often occupy lower cost rental dwellings. This unbalanced distribution of housing stock pushes low-income renters out of the private rental market.¹¹⁹

In Sydney, there is only one affordable and available dwelling for every 15 very-low-income households.¹²⁰ Young renters are most likely to fall within the very-low to low-income household categories as a result of their commitment to study and lack of professional skills. A study by Universities Australia shows that two out of three full time, domestic undergraduate students received an annual income of less than \$20 000 and 21% received less than \$10 000.¹²¹ Young people between the ages of 15 – 24 in full time employment earn around \$600 - \$900 per week.¹²²

Figure 1: Average weekly earnings (all jobs), by age group (2010)

¹¹⁸ AHURI 2011, 'How great is the shortage of affordable housing in Australia's private rental market?', *AHURI Research & Policy Bulletin*, issue 144, p. 2.

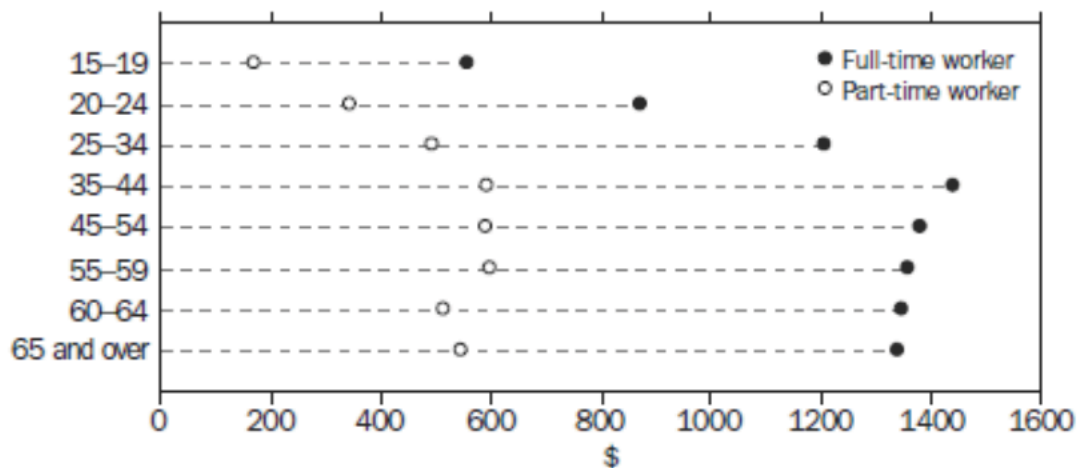
¹¹⁹ Ibid.

¹²⁰ Ibid, p. 1. Note: low-income private renters are those with the lowest 40% of household incomes, and very-low-income private renters are those with the lowest 20% of household incomes.

¹²¹ Bexley, Emmaline., Daroesman, Suzanne., Arkoudis, Sophie. & James, Richard 2013, *University student finances in 2012*, Universities Australia, p.8.

¹²² ASB:

<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Earnings~299>



Source: ABS

If the undersupply of affordable private rental property continues, young people will be disadvantaged as they rely heavily on low-cost rental properties. Persistence of rental property shortage will have a grave impact on stability for young people and place more young people in housing stress.

1.1. Supply of affordable housing near educational and social hubs

It is important to ensure that affordable housing is not only low-cost, but appropriate for young people. Within the Greater Sydney Region, suburbs with the lowest median rents (Canterbury, Liverpool and Blue Mountains) are located away from tertiary educational institutions, working and social hubs.¹²³ Young people living in these areas are likely to experience higher non-rental living cost such as transport fees, as well as longer travel time for those who need to travel into the city for university or work.

Young people's demand for housing in high cost areas is a result of necessity. Suburbs such as Randwick and Sydney attract a higher number of young people than Canterbury, Liverpool and Blue Mountains due to their proximity to tertiary educational institutions, transport, work and social infrastructure.

Table 2: Median rent by Local Government Area

¹²³ Housing NSW 2012, 'Rent and Sales Report ' *Housing Analysis and Research – Housing NSW*, no. 100, p.6. Note: rent prices are based on weekly rents for 2 bedrooms dwellings.

Local Government Area	Median Weekly Rent for Two Bedroom Dwellings (\$)
Sydney	680
Randwick	550
Canterbury	350
Liverpool	300
Blue Mountains	275

Source: Housing NSW Rent and Sales Report 2012

However, the median rent in these “prime real estate” locations is extremely high due to competition and the attractiveness of these locations for other renters, pricing young people out of the market.

1.2. Current State and Federal affordable housing initiatives: NRAS

The National Rental Affordability Scheme (NRAS) is a commitment by the Australian Government to invest in 50,000 affordable rental housing dwellings. It offers financial incentives to persons or organisations in the business or community setting to build/develop/invest money into building/renting dwellings to low and moderate-income households at a rate that is at least 20% below market value rent.

The NRAS has favoured private developers than public institutions. NSW universities applied for approximately 3,000 incentives in Round 4 of the NRAS. Due to a legislative technicality these applications were delayed and missed out on the available incentives. Unlike other states and territories, no NSW-based university has been able to secure any NRAS funding to date, due to the absence of incentive support from the NSW Government.¹²⁴

The NRAS is a fresh and viable way to increase the supply of affordable, low-cost rental properties in Australia. However, the NRAS needs to be adapted to

¹²⁴ University of New South Wales
Professor Frederick Hilmer AO, ‘International Student Accommodation in New South Wales’, Submission no 20., p. 4.

ensure that low-cost properties are accessible by young people in the private rental market.

1. The effectiveness of the Commonwealth Rent Assistance Scheme (CRA)

The Commonwealth government provides financial assistance to young renters through the CRA. The CRA is a tax-free income support payment. Through the CRA, the government contributes 75 cents for every dollar spent on rent per fortnight until a maximum threshold is reached. Payment rates are indexed to CPI and vary according to one's income, family and living arrangements.

Table 3: Rent assistance rates for tenants without dependent children

Family situation	Maximum payment per fortnight	No payment if your fortnightly rent is less than	Maximum payment if your fortnightly rent is more than
Single, with no children	\$124.00	\$110.00	\$275.33
Single, with no children, sharer	\$82.67	\$110.00	\$220.22
Couple, with no children	\$116.60	\$179.00	\$334.47
One of a couple who are separated due to illness, with no children	\$124.00	\$110.00	\$275.33
One of a couple who are temporarily separated, with no children	\$116.60	\$110.00	\$265.47

Source: Department of Human Services 2014

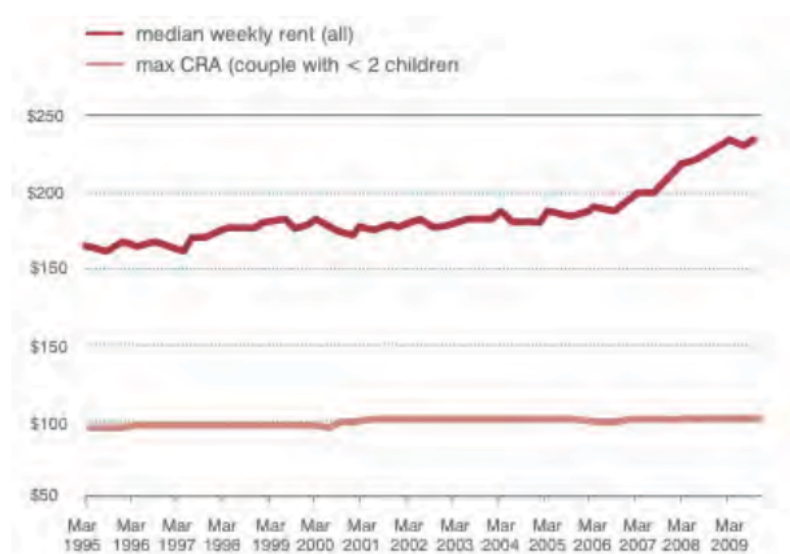
Each year, the Federal Government spends around \$3 billion on CRA.¹²⁵ However, abundant research demonstrates that this amount has had limited benefits for renters and should be utilised in a more efficient way. Findings from AHURI, Shelter NSW, Yfoundations and the Australians For Affordable Housing (AFAH) initiative indicate the ineffectiveness of the CRA in alleviating young people from rental stress.¹²⁶ According to AFAH, the CRA is

¹²⁵ Archer, Toby 2012, 'Fixing rent assistance in Gimme Shelter – housing affordability in Australia', *Insight*, issue 6, p. 38.

¹²⁶ Van Reyk, Paul 2012 *op. cit.*, p. 23.

“manifestly inadequate to ensure that renters who receive it are no longer in housing stress”.¹²⁷ Of all CRA recipients, 75% are receiving the maximum rate and 40% are still in rental stress.¹²⁸ These numbers are steadily increasing as the maximum rate of assistance is indexed to CPI rather than rent prices. In Australia, especially NSW and the Greater Sydney Region, rent increases at a faster rate than CPI, creating a significant gap between rent prices and CRA.¹²⁹

Table 4: Weekly median rent compared to maximum CRA, 1995 to 2009



Source: Archer, Toby 2012

Table 5: Comparison of weekly median rent across States and Territories, 2011

Median rent (\$/week)	NS W	QL D	VIC	SA	WA	NT	TA S	AC T
State/Territory wide	300	300	277	220	300	225	200	380
Urban Centre	369	330	302	250	320	360	240	380

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Archer, Toby 2012 op. cit, p. 39.

Where rent is 30% or more of household income (%)*	12.9	11.9	9.9	10.3	9.3	11.5	11.4	8.0
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* Measured for urban centres

Source: ASB 2011 Census

Young renters (especially those who receive Youth Allowance or Austudy) are one of the main groups affected by the CRA gap because they are highly reliant on extra financial assistance and often live in urban centres with sharp rent increases. Young people's likelihood to live in shared accommodation also puts them at a disadvantage as the CRA rate (as well as other income related assistance) for people living in shared housing are lower than that for lone households.

2. Residential Tenancies Act 2010

The Residential Tenancies Act 2010 (NSW) (the Act) covers most residential tenancy agreements in NSW. The Act sets out the rights and responsibilities of tenants and landlords in a residential tenancy agreement, and gives power to the NSW Civil and Administrative Tribunal to hear disputes between landlords and tenants.

Recent amendments to the Act have not adequately addressed concerns of young tenants in NSW, and have in some instances taken away previous safety nets that young people rely on.

