



# Australia's Housing Shortfall & Poor Affordability – the impact of taxes, charges, subsidies & direct provision



Owen Donald, Chair



# Outline

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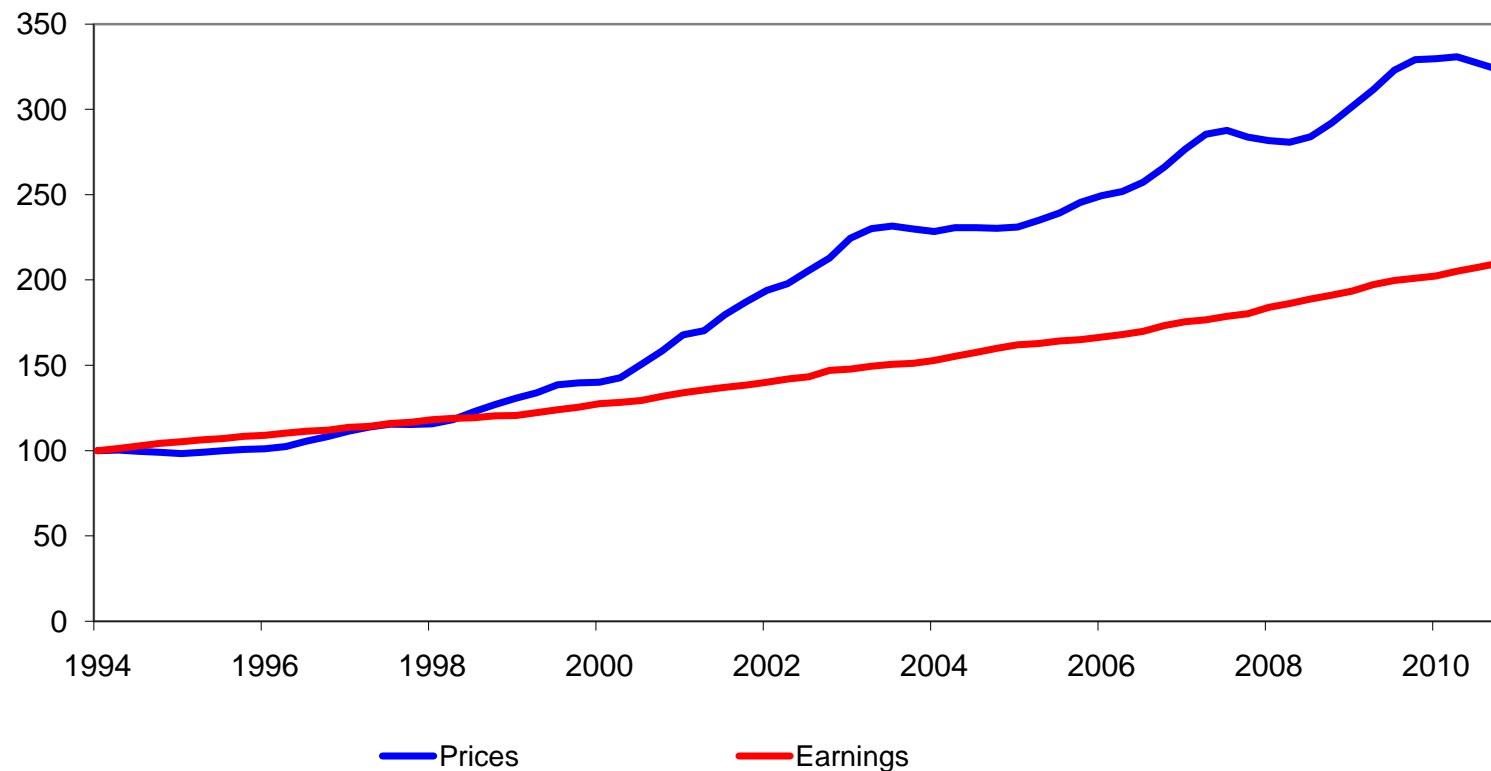
- Key findings from the 2011 State of Supply Report
- Growth in social and affordable housing – Social Housing Initiative, NRAS and Homelessness initiatives
- Impact of taxes and charges on greenfield and infill development
- Effectiveness of tax treatment and grants on increasing housing supply

# Housing market in 2010-11

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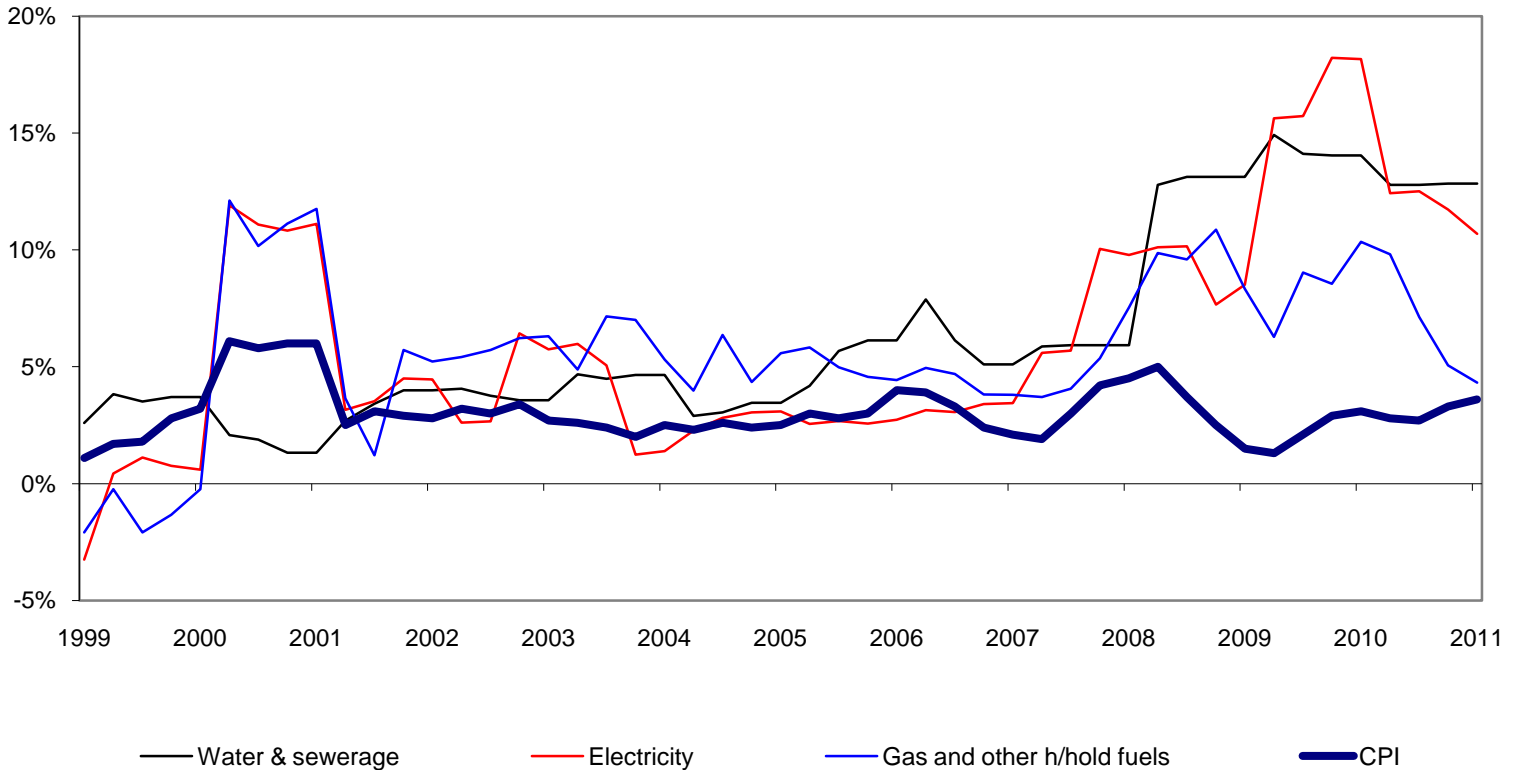
- ❑ Number of housing transactions has fallen and there has been a softening in prices.
- ❑ This has happened despite a widening imbalance between underlying demand and supply.
- ❑ Impact of regulatory interventions on affordability and falling proportion of households unable to afford market price.
- ❑ Market unable to fully respond to a shortage of low cost housing.

