V&F HOUSING ENTERPRISE FOUNDATION

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FIGHTING INEQUALITY IN AUSTRALIA

HOUSING AFFORDABILITY IN AUSTRALIA

Tackling A Wicked Problem

A report by Per Capita for V&F Housing Enterprise Foundation May 2022

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Executive Summary

In the two years since the onset of the COVID19 pandemic, median house prices in Australia have risen 31%, breaking through the million dollar mark in Sydney and Melbourne for the first time.

2021 saw the value of Australian residential property increase by an astonishing $2 trillion, to over $9.9 trillion. Meanwhile, rents in many parts of the country grew by as much as a third, with vacancy rates dropping swiftly in regional communities as people relocated from metropolitan areas, pushing up rental costs for local residents.

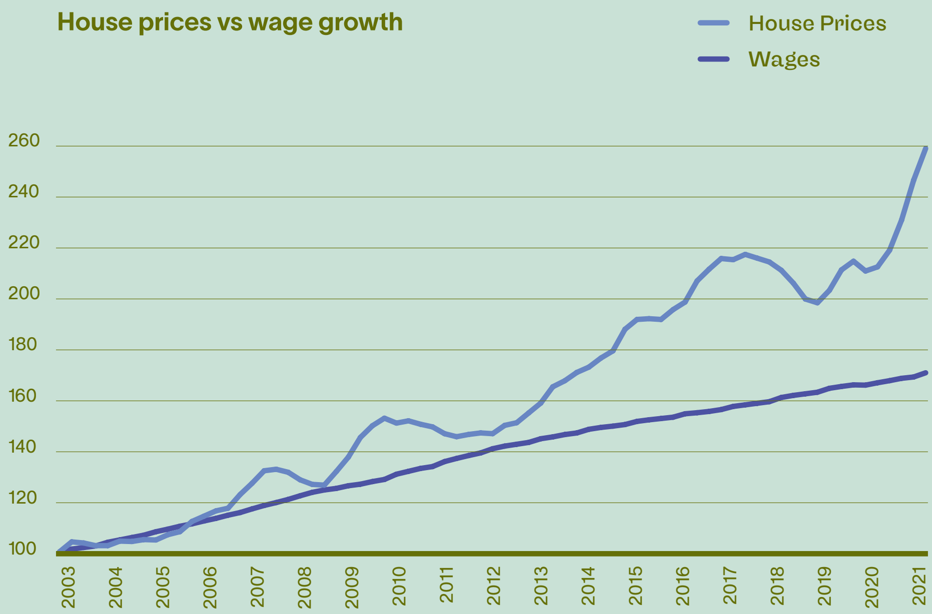
In just six months, between February and September 2021, the median new mortgage increased by $80,000 - over one and a half times the average annual income.

These shocks sit on top of decades of already record-breaking numbers.

Since the 1990s, house prices have risen from 2.5 times annual household income, to over six times today. Australian households are among the most indebted in the world, mainly due to rising mortgage commitments.

Social housing stocks are in decline, with waiting times extending to over five years in some areas, while the private rental market remains one of the least regulated in the world, lacking even a nationally agreed standard for a habitable dwelling.

House prices vs wage growth



Despite ongoing lip service to the notion of home ownership as the 'great Australian dream', the facts about Australia's housing market in the 21st Century are grim: home ownership rates are falling sharply, housing stress is increasing for both mortgagees and tenants, key workers on middle incomes are increasingly locked out of secure housing within a reasonable commute of their jobs, and we are failing low and fixed income households in need of a secure, subsidised home.

In recent decades, the twin processes of financialisaton and deregulation have dehumanised the housing market, turning homes into commodified assets. Successive government policy changes have encouraged those with the financial means to invest in residential property, with the promise of rapid returns that are subsidised by the tax-payer. Over the same period, the poorest members of society, often trapped in inappropriate private rental properties, have seen their housing costs increase year after year. Even many middle class households, now, are unable to enter the housing market as first home buyers without inherited wealth, or what is becoming known as "the bank of mum and dad".

Some commentators argue that increasing home values increases overall national wealth. We find that the evidence points in the opposite direction, with money tied up in the housing market doing very little to stimulate more productive parts of the economy. What is worse, increasing house prices redistribute wealth upwards: as Reserve Bank Governor Philip Lowe once said, '...it is arguable that the main impact of higher land prices is not really to increase our national wealth, but to change the distribution of that wealth."[1]

Furthermore, a poorly functioning housing market exacerbates a range of problems in ways costly to individuals, families, communities and the country at large. Poor quality, insecure housing leads to degraded mental and physical health. Hot local property markets are driving people away from their jobs, reducing labour market efficiencies, and at the same time breaking up communities and families.

Perhaps most critically, the growth of house prices well beyond the rate of household income growth is fuelling intergenerational inequality, and destroying social mobility.

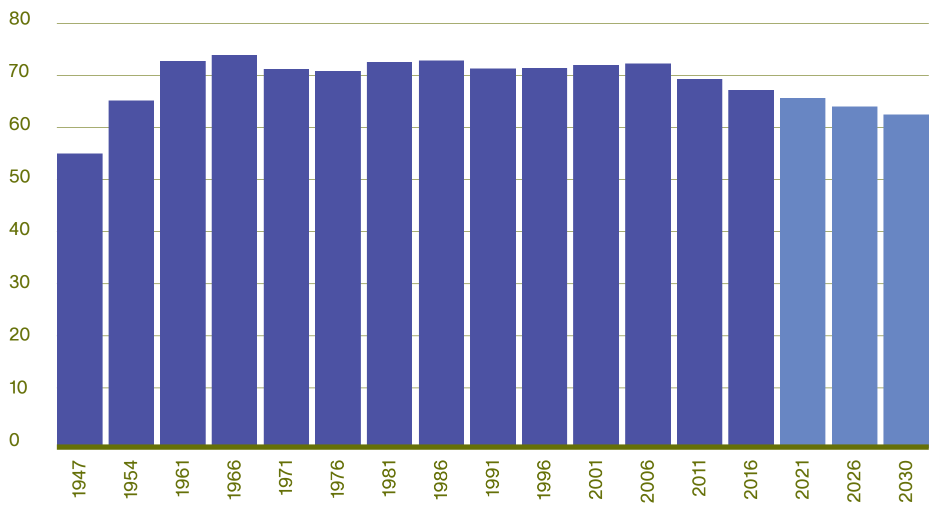
Australia once boasted amongst the highest rates of home ownership in the world. Secure housing was regarded as the foundation of Australia's egalitarian society, and underpinned the creation of a growing middle class society in the second half of the 20th Century.

So how did we get here? How do we begin to understand the social and economic consequences of such enormous changes to the role and function of housing over the past 30 years? And what, if anything, can be done to reverse course, to reposition the home as a source of shelter and security for all, rather than material wealth for a few?

This report, commissioned by V&F Housing Enterprise Foundation, sets out an evidence base to assist in answering these questions. The research and analysis that follows:

- Provides a short history of the historical patterns, policy choices and regulatory changes that have led to the current situation.
- Examines home ownership, rental and social housing trends over time, using a broad range of indicators and evidence.
- Explores the contemporary debate as to why house prices are growing so much faster than incomes.
- Uses international comparisons to highlight where we sit in relation to other countries.
- Sets out the core and secondary drivers of housing unaffordability, on both the supply and demand side of the equation, from the capital gains tax discount to zoning and planning laws.
- Provides a pathway for advocacy in resolving some of these socially and economically harmful trends and practices.

Home ownership rates



We deliberately bookend the report by discussing policy choices – those that have brought on the housing crisis, and those that could potentially mitigate it – to demonstrate that current government policies are shaping the housing market in increasingly damaging and exclusionary ways, but that this is not inevitable: different policy choices will generate different, and more socially inclusive, outcomes.

We can realign the housing market to ensure that all Australians have somewhere to call home.

We can change our rental laws to ensure that long-term renting is an attractive option, rather than a temporary or second-best outcome.

We can develop new models of tenure which reduce upfront costs for buyers.

We can increase and improve social housing stock, reducing housing costs for low-income households.

We can build more housing that is appropriate for people's needs, and located within easy reach of essential jobs.

We can even, over time, bring house prices back into line with household incomes.

In order to achieve such changes, it is necessary to shift our collective thinking about the housing market, away from the pursuit of short-term capital gains and individual wealth, towards understanding housing as the source of security and wellbeing for people: as a home, rather than an investment.

In short, the provision of a secure, affordable, accessible and high-quality home for every person should be the first principle underpinning housing policy in a wealthy country such as Australia.

We hope that this report will provide some impetus for bringing about a shift in public understanding that will reposition the concept of home at the centre of Australia's housing policy debate.

Key Findings

Our research suggests that:

1.

Home ownership is declining overall, but particularly among younger and poorer cohorts of Australians. Our ownership rates are falling behind comparable OECD countries, and will likely decline further after the effects of COVID19-related demand, and COVID19 policy responses, are taken into account.

2.

House prices have increased dramatically since the introduction of the Capital Gains Tax (CGT) discount, which in conjunction with negative gearing transfers wealth from the general population to the wealthiest households, and from younger to older households.

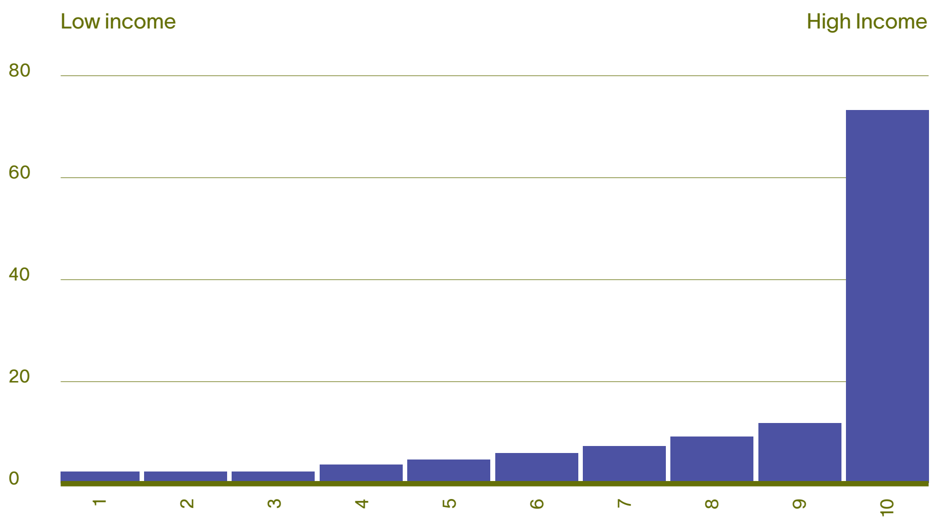
3.

House prices are not adequately captured in Australia's cost of living indices: the impact of soaring house prices on real housing costs for a large proportion of Australian households, especially more recent entrants to the property market, is not reflected in the Consumer Price Index.

4.

Australia is one of a small number of countries which has unrestricted negative gearing. Each of these countries has seen a stagnation or decline in home ownership.

Distribution of CGT discount by household income



5.

Rent prices across Australia have risen by almost 10% over the 12 months to March 2022, with the cost of renting a house up by an average of 14% and unit rent prices up by an average of 8.5%. People on low incomes, and/or who rely on fixed income support, and/or who reside in certain regions are suffering unaffordable rent increases, leading to an emerging rental crisis nationally.

6.

Rental protections in Australia are among some of the weakest in the world, with no national definition of what constitutes a 'decent dwelling'. This is having increasingly negative consequences as an increasing share of the population become renters. Climate change-related weather patterns are also increasing extreme heat, cold and rain, but rental standards do not protect tenants from these changes.

7.

Social housing construction, maintenance and availability are failing to keep up with demand. The proportion of dwellings that are social housing has halved in two decades, to just 3%. By international standards, Australia has a very low supply of social or subsidised housing. Social housing waiting times are frequently estimated to be 5-10 years.

8.

Housing stress, including both mortgage and rental stress, has increased dramatically. By some measures, mortgage stress has doubled in five years – from 20% to 40%. Currently 54% of low-income renters are in rental stress, and a whole new cohort of renters in rural and regional areas will enter rental stress as a consequence of COVID19 related migration.

9.

House prices during and since COVID19 have escalated dramatically, with average new mortgages increasing by 14% in just six months in 2021. Investor activity increased by 30% over the last two years, with investors significantly out spending first-time buyers.

10.

The costs and benefits of current housing policies are unevenly distributed across the Australian population, with the benefits of property tax concessions flowing disproportionately to the wealthiest households, and rental and mortgage stress concentrated among lower and lower-middle income households.

Introduction

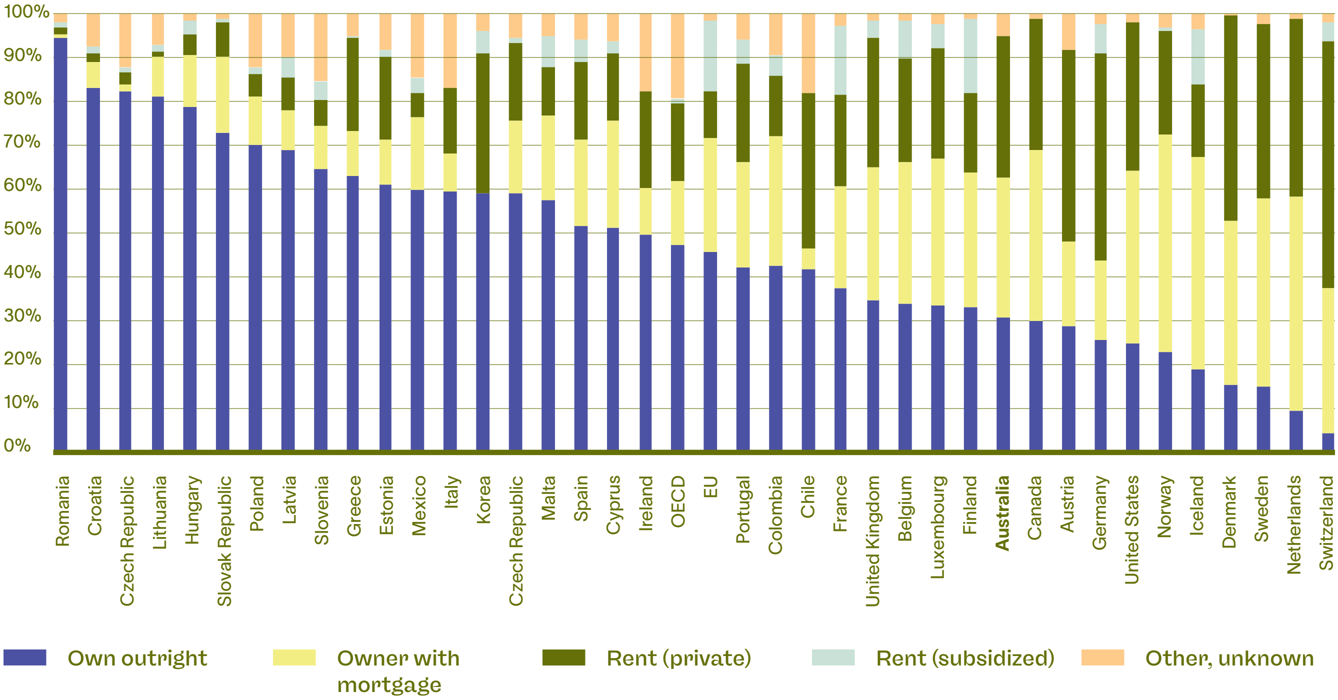
V&F Housing Enterprise Foundation commissioned Per Capita to research and produce this report on the affordable housing crisis in Australia.

Owning one's own home has long been understood as the Great Australian Dream. From the early days of federation, working and middle-class Australians were far more likely to own the home in which they live than were their counterparts in Britain or the USA.[2] In the years after World War II, home ownership began to be regarded as a key measure of security and success for ordinary Australians, as policy makers made housing security and affordability a core element of the post-war reconstruction.

To this day, an assumption of home ownership among the majority of Australian families underpins the Australian social contract: wages, social security payments and the retirement income system all rely, to a greater or lesser extent, on widespread home ownership.

Yet, as this report will show, secure housing in Australia is increasingly out of reach for a growing proportion of the population – arguably more so than in any comparable country. In fact, Australia is now behind the United Kingdom when it comes to outright home-ownership, and has fallen behind the US for owner-occupied mortgaged households. The proportion of households living in a home they own outright in Australia is a full 13% below the OECD average, and falling (See Figure 1).

Figure 1
Comparison of International Housing Tenure Models



Source: OECD 2021

The difficulty of accessing the Australian housing market today is the subject of much political and public discussion. Yet the national debate about declining affordability for first home buyers too often obscures the larger issue of a lack of housing security across the life course and throughout all segments of the Australian populace: for example, it is not widely understood that, on average across the life course, renters spend a larger proportion of their income on housing than do homeowners.

Similarly, recent public debate that positions home ownership primarily as a generational divide ignores the significant disparities in wealth and housing security within generations. That is, while the popular narrative holds that 'baby boomers' are cashed-up home owners with multiple investment properties, and are locking younger generations out of home-ownership, the evidence shows that one in four older Australians lives in permanent income poverty, and that this is primarily due to the fact that they do not own their own home and must pay private rental costs.[3]

What is true, and should be of utmost concern to policy makers, is that the proportion of Australians who will never own a home is increasing, with dire consequences for Australia's future prosperity and social cohesion. This is primarily because younger generations are entering the home-ownership market later than ever, if at all. The long-term impact of this trend is already apparent: the proportion of home owners aged 55 to 64 years still owing money on mortgages has tripled from 14% to 47% over the last 25 years.[4]

In a recent poll, two thirds of Australians responded that they thought home ownership is now out of reach for young people.[5] At the same time, many economists argue that mortgage affordability is better now than ever before, and that first time buyers just need to grasp the opportunity of low interest rates.[6]

This blithe advice neglects to recognise both the lifetime cost of servicing a mortgage as a proportion of income, and the increasingly prohibitive price of entering the market with a secure deposit of 20 per cent of purchase price. When the increases in housing costs are outstripping people's ability to save by several thousand dollars each month, it is becoming impossible for young people to enter the market without assistance from 'the bank of mum and dad'. This has significant consequences for intergenerational inequality and social mobility.

As this report will show, government policy decisions to tax wages from working people much more heavily than unearned incomes from rising property prices, and concessions granted to existing property owners, have, over the last 25 years, fuelled an exceptional and damaging explosion in property prices. Until recently, this was concentrated in Australia's capital cities, but the impact of COVID19 and the ensuing changes in workplace practice, asset prices and lifestyle have seen the escalation of housing prices extend to our regional cities and towns.

At the same time as government policies have excessively stimulated property prices, those same policy makers have failed to implement alternative housing models to private ownership that could provide security for tenants. Current public policy recognises only private ownership as the pathway to housing security; indeed, leading economists and policy advisers will defend soaring property prices on the basis that they increase household wealth and therefore the security of the population. This argument ignores the distributional effects of tax incentives that are concentrating property wealth, and therefore that model of economic security, in fewer hands.

The argument that property wealth can be seen as a productive asset because it provides security to the owner-occupier is spurious. In fact, housing as an investment offers a static return and, more fundamentally, housing security need not rest on ownership: the provision of secure and affordable homes for tenants, both in the private rental market and through public and community housing, is a source of housing security in many comparable OECD nations.

The unsustainable growth in house prices has enormous ramifications for Australia's prosperity, social cohesion, security and sustainable growth. The opportunity costs for investment in more productive and innovative assets are enormous, as is the restriction on social mobility imposed on too many of our citizens due to insecure housing.

Current prejudices in government policy are hampering civil society efforts to reverse this damaging trajectory: an open hostility to social housing – both public housing provided by state authorities, and community housing provided by not-for-profits - and a failure to understand the interactions of affordable build-to-rent and rent-to-buy developments with the rest of the market, appear to be based on a determination to protect the property values of existing home-owners and investors at the expense of those experiencing housing insecurity.[7]

This research report demonstrates that housing costs are reaching a crisis point for too many Australians, while housing has become a lucrative financial resource for increasingly fewer others. As we will demonstrate, inequity in housing affordability is bad for society as a whole.

In order to reset our public conversation around housing affordability, it is necessary to reclaim the idea of housing from the extreme financialisation that has positioned it almost entirely as a financial asset to one that understands the role of a home in a secure, enjoyable and prosperous life.

First principles for housing policy

1.

Shelter is a fundamental human right. Access to a secure, affordable, accessible and decent home should be the first principle underpinning any policy related to housing in a wealthy country such as Australia.

2.

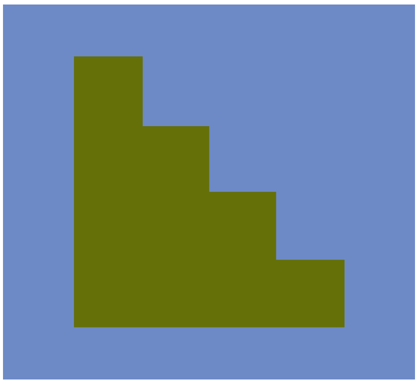
Access to good quality, secure housing is well known to play a significant role in determining health and wellbeing – both physical and mental.

3.

A lack of housing in the right place, of the right quality or available for secure tenure periods, has corrosive effects on individuals and families.

4.

High house prices and rents increase household debt, and reduce spending capacity.



5.

Beyond individual impacts, social cohesion is detrimentally affected by property price distortions, which increase wealth inequality between and within generations.

6.

Hot local property markets can lead to low- and middle-income workers, including essential workers, unable to live close to their place of work, producing inefficient labour market outcomes.

7.

Money held in the housing market does very little to stimulate our flagging economy, which has been in a period of low and, in some years, even negative, productivity investments.

To ensure that all Australians have an affordable, accessible and decent home, Australia will need to choose its own deliberate policy path. That path will require significant political engagement, to confront the collective conflict of interest we have regarding housing: as a social good and human need, we seek it for all members of our society, but as a form of wealth we will naturally resist the single thing that would best achieve that goal: a reduction in the cost of housing.

This report sets out that evidence, and suggests some pathways to solutions.

How did we get here?

Many of the world's developed countries are experiencing a crisis in the affordability and accessibility of secure and appropriate housing for anyone not already in possession of significant personal or family wealth.

The problem is most acute in major economic centres and capital cities, in which the highest paying jobs are located. In cities from London to Sydney, Dublin to Auckland, and San Francisco to Melbourne, prices are rising significantly faster than are wages for the majority of working people.

Australia is not alone in its recent experience of runaway house prices, but the problem is arguably worse here than in comparably-sized economies, and is exacerbated by a greater number of demand-side market interventions via government tax policy than are at play in other tight housing markets. These policies push prices well beyond what might be expected to result from applying a simplistic model of supply and demand.

Intuitively, it makes no sense for government policy to make housing less affordable and more insecure. After all, owning one's own home – traditionally a detached house on a quarter acre block – has long been described as the 'Australian Dream'. In the mid-20th Century, federal governments, both Labor and Liberal, put secure housing at the centre of public policy. In just fifteen years following the Second World War, the home ownership rate in Australia soared from only half of all households to 70 per cent, and this relatively high rate of ownership remained steady until the end of the century.

This was no accident: the war time Labor Governments under John Curtin and Ben Chifley made secure and accessible housing a core policy of their post-war reconstruction agenda,[8] while their successor, Liberal Prime Minister Robert Menzies, saw widespread home ownership as the key to maintaining the stable middle-class society that he regarded as providing "...the intelligent ambition which is the motive power of human progress".[9]

Critically, both Labor and Liberal governments in the post-war era regarded housing primarily through the lens of home: Menzies, in his famous 'Forgotten People' speech, spoke of "...homes material, homes human and homes spiritual", declaring the home to be "...the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole".[10]

In the 1960s, an Australian worker with a full-time income could afford to buy a decent family home within an easy commute of his (for the breadwinner was usually still the man) job. Today, two incomes are often needed to enter the property market, and most first-time buyers in major cities are unable to afford the kind of home needed to start a family that is within a reasonable distance of their place of work.

So how did we get here?

The shift in economic thinking that occurred globally in the mid-1970s, as the post-war Keynesian consensus gave way to the rise of economic rationalism, or neoliberalism, marked the beginning of what has become known as the 'financialisation of housing': a process in which the home gradually lost its hallowed status as essential shelter and came to be regarded as simply a financial asset – a source of creating and growing personal wealth.

The financialisation of housing

As economically rationalist policies were implemented across the developed world in the late 1970s and early 1980s, homes were transformed in the public consciousness into assets. Policy makers from all major political parties embraced the zeitgeist, encouraging and rewarding the creation of wealth by enacting policy changes to encourage investment and capital growth.

Between the late 1970s and the early 2000s, a series of policy changes, including monetary policy decisions, the introduction of tax rules to favour capital income and banking deregulation, combined to create a housing market skewed disproportionately to favour the investor class over owner-occupiers, and to favour owner-occupiers over renters.

Over the 1970s and 1980s, a series of regulatory changes allowed foreign banks to enter the Australian financial system, and the processes for establishing new domestic banks were eased. This led to an increase in the pool of money available for mortgages.

