

Mr Lyndon Rowe  
Economic Regulatory Authority  
Level 4, Albert Facey House  
469 Wellington Street  
Perth WA 6000



Western Australian  
Council of Social Service Inc.  
ABN 32 201 266 289

City West Lotteries House  
2 Delhi Street  
West Perth  
Western Australia 6005

Phone (08) 9420 7222  
Fax (08) 9486 7966  
Email [info@wacoss.org.au](mailto:info@wacoss.org.au)  
[www.wacoss.org.au](http://www.wacoss.org.au)

May 2014

Dear Lyndon,

## **RE: The Economic Regulatory Authority's Inquiry into Microeconomic Reform**

The Western Australian Council of Social Service (The Council) welcomes the opportunity to provide a submission to the Economic Regulatory Authority's (ERA) draft report on the Inquiry into Microeconomic Reform. This submission only addresses one specific area of government policy addressed in response to the Authority's discussion paper – that of housing policy, and of the role of the Department of Housing in intervening in the housing market to deliver more housing options for low income and vulnerable Western Australians.

### **The Council's Focus**

The Council's key focus in the area of state and federal housing policy, as the peak body for the community services sector in WA, is on ensuring the development of an equitable, efficient housing market and housing system for all Western Australians. Access to affordable, appropriate and sustainable housing for those at risk of or experiencing financial hardship or homelessness was the major priority identified in state-wide consultations for the Council's 2013/14 and 2014-15 Pre-Budget Submissions. The evidence for the primacy of housing as the most significant driver of cost of living pressures for those on low incomes and of secure housing as a fundamental basis from which to be able to address other forms of disadvantage (including but not limited to disability, mental health issues, family and relationship problems and exclusion from economic participation) is covered in more detail in those Pre-Budget Submissions and in the WACOSS 2013 Cost of Living Report.<sup>1</sup> This brief submission canvasses some of the evidence that the lack of affordable housing for low income and vulnerable Western Australians is a clear instance of market failure that necessitates government intervention. It goes on to discuss where such intervention might be appropriate and how we might evaluate whether market interventions undertaken by the Department of Housing and others are justified, appropriately targeted, and might be considered efficient and effective.

The Council believes that the emphasis for achieving long term outcomes for these vulnerable groups should be on the appropriateness and amenity of the housing, its affordability and security of tenure; rather than who owns, builds or manages it. Our concern is how we best provide diverse housing options to maximise the number of low income and vulnerable people who can achieve and sustain better lives – whether it is provided directly by governments through public housing, less directly through subsidy and asset transfer to the community housing sector, or indirectly through market mechanisms that encourage greater private provision of affordable housing. In any case, where housing market failure threatens the ability of our community to provide appropriate affordable housing for its most vulnerable or disadvantaged, governments have a critical role to play in addressing market failure – exactly what that role should be is predominantly a question of the most appropriate and efficient use of public resources.

This is why in our most recent Pre-Budget Submission, the Council recommended that the State Government put more resources into exploring and evaluating the best cost pathways to achieving appropriate, affordable and secure housing outcomes for vulnerable and low income Western Australians. We did so in the context of an appreciation of and in-principle support for the objectives and strategies outlined within the State Affordable Housing Strategy – but also with a rising level of concern that the scale of investment and market intervention continues to fall behind the growth in demand and the widening affordability gap for rental properties for those on low incomes within our community.

We believe the critical question facing Australian governments tackling the housing affordability crisis for low-income households in the current economic and political environment – within which governments are either unwilling or unable to invest at sufficient scale in the provision of social and affordable housing – is, what are the most cost-effective appropriate strategies to address market failure to deliver affordable housing at a scale sufficient to address unmet need? In this context, the strategies of market engagement and leverage deployed by the Department of Housing in WA are considered by other jurisdictions as an innovative approach to achieving more with less.

## **Housing Market Failure**

The Council considers that the evidence is incontrovertible that the WA and Australian housing market(s) are clearly failing to deliver affordable properties for those on lower incomes. The following discussion details some contributing factors that impact on the lack of affordable housing for those at the lower end of the income spectrum.

### **Reduced Housing Construction**

Between 2001-2011 Australia's housing stock grew at a slower rate than the population; for the first time since the end of World War II<sup>2</sup>.

