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Is this the report that will finally put social housing back together?

Adam Farrar, Principal Policy Officer, Shelter NSW

What a difference a fresh set of eyes can make!

Last year, as part of implementing the Future Directions for Social Housing in NSW reforms, the government asked the Independent Pricing and Regulatory Tribunal (IPART) to look at how social and affordable housing rents and eligibility could be changed to improve incentives for workforce participation—and to improve the viability of social housing. It would be fair to say that set alarm bells ringing.

It might also be fair to say that the draft report release in March is landmark document. Not because it proposes new ideas, but because it independently reaffirms the basic principles of good social housing provision, and because it has made a fundamental recommendation for making the enterprise viable. For 15 years researchers and advocates have been making the same points without being listened to; but IPART’s findings are in response to government’s request for advice.

This seems to be something we can hang our hats on.

So what does it find and recommend?

It finds that using rents to create incentives for social housing tenants to take up work won’t work (although it does have some suggestions about incentives in other ways). That clears that stalking horse out of the way.

It then finds that affordability is fundamental and that the only way to achieve that is if the tenant contribution (rent) is related to their income. Moreover, the existing 25 per cent of household income (rising to 30 per cent as incomes increase) is the right proportion of income to deliver an affordable rent for very low income households. But there’s also a sting in the tail with this one that we’ll come to in a moment.

Similarly, it finds that the current eligibility is pretty much right—so there should be no further scope to use that one as rationing or to push people through. More important, it recommends that the best way to avoid workforce disincentives is to offer tenancies continuing leases, rather than the current fixed term, renewable, ones. Security, rather than insecurity, is the best platform on which to build a life and take up any job or training opportunities.

This recognition of the importance of security of tenure is very significant…

This recognition of the importance of security of tenure is very significant in this current climate of continually renewing tenants’ eligibility for their housing. The draft report explicitly accepts that, should they choose, tenants should be able to continue their tenancy even when their income has increase to the point at which they no longer need a subsidy to pay market rent. (There’s a sting in the tail of this one too, that we’ll also come to later.)

As part of a number of measures to improve incentives to access employment, it goes on to ‘de-risk’ the acceptance of a job, or even a decision to leave public housing when that looks like a better and realistic option. Building on some existing measures, it recommends that increased income from employment-related income be exempt from assessment.
for rent calculation for the first six months; that people who choose to move into private rental retain their original application date on the waiting list for up to two years; and to extend current private rental subsidies.

But in some ways the most exciting—and heroic—recommendation is that the government fully fund the gap between the income currently received by social housing providers and the real ‘efficient cost’ of providing social housing. This cost covers the ‘returns on investment’ that would help fund the cost of financing further growth. And IPART recommend that this should vary with location (as market rents do) to ensure that future growth is possible in all locations, not just in low cost areas.

The Government’s response to this recommendation, which would put make social housing viable again after decades of decay, will be the most interesting. After simply ignoring all previous voices calling for this, IPART has at last belled the cat in a way that the Government might not be able to ignore.

The range of issues considered in the draft report is quite surprising—and impressive. They argue for an allocations system (including choice-based letting) that takes into account the wide range of factors that will create a platform for tenants’ well-being and opportunities. They call for a funder / provider structure to allow for transparency and a clearer focus on outcomes for tenants. They call for a ‘social housing strategy’ to guide future growth and responses to need.

But it’s perhaps this breadth that leads to some stumbles. Good housing is complex. And so listening to the feedback on the draft report from the sector will offer IPART important insights to craft the final report.

Some of the stumbles really matter.

While stressing affordability, they recommend widening the definition of assessable income by including all regular income used for general living expenses. This adds in all of Family Tax Benefit and pension supplement. But these payments (and some of FBT is already included) are made as part of income support precisely to meet the different and higher costs of households in certain circumstances—the higher cost of children, for example. Since these are income payments provided by the Commonwealth to meet particular income needs, they should not be captured by a state agency without a consistent national agreement on their purpose and use.

While proposing secure, ongoing, leases, they also propose that this additional security of tenure should be paid for with a five per cent supplementary charge—arguing that secure tenants are saved the cost of moving. But of course, security shouldn’t be a discretionary benefit that you might choose to buy. It’s necessary for a decent life (as IPART recognises elsewhere) and is a normal part of private rental markets in other countries—and hopefully soon will be here.

The IPART report recommends that tenants be allowed to make the choice of what housing best meets their needs (within broad parameters), and to offer security. But they go on to argue, not that eligibility should be regularly reassessed, but that dwelling suitability should. Indeed, they suggest that relocating tenants to the ‘right’ houses should take priority over urgent housing need—which they suggest can be met with temporary accommodation.

While they argue for a funder / provider split, they propose that the Department of Family and Community Services (FACS) be the funder. While the landlord (Land and Housing Corporation) sits within FACS and the tenancies are managed by FACS Housing, this is an untenable conflict of interest.

But the biggest stumble is to insist that all government housing expenditure should be directed to ‘those most in need’—social housing—and none should be spent on affordable housing for low-income working households battling (and too often failing) to maintain a foothold in both the rental market and employment. This would be both a social and economic disaster. And since demand for social housing is fed by the failures of the private rental market, such a siloed approach would simply be self-defeating.

But once again we see a strange blindness about housing policy. The provision of other core services like education or hospitals are not restricted to those in the most desperate situations. And investment in their capital needs comes from government to great applause. With continuing windfall tax gains from the NSW housing market via record stamp duty receipts, there is no need and no place for this sort of rationing when it comes to subsidised housing—‘social’ or ‘affordable’.

If we see a much needed government strategy emerge to guide the delivery of subsidised housing as IPART recommends, let it be a broad affordable housing strategy that can make a real difference to all people battling to live decently while putting a roof over their head.

These are all important reservations about some of IPART’s four findings and 27 recommendations. But they shouldn’t stand in the way of the importance of the report’s basic findings and its significant key recommendations. Nor should they allow government to cherry pick a few congenial proposals. It’s all too rare that such inquiries seriously provide a way forward. Let’s hope it doesn’t stay on the shelf. 🧵
Short term rentals and local housing markets

Professor Peter Phibbs and Professor Nicole Gurran, University of Sydney

Over the last five years Australian cities have witnessed a massive boom in apartment building, coinciding with an explosion of online holiday rental listings via platforms such as Stayz and Airbnb. This has created a perfect storm.

Rising complaints about tourists in residential apartments and homes prompted a NSW Parliamentary Inquiry into the Adequacy of Regulation of Short Term Holiday Letting.\(^1\) Since the Inquiry concluded in mid 2016, Sydney’s Airbnb listings alone have grown from around 15,648 in January 2016,\(^2\) to reach a total of 24,038 homes by April 2017.\(^3\) Over approximately the same time, 24,469 new apartments were completed in Sydney.\(^4\) These figures are not connected, but highlight the changing ways that homes are being designed, financed and used in high density urban and suburban settings.

The proliferation of online holiday rentals in particular have not been planned for, as highlighted by the NSW Parliamentary report which found current planning regulations “fragmented and confusing”. Short term rental accommodation is not defined under NSW planning legislation, and the legality of a range of “home-sharing” practices now enabled by online platforms such as Airbnb remains unclear.

In addition to traditional short term holiday lettings (whole dwellings which are solely reserved for holiday accommodation), online platforms allow the listing of primary residences when occupants themselves are travelling, as well as rooms, and shared rooms.

The permanent or frequent letting of whole homes is regarded to be most problematic, but holiday rentals have long operated in coastal towns and in tourism regions, typically without the need for special planning approval. The sudden appearance of tourists in urban and suburban buildings and neighbourhoods, particularly in inner Sydney and Melbourne, has attracted particular public attention.

Echoing concerns in high density cities of Europe and North America, residents complain that tourists generate increased noise, rubbish, traffic and parking congestion and are prone to loud and drunken behaviour.

There is also wider disquiet about the increasing presence of visitors, an intangible transformation of local neighbourhoods. This impalpable
change—described by some scholars as tourist-driven gentrification, arises when permanent homes are converted and residents displaced by holiday accommodation.

The conversion of permanent rental housing supply to short term accommodation has been endemic in New York, London, Berlin, Barcelona, San Francisco and Vancouver. In these cities governments have cracked down heavily on Airbnb and other online platforms to prevent affordable and rent controlled units in particular from being used for holiday accommodation. We don’t have nearly as much affordable housing to protect in Sydney, although the sell off and subsequent listing on Airbnb of former public housing in Millers Point was particularly poignant.

Our own analysis shows that general pressure on already tight rental vacancy rates in high demand suburbs of inner Sydney will be exacerbated if online holiday listings of whole homes continue to grow. Our study found that in central Sydney frequently available Airbnb homes amount to around one and a half times the rental vacancy rate (the proportion of rentals available for local households to rent at any one time), and nearly four times the number of rental vacancies in the Waverly Council area, which includes Bondi.

In a city trying to beat its affordability crisis by building new supply, it seems counterproductive to be leaking existing or new housing stock into the holiday rental market. But rather than launch a New York style crack down, the NSW Government has opted to tread lightly for now. The NSW Government’s long awaited response to the Parliamentary Inquiry has promised “broad consultation” involving industry and the community. This consultation, supported by an “options paper” will identify “appropriate regulations” that enable the sector to “continue to flourish and innovate whilst ensuring the amenity and safety of users and the wider community are protected”.

It appears likely that the “options” will involve amendments to planning laws to clarify that principle residences can be rented for up to a specified number of days without the need for further planning approval, and that short-term letting of rooms where hosts remain present will also be permitted. Short term letting of empty houses (i.e. homes which would otherwise be vacant) may also be permitted with no or minimal need for planning approval, subject to “impact thresholds”.

The main shift in the Government’s position appears to be recognition that strata communities need more tools to manage short term rental accommodation in all its forms.

It appears likely that that the “options” will involve amendments to planning laws.

However, in some cities, and usually following legal action, Airbnb has agreed to help implement local rules, for instance, by collecting and remitting applicable tourist taxes, or by blocking bookings once a threshold is reached. Such an arrangement has been introduced in London, where Airbnb has established a “day counter” which automatically restricts bookings beyond a 90 day calendar year threshold, unless the host has obtained planning permission to operate a holiday rental property.

It is too early to know whether this action will operate to curb London’s growing conversion of permanent rental accommodation to tourist accommodation or simply result in landlords turning to other online platforms (such as homefromhome.co.uk), but the intervention represents an important first step.

The NSW Parliamentary Inquiry and Government response also anticipate greater use of voluntary and industry codes of practice as well as market based forms of regulation (for instance, where users rate each other). Airbnb itself is piloting a “Friendly Building Program” in the US, where owners’ corporations are able to take a percentage of income from Airbnb bookings and set specific policies (such as blackout dates).

The main shift in the Government’s position appears to be recognition that strata communities need more tools to manage short term rental accommodation in all its forms. The cautious approach may also reflect the fact that internationally, attempts to regulate online holiday rentals have had limited success. Despite New York’s ban on short term holiday rentals, which now extends to the advertisement of these properties, Airbnb listings in that city have continued to grow.
However, these individualized and market-based approaches may undermine strategic planning strategies designed to cluster tourist accommodation near facilities, services, and attractions. Nor do such approaches address the potential impacts of short-term rentals on the availability and cost of permanent rental housing. The NSW Government hasn’t said much about housing affordability, promising only to monitor the issue with reference to national visitor survey data which record accommodation trends.

In a country and city gripped by a crisis in affordable housing supply, the omission of any concrete commitment to defend permanent rental housing from conversion to holiday accommodation, and indeed to protect renters themselves from sudden eviction, at least in high demand urban locations in and around Sydney, is a key concern. It would seem that regulators in NSW and many other states in Australia are out of sync with their international counterparts, who have made a clear distinction between home sharing and the loss of rental supply from their permanent rental markets.

A version of this paper has previously appeared in The Conversation

3 For current information about Airbnb rental numbers in Sydney see http://insideairbnb.com/sydney/.

Building defects in apartments – what’s going on?

