



# An Affordable Housing Reform Agenda

Goals and Recommendations for Reform

Overview

## The problem

Australia's home ownership levels are declining. The proportion of households who own outright is now smaller than the proportion who have a mortgage, and is continuing to diminish. This is a significant problem for a country whose retirement income system is based on outright home ownership in retirement.

House prices continue to rise nationally. They are rising faster in our two major cities (Sydney and Melbourne) which, between them, house 40% of the population. Average Australian house prices are approximately 4-5 times the average annual household earnings.<sup>1</sup>

Nationally, four in five private rental households in the lowest 20% of incomes are in unaffordable housing situations (paying more than 30% of income in rent). Additionally, more than 30% of the second lowest quintile is also experiencing housing stress.<sup>2</sup>

Australia has a shortfall of housing supply, estimated by the most recent reputable assessment as over 500,000 rental dwellings which are both affordable and available to the lowest income households.<sup>3</sup>

One result of these pressures is that many Australians become, or remain homeless due to a lack of affordable housing. More than 105,000 people were counted as homeless on census night in

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<sup>1</sup> Ryan Fox and Richard Finlay, 'Dwelling prices and household income', Reserve Bank of Australia Bulletin, December Quarter 2012, available at: <http://www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>.

<sup>2</sup> Kath Hulse, Margaret Reynolds and Judith Yates (2014): *Changes in the supply of affordable housing in the private rental sector for lower income households, 2006-2011*, AHURI

<sup>3</sup> National Housing Supply Council, State of Supply Report 2012. The actual figure is 539,000. The figure of 539,000 is arrived at as follows: In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households – a shortfall of 539,000.

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2011, in increase from just over 89,000 in 2006.<sup>4</sup> This figure probably significantly underestimates the number of people affected by homelessness – the Australian Institute of Health and Welfare reported that 254,000 people sought help from specialist homelessness services during 2013-14,<sup>5</sup> and an additional 423 requests for support were unable to be met each day. Funding to homelessness services is inadequate to meet the needs of people.

While homelessness is the most severe consequence of housing failure, Australia's housing supply shortfall is becoming a serious brake on productivity. Our policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

Australia currently has 414,000 social housing dwellings dedicated to households on the lowest incomes, often with the highest needs.<sup>6</sup> In real dollar terms, there has been a decline in investment in social housing. Between 1991 and 2001 funding for social housing fell by 25%.<sup>7</sup> This fall continued in the next decade, with base federal funding to social housing declining 10% in real terms between 2003 and 2013. The exception to this was the one-off Social Housing Initiative (SHI).<sup>8</sup> However, the steady decline in social housing stock has led to very long waiting lists and the targeting of social and affordable housing to highly disadvantaged tenants often with complex needs.

Australia needs to build significantly more dwellings, particularly at the low cost end of the housing supply spectrum, to meet current and projected needs.

This paper seeks to engage with the critical policy question: what is the investment and policy mix required across governments, the community and the private sector to address the investment shortfall and build Australia's affordable housing supply?

Although it is fundamental to economic participation, affordable housing is not currently considered by governments to be part of the nation's infrastructure agenda. As a result of this broader disconnect, many of the policies pursued by Australian governments in the name of housing affordability<sup>9</sup> serve to increase demand for housing, while failing to tackle the regulatory

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<sup>4</sup> Australian Bureau of Statistics, *Estimating Homelessness 2011*, p5

<sup>5</sup> Australian Institute of Health and Welfare, *Specialist Homelessness Services 2013- 14*, pvii

<sup>6</sup> Productivity Commission, *Report on Government Services*, 2015.

<sup>7</sup> Hall and Berry 2004 quoted by Toohey, S (2014) *The Failure of the Housing System*, Homelessness in Australia an Introduction, edited by Chamberlain, Johnson and Robinson, University of NSW, Sydney

<sup>8</sup> Toohey, S (2014) *The Failure of the Housing System*, Homelessness in Australia an Introduction, edited by Chamberlain, Johnson and Robinson, University of NSW, Sydney

<sup>9</sup> Such as the first home buyers grants and concessions.

and cost barriers to housing supply.<sup>10</sup> These housing market failures need to be addressed if Australia wishes to increase national productivity.

While the responsibilities for affordable housing and homelessness are shared between the three levels of government, each level has historically looked to blame the others for the failures of the housing and homelessness system. This has contributed to policy paralysis and undermined efforts to collaborate and coordinate policy. The current review of the federation shines a spotlight on housing and homelessness policy and provides an opportunity to grapple with these complexities at a systemic level.

