PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

The Australian Dream

Inquiry into housing affordability and supply in Australia

House of Representatives Standing Committee on Tax and Revenue

March 2022
CANBERRA

ISBN 978-1-76092-361-7 (Printed Version)

ISBN 978-1-76092-362-4 (HTML Version)

Chair's Foreword

There have been a fair few inquiries into housing over the last two decades. Yet house prices and house availability are still problems that face everyday Australians. When this inquiry was announced there was some concern about rapid escalating prices at record rates, but this concern only grew as the Committee began hearing evidence.

It was discovered that there are two tribes in the Australian housing policy arena. The first tribe consists mainly of planners and academics, who believe that the problem is the tax system which has turned housing into a speculative asset, thereby leading to price increases. Furthermore, this tribe believes that home ownership is an overstated social good and people should instead allocate their financial resources elsewhere and concentrate on secure long-term rentals. 'Mum and Dad investors are the problem', 'we need more institutional capital from Big Super', and 'increasing supply raises prices, unless the supply is public housing' are this tribe's common epithets.

This tribe has largely run Australian housing policy for the last few decades, presiding over the greatest price rises in recorded history.

The second tribe believes that planning, the administration of the planning system and government intervention have materially damaged home ownership in Australia. This group notes that while the rental property market matters, home ownership has significant positive externalities that provide real social benefits.

Reconciling these two tribes has proven impossible. Though, in truth, it isn't hard to harmonise them. Tribe one deals with the short term, the immediate, the transient. Tribe two deals with the long term, the structural, the enduring. One of them must be dominant because both cannot be.

There are several questions that this contest of views prompts. The first is how do you appropriately measure affordability and have we been doing this? Secondly, whether Australia should have an affordable housing market or are there features of this continent that simply do not allow it. Finally, is home ownership desirable or are houses utilitarian products that provide shelter and nothing else?

Australia's founders clearly believed that we should be a property-owning democracy. They did not come to this view because they were real estate agents, or because property developers sponsored their various meetings. They came to this view because they wanted Australia to be better than the United Kingdom, they wanted a society not divided by class. In short, they wanted equality of opportunity for everyone. They knew that the line upon which division was most etched is the ownership of property. Therefore, everyone needed to be given the chance to own the home in which they lived.

This has lived with Australians to this day, including in such classic cultural icons as *The Castle*, in which the lead character denounces a large corporation for trying to buy his house by reminding the High Court that a home is not just bricks and mortar, but memories of a life built together and a place in which to imagine your future. Since this great Australian addition to the philosophical canon, other benefits of home ownership have been discovered. Widespread ownership reduces wealth inequality, improves mental health and childhood outcomes, reduces extremism, and provides stability for democratic institutions. Access to home ownership is cited as one of the reasons many are delaying starting a family.

Australia's rate of home ownership has been declining since the baby boom generation bought their homes. At the moment, home ownership rates among Australians under the age of 40 are at levels not seen since 1947. No one believes that when this figure is updated it will not fall further, perhaps to the lowest level on record.

Being able to afford a home is becoming harder and harder for younger Australians. Most people focus on the price of the house, but this is short-sighted. The largest barrier to entry for young Australians is saving for the deposit. On all the various measures, the time it takes a worker on average wages to save for a deposit has increased from a number that could be measured in months to one that can be measured in a decade.

Once this obstacle has been overcome, it then requires a person or family to afford the servicing of the loan. While self-evidently the price of a house has an impact on this measure of affordability, it is only half the story. If the price of a house doubles, but interest rates halve, the affordability of a home has not changed. That is why calls for the Reserve Bank of Australia (RBA) to raise interest rates to lower house prices are probably one of the most absurd ideas in Australian public policy. The fact that the people making this argument are never called to account for what they are really saying is extraordinary. Their argument is effectively, we cannot be bothered building more housing so we should deny other Australians the opportunity to own their own home. Further, so egregious is our laziness that we would prefer the entire economy suffer rather than deal with the underlying issues of the housing market.

This is largely, but not entirely, the path the New Zealand Government has taken.

Perhaps Australia is not able to provide affordable housing stock. Are there physical attributes to our natural environment that preclude us from providing working Australians with affordable and accessible housing. Of course, throughout the course of the inquiry this trope was put to rest again and again. Australia has more useable land than any other continent in the world, outside the penguins of the South Pole. We have one of the least densely populated countries in the world with some of the highest average weekly earnings, and the highest minimum wage in the world. Housing should be easily accessible and affordable. Yet, by some measures our five largest cities are all in the 25 least affordable markets in the world.

There are clearly other forces at play that are diminishing the capacity for Australians to purchase a home. The RBA's view that people are paying more because they can is at best curious, but more likely a misreading of the situation. People do not pay more for their food at the supermarket just because they can afford to; no, you pay more when you have to.

Builders point to the slow and confusing administration of the planning system, which increases the cost of projects and uncertainty. The National Housing Finance and Investment Corporation (NHFIC) brought forward some disturbing analysis. It showed that in parts of Australia builders have no idea how much they are going to pay in levies prior to a project commencing. Further, most of these levies for infrastructure end up going into operational expenditure and do not add to the liveability or amenity for those living in the new housing.

First Nations groups told us that in the Pilbara they have run out of land to build on because council and state government charges are so high that they would represent more than people are willing to pay for the land even before you start building. The result is overcrowding and homelessness in a part of the world with more land than flies. (To be clear there are a lot of flies in the Pilbara).

The Housing Industry Association of Australia showed that state and council charges and levies now make up a large part of the price of a home and land package, an assessment confirmed in NHFIC's submission. In short, if you wanted to cut the price of new homes in much of Australia you could do so by simply removing taxes and levies. The Victorian Government's latest move is only making a bad problem worse.

While it continues to be contested, there is ever increasing evidence that the primary driver of home prices is the lack of market response. That is, price increases are not leading to an expansion in supply, as often builders are prevented from responding.

To those who point to the capital gains tax concessions of 2001 as setting off a wave of investor activity, there is an obvious counter point; if true, which appears to be the case, this should have seen an equal wave in new housing. Instead, we had governments like the Carr Government claiming that Sydney was full and therefore closed. Housing prices soared.

Econometric analysis has shown that in some places in Australia, planning restrictions are responsible for 67 per cent of the cost of housing. Analysis from Finland has shown that increasing housing supply benefits those on low incomes the most. Flexible planning systems like those in Texas are driving economic growth through lower levels of traffic congestion and more efficient allocation of how land is used. This has led to companies such as Tesla, Facebook and Intel leaving California for Texas. Indeed, over the last two years, over a million people have voted with their feet and moved from highly regulated planning systems in New York and California for less regulated ones in Texas and Florida.

The planning reforms in Tokyo saw homelessness reduce by 80 per cent over ten years, while highly regulated planning systems in San Francisco have seen the emergence of tent cities with people who cannot find homes.

Increasing supply is easy to say but appears hard to do, especially for the Federal Government. The reasons for this are not difficult to fathom. Communities across Australia have had higher densities imposed on them with minimal input or consultation. The cost has been borne by the few and the benefits by centralised state and local governments and their planners. The Federal Government needs to incentivise state and local governments to empower communities to make their own choices and trade-offs, while offering real benefits for those who bear the costs. These benefits should include better transport infrastructure, improved local amenities and the assurance of protections and preservation of surrounding areas guaranteed in law, not just spoken of to be broken within a few years.

There is no one answer to make housing more affordable, and there are many kinds of people in the country with different needs, some of which will never have these needs met by market housing. No need is greater than the other and all deserve care and attention, however, for too long the opportunity for your average working Australian to access the Australian Dream has been sacrificed to deal with issues deemed to be of higher priority.

The following report highlights some practical ways that a Federal Government can cut the Gordian Knot of oppressive regulation, muddle-headed central planning, officious big state regulation and the skinning of new home buyers via a myriad of taxes and charges designed to raise funds not living standards.

We sincerely hope, for the sake of all Australians, especially those seeking access to the promise of Australia, that the recommendations contained in this report are taken up by all involved in the political debate.

Mr Jason Falinski MP

Chair

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Terms of Reference

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

- Examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply;
- Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level; and
- Examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in an Australian context.

Members

Chair

Mr Jason Falinski MP	Mackellar, NSW

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Mr Bert van Manen MP	Forde, QLD
Mr Terry Young MP	Longman, QLD

Abbreviations

ABS	Australian Bureau of Statistics
ACHIA	Aboriginal Community Housing Industry Association
ACT	Australian Capital Territory
AHURI	Australian Housing and Urban Research Institute
ALGA	Australian Local Government Association
APRA	Australian Prudential Regulation Authority
ATO	Australian Taxation Office
CGT	Capital Gains Tax
CHIA	Community Housing Industry Association
CHP	Community housing provider
CIS	Centre for Independent Studies
COBA	Customer Owned Banking Association
CPI	Consumer Price Index
DCHDE	Department of Communities, Housing and Digital Economy (Queensland Government)
DSDILGP	Department of State Development, Infrastructure, Local Government and Planning (Queensland Government)
FBT	Fringe Benefits Tax
FHOG	First Home Owner Grant
GFC	Global Financial Crisis
GST	Goods and Services Tax

HAA	Housing All Australians
HBA	Housing Boost Aggregator
HIA	Housing Industry Association
IMF	International Monetary Fund
ISA	Industry Super Australia
KPI	Key performance indicator
MAV	Municipal Association of Victoria
MBA	Master Builders Australia
NACCHO	National Aboriginal Community Controlled Health Organisation
NATSEM	National Centre for Economic and Social Modelling of the University of Canberra
NHFIC	National Housing Finance and Investment Corporation
NHHA	National Housing and Homelessness Agreement
NHIF	National Housing Infrastructure Fund
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
PCA	Property Council of Australia
PIA	Planning Institute of Australia
RBA	Reserve Bank of Australia
REA	Real Estate Australia Group
REIA	Real Estate Institute of Australia
SDA	Shop, Distributive and Allied Employees' Association
SGCH	St George Community Housing
SMSF	Self-managed superannuation fund
TAFE	Technical and further education
UDIA	Urban Development Institute of Australia
UK	United Kingdom
UNSW	University of New South Wales

List of Recommendations

Recommendation 1

3.73 The Committee recommends that state and local governments should increase urban density in appropriate locations using an empowered community framework as currently being trialled in Europe.

3.74 Australia's cities are some of the least densely populated in the world. There are significant benefits of higher density living.

3.75 However, the benefits of higher density are not shared with those bearing the cost. Government planners force density on communities without discussing the benefits of their proposals and how they are going to ameliorate negative outcomes.

3.76 State and local governments impose a growing list of levies on developers that are ultimately passed onto the purchaser. These levies are increasingly not used to improve local areas, creating communities that feel disempowerment.

3.77 We recommend that state and local governments need to create more density in appropriate locations, specifically those well-serviced by underused transport infrastructure. This should be done by allowing local communities to negotiate for higher densities in return for better infrastructure and more convenience, and in such a way that protects and preserves the character of surrounding areas.

3.78 The objective is to ensure that communities that are open to higher density experience an uplift in value and improved infrastructure.

Recommendation 2

3.79 The Committee recommends that the Australian Government should provide incentive payments to state and local governments to encourage the adoption of better planning and property administration policies.

3.80 There is abundant and growing evidence that planning restrictions substantially boost the cost of housing. Land use policy is primarily the responsibility of state and local governments. Nevertheless, the Australian Government can and should play a useful role in co-ordination, guidance and improving incentives.

3.81 Specifically, the Australian Government should provide financial assistance to state and local governments to encourage better planning policy and administration of that policy. We should reward better planning policy administration, for example streamlining of approvals or bringing infrastructure contributions in line with social costs such as value capture and sharing. A good model is the National Competition Policy, which made payments averaging about $600 million a year from 1997-98 to 2005-06.

Recommendation 3

3.82 The Committee recommends that the Australian Government should institute a grant scheme that pays states and localities for delivering more housing supply and affordable housing.

3.83 The Australian Government should reward better outcomes with grants for those states or localities that deliver more affordable housing. Grants could be in the form of cash or infrastructure. They could, for example, be proportional to overall housing completions or proportional to completions in excess of some benchmark. If the latter, consultation would be needed to determine appropriate benchmarks.

3.84 If budgetary conditions are tight, these incentive payments could replace existing programs that deliver low value. In particular, the Australian Government provides substantial grants to state and local governments on an unconditional basis. The Committee recommends that these payments are linked to outcomes that result in better and more available housing that will in turn see an uplift in home ownership.

Recommendation 4

4.54 The Committee recommends that the Australian Government should adopt the recommendations of the House of Representatives Standing Committee on Social Policy and Legal Affairs' Final Report – Inquiry into homelessness.

4.55 The Committee endorses the recommendations of this separate inquiry.

Recommendation 5

4.56 The Committee recommends that the Australian Government should work with state governments through grants and subsidies to increase the supply of critical housing such as crisis housing.

4.57 In addition to the recommendations in the House of Representatives Standing Committee on Social Policy and Legal Affairs' Final Report – Inquiry into homelessness, the Committee recommends that the Australian Government work alongside the states to prioritise an increase in the supply pipeline through grants and subsidies of critical housing, particularly targeted for single income families who are fleeing domestic violence situations and are needing to secure long-term housing solutions.

Recommendation 6

4.58 The Committee recommends that the Australian Government should implement schemes to facilitate private sector partnerships to deliver discount-to-market rent-to-own affordable housing.

4.59 The Committee recommends that the Australian Government, led by the Department of the Treasury, implement schemes to facilitate partnership with the private sector to deliver discount-to-market rent-to-own affordable housing. This will diversify the housing market as well as provide affordable housing options for low to medium income earners, people experiencing homelessness, women escaping domestic violence, parents and children.

Recommendation 7

5.39 The Committee recommends that the Australian Government allow first home buyers to use their superannuation assets as security for home loans.

5.40 The Committee recommends that the Australian Government develop and implement policy allowing first home buyers to use their superannuation balance as collateral for a home, without using the funds themselves as a deposit, thereby expanding the opportunity for home buyers.

5.41 Implementation of this policy should depend on also implementing policies to increase the supply of housing (such as Recommendation 2). Otherwise, an increase in households' ability to borrow would likely increase property prices. This recommendation will therefore remove the largest barrier for home buyers; being the deposit.

Recommendation 8

6.109 The Committee recommends that the Australian Government not change its current policy regarding negative gearing.

6.110 The Committee recommends that the Australian Government maintain current policy with regard to negative gearing. The Committee believes the benefits this policy provides in the form of lower rents, higher housing supply, diversity of ownership and the efficiency of the tax system, outweigh the nominal impact it has on housing prices.

Recommendation 9

6.111 The Committee recommends that state and territory governments replace stamp duty with land tax.

6.112 The Committee recommends states and territories replace stamp duty with land tax. This should be implemented over time, avoiding those who have already or recently paid stamp duty facing double taxation through the replacement land tax. This change would increase housing turnover, remove an unnecessary obstacle to home ownership and stabilise government revenues.

Recommendation 10

6.113 The Committee recommends that the Australian Government conduct a review into how transitional costs regarding Recommendation 9 might be smoothed.

6.114 The Committee recommends that the Australian Government, led by the Department of the Treasury, conduct a review of how transitional costs for

Recommendation 9 might be smoothed and how adverse effects on fiscal equalisation might be avoided.

6.115 As the states and territories would be the biggest beneficiaries of this transfer, any money provided by the Australian Government should be repaid by the states and territories.

6.116 In the interim, the Committee recommends that states and territories that adjust stamp duty brackets to redress decades of stamp duty bracket creep will not be penalised by the Commonwealth Grants Commission in Goods and Services Tax (GST) distributions.

6.117 Furthermore, the Committee recommends that states and territories should adjust stamp duty brackets to redress decades of stamp duty bracket creep and that they should be indexed in line with inflation in the housing market.

Recommendation 11

6.118 The Committee recommends that the Australian Government work with state and territory governments to reform developer contributions, ensuring that the money is used to fund value adding and demanded infrastructure.

6.119 The Committee recommends that developer contributions are reformed as they have ballooned, adding nearly half of the housing cost and have failed to provide increased infrastructure. There are two ways this could occur, either replacement with a value capture model or ensuring that developer contributions can only be expended on their intended purpose, development infrastructure and services.

6.120 This should form part of the incentive payments recommended in Recommendation 2.

6.121 The Committee recommends that the Australian Government work with the states and territories to increase the consistency and transparency of developer contributions across the nation, and to ensure that such contributions are only used to fund useful, value adding infrastructure that is genuinely essential for the development on which they are levied.

Recommendation 12

6.122 The Committee recommends that the Australian Government conduct a review into the build-to-rent housing market and how it is affected by current regulations and tax policies.

6.123 The evidence the Committee has heard suggests that build-to-rent housing would provide consumers more choice and has the potential to increase security of tenure. As a result, the Committee recommends that the Australian Government, led by the Department of the Treasury, conduct a review into the build-to-rent housing market and how it is affected by progressive land tax and other tax and regulatory settings.

Recommendation 13

7.102 The Committee recommends that the Australian Government continue to support the Australian Prudential Regulation Authority's (APRA) Prudential Standard APS 2020 to manage authorised deposit-taking institutions' (ADIs) lending on housing loans.

7.103 The Committee supports APRA's Prudential Standard APS 2020 to manage ADI lending on housing loans. This support transpires to the powers introduced in 2018, to allow APRA to make rules relating to the lending activities of non-ADI lenders if APRA considers that lending by non-ADI lenders is materially contributing to financial system stability risks.

Recommendation 14

7.104 The Committee recommends no changes be made to the Reserve Bank of Australia's current charter and monetary mandate, ensuring that house prices are not a specific objective of monetary policy.

7.105 The Committee recognises that internationally, policy makers have been considering whether house prices should be taken into account, in addition to inflation and the unemployment rate, when setting monetary policy.

7.106 The Committee rejects the recent changes to the Reserve Bank of New Zealand's mandate by the New Zealand Labour Government to consider house price sustainability when setting interest rates.

7.107 The Committee reaffirms that housing prices should not be an objective of monetary policy. The Committee considers these changes to be retrograde to the economy with questionable benefit to home buyers.

Recommendation 15

7.108 The Committee recommends that the Australian Government, led by the National Housing Finance and Investment Corporation, implement mechanisms and work with the states and territories to receive their current and up-to-date forecast data on population, housing approval and completions.

Recommendation 16

7.109 The Committee recommends that the Australian Government continue to support the National Housing Finance and Investment Corporation's concessional loans to infrastructure projects and community housing providers that will unlock new housing supply, particularly affordable housing, with a stronger focus on funding being contingent on supply outcomes.

1. Introduction

Background

1.1 For many people, the Great Australian Dream is to own your own home. Yet for millions of Australians home ownership will remain a dream.

1.2 Australia seemingly has land aplenty and some of the highest wages worldwide, and yet we have some of the least affordable housing in the world. House prices in Sydney and Melbourne are now only outranked by house prices in cities like Vancouver and Hong Kong. In some areas of Australia, rent is prohibitively expensive. For example, in March 2021 not a single private property advertised for rent in Canberra was affordable for households receiving working-age social security payments.[1]

1.3 The statistics tell the story. As Mr Saul Eslake, economist and the Principal of Corinna Economic Advisory told the Committee:

> Once upon a time, Australia had one of the highest rates of homeownership in the world. Our homeownership rate rose from 52.5 per cent in the years both immediately before and after the Second World War to a peak of 72.5 per cent in the census of 1966, which was an extraordinary achievement considering how rapidly Australia's population grew during that period.[2]

1.4 Home ownership began to fall over the following years, arriving at 65.5 per cent at the 2016 census, and lower again to 62.7 per cent in 2019.[3]

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1 Dr Emma Campbell, Chief Executive Officer, Australian Capital Territory (ACT) Council of Social Services, *Committee Hansard*, Canberra, 10 November 2021, p. 31.

2 *Committee Hansard*, Canberra, 17 November 2021, p. 38.

3 Melbourne Institute, *14th Annual Statistical Report of the HILDA* [Household Income and Labour Dynamics in Australia] Survey, 2019, melbourneinstitute.unimelb.edu.au/hilda/publications/hilda-statistical-reports, viewed

Mr Eslake suggested that the single largest factor for this decrease in home ownership is that 'average property prices have more than doubled as a multiple of average household disposable income over the past 30 years, that ratio having been reasonably stable over the preceding 30 or 40 years.'[4] Indeed, Mr Eslake cited analytics from CoreLogic which show that Australian residential property prices rose by 313.5 percent between January 1991 and September 2017.[5]

1.5 Australia's housing affordability predicament places us 27th among the 38 Organisation for Economic Co-operation and Development (OECD) member countries, and 5 percentage points below the OECD average.[6]

1.6 The OECD states that satisfactory housing is a critical element in meeting our basic needs, and that a home involves more than just a dwelling with four walls and a roof.[7] A home should provide safety, privacy, and security - a place to sleep, eat and raise a family. The OECD raises the critical question of whether people can afford adequate housing.[8]

1.7 The need for adequate housing has been highlighted even further recently. During the past two years of the COVID-19 pandemic, governments have required many people to stay at home as part of the suite of public health measures, making satisfactory housing conditions even more important.

1.8 PowerHousing Australia, a membership body for larger-scale community housing providers, noted that the COVID-19 pandemic has 'highlighted the need for stable, safe and affordable housing. As Australians have been forced into lockdown in their homes, housing has become a central component of the COVID health response.'[9]

1.9 It seems however, that home ownership has become more than securing a roof over one's head. When Ms Nicola Lemon, Chair of PowerHousing Australia appeared before the Committee, she touched on the issue of the

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2 March 2022; cited in Mr Saul Eslake, Principal, Corinna Economic Advisory, *Committee Hansard*, Canberra, 17 November 2021, p. 38.

4 Mr Eslake, Corinna Economic Advisory, *Committee Hansard*, Canberra, 17 November 2021, p. 38.

5 Mr Eslake, *Submission 3*, p. [3].

6 Mr Eslake, Corinna Economic Advisory, *Committee Hansard*, Canberra, 17 November 2021, p. 38.

7 Organisation for Economic Co-operation and Development (OECD), *Housing*, 2020, www.oecdbetterlifeindex.org/topics/housing/, viewed 8 December 2021.

8 OECD, *Housing*, 2020, www.oecdbetterlifeindex.org/topics/housing/, viewed 8 December 2021.

9 PowerHousing Australia, *Submission 55*, p. 4.

'financialisation' of the housing market in Australia and across the globe, pointing out that currently, the global value of real estate is US$217 trillion - more than twice global growth domestic product (GDP).[10] Ms Lemon stated:

> The financialisation of housing and the use of housing to park, grow and leverage capital has been something that's been happening significantly across the globe and absolutely occurring in Australia. So, rather than housing being a commodity for a mum and dad with a mortgage, it's actually been financialised. It's based on the idea that housing is a liquid investment, an available commodity with an amount of capital available to invest in it.

1.10 CoreLogic told the Committee that it has seen some 'extraordinary figures on the housing market through the current cycle…in the 12 months to the end of October [2021] national dwellings values have increased 21.6 per cent, which is the highest annual growth rate since June 1989.'[11]

1.11 Australian regional centres are seeing significant spikes in their housing markets too, with property prices having increased by 24 per cent over the past year, indeed more than capital cities which experienced a 21 per cent increase.[12] The effects of this regional boom are real and widespread. Mr Louis Christopher, Managing Director of SQM Research, commented:

> We're at serious risk of creating a homelessness issue in our regions, because the prices have snapped up, there is no supply coming through immediately…I do think we are at risk of creating an increase in homelessness if we do not address our long-term issues surrounding supply and having a tactical response towards supply.[13]

1.12 In its submission the Reserve Bank of Australia (RBA) confirmed that housing accessibility and housing affordability 'have changed significantly in Australia over the past decade, with the extent of those changes varying across different groups and regions within the country.'[14]

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10 *Committee Hansard,* Canberra, 10 November 2021, p. 8.

11 Ms Eliza Owen, Head of Research, CoreLogic, *Committee Hansard,* Canberra, 17 November 2021, p. 1.

12 Ms Owen, CoreLogic, *Committee Hansard,* Canberra, 17 November 2021, p. 1.

13 *Committee Hansard,* Canberra, 17 November 2021, pages 2-3.

14 Reserve Bank of Australia (RBA), *Submission 52*, p. 4.

Government responsibility for housing

1.13 Responsibility for housing in Australia appears to be complex, sitting across three levels of government, with some overlap in responsibilities as well. At a high level, local, and state and territory governments are generally responsible for areas of land release, planning, zoning and facilitating the delivery of housing services, while the Australian Government is also responsible for some aspects of delivery and funding of housing services and assistance.