3.1. Termination notices without grounds

Sections 84 and 85 of the *Act* allow landlords to end residential tenancies without giving grounds, and specify that the Tribunal must make an order terminating the tenancy if the tenant overstays the relevant notice of termination. In an international comparison of *tenure security after lease period*, Australia has been identified as having one of the lowest tenure

security as there is no specific grounds for termination, and tenants can be evicted for any reason.¹³⁰

Prior the 2010 amendments to the *Act*, a tenant who had received a “without grounds” notice of termination could make a case in the Tribunal that their tenancy should not be terminated. In such matters, the Tribunal was bound to consider the circumstance of the case – weighing up things like the age and health of the tenant, with the needs of the landlord to recover the property. However, this is no longer possible. Under the current *Act*, the circumstances of the case can now be considered only in determining when possession is to be returned, not whether the tenancy is to be terminated at all. Tenants are no longer entitled to raise the circumstances of the case before the Tribunal and landlords can give a termination notices without the need to disclose a reason.

The *Tenants Advice and Advisory Services* report that ‘without grounds’ termination notices seem to be used more widely now than they were under the old *Act*.¹³¹ Its effect has now even spread to social housing landlords who previously rarely resorted to “without grounds” termination notices are now doing so. ‘Without grounds’ termination also encourages ‘vacant sales’. Vacant sales are an unfair and inefficient way of transferring property especially when the purchaser also intends to lease the property. This is likely to place tenants in rental stress and at fear of homelessness.

3. Exploitation of young people due to lack of awareness and weak tenancy protection

Apart from the issues inherent in the *Act*, it has been difficult for young people to realise the full benefits of tenancy protection legislation as they are not fully aware of their rights and the support networks available to help. Such lack of

¹³⁰ Scanlon, Kath & Kochan, Ben *Towards a sustainable private rented sector – the lessons from other countries*, LSE London, London, 2011, page 34

¹³¹ Tenants’ Union of NSW, submission on the draft Residential Tenancies Regulation 2010 (NSW) (the draft Regulation). <http://www.tenantsunion.org.au/publications/31-policy-papers?start=5>

awareness has exacerbated rental issues faced by young people and also gives rise to exploitation.

Common unfair practices and issues of exploitation experienced by young tenants include:

- Head leasing: a lease is taken out and property is advertised as a share house. Young people who apply to share are encouraged not to register their name on the lease as a co-tenant or sign any other lease agreements. This is problematic because if a tenant is not a registered leaseholder, they will be prevented from lodging their bond with the NSW Fair Trading and will not be able to apply for CRA as they would not be able to present a proof of tenancy¹³².
- Subleasing: sub-leasees without a residential tenancy agreement used to have access to rights and protections under NSW tenancy law. Now under s.10 of the Residential Tenancies Act 2010, sub-leasees without a written agreement who live with a head tenant who is on a residential tenancy agreement themselves, have no legal status as tenants and cannot use the tenancy laws to protect themselves.

People who sublet, including young people, local and international students, overseas visitors and single people of all ages, cannot afford to take on the full cost of a tenancy alone. Most of these renters are already vulnerable and section 10 makes them even more so by failing to provide legal redress when they have a dispute with their head tenants. Changes made to the *Act* saw that landlords could no longer refuse the changing of names on the lease unless a reason was given.

Unfair lease terms and additional terms: a landlord and tenant may agree to include terms that are additional to those found in the standard agreement. However, no agreement can take away or expand on rights that are found in the *Act*. This means that even where a tenant agrees

¹³² Van Reyk, Paul, *op. cit.*, p. 46.

to an additional term, it will not be legally binding if it conflicts with the Act.

Many young people are unaware that before signing a rental agreement or moving into a premise, the landlord or agent must provide them with:

- a. A copy of the proposed rental agreement and condition report;
- b. A written statement detailing any additional payment the tenant must make upon entering a rental agreement; and
- c. A copy of 'The Renting Guide: A guide for landlords and tenants'.¹³³

The reason why young people must know that they have this rights is to avoid the situation where a young renter does not see these additional terms and discover they must pay because they have broken one of the terms. Even to just be aware of what is covered in the lease and what is not is of use.

- Bond Harvesting: the bond is taken prior to the end of the time period set out in the lease, landlords create spurious reasons to evict students and refuse to release their bonds.¹³⁴
- Optional lease 'break fee': landlords will have the option of including a fixed penalty in the lease (a break fee), in the event that a tenant breaks a lease before the end of the fixed term period. Where there is no such penalty in the lease, the tenant will still be liable to compensate the landlord for any loss. The issue for young people would be that landlords incorporate a 'break fee' into the lease and young people who do not have full awareness of their rights will comply with this. In worse cases they are not even aware of the presence of a 'break fee'.

¹³³ Author unknown, 'Rights & Obligations of Tenants of in New South Wales', www.uow.edu.au/content/groups/public/@web/@accomm/documents/doc/uow047923.pdf, p. 1

¹³⁴ Van Reyk, Paul, *op. cit.*, p. 42

4. High risk tenants & excessive regulation

Young people are commonly perceived as high-risk tenants. This social stigma derives from a young person's age, maturity, rental experience and access to finance. Mistrust and discrimination result in landlords or agents excessively regulating premises where young tenants live. Additional lease terms and more frequent visits from landlords or agents are also common. This kind of 'over-policing' places significant stress on young renters and curtails their livelihood.

Many landlords or agents also ask young renters to provide a guarantor when signing their lease agreement. According to the *Act*, it is unlawful for landlords to request a guarantor if an appropriate bond has been paid.

Young people transitioning from social housing to the private rental market and those who are on Centerline payments experience harsher discrimination and find it extremely difficult to access rental property.

As a result of these implications, young people tend to find ways to circumvent formal leases and real estate agents. Entering unwritten, informal agreements exposes young people to many forms of exploitation as mentioned above.

6. International examples NSW could consider

The types of landlords and how they are financed varies enormously between different countries, as do the conditions that investors require with respect to risk and return. In the UK, the USA, Australia and some European countries for instance rent and security regulation are seen as important impediments to investors. In other countries notably Germany, Switzerland and Austria they are seen as stabilising the system and reducing the risks for both parties.¹³⁵

Australia does not have rent control, and the amount of rent landlords can charge is not controlled by a specific policy. The affordability of rental housing is an issue around the world but there are some countries (for example

¹³⁵ Scanlon, Kath & Kochan, Ben, *op. cit.*, p. 9.

Belgium, Norway and Hong Kong), that do this better than Australian. In countries where rent is controlled, policy discussions centre less on affordability than on the specifics of rent regulation. In Sweden, private landlords cannot charge market rents but must base their rents on those that obtained in the municipal housing sector. In Switzerland there are discussions about whether rent rises should reflect increases in the mortgage interest rate or the cost of living. Many countries deregulated only the rents on new buildings, not new leases, so the majority of tenancies are still subject to rent control. This is the case for example in the Netherlands and Denmark.

Case Study: Rent Stabilization and Rent Control in New York

One of the cases that will be used as an example is that of New York. They have a long-standing mandate that Australia could incorporate to parts of the rental market.

New York has two forms of rent regulation: rent control and rent stabilization. Both are mandated by the New York State government with the intention of preventing average city renters from getting priced out of the rental market. Rent control is the older of the two systems of rent regulation. It dates back to the housing shortage immediately following World War II and generally applies to buildings constructed before 1947 and is only applicable if the tenant has been living there continuously from 1 July 1971. Rent stabilization generally covers buildings built after 1947 and before 1974, and apartments removed from rent control.¹³⁶

Only 1.8% of New Yorkers actually enjoy the security of a rent controlled apartment, although 45.4% do live in rent stabilized accommodation where landlords are prohibited from increasing rates by a certain percentage each year.¹³⁷

There are its critics who argue that rent control is restrictive, prevents millions of dollars in development and it would only satisfy the needs of those who

¹³⁶ Andrew M. Cuomo, Governor in A Publication of New York State Division of Housing and Community Renewal Office of Rent Administration, p. 1.

¹³⁷ Pitman, Sophie, 'The myth of NYC rent control', <http://my.telegraph.co.uk/expat/sophiepitman/10151459/the-myth-of-nyc-rent-control/>

have already moved into properties covered by rent control. Few wish to leave rent stabilised/controlled properties which would then cause a stagnation in the property market but in Sydney's context the target should be on supplying those with lower incomes affordable housing who have been pushed out of the private rental market.

Solutions:

Creating affordable, low-cost private rental property

New measures should be developed to ensure that young people have secure access to affordable, low-cost rental property in appropriate areas. Financial subsidies or tax benefits could be used to encourage landlords to lend to young people. This would be similar to the NRAS where financial subsidies or tax benefits are given to landlord who rent to young people at a price below the market rate. A feasibility test should be conducted and this could be trialled in suburbs close to educational facilities such as Redfern and Randwick.

NRAS

A proportion of NRAS incentives should be reserved for local university applications to ensure young people have access to affordable housing that is close to educational facilities. The NSW Government can replicate measures used by ACT, VIC and WA Governments which supported local university applications through land allocations and interest free loans.

Enhance the effectiveness and efficiency of the CRA

A comprehensive review of the CRA is necessary to assess the effectiveness and efficiency of the scheme in alleviating tenants from housing stress. The review should address:

- How **are** young people using CRA payments?
- Who is benefiting from CRA payments (tenants or landlords)?
- The feasibility of a special rate of CRA payments specific to young people; and
- How CRA contributions can be used more effectively to alleviate housing stress?

An increase of the maximum rate of the CRA by 30% is essential in alleviating young renters from housing stress. This would immediately ease the pressure on those young renters who are already struggling on the current maximum. An increase of 30% would translate to \$15 - \$25 per week in CRA payment which will effectively relieve 65 000 – 100 000 people from housing stress, many of which would be young people.¹³⁸

Table 6: Result of a 30% increase in CRA threshold:

\$ Amount of increase	Cost of increase (million)	Number of people relieved of housing stress
\$15/week	\$596	65 000
\$ 25/week	\$932	100 000

Source: Archer, Toby 2012

The maximum rate of CRA should be indexed to real rent prices rather than the CPI. This would better reflect the real increase in rent prices and ensure that young renters are adequately supported as their rent increases. In addition to this, the option to index CRA to State and Territory specific rent prices should be explored in order to address the discrepancies between rent prices between different state and territories.

The policy should be adapted to be more inclusive of young people, acknowledge their unique situations (the need to live in high cost areas and their likelihood to live in shared housing) and ensure that their needs are adequately addressed. Policy makers should ensure that young people are not disadvantaged because they live in share accommodation. CRA rates should be adjusted based rent prices rather than the type of living arrangement. Eligibility should also be extended to all people who meet the income test requirements, irrespective of their source of income or tenure.¹³⁹

¹³⁸ Archer, Toby 2012 op. cit, p. 39.

¹³⁹ Ibid.

Raising awareness

Information about the rights and responsibility of tenants and landlords should be made widely available to young people, through a mechanism that is easily accessible and is simple to understand. This is essential to ensure that young people are fully aware of their rights and responsibilities, and support services when entering into a lease agreement.

