



National Summit on Housing Affordability

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The Construction, Forestry, Mining and Energy Union – Construction and General Division, the CFMEU, welcomes the opportunity to make a presentation to this important Summit. The Union represents construction workers and tradespeople all over the country. The CFMEU and its predecessor unions have a long history of taking an active interest in the formulation of housing policy in this country. Construction workers build the nation's infrastructure, and this uniquely positions us to provide input into the critical social questions involved.

The Union took part in the recent Productivity Commission Inquiry into First Home Ownership, and this paper is based largely on the Union's formal submission to that inquiry.

The Union believes that Australia is in the grip of a housing crisis. This crisis is not only characterised by declining affordability in first home ownership, but by increasing levels of housing stress among low to middle income participants in the private rental market, the degradation and running down of public housing stock across Australia, and finally, by growing levels of homelessness in the community. The Union believes that this trend comes at a time when a select few have grown more and more wealthy off the back of a speculative boom in house and land prices, that serves to make the already well off even more affluent, while locking many ordinary Australians out of home ownership, and affordable rental housing.

Some of the rhetoric surrounding the debate about housing seems to be limited to a sentimental, philosophical focus on the Australian suburban dream of home ownership. The Union believes this issue is about far more than that. It is a fundamental political and moral question about the type of society in which we live. It is the Union's view that Australia cannot claim to be a healthy democracy or a just society, when certain members of the community are forced into serious disadvantage and even homelessness, while other members of the community grow wealthier from the tax lurks associated with ownership of multiple housing properties.

The Union bases its view on several important studies over the recent period, including work done by the Affordable Housing National Research Consortium, of which the Union was a part.

This paper will firstly look at the nature of housing inaffordability in Australia as the Union sees it, then examine what the Union argues are the causes for the problem, and finally look at what steps might be taken to solve them.

Declining Affordability in Australia

Serious evidence points to a decline in housing affordability, and a corresponding rise in the number of households in Australia that are experiencing housing stress. In September 2001, the Affordable Housing National Research Consortium (the Consortium) released a major report on housing affordability (1). That report deals with the issue of housing affordability across Sydney, Melbourne and Adelaide. It looks at the number of private rental households that could afford to rent or buy categories of units and houses in those three cities across the ten years from 1986 to 1996.

That report showed that based on these figures, the number of households in *housing stress* was growing at an alarming rate, and if such a rate continued, large numbers of households would find it increasingly impossible to meet rental and other living expenses, let alone participate in the home purchase market. The notion of *housing stress* was defined by the National Housing Strategy 1991 (2) as a household that spends more than 30% of income on housing, and is in the lowest 40% of the income distribution range.

The key results of this report can be briefly summarised as follows:

- Of households in the bottom 40% of median income range, nearly three out of four private rental households across all state and territory capitals are experiencing housing stress.
- Across all private rental households in all state and territory capitals, the number of households in housing stress increased by a massive 74%.

- If the number of households in housing stress continues to grow, **the number of households in housing stress will double in fifteen years, and reach nearly one million within 20 years.**

These figures expose a deep crisis developing in housing in this country. They correlate with growing amounts of evidence of increasing levels of homelessness, and its associated problems. The Union knows that various studies have been conducted by interested organisations over the years, including excellent work by the Australian Housing and Urban Research Institute. They all expose a deep crisis of affordability. The Union shares the grave concern of many about the rising social costs of this problem.

The Union believes that Government policy is failing in the area of housing, and in some cases, aggravating the problem. This paper will now move on to outline what it contends are the underlying problems with government policy in this area.

The Contributing Role of Federal Housing Policy

The Union believes that a crisis in housing affordability is being fueled by a complex system of federal taxation and payment subsidies to residential property investment. In turn, this phenomena is pushing up the speculative value of housing, and locking increasing numbers of people out of ownership. In addition, a system that encourages investment ownership, as opposed to first home ownership, in turn places increased pressure on rental prices. It is evident from the data above that rental prices are increasingly out of reach to low income Australians. This is a major problem given the importance of private rental dwellings to the provision of affordable housing in Australia.

The Union believes that the biggest problem facing affordable housing is the scandalous running down of public housing stock, and the failure of the Rent Assistance program of the Federal Government.

According to a research briefing paper released in April 2003 by the then Shadow Housing Minister (3), public housing in this country is in crisis. Since coming to office, the Howard Government has cut in the order of \$1 billion of funding from the Commonwealth-State Housing Agreement (CSHA). This in turn has led to the degradation of the public housing stock, with state governments being forced to put what money they have into the maintenance of existing stock, selling renovated stock to the private sector, or adopting leaseback strategies. There is increasingly no replacement of public housing stock.

A reduction in available stock is pushing the price of available rental stock up. In short, there is a supply-side problem in the affordable housing market due to demand far outstripping supply. Added to this, the Howard Government has increased to \$1.7 billion

expenditure on Rent Assistance (3). Yet because of increasing rental prices arising out of limited supply, the expenditure on Rent Assistance is often absorbed into higher rental prices. Additionally, spending of that type does nothing to alleviate the supply side problem identified above. To the Union, this type of an approach to Commonwealth provision of housing subsidy is public policy insanity.