1.14 The Committee invited all tiers of government to provide evidence to this inquiry, but written and oral representation varied and there was no attendance at public hearings by state and territory governments, except for the Queensland Government.

1.15 There is no doubt that there is a gap in government coordination and an overwhelming call for all levels of government to be better aligned and coordinated on all aspects of housing in Australia. As Digital Finance Analytics stated:

> The housing affordability issue is a complex and politically charged one, with a convenient separation of accountabilities between States (mainly supply-side issues such as land release, planning and zoning and building standards) and Federal where initiatives such as Homebuilder, and additional first-time buyer incentives have featured alongside the tax settings. There is in fact little joined-up thinking.[15]

1.16 Ms Sarah Nelson, a housing and homelessness advocate, gave an honest, firsthand account of her experience of homelessness and the need for appropriate and affordable long-term housing. Ms Nelson specifically addressed a lack of government coordination, and the effect it has on individuals like herself:

> Providing people with a home to live in isn't that complex. It's actually quite simple. What makes it complex, though, is the fact that this intersection of policies and responsibilities has resulted in, at best, a lack of coordination and, at worst, competing interests. If we were to take a bipartisan approach to resolving the issues and if each jurisdiction were to bring all of their areas of responsibility to the table, with a commitment from all to action, it would stand to reason that the complexities would diminish, the issues would be easier to solve and we could deliver a better future for all Australians. We're in a situation right now where, like me, the 3½ million households who are

15 Digital Finance Analytics, *Submission 95*, p. 1.

> currently in housing stress, the disproportionate number of our First Nations people affected by housing issues and the 116,000 people experiencing homelessness, including 44,000 young people, all find themselves at this intersection. As things stand, we also have a generation of young Australians who, unlike their parents and grandparents, won't be able to achieve home ownership. They, too, are finding themselves at this intersection. Like me, every single one of these people has become collateral damage.[16]

1.17 Whether the housing affordability challenge in Australia is attributed to issues of supply, demand, taxation, planning, zoning, the cost of finance or the regulation thereof, or any other factors, there appears to be no doubt or disagreement that the challenge is real. Having a roof over your head has become harder to achieve for a larger group of people than ever before in Australia.

Australia's home-owning democracy

1.18 Australia has long been a place where land and country has been deeply personal and an underpinning tenet of our identity. Traditional owners have long understood the importance of country, a principle that was echoed and implemented by Sir Robert Menzies and during his administration, Australia became the world's greatest 'home owning democracy'.[17] This fundamental principle of Australia has been slowly eroded over the years and it is now important more than ever to rectify the mistakes of the past and forge a new path for the next generation.

Ownership approaches

Conceptually

1.19 The concept of 'ownership' has developed over time and several different approaches. The aristocratic approach is that property should be owned by a small elite.[18] The collectivist-authoritarian (Marxist) approach is to ultimately have all control of property by the State. The liberal-democratic approach is for ownership and control to be by citizens.

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16 *Committee Hansard*, Canberra, 3 November 2021, p. 2.

17 The Hon John Howard (then Prime Minister), 'John Howard and shares', *ABC The World Today*, 17 April 2000, www.abc.net.au/worldtoday/stories/s119384.htm, viewed 2 March 2022.

18 These were also often those only with an education, and who participated in elections.

Ownership in practice

Capital transformation

1.20 Through widespread home ownership, Australia was able to facilitate equality. No longer was it a question of class or inheritance, everyone was able to own their own 'castle'; another great advance in Australia's democracy. Home ownership allowed workers to stop consuming their wages on rent, and apply their capital into a home. The same then became equity that was relatively safe and secure, allowing Australians to become some of the wealthiest on earth.

Status

1.21 As a result of this transformation of 'wages' into capital[19], Australians were no longer just a 'wage-earner' but a 'home owner'. This created a higher status than they would experience elsewhere.[20]

Greater prosperity / the ownership dividend

1.22 Mr Noel Skelton, Scotch MP, and originator of the phrase 'property owning democracy' showed that private property has an ethical dimension.[21] Ownership brings 'an increased sense of responsibility, a wider economic outlook, a practical medium for the expression of moral and intellectual qualities.'[22] In today's words, the property-owning democracy brings in entrepreneurs and new ventures, small to medium enterprise, and the ambitious. The property-owning democracy is a way to unlock the character, ambition, and intelligence of our people. The ownership dividend to society is that the more people are participating economically, the greater chance for innovative and enterprising characters to drive the economy to greater prosperity.

1.23 Overall, liberal democracy has contributed to a period of relative peace and prosperity.

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19 Sometimes referred to as 'equity' in the financial sphere.

20 It also exposed as false the Marxist class-division of people into either one category as either 'worker' or 'owner', as people could be both at the same time.

21 N Skelton, 'Appendix B', *Constructive conservatism: Architect or caretaker: the New Era: Problem and principle: Democracy stabilised*, N Skelton and S. K. G. Feiling, W. Blackwood, 1924, p. 236.

22 N Skelton, 'Appendix B', *Constructive conservatism: Architect or caretaker: the New Era: Problem and principle: Democracy stabilised*, N Skelton and S. K. G. Feiling, W. Blackwood, 1924, p. 239.

How things have gone wrong

1.24 Between the 1940s and 1970s, Australia's home ownership rate skyrocketed from below 50 per cent to above 70 per cent of Australians, but today, this number is now on a negative trajectory.[23] With a decline in property ownership there is a possibility that Australia will lose an important part of its character as it becomes common to live under a landlord.

1.25 There is true reason for optimism. For example, we are blessed with huge amounts of land in Australia. Land is by far the most expensive component of homes and we have the highest level of land per citizen.[24] We have also seen how other property owning democracies can grow, such as in Singapore.[25] In the past four decades, Singapore's proportion of home ownership amongst young adults (those aged between 25 to 34 years) has jumped from around 60 per cent to 88 per cent, whereas in Australia it has sunk from 60 per cent to 40 per cent for the same group.[26] Singapore's property-owning democracy has focused on supply, and is living testimony that the goal of a property-owning democracy is achievable between generations.[27]

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23 M Corcoran, 'Australian housing nothing like Menzies era but budget a good start', *Australian Financial Review,* 10 May 2017, www.afr.com/property/australian-housing-nothing-like-menzies-era-but-budget-a-good-start-20170510-gw1idx, viewed 2 March 2022.

24 This land statistic is in both in 'aggregate' terms and 'arable' terms; CIA World Factbook, *Explore all countries – Australia,* 17 February 2022, www.cia.gov/the-world-factbook/countries/australia/, viewed 2 March 2022. Houses, in fact have two parts: the material building of a house, and land upon which it rests. We can once again make sure the resources of Australia are priced and accessible for purchase. So then we can continue for us to be the most prosperous liberal property-owning democracy in the world.

25 Lee Kuan Yew describes his nation in this terms: 'We have created a property-owning democracy, that's why we have stability in Singapore'; cited in W Outhwaite and S Turner (eds), *The SAGE Handbook of Political Sociology, 2v*, Sage, 2017.

26 Dr Cameron Murray, 'The Singapore-inspired idea for using super for housing that could cut costs 50%', *The Conversation*, 17 January 2022, theconversation.com/the-singapore-inspired-idea-for-using-super-for-housing-that-could-cut-costs-50-174401, viewed 2 March 2022.

27 This is despite the small amount of land in Singapore, on which grounds they said it necessitated some government intervention - the use of 99-year leasehold instead of freehold. There is therefore a threat of some government rule over life. This creates the possibility of only a partial property-owning democracy. Fortunately, we in Australia can go even further with freehold.

1.26 We should also work towards the opportunity to build the types of homes fitting for a free people.[28] Increasing supply is about increasing the type, quality and diversity of housing, allowing the people to choose how and where they shall live. Governments in the past have understood that housing affordability was achieved through a huge increase in the supply.[29] For example, the housing programme for those who had, appropriately, been to war to fight for our freedom in World War Two.[30] It was fitting that this program should be focused on our freedom creators as they helped further our liberal democracy and its freedom-loving spirit.

Conduct of the inquiry

1.27 On 4 August 2021 the House of Representatives Standing Committee on Tax and Revenue adopted an inquiry into *Housing Affordability and Supply in Australia*, referred by the Treasurer, the Hon Josh Frydenberg MP. The Committee was asked to inquire into and report on the contribution of tax and regulation on housing affordability and supply in Australia. A copy of the Terms of Reference can be found at page xiii.

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28 Sir Robert Menzies spoke of a 'house and garden'; cited in J R Nethercote, 'Seventy-five years later, we still remember Menzies' "forgotten people" speeches', 19 May 2017, www.smh.com.au/opinion/seventyfive-years-later-we-still-remember-menzies-forgotten-people-speeches-20170519-gw8qu5, viewed 2 March 2022.

29 Sir Robert Menzies in his 1961 election speech stated: 'Though the problem of housing, whether by governments or private citizens, is, under the constitutional distribution of powers, primarily one for the States (except in Commonwealth Territories), my own Government can present a remarkable record of voluntary performance, a record which we would wish to add to in the next Parliament, working, as always, in co-operation with State Governments, who are fully conscious of the needs.

Since 1950, 907,000 houses and flats have been constructed in Australia, most of them being for ownership. Towards this remarkable total, which will more than stand comparison with any other country, the Commonwealth has found no less than £780m.! In War Service Homes alone, which are our special and honourable responsibility, we have found £350 million, which you may care to compare with a total of £53 million over the previous thirty years of the Scheme, which began in 1919.'

R Menzies, 'Robert Menzies 1961', *Museum of Australian Democracy at Old Parliament House*, 15 November 1961, electionspeeches.moadoph.gov.au/speeches/1961-robert-menzies, viewed 2 March 2022.

30 R Menzies, 'Robert Menzies 1961', *Museum of Australian Democracy at Old Parliament House*, 15 November 1961, electionspeeches.moadoph.gov.au/speeches/1961-robert-menzies, viewed 2 March 2022.

1.28 On 16 August 2021, the Committee issued a media release announcing the inquiry and calling for submissions. The Committee invited submissions from federal, state and territory and local governments; industry groups and peak bodies; think tanks; academics and economists; unions; and the general public.

1.29 The Committee received 208 submissions and an additional 20 supplementary submissions. The full list of submissions and other additional information presented to the inquiry is at Appendix A. The 208 submissions included 52 form submissions regarding the 'More than Mining' proposed policy reform (discussed in Chapter 6), some of which contained tailored comments. While the Committee was unable to publish all the form submissions, four were published as examples. The Committee also received three exhibits, which are listed in Appendix B.

1.30 The Committee held eight public hearings. Due to COVID-19 travel restrictions, all public hearings were held via videoconference with witnesses from all over Australia.

1.31 Transcripts for all public hearings can be found on the Committee's website, and details of the public hearings are listed at Appendix C.

Recent reports on Australian housing

1.32 The Committee acknowledges that there have been several inquiries into housing in Australia, in its various forms, over recent years. The Committee also notes that evidence provided to this inquiry has similarly been provided to some of the previous inquiries, and that there may be some submitter fatigue in the community.

1.33 Previous key reports into Australian housing include:

- *Final Report inquiry into homelessness in Australia,* House of Representatives Standing Committee on Social Policy and Legal Affairs (July 2021)
- *Shelter in the storm - COVID-19 and homelessness - Interim report of the inquiry into homelessness in Australia,* House of Representatives Standing Committee on Social Policy and Legal Affairs (October 2020)
- *Report on the inquiry into home ownership,* House of Representatives Standing Committee on Economics (December 2016)
- *Out of reach? The Australian housing affordability challenge*, Senate Standing Committee on Economics (May 2015)

- *A good house is hard to find: Housing affordability in Australia*, Senate Select Committee on Housing Affordability in Australia (June 2008)
- *First Home Ownership: Productivity Commission Inquiry Report*, Productivity Commission (March 2004).

Report structure

1.34 This report is structured into seven chapters, including this introduction. It is noted that the inquiry received some evidence specifically relating to social and affordable housing. The Committee notes that a higher volume of more targeted evidence on social and affordable housing from many of the same submitters to this inquiry was also received by the House of Representatives Standing Committee on Social Policy and Legal Affairs in its recent inquiry into homelessness in Australia.[31] As the final report for that inquiry considered many issues relating to social and affordable housing and made relevant recommendations, to avoid duplication this report focuses on a few specific issues relating to social and affordable housing that are of particular interest to the Committee.

1.35 This report covers the following topics.

- Chapter 2 discusses housing affordability issues in Australia, including the definition of housing affordability, COVID-19 effects on affordability and long-term trends, and why housing affordability matters.
- Chapter 3 discusses the relationship between housing affordability and planning restrictions.
- Chapter 4 considers specific issues relating to social and affordable housing, namely 'rent-to-own' housing models, shared equity schemes and the role of private investment.
- Chapter 5 considers deposits for first home buyers.
- Chapter 6 provides a brief overview of relevant taxes and charges and considers how these promote or impede housing affordability and supply.
- Chapter 7 considers some other policies.

Acknowledgments

1.36 The Committee would like to thank everyone who provided written submissions and attended public hearings, albeit remotely.

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31 House of Representatives Standing Committee on Social Policy and Legal Affairs, *Final Report – Inquiry into Homelessness*, July 2021, Canberra.

2. General overview of housing affordability

2.1 'Housing affordability' is a broad term that is used regularly in public discourse. It continues to be identified as a matter of public concern[1], which contributed to the establishment of this inquiry. The phrase 'housing affordability' can mean different things in different contexts.

2.2 This chapter discusses housing affordability and supply from multiple angles, and thus sets the scene for the remainder of this report.

2.3 This chapter contains:

- a high-level overview of what housing affordability is and how it can be measured
- a summary of key housing affordability issues in Australia, including recent changes during the COVID-19 pandemic and long-term trends
- global context for housing affordability; and
- detail on the implications of housing affordability issues.

What is housing affordability?

Definitions of housing affordability

2.4 At a high level, housing affordability can be considered in relation to the private market for purchasing or renting property and/or housing that is subsidised by the government to some degree (referred to respectively

1 See for example: S Long, 'Going, Going, Gone: What's driving Australia's Property Frenzy?', *ABC Four Corners*, 1 November 2021, broadcast transcript, www.abc.net.au/4corners/four-corners--what's-driving-australia's-real-estate-frenzy/13612062, viewed 17 January 2022.

hereafter as 'market housing' and 'non-market housing'). Non-market housing is often referred to as social and affordable housing. Much of the evidence to this inquiry explicitly or implicitly focused on both or one of these forms of housing.

2.5 Within market housing, housing affordability relates to multiple groups of people including those who already own a home (with or without a mortgage), those renting in the private market and intending to purchase a home, and those renting in the private market and not intending to purchase a home.

2.6 There are also individuals and families who are unable to fully afford market prices and consequently require access to non-market housing. As identified in Chapter 1, this report focuses primarily on market housing, apart from select issues relating broadly to non-market housing that are of interest to the Committee, which are covered in Chapter 4.

2.7 To avoid confusion, it is useful to distinguish housing affordability, which will be discussed further below, from affordable housing. Affordable housing is defined by the Constellation Project as 'all housing that is affordable for low income earners.'[2] Thus, housing affordability is a broad concept, whereas affordable housing falls within non-market housing.

2.8 The Australian Housing and Urban Research Institute (AHURI) defined housing affordability as 'a measure of the degree to which a household finds it easy to afford their housing', and noted that housing affordability can also denote individuals' capacity to purchase a first home, and/or the ability of either renters or home owners to afford current housing costs.[3]

2.9 Like AHURI, the Grattan Institute also discussed housing affordability in terms of both renting and purchasing a property. On the former, the Grattan Institute stated that rental prices reflect 'the actual cost of consuming housing services in the housing market', and that rents vary based on 'shifts in the balance of demand and supply of the housing stock.'[4] The Grattan Institute further stated that house prices 'are the costs of acquiring a house, and reflect the discounted net present value of future rental income… plus any expected capital gains in future.'

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2 Constellation Project, *Submission 86*, p. [2].

3 Australian Housing and Urban Research Institute (AHURI), *Submission 79*, p. 1.

4 Grattan Institute, *Submission 94*, p. 3.

2.10 The Reserve Bank of Australia (RBA) told the Committee that housing affordability commonly refers to 'the relationship between household income and household expenditure on housing', be that expenditure in terms of house prices, mortgage repayments or rent.[5] The RBA and CoreLogic distinguished between housing affordability and housing accessibility, the latter of which they broadly defined as the ability of households to purchase their first home (that is, obtain a mortgage and a housing deposit) or pay a rental bond for rental housing.[6]

Measuring housing affordability

2.11 Throughout the inquiry the Committee encountered many different metrics for measuring housing affordability. Some of the common metrics that were referenced included: housing purchase prices, cost and time required to save a housing deposit, mortgage payments, and rental housing prices. These metrics were often considered either in absolute terms or relative to other factors such as household income.

2.12 While less commonly referenced during the inquiry, other metrics that were identified as relevant to housing affordability included: additional costs associated with owning or renting a home such as repairs, maintenance, council rates and insurance; transaction costs buyers must pay at the time a property is purchased; the costs of any alterations or additions to a home that may be required by the personal circumstances of its occupants, such as due to mobility or disability factors; and total living costs (for example, including transport costs to get to work).[7]

2.13 One key question became apparent during the inquiry: housing affordability for whom? This is relevant because housing affordability varies between households and over time. As Master Builders Australia (MBA) described:

> '…a household's affordability situation can improve or deteriorate over time as a result of mortgage interest rate variations, job loss, illness, taxation changes and many other factors.'[8]

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5 Reserve Bank of Australia (RBA), *Submission 52*, p. 2.

6 RBA, *Submission 52*, p. 2; Ms Eliza Owen, Head of Research, CoreLogic, *Committee Hansard*, Canberra, 17 November 2021, p. 2.

7 Master Builders Australia (MBA), *Submission 125*, p. 4; MGS Architects and Andy Fergus Design Strategy, *Submission 77*, p. 5.

8 MBA, *Submission 125*, p. 3.

2.14 While remaining cognisant of the unique circumstances facing individual households, for the purpose of this report statistics - often focusing on household cohorts - are essential to assessing housing affordability. The section below outlines some of the statistics used by submitters and witnesses to measure different aspects of housing affordability and identifies how these often focus on certain cohorts.

Home ownership and rental affordability metrics

2.15 As identified earlier in this chapter, multiple witnesses and submitters considered a household's ability to purchase a first home as one aspect of housing affordability. The Grattan Institute outlined three factors that must be met to purchase a home: mortgage serviceability, savings for the housing deposit, and the level of risk that home buyers are willing to take on.[9] Of these factors, only the level of risk that home buyers are willing to assume is flexible. Thus, many of the statistics for assessing the affordability of entering home ownership relate to either mortgage serviceability, a housing deposit, or both.

2.16 When assessing first home buyers' capacity to enter the housing market, the focus throughout the inquiry was often on average income earners. For example, Mr Jonathan Rochford, Managing Director of Narrow Road Capital, proposed one focus within housing affordability could be 'ensuring that the average income earner can afford to purchase an average property.'[10]

2.17 Submitters outlined to the Committee several common metrics to assess the ability of first home buyers to purchase a property. One was mortgage serviceability, which the RBA defined as 'the cost of servicing mortgage debt'[11]; in other words, the ability to afford ongoing mortgage payments. The RBA explained that mortgage serviceability depends on mortgage interest rates, house prices, and income.

2.18 The Grattan Institute noted that 'the share of household income required to pay the typical mortgage' (referred to as the mortgage burden) is sometimes referenced as another measure of housing affordability and observed that this 'more closely reflects the cash-flow costs of housing.'[12]

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9 Grattan Institute, *Submission 94*, p.5.

10 *Committee Hansard*, Canberra, 3 November 2021, p. 43.

11 RBA, *Submission 52*, p. 5.

12 Grattan Institute, *Submission 94*, p. 3.

2.19 An additional affordability metric put forward by the RBA is the ratio between house prices and household incomes.[13] Holding all other factors equal, if dwelling prices are growing faster than household incomes, the affordability of purchasing a home is decreasing. The RBA submitted that while this comparison can offer insight, it is important to note two factors: 'first-home buyers typically do not purchase the average or median-priced home, but rather one that is substantially cheaper' and first home buyers generally have a higher income than the median household; thus there are some limitations to this metric.

2.20 Other metrics referenced by the RBA are the estimated average housing deposit first home buyers require to enter the housing market, and the average time it takes to save this amount.[14] AHURI noted that alongside the housing deposit, first home buyers' ability to get mortgage approval and cover relevant transaction costs are also relevant.[15]

2.21 The RBA also referenced sales outcomes (more specifically, loan commitments by borrower type) as another metric to assess housing affordability for first home buyers.[16] Noting that most property purchasers borrow funds, the proportion of new housing loan commitments attributed to first home buyers can also indicate the extent to which first home buyers have been able to enter the housing market.

2.22 For assessing rental housing affordability, the RBA identified that a key metric is simply the cost of renting, including moving more frequently than home owners, and noted that a common approach is to compare household incomes to rental payments.[17]

2.23 Whereas the focus was often on average income earners when discussing affordability in terms of home ownership, many submitters and witnesses focused on low-income earners when discussing rental affordability.[18] The Grattan Institute stated that:

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13 RBA, *Submission 52*, p. 5.

14 RBA, *Submission 52*, p. 7.

15 AHURI, *Submission 79*, p. 1.

16 RBA, *Submission 52*, pages 7-8.

17 RBA, *Submission 52*, pages 10-12.

18 See for example: Mr Rochford, Narrow Road Capital, *Committee Hansard*, Canberra, 3 November 2021, p. 43; Community Housing Industry Association (CHIA), *Submission 90*, p. 12.

Rental stress for low-income households is defined as the bottom 40 per cent of households with respect to equivalised disposable household income (excluding Commonwealth Rent Assistance[19]), spending more than 30 per cent of gross income on rent.[20]

2.24 A range of other metrics for assessing rental housing affordability are available on the Australian Institute of Health and Welfare's website.[21]

Housing affordability issues in Australia

2.25 As previously noted, housing affordability varies for different cohorts within Australia and depending upon the metrics used. Since multiple demand and supply factors affect housing affordability, it also fluctuates over time with changes in these variables. The section below summarises many of the housing affordability issues that were raised during the inquiry and considers both recent data as well as long-term trends.

Housing affordability during the COVID-19 pandemic

2.26 Many submitters and witnesses described to the Committee how housing affordability has changed during the COVID-19 pandemic. Given the national focus of this inquiry, the Committee focused on overall trends, while acknowledging there are many exceptions.

2.27 The Committee heard from multiple sources that house prices have increased substantially in many parts of Australia since the onset of COVID-19.[22] The Planning Institute of Australia (PIA) noted this is despite 'zero net overseas migration since early 2020.'[23]

2.28 Data provided by Domain demonstrated this growth, with median house prices both nationally and for each capital city increasing year on year (from

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19 Commonwealth Rent Assistance is not considered as part of this report. See House of Representatives Standing Committee on Social Policy and Legal Affairs, *Final report – Inquiry into homelessness*, July 2021, Canberra, pages 72-75, 87.

20 Grattan Institute, *Submission 94*, p. 4.

21 Australian Institute of Health and Welfare, *Housing affordability*, 30 June 2021, www.aihw.gov.au/reports/australias-welfare/housing-affordability, viewed 13 January 2022.

22 Planning Institute of Australia (PIA), *Submission 29*, p. 4; Dr Nick Dyrenfurth, Executive Director, John Curtin Research Centre, *Committee Hansard*, Canberra, 10 November 2021, p. 50; RBA, *Submission 52*, p. 14.

23 PIA, *Submission 29*, p. 4.

2020 to 2021).[24] Ms Eliza Owen, Head of Research at CoreLogic, agreed and informed the Committee that:

> …in the 12 months to the end of October [2021] national dwelling values have increased 21.6 per cent, which is the highest annual growth rate since June 1989…[25]

2.29 While drawing attention to the fact that average first home deposits and the time taken to save a deposit have increased, in terms of actual purchases by first home buyers the RBA advised that 'there has been a large rise in the share of new housing loan commitments from first-home buyers over recent years… suggesting that housing accessibility has improved.'[26]

2.30 Ms Owen from CoreLogic referenced a more recent short-term period and noted that, according to lending data from the Australian Bureau of Statistics (ABS), the mortgages secured by first home buyers dropped 13 per cent in the quarter from July to September 2021, while investor purchases grew.[27]

2.31 The RBA noted that due to declining interest rates, mortgage serviceability has improved over recent years.[28] However, mortgage serviceability is only one aspect of entering the housing market and low interest rates can also enhance other barriers to home ownership. The RBA explained:

> …lower interest rates increase capacity to borrow and pay for housing for both current owners and potential first-time buyers. Housing prices therefore tend to be bid up, which increases the size of the deposit first-time buyers must accumulate and/or reduces the size/quality of the property they can purchase.[29]

2.32 Domain noted that younger Australians and low-income earners have borne the brunt of negative financial impacts from the pandemic, and that 'COVID-19 will put homeownership further out of reach...'.[30]

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24 Domain, *Submission 89*, p. [6].

