



SUBMISSION TO THE PARLIAMENTARY INQUIRY INTO HOUSING
AFFORDABILITY AND SUPPLY IN AUSTRALIA

STANDING COMMITTEE ON TAX AND REVENUE

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Terms of Reference

The House of Representatives Standing Committee on Tax and Revenue will inquire into and report on the contribution of tax and regulation on housing affordability and supply, that is:

Examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply;

Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level; and

Examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in an Australian context.

INTRODUCTION

National Shelter welcomes the opportunity to make a submission to the Inquiry into housing affordability and supply in Australia. National Shelter acknowledges that housing affordability and supply are affected by many factors including but not limited to the following:

- Population size and growth rate
- Urban spread and density
- Planning regimes
- Developer control of land supply and release
- Urban, regional and rural infrastructure disparities

The policies, tax settings, revenue collection, expenditure and planning/infrastructure settings of successive Australian governments for more than four decades, have created a housing ecology where prices have outstripped the ability of many to earn enough to maintain historically high rates of home ownership or provide sufficient housing supply, especially for low-income households, to properly house all residents to an acceptable Australian standard.

Additionally, while this inquiry is about housing affordability we will also discuss the need to supply affordable housing to households in need. There is a distinction between housing affordability and affordable housing. Housing affordability is a relative term comparing house prices and rents to income or wealth and the real issue in Australia is a complete absence of affordability for people living on low incomes, especially in our private rental markets.

ABOUT NATIONAL SHELTER

National Shelter is a non-government peak body that aims to improve housing access, affordability, appropriateness, safety and security for people living on low incomes.

Since 1976, National Shelter has worked towards this goal by influencing government policy and action, and by raising public awareness about housing issues.

National Shelter's aim is to work towards every Australian having access to housing that is:

- **affordable** — people should not be living in poverty after they have met their housing costs
- **adequate** — everybody is entitled to housing that meets basic standards of decency and their own basic needs
- **secure** — people should not live under a threat of loss of home and shelter
- **accessible** — access to housing should be free from discrimination and conform with universal design principles, at a minimum.
- **in the right place** — housing should be located close to transport, services and support networks, job opportunities, and social and leisure activities
- **able to meet their lifecycle needs** — people have different housing needs at different stages of their lives, and housing should be available to meet these changing needs

National Shelter is supported by the work of State Shelters and members in all jurisdictions and its national member organisations, sponsors and associate members.

In this submission National Shelter draws on its existing [policy platform](#) and the ongoing development of its policy and program responses to housing and homelessness in Australia. These include the publication of the National [Rental Affordability Index](#) annually since 2017, The [National Surveys of renters](#) conducted with CHOICE and the National Association of Tenant Organisations.

National Shelter policies and views are evidence based, drawing on a range of academic, industry and sector informed sources.

A NATIONAL PLAN

There is a housing affordability crisis in Australia, yet there is no Commonwealth Government strategy to address the growing numbers of people experiencing housing stress and homelessness. Homeownership is on the decline, fewer households are achieving mortgage-free homes before retirement, the private rental market cannot provide affordable homes for people living on low incomes, and our social housing system is not meeting the needs of our citizens. Inadequate social security payment levels, unemployment, and a poorly targeted and **insufficient Commonwealth Rent Assistance program leave more than one million Australians living with housing stress in the private rental market.**

Around the world, housing affordability has emerged as a major contributor to increasing inequality.ⁱ Nations that recognise this issue have developed national housing strategies to combat the problem. Twenty-five of the Organisation for Economic Cooperation and Development nations have housing strategies targeting a range of objectives.ⁱⁱ

National Shelter Recommendations

1. The Australian Government to commission the development of a national housing strategy with an emphasis on meeting the housing needs of low and moderate-income households and increasing the supply of non-market housing available to them.

- a.** Create an independent statutory authority to oversee the development of the strategy, establish data and reporting processes, and ensure inputs from all levels of government are commensurate with the national strategy.

- b. The strategy to look at establishing targets for homeownership, rental housing and non-market (social, affordable, specialist) housing.