### Goals of reform

The recommendations for reform outlined below are designed to ensure:

- Affordable housing is planned and invested in as essential social and economic infrastructure;
- Housing policy has a central place in government;
- Secure, long-term public and private investment streams deliver growth in the stock of affordable housing dwellings to meet the current and projected shortfall;
- The profile of investors in private rental shifts from small scale to large-scale investors and professional tenancy managers;
- Assistance to low-income renters better reflects housing costs and is indexed appropriately to ensure it retains adequacy into the future;
- Stronger tenancy regulation delivers greater security for long-term renters;
- Shared equity and similar schemes provide a pathway into ownership for low and moderate income households in partnership with governments and not-for-profit organisations;
- Increased affordable housing supply provides exit points from homelessness and is complemented by an expansion of 'housing first' models;
- Commonwealth/state funding agreements deliver greater transparency and accountability; and
- Funding for homelessness services is long-term and adequate to meet current and projected demand and directed towards the ending of homelessness in line with the targets contained in this paper.

***Like most big problems, it's systematic. We need a public conversation that grapples with this, and like most public policy problems, there aren't easy answers, there are trade-offs. We need to be prepared to say that we understand some people are not going to get everything they want out of this, but as a community as a society, and as a country we will be better off if we make some tough decisions on this.***

**John Daley, CEO, Grattan Institute**

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<sup>10</sup> Kirchner, S. (2014) *Eight Housing Affordability Myths*, The Centre for Independent Studies.

## Recommendations for reform

### Tax reform

- A common tax discount for individual investments should be introduced in the following assets (excluding active business investment):
  - Rental housing;
  - Shares;
  - Interest bearing deposits;
  - Capital gains.

This should be substantially lower than the current 50% discount on capital gains and deductions against such investment, including negatively geared housing, should be similarly discounted.<sup>11</sup>

- A consistent approach to the taxation of land and housing should be taken across states and territories with stamp duty progressively replaced with a broader land tax base levied according to value per square metre, with provision for the deferral of payment until sale or death and other provisions for income hardship.
- Tax treatment should allow community housing providers to work across the market by:
  - Ensuring that ATO 'special conditions' concerning governance rules and use of income and assets not restrict community housing providers from providing a range of affordable housing activities across the market;
  - Ensuring that there are no tax impediments to residential rental real estate being an attractive investment class for wholesale property investors such as real estate trusts.

### Investment in new affordable housing stock

- A future national affordable housing agreement should adopt specific targets to halve homelessness by 2020; halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025, and meet the shortfall in housing supply available and affordable to the bottom 40% of household by 2035. Government investment should comprise 10% or \$15 billion over 20 years, beginning with an additional \$10 billion in the first 5 years.
- Intergovernmental housing agreements (including the current NAHA and NPAH) should be adequately indexed to ensure their real value is maintained.
- In order to facilitate growth in social housing, state governments should accelerate stock transfer to meet the 2009 Housing Ministers' target of up to 35% of stock owned or managed by CHPs by 2020.

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<sup>11</sup> Australia's Future Tax System: Report to the Treasurer, Commonwealth of Australia, 2010.

- State governments should provide land to new social and affordable housing developments as part of their contribution to meeting targets for net-growth in social and affordable housing, priced at a level (the residual value) that enables providers to meet affordable housing benchmarks.

### **Innovative finance models**

- The Federal Government should convene an expert panel including community housing groups, finance experts, Treasury officials and academics to provide a recommendation to the Government on the best approach to deliver long-term finance to grow social and affordable housing stock.
- This should include modeling of a range of options to leverage low-cost private finance (including housing supply bonds, guarantees and establishing a Housing Finance Corporation) to fund an affordable housing growth fund.
- The Federal Government should build on the strengths of the National Rental Affordability Scheme to increase the supply of affordable rental housing. Funding for Round 5 incentives in the 2014-15 Budget should be reinstated to deliver 12,000 additional affordable rental dwellings and maintain investor confidence in the program, while the program is reviewed and problems are addressed to ensure a viable future program of incentives for private investment.

### **Urban planning, land and building regulation**

Effective planning for affordable housing should include a range of specific planning mechanisms to retain, promote and create new affordable housing.<sup>12</sup> Within this framework, state housing policy and planning legislation should promote affordability and enable affordable housing creation through:

- Increasing land availability for affordable housing;
- Reducing barriers to affordable housing investment;
- Preserving social and affordable housing; and
- Securing dedicated affordable housing in new developments.