25 *Committee Hansard*, Canberra, 17 November 2021, p. 1.

26 RBA, *Submission 52*, p. 7.

27 *Committee Hansard*, Canberra, 17 November 2021, pages 6-7.

28 RBA, *Submission 42*, p. 5.

29 RBA, *Submission 42*, p. 6.

30 Domain, *Submission 89*, p. [3].

2.33 Domain also highlighted how challenging it is to save a housing deposit and submitted that in 2021 it took first home buyers in most capital cities on average between two to nine months longer to save a housing deposit, than it took in 2020.[31] According to Domain, in Sydney it now takes a couple, with both partners working full-time, seven years and one month to save an entry-priced housing deposit.

2.34 COVID-19 has had disparate impacts on rental affordability in different parts of Australia. The Committee heard that rents have increased in many regional and coastal areas due to an influx of people away from urban centres.[32] Dr Kim Houghton, Chief Economist of the Regional Australia Institute, told the Committee that the problem is two-fold:

> …it's not just people leaving the cities that's driving this regional population growth; it's actually more people staying in regions. So fewer people are leaving regions to go back to the cities – that normal cycle. That means they're not vacating their properties for housing or rent, so that's really adding to this particular pinch point.[33]

2.35 The Shop, Distributive and Allied Employees' Association (SDA) submitted that rental prices are increasing in many regional areas and noted that 'lower income families [are] particularly vulnerable to increased rental prices.'[34]

2.36 The Queensland Department of Communities, Housing and Digital Economy (DCHDE) told the Committee that 'demand for housing in Queensland has been impacted by population growth', with ABS data showing a population increase of 0.9 per cent from March 2020 to March 2021.[35] For this period this represents 'the largest population growth in real and proportionate terms in any state and territory.'

2.37 At the same time, rents fell in many capital cities as people moved to regional areas, international migration paused, and many foreigners who

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31 Domain, *Submission 89*, p. [12].

32 Mr Rochford, Narrow Road Capital, *Committee Hansard*, Canberra, 3 November 2021, p. 43; Professor Nicole Gurran and Emeritus Professor Peter Phibbs, *Submission 51*, p. 3.

33 Dr Kim Houghton, Chief Economist, Regional Australia Institute, *Committee Hansard*, Canberra, 8 November 2021, p. 13.

34 Shop, Distributive and Allied Employees' Association (SDA), *Submission 88*, p. [11].

35 Queensland Department of Communities, Housing and Digital Economy (DCHDE), *Submission 149*, Attachment 1, p. 1.

were temporarily in Australia returned home.[36] Ms Owen from CoreLogic illustrated this, stating:

> Between March 2020 and October 2021 the City of Melbourne has seen rents in the LGA [Local Government Area] decline by 17 per cent, while rents were up 18 per cent across the Mornington Peninsula.[37]

2.38 In addition to assessing advertised rents, some submitters focused on tenants' ability to meet their rental payments. Domain outlined that younger renters have been disproportionately impacted by loss or reduced income due to the COVID-19 pandemic 'with more than 30 per cent of 18 to 29-year-old and 30 to 49-year-old renters having lost some or all of their income during the recession.'[38]

2.39 Domain's comments align with survey findings from the Australian National University's National Centre for Social Research and Methods, which indicated that the proportion of Australians unable to make rental or mortgage payments on time approximately doubled from April 2020 to May 2020, with renters particularly impacted.[39]

Long-term housing affordability trends

2.40 While shifts in consumer preferences have occurred during the COVID-19 pandemic, it is yet to become clear whether these will be temporary or enduring and consequently, the RBA noted that 'there may be greater than usual uncertainty in evaluating any prospective policy changes.'[40]

2.41 In addition to analysing recent changes, long-term trends are a key source of information regarding housing affordability in Australia. Thus, as the SDA

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36 Professor Gurran and Emeritus Professor Phibbs, *Submission 51*, p. 3; Mr Rochford, Narrow Road Capital, *Committee Hansard*, 3 November 2021, p. 43.

37 *Committee Hansard*, Canberra, 17 November 2021, p. 1.

38 Domain, *Submission 89*, p. [3].

39 N Biddle et al, 'COVID-19 and mortgage and rental payments: May 2020', *Centre for Social Research and Methods, The Australian National University*, June 2020, openresearch-repository.anu.edu.au/bitstream/1885/213190/1/COVID19_and_housing_FINAL.pdf, viewed 17 January 2022; cited in S Whyte, 'Almost half of young people in housing stress; 15 per cent of Australians struggling to pay rent or mortgage', *The Canberra Times*, 30 June 2020, p. 16; cited in SDA, *Submission 88*, p. [10].

40 RBA, *Submission 52*, p. 2.

stated, 'COVID trends should be read in conjunction with longer-run trends in home ownership and affordability'.[41]

2.42 There was generally strong agreement among witnesses and submitters that the overall long-term picture for housing affordability in Australia is not positive. Mr Saul Eslake, economist and the Principal of Corinna Economic Advisory, expressed to the Committee:

> Although most Australians are… physically well housed, it can no longer be said that we are, in general, affordably housed; nor can it be said that the 'housing system' is meeting the needs and aspirations of as large a proportion of Australians as it did a quarter of a century ago.[42]

2.43 In relation to first home buyers, there was broad consensus among submitters that housing affordability has deteriorated over recent decades, as evidenced by decreases in home ownership rates.[43]

2.44 Independent researcher Dr Cameron Murray remarked that 'Australia was not always a nation of homeowners' and outlined to the Committee:

> We had a period after the Second World War of very heavy-handed government intervention in housing to get us up from that 42 per cent to 72 per cent homeownership over two decades…. That [heavy-handed public intervention] included rent controls on landlords to make it expensive to be a landlord so they would sell to first home buyers… We had huge government land grants and new build finance programs, and a massive amount of public housing. Fifteen per cent of new dwellings for a decade were public construction of new housing. A lot of that got sold off to tenants and privatised to boost homeownership rates.[44]

2.45 However, Australia's Survey of Income and Housing shows that over the past 20 years home ownership has fallen from approximately 70 per cent to 66 per cent.[45] This decline has particularly impacted low to middle-income earners and individuals between the ages of 25 to 44.[46] Ms Owen from

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41 SDA, *Submission 88*, p. [22].

42 Mr Saul Eslake, *Submission 3*, Attachment 2, p. [7].

43 RBA, *Submission 52*, pages 3-4; Mr Eslake, *Submission 3*, Attachment 2, p. [7].

44 *Committee Hansard*, Canberra, 17 November 2021, p. 21.

45 Mr David Zago, Program Manager Household Surveys Branch, Australian Bureau of Statistics (ABS), *Committee Hansard*, Canberra, 15 November 2021, p. 10.

46 From 1995-96 to 2017-18 home ownership rates for the second and third income quintiles dropped from 68 per cent to 61 per cent, and 73 per cent to 65 per cent respectively. Over the same period home ownership rates for those aged 25 to 34 and 35 to 44 dropped from 52 per cent

CoreLogic agreed and reiterated that: 'There is, long term, a decline in rates of homeownership… most exacerbated in low-income cohorts…'[47]

2.46 Mr Eslake told the Committee that:

> The decline in home ownership rates among younger age groups is almost certainly due in part to changing preferences (including partnering and having children at older ages, and greater importance attached to proximity to employment or entertainment venues): but it also undoubtedly owes more to declining affordability.[48]

2.47 The Committee heard that home ownership has also fallen among people approaching retirement, with the SDA noting that for those aged between 50 and 54, home ownership rates have declined 6.6 per cent from 1996 to 2016.[49] Furthermore, home ownership without a mortgage is declining, dropping from 32.1 per cent in 2011 to 31 per cent in 2016.[50]

2.48 The Committee heard some evidence suggesting that this long-term trend of declining home ownership is likely to broadly continue. The SDA cited analytics by Trading Economics which predict that Australia's home ownership rate will decrease to approximately 64 per cent in 2022.[51] Meanwhile, longer-term modelling by the Grattan Institute predicts that just over half (57 per cent) of people over the age of 65 will own their own home by 2056.[52]

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to 37 per cent, and 73 to 61 per cent respectively; ABS, *Exhibit 2*, PowerPoint slides 2 and 3, 'Home ownership, by income quintile' and 'Home ownership, by age of household reference person'.

47 *Committee Hansard*, Canberra, 17 November 2021, p. 6.

48 Mr Eslake, S*ubmission 3*, Attachment 2, p. [6].

49 Australian Institute of Health and Welfare, *Home ownership and housing tenure*, 30 June 2021, www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure, viewed 19 January 2022; cited in SDA, *Submission 88*, p. [6].

50 W Stone et al, 'Home ownership remains strong in Australia but it masks other problems: Census data', *The Conversation*, 27 June 2017, theconversation.com/home-ownership-remains-strong-in-australia-but-it-masks-other-problems-census-data-80068, viewed 7 February 2022; cited in SDA, *Submission 88*, p. [6].

51 Trading Economics, *Australia Home Ownership Rate*, undated, tradingeconomics.com/australia/home-ownership-rate, viewed 17 January 2022; cited in SDA, *Submission 88*, p. [4].

52 B Coates and T Chen, 'Retiree home ownership is about to plummet. Soon little more than half will own where they live', *The Conversation*, 12 April 2019; cited in SDA, *Submission 88*, p. [6].

2.49 The Grattan Institute noted that 'Australian dwelling prices have grown much faster than incomes, particularly since the mid-1990s'[53], and explained that median property prices were approximately four times median incomes in the 1980s and early 1990s and have increased to now be approximately more than eight times median incomes (and even higher in Sydney).[54] The SDA echoed this view, citing statistics which show that 'real home prices across Australia have climbed 150% since 2000, while real wages have climbed by less than a third.'[55] The RBA commented that the housing price-to-income ratio has increased over recent decades for all states and territories.[56]

2.50 The RBA elaborated that 'relatively low income growth over the past decade has also made it harder to accumulate the [housing] deposit' and noted that over this period both the average deposit first home buyers need to enter the market and the average time it takes to save this deposit have increased.[57]

2.51 In terms of the rental market, the RBA noted that a greater number of Australians are now renting: approximately one third of households rented in 2018, compared to around one quarter in the late 1990s.[58]

2.52 Over the past decade rents have experienced slower growth than house prices.[59] Nonetheless, rents have increased as a share of household income, particularly for low-income households.[60] The Grattan Institute told the Committee:

> More than half of low-income Australians in the private rental market suffer rental stress, especially those in capital cities. One in five working-aged

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53 Grattan Institute, *Submission 94*, p. 3.

54 J Daley and B Coates, 'Housing affordability: re-imagining the Australian dream', *Grattan Institute*, 4 March 2018, grattan.edu.au/wp-content/uploads/2018/02/901-Housing-affordability.pdf, viewed 18 January 2022, p. 16; cited in Grattan Institute, *Submission 94*, p. 3.

55 C Murray and J Ryan-Collins, 'When houses earn more than jobs: how we lost control of Australian house prices and how to get it back', *The Conversation*, 18 August 2020, theconversation.com/when-houses-earn-more-than-jobs-how-we-lost-control-of-australian-house-prices-and-how-to-get-it-back-144076, viewed 18 January 2022; cited in SDA, *Submission 88*, p. [7].

56 RBA, *Submission 52*, p. 5.

57 RBA, *Submission 52*, pages 6-7.

58 RBA, *Submission 52*, p. 3.

59 Grattan Institute, *Submission 94*, p. 4.

60 RBA, *Submission 52*, p. 11; Grattan Institute, *Submission 94*, p. 3.

> households who rent are in financial stress, defined as skipping a meal, accessing charity, pawning something or not heating the home. [61]

Global context

2.53 Although it is beyond the scope of this inquiry to explore housing affordability in other countries or directly compare other countries with Australia, multiple submitters and witnesses told the Committee that Australia is not unique in experiencing housing affordability challenges, and that most developed countries are experiencing a housing price boom.[62]

2.54 Alongside low interest rates in many parts of the globe, the RBA identified that: 'Strong housing price increases have been seen in most advanced economies in recent decades in both nominal and real terms.'[63] Mr Eslake agreed, stating:

> It's happening almost everywhere around the world [a housing boom in the aftermath of COVID-19] – including in countries which hadn't seen rapid growth in property prices over the previous two decades, such as Germany.[64]

2.55 In addition to escalating house prices, Dr Murray commented on home ownership rates globally, telling the Committee that:

> …declining homeownership rates in the last three decades is a common feature of most developed nation property markets. This is not a unique Australian thing. If we're saying it's a structural issue with Australia, we've got to look a bit more broadly and say maybe it's something bigger than that.[65]

2.56 The Centre for Independent Studies (CIS) highlighted that by some metrics, Australia's housing is particularly expensive compared to other countries, illustrating that according to one study, 'Sydney and Melbourne are the

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61 Grattan Institute, *Submission 94*, p. 4.

62 Mr Louis Christopher, Managing Director, SQM Research, *Committee Hansard*, Canberra, 17 November 2021, p. 5; Ms Owen, CoreLogic, *Committee Hansard*, Canberra, 17 November 2021, p. 5.

63 RBA, *Submission 52*, p. 25.

64 Mr Eslake, *Submission 3*, p. [8].

65 Dr Murray, *Committee Hansard*, Canberra, 17 November 2021, p. 21.

third and sixth least affordable housing markets of the 92 international cities surveyed…'.[66]

2.57 However, Dr Luci Ellis, Assistant Governor, Economic at the RBA, cautioned against cross-country comparisons, stating:

> It's not clear to me that Australia is an outlier in terms of those metrics [comparing the affordability of cities] on prices. I recognise that you can cherry-pick those depending on which source of data you use.[67]

2.58 Dr Murray echoed this view and said:

> You can pick and choose time periods that show you anything. If you pick the most recent 10 years, or the most recent seven years, you'll find that, for example, Houston, Texas, increased more in price than Sydney; and you'll find that a lot of cities in Germany also did… The fact that property cycles aren't in sync allows a lot of picking and choosing in this.[68]

Implications of housing affordability issues

2.59 Why does housing affordability matter? While an answer may seem self-evident, throughout the inquiry the Committee heard a wide range of current consequences that stem from Australia's housing affordability issues, as well as anticipated future implications should the current situation continue or worsen. This section summarises these points.

2.60 First and foremost, housing affordability issues tangibly and in some cases perpetually negatively impact the welfare of many people. Mr David Reiling, a private member of the public, called for the individuals experiencing these negative repercussions to be kept at the forefront of the inquiry, and emphasised that: 'behind every chart showing a declining rate of home ownership are people who cannot afford homes.'[69]

2.61 At its most basic level, housing fulfils our human need for shelter.[70] As Mr Eslake outlined:

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66 Urban Reform Institute and Frontier Centre for Public Policy, *Demographia International Housing Affordability: 2021 Edition*, February 2021, www.demographia.com/dhi.pdf, viewed 17 January 2021; cited in Centre for Independent Studies (CIS), *Submission 24*, p. 5.

67 *Committee Hansard*, Canberra, 14 September 2021, p. 17.

68 *Committee Hansard*, Canberra, 17 November 2021, pages 20-21.

69 Mr David Reiling, *Submission 23*, p. [1].

70 RBA, *Submission 52*, p. 1; MBA, *Submission 125*, p. 6; PIA, *Submission 29*, p.2.

> [h]ousing…meets a variety of deeply personal needs, including those for shelter and (ideally) security. It provides a sense of attachment… and, for many people, contributes to their sense of identity.[71]

2.62 Throughout the inquiry the Committee heard personal stories describing how a lack of adequate affordable housing has impacted and continues to impact individuals from all walks of life. These impacts include people being 'pushed into poverty – possibly even made homeless – by an excessive rent burden.'[72] The Grattan Institute stated that 'higher rents increase the risk of homelessness for those who are already vulnerable.'[73]

2.63 Ms Sarah Nelson, a housing and homelessness advocate, described to the Committee how a lack of secure housing impacted her ability to be a fully functioning member of society, stating:

> The issues of housing affordability and supply have impacted on every facet of my life due to housing stress and homelessness. When you're in housing stress or you're homeless, you are in 'fight or flight' mode. You simply cannot be productive or participate in society to your full capacity. Every ounce of your energy is spent just trying to get through the day. I lived this way for decades.[74]

2.64 Evidence provided to the inquiry indicated that housing stress, whether that is difficulty meeting mortgage or rental payments, can harm our physical and/or mental health.[75] Additionally, the Committee heard that unaffordable housing and subsequent housing stress face may contribute to domestic violence[76], with Professor Andrew Beer and colleagues outlining that:

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71 Mr Eslake, *Submission 3*, Attachment 2, p. [1].

72 City Futures Research Centre of the University of New South Wales (UNSW), *Submission 42*, p. 7.

73 G Johnson et al, 'How do housing and labour markets affect individual homelessness?', *Housing Studies*, 7 November 2018, DOI: 10.1080/02673037.2018.1520819, viewed 18 January 2022; cited in Grattan Institute, *Submission 94*, p. 6.

74 *Committee Hansard*, Canberra, 3 November 2021, p. 2.

75 Dr Dyrenfurth, John Curtin Research Centre, *Committee Hansard*, Canberra, 10 November 2021, p. 51; Professor Andrew Beer et al, *Submission 54*, p. 2; Mr Toby O'Connor, Chief Executive Officer, St Vincent de Paul Society National Council of Australia, *Committee Hansard*, Canberra, 10 November 2021, p. 48.

76 Mr O'Connor, St Vincent de Paul Society National Council of Australia, *Committee Hansard*, Canberra, 10 November 2021, p. 48.

> Current research draws a direct link between unaffordable housing and the incidence and impact of domestic violence against women, to which one death per week on average can be attributed.[77]

2.65 The National Aboriginal Community Controlled Health Organisation (NACCHO) highlighted that some Aboriginal and Torres Strait Islander people in rural and remote communities live in overcrowded housing, which increases the risk of various health problems including infection, disease, and mental health issues.[78] NACCHO elaborated that: 'a lack of quality, affordable housing contributes to the structural inequities facing Aboriginal and Torres Strait Islander people.' Relevantly, the *National Agreement on Closing the Gap* 2020 includes as one outcome area that 'Aboriginal and Torres Strait Islander people secure appropriate, affordable housing that is aligned with their priorities and needs.'[79]

2.66 In addition to these health implications, the Committee heard stories of the toll housing affordability issues take on young people, such as Mr David Reiling who recounted how he and his partner are weighing a difficult choice between buying their first home and starting a family; and Mr Harrison Jones who expressed frustration, stating:

> I'm extraordinarily angry looking at a housing market that seems entirely stacked in favour of people who treat housing as an investment tool or a safe place to park money rather than the human right that it is.[80]

2.67 In terms of employment, Dr Nick Dyrenfurth, Executive Director of the John Curtin Research Centre informed the Committee that:

> A lack of affordable housing, whether people are looking to buy their own home or rent, impacts on people's ability to find jobs which are located in proximity to their community.[81]

2.68 The Committee further heard that many people cannot afford to live near their workplace due to unaffordable housing causing long commutes. Mr

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77 Professor Beer et al, *Submission 54*, p. 2.

78 National Aboriginal Community Controlled Health Organisation (NACCHO), *Submission 122*, pages 3-4.

79 Australian Government, *National Agreement on Closing the Gap*, July 2020, www.closingthegap.gov.au/national-agreement, viewed 2 February 2022.

80 Mr Reiling and Mr Harrison Jones, *Committee Hansard*, Canberra, 3 November 2021, pages 3-4.

81 *Committee Hansard*, Canberra, 10 November 2021, p. 51.

Scott Weber, Chief Executive Officer of the Police Federation of Australia, said:

> We all know there are police officers around the country that commute large distances just to get to work. This can be a critical issue when there's a disaster or a counterterrorism issue or if we need a surging of police.[82]

2.69 Domain noted that 'long commute times are impacting the quality of work-life and work productivity' and also impact individuals' work-life balance.[83] Domain explained that this not only impacts the affected individuals, but also employers because 'when businesses have a range of employees available to them they are more likely to choose the best skill-fit for the job, improving labour market productivity.' One study cited by Domain found that people who commute two or more hours per day have lower levels of overall job satisfaction and are more likely than those with shorter commutes to quit or lose their jobs within the next year.[84]

2.70 The Committee also heard about broader financial and economic implications of housing affordability issues, which explains why, as Ms Sarah Nelson recorded, housing policy '…sits at the intersection between economic and social policy.'[85]

2.71 In regional and remote areas of Australia a lack of affordable housing can make it challenging for businesses to recruit appropriately qualified employees. Mrs Caitlin Breheny, the Director of Connect Paediatric Therapy Services based in Karratha in Western Australia, detailed to the Committee:

> …the lack of housing affordability up here directly relates to our difficulty in recruiting appropriate professionals to work for us. For instance, we've been advertising for some positions for over two years…
>
> …
>
> As a health professional business we pay our staff based on the awards, and, because of the cost of living and the cost of housing up here, we look at trying to pay everyone 30 per cent above the award. But even that is insufficient in

82 *Committee Hansard*, Canberra, 10 November 2021, p. 51.

83 Domain, *Submission 89*, p. [16].

84 R Wilkins et al, 'The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 17', *Melbourne Institute: Applied Economics and Social Research*, 2019, melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0010/3398464/HILDA-Statistical-Report2019.pdf, viewed 18 January 2022, pages 84-85; cited in Domain, *Submission 89*, p. [16].

85 *Committee Hansard*, Canberra, 3 November 2021, p. 2.

> terms of what it costs to live up here and to rent a house, so we're losing staff.[86]

2.72 In addition to impacting individual businesses, the Committee was told that limited affordable housing can constrain entire towns and regions, serving as a major barrier to attracting prospective residents and essential workers such as teachers. For example, the Western Queensland Alliance of Councils highlighted that 'the availability and diversity of quality housing stock is a key barrier to growing the economic and social potential of Western Queensland.'[87]

2.73 Professor Andrew Beer and colleagues explained that '[h]ouseholds with access to suitably located affordable housing are more likely to fully engage with the labour market, contributing to the productive capacity of the economy…'[88] Thus, Professor Beer and others outlined, efficient housing systems enable improved workforce mobility, which leads to greater economic productivity.[89]

2.74 MBA agreed, submitting that:

> A better housing affordability situation would also allow the labour market to achieve improved outcomes. This is because the process of moving from one geographic market to another would involve lower costs when it comes to deposits for rental or home purchase in addition to ongoing housing costs in the destination market. This would provide individual workers with greater mobility and allow better matching between job vacancies and the workers filling them.[90]

2.75 Beyond this, MBA proposed that greater housing affordability would 'soothe wage demands and, over time, offer the opportunity for Australia's economic competitiveness to improve relative to other countries.'[91]

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86 *Committee Hansard*, Canberra, 3 November 2021, pages 29-30.

87 Western Queensland Alliance of Councils, *Submission 140*, p. 1.

88 Professor Beer et al, *Submission 54*, p. [3].

89 D MacLennan et al, 'Making better economic cases for housing policies', *UNSW City Futures Research Centre*, undated, cityfutures.ada.unsw.edu.au/research/projects/delivering-affordable-housing-improving-economic-arguments-housing-interventions/, viewed 18 January 2022; cited in Professor Beer et al, *Submission 54*, p. [3].

90 MBA, *Submission 125*, p. 5.

91 MBA, *Submission 125*, p. 5.

2.76 The City Futures Research Centre in the University of New South Wales (UNSW) identified other implications of unaffordable housing, including that economic productivity may suffer due to 'excessive housing costs borne by households crowding out consumer spending', and 'housing debt displacing investment in more economically productive activities'.[92] Furthermore, the City Futures Research Centre stated that unaffordable housing can impact our national financial stability (see Chapter 7 for further discussion on housing and macroprudential regulation), with:

> …internationally high rates of mortgage-inflated household debt compounding financial system vulnerability…[93]

2.77 Multiple submitters informed the inquiry that the long-term decline in home ownership, including among low income earners and Australians over the age of 50, carries significant future implications for the welfare system and subsequently for taxpayers who fund it.[94] The SDA proposed that declining outright home ownership will 'lead to poorer, more insecure retirements and a higher base living costs [sic].'[95] In relation to the increasing number of Australians who will retire with a mortgage and will need to draw on their superannuation or other savings to pay it, the SDA submitted that:

> …this will have a significant impact on cost of living in retirement and will grow with each successive generation. This will also place added burden on community and public housing, as well as expanding the numbers eligible for Commonwealth Rent Assistance, placing additional strain on the [C]ommonwealth budget.[96]

2.78 Ms Sarah Nelson echoed this view, commenting:

> What will happen in 20 or 30 years time? What will happen to the taxation system? What will happen with a whole lot of people who don't own homes who don't have that fallback position? If we're talking about 40 to 60 per cent

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92 D Maclennan et al, 'Housing: Taming the elephant in the economy', *UNSW City Futures Research Centre, University of Glasgow and University of South Australia*, June 2021, cityfutures.ada.unsw.edu.au//research/projects/housing-and-economy-scenarios-australia-2025-and-2045/; cited in City Futures Research Centre UNSW, *Submission 42*, p. 7.