HOUSING IS INFRASTRUCTURE LINKED TO ECONOMIC PRODUCTIVITY

[New research and a new survey of housing experts and leading economists](#) supports the case that Australian governments must pay greater regard to the way the housing system impacts on productivity and growth – a view held by almost two-thirds of economists participating in the research (64%), and by 94% of other housing experts.

National Shelter Recommendations

1. A national housing minister to be included in Cabinet within, or linked to, a central agency (treasury, infrastructure, cities, regional development).
2. That Infrastructure Australia include social and affordable housing in their next plan to meet the infrastructure needs of Australia.

TAX AND POLICY SETTINGS

Australia's treatment of capital gains taxes and the deductibility of rental losses against any income source (negative gearing) have been the subject of significant discussion and debate for the past two elections. Since the Australia's Future Tax System Review we have elevated tax reform into an issue in its own right or for purposes of economic efficiency and effectiveness - an end in itself.ⁱⁱⁱ Tax reform is rightly a means to an end and raising revenue from appropriate taxes like a lower discount on capital gains and lowering the tax forgone through negative gearing provides additional income which should be applied to additional social and affordable housing programs and supporting people experiencing homelessness.

Australian taxpayers, via the tax discounts provided to residential property investors, support a growing rental sector. So far this sector's investors are dominated by investment in existing rather than new housing and therefore do little to increase the supply of rental housing, rather they add to price competition. Increasing prices mean rental yields for investors are low and they invest for other reasons, principally capital gains, given the over-generous tax discount (50%). Small investors (owning between 1-6) properties also have a poor record of providing good quality housing and keep pressure on tenancy laws to inhibit security and quality in rental housing leading National Shelter to prefer a shift away from individual ownership of property to an institutional ownership. Tax settings could be easily adjusted to encourage this shift allowing individuals to invest in unit trust mechanisms to maintain property investment and creating larger pooled (aggregated) funding to establish institutional investment on a rational basis in our housing markets. This measure could accelerate the new supply of rental housing taking pressure off rental markets and extending to the provision of social and affordable housing.

National Shelter Recommendations

1. Reduce the capital gains tax discount for individuals and trusts to 25%.

2. Limit negative gearing and quarantine passive investment losses so they can only be written off against other investment income.
3. Remove or adjust the exemption on capital gains tax for homeowners.¹
4. Investment in rental housing should shift from individual investment to institutional investment options.
 - a. Equalise the withholding tax provisions between commercial and residential investment classes.
 - b. Equalise the treatment of tax discounts between institutions and individuals.
5. Discontinue the use of superannuation withdrawals for home deposits.
6. Encourage and provide incentives to State and Territory governments to exchange stamp duties for a disaggregated land tax over twenty years.⁵

LACK OF SOCIAL AND AFFORDABLE HOUSING

Australian Housing and Urban Research Institute (AHURI) researchers estimated that in 2016, there was a shortfall of around 431,000 social housing dwellings, and that this deficit would grow to 727,300 dwellings by 2036. The researchers concluded that 36,000 new social housing dwellings per year were required to meet this need.² National Shelter acknowledges that financing such a scale of social housing is beyond the scope of governments and appreciates that the role of governments is to provide the incentives and settings to encourage private investment to provide ongoing pipelines of affordable and social housing supply. To achieve these changes government needs to set targets, provide targeted assistance to meet investment gaps and operational costs

National Shelter Recommendations

1. The national housing strategy includes a plan to lift the national level of social housing to 10% of all housing by 2036.
2. Social housing to be developed within a mixed tenure approach, appropriate to locations and within jurisdictional capability.

¹ Removing the exemption of Capital Gains Tax for homeowners may need an accompanying threshold to protect the use of homes for genuine dwelling purposes while applying a tax to capture unreasonably high value houses whose purpose is to use housing as a tax haven. It may also require a mechanism to defer payment to be taken from an estate on death. As controversial as this suggestion may be is time to reconsider the over use of housing as a tax vehicle rather than, “The material home represents the concrete expression of the habits of frugality and saving ... one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among friends, into which no stranger may come against our will.”