It should also ensure an adequate and expanded supply of flexible accessible housing for an ageing population and for people living with disabilities. To this end planning systems and building codes should ensure:

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<sup>12</sup> Policy brief: International practice in planning for affordable housing: lessons for Australia, Australian Housing and Urban Research Institute

- An accessible path of travel from the street or parking area to and within the entry level of a dwelling;
- Doors, corridors and living spaces that allow ease of access for most people on the entry level; and
- A bathroom, shower and toilet that can be used by most people, with reinforced wall areas for grab-rails at a later date.<sup>13</sup>

### Commonwealth Rent Assistance

- The maximum rate of CRA should be increased by 30% in the 2015-16 Budget;
- A review of rental subsidies in private and public rental housing should be conducted. This should include an expert review of CRA indexation with recommendations to ensure the future adequacy of the payment in the context of rising housing costs.
- To ensure the future adequacy of CRA, the 3 yearly independent review of pension adequacy should have scope to regularly review the adequacy and indexation of all payments, including CRA; and
- Social housing rent setting should continue to ensure that households are not left in after-housing poverty.

### Tenancy Law Reform

- The Australian Government should enshrine in legislation the right to adequate housing.<sup>14</sup>
- State and territory governments should work to strengthen tenancy protections in the priority areas identified above.
- The interest generated by rental bonds, which are required in most states and territories to be lodged with a government agency, should be used as a funding stream to support tenants' advice and advocacy services. This would grow in proportion to the rental sector and hence demand for services.

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<sup>13</sup> Rights and Inclusion Australia and the Australian Network for Universal Housing Design, position statement 2015

<sup>14</sup> For more on the right to adequate housing, see the United Nations Housing Rights Program: <http://mirror.unhabitat.org/categories.asp?catid=282> For an example of the right to adequate housing in legislation, see section 26 of the South African Constitution:

*Everyone has the right to have access to adequate housing.*

*The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.*

*No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.*

<http://www.constitutionalcourt.org.za/site/constitution/english-web/ch2.html>

## Homelessness

### *Funding agreements*

- Governments need to establish bipartisan long-term (four+ years) funding agreements for the services that prevent, intervene early in, and support people experiencing homelessness. These agreements need to be
  - Indexed annually at a level that continues to meet the costs (including wages) of providing the services, capital and research funded under the agreements.
  - Negotiated and drafted in a manner that involves the homelessness sector and wider civil society in a collaborative fashion with government.
- Funding agreements need to include funding for ongoing service research and innovation to ensure best practice achievement of the goals to prevent and end experiences of homelessness.

### *Coordination of homelessness services, funding and initiatives between jurisdictions*

- A mechanism for coordination of homelessness policy and service delivery should be established. This could sit under COAG but must ensure engagement with community organisations delivering housing and homelessness services.

### *Interim funding*

- In the short term, current funding arrangements need to be maintained and extended while reform processes such as the Federation White Paper occur, and longer term recommendations contained within this paper are implemented. In particular:
  - Governments need to extend the National Partnership Agreement on Homelessness for at least an additional two years.
  - The National Affordable Housing Agreement needs to be re-indexed to meet the costs of providing the homelessness services that it provides. This needs to include a true wage-based indexation for employment costs contained within the funding.

## Housing, homelessness and the Federation

- Housing affordability should be elevated to Cabinet level in the Federal Government through the introduction of a National Housing Minister. This portfolio would have the responsibility to coordinate across Federal Government portfolios (including infrastructure, urban and regional development, employment and social services) and to partner with state and federal governments.
- The Commonwealth should maintain Federal policy responsibility to ensure broadly equitable access to services and support to people across the country, regardless of where they live, including homelessness and housing policy and funding arrangements.

- The Commonwealth and State and Territory Governments should establish a clear reporting framework for the NAHA and NPAH with a COAG select committee to oversee the implementation and reporting on this agreement.

## Conclusion

Recognition that housing is important national infrastructure is imperative to reform. A well-functioning, affordable housing system will strengthen productivity and participation.

Governments must also recognise and accept that reform will not come cheaply, but cannot be deferred. Decades of under-investment in affordable housing has resulted in a system in crisis. A national housing strategy should set ambitious goals for the development of new affordable housing stock funded through a combination of government and private sector investment.

Now is not the time for a national retreat from this urgent challenge. The Commonwealth Government must actively pursue and deliver on its responsibility to ensure access to housing for people wherever they live. It must ensure that national policy settings support a well-functioning housing system, play an ongoing role in policy coordination and increase its investment in affordable housing programs. At the same time, it must balance accountability and flexibility in the way it funds state and territory governments.

Innovation is essential. Governments, community organisations and the private sector must partner to create new mechanisms to leverage investment in affordable housing at scale. All must have a commitment to rectifying the distortions in our taxation system.

Australia faces an enormous, but not insurmountable, challenge. Through partnership, innovation, investment and strategic reform the nation can meet this challenge and unlock the economic and social dividends of secure, affordable and stable housing for all.



Homelessness Australia

*Creating a framework for ending homelessness*