Hazel Easthope, Laura Crommelin, and Laurence Troy
City Futures Research Centre, UNSW Sydney

In March this year, the ABC reported that a Sydney man had built a dam in his lounge room to manage the water leaking into his apartment, built in 2007. This was no great surprise. Five years ago, we found that almost three-quarters of strata titled properties across New South Wales (NSW) had experienced building defects caused by faulty original construction. We also found that internal water leaks and water penetration from outside the building were the most common complaints, and that getting defects fixed can be a long and expensive process. You might think from this that the quality of our new build apartments is particularly poor, but the leaky buildings crisis in New Zealand and the leaky condo crisis in Canada, where it was even worse, show that we’re not alone. These are not isolated cases. There is significant, and in many cases growing, concern around apartment construction defects around the world. So, what’s going on?
The answer is—a lot. Below are just a few of the reasons for our current building defects crisis in residential apartment buildings:

- As we build larger and more complex buildings, helped by the use of computer-aided design and the availability of new building materials and practices, the potential for design and construction defects increases.
- As we move away from a traditional construction model where an architect and master builder oversaw a development, towards both ‘project management’ and ‘design and construct’ development approaches, the architect’s role is diminished. This increases the potential for conflict of interest between quality outcomes on the one hand and cost and time considerations on the other. Where the project manager is inexperienced, their role in quality supervision becomes even more problematic.
- Developers have an incentive to maximise the profitability and rate of sales of their developments in the short term, but typically have few longer-term interest in the buildings they build. In comparison, subsequent owners and residents have an incentive to maximise the use value and minimise maintenance and repairs costs over the life of a building. Especially when apartments are sold pre-completion ‘off the plan’ these split incentives can contribute to increased rates of building defects.
- During construction booms, skills shortages coupled with time pressures can result in poorer quality workmanship and a higher incidence of building defects.
- Oversight of the quality of construction has been eroded, with certifiers relying in large part upon documents provided by the developer and their subcontractors.
- The regulatory penalties faced by developers who deliver defective buildings are not large enough to motivate concerted efforts to reduce building defects. Consumer protections for apartment owners have also been eroded over time in NSW, with home owners warranty insurance not required for buildings over four storeys and claim periods for statutory warranties considerably reduced. This leaves reputational risk as the only significant impediment to poor building practices, which may be less of a concern in boom times, and for developers in the lower end of the market.
- Legal action against developers is costly, and can even be more costly than the owners just fixing the building defect itself.

How can defects impact on lower-income residents?

Concerns about building defects affect the whole residential apartment industry, and people from all socio-economic backgrounds have had their lives turned upside down dealing with defects rectification. However, a few factors make the situation even more dire for lower income households:

- At the more affordable end of the housing market, there are more incentives to cut corners during construction by rushing jobs or hiring cheaper, less experienced tradespeople. As a result, build quality may be compromised for cost savings.
- As a tenant, negotiating the process of notifying defects and having them rectified is particularly difficult, as typically you must go through your real estate agent or landlord. Renters may instead choose to move out, or be stuck with unsatisfactory living conditions. Given that the most common type of defects is water ingress, this can have serious health and wellbeing impacts.
- Where lower-income residents are owners in their building, the costs of fighting a defects claim and rectifying the defects can be financially devastating. In cases where the developer or builders do not agree to return and fix the problem, it is uncommon for strata schemes to successfully get all defects rectified without additional costs to the owners. This includes the cost of expert reports, legal advice and the rectification works themselves. Where people have bought into a property at the edge of their affordability, a defects claim could result in loss of ownership.

What are the alternatives?

How then might lower income households be better protected against these risks? The current system of market-based strata seems to be failing this group when it comes to building quality. The most obvious answer is to tackle the defects problem head on with a combination of regulatory and market mechanisms. Regulatory responses might include greater penalties and more monitoring and compliance, while market responses could include information-sharing and online rating services designed to increase the reputational pressure on developers.

Some regulatory change has already occurred. Most notably, the NSW Government recently added a new Part 11 to the Strata Schemes Management Act 2015 to deal with defective building work. This includes a requirement for developers to pay a two per cent building bond to the government before an occupation certificate can be issued,
which can later be used by the owners corporation to rectify defective building work.\[^{11}\] This is a good start, but, if the costs of past defects claims are anything to go by, in many cases the two per cent will be insufficient to cover the costs of unrectified defects.

Another answer is for government and industry to support housing development models that avoid the split incentive between the developer’s profit motives and the subsequent owners’ and residents’ desire to improve and maintain the value of the asset (the apartments). For example, ownership models where the ongoing building management remains with the organisation that commissions the building provide an incentive for that organisation to be actively involved in the construction, to ensure that they do not take possession until the required quality has been delivered. This approach may also improve the design of buildings, as the managing organisation has an incentive to require or promote designs that lead to ongoing management efficiencies. There are many forms that this model could take, and some already exist in the Australian housing market. This includes purpose built rental housing in both the for-profit (build-to-rent) and not-for-profit (community housing) sectors. We will watch with great interest to see whether these innovative models help to improve housing quality in Australia over coming years.\[^{1}\]

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\[^{3}\] See [https://www.parliament.nz/resource/en-nz/00PLEs8RP02111/1d898e954d4fca3c7d9a9e019fadedf352421d4d](https://www.parliament.nz/resource/en-nz/00PLEs8RP02111/1d898e954d4fca3c7d9a9e019fadedf352421d4d).


Snobs, Cities and Sacrifice

Adrian Pisarski, Executive Officer, National Shelter

I love Sydney.

Even though I am Melbourne raised and eschewed Sydney as a good Melbourne boy should I fell in love in 1985 and moved there in 1986. I rented a 3 bedroom federation cottage in Birchgrove with harbour views from the kitchen sink, I caught ferries to work and play, it was 22 degrees in the middle of winter. I left Melbourne in snow and the train brought me up on a full moon with dazzling views of a frozen highlands. It was fun and I could afford it. Not anymore.

Sydney had the glitz and glamour, but now had high culture and a decent football team (AFL of course), great food, good nightlife, new horizons. Sydney felt right, but my Sydney didn’t really extend beyond Ashfield to the west, North Sydney to the north, the airport to the south and all the way east to the ocean. I am a bit of a snob when I define my Sydney. It’s viewed through a lens from a different time. When I lived there the bulk of the lower-priced rental was actually in the inner city. This has, of course, changed, and low and moderate income households don’t rent—or live—where they used to.

I left Sydney in 2002. We could never afford home purchase, my parents were ageing and we figured we’d seen Sydney at its best. Fifteen years in midlife was great but how would the rest pan out? Overall the move has been good, we’ve paid off a house we now own, have good friends, we now have grandchildren that add extra spice. Would that have been possible if we’d stayed in Sydney?

True the humidity of Brisbane and those extra few degrees sometimes get to me and the food and culture up here improves without reaching that international standard, so every time I fly in to that big bold beautiful city that Sydney is, my heart still skips a beat as I take in the glorious vistas and I wonder…

Then I realise we were paying $250 per week for a two-bedroom shop top flat in the heart of Enmore. While not flash it was well located; while noisy it had 50 restaurants within 200 metres, public transport on tap and a gastro pub across the road. It had room for our cat and even a small plot of backyard and a part of a garage. What would it cost now?

Well, based on our recent Rental Affordability Index (RAI), we would need a household income of $150,000 per year for the rent in that area to be moderately affordable, and that would mean the rent for our old flat would be about $800 per week. Sydney has become ridiculous.

This RAI showed what we all thought wasn’t possible, that rental affordability in Sydney has deteriorated further. All renters on average sit right on a threshold. The entire city, accounting for the incomes of all renters and the prices of current rents, is effectively unaffordable. You really need to be earning over $150,000 a year as a household to rent a two bedroom flat at anything like an affordable level. Even then you must pitch outside what I think of as Sydney. Not till you reach Canterbury, Parramatta, or Epping does it get affordable even with a household income of $150,000.
The average household income in Australia is around $85,000 per year. At that income only postage stamp areas in the Blue Mountains and beyond Richmond show affordable three bedroom rentals. Parts of Liverpool and on that radius are affordable for two bedroom properties, but we are into two hour commute country.

For pensioner couples trapped in the rental market virtually nothing in NSW is affordable to rent. They will be paying up to 65 per cent of their income to secure rental dwellings. Sydney is not alone in this regard, but fares the worst among our capital cities.

The RAI this year introduces some new features to our interactive map. The overall average data shows how close to the affordability threshold all dwellings in Sydney and many parts of NSW are, but the real story of rental affordability only comes out when one plays with income levels, household configurations and when you look over time.

The map is still being made freely available for public use and it’s a great tool that demonstrates rental affordability for any area we have data and that includes all of NSW.

Interestingly, Hobart is the second least affordable capital city. This is due to lower income levels relative to rents in Tasmania. After that Brisbane and Adelaide have moderate affordability, while Melbourne has the best rental affordability of all east coast capitals. Perth has been improving but just to reinforce the point, no capital city in Australia has any rental housing that is affordable for pensioners, low income working households and many, many others.

I have been using the RAI, especially the interactive map, to look at the Productivity Commission’s (PCs) recent Inquiry Into Human Services, specifically the social housing part of this report. The PC recommends (among other things) increasing CRA by 15 per cent for the most disadvantaged, supplemented by a similar payment from states. That amounts to about a $10 per week increase in CRA for a pensioner or pensioner couple.

A pensioner couple has an income of $45,000 per year, and this would lift that income by $520. Even if their income was added to by an additional $4,500 per year, bringing it to $50,000 (and more than doubling CRA), this would not lift them out of rental stress in Sydney.

Renters in the rest of NSW do not fare much better. For people with an income of $50,000 per annum most of the coastline in NSW remains unaffordable. Affordability wise, Coffs Harbour and the north coast look like Sydney. At $70,000 per year areas around Newcastle and Nowra and regional areas even on the coast become affordable but as we all know, peoples’ incomes in these areas are lower than those in Sydney.

This is a crucial point: affordability is relative to peoples’ capacity to pay. Some regional cities and towns (parts of the north coast are a case in point) have high rental costs in absolute terms. But even in areas where rents are lower, if the majority of the workforce is employed in, say, the service sector, even relatively modest rents will be unaffordable.

The RAI is a new tool. At National Shelter we use it to raise the profile of rental housing affordability in the media. But it has also become a tool that people can utilize to look at affordability in their own area. Use the link, play with the variables and see what stories you can tell with it. I am going to use it to model the PC inquiry recommendations and take snapshot maps to show how little $10 a week will help in Australia’s rental market.

People make a lot of sacrifices to live in Sydney but the current rental market means more than sacrifices, it means genuine hardship, poverty and exclusion. People do without medicine, without food, without petrol, can’t register their car, pay insurance or fix broken appliances. The relative cost of rents, especially in Sydney, now generates real poverty and homelessness. This tool doesn’t fix that, but it does illustrate it. And getting that message through is vitally important.

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**Figure 1: National Rental Affordability Index trends— metropolitan areas**

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2 yr trend</th>
<th>Trend since last release</th>
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<td>105</td>
<td>108</td>
<td>106</td>
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</tbody>
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Note: Results may differ from previous RAI releases as data and/or method has been updated for some areas.

Source: SGS and National Shelter (2017:4) “Rental Affordability Index: Key findings report, May 2017 release, Aged cohorts focus.”
It’s not just about the cities

Trish Evans, Northern Rivers Housing Forum

Communications research tells us that repeat messaging is necessary. Effective frequency depends on the topic or product, the credibility of the information and the competing concurrent messaging. This article is a repeat message, the topic is prominent and the information sources are sound. The competing messaging however has continued to challenge any breakthrough for those attempting to draw attention to a critical housing affordability problem in non-metropolitan locations, in this case, the Northern Rivers of NSW. Statements like “There isn’t an affordability crisis in Australia…there is an affordability crisis in Sydney and Melbourne,” made by Acting Prime Minister Barnaby Joyce earlier this year certainly did break through and strengthened the focus on Sydney and Melbourne, but at the cost of a critically needed broader geographical view.

Persisting still, this article seeks to draw attention to the housing affordability crisis in the Northern Rivers. And, there are significant social and economic costs at the local, state, and national levels if this region and others experiencing similar conditions aren’t given due focus by both the Federal and State Governments when implementing interventions to relieve housing unaffordability.

The 2017 Federal Budget as it relates to housing and homelessness is the subject of another article in this edition of Around the House. A number of the measures announced are equally relevant and applicable to locations outside of Sydney and Melbourne: cheaper and longer term finance for community housing providers for social and affordable housing development; unlocking government land; infrastructure incentives; the linking of planning reform (including inclusionary zoning) and supply outcomes to State funding, and incentivising private investment in affordable housing development; unlocking government land; infrastructure incentives; the linking of planning reform (including inclusionary zoning) and supply outcomes to State funding, and incentivising private investment in affordable housing.

