HOUSING INDUSTRY ASSOCIATION RESPONSE TO

THE PRODUCTIVITY COMMISSION'S DISCUSSION DRAFT REPORT ON FIRST HOME OWNERSHIP

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1. Introduction

HIA is pleased that the Productivity Commission's has endorsed the broad thrust of HIA's original submission in that there is scope to address taxation, planning, infrastructure and regulatory issues to the benefit of home buyers well beyond the current trough in housing affordability.

However, HIA is concerned that the Commission has questioned the extent of the structural affordability problems first home buyers face and has unreasonably promoted the notion that there are enormous 'subsidies' being provided to owner-occupiers from the non-taxation of imputed rent and the exemption of the place of principal residence from the capital gains tax. Moreover, the Commission has, in HIA's view, unreasonably promoted the estimates of these 'subsidies' as revenue forgone to the Australian Government. The Commission has failed to acknowledge that the Federal Treasury does not treat the non-taxation of home owners' imputed rent as a tax expenditure.

In a policy sense the debate over whether these matters are genuinely subsidies and their quantum is academic. But the Commission's promotion of the notion that there are $25billion in Federal Government subsidies being provided to owner-occupiers seriously colours the Commission's judgement about the merits of reform measures that would provide genuine cost relief to home buyers. So the overall tenor of the report is that the current housing affordability issues are essentially cyclical and that given the 'subsidies' home owners enjoy, action on the structural issues that are eroding housing affordability long term pale into insignificance and do not warrant serious attention. To reinforce this view, the Commission goes to some lengths to question the estimates of the potential benefits from structural reforms, in stark contrast to its uncritical acceptance of the estimates of the supposed tax 'subsidies' to owner-occupiers.

The Discussion Draft acknowledges that home ownership provides significant benefits to home owners themselves and to the community more broadly. However, it also asserts, without analysis, that the current home ownership rate in Australia is somehow at its natural peak, and that any further encouragement or support for home ownership would be counterproductive. With home ownership rates falling markedly in the under forty age groups, those most disadvantaged by the deterioration in housing affordability, the Commission's assertion that home ownership has reached a peak needs to be seriously questioned.

If the Commission's views about the 'subsidies' available to owner-occupiers and the rate of ownership already being at its natural peak are not challenged, the Commission's final report will represent a missed opportunity. The long-term cost to the community from doing nothing will be substantial, especially when the current age groups who are unable to enter the home ownership market, reach retirement age. The hurdles this group faces in accessing home ownership will not evaporate with the easing of the current housing cycle. HIA submits that the array of taxes and charges that are now embedded in the cost of a new home will not be reduced as the housing market slows because state and local governments in particular have increasingly become dependent upon them. Since the prices of established housing will mirror the cost of replacement there is little prospect for anything other than the price of established housing to constantly ratchet up.

Against this background, HIA's response to the Commission's Discussion Draft Report focuses on reinforcement of the quantitative estimates made in its initial submission of the potential benefits flowing to home owners from genuine structural reform of the way land and new housing is supplied. It is these structural reforms that will provide durable improvements to housing affordability. HIA has also responded to several issues where the Discussion Draft has sought further information.

2. The Recent Surge in Housing Demand

The Productivity Commission contends that surging house prices were a 'signal' of demand outstripping supply[1]. The Commission went on to remark that the surge in demand was well in excess of underlying demand fundamentals "to which supply was inherently incapable of responding, at least in a way that could moderate the pressure on prices in the short term."[2].

While a combination of lower interest rates and higher relative returns on residential property contributed to an upward shift in the demand for housing, the Commission has both downplayed the contribution of changes to the underlying requirement of new housing and paid scant regard to the escalation in the SUPPLY PRICE of new housing, linked mainly to sharp increases in the price of land. The impression created by the Productivity Commission is that the prices of existing housing are determined independently of movements in the price of new housing. Although the cost of building has increased slightly ahead of general inflation over the past two years, the main culprit in escalating new home prices has been the price of land.

Much of the increase in land prices has reflected greater scarcity in the availability of land for greenfield development, evidenced by marked increases in the acquisition price of 'raw' land. But a contributing factor to rampant increases in land prices has been the acceleration in the application of development charges by state and local government to greenfield development.

Although prices of established housing can diverge for a period of time from the price of new housing (inclusive of land), over the longer haul the prices of established housing will be influenced closely by the 'costs of replacement' and in particular the cost of supplying serviced land. Importantly, there is evidence that the price of established housing has not separated markedly from replacement costs, which suggests that there is a high floor under the price of existing housing. Because of the tight margins on which housing producers operate, a severe contraction in the price of established housing would imply a greater adjustment on the new housing market through changes in real activity as distinct from reductions in new home prices. With economic growth expected to increase significantly, the prospect of a general shakeout in the price of existing housing seems less rather than more likely. Consequently, the proposition that housing affordability will be restored through a 'correction' in established house prices is unduly optimistic.

The Productivity Commission asserts "that population growth and household formation trends have not been major drivers of the recent increase in housing prices (which) is supported by estimates of the underlying demand for

[1] Refer to page XV of the Productivity Commission Discussion Draft.
[2] Refer to page XV of the Productivity Commission Discussion Draft.

(new) dwellings."[3] Not only has the Productivity Commission understated the significance of changes to the supply price of new housing in shaping the valuation of existing stock, it has diminished inappropriately the relevance of changes to the underlying requirement for new housing. The Commission cites incorrectly estimates of BIS Shrapnel of the underlying requirement for new dwellings at about 140,000 new homes a year. In May 2002, HIA revised upwards its estimate of the underlying requirement for new housing to 159,000 per annum, and BIS Shrapnel in June 2003 issued a revised projection of underlying requirements of 160,000 per annum, representing an increase in underlying requirements and implied capital expenditure on new dwellings of about 14 per cent a year relative to the mid-1990s. The expansion of underlying demand for new housing was much greater than expected particularly by state and local government planning agencies.

The Commission states that a "feature of the upswing in prices was the boost to demand provided by the First Home Owners Grant (FHOG), which injected an additional $3.8 billion into the housing market over the past three years,".[4] HIA submits that the First Home Owners Grant was not a factor in the increase in house prices. Even allowing for a bringing forward in the timing of first home purchase due to the grant, the share of additional first home activity to total owner-occupier and rental investment activity would have been very modest, possibly less than one per cent of total real estate activity. In addition, in Sydney where first home buyers are a very small part of the overall market, house prices increased fastest.

HIA also notes that the $3.8 billion provided by FHOG in the three years to June 2003 was offset over this same time period by an estimated $6.56 billion raised in GST on the building of new homes.

[3] Refer to page 55 of the Productivity Commission Discussion Draft.
[4] Refer to page XVII of the Productivity Commission Discussion Draft.

3. Taxation of Housing

3.1 Imputed Rent of Owner Occupied Housing

HIA has serious reservations about the Commission's approach to the taxation of housing. In particular, HIA contends that the Commission gives credence to the notion that the non-taxation of imputed rent on owner occupied housing constitutes a "subsidy". This is more than just an academic exercise since the Commission seeks to underpin recommendations such as the extension of land tax to owner-occupiers to "help" counter the "bias" in favour of owner occupied housing.