Currently, the NSW Tenants' Union, NSW Department of Fair Trading and various community legal centres provide fact sheets and checklists about tenants' rights and responsibilities. The Department of Fair Trading requires all landlords and real estate agents to provide tenants with a copy of a Fair Trading publication called 'New Tenant Checklist'. The checklist contains information about requisite documentations that landlords should provide before signing a lease, negotiating additional terms, repairs, upfront costs, tips for dealing with rental issues and contact information for support services. However, the New Tenant Checklist does not address issues such as co-tenancy, excessive regulation, break fees and termination which young people often encounter.

In addition to the New Tenant Checklist, Youth Action **recommends** the NSW Government legislate for a more comprehensive "Handbook" to be given by landlords/agents to tenants at the signing a lease. This Handbook should include information about:¹⁴⁰

- Key features of the Residential Tenancies Act 2010 (NSW) & Boarding Houses Act
- Eviction
- Ending a tenancy
- Repairs and maintenance
- Rent, bond and other payments
- Access and privacy
- Locks and security
- Share housing

¹⁴⁰ <http://www.tenants.org.au/tenants-rights-factsheets#law>

- Starting a tenancy
- Tribunal
- Strata renting
- Boarders and lodgers
- Domestic violence

This information should be based on the online factsheets provided by the Tenants' Union NSW. Information should be written in plain English to ensure that it is easy to understand by young people. Youth Action encourages the NSW Government to consult and collaborate with the Tenants' Union in producing this publication.

Collaboration between Centrelink and the Tenants' Union is also encouraged in order to make the Tenants' Union factsheets more widely available to young people. Centrelink should provide every CRA recipients with a physical copy of a factsheet or handbook about tenants' rights that is akin to the Tenants' Unions factsheets. This would reach many young renters, and enhance their understanding of their rental rights and responsibilities as most young renters are CRA recipients.

Schools and Universities should also take on the responsibility of educating young people about their rights and responsibilities when renting. Schools and Universities have the capacity to convey this information to students in a more engaging way than factsheets and handbooks and are able to make young people aware of such information before they enter the rental market.

Of equal importance are educational programs aimed at minimising the common prejudices landlords hold against young tenants. The negative stereotype of young people as "high-risk tenants" needs to be eliminated to ensure that young people are given a fair go. An example of how this stigma can be addressed is the Macarthur Real Estate Engagement Project.¹⁴¹

The Macarthur Real Estate Engagement Project

¹⁴¹ NSW Legislative Assembly, *Macarthur Real Estate Engagement Project*, Private Members' Statements (2012) p. 8551.

The Macarthur Real Estate Engagement Project is a partnership between real estate agents and youth workers to reduce the impact of homelessness. In his parliamentary address, Mr Bryan Doyle (MP for Campbelltown) described the project as a “two-pronged approach to the problem of homelessness”.

First, it provides support to new and existing tenants of real estate agents to prevent them from entering into the homelessness assistance system.

Second, it encourages cooperation between real estate agents and community services to help disadvantaged tenants.

Real estate agents are linked to Centrelink, NSW Family and Community Services, Housing NSW and Community housing provider, and are provided with the skills and contacts they need to assist their tenants. The Project encourages real estate agents to appreciate the hardship of some of their tenants, and also be aware of the support services available to help these tenants maintain their tenancy during difficult times.

The Project has received praise from real estate agencies, community organisations and services and tenants. Within the first month of its operation, real estate agents made around 36 referrals and 9 tenancies were saved.

Housing Tax Reform

Recommendations

1. That the government should phase out negative gearing over a period of 3-5 years in relation to existing properties but retain it for new properties to stimulate supply.
2. That the government create tax policies that stimulate supply of housing rather than the demand
3. That capital gains be taxed at a 40% discount (rather than 50% as at present)
4. That within 5-8 years the CGT is gradually phased out and returned to the pre-1999 policy whereby capital gains were taxed in full.
5. The New South Wales government should implement a 10-year transition plan to reduce stamp duty annually by one-tenth and increase the level of land tax by one-tenth. A transition payment should be paid to households who paid stamp duty in the past ten years. Land tax should be applied to all land
6. The New South Wales government should put into effect over the next 5 to 10 years, a plan to reduce development levies and infrastructure charges on the construction of new housing. The community through a council rate tax should share the costs. The New South Wales government could also invest \$200 million in the 2014/2015 budget towards the implementation of Tax Increment Finance Schemes and/or similar Local Infrastructure Growth Schemes

Introduction

The Australian dream is founded upon the idea of home ownership, yet this aspiration has become increasingly unattainable. Housing not only provides shelter and security to Australians that is vital for basic human needs but underpins individual self-fulfilment, social integration and community efficiency.¹⁴² Housing affordability relates to the ability of people to purchase an adequate standard of housing.¹⁴³

The Australian Bureau of Statistics, *Housing Occupancy and Costs 2011-2012* which was based on the *Survey of Income and Housing* found that there has been a decrease in the proportion of households owning their homes outright, from 42% in 1994-1995 to 31% in 2011-2012.¹⁴⁴ The Survey also found that there were increases in households owning their houses with a mortgage (from 30% in 1994-1995 to 37% in 2011-2012) and also an increase in renting households (from 18% in 1994-1995 to 25% in 2011-2012).¹⁴⁵

The McKell Institute *Homes for All April 2012 Report* found that Sydney has 'one of the least affordable housing markets in the world'.¹⁴⁶ Sydney's housing costs are higher than London and New York.¹⁴⁷ The excessive costs of housing in Sydney has resulted in the creation of a generational gap in which those reaching the first rung of property ownership now have an average age of the mid-30s.¹⁴⁸ For this reason "ownership is becoming something older people do and is clearly increasingly excluding younger generations without

¹⁴² Australia's Future Tax System Review, Commonwealth of Australia 2010, *Australia's Future Tax System – Final Report: Part 2 – Detailed Analysis – Volume 2*, Accessed on 07/01/2014, http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/Publications/Papers/Final_Report_Part_2/Chapter_e4.htm, E4-1

¹⁴³ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* E4-2

¹⁴⁴ Australian Bureau of Statistics 2013, *4130.0 – Housing Occupancy and Costs 2011-2012*, Australian Bureau of Statistics, Accessed on 07/01/2014, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4130.0Main%20Features2011-12?opendocument&tabname=Summary&prodno=4130.0&issue=2011-12&num=&view=>

¹⁴⁵ Australian Bureau of Statistics 2013, *ibid.*

¹⁴⁶ Williams, Tim & Macken, Sean 2012, *Homes for All: The 40 things we can do to improve supply and affordability*, The McKell Institute, Accessed on 14/01/2014, http://mckellinstitute.org.au/wp-content/uploads/2012/04/McKell_HomesForAll_A4.pdf, pg. 8

¹⁴⁷ Williams, T & Macken, S 2012, *ibid.* pg. 8

¹⁴⁸ Williams, T & Macken, S 2012, *ibid.* pg. 32

wealth from home ownership”.¹⁴⁹ Research by Judy Yates of the University of NSW has shown that home ownership rates, particularly among younger age groups, declined dramatically between the 1991 and 2011 Censuses.¹⁵⁰

Supply is also falling short of the increasing demand for housing. By 2020 it is estimated that New South Wales will be 190,000 homes short of the demand.¹⁵¹ Reforms to negative gearing, Capital Gains Tax (CGT), stamp duty, land tax and infrastructure costs would reduce the inefficiency of our current tax system and increase housing supply. However, Youth Action does recognise that supply constraints are not solely born by the tax system and wider reforms are needed.

Negative Gearing

What is negative gearing?

Negative gearing is a tax incentive, which was originally intended to help small businesses cover the costs associated with setting up a new business.¹⁵² Negative gearing was also intended to support the residential tenancy market by increasing housing supply. The policy was intended to help incentivise the construction of new properties for the purpose of rent thereby increasing supply and stifling demand. For this reason, today negative gearing is most widely used by property investors.

As defined by economist and researcher Philip Soos:

“Negative gearing allows an investor to deduct net losses from rental property against their income tax liability at their marginal tax rate even though the loss was generated separately to those income streams.”¹⁵³

¹⁴⁹ Williams, T & Macken, S 2012, *ibid.* pg. 32

¹⁵⁰ Eslake, Saul 2013 2nd September, *50 Years of Housing Failure*, Address to the 122nd Annual Henry George Commemorative Dinner, **The Royal Society of Victoria**

¹⁵¹ Williams, T & Macken, S 2012, *op. cit.* pg. 8

¹⁵² Williams, T & Macken, S 2012, *op. cit.* pg.54

¹⁵³ Soos, Phillip 2012, *Removing negative gearing would have little effect on rents*, December 24, **Property Observer**, Accessed on 21/01/2014, <http://www.propertyobserver.com.au/negative-gearing/removing-negative-gearing-would-have-little-effect-on-rents-philip-soos>

In laymen's terms, negative gearing requires investors to make a loss on rental income in return for capital gains in the future. The role negative gearing plays with Capital Gains Tax (CGT) will be discussed in more detail later on in this paper.

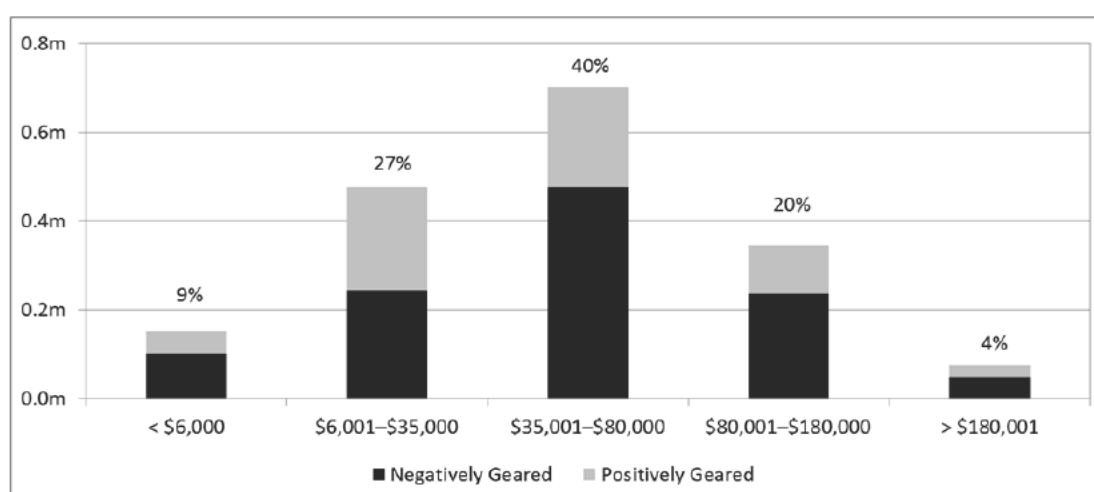
Main users or benefactors of negative gearing

According to the Tax Institute's Paper, *Negative Gearing- should we move towards the United Kingdom system?*¹⁵⁴, there are four key users of negative gearing.