# Gap between house price and earnings growth narrowing, but affordability still stretched.



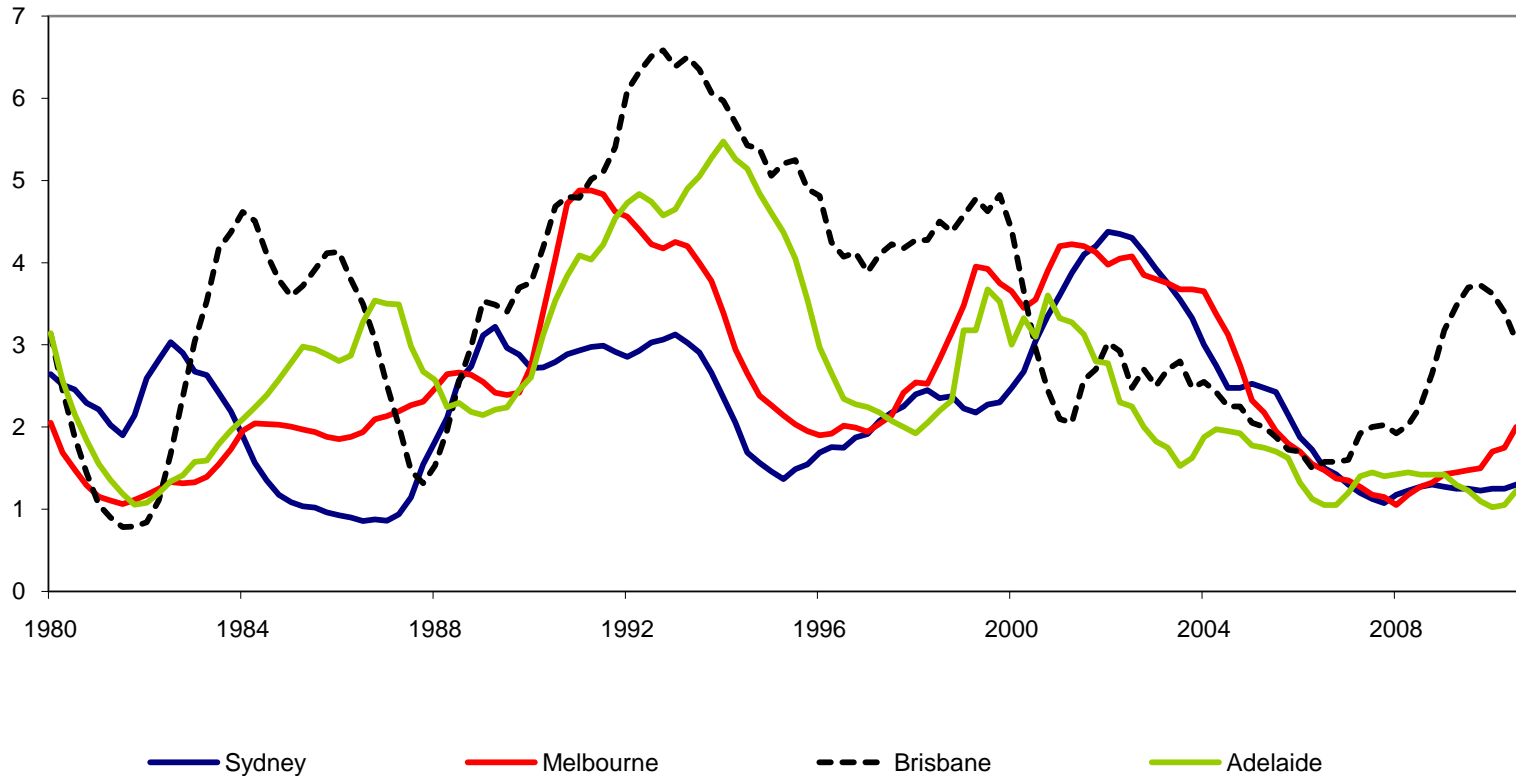
Source: ABS 2011, *Average weekly earnings, cat. no. 6302.0*, ABS, Canberra; *RP Data-Rismark house price data*.  
Notes: Index: 1994 = 100. Dwelling prices are for the eight capital cities.  
Earnings are the weekly average for all adults. Weekly earnings are full-time ordinary hours' earnings for all persons.  
Data are not adjusted for inflation.

# High growth in other housing related costs



Source: ABS 2011, *Consumer price index, Australia, September 2011*, cat. no. 6401.0, ABS, Canberra.

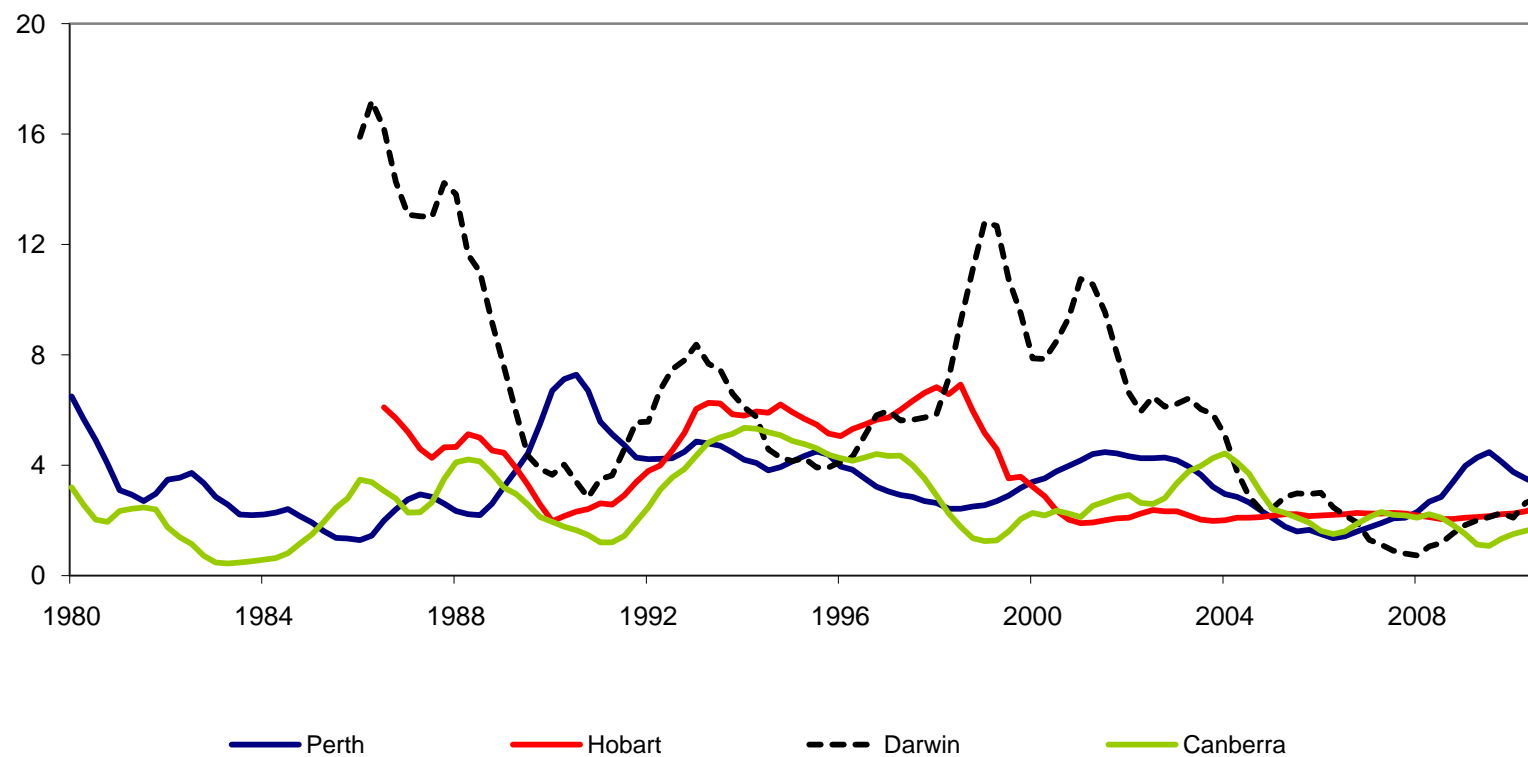
# Rental vacancy rates tight in most capital cities