Even the language used of "help(ing)" to remove a "bias" suggests the anti-housing bias of the Commission. Elsewhere in its Discussion Draft the Commission acknowledges some of the benefits of home ownership and the sense of governments providing positive support, yet at the same time this support (a pejorative "bias" in the Commission's language) needs "help" to be diminished.

The Commission cites conventional social benefits attaching to home ownership but barely mentions the contribution of home ownership to the containment of "welfare dependency"[5]. As far back as the 1970s the Henderson Report recognised and documented the positive relationship between home ownership and income after housing costs at retirement age and especially compared with private renting households. More recently, the Australian Government's Intergenerational Report highlighted the tension for Australia to fund social security entitlements arising from an 'ageing' population. Yet nowhere does the Productivity Commission mention that successive Australian Governments have fostered and supported 'saving' in home ownership and superannuation as part of a retirement incomes policy. Any worthwhile assessment of the 'costs' of home ownership support should take to account the 'savings' to budgetary outlays from home owners being more self-sufficient compared with aged private and public renters.

It is entirely appropriate for the Commission to assess the efficiency of current government support for home ownership but this should be the outcome of objective assessment, not assertion. In this vein, HIA is strongly of the view that suggesting that the taxation of imputed rent for owner-occupiers represents a 'neutral' tax position is erroneous.

The Government's own official summary of tax expenditures (Tax Expenditures Statement 2002) recognises that the non taxation of imputed rent for owner-occupiers is "..part of the personal income tax benchmark."[6] i.e. it should not be regarded as a subsidy. This is entirely appropriate as the tax

[5] Refer to page 3 of the Productivity Commission Discussion Draft.
[6] Refer to page 17 of the Productivity Commission Discussion Draft.

system does not tax imputed rent from **any** class of consumer durable, such as motor vehicles for which there is an active rental market.

Even if it could be successfully argued that the non-taxation of imputed rent should be considered a "subsidy" to owner-occupiers, the Commission has grossly overstated the value of the subsidy at $8 billion per annum. The Commission claims that this figure, together with other "tax subsidies" should be considered from a "revenue viewpoint" [7].

The implications of this statement are that these 'subsidies' are a direct cost to budget revenue. This is dangerously misleading. Even though the Commission acknowledges there would be behavioural change if the tax preference for owner-occupiers were removed, it contends "from a revenue viewpoint, estimates suggest that the current tax preference to owner-occupiers could total some $25 billion per annum"[8]. Many first home buyers would experience a negative net 'rental' income since the interest payments on loan borrowings would most likely exceed the implicit rental value. In fact, the Commission makes the concession that "a first home buyer might actually be better off were he/she treated the same as an investor."[9]

While acknowledging that behaviour could change, the Commission fails to quantify the impact on 'revenue' of owner-occupiers adjusting their equity in their place of principal residence to obtain interest deductibility. Since the people who take advantage of 'negative gearing' on rental investment property are the same people who acquire owner-occupied housing, wouldn't the extension of the taxation treatment of rental housing to owner-occupied housing occasion a marked shift of owner-occupiers to negative gearing of the place of principal residence? On the one hand the Commission contends that "Various general aspects of the taxation regime-including negative gearing rules" "have magnified the attractiveness of investing in rental investment property." But if owner-occupied housing were treated in the same way as rental investment property, wouldn't there be an even greater incentive to invest in owner-occupied housing, particularly by owner-occupiers on high marginal rates of personal income tax?

For older home owners unable or unwilling to borrow, the impact on their retirement income would be devastating unless dispensation from the measures was allowed for. In practice, extending rental housing tax rules to owner-occupied housing would most likely exempt owners of current dwellings. If the new measures applied to property purchased after the commencement date of the new regime, there would be a strong incentive for purchasers, especially those on higher marginal rates of income tax to gear up their next acquisition because of full deductibility of interest and other outgoings. Importantly, owner-occupiers would be able to fund their loan payments out of gross income as distinct from after-tax income.

7 Refer to page 83 of the Productivity Commission Discussion Draft.
8 Refer to page 83 of the Productivity Commission Discussion Draft.
9 Refer to page 84 of the Productivity Commission Discussion Draft.

In recommending the Productivity Commission accept the Federal Treasury position that the taxation treatment of imputed rent to owner-occupiers is not a tax expenditure, HIA is aware that the fundamental tenet underpinning the direction of the Draft Report is being challenged.

3.2 Capital Gains Tax

HIA agrees with the Commission's assessment that the changes to the CGT regime in 1999 contributed to a surge in the demand for rental investment housing. However, the impact of changes to CGT on housing demand relative to other factors outlined in Section 2 is not clear. Moreover, the 1999 changes did nothing to alter the relative attractiveness of housing over other forms of investment. They just happened to coincide with a period of low returns from equity investments.

HIA acknowledges that the exemption of owner occupied housing from the application of the CGT represents a benefit to home owners. At the same time, the reduction in the 'effective' capital gains tax will have reduced the benefit of the exemption of the family home from capital gains tax. In addition, if home owners were subject to CGT, their investing behaviour may well change and there would also be a strong case for providing deductions against any gains earned. Moreover the benefit arising from the treatment of capital gains will tend to capitalise into house prices, further diminishing the value of the tax concession to home owners.

Therefore, the Commission's assessment that the CGT exemption is worth $10 billion to owner-occupiers is likely to significantly overstate the revenue gains from taxing capital gains on the family home. While Treasury's Tax Expenditure statement identifies this as a tax expenditure, no assessment of its magnitude is made, ostensibly due to data deficiencies.

It could be contended that the non-taxation of the gains on the sale of owner-occupied housing is now so firmly entrenched in the tax system in Australia that it should be regarded as part of the "benchmark for individuals". HIA notes that in other countries where the place of principal residence is subject to capital gains tax, there is provision for owner-occupiers to roll over their family home. A similar provision applies in Australia to small business. Again, the basis upon which the Productivity Commission estimated the value of the exemption of the family home from the CGT has to be questioned.

3.3 Goods and Services Tax

The Discussion Draft tends to play down the significant impact that the introduction of the GST had on the cost of new housing. GST added around 8-9 per cent to the cost of a new home and raised significant levels of additional revenue over the Wholesale Sales Taxes on housing activity. That the market place regarded the pending price rises as significant was revealed by the acceleration in 1999 and early 2000 of new home purchases 'to beat the GST-price rises'.

The bringing forward of activity occasioned the sharpest ever reduction of real activity following the commencement of the GST. As the aggregate demand for housing picked up through 2001-2, the effect of the GST on new house prices became capitalised into the price of existing housing.