Deregulation of the banking sector from the 1980s onwards also wound back prudential regulations (the limits placed on how much and to whom banks could lend) and, combined with the entrance of new banks, increased competition between banks for retail trade. This encouraged banks to rapidly grow their balance sheets.[11]

While tax rules that allow for negative gearing against property holdings have been in place since 1922, it was when reluctantly reintroduced by the Labor Government in the late 1980s (after a short period in which they were abolished), that negative gearing was embraced by a new class of investors, enriched by the economic reforms of the 1980s.

Negative gearing is often blamed for the escalation of property prices in Australia, but in truth, the introduction of the 50% Capital Gains Tax (CGT) discount in 1999 was perhaps the most significant factor driving housing financialisation. The discount allows investors to realise large returns on housing investment, with the negative gearing rules effectively buffering them from short-term losses until they can realise a medium-term, concessionally taxed capital gain. As we shall show, it was when the Howard Government introduced the CGT discount that house prices in Australia really took off.

Subsequent efforts by governments to correct the market imbalance in favour of first home-buyers have only served to fuel the growth in house prices at the lower end of the market. For example, first home buyers' grants, the typically favoured measure to offer some help to young Australians to enter the market, are almost universally regarded as inflationary, and of little benefit to those not already well on the way to home ownership.

Most economic policy changes produce winners and losers; the first principle of good policy should be to maximise the winners and (if necessary) compensate the losers. Another important principle is that economic policies should not create long-term generational inequalities, selling out the future for short-term political gain. A third is that, where there are inequalities in outcomes, policy should be designed to give the greatest benefit to the least advantaged in society – this is precisely the opposite of Australia's current housing policies, in which most of the taxpayer subsidised benefits flow to the wealthiest among us.

By both measures, housing policy in Australia has failed. Policies introduced over the last 40 years have underpinned extraordinary wealth for many Australian households, primarily those who already held assets or who were able to enter the property market before the explosive house price boom of the early 2000s. Such Australians currently represent a majority of voters, a force that no political party can afford to offend.

Yet the fallout of the largesse showered on existing home owners and property investors over the last quarter of a century have fundamentally altered our understanding of, and relationship to, our homes and the important role they play in our lives, beyond simply growing wealth.

In the space of 40 years, we have gone from regarding home as the foundation of our individual and social wellbeing - a place to live, to raise a family, to find security and community - to seeing houses primarily as a vehicle in which to park and grow capital.[12]

Surely it is the former concept, rather than the latter, that underpinned the 'great Australian dream'. Yet for far too many Australians today – anyone without personal or family wealth – that dream is increasingly out of reach.

So what? We're rich, aren't we?

While some Australians have benefitted mightily from the increased wealth that comes with higher property prices, the wider social outcomes are largely negative. The truth is, an ideological preference among policy makers for the last 40 years to treat housing as an asset class rather than as, first and foremost, a home, has had significant and unforeseen consequences for the wellbeing of individuals and the social cohesion of communities.

In fact, many of the social and economic challenges facing Australia today, like other developed nations, can be traced to a lack of affordable housing.

Recent international evidence points to the significant and growing impact of unaffordable housing on economic growth, as the inaccessibility of secure, appropriate and suitably located housing begins to reduce labour productivity.[13] When people are priced out of homes that are located near the best jobs, they will often compromise their careers, choosing less rewarding or productive jobs closer to home. Others, especially women with children, may drop out of the labour market entirely in order to be able to buy a home in a regional area that can be afforded on one wage and obviate the need for paid child care.

A dearth of affordable homes to rent or buy in the inner suburbs of our capital cities also has sinister implications for social cohesion and community safety. Research from Australian experts has shown that the lack of affordable housing in our cities is leading to real problems in the delivery of essential services, as key workers such as teachers, nurses, carers, cleaners, police and paramedics are priced out of living within an easy commute of their jobs.

A lack of suitable housing is also shown to be restricting our ability to mitigate the impacts of climate change. A resistance to replacing older housing stock with more energy efficient, medium-density housing, and the tax settings such as stamp duty that discourage people from 'right-sizing' into more appropriate homes as they age, restrict our ability to adapt our living environments to leave smaller carbon footprints and more quickly reduce our reliance on fossil fuels.

Insecure, poor quality housing is also known to have significant implications for mental and physical health, which increase as people age. A lack of secure housing is the number one cause of poverty in old age in Australia, with comparatively low age pension rates predicated on the assumption that those in receipt of the age pension will own their home outright.

Most starkly, the financialisation of housing over the last 40 years has arguably been the greatest contributing factor to the widening inequality of wealth, and the reduction in social mobility that created a strong and productive middle class Australian economy in the mid-20th Century.

For younger generations, the likelihood of buying a home increasingly relies on the status of their parents: if you are born to a home owner, you have a much higher chance of becoming one yourself. The 'bank of mum and dad' is fast becoming the only way for most young people from ordinary working families to get a foot on the rung of the property ladder, and the implications for social mobility and entrenched intergenerational inequality are dire.

Yet the housing crisis is about so much more than just the cost of buying one's first house or apartment. An increasing proportion of Australians will never own a home at all: older single women, single parents, those from low socio-economic backgrounds, people with disabilities, First Nations Australians, those locked out of the labour market and low-income workers from culturally diverse backgrounds are all more likely to remain in the private rental market for life. Yet even outside these long-marginalised groups, the prospect of remaining outside the housing market is growing rapidly, and now incorporates a broad demographic: half of renters aged between 35 and 44, and 65% pf those aged between 45 and 64 have been renting for more than a decade, and a quarter of all tenant households now are couples with children.[14]

Australia's long-standing focus on promoting home ownership has largely excused government inattention to the rights afforded to tenants, with the result that our private rental market is amongst the least secure and most unaffordable in the developed world.

Moreover, overly generous tax concessions that encourage property market speculation by investors don't just push first home-buyers out of the housing market; they undermine security of tenure for tenants too.

The operation of the capital gains tax discount and negative gearing provisions skew investor behaviour to chase short-term capital gains, rather than reliable longer-term income streams from rental properties. This significantly exacerbates housing insecurity for tenants, as most landlords are small property investors – small-time, amateur investors – who are banking on significant house price increases over relatively short time periods in order to realise a large and tax-discounted capital gain. This, combined with a lack of tax and investment incentives for institutional property investors, means that long-term tenures are rarely available in the Australian market, as they are in comparable countries from large institutional landlords.

Where to from here?

The rapid escalation of property prices in Australia, particularly over the last 20 years, is the result of myriad intersecting factors, affecting both the supply and demand for new homes. Most of these factors are directly influenced by government policy settings, and even those that can be seen primarily as market forces or driven by human behaviour are at least indirectly influenced by government regulation.

The crisis in housing affordability in Australia represents a failure of public policy on a number of levels. Federal, state and local governments share the blame for an unsustainable decline in the availability, accessibility and affordability of housing across the nation.

The good news is that policy failures can be reversed. Internationally, there is a growing view that housing policy should proceed from the principle that all people have a fundamental the right to a home, and that the financialisation of housing is a human rights issue.[15]

In Australia, as the price of even the most modest home located within a reasonable distance of a decent job recedes further from the reach of the average person, a community backlash against soaring property prices is growing. Even those who have benefitted personally from extraordinary property wealth in recent decades recognise that a society in which their children may never be able to buy a family home, while others accrue multiple tax-favoured investment properties, is inherently unfair and unsustainable.

While policy makers at the federal level appear reluctant to take meaningful action on housing affordability, the creation of a more equitable and efficient housing market must be driven from outside government: through a strong civic movement that seeks to restore the idea of a decent home as a fundamental human right, and demands that government policy ensure equitable access to a secure home, just as it does to health care and education.

This report seeks to provide the evidence base to inform such a movement and make the case for change.

Overall housing trends

What follows is an outline of core trends and metrics in housing in Australia. We look first at the broad trends in home ownership, renting, social housing and housing stress. This is followed by a more detailed examination of home ownership and mortgage affordability. We then examine trends in rental costs and affordability, followed by a discussion of social housing.

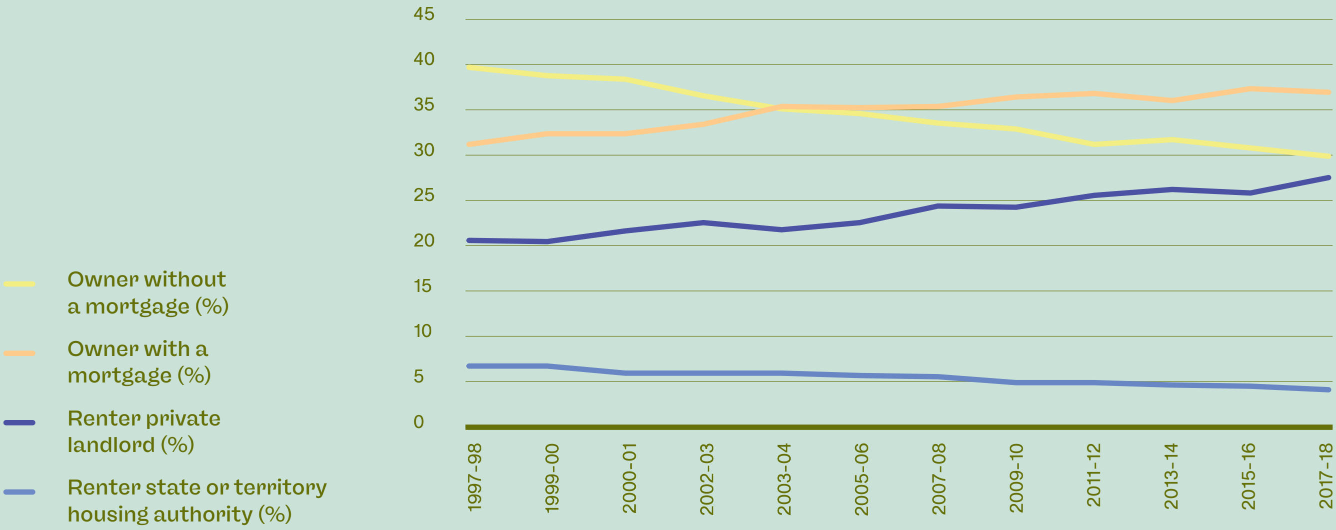
Tenure – who lives in what sort of dwelling?

There are currently 10.5 million dwellings in Australia.

As of 2018 (the latest data available) around 37% of Australians are owner-occupiers with a mortgage, around 29.5% own their home outright, 27% rent from a private landlord, and 3% rent from state or territory housing.

The number of outright home-owners has shrunk by a quarter in the 20 years between 1997-98 and 2017-18, from about 40% of the population to 30%. Meanwhile the number of private renters has increased from 20% to 27% (see Figure 2).

Figure 2
Housing tenure, 1997-98 to 2017-18



Source: Australian Bureau of Statistics, Housing Occupancy and Costs 2017-18

These trends reflect several significant changes in housing tenure over 20 years: the proportion of people living in social housing has roughly halved, people are renting for longer, either permanently or while saving for a mortgage deposit, and many others are simply locked out of home ownership altogether, particularly in the capital cities.[16] The effect is that the benefits of outright home ownership are deferred, with people enjoying fewer years living mortgage free, while the cost of getting to outright ownership are higher.

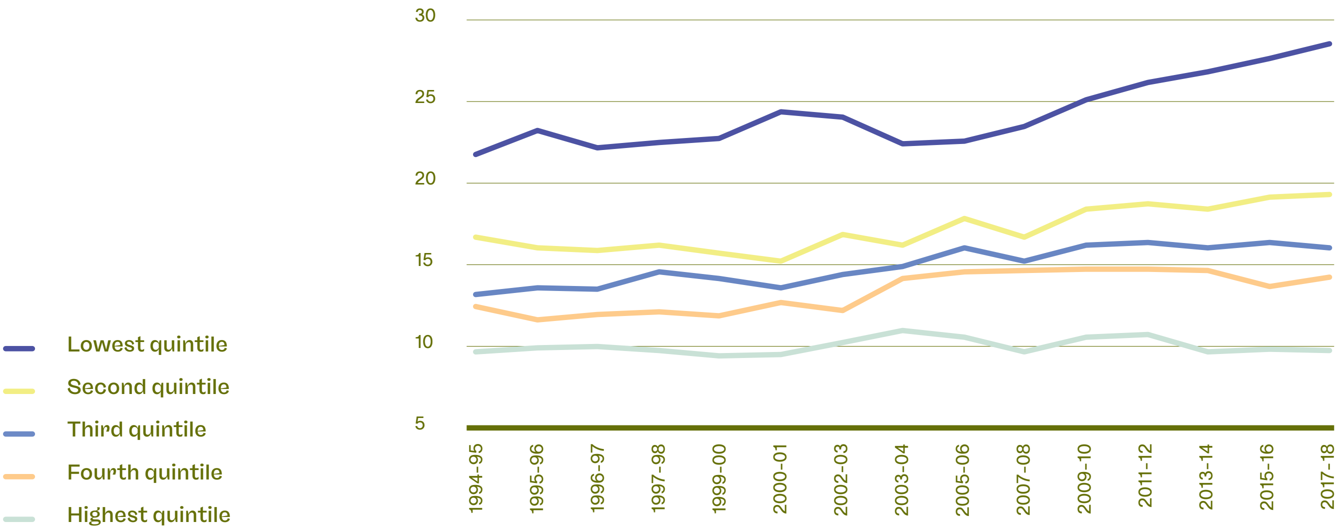
Income – how have different income groups fared under changing housing trends?

When looking at housing costs by income it is clear that the costs of housing have risen most quickly for the people with the lowest capacity to afford these changes. Figure 3 shows the proportion of income being spent on housing of all kinds (mortgages, rent and social housing).

In the years between 1994 and 2018, the overall cost of housing has remained essentially static for the top 20% of income earners (from 9.3% to 9.4%). The middle 60% of earners all saw housing increase as a proportion of income by roughly 2%-3%.

However, for the poorest 20%, the cost of housing has increased dramatically, particularly since the turn of the century. TThe current rate of 29% of earnings going to housing costs, up from 22% in a quarter of a century, puts the average household in the bottom 20% of earners at the housing stress threshold.

Figure 3
Housing costs as a percentage of disposable household income



Source: ABS, 41300, Table 1, Housing Occupancy and Costs, Australia, 2017-18

This has happened for a number of reasons. Firstly, people in state or territory housing authority housing have seen a real term rent rise of $46 per week between 2000-01 to 2017-18, a 42% increase in cost. This is a relatively low increase compared to rises in private rentals, which saw a 60% increase in cost. However, because of the stagnation of income support payments such as JobSeeker, housing costs as a proportion of income have increased significantly for people reliant on such payments, many of whom are social housing tenants.

Secondly, the share of low-income households in social housing has declined, with an increasing share of people who would previously have qualified for social housing being forced into the more expensive private rental market. In 1996 around 52% of low income households rented from private landlords. By 2018, this figure was 71% (Productivity Commission 2019). The loss of secure, rent-controlled social housing for a fifth of low income households means that a greater proportion are in rental stress.

Housing stress

Housing stress is experienced when a low-income household spends more than 30% of its disposable income on housing. Housing costs are defined as the sum of rent payments, rate payments (water and general), and housing–related mortgage payments.

Housing stress has increased moderately over the past few decades. Between 1994and 2018, the overall rate of housing stress in Australia increased from 13.8% to 17% (Australian Bureau of Statistics 2019). However, when broken down by different tenure types we can see clear winners and losers. Between 2001 and 2018, the proportion of social housing tenants in rental stress increased from 8.9% to 18.7%.[17]

Households with low income in the private rental market were more likely to be in housing stress, spending on average 32% of income on housing costs, compared with home owners with a mortgage (29%) or home owners without a mortgage (6.0%) (see Table 1). Of household compositions, lone person households, the fastest growing group, spent the highest proportion of income on housing costs, averaging close to half of their income.

Table 1
Proportion of household income spent on housing costs (lower-income households only) by household composition and housing tenure type, 2017–18

Household composition	Housing costs as a proportion of gross household income		
	Owner without a mortgage	Owner with a mortgage	Private renter
Family households			
Couple family with dependent children	4.1	28.5	26.9
One parent family with dependent children	4.5	29.7*	33.8*
Couple only family	5.6	31.8	33.9
Couple family with non–dependent children	4.4	23.9	25.7
Multiple family households	3.5	19.2	20.7*
Non-family households			
Group households	6.7*	33.5*	38.1*
Lone person households	8.4	38.6	44.4
All households	6.0	28.6	31.9

* Estimate has a high margin of error and should be used with caution.
Source: ABS 2019

Geographic variation in housing costs

Table 2 shows Local Government Areas (LGAs) ranked by their median rental costs as a proportion of median income. It also shows the cost of servicing a mortgage, and the years it would take to save for a 20% deposit. The least affordable housing is in Pittwater in Sydney, with a median mortgage costing 103% of a median income, and requiring a median income family to save for 28.5 years for a deposit.

The impact of these increases to housing costs is still unfolding, but it is increasingly likely that these areas will become unviable for key workers on low to middle incomes, and people on fixed income support: in fact, these regions are becoming unaffordable for any household below the top 40% of earners.

Table 2
Affordability measures across SA3 regions as at June 2021 (dwellings)

Area	Region	Price to income	Years to save a deposit	% of income to new mortgage	% of income to rent
Regional NSW	Richmond Valley - Coastal	15.3	20.5	74.4%	55.5%
Regional QLD	Noosa	14.2	18.9	68.7%	54.1%
Regional NSW	Tweed Valley	12.2	16.2	59.0%	52.6%
Sydney	Pittwater	21.4	28.5	103.7%	51.4%
Regional QLD	Noosa Hinterland	12.7	16.9	61.5%	50.5%
Regional NSW	South Coast	11.2	14.9	54.3%	49.2%
Regional NSW	Great Lakes	11.6	15.5	56.3%	48.0%
Regional QLD	Coolangatta	12.4	16.5	60.1%	46.9%
Regional NSW	Clarence Valley	9	12	43.7%	46.2%
Regional NSW	Southern Highlands	13.3	17.7	64.5%	45.8%
Regional NSW	Shoalhaven	12.2	16.3	59.2%	45.3%
Brisbane	Bribie - Beachmere	10.4	13.9	50.7%	45.2%
Regional QLD	Maroochy	10.8	14.3	52.2%	44.6%
Regional NSW	Coffs Harbour	9.7	12.9	46.9%	44.5%
Regional QLD	Buderim	9.7	13	47.1%	44.0%
Regional QLD	Robina	8.7	11.6	42.1%	43.8%
Regional NSW	Port Macquarie	10.4	13.8	50.3%	42.9%
Regional Tasmania	South East Coast	9.3	12.4	45.0%	42.9%
Sydney	Warringah	17	22.6	82.3%	41.9%
Regional QLD	Caloundra	10.4	13.8	50.3%	41.8%
Regional NSW	Kempsey - Nambucca	8.8	11.7	42.6%	41.7%

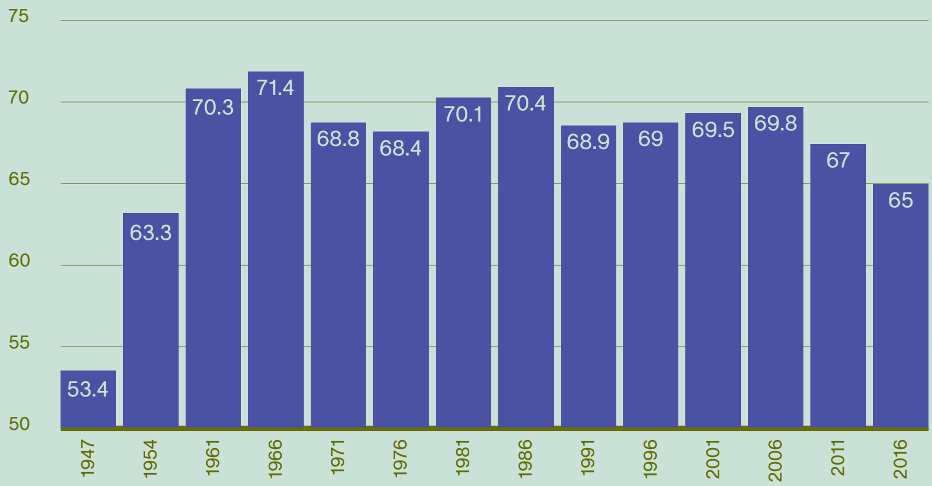
Source: ANZ/CoreLogic Housing Affordability Report 2021

Since the 1990s, house prices have risen from 2.5 times annual household income, to over six times today.

Home ownership

As shown in Figure 4 below, the home ownership rate in Australia was stable at around 70% for four decades, from the early 1960s to the early 2000s. Since then, the rate has dropped significantly, and in 2016, it was at 65%.

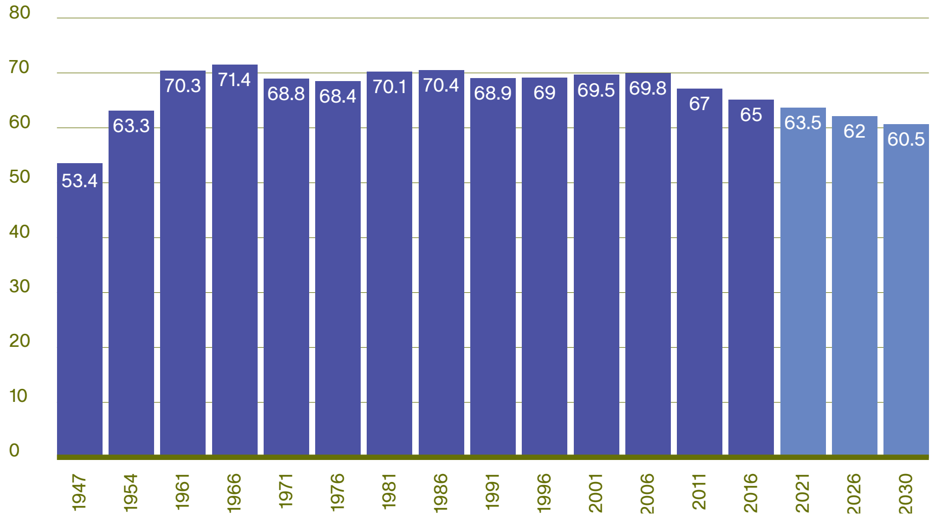
Figure 4
Home ownership rates (% of population)



Source: Census data

Using the trend in home ownership between 2001 and 2016, we calculate that, on the current ten year trajectory rates of home ownership, will fall to 60.5 per cent by 2030, a drop of ten percentage points in a little over 50 years (see Figure 5).

Figure 5
Home ownership rates (% of population) projected to 2030

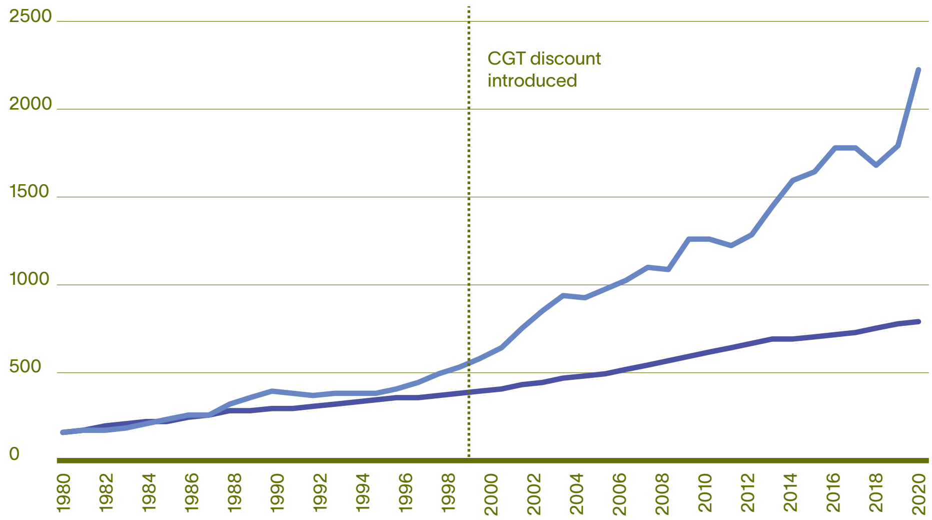


Source: Census data. Projections based on 2001-2016 trend

How have house prices changed?

There are several ways to measure changing house prices and their relationship to housing costs. Figure 6 shows median house prices, and wages indexed from 1986 to 2015.