---

<sup>2</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

Up until the past decade, the housing stock grew at a faster rate than the population

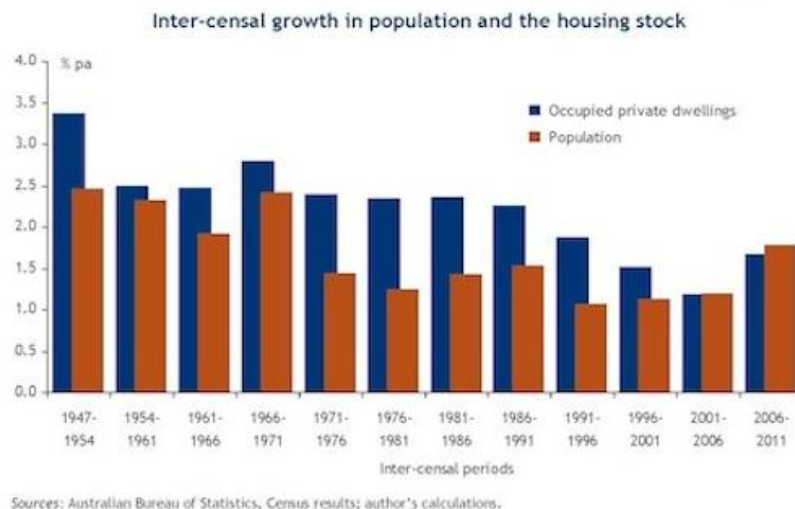


Figure 1: Housing Stock vs. Population<sup>3</sup>

Eslake contends that there are two fundamental reasons for this:

1. The direct contribution of the public sector to growing housing stock has declined substantially.
  - a. From the mid-1950s to the mid-1970s, public sector agencies completed an average of **15,512** new dwellings per annum (and they indirectly financed the completion of another 3,600 dwellings annually through low-interest loan schemes<sup>4</sup>).
  - b. From the mid-1970s to the early 1990s, they completed an average of **12,379** new dwellings per annum.
  - c. But since then, they have completed an average of less than **6,000** new dwellings per annum (indeed between 1999 and 2009 the public sector built fewer than **4,000** new dwellings per annum, on average).
2. State and local government planning schemes and policies for charging for the provision of suburban infrastructure have made it increasingly difficult for the private sector to supply new housing, especially at the more affordable end of the spectrum.<sup>5</sup>

This decrease in supply has also been coupled with a decrease in home ownership amongst first home buyers (overall home ownership rates has actually declined by 5% to 67% at the 2011 Census, its lowest figure since the 1954 Census).<sup>6</sup> Eslake states that the decline in home ownership rates is undoubtedly due to declining affordability. It is arguable that the key factors driving rising housing costs include scarcity (the gap between demand and supply – driven by various supply side constraints that make construction more expensive and more time consuming) and competition (between prospective owners and investors).

<sup>3</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

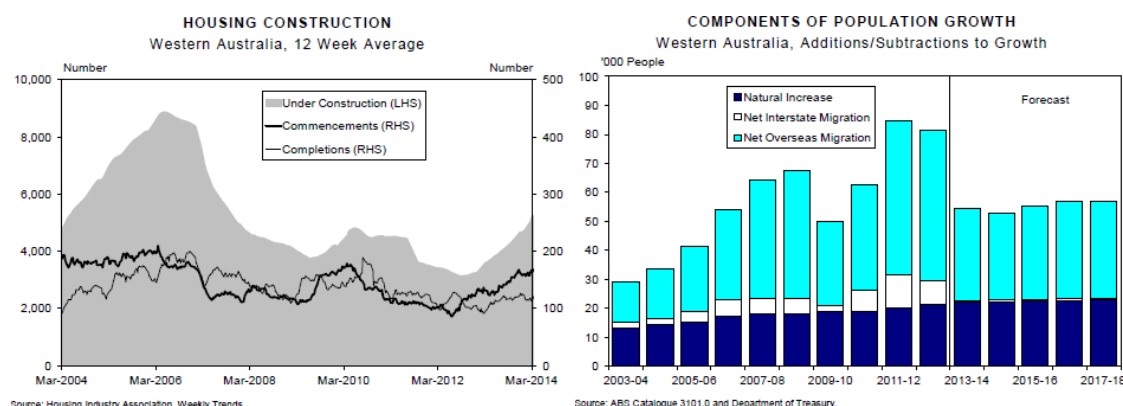
<sup>4</sup> Which is a similar approach to finance that KeyStart provides.