The Commission acknowledges that "Official estimates for GST revenue raised from housing activity are not available"[10], but at the same time contends that HIA's estimate "seems high". It is not surprising that the Commission would have made this assertion when it states that total residential construction activity amounts to "about $30 billion per annum"[11]. In 2002-03 the estimated level of residential building activity was almost $45 billion, fifty per cent more than the Commission's figure of $30 billion. Moreover, the GST is paid on construction work involved in land development, which should be included in the estimates of GST derived from 'total housing activity'. Had the Commission sought information from HIA on the method of estimating GST revenue on housing activity HIA would have been pleased to oblige. For the sake of good order the composition of the estimates for 2002-03 is provided below:

Estimated GST Collections 2002-03

	$billion
New Housing	2.475
Renovations	1.960
Repairs & Maintenance	0.461
Land Development	0.500
Total	**5.396**

3.4 GST Exemptions

HIA notes the Commission's analysis[12] of its objections to GST being levied on state and local Government taxes, but considers that the Commission should not be deflected from making a recommendation in this area if it considers that existing arrangements fail the 'Principles of Good Tax Design' tests[13] or are otherwise inequitable or unjustified contributors to a lack of housing affordability.

HIA points out that the 'tax on a tax' and 'GST exemption' issues which it has raised offend the Principles of Good Tax Design because they fail to treat taxpayers equally. HIA also suggests that they would be perceived by most home buyers as grossly inequitable.

In relation to the 'tax on a tax' issue, HIA takes umbrage with the Commission's observations that "the administrative and compliance

10 Refer to page 62 of the Productivity Commission Discussion Draft.
11 Refer to page 62 of the Productivity Commission Discussion Draft.
12 Refer to page 75 of the Productivity Commission Discussion Draft.
13 Refer to box 5.4 in the Productivity Commission Discussion Draft.

complexities in addressing such issues, together with the required adjustments of tax rates to maintain revenue neutrality, might negate any theoretical advantages."[14]

In HIA's view, the administrative and compliance complexities are greatly overstated. It is a straightforward matter to identify the GST component, if any, in a land transaction – all that needs to be done is to specify by legislation that this amount is not to be included in the dutiable value. Nor does HIA see why any adjustment of tax rates to maintain revenue neutrality is justified – after all, on what basis did the Federal Treasury incorporate within the estimates of GST revenue, receipts from GST EXEMPT taxes? Revenue neutrality need not be a constraint in this case as the revenue in question was never intended to be collected.

In HIA's view, the mere fact that it is a general tax issue should be no barrier to its proper evaluation in relation to housing affordability. Furthermore, HIA points out that the current situation is (on the authority of the Treasurer's public statements on the matter, including the Explanatory Memorandum to the GST Act) not a result of deliberate tax design at all, but an inadvertent outcome. The clear policy intention as stated by the Treasurer is that genuine State and Local Government taxes (as opposed to fees for services) should not attract GST. Yet that is the result. Surely a consideration of revenue implications is inappropriate when it is the Government's policy that this particular revenue should not be collected at all. The revenue collected has been a windfall to government.

It is difficult to see how the administrative arrangements for what HIA proposes could possibly be described as 'cumbersome and expensive'. Claims for input tax credits (ITCs) would be made, as now, via the BAS Statement process, and all supporting documentation would, as now, be retained by the GST-Registered person. Calculation of the amount of the notional ITC is exactly the same as for the calculation of any other ITC on a receipt where GST is not explicitly stated – 1/11 of the purchase price. The main issue is whether any particular acquisition is a creditable acquisition, and the same tests as currently used would apply.

HIA considers that its proposals in relation to GST exemption merit strong recommendations from the Commission to remedy this undoubted and unfair anomaly.

3.5 Stamp Duty

The Productivity Commission contends "As stamp duties add only marginally to the price of housing, their removal could not be expected to have a large effect on housing affordability"[15]. At the same time as arguing that the

[14] Refer to page 80 of the Productivity Commission Discussion Draft.
[15] Refer to page 77 of the Productivity Commission Discussion Draft.

removal of stamp duties would have only a marginal effect on housing affordability, the Commission states elsewhere, "removal of stamp duties, and their replacement by more efficient forms of taxation, should be a priority"[16]. The juxtaposition of these statements is difficult to fathom.

While the Commission contends that stamp duty adds only marginally to the price of housing, it maintains stamp duties "inhibit turnover of the housing stock" by creating a "lock-in" effect[17] . For first home buyers, stamp duty does not present a lock-in effect; it creates a 'lock-out' barrier. In its submission HIA presented a case study on the up-front costs for a first home buyer in which stamp duty represented a quarter of the total entry costs into home ownership. Stamp duty provides a very real barrier to first home ownership. The circumstances for existing owner-occupiers are likely to be very different since stamp duty can be paid for out of the proceeds of the sale of the property.

HIA's submission[18] presented a table which illustrated the effect of cascading stamp duty on an identical Sydney house and land package under three different arrangements for the acquisition of the land and the construction of the dwelling. In these case studies, cascading stamp duty had the effect of increasing the final cost to the new home buyer by as much as $19,000, equivalent to nearly 4 percent of the house price. HIA does not consider a $19,000 impost as having only a 'marginal' effect on housing accessibility and affordability for first home buyers.

The Commission asserts that stamp duty serves as a disincentive to moving without quantifying its significance over other attributes that attach owner-occupiers to existing accommodation such as amenity and access to services and community networks. It is difficult to sustain the contention that stamp duties "keep people in unsuitable housing"[19] , when Australians are spending about $16 billion a year in modifying their housing through renovations and extensions. This level of expenditure is far in excess of any marginal stamp duty liability of those "locked in" to their current home.

While stamp duties are supposed to create a lock-in effect, the average life of a mortgage is about 5 to 7 years. Over the course of a year about 6 per cent of owner-occupiers change their place of residence. How many more households would change their location if stamp duty were abolished?

HIA is perplexed by the Commission's acknowledgement that stamp duty, in principle could be improved if taxes on taxes, multiple taxation and aggregation were addressed[20] but that the focus should be on the abolition of stamp duty rather than improving its efficiency, equity, certainty and transparency.

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16 Refer to page 79 of the Productivity Commission Discussion Draft.
17 Refer to page 76 of the Productivity Commission Discussion Draft.
18 Refer to page 67 of the Productivity Commission Discussion Draft.
19 Refer to page 76 of the Productivity Commission Discussion Draft.
20 Refer to page 80-81 of the Productivity Commission Discussion Draft.

The Commission has chosen to discount the evidence that HIA presented in its submission that the current stamp duty regime systematically distorts the market for new housing. This is a central issue for an inquiry into first home ownership and should not be lightly dismissed with bold references to simply replacing stamp duty. The Commission[21] has shown that the States collected more than $8 billion from all stamp duties in 2001-02, representing more than 20 per cent of State tax revenue[22].

Given the sheer volumes of revenue involved, negotiating a replacement of stamp duty will be an exercise fraught with political difficulty. Short of the Commonwealth agreeing to replace this revenue source, which seems a remote prospect, it is difficult to see any way in which stamp duties could be abolished. HIA suggests the Commission focus very firmly on suggesting practical reforms for stamp duties with the aim of ensuring that the distortions in the new housing market are removed and that their impact on first home buyers is mitigated to the greatest extent possible.