Figure 6
Changes in house prices and wages



Average Weekly Earnings

House Prices

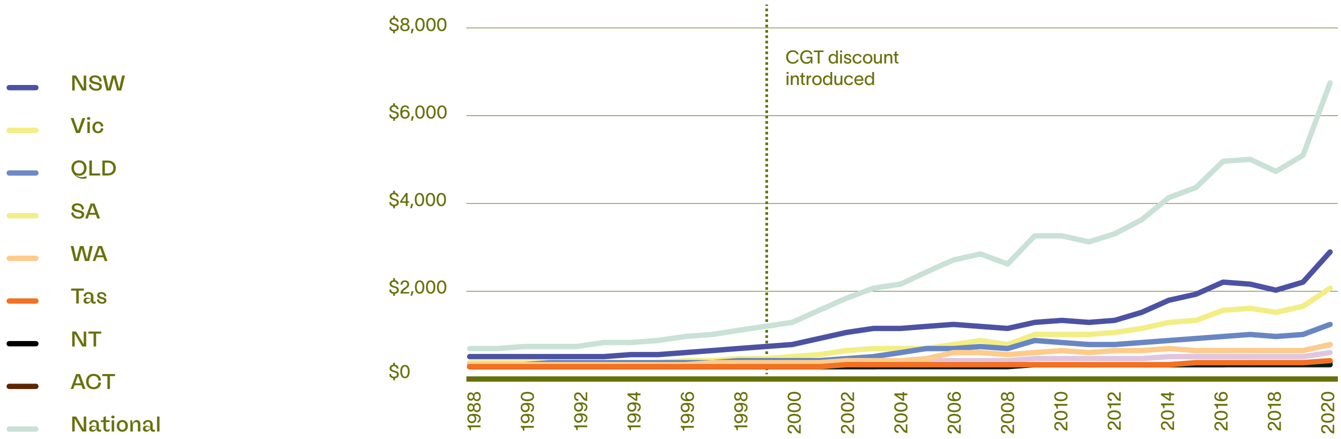
Source: Authors' calculations based on ABS Residential Property Price Indexes; Wage Price Index

Note that, beginning in 1999 with the introduction of the Capital Gains Tax discount and more generous negative gearing policies, house prices began to escalate rapidly, and the alignment of purchase prices with construction costs and household incomes was lost.

Core Logic, one of the most reliable data collection agencies in this space, has a database extending back to 2002. Their estimation is that the total value of real estate has increased by roughly half a billion dollars every year since that time. However, in the 12 months to the end of 2021, we saw an increase of two billion dollars (28%), with investors and some owner occupiers taking advantage of very low interest rates.

Residential land value data tells a similar story, with a large ramping up of values at the turn of the century, but an extraordinary increase from June 2020 (see Figure 7).

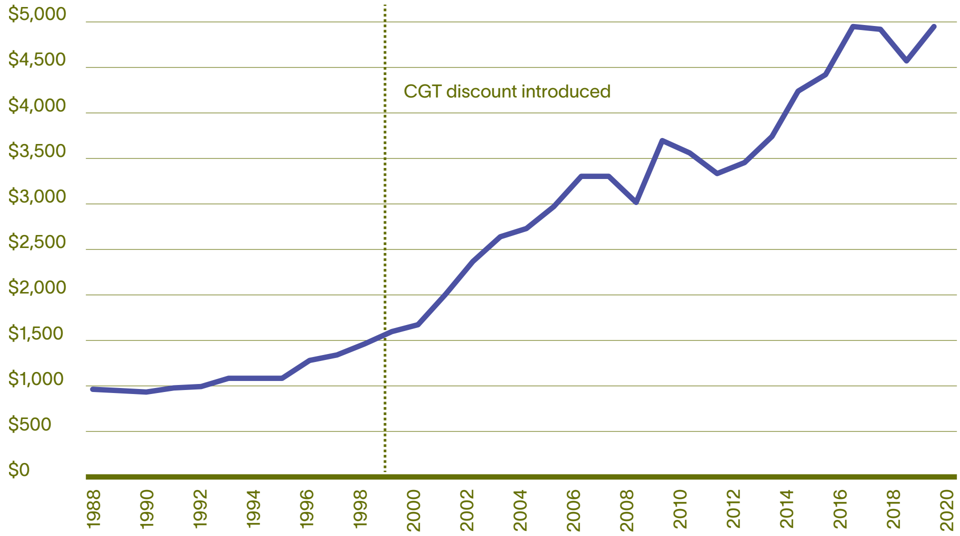
Figure 7
Residential land value ($), Billions



Source: ABS 5204, Table 61. Value of Land, by Land use by State/Territory

Using ABS data for the total value of residential land (both in-use land with houses built on it, and land unused), the story to 2019 is slightly less bleak, rising from around $900 billion in 1989, to $5 trillion in 2019 (see Figure 8). However, when 2020-21 data becomes available, we would expect to see a significant increase, in line with the escalation in asset prices since the COVID19 recession of 2020.

Figure 8
Residential land value, $ billions, constant values ($=2020)



Source: ABS 5204.0 Table 61. Value of Land, by Land use by State/Territory, adjusted to 2020 prices

Again, we see a sharp increase in land values at the introduction of the CGT discount in 1999 (shown with a line). At that point, the value of residential land began to escalate dramatically.

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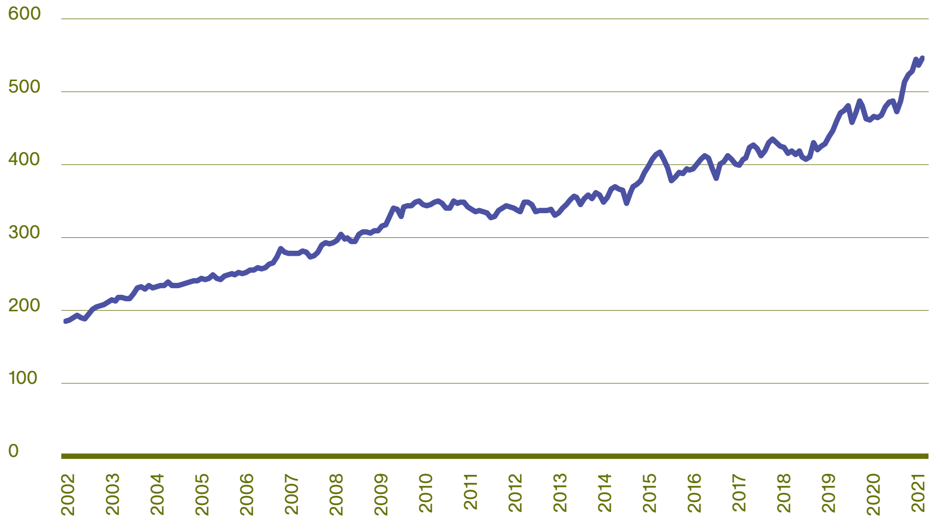
How much does a mortgage cost?

The median mortgage as of September 2021 is $574,500, an increase of around $80,000 since February. This is by far the largest rise in such a span of time on record. With interest rates at record low rates, home buyers are increasing their potential future risk by saddling themselves with principle loads which far exceed “normal” debt to income ratios.

Figure 9
Median Australian Owner Occupier Mortgage ($,000s)

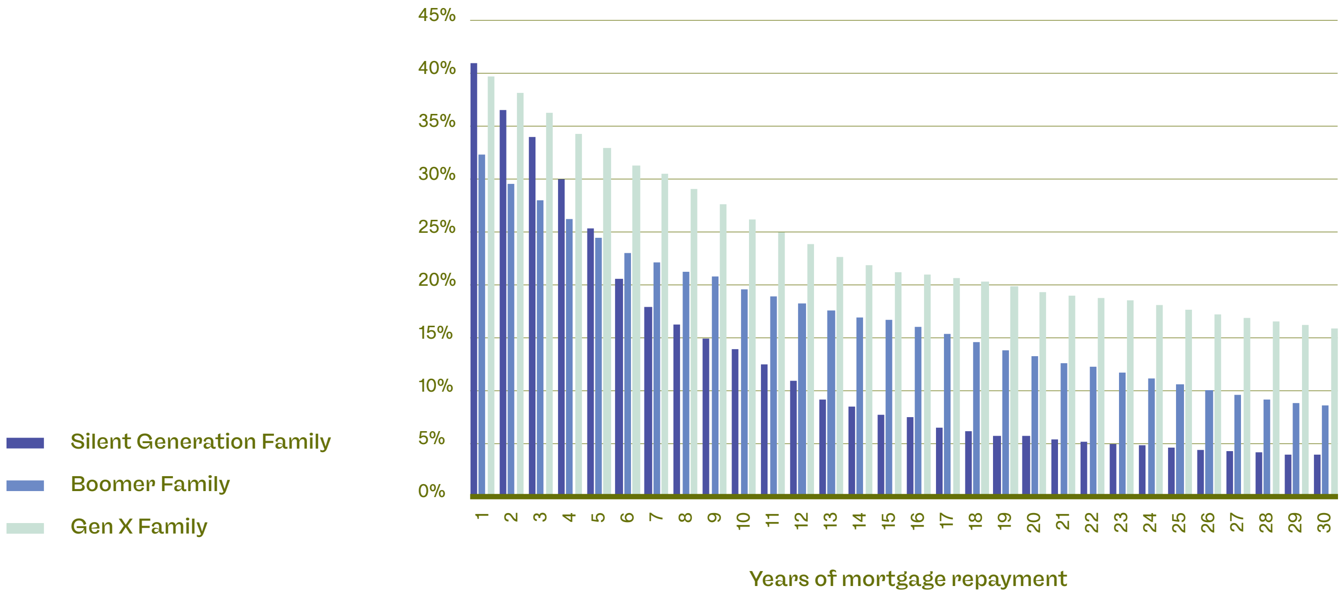


Source: ABS Lending Indicators, September 2021

Currently the cost of servicing a new 80% mortgage in Sydney is roughly the same in inflation adjusted terms as it was in 1990, when inflation was 17%: that is, monthly repayments as a proportion of household income are now comparable to those of households paying off an average mortgage in the early 1990s, when interest rates were up to five times higher than they are today. This demonstrates that there is virtually no long-term advantage to new home buyers of the current very low interest rate regime, and suggests that mortgages will become dramatically less affordable once interest rates start increasing, as they are likely to within the first half of 2022.

As we have shown in previous research,[18] the cost of housing as a proportion of an individuals’ income has been increasing over the past 50 years. Taking three generations as examples, and comparing median mortgage costs to median wages, we show that the lifetime cost of a home purchase shows a quite different picture to that provided by just comparing single year mortgage costs (see Figure 10).

Figure 10
Mortgage repayment as percentage of gross annual income



For a so-called 'Silent Generation' family buying in 1970, the average repayment cost over the course of the mortgage was 11.2% of a single earners' gross income.

For a 'Baby Boomer' family buying a home in 1985, the average repayment cost over the life of the mortgage came out at 19.5% of a single gross income.

For a 'Generation X' family though, who bought in 2000 and have approximately nine years left to go on their mortgage, we estimate they will spend 25.5% of a single income on servicing mortgage debt.

This is in large part a function of different inflation rates, and real terms wage increases over the mortgage periods: with moderate and high levels of debt the household debt of the Silent Generation family was worth around 3.7 years of median full-time male annual earnings in the first year of the mortgage, but after five years over half of the debt had been inflated away, to just 1.8 times annual earnings.

Thirty years later, the initial mortgage debt taken on by the Generation X family equated to 5.6 times annual earnings, and was still at 4.1 times after five years.

We estimate the Gen X family is paying $1425 per month on their mortgage in 2021. If they were on the same repayment trajectory as the Boomer family their monthly bill would be $910, while if they were on the Silent Generation trajectory it would be just $440 a month.

For the individual family, this is a huge loss of income - almost $1,000 a month - that would be far better directed toward education, health or day-to-day living expenses. For the nation, it represents a significant constraint on household consumption, which accounts for more than half of Australia's economic activity.

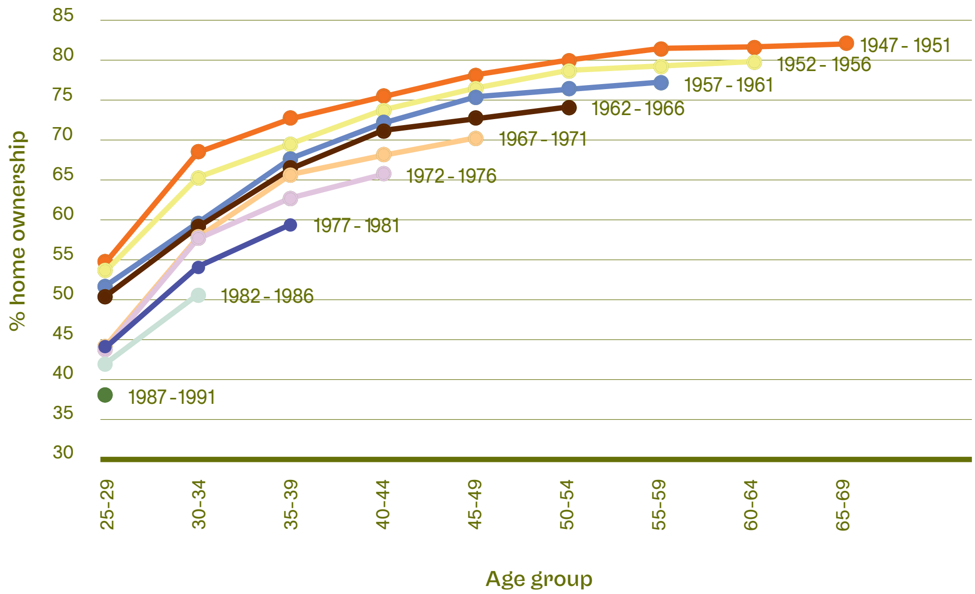
Ownership by generation

Perhaps the single most distressing and socially challenging contemporary housing issue is the decline in affordability between generations.

People born between 1947-1951 have experienced historically high levels of home ownership, from their 20s, through to their 70s. Following the 1947-51 birth cohort, there has been a decline of around 1.8-2.5% of home ownership every 5 years. For example, 37.4% of people born between 1987-1991 own a home when aged 25-29, down from 54.2% for people born between 1947-51. This trend is consistent across sub-60 age groups.

The trend in young people having lower rates of ownership is partly explained by the longer average duration of education; people aged 20-39 have an average of 14 years in education compared to 10.5 years for the over 65s.[19] However, a trend of declining outright ownership continues as cohorts age (see Figure 11).

Figure 11
Home ownership rate by birth year

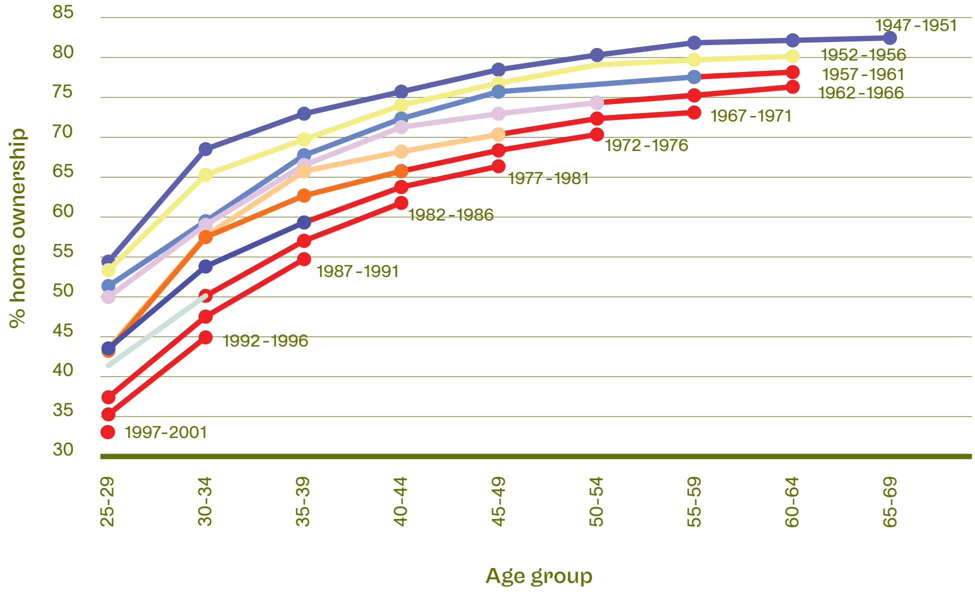


Source: (Australian Institute of Health and Welfare 2020)

Based on the current trend we can produce forecasts as to ownership rates for different age groups (see Figure 12).

It appears that the number of people entering retirement who own their home outright will fall by 5.7% from 81.3% to 75.6% over the next ten years. It is likely that this cohort will experience higher rates of mortgage stress with a higher cost of living associated with paying off the mortgage.

Figure 12
Home ownership by birth year with projections (red)



Source: (Australian Institute of Health and Welfare 2020)
Projections based on long term trend

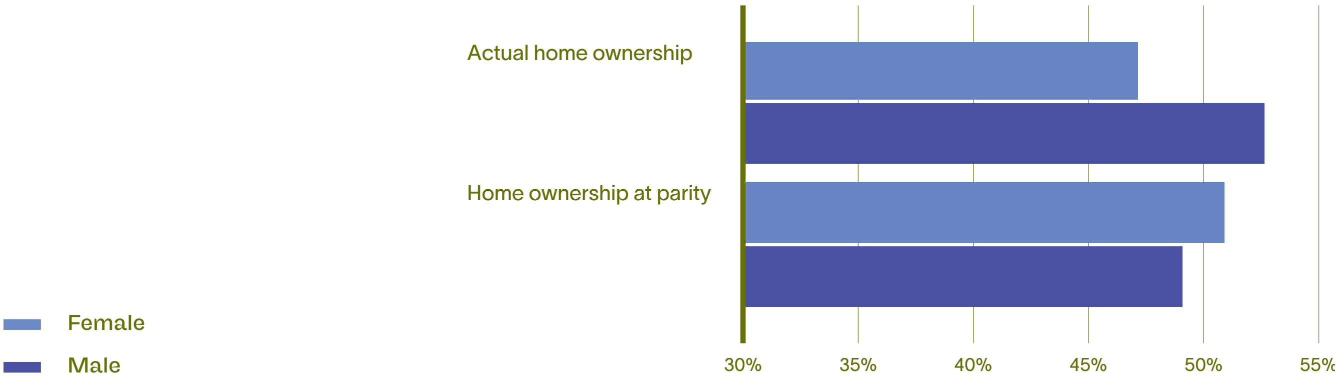
For people born between 1982 and 1991 we can expect, on current trends, to see around 55% owning a home before they are 40, 10% lower than their counterparts born between 1962 and 1971. As we have noted, because renters spend, on average, a larger proportion of their income on housing across their life-times than do homeowners, the trend toward later and lesser home ownership will lead to households spending an increasing share of their income on housing costs as they age and in retirement.

It should also be noted that the dramatic increase in house prices may reduce home ownership still further for younger cohorts, unless there are significant increases in real wages and a stabilisation or reduction in house prices, either through price stability or real terms reductions through inflation.

Further, home ownership rates are notably lower for women. In Australia, 56.5% of the 4.8 million houses are owned by a single person. Of these 2.71 million exclusively owned properties, men own 52.9%, while women own 47.1% (see Figure 13).[20]

Yet men make up 49.1% of the population, and women 50.9%, so, under conditions of perfect gender equality, women would own 50.9% of these properties, while men would own 49.1%. This means that women own over 100,000 fewer homes overall than they would in a gender-equal society.

Figure 13
Home ownership by gender



Source: author's calculations based on Core Logic 2021.

Across the country, ownership rates by gender vary significantly. The gap in Victoria is extremely small (1.6%/1.2%), while in the Norther Territory (NT), Western Australia (WA) and New South Wales (NSW) outside Sydney, the rate is far higher, up to 9.5% in regional WA (see Table 3). This may be partly explained by the highly gender segregated workforce in the mining industry.

The dramatic increase in house prices will reduce home ownership still further for younger cohorts, unless there are significant increases in real wages and a stabilisation or reduction in house prices.

Table 3
Home ownership by gender and region

Region type	Region name	% owned exclusively by women	% owned exclusively by men	ownership gap
Australia Wide	Australia	26.20%	29.90%	-3.70%
State	VIC	29.20%	30.80%	-1.60%
State	QLD	25.20%	29.00%	-3.80%
State	NSW	25.10%	29.90%	-4.80%
State	NT	24.80%	32.80%	-8.00%
State	WA	22.90%	29.60%	-6.70%
Capital City	Greater Melbourne	29.90%	31.70%	-1.80%
Capital City	Greater Sydney	26.70%	29.70%	-3.00%
Capital City	Greater Brisbane	25.60%	29.20%	-3.60%
Capital City	Greater Darwin	24.20%	33.40%	-9.20%
Capital City	Greater Perth	23.60%	29.60%	-6.00%
Rest of State	Rest of NT	27.30%	30.70%	-3.40%
Rest of State	Rest of Vic.	27.00%	28.20%	-1.20%
Rest of State	Rest of Qld	24.80%	28.80%	-4.00%
Rest of State	Rest of NSW	22.00%	30.40%	-8.40%
Rest of State	Rest of WA	19.80%	29.30%	-9.50%

Source: (Core Logic 2021)

Mortgage stress

Mortgage stress is defined as when 30% of pre-tax income goes toward servicing a mortgage for a low-income household, generally defined as those in the bottom 40% of income earners. As house prices have risen much faster and higher than wages over the past 20 years, there has been a clear rise in the number of owner occupier households in mortgage stress.

Martin North from Digital Finance Analytics (DFA) has compiled monthly household financial stress data over this period, based on extensive largescale surveys. His data reveals that mortgage stress roughly doubled between the millennium and the Global Financial Crisis (GFC), from just over ten per cent of households to around twenty per cent.

While there as a relatively benign period following the GFC, mortgage stress has increased dramatically since 2016. This was due to rising interest rates, larger mortgages, flat wages and as the cost of living increased in several key non-negotiable expenses such as childcare and fuel.

The pre-pandemic figure of 32.9% of mortgage holders in financial stress has now leapt again, up to a record 41.7% of mortgage holder households.[21]

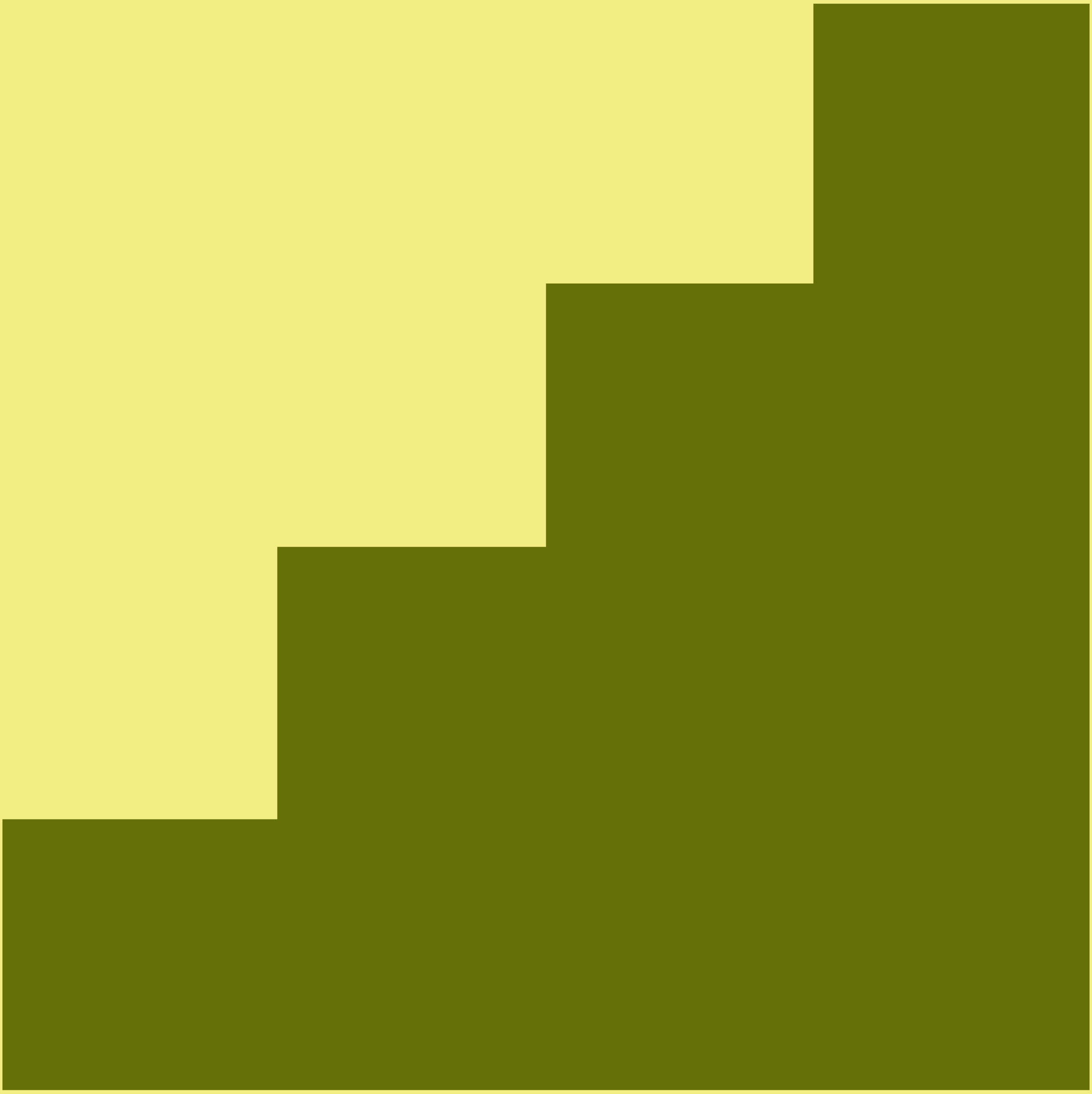
As shown in Table 4, of the top 20 areas of mortgage stress, 12 were Labor held seats and seven were Coalition held, a trend that is repeated in the areas of highest rental stress discussed below. This reflects the fact that higher income electorates tend to return Coalition Members of Parliament (MPs).