<sup>5</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

<sup>6</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

## Increased Population Growth

Rapid population growth in WA during the recent resource boom coupled with historical supply shortages and lagging housing completions, is increasing demand for but not supply of housing – pushing out those on lower incomes<sup>7</sup>. This problem will continue to grow with our projected population growth (as below) if we do not address housing supply issues. As more and more people are born or come to our State they continue to compete for fewer and fewer properties.



**Figure 2: Housing Construction vs. Population in WA**

In 2012-13 the WA population grew by over 81,000, but over the same period of time, only 18,300 new dwellings were built. Based on the average household size in WA, this means that WA needed to have built over 32,500 new dwellings in 2012-13 to ensure housing for the population increase alone.

## Rental Unaffordability

Low-income earners seeking affordable rental properties are almost entirely excluded from the Perth rental market, according to Anglicare WA's latest annual *Rental Affordability Snapshot*. Less than 1% of rentals in Perth were found to be affordable to people on benefits and pensions, and only 3% were affordable for families on a minimum wage<sup>8</sup>. Interestingly, while the number of available rental properties had significantly increased from last year (an increase of 70% - 4200 to 7000)<sup>9</sup> the number affordable for those most in need had not and remained virtually non-existent. The market is clearly not able to provide for those at the lower end of the income spectrum, despite significant demand. The data clearly indicates that renting is not an affordable and sustainable option for low income earners,<sup>10</sup> resulting in increasing levels of financial hardship, rental default and potential homelessness, and in increased demand for public and community housing and on other programs and services that support those doing it tough.

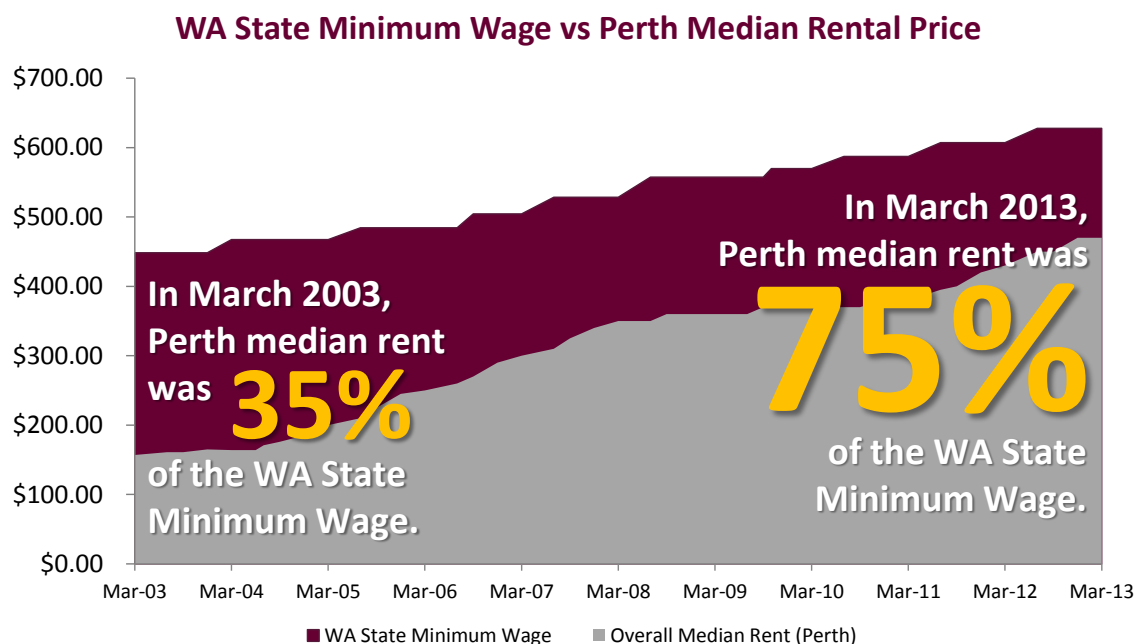
<sup>7</sup> WACOSS 2014-15 State Budget Briefing

<sup>8</sup> Anglicare WA <http://www.anglicarewa.org.au/news/article/30042014-207/rental-market-easing-provides-no-relief-for-low-income-earners.aspx>

<sup>9</sup> Anglicare Rental Affordability Snapshot 2014

<http://www.anglicarewa.org.au/theme/anglicarewaorgau/assets/public/File/Rental%20Affordability%20Snapshot/WA%20Mini%20Report.pdf>

<sup>10</sup> Anglicare WA <http://www.anglicarewa.org.au/news/article/30042014-207/rental-market-easing-provides-no-relief-for-low-income-earners.aspx>



**Figure 3: WA State Minimum Wage vs Perth Median Rental Price**

According to the Department of Housing, there are 43,000 public housing properties in WA, with the majority of tenants reliant on either the aged or disability support pension. There are at any time around 23,000 people or families on a waiting list for these properties, while the rates of turnover remain relatively low. Wait lists for public housing are continuing to grow, despite tightening of eligibility criteria, and there is little appetite in the current economic environment for increased government investment in public housing.