Source: REIA June 2011, *Quarterly median rents on three-bedroom houses*.



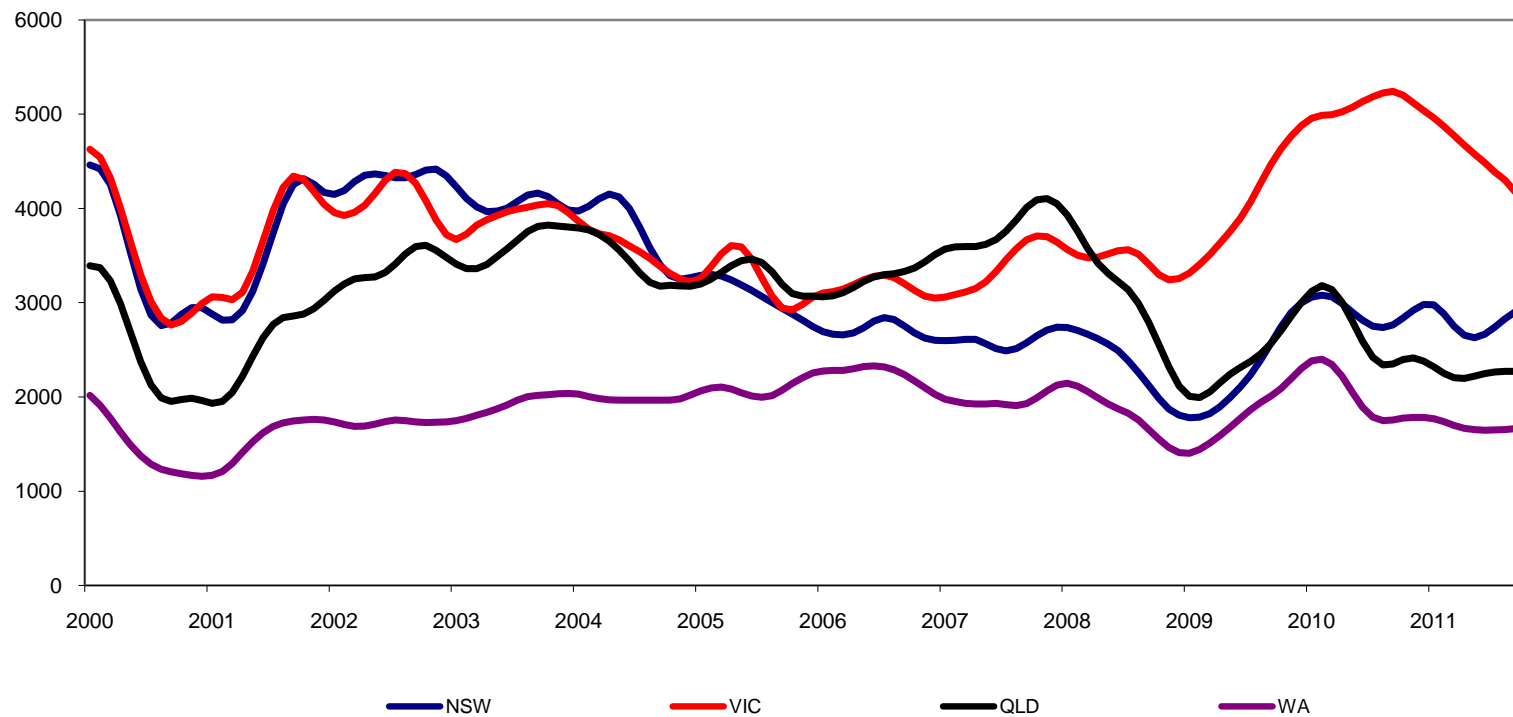
# Rental vacancy rates tight in most capital cities



Source: REIA June 2011, *Quarterly median rents on three-bedroom houses*.