1. High wealth individuals: Negative gearing is particularly lucrative for these individuals due to their higher cash flows and higher marginal tax rates. These two factors result in the ability to reduce their marginal tax rate and absorbs losses well.¹⁵⁵
2. Low income individuals: For this group 'risk and reward are magnified, and are more likely to show positive returns on investment, due to their restricted ability to service debts and still have sufficient disposable income to comfortably meet interest costs and living costs'¹⁵⁶.

Negatively geared property investment is taken up by all income levels:

Table 1: Negatively geared properties based on income



Source: Van Onselen, L. 2012

¹⁵⁴ Callea, Pasquelina September 2012, *Negative Gearing- should we move towards the United Kingdom system?*, Tax Institute ConTax Newsletter, pg.11

¹⁵⁵ Callea, P 2012, ibid pg.11

¹⁵⁶ Callea, P 2012, ibid pg.11

3. The Australian Government: The government is a key benefactor of negative gearing as the policies' purpose is to encourage investment in the property market. By encouraging private investment, the government can allocate their resources elsewhere.
4. Renters: Negative gearing is beneficial for those who choose to live a renter's lifestyle or who cannot afford home ownership, If it leads to increased supply of housing. The increase in supply of rental properties helps to maintain rental prices at a more affordable cost.

Arguments in favour of negative gearing

The following is a list of arguments made by those who support the continuation of negative gearing as a policy:

1. Negative gearing encourages investment.
2. Negative gearing creates a secondary market of rental properties for those who don't want to buy or can't afford to. This means an increase in supply of rental properties in proportion to the total housing stock as well as lower rents.¹⁵⁷
3. Negative gearing has led to an increase in employment as well as activity and investment in the residential construction sector.¹⁵⁸
4. Negative gearing reduces the amount of government spending in the property market by encouraging private investment.
5. Negative gearing increases house prices which benefits home owners.
6. Abolishing negative gearing would significantly reduce the availability of rental properties and drastically increase rental prices.

What are the problems?

Although many of the above arguments in favour of negative gearing have strong theoretical support they lack the empirical evidence to back it up.

¹⁵⁷ Williams, T & Macken, S 2012, op. cit. pg. 54

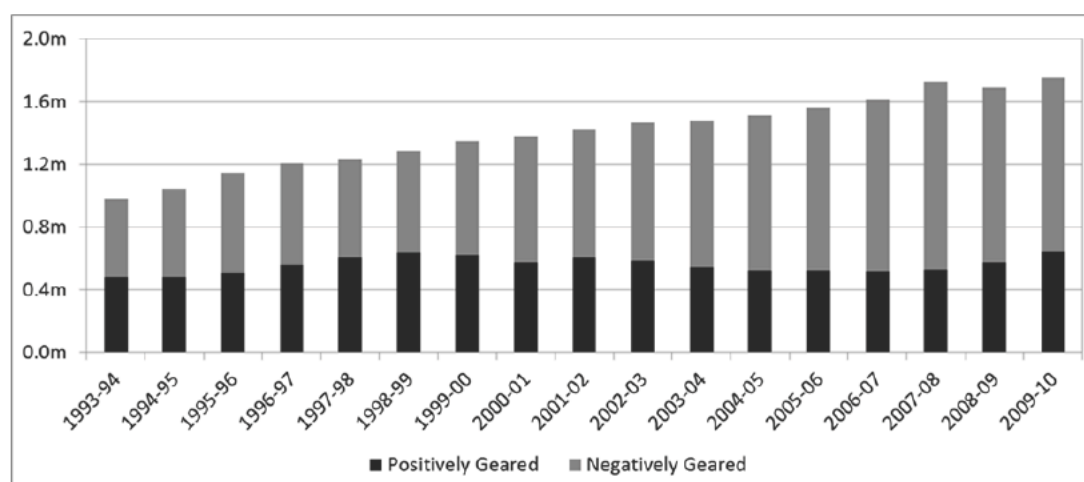
¹⁵⁸ O'Donnell, Jim 2005, 'Quarantining Interest Deductions for Negatively Geared Rental Property Investments', *Journal of Tax Research*, vol. 3, no. 1, pg.64

1. Negative gearing encourages malinvestment, favours the wealth and pushes first home buyers out of the market.

The first claim that negative gearing encourages investment is true. There is no denying that the tax incentives provided by negative gearing have encouraged investors to increase their investment in the property market.

The chart below shows the growth of negatively geared property investment since 1993-94. During this period there were 980,500 property investors in Australia. By 2009-10, there were 1,751,700 property investors in Australia, 1,111,000 (63%) of whom were negatively geared, compared to 51% in the 1993-94 period.¹⁵⁹

Table 2: Growth of negatively geared property



Source: Van Onselen, L. 2012

However despite negative gearing incentivising investment, the real question should be: *‘what type of investment has been encouraged?’* The underlying fact of negative gearing is that it encourages speculative investment and malinvestment- encouraging individuals to invest in losses as well as distorting investment away from production. The idea that negative gearing pays to speculate rather than work was emphasised by Alan Kohler:

“Five years ago Treasurer Peter Costello told Australians: Work for a living and we’ll tax you at close to 50 cents in the dollar; speculate and

¹⁵⁹ Van Onselen, Leith 2012, *Negative Gearing Exposed*, *Macrobusiness*, Accessed 21/1/14, <http://www.macrobusiness.com.au/2012/10/negative-gearing-exposed/>

we'll only take 25cents. Not only that but, as a special deal – while stocks last we'll pay half your speculating costs”¹⁶⁰

Not only does negative gearing favour the investor over the labourer, but due to the nature and functioning of the tax benefit, it works in favour of wealthier individuals. Investors typically have higher incomes and higher Marginal Tax Rates (MTRs), which means they receive greater deductions and tax minimization by using negative gearing.¹⁶¹ In this way negative gearing has become an unjustified handout to the already wealthy property investor.

Investors are further helped through the tax benefit at the expense of the owner-occupier. Through negative gearing the investor can claim not only his income losses but also the expenses related to the running of the house. The owner-occupier however cannot claim the expenses of running the house nor can they offset any incurred capital losses from the sale of their house against any other capital gains. Youth Action echos the *Victorian Council of Social Service's* submission to the Productivity Commission Inquiry into First Home Ownership which states “by subsidising investors in a way home purchasers are not subsidised, negative gearing undermines the objectives of the First Home Owners Grant by giving a competitive advantage to investors over first home buyers”.¹⁶² In this way, First Home Buyers are left at a significant disadvantage when purchasing property and are being pushed out of the market.

2. Negative gearing has not led to an increase in supply of rental properties; neither has it lowered rental prices.

The central argument of those in favour of negative gearing rests on the assumption that it increases the supply of rental properties and in turn lowers rental prices. However there is little empirical evidence to support this claim.

¹⁶⁰ Soos, Phillip 2012, *Written Off: Negative Gearing Report*, Prosper Australia: This is Your Land, Prosper Australia, Accessed 21/1/14, <http://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/>

¹⁶¹ Soos, P 2012, *ibid.*

¹⁶² Wyatt, Kim, McDonald, Jarrod & Nandha, Mohan 2005 'Negative Gearing and Housing Affordability for first home buyers', *Journal of Australian Taxation*, vol. 8(1)

The McKell Institute *'Homes for All'* Paper reinforces this stating under its Action 16 recommendation:

“Negative gearing and untaxed capital gains add wealth to existing home owners to leverage for second homes and investment properties without any evidence that they increase overall supply significantly; and that increasing effective housing demand in a constrained housing supply results in an increase in house price inflation and in problems of affordability for those seeking to buy.”¹⁶³

The failure of negative gearing must be looked at through the lens of whether or not it has achieved its objective of increasing supply. To do this a historical understanding of population growth and supply in Australia must be understood. Between 1947 and 1961 the housing stock increased by 50%, compared with a 41% increase in Australia's population, between 1961 and 1976 the housing stock increased 46%, compared with a 33% increase in Australia's population.¹⁶⁴ During both these periods the Government also actively contributed to increasing housing stock through the Commonwealth-State Housing Agreements and the War and Defence Service Home Schemes. By 1976 Australia had achieved one of the highest rates of home ownership at 71%.¹⁶⁵ This period show an effective implementation of government policy to ensure that a rapidly growing population was sufficiently housed.

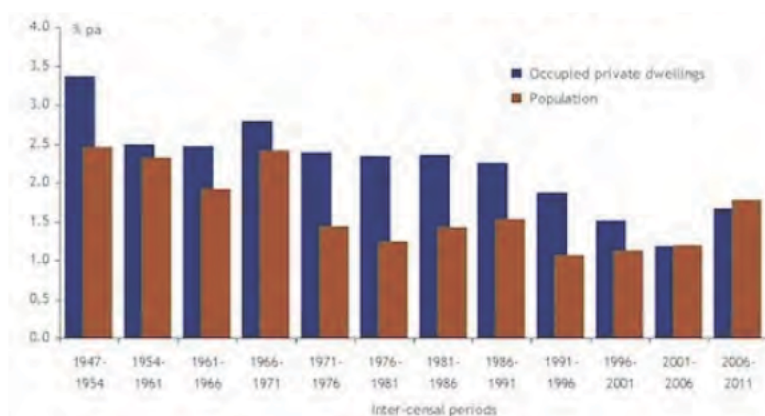
This relationship of maintaining housing supply with population growth began to change in the 1990s and between 2001 and 2011 while the population grew by 15.9% the housing stock only grew by 15.2%, which was the first time housing stock has grown at a slower rate than the population.

¹⁶³ Williams, T & Macken, S 2012, op.cit. pg.14

¹⁶⁴ Eslake, S 2013, op.cit.

¹⁶⁵ Eslake, S 2013, ibid.

Table 3: Growth in the population and housing stock, 1947-2011



Source: Eslake, S 2013

This historical tracking of the change in supply and demand suggests that negative gearing has stimulated housing demand whilst stifling supply. As Soos comments “theoretically, negative gearing makes property investment more attractive than it otherwise should be, increasing demand relative to supply and therefore leading to higher prices”¹⁶⁶. Negative gearing is not functioning as intended: to increase rental supply. Instead of negative gearing being used by investors to buy newly constructed properties and increase supply, data shows that an overwhelming 92% of property investment purchases are from the existing stock of dwellings, resulting in simply shuffling owner-occupiers and tenants around without expanding the rental stock.¹⁶⁷ The most recent statistics show that 84% of loans in November 2011 were for people buying established homes with only 16% taking loans to build or buy new dwellings.¹⁶⁸ Furthermore, after the introduction of the 50% CGT discount in 1999, investment in established buildings trebled.¹⁶⁹ The lack of correlation between negative gearing and increase in dwellings is seen in the graph below.

