

Shelter SA

Housing: a basic human right

SHELTER SA's

SUBMISSION for the

Productivity Commission's Inquiry

into

FIRST HOME OWNERSHIP

October 2003

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First Home Ownership Inquiry

ABOUT SHELTER SA

Shelter SA is the peak South Australian body promoting the right of every person to access affordable, appropriate and secure long-term housing. It provides an independent and community-based voice regarding housing issues to all levels of Government, the housing industry, media and the broader community.

Shelter SA represents people who live in a wide variety of housing tenures, including:

- Tenants in the Private Rental Market
- Tenants of the SA Housing Trust, Aboriginal Housing Authority and Community Housing
- Homeowners
- Residents of Caravan Parks and Boarding Houses.

Shelter SA has been in operation since 1977 and cooperates closely with other bodies working on housing related issues, and homelessness. Shelter SA is an active member of National Shelter.

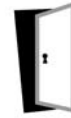
INTRODUCTION

Shelter SA welcomes this Inquiry into the affordability and availability of housing for first homebuyers. This submission supports the submission made by National Shelter and adds information about the South Australian situation.

Housing in general, and first home ownership in particular, is of enormous social, economic and symbolic value to Australians. Access to affordable, appropriate and secure long-term housing is a key to overall social well-being, and is critical to improving the health and education outcomes for everyone.

Shelter SA recognises that home ownership is very highly valued by many families and individuals, and assists social and family stability. Owning a home can provide long-term financial security and is one of the most important investments an individual or family can make in their lifetime.

The lack of affordable housing is a major contributor to poverty. Lack of assets is one of the root causes of disadvantage. Studies show that asset ownership is linked to social and civic participation. People on low incomes can foster self-esteem and self-reliance through savings. One way to leave poverty on a permanent basis is to get employment, save and accumulate assets, and sustainable ownership is one way of breaking the poverty cycle.



For at least 50 years, Australia's welfare and housing policies have been based on the perceived merits of home ownership. Income support policy assumes that most Australians will be living in their own paid-for house as they enter old age and benefits are structured to reflect this assumption.¹ It is the presumed responsibility of the individual to put away current earnings towards future need, especially retirement, and homeownership is seen to be the primary mechanism for people to achieve this savings.

Housing prices are currently increasing much more rapidly than incomes. Low-income earners are getting locked out of access to housing because of this mismatch, and low cost housing is becoming increasingly scarce.² In addition to this, growing levels of job insecurity are making potential homebuyers more cautious about housing decisions.³ Many are unable to obtain housing loans. Without policies to support sustainable homeownership, low-income earners will become poorer as they age because they will not have access to the benefits that flow from homeownership.

In 1989, HomeStart Finance was established as a statutory authority by the South Australian Government. HomeStart Finance works to increase home ownership opportunities for low-income households in South Australia by offering a variety of loan options to low-income households.⁴ Over the 2001/2002 period HomeStart assisted over 39,000 households into home ownership. Over 90% of these households would not have been eligible for a bank loan at the time of application and 47% were households whose sole income came from Centrelink benefits.⁵ However, eligible households may be able to borrow only \$75,000, which will not buy anything except in less desirable areas.

The Commonwealth Government has failed to recognise the close links between affordability in the rental sector and accessibility to home ownership.

The Great Australian Dream of home ownership is out of the reach of an increasing proportion of Australians. Housing price growth has outpaced income growth for more than two decades. There is a slow decline in homeownership rates, and young people are delaying the time when they do purchase their first home. The average age of first home purchasers has increased from 32.7 years in 1990 to 35.7 years in 2000.⁶

Ownership is linked to affordable housing issues for people on low incomes. One essential strategy to foster home ownership is to ensure an adequate supply of affordable accommodation in the rental market. People on low incomes who pay 25% or less of their income on rent have the possibility of saving a deposit for home purchase.

¹ SACOSS & Shelter SA, 2001, *Housing Creates (W)Health and Wellbeing*, page 9.

² National Shelter, 1995, 'Poverty: far too high a price to pay', *The Cost of Housing Report*, issue 1, page 2.

³ Ibid.

⁴ HomeStart, 2002, *HomeStart Finance Annual Report, 2001/2002*, page 1.

⁵ Ibid.

⁶ Annette Sampson, *Old get richer, while young find home prices too steep*, Sydney Morning Herald, 4 June 2003



The Commission Inquiry is wrong if it concentrates just on home purchase (not just a problem in Sydney and Melbourne). Median house prices in Sydney are nearly double those of Adelaide, but affordability is still an issue in SA.