3.6 Land Tax

The Discussion Draft estimates the value of the exemption of land tax to owner-occupiers to be $7 billion a year. Again, the method adopted to estimate the value of the land tax exemption suffers from similar disabilities to those identified in relation to imputed rent and CGT exemptions. The consequence is to further entrench the anti-housing bias in the Report. For the purpose of estimating the value of the land tax exemption, the Productivity Commission assumes that rates of land tax would be held at current levels were land tax extended to owner-occupied dwellings. Naturally, there would be a new tax bonanza. But if the rates of land tax were to be set on the basis of current revenue from land tax being retained, then the rate of land tax could be reduced to a fraction of its current rate because of the application of land tax to the total housing stock (‘the broader the base the lower the rate’).

HIA does not consider that the Productivity Commission has advanced an adequate case for the extension of land tax to owner-occupied dwellings.

3.7 Interaction of Taxes

Although the Productivity Commission contends that private rental investment is treated concessionally by the income tax system, it recommends against isolated changes to the income tax treatment of rental housing without a comprehensive review of the overall income tax system, including the impact of marginal rates of personal income tax.

HIA supports the proposition but reiterates that investment in rental housing is no more or less advantaged than other forms of investment. HIA notes that if

[21] Refer to figure 5.2 of the Productivity Commission Discussion Draft.
[22] Refer to figure 5.1 of the Productivity Commission Discussion Draft.

the CGT roll-over arrangements applying to small business were used as the benchmark, then rental housing investment would be disadvantaged because there is no provision for a similar exemption under CGT. As most rental investors share many of the same characteristics as small business, there could be an argument for similar roll-over provisions being applied to rental investment.

HIA would also reinforce the view of the Reserve Bank in suggesting that one of the significant advantages that Australia enjoys over many other countries is an active private rental market that delivers a substantial supply of housing that in many other countries has to be supplied directly by government or heavily subsidised by those governments.[23]

3.8 Incidence of Taxation

The Commission paid some attention to the range of views given to the Inquiry about the economic incidence of taxes applied to housing. HIA suggests that much of the analysis is deficient.

Firstly, the proposition that taxes will be reflected in lower raw land prices, ignores the reality that the land production pipeline can typically take a decade from the acquisition of raw land purchase to final sale of a developed block to a home owner or builder. While it is argued that increases in taxes will reduce asset bids for land, there is no opportunity for developers of land to pass back to the original vendor the effect of changes in taxes during the ten-year gestation period.

Secondly, although much of the additional indirect taxation has been confined to new housing, it can produce price and affordability impacts on established housing. Because existing housing is a ‘substitute’ for new housing, it could be expected that the initial effect of the application of a tax on new housing would be to shift demand to existing housing until the price of established housing reflected the tax-inclusive price of comparable new housing. Indeed, the availability of the First Home Owners Grant to purchasers of established housing was predicated on the grounds that the net additional impact of the GST on the cost of supplying new housing would become capitalised into the price of established housing.

Thirdly, the analysis of tax incidence, including that contained in the Discussion Draft, is partial and static and assumes that all of the impact of the taxes is felt on the position of the demand curve. In the case of land production, local authority development charges and intermediate stamp duties could be expected to have an impact on the position of the supply curve. The impact could also vary depending on whether the tax change was anticipated or not anticipated by the market.

[23] View embraced by the Reserve Bank representative at the Inquiry’s “Round Table”, held in Melbourne on 23 September 2003.

Finally, all of the analysis assumes that the market is in equilibrium before and after the imposition of a tax. Much of the commentary in the Report describes a housing market in disequilibrium with trading at ‘false prices’. This would confound the static analysis contained in the Commissions Report about the incidence of taxation.

For all of these reasons, HIA suggests that the kind of partial analysis contained in the Discussion Draft is of questionable value. At best, it is of some theoretical interest, but it could potentially mislead policy makers into drawing the wrong conclusions about the impact of the taxes they may seek to impose. For example, if policy makers at the local government level subscribe to the view that housing taxes depress the price of raw land, then home buyers could well face ever escalating development taxes and charges, with negative consequences for housing affordability.

4. Planning Issues and Land Supply

4.1 Land Supply

The Productivity Commission assigns an inconsequential role to land supply constraints in explaining increases in house prices on the grounds that the "available data does not confirm a substantial gap between underlying demand and new supply of dwellings..". Land prices have been on the march in all capital cities and not just in the past two years. Much of the increase in land prices has been brought about by the production of serviced land falling well short of the 'consumption' of allotments. For example, in Sydney where the pressure on land supply has been at its greatest, there may be plenty of land in the pipeline, but it is all at the wrong end. Part of the increase in land prices has been caused by increases in development charges.

The downplaying of land supply as a factor on housing prices appears to be founded on the Commission's view of the relative insignificance of new housing supply to the total housing stock. While new housing adds approximately 2 per cent annually to the total housing stock, it accounts for around 20 per cent of all housing traded in a year. It is in this traded sector of the housing market that prices are determined. So if there is significant price pressure on the supply and price of the land supporting one fifth of the market, those pressures can flow through to the other parts of the market quite quickly. It is also true that demand pressures in the established market can spill over into new housing, particularly in the shorter term if the supply of serviced land cannot respond to the increased levels of demand. Moreover, adding to the speed of price transmission between the markets is that the established house market now has an increased number of new developments in the same locality, especially in Sydney, where one half of the additions to the dwelling stock are units and apartments in established suburbs. This makes comparative shopping easier and an increased number of consumers competing for product, as many of them have been denied housing opportunity at the city fringe.

While HIA agrees that the pressures on the demand for housing over the last couple of years were beyond the capacity of an unconstrained market, to increase supply at such a level as to keep prices constant, the constraints that existed on the supply of land did add significant fuel to the demand fire. HIA suggests that the growing trend in the 'knock-down-rebuild' market in Sydney and Melbourne (and the renovation market more generally) is tangible evidence of the scarcity of new residential land.

That a sufficient and flexible supply of land can alleviate demand pressures is evidenced by the experience of South East Queensland during the mid-1990s. At this time there was an escalation in the demand for housing stemming from an explosion in inter-state migration. Despite a surge in demand there was a very swift supply response possible due to the availability of land. The net result was a major jump in new housing activity with little pressure on prices either in the new or established housing markets, especially on the urban fringe.

There are aspects of land supply issues with which HIA is in agreement with the Commission. In particular, HIA supports the conclusion that with urban growth boundaries ".. it is inevitable that it will have some effect on land prices."[24]. On a related issue, HIA supports the Commission in suggesting that the capacity of the states to deliver the level of urban consolidation is a "..critical consideration..". This point was emphasised in HIA's submission to the Inquiry. HIA is not convinced that this issue can be addressed adequately solely by greater coordination between state governments, local governments and utilities as the Commission suggests.

Given the long lead times in land production, the track record for government planners to underestimate population increases and increasing community resistance to urban consolidation, HIA suggests that there are significant dangers to housing affordability from not having a fallback position for new lot production or a politically viable mechanism for ramping up infill housing supply to meet a chronic short term need. In Sydney, only 5,000-odd lots are predicted to be produced each year for the next 3 years despite an underlying demand for detached housing of around 10-13,000 lots annually.

Closer monitoring of lot production (more regular, more transparent and less complex) and better management of consolidation strategies should become mandatory practice for all governments.

4.2 Planning Approval Processes

HIA strongly endorses the majority view put to the Commission that planning approval processes are deficient and have become increasingly so.