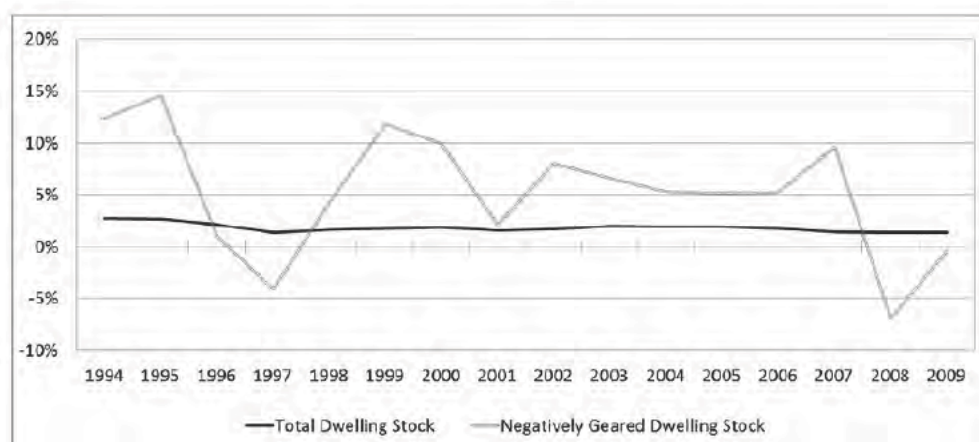
¹⁶⁶ Soos, P 2012, op.cit.

¹⁶⁷ Eslake, S 2013, op.cit.

¹⁶⁸ Australian Bureau of Statistics

¹⁶⁹ Australians for Affordable Housing 2011, *AAH 4-point plan for housing affordability*, **Australians for Affordable Housing**, Accessed on 07/01/2014, <http://housingstressed.org.au/wp-content/uploads/2011/09/Addressing-Housing-Affordability-v5-2.pdf>, pg.8

Table 4: Annual growth in total dwelling stock versus growth in negatively geared dwelling stock

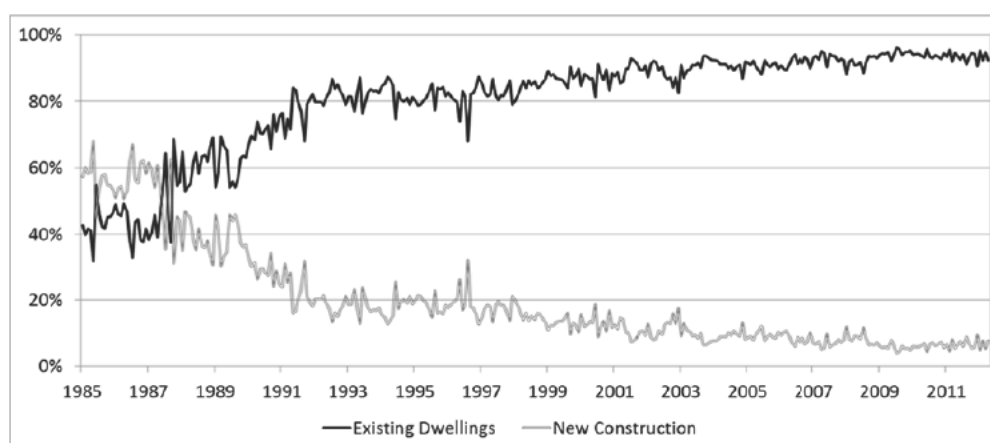


Source: Stapledon, author's estimate

As can be seen, while the total percentage of dwelling stock remained almost constant the growth in the number of negatively geared properties fluctuates greatly over the years.

The graph below highlights that there was no significant increase in new constructions as a result of negative gearing since its introduction in 1985.

Table 5: Existing dwellings versus new construction

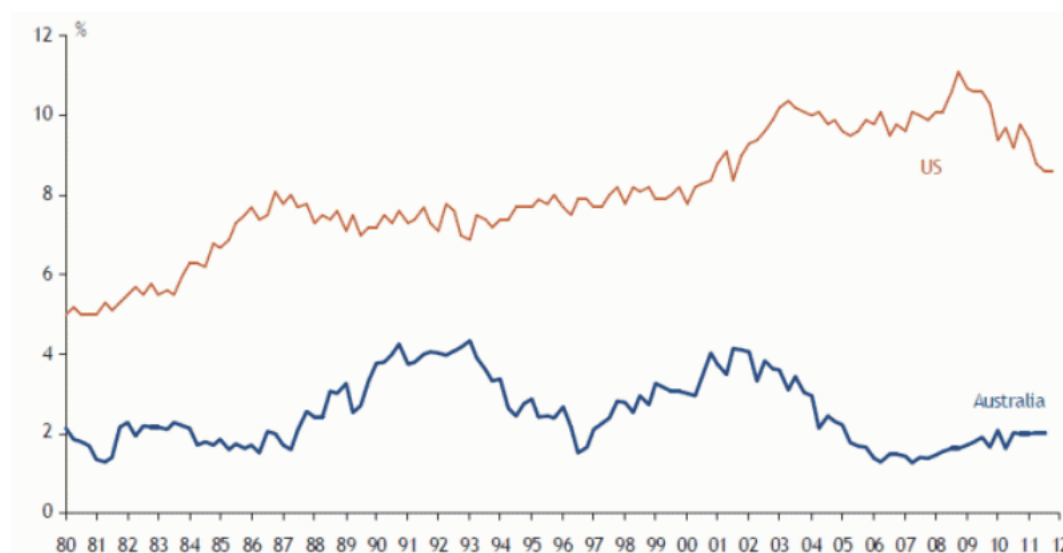


Source: Van Onselen, L. 2012

The claim that negative gearing has helped to maintain lower rental prices and increase rental vacancy rates cannot be correlated with empirical evidence. Economist Saul Eslake stresses that most other 'advanced' economies don't have negative gearing: yet most other countries have higher

rental vacancy rates than Australia does. By comparison, in the United States where negative gearing has been disallowed since the 1980s, the rental vacancy rate has in the last 50 years only been below 5% on once occasion.¹⁷⁰

Table 6: Rental vacancy rates in Australia and the United States



Source: Eslake, S 2013

However in Australia, the rental vacancy rates has not been above 5% in the last 30 years, and in the period since negative gearing became more attractive (1999 onwards with the change to CGT), vacancy rates have fallen from over 3% to less than 2%.¹⁷¹ This drop in rental vacancy has resulted in a upward pressure on rental prices.

It is clear that negative gearing has not aided the supply issue of housing in Australia and has in fact led to increased pressure on rental prices, the opposite of its intention. The central issue at the heart of the problem and as recommended by Youth Action is that the government needs to stop rewarding policies that incentivise expanded demand and implement policies that deal with the issue of supply.

¹⁷⁰ Eslake, S 2013, op.cit.

¹⁷¹ Eslake S 2013, ibid.

3. Negative gearing results in the loss of revenue for the government

The increasing loss of government revenue is noticeable when comparing the net losses claimed in 1998-99 (prior to the introduction of CGT benefits) and in the period for which we have the most recent statistics from 2010-2011. In 1998-88 Australia had 1.3 million tax-paying landlords who in total made a taxable profit of \$700mn.¹⁷² By 2010-11 over 1.8 million landlords reported net losses of more than \$7.8bn while the amount they collected in rent only doubled from \$11bn to \$20bn.¹⁷³ As a rough guide for how much tax is forgone, assuming that all the 1.8mn landlords who reported net losses in 2010-11 were in the 32.5% income tax bracket, their capacity to offset those losses against their other taxable income results in almost \$5bn in revenue foregone.¹⁷⁴ A more conservative estimate of government loss in revenue from the *Journal of Tax Research* places the losses at \$2billion.¹⁷⁵

Considering that empirical evidence shows that there is little evidence to suggest negative gearing is helping increase the supply of houses or increase government revenue there is little economic rationale for the government to continue generating such a loss and simultaneously stifle supply and increase demand.

4. Negative gearing increases the price of housing, pushing young people out of the market

Whilst doing little to increase the supply of rental properties, negative gearing also has the adverse effect of increasing house prices. It is a well established fact that negative gearing is beneficial to property owners and investors as it increases the price of housing meaning in the long run their return on capital gains will be increased. Yet for one sector of society to benefit this suggests another sector must make a loss, and in the case of housing it is the first home buyer. The fact that 92% of property investment purchases are on already

¹⁷² Eslake, S 2013, *ibid.*

¹⁷³ Eslake, S 2013, *ibid.*

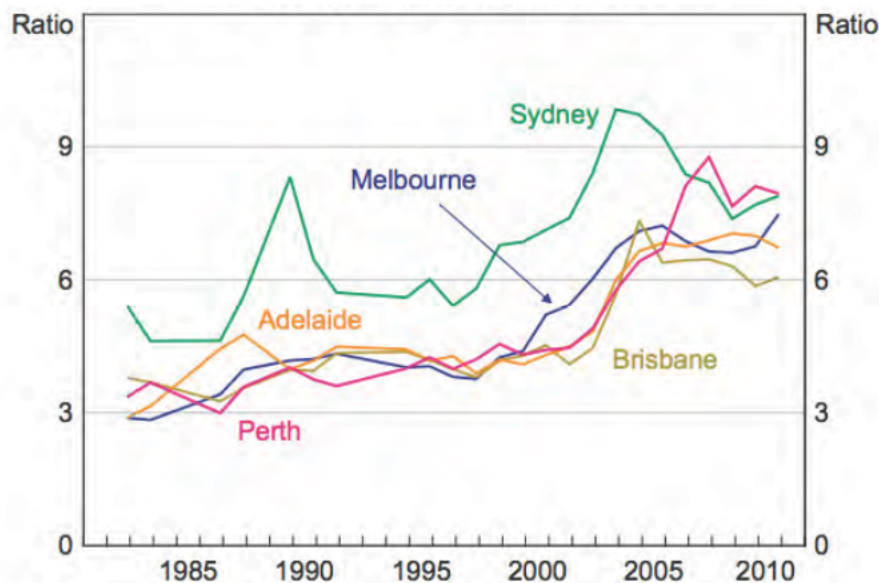
¹⁷⁴ Eslake, S 2013, *ibid.*

¹⁷⁵ O'Donell, J 2005, *op.cit.* pg.64

established properties demonstrates that the available demand for property is increasing, leading to a increase in house prices.