COMMENTS ON SELECTED TERMS OF REFERENCE FOR THE INQUIRY

- **The Inquiry will identify mechanisms to improve the efficiency of the supply of housing and associated infrastructure; and**

Shelter SA advises the Commission that SA Planning (State Government department) is to release the State Planning Strategy by the end of December 2003. Apparently it will streamline many of the planning processes, and ensure coordination between the release of land, the supply of infrastructure (including by privatised utility providers), and transport.

In addition, the SA Land Management Corporation MAY be given a social charter, in addition to its task of releasing land at profit for the State Government. The Social Charter would require the LMC to consider the social benefits of land release, in line with the about-to-be-announced State Housing Plan.

- **The Inquiry will identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments.**

Home deposits are a problem for people on low incomes, and increased property values can make it more difficult for those trying to enter the market for the first time.

Latest figures for Adelaide show the median mortgage repayment has increased by 65% in the last 5 years, to \$1220/month. Adelaide's median house price is \$227,500. In Adelaide, only 33% of suburbs have a median house price that is affordable to a family earning the median household income.⁷ It is also difficult for lower income households to move to where the jobs are.⁸

Interest rate rises are therefore likely to lead to mortgage default. Recent home purchasers may be at or beyond their capacity to pay their mortgage, and will face difficulties when interest rates rise. Having low equity in their homes will make them unable to refinance their loan.

⁷ Australian Bureau of Statistics data shows that median gross household incomes in South Australia increased to \$901 per week in June 2003. Assuming deposit of 10% (including any FHOG funds), a family on this income could afford to purchase a house with a maximum value of \$204,000 in June 2003. Data from the Real Estate Institute of South Australia shows that in June 2003, 116 out of 356 suburbs had a median house price below this figure.

⁸ For instance, see National Shelter, *Creating the Links between Housing, Employment and Income Support*, Adelaide, 2001, or Mike Berry and Jon Hall, *Policy Options for Stimulating Private Sector Investment in Affordable Housing Across Australia – Stage 1 Report: Outlining the Need for Action*, prepared for the Affordable Housing Research Consortium by the Australian Housing and Urban Research Institute, September 2001.



The Hawker-Britton UMR poll of home borrowers in late September 2003 found 25% would struggle to make repayments if interest rates edge up just 1 per cent; 44% would be in trouble with a 2 per cent rise in mortgage rates, while 75% would be in trouble with a 3 per cent rise. BIS Shrapel is predicting interest rates will jump to 10 per cent by late 2006. This increase will, in average mortgage terms, be far higher than any wage increases or tax cuts during that time.

On Oct. 2003 the Australian Prudential Regulation Authority said a housing downturn is “inevitable” and that, in a realistic downturn scenario, mortgage defaults would triple to 3.5% of loans.

Housing Lifeline

Some home purchasers would benefit from a Housing Lifeline. Repayment would be through the tax system and linked to the household’s ability to pay, yet it is their inability to prioritise and make housing payments, which creates the “emergency”.

The Lifeline extends very easy credit to low-income families in a time when household debt is at record levels. Because of the fact that the lifeline will be given as a loan rather than a grant, in some cases, the Housing Lifeline may transform a temporary financial crisis into long-term poverty.

An alternative solution is to extend CRA to mortgage repayments for low-income households at risk of losing their home.

Other impediments to people purchasing their first homes include:

- HECS fee repayments – many former tertiary students face significant repayments for their education, which affect their ability to save a deposit for a home.
- Casualisation of the workforce – SA has 30% of its workers in casual, temporary, or contract employment. It is very difficult to get a home loan in these circumstances.
- People seeking work increasingly need to be mobile to pursue job prospects, so many prefer renting.

The Inquiry will give particular attention to the following matters as they affect the cost and availability of residential land and housing in both metropolitan and rural areas:

- b. the efficiency and transparency of different planning and approval processes for residential land;**

(See comments above on the State Planning Strategy.)



c. the efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain;

Australia has a tax regime very favourable to property speculation, and this has helped drive housing prices up. The tax benefits for investors should be changed, to encourage investment in the provision of low cost rental housing.

Stamp Duty

Stamp duty adds to the cost of housing and is therefore a barrier to accessing home ownership, particularly for prospective purchasers at the bottom end of the market.

For a median price house in Adelaide:

• Stamp duty (conveyance)	\$7,680
• Stamp duty (mortgage)	\$ 760
• <u>LTO Registration – transfer fee</u>	<u>\$1,052</u>
Total	\$9,492 = 4.3% of purchase price

In the present climate, a blanket lowering of stamp duties would be quickly capitalised into higher house prices. However, all State and Territory Governments should provide full exemptions on stamp duty to home purchasers in the bottom two income quintiles. In addition, all State and Territory Governments should revise the rates at which stamp duty is charged on an annual basis, to ensure home purchasers on lower incomes are not further disadvantaged.