On the North Coast, as in Sydney, the hoped for benefits of the First Home Super Saver Scheme and the measure to reduce barriers to older people downsizing rely on a capacity to save while paying high and rising rents in the first case, and the availability and affordability of smaller and appropriate housing options in the second. Conditions aren’t promising. There is consistent evidence that housing costs will continue to rise and most new housing in the region will consist of larger properties and holiday homes along the coast, continuing the dominance of these big, separate dwellings.

So, what is the housing picture in the Northern Rivers? It is bleak, and affecting both the economic and social functioning of the region.
NORTHERN RIVERS, NSW – Income and Housing Costs

<table>
<thead>
<tr>
<th>Location</th>
<th>Median gross h/hold income $pa ($/wk)</th>
<th>Median weekly rent (3b/r house)</th>
<th>Median Sale price (All dwellings)</th>
<th>Rent as % of median h/hold income</th>
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</tr>
<tr>
<td>Clarence Valley</td>
<td>42,753 (822)</td>
<td>330</td>
<td>328,000</td>
<td>40</td>
</tr>
<tr>
<td>Kyogle</td>
<td>39,747 (764)</td>
<td>270</td>
<td>265,000</td>
<td>35</td>
</tr>
<tr>
<td>Lismore</td>
<td>50,490 (970)</td>
<td>350</td>
<td>348,000</td>
<td>36</td>
</tr>
<tr>
<td>Richmond Valley</td>
<td>43,922 (844)</td>
<td>300</td>
<td>280,000</td>
<td>36</td>
</tr>
<tr>
<td>Tweed</td>
<td>47,039 (904)</td>
<td>435</td>
<td>480,000</td>
<td>48</td>
</tr>
<tr>
<td>Rest of NSW (exc. Syd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater Sydney</td>
<td>53,497 (1028)</td>
<td>330</td>
<td>365,000</td>
<td>32</td>
</tr>
<tr>
<td>NSW</td>
<td>68,861 (1,324)</td>
<td>440</td>
<td>618,000</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: Australian Census 2011 (2014/15 CPI adjusted); NSW FACS Rent and Sales Report 118 (Rent December 2016, Sales September 2016 quarter).

The 2017 Demographia Survey report, released in January, links housing purchase prices to median household income as a way of assessing affordability. This international survey identified Tweed Heads as the eighth least affordable housing market across all countries surveyed. In Australia, Tweed Heads is less affordable than Melbourne. How can that be? Because housing affordability is relative to people’s ability to pay for it. This is a point often not adequately made, with a focus instead on absolute housing costs. Had this survey included smaller urban areas—falling short of the required population to be classified a city, Ballina and Byron Bay would have also featured in the findings. Lismore, the other city in the region, was rated as less affordable than Brisbane. Lismore!

Fortunately, we can add to the evidence recent rental costs drawn from the quarterly NSW Government’s Rent and Sales Report. Income data is hard to come by for small areas other than the Census. While income levels reported in the table above are not current, they tell the relative story. Further, with a greater than average dependence on fixed incomes in the region, the latest Census data will likely reveal that local household incomes have changed less than for the State overall.

Add to this picture a private rental vacancy rate of one per cent (a rate well below the ‘supply issue’ signal), and an almost complete reliance on this market by 30 per cent of the region’s population. The proportion of social housing in the region is just three per cent, which further compounds the situation. A 2013 study, due to be updated in the near future, projected that by 2021 there would be 25,000 eligible social housing applicants in the region competing for the current stock of approximately 3,000 properties. This study also reported an inability to meet the housing needs of the region as its population grows, noting that there was a 31 per cent shortfall in total housing supply between the 2006 and 2011 Censuses.

Many of the people moving to the area have a much greater capacity to meet high housing costs, having come from higher value city locations and with higher income histories or opportunities to retain well paid employment electronically or via accessible national and international air travel. This puts further pressure on housing costs in the region and displaces renters, including would-be buyers on lower incomes. Of note, families with children, and young people were the largest population segments that relocated to other areas within the region between the 2006 and 2011 Census counts. The closure or redevelopment of caravan parks further reduces lower cost housing options.

Incomes in the region reflect the predominant employment sectors. Most new jobs are being created along the coast in lower-paying retail, support services and tourism sectors. These jobs are predominantly part-time or casual, and many are subject to seasonal variations. The nature of work opportunities is reflected by the higher employment rates of
people with Certificate III and IV qualifications than those with graduate and higher qualifications. The fact is that household incomes in the region are around two thirds that of the State overall.

In May this year a restaurateur from Yamba spoke with the ABC about his inability to attract staff, and cited housing costs as the key deterrent. This echoes statements from other employers in recent years. Journeys to work—almost always by car, due to the scarcity of public transport in the region—are becoming longer and more expensive as jobs are increasingly concentrated in locations where housing is not affordable to the workforce.

The latest Anglicare Australia Rental Affordability Snapshot identified no affordable rental properties for households on fixed government payments and pensions or those on the minimum wage in Ballina, Byron or Tweed Heads with the exception of five properties that would be suitable and affordable for a couple with two children on the minimum wage who also receive Family Tax Benefit A and B. The report noted that:

*Ballina, Byron Bay and Tweed Heads consistently remain inaccessible to any of the demographic groups included in this survey. Housing in these areas, which represents nearly 20% of all properties counted on the day, is realistically only affordable to those earning above the minimum wage.*

A disturbing inclusion in that report relates to the competition for properties and the possible resulting termination of current tenancies.

Unaffordable housing is not a problem restricted to our capital cities and its effects are damaging, wherever there are experienced. More relevant in relation to government budgetary challenges, unaffordable housing markets in regional areas have wider impacts in terms of productivity and cost to governments—both State and Federal. Further, affordability differences across and between regions place limits on the decentralisation efforts of business and government, which are aimed in part at relieving pressure on infrastructure and land constraints in our urban areas.

A reference to homelessness must also be included. A recent snapshot conducted over one week by a large Specialist Homelessness Service in the Northern Rivers region reported that over 50 per cent of the people who sought assistance were assessed as having issues that were resolvable through access to housing without additional supports. The region also shares the national concern for the growing number of older people who are homeless or at risk of homelessness. This is perhaps even more acutely worrying given this is the fastest growing age group across the region—an estimated 30 per cent of the population will be over 65 in less than 15 years.

Can any of the housing affordability measures in the Federal budget be applied in the Northern Rivers and begin to address its housing affordability crisis? Absolutely. Can the State Government influence housing conditions in the region? Absolutely. It can broaden the scope of its roles in supporting Federal housing affordability initiatives, for example through planning reform, including the application of inclusionary zoning and improvements to the State Environmental Planning Policy. There is also significant opportunity via state-based taxes (consider the role of stamp duty in discouraging downsizing), and also through improvements to residential tenancy law.

It is worth remembering that housing is not just about bricks and mortar or infrastructure. At the heart of our housing affordability crisis lies a social impact, which affects individuals, families, and communities. Housing poverty (including poor or no access to services), a significant displacement of low-middle income households (not to mention the homogenising effect on the communities they leave), and the insecurity of the growing number of households who are renters are all parts of this social element.

Further message repetition will likely be necessary. This can be strengthened by other messengers who can see the broader implications of limiting our efforts to address housing affordability only to capital cities. Look up (and northward!), and broaden the scope of current opportunities and those that will hopefully follow.

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Paul Keating’s ‘recession we had to have’ quip at a press conference in November 1991, was seen by commentators as a ‘gotcha moment’ before ‘gotcha moments’ were a thing.

The recession ‘we had to have’ triggered the collapse of state-owned lenders and insurance agents in four states, contributing to soaring public and private debt and diminished business and public confidence, and record unemployment levels for both working aged and young people.

Sensing a mood for change, the Federal opposition, pitched a 650-page election manifesto to voters with a call to arms: ‘It’s Your Australia, Fightback!’ In it were detailed plans for seismic reforms to our tax, industrial relations and welfare systems—for implementation over the two terms the new Government expected to serve.

When it released Fightback! the Coalition led Labor 62-38 in two party preferred polling. They next year it lost the election commentators dubbed ‘unlosable’. And they cited Dr Hewson’s now infamous ‘birthday cake’ response to Mike Willesee as the turning point.

What does this have to do with an article for Around the House in 2017? Bear with me…

I believe the ‘unlosable election’ is the reason both major parties pitch ‘small target strategies’ to voters instead of bold reform. 1993 was certainly the last election in my lifetime to which an opposition brought such a comprehensive platform, more than a year out from a poll. Caught up in this political poker match is our taxation system—in need of comprehensive redesign at both Federal and state and territory levels.

I’ll move on from the 1990s now, to the problem of Vertical Fiscal Imbalance, what it is and the extent to which it presents a barrier to our $50 billion ask.

Vertical fiscal imbalance: the Politicians’ Barrier to reform

In 2016 the NSW Council of Social Service (NCOSS) and the NSW Business Chamber commissioned KPMG to model the likely effects of replacing Conveyancing and Stamp Duties (CSD) that are applied when properties are bought and sold with broad-based land taxes.

So, if both business and community services industry peak bodies agree on the need to pursue property taxation reform, what is stopping the NSW Government? As the KPMG report, Taking on Tax, recognises, the problem of ‘Vertical Fiscal Imbalance’ (VFI) is a growing one for state and territory governments. This I contend, is the first major barrier to reform.

So…what is VFI? It sounds complex, but in simple terms it occurs in federated political systems like Australia’s, and refers to the scenario in which the Federal Government raises more revenue than it needs to meet expenditure commitments while state and territory governments do not raise enough revenue to meet their constitutional obligations.

This vertical fiscal imbalance in Australia has been exacerbated by High Court rulings since 1942, which have increasingly conferred excise, revenue and tax powers to the Commonwealth at the expense of the states.

These rulings have centralised powers to impose duties, excise and other taxes, limiting sources of revenue that state and territory governments are able to raise. In NSW, VFI has worked in conjunction with rampant house price growth in coastal cities.
in recent years to make property taxes the leading source of NSW Government revenue, as the chart below shows.

As Figure 2 illustrates, NSW is not the only state to have enjoyed significant revenue growth from property taxation over the past two decades.

At a Federal level, the impact of VFI—and its remedy ‘Horizontal Fiscal Equalisation’ (HFE)—has received policy attention in several recent reports. These include: Australia’s Future Tax System (aka ‘The Henry Review’)10 the National Commission of Audit Report11 and papers produced for the now ‘deprioritised’ Reform of the Federation process.

A chief criticism of VFI is that it blurs or fractures lines of responsibility for decisions taken at a political level and their implementation, and thus weakens accountability.12

Vertical fiscal imbalance not only reduces political accountability but has also given rise to a perpetual ‘uncooperative federalism’13 evidenced by stage-managed blame games repeated ad nauseam at Council of Australian Governments meetings. In sum, while appearing to serve states poorly, VFI in fact serves Premiers and Chief Ministers well politically (for blaming purposes).

Having another level of government serves a similar function for Federal and state governments as a sibling or naughty dog might when you’re young: without the VFI-enabled blame game to play, as states go ‘cap-in-hand’ with ambit asks to every COAG meeting, a potential ‘get out of jail free card’ would be lost. This would mean each arm of government might need to own up when they stuff up. Which would put voters in a better to punish those responsible rather than concluding that ‘they’re all bastards’. This I argue, is the politicians’ major barrier to reform.

**Figure 1**
NSW Government composition of tax revenue, 2014-15
Source: NSW Treasury ‘2015/16 Budget -Paper 1, Appendix B4 Supplementary Revenue and Expense Analysis.

