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The National Housing and Homelessness Agreement needs urgent repair

Submission to the Productivity Commission review

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Summary

We welcome the Productivity Commission review of the National Housing and Homelessness Agreement.

Within living memory, Australia was a place where housing costs were manageable, and people of all ages and incomes had a reasonable chance to own a home close to jobs. But home ownership rates are now falling, especially among the young and the poor. People on low incomes – increasingly renters – are spending more of their income on housing. And homelessness is on the rise.

House prices have risen as interest rates have hit record lows, while tax and welfare settings, and rapid migration, fed demand. But housing costs would have risen less if more housing had been built. Australia has not built enough housing to meet the needs of the growing population. Australian cities are not delivering the best mix of housing location and density, given what people would prefer.

This is primarily a problem for state governments: they set the overall framework for land and housing supply, they govern the local councils that assess most development applications, and they set building regulations that affect building costs. But the Federal Government can encourage the states to reform land-use planning and zoning laws in ways that will boost supply. Increasing housing supply will restore housing affordability only slowly. But without a concerted effort to boost housing supply in Australia, housing affordability will probably get worse.

There is also an urgent need for more government support to reduce homelessness and help house vulnerable Australians. Australia's social housing stock has stagnated in recent decades. Commonwealth Rent Assistance is inadequate. Without change, many low-income renters will be condemned to a life in poverty, especially in retirement.

The existing National Housing and Homelessness Agreement is failing to address these problems. Past agreements have not focused enough on boosting housing supply, while also offering inadequate funding to effectively house vulnerable Australians.

The next National Housing and Homelessness Agreement should be split into two to tackle these twin housing challenges:

- A 'National Homelessness and Social Housing Agreement' should focus on protecting the vulnerable by boosting the stock of social housing, focusing it on the most vulnerable, and increasing Rent Assistance, with additional funding commitments from both federal and state governments.
- A 'National Housing Affordability Agreement' should contain incentives for state and territory governments to reform land-use planning rules in ways that will boost supply, and commitments from the federal government to reform tax and welfare policies that distort demand for housing.

It took neglectful governments decades to create Australia's current housing affordability mess. They preferred the easy choices that merely appear to address the problems. But if governments keep pretending there are easy answers, housing affordability will only get worse – and younger and poorer Australians will pay the price.

We would welcome an opportunity to appear before the inquiry. For further information please contact Brendan Coates, Program Director, Economic Policy, Grattan Institute:

1 Housing has become less affordable for many Australians

Australian housing has become increasingly expensive in recent decades, and public anxiety about housing affordability is rising.[1] House prices have grown much faster than incomes.[2] Interest rates have fallen, and so repaying a typical first home loan is not particularly difficult at the moment. But it is harder to save a deposit for a first home, a first home loan now entails more risk, borrowers live with that risk for longer, and inflation is unlikely to erode the cost of repayments as quickly as in the past, especially if interest rates rise from today's historically low levels. Rents remain high and have also risen relative to incomes over the longer term, particularly for low-income households in capital cities following the decreased availability of social housing. Although rental affordability has improved in recent years as housing construction has accelerated.

1.1 Australians are spending more of their incomes on housing

Australian dwelling prices have grown much faster than incomes, particularly since the mid-1990s. Prices have risen rapidly in all cities, and most regions. Median prices have increased from about 4 times median incomes in the 1980s and early-1990s, to more than 8 times today (and around 10 times in Sydney).[3]

1. Daley et al (2018a, Figure 1.1).
2. Wood et al (2022, Figure 3.1).
3. Updated from Daley et al (2018a, p. 16).

Box 1: What does housing affordability mean?

'Housing affordability' is a catch-all term for a grab-bag of public concerns linked to rising house prices.

Housing is both something we live in and an asset we can own.

Rents are the actual cost of consuming housing services in the housing market. Changes reflect shifts in the balance of demand and supply of the housing *stock*.[a] Financial factors, such as interest rates, affect rents only indirectly, such as by affecting the amount of housing that gets built.

House prices are the costs of acquiring a house, and reflect the discounted net present value of future rental income from owning a house, plus any expected capital gains in future.[b] Since home purchases are typically financed by debt, interest rates and the availability of mortgage credit have an enormous impact on house prices, especially in the short term. The tax treatment of housing also affects house prices. The ability of new housing supply to respond to changes in demand is also a major driver of house prices over the longer-term.

Many people also think of housing affordability as the **mortgage burden** – the share of household income required to pay the typical mortgage. This approach more closely reflects the cash-flow costs of housing.

a. Housing lasts a long time, but it depreciates. New dwelling construction adds only 1-to-2 per cent to the housing stock in any given year.
b. In practice, home buyers can either rent their house out – earning a rental income – or live in it, avoiding the need to pay rent. Economists refer to the amount a household would pay to rent the house they own as 'imputed rent'.

Of course, not all Australians own their own homes – nearly one in three Australian households rent privately.[4] Rents have grown more slowly than house prices, and over the long term they have more or less tracked wages. But rents have fallen since the onset of the COVID-19 pandemic, as migration has come to a standstill.[5]

Lower-income Australian households in particular are spending more of their income on housing.[6] More than half of low-income Australians in the private rental market suffer rental stress, especially those in the capital cities.[7]

1.2 It is getting harder to save for a deposit

There are typically three hurdles to home ownership in Australia: savings for the deposit, affording mortgage repayments, and the level of risk that first home-buyers take on.

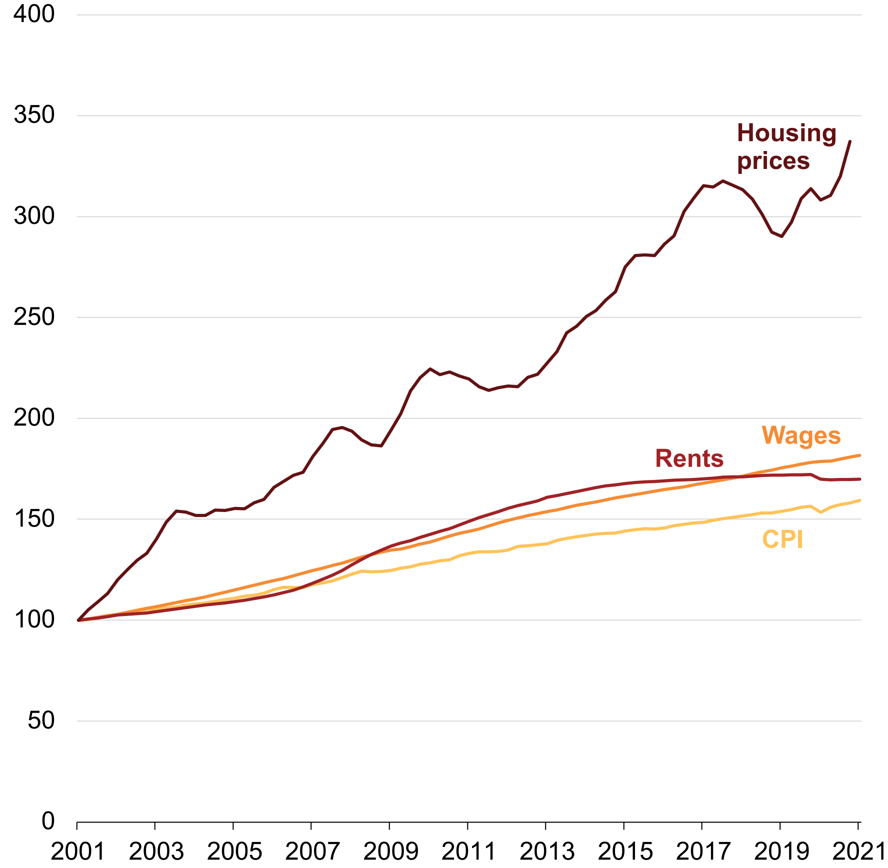
The challenge of saving an initial deposit is now typically a bigger barrier to home-ownership than the initial burden of mortgage repayments, and so younger households increasingly rely on contributions from the 'bank of mum and dad'.[8]

In the early 1990s it took about six years to save a 20 per cent deposit for a typical dwelling for an average household. It now takes more than

4. Over recent years the proportion of households renting has steadily increased from about 27 per cent of households in 1991 to 32 per cent in 2016. Daley et al (2018a).
5. Quality-adjusted rents reported by the ABS have fallen by 1.1 per cent across Australia since the March quarter of 2020: ABS (2021a). However other indices which track recently rented properties point to a rapid turnaround in rents in recent months: SQM Research (2022).
6. Daley et al (2018a, p. 15).
7. Daley et al (Figure 2.14 2018a) and ABS (2019). Rental stress for low-income households is defined as the bottom 40 per cent of households with respect to equivalised disposable household income (excluding Commonwealth Rent Assistance), spending more than 30 per cent of gross income on rent.
8. Daley et al (2018a, Figure 4.11); and Hewett (2017).