HIA is pleased that the Commission's Inquiry seems to have fostered a wave of planning reviews and studies around the country. HIA would endorse the Commission's conclusion that these studies should consider:

- " separation of policy making from implementation;
- the scope to streamline permit approval processes [for minor or uncontentious developments];
- the scope to reduce delays in appeal processes; and
- the scope to improve or expand 'as of right' development…" [25]

These principles have been embodied in the Centre for Developing Cities' recently completed **Development Assessment (DA) Model** for the Development Assessment Forum (DAF). The Model is worthy of promotion in the Final Report as a basis for reform in all states and territories.

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24 Refer to page 99 of the Productivity Commission Discussion Draft.
25 Refer to pages 111-112 of the Productivity Commission Discussion Draft.

In addition to the fundamentally important issue of separating policy making from implementation, HIA also supports reforms that will encourage private sector involvement in a development assessment. A greater emphasis on the development of planning policy by local government officials (as opposed to involvement in its implementation), in conjunction with the removal of planning application ‘clutter’ and a greater opportunity for private sector involvement in assessment matters would go some way to improving the effectiveness of what have become scarce local government planning resources.

4.2.1 Costing Planning Delays

In a recent submission to the NSW Minister for Infrastructure, Planning and Natural Resources, major builder, Masterton Homes demonstrated that approval processes for single houses had increased over the last 5 years in terms of complexity and timeframes. Masterton’s assessment shows that pre-1998 approval times for building applications averaged 27 days whereas development approval times for similar proposals in 2001 and 2002 averaged 44 and 84 days respectively. Planning reforms were introduced in 1998 with the intention of streamlining assessment processes.

Based on the resultant slower approval processes and the additional documentation required to support a development application (instead of a building application only), Masterton Homes has estimated the additional cost for a development approval at $9,958 per dwelling. Whilst this estimate is the experience of one building company in one state, it does provide an indication of the consequences of inefficient planning processes on housing affordability and highlights the need for consistent, best practice reform to be implemented nationally.

5. Infrastructure for Residential Development

5.1 Infrastructure Charges

The Productivity Commission has sought to downplay the contribution of development charges in housing affordability on three grounds:

1. "any inappropriate or excessive charging is unlikely to account for a large proportion of developer charges"
2. charges are "not at such levels as to explain much of the recent increase in house prices"
3. "Industry estimates of potential savings from better charging regimes seem greatly overstated".[26]

Since the Commission holds steadfastly to the old chestnut that the inflation in house prices was linked to 'tax concessions' on housing, it is not surprising that the Commission downplayed the industry's arguments about the influence of infrastructure charges on housing affordability.

The Commission contends "debate appears to have been clouded by lack of precision in terminology, with the term 'community' infrastructure being used synonymously with 'social' infrastructure, but actually encompassing major economic infrastructure. Thus the HIA's suggestion that such charges amount to some $30 000 far exceeds the true social component." [27] HIA considers that the different classifications of infrastructure charges explain the differences in conclusions, the net result of which is that the Commission has significantly underestimated the potential benefits to first home buyers from improved infrastructure charging and funding arrangements.

In the HIA submission, urban infrastructure was classified as either "economic" or "social and community". "Economic" infrastructure equated with the Commission's classification of "basic economic" infrastructure within a subdivision, such as roads, water, sewerage, gas and electricity connections, the benefits of which would be derived by new residents and paid for appropriately by those residents.

Whereas the Commission separated major economic infrastructure, such as urban rail services, major roads and trunk utilities from social infrastructure, HIA combined 'social' infrastructure with major economic infrastructure on the grounds that the beneficiaries of major economic infrastructure will be much larger than the residents of a new subdivision. Even though the Commission admitted that it had "not been able to review in detail how charging decisions have been made and implemented" for major economic infrastructure,[28] the Commission assumed that the beneficiaries of major

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26 Refer to page XXV of the Productivity Commission Discussion Draft.
27 Refer to page 127 of the Productivity Commission Discussion Draft.
28 Refer to page 124 of the Productivity Commission Discussion Draft.

economic infrastructure were necessarily new residents in a local subdivision and consequently should be paid for by those residents as distinct from the broader community. By contrast, HIA submits that both social and major economic infrastructure should be subject to the same community-wide funding and pricing arrangements. In the major economic category, HIA has included those infrastructure items that provide benefit beyond a single development and cover headworks, main roads, embellishment to regional open space and district roads. For social infrastructure HIA has included affordable housing contributions, local community facilities, public transport contributions and the employment of community liaison officers.

HIA has redrawn the information from various developments presented in its original submission to match the infrastructure classifications proposed by the Commission. It is important to mention that the HIA case studies were based on a 'pooling' of a number of individual developments, whereas the Commission's work was predicated on one development in Penrith in Sydney and one development in Wyndham in Melbourne. Since infrastructure charging arrangements can vary significantly between local government authorities, it is arguable that a pooled set of greenfield developments would be a more representative guide to infrastructure charges than a one off case study.

Sydney Greenfields Case Study

Infrastructure Type	**HIA Case Studies**	**Commission Case Study**
	$	$
Basic economic	21825	)
Major Economic	22355	) 61818
Social	6737	2737
Total	50917	64555

Melbourne Greenfields Case Study

Infrastructure Type	**HIA Case Study**	**Commission Case Study**
	$	$
Basic economic	3010	)
Major Economic	5840	) 31482
Social		450
Total	8850	31932

HIA's submission proposed that items of major economic and social infrastructure should not be funded through up-front levies and charges, but should be paid for by the community as a whole. This could be done by local government rates, state budget allocations or borrowings by the infrastructure agencies. This conclusion was also supported by the work on infrastructure funding principles undertaken by Access Economics.

If the funding of major economic infrastructure and social infrastructure were to be funded through community-wide funding sources, then the potential benefit to home buyers through a lower access price of ownership increases substantially.

The tables above show that the HIA estimates of infrastructure charges, far from "appearing overstated", may be conservative, especially in the Sydney example. While the value of social infrastructure charges in the HIA case studies exceeded the Commission's estimate by $4000, the total economic infrastructure charges were $15,000 less than those in the Commission's study. As the Commission has combined basic and major infrastructure in its analysis, it is impossible to be definitive. Moreover, it is noted that the Penrith case study utilised in the Draft Report did not include the $15,000 public transport levy imposed in other parts of western Sydney and which was included in HIA's figures. This just reinforces HIA's view that it is wrong for the Commission to conclude that the HIA estimates are overstated.

Based on HIA's proposition that major economic and social infrastructure charges should be replaced by community-wide funding arrangements, the access cost for the new home buyer in HIA's Sydney case studies would be reduced by nearly $30 000 on 'average'. On the Commission's example, assuming that the major economic infrastructure represents the same proportion of the economic infrastructure charges as in the HIA example, the potential savings on access costs for the new home buyer would be about $34,000.