## **Government Responses to Market Failure**

If and where the housing market is failing those at the lower end of the income spectrum, cost effective Government interventions are justified to assist the most vulnerable in our society achieve sustained housing outcomes. However, care needs to be taken in the design and implementation of government strategies to increase the supply of housing to ensure they do not distort the housing market or produce unintended consequences. The Council is concerned that there are a number of existing existing interventions in the market that are resulting in inflated demand for housing without increasing supply – such as negative gearing, first home owners grants and stamp duty exemptions. These are discussed in further detail later in this section of the submission.

### **KeyStart**

The Council was concerned by the discussion within the Authority's microeconomic reform discussion paper regarding the KeyStart program, which is widely regarded to be a cost-effective and successful means of intervening within the housing spectrum to help some low-to-moderate income households currently within the rental market, or exceeding the income thresholds with public or community housing to move into home ownership – thereby freeing up public, community or low income private rental housing. There may be some grounds to seek confirmation or independent review of a number of the claims made by the Department of Housing in relation to KeyStart – that it is cost neutral, that it frees up more affordable places for those on lower incomes, and that it helps households who would not otherwise have access to

ownership through conventional market products – but if these claims can be verified we do not see that there is an argument that the Department of Housing should discontinue the scheme. The Authority has every right to be concerned to establish the extent to which these public interventions are either necessary or cost efficient – that is, whether resources are being diverted to this purpose that might otherwise be better targeted to those with greater disadvantage and more pressing need, whether this is the most cost-effective means of creating (or freeing up) more properties for those on lower incomes, or whether households are being unnecessarily assisted to move from rental to ownership who were might otherwise been able to access other private mortgage products – without requiring public subsidy or risk.

Arguably any independent analysis of whether measures such as KeyStart are the most cost effective mechanism for assisting low income families and individuals to achieve sustainable housing outcomes needs to answer the following questions:

1. Are the KeyStart products being accessed by those who otherwise would not be able to enter the market and attain affordable home ownership?
2. Are initiatives like KeyStart the most cost effective way to assist people on lower incomes to achieve sustainable housing outcomes?
  - Are they doing so in a cost neutral way, or making a positive return for the Government investment?
3. What is the opportunity cost of investing in KeyStart as opposed to other initiatives?
4. Is KeyStart providing the Department with opportunities it may not have otherwise had to assist those with the highest need?
5. Is KeyStart actually providing more opportunities for the most vulnerable Western Australians by transitioning into home ownership and therefore making more public, community and affordable rental housing available?
  - a) Is KeyStart assisting low income families that would have otherwise been relying on public or community housing?
  - b) Is KeyStart assisting low income families that would have otherwise been relying on the limited number of affordable rentals in WA?

The Council understands that one of the KeyStart products, the *Shared Start Expression of Interest Initiative* (EOI), was recently evaluated by the Australian Housing and Urban Research Institute (AHURI) and PricewaterhouseCoopers (PWC) and identified as making a positive contribution to assisting low-income households with positive housing outcomes<sup>11</sup>. Specifically, the evaluation report stated that:

*“The typical expectation of housing assistance is that it is a form of subsidy to households that generates significant costs to government. This form of housing assistance makes a sustained, substantial difference to the financial well-being of lower-income households and delivers a positive rate of return for government.”<sup>12</sup>*

The report recommends the continuation of the scheme at scale, as an unsubsidised form of housing assistance, and a continuation of the cyclical and responsive approach to the provision of shared equity product, which is flexible and responsive to market conditions. The report recommends further investigation of ‘market-facing’ approaches to housing assistance, and the consideration of it being replicated nationally.