This increase in prices along with the fact that wages have not risen proportionately with increasing house prices (as seen in the graph below) has meant that first home buyers are being pushed out of the market.

Table 7: Dwelling price to income ratio: 5 capital cities



Source: Fox, R & Finlay, R. 2012

5. Debunking the myth of 1985

A key concern and argument for those in favour of negative gearing is the claim that abolishing negative gearing would significantly reduce the availability of rental properties and drastically increase rental prices.

Firstly, as already discussed above, there is little correlation between negative gearing and an increase in supply of housing, rather it has worked to stimulate demand. This means that the claim of ‘...would significantly reduce the availability of rental properties’ is unfounded.

Secondly the false claim that removing negative gearing would lead to a rise in rental prices must also be exposed. Between the years 1985-87 the Keating government quarantined negative gearing realizing it was becoming a favourable tax shelter costing the government up to \$175mn in revenue that

year.¹⁷⁶ Despite many claims that this quarantine led to a surge in rental prices, independent research has shown otherwise. Only two of Australia's eight capital cities had strong rate increases, while in two cities rents went up with inflation and in the other four the rents actually decreased.

Table 8: Changes to rent with the removal of negative gearing, 1985-87

Capital City	Rental increase or decrease
Sydney	+ 6.2%
Perth	+ 7.2%
Canberra	+ 0.7%
Melbourne	+1.1 %
Brisbane	- 7.6%
Darwin	- 8.1%
Adelaide	- 2.0%
Hobart	- 1.5%

Source: Soos, 2013

For those cities in which rents did rise, the increase can be explained by numerous factors including the rise in interest rates and already increasing prices and lag in the market adjusting to change. According to Soos,

“...if the removal of negative gearing did cause rents to rise, it would be expected to adversely affect all capital cities, not just two. This is a critical point, and evidence of a drastic and universal surge in rents is absent.”

¹⁷⁶ Soos, Phillip 2013, 'Busting negative gearing's myths', February 25th **Australian Property**, Accessed 21/1/14, <http://www.macrobusiness.com.au/2013/02/busting-negative-gearings-myths/>

Most importantly, the quarantine period of 1985-1987 revealed that the abolishment of negative gearing could function and help to increase the supply of housing. During 1986 when quarantine rules were functioning, the proportion of investors buying newly constructed properties rather than established ones was at a rate of 62% (compare this to the current 6% of investment in newly constructed properties).¹⁷⁷

What are the solutions?

The solution is clear and simple. Negative gearing must be removed as a tax incentive. Its removal would be the first step in dealing with the current supply issue of housing in Australia and in taking action to stop incentivising speculation.

Youth Action recommends:

- 1. That the government should phase out negative gearing over a period of 3-5 years in relation to existing properties but retain it for new properties to stimulate supply.**

The 3-5-year period of phasing out is important in ensuring that this policy would have the minimum retrospective effect as possible. Youth Action recognizes that the majority (76%) of investors who negatively gear earn less than \$80,000 per year and understand that changing this policy overnight could have significant financial ramifications for these households. By allowing for a 3-5-year phase in period it gives the current investors with negatively geared property time to re-plan their investment options and will prevent a sudden flurry of sales of property, which would lead to a slump in the property market. At the same time, this policy would ensure that from the date of implementation, investors buying into the market would be prohibited from negative gearing if they buy already established properties.

By keeping negative gearing as an option for newly built properties, the government can create incentives for investing in new properties. Once the

¹⁷⁷ Fox, R & Finlay, R. 2012, *Dwelling Prices and Household Income*, Reserve Bank of Australia, Bulletin, December Quarter.

property is sold to a second owner, the option to negatively gear the property disappears.

The fact however remains that property "always has and always will remain an asset class with or without negative gearing"¹⁷⁸ and for this reason people will invest in property with or without negative gearing.

Youth Action further recommends:

2. That the government create tax policies that stimulate supply of housing rather than the demand

Although Youth Action recognises that negative gearing is not the sole cause of the housing shortage and issues of housing affordability in Australia, Youth Action asserts that negative gearing plays a key contributing role. The current tax policy of negative gearing is stimulating demand and doing little to assist in supply. The government must align their tax policies with the current needs of the market, remove tax policies that favour the wealthy over the lower income earner as well as take more action to specifically assist first homebuyers. Perhaps however, at the heart of the issue is the fact that the government has demonstrated a lack of political will to change the policy, primarily because over 1.7 millions voters benefit from negative gearing and a change to the policy means a loss of votes. The government must step up, take action and stop basing decision making on what wins an election and base it on what is best for the nation.

Capital Gains Tax

What is the Capital Gains Tax (CGT)?

Capital Gains Tax (CGT) is a tax on the gains or profits you make when you sell or 'dispose' of an asset.¹⁷⁹ The introduction of the CGT in 1986 was introduced to guarantee that all sources of income were taxed.¹⁸⁰ In 1999 a

¹⁷⁸ Williams, T & Macken, S 2013, op.cit. pg.54

¹⁷⁹ HM Revenue & Customs, 'Introduction to Capital Gains Tax', Accessed 4/2/14, <http://www.hmrc.gov.uk/cgt/intro/basics.htm>

¹⁸⁰ Daley, John; McGannon, Cassie; Savage, Jim & Hunter, Amelie November 2013, *Balancing Budgets: Tough Choices we Need*, Grattan Institute Report, No. 2012-13

discount of 50% concession on CGT was implemented in order to encourage people to become entrepreneurs and invest in riskier assets.¹⁸¹ The CGT has the following main concessions as outlined by Pasqualina Callea in her paper *Negative Gearing - should we move towards the United Kingdom system?*.¹⁸²

- Whilst the investment is appreciating in value, CGT is not payable.
- A CGT is triggered when the investment is disposed of.
- If the taxpayer individual holds the investment for at least 12 months, the taxpayers is entitled to a 50% CGT discount.
- The CGT is taxed at the marginal rate of the individual taxpayer.

The key benefit for investors is knowing that they can borrow to invest in shares or property that will hopefully appreciate in value over time, only having to pay CGT on 50% of the gain at their marginal tax rate.¹⁸³

What is the link between negative gearing and CGT?

Although the concept of negative gearing sounds unattractive as it encourages investing in a loss, negative gearings' benefits to investors are clear; reducing their taxable income. However it is the CGT that makes investing in a loss (i.e. negative gearing) worth it in the long run and makes it enticing to investors. Further, the appeal of negative gearing was enhanced by the decision to implement a 50% concession on CGT for investments held for a period longer than a year. This promotes borrowing and encourages investors to take advantage of the tax concession. Not only can they offset their losses annually, but also the most tax that is payable by an individual on the realization of the asset is 23.25%.¹⁸⁴

What are the problems?

1. The Capital Gains Tax encourages inequitable distribution of wealth

CGT is taxed at the marginal rate of the individual taxpayer. This is beneficial to taxpayers as depending on their personal and financial circumstances they

¹⁸¹ Daley, J; McGannon, C; Savage, J & Hunter, A 2013, op.cit.

¹⁸² Callea, P 2013, op.cit.pg.3

¹⁸³ Callea, P 2013, ibid. pg.4

¹⁸⁴ Callea, P 2013, ibid.

can choose the most opportune moment to dispose of the property i.e. when they are at a lower marginal tax rate. Yet this is only really effective for those in the top tax brackets. A taxpayer on the top rate of 46.5 per cent benefits from a 23-percentage point discount but a taxpayer on the zero marginal rate (income under \$14,000) gets no benefit at all. As David Ingles sates “these concessions undermine the progressivity of the income tax regime and make it possible to craft executive pay packages with strong bias towards such tax breaks”.¹⁸⁵ In this way, capital gains as a tax concession is inequitable in its distribution and favours high-income earners. This is clear in the table below.

Table 9: Distribution of net capital gains among taxpayers

2005–06	Bottom		Top		
	20%	50%	20%	10%	1%
Net capital gain share	4.2	13.3	73.7	64.2	38.6

Source: Ingles, D. 2009

The table shows that the top 20 per cent of income earners receives 74 per cent of all taxable gains compared to a four per cent share among the bottom 20 per cent of earners. Not only are capital gains distributed in an extremely unbalanced manner but the benefit of the 50 per cent concession becomes greater as the marginal tax rate otherwise applicable rises.¹⁸⁶ . As Krever concludes:

“The rationale for the concession was never articulated and apart from its obvious effect – to reduce the tax burden for highest income individuals who are able to realize much if not most of their income as capital gains – it is difficult to post a convincing purpose for the concessions.”¹⁸⁷

¹⁸⁵ Ingles, David 2009, *Tax Equity, Reforming capital gains taxation in Australia*, Technical Brief No.1, April, **The Australia Institute**, pg.2

¹⁸⁶ Ingles, D 2009, *ibid*, pg.7

¹⁸⁷ Krever, Richard 2003, ‘Taming complexity in the Australian income tax’, **Sydney Law Review** 22, Accessed 11/2/14, [http://www.austlii.edu.au/cgi-bin/sinodisp/au/journals/SydLRev/2003/22.html?query=krever per cent20taming per cent20complexity](http://www.austlii.edu.au/cgi-bin/sinodisp/au/journals/SydLRev/2003/22.html?query=krever%20per%20taming%20per%20complexity), pg.24

2. The Capital Gains Tax incentivises negative gearing

The problems associated with negative gearing are limited as long as capital gains are taxed fully, however with the 50% discount, gearing dramatically reduces the effective tax rate on returns from geared assets.¹⁸⁸ The impact the introduction of the 50% concession had on investment in the housing market is evident by the fact that the CGT share of Commonwealth taxation revenue has nearly doubled since its introduction from 3.4% to 6.6%, meaning more revenue is being collected as a result.¹⁸⁹ This statistics suggests that if more CGT is being collected more people are investing in houses and negatively gearing. Overall this 50% discount has provided more of an incentive to negatively gear despite losses, as the final outcome will result in a profit taxed at a reduced rate.

Similarly CGT is only payable on the disposal of an asset. This concession does little to help the supply of housing as many investors and homeowners will hold onto the property until it has reached its maximum potential in terms of the gains it can provide. This adds to the problem of supply of housing in Australia and highlights the way in the which CGT incentivises negative gearing – owners are happy to invest in a loss based on the promise of capital gains (and a 50% discount on CGT) on the disposal of the asset.

Essentially the CGT fails to tax all the income of a taxpayer. The result is that it leads primarily to advantages for homeowners and disadvantages for those who cannot get onto the property ladder ‘not least because tax-holidays and leverage also mean greater inflationary pressures on the price of dwellings’.¹⁹⁰

What is the solution?