It is also noteworthy that the example from HIA's submission of one Sydney council proposing to charge a total Section 94 contribution of $64,000 per lot has now been finalised. The adopted Section 94 Plan allows a levy of $51,224 for lots greater than 450 sq.m and $46,447 for lots less than 450 sq.m. These council charges are independent of other infrastructure charges levied by utility providers and do not include the $15,000 transport levy that will apply to other more recent land releases. The charges include a direct social infrastructure component of approximately $14,000 per lot and an administration charge of $7,186 per lot. So the total cost of these up front charges faced by the new home owner could be more than $60,000.

5.2 Impact of Alternative Funding Arrangements on Housing Affordability

The Commission contends that "it should not in principle make any difference to affordability whether (infrastructure) charges are levied upfront or over time".[29] The Commission did acknowledge, however, "in practice marginal borrowers could be disadvantaged if lending institutions do not adjust their maximum loan to income rules."[30] Although the practice of funding infrastructure charges up-front should have little impact on the life cycle cost

[29] Refer to page 123 of the Productivity Commission Discussion Draft.
[30] Refer to page XXIV of the Productivity Commission Discussion Draft.

of housing services, the same cannot be said for accessibility to first home ownership. There is no assurance that home lenders will increase automatically loan-to-valuation ratios or repayment capacity limits when new house prices are affected by increases in development charges. By way of example, when the GST was introduced, home lenders were averse to increasing borrowing amounts for the purchase of new homes because the value of existing dwellings was not deemed to have increased to reflect the impact of the GST on the price of new homes.

Additional up-front charges affect new home buyers through the extra deposit needed to qualify for a loan and potentially their need to secure mortgage insurance. These can be significant barriers to first home ownership for those at the margin.

HIA suggests that the rigidities in the ongoing pricing of infrastructure through local rates or supplier charging are such that “double dipping” is more the rule rather than the exception, as revealed in the Access Economics assessment of several current infrastructure charges.

The potential up-front cost reductions for home owners of the order of $30,000 are significant. **HIA would therefore urge the Commission in its final report to undertake further research in to the magnitude of major economic and social infrastructure charges and the potential benefits to home buyers from alternative funding arrangements.**

HIA is also particularly concerned that the inappropriate up-front funding arrangements that are now a feature of the Sydney market, do not spread to other states. HIA would accordingly urge the Commission to make strong statements in its final report about the need for rational infrastructure funding principles to remain in those states that to date have not been as susceptible to the up-front charging that is rampant in Sydney. HIA supports the Commission’s call as part of the solution to better infrastructure funding being for:

- greater transparency and whole-of-life costings in the formulation of charges;
- allowance of appeals on the charged amounts to be considered separately without jeopardising an overall development consent; and
- better understanding and administration of consistent rules for the apportionment of costs and benefits between new and existing residents.

HIA welcomes these recommendations but suggests that there is a need for greater guidance on the apportionment of costs between new and existing residents. HIA would also recommend that these rules be incorporated into state legislation rather than applied as contribution guidelines at the local government level. The rules should apply both to state and local governments and should be consistent across the country.

HIA would also strongly support the Commission’s conclusion that due to the administrative difficulties accompanying differential rating

systems for home buyers subject to significant up-front charging, there should be a corresponding reduction in the quantum of the up-front fees that reflects their higher ongoing rate bills.

6. Industry Performance and Regulation

6.1 Industrial Relations

It is disappointing that the Commission chose to downplay the role of industrial relations generally in the building and construction industry, and the likely adverse consequences for housing affordability of current and continuing moves to extend regulation under state industrial relations legislation to trade contractors working in the housing industry.

As the recent Cole Royal Commission clearly showed, there are significant additional and unnecessary costs borne by the commercial building industry (including high-rise housing) as a result of union industrial power and practices. If such practices were extended into the detached housing sector, housing costs could rise by up to 20 per cent (Econtech 2002). This possibility, although not mentioned by the Commission in its Draft Report, is by no means hypothetical – it is a very real and significant current threat faced by the industry, opposition to which is an important, ongoing and resource-consuming activity for HIA.

For many years, attempts have been made by unions to implement legislative changes that would have the effect of extending the influence of building unions into the detached housing sector, notably through restrictions on individual or non-union enterprise agreements, and through proposals for the application of industrial relations legislation to independent contractors – for example, in the draft ***Industrial Law Reform (Fair Work) Bill 2004*** released by the SA Government on 19 Dec 03.

Similar proposals for legislation to 'protect' trade contractors by bringing them under the industrial arbitration system were made in NSW in 2001-2, but successfully opposed by HIA. Attempts were also made by the ACTU at the 2003 Session of the International Labour Organisation in Geneva to develop an ILO Convention or Recommendation on this topic, again successfully opposed by employers (including HIA) and the Australian Government (HIA in fact sent an accredited observer to Geneva to lobby against the proposals).

HIA, whose members include many of the trade contractors who would be affected, on their behalf and with their strong encouragement unequivocally rejects attempts to subvert the rights of independent contractors and principal contractors to enter into commercial contracts. Industrial regulation of trade contractors includes the application of prescriptive and inflexible Industrial Awards, together with union rights of entry and union encouragement clauses. This would give building unions a major legal weapon with which to exercise control over housing in the same way they control commercial construction. The intransigent attitudes and violent and oppressive practices of building industry unions were well chronicled by the Cole Royal Commission, as were the unnecessary and excessive costs inflicted on the commercial building industry by the unions for their own industrial purposes.

In view of these impending or threatened legislative initiatives which would, if implemented, seriously affect the cost of house building, it is anodyne to say, as the Commission does, that "achieving best practice workplace arrangements in all parts of the construction sector should be an important goal for all parties…. Better communication and more cooperation between the parties is crucial".[31]

This is worse than unhelpful – it denies the very existence of the problem. Indeed, it is not going too far to say that such statements by the Commission verge on the naïve, and undermine the credibility of its Report.

HIA recognises that the Commission is not conducting an inquiry into industrial relations matters but submits that the Commission should, at the very least, identify the likely serious adverse consequences to housing affordability if the highly efficient housing industry contracting system were to be forced by legislative intervention to adopt the less flexible and demonstrably more costly industrial relations-based system prevalent in commercial construction.

6.2 Building Regulation

HIA's submission described a number of deficiencies in Australia's building regulatory systems, many of which relate to the institutional arrangements underpinning the Australian Building Codes Board and the independent regulatory activities of state and local governments. While acknowledging that the Commission will be undertaking a research study of building regulation, HIA is concerned that for the purposes of the First Home Ownership Report the Commission has focused only on the propriety of processes related to the production of Regulatory Impact Statements.

With the rapid growth in regulation in the environmental, fire and safety areas and the likely costs that this will impose on new home buyers, HIA is concerned that the Discussion Draft provides no assessment of the potential impact of regulation on housing affordability, other than referencing HIA's estimates of the cost impacts of new regulation since 1997.

HIA accepts the Commission's view that additional regulation, changes to existing regulation, or differences between jurisdictions, are not in themselves indicators of problems. It is acknowledged that regulation can provide benefits as well as costs, and that community expectations are not fixed. The Commission's argument that regulation is appropriate provided "*the benefits*

[31] Refer to page 133 of the Productivity Commission Discussion Draft.

of any particular piece of regulation exceed its costs"[32] is inappropriate, particularly without a clear assessment of the winners and losers at a 'micro' level. In some instances the beneficiary of regulatory reform may well be the government rather than the community or new home purchasers. Moreover, none of the Regulatory Impact Statement procedures used in building regulation considers the distributional impacts of reduced housing affordability occasioned by changes to building regulation.