Figure 1.1: House prices have increased much faster than rents and income

Nominal, index 2001 = 100



Notes: Nominal house price growth from Bank for International Settlements; Wages from Wage Price Index (excluding bonuses; private and public). Rents in the CPI are stratified according to location, type, and size.

Sources: BIS (2021, H1), ABS (2021a, Tables 1, 7) and ABS (2021b, Table 1).

12 years.[9] Although banks no longer insist on a 20 per cent deposit, most people still try to save this much before purchasing a dwelling.[10] In addition, many young households are finding it harder to save for a deposit because they face larger higher education debts and are now forced to save more of their income into superannuation than their parents did 25 years ago.

In contrast, borrowers' ability to afford repayments on the mortgage has improved as interest rates have fallen. This 'mortgage burden' is often defined as the proportion of household income spent on repaying a mortgage. Depending on the household income measure used, the mortgage burden on a newly purchased first home, assuming a person borrows 80 per cent of the value of the home, is currently lower than it was during much of the past 20 years.[11]

Yet a first home loan now entails more risk, since purchasers are borrowing a larger share of their lifetime incomes to purchase a home, and borrowers live with much of that risk for longer. Homebuyers repay their mortgages over periods as long as 30 years. The mortgage burden over the life of the loan depends on how fast nominal incomes (that is, including inflation) grow, and what happens to interest rates. Most people who bought 20-to-30 years ago now use only a relatively small share of their income to pay the mortgage. Nominal interest rates fell while nominal wages rose rapidly for most of the 1990s. In contrast, a new homebuyer today is likely to continue to spend a large proportion of their income on the mortgage for many years, unless wages start to grow faster than in the recent years.

9. Based on households saving 15 per cent of their gross annual income: Coates (2022).
10. The typical leverage of a first home buyer has remained remarkably constant, at about 83 per cent between 2001 and 2014, even though banks loosened lending requirements and became more prepared to provide high-leverage loans: Simon and Stone (2017).
11. See: Daley et al (2018a, p. 21). Interest rates have since fallen further.

1.3 Home ownership is falling, especially among the young and the poor

Between 1981 and 2016, home-ownership rates among 25-34 year-olds fell from more than 60 per cent to 45 per cent. Home ownership has also fallen for middle-age households, suggesting that most of the fall is due to higher dwelling prices rather than changing preferences for home-ownership among the young. Consequently, without intervention, home-ownership rates are unlikely to bounce back over time. For 35-44 year-olds, home-ownership has fallen fast – from 74 per cent in 1991 to about 62 per cent today. Home-ownership is also declining for 45-54 year-olds.

Home ownership rates are falling particularly fast among poorer Australians of all ages. About 57 per cent of the poorest 40 per cent of Australians aged 25-34 owned their homes in 1981. Now it's halved to just 28 per cent. (Figure 1.2).

Home ownership is also falling among poorer older Australians. Among the poorest 40 per cent of 45-54 year-olds, just 55 per cent own their homes today, down from 71 per cent four decades ago. Older renters, including those with a deposit, won't be in the workforce long enough to pay off a home by the time they retire, even at today's record-low interest rates.

Many poorer Australians, of all ages, increasingly lack any real choice between home-ownership and renting.

1.4 Housing has contributed to growing inequality and rising homelessness in Australia

With low-income earners spending a larger proportion of their income on housing, inequality is rising. While income inequality is not getting much worse in Australia, incomes *after housing costs* have risen much faster for high-income than low-income households (Figure 1.3).

Housing is also a leading reason that wealth has increased faster for the already wealthy.[12]

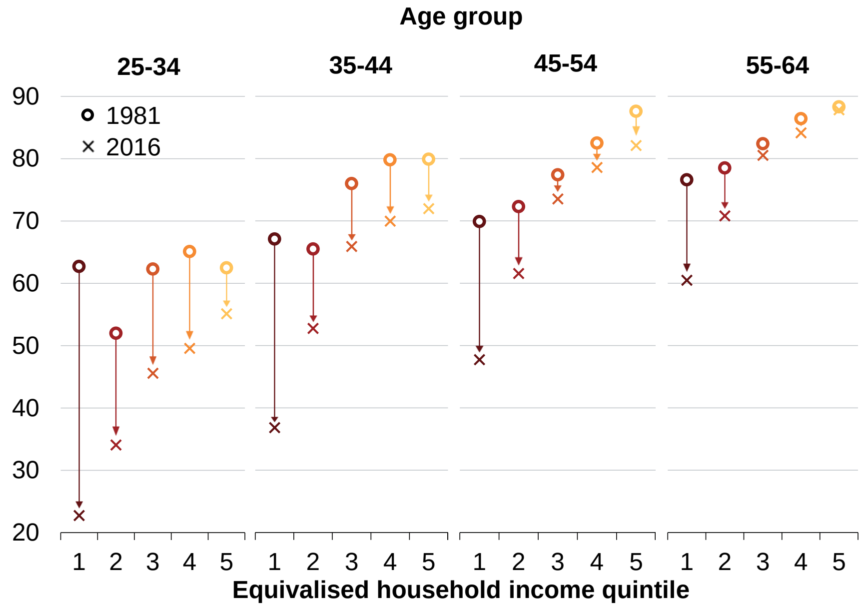
Rising housing costs also contribute to increased homelessness.[13] Almost 50 of every 10,000 Australians were homeless in 2016.[14] Australia's rate of homelessness has increased in the past five years.

More than 116,000 people were homeless in Australia on Census night in 2016 – up from 105,000 in the 2011 Census and 90,000 in the 2006 Census. Over the same period, the number of people sleeping rough – on the streets, in improvised dwellings, or in tents – grew by about 950 people, to 8,200. The number of people who are living in crowded dwellings rose 33 per cent from 61,000 in 2011 to 81,000 in 2016.[15]

Among countries with similar definitions of homelessness, Australia ranks better than New Zealand, which has almost 90 homeless per 10,000 people, but worse than the UK, which has about 25 homeless per 10,000.[16]

Figure 1.2: Home-ownership is falling particularly fast for low-income earners

Home-ownership rates by age and income, 1981 and 2016, percentage

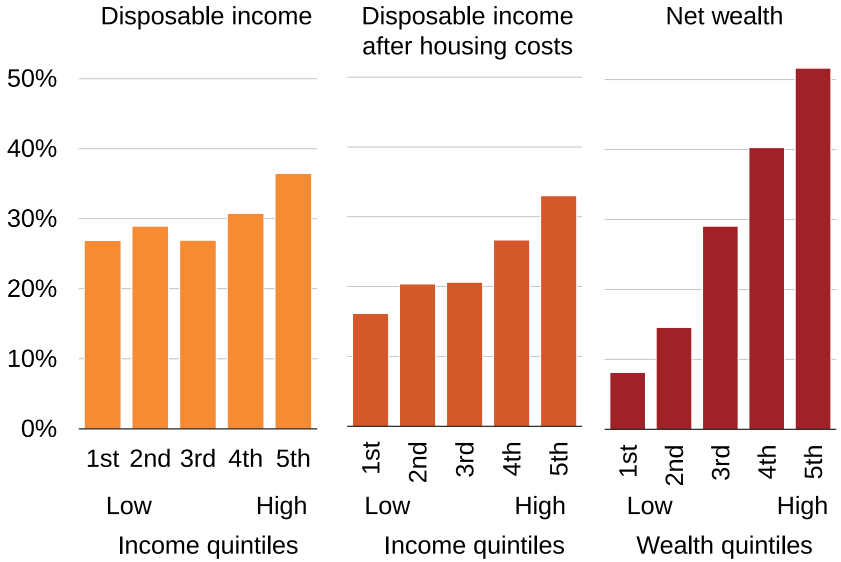


Notes: Household incomes based on Census data are approximate, and so small changes in ownership rates may not be significant. Excludes households with tenancy not stated (for 2016) and incomes not stated.