Sir Robert Menzies, 'Forgotten People' speech, 1942

² AHURI Why Building Housing Infrastructure After the Pandemic can benefit Australia, May 2020

3. A minimum of a net increase of 20,000 new social housing dwellings to be added to the total social housing dwelling supply each year in the absence of a national housing strategy.
4. Current national housing and homelessness payments to be separated into two streams:
 - a. An operational fund paid on a per-dwelling basis to providers (State and Territory housing authorities and community housing providers); this could be preserved for structural maintenance and quarantine the homelessness payments within NHHHA. Payments should be sufficient to cover operational costs and Commonwealth Rent Assistance.
 - b. A growth fund to be provided to State and Territory governments on a per capita basis.
5. The Commonwealth Government to establish an affordable housing infrastructure booster (the boost) and aggregator with a variable subsidy based on land and housing cost, regional variation, a variety of contributory inputs (planning, land, equity). (See submissions from The Constellation Project and CHIA for full details) add a link?
6. The strategy progressively lifts the role of community housing providers to owning and managing 50% of all social and affordable housing by 2036.

PLANNING MEASURES

The land use planning system can be an important mechanism for the delivery of housing supply, housing diversity, housing affordability, and more specifically, affordable housing.

The primary focus of the planning system is generally on State/Territory and Local governments. Broadly, State and Territory governments have primary responsibility for establishing the strategic direction and policy framework for land use, supply and urban planning and development policy. State and Territory governments also have responsibility for housing-related State taxes and charges, and State-based infrastructure policy and services associated with residential development. Local government is responsible for the development and adoption of local planning schemes and development control decisions, that respond to the strategic direction set out by the relevant State/Territory, as well as the needs of the community.

While it may appear that the role of the Commonwealth Government is limited in relation to planning and influencing housing outcomes, particularly social and affordable housing, the Commonwealth Government plays a significant role in setting both the policy and fiscal agenda and tying deliverables to funding.

Commonwealth Government policy touches on many areas that influence planning outcomes, and the development of cities and regions, including infrastructure investment and priorities, transport, as well as taxation and immigration policies. Additionally, many of these areas rely on Commonwealth Government funding and support. These measures all influence the shape and performance of cities, urban and regional areas, and housing markets. This has implications on other tiers of government, and the leveraging of outcomes.

There is historic precedence for the Commonwealth Government to be involved and drive urban planning outcomes, particularly as it relates to the provision of affordable and social housing. The Building Better Cities program of the early 1990s framed an agenda, policy and funding priorities by offering State and Territory governments untied Commonwealth funding on the basis that the recipient government would commit to achieving a range of economic, social and environmental 'outcomes' defined in an Area Strategy.

The current Commonwealth Government ‘Smart Cities Plan’ provides a framework to deliver city policy priorities, including housing, migration reform, infrastructure and value capture.

The Smart Cities Plan recognises the importance of placing affordable housing and housing supply generally, near job opportunities and transport connections. It also recognises that coordinating the policy, planning and regulatory levers can better support the supply of affordable and diverse housing. The Smart Cities Plan also includes City Deals, and considers City Deals as the primary deliverer of the Smart Cities Plan.

Additionally, the National Housing and Homelessness Agreement (NHHA) also identifies housing priority policy areas which direct/encourage States and Territories through their bilateral agreements to incorporate planning mechanisms into their housing strategies. The NHHA specifically identifies planning and zoning reform and initiatives as national housing priority policy areas, including consideration of inclusionary zoning and land release strategies. Further opportunities exist to utilise bi-lateral agreements to mandate State and Territory urban planning frameworks to require and enable social and affordable housing outcomes.