Given the problems identified above in terms of the increasing inaffordability of rental housing for low income households, the increasing stress of such inaffordability further reduces the capacity to save a deposit necessary to debt finance the purchasing of a home.

Compounding this problem, the Union believes that there is in place at a federal level a series of tax and direct grant incentives that both reduce the affordability of first home ownership, and encourage investment ownership that prices aspirant first home owners out of the market.

The first of these is the First Home Owners Grant (FHOG). Currently, the grant is not means tested, so it is available to any first home buyer who can meet that criteria, rather than being targeted at low income groups to assist them to meet the cost of a deposit. The Productivity Commission, in its Final Report (4) has recommended the targeting of that scheme, because of its capacity to add fuel to the demand side problem in the market. Indeed, the Reserve Bank of Australia, in its submission to the Productivity Commission Inquiry (5), gave a similar warning:

“...we have no specific suggestions for assisting first home owners by adding to their purchasing power. However, if this path were to be chosen, it is important to remember that simply adding another source of purchasing power to the existing demand would lead to some further rises in prices. For this not to occur, any measures that add to purchasing power (such as the FHOG) need to be carefully targeted to limit their effect on overall demand, and balanced by a reduction in demand elsewhere”

As well, the Union is critical of other taxation measures which it argues add incentive to those who see housing as simply an investment. These measures include the regime of negative gearing, the reduction in capital gains tax as part of the New Tax System introduced by the Howard Government, and the failure of the Government to crack down on the use of family trusts as tax avoidance shelters.

On the issue of negative gearing, the Union supports arguments made by groups such as ACOSS that the system should be reigned in. Their research has shown that the negative gearing system costs \$2 billion a year, and this is twice what it cost the taxpayer five years ago (6). It is an unfair system that distorts the housing market, is a massive subsidy to well-off investment property owners, and provides an in-built incentive for fraud. The Union rejects the position argued by some sections of the business and industry sector that deductability is not a Commonwealth expenditure *per se*. This income foregone is income denied to the public purse to be used on socially desirable outcomes. The historical reason for the existence of negative gearing is arguable. However, it is clear that it has been used to create activity in a sector in contraction. The construction sector is

presently in a healthy condition with a small movement of emphasis occurring from apartment construction to commercial and infrastructure developments. We believe it is timely to rationalise and reign in the subsidies to property investment, in the interests of promoting the provision of housing affordability.

The Union would not advocate the instant removal of all the current market incentives but a phased and targeted approach by the Commonwealth to redirect these outlays and subsidies.

Ultimately, the Union contends that measures such as negative gearing and capital gains tax concessions are significant public subsidies to investment in property, and serve to exacerbate a housing bubble, fueled largely by inflated unit prices in the inner cities. The speculative frenzy around investment property during the recent bubble served to drive up prices, and had a significant impact on affordability.

According to the same Reserve Bank submission:

“A big attraction of property is the relatively modest after-tax holding cost of even a low-yielding property, due to the way that investments in rental property are taxed...the fact is that when we observe the results (of RBA research), resources and finance are being disproportionately channeled into this area, and property promoters use tax effectiveness as an important selling point”

What Must Be Done?

The Union believes that the following proposals represent effective and workable solutions to the problems of affordability that have been identified.

Improve Public Housing

The Union contends that there is no substitute for direct Commonwealth funding through the Commonwealth State Housing Agreement (CSHA) for the renewal of public housing stock. Under the Howard Government, spending has been slashed, and the monies available largely directed to the Rent Assistance programme. The result is Commonwealth money drawn into a black hole of diminishing supply, and state housing authorities in financial crisis, forced to sell off stock, let alone develop any more. The Union believes that spending would be better channeled into replacing and increasing public stock to reduce the supply-side shortage that has developed. The Union argues that Rent Assistance is public money wasted when there is no public policy mechanism to reduce demand-based price increases, due to an increasing lack of supply.

The Union will continue to join with other organisations in calling for funds to be restored to the Commonwealth public housing budget.

Tax Reform

The Union contends that the tax arrangements in place around home investment should be significantly adjusted. Additionally, the Union believes the reductions in capital gains tax, that allow an effective “discount” in the amount on which tax is payable of up to 50%, are scandalous. The Union also questions the ongoing depreciation rate claimable against capital gains tax of up to 4%. In short, the capital gains tax regime is a massive subsidy to property investors. The Union calls for the capital gains system to be returned to the form in which it existed prior to the introduction of the New Tax System, and for the rate at which depreciation can be claimed to be urgently re-examined.

The Final Report of the Productivity Commission Inquiry (6) has called for a general review of the impact of the tax system on the housing market. The Union welcomes this, and calls on the Federal Government to initiate such a review. The Union would welcome the opportunity to participate in that process.