Source: Daley et al (2018a, Figure 4.3).

12. Daley et al (2018b, Figure 5.1). While owner-occupied housing wealth has become more unequally distributed, the share of overall wealth held in this asset class fell, so too did its contribution to relative wealth inequality as measured by the Gini coefficient: Davidson et al (2020).
13. Johnson et al (2018).
14. Daley et al (2018c, p. 51).
15. The ABS categorises people in houses that need three extra bedrooms not as homeless, but 'marginally housed'.
16. The definition of homelessness varies significantly across countries. The Australian definition includes: people living in improvised dwellings, tents, or sleeping out; people in supported accommodation for the homeless; people staying temporarily with other households; people living in boarding houses; people in other temporary lodgings; and people living in 'severely' crowded dwellings. See: Daley et al (2018c, p. 109).

Figure 1.3: Housing costs and wealth are key causes of increasing inequality
Change in real equivalised household disposable income including and excluding housing costs growth, 2003-04 to 2015-16



Notes: Housing costs include rents for renters and repayments on loans for owners with mortgages. Growth in income excluding housing costs calculated by subtracting growth in housing costs from growth in disposable income. Income quintiles are calculated using household disposable income, equivalised by family size. Bottom two income percentiles are removed due to low reliability.

Source: Daley et al (2018a, Figure 4.1).

2 Australia hasn't built enough housing to meet rising demand

Australian housing has become increasingly expensive – to rent or buy – for many reasons. Demand has been driven by rising incomes, tax and welfare settings, and rapid migration. However, record low interest rates have been the strongest driver of rising prices in recent years.[17] But housing costs – especially rents – would have risen less if there had been more housing.[18]

2.1 Australian cities have not built enough housing

Australian cities have not built enough housing to meet the needs of Australia's growing population. Australia has just over 400 dwellings per 1,000 people, which is among the least housing stock per person in the developed world. Australia has had the second greatest decline in housing stock relative to the adult population over the past 20 years (Figure 2.1 on the following page). All states and territories except the ACT had less housing per adult in 2016 than in 2011.[19] Some argue that there is no undersupply and possibly even an oversupply of homes in Australia. But these estimates typically ignore how rising prices and worsening affordability pushed people into larger households than they otherwise would have chosen.[20]

Housing construction had accelerated in the years leading into the COVID pandemic.[21] Most of the additional approvals were for apartments in buildings with four or more storeys, with some pick-up in semi-detached townhouses.[22] But even record rates of housing construction in Sydney and Melbourne have only just been sufficient to accommodate the population increases seen before the pandemic.[23]

The closure of Australia's international borders due to COVID-19 saw Australia's population growth slow to a near stand-still from March 2020 to June 2021.[24] Over the same period, construction commenced on 257,000 dwellings.[25] As a result, new housing supply is temporarily exceeding new demand.[26] This shorter-term period where new supply exceeds new demand can be seen as partial catch-up for much longer, more protracted periods of undersupply. Yet the COVID crisis has also resulted in an increase in housing demand from existing residents, especially an increase in demand for more space per person, offsetting some of the decline in housing demand from the drop in migration. If Australia's population growth returns to pre-COVID trends, future rates of construction will need to be even higher than recent elevated levels.

17. For instance, Reserve Bank researchers recently concluded that a temporary 1 per cent decline in interest rates would be expected to lead to house prices rising by 8 per cent over the following two years. But if such a rate cut was seen as being permanent, house prices would instead rise by 28 per cent over the next two years: Tulip and Saunders (2019). House price rises since the onset of COVID are consistent with these estimates.
18. In the past, additional supply over the long run has successfully limited price growth, even when demand grew rapidly. See: Daley et al (2018a, p. 111).
19. Daley et al (2018c, Table 5.1).
20. The average number of people living in each dwelling fell from 3.5 to 2.6 between 1966 and 1996 due to couples having fewer children, the ageing of the population, shifting lifestyle preferences, more family breakdowns leading to smaller households, and older people living in their home for longer. However, household size has remained roughly constant since the late-1990s. Therefore, these estimates underplay the number of dwellings needed to accommodate Australia's growing population. Daley et al (2018a).
21. Daley et al (ibid, p. 50).
22. The NSW, Victorian, and Queensland governments have all changed planning rules and processes over the past five years or so, which has helped new building to catch up with additional demand. Daley et al (2018c, p. 52).
23. Daley et al (2019).
24. ABS (2021c).
25. ABS (2021d).
26. For example, Corporation (2020) expects new demand for housing to fall by 286,000 dwellings between 2020 and 2025, compared with the pre-crisis outlook.

2.2 Restrictive planning rules have constrained supply

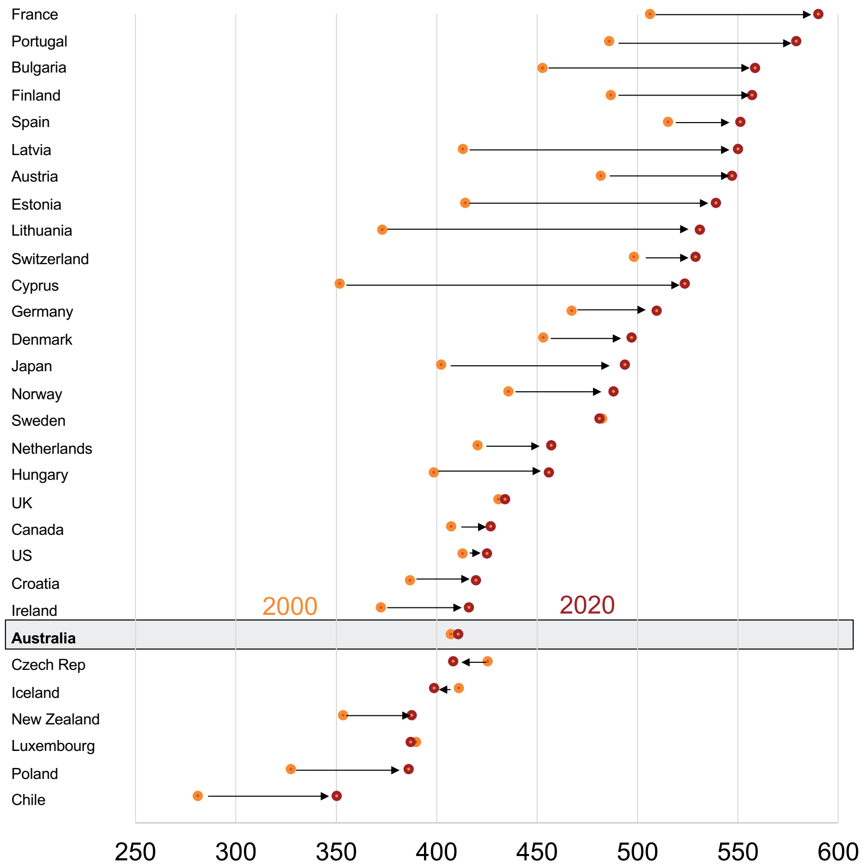
The historical shortage of housing in Australia is largely a failure of housing policy, rather than housing markets.