<table>
<thead>
<tr>
<th>Fin yr</th>
<th>Tax type</th>
<th>NSW</th>
<th>Vic</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
<th>NT</th>
<th>ACT</th>
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<tbody>
<tr>
<td>1999-00</td>
<td>Land Taxes</td>
<td>$900</td>
<td>$411</td>
<td>$220</td>
<td>$133</td>
<td>$195</td>
<td>$27</td>
<td>$0</td>
<td>$31</td>
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<td></td>
<td>Municipal Rates</td>
<td>$2075</td>
<td>$1427</td>
<td>$1137</td>
<td>$510</td>
<td>$627</td>
<td>$150</td>
<td>$42</td>
<td>$100</td>
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<tr>
<td></td>
<td>Stamp Duty</td>
<td>$2406</td>
<td>$1294</td>
<td>$767</td>
<td>$313</td>
<td>$585</td>
<td>$49</td>
<td>$34</td>
<td>$83</td>
</tr>
<tr>
<td>2004-05</td>
<td>Land Taxes</td>
<td>$1646</td>
<td>$848</td>
<td>$419</td>
<td>$256</td>
<td>$315</td>
<td>$44</td>
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<td></td>
<td>Municipal Rates</td>
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<td>$2170</td>
<td>$1559</td>
<td>$738</td>
<td>$869</td>
<td>$199</td>
<td>$57</td>
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<tr>
<td></td>
<td>Stamp Duty</td>
<td>$2382</td>
<td>$2357</td>
<td>$1728</td>
<td>$561</td>
<td>$1218</td>
<td>$180</td>
<td>$73</td>
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<td>2009-10</td>
<td>Land Taxes</td>
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<td>$1178</td>
<td>$1033</td>
<td>$533</td>
<td>$519</td>
<td>$91</td>
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<td>$96</td>
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<td>$3148</td>
<td>$2456</td>
<td>$1018</td>
<td>$1329</td>
<td>$276</td>
<td>$83</td>
<td>$188</td>
</tr>
<tr>
<td></td>
<td>Stamp Duty</td>
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<td>$3604</td>
<td>$1978</td>
<td>$784</td>
<td>$1615</td>
<td>$163</td>
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<td>$293</td>
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<td>2014-15</td>
<td>Land Taxes</td>
<td>$2467</td>
<td>$1753</td>
<td>$977</td>
<td>$559</td>
<td>$738</td>
<td>$84</td>
<td>$0</td>
<td>$96</td>
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<tr>
<td></td>
<td>Municipal Rates</td>
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<td>$4468</td>
<td>$3363</td>
<td>$1372</td>
<td>$1996</td>
<td>$363</td>
<td>$113</td>
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<tr>
<td></td>
<td>Stamp Duty</td>
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<td>$5067</td>
<td>$2698</td>
<td>$907</td>
<td>$1698</td>
<td>$193</td>
<td>$265</td>
<td>$216</td>
</tr>
</tbody>
</table>

**Figure 2**
Growth of property taxation as a proportion of State/Territory Government Revenue

A tyranny of the majority—the electoral barrier to reform

The second inhibitor of progress towards reform is also in the political realm, but connected more directly to the electorate: the fear that changes to property tax regimes (i.e. a shift from CSD to a broad-based land tax) might instil in homeowners (the electoral majority), even if such changes are revenue neutral.

The 2016 Federal Election confirmed property taxation is indeed a sensitive political issue. Federal Labor had pledged to restrict future eligibility for negative gearing to new builds, and halve the current level of discount on Capital Gains Tax that is enjoyed by housing investors if it won office.14 Housing advocates hoping for considered debate about on policy areas including the impact of interactions between deductions from assessable taxable income to offset losses incurred while assets are held, the 50 per cent Capital Gains Tax Discount upon disposal, or housing affordability more generally, did not have to wait long to be disappointed.

In a tight election race, party hacks found a way to ensure reform to two housing tax arrangements that few people understand well could be digested by ‘Fred and Freda Voter’.
The Coalition pitched to home owners first suggesting Labor would ‘smash house-prices’ faster than avocados at an inner-west café mid-Saturday morning, warning: “…Every home-owner should fear Bill Shorten…”

Ordinary mum and dad investors were soon wheeled out, with the Prime Minister appearing with a family who had purchased an investment property for their one year old. He declared: “…This is a political war. Labor is waging war on ambition and enterprise. They are sneering at hardworking Australians like these and they dare call us out of touch! …”

Interest groups such as the Property Council funded print and television advertisements billed as: ‘communicating the importance of negative gearing to Australians from all walks of life…”

Ordinary mum and dad investors were soon wheeled out

With housing affordability arguments dumbed down to salvos fired by party foot soldiers in campaign warfare, considered debate was lost in the fog, while considered reform became a casualty of Federal electoral war.

Ending volatility and improving affordability: a case for reform

The evidence base for reform is both social (equity and fairness arguments) as well as supported by economic theory and modelling by Deloitte-Access Economics (impacts of national reform)\(^\text{18}\), the Grattan Institute\(^\text{19}\) and KPMG\(^\text{20}\).

These are summarised in the Table 1 on the following page.

On board with reform: the ACT takes the road less travelled

I once heard a state treasurer laud the economic and social cases for a stamp duty/land tax swap—then promptly squib reform, describing it as ‘political poison’, toxic enough to kill a Government. Nonetheless, there is a precedent for such reform in Australia.

In 2011, the ACT Government commissioned a review of its Taxation System.\(^\text{21}\) It recommended the ACT progressively eliminate indirect and volatile revenue sources (including stamp duties) and offset the loss of revenue by increasing revenue from land tax and residential rates paid by most commercial and residential landowners.

There are two contextual factors, specific to the ACT, that warrant noting. The first is that, in the absence of a local level of government in the ACT, the ACT Government collects revenue from conveyancing and stamp duties and land tax plus commercial and residential rates.

The second factor is the ACT is the only city in Australia with a population greater than 10,000 people where one sector accounts for more than one in six jobs (30% of Canberrans are employed in the Australian Public Service).\(^\text{22}\) Consequently, decisions by the Commonwealth, specifically gutting expenditure and jobs—have a major effect on the ACT Budget.

Being an economist, the Chief Minister has (belatedly) posited the economic arguments around land tax and rates versus inefficient transaction duties (summarised above), to prosecute his reform case in the context of recent Commonwealth cuts. He argues that the need for the Territory to find stable revenue sources to cushion the impact of Commonwealth cuts was a critical driver of the decision to pursue property tax reform.

Capital cost: a brief look at the financial impact on households five years on

Over the reform period, rates for most Canberra Households (properties with an estimated Average Unimproved Value (AUV) exceeding $200,000) will have doubled.\(^\text{23}\) Conversely around one third of households (with AUV <$200,000) will now be paying lower rates.\(^\text{24}\)

Documents obtained by the Canberra Times show that in this time rates have increased by an average of forty two per cent across the five ACT regions, with Inner North and Inner South residents facing average increases of over fifty per cent.\(^\text{25}\)

Land Tax on properties with AUV exceeding $275,001 will also increase because of the reforms. Commercial and residential landholders in the ACT are now subject to both a Fixed Cost ($1090 over the 2016/17 financial year), as well as cost based on a percentage of AUV applied progressively. Quarterly land tax is determined by the following formula:

\[
\text{Land Tax} = \left( \text{FC} + \left( \frac{\text{AUV} \times \text{rate}}{100} \right) \right) \times \text{number of days in the quarter} \div \text{number of days in the year}
\]

Conversely, households with Average Unimproved Values of between $75,000 and $275,001 are now paying less land tax than they would have prior to reform.\(^\text{26}\)

An additional point to make is that asset rich, income poor homeowners who can demonstrate hardship can defer their land tax and rates until the sale of their property.\(^\text{27}\)

Budgetary impact upon completion of the 20 year reform is forecast to be revenue neutral.\(^\text{28}\)
### Efficiency and Predictability

#### Land Tax

**Efficient**
- Land Tax is regarded as an efficient and predictable revenue source by economists because land is an immobile asset.
- Taxes levied on immobile assets were harder to avoid than duties on mobile assets (i.e. investments & transactions).
- As a fixed cost paid quarterly (along with rates) and tied to property values, it may encourage people to downsize in response to changes in household composition or income as land tax on smaller properties should be lower and there is no loss of equity resulting from a transfer duty.

#### Unpredictable and Volatile

- Broadening land tax to apply to the unimproved value of all commercial and residential land would increase administrative efficiency, as owner-occupied homes are currently exempt from land tax.

#### Predictable and Stable Revenue

- Land Tax is less vulnerable to economic volatility as it is less exposed to market forces and consumption patterns. It is also an ongoing and regular payment by land-owners and therefore a more predictable revenue source.

#### Social Impacts

**Positive**
- The social policy case for reform centres around issues of equity and fairness
  1. Fairer tax treatment of property (by tenure/use).
  2. Improved purchase affordability. Modelling by Deloitte and Grattan projected that the stepped incremental abolition of CSD and replacement with a progressive, broad-based land tax would have a ‘medium level impact’ on improving home purchase affordability (because of the lower savings requirement).
  3. It would promote greater intergenerational equity by reducing upfront costs for purchase and removing loss of equity borne by sellers.
  4. It would have a neutral impact on mobility.

**Negative**
- Broadening land tax to all owner-occupiers would impose a fixed ongoing cost on asset-rich income poor home owners. Older people and people with disabilities who are more constrained in terms of mobility and housing options may be disproportionately adversely affected.
- Imposing a new tax on home owner-occupiers invites political risk that could stifle broader reform.

### Inefficiency and Volatility

#### Conveyancing & Stamp Duties

**Inefficient**
- CSD are regarded as inefficient taxes because they are applied to a mobile asset (money).
- They inhibit efficient utilisation of existing housing stock by discouraging owner-occupiers from upsizing and/or downsizing due to the transactional costs imposed by these taxes.

#### Unpredictable and Volatile

- They reduce labour market mobility and productivity by discouraging relocation, leading to further economic and other opportunity costs.
- Treasury estimates suggest they account for 45% of the costs to owners when moving property.

#### Economically Costly

- Evidence suggests they reduce overall investment in residential property resulting in as many as 340,000 new properties being foregone nationally each year.

#### Inequitable and Unfair

- By increasing up-front purchase costs CSD arguably unfair to people who are credit-constrained, particularly parents wanting security of tenure (of home purchase) and people required to relocate frequently for employment.

#### Table 1

<table>
<thead>
<tr>
<th>CONVEYANCING &amp; STAMP DUTIES</th>
<th>LAND TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inefficient</strong></td>
<td>Efficient</td>
</tr>
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<td>Taxes levied on immobile assets harder to avoid than duties on mobile assets (i.e. investments &amp; transactions).</td>
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<td>They reduce labour market mobility and productivity by discouraging relocation, leading to further economic and other opportunity costs.</td>
<td>As a fixed cost paid quarterly (along with rates) and tied to property values it may encourage people to downsize in response to changes in household composition or income as land tax on smaller properties should be lower and there is no loss of equity resulting from a transfer duty.</td>
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<td>Treasury estimates suggest they account for 45% of the costs to owners when moving property.</td>
<td>Broadening land tax to apply to the unimproved value of all commercial and residential land would increase administrative efficiency, as owner-occupied homes are currently exempt from land tax.</td>
</tr>
<tr>
<td><strong>Unpredictable and Volatile</strong></td>
<td><strong>Predictable and Stable Revenue</strong></td>
</tr>
<tr>
<td>They are regarded as unpredictable revenue sources for budgeting and forecasting because they are tied to in and capital markets.</td>
<td>Land Tax is less vulnerable to economic volatility as it is less exposed to market forces and consumption patterns. It is also an ongoing and regular payment by land-owners and therefore a more predictable revenue source.</td>
</tr>
<tr>
<td>In other words, state budgets are vulnerable to economic volatility and increase budgetary exposure to risk due to sales prices and frequency of sales in the property market, which are affected by factors outside state governments’ control.</td>
<td>Stable revenue sources allow Governments more certainty in terms of budgetary planning, unlike revenue sources which fluctuate in response to changing economic activity.</td>
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<td><strong>Social Impacts</strong></td>
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<td>Positive</td>
</tr>
<tr>
<td>Modelling indicates their removal may increase consumption nationally by between $6b and $10b.</td>
<td>The social policy case for reform centres around issues of equity and fairness</td>
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<tr>
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<td>Negative</td>
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<td>By increasing up-front purchase costs CSD arguably unfair to people who are credit-constrained, particularly parents wanting security of tenure (of home purchase) and people required to relocate frequently for employment.</td>
<td>1. Fairer tax treatment of property (by tenure/use)</td>
</tr>
<tr>
<td>Reduced work/life balance for people commuting further from cheaper housing locations.</td>
<td>2. Improved purchase affordability. Modelling by Deloitte and Grattan projected that the stepped incremental abolition of CSD and replacement with a progressive, broad-based land tax would have a ‘medium level impact’ on improving home purchase affordability (because of the lower savings requirement).</td>
</tr>
</tbody>
</table>

*Source: NSW Business Chamber (2016) op cit.