# Building approvals, larger states (trend) – Victoria relatively high but declining, other states low and flat

Dwelling Approvals per month

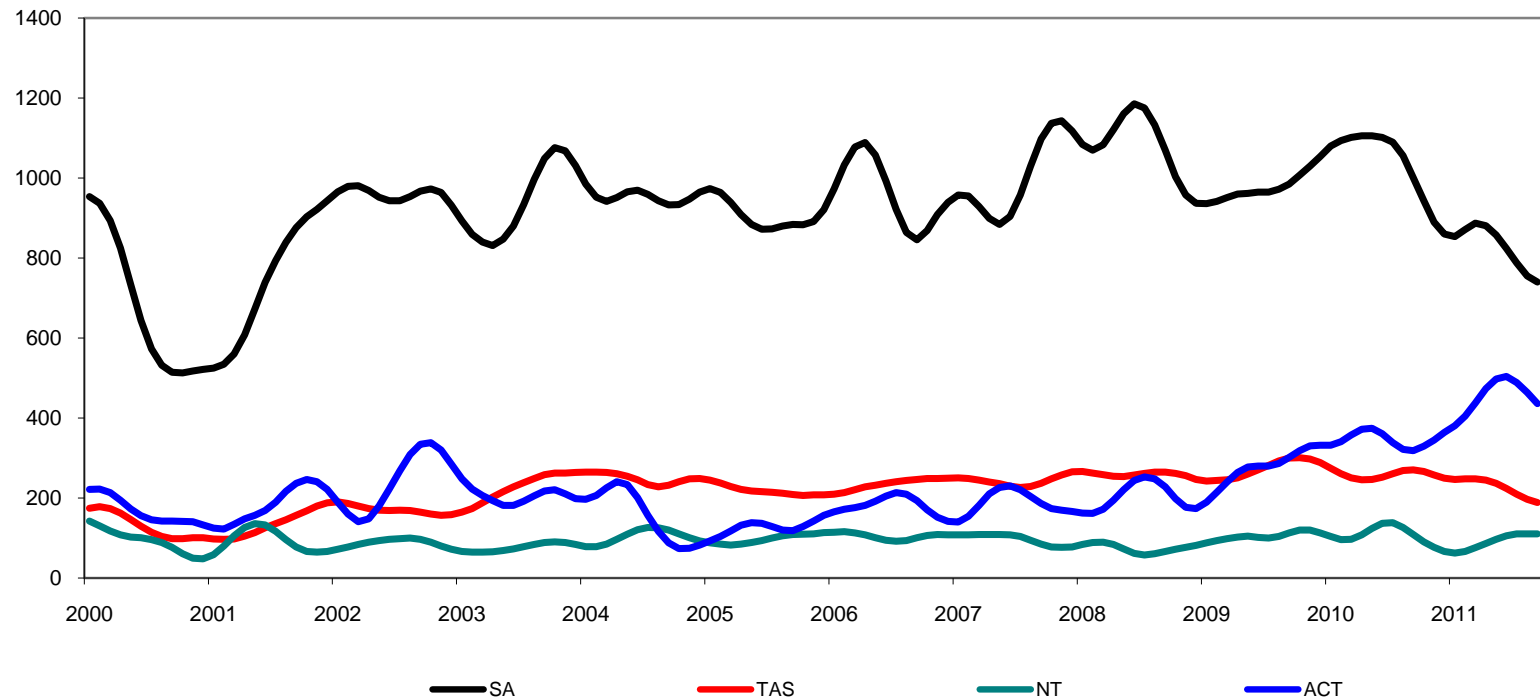


Source: ABS Building Approvals, Australia. cat.no. 8731.0



# Building approvals – rest of Australia (trend)

Dwelling Approvals per month



Source: ABS Building Approvals, Australia. cat.no. 8731.0



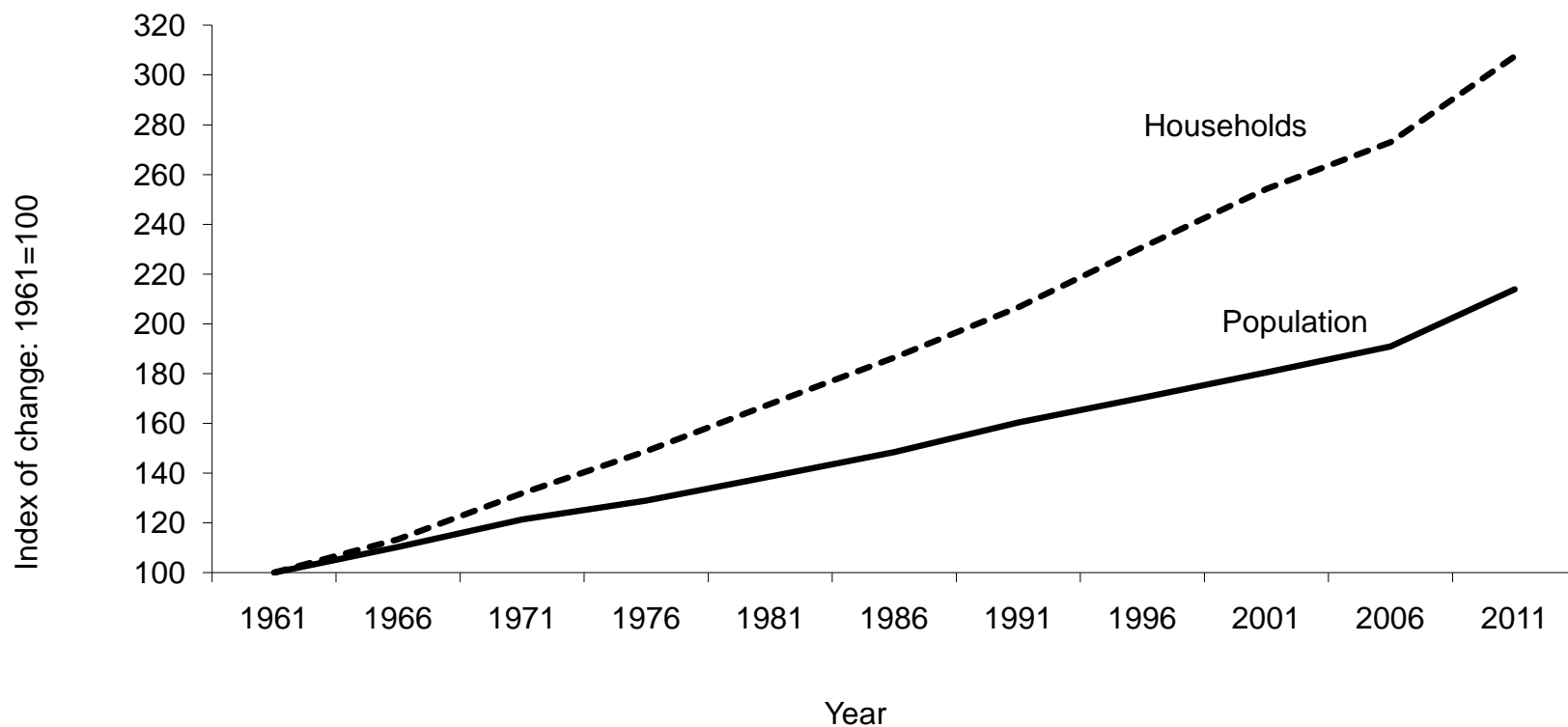
# Underlying demand

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- According to Council estimates in June 2010 there were more than 8.7 million households in Australia.
- According to the Council's current medium-scenario projections there will be 12 million households in Australia by 2030.
- This is an increase of nearly 3.3 million (or more than 163,000 additional households per year) over the period from 2010 to 2030.
  - This projected demand (number of households) is higher than in previous State of Supply Reports. These most recent projections capture the unanticipated population growth in 2008–09.