---

<sup>11</sup> *A New Approach to Delivering Shared Equity Opportunities in Western Australia: A case study evaluation Final Report*, AHURI with PricewaterhouseCoopers, November 2013, Pg 5

<sup>12</sup> *A New Approach to Delivering Shared Equity Opportunities in Western Australia: A case study evaluation Final Report*, AHURI with PricewaterhouseCoopers, November 2013, Pg 75

The report also stated that there may be a cost saving to Government by diverting residents from social housing or other forms of housing assistance into home ownership. It is worth noting that this may also be one means of addressing what is sometimes referred to as the 'public housing trap' – wherein households who have secured public housing are at risk of losing their security of tenure and being forced to move away from jobs, services, schools and community if their income exceeds a certain threshold, leading some to manage their income and turn down advancement opportunities so as not to lose the security of their home. The Authority might be interested to look into Department of Housing schemes currently seeking to address this issue in Aboriginal communities in the Kimberley.<sup>13</sup>

## Federal Interventions

### Negative Gearing

Negative gearing is an expensive scheme that has demonstrably failed to deliver an increase in the supply of housing. As Saul Eslake states:

*"It's hard to think of any worthwhile public policy purpose which negative gearing has served. It certainly does nothing to increase the supply of housing, since the vast majority of landlords buy established properties: 92% of all borrowing by residential property investors over the past decade has been for the purchase of established dwellings, as against about 72% of all borrowing by owner-occupiers. Precisely for that reason, the availability of 'negative gearing' contributes to upward pressure on the prices of established dwellings, and thus diminishes housing affordability for would-be home buyers."*<sup>14</sup>

### Negative gearing hasn't done anything to improve the supply of rental housing compared with other countries



Sources: Real Estate Institute of Australia; US National Association of Realtors.

**Figure 4: Negative Gearing and Rental Supply**

<sup>13</sup> Insert link to Wunan housing scheme plus Broome and Derby initiatives.

<sup>14</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>



The above graph clearly demonstrates that negative gearing is not delivering more affordable rental properties to the market.

It is important to note that by comparison to other countries with similar levels of economic and social development and comparable cultures, the Australian rental housing market is disproportionately composed of individual ‘mum and dad’ investors as opposed to larger scale corporate and institutional investors. Owning rental property has been established over time by our tax system and investment culture as a form of individual wealth creation and preservation that is ‘as safe as houses.’ The combination of capital gains exemptions and negative gearing tax breaks has distorted investment towards the high end of the market, where the driver is predominantly the minimise tax liability rather than to generate rental income. A more efficient and effective housing market would favour greater levels of institutional investment, with tax incentives used as a means of securing a better affordability mix.<sup>15</sup>

## State Based Interventions

### First Home Owners Grant

The Council is in agreement with the ERA that some government policies have in part, caused a distorted housing market, especially the effect of taxation policies, including the First Home Owners Grant (FHOG). If the aim of the FHOG was to promoting increased home ownership among prospective first home buyers or to stimulate the production of more housing supply, then it has failed. *“Governments have been providing cash handouts to first-time home-buyers for almost half a century. Yet, the overall home ownership rate has never been higher than it was at the 1961.”*<sup>16</sup>

The current FHOG has an inflationary effect on the market. When there is a significant uptake of the grant, the resulting demand is concentrated at the lower end of the market, actually pushing up house prices for first home buyers. As Saul Eslake states; *“Cash grants and other forms of assistance to first-time home buyers have served simply to exacerbate the already substantial imbalance between the underlying demand for housing and the supply of it”*.<sup>17</sup>

---

<sup>15</sup> *Financial and institutional arrangements for the provision of affordable rental housing in Australia (Investigative Panel)*, Reports 1 & 2. Milligan, V. (2012) AHURI. Final report 202.

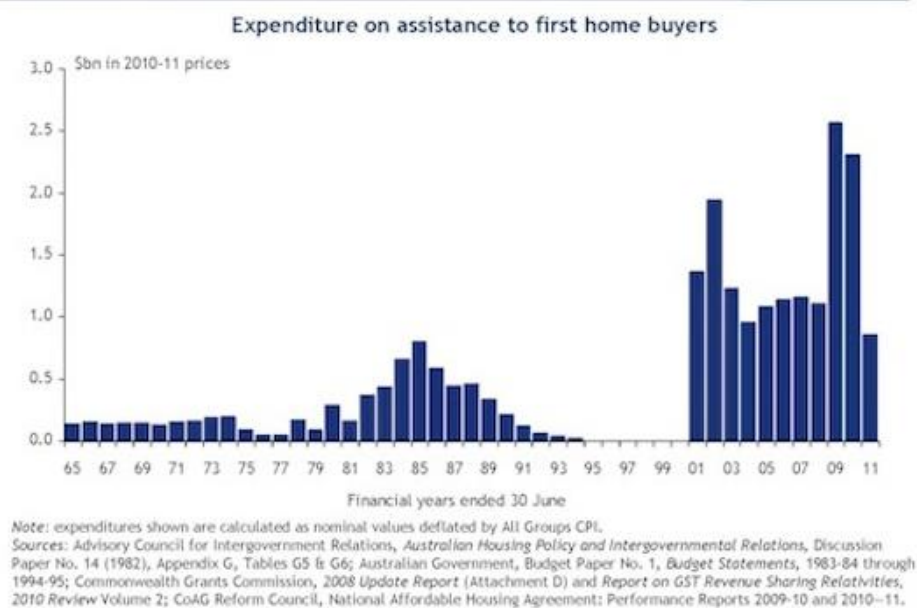
*Enhancing affordable rental housing investment via an intermediary and guarantee*, Lawson, J. et.al. (2014) AHURI Final Report 220

