Housing challenges & the influence of housing policy in Australia

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Affordability, Sustainability and Liveability – Towards a Comparative Approach
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1. Scene setting
2. Challenges
3. Past housing policies
4. Recent policy directions
5. Review & takeaways

All monetary values given in Aust. dollars. Aus$1≈6 Chinese yuan; Aus$1≈0.9 US$
Australian housing in context

- Prosperous economy
  - 20 year run of economic growth
- Wage earners welfare state
- Mass home ownership
- Produced good quality housing & significant housing-related wealth
- Federated governance with shared responsibilities for housing & urban issues
  - has led to disparate policies / programs
- Increasingly market-dominated housing system
Demographics & settlement

- Population 19.8 m (2006)
- Households 7.1m (2006)
- Highly urbanised (91%) & concentrated
  - 2 largest cities (39%)
  - Inter city mobility limited by geography
- Low density cities
  - 79% single detached houses
  - Largest new houses in the world – av. 245 sq m 2009
- Steady population growth (via immigration) & household formation has fuelled housing demand

ABS 2006
Housing tenure
Australia 2006

- Owned, no mortgage: 34%
- Being Purchased: 34%
- Private rental: 23%
- Social rental: 4%
- Other, not stated: 5%

Source: ABS 2006
A snapshot of our key issues & challenges

- Declining affordability
- Large numbers in housing stress
- Greater housing-related inequality
- Growing supply shortages
- Changing demographics
  - nearly 50% more aged households by 2028
- Severe housing need of Aboriginal Australians
- Significant nos. of recurring homeless people
- Environmental concerns
Declining affordability

Income & House Price Trends Australia 1960 – 2009

Yates and Milligan 2007, updated
Housing stress 2002/03

Numbers in stress ('000s)

Incidence of stress (%)

Lower income private renters
Lower income purchasers
Moderate income private renters
Moderate income purchasers

Yates & Milligan 2007
Tenure segregation

Tenure by Household Income (Australia, 2006)

Data excludes completed purchasers

ABS 2006
Wealth inequality

Wealth by tenure & age 2003/04

Home owners vs Non home owners

- Other net worth
- Other property
- Owner-occupied housing

Yates & Milligan 2007
Declining home ownership for future generations?

Graph shows home ownership rates by age cohort 1971-2006

Graph shows home ownership rates by age cohort 1971-2006

Yates and Milligan 2007
Urban segregation

Median household income by area Sydney 2006

ABS 2006
Socio-economic index by tenure
Sydney 2006

% of households in each tenure

Owned Outright  Being Purchased  Private Renting  Social Renting

Advantaged  Disadvantaged

ABS 2006
### Supply shortages

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2014</th>
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<tbody>
<tr>
<td>Market supply demand gap</td>
<td>178,000 in 2009</td>
<td>≈ 308,000 in 2014</td>
</tr>
<tr>
<td>Social housing supply, projected shortage</td>
<td>90,000 in 2012</td>
<td>150,000 in 2020</td>
</tr>
<tr>
<td>Private rental shortages for low incomes</td>
<td>71,000 in 2006</td>
<td>234,000 in 2006</td>
</tr>
<tr>
<td>• Affordable</td>
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<td>• Affordable &amp; available</td>
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National housing policy
A long decline

1 Home ownership policies

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1950s – 1970s</td>
<td>Govt. driven expansion</td>
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<tr>
<td>1980s</td>
<td>Financial deregulation</td>
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<td></td>
<td>Reliance on demand side stimulus</td>
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<tr>
<td>1990s</td>
<td>Market reliant</td>
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<tr>
<td></td>
<td>Govt. loan programs failure</td>
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<td></td>
<td>Escalating tax expenditures</td>
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<tr>
<td>2008</td>
<td>Managing GFC risks</td>
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**Tax subsidies for housing 2005/06**
Total annual tax revenue foregone

- **Owner Occupiers**: $45 bn
- **Renters**: $2.8 bn
- **Investors**: $4.5 bn

**Annual subsidy per h’hold by income level**

- Top Income Quintile
- Lowest Income Quintile

- **All Tenures**:
  - $8,000
  - $1,200

- **Younger Buyers**:
  - $6,500
  - $2,500

- **Older owners**:
  - $20,000
  - $4,500

Yates 2009
## Social rental

<table>
<thead>
<tr>
<th>Period</th>
<th>Events</th>
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</thead>
<tbody>
<tr>
<td>1945 – 1954</td>
<td>Hey days</td>
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<tr>
<td>1955 – 1990s</td>
<td>Privatisation</td>
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<td></td>
<td>Residualisation</td>
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<tr>
<td>1996 – 2007</td>
<td>Severe funding cuts</td>
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<tr>
<td></td>
<td>Declining capacity</td>
</tr>
<tr>
<td></td>
<td>Poor image</td>
</tr>
<tr>
<td>2008 -</td>
<td>Turnaround to growth?</td>
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<tr>
<td></td>
<td>Diversifying providers</td>
</tr>
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</table>
Private Rental