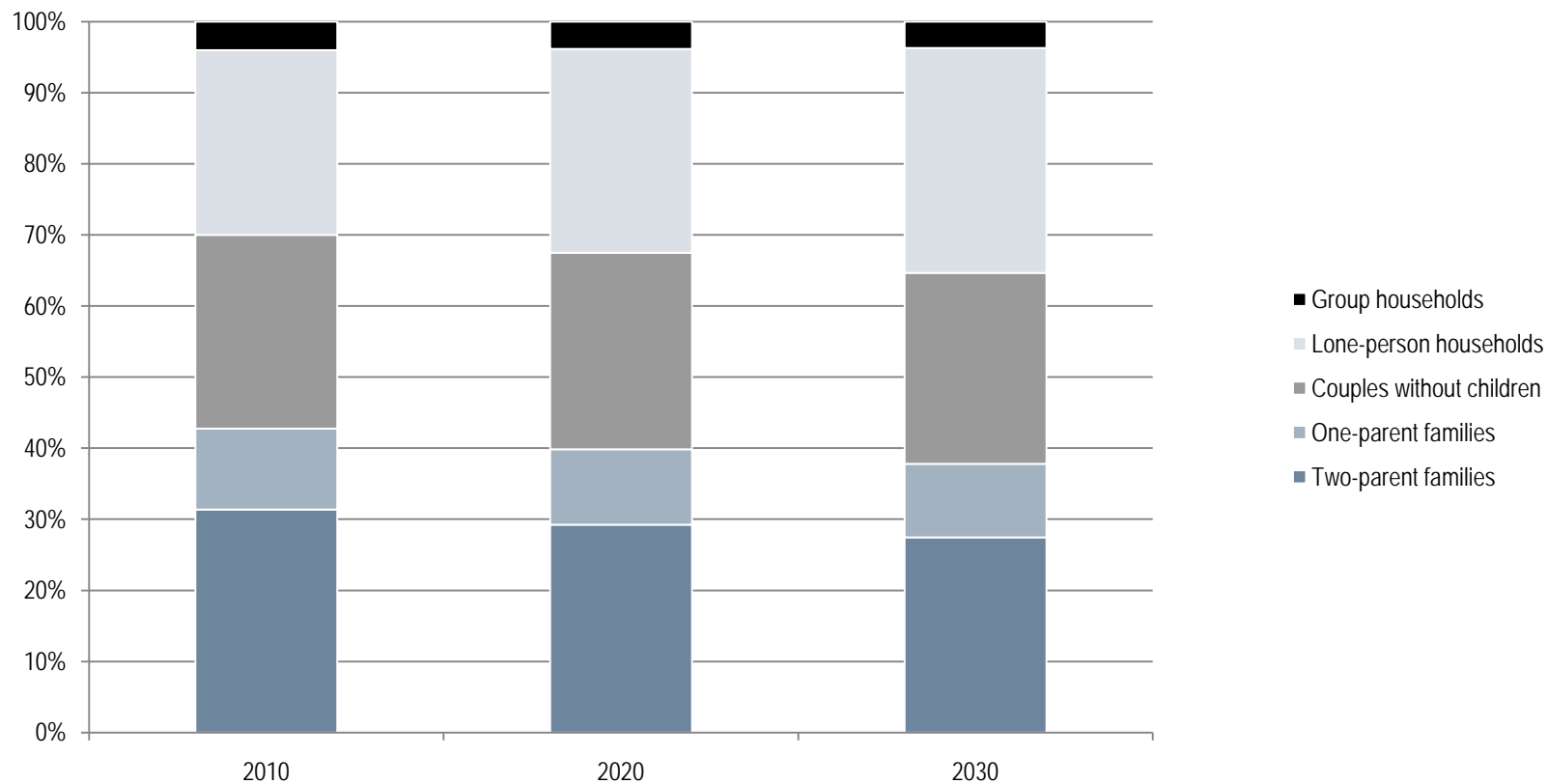
# Household growth greater than population growth



Source: ABS Census of Population and Housing 1961, 1966, 1971, 1976, 1981, 1986, 1991, 1996, 2001, 2006, ABS, Canberra; —2011, Australian demographic statistics, Dec 2010, cat. no. 3101.0, ABS, Canberra.



# Household type mix is changing over next 20 years



Source: National Housing Supply Council projections based on McDonald and Temple medium household growth scenarios, 2010 to 2030.



# What is being built?

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- The Council estimate that as at June 2010 the stock of private dwellings in Australia was 9,148,300 dwellings.
  - Medium trend projection in the 2011 report is that 143,000 extra dwellings would be built in the year to June 2011.
    - This was based on estimated dwelling completions of 155,200 with adjustments for demolitions and unavailable dwellings.
    - Actual gross completions for 2010-11 were almost exactly in accordance with this projection (155,223), indicating that the net additional dwellings projection is also in the ballpark.
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# Demand Supply Gap – 2010

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- The medium supply growth scenario estimated a net increase of 131,000 dwellings to the housing stock (adjusting for vacancies and demolitions) for the year to end June 2010.
- Number of households was projected to rise by 159,200 over same period, based on assumed net overseas migration of 180,000.
- The gap widened by 28,200 to 186,800 during the year ending June 2010.

# Demand Supply Gap – into the future

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- The shortfall of dwellings projected (Council's medium scenario) to increase to 214,700 at June 2011, 328,800 by 2015 and to 640,200 by 2030.
  - Longer-term projections are highly sensitive to the assumptions used.
  - Changes in household size and nature of immigration may alter impact of population growth on underlying demand, as may changes in production (policy settings, innovation, productivity) impact supply.

# Impact of taxes and charges on dwelling costs

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- National Dwelling Cost Study – 2010 found that:
  - Taxes and charges are a significant component of the cost of new dwellings.
  - They account for 14–16% of the total cost to purchaser of infill dwellings (apartments).
  - They account for 17–22% of total cost to purchaser of greenfield dwellings (detached houses).
  - GST, stamp duty and infrastructure costs are the main components.

# Stamp duty

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Capital City	Median dwelling price (\$)	Stamp duty payable (\$)*	Stamp duty as % of dwelling price
Sydney	498,000	17,900	3.59
Melbourne	458,500	19,480	4.25
Brisbane	402,000	11,895	2.96
Adelaide	370,000	14,830	4.01
Perth	443,000	15,058	3.40
Darwin	458,300	20,677	4.51
Canberra	475,000	19,125	4.03
Hobart	310,000	9,950	3.21

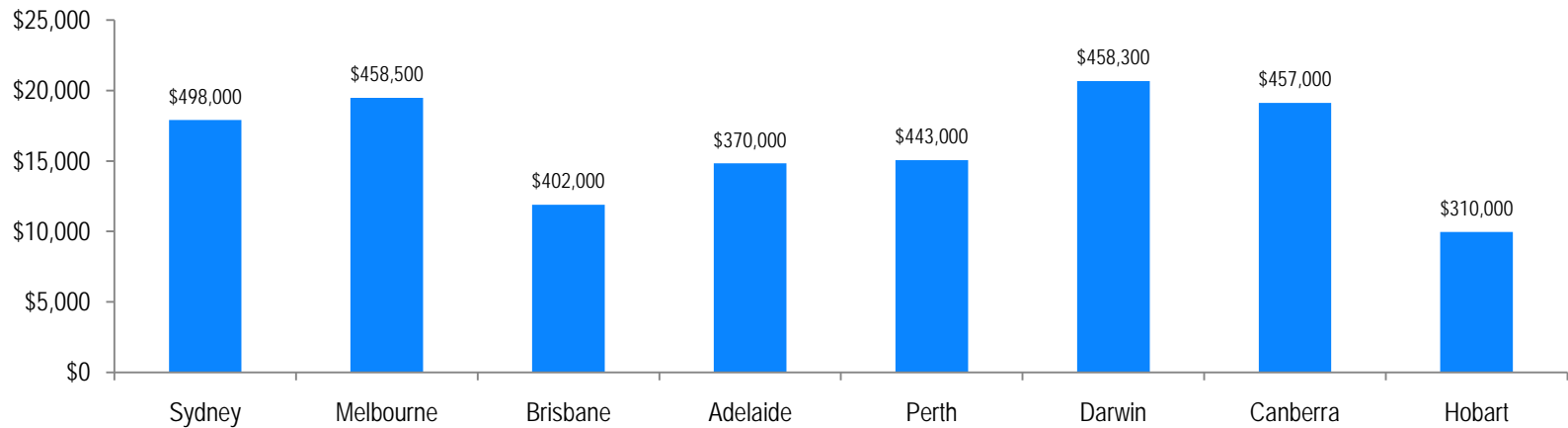
Source: RP median dwelling price data for quarter to October 2011

\*Stamp duty payable on median priced dwelling has been calculated using rates of duty table for each jurisdiction.