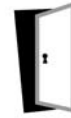
The SA Government received an extra \$107 million in property taxes in the 2002-2003 financial year, in a total of \$795 million in property taxes.

d. the efficiency, structure and role of the land development industry and its relationship with the dwelling construction industry and how this may be affected by government regulations;

There obviously needs to be better coordination. The SA State Planning Strategy and SA State Housing Plan should streamline and integrate the processes.

e. the effect of standards, specifications, approval and title requirements on costs and choice in new dwelling construction;

All new residential construction should be required to be “adaptable” for people with disabilities, and be energy efficient. The adaptability standards may add 1% to the cost of housing, but save many times that in comparison to later modifying residences. Energy efficiency standards will help ensure that the on-going energy costs of occupying a house will be more affordable. With rising utility costs, people on low incomes need to be able to afford to stay in their present homes.



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- f. the operation of the total housing market, with specific reference to the availability of a range of public and private housing types, the demand for housing, and the efficiency of use of the existing residential housing stock.

THE SOUTH AUSTRALIAN HOUSING MARKET

SA's before-housing poverty is higher than other states, while SA's after-housing poverty has been constrained by lower housing prices. SA's lower housing costs have given SA a competitive advantage over the other states.

In South Australia, there is clear evidence of rising inequality and poverty in this State.⁹ The advantage that SA had because of its low cost housing is threatened by cuts to CSHA funding and less public investment in housing. A relatively strong public housing sector in this state had benefits beyond providing housing for those unable to afford private purchase or rent. It provided the government with significant leverage in urban design and development and restrained rising housing costs. A key finding of the SACOSS/University of SA research into social disadvantage in SA was that without low housing costs, the rate of poverty in this state would be much higher.

Median house prices in Adelaide rose 46% between 1998 and 2002 – far in excess of wage increases. House prices continued to accelerate, with an increase of 10.68% in the June 2003 quarter, and 28% over the previous 12 months.¹⁰

Basically what is needed is more adequate funding for public housing, to keep private house prices down. Public Housing is now 7.7% of all SA housing (it used to be 10%), so it now has less of an impact on the housing market.

Private Rental

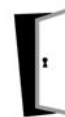
The Private Rental Market (PRM) is not geared towards security of tenure – if people fall out of the PRM, many apply to social housing, where there are long waiting lists, or they move to caravan parks, boarding houses, stay with friends, or become homeless. Many clients of social housing providers are excluded from the PRM.

Overall PRM rent levels have not yet followed the rapid increases in housing prices. In Adelaide, rents have gone up 3-69%/year¹¹, while house prices increased by 28%. However, what needs to be examined is the proportion of a person's income that goes on rent.

⁹ Ed Carson and Sonia Martin (2001) *Social Disadvantage in SA*, SACOSS and the Social Policy Research Group, University of SA.

¹⁰ Real Estate Institute of SA, *Suburban statistics*, July 2003.

¹¹ *Quarterly Average Rent Report*, Tenancies Branch, SA Office of Consumer and Business Affairs, Oct. 2003.



In SA, there have been instances of “rental auctions”, where an agent will let the property to the tenant who can pay rent at the highest bid. When the vacancy rate is only 1.58% (as it currently is in the southern suburbs), agents and owners have the upper hand, and can exploit that power.

Three or four years ago, it was easy to find rental accommodation for \$100/week in metropolitan Adelaide; now it is difficult to find anything under \$168/week (the median rent), which would be a very high percentage of many Centrelink recipients’ income. Latest figures from the Tenancies Branch of the SA Office of Consumer and Business Affairs indicate the median rent is \$204/week, up from \$97/week in 1996.

In August 2003, the President of the SA Real Estate Institute said most of the properties available for rent are in the executive price range - \$300 plus per week. The overall vacancy rate for Adelaide was 2.44%, indicating a tight rental market.