Australia's land-use planning rules are highly prescriptive and complex. Current rules and community opposition make it very difficult to create extra residences in the inner city and middle-ring suburbs of our capital cities.[27] And so new housing construction in Australian cities is relatively unresponsive to demand,[28] and the density of Australian cities has barely changed in the past 35 years.[29]

In 2018, Reserve Bank researchers estimated that restrictive land-use planning rules added up to 40 per cent to the price of houses in Sydney and Melbourne, up sharply from 15 years ago.[30] More recent research suggests that planning rules have added substantially to the cost of apartments, where building height limits in and around the urban cores of our major cities prevent more construction.[31] These findings are consistent with a growing international literature highlighting how land-use planning rules – including zoning, other regulations, and lengthy development approval processes – have reduced the ability of many housing markets to respond to growing demand, adding to both rent and house price growth in a number of countries.[32]

Figure 2.1: Unlike most developed countries, Australia has had little increase in housing per person in the past two decades

Dwellings per 1,000 people, 2000 and 2020 or latest



Notes: Figures are for total occupied and unoccupied private dwellings. Data for 2020 series refer to: 2020 for Austria, Denmark, Estonia, Finland, France, Ireland, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Sweden, UK, and US; and 2018 for all others. Data for 2000 series refer to: 1998 for Italy; 2001 for Australia, Austria, Bulgaria, Canada, Croatia, Czech Republic, Hungary, Luxembourg, New Zealand, Norway, Portugal, and Spain; 2002 for Chile and Latvia; 2005 for Malta.

Source: OECD (2020).

27. See Daley et al (pp. 56-58 2018a) on how regulations affect housing supply.
28. The best available estimates of the 'price elasticity of supply' in Australia is that a 10 per cent increase in dwelling prices leads to an increase in the stock of new housing of between 3 and 5 per cent. See: Daley et al (p. 46 ibid).
29. Daley et al (ibid).
30. As demand for housing has increased, the zoning effect as a share of the price of housing has increased: Kendall and Tulip (2018).
31. Jenner and Tulip (2020) estimate that home buyers will pay an average of $873,000 for a new apartment in Sydney, though it costs only $519,000 to supply, a gap of $355,000 (68 per cent of costs). There are smaller gaps of $97,000 (20 per cent of costs) in Melbourne and $10,000 (2 per cent of costs) in Brisbane.
32. Daley et al (Box 4 2018a).

Of course, land-use planning rules benefit other land users by, for example, preserving the views of existing residents or preventing increased congestion. But studies generally conclude that the benefits of restricting development are much less than the costs imposed.[33]

Planning rules that constrain development in Australian cities have also led to a shortage of medium- and high-density housing compared to what Australians actually want. After accounting for trade-offs in price, location, and size, many people would prefer a townhouse, semi-detached dwelling, or apartment in a middle- or outer-suburb, rather than a house on the city fringe. Semi-detached dwellings, townhouses, units, and apartments made up 44 per cent of Sydney's and 33 per cent of Melbourne's dwelling stock in 2016, up from about 38 per cent and 28 per cent respectively in 2006. But this is still well short of the 59 per cent and 52 per cent respectively that residents say they want (table 2.1).[34]

In recent years, planning controls have been significantly relaxed for high-rise in Brisbane and for medium-to-high density dwellings in Sydney.[35] But Australian cities still have relatively little medium-density development in their extensive middle rings. Many local governments restrict medium- and high-density developments to appease local residents' concerns about road congestion, parking problems, and damage to neighbourhood character.

Since the onset of the pandemic, population growth in Australia has slowed, and rates of inbound migration may take some time to return to pre-COVID levels. Wherever people decide to live after the pandemic subsides, the planning system should be flexible enough to ensure that they can. Changing land-use on urban fringes has already created some conflicts as housing developments encroach onto land previously used for farming.[36] Allowing Australians to choose where they want to live by relaxing planning rules to allow more housing to be built in a variety of places is the best approach.

2.3 Strict land-use planning rules reflect the politics of planning

Planning regulations have not changed much, despite the pressure of increasing population, because of the politics of planning. Most people in the established middle suburbs already own their house. Most of them don't like new developments in their neighbourhoods.

The structure of government doesn't make the politics of increasing density any easier. The voting bases of councils, the basis on which they collect rates, and the blurring of responsibilities between the Commonwealth and the states all reduce the political incentives for any level of government to do better.

The benefits of population growth accrue to society as a whole, whereas decisions about development approvals largely sit with local councils. Existing residents usually prefer their suburb to stay the same. Restricting development effectively increases the scarcity value of their property. And they worry that increased population will reduce the value to each of them of the current publicly provided infrastructure in their area such as roads and other amenities. Existing residents are typically concerned that there will be more traffic congestion, more crowding on public transport, more noise, and less 'street appeal'.[37]

Meanwhile, prospective residents of middle-ring suburbs who don't already live there cannot vote in the relevant council elections, and their interests are largely unrepresented.

33. Ibid, p. 57. For example, in a review of the literature, Gyourko and Molloy (2015) conclude that while the benefits of land-use planning rules are difficult to quantify, 'recent studies suggest that the overall efficiency losses from binding constraints on residential development could be quite large'.
34. Daley et al (Table 3.2 2018a).
35. Daley et al (pp. 58-59 ibid).
36. Select Committee on Agricultural and Related Industries (Chapter 2 2010).
37. Daley et al (2018a).

Table 2.1: The housing stock in Sydney and Melbourne is still some way from what people would prefer

	Sydney					Melbourne			
	Detached	Semi-detached or townhouse	Apartment building up to 3 storeys	Apartment buildings 4+ storeys		Detached	Semi-detached or townhouse	Apartment building up to 3 storeys	Apartment buildings 4+ storeys
% housing stock in 2016									
Inner	5	4	6	7	Inner	10	6	6	6
Middle	13	3	5	4	Middle	18	6	2	1
Outer	18	4	4	2	Outer	25	4	1	0
Fringe	21	3	1	0	Fringe	14	1	0	0
Total	**55**	**14**	**16**	**14**	**Total**	**67**	**17**	**10**	**7**
Preferred housing stock, % of respondents									
Inner	9	4	2	5	Inner	8	6	3	5
Middle	9	7	4	5	Middle	14	9	4	4
Outer	12	7	4	6	Outer	14	6	3	3
Fringe	10	6	5	4	Fringe	12	6	2	2
Total	**41**	**25**	**15**	**20**	**Total**	**48**	**26**	**12**	**14**
Housing stock mismatch (housing stock in 2016 minus preferred housing stock), percentage points									
Inner	−4	0	4	2	Inner	2	0	3	1
Middle	4	−4	1	−1	Middle	4	−3	−2	−3
Outer	6	−3	0	−4	Outer	11	−2	−2	−3
Fringe	11	−3	−4	−4	Fringe	2	−5	−2	−2
Total	**15**	**−11**	**1**	**−6**	**Total**	**19**	**−9**	**−2**	**−7**

Notes: Preferred stock is from the trade-off survey in Kelly et al (2011). Excludes dwellings listed as 'Not stated' and 'Other dwellings'. Semi-detached/townhouses includes townhouses, terrace houses, row houses, courtyard houses, and villa units. Regions are at statistical local area level, sorted according to land price in 2011, and approximately match distance to the CBD. Data may not sum due to rounding.

Source: Daley et al (Table 3.2 2018a).

3 What the next National Housing and Homelessness Agreement should do

The current National Housing and Homelessness Agreement focuses on protecting the vulnerable, albeit with inadequate funding to effectively house vulnerable Australians, while giving inadequate attention to the more fundamental issue of boosting housing supply.

To give equal weight to these two urgent priorities, the next Agreement should be split in two:

- A 'National Homelessness and Social Housing Agreement' should focus on protecting the vulnerable by boosting Australia's stock of social housing and increasing Rent Assistance.
- A 'National Housing Affordability Agreement' should contain commitments from the Federal Government to reform tax and welfare policies that distort demand for housing, and incentives for state and territory governments to reform land-use planning in ways that will boost supply.

Both agreements could sit under a National Housing Strategy that acknowledges that each set of objectives has overlapping benefits but different policy levers.[38]

3.1 A National Homelessness and Social Housing Agreement

A new 'National Homelessness and Social Housing Agreement' should contain commitments to increase the number of social housing dwellings and ensure vulnerable private renters are protected.

38. For example, protecting the vulnerable requires adequate funding from the Commonwealth, whereas improved housing supply needs state-based reform of land-use planning. However, increased housing supply can help protect the vulnerable by reducing rental stress, the demand for social housing, and homelessness.