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</tr>
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<td>3. It would promote greater intergenerational equity by reducing upfront costs for purchase and removing loss of equity borne by sellers.</td>
</tr>
<tr>
<td>4. It would have a neutral impact on mobility.</td>
</tr>
<tr>
<td>Negative</td>
</tr>
<tr>
<td>1. Broadening land tax to all owner-occupiers would impose a fixed ongoing cost on asset rich/income poor home owners. Older people and people with disabilities who are more constrained in terms of mobility and housing options may be disproportionately adversely affected.</td>
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<td>2. Imposing a new tax on home owner-occupiers invites political risk that could stifle broader reform.</td>
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Poll position: ACT Labor Government barely survives 2012 campaign tax attacks

Finally, what do post reform election post-mortems tell us about the ‘political poison’ theory?

In October 2012, the ACT Government faced an election in which the rates component of the ACT reform was placed front and centre by the Liberal opposition.

Targeting commercial and residential ratepayers, then leader of the Canberra Liberals, Zed Seselja, pledged: “…We’re ready to govern for all Canberrans. We’ll repeal Labor’s tax grab, which will triple rates and reduce Labor’s unfair unit tax…”

The Greens, in minority Government with Labor via an agreement to provide confidence and supply were also targeted by Canberra Liberals’ advertisements.

Rates and Land Tax dominated the 2012 campaign and in the election post-mortem were attributed causation for the seismic swing to the Canberra Liberals.

On track for reform: voters untrammelled by second rates campaign

Canberrans went to the polls three months after the dust settled from the last federal election and the Canberra Liberals took advantage warning against a Labor ‘Double Whammy’.

The 2016 campaign was dominated by rates propaganda the opposition had been fine tuning since the release of costings for a major infrastructure project were released in 2014.

The pitch: the real reason for the second round of attacks by the ACT Opposition on the Government’s property tax reform, voters delivered small swings to both Labor and the Greens and against the Canberra Liberals. So, I will end with a question for Around the House readers: is the ACT reform experience an antidote to the ‘political poison’ theory? 🏡


12 Parliamentary Library, op cit.

13 Save for that one meeting in 2007 when Cooperative Federalism was heralded.


16 Bourke, Latika (5 May 2016) “Malcolm Turnbull defends saying wealthy parents should ‘sell out’ to buy their kid a house”


20 NSW Business Chamber, op cit.


28 Ibid. p.15.

29 Canberra Liberals Election Campaign Speech by then leader, Zed Seselja (2012). Copy in author’s possession.

30 Canberra Liberals 2016 election material. Copy in author’s possession.

### Compact for Renewal Project: what tenants want from social housing renewal

Bernie Coates, City Futures Research Centre, UNSW Sydney

In early 2016, Shelter NSW, the NSW Tenant’s Union and the City Futures Research Centre at UNSW agreed to partner in a project to develop a Compact for Renewal between agencies undertaking urban renewal and social housing tenants affected by such renewal. The Compact would represent an agreement about how urban renewal was to be conducted in social housing areas, and how social housing tenants were to be treated and engaged.

It is widely recognised that renewal of public housing areas can be highly disruptive, cause high levels of stress and trauma and lead to significant adverse health impacts for social housing tenants. These effects are compounded because tenants are often highly disadvantaged and disempowered. Moreover, the renewal process is imposed from above; tenants typically have little or no say in the process, and this lack of control compounds these impacts. These adverse impacts were identified in important research conducted by Shelter NSW in 2014 and updated in 2016.1

The need for a Compact arises from the variable experience of tenants to date with renewal, and the widely varying polices and practices affecting tenants applied by agencies undertaking renewal in NSW. Projects have been subject to widely differing approaches ever since the first comprehensive renewal project commenced at Minto, in southwest Sydney, in 2002. Some projects have taken tenants interests seriously and tried very hard to include tenants in all aspects of the projects. These projects have actively engaged tenants in planning, sought tenants’ advice about implementation and gone the extra mile to ensure tenants...
are treated well and fairly when it comes to relocations and resettlement in new areas. In these cases effort has also been put into strategies to support tenants to cope better with the impacts of change in their own family life and in their communities. Further, these projects have invested in the community and in building the capacity of the community so that tenants get real benefit from renewal, where they could otherwise have been significant losers from the process.

In the first stage of the Compact for Renewal project, the partner organisations sought to gain a rich and detailed understanding of tenants experience of renewal to date and to find out what tenants want and need to make renewal a better experience. We also sought to identify good practice where it existed. During 2016, a series of focus groups with social housing tenants was conducted in eight social housing areas in Sydney that have experienced renewal programs within the last ten years or so or were scheduled to do so in the near future. Across these areas, the experience varied widely from generally positive through to the highly traumatic and dislocating. The focus groups included a number of tenants who have been highly involved in the renewal processes in their area, some for 15 or more years. The focus groups thereby brought a wealth of experience and rich perspectives on renewal approaches and what works for tenants. A summary of the issues from these focus groups has been published as Tenant’s Experience of Renewal in Social Housing Areas.2 Tenants who participated in the focus groups were provided with a record of their focus group discussion and a copy of this summary document, with an invitation to provide any additional comments.

From this rich information base and drawing on the issues raised by tenants in the focus groups, a comprehensive list of what tenants need and want from renewal projects was developed and published as A Compact for Renewal: What tenants want from renewal.3

**What tenants want starts with five core principles:**

- Respect for Tenants;
- Acknowledgment that renewal has damaging and disruptive impacts;
- Impacts will be mitigated and minimised;
- Commitment to real engagement; and
- Tenants to receive a fair share of the benefits of renewal.

These core principles are followed by a comprehensive set of requirements. A selection of those requirements are listed below, grouped under four headings.

**Planning and setting up the renewal project**

- A social impact assessment to be carried out for all projects, so social impacts are identified early and strategies to mitigate and manage them are set out. Tenants should be key informants for this assessment.
- Social planning should identify the social and community structures and organisations that are valued in the community and a plan developed for retaining and transitioning them.
- A Social Plan to be developed alongside a physical masterplan, setting out the community facilities, support services and community services to be provided for the new community.
- The project team to include staff whose job it is to engage with residents, including bilingual staff. Tenants also want the project leader to accept them as key stakeholders and to ‘meet them as equals’.
- An on site office should be provided where tenants are always welcome, where good information is available and tenant’s questions can be answered.
- Tenants want a Community Reference Group (or similar) to be set up for all projects—a secure and respected vehicle for community input to the planning and implementation of the project. Tenants also want a strong residents voice in all aspects of the project, including support for an independent tenants’ group.
Community engagement

- Tenants to be fully engaged in projects as an important project stakeholder. Agencies should invest in capacity building to support tenants to participate more fully and meaningfully.
- An engagement plan should be prepared and tenants consulted about it before it is finalised. Project staff should report back to the community on the plan and involve residents in reviewing the plan periodically.
- Tenants want quality information to be provided about the project and how it will impact on them and the community. This information should be regularly updated and made available in many formats including a regular newsletter (or similar), face to face and at community meetings and events.
- Consultation should seek to reach all groups including harder to reach groups. Consultation approaches should be creative and varied to appeal and attract participation from the full range of population groups.

Managing change and the adverse impacts of renewal

- Agencies to provide a comprehensive range of practical, emotional and professional/specialist support services to assist tenants to better manage change and adverse impacts—including physical health, mental health, dislocation, stress, anxiety, grief and loss, and trauma.
- An independent tenant advocacy service for all renewal projects, spanning individual advocacy and collective or project-wide advocacy.
- Recognising the damaging affects of a loss of choice and control, tenants want agencies to extend choice and control in as many areas as possible, including choice of relocation areas, replacement homes, home improvements and control over the timing of the move.

Relocation and resettlement

- Consistently good relocation practice, including a relocation coordinator who will ‘go the extra mile’ to support tenants through the process, and better training for coordinators in issues like trauma, grief and loss.
- Improved support for tenants to resettle in a new neighbourhood, including better information about services, transport, schools etc., and access to resettlement support services.
- Support for tenants to downsize and declutter, including access to a service to assist tenants over a period of time prior to moving.

In the second stage of the project, the findings are being presented to renewal agencies in NSW, including Government and community sector agencies, seeking their feedback on the extent to which those agencies believe they can manage projects in line with what tenants want. Subject to the willingness of agencies to engage with the project, we seek to negotiate a compact by which agencies agree to manage renewal projects in social housing areas.

In this negotiation, will be important for project partners to emphasise their willingness to understand what’s important for the agencies regarding renewal processes, and to work through the list of what tenants want from renewal to identify a set of principles and rules that both parties are comfortable with.

This compact therefore seeks to develop a set of ground rules that would make renewal less disruptive, traumatic and dislocating for tenants and would support their active involvement in the renewal project. The compact would outline a comprehensive set of requirements for renewal agencies in how to plan and manage these projects with the best interests of tenants in mind. It would act as a guarantee for tenants that their interests would be recognised and respected in the process. Ideally, it will also increase the chances that tenants may feel able to lend their active support to renewal projects.
Public housing tenants flock to Community Housing Transfers forums across the state

Sarah Wilson, Project Officer, Shelter NSW

Last year, the Department of Family and Community Services (FACS) announced its intention to transfer tenancy management responsibility and the management of applications for social housing in some areas of NSW to community housing providers (CHPs).¹

There are about 144,000 social housing properties across NSW, and 19 per cent are already managed by CHPs. The proposed transfers will bring this up to 32 per cent, with around 18,000 additional properties to be managed locally by CHPs.

Of course, the policy detail of what the transfers are all about might be well known and understood to those who work on housing policy day in day out, but this is certainly not the case for many public housing tenants, who began asking questions of both Shelter and the Tenants’ Union (TU).

Public housing tenants who attended a forum in December on the evictions in Millers Point told us they wanted more opportunities to talk with other tenants from different areas about issues of concern to them. They also told us that they wanted to know more about the recently announced transfer program.

In response to those requests, Shelter and the TU undertook to run a forum on the community housing transfers. Within a week of announcing the first forum (held in Sydney on 1 May 2017), it was booked out. Recognising the level of community interest, we scheduled another Sydney forum for mid-June,² and—importantly—undertook to hold a forum in a regional area where all public housing stock was slated for transfer. We chose Coffs Harbour for this forum. The location allowed people from a wide area—Armidale, Lismore, Port Macquarie, and elsewhere—to travel to attend.

Each forum’s agenda was largely the same, with some differences to accommodate logistics and local...
audiences. The broad purpose was to bring together agencies responsible for implementing the transfers with affected public housing tenants and other stakeholders. We wanted to help clarify a number of matters for tenants who will be impacted by these changes: when the changes will take effect, how they will be implemented, and to discuss what agencies and tenants alike will need in order to successfully navigate the process.

Many tenants contacted us directly to book their attendance, which gave us an insight into what they already knew about the process and what they might want to know at the forum. Some of their commonly asked questions were:

- Do I have to move out of my home?
- Who are these community housing people?
- Why is this happening?
- Who do I contact for maintenance?
- Will I have to pay more rent?
- I'm on a headlease—what will happen to me?
- I've been in my house 25 years—what if there are different policies under community housing that I don't like?
- My partner died last year and I'm in a two bedroom flat—are they going to make me move to a smaller place?

Some tenants confided that they had been very worried about the program, which was announced by letter, but hadn’t been followed up further since.

Many of these people we spoke to were elderly, long-term public housing tenants. All expressed, to some degree, fear and uncertainty about their future. Many were concerned that they would no longer be in what they considered “government” housing, which for many provides a great sense of security and certainty. Some felt vulnerable, fearing they would be subject to rent rises beyond their capacity to pay, and would not have the same security of tenure as they currently enjoyed.

Some tenants confided that they had been very worried about the program, which was announced by letter, but hadn’t been followed up further since.

The first forum ran in Sydney on 1 May. Staff from FACS provided a broad overview of the transfers program, and the timetable for implementation. This helped set the scene and meet the basic aim of the event: to get detailed information about the transfers program out into the public domain.

Two community housing tenants, Marie Sillars-Chase and Pamela Pryor, spoke about what it was like for them to transfer from public to community housing, and what it is like to live in community housing. Forum participants reported that hearing from these other social housing tenants with the lived experience of what they themselves were soon to go through was helpful, and a highlight of the event for many.

Bernie Coates from the City Futures Research Centre at the University of NSW provided an outline of findings from a partnership between City Futures, the Tenants’ Union, and Shelter NSW to develop a compact for renewal between agencies undertaking urban renewal and the social housing tenants affected by that renewal.