As house prices rise, accessibility falls. People are dependent on the private rental market for accommodation for what can be a protracted period. In fact, 40% of renters have been in private rental for 10 years or more.¹²

There is an assumption that the private rental market will provide affordable accommodation, particularly to people in the bottom two income quintiles. Yet there is a grossly inadequate supply of affordable rental housing at the bottom end of the market, amounting to a national shortage of 150,000 units of affordable rental dwellings.¹³

Recent research shows that nationally, 330,360, or 35% of recipients of Commonwealth Rent Assistance (CRA), are in housing stress (paying more than 30% of income on rent), and 85,000 are paying more than 50% of their income on rent.¹⁴

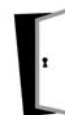
Proportion of CRA Recipients in housing stress, 30/11/2001									
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Capital City	46.4%	35.8%	31.5%	30.5%	29.8%	24.4%	41.1%	41.9%	37.1%
Total	38.0%	32.0%	31.0%	28.9%	27.9%	21.3%	41.1%	38.8%	33.1%

Source: Productivity Commission, Report on Government 2003, Table 16A.49

¹² Maryann Wulff and Judith Yates, *Low Rent Housing in Australia 1986 to 1996*, Australian Housing Research Fund, March 2001

¹³ Maryann Wulff and Judith Yates, *ibid.*

¹⁴ National Shelter & ACOSS, *Rent Assistance: does it deliver affordability?*, September 2003. Housing stress is defined as households in the bottom two income quintiles paying more than 30% of gross household income in mortgage payments or rent.



Housing stress in the rental sector indicates a low potential for families in rental accommodation to save up the deposit required to access home ownership. In South Australia, it is estimated that four out of five low-income renters live in housing stress in 2001.¹⁵

On average, 26.0% of Australian home purchasers spent in excess of 25% of their weekly gross income on housing loan repayments in 2001.¹⁶ However, this figure was 54.1% for those earning between \$300 and \$699 per week and 70.2% for those earning less than \$300.

Proportion of Purchasers spending more than 25% of Household Income on Mortgage - 2001						
Weekly Gross Household Income	Major Cities	Inner Regional	Outer Regional	Remote	Very Remote	Australia
\$1-\$299	70.4%	70.2%	70.1%	66.2%	62.1%	70.2%
\$300-\$699	58.9%	49.4%	44.1%	43.6%	34.7%	54.1%
\$700-\$1499	26.1%	17.3%	16.1%	16.7%	11.2%	23.0%
\$1500 or above	12.6%	7.4%	6.0%	5.2%	3.0%	11.4%
Total	27.0%	24.3%	23.4%	21.3%	17.0%	26.0%

Source: Australian Bureau of Statistics, Australian Social Trends, 4102.0, 2003

The table above “hits home” when one realises that a household’s income levels can change dramatically through accident, injury, redundancy, etc.

Commonwealth State Housing Agreement

1993 Industry Commission Report on Public Housing¹⁷ demonstrated conclusively that capital expenditure on public housing is the most cost effective way of increasing access to affordable housing.

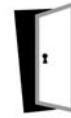
Yet the CSHA continues to be cut and the funding formula and eligibility of tenants changes. The SA Housing Trust now has 48,271 homes, a drop of 20% in the past 10 years. There are 26,670 applicants on the waiting list, yet in the last 9 years there has been a 53% decline in the number of people allocated public housing per year.¹⁸

¹⁵ *State Housing Plan Discussion Paper*, June 2003. This estimate uses 25% of income as the benchmark for housing stress, rather than the more common 30%.

¹⁶ These estimates use 25% of income as the benchmark for housing stress, rather than the more common 30%.

¹⁷ Industry Commission, *Public Housing Volume 1: Report*, Report #34, November 1993

¹⁸ SAHT, *Trust in Focus*, 2002-2003



The inquiry will also identify and examine mechanisms available to improve the ability of households, particularly low income households, to benefit from owner-occupied housing. This will include an assessment of rent and direct ownership subsidies, loan guarantees and shared equity initiatives.

Commonwealth Rent Assistance

In December 2002, the average CRA payment was \$73.54 per fortnight, and 914,647 individuals and families were in receipt of this payment.¹⁹ However, failure of CRA to deliver affordability means that a large number of tenants are left unable to save up a deposit for their first home.

CRA is currently limited to the rental sector only, and does not extend to home purchasing. This means that families who are otherwise in the same circumstances will receive income assistance with their housing payments if they rent, but will not receive any financial assistance if they pay an equivalent amount in servicing a mortgage.²⁰

One way to alleviate these concerns, as well as removing the disincentive to purchase, is to extend CRA to mortgage repayments.

First Home Owners Grant

A large proportion of FHOG monies appears to have been received by people who are not in housing stress.²¹

The FHOG scheme had four Federal Government interventions in a period of 2 years, which is very rapid intervention, based on what was happening in the housing market. There is little doubt that the FHOG has been capitalised into higher housing prices.

A very large amount of money is involved with Government intervention in the housing market.