Relatively recent policy focus with

- Investor subsidies for mums & dads *but* not targeted & stimulate activity (turnover, debt) not supply
- Regulated by state govts. *but* comparatively weak tenant protection
- Modest private rent subsidies for welfare recipients *but* now falling well behind rents

2008 –

- Investor subsidy for new rental supply for low and moderate incomes at below market rents for 10 years

Comparison of change in prices, rents & rent subsidy 1995-2009

CRA: Commonwealth Rent Assistance (maximum payment rate)
Data for capital cities

Colic-Peisker et al. 2010
Recent encouraging policy moves

- Elevation of housing & major cities to national policy concern
- Broader system-wide conception of housing policy
- Enhanced supply-side interventions
  - Large-scale affordable rental supply initiative with private sector engagement
  - Commonwealth incentives for states & local govt. to drive more efficient & affordable residential development; review of development costs / levies
  - New urban public infrastructure investment fund
- Scaled up response to priority needs – remote Aboriginal communities, preventing homelessness – with stretch targets
- More integrated approach to homelessness & housing services
- Diversifying social housing providers to generate innovation & leverage
- Large housing component of economic stimulus response to GFC
- ‘Tax & transfer review’ scrutiny of housing

Additional national govt. investment in housing ($ million)

Milligan and Pinnegar 2010
Early days
...outstanding issues

- Structural affordability problems & inequities related to housing system have not been addressed
  - Tax review has identified range of issues but change will be politically very challenging; key tax reforms already rejected by govt.

- New directions were cut across by perceived need to prop up house prices & housing jobs during GFC with mixed effects

- Lack of security & housing pathways for low income / younger & older households trapped in private rental sector

- Not yet tackling urban renewal at scale with govt. incentives to meet environmental & social objectives

- Limited & fragmented action on adaptation of housing to address environmental requirements
Governing policy change – a major challenge

- Policy reform and broadly-based cohesive policy action have been very elusive in a federated system of governance.
- No political consensus nationally – current federal directions may be short lived.
- Lack of broad understanding of housing problems & complexities – leadership on this does not include politicians of any group.
- Capacity deficits at all levels of govt. – contributes to piecemeal, selective & fragmented reforms.
- Good times & vested interests have contributed to weak constituency advocating fairer housing policies.
Overview

Australia is facing a crisis in its dominant mode of housing provision

Early policies produced affordable supply & quality, later retracted with reliance being placed almost entirely on market-provided housing

Continuous population pressures in (few) major cities & tax incentives have fuelled house prices

Lack of public investment in infrastructure has contributed to rising development costs (user pays) & inflationary pressures in established suburbs

Now supply shortages accumulating as investment is skewed to overconsumption & high end & market fails to respond to lower income / smaller household demand

But policy / subsidy bias to home ownership now deeply embedded – majority have vested interests – house price rises still celebrated, govt. relies on asset-based welfare for older people

Affordability problems manifesting as mounting household debt, polarised cities & intergenerational inequity

Some very early signs that legitimacy of current policies being questioned

“There is belatedly growing recognition that you can kill home ownership with kindness”

(Disney 2010)
Where to from here?

We need more pro-active housing and urban policies that

- Are directed to longer term sustainable improvements in housing outcomes
- Reduce tenure bias – support ownership and renting
- Reduce speculation in housing – reduce & target tax incentives / subsidies
- Encourage the market to provide more well-located, lower-cost smaller housing
- Encourage tenure, housing & demographic mix in all areas
- Subsidise housing supply for lower incomes, where needed
- Strengthen & underpin not-for-profit alternatives as the ‘third pillar’ of the housing system – offering well-managed rental, promoting new tenure forms & as catalyst for community-driven innovation
Can Australia's present housing system be sustained?

Economists can't agree whether house prices will correct

Old certainties have gone – answer is we don't know

Suggests it is high time to fundamentally review our housing policies
to prevent damaging collapse and to improve fairness

But perhaps, as my home city’s newspaper said last week, it all
ultimately depends less on our housing policies and more on China

“There is little doubt that ... China holds the key to Australia's household
wealth.” (Johanson 2010)
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<td><strong>Australian Government, 2010b 'Australia's future tax system’ Report to the Treasurer December 2009, Canberra: Commonwealth of Australia</strong></td>
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<td><strong>Johanson S., 2010 Property apocalyptics predict bubble trouble in the Australian market, Sydney Morning Herald Business Day p. 6, August 9</strong></td>
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