In November 2002, the Federal Department of Industry Tourism and Resources (DIST) published a document titled, "*A Best Practice Framework for Considering Business Regulation*"*.* This document, in part, recommends that "*before proposing regulation or endorsing a regulatory approach, it should be clear that all costs associated with government action are less than the cost of intervening. In other words, before regulation is undertaken, it should be clear that the regulation is likely to produce better outcomes than those flowing from the market; and* ***those from other possible forms of action*** *(our emphasis)".*

HIA considers that the process recommended by the DIST report should be similar to that upon which additions and changes to the Building Code of Australia are expected to be developed, and should be an integral part of the basis upon which state and local governments make decisions on the need for regulatory reform.

HIA suggests that the DIST document does not support the Commission's statement that "*the key issue is whether the benefits of any particular piece of regulation exceed its costs, including the costs of administration and compliance*". Clearly, DIST considered there are many critical issues to be addressed prior to implementing regulation, including whether public intervention is really needed and whether alternative forms of action would be more suitable.

The Commission's report also acknowledges that Australian governments have agreed to undertake a Regulatory Impact Statement when there is a reasonable expectation of a compliance burden or other business impacts. It also states that a Regulatory Impact Statement helps ensure that governments and the community can be satisfied that the economic and social benefits of regulations exceed their costs. However, it also states that a Regulatory Impact Statement may not always be required, and that even if one is required it may not always be prepared, or be sufficiently broad to establish a legitimate relationship between costs and benefits.

HIA submits that there is an urgent need to address the creeping impact of changes to building regulation on housing affordability, especially as a number of jurisdictions are moving to introduce potentially very costly environmental sustainability measures.

[32] Refer to page 135 of the Productivity Commission Discussion Draft.

Against this background, HIA urges the Commission to make an interim recommendation, pending its research study, that all new building related regulation at the Federal, State and local levels should be subject to a thorough Regulatory Impact Statement process which also includes an assessment of the impacts on housing affordability.

6.3 Skills Shortages

HIA agrees that there will always be a cyclical shortage of skilled workers, as there will be with housing affordability, but like affordability HIA is concerned that there are structural impediments to the supply of labour to the industry.

HIA's submission demonstrated that more flexibility in training responses is required to address skill needs, not only to enable a quicker response to skill requirements when upturns in activity occur, but also to provide a training environment better suited to the longer term needs of the industry.

Research shows that despite the vocational education and training system reforms in the past decade, training numbers commencements have not kept pace with general employment. Apprentices employed as a percentage of the total workforce has declined from 6.0% in 1991 to 3.95% in 1999, with the long term trend indicating a worsening of this situation. The training system is not reflecting the way industry is currently operating, and therefore its skill needs.

HIA was disappointed that the Commission felt that resolving these impediments …"lies with the sector itself and with education and training providers, rather than with government."

HIA and others have worked for many years to deliver a more flexible training environment tailored to the industry's needs, but has been thwarted by the intransigence of the union movement and the training bureaucracy.

This issue is of particular concern to the housing industry and crucial to finding solutions to address its skill needs.

However, lack of any recent and credible data related to profiles of skills currently being used in the industry makes it difficult for the industry to address this issue on a more prudent basis, which must be transparent and logical.

Construction Training Australia has previously sought to undertake a study to establish profiles of skills currently being used by different occupational categories in the industry. This has not occurred to date. The results of such a study could establish the discrepancies between the current qualification structure and the profiles of skills currently being used in the housing industry.

The argument that all sectors of the industry utilise the same skill sets and that there is a frequent crossover by tradespeople across the industry sectors also is one of conjecture and not confirmed. HIA would argue this is not the case, particularly as more homes in today's market are being built by major project homes based companies, who can provide continuity of work for their trade contractors.

From a desire to preserve pay relativities for those with complete trade level skills and from an ideological stance against contracting, the union movement has refused to accept that there is a legitimate place in the training system for the very significant proportion of the housing industry that operates using contractors with specialised skills. The structure of the advisory arrangements in the vocational training system have delivered the unions control over the training agenda in the industry, allowing them to stymie any attempts to deliver a more flexible training environment.

HIA disagrees with the Commission's assessment that this is "… largely an issue for the industry to resolve..". As with the Commission's response on industrial relations issues, and the training issues are all industrial issues at their core, HIA sees a clear need for governments to act to break down the institutional barriers to improved performance.

With a number of state and territory licensing authorities beginning to rely on qualification levels from the training system as a basis for licensing, HIA has very serious concerns that if the training system is not made more flexible as a matter of urgency, there will be major structural barriers put in the way of the majority of the industry that operates at the "sub-trade" level. This group faces the prospect of being unable to become licensed unless they obtain a trade level qualification from the training system.

One of the institutional barriers to addressing these issues is that the numbers of people working in the industry at the sub-trade level are not known. This is a result of the structure of the Australian Standard Classification of Occupations (ASCO). Unfortunately, ASCO and statistics compiled using the classification do not provide much help in assessing the degree of specialisation in the Construction Trades. The Construction Trades are subdivided into the broad groupings of Structural Construction Tradespersons, Final Finish Tradespersons and Plumbers. A further level down the ASCO hierarchy reveals the main traditional trades of Carpenters, Plasterers, Tilers, Bricklayers, Painters, Signwriters, and Plumbers. Flat Glass Trades are listed elsewhere. At the most detailed (6 digit code) level, some specialisations are apparent. Carpenters and Joiners are listed separately, along with Floor Finishers, Gasfitters, Drainers, Roof Plumbers and Mechanical Services and Air conditioning Plumbers. Electrical workers are listed separately in ASCO (Electricians, Refrigeration and Air-conditioning Mechanics, etc.).

NCVER research found some years ago already that up to 4 in 10 workers working in the skilled trade areas in the building and construction industry do not have a trade qualification. HIA has gathered evidence from time to time to suggest this figure is substantially higher in some States in the residential sector of the industry.

As a minimum HIA urges the Commission to recommend in its final report that:

- **ASCO classifications be updated to reflect the needs of the residential building industry and in particular its treatment of "sub-trades"; and**

- **Research be undertaken to quantify the numbers of people working at the sub-trade level in the residential building industry and the skills that they use. This would be a valuable starting point to addressing the training needs of this group.**

7 Home Ownership Assistance

The Discussion Draft acknowledges that home ownership provides significant benefits to home owners themselves and to the community more broadly. However, it also asserts, without analysis, that the current home ownership rate in Australia is somehow at its natural peak, and that any further encouragement or support for home ownership would be counterproductive.

The literature on home ownership suggests that the benefits of home ownership are experienced most both by households with children who benefit from the social stability associated with ownership (amongst whom home ownership rates are falling) and for the aged, who benefit from having their home owned outright or with high levels of equity serving as a retirement nest egg and providing typically good quality housing at low cost.