93 M Bullock and D Orsmond, 'Housing prices and financial stability: An Australian perspective', *Hot Property*, 2019, pages 195-205; cited in City Futures Research Centre UNSW, *Submission 42*, p. 7.

94 See for example Mr Eslake, *Submission 3*, Attachment 1, p. [4].

95 SDA, *Submission 88*, p. [6].

96 SDA, *Submission 88*, p. [9].

> of a generation that doesn't own a home, the money they have is going to go into a dead space instead of going into an asset base. So they're insecure. What does that mean for our economy and even our welfare and health systems at a later date?[97]

2.79 Multiple submitters argued that housing affordability issues contribute to or are a main driver for growing wealth inequality in Australia.[98] Mr Eslake of Corinna Economic Advisory acknowledged that for many Australians housing '…is an important means of building wealth…'.[99] Thus, another consequence of worsening housing affordability, and subsequent declining home ownership, is that this limits many individuals' ability to accumulate wealth. Mr Eslake described that:

> …the inability of a growing proportion of Australians to attain home ownership is contributing to a widening in the inequality in the distribution of wealth between those who own property and those who don't.[100]

2.80 Ms Owen from CoreLogic agreed, commenting that

> …the long-term decline in rates of home ownership have been most exacerbated in low-income cohorts, so that would suggest that you have widening wealth inequality perpetuated through Australia's housing system.[101]

2.81 On the topic of whether low interest rates are contributing to wealth inequality (via the housing market), Dr Ellis from the RBA commented:

> The way I would characterise it is that it's an intergenerational issue, that people whose parents already have homes… can end up relatively easily becoming homeowners. People whose parents rented are going to be in a much more difficult situation to actually get into housing themselves.[102]

2.82 The SDA elaborated on how renting as opposed to home ownership can compound inequality, stating:

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97 *Committee Hansard*, Canberra, 3 November 2021, p. 4.

98 Grattan Institute, *Submission 94*, p. 6; Mr Eslake, *Submission 3*, Attachment 1, p. [4]; SDA, *Submission 88*, p. [8].

99 Mr Eslake, *Submission 3*, Attachment 2, p. [1].

100 Mr Eslake, *Submission 3*, Attachment 1, p. [4].

101 *Committee Hansard*, Canberra, 17 November 2021, p. 6.

102 *Committee Hansard*, Canberra, 15 November 2021, p. 26.

> Income inequality, and as a result, wealth inequality in Australia becomes even greater when we compare household incomes after accounting for housing costs such as paying rent. This is because housing costs as a proportion of income for richer households have been relatively stable (due to low interest rates) while housing costs as a proportion of income for low-income households have risen sharply (because rents have climbed faster than wages and social security benefits.[103]

Committee comment

2.83 The Committee acknowledges the fundamental importance of adequate housing for Australians to live happy, healthy, and productive lives. Equally, the Committee recognises the human, industry, community, and societal impacts caused by Australia's housing affordability challenges.

2.84 Despite housing affordability being a broad concept, the Committee accepts there is a long-term trend in Australia of housing becoming more and more unaffordable for many Australians, particularly younger people.

2.85 The main measures of housing affordability – mortgage servicing costs as a proportion of average household disposable income, rents as a return on equity and as a proportion of average incomes, the value of an average deposit as expressed in terms of the time it would take to accumulate and the necessary savings and stamp duty costs, have increased dramatically in Australia over recent decades.

2.86 This has led to a reduction in the home ownership rate amongst Australians compared to historic trends, and a significant increase in the proportion of individuals and households' budgets spent on the cost of housing over time.

2.87 The Committee also accepts that the effect of the long-term increase in the cost of housing in Australia is social division, dislocation and reduced quality of life with many people being forced to live further away from their place of employment with increasing commute times and reduced time with family and social networks.

2.88 While housing affordability is a shared issue across the globe, the severe implications of this issue for Australia enforces the need for action.

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103 SDA, *Submission 88*, p. [8].

3. Planning and the housing shortage

3.1 Previous government reports have often concluded that supply restrictions due to the planning system have substantially boosted the cost of housing. For example, the House of Representatives Standing Committee on Economics' 2016 Report on the inquiry into home ownership concluded that:

> The committee's view is that government policy in this area should predominantly focus on boosting dwelling supply in underserved markets. Many of the witnesses before the inquiry stated that a lack of supply was contributing to rising house prices in Sydney and Melbourne. In the committee's view, state and territory governments need to do more to adequately address land supply and ensure that existing policies and processes are not unnecessarily causing an undersupply.[1]

3.2 More recently, the New South Wales (NSW) Productivity Commission's 2021 White Paper argues that:

> Housing supply has failed to keep up with demand. That has led to an undersupply of housing, increasing the cost of living for households and making New South Wales a less attractive place to live and work.[2]

3.3 When considering what is 'holding back housing supply', the NSW Productivity Commission further stated that:

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1 House of Representatives Standing Committee on Economics, *Report on the inquiry into home ownership*, December 2016, Canberra, p. iii.

2 New South Wales (NSW) Productivity Commission, *Productivity Commission White Paper 2021*, May 2021, www.productivity.nsw.gov.au/sites/default/files/2021-06/Productivity%20Commission%20White%20Paper%202021.pdf, viewed 28 February 2022, p. 26.

> One of the fundamental determinants of housing supply in New South Wales is the strict regulation of land use.
>
> …
>
> Housing will continue to fall short unless housing targets are reformed.[3]

3.4 Reports from the Organisation for Economic Co-operation and Development (OECD)[4], the International Monetary Fund (IMF)[5], and foreign governments have reached similar or stronger conclusions.

3.5 The evidence has only strengthened since most of these reports were written. As one United States (US) commentator observes, '[a] steady drumbeat of new research continues to confirm that building new housing… makes housing more affordable.'[6] This chapter discusses that evidence and related issues.

Evidence of a housing shortage

3.6 Many submissions argued that Australia had a shortage or undersupply of housing. According to the Urban Development Institute of Australia (UDIA):

> This historic undersupply problem emerged acutely from the 2005-2012 period when the then-National Housing Supply Council (2012, 2013) determined that a national accumulated dwelling supply shortfall was north of 200,000 dwellings. Australia has been playing catch-up ever since, and despite the record levels of residential construction over the 2017-2019 period, supply

3 NSW Productivity Commission, *Productivity Commission White Paper 2021*, May 2021, www.productivity.nsw.gov.au/sites/default/files/2021-06/Productivity%20Commission%20White%20Paper%202021.pdf, viewed 28 February 2022, pages 274-275.

4 Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: Australia 2021*, September 2021, read.oecd-ilibrary.org/economics/oecd-economic-surveys-australia-2021_ce96b16a-en?_ga=2.75096466.1667384192.1632746046-1356414766.1630071861OECD, viewed 28 February 2022.

5 International Monetary Fund (IMF), *Australia: Staff Concluding Statement of the 2021 Article IV Discussions*, September 2021, www.imf.org/en/News/Articles/2021/09/23/mcs092321-australia-staff-concluding-statement-of-the-2021-article-iv-discussions, viewed 28 February 2022.

6 N Smith, *The YIMBYs are starting to win a few*, 18 January 2022, noahpinion.substack.com/p/the-yimbys-are-starting-to-win-a, viewed 28 February 2022.

outpaced demand by only 4,500 dwellings on an annual average, according to NHFIC [National Housing Finance and Investment Corporation].[7]

3.7 Domain broadly echoed this view and submitted that 'Australia has had a chronic undersupply of housing since roughly 2005', but that '[t]his undersupply started to play "catch up" around 2015.'[8]

3.8 Other submissions provided a variety of estimates. The NSW Productivity Commission cited a 2016 NSW Government estimate of an accumulated shortage of 100,000 dwellings in NSW.[9] According to the Grattan Institute:

> Australian cities have not built enough housing to meet the needs of Australia's growing population. Australia has just over 400 dwellings per 1,000 people, which is among the least housing stock per adult in the developed world. Australia has experienced the second greatest decline in housing stock relative to the adult population over the past 20 years.[10]

3.9 Direct estimates of undersupply typically compare dwelling completions with a measure of household formation. To estimate household formation, they assume that household size is given. However, in response to a shortage, the cost of housing will increase which will tend to increase household size. An indicator of undersupply that bypasses this difficult complication is the high and rising cost of housing. For example, the NSW Productivity Commission noted that real residential rents in Sydney (as measured by the Consumer Price Index [CPI], deflated by the index for all groups excluding housing) rose 24.5 per cent between 2005 and 2018.[11] Estimates like these tend to be interwoven with discussions of planning restrictions, outlined below.

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7 Urban Development Institute of Australia (UDIA), *Submission 33*, p. 8.

8 Domain, *Submission 89*, p. [17].

9 NSW Treasury, *Budget 2016-17 Budget Paper No. 5 Intergenerational Report*, www.treasury.nsw.gov.au/sites/default/files/2017-01/Budget_Paper_5_-_Intergenerational_Report_2016_-_full_report.pdf, viewed 28 February 2022; cited in NSW Productivity Commission, *Submission 115*, p. [4].

10 Grattan Institute, *Submission 94*, p. 8.

11 NSW Productivity Commission, *Submission 115*, p. [5].

The effect of planning restrictions

3.10 Many submissions argued that planning restrictions seriously limited supply and hence boosted the cost of housing.[12] This position was echoed by several builders and developers who appeared before the Committee.[13]

3.11 According to the Centre for Independent Studies (CIS):

> These restrictions limit the density of land use. They make it difficult to replace detached housing with townhouses or apartments. When higher density is allowed, height limits restrict the number of apartments that can be included in new buildings. Like any limitation on supply, these restrictions raise prices.[14]

3.12 The Property Council of Australia (PCA) noted some further dimensions of the problem:

> Inadequate strategic housing supply. Key states, especially NSW, have failed to provide enough properly zoned land to meet the demand for new dwellings.
>
> Inefficient planning in key states. A culture of 'no' or 'slow', resourcing gaps and process 'black holes' in approval authorities and local governments and between agencies and utilities.
>
> Over-reliance on minimum lot and apartment sizes, directly raising the market entry point regardless of the quality and liveability of the design and the clear market demand for smaller product.[15]

3.13 The PCA argued that the effect of planning problems on supply is shown by 'stagnant building approval rates for detached housing and declining apartment approvals,' and the fact that all bar one Sydney council will fail to

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12 See, for example: UDIA, *Submission 33*, p. 14; Housing Industry Association (HIA), *Submission 41*, pages [9-15]; Urban Taskforce, *Submission 43*, pages [11-13] (focusing entirely on the NSW planning system), Grattan Institute, *Submission 94*, pages 9-10; Master Builders Association (MBA), *Submission 125*, p. 17.

13 Mr Richard Rhydderch, General Manager NSW, Stockland, Mr Andrew Helmers, Managing Director, MJH Group and Mr Toby Long, General Manager, Residential Development NSW, Mirvac, *Committee Hansard*, Canberra, 26 November, pages 3, 6.

14 Centre for Independent Studies (CIS), *Submission 24*, pages 7-9.

15 Property Council of Australia (PCA), *Submission 154*, p. [9].

achieve all its 10-year new housing targets agreed in 2018, according to analysis done for the PCA.[16]

3.14 Many of these submissions pointed to two Reserve Bank of Australia (RBA) research papers which estimate the undersupply of housing by the gap between market prices and the cost of supply.[17] Those papers describe this gap as a standard measure of shortage and of the effect of quantitative restrictions. Estimates are in Table 3.1.

Table 3.1 Estimates of the contribution of planning restrictions to property prices

	Detached houses (2016)	Apartments (2018)
Sydney	$489,000 (42 per cent)	$355,000 (41 per cent)
Melbourne	$324,000 (41 per cent)	$97,000 (16 per cent)
Brisbane	$159,000 (29 per cent)	$10,000 (2 per cent)
Perth	$206,000 (35 per cent)	-

Source: Kendall and Tulip 2018; Jenner and Tulip 2020

3.15 A NSW Treasury paper cited by the NSW Productivity Commission, using a different approach, estimated that relaxing floor-area ratios in central Sydney would reduce the cost of floorspace by about 28 per cent.[18] A Victorian Government Department of Treasury and Finance paper cited by the CIS, using a different approach again, found that supply restrictiveness almost doubles the price of detached residential land in local government areas such as Melbourne and Yarra, a substantially larger effect than the

16 PCA, *Submission 154*, pages [10], [14].

17 R Kendall and P Tulip, 'The effect of zoning on housing prices', *Reserve Bank of Australia (RBA)*, March 2018, www.rba.gov.au/publications/rdp/2018/2018-03.html, viewed 9 February 2022; K Jenner and P Tulip, 'The apartment shortage', *RBA*, August 2020, www.rba.gov.au/publications/rdp/2020/2020-04/full.html, viewed 28 February 2022; both cited in CIS, *Submission 24,* pages 10-11.

18 K Ge et al, 'Sensitivity analysis on Sydney's urban structure and house prices for the 2021 Intergenerational Report', *NSW Treasury*, January 2021, www.treasury.nsw.gov.au/sites/default/files/2021_igr_ttrp_-_sensitivity_analysis_on_sydneys_urban_structure_and_house_prices_for_the_2021_nsw_intergenerational_report.pdf, viewed 28 February 2022; cited in NSW Productivity Commission, *Submission 115,* p. [13].

RBA estimates reported in Table 3.1.[19] As discussed further below, studies from other countries are extensive and show qualitatively similar results.

3.16 The CIS submission argued that large effects of planning restrictions were also evident in everyday observation, such as the large increases in land values that accompany changes in zoning.[20] For example, in 2014 a property at 661 Chapel St, South Yarra in Melbourne was sold for $20 million when it was zoned for 13 storeys; it was then rezoned for 31 storeys and sold later that year for $56 million.[21] The CIS argued that countless examples like this indicate that legal permission is scarce and a binding constraint on supply - otherwise, it would not be valuable.[22]

Criticisms of a housing undersupply

3.17 Findings of an undersupply of housing were challenged in many submissions. The Committee consider these criticisms and offers its assessment, point by point.

Is there an undersupply?

3.18 The Planning Institute of Australia (PIA) submitted 'there is no accumulated [housing] shortage' and cited evidence which indicates that:

> …in many parts of Australia – house building has been running well ahead of local household growth for much of the last 30 years (except post GFC) [Global Financial Crisis] and especially recently since 2015.[23]

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19 J Lejcak et al, 'Melbourne housing market dynamics: impact of land supply on detached residential prices', *Victorian State Government Department of Treasury and Finance,* February 2020, www.dtf.vic.gov.au/sites/default/files/document/Victorian%20Economic%20Bulletin%20-%20Volume%204.pdf, viewed 28 February 2022; cited in CIS, *Submission 24*, p. 12.

20 CIS, *Submission 24*, p. 7.

21 C Lucas, 'Developer and Liberal Party donor makes $36m profit after building approval from Matthew Guy', *The Age*, 14 August 2017, www.theage.com.au/national/victoria/developer-and-liberal-party-donor-makes-36m-profit-afterbuilding-approval-from-matthew-guy-20170814-gxvr13.html, viewed 28 February 2022.

22 CIS, *Submission 24*, p. 7.

23 B Phillips and C Joseph, 'Regional housing supply and demand in Australia', *Australian National University Centre for Social Research & Methods*, 2017, csrm.cass.anu.edu.au/sites/default/files/docs/CSRM_1-2017_HOUSING_SUPPLY.pdf, viewed 20 January 2022; cited in Planning Institute of Australia (PIA), *Submission 29*, p. 4.

3.19 The PIA further stated that '[h]ousing supply is currently a success story across many of Australia's cities'[24]:

> In 2018, Australia had one of the highest dwelling completions rates in the developed world. Except for South Korea, Australia produced housing faster than other OECD [Organisation for Economic Co-operation and Development] nations at 8.2 completions per 1000 persons… Sydney produced more dwellings than London, despite having a population less than half the size.[25]

3.20 Dr Cameron Murray told the Committee that 'market housing supply has exceeded household demand'[26], and stated that Australian Bureau of Statistics (ABS) Census data indicates 'that dwelling construction has outpaced household growth, with unoccupied dwellings in Australia rising from 4.8% of the total stock in 2001 to 11.2% in 2016.'[27] To further justify the view that current housing supply is meeting population demand, Dr Murray added:

> [t]he fact that rental prices have tracked close to the consumer price index, and below their expected rate which would match household income, suggests that the supply of new dwellings in Australia has easily accommodated the population demand.[28]

3.21 It appears to the Committee that many of these submissions were arguing at cross-purposes. Submissions that claim there is an undersupply of housing are discussing the level of housing or a long-term accumulation that has built up over decades. In contrast, those submissions that claim there is an oversupply are discussing short-term changes. Of course, the two claims are quite consistent. The most comprehensive assessments presented to the Committee were that there was a long-run shortage which has been improving slightly in the past few years.

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24 PIA, *Submission 29*, p. 4.

25 J Brockhoff, 'More housing hasn't fixed Australia's affordability crisis. It's time for a national settlement strategy', *The Fifth Estate*, 26 April 2018, thefifthestate.com.au/columns/spinifex/more-housing-hasnt-fixed-australias-affordability-crisis-its-time-for-a-national-settlement-strategy, viewed 2 March 2022; cited in PIA, *Submission 29*, p. 4.

26 Dr Cameron Murray, *Submission 12*, p.1.

27 Australian Bureau of Statistics (ABS), *2006 Census quickstats*, October 2007, quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2006/quickstat/0?opendocument, viewed 8 February 2022; ABS, *2016 Census quickstats*, October 2017, quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/036?opendocument, viewed 8 February 2022; cited in Dr Murray, *Submission 12*, pages 12-13.

28 Dr Cameron Murray, *Submission 12*, p. 13.

3.22 Similarly, those submissions that infer an undersupply from prices or rents look at long run changes or the level of prices. Those who think there is an oversupply refer to changes in rents over the past few years. Again, these two claims are quite consistent. The cost of housing is too high, even if rents have fallen slightly from recent peaks.

Would extra supply improve affordability?

3.23 Some submissions argued that achieving greater housing supply will not adequately address housing affordability issues because 'superheated demand factors swamp any price impact of delivering housing supply into the market.'[29]

3.24 This appears to the Committee to be a logical error. Many factors determine prices. The recent increase in house prices is widely attributed to lower mortgage rates. However, it does not follow that the effect of other factors, such as future changes in supply, need be small.

3.25 Other submissions simply denied that extra supply would improve affordability. The Australian Housing and Urban Research Institute (AHURI) stated:

> The affordability of housing and supply of housing are two different things, and it does not immediately follow that adding to supply will improve housing affordability.[30]

3.26 Others who shared this view include the City Futures Research Centre of University of New South Wales (UNSW) which told the Committee that 'the argument that increased supply will lead to lower prices and more affordable housing is conceptually flawed' and cited one study that showed that new dwellings do not reduce, but rather moderate price increases.[31]

3.27 Statements like these strike many observers as a denial of basic economics. Mr Jonathan Rochford, Managing Director of Narrow Road Capital, outlined:

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29 PIA, *Submission 29*, p. 2; see also Dr Nick Dyrenfurth, John Curtin Research Centre, *Committee Hansard*, Canberra, 10 November 2021, p. 53.

30 Australian Housing and Urban Research Institute (AHURI), *Submission 79*, p. 1.

31 V Been et al, 'Supply Skepticism: Housing Supply and Affordability', *Housing Policy Debate*, Volume 29, Issue 1, 2019, pages 25-40; cited in City Futures Research Centre of the University of New South Wales (UNSW), *Submission 42*, pages 28, 31; see also MGS Architects and Andy Fergus Design Strategy, *Submission 77*, p. 3.

> Rental housing is primarily a supply-and-demand equation. If the supply of housing grows faster than the population, there will be more properties available for rent and rental affordability will improve.[32]

3.28 According to Dr Shuping Shi:

> …when there is enough supply, you won't have this concern about shortage or the concern that the house prices will go up continuously.[33]

3.29 The Committee observes that, in other markets, when supply increases, prices fall. No evidence was provided to the Committee explaining why the housing market would be different in this respect.

3.30 For quantitative estimates, several submissions cited an RBA research paper on this question. This paper summarises many studies of the effect of supply on prices (technically, 'the elasticity of demand') and concludes that a central estimate is that a 1 per cent increase in the Australian housing stock would reduce prices and rents by about 2.5 per cent.[34]

3.31 However, this effect will be slow. The RBA submission noted that:

> …almost all the supply of housing already exists, and factors such as regulation affect only the supply coming from the flow of newly built housing. In any one year, newly built housing only shifts the stock of housing incrementally. Even the most flexible construction sector is therefore limited in how far it can respond to and absorb rapid increases in demand… there are limits to the scope to meet increased demand with additional supply.[35]

3.32 The City Futures Research Centre of UNSW similarly outlined that '[r]esearch evidence strongly suggests that it would be very difficult to expand housing construction sufficiently to significantly reduce the rate of housing cost inflation, let alone to deflate property prices.'[36]

3.33 The Grattan Institute argued this meant that increases of supply would need to be maintained for very long periods of time:

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32 *Committee Hansard*, Canberra, 3 November 2021, p. 43.

33 *Committee Hansard,* Canberra, 17 November 2021, p. 57.

34 T Saunders and P Tulip, 'A model of the Australian housing market', *RBA*, March 2019, www.rba.gov.au/publications/rdp/2019/2019-01.html, viewed 28 February 2022; cited in CIS, *Submission 24*, p. 16.

35 RBA, *Submission 52*, p. 17.

36 City Futures Research Centre of UNSW, *Submission 42*, p. 4.

> …adding an extra 50,000 dwellings to Australia's housing stock – an increase of about 25 per cent on current levels of construction nationally, or roughly 0.5 per cent of the national housing stock – would lead to national house prices being only 1-to-2 per cent lower than otherwise. But these estimates also imply that a sustained increase in housing supply would have a big impact on house prices. For example, if an extra 50,000 homes were built each year for the next decade, national house prices and rents could be between 10 and 20 per cent lower than they would be otherwise.[37]

Effect of supply on affordability for low income earners

3.34 A more subtle question is whether increasing housing supply will improve housing affordability for low income earners. Many submitters and witnesses expressed doubts about this.[38]

3.35 The PIA and City Futures Research Centre of UNSW both identified that new market housing supply is generally not affordable for low income earners, and thus would be unlikely to improve housing affordability for this cohort.[39] Councillor Linda Scott, President of the Australian Local Government Association, agreed and told the Committee that: '…increasing supply does not simply lead to an increased availability of affordable and social housing.'[40]

3.36 In the Committee's view, these concerns are misplaced. They focus exclusively on the direct effect of housing supply. That is, how much will a newly constructed dwelling sell for. These arguments ignore the larger indirect effects. When a newly supplied house goes on the market, it reduces the price of every other house it is in competition with. And they, in turn, reduce the price of other houses. As noted above, central estimates are that the average level of housing costs needs to fall 2.5 per cent for every 1 per cent increase in the housing stock to be purchased.

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37 J Daley et al, 'Housing affordability: re-imagining the Australian dream', *Grattan Institute*, 4 March 2018, grattan.edu.au/wp-content/uploads/2018/02/901-Housing-affordability.pdf, viewed 18 January 2022, p. 16; cited in Grattan Institute, *Submission 94*, p. 15.

38 Ms Wendy Hayhurst, Chief Executive Officer, Community Housing Industry Association (CHIA), *Committee Hansard*, Canberra, 10 November 2021, p. 1; AHURI, *Submission 79*, p. 1; Mr Adrian Pisarski, Executive Officer, National Shelter, *Committee Hansard*, Canberra, 10 November 2021, p. 37.

39 PIA, *Submission 29*, pages 5-6; City Futures Research Centre of UNSW, *Submission 42*, p. 31.

40 *Committee Hansard*, Canberra, 8 November 2021, p. 17.