Table 4
Rates of mortgage stress by electorate

CED	State	Demographic	Party Alignment	Mortgage Stress (%)
Indi	VIC	Rural	Marginal Independent	61.44
Werriwa	NSW	Outer Metropolitan	Marginal Labor	70.72
Paterson	NSW	Provincial	Marginal Labor	64.99
Greenway	NSW	Outer Metropolitan	Marginal Labor	62.58
McEwen	VIC	Rural	Marginal Labor	59.17
La Trobe	VIC	Outer Metropolitan	Marginal Liberal	72.28
Bass	TAS	Provincial	Marginal Liberal	62.91
Macarthur	NSW	Outer Metropolitan	Safe Labor	76.49
Fowler	NSW	Outer Metropolitan	Safe Labor	70.04
Chifley	NSW	Outer Metropolitan	Safe Labor	66.76
Franklin	TAS	Outer Metropolitan	Safe Labor	66.45
Ballarat	VIC	Provincial	Safe Labor	66.28
Scullin	VIC	Outer Metropolitan	Safe Labor	65.36
Jagajaga	VIC	Inner Metropolitan	Safe Labor	61.89
Maribyrnong	VIC	Inner Metropolitan	Safe Labor	60.32
Hume	NSW	Provincial	Safe Liberal	71.60
Pearce	WA	Outer Metropolitan	Safe Liberal	63.19
Groom	QLD	Provincial	Safe Liberal	61.30
New England	NSW	Rural	Safe Nationals	68.58
Calare	NSW	Rural	Safe Nationals	62.85

Source: reproduced from Digital Finance Analytics[22]

Mortgage stress roughly doubled between the millennium and the 2008 Global Financial Crisis, from just over 10% of households to around 20%... The pre-pandemic figure of 33% of mortgage holders in financial stress has now leapt again, up to a record 42%.



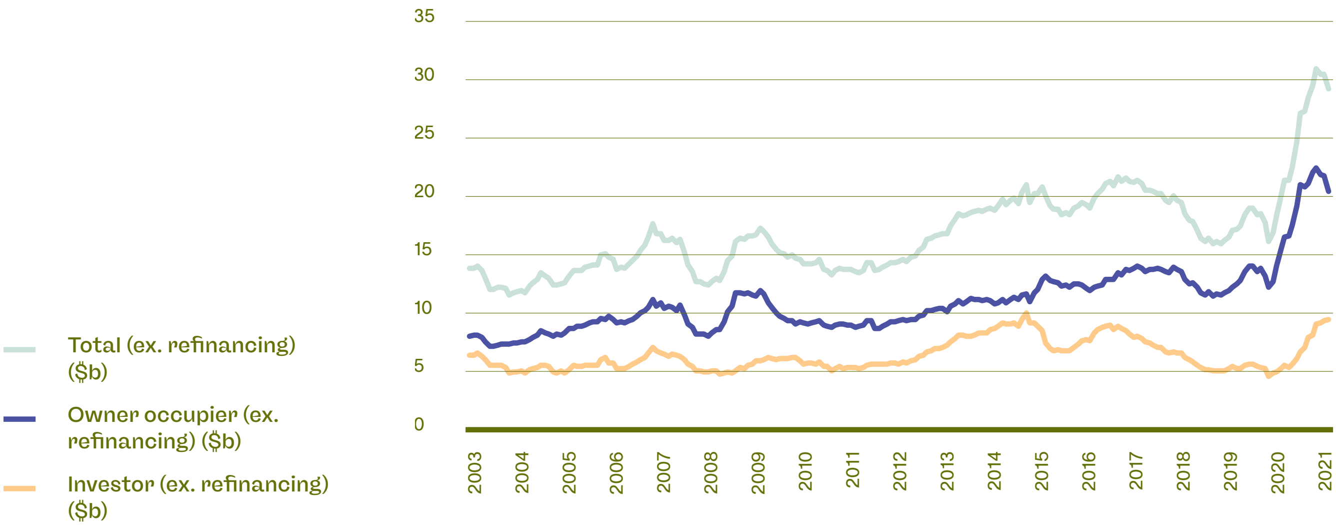
Home buying and COVID19

The past two years, during which Australia's international borders have been closed, has served as a 'natural experiment' for a number of factors in Australia's economy, not least the housing market. The result clearly shows that the housing market does not operate like a standard market. The traditional supply and demand expectations of economists did not hold out in the face of dramatically declining immigration numbers, an investor class temporarily shy of speculation due to economic uncertainty, and a labour market hit with arguably the biggest shock in the history of the country.

In the face of such indicators of falling demand, many forecasts in the early days of the pandemic pointed to a likely fall in house prices.[23] In fact, the outcome was quite the opposite: house prices have rocketed upwards since the onset of the COVID19 pandemic and associated economic recession of 2020.

Median house prices in Australia's capital cities increased by around 21% in the year up to August 2021, with regional prices increasing by over 27%.[24] New monthly loan commitments increased from around $17 billion per month when the pandemic hit Australia in February 2019, to nearly $31 billion in August 2021 (See Figure 14).

Figure 14
Monthly new loan commitments, total housing (seasonally adjusted)



Source: Australian Bureau of Statistics, Lending indicators August 2021

Meanwhile, as shown in Figure 15, the average mortgage size has increased by 33%, from $425,240 to $564,900. In the six months to September 2021 alone, the average mortgage size increased by $11,600 per month.[25]

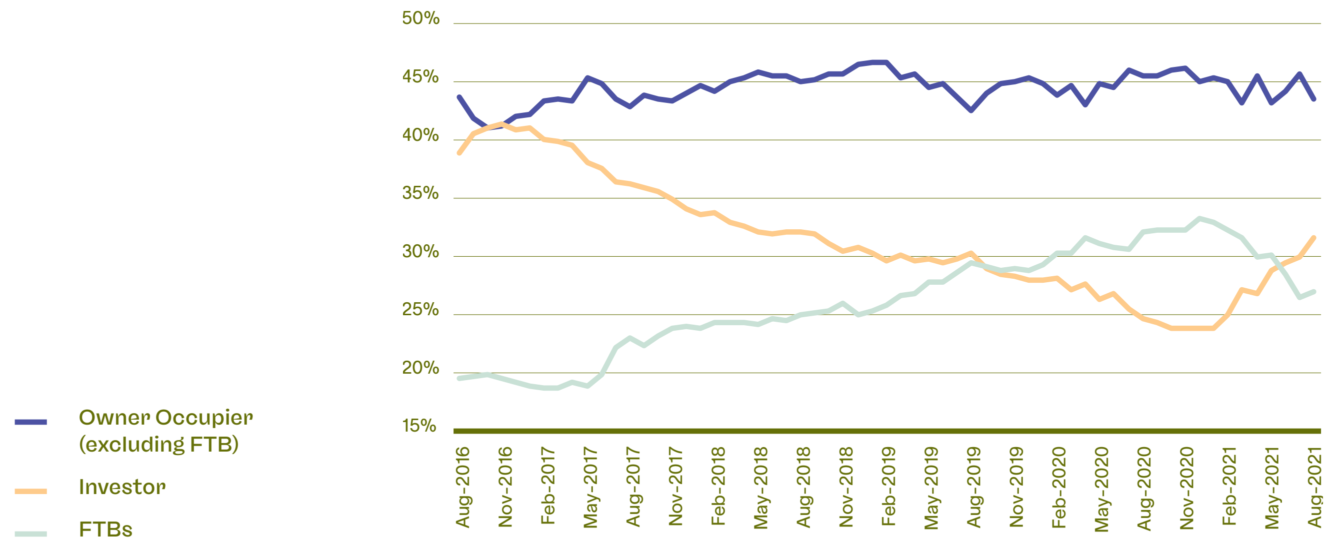
Figure 15
Increase in average mortgage size, Sept 2019 - Sept 2021

Source: Australian Bureau of Statistics, Lending indicators September 2021

This has largely been caused by record low interest rates, which encouraged an uptake in property loans by both owner-occupiers and investors. Average lending rates have dropped from 3.63% to 2.77% since February 2019,[26] although far cheaper rates are advertised.

As a result of such low borrowing costs, and the federal government's Homebuilder scheme, which provided an additional $25,000 to first home buyers building new properties between 4 June 2020 and 31 December 2020 (dropping to $15,000 from 1 January to 31 March 2021),[27] there was a brief upsurge in first time buyers in the housing market (see Figure 16). After January 2021, however, investors' share of new finance increased rapidly, from 23% to 31%, effectively reversing the brief trend in declining investor share in new housing finance.

Figure 16
New Housing Finance by type



Source: ABS 5601.0 Lending Indicators

These changes in investor borrowing are enormous. Lending to residential property investors in Victoria was $7.305 billion in the June quarter 2021, 62.7 per cent higher than in the June quarter 2020.[28]

The past two years, during which Australia's international borders have been closed, has served as a 'natural experiment' for a number of factors in Australia's economy. The result clearly shows that the housing market does not operate like a standard market.

Rental affordability

Rental tenancy has often been overlooked by policymakers and academics in Australia. Private rentals have often thought to be occupied by those in "transition", who would eventually become owner-occupiers, rather than a more permanent source of housing.

However, as we have seen in previous sections, as home ownership becomes less affordable, many households stay in private rentals for a much longer period. The proportion of private renters in Australia rose from 20 to 27 per cent between 1997-1998 and 2017-2018. This is a highly significant proportion of the population, moving some 581,000 of Australia's 8.3 million households from paying down their own mortgage to paying down the mortgage of somebody else.

Rentals in Australia tend to be very insecure, in comparison to most other equivalent countries, as we discuss in the international comparison section, with short contract lengths, few tenants' protections from eviction, short notice periods, no nationally recognised set of standards in relation to habitability, and few controls over rental increases.

Rental affordability regulation – a potted history

The determinants of rental affordability are far less apparent in Australia than in comparable countries, simply because we have had so few actual rental market interventions. It has not always been this way: for example, rent controls were ushered in by the first Menzies government during the early years of World War II. In 1941, rents were fixed at 1940 levels, and independent tribunals were tasked with administering rent variations. In 1948, the states took over, and the controls were, eventually, wound back. Arguably, there has never been a crisis on the scale of COVID19 without some sort of rent control.

For this reason, our best means of understanding what would limit rent unaffordability is to look back at our policy history and to other countries.

Historically, many private rental reforms and interventions have been legislated in response to broader crises. Early forms of assistance for renters include war-time rent and eviction reforms such as the 1915 New South Wales Fair Rents Act, which limited rents to six per cent of a property's value. Rent reductions were also legislated during the Great Depression. Small-scale rent and eviction controls applied to properties owned by private landlords during the Second World War, a time during which as many as 50 per cent of the Australian population lived in private rentals.

In the 1950s, a flat-rate rental supplement provided to elderly individuals and people living with disabilities was introduced. This supplement was the pre-curser to Commonwealth Rent Assistance (CRA), the main form of government assistance for Australian renters for more than half a century.

Tenants of public and private housing were both eligible for the initial form of Rent Assistance, a program which may have been initially introduced to avoid a general pension increase. Eligibility for Rent Assistance was adjusted in the 1980s, gradually excluding public housing tenants. The subsidy was also re-configured from being a flat rate payment to being a percentage of the gap between a minimum rent threshold and a maximum payment amount. By this time, Rent Assistance, rather than the provision of public housing, had become the preferred method of poverty alleviation for the Federal Government. The current model of CRA involves the provision of an extra payment to existing recipients of income support payments who also pay rent.

Attempts to reform Rent Assistance in 1996 and 2008 were unsuccessful. Recent reform proposals including the 2010 Henry Review and a 2017 Productivity Commission Report have found that CRA payments are too low, especially those provided to low-income tenants. Additionally, it has been argued that since CRA does not impose minimum standards for landlords renting to low income earners, it fails to address issues such as short tenure periods and poor housing quality.

Attempts have also historically been made to increase the supply of affordable rental properties for lower income earners. The 1989 Private Rental Subsidy Scheme aimed to use government funding to subsidise private renters to provide housing cost suitable for low-income tenants. This scheme was abolished in 1992 due to a failure to co-ordinate federal funding with state financial structures. The 2008 National Rent Affordability Scheme provides financial incentives to "approved participants" including property developers and not-for-profit organisations to rent out properties at 80% or less of the market value. Tenants are approved for this subsidised housing based on income testing. However, the Scheme was discontinued by the Abbott Government in 2013, and the last of the original ten year discounted leases are now coming to an end, further exacerbating the rental affordability crisis.

The COAG National Housing Affordability Agreement (NAHA) 2009 is an additional attempt by Australian Governments to address rental stress. The NAHA committed all parties to provide plans for assistance to people in the private rental market. This was to be achieved by increasing the amount of people receiving private rental subsidies. Many of the NAHA's targets were not met, with the agreement since being replaced by the National Housing and Homelessness Agreement, which aims to improve housing access 'across the spectrum', through means including tenancy reform and increased funding for social (public and community) housing.

Recent state-wide reforms have been made over the past decade. For example, the minimum term between rent increases in Victoria has been extended from 6 months to 12 months, and the right of landlords to implement no-fault evictions has been reduced, so that a tenant is assumed to have an ongoing lease after 12 months in one property, and can now only be evicted for specific reasons. Minimum housing standards have also been introduced in Queensland and Victoria over the past year.

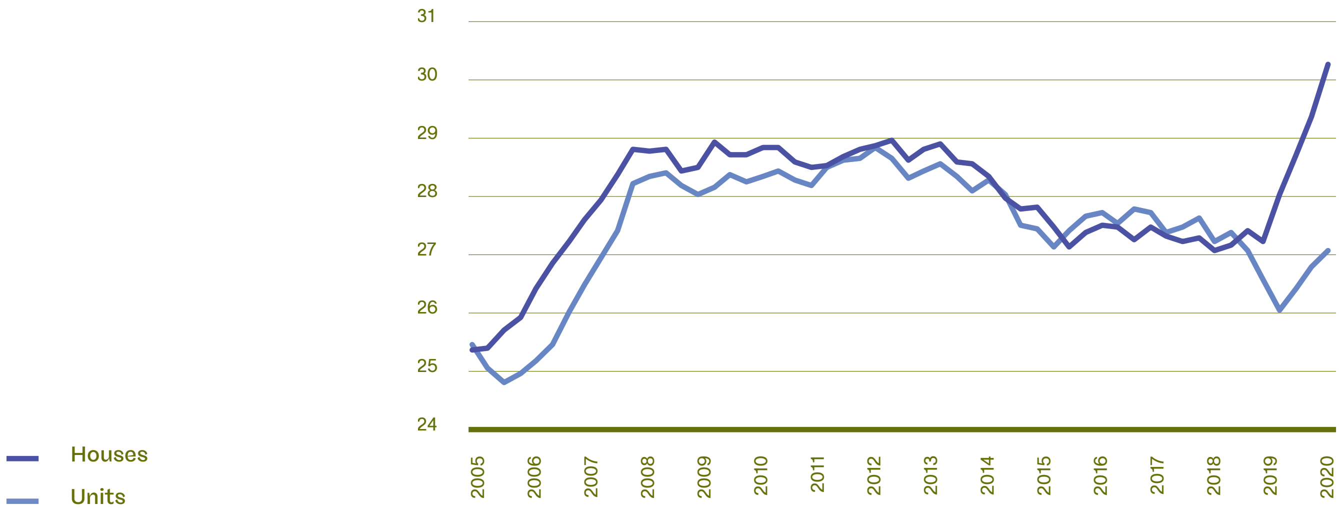
Several temporary reforms were introduced during the COVID19 pandemic in 2020. In March 2020, the Australian National Cabinet introduced a six-month eviction ban for residential and commercial properties. States and territories also enacted emergency legislation, including provisions preventing rent increases and establishing formal networks for rent negotiations.

Trends in rental affordability

As shown in Figure 17 below, there was an enormous increase in average rental costs, from 25.25% in 2005 to 28.5% in 2007, before the GFC. However, following this rapid rise, the trend stabilised at around 28.5% of median incomes between 2008 and 2013, then declined around 27.25% in 2019.

Perhaps this explains the relative lack of interest by the media and academia in rental affordability compared to home ownership, with rental trends in aggregate showing a moderate increase in affordability. As we shall show, this aggregate picture hides the rising cost of rent for particular groups of people in particular locations.

Figure 17
House and unit rental costs as a proportion of income



Source: ANZ/CoreLogic Housing Affordability Report 2021

This moderation in median rental costs came to an abrupt end in 2020, with a dramatic divergence between the price of renting a house and renting a unit as a result of the impact of COVID19.

Hundreds of thousands of international students and temporary migrant workers, who lived particularly in the central business districts and inner suburbs of Melbourne and Sydney (and to a lesser extent Brisbane), departed Australia as the virus spread, leaving thousands of apartments empty. This led to a huge increase in the supply of units, briefly bringing down rental prices to rates not seen since 2006.

However, as families adjusted to the consequences of the pandemic, particularly working and schooling from home, many households either needed or desired more space. Demand for rental houses that could accommodate families with school-aged children surged, and prices increased dramatically as a result. The cost of renting a house rose at the fastest rate on record, and to its highest rate ever of 30.5%.

The effect of COVID19 on housing has merely increased existing trends of unaffordability in many urban areas, but an extraordinary increase in rental costs has occurred across coastal and rural locations, with 'tree changers' and 'sea changers', particularly from Melbourne and Sydney, pumping up rental prices in regional Queensland, NSW and, to a lesser extent, Victoria and Tasmania.

For example, the Homes Victoria Rental Report of June 2021 shows that while metropolitan Melbourne rents declined 3% over the previous year, rents in regional Victoria went up more than 9%, as Melbournians sought to avoid lockdowns and capitalise on the greater capacity to work from home.

Table 5
Median rental changes, Melbourne and Regional Victoria

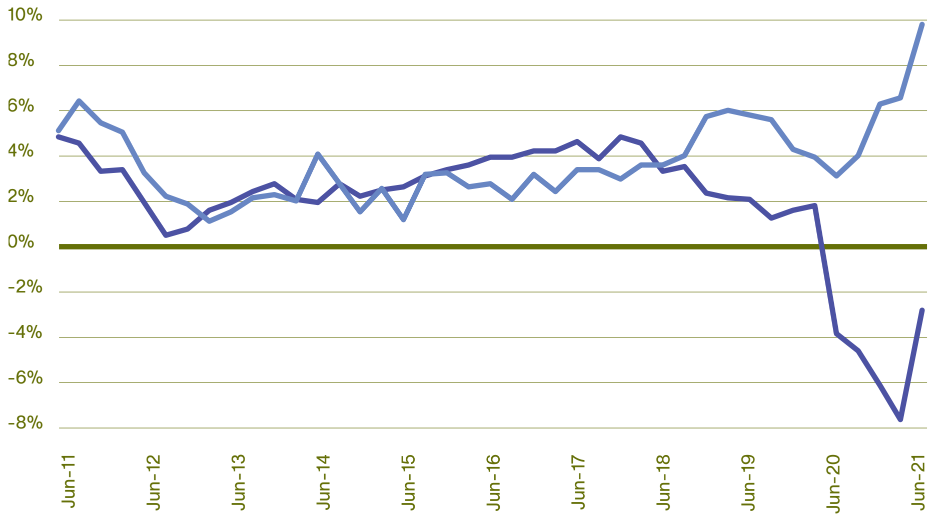
	Median Rent (per week)	Quarterly Change*	Annual Change*
Metropolitan Melbourne	$395	-0.4%	-3.0%
Regional Victoria	$360	2.4%	9.3%
Victoria	$390	0.0%	-1.3%

Source: Homes Victoria, Rental Report June Quarter 2021

The changes become even more extreme when the data is disaggregated further. Inner Melbourne experienced a 15.6% decrease in rental prices in the year to June, a full 17 points lower than the Melbourne Rent Index long term average growth rate.

Gippsland on the other hand, saw a 12.9% increase in rental prices over the year to June, 9.6% higher than the Regional Rent Index long term average. This has resulted in median rental prices for inner Melbourne being lower than those in Barwon-South West ($380 and $400) respectively (see Figure 18).

Figure 18
Victorian Metropolitan Rent Index and Regional Rent Index - annual percentage change



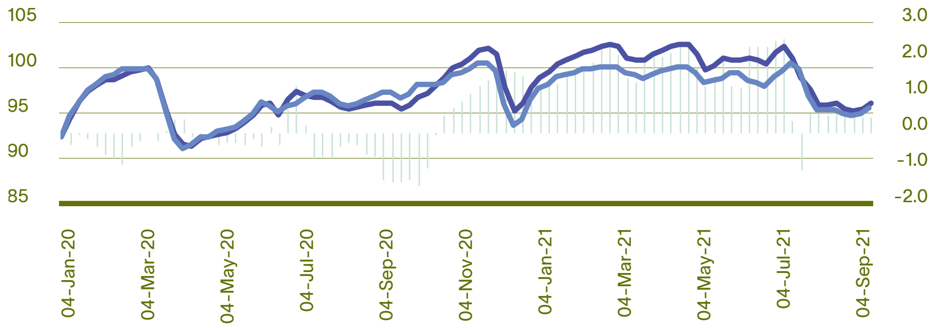
Metropolitan Rent Index (MRI)

Regional Rental Index (RRI)

Source: Homes Victoria, Rental Report June Quarter 2021

Many emigres from the capital cities enjoyed a decrease in rental costs by relocating from an inner-city rental to a regional one. However, median wages in regional Victoria are significantly lower than in Metropolitan Melbourne: a full 27% lower at the 2016 census. Added to this, regional wages have grown much less over the pandemic period, as shown in Figure 19. This means that regional renters are now competing against wealthier tenants who are commuting to their higher-paid jobs in the cities. The wages in metropolitan professional jobs also tend to rise faster than regional jobs in services, which will likely exacerbate the imbalance in housing affordability between these groups as time goes on.

Figure 19
Wage Growth, Greater Melbourne and Rest of Victoria Compared



Wage growth gap

Greater Melbourne

Rest of Victoria

Source: ABS Weekly Payroll Jobs and Wages in Australia - Payroll Jobs Indexes by Sub-state regions

The emerging rental crisis

While rent price changes were uneven during the height of the pandemic, soaring property prices began to bite the rental market in mid-2021. While rental increases in Melbourne remained relatively subdued, largely due to the much bigger impact in that city of extended lockdowns in 2020 and 2021, rents have begun to rise steeply across the rest of the country, as shown in Table 6.

Table 6
National rental cost increases, March 2021 – March 2022

		Rent	12 month increase
Sydney	Houses	766.7	17.1%
	Units	493	8.3%
Melbourne	Houses	547.1	6.5%
	Units	398.8	7.5%
Brisbane	Houses	570.8	19.5%
	Units	406.3	6.2%
Perth	Houses	575.7	13.7%
	Units	421.1	10.9%
Adelaide	Houses	494.4	15.6%
	Units	348.7	7.6%
Canberra	Houses	768.3	16.4%
	Units	553.2	11.9%
Darwin	Houses	611.1	4.7%
	Units	456.9	17.3%
Hobart	Houses	511	4.5%
	Units	433.4	8.5%
National	Houses	571	14.2%
	Units	425	8.4%
Capital City Average	Houses	627	14%
	Units	447	8.5%

Source: SQM Research Weekly Rents Index, 15 March 2022.

Both the national and capital city average increase in rental prices in the 12 months to March 2022 were around 14% for houses, and 8.5% for units. Unit prices rose most sharply in Darwin, by 17.3%, while the cost of renting a house increased the most in Brisbane, where it was up by almost one-fifth, or 19.5%

That same data, from investment research house SQM Research, found that national residential property rental vacancy rates fell to 1.2% in February 2022, a new 16-year low. SQM's managing director said the increase in rental costs and this "dramatic" tightening in vacancy rates amounted to "...a significant rental crisis across the country".[29]

Using different data and methods to Core Logic, William Thackway and Bill Randolph identify rental stress by federal electorates. Here they show that rental stress is experienced by as much as 76.5% of some electorates. They also note the areas experiencing the most rental stress are far more likely to be Labor than Coalition electorates, reflecting the fact that wealthier seats tend to return Liberal MPs.