Give priority to more social housing

The best Australian evidence shows that social housing substantially reduces tenants' risk of homelessness.[39] Social housing can make a big difference to the lives of vulnerable people. While lots of landlords rent to low-income households, many are prepared to leave their property vacant if the only person seeking tenancy faces the many issues typical for those who are at severe risk of, or already suffering, homelessness.[40]

The stock of social housing – currently about 430,000 dwellings – has barely grown in 20 years, while the population has increased by 33 per cent.[41] About 6 per cent of housing in Australia was social in 1991. It's now less than 4 per cent. As a consequence, there is little 'flow' of social housing available for people whose lives take a big turn for the worse,[42] and many people who are in great need are not assisted. Tenants generally take a long time to leave social housing; most have stayed for more than five years.[43]

But boosting social housing would be expensive. Estimates vary, but each additional social housing dwelling probably requires either

39. Prentice and Scutella (2018) studied the benefits of social housing, comparing people who entered social housing to similar individuals in the private rental market. They found that social housing tends to be effective at reducing homelessness. Only 7 per cent of residents placed in social housing subsequently become homeless, compared to 20 per cent of similar renters in the private market.
40. Daley et al (2018a).
41. Coates (2021). This is despite some significant investments in social housing, including the former Rudd Government's Social Housing Initiative.
42. Daley et al (2018a, p. 132).
43. AIHW (2017).

an annual subsidy of about $15,000 a year, or an upfront capital contribution of about $300,000.[44]

A new approach is needed to ensure adequate and sustainable funding for new social housing. In the meantime, the existing social housing stock needs to be better managed. It is often not well-suited to tenants' needs,[45] and it is often of poor quality.[46]

Establish a Social Housing Future Fund

The Federal Government should commit to a Social Housing Future Fund, which could make regular capital grants to state governments.[47] A $20 billion future fund, managed by the Future Fund Board of Guardians, could deliver $900 million annually, sufficient to build 3,000 new social housing units each year.[48]

The initial capital could be raised by issuing additional Commonwealth Government debt at long maturities.[49] The direct financial cost to the Federal Government would be modest – about $500 million a year – in the form of interest costs on the outstanding debt.[50] Alternatively, part of the return from the Future Fund could be used to cover these debt interest costs, leaving $400 million available each year to fund the construction of about 1,350 new social housing dwellings each year across Australia, but no hit to the Federal Government's underlying cash balance.

Capital grants for new social housing would be administered by the National Housing Finance and Investment Corporation (NHFIC) via a competitive tender. Additional state government contributions to new social housing could be sought on a matching 50:50 basis as a condition of any grants being allocated to their state. Any state that did not agree to provide matching contributions would be ineligible for any federal grants that year, with the proceeds instead reinvested in the Future Fund and re-distributed via a larger grant allocation the following year.

Additional Commonwealth support should fund social, not affordable, housing

Given its costs, social housing should be reserved for those most in need, and at significant risk of becoming homeless for the long term.[51] An unprecedented boost to the social housing stock – such as an extra 100,000 dwellings – would make a big difference to people who are homeless if it were tightly targeted towards them,[52] but more than two-thirds of low-income Australians would still remain in the private rental market.

Additional Federal Government subsidies should not be provided for affordable housing. Affordable housing, such as that constructed

44. Estimates of the average upfront cost of building a unit of social housing range from $240,000 to $330,000. See: Coates (2021).
45. Tenants have little choice over the home they are offered, so the type of housing available can be incompatible with their needs. For example, the public housing stock is dominated by three-bedroom houses, yet most recipients are singles or couples without children.
46. In 2018 almost one-in-five Victorian social housing dwellings did not meet minimum acceptable standards: Productivity Commission (2020).
47. Coates (2021).
48. Assuming a return target of 4.5 per cent above inflation, and required capital grant per dwelling of $300,000. Alternatively, a $20 billion fund could support the immediate construction of 60,000 new social housing units, by providing an availability payment of $15,000 a year per dwelling for 15 years. However, using availability payments would commit all Future Fund returns for a 15-year period, providing no further additions to the social housing stock in the interim.
49. The Commonwealth Government 10-year bond currently has a yield of 2.5 per cent.
50. Assuming a government bond rate of 2.5 per cent.
51. Of the new social housing allocations in 2020-21, over 81 per cent went to 'greatest needs' applicants (Productivity Commission (2022, Chapter 18)).
52. For example, there were 116,000 homeless Australians on Census night in 2016 (ABS (2017a)).

under the now-defunct National Rental Affordability Scheme (NRAS), is typically not targeted at people most in need. Eligibility thresholds for NRAS were set far too high: $50,000 for a single adult, or nearly $70,000 for a couple – much higher than the equivalent eligibility thresholds for Commonwealth Rent Assistance.[53] As a result, a substantial proportion of people allocated to affordable housing schemes are often on moderate-to-higher incomes.[54]

Far more people are eligible for affordable housing than there are places available. Consequently affordable housing schemes are in effect lotteries that provided much more assistance to some people than others. By contrast, Rent Assistance is available to all Australians who are eligible.

Therefore, beyond ensuring a flow of additional social housing for people most at risk of long-term homelessness, further support for low-income housing should be focused on direct financial assistance for low-income renters by boosting Rent Assistance, and improving housing affordability more broadly by increasing the number of homes constructed.

Boost Commonwealth Rent Assistance

Rent Assistance materially reduces housing stress among low-income Australians.[55] But the value of Rent Assistance has not kept pace with rent increases. The maximum Rent Assistance payment is indexed in line with CPI, but rents have been growing faster than CPI for a long time, and the rents paid by low income earners have risen even faster that those measured in the CPI.[56]

The next Agreement should contain commitments to boost the rate of Commonwealth Rent Assistance. This would help low-income earners with their housing costs, and reduce poverty more generally. A 40 per cent increase in the maximum rate of Rent Assistance – worth about $1,400 a year for singles – would cost $1.5 billion a year.[57] Commonwealth Rent Assistance would then provide the same real level of assistance to low-income earners as it did 15 years ago, taking into account the rising cost of their rent. In future, Rent Assistance should be indexed to changes in rents typically paid by people receiving income support, so that its value is maintained, as recommended by the Henry Tax Review.[58]

A common concern is that boosting Rent Assistance would lead to higher rents, eroding much of the gains in living standards for low-income earners.[59] But an increase in Rent Assistance is unlikely to substantially increase rents.[60] Households are unlikely to spend all of

53. Department of Social Services (2018). For example, the income cut-off for a single receiving JobSeeker is $32,107 a year: Services Australia (2022).
54. Department of Social Services (2016). Only one-third of NRAS tenants had gross household incomes lower than $30,000, and one-third had incomes higher than $50,000 a year.
55. In June 2021, 72 per cent of Rent Assistance recipients would have paid more than 30 per cent of their income on rent if Rent Assistance were not provided. With Rent Assistance provided, this proportion was reduced to 46 per cent: Productivity Commission (2022).
56. Coates and Nolan (2020a, p. 66).
57. Updated from Coates and Nolan (ibid, p. 66).
58. Treasury (2009, p. 595). While the rental component of the CPI is a readily available and transparent measure, an index of rents paid by Rent Assistance recipients would provide a more accurate assessment of their rental costs.
59. Senate Economics References Committee (2015, Chapter 22).
60. A recent AHURI study estimated that 6.6 per cent of Rent Assistance is paid to landlords as higher rents, rising to 32 per cent for tenants living in severely disadvantaged areas: Ong et al (2020). When New Zealand's rental subsidy was increased in 2005 in parts of Auckland, rents paid by recipients rose by 30 cents for every dollar spent, although the authors expect that increased rents reflected increased housing consumption, especially since rent rises where most pronounced among families, rather than a wider increase in rental prices: Hyslop and Rea (2018).

the extra income on housing.[61] Households receiving Rent Assistance are only a small proportion of low-income renting households. And only half of low-income renters actually receive Rent Assistance, since eligibility is linked to receiving an income support payment.[62]

But boosting Rent Assistance would not solve all the issues around housing affordability. Boosting Rent Assistance by 40 per cent would only modestly reduce the proportion of low-income earners in housing poverty. Many low-income Australians are spending up to 50 per cent of their incomes on housing.[63] And private rental is likely to be inappropriate for people at severe risk of long-term homelessness, underlining the need for additional funding for social housing.