3.37 It is incorrect to see the housing market as completely segmented. If builders are prevented from supplying luxury housing, the wealthy buyers who would otherwise buy it purchase middle-level housing instead, which pushes out mid-level buyers who then buy low-end housing. Ultimately, people at the bottom are priced out. Studies of 'filtering' show that new supply results in long chains of turnover, with all sectors of the housing market benefitting.[41]

Estimates of the effect of planning restrictions

3.38 Reflecting their focal role, the estimates of the RBA research shown in Table 3.1 were criticised in several submissions. According to the PIA:

> The authors incorrectly ascribe the difference in average price of housing and the marginal cost of supplying them to a 'zoning effect'. However, their static modelling methodology is incapable of attributing the results to planning regulation or anything else with the potential to limit capacity. By not taking into account the 'market absorption rate' (rate at which stock can be sold into the market while maintaining price) in a dynamic model, their conclusions are irrelevant. At best, the 'costs' they attribute to a 'zoning effect' reflect amenity value and access to jobs and services in a well-planned city.[42]

3.39 Dr Murray similarly commented on the approach used to derive those estimates: 'this method does not reveal any information about supply or planning …. marginal and average prices of land lots should not be equal'.[43]

3.40 Dr Peter Tulip, Chief Economist of the CIS argued that criticisms like these were 'simple misunderstandings that aren't taken seriously by people who who look closely at the issue'.[44] He elaborates on that position in two papers which defend the estimates in detail.[45] The CIS submission notes that the

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41 C Bratu et al, 'City-wide effects of new housing supply: Evidence from moving chains', Working Paper 146, *VATT Institute for Economic Research*, 2021, ideas.repec.org/pp/few/wpaper/146.html, viewed 2 March 2022; E Mast, 'JUE Insight: The effect of new market-rate housing construction on the low-income housing market', *Journal of Urban Economics*, 2021, doi.org/10.1016/j.jue.2021.103383, viewed 2 March 2022.

42 PIA, *Submission 29*, p. 10.

43 Dr Murray, *Submission 12*, p. 11.

44 *Committee Hansard*, Canberra, 17 November 2021, p. 18.

45 P Tulip, 'The Effect of zoning on housing prices – response to questions', *RBA,* 25 June 2018, www.rba.gov.au/publications/rdp/2018/pdf/rdp-2018-03-responses-to-questions.pdf, viewed 2 March 2022; P Tulip, 'Misunderstandings about planning restrictions', *CIS,* December 2021, petertulip.com/misunderstandings.pdf, viewed 2 March 2022.

estimates of the RBA in Table 3.1 are in line with a large body of Australian and overseas research.[46] It pointed to six surveys of the research literature that convey strong agreement with the finding that planning restrictions significantly boost the cost of housing. The CIS quotes *The Economist* magazine - 'no one needs any more papers showing that stringent zoning regulations raise housing costs.'[47] Submissions of the Urban Taskforce and other industry groups made similar arguments.[48]

Land banking

3.41 Numerous submissions argued that private developers restricted housing supply. Although this was presented as an alternative explanation to the role of planning, it is not clear why the existence of land banking would prevent planning restrictions increasing house prices. These seem like distinct arguments. Land banking is discussed separately in Chapter 7.

Box 3.1 Planning reforms in Tokyo, Japan

During the inquiry, the Committee received evidence on the planning reforms undertaken in Japan since the 1990s.

The CIS stated in its submission that Tokyo 'has several times as many residents as Australian cities but its housing is less expensive'.[49] It pointed to research that shows that Japan responded to housing demand by building houses faster, and in turn has enjoyed lower housing costs, whereas countries that restrict housing, like Australia, have a growing affordability problem.

A *Financial Times* article referred to in the CIS' submission stated that to help the Japanese economy recover from 'the brink of collapse in the 1990s … the country eased regulation on urban development', giving people the 'freedom to demolish and rebuild'.[50] It emphasised that the lower housing costs are 'not the result of a falling population', rather Japan 'delivers to its

46 CIS, *Submission 24*, p. 9.

47 S Thibault, 'How to turn NIMBYs into YIMBYs', *The Economist*, 11 September 2021, www.economist.com/finance-and-economics/2021/09/11/how-to-turn-nimbys-into-yimbys, viewed 2 March 2022.

48 Urban Taskforce, *Submission 43*, pages 8-9, 12-13; UDIA, *Submission 33*, p. 23.

49 CIS, *Submission 24*, p. 8.

50 R Harding, 'Why Tokyo is the land of rising home construction but not prices', *Financial Times*, 3 August 2016, www.ft.content/023562e2-54a6-11e6-befd-2fc0c26b3c60, viewed 2 March 2022.

people a steadily improving standard, location and volume of house.'

Dr Tulip of the CIS told the Committee that:

> Japan is the famous example or, to be more precise, Tokyo. Over the past few decades, they've built a lot of housing and, as a result, housing prices in Tokyo have fallen in real terms… The central issue is that we need planners to stop saying no and start saying yes. The actual institutional reforms that get you there are a lot harder.[51]

Mr David Reiling told the committee that he had lived in Japan for over five years and had witnessed the enormity of Tokyo as a city. He went on to add:

> '[i]t's growing, and they do not have any of these supply or affordability issues. They have their own challenges, but there are models there which they employ for building houses effectively and affordably.'[52]

Mr Brendan Coates, Economic Policy Program Director at the Grattan Institute also stated that Japan is a good example of a country that has seen reforms to its planning system support more affordable housing.[53] Mr Coates went on to say that Japanese authorities 'essentially took over the planning system and nationalised it … it's a very liberal planning system that allows you to build the housing you want. Planning has a purpose.'

Dr Cameron Murray disputed the relevance of the Tokyo example, telling the Committee 'you can pick and choose time periods that show you anything.'[54] He described the use of this kind of international comparison as 'cherry picking', and argued that 'many countries have cycles in property asset markets that are out of sync.'

Dr Murray noted that between 2015 and 2020, for example, Australia had lower real house price growth than Japan.[55] He further commented:

> Pick a place that's currently cheap. You may as well say, 'Darwin's got great

51 *Committee Hansard*, Canberra, 17 November 2021, p. 15.

52 *Committee Hansard*, Canberra, 3 November 2021, p. 5.

53 *Committee Hansard*, Canberra, 17 November 2021, p. 36.

54 *Committee Hansard*, Canberra, 17 November 2021, p. 20.

55 Dr Murray, *Submission 12.1*, p. 2.

> planning. That's why it's cheap.'…. Tokyo is twice as expensive as any Australian city, on a per-square-metre-of-rental-apartment basis. The news this year is that Tokyo's apartment prices have reached their bubble highs of the 1980s, when they also had super low interest rates. The fact that properties move in cycles over a sort of 18-year period really confuses a lot of people, especially when cities are out of sync, and you have cities like Houston, in Texas, that follow a mining cycle more than a property cycle. That's my general view there.[56]

Benefits of planning restrictions

3.42 Even if one accepted the argument that planning restrictions have large effects on housing affordability, it would not necessarily follow that those restrictions should be changed. Planning restrictions may have substantial other benefits.

3.43 Mr Saul Eslake, economist and Principal of Corinna Economic Advisory, noted that while he supported planning reform to boost supply:

> …there are two sides to this story, and I have a lot of sympathy with the desire of residents in established areas to prevent developments which detract materially from their quality of life (and/or from the value of their properties).[57]

3.44 Mr Coates from the Grattan Institute likewise told the Committee:

> Just to be very clear; planning is not a bad thing. We don't want to put a school next to an abattoir. We don't want you to build a whole bunch of housing and then allow an abattoir to move in next door. Planning is about mediating the externality costs that different land-uses have upon one another. But you can go too far, and I think a lot of planning systems at the moment are weighing too much on the side of respecting the interests of those that are living there already and not the interests of those that would move in to those areas.[58]

3.45 The RBA noted that land use regulations 'promote other social goals', for example:

> …ensuring buildings are constructed safely and that neighbouring residents do not have costs and inconveniences imposed upon them about which they are not consulted; recent concerns about quality and safety defects in higher-

56 *Committee Hansard*, Canberra, 17 November 2021, p. 22.

57 Mr Saul Eslake, *Submission 3*, Attachment 2, p. [5].

58 *Committee Hansard*, Canberra, 17 November 2021, p. 36.

> density buildings, including those related to waterproofing and fire safety, demonstrate an ongoing community preference for such safeguards.[59]

3.46 In principle, good planning should ensure that complementary services go together while incompatible uses are kept apart. The PIA argued that there are many benefits of planners, including that they:

- undertake strategic planning, forward thinking, plan for land that is suitable and ensuring links with infrastructure and transport;
- improve liveability in growing and changing urban areas by setting quality, diverse, sustainable building and place outcomes;
- translate land use strategy into spatial plans via rezoning, considering and making trade-offs among local community views and broader stakeholders; and
- manage the development assessment process on behalf of the public to assure alignment between proposals and adopted community outcomes.[60]

3.47 The PIA claimed that 'having a sequenced plan with knowledge of where patterns of housing growth and activity can be located is a pre-requisite for cost effective infrastructure delivery' and 'planning for housing supply includes community expectations for improved amenity and liveability.'[61]

3.48 The DSDILGP noted suggestions that land can simply be 'upzoned' (that is, zoning changed to allow higher density) and responded that 'a key matter that must be considered in such decisions is the availability of supporting infrastructure':

> In many locations that may be suitable for urban consolidation there is often a deficit of infrastructure or infrastructure is sized such that it will not support increased population. In greenfield areas most necessary infrastructure is non-existent. Planning for, and delivery of, infrastructure to support increased growth/development is a long-term process and infrastructure supply and delivery requires long term planning and investment. This means that infill development and new growth fronts cannot be immediately established simply by changing zoning. Deliberate and far-reaching decisions need to be made regarding the planning for and funding of infrastructure that is required to support growth.[62]

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59 RBA, *Submission 52*, p. 19.

60 PIA, *Submission 29*, pages 7-8.

61 PIA, *Submission 29*, pages 8-9.

62 DSDILGP, *Submission 62*, pages 2-3.

3.49 Most of the evidence provided to the Committee on the benefits of planning was qualitative and descriptive. There was little quantitative evidence that might facilitate decisions about social trade-offs. One exception was submission of the CIS, which discussed the externalities from restrictions on housing density. It summarised a study showing that in Sydney and Melbourne 'nearby house prices are essentially unaffected' by high-rise apartment buildings.[63] They infer from this that neighbourhood amenity is not damaged by increases in density. The CIS submission notes international studies finding substantial benefits from density in the form of productivity growth, high wages, and greater diversity and choice in consumption and employment. Overall, the external benefits of urban density were estimated to be positive. It submitted:

> Restrictions on density, like height limits or reserving land for detached houses, would be appropriate if density generated bad spillovers ('negative externalities'). However, the results above suggest these spillovers, on net, are more likely to be positive than negative. That means many restrictions on density lack justification — they appear to increase housing costs unnecessarily.[64]

Administrative costs of planning

3.50 Evidence provided to the Committee also highlighted the extent to which planning and zoning regulations affect the timeframe of developments. For example, the City Futures Research Centre of UNSW reported that its study of 881 apartment developments in Sydney completed between 2010 and 2020 found that, on average, the 'planning determination process' accounted for 33 weeks out of 4.7 years' total development time, or 13 per cent.[65] The process was a larger percentage of the total time for smaller developments and a smaller percentage for larger ones, which are more complex to build.

3.51 The results of this study were strongly contested as an underestimate by the developers Mirvac and Stockland, with the latter commenting that the time for land to be rezoned (which must occur before assessment of the

63 P Tulip and Z Lanigan, 'Does high-rise development damage neighbourhood character?', *CIS*, 29 April 2021, www.cis.org.au/publications/policy-papers/does-high-rise-development-damage-neighbourhood-character/, viewed 2 March 2022.

64 CIS, *Submission 24*, p. 13.

65 City Futures Research Centre of UNSW, *Submission 42*, pages 4-5.

development application) must also be considered.[66] Mirvac stated that 'rezonings in New South Wales are now taking in excess of seven years' and 'development approvals for civil works' are taking 'a further 18 months to two years.'[67] According to Stockland, 'we've had a number of instances where developments can take anywhere from five to 10 years to get rezoned, and then you need a year for development approval.'[68]

3.52 Mr Andrew Helmers, Managing Director of MJH Group, gave a builder's perspective:

> Twenty years ago, it used to take us four weeks to get an approval to build a home …. It takes us close to nine months in some areas. The average would be closer to six to get an approval to build a home now.[69]

3.53 Mr Saul Eslake stated that:

> … metropolitan planning authorities and inner-city local governments have made it increasingly more time-consuming and onerous to undertake higher-density or 'infill' developments on 'brownfields' sites – in particular by imposing tighter planning controls, and by providing more opportunities for objections to and appeals against planning decisions.[70]

3.54 The CIS discussed quantitative estimates of the costs of 'red tape' and noted several studies, with estimates being of the order of several thousand dollars per dwelling. It concluded:

> While the estimates above are significant, they are tiny relative to estimates of the 'zoning tax'… [including those in Table 3.1 of this Report], which are often several hundred thousand dollars per dwelling. By far the main effect of the planning system on housing affordability comes from the restriction of supply rather than from the administrative burden.[71]

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66 Mr Long, Mirvac and Mr Rhydderch, Stockland, *Committee Hansard*, 26 November 2021, p. 8. Contrary to the discussion at the public hearing, the UNSW study considered only Sydney, not the whole of Australia. The two developers jointly provided the Committee with three reports showing there is a shortage of housing supply, although none of these directly refutes the findings of the UNSW study: Mirvac and Stockland, *Additional documents 4, 5 and 6,* Answers to Questions on Notice Attachments 1, 2 and 3.

67 Mr Long, Mirvac, *Committee Hansard*, Canberra, 26 November 2021, p. 1.

68 Mr Rhydderch, Stockland, *Committee Hansard*, Canberra, 26 November 2021, p. 3.

69 *Committee Hansard*, Canberra, 26 November 2021, p. 4.

70 Mr Saul Eslake, *Submission 3*, Attachment 2, p. [5].

71 CIS, *Submission 24.1*, p. 3.

Incentive payments to state, territory and local governments

3.55 Land use regulation is primarily the responsibility of state, territory and local governments (hereafter, just 'state and local governments'). However, many submissions argued that the Australian Government had a role in encouraging better housing polices. It was argued that state and local governments were overly averse to increasing housing supply. This partly reflects difficulties in financing associated infrastructure, and it partly reflects excessive localism. Although a growing population is good for the broader community, too many governments want others to bear the burden of housing the extra population. For these and other reasons many submissions and witnesses recommended that the Australian Government financially encourage lower levels of government to boost supply.[72] This policy has also been recommended in recent surveys of the Australian economy by the OECD and IMF.[73]

3.56 UDIA advocated for:

> … a new federal incentive based model that finally breaks through and prompts the states to fix their planning systems that are at the heart of the problem – that is, reward the states that are reforming their planning systems and meeting required annual supply targets by federal-state funding partnership arrangements for key infrastructure delivery to unlock supply.[74]

3.57 UDIA proposed that incentives should be in the form of enabling infrastructure (discussed further in Chapter 7) and that they should be linked to actual outcomes. This would distinguish such an approach from that taken in the National Housing and Homelessness Agreement (NHHA),

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72 Mr Simon Basheer, National President, UDIA, *Committee Hansard*, Canberra, 4 November 2021, p. 14; CIS, *Submission 24*, pages 18-19; HomeWorld, *Submission 133*, p. [6]; PCA, *Submission 154*, p. [4]; Mr Tom Forrest, Chief Executive Officer, Urban Taskforce, *Committee Hansard*, Canberra, 4 November 2021, p. 24; NSW Productivity Commission, *Submission 115*, p. [18]; Grattan Institute, *Submission 94*, pages 14-15; MBA, *Submission 125*, p. 22.

73 OECD, *OECD Economic Surveys: Australia 2021*, September 2021, read.oecd-ilibrary.org/economics/oecd-economic-surveys-australia-2021_ce96b16a-en?_ga=2.75096466.1667384192.1632746046-1356414766.1630071861OECD, viewed 28 February 2022; IMF, *Australia: Staff Concluding Statement of the 2021 Article IV Discussions*, September 2021, www.imf.org/en/News/Articles/2021/09/23/mcs092321-australia-staff-concluding-statement-of-the-2021-article-iv-discussions, viewed 28 February 2022.

74 Mr Basheer, UDIA, *Committee Hansard*, Canberra, 4 November 2021, p. 14.

which requires 'evidence of a strategy, not outcomes'.[75] UDIA also suggested that:

> NHFIC should be tasked with designing a benchmark for housing supply targets – as well as a set of reporting metrics on the fundamental elements of planning systems across the nation

and further told the Committee that these metrics would enable the:

> …production of annual 'league tables' that compare and contrast the relative progress and success (or otherwise) of states and territories.[76]

3.58 In contrast, the PIA cautioned against using a league table approach for comparing jurisdictions' performance in terms of reforms to the planning system or the creation of new dwellings.[77] It explained that there is variation in planning systems between different Australian jurisdictions, which makes it difficult to accurately compare data.[78] The PIA explained:

> Have the KPIs [key performance indicators] that reflect the way that [the planning] system works, and don't just measure the speed for a standard type of development, because developments aren't standard… It's absolutely appropriate to have the right KPIs, but they should be quality KPIs, not just speed KPIs.[79]

3.59 The CIS outlined that there is precedent for the Australian Government providing financial support to promote reform at the state and territory level, citing the National Competition Policy that 'from 1997-98 to 2005-06… involved payments averaging about $600 million a year to the states and territories for regulatory and competition reform.'[80] The CIS further commented that a 2005 review of the National Competition Policy by the Productivity Commission found that on balance the benefits achieved by the program outweighed the costs.[81]

75 UDIA, *Submission 33*, p. 33.

76 UDIA, *Submission 33*, p. 34.

77 Mr Darren Crombie, President, PIA, *Committee Hansard*, Canberra, 4 November 2021, p. 32.

78 Mr John Brockhoff, National Policy Manager and Mr Crombie, PIA, *Committee Hansard*, Canberra, 4 November 2021, p. 32.

79 Mr Brockhoff, PIA, *Committee Hansard*, Canberra, 4 November 2021, p. 32.

80 CIS, *Submission 24*, p. 19.

81 Productivity Commission, *Review of National Competition Policy Reforms: Productivity Commission Inquiry Report*, February 2005, www.pc.gov.au/inquiries/completed/national-competition-policy/report/ncp.pdf, p. 12, viewed 6 January 2021; cited in CIS, *Submission 24*, p. 19.

3.60 The CIS provided an example of how Australian Government infrastructure spending could be linked to housing outcomes, suggesting that:

> The federal government's 10-year infrastructure program involves expenditure of $110 billion, including an additional $15 billion in new project funding in the 2021–22 Budget. Much of this is on regional road and rail. The federal government could require states to build more housing in return. For example, intra-urban rail, such as the Metro in Sydney or the Suburban Rail Loop in Melbourne could require that new train stations be accompanied by high-density housing.[82]

3.61 The NSW Productivity Commission proposed that the Australian Government 'should establish a "Productivity Fund" to incentive state-based reform' and suggested this could encourage 'the states to undertake taxation and regulatory reform that will improve development feasibility and encourage up-zoning of land'.[83] The NSW Productivity Commission anticipated that this policy would strengthen federal finances in the medium term through 'higher income and company tax receipts while containing the need for welfare outlays.'

3.62 The NSW Productivity Commission additionally suggested that 'Commonwealth grants to local government should incentivise housing supply' and outlined that all levels of government would experience economic and fiscal benefits if federal financial assistance grants to local government were 'contingent on the delivery of new housing supply.'[84]

3.63 The PCA advocated for the establishment of:

> An expert Federal taskforce designing National Competition Policy-style Federal housing productivity incentives for states, territories and/or local governments.[85]

3.64 The PCA further suggested that an incentive-based framework and metrics would 'need to be negotiated by a credible expert of the calibre of Professor [Ian] Harper [AO], with the assistance of the Productivity Commission and NHFIC'.[86]

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82 CIS, *Submission 24*, p. 20.

83 NSW Productivity Commission, *Submission 115*, p. [18].

84 NSW Productivity Commission, *Submission 115*, pages [18-19].

85 PCA, *Submission 154*, p. [4].

86 PCA, *Submission 154*, p. [18].

3.65 The idea proposed by the PCA is that the framework would require jurisdictions to 'report on their progress in relation to these metrics', and thus enable:

> … annual productivity score-carding and ranking of state and territory housing strategies and homes produced as well as the tax and regulatory costs embedded in the average new home in each jurisdiction.[87]

3.66 The PCA submitted that to incentivise action at other levels of government, 'financial incentives should be provided [to jurisdictions, by the Australian Government] on the basis of this progress.'[88] The Deloitte Access Economics report *A Federal Incentives Model for Housing Supply*, commissioned by the PCA, also identified that 'in addition to using financial incentives, infrastructure provision can also provide an incentive to drive coordinated policy action on land supply and housing affordability in Australia.'[89]

3.67 Mr Tom Forrest, the Chief Executive Officer of Urban Taskforce, suggested that such an approach whereby the Australian Government provides infrastructure funding in return for planning system reforms could have a 'double benefit' - with the reforms leading to more efficient planning systems and the infrastructure helping unlock new housing supply.[90]

3.68 The CIS commented that coupling enabling infrastructure funding with new housing supply could be a fairer allocation of government funds, explaining:

> Making [infrastructure] funding conditional on housing construction is not just a matter of boosting incentives. It is arguably a fairer and more deserving allocation. The standard benchmark for considering grants is on a per-capita basis. However, it is the growth in population, rather than the level, that drives the demand for new infrastructure.[91]

3.69 The CIS highlighted that for an incentivisation approach to be effective, 'the associated grants would need to be quarantined from fiscal equalisation',

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87 PCA, *Submission 154*, pages [4], [18].

88 PCA, *Submission 154*, p. [18].

89 Deloitte Access Economics, 'A Federal Incentives Model for Housing Supply', *PCA*, 2016, propertycouncil.com.au/Web/Content/Submissions/National/2016/A_Federal_Incentives_Model_for_Housing_Supply.aspx, p. 42, viewed 25 January 2022; cited in PCA, *Submission 154*, p. [3].

90 *Committee Hansard*, Canberra, 4 November 2021, p. 24.

91 CIS, *Submission 24*, p. 20.

and cited as a precedent that 'half the past payments to the National Land Transport Network have been quarantined.'[92]

3.70 The Commonwealth Grants Commission defines horizonal fiscal equalisation as the 'transfer of fiscal resources between jurisdictions with the aim of offsetting differences in revenue raising capacity and the cost of delivering services'.[93] Thus, the proposal from the CIS is that under an incentivisation model, Australian Government enabling infrastructure funding should be allocated to states solely on the basis of new housing construction, and not distributed based on their fiscal capacities and the differing service delivery costs for jurisdictions.

Committee comment

3.71 The contribution of planning restrictions to housing unaffordability is perhaps the most controversial issue facing the Committee. The Committee considered lengthy submissions on both sides. It is clear to the Committee (as indeed, it has been to previous inquiries) that the weight of evidence is not balanced. The many submissions which argued that planning has large effects on housing costs, supported that argument with a wide variety of evidence, including highly regarded research. The Committee found those arguments convincing, as apparently have many others, including a large majority of experts. In contrast, the empirical support for dissenting views appears to be weak. It was not clear that their arguments attracted wide support.

3.72 Available estimates of the effects of planning restrictions on housing costs are large. So large, that it is hard to see how benefits of planning restrictions could be comparable. It appears to the Committee that these restrictions have been allowed to bind ever more tightly without a proper justification. The Committee accepts that there are important benefits from planning, but it does not accept that these are sufficient to justify denying affordable housing to renters or to future generations of home owners.

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92 CIS, *Submission 24*, p. 20.

93 Commonwealth Grants Commission, *Fiscal Equalisation*, cgc.gov.au/about-us/fiscal-equalisation, viewed 6 January 2021.

Recommendation 1

3.73 The Committee recommends that state and local governments should increase urban density in appropriate locations using an empowered community framework as currently being trialled in Europe.

3.74 Australia's cities are some of the least densely populated in the world. There are significant benefits of higher density living.

3.75 However, the benefits of higher density are not shared with those bearing the cost. Government planners force density on communities without discussing the benefits of their proposals and how they are going to ameliorate negative outcomes.

3.76 State and local governments impose a growing list of levies on developers that are ultimately passed onto the purchaser. These levies are increasingly not used to improve local areas, creating communities that feel disempowerment.

3.77 We recommend that state and local governments need to create more density in appropriate locations, specifically those well-serviced by underused transport infrastructure. This should be done by allowing local communities to negotiate for higher densities in return for better infrastructure and more convenience, and in such a way that protects and preserves the character of surrounding areas.