Youth Action recognizes that the complete removal of the Capital Gains Tax discount of 50% is highly optimistic. It also recognizes that the CGT does help to stimulate investment, however at the same time it incentivises the desire to negatively gear property which leads to numerous problems as discussed in

¹⁸⁸ Ingles, D 2009, op.cit. pg.9

¹⁸⁹ Callea, P 2012, op.cit. pg.4

¹⁹⁰ Williams, T & Macken, S 2012, op.cit. pg.31

this paper. In accordance with the Henry Tax Review (2008), Youth Action endorses the recommendation that capital gains be taxed at a 40% discount rather than at the 50% discount as at present. This means 60% of capital gains will be taxed while 40% won't be. The benefits of this is that it will force investors to re-think their investment decisions in the housing market and analyse more carefully the overall benefits they would receive by using negative gearing in conjunction with CGT. Not only would the government receive more revenue from this tax if it was taxed at 60% but it would represent the first step of the government in creating tax policies that favor the stimulation of supply over demand.

Likewise, Youth Action supports the McKell institute declaration that 'untaxed capital gains add wealth to existing homes owners to leverage for second homes and investment properties without any evidence that they increase overall supply significantly'. Over time Youth Action recommends that the CGT is gradually phased out (within 5-8 years) and returned to the pre-1999 policy whereby capital gains were taxed in full to reduce the unequal wealth distribution as well as to disincentive the appeal of negative gearing.¹⁹¹

Stamp Duty:

Stamp duty should be replaced by a broad-based land tax system, which does not deter first homebuyers or reduce the ability of homeowners to move to more suitable accommodation for their circumstances

Issues with Stamp Duty

Youth Action endorses the McKell Institute: *Homes for All April 2012 Report*, particularly Action 15. Action 15 recommends replacing stamp duty with a broad land tax. Although stamp duty has delivered nearly \$15 billion to governments in the financial year ending in June 2008, it is an inefficient tax.¹⁹² The McKell Institute argues that stamp duty is a deterrent for first time

¹⁹¹ Williams & Macken, 2012, Action 16, p.55

¹⁹² Williams, T & Macken, S 2012, *ibid.* pg. 51

buyers and those on low incomes due to its excessive cost.¹⁹³ The excessive cost of stamp duty discourages people who already own properties from moving to appropriate housing, for example due to employment opportunities or occupants wishing to downsize.¹⁹⁴ The Australians for Affordable Housing (AAH): *A 4 Point Plan for Housing Affordability* finds similar issues with stamp duty.¹⁹⁵ Similarly, the *Henry Review - Australia's Future Tax System Final Report* released on 2 May 2010 found that stamp duty places a heavier burden (regardless of their means) on individuals who continually wish to relocate as compared with those who do not.¹⁹⁶

Further, stamp duty reduces the number of transactions undertaken in the housing market. The *Henry Review* comments that more transactions enable people to be housed more efficiently in a given housing stock.¹⁹⁷ Transactions and the creation of new housing are reduced because stamp duty imposes a charge twice. The duties are paid firstly when the developer buys the property and secondly, when the final owner buys the land.¹⁹⁸ This does not assist in the creation of new housing, which is needed if we are to increase the supply of housing to meet the demand.

Stamp duty has a large bearing on the total cost of purchasing housing.¹⁹⁹ The McKell Institute finds that although the State Government has implemented the First Home – New Home scheme from 1 January 2012, it is an insufficient scheme when it is compared with the previous First Home Plus Scheme.²⁰⁰ Both schemes offered exemptions and concessions for people who are buying their first home in New South Wales. However, the First Home – New Home scheme does not provide an exemption for the purchase of existing dwellings, it only provides an exemption for new homes valued up to \$500,000 and vacant land valued up to \$300,000. The McKell Institute

¹⁹³ Williams, T & Macken, S 2012, *ibid.* pg. 51

¹⁹⁴ Williams, T & Macken, S 2012, *ibid.* pg. 51

¹⁹⁵ Australians for Affordable Housing 2011, *op.cit.* pg. 9

¹⁹⁶ Australia's Future Tax System Review, Commonwealth of Australia 2010, *op. cit.* C2-3.

¹⁹⁷ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* E4-3

¹⁹⁸ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* E4-3

¹⁹⁹ Williams, T & Macken, S 2012, *op. cit.* pg. 51

²⁰⁰ Williams, T & Macken, S 2012, *op. cit.* pg. 51

recognises that the sales of existing dwellings make up the vast majority of purchases per year and will continue to do so even with the exemption.²⁰¹ So, the scheme will only have a minimal effect on the building of new homes.

A broad based land tax is the solution

Youth Action recognises that using the size of holdings and use of land to impose tax adversely affects the housing market as shown above. Land tax is the solution. The Henry Review argues that land tax is an efficient tax base, as it is not influenced by the use of the land.²⁰² So, the land valuation does not rise if a better factory is built on the property or an additional room is added to the house.²⁰³ If these improvements were taxed instead, the Henry Review notes that this would discourage investment and be less efficient when an owner is deciding to invest in the productivity of their land.²⁰⁴ Youth Action agrees with the Henry Review, that taxing the 'economic' rent of land is a better option as the community effectively shares in the benefit.²⁰⁵ Economic rent is the 'return once the owner has been compensated for the capital and labour they employ on the land'.²⁰⁶ The Henry Review finds that the efficiency of economic rent is due to it being based on surrounding increases in economic productivity, for example when new roads are built nearby, rather than the owner being taxed when they invest in their own land.²⁰⁷

Youth Action endorses the Henry Review's recommendation that the current land tax is too narrowly based to be efficient and it needs to be broadened. Land tax in New South Wales is currently limited to commercial and investor-owned residential land but not owner occupied housing.²⁰⁸ The fact that owner-occupied housing is exempt, 'removes around 60% of land by value from the tax base'.²⁰⁹ Further, 'it is likely that it contributes to renters bearing

²⁰¹ Williams, T & Macken, S 2012, op. cit. pg. 51

²⁰² Australia's Future Tax System Review, Commonwealth of Australia 2010, op. cit. C2-1

²⁰³ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-2

²⁰⁴ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-2

²⁰⁵ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-2

²⁰⁶ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-1

²⁰⁷ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-1

²⁰⁸ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-2

²⁰⁹ Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. C2-3

some or all of the tax'.²¹⁰ Leasehold land, land used by non-for profit and charitable institutions are also exempt.²¹¹ The Henry Review notes that these exemptions are inefficient as they exclude land with the fastest recent growth in value from the tax base.²¹² Broadening the land tax will improve housing affordability.²¹³

Plan to transition from stamp duties to land tax

Youth Action supports the AAH's *Addressing Housing Affordability in Australia: A 4 Point Plan for the next 5 years* report. Stamp duties cannot be abolished completely as state governments would not have the revenue to provide the various services expected by the community.²¹⁴ The AAH recommends as their second point plan to phase a move from stamp duties to land tax over time.²¹⁵

We also agree with the *Henry Review's* 10-year transition plan (Recommendation 51), which was also endorsed by the McKell Institute. The plan involves reducing stamp duty annually by one-tenth of its current level and increasing the level of land tax up by one-tenth.²¹⁶ For example, as the McKell Institute provided, a house sold after three years would pay 70% of the stamp duty and 30% of the land tax each year for a specified period.²¹⁷ The *Henry Review* also recommended (Recommendation 53) that the land tax base should include all land.²¹⁸ Eventually, over time there will be no stamp duty and land tax can be charged at its full value. Diagram 1 below indicates the transition.

²¹⁰ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* C2-3

²¹¹ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* C2-3

²¹² Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* C2-3

²¹³ Australia's Future Tax System Review, Commonwealth of Australia 2010, *ibid.* E4-2

²¹⁴ *Australians for Affordable Housing* 2011, *op. cit.* pg. 9

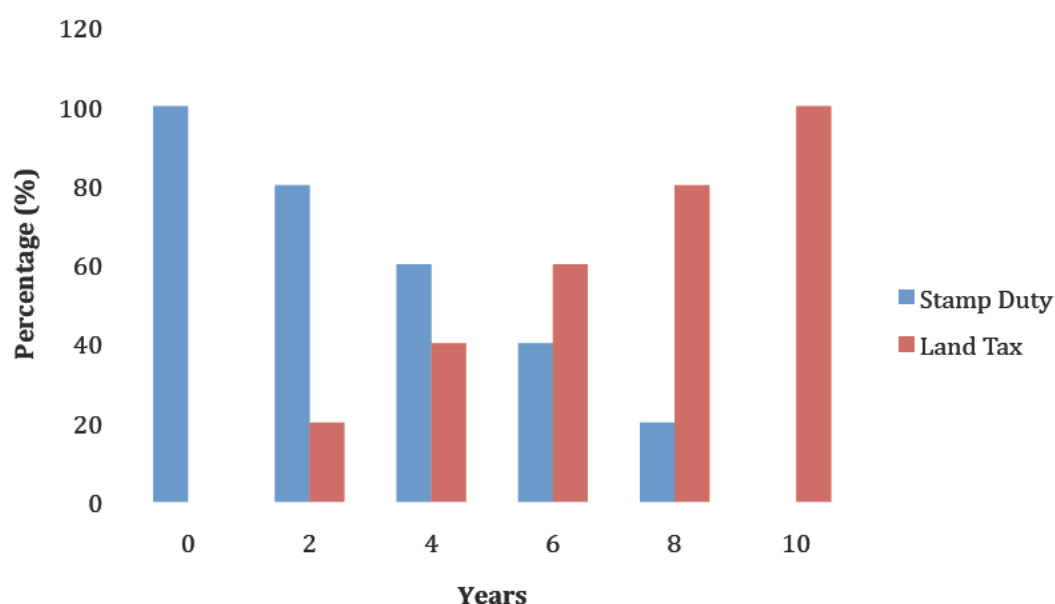
²¹⁵ *Australians for Affordable Housing* 2011, *ibid.* pg. 9

²¹⁶ Australia's Future Tax System Review, Commonwealth of Australia 2010, *op. cit.* C2-4

²¹⁷ Williams, T & Macken, S 2012, *op. cit.* pg. 53

²¹⁸ Australia's Future Tax System Review, Commonwealth of Australia 2010, *op. cit.* C2-4

Table 10: Transitioning from Stamp duty to Land tax



Source: Youth Action NSW

The McKell Institute recommends that land tax be introduced annually.²¹⁹ By being an annual charge, this can spread the cost load, reduce the impact at times of financial stress and does not turnover as much as a transaction charge.²²⁰ However, as highlighted by the report of the *Financial Audit 2011* (*Lambert Report*) there are issues with transitioning to a broad-based land tax on all properties simultaneously.²²¹ The disadvantage is on its application to residential property, 'where even at a low introductory rate, the new tax would apply to home owners whose situation has not changed'.²²² So, Youth Action would recommend that in accordance with the AAH report, a transition payment should be paid to households who paid stamp duty in the past ten years as part of gradually introducing a broad-based land tax.²²³ Alternatively, Youth Action would endorse the *Lambert Report*, where the tax would only begin to apply to the first sale of property and so about 50 per cent of

²¹⁹ Williams, T & Macken, S 2012, op. cit. pg. 51

²²⁰ Williams, T & Macken, S 2012, ibid. pg. 51

²²¹ New South Wales Treasury 2011, *New South Wales Financial Audit 2011*, Accessed on 21/01/2014, http://www.treasury.nsw.gov.au/data/assets/pdf_file/0014/21605/NSW_Financial_Audit_Report_Part_2011-Full.pdf.pdf, pg. 13-6

²²² New South Wales Treasury 2011, ibid. pg. 13-6

²²³ Australians for Affordable Housing 2011, op. cit. pg. 9

residential properties would be subject to the tax after nine years and 80 per cent after 20 years and so on.²²⁴

Importantly, the McKell Institute notes that ‘even quite low rates of Land Tax result in significant revenues which could be more than stamp duty itself’.²²⁵

This is because land tax is an incentive to increase infrastructure development as it does not penalise investments in land. So, the plan to move from stamp duty to land tax should not detrimentally affect state revenue.