3.2 A National Housing Affordability Agreement

The current Agreement has failed against its commitments for affordable housing and an efficient and responsive housing market. A new, dedicated agreement is needed to focus attention on the major changes needed to make housing cheaper and more accessible for all Australians.

The remainder of the submission identifies policies that governments should commit to in a National Housing Affordability Agreement. Grattan Institute's 2018 report, *Housing affordability: re-imagining the Australian dream*, showed what would work. The report evaluated a wide range of housing policy options on whether they would make a material difference to affordability without substantially dragging on the economy or the budget. It concluded that many of them would boost the supply of housing, while a number of tax reforms to remove distortions in housing investment would have large budgetary and economic benefits, but more modest impacts on housing demand. These options span all levels of government and are summarised in Figure 3.1.

3.2.1 What the Federal Government should commit to

Given the allocation of federal responsibilities, the most direct commitment the Federal Government can make is to reform tax and welfare policies that distort demand for housing. It should reduce the capital gains tax discount from 50 per cent to 25 per cent; limit negative gearing; and include owner-occupied housing in the Age Pension assets test. The Federal Government should also commit to a shared equity scheme for people who don't have access to 'the Bank of Mum and Dad'. However, the most critical role the Federal Government can play is to incentivise State and Territory governments to reform land-use planning rules to get more housing built (discussed below).

Reform tax and welfare rules to reduce demand for housing

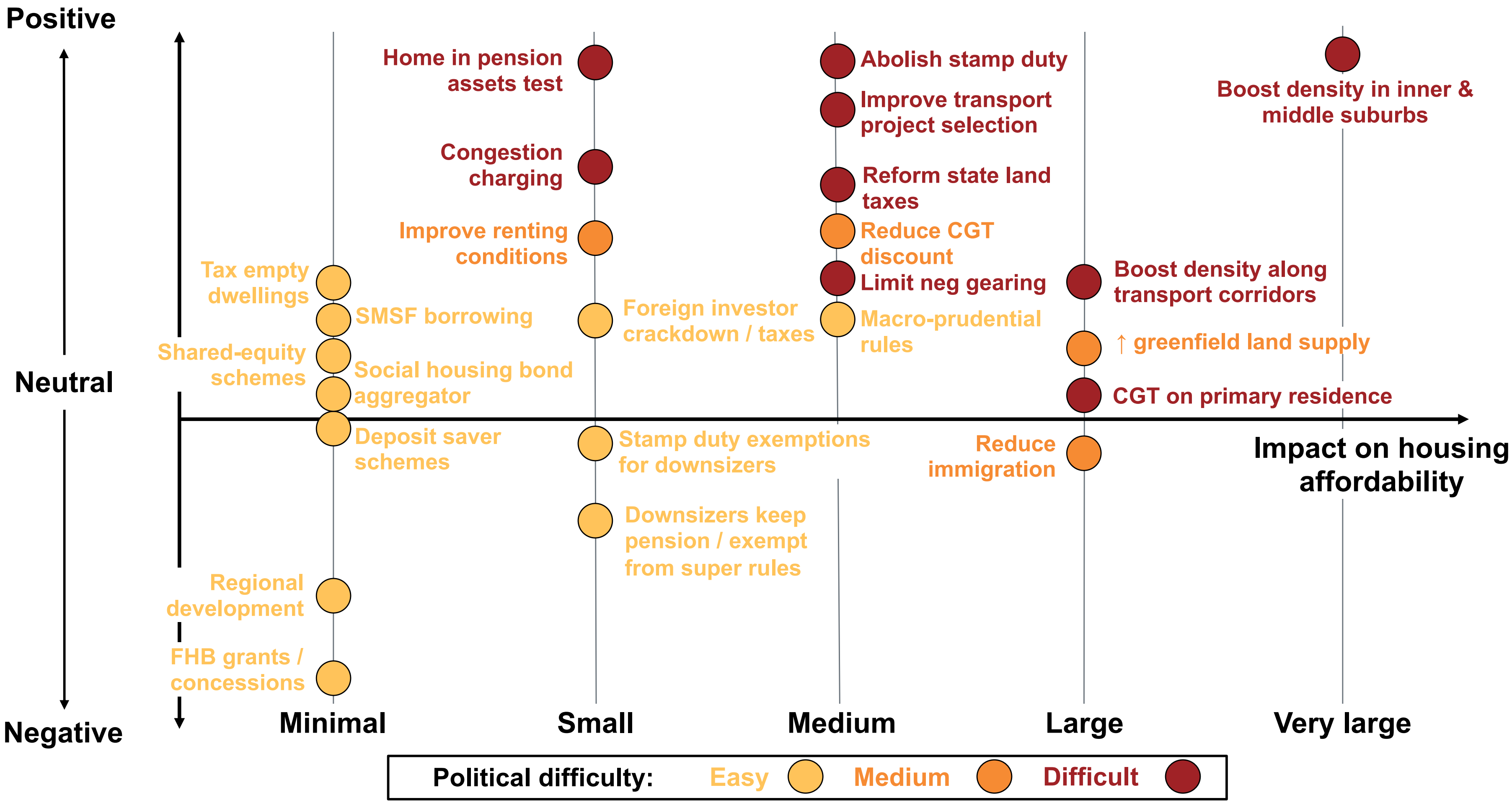
Housing demand would be reduced a little if the Federal Government reduced the capital gains tax discount and limited negative gearing – and there would be substantial economic and budgetary benefits.[64] The effect on property prices would be modest – they would be roughly 2 per cent lower than otherwise – and would-be homeowners would win at the expense of investors. House prices at the bottom would probably fall by more, since these tax breaks have channelled investors into low-value homes that are lightly taxed under states' progressive land taxes and tax-free thresholds.[65]

The dominant rationale for these reforms is their economic and budgetary benefits. The current tax arrangements distort investment decisions and make housing markets more volatile. Our proposed

61. Each dollar of additional Rent Assistance should lead to an increase in spending on housing of only between 9 cents and 15 cents (Daley et al (2018b, p. 78)).
62. Daley et al (ibid, Figure 7.1).
63. Ibid (p. 77).
64. Daley et al (2016).
65. Daley et al (2018a, pp. 97–98).

Figure 3.1: Only some policies will actually improve housing affordability, and these are politically difficult

Summary of economic, budgetary, and social impacts



Notes: Prospective policies are evaluated on whether they would improve access to more-affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary, or social impacts should not be treated with spurious precision. For many of these effects there is no common metric, and their relative importance depends on the weighting of different political values. Consequently our assessments are generally directional and aim to foster a more informed discussion. SMSF = self-managed superannuation fund. FHB = first home buyer. CGT = capital gains tax.

Source: Updated from Daley et al (2018a, Figure 5.2).

reforms would boost the budget bottom line by about $5 billion a year.[66] Contrary to urban myth, rents wouldn't change much, nor would housing markets collapse.[67]

Including more of the value of the family home in the pension assets test would also marginally reduce housing demand. Under current rules only the first $216,500 of home equity is counted in the pension assets test; the remainder is ignored. Inverting this so that all of the value of a home is counted above some threshold – such as $500,000 – would be fairer, and contribute to the budget. Again the dominant rationale for this reform is the budgetary benefit, rather than housing affordability. Many Age Pension payments are made to households that have substantial property assets. More than a quarter of age pensioners own homes worth more than $500,000.[68]

This reform would also encourage a few more senior Australians to downsize to more appropriate housing, although the effect would be limited given that research shows downsizing is primarily motivated by lifestyle preferences and relationship changes.[69]

Establish a national shared equity scheme for people who don't have a 'Bank of Mum and Dad'

The Federal Government should establish a national shared equity scheme, modelled on schemes already operating in Western Australia and South Australia, to level the playing field for first home buyers who don't have access to a 'Bank of Mum and Dad'.[70]

Even if federal and state governments reduce demand and lift supply, house prices are likely to remain high, relative to incomes, due to the long-term decline in interest rates. Therefore the deposit hurdle is likely to remain a problem for younger, lower-income Australians who can't get family support.