Table 7
Top 20 rental stress areas, by federal electorate

Electorate	State	Region	Party Alignment	Rental Stress (%)
Gilmore	NSW	Rural	Marginal Labor	69.58
Greenway	NSW	Outer Metropolitan	Marginal Labor	68.55
Werriwa	NSW	Outer Metropolitan	Marginal Labor	66.35
Robertson	NSW	Provincial	Marginal Liberal	69.98
Macarthur	NSW	Outer Metropolitan	Safe Labor	76.46
Chifley	NSW	Outer Metropolitan	Safe Labor	73.64
Barton	NSW	Inner Metropolitan	Safe Labor	70.47
McMahon	NSW	Outer Metropolitan	Safe Labor	69.94
Sydney	NSW	Inner Metropolitan	Safe Labor	66.63
Grayndler	NSW	Inner Metropolitan	Safe Labor	66.50
Kingsford Smith	NSW	Inner Metropolitan	Safe Labor	66.37
Fowler	NSW	Outer Metropolitan	Safe Labor	65.93
Blaxland	NSW	Inner Metropolitan	Safe Labor	64.10
Bruce	VIC	Outer Metropolitan	Safe Labor	63.97
Mitchell	NSW	Outer Metropolitan	Safe Liberal	73.00
Hughes	NSW	Outer Metropolitan	Safe Liberal	69.76
Hume	NSW	Provincial	Safe Liberal	64.83
Bennelong	NSW	Inner Metropolitan	Safe Liberal	63.83
Page	NSW	Rural	Safe Nationals	68.66
Cowper	NSW	Provincial	Safe Nationals	66.45

Source: William Thackway and Bill Randolph, Housing, Financial Stress And Electoral Geography: An Analysis Of The Spatial Distribution Of Housing Associated Financial Stress In Australia, City Futures Research Centre, Sept 2021

The dramatic rise of rents in regional areas, as Melbournians and Sydneysiders fled their cities, shows a classic case for the need for rent moderation. The scramble to increase rents in areas such as Byron Shire, Noosa and the Surf Coast, beyond what is affordable for low income and key workers, shows how quickly social cohesion may be reduced in a short space of time.

Furthermore, the moderating influence that the decline in international migrants has had on unit rental prices will likely end in 2022, as migration returns. What we may see is that this slight reprieve in rental costs for units may just be a blip in the data, while overall rental cost follows house prices once interest rates rise.

Rental affordability across income groups

Table 8 shows rent as a proportion of income for different household types by region. The colour coding is explained in the key below.

Table 8
Rent as a proportion of income for selected household types

	Single person on Job seeker	Single Pensioner	Pensioner Couple	Single Part time earner on benefits	Student share house	Minimum wage couple	Single minimum wage	Single full time working parent	Single income couple with children	Dual income couple with children
Greater Sydney	110%	66%	48%	59%	35%	31%	34%	24%	24%	14%
Rest of NSW	63%	38%	32%	40%	25%	21%	22%	16%	16%	10%
Greater Melbourne	79%	47%	39%	49%	28%	26%	27%	22%	22%	12%
Rest of VIC	58%	35%	30%	37%	24%	19%	22%	16%	16%	10%
Greater Brisbane	92%	55%	42%	52%	28%	27%	32%	22%	22%	12%
Rest of QLD	84%	51%	38%	48%	29%	25%	27%	20%	20%	12%
Greater Adelaide	71%	43%	34%	43%	26%	22%	26%	18%	18%	10%
Rest of SA	46%	28%	23%	29%	19%	15%	16%	12%	12%	8%
Greater Perth*	110%	66%	42%	52%	27%	27%	36%	20%	20%	10%
Rest of WA*	98%	59%	37%	46%	24%	24%	29%	18%	18%	9%
Greater Hobart	79%	47%	40%	49%	31%	26%	27%	21%	21%	13%
Rest of TAS	58%	35%	30%	37%	23%	19%	20%	16%	16%	10%
ACT	113%	68%	51%	63%	37%	33%	40%	24%	24%	14%

Source: SGS Economics, 2021, Rental Affordability Index

Key

Share of income spent on rent	Relative unaffordability
60% or more	Extremely Unaffordable
38-60%	Severely unaffordable
31-38%	Unaffordable
25-30%	Moderately unaffordable
15-25%	Acceptable
15% or less	Affordable

Pecline in rental affordability. The number of low-income earners experiencing rental stress (paying 30% or more of their disposable income on rent) increased from 48% to 54% between 1994-1995 to 2017-2018.[30]

Rental affordability is particularly difficult for individuals and families relying on government income support payments. A recent survey of listed rental properties across Sydney by Anglicare Australia estimates that less than 1% of properties surveyed were affordable for individuals receiving payments such as JobSeeker, the Disability Support Pension and the Aged Pension.[31]

Rental stress has been particularly problematic in high-demand cities such as Sydney and Canberra, with fewer than 10% of homes in these cities being affordable for those in the bottom 40% of income earners. Sydney, Perth and the ACT are the least affordable areas, with single pensioners, Jobseeker recipients and part time earners also in receipt of income support most likely to experience extremely unaffordable rent.

The effect of COVID19 on housing in coastal & rural locations has been an extraordinary increase in house prices and rental costs. Regional renters are now competing against wealthier tenants and buyers, either working from home or commuting to their higher-paid jobs in the cities.

Rental quality

Table 9 shows the quality of housing across different tenure and income groups in Australia.

Table 9
Housing repair needs and ability to keep warm/cool across tenure and income groups, 2017

	Very low income	Low income	Other households
a) Have essential repair needs			
Owned outright	4%	2%	2%
Owned with a mortgage	14%	1%	3%
Being rented	4%	2%	2%
b) Have essential & urgent repair needs			
Owned outright	1%	1%	0%
Owned with a mortgage	4%	6%	2%
Being rented	11%	4%	0%
c) Have essential or essential & urgent repair needs and no repairs done in previous 12 months			
Owned outright	15%	7%	8%
Owned with a mortgage	0%	14%	25%
Being rented	28%	14%	0%
d) Not able to keep comfortably warm in winter			
Owned outright	6%	6%	3%
Owned with a mortgage	5%	9%	6%
Being rented	19%	14%	8%
e) Not able to keep comfortably cool in summer			
Owned outright	4%	3%	5%
Owned with a mortgage	8%	4%	4%
Being rented	21%	23%	8%

Source: Reproduced from Australian Housing Conditions Dataset

Note: Because of the income ranges used in the survey, very low income households are represented by those with annual household income <$40,000, and low income households are represented by those with annual household incomes between $40,000 and $60,000. Other households are those with annual income >$60,000. 'Being rented' includes private and social renters.

Australia is relatively unusual in not having a legal definition of what constitutes a decent dwelling. More than two-thirds of OECD countries have such a definition, which help protect renters from poor quality, unhealthy and dangerous rentals.

The lack of regulation of the rental sector also extends to the quality of rental accommodation. 11% of very low-income renters report having essential and urgent repair needs, while nearly a quarter of low income renters report not being able to keep comfortably cool in summer. This means that there is an element of rental unaffordability hidden in the headline rental price numbers, with many households unable to afford an adequate and acceptable home.

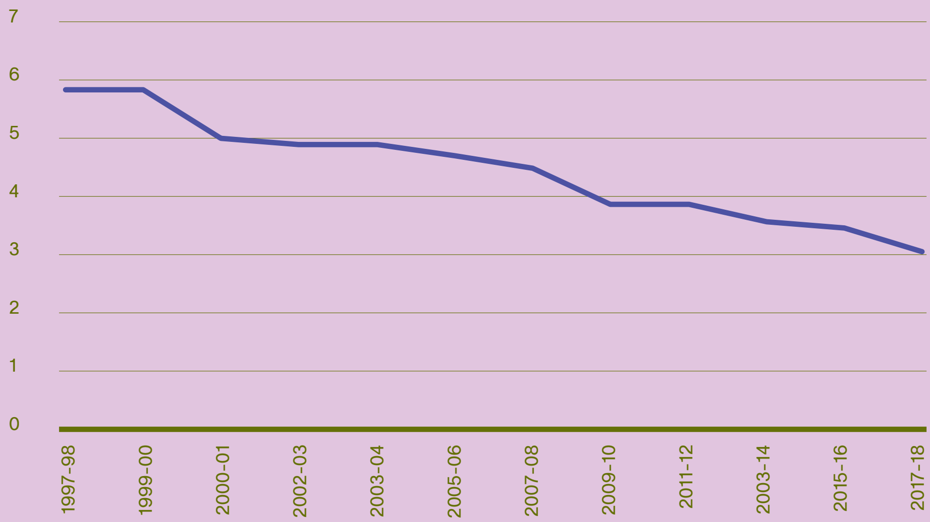
Social Housing

In Australia, social housing comprises public housing and community housing, as well as several small programs provided for Indigenous households. Public housing is provided and managed by state governments, while community housing is provided and managed by community-based organisations, usually in the not-for-profit sector. Public housing is 72% of Australia's social housing stock, but just 3.3% of total housing stock.[32]

Overall, the availability of social housing stock in Australia has been in decline since the late 20th Century. Currently the proportion is 3.1%, down from 5.8% at the turn of the century.

It hasn't always been this way. Between 1945 and 1970, new social housing properties averaged 16% of total national residential construction. But from 1996, base funding for social housing construction was cut by 24% and the rate of new social housing builds fell to 3%.

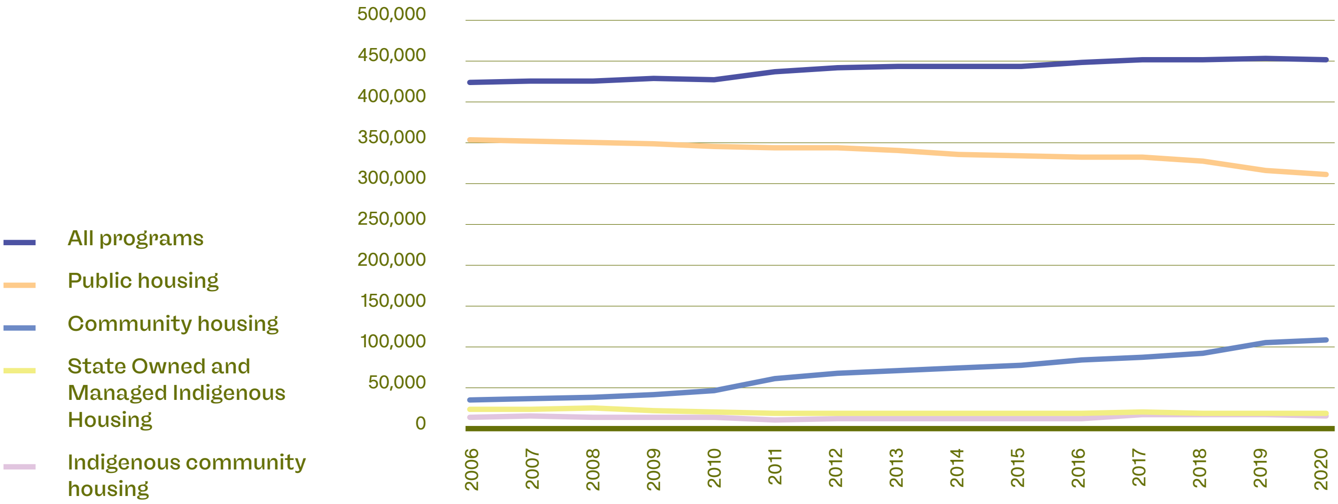
Figure 20
Social housing as a proportion of dwellings (%)



Currently there are 436,300 social housing dwellings. Over the past several decades the number of social housing properties has failed to keep up with population growth and demand. Social housing stock has grown by 4% from

1996 to 2016, compared with a 30% increase in the Australian population: that is, while the number of people living in Australia grew by almost a third over twenty years, the stock of social housing flat-lined.[33] In 2006 there were 200 social housing dwellings per 10,000 Australians; 15 years later that figure is down to 170.[34]

Figure 21
Social housing by type



Source: AIHW, Housing assistance in Australia 2020, Supplementary data tables: Social housing dwellings

The current state of Commonwealth investment in public housing has been described as a 'starvation ration'.[35] Various investment pathways have been tried and tested but have not generated sufficient housing construction, failing even to keep up with the rates of sales to private buyers and demolitions of existing properties.[36] States and territories lament the lack of Commonwealth investment, while the federal government blame the lack of supply on the opaque and ineffective way states and territories spend their funding.

Australian policy makers are not short of evidence about the need for more social housing: AHURI estimates a current shortfall of 433,000 social housing properties, projecting that, after taking population growth into account, Australia will need 727,000 new properties by 2036 to meet the existing backlog and account for newly emerging need. This equates to a need for 36,000 new dwellings per year every year for the next 20 years, 15,000 of which are needed just to maintain the status quo and prevent the existing problem getting any worse.[37] AHURI's research is backed up by the University of New South Wales's City Futures Research Centre, which estimates that Australia will need 728,600 new social housing properties by 2036.[38]

Many organisations have noted that market-based interventions in the housing market do not sufficiently address the fact that some people will always need subsidised housing. There is significant interaction between social housing and the rental market, with declining affordability of private dwellings putting additional pressure on social housing supply. As demand increases for cheaper housing among middle income earners, lower income earners are priced out of private rental markets altogether, adding to the numbers of Australians who need subsidised (social) housing.

Much of Australia's social housing stock is in disrepair, with 20% of all public housing stock in Australia being classified as 'physically unsatisfactory' by the Productivity Commission. Per Capita has outlined the numerous physical and mental harm caused by poor quality housing, particularly on those with limited mobility, in previous publications.[39]

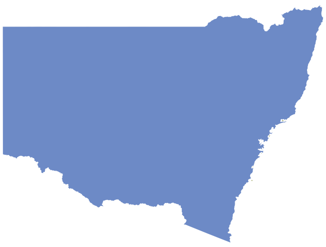
Shortfalls and waiting times

Victoria

Victoria has a shortfall of housing for around 99,264 people, with 29618 children included. Waiting times for priority applicants is 11.6 months.

NSW

NSW has a waiting list of 46,087 general applicants and 5,308 priority applicants waiting in line for social housing . Waiting times are frequently 5-10 years, or more in urban centres.



QLD

As of June 2021, there were 27,933 applications for public housing, amounting to 50,301 people. This is an increase of 6691 households in just two years. typical wait times are 28 months

Social housing stock

Australia's social housing stock is low compared to other OECD countries. For example, social housing in the UK accounts for 16% of total housing stock, nearly five times as much as Australia. This number is even greater elsewhere in Europe: for example, social housing makes up 37.7% of Austria's housing stock.

Peter Mares has argued that the government will need to increase supply of social housing by a minimum of 15,000 new units per annum in order to meet unmet demand. Mares recommends that direct public investment is the 'most efficient' method of increasing social housing stock. This investment could be paid for through tax reforms and would act as a direct rebalancing of the excessive gains provided to the top 10% of households, who disproportionately benefit from the CGT discount, reaping 73% of the total CGT discount pot.[40]

Similarly, AHURI has argued that large-scale public investment is needed in order to address the current shortfall in social housing dwellings. Modelling by AHURI estimates that approaches to social housing development which are funded by direct capital investment would be 25% less costly on average than private debt-financed models.[41]

As we have previously noted, investment in social housing would be extremely efficient compared to other forms of infrastructure investment, as housing construction involves relatively short lead times and is typically uninterrupted by supply-chain obstructions caused by events such as the COVID19 pandemic.[42] Construction of social housing is an effective stimulus measure, with significant social benefits including improved wellbeing and productivity for tenants.[43]

Alternative housing models

Shared equity arrangements would increase the social utility of social housing spending. In such arrangements, the government or a not-for-profit provider provides land on leasehold, on which homebuyers can buy or build dwellings without making a financial investment in its land, a model described as "an affordable middle ground between social housing and private shared equity".[44] Research by Cameron Murray for Prosper Australia examines cases of community shared equity arrangements, including the ACT's Land Rent Scheme, concluding that such alternate models are effective alternatives to traditional social housing schemes.[45]

Build-To-Rent

Included in the legislation giving effect to the ACT's Land Rent Scheme were a set of amendments strongly enabling Build-To-Rent (BTR) projects. The changes to reduce land tax by 50 per cent for the next 20 years for new BTR housing projects demonstrates the Territory Government's recognition of the importance of this relatively new asset class, and suggests it sees BTR as a key pillar within the ACT's housing sector.

The Victorian Government has also enacted a set of changes to land tax that will incentivise greater participation in the BTR sector, by extending the 50 per cent land tax discount while also extending the full exemption from the Absentee Owner Surcharge for up to 30 years for buildings complete and operational by the end of 2031. The Victorian legislation will also incentivise greater foreign investment in the BTR sector. Legislation enacted in Queensland also provides for surcharge land tax relief.

It must be acknowledged that the states continue to do the heavy lifting in the BTR sector, with little support from the federal government. This approach is at odds with much of Europe, where national governments have actively incentivised investor and community sector participation in the BTR segment.

In Australia, other asset classes continue to be favoured over BTR assets in terms of tax treatment.

PwC (2020) note that Community Housing Providers (CHPs)

> "...have historically played a role in holding land and providing social and affordable housing. Whilst this form of investment is a different market to the BTR investments discussed in this alert (as is NDIS housing), it can fall under the broader umbrella of 'build-to-rent housing'. Broadly speaking, CHPs have access to lower taxes and council rates, density bonuses, and even access to cheaper land through collaborations with Government, significantly lowering the cost of entry to BTR investments. There are many affordable and social housing charities in Australia that are registered as CHPs. As a result of the lower cost of entry, CHPs are a natural gateway to stimulate the growth of the BTR sector in Australia, and they can play a role in bringing together private investors into BTR."

Housing cooperatives

In many countries, housing cooperatives are longstanding and stable components of housing systems, providing a range of housing options that sit between the historically dual tenure poles of renting and owning. In others, including Australia, cooperatives represent a very small proportion of total housing stock.

Common Equity notes that there are a mere 8000 people living in housing co-operatives, but the number is rising. Such differences derive from 'institutional lock-in': that is, an apparent inability by policy makers to consider new models of housing security due to the dominance of current institutional providers in policy making, government policy favouring private ownership and private landlords, and an historical focus on home ownership rather than security of tenure.

Breaking the institutional lock-in requires strong evidence to policy makers of the benefits of cooperative housing. However, despite long-established housing cooperatives in comparable countries, cooperatives remain relatively under-researched and poorly understood in Australia.

Per Capita's previous work in this space has demonstrated clear benefits of cooperative housing, particularly for older single women at risk of housing insecurity.[46] In Australia the sector is poised for growth from a very small base.

Shared Equity

There is some overlap between some community co-operative models and some types of shared equity models, particularly those that are popular in the U.S. Shared equity models are not a significant category within the Australian housing sector.

The current state of Commonwealth investment in public housing has been described as a 'starvation ration'.

As demand increases for cheaper housing among middle income earners, lower income earners are priced out of private rental markets altogether, adding to the numbers of Australians who need social housing.

Principal drivers of housing unaffordability

Based on our broad understanding of the data, and having reviewed the arguments surrounding the drivers of housing affordability, we believe that the main causes of unaffordable housing can be divided into three categories: core, ancillary or proximate.

Core

Core drivers are those factors that are the central or key drivers of housing (un)affordability.

Ancillary factors

Ancillary factors are those that are critical contributors to the crisis, but which cannot materially address the decline in affordability without action on core drivers.

Proximate contributors

Proximate contributors are factors that are exacerbating the crisis but will not materially impact affordability until the core and ancillary contributors are addressed.

Table 10
Principal drivers of housing unaffordability in Australia

Core	Ancillary	Proximate
Capital Gains Tax Discount	Low wage growth	Failure of housing policy to gear benefit to those most disadvantaged in the market
Negative gearing / loss quarantining rules	Zoning rules and town planning	International Investment
Low interest rates	Lack of rent controls and adequate tenancy laws	
Limited alternative tenure models: Social housing stock Rent controls Co-operative models Build to Rent Deferred second mortgage	Restricted market access	

Before examining each of these drivers in turn, it is important to note that Australia's regime of property tax concessions is unusual in the international context – our CGT rates are amongst the lowest in the OECD, and those countries with similarly rates of capital gains tax do not allow largely unabated negative gearing to reduce taxable incomes.

Japan is perhaps the only other OECD country with largely unabated negative gearing and a low rate of CGT. Importantly, the Japanese government is currently reviewing its CGT regime, and there is strong indication that much like New Zealand, major reforms will be enacted in the jurisdiction (see below).

It is arguable that the combination of the CGT discount with generous negative gearing provisions that has led to such rampant speculation on property in Australia since the turn of the 21st century.

Core Drivers

Capital Gains Taxation provisions

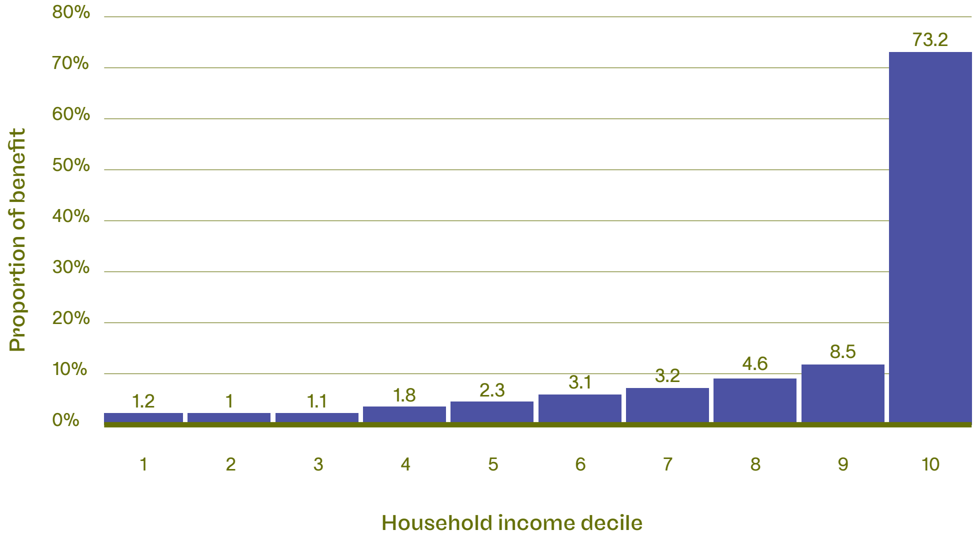
The original architects of the CGT discount envisaged the reform working very differently to the way it has developed over the last two decades. The Ralph Review, which recommended the introduction of the CGT discount, saw it as a way to 'enliven and invigorate' equity markets, encourage people to invest in shares and more broadly 'achieve a better allocation of the nation's capital resources'. It predicted that there would a revenue positive or revenue neutral effect following its enactment in 1999–2000.

The Ralph Review prediction was based on assumptions that taxpayers would increase the amount of capital gains realised following the enactment of the discount. That is, their modelling predicted the discount being utilised by productive investment, in new businesses, that would grow the tax base. However, at the time there was no empirical evidence that suggested that this would be the case. In fact, contemporary US data showed that a CGT discount did not produce an increase in tax revenues.

The most current research into the effect of CGT discount across housing and other investments estimates that there is a significant net loss to the Australian Tax Office.[47] Beyond the lost revenue, CGT discounting has produced a dual perversion, with distributional and house price effects working almost entirely to reduce housing affordability and to increase wealth inequality.

As we have shown, at the time of the CGT discount introduction, a huge amount of money flooded into the property market, pumping up house prices and land values. The effects have been almost entirely to the benefit of the wealthiest in our society. A recent estimate using 2015-16 data suggests that the CGT discount costs the federal budget around $6.2 billion a year in forgone tax revenue, with 73% of that lost revenue remaining in the pocket of the top ten percent of household income earners (see Figure 22).[48]

Figure 22
Distribution of CGT discount effects by household income

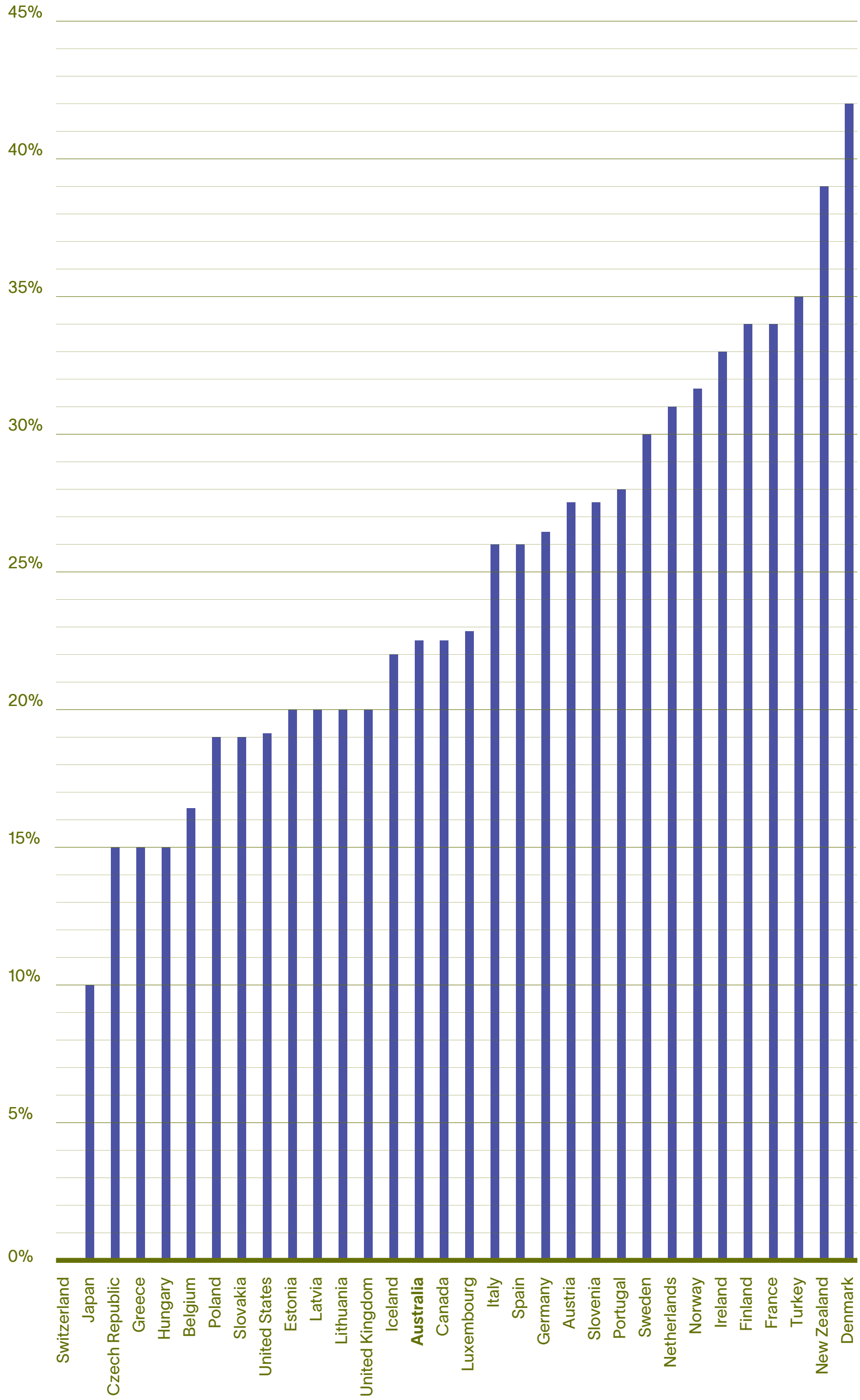


Source: NATSEM, ATO (2014) Taxation Statistics 2011-12, updated to 2014-15

How do other countries treat CGT and housing?