National Shelter Recommendations

1. Support the development of the national mandatory inclusionary zoning framework developed by the Constellation Project³ including:
 - a. A minimum of 10% of mandatory inclusionary zoning (MIZ) on all new private housing developments where there is an unmet need for social housing with additional requirements for affordable rental housing.
 - b. Require a minimum of up to 30% of MIZ, minimum 50% social, on all residential development undertaken on surplus Commonwealth, State and Local Government land.
 - c. Require planning frameworks that require and enable affordable and social housing as a key outcome of National Housing and Homelessness Agreement (NAHA) bilateral agreements.
2. Require that all city deals include housing affordability as a central element including:
 - a. Targets for social and affordable housing.
 - b. Direct funding for social and affordable housing.
 - c. Supply of land for social and affordable housing.
 - d. Frame social and affordable housing as essential infrastructure.
 - e. Support planning reform including the introduction of inclusionary zoning.
3. Require that the disposal of surplus Commonwealth Government land include provisions for the delivery of social and affordable housing, as either product or cash in lieu of product.
4. Require jointly funded infrastructure projects with State and Territory Governments to include value capture to maximise community benefits associated with projects that have significant government investment. This includes the delivery of social and affordable housing outcomes.

³ https://theconstellationproject.com.au/wp-content/uploads/2020/05/2020-05-15-MIZ_Brochure_20200318_v5.pdf

DEVELOPER CONTROL OF LAND RELEASE

Another aspect of the affordability equation is the extent to which developers themselves apply controls to the land release process, slow the release to increase profitability and stage releases of land to increase the value of the land, releasing lots to maximise profitability, thereby imposing their own set of costs and increases into the housing eventually built on developed lots.

Dr Cameron Murray has written a paper exposing the practices of major developers in slowing the release of land and adding price to the eventual dwelling produced on it.⁴

FEDERAL, STATE, LOCAL

One of the pernicious problems facing the development of social and affordable housing supply is the ongoing debate about which levels of government are responsible for the provision of social and affordable housing. Developing a supply pipeline for social and affordable housing requires settling this ongoing debate and a new agreement on responsibility.

National Shelter works with all three tiers of government and has a unique perspective on the issue of responsibility. In the past, the Commonwealth demonstrated leadership by properly funding social housing, which the States and Territories operationalised and funded jointly. The transition from the Commonwealth State Housing Agreement to the National Affordable Housing Agreement saw a decrease in accountability and transparency when it was poorly implemented and moved from measuring outputs to outcomes. The current agreement, the National Housing and Homelessness Agreement further entrenches the ideology that social housing is a State and Territory responsibility.

National agreements on housing between the Commonwealth and States began in the 1940s. We now have a seventy-year history of jointly funded programs for social and affordable housing. All levels of government must take responsibility for ensuring an adequate supply of social and affordable housing.

Recently we have seen:

- Victoria Budget 2021 \$5.3b investment in social and affordable housing
- Queensland Budget 2021 - \$2.9b investment in social and affordable housing
- Western Australia Budget 2021 - \$750m social and affordable housing fund
- Tasmanian Government \$615m to build 3500 social housing units by 2027

It is time the Commonwealth Government matched these expenditures by creating a new social and affordable housing growth fund of at least the same magnitude through establishing the Affordable Housing Boost and Aggregator, enhancing the NHHA, or a new program of its own design.

CONCLUSION

⁴ <https://thefifthstate.com.au/innovation/residential-2/the-truth-behind-the-housing-supply-nonsense/>

National Shelter recognises that housing affordability is a complex issue with many contributing factors- over the past decade we have seen rapid population growth, our urban footprints are changing and our cities growing in density, planning systems need to spread the cost of infrastructure charging more evenly and ensure we have plans and targets to meet the demand for adequate supply.

It is difficult to see how governments can intervene in the overall land supply and planning process to ensure more affordable housing. At a time when interest rates are at record lows and demand seems to defy the normal pressure points, the one thing governments may control is the provision of affordable and social housing into the overall mix.

Adding new social and affordable housing via direct investment, meeting the inevitable gaps required to fill the difference between cost and rent, introducing permanent planning measures like Mandatory Inclusionary Zoning, will, if done at sufficient scale, have an impact over time on the affordability of the housing market.

ⁱ <https://theconversation.com/rising-inequality-in-australia-isnt-about-incomes-its-almost-all-about-housing-119872>

ⁱⁱ <https://www.oecd.org/els/family/PH1-2-Housing-policy-objectives-and-obstacles.pdf>

ⁱⁱⁱ <https://treasury.gov.au/review/the-australias-future-tax-system-review>