Under Grattan Institute's proposed national shared equity scheme, the National Housing Finance and Investment Corporation (NHFIC) would co-purchase up to 30 per cent of the home value, sharing in any property price appreciation upon later sale of the property.[71] Purchasers would borrow the remaining funds from a private lender, as will apply to the recently-announced Victorian scheme.[72] The national scheme would be available only to people purchasing their principal place of residence and who owned no other property. Participation would be restricted to singles with incomes below $60,000, and couple with incomes below $90,000.[73] Participants could only buy below-median priced homes across Australia.[74]

66. Daley et al (2016).
67. Analysis of daily house price data compiled by Corelogic after the 2019 federal election showed that APRA's post-election decision to loosen the lending restrictions it imposes on the banks, rather than the election result, spurred the recovery of Australian house prices. See: Coates and Cowgill (2019).
68. Callaghan et al (2020, Chart 1B-1, Chart 3C-3).
69. Daley et al (2018b, p. 38); Productivity Commission (2015); and Valenzuela (2017).
70. For example, see: Keystart (2022) and HomeStart Finance (2022).
71. Consistent with existing state shared equity schemes, the NHFIC would not charge rent on the Federal Government's equity stake. However, purchasers would be required to cover all costs associated with buying or selling a home, such as conveyancing and stamp duty, as well as any ongoing costs such as council rates and maintenance.
72. Victorian Government (2022).
73. About 57 per cent of singles earn less than $60,000, and about 25 per cent of couples earn less than $100,000: Grattan analysis of the ABS Survey of Income and Housing 2019-20.
74. For instance, a $800,000 price cap across Australia, with lower caps in lower-priced cities and regions, would ensure participants could purchase at least 25 per cent of houses in all jurisdictions except Sydney, and more than 50 per cent of apartments in all major capital cities: Coates and Nolan (2020b, Table 3.1) updated to June 2021 using ABS (2021e).

The scheme should start with a trial of 5,000 places a year for the first three years. At that point the scheme should be reviewed, and if deemed successful, expanded. Several states already have shared equity schemes, but a national scheme is needed. Existing state schemes are typically small, and often limited to public housing tenants or to purchasing homes solely from government-run developers.

A national shared equity scheme would lower the deposit hurdle for first home buyers without access to the Bank of Mum and Dad. It would also help older Australians (especially single women) who are renting and have some savings but are unlikely to remain in the workforce long enough to pay down a full mortgage.[75]

Shared equity could help couples to remain in home ownership if they separate. The home is typically a family's largest asset, and splitting the equity in the home upon separation often requires it to be sold. Separating couples then often lack the assets to each purchase a new home, especially since they must pay stamp duty again. Just 34 per cent of women who separate from their partner and lose the house manage to purchase another home within five years, and only 44 per cent do so within 10 years.[76]

Unsurprisingly, older women who have separated or divorced are more than three times as likely to rent at age 65 than married women, whereas separated men are more than twice as likely.[77] And separated women typically have just two-thirds the assets of separated men in retirement.[78]

75. About 60,000 renting households aged 45-64 have financial assets (excluding super) exceeding $200,000 (for singles) and $300,000 (for couples).
76. By contrast, 42 per cent of separating men buy a home within five years, and 55 per cent within 10 years. Coates (2022).
77. Callaghan et al (2020, Table 3B-26).
78. Callaghan et al (ibid, Table 3B-4).

Shared equity could also help retired Australians when they downsize, because by unlocking home equity it would boost retirees' living standards.

Shared equity schemes can result in higher house prices, by adding to demand. But targeting schemes tightly at lower-income Australians and lower-priced homes would reduce this risk, which is warranted to support lower-income Australians into home ownership.[79]

The scheme we recommend would have only a modest impact on Federal Government finances. For instance, a scheme that issued an average of 10,000 shared equity loans a year, starting in 2022-23, would issue up to 80,000 loans by 2030, with total government equity holdings of about $12 billion, or 0.4 per cent of GDP.[80] In fact such a scheme would be likely to be budget positive in the long term, provided that nominal house prices rose faster than the interest rate on government debt to finance the purchases.[81]

3.2.2 What state and territory governments should commit to

State and territory governments should commit to improving supply. Building an extra 50,000 homes a year for a decade could reduce Australian house prices by up to 20 per cent compared to where they would have been otherwise.[82] State governments set the overall framework for land and housing supply, they govern the local councils

79. Capping the scheme at 5,000 places a year in the early years would limit any short-term impacts. But even if the scheme were to eventually offer 10,000 shared equity loans a year, with each buyer purchasing a $500,000 home on average, the scheme would add at most $5 billion a year to housing demand in a $9 trillion housing market, and probably a lot less: Coates (2022).
80. Assuming an average purchase price of $500,00 and an average government bond rate of 3 per cent on the outstanding debt.
81. The scheme would expose the federal budget to the risk of falling house prices, although the size of that exposure would remain very modest.
82. Daley et al (2018a). Saunders and Tulip (2018) estimate this would reduce the cost of housing by 11 per cent.

that assess most development applications, and they set building regulations that affect building costs. But the Federal Government needs to encourage the states to reform land-use planning and zoning laws and release greenfield land, which would boost supply.

Local governments should not brought into the next national Agreement. Their remits and priorities are localised and narrow, and state governments ultimately control the land-use planning rules which local governments administer.

The Federal Government should sharpen states' incentives to boost housing supply

The Federal Government should provide incentives to state and local governments to increase the supply of housing in good locations.[83] Coordinating action by the states is worthwhile because improved housing supply in one state spills over into lower prices in other states.[84] The Federal Government can help solve this coordination problem.

The principle of federal financial support for state-level reform is well-established. From 1997-98 to 2005-06 the National Competition Policy involved payments averaging about $600 million a year to the states and territories for regulatory and competition reform.[85] The Productivity Commission's 2005 review of the National Competition Policy found that it had delivered substantial benefits to the Australian community which, overall, greatly outweighed the costs of these payments to the Commonwealth.[86]

The current and previous Agreements did not put enough Commonwealth money on the table to get states to make the politically difficult decisions on planning reform.[87] The next Agreement should fix this. The Federal Government should offer incentive payments based on clear and achievable targets – such as the number of additional homes built per 1,000 additional people in the state.[88] Payments should be linked to housing outcomes, rather than specific planning system reform milestones, in order for state and territory governments to have agency to undertake reforms in a way that suits their individual circumstances. Land use planning systems are complex. The precise rules that limit development varies from state to state, although the effects are similar.[89] State governments will have better information about how best to alleviate barriers to new housing construction, including overcoming local opposition.

Further federal funding is most likely needed for these incentives. Making existing payments to the states for homelessness services and social housing contingent on increased housing supply puts vulnerable people at risk, and is unlikely to be politically feasible. Re-purposing

83. Daley et al (2018a, pp. 128–130). See also Deloitte Access Economics (2016).
84. Australia's housing markets are interconnected. If, for example, only the Victorian Government substantially boosts housing supply, any improvement in affordability will be dispersed across Australia as residents of other Australian cities move to Melbourne, attracted by lower house prices relative to other major Australian cities. But because Australia's migration intake is largely determined by the Federal Government, independently of state planning policies, affordability would improve in other states, even though they would have avoided the political costs of increasing housing supply. See: Daley et al (2018a, p. 129), Abelson (2016) and Aura and S. Davidoff (2008).
85. Productivity Commission (2005).
86. Ibid.
87. For example, the Turnbull Government pledged to work with State and Territory governments to set housing supply targets and facilitate planning and zoning reform under the new National Housing and Homelessness Agreement, and via city deals. See: Australian Government (2017, p. 1).
88. A dwellings-per-capita measure more appropriately assesses whether states have met the changing housing needs of their jurisdiction as the population rises. In contrast, other suggested approaches, such as offering a fixed sum per additional dwelling built is likely to punish states that see slower growth in their populations, which are typically driven by factors well beyond the control of the respective state or territory government.
89. See: Daley et al (2018a, pp. 56–58).

other existing funding streams, such as existing federal grants for local infrastructure, or grants programs with Ministerial discretion, is worth exploring but are unlikely to be sufficient on their own to generate sufficient sums needed to entice state governments to undertake politically-difficult reforms to their land-use planning systems.[90] Federal funding is also justified on the basis that the Commonwealth tax base is more likely than the state tax base to capture the increased revenues that flow from higher economic growth as a result of better housing supply.