Representatives from the Federation of Community Housing Associations spoke in great detail about how community housing providers develop relationships with their tenants, including their formal advisory structures. Pointing to high tenant satisfaction rates and the past experience with earlier transfer programs, the Federation showcased some of the benefits of having responsive, local housing management. The inability of tenants to seek redress through the Ombudsman was a surprise to many attendees, who questioned what ‘teeth’ the Registrar of community housing providers has compared to the Ombudsman.

The Sydney forum also had a session that posed a scenario and asked attendees to work through (from the point of view of either a community housing provider or a tenant) what information should be provided, when, and in what form.

So what did the audience make of the event? Participants told us they found the forum informative...Hearing from tenants directly was the highlight.

Of course, you can’t please everyone. A number of tenants from Waterloo raised some issues pertaining to the redevelopment of their area, which were not able to be properly discussed as they were outside the scope of the event (i.e. not related to community housing transfers). More time for questions and greater involvement from FACS staff were the main constructive suggestions.
Taking into account that feedback, we made a number of changes to our second forum, including ensuring that the sessions stayed focused on issues relating to housing transfers. For this forum, held in Coffs Harbour, we allowed a lot more time for questions and answers after each session. Again the tenant panel was a highlight for attendees, this time with three speakers from northern NSW (Dolores Close and Peter Harris, from the North Coast Community Housing Tenant Council, and Sue Dalmay, a tenant with Tenancy Links in Coffs). These tenants spoke in detail about their experiences, and why they preferred living in community housing.

Staff from FACS who attended the forum found themselves answering a volley of questions related to the transfers, as the additional time allowed more questions to be asked and answers given.

Maintenance of properties emerged as a significant issue in Northern NSW. Tenants were clearly unhappy with current levels of maintenance, and were worried that this would become even more pronounced with a non-government housing manager. Given this, there was concern about how future disputes over who should pay for expensive repairs in the event of a dispute between the property owner (Land and Housing Corporation) and the property manager (the community housing provider) might be resolved without the tenant being ‘piggy in the middle’.

Tenants need clear, accurate, coordinated and consistent communication about what is happening to them.

The range of questions each forum discussed was immense, and demonstrated that tenants have a sophisticated understanding and deep level of interest in these matters. Questions were asked about how CHPs are managed, audited and kept financially viable; how properties are valued and what impact this has on rents; how maintenance providers will be kept accountable; how the housing waitlist will be equitably prioritised; the transfer process if tenants want to move in the event they have a problem with their housing provider; and whether there will be any more homes available as a result of the transfers—and everything in between! It’s fair to say that the tenants had more question than presenters had fulsome answers. These forums are really the beginning of a discussion with tenants, and hopefully now that some of the tenants’ key concerns have been aired they can be addressed.

What were the takeaways from the forums? There were plenty, for everyone who attended. For FACS and the CHPs, the message that came through loud and clear is that tenants need clear, accurate, coordinated and consistent communication about what is happening to them.

Tenants told us loudly and clearly that they hadn’t been asked or consulted about these decisions before they were made. It’s no surprise that there is anger, frustration and cynicism about the process. And there is also confusion and concern about the practicalities and day to day effects that these transfers will have. People are anxious about what all these changes mean for them. This adds an additional layer of complexity for FACS and CHPs to deal with in this process—particularly when the aim is to give tenants a better overall experience with their housing provider.

There is much that needs to be done to provide clarity and support to tenants throughout this process. It is also clear that if we don’t acknowledge (and in some way deal with the fact) that tenants have had no say in the decision to transfer management of their homes and tenancies that their anger, frustration, and cynicism will continue and affect how the new arrangements play out. Community housing providers, FACS, and the Tenants’ Union have already begun developing information for tenants that will hopefully respond to some of their concerns and answer frequently asked questions.

Community housing providers and FACS should be heartened by the positive stories told by tenants already in community housing. And indeed they should be pleased that so many tenants want to know what is happening and how their input can shape outcomes.

The final forum will be held in mid-June, and a report on proceedings made available on Shelter’s website. 📜

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2 This forum had not been held at the time of writing.
4 This renewal compact is the subject of another article in this edition of Around the House.
The 2017 Budget handed down by Treasurer Morrison last month has tried to reposition the Government as one that takes action on the big areas of community concern. It’s hard to find a bigger concern right now than housing affordability. And the Budget included measures that are being sold as ‘A comprehensive housing affordability plan for all Australians’.

So is it?
Well, it is fair to say that it proposes action for every stage along the ‘housing spectrum’. Interestingly, along the way it makes clear just how comprehensively housing policy has failed to date. But it’s also pretty clear that very few of these actions have a significant impact on the problems they claim to address.

One of the most positive measures is securing the previously time-limited homelessness funding that was provided in the National Partnership Agreement on Homelessness on a permanent basis. Every year the sector has campaigned to have this $115 million renewed for the coming year. Now the funds have been locked in and indexed for the first time as part of a new version of the previous NAHA – the National Housing and Homelessness Agreement.

This is at least a formal win for homelessness, since what was once a time-limited supplement to the old Supported Accommodation Assistance Program (SAAP) funds that were included in the NAHA will now become a permanent part of the new agreement. But the only increase over previous years is indexation. Welcome, but hardly groundbreaking. This “separately identified” homelessness funding will continue to focus on domestic violence and vulnerable young people.

But without an increase in the supply of affordable housing, the best homelessness services remain log-jammed.
Funding for social housing is at once one of the big changes and very little change. On one hand there is a rebranding of the $1.34 billion NAHA. The Commonwealth points to the failure to achieve three of the four outcomes: a reduction in the proportion of low income renters in housing stress, a reduction in the number of homeless, and an increase in Aboriginal home ownership and reduction in Aboriginal overcrowding. Only the last of these has been achieved.

One of the most positive measures is securing the previously time-limited homelessness funding that was provided in the NPAH on Homelessness on a permanent basis.

This is hardly surprising, since no-one, least of all the Commonwealth, genuinely bought into doing what it would take to achieve the outcomes. The levers for achieving the first two outcomes of the NAHA rest largely with the Commonwealth. They have control over the tax concessions that have fueled speculation and house price growth. And while the Commonwealth...
requirements of community housing developers of affordable housing, financed by issuing a bond to raise cheaper finance.

It’s probably fair to say that this practical initiative from the Commonwealth would be helpfully supported by the targets for the state in the new NHHA to deliver inclusionary zoning measures for affordable housing.

“There is one game-changer in the affordable housing area... the announcement that a National Housing Finance and Investment Corporation will be established.”

In keeping with the overall approach of this budget, there are also two tax-related measures to support investment in affordable housing. It might be said that they are the Turnbull Government’s way of replacing the incentives provided by the National Rental Affordability Scheme (NRAS), disbanded by the Abbot Government.

Individual investors can get an additional 10% discount on capital gains tax (CGT) if a property has been used for affordable housing for three years. The projected additional cost of this measure, $10m per annum, suggests it is only expected to deliver around 4000–7000 houses over the four years of the forward estimates. Managed investment trusts (MITs) will be able to attract the additional discount on capital gains and the tax benefits associated with passive MITs; and are partly aimed at attracting overseas investment in longer-term affordable housing. Like the National Rental Affordability Scheme (NRAS), they will be required to hold affordable housing for 10 years and 80% of the income is earned from the affordable housing portfolio.

Unlike NRAS the subsidy is entirely pitched to private investors, rather than being available as a direct subsidy of the cost of finance for not-for-profits and a tax break for for-profits. And this measure accelerates the worst aspect of NRAS—the loss of stock after a fixed period. But whereas not-for-profit NRAS investors have frequently structured the finance to enable NRAS stock to be retained as affordable housing after NRAS incentive payments have stopped, the use of CGT discount here guarantees that it must be churned, and fuels the very speculative market that has caused our affordability crisis.
What about private rental?
Well, the managed investment trust initiative might be seen as a small step towards getting long-term investors into rental housing—although even the Property Council warns that that’s a fair way off.

There is also a commitment to work with states to standardise the use of long-term leases.

There is a tax measure to encourage foreign investors to make their properties available for rent, rather than leaving them empty, in the form of a new charge if the property is vacant for over six months.

These measures gesture at the some of the structural problems that will have to be overcome to make the private rental market work for the growing number of long-term tenants. But they’re not going to make a visible difference in the short term to the crisis in affordable and secure rental.

And the main support for private renters, Commonwealth Rent Assistance, has been left unchanged despite its failing ability to fund the affordability gap. The $4.53 billion allocated this year (up from $4.42 billion last year) simply reflects population changes.

Commonwealth Rent Assistance has been left unchanged despite its failing ability to fund the affordability gap.

But the big guns are all directed at making home ownership affordable.
And here we see the belief that the main solution to unaffordable house prices is more and more supply. This is despite the growing evidence that, while sufficient supply is necessary to contain prices, it simply doesn’t do the trick by itself. Added to the decision not to make any significant changes to the taxes that have driven speculative demand, this means that we can’t really hope to see affordability improve.

The biggest measure in the budget to help improve supply is the establishment of a $1 billion National
Housing Infrastructure Facility (NHIF). This is like Labor's 2008, $512 million Housing Affordability Fund on steroids. While it might speed up some developments, it's unlikely to do much about affordability. Strangely, the NHIF will be administered by the National Housing Finance and Investment Corporation (NHFIC) and will be its first big role.

And the Commonwealth is going to directly improve land supply by creating a register of Commonwealth land and starting with the release of surplus Defence land in Melbourne.

The Budget will ‘incentivise’ planning reform; getting involved directly on some major city deals, including in Western Sydney—a region that already has very fast approval times.

There are some small measures that relate to capital gains tax and negative gearing. While these will have an impact on Treasury’s coffers (saving $1.38 billion over the next four years), they aren’t going to address the underlying speculation fueled by them. One measure again targets foreign investors, who will have their compliance with CGT more stringently enforced by removing the ability to claim properties as a principal place of residence (which are exempt from CGT), and making more properties subject to CGT withholding tax. On the negative gearing side, some of the worst rorts have been addressed by limiting some kinds of expense (such as travel and equipment) that can be claimed.

...most economists are pretty sure that this sort of ‘demand-side’ measure is in fact more likely to push up the price of housing.

Then there are the measures to free up stock being ‘hoarded’ by older ‘empty nesters’. Such households will be allowed to put up to $300,000 from the sale of their larger homes into their superannuation accounts. But even if such households could find alternative homes that really met their needs and maintained all their connections, pension asset tests and stamp duty are likely to be far bigger barriers than super.

But most of the political fanfare, however, has gone to the other superannuation measure, which allows first home buyers to save up to $30,000 ($60,000 for a couple) towards a deposit using the concessional tax available through their superannuation accounts. Addressing the deposit gap of young people locked out of the housing market should be a winner. But as most people interviewed point out, $30,000 will go a very small way to meeting the gap. And the concessional tax treatment (the only real benefit) will go an even smaller distance. On the downside, people saving money using this scheme who do not use the funds for home purchase (for example if house prices continue to rise faster than they can save for a deposit, or if their life, career, or relationships take them in another direction), these savings will remain locked up in their super accounts until they begin drawing a pension.

Even worse, most economists are pretty sure that this sort of ‘demand-side’ measure is in fact more likely to push up the price of housing.

It’s all quite a package of measures. And it is spread across the different aspects of the housing system. But how much stands a chance of delivering?

Private renters get the least from this budget.

Despite the big ticket items and hype, home buyers don’t have much to hope for either, as the government stays fixated on the supply mantra. There’s nothing extra for people desperately waiting for social housing either—just a bit more certainty that homelessness services will be there if it comes to that. If there are winners, it’s providers of affordable housing who will hopefully see the cost of finance come down, inclusionary zoning become more established, and who knows, maybe some spare Commonwealth land. But the measures to encourage more investors to get into affordable housing, might just make the problem worse. Maybe the big winners might just be the builders of all that billion dollars of infrastructure.

...
Our very own affordable housing financial intermediary

Carrie Hamilton and Eddy Bourke

The Senate Courtyard at Parliament House in Canberra contains a beautiful red maple tree. Each year, sometime in the first week of May, it hits its luminous best, leaves turning a magnificent red before falling off for the winter. It’s known as the budget tree: in the weeks leading up to the Federal Budget being delivered on the second Tuesday in May, the tree changes colour almost daily until it’s a stunning red. One can imagine that it mirrors the increasingly frenetic activity in the Treasurer’s office and Department each year leading up to the Budget.