3.78 The objective is to ensure that communities that are open to higher density experience an uplift in value and improved infrastructure.

Recommendation 2

3.79 The Committee recommends that the Australian Government should provide incentive payments to state and local governments to encourage the adoption of better planning and property administration policies.

3.80 There is abundant and growing evidence that planning restrictions substantially boost the cost of housing. Land use policy is primarily the responsibility of state and local governments. Nevertheless, the Australian Government can and should play a useful role in co-ordination, guidance and improving incentives.

3.81 Specifically, the Australian Government should provide financial assistance to state and local governments to encourage better planning policy and administration of that policy. We should reward better planning policy administration, for example streamlining of approvals or bringing infrastructure contributions in line with social costs such as value capture and sharing. A good model is the National Competition Policy, which made payments averaging about $600 million a year from 1997-98 to 2005-06.

Recommendation 3

3.82 The Committee recommends that the Australian Government should institute a grant scheme that pays states and localities for delivering more housing supply and affordable housing.

3.83 The Australian Government should reward better outcomes with grants for those states or localities that deliver more affordable housing. Grants could be in the form of cash or infrastructure. They could, for example, be proportional to overall housing completions or proportional to completions in excess of some benchmark. If the latter, consultation would be needed to determine appropriate benchmarks.

3.84 If budgetary conditions are tight, these incentive payments could replace existing programs that deliver low value. In particular, the Australian Government provides substantial grants to state and local governments on an unconditional basis. The Committee recommends that these payments are linked to outcomes that result in better and more available housing that will in turn see an uplift in home ownership.

4. Social and affordable housing

4.1 The Committee received detailed and compelling evidence regarding social and affordable housing in Australia. It was moved by first-hand accounts of homelessness and livelihoods affected by the lack of adequate and affordable housing, demonstrating the necessity of appropriate, accessible and affordable housing for healthy and prosperous individuals, families, communities and societies.

4.2 The Committee heard evidence regarding social and affordable housing from individuals, charities, housing and industry groups, local community groups, governments and politicians. The evidence spoke of a challenge, perhaps a crisis, in social and affordable housing.

4.3 The Committee notes that more extensive and targeted evidence on issues relating to the affordability and supply of social and affordable housing from many of the same submitters to this inquiry was also received by the House of Representatives Standing Committee on Social Policy and Legal Affairs in its recent inquiry into homelessness in Australia.[1] A summary of the relevant recommendations is provided later in this chapter.

4.4 To avoid duplicating content this chapter will consider social and affordable housing to the extent of three specific issues: 'rent-to-own' housing models, shared equity schemes, the role of private investment, and crisis housing.

Setting the scene: social and affordable housing

4.5 The Committee received evidence from across Australia regarding issues relating to social and affordable housing. From the Pilbara in Western

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1 House of Representatives Standing Committee on Social Policy and Legal Affairs, *Final report – Inquiry into homelessness*, July 2021, Canberra.

Australia the Committee heard of an '…escalation of rental charges and house prices…' and a housing shortage that:

> … is seriously constraining the ability of NGOs [Non-Government Organisations] to attract, retain and house qualified staff, which in turn is impacting on the level, quality and accessibility of healthcare, education, childcare and social services.[2]

Across to Griffith in New South Wales (NSW), which is '…in the depths of a severe housing crisis, caused by a lack of supply – especially of affordable housing.'[3]

4.6 The Committee heard that while the problem is acute, there are solutions within reach if political will is brought to bear. The NSW Member for Murray, Mrs Helen Dalton MP, implored:

> Housing – because it is essential – cannot be treated like a simple commodity. Insecure housing leads to terrible social outcomes – for children, for families, for workers, for neighbourhoods, and for local economies. It entrenches inequality and fuels cycles of poverty and neglect.[4]

4.7 The Community Housing Industry Association (CHIA) submitted that:

> Social and affordable rental housing is a fundamental part of a well-functioning housing system not simply a safety net service for the most disadvantaged. For some households its long-term provision provides the stability and security that enables them to participate in society, by for example, taking a chance on what can often be casual low waged employment. For others it acts as springboard into home ownership. In yet other cases it provides a platform on which to set up the scaffolding - supports – to enable individuals to resolve other issues in their lives. Last but not least it can enable a dignified old age after a lifetime working in less well renumerated employment.[5]

4.8 Ms Wendy Hayhurst, Chief Executive Officer of CHIA, explained the difference between social housing and affordable housing and the different type of landlord arrangements that can exist in this space:

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2 Pilbara for Purpose, *Submission 127,* p 1.

3 Mrs Helen Dalton MP, Member for Murray, New South Wales (NSW) Legislative Assembly, *Submission 22*, p. 1.

4 Mrs Dalton MP, *Submission 22*, p. 5.

5 Community Housing Industry Association (CHIA), *Submission 90,* p. 3.

> Social housing is housing that is usually targeted at the lowest incomes, and rents are set as a proportion of someone's income … Affordable housing will look very much like social housing—all of these things look very much the same—but it's targeted usually at people who are on a lower wage. I'm simplifying it a little bit. But there, essentially, the rent is set as a discount to market. Because it's aiming at, I suppose, a slightly higher income group, it needs less subsidy. Build-to-rent—well, it's all build-to-rent but, as that term's used in Australia, that's market housing but which has institutional investors as the funders. Therefore, people are investing in it because they want to get the return; it's not really so much the capital gain there. That more requires tax settings to change than an actual subsidy. Those are the three types of rental housing. When you come to community housing and public housing, we're simply the provider of the housing. Community housing does social and affordable, and we can do a bit of market rent as well, and public housing does social and affordable housing. It's a different type of landlord; that's the best way of seeing it. So you're seeing public and community housing and private landlords as a provider of housing, with social and affordable and build-to-rent as the type of housing, if you like.[6]

4.9 The House of Representatives Standing Committee on Social Policy and Legal Affairs made several recommendations relating to social and affordable housing in its *Final Report – Inquiry into Homelessness* (Homelessness Inquiry) tabled in Parliament on 4 August 2021.[7] Relevant recommendations include that the Australian Government:

- …and state and territory governments, in consultation with community housing providers, improve the availability, quality and consistency of data on community housing and Indigenous community housing
- …including through the introduction of mandatory requirements on state and territory governments, improve data collection and reporting on housing stock and overcrowding…
- …[undertake] specific measures to improve data relating to housing outcomes for Indigenous Australians to inform all governments' efforts to meet the *National Agreement on Closing the Gap* target on housing
- …in consultation with state and territory governments, develop a needs-based funding methodology to be applied to future inter-governmental housing and homelessness funding agreements…

6 *Committee Hansard*, Canberra, 10 November 2021, p. 1.

7 House of Representatives Standing Committee on Social Policy and Legal Affairs, *Final report – Inquiry into homelessness*, July 2021, Canberra.

- …undertake an evaluation of Australian Government sponsored social and affordable housing projects, including those delivered by state and territory governments…
- …commission an independent review of Commonwealth Rent Assistance, which should consider the maximum rates and method of indexation of the payment and its interaction with other relevant payments
- …waive or refinance at a concessional rate the historical housing-related debts of state and territory governments, in exchange for:
  - an amount equal to the savings to each jurisdiction being reinvested into affordable housing, with 50 per cent of new housing stock to be leased to community housing providers; and
  - agreement on appropriate planning and zoning reforms in each jurisdiction
- …work with state and territory governments to ensure the availability of an appropriate proportion of social housing and transitional, crisis and emergency accommodation which is accessible and appropriate for people with diverse needs…
- …lead the development of a national integrated approach to housing and homelessness services for Indigenous Australians, co-designed with Indigenous community-controlled organisations and grounded in the principle of self-determination.
- …in consultation with state, territory and local governments, seek to increase affordable housing supply when land is rezoned for residential development, through the introduction and harmonisation of inclusionary planning approaches across Australia
- …through the National Housing and Finance Investment Corporation, investigate opportunities for attracting greater private-sector investment in social and affordable housing, including from superannuation funds
- …work with state, territory and local governments to:
  - ensure the appropriate allocation of social and affordable housing stock to meet the needs of individuals and families at different life stages and accommodate different household family structures…
- …in consultation with state, territory and local governments, develop and implement a ten-year national strategy on homelessness…[8]

4.10 The evidence submitted to the Homelessness Inquiry and the resulting recommendations made in the report cover key ground on social and

8 House of Representatives Standing Committee on Social Policy and Legal Affairs, *Final report – Inquiry into homelessness*, July 2021, Canberra.

affordable housing. The Committee endorses the recommendations in that report and will focus for the purpose of this report on the following specific social and affordable housing issues.

Specific social and affordable housing issues

4.11 The Committee heard evidence about multiple models and initiatives, such as ‘rent-to-own’ housing models, shared equity schemes and private investment, that may present opportunities for certain sections of the Australian community to enter into home ownership where they may otherwise not be able to and may support the expansion of social and affordable housing.

Rent-to-own housing models

4.12 The rent-to-own housing model (also known as rent-to-buy) was raised several times in written and oral submissions to the inquiry. This model involves creating a pathway for a renter to eventually own the home they live in after a series of agreed payments over a specified period time. The idea is that this model incentivises rent payment and assists people on lower incomes who would otherwise be locked out of market housing for reasons of economic disadvantage.

4.13 The Victorian Planning Authority described the emerging rent-to-own model in Australia as homes being offered:

> … at a reduced rent for a minimum of five years and let on assured short-hold tenancies for a fixed term. The model being adapted in Australia is that, after five years of renting, the tenant has [the] first option to purchase the dwelling at a price agreed at the commencement of the five years. If the tenants do not want to buy, the landlord can retain the property as rented housing or sell it on the open market.[9]

4.14 The Committee heard strong evidence in support of such models, including from Dr Nick Dyrenfurth, Executive Director of the John Curtin Research Centre, who said that:

> We should look at creative ways of providing working-class and middle-class Australians with affordable, decent housing, in proximity to their workplaces and communities, by looking at things like build to rent—which is taking off in places like New South Wales and, to a lesser extent, Victoria—and other, more recent initiatives, such as build to rent to own. A key element of both of

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9 Regional Development Australia Barwon South West, *Submission 121*, Attachment 1, p. [18].

> those proposals is incorporating essential workers and lower-income families as a proportion of those developments.[10]

4.15 Mr Scott Langford, Group Chief Executive Officer of St George Community Housing (SGCH) told the Committee that he thought that models that support home ownership are '…incredibly important', and stated:

> Homeownership is so central to our way of being in Australia and a sense of investment in the social and economic fabric of the community. Ensuring there are pathways that mean that it can be a continued aspiration is important... Affordable rental is often a gateway that allows people to build some economic capacity to move into ownership. When added to other initiatives that support homeownership, it's a really important way that we can move people through the housing continuum, and it may also relieve some of the pressure on social and affordable housing.[11]

4.16 Mrs Alexandra Waldren, National Director of Industry Policy at Master Builders Australia (MBA) told the Committee that MBA recommends that '…all of government, in terms of social housing needs and affordable housing needs, should commit to a long-term pipeline of social and affordable housing and community and crisis housing.'[12] By extension MBA stated that it is supportive of ways to create pathways to home ownership, and to ensure there is government investment to establish those pathways.[13]

4.17 The Municipal Association of Victoria (MAV) emphasised that, apart from the social benefits, investment in social housing makes economic sense, and pointed to research that shows that the cost of access to health services can exceed the cost of housing for those who are experiencing homelessness or at risk homelessness.[14] MAV also stated that rent-to-own solutions are an effective tool to increase house ownership:

> In addition to addressing immediate needs, social housing can act as a bridge to stable housing in the private sector. Reduced housing costs can allow

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10 *Committee Hansard*, Canberra, 10 November 2021, p. 54.

11 *Committee Hansard*, Canberra, 10 November 2021, p. 24.

12 *Committee Hansard*, Canberra, 4 November 2021, p. 2.

13 Mrs Alexandra Waldren, Master Builders Australia (MBA), *Committee Hansard*, Canberra, 4 November 2021, p. 5.

14 Municipal Association of Victoria (MAV), *Submission 105*, p. 14.

> people to improve their personal circumstances and save. Rent to own style schemes can provide a more direct pathway to ownership.[15]

4.18 Brida Pty Ltd (Brida) is an Aboriginal enterprise operating in the remote mining Pilbara region of northwest Western Australia. It told the Committee that '…our staff and our business have been brutally impacted by poor housing supply', and that '[t]he "boom and bust" cycle of mining has deterred significant private investment.'[16] Brida proposed to the Committee that:

> Allowing commercial enterprises and not-for-profit organisations to co-invest in housing solutions that benefit their people, locally, will enable 'lazy' land across the country to be developed (quickly) into tenanted space, and in our case, with 'rent to own' employment benefits – cementing the intergenerational value. Many, many Aboriginal Corporations and social enterprises own land they would desperately like to translate into housing – and a fungible asset. The barrier is access to co-investment capital.[17]

4.19 While Ms Nicky Sloan, Chief Executive Officer at Community Industry Group agreed that we 'should be looking at ways to encourage people into homeownership', she also cautioned that consideration should be given to ensure that those mechanisms don't increase the costs of housing, making it even more unaffordable:

> We've seen some really great initiatives and subsidies that have been designed to increase a person's ability either to pay rent or to purchase a home, but some of them, like the First Home Owner Grant and the First Home Loan Deposit Scheme, the impact has been—and I know it was unforeseen—is that they've driven the cost of houses, and things at the state government level, like the New South Wales stamp duty exemption, all aimed to get people into homeownership do nothing to enable the cost of housing for people on very low incomes to purchase a home.[18]

Shared equity schemes

4.20 Shared equity is another model that can be used for social and affordable housing which attracted the interest of the Committee. The Victorian Planning Authority explained how shared equity works:

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15 MAV, *Submission 105*, p. 15.

16 Brida, *Submission 102*, p. 1.

17 Brida, *Submission 102*, p. 4.

18 *Committee Hansard*, Canberra, 10 November 2021, p. 24.

> … the buyer shares the capital cost of purchasing a home with an equity partner, thereby permitting households to buy a home with lower income levels than would otherwise be required.[19]

4.21 Commenting on shared equity home ownership, PowerHousing Australia stated that 'in some countries [it] is considered a viable and affordable alternative to full home ownership.'[20]

4.22 In their joint submission, Mr Geoffrey Hodgkinson and Mr Richard Gay stated that the fastest growing group who are suffering most acutely from the housing affordability situation in Australia are those people sitting 'around and below median household incomes'. By extension of that, those most affected are those employed in essential and frontline services:

> … health services; police, fire & other first responders; hospitality & tourism; transport workers among many others. Many can't find accommodation close to where they work and are forced to travel long distances.[21]

4.23 Mr Hodgkinson and Mr Gay stated that the United Kingdom offers a range of affordable housing options for buyers, with some schemes being specifically reserved for essential workers and some developers specialising only in these models of housing development.[22] The affordable housing options can include:

> … pure reduction in price to 80% of market or lower; shared equity where the buyer pays as low as 60% of market value and rents the remainder from a Housing Association with a right to buy 100% over time.[23]

4.24 PowerHousing Australia identified different models that could be taken up in Australia. One suggestion was that a government structured entity, such as NHFIC, could invest 20 per cent equity into a property to support people to maintain their home ownership and assist to reduce accumulated debt. It suggested that such an equity investment allows for 'an investment vehicle to hold an asset that can be realised up to, at or after 10 years when the majority of homeowners refinance or sell their property.'[24]

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19 Regional Development Australia Barwon South West, *Submission 121,* Attachment 1, p. [18].

20 PowerHousing Australia, *Submission 55*, p. 7.

21 Mr Geoffrey Hodgkinson and Mr Richard Gay, *Submission 57*, p. [2].

22 Mr Hodgkinson and Mr Gay, *Submission 57*, p. [3].

23 Mr Hodgkinson and Mr Gay, *Submission 57*, p. [3].

24 PowerHousing Australia, *Submission 55*, p. 7.

4.25 Alternatively, PowerHousing Australia suggested that community housing providers (CHPs) sell properties to their current or prospective tenants on a shared equity basis, where the current (or future) tenant raises the finance needed to acquire 80 per cent of the property, but the CHP retains the 20 per cent equity. It suggested that this approach allows an affordable transition from tenants to home ownership and:

> … enables the CHP to leverage four properties constructed for every five properties sold. After a 10-year period the CHP would recover its equity position from the five properties, enabling it to build another property to meet the ongoing demand for social and affordable housing.[25]

4.26 Ms Nicola Lemon, Chair of PowerHousing Australia told the Committee that they are considering what more can be done to encourage such models:

> … there are some enablers that we've considered: removal of the five-year GST [Goods and Services Tax] payment for CHP developed homes, where we can put some shared equity opportunities into community housing spaces and for our customers, and shoring up charity status.[26]

4.27 MGS Architects and Andy Fergus Design Strategy jointly submitted that 'a balanced housing market has a diverse range of models', and that 'emerging alternative housing models are gaining support in a number of jurisdictions as a viable method to diversify housing supply.'[27]

4.28 In support of community housing models, MGS Architects and Andy Fergus Design Strategy pointed out that '[t]here are already several established collaborative housing models in Australia… [a]dditional collaborative housing models continue to emerge, innovating in response to the high prices and poor quality in market-driven developments.'[28] They further stated:

> Beyond their exemplar social and environmental design, these principally middle class, moderate to high income developments have demonstrated a greater willingness to voluntarily incorporate social and affordable housing contributions in partnership with registered Community Housing Providers. … both Nightingale Housing and Assemble Communities have committed to a figure of 20% tenure-blind social and affordable housing within their

25 PowerHousing Australia, *Submission 55*, p. 7.

26 *Committee Hansard*, Canberra, 10 November 2021, p. 9.

27 MGS Architects and Andy Fergus Design Strategy, *Submission 77*, p. 2.

28 MGS Architects and Andy Fergus Design Strategy, *Submission 77*, p. 7.

> developments, while Property Collectives has similarly partnered with a number of Community Housing Providers to achieve shared equity, social and private rental housing outcomes. These leaders of market-based innovation provide helpful prototypes to embolden government in enacting policies that establish these expectations across the broader development industry.

4.29 Additional support for shared equity schemes came from other submitters, including state and local government. In its submission, the NSW Government called on the Australian Government to demonstrate long-term commitment and support for shared equity arrangements.[29] It identified the problem as lying in a 'fragmented' policy landscape:

> For some jurisdictions, governments provide shared equity schemes and finance debt… directly. In jurisdictions without these organisations, initiatives have been smaller in scale with governments partnering with private sector lenders. To date, these schemes have received little to no support from the Federal Government.

4.30 The NSW Government suggested that the Australian Government can support shared equity schemes by:

- Providing supportive frameworks between Federal and State Treasuries in the establishment phase of new Federal agencies until they reach scale and establish their own momentum
- Fostering transparency and sharing of information among all parties involved…
- Adopting a national framework in support of financing arrangements to help provide scale, spread location risk, and enhance the cost effectiveness
- Identifying the contributory role of shared equity in helping deliver the aims and objectives of the NHHA [National Housing and Homelessness Agreement].[30]

4.31 The NSW Government added that expected benefits and outcomes of Australian Government support for shared equity schemes would include:

- Improve affordability by reducing deposit and ongoing housing costs
- Reduced demand for other government subsidies (e.g. CRA [Commonwealth Rent Assistance])
- Potential to be a counter-cyclical product.[31]

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29 NSW Government, *Submission 142*, p. [25].

30 NSW Government, *Submission 142*, p. [25].

31 NSW Government, *Submission 142*, p. [26].

4.32 From a local government perspective, the Shoalhaven City Council recommended the Australian Government 'investigate tax and policy settings that encourage innovative housing models that will deliver affordable housing, including but not limited to, means tested shared equity schemes...'[32] It further called for:

> … reforms and government (and community housing sector) funding and partnerships which enable innovative housing types that increase housing supply and diversity in well-located areas and which demonstrably improve affordability. These innovative housing types include, but are not necessarily limited to, shared equity homebuyer schemes (appropriately targeted/means tested for low-moderate income groups).[33]

4.33 Professor Nicole Gurran and Emeritus Professor Peter Phibbs proposed that Australia should have a national housing strategy, which would include the development of shared equity program expansion and recognise:

> … complementary roles for both market and non market sectors, but provide adequate support for the social housing system. In addition to an expansion of the social housing stock, new models of housing provision such as shared equity and low cost home ownership should be expanded. These can be supported by consistent use of inclusionary planning models and the use of government land to deliver sites for affordable homes and genuinely mixed communities. The [NHFIC] could play a role in developing equity share products to support low cost home ownership opportunities, provided these are closely linked to new supply that is well located and designed.[34]

4.34 Mr Saul Eslake, economist and Principal of Corinna Economic Advisory, suggested that one policy that governments could undertake to boost the supply of housing is:

> …expanding or replicating programs like Western Australia's 'Key start' scheme which assist[s] eligible people to become home owners on a 'shared equity' basis, with eligibility being subject to a means test, and which creates a revolving fund' as the 'shared equity' is returned to the State Government upon sale.[35]

32 Shoalhaven City Council, *Submission 39*, p. 1.

33 Shoalhaven City Council, *Submission 39*, p. 4.

34 Professor Gurran and Emeritus Professor Phibbs, The University of Sydney, *Submission 51*, p. 3.

35 Mr Saul Eslake, *Submission 3*, Attachment 2, p. [16].

Private investment

4.35 The role of private investment in social and affordable housing was also raised during the inquiry. Among others, Housing All Australians Limited (HAA) supported this form of value sharing, stating that:

> …a strategic and coordinated response across the public, not-for-profit and private sectors is required to make a real 'at scale' difference in the affordable housing space.[36]

4.36 HAA provided evidence to the Committee about an initiative that it has developed to create a national, at scale, affordable housing model:

> It is based on a robust governance structure imbedded in the constitution of an affordable housing fund and allows the private sector to achieve both a development outcome and the investors a market commercial rental return. It is a value sharing model where the developer and the local government work together to create additional value in the land which is then used as the required subsidy for the affordable dwelling. This is then locked in, on title, for the economic life of the home. A national working group, led by Minter Ellison, has been established and is working to finalise the required legal structure by the end of 2021 and create HAA's affordable housing fund.'[37]

4.37 Mr Robert Pradolin, Founder and Director of HAA explained that HAA has now established significant interest amongst '…like-minded private sector individuals and organisations wanting to help vulnerable Australians':

> Everybody is talking about the homelessness we see in the streets of our towns and cities, and we must do something. Doing nothing is not an option. One of the initiatives we are implementing across Australia is using existing buildings that are sitting empty as a short-term solution to provide a roof over someone's head. It just makes common sense. We've also developed an affordable housing rental model and a shared equity model around the private sector driving this segment of housing need. We need innovative models that start thinking outside the square because, if you don't think outside the square, you will get the same answers.[38]

4.38 SGCH also spoke highly of the effect of private investment in social and affordable housing, telling the Committee that since 2017, it has:

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36 Housing All Australians Limited (HAA), *Submission 47*, Attachment 2, p. 2.

37 HAA, *Submission 47*, p. [6].

38 *Committee Hansard*, Canberra, 10 November 2021, p. 56.

> …successfully mobilised private investment of $475 million that leverages government contributions and has supported a pipeline of over 1,000 new social and affordable homes.[39]

4.39 SGCH added that:

> Increasingly, affordable housing operated by community housing providers is recognised as an investment class offering the benefits of low-volatility, long-term demand and the assurance of being highly regulated. Investors are increasingly understanding the stable economic return and incredibly high social return available from this emerging global asset class.
>
> …
>
> With the right policy settings and certainty of regulatory settings that support investment through community housing providers, this appetite can be unleashed to deliver more and better social and affordable housing that complements rather than competes with or challenges the viability of the private market.[40]

4.40 Some submitters to the inquiry suggested specific models to encourage more private investment into social and affordable housing. For example, the Constellation Project (founded in part by Mission Australia) outlined to the Committee how CHPs are faced with a funding gap that impedes new developments which has '…consistently presented a barrier to scaling up the industry to produce affordable rental housing'.[41] To address this the Constellation Project and Mission Australia recommended that Australia implement a tax incentive scheme, referred to as the 'Housing Boost Aggregator', which 'promotes private sector investment in innovation'[42]:

> The Housing Boost Aggregator (HBA) is a way to close this funding gap through the creation of a new Commonwealth tax-subsidy alongside pooling portfolios of affordable housing projects to attract ongoing institutional investment.[43]

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39 SGCH, *Submission 36*, pages 3-4.

40 SGCH, *Submission 36*, pages 3-4.

41 Constellation Project, *Submission 86*, Attachment 1, p. 1; duplicated in Mission Australia, *Submission 45*, Attachment 1, p. 1.