The majority of high-income OECD countries have enacted more comprehensive CGT regimes than the Australian model, that either apply the marginal rate of personal taxation to gains, or a flat rate of taxation well above the Australian level. Figure 23 shows the top rate of capital gains tax levied by OECD nations.

Figure 23
Top Capital Gains Tax Rates in the OECD



Source: PwC 2021, Tax Foundation 2021, Authors Research 2021

While jurisdictions such as Belgium and Switzerland have lower rates of capital gains taxation than the OECD average, they also show similar outcomes in terms of home ownership. Belgium has struggled to increase ownership levels, but has addressed subsequent falls in housing security through a significant rental subsidy program.

Switzerland has chosen to employ a Rental Taxation. Owners of property must pay tax on the property's perceived value, based on a 70% market rental rate. Individuals may deduct mortgage interest payments and maintenance costs from their taxable income. The government has also enacted a Net Worth taxation model to account for wealth differentials.

Similarly, while New Zealand does not have a comprehensive regime in place, their 'Bright line' test serves as a de-facto CGT rule. This means that individuals pay tax at their marginal tax rate if they engage in property speculation (essentially, holding a property for less than five years initially, and since 2015, due to slow market activity, for less than 10 years). The assets are CGT exempt after the five or 10 year term, depending on the year of purchase. This may be driving unaffordability in the region. While Australian assets are not CGT exempt, the modest holding term rules attaching to the CGT rule encourage and incentivise property speculation.

It must be acknowledged that a number of CEE (Central and Eastern European) economies apply modest CGT rates to investment assets such as property. Such countries observe much lower P/E multiples, and the property assets carried by the citizens of such countries were largely transferred at nominal cost, along with shares in public utilities, at the fall of the iron curtain.

Overall, the CGT benefit attaching to property actively incentivises investment in largely unproductive existing housing stocks at the expense of more productive investment opportunities.

Negative gearing

The expression 'gearing' refers to the use of leverage or borrowing to facilitate purchasing activity or finance an investment. Negative gearing is where losses made on investments can be deducted from taxable income derived from other sources.

In 1922, a tax bill of the pro-business government of Stanley Melbourne Bruce contained a provision that enabled a person to deduct all losses and outgoings from their assessable income. The focus was on business operators who might incur early losses. Investment properties were not even mentioned in the original bill.

Over the years, it has been absorbed into the tax regime, despite opposition from key Labor and Coalition leaders. Paul Keating described the arrangement as an "outrageous rort", and ended it briefly in the mid 1980s but reintroduced it after relatively little change to revenues (landlords finding other tax mechanisms to hide profits) and under pressure in the NSW state election in 1988.

John Howard also expressed a desire to remove negative gearing rules which were hitting the "renting poor of the Australian cities."

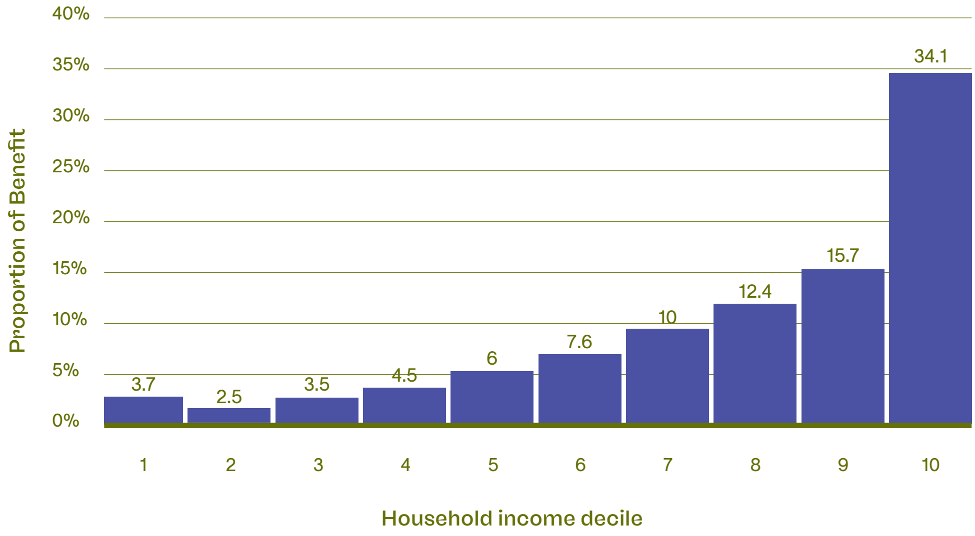
However, it was when combined with the CGT discount changes in 1999-2000 that negative gearing really took off. Whereas landlords had been "positively geared" ahead of the change, the size of losses exploded with investors moving their cash into the property market to chase capital gains that were then insulated by the negative gearing system.

As a consequence, total rent revenue collections by the ATO turned negative in 2001-02. By 2008-09 the loss amounted to nearly $11 million a year.

The Reserve Bank has consistently raised concerns over negative gearing. They have stated that "...resources and finance are being disproportionately channelled into this area [housing]". An RBA paper from 2017 found that 76 per cent of Australians would be better off by abolishing negative gearing, with more people able to buy their own home.[49]

As shown in Figure 24, the benefits of negative gearing are skewed heavily toward high income earners, particularly the very top decile of earners.

Figure 24
Distribution of negative gearing benefits by household income



Source: NATSEM, ATO (2014) Taxation Statistics 2011-12, updated to 2014-15

In all, 20.2% of the benefits of negative gearing go to the bottom 50% of earners, with the top 20% of earners taking just under half. While the distribution of negative gearing benefits is better spread across income groups than is the largesse of the CGT discount, the age distribution is fairly stark: those over 40 take 71% of the benefits, and those under 30 just 29%.[50] This effectively acts as an intergenerational transfer of wealth from young to old.

When looking at who benefits by electorate, 2014-2015 data show that the benefits are concentrated in liberal held seats, where average household incomes are higher.[51]

Table 11
Benefits of property tax concessions by federal electorate

Rank	Electorate	State	Party	Average net rental loss for those who negatively gear
1	Wentworth	NSW	Independent	-$15,685
2	Curtin	WA	Liberal	-$14,124
3	Kooyong	VIC	Liberal	-$13,242
4	Higgins	VIC	Liberal	-$12,785
5	North Sydney	NSW	Liberal	-$12,301
6	Warringah	NSW	Liberal	-$12,158
7	Bradfield	NSW	Liberal	-$12,033
8	Melbourne Ports	VIC	Labor	-$11,907
9	Brisbane	QLD	Liberal	-$11,845
10	Goldstein	VIC	Liberal	-$11,789

Source: Grudnoff, 2018, Who really benefits from negative gearing?

How do other countries treat negative gearing?

In many countries "loss quarantining" rules operate to reduce this type of impact. Loss quarantining refers to the rules pertaining to how losses are treated for tax purposes. Most jurisdictions enact strict loss quarantining rules, whereby losses made on investment properties may not be offset against income generated elsewhere.

In Australia, negative gearing is far less nuanced, and underused for social objectives, than elsewhere. When an individual generates expenses in the income generating process, these expenses are tax deductible against their income. This is non-controversial, the notion of claiming expenses in income generating processes is an a fairly staid and accepted idea.

However, in Australia, unlike many other OECD countries, expenses are not strictly quarantined. What does this mean for property investment in Australia? Essentially, income from rental properties is offset against the expenses associated with the property, but where the expenses exceed the income and the asset is essentially lossmaking, the individual may offset the loss against their ordinary income.

Most countries do not allow offsets against income from sources other than property, and even countries that do allow negative gearing do so generally with far stricter loss quarantine rules. Most countries that allow some modest form of negative gearing restrict the categories of income against which losses may be offset.

New Zealand was one of three countries, including Japan and Australia, with modest CGT provisions (in their case the minimal 'Bright Line' test that was bolstered in 2015) and very minimal restriction on loss quarantining. They have since enacted reforms making their gearing legislation more similar to that of Sweden, Germany and the UK. Australia and Japan are very much outliers by international standards with their modest loss quarantining and, as we have noted, Japan is currently considering reforms along similar lines to those recently enacted in New Zealand. Should these succeed, Australia will be alone in offering such generous tax concessions for investors in the property market.

The net welfare costs/gains of the Australian approach to property tax concessions are cumbersome to measure and entwined with other government policies. Nonetheless, it is apparent that, by design, negative gearing incentivised property speculation and has driven the financialisaton of the housing sector. Australia's laws are arguably the most generous to investors and property speculators and serve to subsidise investment in the sector as an asset class at the expense of single property owner occupiers.

These analyses should be taken with some caution noting that the laws of both gearing and CGT are nuanced with some jurisdictions taxing imputed rents, others allowing deduction of expenses on primary residences in limited circumstances. Nonetheless, notwithstanding the nuanced nature of the laws, it is apparent that the income quarantining rules enacted within Australia are the most relaxed of any jurisdiction in the world.

Low interest rates

The effect of interest rates plays a critical role on the long-term affordability of a mortgage. With moderate or high interest rates, the amount of interest paid on a mortgage increases dramatically. However, if such interest rates are in place during times of moderate or high inflation, the effect is to rapidly reduce the value of outstanding mortgage debts.

In the short term, low interest rates cause price spikes in the housing market, with investors finding it easier to attain a mortgage against their existing assets and then to outbid potential owner-occupiers. Historically low interest rates and bond market yields in recent years have played a key role in rising house prices. As mentioned earlier, the amount of investor money entering the housing market exploded in 2020, when the RBA dropped its base rate to 0.1%.

A similar pattern has emerged in a number of markets overseas over the same time frame: Canada, the US, New Zealand and European markets have seen significant price appreciation coincide with low interest rates. This driver is temporary, with rate increases anticipated within the next three to six months. These increases are expected to coincide with price declines of 10-12% in those housing markets, not sufficient to offset the significant increases of the last three years. Effectively, periods of low interest rates are acting as a ratchet in the housing market, dramatically increasing prices, which then do not return to a lower rate afterwards.

If macroeconomic conditions change, the RBA has signalled its intention to act more quickly, as has APRA. In a recent speech Assistant Governor Michelle Bullock has asserted that:

If the RBA, along with the broader Council of Financial Regulators, sees speculative activity rise more materially, or lending standards worsen, there is a strong chance we will see tighter credit controls implemented by APRA. We know from previous rounds of macroprudential policy, tighter credit conditions would likely have an immediate dampening effect on housing market conditions.

With Australia's most recent inflation figure for the last quarter of 2021 at 3.5 per cent, the RBA has indicated that interest rates will increase sooner than expected in 2022, after their steady decline over the last decade. However, the RBA has stated that it would not consider a rate change based on activity in the housing market, seeing this as a fiscal and tax issue which the government should address.

Limited alternative tenure models

In Australia, the rental market is very simplistic, with very few active policies to improve the condition of renters. There is a dearth of alternative housing solutions available within the Australian market in comparison to other OECD countries.

The absence of a build-to-rent sector or large community-led cooperatives has resulted in a highly fragmented social housing segment, and the significant use of public and subsidised housing to address housing shortages.

While state governments have announced significant recent investments in social housing as part of their economic stimulus policies following the COVID19 induced recession, such investments appear more significant than they are due to the historic underfunding of the public and community housing since 2000, and the resulting low number of social housing stocks in Australia.

While some CEE economies also evidence low social stocks, they also observe vastly higher levels of ownership due to low-cost asset transfers occurring upon independence and the fall of the iron curtain. While countries like South Korea have also only invested modestly in social housing, they have achieved significant improvements in overall ownership rates during the same term that Australia observed major declines in ownership.

Build-to-rent models

A lack of Federal Government action and policymaking has led to a very low rate of housing constructed and provided through build-to-rent housing schemes; indeed, market development in this regard is largely absent. While in Europe build-to-rent represents about one-fifth of the total commercial rental market and just over 10% of all dwellings, the Australian market is at its earliest stages. Build-to-rent and indeed social housing generally has served as a key policy tent-pole for many OECD countries, both emerging and advanced, for many decades.

For context, Housing Europe, the European Federation of Public, Cooperative & Social Housing is a network of 46 national and regional federations, gathering 43,000 housing providers in 25 countries. Together they manage around 25 million homes, about 11% of existing dwellings in Europe. This is because of the enabling policy environment and incentives provided through tax breaks and strong partnerships between the public, social and government housing sectors and the construction sector. There has been little legislation enabling build-to-rent within Australia until very recently.

Mirvac has noted that there are approximately 10,000 residences currently in the pipeline through build-to-rent schemes. The NSW government has recently enacted legislation enabling build-to-rent through the State Revenue Legislation Amendment (COVID19 Housing Response) Bill 2020. Similar attempts to spur the BTR sector in Australia have been enacted by the Victorian and Queensland governments.

At the time of the CGT discount introduction, a huge amount of money flooded into the property market, pumping up house prices and land values. The effects have been almost entirely to the benefit of the wealthiest in our society.

In 2015-2016, the CGT discount cost the federal budget an estimated $6.2 billion a year in forgone tax revenue, with 73% of that lost revenue remaining in the pocket of the top ten percent of household income earners (Fig 22).

Ancillary Drivers

Low wage growth

The absence of genuine improvements in wage rates and similarly absent incremental increases in per capita income levels have seemingly entrenched disadvantages faced by individuals without significant wealth endowments through familial or intergenerational associations.

Low-income growth is not merely a problem for Australia but, when combined with the fact that we have the second highest levels of per capita debt in the world, the implications of this concerning trend are greater here than in other countries. This has resulted in the International Monetary Fund (IMF) calling into question the debt servicing capability of Australian households in the long term and the risk this poses to the broader Australian economy.

The RBA has noted that nominal wage growth in advanced economies has been sluggish, despite tight labour markets, since the GFC. Recent evidence shows that, in most economies, low wage growth does not reflect a weaker relationship with unemployment. Instead, lower productivity growth, the difficulty of cutting wages following the GFC and a decline in labour's bargaining power help explain some of the wage sluggishness. There also appears to be a common, but yet unidentified, factor that has weighed on wages over the past two years.

A much higher percentage of the Australian population falls into the 'low wage' definition by international comparisons. An individual is defined as being on 'low wages' if they earn less than 67% of the median wage. In Australia, the percentage of the population on a low wage is approaching 20%, while in New Zealand, France and Denmark the figure is about half that amount.

This high figure is consistent with the work of Kaplan, who identifies Australia as having a very large 'wealthy hand to mouth' population with many individuals living pay cheque to pay cheque but considered asset rich because of their illiquid asset holdings, primarily in housing. Pensioners often fall into this group.

As we showed in our 2021 report, *Generation Stressed*, low wage growth increases the lifetime cost of servicing a mortgage, as household incomes do not grow sufficiently to reduce the size of the debt in proportion to that income as was the common experience for previous generations of Australian homebuyers. Further, as property prices rise and eventually spill over into increased rental costs, low wage growth means that real incomes fail to keep up with increases in the cost of living, particularly for low income households and especially those reliant on government income support, such as unemployment benefits and pensions.

The evidence points to the majority of housing affordability issues being generated by demand-side factors.

Zoning practices and land access

While we believe the evidence points to the majority of housing affordability issues being generated by demand-side factors, it is important to acknowledge supply-side considerations and their role in housing unaffordability.

Incentives to invest are a function of the yields that derive from assets and while zoning may moderate yield differentials to some extent, CGT rules, income quarantining rules and the functional use of property are the factors that most significantly influence investor and home owner incentives.

So-called urban containment measures are likely to impact land values and result in a diminution of some prices and an appreciation of others, with research supporting the conclusion that this may result in higher prices within some urban areas in particular.

Alonso (1964) has shown that land values tend to increase from the lower value agricultural zones to higher values in the more built-up urban areas close to town centres. There is little contestation of these facts herein. Absent of a policy of urban containment it is asserted that land values tend to increase more gradually as distances increase from the town/city centre. Policies of containment will undoubtedly impact the patterns of land value, plausibly increasing the value of property within the region subject to the containment policy.

However, it is imperative that we consider the basic economic dynamics that underpin this scenario. The supply side argument only holds strong weight if there is a significant dearth of available property, a significant shortfall in the number of available properties set against the demand for property. This must also account for available tranches of land with appropriate development overlays enabling residential property development.

Australia's major property markets do not evidence a dearth of land, there are not the same shortages here as evidenced in other OECD countries, and while density rules certainly differ at the city fringes, the availability of land with adequate zoning and development rules in place is such that the availability of the most critical resource in property provision, viable land, is not an issue.

Nonetheless, sound town and city planning and the most efficacious use of available tranches of land within towns and cities, and at the fringes of containment zones would improve property market outcomes. It is apparent that poor planning and containment policies may make it more challenging for developers to profitably build tranches of affordable housing due to higher land prices. Sound planning policies that find an appropriate balance between containment and development at the fringes of urban boundaries, and other in demand development zones, would promote improved access outcomes, and at containment boundaries result in a more gradual adjustment in prices.

In should be noted that Australia is somewhat of an outlier within the OECD with regard to dwelling type preferences, with a strong preference towards detached homes, rather than alternative residence types, such as townhouses and apartments. This is likely a function of the differences in land availability within the majority of other OECD countries when contrasted with land availability historically within Australia. In remains important, however, that we acknowledge this difference, and that there may be some need to consider alternative density rules and approaches within major activity centres and in proximate areas. Such changes would have some benefit, plausibly only modest in isolation on access and affordability.

These policies would not however address the underlying dynamics of the Australian market that provide significant advantages to property investors through the tax system that are not afforded to those seeking to be owner occupiers. Nor would they address the absence of viable incentivisation of the BTR sector, that is apparent at a national level, noting the positive changes occurring at a state level. Similarly, such policies would not improve the size of social housing stocks, and the dearth of social housing in comparison to comparable OECD countries.

Lack of rent controls

It is not widely known that for a large part of the 20th century, most Australian states had some form of rent control. It was first introduced in New South Wales in 1916, during the First World War, as part of the Fair Rents Act. This Act was amended in 1928 to wind back rent controls, but during the Great Depression they were reintroduced with the Reduction of Rent Act (1931). This resulted in a 23% reduction in rents and restrictions on evictions.

At the beginning of World War Two, 50% of all Australian households were tenants of private landlords. The Commonwealth, under its defence powers, introduced the National Security (Fair Rents) Regulations 1939. This gave the states the power to freeze rents and establish Fair Rent Boards. A form of rent control existed in most states across Australia and continued until August 1948, due to the dire need for accommodation following the Second World War.

The Landlord and Tenants Act 1948 maintained rent control in NSW beyond this, in order to provide security of tenure to all tenants. In 1954 however, all newly constructed buildings were exempted from the Act, and by 1956 a home could be 'decontrolled' when vacated if registered with the Fair Rent Board.

In 1960 there were still 207,000 rent-controlled dwellings in NSW, amounting to two-thirds of private rental properties. In 1968, 'wealthy tenant provisions' were introduced to bring rents up to market value, further winding back rent control. By 1974 there were only 20,000 rent-controlled tenancies in NSW and by 1986 no new protected tenancies could be created. The exception to this was 'inheritance', where if tenant died then a spouse or dependent could continue the rent-controlled lease.

A similar story played out in Victoria, where the Landlord and Tenants Act 1958 restricted the application of rent control provisions to 'prescribed premises'. In 1956 there were 180,000 protected tenants, but this was slowly whittled away.

The Residential Tenancy Act 1980 aimed to remove rent control on the remaining premises over a period of two years. It was estimated that up to 10,000 pensioners still had rent control at that stage, and this Act caused a massive increase in rents for those least able to afford it. In place of rent control, a new system was established in which a tenant could complain to the Residential Tenancy Tribunal if an increase in their rent was considered excessive. This was nowhere near as effective as proper government regulation.

Western Australia commenced the decontrol of rent in 1951. In Tasmania, rent control ended in 1955.

In Queensland, protected tenancies were abolished in 1970 and in South Australia in 1962, though some rent stabilisation strategies are used, such as the Commonwealth Rent Assistance program.

One of the common criticisms of rent control is that while it reduces rent prices in the short term, it may drive investment away from low cost housing construction. This then leads to a decrease in housing stock, driving up prices for other low income households not in the rent controlled dwellings. However, evidence is highly focussed on the US housing market which has significant differences to the Australian market.

Another criticism is that tenants do not move, even if they no longer have need of a rent controlled dwelling. This reduces availability for in-need tenants and reduces labour market efficiencies, as people don't move to find better work. This is backed up by some empirical evidence, particularly from the US.

Even if these effects were to play out in a similar way in Australia, there are schemes that governments can deploy to counter them. The current Federal and State National Rental Affordability Scheme (NRAS) seeks to address the shortage of affordable rental housing by offering financial incentives for up to ten years for landlords to rent dwellings for eligible NRAS tenants at 80 per cent or less of the market value.

Perhaps less contentious are rent moderation measures. These measures can take a number of forms, some of which are described below.

Different types of rent moderation policies

Portugal	If the parties have not agreed to rent review provisions, only annual rent reviews will be permitted and these must not exceed the annual legal coefficient published by the government each year.
Spain	Rent increases must not exceed the CPI.
Italy	The parties are free to determine the initial rent, provided that the minimum term of the lease is four years, with an automatic renewal for a further four-year period Annual increase of the rent cannot exceed the cap of 100% of the National Institute of Statistics ("ISTAT") Index variation.
Netherlands	Rental market is divided into social and private sector housing. Tenants may request the Rent Tribunal to determine if their rent is reasonable and to reclassify the property as social housing. For a contract to be valid, an index clause (i.e., an annual increase on the basis of e.g., the CPI) must be included. If the tenancy agreement does not contain an index clause, a landlord can only increase the rent by offering the tenant a new tenancy agreement including the increased rent. If the tenant rejects this offer, the landlord may request the court to terminate the agreement. The court will only do so if it deems the proposed rent increase to be reasonable.
Poland	Subject to certain exceptions, rent increases capped at 3% of the restoration value of the residential space per year.

Source: Day Jones: Mapping Out Rent Controls Across Europe, white paper 2020

Restricted market access

Limited access housing

When faced with a housing market crisis the Singaporean government enacted its now longstanding, government-led low-cost housing development scheme to provide citizens with access to affordable housing though the steady release of limited access housing. Access is based on need but nearly 80% of all residences have come from the scheme. It has been supplemented with a large first home buyers grant for new residence purchases, and a further grant for first home buyers buying existing residences.

Voucher/lottery schemes

More recently, due to the extreme prices in parts of Beijing, the Chinese Government has provided lower income families with access to a voucher/ lottery style system that permits lottery winners to purchase properties at lower than market prices. The limited research pertaining to this program suggests that it has improved access to secure housing, though there is little data evaluating plausible spill over effects.

When faced with a housing market crisis the Singaporean government enacted its now longstanding, government-led low-cost housing development scheme to provide citizens with access to affordable housing though the steady release of limited access housing. Nearly 80% of all residences have come from the scheme.

Proximate drivers

Lack of housing policy targeted at low-income households.