# Dollar amount of stamp duty varies ...

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Stamp duty payable on median dwelling price

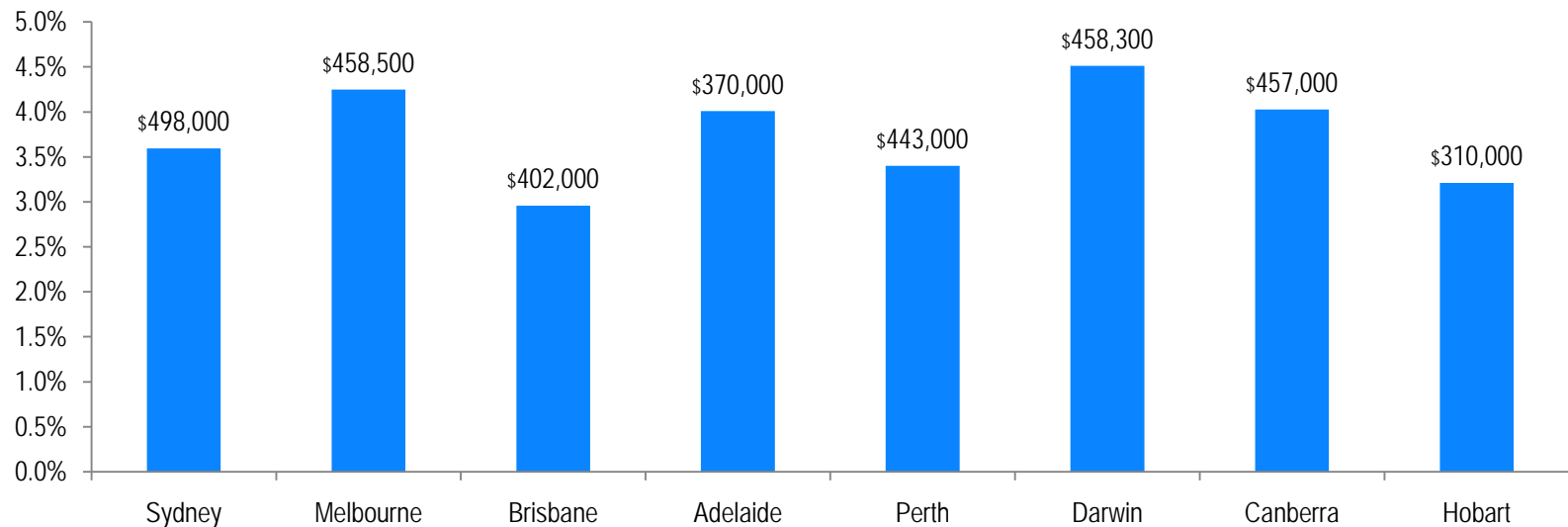


Source: RP Data median dwelling price data for quarter to October 2011  
Stamp duty calculated using 'rates of duty' table for each jurisdiction  
\* Median dwelling price shown on top of bars.

# as does stamp duty as proportion of dwelling cost....

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Stamp duty as proportion of median dwelling price



Source: RP Data median dwelling price data for quarter to October 2011

Stamp duty calculated using 'rates of duty' table for each jurisdiction

\* Median dwelling price shown on top of bars

# Infrastructure costs per dwelling for greenfield and infill dwellings

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Capital City	Greenfield dwelling (a)	Infill dwelling (b)
Sydney	44,157(c)	14,280
Melbourne	11,000	1,750
Brisbane	25,985	14,946
Adelaide	4,000	6,000
Perth	21,000	5,200

Source: URBIS National Dwelling Costs Study, 2011

Notes:

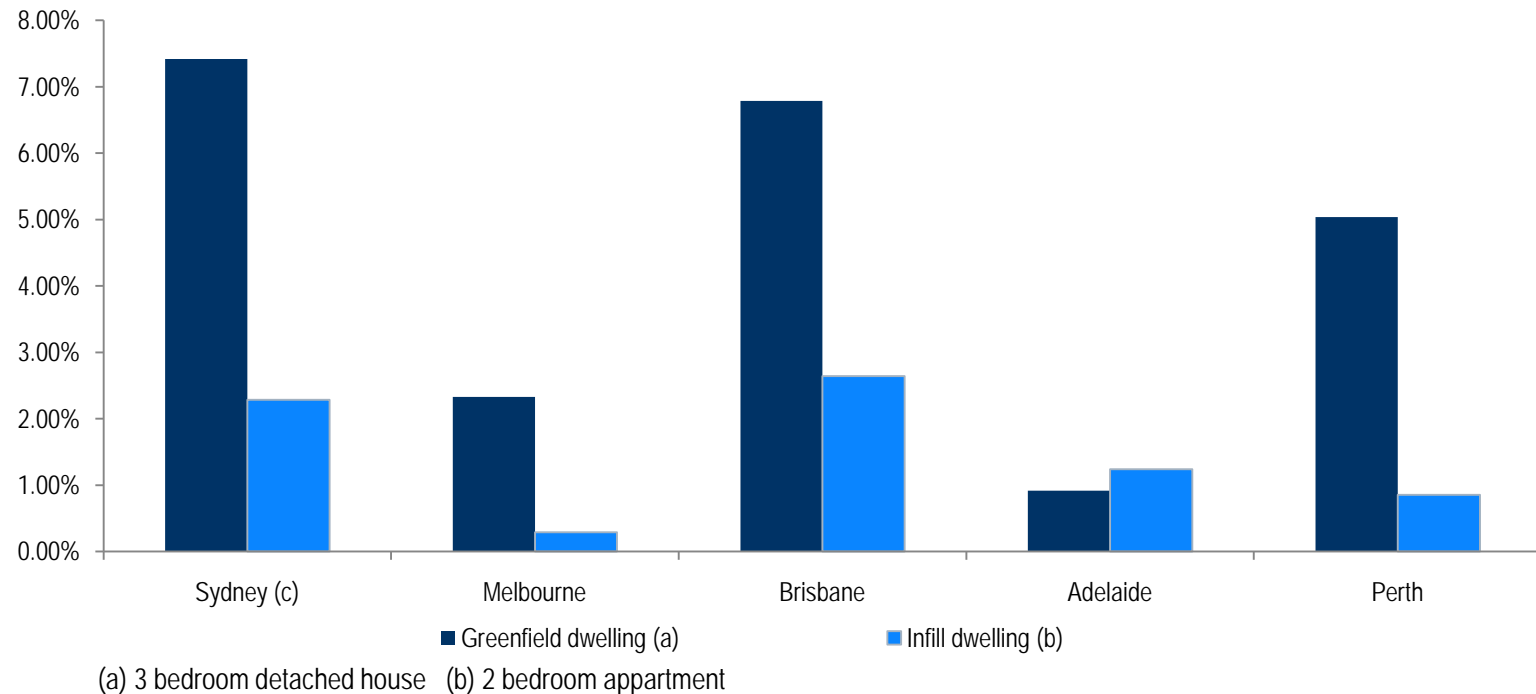
(a) 3 bedroom detached house

(b) 2 bedroom apartment

(c) Sydney includes a S94 contribution of \$30,000 for facilities such as libraries, community facilities, open space etc.