42 Mission Australia, *Submission 45*, p. 3.

43 Mission Australia, *Submission 45*, Attachment 1, p. 1.

4.41 Regional Development South Australia also suggested the 'potential establishment of regional housing cooperatives':

> Cooperatives may attract private investment to either purchase or build new homes and may assist in unlocking potential land for development where (for example) private landowners are reluctant to develop housing due to associated costs (e.g. of sub-division).[44]

4.42 The Committee also received evidence advising against relying exclusively upon private investment in social and affordable housing. MGS Architects and Andy Fergus Design Strategy provided that:

> There is no effective way for private investment to deliver housing for the most vulnerable members of society, due to what is described as the 'rental gap' between the cost of supplying new housing and the rent-paying capability of these residents. This form of housing will always depend on stable government investment…[45]

Crisis housing

4.43 The Committee understands the housing uncertainty that people experiencing domestic violence face and the difficulties associated with securing safe and long-term housing solutions. Further, the Committee is aware that many people fleeing domestically unsafe places have experienced other forms of abuse, including but not limited to financial abuse. As a result of this, it is difficult to secure even short-term housing. This is where crisis housing and shelters become important.

4.44 Crisis housing are accommodation solutions which aim to provide crisis 'time-out' accommodation. This allows time to alleviate a crisis situation such as a potential domestic conflict situation or an immediate housing crisis.

4.45 One of the most important types of crisis accommodation are women's shelters. These are places of temporary protection and support for women escaping domestic violence and intimate partner violence of all forms. The Committee has heard from key stakeholders about how these shelters are key to preventing domestic violence and their importance.

4.46 Therefore, the Committee recommends that the Australian Government increases funding for crisis housing, through either subsidies and grants, as

44 Regional Development South Australia, *Submission 123*, Attachment 1, p. [13].

45 MGS Architects and Andy Fergus Design Strategy, *Submission 77*, p. 6.

well as look into ways that state and local governments can be incentivised to subsidise these facilities. In particular, the Committee believes that women's shelters should be subsidised to a greater extent. Not only is this important to decreasing the amount of lives lost to domestic violence, but it is the low-cost solution in the end, due to the amount of money saved on the cost of counselling and other social services.

Committee comment

4.47 The Committee is aware of the importance of social and affordable housing in creating a well-functioning and healthy society, both now and into the future.

4.48 The Committee received evidence and testimony regarding social and affordable housing innovations that are occurring across the public and private sector and what more can be done. Housing was presented not only as a human right, but as an important investment.

4.49 The Committee is of the view that the government should avoid being one's landlord, but should provide people with the tools and the support to purchase their own home. Therefore, the Committee believes that the rent-to-own model, shared equity schemes and the role of private investment, present key opportunities for sections of the Australian community including some of Australia's essential workers, to have greater access to affordable rental housing and/or enter into home ownership where they may otherwise not be able to.

4.50 The Committee sees that the rent-to-own model has the potential to be an effective tool in the social and affordability housing toolkit, particularly in areas of high need like regional areas with low-income earners, whereby renters of a particular property are incentivised to pay rent as that payment is in turn creating a direct pathway to ownership of that property.

4.51 Similarly, the Committee views shared equity schemes as another viable alternative housing offering. This model would allow Australians to buy a home with lower income levels than would otherwise be required – improving affordability by reducing the deposit required up front, and some of the ongoing housing costs. The Committee believes this is of particular assistance to Australia's essential workers and lower-income families, many of whom are unable to live and work in the same location.

4.52 The Committee was also very interested to hear about the momentum being built with CHPs and cross-sector partnerships in respect of shared equity innovations and private investment, making way for social and affordable housing to be viewed as investment, which will inevitably attract more interest.

4.53 The Committee applauds the work already being done in these areas, and believes more can be done to improve and enhance these types of programs around Australia.

Recommendation 4

4.54 The Committee recommends that the Australian Government should adopt the recommendations of the House of Representatives Standing Committee on Social Policy and Legal Affairs' Final Report – Inquiry into homelessness.

4.55 The Committee endorses the recommendations of this separate inquiry.

Recommendation 5

4.56 The Committee recommends that the Australian Government should work with state governments through grants and subsidies to increase the supply of critical housing such as crisis housing.

4.57 In addition to the recommendations in the House of Representatives Standing Committee on Social Policy and Legal Affairs' Final Report – Inquiry into homelessness, the Committee recommends that the Australian Government work alongside the states to prioritise an increase in the supply pipeline through grants and subsidies of critical housing, particularly targeted for single income families who are fleeing domestic violence situations and are needing to secure long-term housing solutions.

Recommendation 6

4.58 The Committee recommends that the Australian Government should implement schemes to facilitate private sector partnerships to deliver discount-to-market rent-to-own affordable housing.

4.59 The Committee recommends that the Australian Government, led by the Department of the Treasury, implement schemes to facilitate partnership with the private sector to deliver discount-to-market rent-to-own affordable housing. This will diversify the housing market as well as provide affordable housing options for low to medium income earners,

people experiencing homelessness, women escaping domestic violence, parents and children.

5. Deposits for first home buyers

5.1 As outlined in Chapter 2 there are multiple metrics by which market housing affordability could be measured, including the ability to purchase a first home. Many witnesses and submitters identified first home buyers' ability (or rather, inability) to save for a housing deposit as a key barrier to home ownership.[1]

5.2 The Reserve Bank of Australia (RBA) explained that low interest rates indirectly increase the size of housing deposit first home buyers need:

> While lower interest rates increase affordability for existing home owners, this effect is at least partly offset for those trying to purchase a property for the first time. This is because lower interest rates increase capacity to borrow and pay for housing for both current owners and potential first-time buyers. Housing prices therefore tend to bid up, which increases the size of the deposit first home buyers must accumulate and/or reduces the size/quality of the property they can purchase. [2]

The RBA additionally noted that relatively low income growth over the past decade has contributed to the challenge of saving a first home deposit.[3]

5.3 Domain observed that the combined factors of fast-growing property prices, low wage growth, increasing living costs and weak saving rates make it

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1 Grattan Institute, *Submission 94*, p. 5; Dr John Swieringa, Assistant Secretary Social Policy Division, Department of the Treasury, *Committee Hansard*, Canberra, 14 September 2021, p. 5; Mr Michael Lawrence, Chief Executive Officer, Customer Owned Banking Association (COBA), *Committee Hansard*, Canberra, 3 November 2021, p. 15; Mr Cameron Kusher, Director of Economic Research, REA Group, *Committee Hansard*, Canberra, 4 November 2021, p. 57.

2 Reserve Bank of Australia (RBA), *Submission 52*, p. 6.

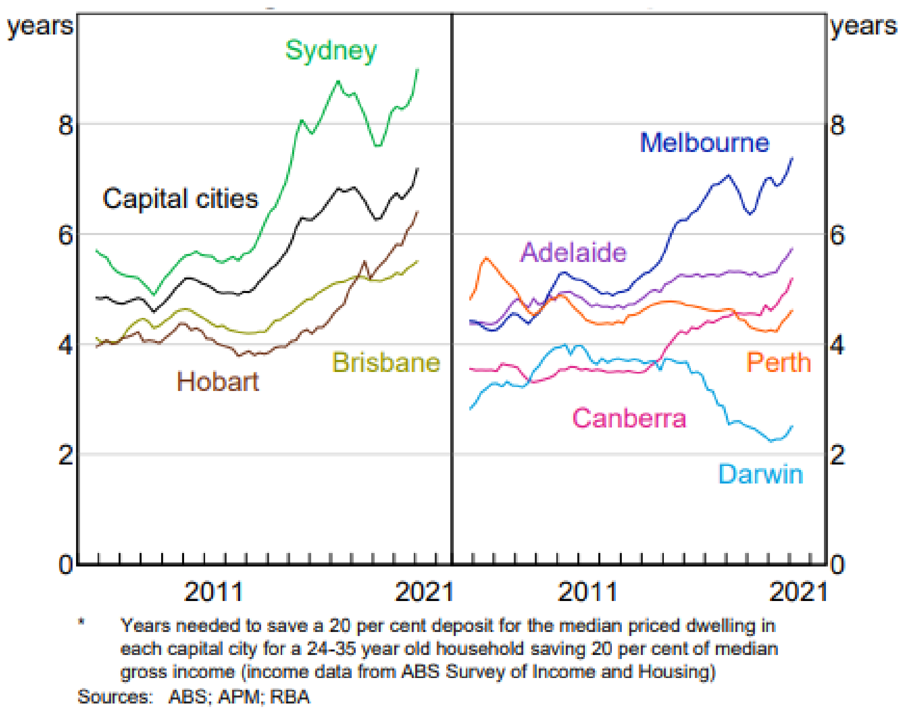
3 RBA, *Submission 52*, p. 7.

difficult for first home buyers to save a deposit.[4] In its submission, Domain cited key findings from its annual *Domain First Home Buyer 2021 Report*, including that:

- The timeline for first home buyers in most Australian capital cities to save a house deposit is increasing, with it taking between two to nine months longer to save a deposit in 2021 than in 2020;
- It typically takes seven years and one month for a couple, with both partners working full-time, to save for an entry-priced house deposit in Sydney; and
- Specifically for units, the time it takes to save for a deposit has decreased in Sydney and Melbourne, and remained the same in Brisbane, Adelaide, and Canberra.

5.4 The RBA used data from the Australian Bureau of Statistics to show that the average time it takes to save a home deposit has increased overall for most capital cities over the past 20 years (see Figure 5.1).

Figure 5.1 Average time to save a housing deposit*



Source: Reserve Bank of Australia, Submission 52, p. 7.

4 Domain, *Submission 89,* p. [12].

First home buyer grants and concessions

Overview of key government support programs

5.5 In response to the deposit barrier facing many first home buyers, the Australian and state and territory governments have implemented policies to support first home buyers to purchase a property. These policies take different forms including cash grants, guaranteeing part of the loan to enable purchases with a significantly lower deposit, and stamp duty concession schemes where stamp duty tax is waived for first home buyers in certain circumstances. Overall, these policies aim to help first home buyers by reducing the cash needed upfront to purchase a home. As there are many policies supporting first home buyers, this report provides a brief overview of key schemes only.

5.6 The national programs to support first home buyers include the First Home Loan Deposit Scheme, the New Home Guarantee, the Family Home Guarantee, the First Home Super Saver Scheme, and the HomeBuilder grant. Each of these schemes is briefly outlined below.

5.7 The First Home Loan Deposit Scheme allows first home buyers with less than a 20 per cent deposit to avoid paying lenders mortgage insurance when purchasing a new or existing home.[5] Under the scheme, the National Housing Finance and Investment Corporation (NHFIC) guarantees the participating lender up to 15 per cent of the value of the property purchased. Eligibility criteria apply, and there are maximum caps for each state and territory on the value of the property that can be purchased through the scheme. The scheme supports a maximum of 10,000 guaranteed loans per financial year. [6] The New Home Guarantee provides additional places under the First Home Loan Deposit Scheme specifically for eligible first home buyers building or purchasing new homes.[7]

5.8 The Family Home Guarantee specifically targets single parents with at least one dependent child (including but not limited to first home buyers) to

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5 National Housing Finance and Investment Corporation (NHFIC), *First Home Loan Deposit Scheme Fact Sheet 2021-2022*, June 2021, nhfic.gov.au/media/1684/first-home-loan-deposit-scheme-fact-sheet-19-june-2021.pdf, viewed 14 December 2021, pages [1-2].

6 NHFIC, *First Home Loan Deposit Scheme Fact Sheet 2021-2022*, June 2021, nhfic.gov.au/media/1684/first-home-loan-deposit-scheme-fact-sheet-19-june-2021.pdf, viewed 14 December 2021, pages [1-2].

7 NHFIC, *New Home Guarantee Fact Sheet*, June 2021, nhfic.gov.au/media/1685/new-home-guarantee-fact-sheet-19-june-2021.pdf, viewed 14 December 2021, p. [1].

purchase a new home or existing home with a deposit as low as 2 per cent.[8] NHFIC guarantees to a participating lender up to 18 per cent of the value of the property, allowing the purchaser to avoid paying lenders mortgage insurance.

5.9 The First Home Super Saver Scheme allows first home buyers to save for a first home deposit using their superannuation (hereafter referred to as super) fund, and thus benefit from the concessional tax treatment of super.[9] Once again, there are eligibility criteria to participate in the scheme, and there is a maximum cap of $30,000 of eligible contributions that can be released.

5.10 The HomeBuilder program provides eligible owner-occupiers, including but not limited to first home buyers, with a grant to either build a new home or substantially renovate an existing home.[10] The HomeBuilder scheme is part of the Australian Government's economic response to COVID-19, and seeks to support the residential construction industry by encouraging new builds and renovations. Eligibility criteria apply and there are maximum caps on the value of the property being built, or the property prior to renovation.[11]

5.11 In addition to the preceding first home buyer support schemes administered by the Australian Government, the First Home Owner Grant (FHOG) scheme was introduced in 2000 to offset the effect of the Goods and Services Tax (GST) on home ownership.[12] The FHOG is a national scheme funded and administered by the state and territory governments, which provides a one-off grant to first home owners that satisfy eligibility criteria.

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8 NHFIC, *Family Home Guarantee Fact Sheet 2021/22*, July 2021, nhfic.gov.au/media/1713/family-home-guarantee-fact-sheet-july-2021.pdf, viewed 14 December 2021, p. [1].

9 Australian Taxation Office (ATO), *First home super saver scheme*, January 2022, ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/, viewed 9 February 2022.

10 Department of the Treasury, *HomeBuilder*, April 2021, treasury.gov.au/sites/default/files/2021-04/homebuilderfactsheet2704.pdf, viewed 14 December 2021, p. 1.

11 Department of the Treasury, *HomeBuilder*, April 2021, treasury.gov.au/sites/default/files/2021-04/homebuilderfactsheet2704.pdf, viewed 14 December 2021, p. 1.

12 Commonwealth of Australia, *First Home Owner Grant*, undated, firsthome.gov.au, viewed 14 December 2021.

Views on first home buyer grants and concessions

5.12 Many submitters argued against financial support for first home buyers on the basis that it worsens housing affordability.[13] For instance, Raine & Horne Group reported that its real estate agents had provided feedback which indicated:

> …that schemes such as HomeBuilder and other government supports have played a part in propelling transactional activity and price inflation, mainly as there is limited capacity to augment supply in response to increasing buyer demand.[14]

5.13 Mr Saul Eslake, economist and the Principal of Corinna Economic Advisory echoed this view and stated that:

> Generous cash grants and tax breaks for first-time buyers 'brought forward' demand, funnelling it into a relatively short period and allowing those who were able to get to the front of the 'queue' to pay more for the homes they bought than they otherwise would – the value ending up in the pockets of vendors or the profit margins of builders and developers. Strongly rising prices then attracted the attention of investors, who could then capitalize on the eagerness of the banks and others to lend at record-low interest rates.[15]

5.14 Mr Eslake observed that since 2000, the FHOG has been twice 'temporarily increased in response to an actual or feared slump in housing activity (and in 2008, in response to a feared decline in house prices)'.[16] He further noted that significant government funds are being spent on first home buyer support policies, referencing that following the onset of COVID-19:

> State Governments committed at least $2 billion over two years, and the Federal Government $680 million, to expanded schemes of cash grants or stamp duty concessions to first time buyers.'[17]

5.15 The Shop, Distributive and Allied Employees' Association (SDA) also critiqued first home buyer support programs, and commented:

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13 Grattan Institute, *Submission 94*, p. 19; Dr Cameron Murray, *Submission 12*, p. 7; Shop, Distributive and Allied Employees' Association (SDA), *Submission 88*, p. [12].

14 Raine & Horne Group, *Submission 34*, p. 5.

15 Mr Saul Eslake, *Submission 3*, p. [6].

16 Mr Eslake, *Submission 3*, Attachment 2, p. [8].

17 Mr Eslake, *Submission 3*, p. [6].

> …the government is paying money to people who will enter the market anyhow, with the possible exception of the recently established Family Home Guarantee…'[18]

5.16 Researcher Mr Ben Cameron explained that first home buyer programs enable first home owners to capitalise on low interest rates and enter the housing market, 'rather than be trapped in long-term renting'.[19] Mr Cameron further outlined that:

> They [incentives and subsidies for first home buyers] also bring forward the savings period required for a home deposit and without these measures ownership inequality in Australia could have widened further.

At the same time, Mr Cameron recognised that 'while incentives and subsidies help and can reduce inequality… for home ownership, they only benefit those on high incomes.'

5.17 Relevant to wealth equality, Mr Eslake argued that rather than improving general housing affordability, policies to assist first home buyers (and negative gearing, which is discussed in Chapter 4) in fact 'exacerbate inequities in the distribution of income and wealth'.[20]

5.18 Some submitters took a different view and advocated for certain Australian Government schemes supporting first home buyers to be continued and expanded, including the First Home Loan Deposit Scheme and First Home Super Saver Scheme.[21]

5.19 The Real Estate Australia (REA) Group advocated for expanding the First Home Loan Deposit Scheme, and submitted that '…expanding the scheme to more first home buyers would have a significant impact on home ownership rates.'[22] The REA Group also highlighted the Family Home Guarantee scheme, which it described as 'an innovative policy that gives a pathway for people who may otherwise be unable to take part in the market', and provided support for its expansion.

5.20 The Urban Development Institute of Australia (UDIA) recommended that the Australian Government 'make permanent the annual allocation of 10,000

18 SDA, *Submission 88*, p. [14].

19 Mr Ben Cameron, *Submission 65*, p. 3.

20 Mr Eslake, *Submission 3*, Attachment 2, p. [15].

21 REA Group, *Submission 46*, p. [3]; REIA, *Submission 74*, p. 11.

22 REA Group, *Submission 46*, p. [3].

places available under the First Home Loan Deposit scheme exclusively for the purchase of new homes or newly constructed homes' and suggested that doing so would help ensure 'a sustainable pipeline of new supply to meet long-term demand forecasts.'[23]

5.21 The Committee also heard from Dr Murray that:

> Although they are not recommended as programs to create cheaper housing, subsidies such as first home buyer grants, if enacted, should also apply to newly constructed dwellings only.[24]

Superannuation as a tool to support first home buyers

5.22 One potential policy that was discussed throughout the inquiry was allowing first home buyers to withdraw their super or use it as collateral to assist with a housing deposit.

5.23 In most cases, Australians can access their super when they:

- reach their 'preservation age' (which is set under regulations and depends upon the year they were born)[25] and retire
- reach their preservation age and elect to begin a transition to a retirement income stream while continuing to work; or
- are 65 years old, regardless of whether they have retired.[26]

5.24 Individuals are only able to access their super early in limited circumstances, including due to experiencing severe financial hardship, having a terminal medical condition, and being unable to work due to temporary or permanent incapacity.[27] Additionally, in response to COVID-19 the Australian Government allowed eligible individuals financially impacted by

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23 Urban Development Institute of Australia (UDIA), *Submission 33*, p. 31.

24 Dr Murray, *Submission 12*, p. 15.

25 *Superannuation Industry (Supervision) Regulations 1994* (Cth), Regulation 6.01.

26 ATO, *When can you access your super*, June 2021, ato.gov.au/individuals/super/in-detail/withdrawing-and-using-your-super/withdrawing-your-super-and-paying-tax/?page=2., viewed 16 December 2021.

27 ATO, *When can you access your super*, June 2021, ato.gov.au/individuals/super/in-detail/withdrawing-and-using-your-super/withdrawing-your-super-and-paying-tax/?page=2., viewed 16 December 2021.

the pandemic to apply to access a maximum of $20,000 of their super between 1 July 2019 and 31 December 2020.[28]

5.25 It is important to distinguish the First Home Super Saver Scheme from any proposal to allow first home buyers early access to, or the ability to borrow against their super to purchase a home. As outlined previously, this current scheme allows individuals to essentially use their super as a savings account and make voluntary contributions into it, which then benefit from tax concessions. Individuals participating in the First Home Super Saver Scheme can subsequently apply to have their voluntary contributions and associated earnings released.[29]

5.26 Multiple witnesses and submitters argued against allowing people access to super to purchase a first home on the basis that this would increase demand and the additional funds would be factored into sale prices, thus driving up property prices.[30] Dr Luci Ellis, Assistant Governor of the RBA predicted that if super 'were to be redirected to spending more on housing, the result would be that people would spend more on housing.'[31]

5.27 Some submitters informed the Committee that allowing access to super to purchase a first home would increase house prices in the same way as other government programs aiming to support first home buyers, including first homeowner grants.[32] Mr Adrian Pisarski, Executive Officer of National Shelter commented that this 'might help some individuals to get there, but overall it will have a detrimental effect on first homeownership'.[33]

5.28 Industry Super Australia echoed this view and reported that:

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28 ATO, *COVID-10 Early release of super report (20 April-31 December 2020)*, April 2021, ato.gov.au/Super/Sup/COVID-19-Early-release-of-super-report-(20-April---31-December-2020)/, viewed 15 December 2021.

29 ATO, *First home super saver scheme*, January 2022, ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/, viewed 9 February 2022.

30 Mr Eslake, *Submission 3*, Attachment 1, p. [5]; SDA, *Submission 88*, p. [14]; Mr Adrian Pisarski, Executive Officer, National Shelter, *Committee Hansard*, Canberra, 10 November 2021, p. 36; Industry Super Australia (ISA), *Submission 18*, p. 1.

31 *Committee Hansard*, Canberra, 14 September 2021, p. 15.

32 SDA, *Submission 88*, p. [14]; ISA, *Submission 18*, Attachment 1, p. [4].

33 *Committee Hansard*, Canberra, 10 November 2021, p. 36.

> Encouraging first home buyers to raid their super for housing deposits could see median prices in the five biggest cities increase by between 8 and 16 per cent'.[34]

5.29 Others emphasised the need for caution in allowing first home buyers to access their super, given the potential adverse impact on those individuals in retirement. Mr Michael Lawrence, Chief Executive Officer of the Customer Owned Banking Association (COBA), noted that super is liquid, and while real estate is an asset, '…you can't eat your asset.'[35]

5.30 In addition to recognising the importance of super as a source of income in retirement, COBA noted that for people retiring with debt, it is one revenue source to pay it.[36]

5.31 Industry Super Australia raised other consequences of allowing first home buyers access to super, stating that:

> … 'super for a house' will impose extra costs in lost super, lost income and additional Pension expenditures – likely leading to higher taxes to help fund the retirement income system than would otherwise be the case.[37]

5.32 As the Age Pension is paid to people who meet eligibility requirements and subject to a means test (assets test and income test), a lower super balance would increase Age Pension payments for some individuals. Industry Super Australia undertook modelling which found that for every $1 withdrawn early from super, taxpayers would need to contribute up to $2.50 extra via the Age Pension – although this amount reduces with the age of the individual and their proximity to retirement.[38] Hence, Industry Super Australia argued that while allowing first home buyers access to super may seem like an attractive mechanism to help first home buyers without running up any immediate government expense:

> …this discounts the fact that withdrawing money from super accounts will mean lower balances at retirement and increased reliance on the taxpayer-funded Age Pension to support retirement living standards.[39]

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34 ISA, *Submission 18*, Attachment 1, p. [9].

35 *Committee Hansard*, Canberra, 3 November 2021, p. 17.

36 Mr Lawrence, COBA, *Committee Hansard*, Canberra, 3 November 2021, p. 16.

37 ISA, *Submission 18*, Attachment 1, p. [8].

38 ISA, *Submission 18*, Attachment 1, p. [8].

39 ISA, *Submission 18*, Attachment 1, p. [7].

5.33 The SDA told the Committee that allowing access to super would 'deplete Australia's national savings and the retirement savings of individuals', and do:

> …nothing to address the core reason Australians, especially young Australians, struggle to enter the property market: weak wages growth and insecure work which prevents them from saving for a deposit or securing a mortgage, and investor-dominance of the market through various tax concessions and demand-induced subsides.[40]

5.34 In relation to the Australian Government's COVID-19 early release of super policy, the SDA noted that:

> Almost $3 billion [has] come out of the accounts of those aged under 30.
>
> …
>
> The single largest age group to access their super early were those aged between 26 and 30, people we would assume to be the next generation of prospective first homebuyers.[41]

Thus, the SDA argued many younger Australians would not have super balances to draw upon for a housing deposit, should such a policy be enacted.[42]

5.35 Should any access to super proposal be explored, the SDA recommended that policymakers consider potential gender imbalances, noting that 'women currently retire with 47% less super than men despite women living five years longer than men on average.'[43]

Committee comment

5.36 The Committee acknowledges that saving a housing deposit is a significant hurdle for those attempting to enter home ownership. The Committee considers that the utility or performance of first home buyer support schemes depends upon the specific policy objectives. The evidence indicates that first home owner grants and concessions reflect governments' prioritisation of the cohort of first home buyers over other groups. The

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40 SDA, *Submission 88*, p. [15].