Government intervention in the housing market has delivered neither affordability nor accessibility to a large number of recent and prospective home purchasers, especially for those on low incomes. First Home Owner Grants should be made available only to families earning below the median income, and for dwellings below the median housing price in the area.

¹⁹ National Shelter & ACOSS, *Rent Assistance: does it deliver affordability?*, September 2003.

²⁰ However, the Prime Minister's Taskforce on Home Ownership has recently proposed a 'housing lifeline', offering limited loans to some households experiencing housing stress. The merits of this scheme are discussed in more detail below.

²¹ Mike Berry, *Affordable Housing Project: Background Paper*, Brotherhood of St Laurence, December 2002



Providing a grant towards purchasing an established dwelling can have only one impact: an increase in prices. In SA, the number of loans to first time buyers peaked at 10,151 in 2001, far above the 10-year average of 7529. It is estimated that the number of loans in SA will be below the average in 2003. Nationally, recent ABS figures show the proportion of first time buyers was just 13.8% of all dwelling financed – one of the lowest figures ever, and under 14% for the third year in a row. The dream of home ownership is fading away for a whole generation, as the historical proportion has been around 23%.

RESEARCH

Submarkets in SA need to be examined. For example, with the introduction of FHOG's, sales in Salisbury North increased. The impact of the FHOG on housing prices by suburb and Local Government Area needs investigation if housing submarkets and Government interventions are to be better understood.

Likewise, further research into the effect of CRA on rent levels across a number of submarkets is urgently required.

Finally, there should be research into the impact of land taxes on the investment (or its inhibition) in affordable rental housing.

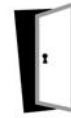
CONCLUSION

The fundamental cause of the severe reduction in accessibility and affordability of housing for first home purchasers lies in the overall housing system. Shelter SA believes that a Housing Policy Framework is an essential first step to addressing the current housing affordability and accessibility crisis. It is essential that such a Framework include not only home purchasing, but also private rental and social housing. Any Framework must address both the supply and demand side of affordable housing, operate at all levels of Government, and involve the private and community sectors.

The whole housing system (private rental, public housing, community housing, home purchase and ownership) needs a coherent and coordinated National Housing Framework. Currently the richest 20% of Australians hold 60% of the assets, while the poorest 20% have virtually no assets.

It has been pointed out that those who got the FHOG in the initial round benefited, but after that, house prices increased by the amount of the grants.

In SA, the old State Bank used CSHA funds to cap mortgage interest rates at 15%; for First Home Owners, the rate was 5.75% in the first year of the loan, and increased at 1%/year until the cap was reached. This was an effective way of protecting people entering the market. This plan would work, when interest rates rise again.



In the early 1990's, the Commonwealth Labor Government developed a National Housing Strategy, but the Howard Government has had a lack of policy direction in relation to housing. There are overlapping portfolios impacting on housing (e.g. Treasury, Planning, Infrastructure, Regional Development, Family and Community Services, etc). This is making any consistent direction in housing assistance difficult if not impossible.

A National Housing Policy Framework should be developed, to identify ways in which the current uncoordinated system can be unified and reformed to use existing funds more efficiently and effectively. The Framework should address all issues regarding the provision of affordable housing, including home purchasing, private rental and social housing, and address both the supply and demand side of affordable housing.

Commonwealth Government's acceptance of its responsibility to ensure every Australian has access to appropriate and affordable accommodation is needed. The Howard Government intervened rapidly in the housing market four times in 2 years when the First Home Owners' scheme was introduced. In spite of that, the Housing Affordability Index is at its lowest for 13 years, despite record low interest rates at a time of sustained economic growth.

The big gain from the Commission's Inquiry will be the examination of the problems on the supply side of housing. The speculative forces remain strong, so the Commonwealth must urgently respond by improving its group of housing policy settings and investing in the provision of increased funding for public and community housing, to make affordable housing available to people on low-incomes.

RECOMMENDATIONS

1. Shelter SA believes governments should provide more support for low-income homebuyers, such as financial aid, counselling and support services.
2. Shelter SA supports a substantial redistribution of Commonwealth housing assistance to low-income earners.
3. Shelter SA believes that Stamp Duty and other government charges related to purchasing a house be reduced, with the objective of decreasing upfront costs substantially for first homebuyers.
4. Shelter SA believes the criteria of the First Home Owners Grant should be extended to cover special needs: e.g. women escaping domestic violence who may have already purchased a home, but no longer have access to it.
5. Shelter SA supports Commonwealth taxation and planning incentives to increase the supply of low-cost dwellings in a range of affordable housing options.