# Infrastructure as proportion of total dwelling cost varies...

## Infrastructure cost as a proportion of total cost to purchaser



Source : Urbis ; Rider Levett Bucknall 2010

Note: Sydney includes an S94 contribution of \$30,000 for community facilities

# Impact of demand-side measures

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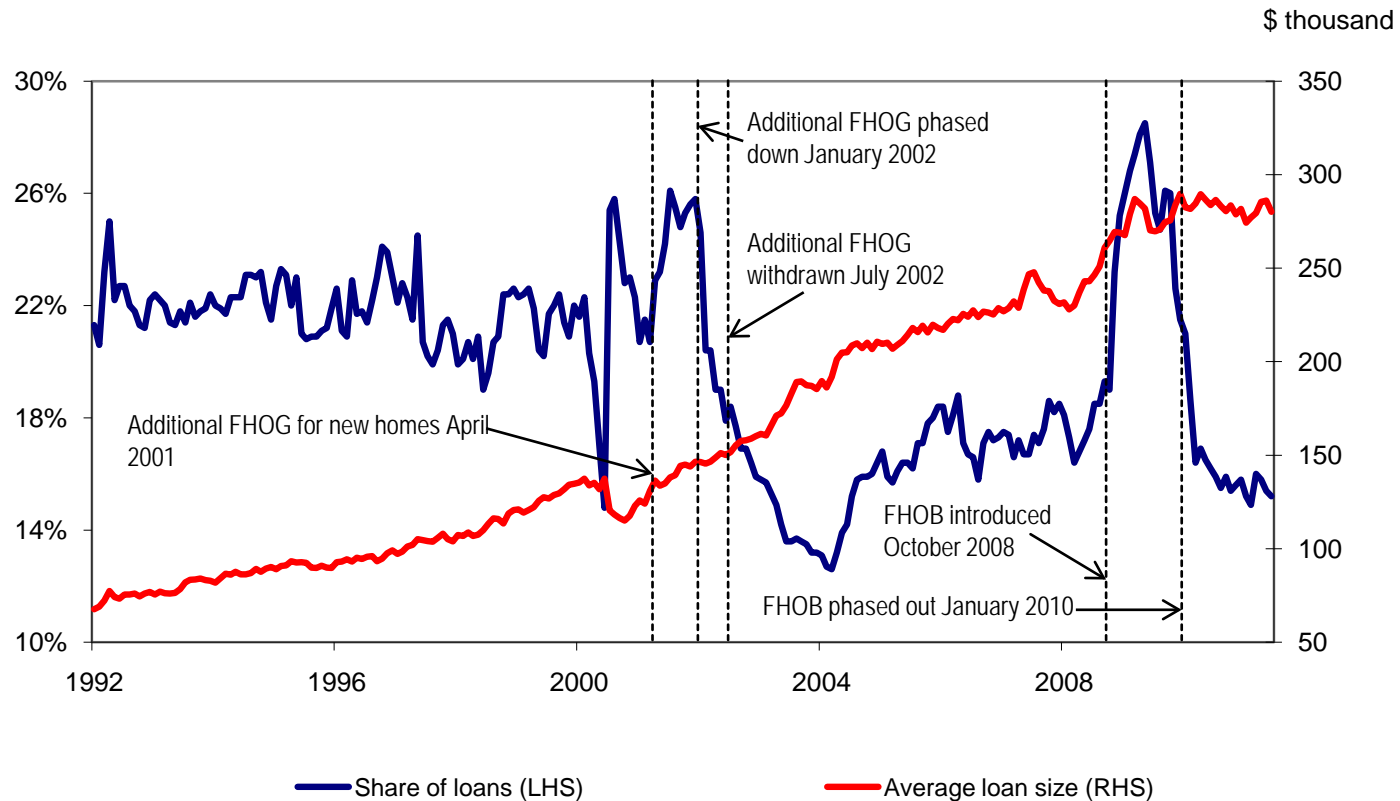
- How effective is subsidising housing demand through rent assistance, grants to owners and the tax system in increasing supply and improving affordability?

# Commonwealth Rent assistance and rental affordability

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- The 2010 State of Supply Report observed that:
  - Over 20 per cent of lower income private renters paid rents in excess of 50 per cent of household income.
  - Over 70 per cent of private renters wholly reliant on government income support paid rents in excess of 30 per cent of their total household income including Commonwealth Rent Assistance (CRA).
  - Over 25 per cent of private renters wholly reliant on government income support paid rents in excess of 50 per cent of their total household income including CRA.
- These proportions would be lower if rents were defined as net of CRA, but without adding this assistance to income.
- Using this approach, CRA reduced the proportion of recipients in housing stress as at June 2009 from 70 per cent to 41 per cent.
- Without Commonwealth Rent Assistance, 31.0 per cent of recipients would have spent more than 50 per cent of income on rent, with CRA the proportion is 12.6 per cent.
- Question – who does CRA benefit in a tight rental market? Does it help landlords when earnings are low (buyers' market).

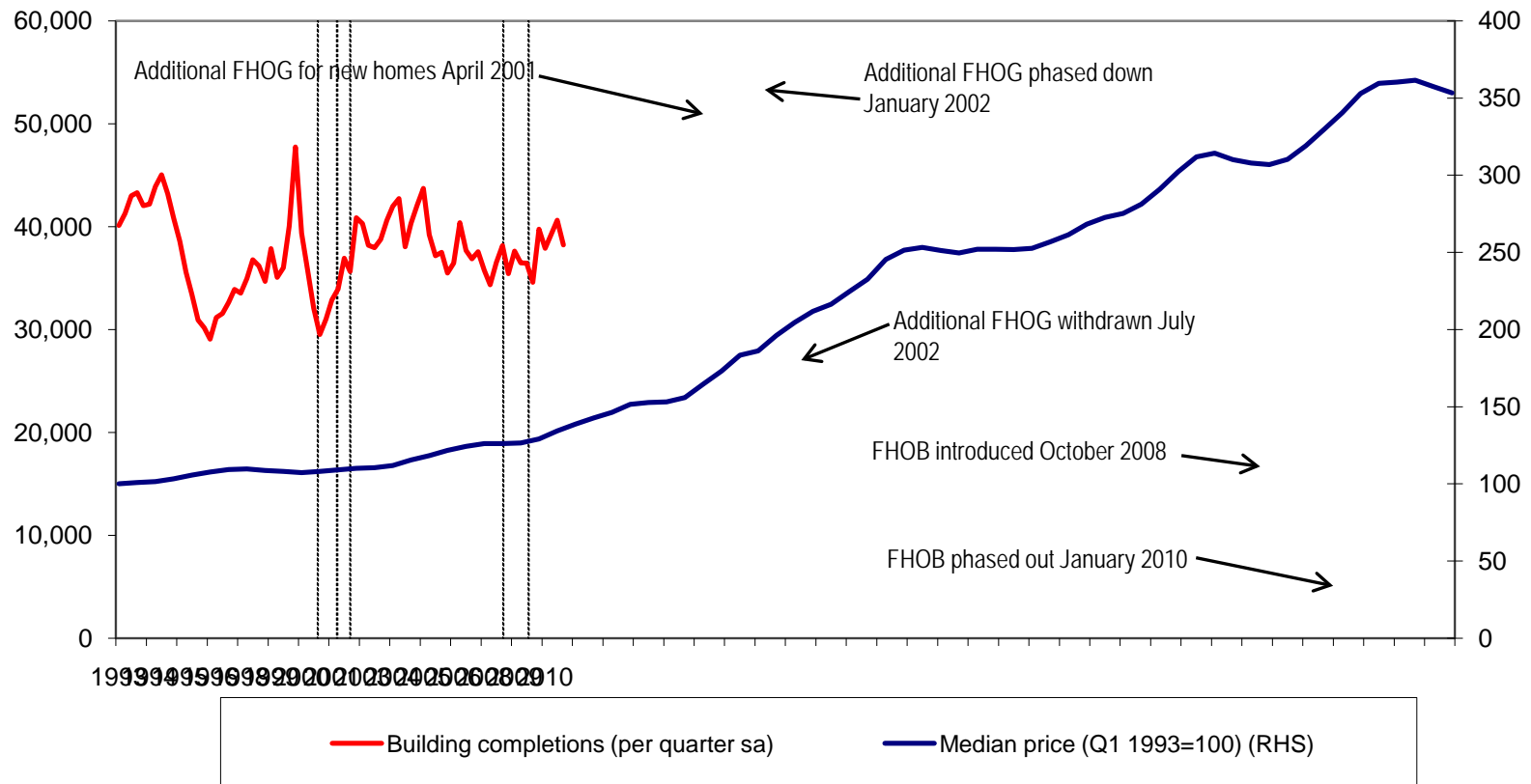
# First Home Owners Boost stimulated first home buyer activity



Source: ABS 2011, Housing finance, Australia, cat. no. 5609.0, ABS, Canberra.