However, in the short term, *the Lambert Report* did acknowledge that there would be an immediate shortfall during the transition.²²⁶ Therefore, the

revenue shortfall should be managed by increasing government debt, ‘whereby debt repayments would need to be supported by a new revenue

stream of around \$900 million per year’.²²⁷ Through this stream, the

transitional debt would be paid off in the year 23.²²⁸

Infrastructure charges:

Development levies and infrastructure charges should be reduced in order to increase the supply of housing; levies should be equitable for both existing and new home owners and incentives should be introduced to fund infrastructure.

Issues with developmental levies and charges

Youth Action supports the McKell Institute: *Homes for All April 2012 Report*, particularly Actions 12 – 14.²²⁹ The McKell Institute recommended for the system of development levies to be reviewed to ensure that the levy regime is not complex or set too high, actively incentivises housing growth and is fair between existing and new home buyers.²³⁰

²²⁴ New South Wales Treasury 2011, op. cit. pg. 13-4

²²⁵ Williams, T & Macken, S 2012, op. cit. pg. 52

²²⁶ New South Wales Treasury 2011, op. cit. pg. 13-5

²²⁷ New South Wales Treasury 2011, ibid. pg. 13-5

²²⁸ New South Wales Treasury 2011, ibid. pg. 13-5

²²⁹ Williams, T & Macken, S 2012, op. cit. pg. 48

²³⁰ Williams, T & Macken, S 2012, ibid. pg. 48

The *Henry Review* described infrastructure charges as ‘fees levied on developers to compensate governments for providing facilities necessary for land development’.²³¹ Government charges for infrastructure became prevalent in the 1980s, where fiscal constraints were placed on local governments and there was an increasing demand for infrastructure.²³²

There are growing burdens on developers, primarily the extra costs, charges and levies from the government. The McKell Institute found that New South Wales currently has the highest development charges on new housing in Australia.²³³ New South Wales charges on average \$37,000 per lot on Greenfield residential sites, which is substantially higher than South Australian charges of just \$3,693 per lot.²³⁴ Although, the state government has moved to limit the amount councils can levy, the Sydney councils still charge more on new housing developments than anywhere in Australia.²³⁵

In order to overcome these excessive costs, developers pay less to landowners and/or the home purchaser is charged at a higher rate in order to cover the costs.²³⁶ The McKell Institute notes that most land rezoned for residential purposes is currently underdeveloped as it is not economical to develop the land with these extra costs.²³⁷ The McKell Institute finds that these charges are dramatically impacting on the housing supply in New South Wales.²³⁸ According to the NSW Treasury, the completion of detached houses and multi-unit dwellings in New South Wales has declined by 50% and 40% respectively, since 2000.²³⁹ This contrasts with the rest of Australia where completions have increased by 10% and 40%, respectively.²⁴⁰

²³¹ Australia’s Future Tax System Review, Commonwealth of Australia 2010, op. cit. E4-5

²³² Australia’s Future Tax System Review, Commonwealth of Australia 2010, ibid. E4-5

²³³ Williams, T & Macken, S 2012, op. cit. pg. 49

²³⁴ Williams, T & Macken, S 2012, ibid. pg. 49

²³⁵ Williams, T & Macken, S 2012, ibid. pg. 49

²³⁶ Williams, T & Macken, S 2012, ibid. pg. 49

²³⁷ Williams, T & Macken, S 2012, ibid. pg. 49

²³⁸ Williams, T & Macken, S 2012, ibid. pg. 49

²³⁹ Williams, T & Macken, S 2012, ibid. pg. 40

²⁴⁰ Williams, T & Macken, S 2012, ibid. pg. 49

The *Henry Review* also commented that infrastructure charges operate to raise revenue rather than providing an efficient user charging system.²⁴¹ For example, this occurs where the charge is based on the developer's capacity to pay rather than the cost of the infrastructure.²⁴²

Reduce charges for new housing developers and increase charges for existing homeowners and other benefited stakeholders

Youth Action affirms the McKell Institute's view that increases in housing supply cannot occur where excessive developmental levies are being imposed.²⁴³ The levies need to be re-evaluated. Primarily, the McKell Institute argues that levies on the development of new housing should be examined. This is because the whole community benefits from new houses as it contributes to economic prosperity and so, all community members should contribute to the developmental taxes associated.²⁴⁴ Existing homeowners in New South Wales have seen their contributions to civic infrastructure reduced, whereas new homeowners have had an increase in their costs over the past few decades.²⁴⁵ The McKell Institute recommends that although developers should still pay levies for new infrastructure, the burden should also lie on existing homeowners.²⁴⁶ If not, housing prices will continue to rise in a bid to cover the developmental costs.²⁴⁷

In order to share infrastructure costs, the McKell Institute supports the use of council rates to tax all members of the community, as they are broadly based and impossible to avoid.²⁴⁸ Also, a special rate could be imposed on particular regions to fund new infrastructure and rebuild town centres and services.²⁴⁹ The McKell Institute remarks upon the United Kingdom's implementation of Crossrail, a rail link, which is being funded by a development levy on newly

²⁴¹ Australia's Future Tax System Review, Commonwealth of Australia 2010, op. cit. E4-5

²⁴² Australia's Future Tax System Review, Commonwealth of Australia 2010, ibid. E4-5

²⁴³ Williams, T & Macken, S 2012, op. cit. pg. 49

²⁴⁴ Williams, T & Macken, S 2012, ibid. pg. 49

²⁴⁵ Williams, T & Macken, S 2012, ibid. pg. 49

²⁴⁶ Williams, T & Macken, S 2012, ibid. pg. 49

²⁴⁷ Williams, T & Macken, S 2012, ibid. pg. 49

²⁴⁸ Williams, T & Macken, S 2012, ibid. pg. 49

²⁴⁹ Williams, T & Macken, S 2012, ibid. pg. 50

built homes, on existing homes and on existing businesses who benefit from Crossrail.²⁵⁰

Tax Increment Finance (TIF) schemes should be implemented in order to redistribute infrastructure costs. A TIF scheme allows local authorities to borrow money in order to advance infrastructure growth.²⁵¹ The money can be sourced from the public or private sector. The construction of infrastructure will increase site values and local tax revenues, along with providing incentives for local communities to support growth.²⁵²

Youth Action endorses the McKell Institute's Actions 12 – 14, which provide alternatives for development levies and are more suitable to increase housing supply.²⁵³ Primarily, there should be a phasing out of the high levies for developers, with a more equitable approach which shares the burden of infrastructure on the whole community. Youth Action would recommend that these changes be phased in over the next 5 to 10 years.

Local Infrastructure Growth Scheme

A scheme that attempts to meet the above recommendation is the Local Infrastructure Growth Scheme. Youth Action approves of the Local Infrastructure Growth Scheme, which was introduced recently by the New South Wales Government. The New South Wales Government has allocated \$99 million in the 2013-2014 Budget to 'fund the gap between the maximum levy that councils can charge developers and what it actually costs councils to deliver the infrastructure'.²⁵⁴ As the scheme partly funds housing development, the full infrastructure costs are not borne by the homeowners and so, this results in a reduction in the purchase price.²⁵⁵ To obtain funding, a council must submit a development contributions plan to the Independent Pricing and Regulatory Tribunal (IPART). IPART can only approve the plan if

²⁵⁰ Williams, T & Macken, S 2012, *ibid.* pg. 50

²⁵¹ Williams, T & Macken, S 2012, *ibid.* pg. 50

²⁵² Williams, T & Macken, S 2012, *ibid.* pg. 50

²⁵³ Williams, T & Macken, S 2012, *ibid.* pg. 50

²⁵⁴ The Department of Planning and Infrastructure 2013, *Local Infrastructure Growth Scheme*, Accessed on 14/01/2014, <http://www.planning.nsw.gov.au/priority-infrastructure-fund>

²⁵⁵ The Department of Planning and Infrastructure 2013, *ibid.*

the council cannot fund the essential infrastructure and stay within the developer cap (\$20,000 per dwelling in existing areas and \$30,000 in new release areas).²⁵⁶ The Department of Planning and Infrastructure noted that contribution plans for five new release areas in The Hills and Blacktown council areas will be funded.²⁵⁷ This could result in the delivery of 23,800 new homes.²⁵⁸

Youth Action recommends that similar schemes be implemented. However the New South Wales government should allocate at least an additional \$200 million to the Local Infrastructure Growth Scheme in order to have any substantive effect in increasing the supply of housing.

Youth Action also supports the new planning system by the New South Wales government, which is to commence in 2014. The new planning system aims to spread infrastructure contributions across large geographical areas, to drive down infrastructure costs through clear benchmarks and to ensure that proponents are only required to fund essential infrastructure needed for the development.²⁵⁹ Most importantly, these reforms should see the removal of a funding cap and government gap funding.²⁶⁰

²⁵⁶ The Department of Planning and Infrastructure 2013, *ibid.*

²⁵⁷ The Department of Planning and Infrastructure 2013, *Local Infrastructure Growth Scheme – Fact Sheet*, Accessed on 14/01/2014, <http://www.planning.nsw.gov.au/Portals/0/ProgramsAndServices/fundingprogram/LIGS%20final%20fact%20sheet%20June%202013.pdf>

²⁵⁸ The Department of Planning and Infrastructure 2013, *ibid.*

²⁵⁹ The Department of Planning and Infrastructure 2013, *ibid.*

²⁶⁰ The Department of Planning and Infrastructure 2013, *ibid.*

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