Means Test the First Home Owners Grant

We believe that there was a great deal of evidence presented in submissions to the Productivity Commission Inquiry that the First Home Owners Grant should be means tested, to better target it to those in need, and prevent it from contributing to further upward price pressure. The Union added its weight to calls for the means testing of the FHOG. The Final Report of the Productivity Commission Inquiry has warned against further spending on this scheme without targeting.

Innovation in Private Sector Investment

In all of this debate, there appears one certainty. We need to dramatically increase the levels of housing stock, in a way that assists affordability.

There are a number of proposals floating around that would provide real incentive for the private sector, and in particular industry-based superannuation funds, to invest in affordable housing. The Union supports the investment by industry superannuation funds in affordable housing development. Superannuation is a significant source of capital accumulation in this country, and using some of this capital in the development of socially important infrastructure would also allow Australian workers to invest in projects that are of social utility.

Superannuation investments are expected to grow from \$500 billion to almost \$1 trillion by 2010 (3). It is a major source of untapped investment capital. Given the performance of many superannuation funds in recent years, managers are increasingly looking for a risk-neutral investments to balance more aggressive plays. Public policy that facilitated major new investment in affordable housing could go a long way toward alleviating the supply-side shortage facing the housing market. This proposal could involve the issuing

of Commonwealth bonds to fund the CSHA, with a guaranteed minimum rate of return to investors, at a fixed cost to the Commonwealth Government. There are two basic models that have been developed to our knowledge, and those models are explored briefly below.

Debt Model

The Affordable Housing National Research Consortium, in September 2001, developed an options paper for policy models to promote private sector investment in affordable housing (7). It looked at an estimated shortfall of low-cost rental dwellings in excess of 200,000 dwellings across Australia. Based on credible modeling, the Consortium estimated that \$27 billion in capital funding was required to address such a shortfall.

As a mechanism to deal with this problem, the Consortium proposed a system of Commonwealth bond sales to the private sector, including superannuation funds. The return on the bonds would be guaranteed at one to two percent above the market rate, in order to attract risk-neutral investors such as superannuation funds. The money raised from that process would then be distributed to state and territory housing authorities, or to community housing authorities that manage affordable housing. It was estimated by the Consortium that that a Commonwealth outlay of \$220 million would net \$1 billion in private capital.

This model was explored in detail by the Consortium's submission to the Productivity Commission Inquiry.

Equity Model

The Equity Model involves the creation of an affordable housing vehicle, either listed or unlisted, with a number of stakeholders. The Federal Government would provide ongoing rental subsidy, which would underpin rates of return to institutional investors, such as superannuation funds. State and Territory Governments would transfer surplus land and selected public housing stock into the trust. Investors such as superannuation funds would bear the bulk of the risk, but the return on the sale of bonds would be underpinned by Commonwealth guarantee, and ongoing rental subsidy.

This model will require further exploration, research, and modeling, but the Union believes it could form the basis of a viable policy option for the Federal Government.

Finally on this issue, the Union can indicate that some industry superannuation funds and their funds managers have begun to look seriously into this issue, and have commissioned research and modeling. The results of that research to date show that for the proposal to provide sufficient returns to workers' investments, some level of public underwriting is required. Other research has shown that a relatively small Commonwealth outlay, spent smartly, can generate significant amounts of private capital. There is a tentative willingness among superannuation funds to embrace these ideas. There needs to be a

genuine dialogue with Federal and state governments to develop a policy package that would lead to superannuation fund investment in affordable housing development.

Superannuation funds are actively investing in the provision of public infrastructure and services in the area of roads, bridges, electricity, hospitals, schools, and airports. There is no reason why public and affordable housing should not be next. It can and should be the next logical development in the field of investment.

As this paper has argued, large amounts of Commonwealth revenue are foregone through the inefficient policy regimes of negative gearing, capital gains tax and the FHOG. If a portion of these revenues were captured and diverted into underpinning the viability of the leveraged investment proposals we have raised here, then in our contention the housing market could begin to be corrected.

Our task is to get nervous politicians of all political persuasions to realise that public funds can be better used through innovative policy ideas, rather than feeding taxpayers funds to aggressive property investment and development interests. Achieving this type of correction will be no easy task.

Conclusion

Australia has a highly skilled construction workforce, that is well organised, well trained and well paid. Studies have shown that it is also highly efficient and productive by world standards. The CFMEU stands willing to join with government and industry to solve the problems of housing affordability. The construction workers of Australia have built this nation, and with some cleverness and innovation, can build the stock we need to house this nation.

The Union believes that the issue of housing affordability is a serious one. If left unaddressed, it has the capacity to systemically deny ordinary Australians not only the capacity to own their own home, but will price rental housing outside the reach of increasing numbers of people. The current policy framework has clearly failed to deal effectively with the problem. The Union believes that the policy options briefly outlined here can go a significant way towards addressing this critical problem.

In short, Australia needs a robust housing construction programme, built around clever policy ideas, and the real needs of people.

References

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