Developments in capital markets have also expanded the benefits of home ownership in that housing wealth is now able to be tapped by investors, particularly in the small business sector, in ways that were not possible even ten years ago. In this way capital accumulated in housing can be re-invested in other areas of economic and wealth-creating activity, diluting earlier criticisms that investment in housing deprived other sectors of capital.

7.1 Trends in Home Ownership Rates

While the overall home ownership rate has remained quite stable at around 68-70 per cent, the gross home ownership rate masks significant shifts in the pattern of home ownership within key segments of the population. For example, the AMP's Income and Wealth Report issued in November 2003, used Household Expenditure Survey data to show that the home ownership rate for 25-39 year olds has fallen markedly.

In the period 1989 to 1999 the home ownership rate among households in the 25-39 age group declined from 64.2 per cent to 54.1 per cent. Despite the substantial reduction in home ownership rates within the 'first home buyer' segment of the community, the overall rate of home ownership has been maintained by the 'aging' of the population where home ownership rates among older age groups are higher than the gross rate of home ownership. It would be folly to conclude on the basis of a 'static' gross home ownership rate that accessibility to first home ownership does not pose an enormous policy challenge.

While the timing of first home ownership could be delayed by higher levels of participation in higher education deferring entry to the workforce, it could be expected that falling home ownership rates among twenty-year olds could be compensated for by higher levels of home ownership among thirty-year olds shifting into higher earnings. Although the rate of home ownership increases with age, the proportion of households in owner-occupancy among 35 to 39 year olds declined from 74.8 per cent in 1989 to 67.7 per cent in 1999. Having regard to the sharp increases in house prices since 1999, it is difficult to see how home ownership rates among 25 to 39 year old households could have increased. It is more likely that home ownership rates have declined further for younger households. Research from AHURI (Housing implications of social, spatial and structural change, Judith Yates, July 2002, page xi) suggests

> *"… that the housing market constraints are the dominant explanation for the declines in home ownership rates."*

With home ownership rates falling sharply among younger age groups, those most disadvantaged by the deterioration in housing affordability, the Commission's assertion that home ownership has reached a natural peak needs to be seriously questioned.

7.2 Home Ownership and Retirement Security

While acknowledging the role of home ownership in promoting individual and community stability, the Discussion Draft does not mention the vital role that home ownership plays as part of a comprehensive retirement income strategy.

Successive Australian Governments have sought to encourage saving in home ownership and superannuation. The Intergenerational Report highlighted the implications of an aging population on the public sector in meeting demands for income support and social services. The Productivity Commission allocates an inordinate amount of space to the 'tax concessions' on home ownership yet makes only a fleeting remark that "home ownership is often viewed as a form of 'forced' saving, which can reduce the extent of welfare dependency later in life."[33]

Home owners are significantly less likely to be in poverty after housing costs than private or public tenants. The National Housing Strategy estimated in 1992 that aged private renters spent around 35 per cent of their income on housing costs, compared with about 5 per cent for aged home owners. The aged also increasingly have the potential to use their housing wealth to supplement their incomes in retirement through reverse equity arrangements. In this regard support for home ownership is just as much a part of a retirement income policy as is government encouragement of superannuation.

7.3 Scope for Increased Home Ownership

Against a background of falling home ownership rates amongst 20-and 30-year olds, and a growing aged population HIA was surprised that the Commission felt that

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33 Refer to page 3 of the Productivity Commission Discussion Draft.

> *"there may be limited scope for policy to significantly increase the overall time spent in home ownership…"* [34]

This judgement is at odds with the evidence. On the basis of the estimate that on average FHOG brought forward the move into home ownership by five years for some 500,000 people, this represents an increase of around 2.5 million years of home ownership for Australians. Even if the marginal social benefits of home ownership are very small, the total benefits for Australia of all this additional time spent as home owners would be staggering.

The Commission suggests that the current home ownership affordability issues will resolve themselves as the housing cycle softens. But the marked decline in home ownership among 25-39 year olds that has occurred before the onset of the more recent escalation in housing prices should warn against complacency. While there has clearly been a strong cyclical surge in demand, this has tended to obscure the underlying structural change that has seen the supply price of new homes ratcheting up through the winding up of taxes and charges. HIA is concerned that these structural changes may see prices, and affordability, tending to plateau rather than improve as the cyclical demand pressures abate. Moreover, as the reported declines in home ownership pre-date the surge in house prices over 2002-03, as the market softens we may well just return to a scenario of continuing declines in affordability and home ownership among younger age groups, but at a slower rate than over the last couple of years.

Current policy settings clearly are not delivering the home ownership outcomes that will provide community and economic benefits in the decades ahead.

7.4 Demand Support

The Commission's Discussion Draft suggests that the current support provided through the FHOG and other direct assistance measures might provide a greater return to the community if it were directed into other measures to help meet the needs of low-income households or more broadly into the reduction of stamp duties on property transactions. Clearly, the specifics of such a proposal would need to be carefully designed to ensure that that community benefits and flexibility were maximised while minimising administration costs. But swapping FHOG payments for stamp duty relief across the board will, on its own, do little or nothing to reverse the decline in the affordability of home ownership.

As the production of new housing involves a series of transactions, stamp duty is levied multiple times on new housing, but only once on established homes. HIA recommends that any proposal to reallocate FHOG funding to offset stamp duty (or to perhaps fund indexation of stamp duty) for first home

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[34] Refer to page 154 of the Productivity Commission Discussion Draft.

buyers should explicitly reflect this fact by providing two tiers of assistance – a lower rate of existing home and a higher rate for new housing.

7.5 Supply Initiatives

HIA is disappointed that when the Commission discusses the relative merits of demand and supply approaches that the only supply side initiatives which are discussed are subsidies. This limited approach misses the opportunity to draw on the work that the Commission.[35]

On page 145, the Commission makes reference, without assessing their effectiveness, to the fact that a number of government-owned land development agencies operate along side private developers, (purportedly) with the aim of increasing the supply of affordable housing. The experience of HIA members around the nation has tended to be the reverse, that these land development quangos tend to struggle to be as efficient as private developers, despite advantages such as first preference on release of public lands. Moreover, government land development agencies have proven unable to achieve one of their objectives of breaking down barriers in the planning process, with their developments frequently being unnecessarily delayed.

Indeed, the experience of the land development agency in Albury Wodonga[36] graphically illustrates the risks of governments trying to act as a land developer.

7.6 Conclusion

HIA considers that the Commission's deliberations on direct assistance could usefully have encompassed a discussion on the benefits to the whole housing market of reducing some of the regulatory restrictions that hamper the timely and cost effective provision of new housing.

Policies to underpin home ownership, whether designed to bring forward home ownership or to assist marginal households make the transition to home ownership, will be far more durable if they are underpinned by supply initiatives. Resolving structural issues such as infrastructure charging, planning reform and the disproportionate tax burden on new housing are essential precursors to long-term affordability solutions.

These supply-side reforms, which offer significant reductions in the price of accessing home ownership, can readily be combined with assistance which is targeted at low-income households. However, HIA would expect that resolving the supply-side issues would greatly reduce the amount of assistance that low-income households would require.

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35 Presented in chapter 6 of the Productivity Commission Discussion Draft.
36 Refer to Chapter 8 of the HIA's submission.