Housing was one of the key planks of this year’s Budget. Measures for buyers include tax breaks for first home buyers saving for a deposit, the reining in of some of the most egregious deductions (some would say rorts) associated with negative gearing, and the establishment of a $1 billion National Housing Infrastructure Facility over five years to support local governments to finance critical infrastructure and remediation required to increase housing supply.

For social housing and homelessness funding, the Budget has made permanent the previously time-limited National Partnership Agreement on Homelessness funding, and rolled this into a new agreement, the National Housing and Homelessness Agreement (NAHA). These are big ticket items.

The budget also included a modest amount of money—$9.6 million over 2017-18—to establish the National Housing Finance and Investment Corporation (NHFIC), to “operate an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer-term finance to registered providers of affordable housing.” But what is a bond aggregator? How will it help anyone who needs an affordable rental dwelling?

Financial intermediaries pool loans on rental housing that’s developed or managed by not-for-profit housing providers.
What is a bond aggregator?
The Australian Housing and Urban Research Institute (AHURI) have been looking at a number of ways to provide community housing providers with access to finance from institutional investors for years. In 2012 it published a report that looked into the viability of the adapting Austria’s Housing Supply Bonds for Australia. In 2014 the AHURI team further focused this inquiry into bonds by researching the affordable housing finance corporations that operate in other parts of the world. They concluded that there was one model that would work particularly well if adapted in Australia, which they named the Affordable Housing Finance Corporation. It adapted the key learnings from the affordable housing finance intermediaries operating in Switzerland and the UK. In 2016, the NSW Federation of Housing Associations took this intermediary a step further to a business case and brought the UK intermediary’s CEO to Australia to describe how their bond aggregation intermediary works. This is broadly the model that the new NHFIC is being based on.

Not only is this money cheaper than bank finance, it’s longer term

Associations took this intermediary a step further to a business case and brought the UK intermediary’s CEO to Australia to describe how their bond aggregation intermediary works. This is broadly the model that the new NHFIC is being based on.

The first thing to know about bond aggregators is that they’re not a new invention. There are housing finance intermediaries operating in a range of other countries. In the UK, The Housing Finance Corporation has been operating since 1987, carries a high credit rating and can borrow money more cheaply than the UK government.

Basically, financial intermediaries pool loans on rental housing that’s developed or managed by not-for-profit housing providers. The affordable rents paid by tenants plus Commonwealth Rent Assistance (CRA) can support repayments to an amount of debt that’s used to build or purchase the housing for affordable use. Once enough of this debt demand is pooled/aggregated, bonds can be issued to the capital markets (which are where the larger institutional investors like super funds invest their money).

Figure 1
Indicative model for the National Housing Finance and Investment Corporation

can understand the risk profile of an investment without having to individually meet and assess every single housing provider and location.

The NSW Federation of Housing Associations describes a bond aggregator’s operation thus:

The [NHFIC] will issue bonds to the institutional capital markets, raising funds to lend to CHPs to finance the acquisition of affordable dwellings. Net revenue from managing these portfolios will service the loans from the Intermediary and fund the coupon payments of bonds it has issued based on this projected cash flow. These fixed-interest, long-term bonds will carry investment grade ratings from credit ratings agencies reflecting their stable, low-demand risk and operating fundamentals… The Intermediary is a specialist non-profit financing company that aggregates debt demand from CHPs, undertakes bond insurance, credit management, and CHP lending functions. It intermediates between the institutional capital markets and the CHP sector.

Figure 2

Characteristics of the current community housing bank borrowing

<table>
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<tr>
<th>Positive</th>
<th>Negative</th>
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<tr>
<td>• Debt Cover Ratio (rental operating income relative to repayments) is more of a driver of terms and conditions than Loan to Value Ratio.</td>
<td>• Loan tenures are extremely short, three to five years, creating significant refinancing risk and inefficient mismatch with asset life.</td>
</tr>
<tr>
<td>• Some CHPs report improved relations with financiers have led to the disappearance of the requirement for fixed and floating charges.</td>
<td>• Loans are predominately entity-wide lines of credit, rather than project-specific.</td>
</tr>
<tr>
<td>• Even with the shallow history of CHO bank borrowing, there are already many examples of refinancing.</td>
<td>• Limited number of banks in the field, key person risk high.</td>
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<td></td>
<td>• Many facilities are interest-only, even in the operating phase, suggesting an impermanent financing solution.</td>
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<td></td>
<td>• Without exception, lenders require security well beyond the assets being financed by the debt.</td>
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<tr>
<td></td>
<td>• CHPs report that their security assets are under-valued, as a result of offering income-related rents.</td>
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</tbody>
</table>

Source: Adapted from Lawson, Berry, Pawson and Hamilton (2014:6) “Enhancing affordable rental housing investment via an intermediary and guarantee” AHURI, Melbourne.

But what’s the point?

Shortly after the National Housing Finance and Investment Corporation was announced in this year’s Federal Budget, Senator Doug Cameron conducted his customary grilling of the assembled Mandarins from the Department of Social Services at Senate Estimates. He devoted a significant amount of the time available to asking about the NHFIC (which Labor supports), and in particular about whether it will fill the “funding gap”—the cost of funding affordable rental housing to low income tenants. His questions likely reflect a broader cognitive dissonance, even among housing policy tragics, about whether the aggregator fills the fundamental ‘feasibility gap’—the difference between what it costs to build or buy a dwelling, and the private debt that affordable rents plus CRA can support. It does not: the aggregator merely shaves a little off this gap by making the debt raising more efficient and longer-term. In fact, every other country where affordable housing is financed by a bond aggregator also features a program of on-going government co-investment funding. We’ve got one piece of that puzzle thus far – more on the other later.

So what, some might ask, is the point of Australia’s NHFIC? Firstly, a financial intermediary normalises private investment in affordable...
housing, and creates a market for this investment class. It is a signal to the private investment market that the Australian government is serious about establishing the conditions for affordable housing to be just as sophisticated for our super to be invested in as any other infrastructure. It’s also important to have an NHFIC so that through the peaks and troughs of economic and political cycles, the asset class and partnership structures for affordable housing finance continue; you don’t have to start from scratch every time.

The second key point relates to capacity building for smaller CHPs, and affordable housing industry development in a broader sense. There’s an emerging conversation that the big Tier 1 CHPs are almost at the point where they could get their own credit ratings, and perhaps even issue their own debt securities eventually. That being the case, why bother with the NHFIC when the (not-for-profit) market will sort out its financing problems for itself?

**Bond aggregators are well placed to build capacity in smaller community housing providers.**

During his visit to Australia in July 2016, Piers Williamson, the CEO of the UK’s bond aggregator, answered this question by describing how bond aggregators are well placed to build capacity in smaller organisations. A key efficiency of the aggregator is in standardising the lending terms and collateral security arrangements for all the pooled borrower CHPs. Consequently, the smallest organisations build financial procedures to match the bigger ones—the tide really does lift all boats.

For the larger Australian CHPs, who still have a few orders of magnitude to grow before they approach the size of a typical UK housing association, the aggregator will provide equal access to the scale required by the debt capital markets without having to develop duplicated specialist financial capacity in-house. The scale bit is important. A person from a superannuation company once quipped that he didn’t “get out of bed for an investment of under $150 million”. Dealing with a single financial intermediary that understands your sector is a lot easier than going off to each of the big four banks and mucking around for up to six months to secure finance, only to have to do it all again in a few years’ time, or getting your own credit rating, for that matter. Everyone benefits from having access to a one stop shop. This reduces duplication and allows providers to get on with their core business: housing people.

**Key steps for success**

There aren’t really any new tricks for funding affordable housing programs. Money has to come from somewhere, whether this is direct funding from government, philanthropy, debt, the sale of other assets or some type of cross-subsidy (for example renting some stock at market rates, or offering other services such as tenancy management). Income-based rents—and even rents set as a proportion of market rent—are not enough to cover costs and grow the supply of affordable housing in a meaningful way.

Treasury’s Affordable Housing Taskforce11 is still working on its recommendations to government about the final structure of the NHFIC. It is slated to report in mid-2017, and the NHFIC is due to begin operating on 1 July 2018. So we don’t know exactly what it will look like. We do, however, have a pretty good idea about what will be needed to make it a success. Market sounding conducted by both AHURI and the Federation in speaking to institutional investors showed that they will regard the aggregator in light of the pipeline of new housing there is to aggregate.12 If there is a consistent, on-going program of government co-investment to fill the financial feasibility gap on new affordable housing and underpin the NHFIC’s activity, they’ll take notice. Stay tuned: this may hinge upon the new bi-lateral NAHA agreements that the Commonwealth will negotiate with each state. Treasurer Morrison has signalled that he will expect measurable supply outcomes for the $1.3 billion plus in funding that Canberra transfers to the states each year to fund their social housing portfolios. But adding on new supply of affordable rental housing to that already tall order may be a big ask.13

Another point worth making is that the NHFIC will live and die by the strength of the regulatory system that governs the community housing sector. The regulatory system has been a key pillar in the success of The Housing Finance Corporation in the UK. Strong, financially sophisticated regulation is an important risk mitigant, not only for potential institutional investors, but for government itself who may be considering providing a guarantee to the aggregator’s bond issues to help build investor confidence in this new market. Further, since scale is important to super fund investors, only truly national regulation will allow the affordable housing pipeline from all the states to be effectively pooled into efficient securities.

During the development of Australia’s regulatory system for community housing providers, the Commonwealth played a strong role. Indeed, the 2012-13 ‘mini budget’ allocated $250,000 per year over the forward estimates period “for the establishment of a National Regulatory Council for community housing to advise Housing Ministers on the ongoing effectiveness of the newly agreed National Regulatory System for Community Housing Providers.”14 This was quietly dropped (along with much of the Commonwealth’s other
The NHFIC will live and die by the strength of the regulatory system that governs the community housing sector.

housing policy capacity) when the Coalition took office the following year. Coordination on the National Regulatory System has since largely been left to the states.

Given the relatively minor level of resourcing that would be required to provide this type of secretariat support at the Commonwealth level, hopefully re-engaging in this space will be one of the ‘complementary reform’ recommendations of the Affordable Housing Taskforce. If this were funded in the next Mid-Year budget a new National Regulatory Council—or similar—could be established before the NHFIC begins operating.

Where to now?

The NHFIC’s first bond issue will likely go towards refinancing much of the existing debt that is carried by CHPs. But many of them are already ‘maxed out’; in other words, they’ve already hit their borrowing limit based on their current housing portfolios. So in the absence of the all-important government co-investment to stimulate new affordable housing development, there is a risk that the second round of finance may be difficult to pool together. This could ‘spook’ investors, and kill off affordable housing as an asset class before it even gets going.

The news that Australia will get its own affordable housing finance intermediary is fantastic, and Treasurer Morrison is to be commended for his on-going work in this area that has continued from his past tenure as the Department of Social Services Minister. While we wait for the NHFIC’s structure to be finalised, there are a few burning questions. The main one is who will ‘own’ the aggregator. In the UK, it was set up by the non-profit housing association peak body and owned by the community housing industry. The regulator was on the board from the beginning, and remains so today. Such independence from government will be one of the keys in the Australian context—it will help build a new asset class in affordable rental housing, and ‘normalise’ the act of super funds investing in this area at scale.

But government may be wrestling with a desire to have the aggregator structured as a government-owned corporation. Perhaps one way to step back from that perception of necessary control is to bolster the regulatory system, as discussed above.

Our very own bond aggregator won’t be a silver bullet. It doesn’t replace a properly funded affordable housing continuum. But—for the cost of consistent government investment—it has the potential to multiply that funding with private investment to grow the supply of affordable rental housing stock in Australia. Further, it will develop the capacity of the community housing industry. Most importantly, low and moderate income households in housing need will benefit.

1 Twitter Moments even did a round up on the tree. See https://twitter.com/i/moments/729904278020859502.
2 Housing measures in the Federal Budget are the focus of another article in this edition of Around the House.
9 Three times a year the Senate Estimates process provides an opportunity for Opposition and cross-bench Senators to question the senior public servants from particular portfolio areas about the minutiae of Government policy, legislation, or just how particular things are tracking. To a lay observer, it would be excruciatingly boring. For policy nerds, it can be a fantastic way of gleaning information. A kind of slow motion, hyper-detailed political blood sport, usually without a clear winner.
12 See Lawson et al. (op cit.) and Hamilton and Frost (op cit.).
13 Government co-investment from states could take many forms, including direct capital funding, schemes that allow affordable housing providers to capture the value in land rezoning or access concessional zoning schemes, use of government land (think surface carparks), or stock transfer from the public housing system.