Policy targeted directly at affordable homeownership for low-income households is less common in Australia than in comparable jurisdictions. Current policy is more likely to support lower-income households through demand-side initiatives such as Commonwealth Rental Assistance, although there are here are several current exceptions, largely funded and administered at a state level.

One is a program that supports public housing tenants to purchase their own home. The others are two new shared equity schemes; Buy Assist, delivered by the National Affordable Housing Consortium and Homes Vic, managed by the Victorian Government. Both initiatives are small-scale, designed to support low to moderate income households to enter homeownership.

There are currently no consistent mechanisms designed to support developers to offer affordable homeownership options for social housing tenants or low-income households. To date, interest from the private sector has remained cautious and there has been limited appetite for innovation.[52]

Shared equity schemes and build-to-rent modes are commonplace within Europe where they have improved access to housing substantially. Australia's rental market differs markedly and is dominated by individual landlords. As noted, there remains only modest use of shared equity models, largely in WA Victoria, and little by way of social housing stock. This is perplexing given the success of such approaches abroad.

Similarly, there has been little by way of build-to-rent, notwithstanding initiatives facilitated through Defence Housing Australia. The Barnett Model, a deferred second mortgage model, has also been highly successful in Victoria, albeit on a small scale. Recently several former members of the Grocon management group have signalled an intention to enter into the build-to-rent category as a for-profit provider. There have been promising pilot programs employing deferred mortgage models.

Housing regulation: where do the responsibilities lie?

Housing affordability regulation is spread across a number of authorities. The division of responsibilities between the Commonwealth and the States and Territories, and the degree of overlap in these responsibilities, was set out in the Reform of the Federation White Paper issues paper on housing and homelessness, from which Table 12 is reproduced.

Table 12
Summary of Commonwealth and Sate and Territory roles and overlaps

Area	State and Territory Role	Commonwealth Role	Overlaps
	Shared lead	Shared lead	High
Policy	Oversee policies that directly affect the housing market (land release, zone, land taxes). Social housing and homelessness policies.	Oversees policies that indirectly affect the housing market (migration, tax settings, financial services regulation). Commonwealth Rent Assistance (CRA) policy. Influences national social housing, homelessness and Indigenous housing policy.	Both levels of government share responsibility for policy to address housing affordability pressures.
	Shared lead	Shared lead	High
Funding	Fund social housing and specialist homelessness services. Fund grants and concessions for first-home buyers.	Provides funding to States and Territories for social housing and homelessness services. Funds the National Rental Affordability Scheme (NRAS). Funds CRA. Funds Commonwealth homelessness programs.	Both levels of government jointly and separately fund housing assistance and homelessness programs.
	Lead	Secondary	Low
Delivery	Oversee delivery of housing and homelessness services (often provided by non-government organisations).	Typically not involved in delivery of housing services. Delivers CRA payments to individuals. Limited direct involvement in homelessness services.	Limited overlap in delivery of individual programs.
	Lead	Secondary	Low
Regulation	Regulate housing (community housing tenancy management, planning, land release and zoning). Local governments also regulate residential planning and construction.	Regulates NRAS.	Little regulatory overlap.

Source: Reproduced from Reform of the Federation White Paper, Issues Paper No. 2, Roles and Responsibilities in Housing and Homelessness (December 2014), p. 12.

Key

Who leads
Lead
Secondary
Shared lead

Level of overlap
High
Medium
Low

Interest rates

At the broadest level, the RBA controls interest rates which, as we have seen particularly in the past few years, have an enormous impact on house prices. However, the RBA is not directly responsible for house price controls, despite the significant influence of interest rates on the market.[53] House prices are not mentioned in the Reserve Bank Act 1959 (the Act), which clearly sets out the obligations of the RBA in relation to monetary policy, as set out in Sections 10 (2) and 11 (1) of the Act.

Section 10(2) of the Act, which is regarded as the RBA's 'charter', list the following responsibilities:

a) the stability of the currency of Australia;

b) the maintenance of full employment in Australia; and

c) the economic prosperity and welfare of the people of Australia.[54]

Even if house prices were a direct responsibility of the RBA, interest rate policy is a very blunt tool with which to manage house prices: interest rate changes also affect many areas of the economy, such as borrowing by companies for investment, returns on superannuation investments to fund retirement incomes and unemployment rates.

Mortgage and banking regulation

At the market end of mortgage regulation, prudential responsibility is held by the Australian Prudential Regulation Authority (APRA). APRA is an independent statutory authority, providing the banking, insurance and superannuation industries with regulation and supervision.

Prudential regulations in the mortgage market include policies over mortgage lending requirements, such as the loan to value ratio, and deposit rates. this means that they have direct control over some policies which affect house price changes.

For example, in October 2021, APRA advised mortgage lenders that they would have to increase their mortgage serviceability buffer that is used to test borrowers' capacity to repay.[55] They increased the buffer to at least 3.0 percentage points over the loan interest rate, so as to minimise the exposure of mortgagees, should interest rates increase rapidly.

Tenancy regulation

The regulation of the rental market is carried out by the states. This means there are eight different codes for renters, with significantly different outcomes for renters. Tenants without a fixed term contract may be asked to leave with just 14 days' notice in Tasmania, the NT and Queensland, but have 28 days in Victoria.

Access for other reasons, such as routine inspections, the required prior notice that needs to be issued to a tenant ranges between 24 hours and 14 days.

While states such as Victoria and Tasmania are introducing new heating requirements to their rental laws, none of the eight states and territories has any legal requirement for a sufficiently cooled apartment.

Land zoning and home building regulations

The states and territories maintain control over more granular areas of policy surrounding planning law. Planning schemes set out policies and provisions for the use, development and protection of land for each municipality.

Within each state-wide set of planning laws, each council has a local planning scheme that describes which types of activities or developments may occur in different areas of the municipality. Many activities require planning permits, which are usually issued by the council.

Social housing and housing affordability regulations

Both state and federal levels of government provide direct housing assistance and homelessness services to help people unable to access and maintain appropriate housing in the private market.

Commonwealth Rent Assistance

The Federal government spends around $5.5 billion in Commonwealth Rent Assistance, and manages it through the Department of Social Services.

However, the rate of increase in CRA payments has not kept up with increases in rent prices: in 2021, the CRA increased $1 a week, despite the nation's median rent increasing by $24 a week since the start of 2021.[56] This has led to an estimate 29% of CRA recipients remaining in rental stress.[57] Recent calls for increases in the CRA vary from 15% by the Productivity Commission,[58] to 40% by the Grattan Institute.[59]

Social housing

Social housing is owned and managed by the states, but funding comes from both states and the federal governments. The 2018 National Housing and Homelessness Agreement, for example, provides around $1.6 billion in Commonwealth money to the states and territories to subsidise social housing, affordable housing and homelessness services.[60]

Shared equity schemes and build-to-rent modes are commonplace within Europe where they have improved access to housing substantially.

Australia's rental market differs markedly and is dominated by individual landlords. There remains only modest use of shared equity models. This is perplexing given the success of such approaches abroad.

The current debate about housing affordability

Broadly speaking the key drivers of house prices are broken down into supply side and demand side variables. Supply side covers the issues which inhibit or promote the building of new housing stock, and the building of appropriate housing stock. Demand side factors are those which increase or decrease the number of people looking to purchase houses, either as a home or as an investment. We will deal with each of these sides in turn.

The effect of COVID19 on migration, interest rates, wages and unique demand factors such as the possibility of working from home, has operated as a natural social experiment, against which these factors can be assessed for impact.

What follows is an overview of the current dominant narratives that inform the debate about housing affordability in Australia. We have grouped these under those that argue for 'supply side' solutions, and those who prefer to tackle the problem from the side of demand.

Supply-side arguments

Many housing experts from across the political spectrum point to housing supply as a major factor impacting housing affordability. In the Grattan Institute's submission to the Standing Committee on Tax and Revenue's Inquiry into Housing Affordability and Supply In Australia, the authors argue that new houses have not been built at a fast enough rate to meet the needs of Australia's population.[61] The submission references prior research by the Institute which found that all states and territories except the ACT had less housing per adult in 2016 than in 2011.[62] The authors have also estimated that people are currently living in larger households than they would prefer, given that, since the 1990s, household sizes have failed to follow a trend towards smaller households which began in the second half of the 20th century.[63] Restrictive planning laws and stamp duty taxes have been identified as factors limiting housing supply. Undersupply of social housing has also been identified by various experts.[64]

Related to the supply argument, many housing experts point to restrictive planning rules, which, they argue, prevent new developments. For example, in a 2018 Reserve Bank Discussion Paper, Ross Kendall and Peter Tulip argue that zoning restrictions have raised prices by up to 69% in Melbourne and 73% in Sydney by restricting housing density and supply.[65] The Grattan

Institute argues that 'restrictive planning rules' are the primary driver of housing shortages, rather than market forces.[66] This argument is elaborated on in previous work published by the Institute. Daley et. al (2018) argued that planning restrictions, particularly in middle and outer suburbs, limit housing density and therefore increase demand for housing in these suburbs, inflating both house prices and rents. Many suburbs enforce height limits and a 'minimum garden area requirement' restricting the development of apartments, townhouses and units despite consumer demand for these types of dwellings.[67] This, they argue, forces many new home buyers to the city fringe despite their initial housing preferences.[68]

Deloitte Access Economics have proposed incentivising local governments to improve housing stock. For example, Commonwealth or State Governments could directly reward local governments for improving planning regulations using existing local government funding frameworks.[69] Similarly, Daley, Coates and Wiltshire propose the establishment of a new agency to monitor states' and councils' progress on housing development, with potential incentive payments to support zoning and planning reform.[70]

The Grattan Institute also proposes that states set enforceable housing targets for local councils. The Institute suggests that previous targets have been unsuccessful due to insufficient mechanisms for enforcement. Possible enforcement mechanisms proposed by the Institute include the creation of extra powers for the states to take over authority for a larger share of development approvals should councils fail to reach targets. This could be accompanied by further incentive-based mechanisms, including 'bonuses' for meeting targets.[71]

Conversely, many economists argue that supply side determinants of house price increases are far less impactful. While the supply of specific housing types (particularly social housing) may indeed be short, the overall housing stock in Australia remains above the number of households. The 2016 census found that there were 12% more dwellings than households, up from 10% more in 2001. This means that 12% of houses are empty – used as holiday homes, waiting for tenants or being used as an investment vehicle.[72]

Dr Cameron Murray strongly criticises arguments which attribute housing unaffordability to low housing supply and planning restrictions. Murray demonstrates that new housing supply exceeded demand in the majority of quarters between 1996 and 2018. He therefore argues that a "slow planning system" cannot be blamed for periods of housing undersupply when it has also produced periods of rapid growth in housing stock.[73] Murray also notes that planning approvals have exceeded construction completion levels throughout most of the previous two decades, a trend which he proposes disproves arguments that relaxed planning laws would increase new housing stock.[74]

Similarly, Gurran & Phibbs (2014) argue that macroeconomic trends influencing housing supply have often been ignored in favour of concerns relating to planning restrictions.[75] They suggest that "perpetual administrative change" aimed at improving planning regulations distract from proven methods of improving housing affordability.[76] This reduces pressure to reform policies which benefit investors and developers while harming overall housing affordability.[77]

Philips and Joseph bolster these arguments, presenting strong statistical evidence that Australia has experienced adequate housing supply to keep up with population growth and demographic changes, albeit with regional variation. In fact, their research suggests that if anything, Australia has experienced an oversupply of houses over the past decade or more.[78]

This would suggest that house prices increases are far less linked to supply side arguments than is common in the general discourse.

Finally, both Murray and Rachel Ong argue that trends in rental prices, rather than house prices, should be used to measure housing supply. Ong states that rents better reflect the adequacy of housing supply relative to demand, as they reflect the costs of consuming housing, rather than the costs of property as an asset. Rents will rise if supply of dwellings is diminished, however, this has not happened at a rate comparable to extreme rises in house prices. This indicates that broader, structural issues are greater contributors to low housing affordability.[1][2]

This argument has effectively been borne out by the recent empirical experience in Australia, where house prices have risen dramatically, while rents, in the main have remained stable.

Demand side arguments

As the recent experience of rapid house price rises seems to show, demand-side pressures seem to play a greater role in increasing house prices.[79] Prosper Australia go so far as to say that the discourse surrounding housing affordability and supply "[scapegoats] planning systems and state taxes" rather than focusing on distributional issues arising from the use of housing as a profit-creating asset.[80] Similarly, Phibbs & Gurran (2018) recommend examining and addressing the factors and "players" driving high housing demand and inflating housing prices to levels which are unattainable for much of the population.[81]

Four often-cited demand-side drivers of the housing affordability crisis are low interest rates, population growth, the system of negative gearing, and the provision of capital gains tax discounts to housing investors. We look at each of these in turn.

Interest Rates and Borrowing

Interest rates strongly influence housing demand and affordability. Interest rates are currently at a historic low of 0.1%, significantly lower than the average rate of 3.98% between 1990 and 2020.[82] Low interest rates increase the ease at which borrowers can repay mortgage payments. This encourages prospective home buyers to borrow larger sums of money, encouraging further property speculation and placing upward pressure on house prices.[83] Former Reserve Bank of Australia (RBA) economists Peter Tulip and Trent Saunders have found that low interest rates have explained much of the recent growth in house prices, which has occurred as a result of interest rate cuts commencing in 2011.[84]

The RBA has also attributed interest rate rises to a high level of household indebtedness over the previous decades.[85] AHURI notes that a rise in household debt may expose households to 'significant losses' should interest rates rise in the future, leading to broader macroeconomic shocks.[86] This decreased household resilience has led APRA to announce changes to lending standards in order to reduce risk associated with lending at low interest rates. Banks must now be able to demonstrate that borrowers would be able to afford their loans should interest rates increase to 3 per cent.[87] APRA has stated that this change will primarily affect investors, as they are more likely to borrow at higher levels of leverage as well as possess existing debts. However, other initial analysis from economists including Saul Eslake has predicted that higher interest rates will also affect recent first-home buyers on the margins of home ownership.[88]

Population Growth

The influence of population growth on housing demand is strong, but often oversimplified. The National Housing Finance and Investment Corporation has stated that Australia's growing population, largely driven by overseas migration, is the most significant influence on housing demand in the longer term.[89]

Peter Tulip, formerly of RBA and now Chief Economist at the Centre for Independent Studies, strongly argues this viewpoint in a submission to the House of Representatives Standing Committee on Tax and Revenue. Tulip argues that a quick uptake in immigration intake in the mid- 2000s resulted in large increases in demand for housing, as shown by historically low rental vacancies by 2008. Tulip's modelling estimates that rents have risen 9% higher than a counterfactual scenario where population growth remains stable.[90] Tulip has also identified a lack of co-ordination between immigration policy, managed by the federal government, and the provision of housing and infrastructure, largely managed and funded by state governments.

Research by the Grattan Institute predicts that reducing net overseas migration by 30,000 people per year would lower house prices by 3 to 4 per cent by the end of this decade.[91]

However, these arguments are overly simplistic: supply and demand does not operate within the housing market as it does in the market for consumer goods, and cannot be reduced to a debate between competing economic theories.[92] The recent natural experiment whereby hundreds of thousands fewer migrants coincided with the largest house price boom in Australian history has exposed the fallacy of such appealing but simplistic theories.

The COVID19 pandemic has exposed flaws within narratives centred on population growth as a consistent driver of housing demand. The past year has seen annual population growth at less than one-tenth of pre-pandemic levels, with net migration dropping from 248,000 in the year to December 2019, to less than 3,000 in December 2020[93] At the same time, house prices have risen at their fastest ever level, by 22% on average in the state capitals over the year to August 2021.[94]

Sydney University's Nicole Gurran and Peter Phibbs argue that this phenomenon is an important reminder that the housing market does not operate under simplistic rules of supply and demand.[95]

Stamp Duty

Many experts highlight the role of stamp duty in limiting affordability and reducing the efficiency with which housing stock is used. Economists Gavin Wood, Rachel Ong and Ian Winter argue that stamp duty, paid by purchasers of property at the time of sale, dis-incentivises residential mobility, particularly downsizing, by creating additional costs which deter potential owner-occupiers from buying new homes.[96] This leads to an inefficient allocation of housing resources, whereby owner-occupiers live in houses too large for their needs, yet lack financial incentives to move into more suitable housing.[97] Aside from impacts on supply and efficient utilisation, Peter Mares also notes that stamp duty can act as a barrier to market entry, as it is levied at the point of purchase, when buyers are already required to pay large sums of money.[98]

A 2020 Productivity Commission report has recommended that stamp duty be gradually phased out and replaced with a broad-based land tax.[99] Transition to land tax is supported by various other experts, including, Yogi Vidyattama and John Hawkins from The National Centre for Social and Economic Modelling.[100]

Similarly, Peter Mares has recommended that the Government replace stamp duty with a progressive, broad-based property tax, with a transition facilitated by the Commonwealth through a national agreement with the states. 2012 research published by AHURI also advocates for the replacement of stamp duty with land tax, noting the need for a transitional arrangement to ensure that homeowners who have already paid stamp duty are exempted from paying land tax on the same property.[101]

Land Taxes do not impose the same ‘penalties' for relocating as stamp duty does, increasing mobility across the country by encouraging people to move house for new opportunities.[102] Additionally, a transition to a broad-based land tax would decrease upfront costs of purchasing housing, benefiting those who currently cannot afford to enter the housing market.[103]

Th Australian Capital Territory has begun a 20-year process of phasing out stamp duty, introducing higher rates and progressive property taxes for owners of commercial and residential property.[104] Modelling by the Tax and Transfer Policy Institute and the National Centre for Social and Economic Modelling estimated that the ACT's gradual transition away from stamp duty would allow an additional 2,300 ACT residents to afford a home, with a particularly large increase in home ownership amongst the second-lowest quintile. However, it should be noted that within this modelling the lowest quintile did not substantially benefit from these changes.[105]

Negative Gearing

Introduced in 1985, Australia's negative gearing provisions, which permit the deduction of losses from rental properties on other sources of tax accessible income[106] are an often-cited driver of housing unaffordability. The Australian Council of Social Service has argued that while negative gearing may not have necessarily triggered recent house price booms, it accentuates the affordability crisis by encouraging investors to speculate on rising prices, further increasing housing demand.

Similar views are held by many prominent experts and commentators, including Cameron Murray[107] and Prosper Australia,[108] both of whom state that these tax arrangements inflate house prices and skew markets in favour of investors. 2016 research by Ben Phillips also found that negative gearing benefited higher income earners, with over half of tax savings going towards the top 20% of all earners.[109] As we have seen in Figure 21, this estimate is supported by data from the Australian Taxation Office.

While many experts recommend a level of reform of current negative gearing allowances, a variety of viewpoints exist regarding the extent and form of these reforms. Peter Mares has recommended removing negative gearing for all properties other than new builds. Mares argues that this would decrease pressure on the housing market while ensuring housing supply is not diminished.[110] A similar viewpoint is expressed by The Australian Institute of Company Directors, who argue that investment in ‘unproductive assets' such as existing residential property should not be encouraged by the taxation system, instead recommending that negative gearing only apply to assets which improve productivity.[111]

The Grattan Institute has recommended that negative gearing be limited, with investment losses being quarantined so they can only be written off against income from other investments, rather than income from wages and salaries. These changes would apply to all investments, rather than solely property investments, to discourage investors favouring other forms of investment to continue accessing these tax benefits.[112] Similarly, Cameron Murray supports the quarantining of negative gearing losses to residential property investment income sources in order to "level the playing field" between high income earners and other seeking to enter the property market.[113]

A 2018 report published by AHURI has proposed a progressive model of reform, whereby smaller investors are able to access more generous tax concessions than more established, higher income investors. AHURI favours this method over complete abolition of negative gearing which is believed to negatively impact smaller investors in the lower half of income distributions, possibly leading these investors to exit the property market.[114]

Current negative gearing allowances have been defended by Deloitte Access Economics, who argue that tax deduction of expenses is "standard practice" within the Australian Tax system, and that rises in house prices are more strongly associated with other factors including low interest rates and the capital gains tax discount.[115]

Additionally, Economist Gene Tunny has argued that the ability to deduct rental investment losses lowers rents by increasing returns to investors.[116] This argument has been addressed by ANU Associate Professor Ben Phillips, who argues that increases in rental prices caused by a reduction or removal of negative gearing would be partially offset by former renters transitioning into the housing market as a result of decreased house prices.[117]

Capital Gains Tax

Certain experts also highlight the role of CGT discounts and exemptions for homeowners as contributing to low housing affordability. Australian owner-occupiers receive a full exemption from CGT when they sell their family home, while sellers of investment properties are able to exclude 50% of capital gains from their income taxes.[118] CGT discounts have been linked to high house prices, with the rebate's introduction in 1999 being identified as a contributing factor to the pre-GFC housing boom in multiple papers.[119,120]

The Grattan Institute and Australia Institute criticize CGT discounts for creating market distortions by incentivizing property investment over other forms of investment, such as bank income, which do not receive discounts on taxation.[121] This inflates demand for investment property with flow-on effects on housing affordability.[122] Reporting published by AHURI has argued that Capital Gains Tax reductions increase demand for property by permitting speculators to turn over properties and "chase capital gains" with less concern for taxation at the point of sale.[123]

In a 2015 report commissioned for Prosper Australia, Catherine Cashmore notes that the CGT discount encourages investors to prioritise property turnover over stable rental income, leading to a high level of "speculative vacancies". Cashmore estimates that certain investors have denied properties to tenants altogether in order to create artificial scarcity and capitalise on high capital gains once properties are sold at inflated prices.[124]

Many prominent voices from within the housing policy sphere have recommended reforming the Capital Gains Tax system, with recommendations ranging from incremental adjustments to ending the CGT discount. The flatter policy was proposed by Australia Institute senior economist Matt Grudnoff, who argued that there is 'no justification' for taxing capital gains at a different rate to income from other sources.[125]

The 2009 Henry Tax Review, a report intended to guide policy makers on issues of taxation for the following decades, recommends reducing the capital gains tax discount to 40% in order to reduce market distortions caused by the tax discount.[126]

Reporting published by AHURI has recommended gradually reducing the Capital Gains Tax investor discount, modelling a pathway in which the discount is decreased by 10% yearly until a 0% discount is reached. The authors note that while this pathway would lessen the impact on investors compared to an immediate abolition of the discount, and would reduce inequalities in the current tax system, any reduction would nevertheless need to be communicated effectively to avoid 'misconceptions' about impacts on the incomes of 'mum-and-dad' investors.[127]

Deloitte Access Economics have explored a variety of CGT reforms, including ending 'grandfathering' provisions exempting the sale of assets purchased before the introduction of CGT in 1985 from taxation, increasing the minimum time an asset must be held before sellers are eligible for a CGT discount from 12 months to 24 months or longer, and reducing the discount from 50% to 33.5%.[128]

Conversely, the Centre for Independent Studies' Robert Carling has argued that any significant reductions to CGT discounts would be a 'serious public policy error'. Carling states that a 25% discount would fail to account for inflation in some circumstances, therefore imposing tax on gains earned from inflation, rather than 'real' gains.[129] Additionally, Carling suggests that as concessional treatment of capital gains is common in other countries, removal of the discount would harm Australia's international competitiveness. Carling also argues that reduction in CGT tax concessions would reduce asset turnover by disincentivising asset-holders to sell, thereby decreasing market efficiency. Carling therefore recommends retaining the discount at no lower than 40% in order to fully account for inflation.[130]

While housing affordability is not a uniquely Australian problem, the geographic distance between Australia's major markets and cities, coupled with the unusual calibration of regulatory, social housing investment and taxation policies across our federated system of government, make for a uniquely Australian set of challenges.

These challenges will be as complex in their political dimensions as in the technical dimensions of multiple interacting legal and regulatory frameworks.

International Comparisons

Australia is not unique in facing spiralling house prices and declining affordability. House prices have risen dramatically in many parts of the world, both before COVID19 and after. 23 out of the 60 countries included in the IMF's Global House Price Index saw an increase of over 5% in 2020.

While housing affordability is not a uniquely Australian problem, the geographic distance between Australia's major markets and cities, coupled with the unusual calibration of regulatory, social housing investment and taxation policies across our federated system of government, make for a uniquely Australian set of challenges. The divergences in Australian regulatory and taxation practices may speak to the extent of the crisis, and the pertinent factors moderating and exacerbating it.

In this preliminary set of analyses, we explore the critical differences between the Australian real estate market from a macroeconomic perspective and explore the regulatory provisions relevant to each dimension of the market, setting these provisions against those enacted within comparable OECD countries. Before proceeding to the analyses, the ensuing discussion explores housing affordability trends within comparable economies at market and national levels, and a number of issues relevant to housing access and affordability, including divergences in tenure models, indebtedness and rental/social market access.