The Federal Government should also increase public pressure on states to make good planning decisions by showing how these systems constrain housing supply today. The Commonwealth should shift housing research functions from the National Housing Finance and Investment Corporation to an independent statutory body, Housing Australia, with a mandate to collect nationally consistent data on issues related to housing supply and demand, including on the operation of state and local government land-use planning systems, infrastructure charges, and migration. This more independent body could be used to hold the states to account on any government promise to boost housing supply and reform land-use planning rules.[91]

Of course, boosting housing supply will improve affordability only slowly. Even at current record rates, new housing construction increases the stock of dwellings by only about 2 per cent each year. According to available estimates, adding an extra 50,000 dwellings to Australia's housing stock – an increase of about 25 per cent on current levels of construction nationally, or roughly 0.5 per cent of the national housing stock – would lead to national house prices being only 1-to-2 per cent lower than otherwise.[92]

But these estimates also imply that a sustained increase in housing supply would have a big impact on house prices. For example, if an extra 50,000 homes were built each year for the next decade, national house prices and rents could be between 10 and 20 per cent lower than they would be otherwise. While these effects are insufficient to offset the impact of record low interest rates on house prices, they could make housing substantially cheaper in Australia than would otherwise be the case.

Fewer restrictions on land use and subdivision can also increase economic growth by enabling more people to access more jobs, while allowing firms to optimise their location.[93] Such flexibility is likely to be especially important in managing changes in where Australians live and work in response to the COVID pandemic.

Boosting housing supply would especially help low-income earners

Increased housing supply helps people on low incomes by lowering the rents they pay. Rents have increased more slowly over the past decade in Victorian suburbs in which more housing has been constructed.[94] Increasing the supply of housing as we recommend would, over a decade, be sufficient to reduce the number of low-income

90. A recent analysis by *The Age*/*Sydney Morning Herald* of 11 grants programs with ministerial discretion found $1.9 billion was spent in Coalition-held electorates, compared to $530 million in ALP-held electorates, as well as large discrepancies in spending between deserving safe and marginal seats: Curtis and Wright (2021).
91. Daley et al (2018a, p. 129).
92. Daley et al (ibid, p. 111). A more recent estimate from Tulip and Saunders (2019) suggests that each 1 per cent increase in the stock of dwellings lowers the cost of housing by 2.5 per cent.
93. Recent US studies estimate that GDP would be between 2 per cent and 13 per cent higher if enough housing had been built in cities with strong jobs growth such as New York and San Francisco. See: Glaeser and Gyourko (2018, pp. 22–24) and Hsieh and Moretti (2017).
94. Each 1-percentage-point increase in the amount of new housing constructed in a local government area resulted in rents growing 3.7 per cent slower over the decade (Grattan analysis of ABS (2017a) and Victorian Department of Health and Human Services (2019)).

households suffering housing stress by up to one-third, or about 170,000 households.[95] And all low-income households would be paying less for their housing.

Claims that direct investment in affordable housing is the only way to boost the stock of homes available to low-income earners are based on misleading research.[96] More housing supply will ultimately free-up less expensive housing stock, making rents cheaper for low-income earners.[97] International evidence suggests that this 'filtering' does occur in practice. For example, US estimates suggest that 45 per cent of homes that were affordable to very low-income earners in the US in 2013 had filtered down from owner-occupier or higher-rent categories in 1985.[98] And higher rents increase the risk of homelessness for those who are already vulnerable.[99]

95. Grattan analysis of ABS (2017b). Based on a 20 per cent fall in rents.
96. For example, Ong et al (2017) claim that most of the additional dwellings built over the past decade were substantially more expensive than the existing housing stock. But this study is flawed because it groups price deciles by the number of local government areas, rather than by the number of dwellings. Grattan Institute's analysis of the data, updated to 2016-17, shows that two-thirds of new houses have been built in the cheapest half of all suburbs, and most new units and apartments have been built in Sydney and Melbourne, where median prices are higher (Coates and Wiltshire (2018)).
97. See: Daley et al (2018a, p. 64). The people who move into newly constructed, more expensive housing are either existing residents who move out of less expensive housing, or new residents who would otherwise have added to the demand and pushed up the price of existing housing. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately improves affordability for all homebuyers.
98. Weicher et al (2016).
99. For example, Johnson et al (2018) find that a $100 increase in 20th percentile weekly rents raised an individual's risk of becoming homeless by almost 3 per cent among a sample of welfare recipients who had been flagged by Centrelink as being at risk of housing insecurity. In fact, increasing rents actually had a greater impact on the risk of homelessness than frequent illicit drug use, experiencing physical or sexual violence in the past six months, or a history of being in state care.

Decreasing rents provides the kind of support to households which subsidies on their own will never be able to feasibly achieve. Decreasing rents by 20 per cent would boost the post-housing incomes of low-income private renters by more than $3 billion a year, equivalent to more than an increase of more than 80 per cent in the maximum rate of Commonwealth Rent Assistance.

Making housing cheaper would also make existing government subsidies more effective, since Rent Assistance would go further towards reducing financial stress among low-income private renters.

3.3 All governments should commit to avoiding poorly-targeted subsidies for first home-buyers and downsizers

Over recent decades, federal, state, and territory governments have spent billions of dollars giving cash incentives and stamp duty concessions to first-home buyers.[100] These policies have been targeted far too broadly – to many people who would have purchased a house anyway – and typically resulted in spikes of first home-buyer activity as they bring forward purchases, then there is a lull in activity, and in the end housing affordability is actually worse because additional demand drives up prices.[101]

Some argue that governments should give senior Australians more incentives to downsize their homes through stamp duty concessions, exemptions from the Age Pension means test, or additional superannuation tax concessions.[102] It sounds good: new incentives would encourage seniors to move to housing that better

100. Eslake (2013). Daley et al (2013, p. 49) estimated that abolishing all subsidies for first home-buyers could save federal, state, and territory budgets a combined $1.3 billion a year. Stamp duty concessions act in a similar way to cash grants for first home-buyers (I. Davidoff and Leigh (2013)).
101. Daley et al (2018a, pp. 135–137).
102. For example, see Ong et al (2016).

suits their needs, while freeing up equity for their retirement and larger homes for younger families.

But the reality is different. Most seniors are emotionally attached to their home and neighbourhood and don't want to downsize.[103] So most of any financial incentives will go to people who were going to downsize anyway.[104] And, as the Productivity Commission found, these incentives have a material budget cost, and distort the housing market by adding even more tax and welfare incentives to own a home.[105]

If governments really want to encourage seniors to downsize, they should do so by including the family home in the Age Pension assets test – which would at least have the virtue of improving the budget bottom line, even if it would have little impact on housing affordability.

3.4 Making housing more affordable requires making tough choices

Australian governments have historically avoided the hard choices on housing affordability, preferring policies that merely appear to help. The politics of reform are fraught because most voters own a home (and many own investment properties), and mistrust any change that might dent the price of their assets. But if governments keep pretending there are easy answers, housing affordability will only get worse.

If governments really want to make a difference, they need to stop offering false hope through policies, such as first home-owners' grants, that are well-known to be ineffective. Governments have no chance of bringing the community with them when they keep telling voters that the easy policies will do the job. Instead they need to explain the hard choices, to prepare the ground for the tough decisions that need to be made. Either people accept greater density in *their* suburb, or their children will not be able to buy a home. Economic growth will be constrained. And Australia will become a less equal society – both economically and socially.

103. For two-thirds of older Australians, the desire to 'age in place' is the most important reason for not selling the family home. Often they stay put because they can't find suitable housing in the same local area (Daley and Coates (2017)).
104. Daley et al (2018a, pp. 140–141).
105. Productivity Commission (2015).

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