11
How will the new Specialist Disability Accommodation rules impact choice and control?

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The National Disability Insurance Scheme (NDIS) will fund Specialist Disability Accommodation (SDA) for people with disabilities who have an extreme functional impairment or very high support needs. SDA funding is for the dwelling itself, and is not intended to cover disability support costs, which are assessed and funded separately by the NDIS. Approximately 27,000 NDIS participants—representing about six per cent of all the Scheme’s participants and those with the highest level of support needs—will be eligible for SDA, including approximately 15,000 people who already live in supported accommodation.

SDA funding is allocated to eligible participants as part of their individual plan, however it is paid to the SDA provider rather than the participant (unless the participant registers as their own SDA provider, as discussed below). The level of SDA funding depends on the type and location of the dwelling, and a range of other factors incorporated into the SDA pricing formula.

When designing the NDIS, the Productivity Commission envisaged the SDA system as a more “innovative approach to supported accommodation”, acknowledging the “inability of the current system to take account of individuals’ preferences”. Six years on, the release of the SDA rules in March 2017, provided a first opportunity to explore the potential of the NDIS SDA funding system to fulfil this aim. Our commentary considers whether the SDA rules will, in reality, provide the innovation they intend, with a particular focus on the issues of choice and control and congregate housing.
Choice and control

Since the early conception of the NDIS, an individualised funding model has been touted as the primary mechanism to increase choice and control for participants. Indeed, individualised funding models have been promoted around the world, as delivering increased choice and control for a range of welfare services, including disability, aged care and housing. However, SDA as a payment that is made to housing providers rather than individual participants (even if the funding is notionally allocated to individuals) has been flagged as both an opportunity and a concern. The release of the SDA rules provides greater clarity about its potential to improve choice and control for eligible participants (at least in comparison with the existing supported accommodation system).

An increase in SDA stock (from 15,000 to 27,000) should reduce waitlists and increase specialist housing options to choose from. Furthermore, rather than the ‘one-size-fits-all’ group home model that dominated in recent decades throughout Australia, under the NDIS there will be a wider range of ‘SDA types’, such as apartments for a single resident, group homes, and ‘intentional communities’ (see separate discussion on the latter option below). Participants can also live in SDA with a partner, their children, or a friend (although not with their parents), even if they are not eligible for SDA payments.

NDIS participants who are approved for SDA are allowed to register as their own housing provider. This creates opportunities for new types of housing tenure and arrangements funded under SDA, including shared equity and home ownership. SDA recipients are also allowed to make discretionary rent contributions to access a higher cost SDA type or location than those specified in their NDIS plan. These new options significantly increase choice and control in housing, but in practice only for people who are better resourced either financially or in terms of their capacities and support networks (for example to manage registration and compliance as an SDA provider for one-self).

In the case of SDA homes with more than one resident, providers now must “consider the views of all participants (if any) already residing in an SDA dwelling before housing another participant in that dwelling”. To reduce the vacancy risk that such a rule creates for SDA providers, the NDIS will continue to pay providers for up to 90 days until the vacancy is filled. This is important to ensure choice and control for existing SDA residents. It is important, however, that alternative, individualised options are made available to people who are more likely to be rejected from established group SDAs, for example due to so-called ‘challenging behaviours’.

SDA as a payment that is made to housing providers rather than individual participants has been flagged as both an opportunity and a concern

The separation of housing and support has long been described as a mechanism to increase the choice and control of people with disability. The NDIS has signalled in the past its commitment to promote the separation of housing and support provision, however the SDA rules impose no restriction on registration of disability support services as SDA providers.

A major limitation on choice and control is the requirement from NDIS participants to select any ‘in kind’ SDA option before they can choose any other SDA provider. The term ‘in kind’ refers to SDA properties owned by state governments, which will include primarily existing group homes.
Restrictions on congregate housing

SDA rules include ‘density restrictions’ that specify an upper limit on the number of SDA recipients who can live on the same site (or ‘parcel’ as defined by the rules). These density restrictions do not apply to existing congregate accommodation (defined in the rules as ‘legacy stock’). No more than ten people living on the same site will receive SDA funding if they are housed in groups of three or more. No more than 15 people living on the same site will receive SDA funding if they are housed individually or in pairs. However, the absolute number of people living on the same site while receiving SDA funding can exceed these limits if they only constitute up to 10% or 15% (for smaller homes) of the total number of people living on the site. This could include, for example, a high-rise building with a total of 107 residents, of which 16 are SDA-recipients living in eight two-bedroom units.

The proportion of people living on a site and receiving SDA funding can increase to 25% of the total number of residents if the development is an “intentional community”, defined in the SDA rules as a residential community where members have chosen to live together based on common social values and a commitment to mutual support. This could include ecovillages, income-sharing communes, student co-ops, and spiritual communities. An intentional community, according to the rules, is not solely designed to provide supported accommodation services and is controlled by the members or residents and is not governed by a single entity such as a support provider.

These ‘density restrictions’ represent a minimum standard, however the NDIS will also be able to influence the market to shift away from congregate settings (even within these limits) by changing its pricing formula for congregate housing. It is expected, for example, that SDA payments for ‘legacy stock’ with more than six participants on a single parcel of land will discontinue over time.

Despite these levers, the restrictions on congregate housing appear weak. Until recently, clusters of units with 10 or 15 people with high levels of disability were typically developed as part of institution closures, often in response to concerns by family members of institution residents. The new rules normalise such congregate developments, even for people who have never lived in institutions before. Importantly, there appears to be no restriction on the number of NDIS participants who are not SDA-recipients who can be clustered on one site.

The research evidence demonstrates that smaller-scale, non-congregated and non-clustered housing dispersed in the community are fundamental conditions for the social inclusion, self-determination, and wellbeing of people with disability. As summarised by Kozma et al.:

People in small-scale community-based residences or in semi-independent or supported living arrangements have a better objective quality of life than do people in large, congregate settings. Particularly, they have more choice-making opportunities; larger social networks and more friends; access more mainstream facilities, and participate more in community life; have more chances to acquire new skills and develop or maintain existing skills; and are more satisfied with their living arrangements.

Conclusions

SDA will bring a number of very welcome changes to the Australian supported accommodation system for those who are eligible. There will be more supply to choose from, and a more diverse range of housing options compared to the existing group home system, including the options of individual homes, living with a partner and children, and home ownership. It is clear, however, that people who are better resourced will be in a better position to negotiate this increased range of choices and benefit from these. Although the National Disability Insurance Agency, and those who conceived it, envisaged a more radical shift away from congregate housing, as well as the separation of ‘bricks and mortar’ from support provision, the SDA funding rules and its weak ‘density restrictions’ do not deliver on these promises. Indeed, leaving much to the discrepancy of the market—financiers, housing developers and disability support providers—there is a genuine risk of moving backwards towards higher levels of congregate housing.

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How many ways can the NSW Government make housing the centrepiece of a budget without addressing affordability for low income households?

This is the budget in which it was all possible. The $4.5 billion surplus ($12 billion over four years) is “the envy of the Western world” according to the Treasurer, Dominic Perrottet. And while much of the state’s fiscal management has come down to “asset recycling”, the windfall gains from stamp duty (transfer tax) was a record $9.6 billion – a billion higher than predicted – and is predicted to be $9.7 billion in 2017-18.

It’s true that part of this bonus is from some of last year’s public asset sales. Nonetheless, $6.8 billion was from home sales – up by $610 million. Each year we see predictions that stamp duties from residential sales are about to drop. And each year they edge ever higher. Transfer taxes have now been the largest source of state tax revenue for the past three years. Land tax too, while a lot smaller, has ridden on the property boom, growing by $1.25 billion over the past four years.

All of these huge numbers have come at the cost of too many lower income earners being unable to rent without going without essentials. Seventy five percent of lower income renters are in rental stress and growing numbers are homeless. And, of course, it also comes at the cost of locking most moderate income households looking to buy their first home out of home-ownership.

So what did the budget do with its windfall gains to help fix this? In reality, almost nothing; particularly for renters.

Like last year’s budget, and budgets before it, the vast majority is to be spent to increase housing supply – supposedly to make housing more affordable – instead of funding social and affordable housing. This is despite the fact house prices and rents continue to rise at the same time as the supply of new houses booms. For a budget that has placed renewed emphasis on outcomes guiding spending, by now this must be almost impossible to justify.

Nonetheless, this budget has committed even more “funding for critical infrastructure projects, including roads and utilities, to drive housing growth”. All up, around $3 billion.

An additional $600 million will be reserved in “Restart NSW” for the Housing Acceleration Fund (HAF), to deliver infrastructure aimed at unlocking new housing supply. This is the largest amount to date, and brings the HAF to over $1 billion. And there’ll be more direct measures, around $1.6 billion, for infrastructure aimed at “unlocking housing supply”.

All of these huge numbers have come at the cost of too many lower income earners being unable to rent without going without essentials.
including concessional loans and grants to local government in targeted areas.

Perhaps more welcome, developers will be asked to contribute more to the cost of infrastructure too. But on the other hand, the budget flagged new measures push through development approvals, with rezoning for Priority Precincts and Priority Growth areas and greater use of independent panels for local development applications.

But unlike previous budgets, there are some measures to directly make housing more affordable – for first home buyers.

Transfer duty will be abolished for first home buyers on homes up to $650,000 and reduced for properties between $650,000 and $800,000. This will cost the budget $1.1 billion over the four years. Insurance duty on lenders’ mortgage insurance (which was a cost imposed on borrowers with less than 20% deposit) will be abolished. This will cost $122 million over four years. The First Home Owner Grant ($10,000) will be retained for buyers of new homes worth up to $600,000, and for those building their first home worth up to $750,000.

In a surprise (and welcome) move, first home buyer assistance measures will also be available to purchasers under shared equity arrangements with Community Housing Providers – something that was seen as a way to make such shared equity models for low income households viable.

One big question about these measures is whether increasing demand in this way, will simply fuel the growth of property prices. If it does, then while the first households to take them up might get a helping hand, very quickly others will be locked out by further price increases. But the bigger question is whether this makes any difference at all to the underlying problem of unaffordability.

Despite the fixation in supply, it’s pretty clear that speculation … in housing is the real problem. Despite the fixation in supply, it’s pretty clear that speculation – and the policy encouragement provided by the tax system to speculate – in housing is the real problem. And there are the first green shoots of acceptance of this in the budget.

Three measures are aimed at reducing the role of investors (speculators). At the same time, these will also go a long way towards paying for the first home owner package.

• Increasing rate of Foreign Investor Surcharge on transfer duty – raising an extra $582 million over four years
• Increasing rate of Foreign Investor Surcharge on land tax – $311 million extra
• Targeting off the plan transfer duty deferrals to owner-occupiers – $530 million extra

Given that most incentives to speculate in housing come from commonwealth taxes, this is a useful state step.

So what about vulnerable households? What about renters? What about social and affordable housing? There’s not much to show in this budget.

There is $20 million over four years to provide transitional housing for rough sleepers and to fund support packages to go with it. But it must be said that many homelessness advocates have pointed out ‘housing first’, not transitional housing, is the better option.

The budget has some already known funding for small aspects of the Future Directions for Social Housing strategy. It also mentions the announcement made just before the budget of a second phase of funding from the Social and Affordable Housing Fund. The fund has used the proceeds from $1.1 billion invested by government, to provide access to 2,200 social and affordable homes. There are no details available yet about the second phase of the fund.

Finally, there is a passing reference to a very large expenditure – $22 billion – for the Communities Plus building program. This will see up to 23,000 new and replacement (mainly replacement) social housing, 500 affordable housing and 40,000 private housing dwellings on a range of current public housing sites. But the reference to a “$22 million program” is cautiously worded, since the approach is funded by the sale of the land on which the redevelopments take place. It is not at all clear how much net state government money will ultimately be spent.

So yet another NSW state budget has come and gone with housing affordability as a headline, but in reality mainly spending on roads and other infrastructure to ‘unlock supply’. This has been funded by the proceeds from state’s housing unaffordability crisis. This time, home purchasers have received some handouts. But yet again, there is next to nothing for the people who really pay the price – low income households battling to survive in our impossible rental market.