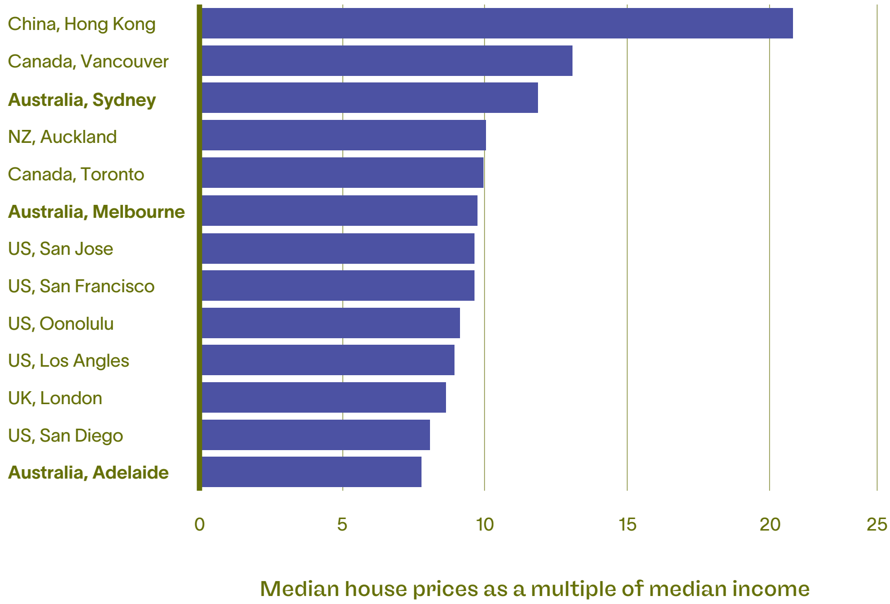
International market level housing affordability comparisons

The most effective method of comparison within OECD economies is at a market level because small satellite towns may sway averages and city medians are more representative of market conditions. Employing median income levels and median prices allows for the effective comparison of different markets.

We employ the Demographica International Housing Affordability (DIHA) dataset for our preliminary analyses. The 'median multiple' in the DIHA is a price-to-income ratio of the median house price divided by the gross median household income.[131]

Notably, three Australian markets rank within the top 12 (when excluding Hong Kong) within the DIHA classification framework for housing affordability. Sydney (second), Melbourne (fifth) and Adelaide (eleventh) all rank amongst the most unaffordable within the 92-market comparison, and not a single Australian market meets the affordability threshold. This is certainly a cause for concern, particularly given the recent price escalation observed within Australia markets and the weaker than expected employment rates. Sydney and Melbourne are on track to become the second and fifth least affordable markets by the next iteration of the study. Figure 25 outlines the 2021 index scores.

Figure 25
Least affordable housing markets



Source: DIHA 2021

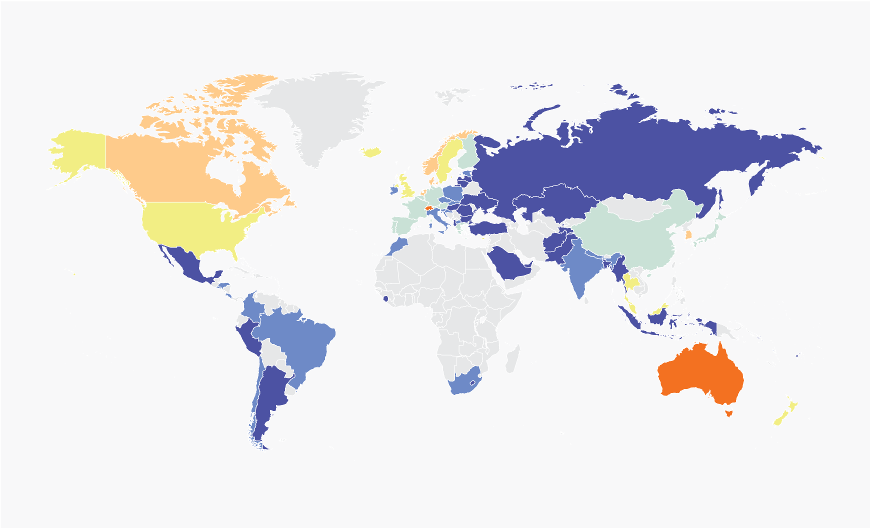
International Debt levels comparisons

One of the starker acknowledgements pertaining to the Australian housing market is the significant level of indebtedness of Australian households largely consequential to the appreciation in house prices. Of all countries with population sizes in excess of 10 million, Australia ranks first overall in terms of per capita household debt to GDP. This is not a new revelation as Australia has maintained this position for some time; but it is a significant demarcation of our market. Indeed, when considering all OECD and non-OECD countries, only Switzerland has higher per capita debt to GDP ratio. Overall, only a few OECD countries approach debt levels similar to those prevailing within the Australia personal debt market.

A brief review of the policy conditions that demarcate the Australian market provides a strong indication of how significantly we diverge from other OECD countries on key affordability and rights issues. There are valid reasons for some logical divergences such as the absence of a consistent definition of an adequate dwelling, given our state based legislative frameworks, and the divergences evidenced therein. However, other divergences appear to require greater justification, such as our significant intervention in the property market, and their active incentivisation of property speculation through very modest income quarantining provisions, arguably the most modest/relaxed rules in the OECD; and our low rates of CGT on property assets.

For clarity, while some might highlight the absence of an elaborate CGT regime in other advanced OECD countries such as New Zealand, the bright line test serves as a de-facto CGT regime, that treats income as ordinary if holding periods do not exceed 10 years.

Figure 26
Household debt as a percentage of GDP



Source: IMF 2021

Even though Australia ranks first in debt terms, it ranks 4th in median net asset terms suggesting that the lofty asset position is potentially precarious, given that much of the asset wealth of Australian households is within housing assets. Stabilization of the property market would ensure that the housing crisis does not give rise to a household debt crisis in the future.

Housing tenure differentials amongst OECD members

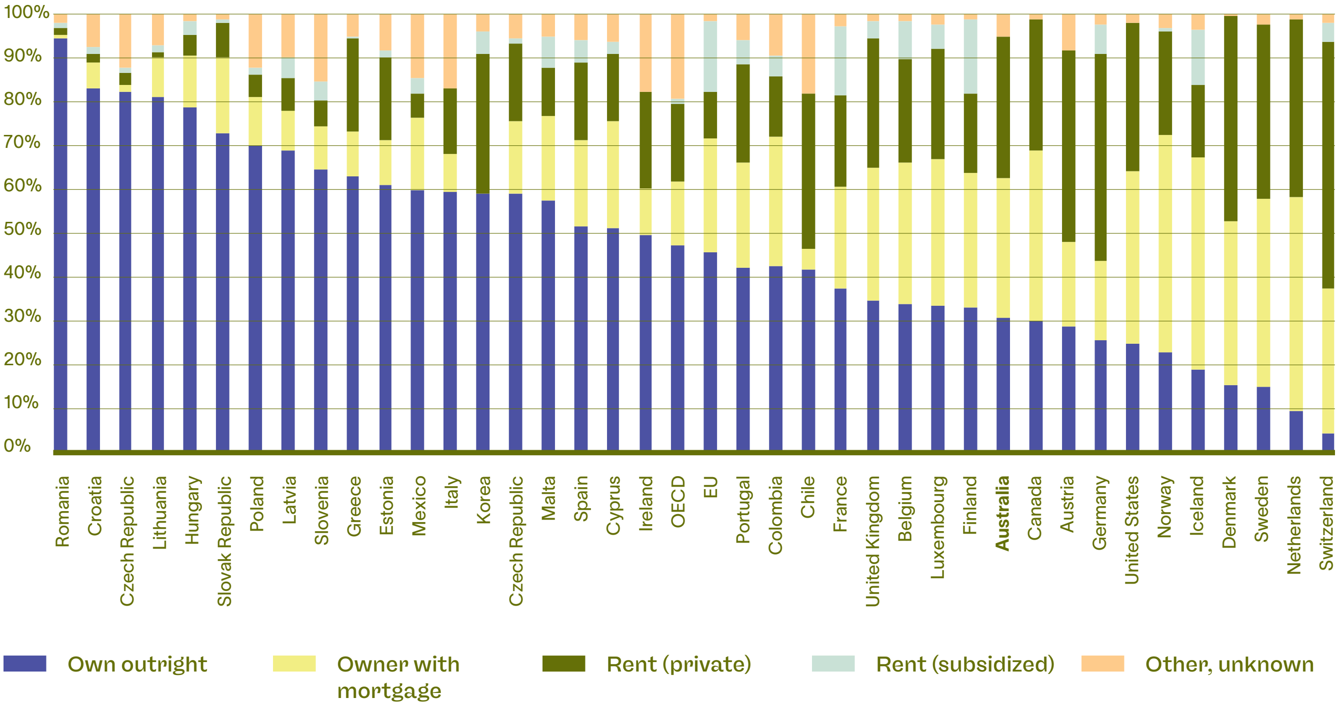
It may surprise many Australians to know that we have a low rate of outright home ownership compared to other middle income and wealth countries. Our rate of about 30% is a full 13% less than the OECD average, and half that of Italy.

Some of the variation is due to the high rates of outright home ownership within Central and Eastern Europe; the former communist countries observe higher than average rates of outright ownership due to the provision of low-cost options to purchase property being afforded to householders at the time of the fall of the communist regime.[132]

Similarly, the rates of outright home ownership are relatively high within southern European countries such as Spain, Portugal, and Italy, with ownership at 61% in Italy in the most recent survey of ownership in the region. These rates are notable given the significant levels of ownership are not consequential to a government ownership transfer process akin to the process observed in CEE economies. Allen et al (2004) assert that within these countries familial support plays a significant role in facilitating home ownership given the relatively recent accessibility to formal mortgage markets.

This international comparison reveals that the Great Australian Dream of home ownership is slipping away: compared to other wealthy, developed nations, the chance of young Australians becoming home owners is now quite low.

Figure 27
Comparisons of International Housing Tenure Models



Source: OECD 2021

Ownership rates in countries with negative gearing programs

There is a perception amongst many property analysts that Europe is a continent of renters, with home ownership being largely unattainable. However, this is clearly not the case.

There is a correlation with negative gearing and home ownership trends observable across the OECD: while a number of factors affect house prices, Australia, New Zealand, Germany and Japan, where unrestricted negative gearing is available, have seen home ownership rates stagnate or decline in recent decades.

By contrast, restricted negative gearing countries and countries with income quarantine provisions have seen modest improvements in rates of home ownership.

Table 13
Negative Gearing and Income Quarantining

Country	Offsetting provision	Summary
Japan	Unrestricted offsetting provisions	The Japanese negative gearing rules are similar to Australian provisions. As long as the investor is not a partnership or trust they are able to claim any rental losses incurred from their investments.
New Zealand	Partially restricted offsetting provisions	The legislation in New Zealand was highly similar to the Australian provisions until the quarantining rules were changed in 2021.
Canada	Partially restricted offsetting provisions	Canadian provisions allow for partial offsetting of losses against certain categories of income. The rules remain far more restrictive than those within Australia.
Germany	Partially restricted offsetting provisions	German laws allow for some offsetting of income against rental losses, but with specific income quarantining rules.
Sweden	Partially restricted offsetting provisions	Swedish laws allow for partial offsetting of rental losses against specific categories of income, with strict application of quarantining provisions. The provisions in Sweden appear more similar to those in the UK and those recently enacted in New Zealand.
U.S.	Limited/Restricted Primary and secondary residence offsetting provisions	US laws differ markedly insofar as primary or secondary residence interest may be offset against personal income in some very limited situations, therein supporting primary residence ownership and secondary residence ownership rather than investment speculation alone.
UK	Limited restricted partial offsetting	The UK has specific restrictions in place pertaining to the application of gearing provisions that restrict the potentially deleterious application of the legislation. Specifically, the rules in place restrict what income losses may be claimed against. Losses on property may only be claimed against property income streams, and not against personal income. These property losses may be claimed against other property income streams or carried forward, in years where profits are earned.

Source: Authors' Research 2021

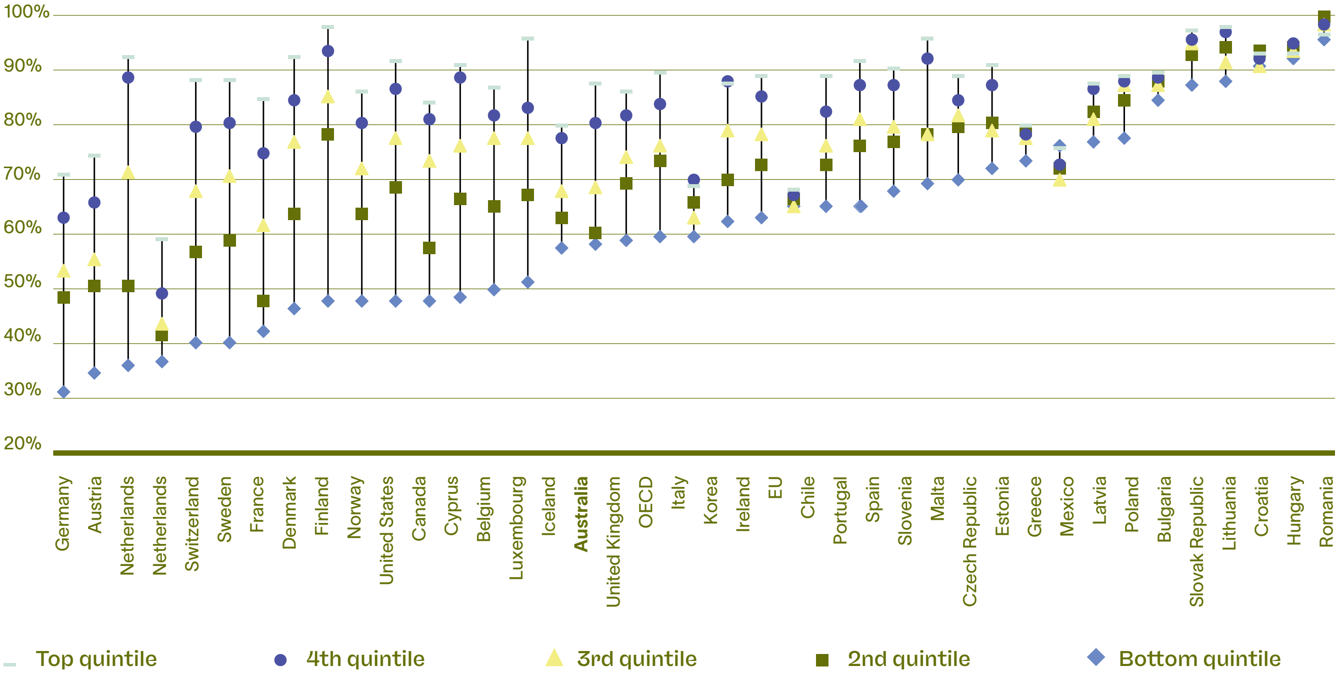
International comparisons of ownership by income quintile

When accounting for income, there is even greater diversity in home ownership. Countries such as Korea and Mexico observe both high rates of ownership and consistency in ownership across income quintiles, and this is also true of most CEE economies.

Notably, countries such as Sweden and Finland observe similar rates of ownership but greater diversity in ownership rates across quintiles. This is also true of Germany, Belgium and France, but it should be noted that each of these countries maintains a much larger stock of social housing to address housing inequality.

When it comes to ownership rates among low income households, Australia appears to be at a tipping point, seemingly at the precipice of shifting from the mid-level ownership level to a low ownership grouping. Currently we cluster with countries such as Korea, Ireland and Spain, around the OECD average, but we are at the lower end of that grouping (see Figure 28). Any further decline in home ownership among low-income households would likely result in far greater strain on social housing and subsidised rental housing stocks.

Figure 28
Ownership by Income Quintile



Source: OECD 2021

The Advocacy Challenge

Principles of advocacy

The most effective and sustainable social policy advocacy is characterised by three principles:

1. A concrete analysis of both the broadest socio-economic context for social policy failures, and of more specific examples of how such failures play out in the lives of those who are most exposed and affected;
2. The building of alliances across social sectors committed to progressive social change in the relevant social policy space; and
3. A strong focus on advocacy not as an activity of "speaking for" (ad vocare) but rather on creating the social, political and cultural organisational infrastructure so that the people who are most affected by social policy failures are heard, and accorded the respect they deserve as experts on the impact of social injustices.

Australia has seen some powerful examples of grass-roots social change being achieved in this manner. Significant examples are the Women's Refuge Movement[133] and the Anti-Evictions Movement[134] during the Great Depression.

Where any of these three principles are missing, progressive policy-making, no matter how well-crafted it appears to be, will fail to produce the kind of change society needs in order to reconfigure housing as a human right rather than a speculative sport.

Identifying housing advocacy voices

There are, of course, a large number of powerful voices and vested interests in Australia advocating strongly for the status quo in housing policy. Advocacy to make change to the system is currently being conducted from four key perspectives (noting that positions and modes of practice range from limited amelioration of housing deprivation and stress to the visionary re-imagining of how we treat housing as a society).

These perspectives are:

1. Focussed on housing as a whole, e.g. Shelter, AHURI, Everybody's Home, UNSW City Futures Research Centre.
2. Focussed on a specific segment of housing, e.g. Community Housing providers, CHIA, Community Housing Federation Australia, Homelessness Australia, Public Tenants Associations.
3. Focussed on a specific group of housing consumers, e.g. disability housing, housing for women and children escaping domestic violence, housing for young people, First Nations housing, aged housing.
4. Focussed on broader social advocacy with housing as a key component of the advocacy agenda, e.g. ACOSS and its member organisations.

The housing advocacy scene can be notoriously fragmented, particularly where the focus is narrow, even if well-intentioned. Further segmentation has resulted from the complexity associated with the different roles of Commonwealth, State and Territory, and local levels of government, with many advocacy efforts focussed on one level of government to the exclusion of others.

Advocacy embedded in public discourse and lived experience

Returning to the first principles outlined above, it is Per Capita's strong view that the most effective, and innovative, role that a philanthropic organisation can play in this space is to go beyond a narrow focus on one or two segments of housing provision or consumption, and also to go beyond the traditional mode of advocacy whereby 'experts' speak on behalf of those subjected to housing stress and deprivation.

Australian society needs transformative, while achievable, change so that everyone, without exception, has a home in which they can thrive. Housing needs to be appropriate to someone's needs, providing safety, connection and community.

According to the (currently) dominant economic frame, anyone who works hard enough should be able to afford some form of housing, and if what they can afford is inadequate, this can only act as an incentive to work harder in order to be able to afford something better. While this is a sadly compelling narrative, especially for those who are beneficiaries of the current structure, the housing market does not work that way. Further, housing deprivation[135] and stress are significant barriers to employment, education and health.

The public policy shift required to change the way housing is understood must be driven not from above but from below, by a systematic change in public opinion. This necessitates, above all, a focus on amplifying the voices of the people who are currently experiencing, or at risk of, housing deprivation and stress.

It also requires advocacy that is based on storytelling, backed by evidence and analysis, and communicated effectively through multiple channels. While data is essential for effective advocacy, Per Capita maintains that we also need to reconfigure the accompanying story-telling in this space. Recent history confirms that, alone, the data, no matter how alarming, does not effect a change in public consciousness.

It is only a change in public consciousness that will compel federal, state and local governments to implement the legislative changes, regulatory frameworks and tax settings that will both normalise public and community housing on the one hand and encourage a more human-centred use of privately owned housing assets on the other.

Our goal must be a policy framework that discourages unproductive speculation and embeds housing as a human right and a public good. This advocacy must be located in the context of social need and broader economic development, positioning secure housing in the public consciousness alongside health and education.

Advocacy focus

Our proposal for future advocacy is therefore focussed on the following areas:

1. Regularly monitoring, analysing and publishing key data and statistical evidence to explain the structural foundations and policy causes of the crisis in housing affordability and accessibility;
2. Connecting this evidence to demonstrate the impact of unaffordable and inaccessible housing at an individual, family, community and national level;
3. Exposing the consequences of the financialisation of housing, and the concentration of Australian wealth in property, on the broader economic fortunes of the nation and our ability to adapt our economic structures to take advantage of the opportunities afforded by the post-carbon economy;
4. Building a broad alliance amongst sectors of society that share this understanding of the housing crisis, beyond the traditional advocacy organisations in this space;
5. Working with organisations characterised by collective self-advocacy to build the capacity and cultural infrastructure to foreground the voices of people and communities subjected to housing deprivation and stress; and
6. Drawing these disparate elements of economic impact, social outcomes and individual wellbeing into a cohesive and compelling narrative that repositions housing as a human right and a collective public good.

Next steps

In the short term V&F Housing Enterprise Foundation is looking to build alliances with strategic partners and other funders, support those struggling to access secure housing to have their voices heard, and create new regulatory frameworks to make housing policy more fit-for-purpose.

In the medium term the Foundation, as part of an alliance, aims to develop a public campaign to shift the narrative from housing as an asset to housing as a home. The ultimate aim is to make secure housing accessible to all Australians.

About V&F Housing Enterprise Foundation

V&F Housing Enterprise Foundation was established by Ondine Spitzer and Hugh Belfrage in 2021 to promote housing affordability and accessibility in Australia. The Foundation aims to achieve this by resourcing the reform of policy settings that regulate the housing market and supporting those advocating for sufficient provision of housing by government.

V&F Housing Enterprise Foundation believes philanthropy has a clear role to play in facilitating this fundamental social change and hopes to attract other like-minded funders as well as key strategic partners in this quest.

About Per Capita

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

Our audience is the interested public, not just experts and policy makers. We engage all Australians who want to see rigorous thinking and evidence-based analysis applied to the issues facing our country's future.

About the authors

Emma Dawson, Executive Director

Emma has worked as a researcher at Monash University and the University of Melbourne; in policy and public affairs for SBS and Telstra; and as a senior policy adviser in the Rudd and Gillard Governments.

She has published reports, articles and opinion pieces on a wide range of public policy issues. She is a regular contributor to Guardian Australia, The Age and Sydney Morning Herald, Independent Australia and The Australian Financial Review, and a frequent guest on various ABC and commercial radio programs nationally. She appears regularly as an expert witness before parliamentary inquiries and often speaks at public events and conferences in Australia and internationally.

Emma is the co-editor, with Professor Janet McCalman, of the collection of essays What happens next? Reconstructing Australia after COVID19, published by Melbourne University Press in September 2020. She sits on the boards of social enterprise trust Household Connect and ANU think tank Australia21.

Matt Lloyd-Cape, Director of Policy and Research

Following a brief career as a carpenter, Matt has worked on issues of poverty, economic inequality and social justice in a range of fields. Over the past 20 years he has worked in trade unions, international development NGOs and with universities.

This work includes managing disaster relief and social development projects, industrial relations research in Eastern Europe, Russia and Central America, and livelihoods research in East Africa, Papua New Guinea and South Asia. Prior to joining Per Capita he worked on international and social policy issues at the Australian Council of Trade Unions as an International Officer.

Matt holds an MSc in International Relations and Development from the School of Oriental and African Studies (SOAS), University of London, where he wrote on the role of corporate social responsibility in industrial relations. He also has an MPhil in Political Economy from Central European University, where he researched cross-border trade union action in global supply chains.

Michael D'Rosario, Research Economist

Michael is an economist and strategy advisor, with experience working with NFP, university and corporate organisations in Australia and abroad. Most recently, Michael served as chair of Financial Markets at Deakin University, the ESG Advisor to CPA Australia, and as Research, Policy and Communications Advisor to the Victorian Aboriginal Legal Service and the National Aboriginal and Torres Strait Islander Legal service.

Prior to these roles, Michael worked with PwC, KordaMentha, AusAid, Victoria University and the University of Melbourne. Michael has served on a number of university boards as a Non-Executive Director and Deputy Chair. Michael is passionate about social justice and presently works on projects in ensemble forecasting methods, ethical/explainable A.I. and the role of technology in addressing social inequality.

Michael's doctoral and postdoctoral work in econometrics has focused on the role of innovation in driving job creation, economic development and services access.

Dr John Falzon, Senior Fellow, Inequality and Social Justice

John is a sociologist, poet and social justice advocate and was national CEO of the St Vincent de Paul Society from 2006 to 2018. He has written and spoken widely on neoliberalism and the structural causes of inequality and has long been engaged in the collective movement for social justice and social change.

He has worked in academia, community development in public housing estates, and in research and advocacy in civil society organisations. He has served on numerous boards and advisory committees, including the Australian Council of Social Service Board, the Australian Social Inclusion Board, the Deputy Prime Minister's Global Financial Crisis Community Response Taskforce, the Energy White Paper High Level Consultative Committee, the Council of Non-Government Organisations on Mental Health, the Shelter NSW Board and the NSW Premier's Social Justice Reference Group.

John is the author of articles, opinion pieces, book chapters and two books: The language of the unheard (Garratt 2012) and a collection of poems, Communists like us (UWAP, 2017). In 2014, he was an Australian Human Rights Medal Finalist and in 2015 he received an Order of Australia Medal for service to the community through social welfare organisations. He is a member of the Australian Services Union and currently sits on the board of the Australian College of Community and Disability Practitioners.

Lucy Tonkin – Research Intern

Lucy was selected from dozens of candidates for the 2021 Research Internship Programme at Per Capita. She is an undergraduate student at RMIT University Melbourne studying a Bachelor of Arts (International Studies). Her interests include international relations, public policy, gender studies and sustainability.

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