<sup>16</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

<sup>17</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>



## Governments have spent at least \$22½bn on cash grants to first home buyers over the past fifty years



**Figure 5: Government expenditure on FHOG**

The Council commends the WA Government's adjustments to the FHOG in the 2013-14 State Budget to \$10,000 for first home buyers building a new home, compared to \$3,000 for those buying an established dwelling as a step in the right direction in terms of focusing the initiative more on increasing housing supply. The Council believes that renewed focus on efficient policies that boost the supply of housing are an important component in addressing the affordability crisis.

### Stamp Duty

The Council agrees with the Community Housing Coalition WA's recommendation of the removal of stamp duty on conveyancing and the introduction of a broadened annual land tax that is levied on all land. This would produce a much more efficient tax that has the benefit of improving housing affordability in WA.<sup>18</sup>

The Henry Review of the Australian taxation system concluded that *"land is an efficient tax base because it is immobile; unlike labour and capital, it cannot move to escape tax..."* and that *"...economic growth would be higher if governments raised more revenue from land and less revenue from other tax bases."*<sup>19</sup>

The Council was pleased to see in the 2014-15 State Budget a reduction in the transfer duty exemption threshold for first home buyers of established properties from the current threshold of \$500,000 to \$430,000. This is potentially a step in the right direction, as it is likely to mean that fewer established properties in inner metropolitan areas will be affordable to first home buyers, and only new properties on the development fringe are likely to come in under the threshold. It is arguable the change represents more of an effort to reduce expenditure rather than a clear move in market policy. Were the State Government more concerned with

<sup>18</sup> CHCWA ERA Submission <http://www.communityhousing.com.au/wp-content/uploads/2014/05/CHCWA-submission-ERA-draft-report-on-microeconomic-reform.pdf>

<sup>19</sup> Saul Eslake, 50 Years of Housing Failure <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

stimulating supply, they would redirecting demand away from established dwellings and encouraging an increase in the construction of new dwellings by removing the exemption for established properties altogether.

## **The Way Ahead**

The Council has consistently argued that the State Government needs to continue to address the fact that the housing market is failing those at the lower end of the income spectrum. The Council encourages the innovative approaches used by DoH to engage with industry to ensure that the State Affordable Housing Strategy is being realised. Ultimately the extent to which Western Australia can successfully address housing market failure in isolation is limited by structural barriers within the federal tax and transfers system that distort the housing market while failing to provide those reliant on income support with the capacity to succeed within it.

In order to address WA's housing affordability crisis we need systemic reform of the housing system and to leverage emerging opportunities for greater engagement between progressive developers, institutional investors and the community housing sector. This collaboration should focus on:

- Growth of the community housing sector;
- Increasing public and institutional investment in housing;
- Rebalance investment incentives through addressing the tax settings that impact housing;
- A policy package necessary to remove the basis barriers to institutional investment (such as an inadequate risk-adjusted rate of return) which will involve:
  - a form of guaranteed subsidy stream
  - a mechanism for delivering the necessary subsidy
  - a private financing option<sup>20</sup>

The Council acknowledges that there are a number of complex issues discussed herein which we have only been able to canvas in a cursory manner within this brief submission. We urge the Economic Regulation Authority to reconsider its analysis and recommendations regarding the engagement of the Western Australian government and the Department of Housing in intervening within the WA housing market to address market failure for low-income households.

Please do not hesitate to contact me if you wish to discuss these matters further.

Yours sincerely

*Chris Twomey*  
Director of Policy  
WACOSS

---

<sup>20</sup> See for instance – *Enhancing affordable rental housing investment via an intermediary and guarantee*, Lawson, J. et.al. (2014) AHURI Final Report 220.