Note: The graph shows the share of all owner-occupier mortgage commitments made to first-home buyers and the average value of these loans.

# And price growth ... but not production (in longer run)



Source: ABS *Building Activity, Australia* cat. no. 8752.0 and *ABS House Price Indexes, Australia* cat. no. 6416.0



# Tax treatment of housing

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- Infrastructure charges are often taxes.
- Stamp duty (buyers) In Vic SD is complex but actually about 5.5% for any property transaction
- Impact of negative gearing (next slide)
- Cost and distributive impact of tax concessions for owners and landlords (Treasury, Yates, AIHW)
- Impact of progressive land tax on investment in rental housing, eg:
  - NSW land tax threshold is \$396k; rate is 1.6% of taxable value of all land, and 2% for land totalling over \$2.4m
  - In Vic, threshold is \$250k, rate is progressive to 2.25% of cumulative value > \$3m
- A disincentive to super funds having an equity interest in rental housing.

# Negative gearing

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Saul Eslake in The Age 30 March 2011

"...it's hard to think of any worthwhile public policy purpose that is served by this subsidy [negative gearing]. It does nothing to increase the supply of housing, since the vast majority of landlords buy established properties. Precisely for that reason, it contributes to upward pressure on the prices of established dwellings, thereby diminishing housing affordability for would-be home buyers."

"The revenue forgone through negative gearing could alternatively be used to build nearly 20,000 new "affordable" homes each year, making substantial inroads into the massive shortage of affordable housing."

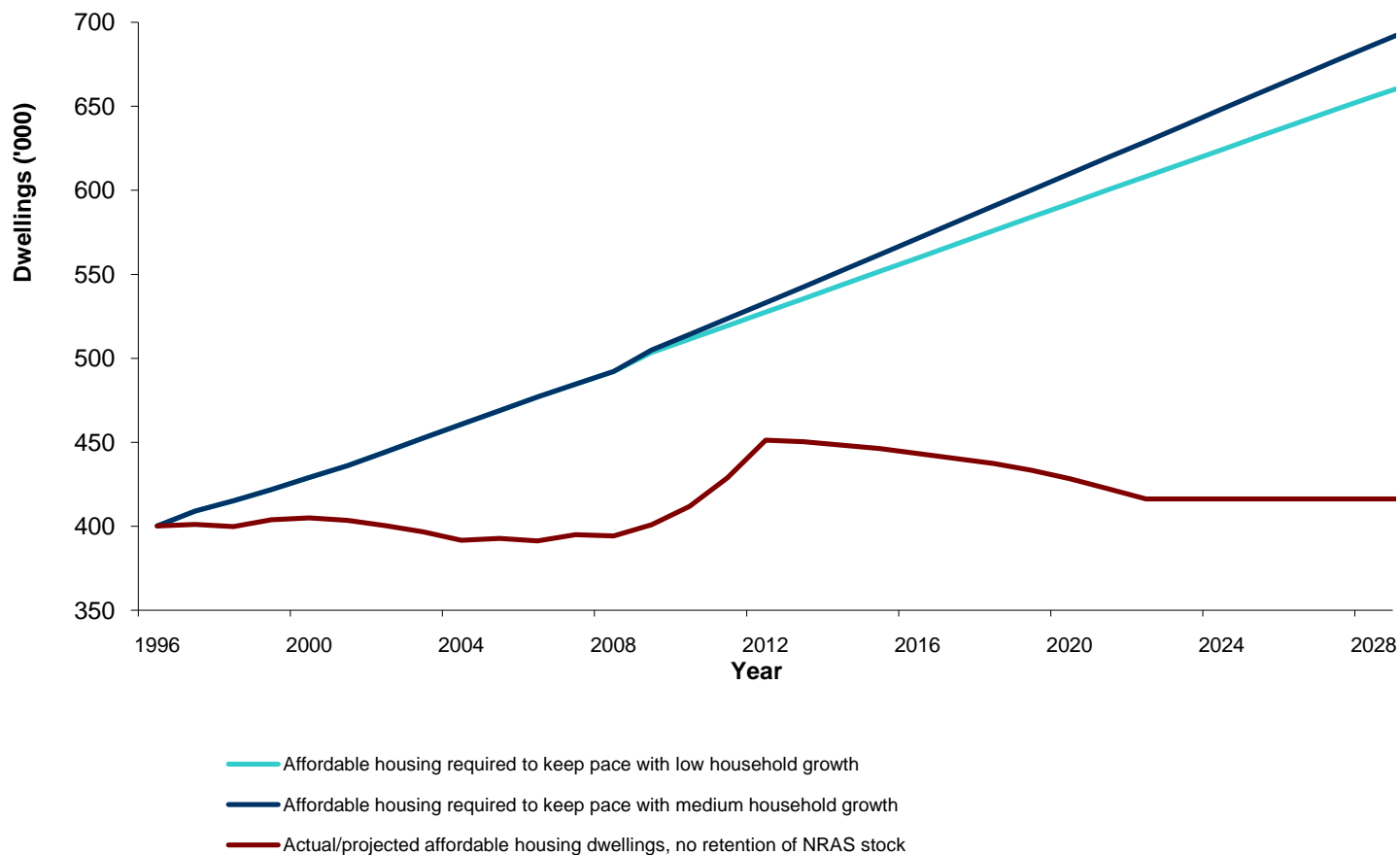


# Growth in social and affordable housing

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- NRAS –4,604 dwellings built & tenanted or available to rent, with many more in development. Target of 50K dwellings by end 2015-16.
- Social Housing Initiative – \$5.6 billion over the four years to 2011-12.
  - To provide 19,600 dwellings, with over 15,400 dwellings completed as at June 2011.
  - Over 80,000 existing dwellings have received repairs and maintenance.
- National Partnership Agreement on Social Housing – 1,960 social and affordable dwellings by mid 2012.
- Extraordinary level of nearly 13,500 public sector dwelling completions (7% of total) propped up the 155,200 total gross completions in 2010-11

# Social housing stock – longer term outlook



Source: National Housing Supply Council 2010, *State of Supply Report*, p. 89.

# Summary

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- ❑ Tough times for housing production, affordability and access
- ❑ Production of housing not keeping up with growth of households
- ❑ This pattern is projected to continue, although policy, demand and supply side responses are likely
- ❑ Demand-side measures aren't effective or efficient in adding to housing supply
- ❑ Tax system doesn't appear to produce higher home ownership or production rates
- ❑ More targeted or selective demand-side measures (e.g. FHOG for new homes only) could be more effective and have less inflationary impact.
- ❑ Supply-side measures are more direct and easier to target to areas of declining supply