41 SDA *Submission 88*, p. [15].

42 SDA, *Submission 88*, p. [16].

43 SDA, *Submission 88*, p. [16].

Committee acknowledges that unless first home buyer support programs are accompanied by increased housing supply entering the market, such policies usually lead to an increase in property prices. Similarly, the Committee recognises that allowing first home buyers to access or borrow against part of their super to purchase a home would, in the absence of increased housing supply, likely increase demand and lead to higher property prices.

5.37 The Committee is aware that super balances are a significant asset, and that super plays a critical role in retirement. The Committee also understands the importance of secure housing in retirement, and indeed throughout a person's life, and appreciates that home ownership can provide this security. The Committee notes the decision by the Australian Government to allow individuals experiencing financial hardship due to the COVID-19 pandemic to make withdrawals from their super.

5.38 The Committee is of the view that first home buyers should be able to use their super as collateral for a housing loan given that paying off a mortgage is a very common way of saving for retirement. This would reduce the deposit needed to enter the housing market and have a similar effect to allowing access to super. However, in contrast to allowing access to super, under this approach super balances would only be reduced if the first home buyer defaulted on their home loan, which is an unexpected and infrequent occurrence in Australia. This approach should limit negative impacts on younger Australians and women.

Recommendation 7

5.39 The Committee recommends that the Australian Government allow first home buyers to use their superannuation assets as security for home loans.

5.40 The Committee recommends that the Australian Government develop and implement policy allowing first home buyers to use their superannuation balance as collateral for a home, without using the funds themselves as a deposit, thereby expanding the opportunity for home buyers.

5.41 Implementation of this policy should depend on also implementing policies to increase the supply of housing (such as Recommendation 2). Otherwise, an increase in households' ability to borrow would likely increase property prices. This recommendation will therefore remove the largest barrier for home buyers; being the deposit.

6. Taxes and charges

6.1 The taxation and charges[1] on housing are complex. The Committee heard that taxes and charges related to housing are levied at all three levels of government (federal, state and territory, and local), and vary between jurisdictions.

6.2 While the Committee appreciates that there is an extensive range of taxes and charges that can be applied to housing, this chapter will focus primarily on the four main taxes or tax concessions that were raised throughout the inquiry: capital gains tax, negative gearing, stamp duty, and land tax. This chapter will also consider fringe benefits tax, developer contributions and infrastructure charges, and the taxation treatment of 'build-to-rent' housing models.

Overview

6.3 The Committee received evidence on a wide range of taxes and charges that relate to housing. For example, Master Builders Australia (MBA) submitted that the most significant taxes and charges for the residential building industry include:

- Goods and Services Tax (GST)
- Conveyance stamp duties
- Land taxes paid by developer and/or builder

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1 The distinction between a tax and a charge was not explored in detail in the evidence, but in general terms a tax is an exaction by government for public purposes, as opposed to a fee for services rendered: LexisNexis, Concise Aus Legal Dictionary, 6th edn, Chatswood, 2021, p. 656. The question of what is provided in return for charges on housing was a source of debate and is discussed below.

- Local government rates
- Payroll tax
- Levies applied during the development and building process
- Developer contributions.[2]

6.4 MBA estimated that the impact of selected taxes and charges on the final price of a new home is approximately $150,000 in New South Wales (NSW), $140,000 in Victoria and $100,000 in Queensland.[3]

6.5 There are also several tax concessions in the treatment of existing housing. Mr Peter Mares, an independent researcher and writer, noted these include:

- the exemption of the primary residence from capital gains tax (CGT)
- the exemption of the primary residence from the pension assets test
- the 50 per cent CGT discount on an investment property owned for more than 12 months
- the option to claim investment property expenses as a deduction against other income (known as 'negative gearing').[4]

6.6 Many other aspects of Australia's taxation regime are directly or indirectly relevant to housing and were referred to by some submitters. At the federal level these include GST in certain circumstances; at the state level, payroll tax; and at the local level, municipal rates and fees.[5] The Committee also received some evidence proposing changes to fringe benefits tax (FBT) concessions for housing.

6.7 However, it was largely agreed within evidence to the inquiry that the CGT discount, negative gearing, stamp duty and land tax are the four key features of the taxation regime relevant to housing supply and affordability, and consequently they are the primary focus of this chapter.

6.8 The Committee also received evidence on developer contributions and infrastructure charges. Developer contributions are 'levies charged by councils and state governments to help pay for local infrastructure

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2 Master Builders Australia (MBA), *Submission 125*, p. 8.

3 MBA, *Submission 125*, p. 8.

4 Mr Peter Mares, *Submission 53*, p. 9.

5 Mr Chris Moore, *Submission 1*, pages 5; Centre for Independent Studies (CIS), *Submission 24*, p. 13; Property Council of Australia (PCA), *Submission 154*, p. 21.

associated with new housing' and are sometimes also called infrastructure charges.[6]

6.9 In August 2021, the National Housing Finance and Investment Corporation (NHFIC) published a report on developer contributions, which it provided to the Committee.[7] That report included a detailed breakdown of the different types of infrastructure that are funded by these contributions in each state and territory, which is reproduced at Figure 6.1.

6 National Housing Finance and Investment Corporation (NHFIC), *Submission 78*, Attachment 1, p. 6.

7 NHFIC, *Submission 78*, Attachment 1.

Figure 6.1 Developer contributions across states and territories

Figure 3 - Developer contributions across states and territories

	NSW	VIC	QLD	WA	SA	TAS	NT
Local essential Infrastructure							
Roads, transport	✓	✓	✓	✓	✓	✓	✓
Drainage	✓	✓	✓	✓	✓	✓	✓
Water	✓	✓	✓	✓	✓	✓	✓
Sewerage	✓	✓	✓	✓	✓	✓	✓
Electricity, telecommunications	✓	✓	X	✓	✓	✓	✓
Local social infrastructure							
Open space	✓	✓	✓	✓	✓	✓	X
Parks	✓	✓	✓	✓	✓	✓	X
Community/recreation facilities[a]	✓	✓	✓	✓	✓[e]	✓	X
Environmental conservation	✓	✓	X	X	X	✓	X
Social/affordable housing	✓	✓	X	X	X	X	X
State or regional infrastructure							
State roads	✓[b]	✓[c]	✓[d]	✓	✓	✓	✓
Public transport	✓[b]	✓[c]	✓[d]	X	✓[e]	X	X
Regional open space	✓[b]	✓[c]	✓	✓	✓	X	X
Schools	✓[b]	✓[c]	✓[d]	✓	✓[e]	X	X
Health facilities	✓[b]	✓[c]	✓[d]	X	✓[e]	X	X

(a) Community/recreation facilities includes libraries, child care centres, community centres and sports grounds.

(b) Collected by the NSW government through Special Infrastructure Contributions, which are paid by developers in special contributions areas such as Western Sydney Growth Centres (determined in 2011), Warnervale Town Centre (determined in 2008), Wyong Employment Zone (determined in 2008), Gosford Town Centre (determined in 2018), St Leonards-Crows Nest (determined in 2020), and Bayside West (determined in 2020).

(c) The Growth Areas Infrastructure Contribution was established in 2010 and helps fund State infrastructure in Melbourne's growth areas.

(d) Only in Priority Development Areas administered by Economic Queensland in accordance with the Economic Development Act 2012.

(e) These prescribed infrastructures are covered under a general scheme that requires the State Planning Commission to undertake consultation and provide advice to the Planning Minister at the scheme approval stage. The Planning Minister must have 100% landowner support to approve a contribution for prescribed infrastructure.

Source: National Housing Finance and Investment Corporation, Submission 78, Attachment 1, p. 10.

6.10 The Committee also received and heard evidence discussing the taxation treatment of build-to-rent housing, and these issues are discussed below.

Overall impact

6.11 The impact of taxation on housing affordability was a strongly contested issue throughout the inquiry, with considerable disagreement over the impact of taxes and charges on new housing, and the impact of tax concessions on existing housing. One group of submitters argued that the former increase prices and reduce supply and the latter increase supply and lower rents. At the same time, another group argued that taxes and charges have little impact on supply or prices and that tax concessions are an important contributor to the affordability problem. For simplicity these are referred to below as 'the lower tax position' and 'the higher tax position' respectively.

6.12 In many respects the debate over taxation reflected the broader debate over the operation of supply and demand in the property market, discussed in Chapter 2.

6.13 Throughout the inquiry the Committee also heard general suggestions that cut across these categories, such as a review of the taxes on housing and inclusion of taxes on housing within a proposed national housing plan.[8] There were several variations on the Australian Finance Industry Association's proposal of '…providing favourable property tax treatment for target housing markets (e.g. growth and transport corridors, key worker housing projects, etc).'[9] One example of such a proposal that relates to the interaction of FBT and housing, is examined in detail later in this chapter.

General principles

6.14 The Reserve Bank of Australia (RBA) outlined its view of how taxes and charges impact housing as follows:

> Households need to consume housing services and so face a choice about whether to buy or rent a home. Australia's tax and transfer system makes it favourable to own your primary residence; this is also the case in many other countries. In Australia, tax settings also make it generally favourable to own additional properties as an investment asset. These policies therefore affect the balance of demand and supply in the housing and rental markets, raising housing demand and potentially reducing rental yields. As noted in the RBA's past submissions to inquiries on this topic, Australia's tax and regulatory settings could benefit from holistic consideration. Two potential objectives of reform could be to incentivise more efficient utilisation of some of the existing stock of housing and to improve the mechanisms around constructing new supply. The Henry Review[10] recommended a broad range of interrelated

8 MBA, *Submission 125*, p. 10; Mr Adrian Kelly, President, Real Estate Institute of Australia (REIA), *Committee Hansard*, Canberra, 4 November 2021, pages 48, 50.

9 Australian Finance Industry Association, *Submission 130*, p. 9.

10 Commonly referred to as the Henry Review because the Chair of the Review panel was Dr Ken Henry AC, then Secretary to the Australian Government Department of the Treasury (Department of the Treasury), this review was established by the Australian Government and

reforms to this end, including replacing stamp duty on residential property transfers with land taxes; the NSW government has also proposed this specific change.

Accumulating and retaining savings in housing assets is incentivised by the returns on owning housing to live in (imputed rents) or as an asset (through the capital gain) not being taxed when it is the primary residence. Economic modelling can be used to compare the cost of homeownership versus renting. These 'user-cost' models suggest that, on the assumption that buyers hold their property for 10 years and prices increase by more than 2 per cent per annum in real terms, on average the cost of owning a home remains below the cost of renting…in part because of the gains from expected capital appreciation...

…

Australia's taxation policies also create incentives for investors to buy property; the effects on affordability can be mixed.

The tax system makes investment in property relatively attractive, adding to housing demand. Incentives are especially pronounced for housing assets because they can be purchased with more leverage than many other assets that produce capital gains. Investors can deduct borrowing costs and expenses from their total income, not just income from the housing asset, at their full marginal tax rate. In combination with concessional treatment of capital gains, this creates an incentive for leveraged investment in assets that produce capital gains, such as property. While the prolonged period of lower interest rates over recent years would have reduced households' scope to 'negatively gear' existing properties, this would have been partly offset by the effect of higher housing prices on rental yields. That is because, other things equal, higher house prices reduce rental yields, affecting the point at which a property becomes negatively geared.

Investors' purchases of property can, on the other hand, reduce affordability pressures in the rental market to the extent that it supports housing construction for additional rental purposes, and reduces rental yields.

The RBA recognises that the ability to deduct legitimate expenses incurred in the course of earning income is an important principle in Australia's taxation system, and interest payments are no exception to this. However as stated in previous submissions to parliamentary inquiries, the RBA believes that there

ran from 2008 to 2010: Department of the Treasury, *Australia's Future Tax System Review*, 2 May 2020, treasury.gov.au/review/the-australias-future-tax-review/final-report, viewed 17 February 2022.

is a case for considering the tax system in a holistic way, taking into account the interaction of negative gearing with other aspects of the tax system.[11]

The lower tax position

6.15 The Centre for Independent Studies (CIS) defended the proposition that tax concessions on existing housing increase supply, submitting:

> The concessional tax treatment of saving via owner-occupied and investment property adds to demand by making both a more attractive vehicle for saving relative to other asset classes. It is also positive for housing supply by making investment in housing more attractive. The net effects on dwelling prices and rents are empirical issues …
>
> It is sometimes noted that demand from property investors is largely met through existing rather than newly built dwellings. This reflects the fact that the flow of new houses is small relative to the existing dwelling stock …. It is only supply-side constraints that prevent demand for existing dwellings from inducing new construction.
>
> The concessional tax treatment of saving via housing does not mean there is no tax burden on housing as such ….
>
> Strong trend growth of dwelling prices has been observed in many countries with different tax characteristics, and the trend can be explained by secular movements in income, population and interest rates in conjunction with policy-induced supply restrictions.[12]

6.16 The CIS also referred to a number of studies estimating the impact of tax concessions on housing prices, which it summarised as follows:

> In summary, negative gearing and the capital gains discount are estimated to boost house prices between 1 and 4 per cent, while having a smaller negative effect on rents. Most of these estimates represent a long-run 'one-off' effect that would have been incorporated into housing prices decades ago. These estimates are small relative to the variation in the data or to other factors that affect housing prices, such as interest rates or zoning. So for most practical purposes, the effect of tax concessions on housing affordability can probably be ignored.[13]

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11 Reserve Bank of Australia (RBA), *Submission 52*, pages 14-16.

12 Centre for Independent Studies (CIS), *Submission 24*, p. 13.

13 CIS, *Submission 24*, p. 15; citing J Daley et al, 'Hot property: negative gearing and capital gains tax reform', *Grattan Institute*, April 2016, grattan.edu.au/wp-content/uploads/2016/04/872-Hot-

6.17 Mr Ken Morrison, Chief Executive of the Property Council of Australia (PCA), replied to the suggestion that those tax concessions should be abolished by noting research commissioned by the PCA:

> There would have been a modest impact on prices. After 30 years there would have been only a 2.6 per cent increase in the proportion of homeowners in the market compared to rentals. Yes, it would increase rents—not particularly dramatically. The biggest impact was actually going to be on housing supply … New housing would have dropped by 4.1 per cent. That's a three-quarters-of-a-billion-dollar decline in construction, and that would have had a huge drag impact on GDP and on construction jobs. So it would have been a complete own goal, and it's the last thing we need as we're looking to support this market through the back end of a pandemic impact.[14]

6.18 Commenting on the taxes and charges on new housing, the PCA submitted that:

> Well in excess of one third, and often more than 40 per cent, of housing construction costs are wrapped up in federal, state and local government taxes, surcharges and levies and these form a disproportionate part of state and local government revenue and budgets.
>
> State and local governments are overwhelmingly reliant on taxing housing and especially new housing as taxation targets. This is lethal for housing affordability.[15]

Property.pdf, viewed 10 February 2022; G Tunny, 'Untangling the debate over negative gearing', *Policy*, Vol. 34 No. 1, Autumn 2018, www.cis.org.au/app/uploads/2018/03/34-1-tunny-gene.pdf, viewed 10 February 2022; J Duke, 'Negative gearing changes would push up rents 10 per cent: BIS Shrapnel', *Domain*, 3 March 2016, www.domain.com.au/news/negative-gearing-changes-would-push-up-rents-10-per-cent-report-20160302-gn8ehp/, viewed 10 February 2022; Y Cho et al, 'Investment housing tax concessions and welfare: Evidence from Australia', *Australian National University, Crawford School of Public Policy, Centre for Applied Macroeconomic Analysis Working Paper Series, 2/2021*, January 2021, cama.crawford.anu.edu.au/publication/cama-working-paper-series/18248/investment-housing-tax-concessions-and-welfare-evidence, viewed 10 February 2022; Deloitte Access Economics, *Analysis of changes to negative gearing and capital gains taxation*, report prepared for the Property Council of Australia, July 2019, cdn2.hubspot.net/hubfs/2095495/_Communications/NGCGT/DAE%20analysis.pdf, viewed 10 February 2022.

14 *Committee Hansard*, Canberra, 4 November 2021, p. 69; citing Deloitte Access Economics, *Analysis of changes to negative gearing and capital gains taxation*, report prepared for the Property Council of Australia, July 2019, cdn2.hubspot.net/hubfs/2095495/_Communications/NGCGT/DAE%20analysis.pdf, viewed 10 February 2022.

15 PCA, *Submission 154*, p. 20.

6.19 MJH Group echoed this view and described '…state and local governments pushing costs on to developers which ultimately the end user pays.'[16]

6.20 The Housing Industry Association (HIA) put forward the results of research it commissioned into how taxes and charges contribute to the price of a new home in the five largest mainland capital cities. In the case of houses this contribution was estimated to range from 50 per cent of total costs in Sydney to 29 per cent in Adelaide, while for apartments it ranged from 37 per cent in Sydney to 28 per cent in Adelaide.[17] Other submissions had much lower estimates.

6.21 The Australian Government Department of the Treasury (Department of the Treasury) also expressed scepticism of the impact that tax changes would have on housing affordability. Mr Geoffrey Francis, Assistant Secretary, Indirect, Industry and State Tax Branch of the Department of the Treasury, stated:

> Normally, when we think about tax changes that are aimed at either improving affordability for one group or potentially disincentivising one group, we would think of that as having a short-term effect on prices. If some investors were disincentivised from competing in the market, that might have a small, one-off effect on prices. But if the committee's concerned about ongoing price growth, year on year, then we don't really think changes to tax settings would do much to alleviate that. That's going to be more of a supply side issue.
>
> Secondly…we tend to think of owner-occupied housing as being one of the most tax preferred investments. Essentially, there's no capital gains tax on the family home, it doesn't count towards the pension assets test, and the imputed rent that people receive from living in their own home is untaxed, whereas the investor, while they can claim interest deductions, would pay tax on the rental income. They also pay a capital gains tax, and the assets also count against the pension assets test. So we wouldn't see investors as necessarily being taxed preferred over owner-occupier homeowners.[18]

6.22 There were also some suggestions that the current system gives governments a vested interest in keeping housing prices high and rising. For example, Mr Shane Garrett, Chief Economist of MBA, told the Committee:

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16 MJH Group, *Submission 98*, p. [3].

17 Housing Industry Association (HIA), *Submission 41*, p. [8]; no citation provided.

18 *Committee Hansard*, Canberra, 14 September 2021, p. 8.

> You're quite correct in saying that state governments and local governments are effectively rewarded whenever home prices increase. That's a point that we made in our submission. We say that when supply is constrained prices rise and when prices rise governments get more money out of the property market and the property sector. That is a conflict of interest that they face, and it does make a transition to a better tax system and a better tax structure far more difficult. States and territories basically get a bit addicted to the revenue streams they get from tax. We were looking recently at the 2019-20 financial year. Over half of the states' and territories' tax revenue is derived from property related income streams. Whether that's rates, whether that's land taxes, whether that's stamp duty and conveyances it makes up more than half their tax revenues.[19]

The higher tax position

6.23 Other submitters were supportive of reducing the current tax concessions for housing. Some went so far as to suggest that tax concessions are the main cause of the current affordability problem, or that changing them would be the most effective solution.[20]

6.24 The City Futures Research Centre from the University of New South Wales (UNSW) stated that a reduction in government taxes and charges would not lower house prices, a view shared by independent researcher Dr Cameron Murray.[21] The City Futures Research Centre of UNSW submitted:

> Should government taxes and charges on residential development be reduced? … our preceding discussion of the determinants of house prices suggests that a reduction in these charges, and therefore overall development costs, would likely flow through to increased residual land values of future site purchases (benefiting the landowner) or increased profitability for the developer (if the site is already owned), rather than to lower dwelling prices. Importantly, the infrastructure costs associated with increased development would remain the same, with alternative approaches to funding being required.[22]

6.25 The City Futures Research Centre also outlined the results of research it conducted on the contribution of taxes and charges to the total cost of a

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19 *Committee Hansard*, Canberra, 4 November 2021, p. 6.

20 Mr Mares, *Submission 53*, p. 3; Dr Angela Ballard, *Submission 82*, p. [1]; Mr Peter Neil, *Submission 83*, p. 1.

21 City Futures Research Centre of the University of New South Wales (UNSW), *Submission 42*, p. 27; Dr Cameron Murray, *Submission 12*, p. 14.

22 City Futures Research Centre of UNSW, *Submission 42*, p. 27.

multi-unit development in Sydney. Looking at 30 developments completed between 2010 and 2020 and dividing these into developments with less or more than 100 units, it found that '…government taxes and charges accounted for 11.3 per cent [of] total scheme costs, excluding profit, in the smaller example and 10.1 per cent in the larger.'[23]

6.26 Mirvac expressed doubt about these figures from the City Futures Research Centre.[24]

6.27 It was unclear why the numbers provided by the City Futures Research Centre differed so significantly from the aforementioned HIA figures regarding the contributions of taxes and charges. However, the City Futures Research Centre of UNSW did note that its calculations excluded stamp duty, 'taxes not specifically related to a development project, such as tax on company profits' and 'other uncommon charges which are not widely employed across Greater Sydney (e.g. contributions for affordable housing).'[25]

6.28 Prosper Australia addressed both taxes on new housing and tax concessions for property investment:

> If all buyers face the same tax, the developers are equally disadvantaged along with all buyers. This means the tax is shifted back to the landowner, as all land buyers have a reduced willingness to pay for land. This can be observed with Stamp Duties and council rates (on unimproved land). In turn, these taxes do not affect development feasibility. In cases of developer charges and state land taxes, developers are discriminated against compared to owner-occupiers.
>
> In a greenfield context this is usually irrelevant as developers face competition only from farm uses for vacant lots.
>
> …
>
> Taxes on property investors interact with market demand for dwellings in a limited sense. Commonwealth tax concessions on existing properties…have no effect on increasing housing supply. Rather they skew the ownership of the existing dwelling stock in favour of investors over potential owner-occupiers, by increasing the willingness of investors to pay for existing property as a

23 City Futures Research Centre of UNSW, *Submission 42*, p. 25; citing City Futures Research Centre of UNSW, *Developing the compact city*, unpublished.

24 Mr Toby Long, General Manager, Residential Development New South Wales (NSW), Mirvac, *Committee Hansard*, Canberra, 26 November 2021, p. 8.

25 City Futures Research Centre of UNSW, *Submission 42*, p. 24.

> financial asset. This inflates the price of established dwellings, as wealthier tax advantaged investors outbid homebuyers.
>
> These same tax concessions, if restricted to new dwellings only, would reduce the value of undeveloped land and established dwellings, but still provide a premium value to new dwellings. This would potentially skew the market saturation rate in favour of more housing supply, as the returns to owning undeveloped land fall relative to the returns of selling developed land to tax advantaged investors. Developing land would still remain financially attractive and tax advantaged.[26]

6.29 National Shelter was also sceptical of the tax concessions on property investment:

> Australian taxpayers, via the tax discounts provided to residential property investors, support a growing rental sector. So far this sector's investors are dominated by investment in existing rather than new housing and therefore do little to increase the supply of rental housing, rather they add to price competition.[27]

6.30 The Committee also heard that the current tax concessions on existing property encourage housing to be viewed primarily as an asset, leading to the 'financialisation' of the market and speculation on property.[28] Similarly, it was suggested that investment in existing housing is less productive than other forms of investment, and therefore damaging to the economy as a whole.[29] One proposed response was to gradually introduce '…a cap on property-related tax deductions.'[30]

6.31 The Grattan Institute supported reducing tax concessions primarily for the impact on the broader economy, stating:

> Housing demand would be reduced a little if the Federal Government reduced the capital gains tax discount and abolished negative gearing – and there would be substantial economic and budgetary benefits. The effect on property

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26 Prosper Australia, *Submission 103*, pages [13-14].

27 National Shelter, *Submission 93*, p. [4].

28 See for example: Mr John Goodman, *Submission 80*, p. [1]; Shop, Distributive and Allied Employees' Association (SDA), *Submission 88*, p. [17]; Municipal Association of Victoria (MAV), *Submission 105*, p. 8; Dr Luci Ellis, Assistant Governor, Economic, RBA, *Committee Hansard*, Canberra, 14 September 2021, p. 16.

29 Community Housing Industry Association (CHIA) NSW and Aboriginal Community Housing Industry Association (ACHIA) NSW, *Submission 68*, p. 7; MAV, *Submission 105*, p. 9.

30 CHIA NSW and ACHIA NSW, *Submission 68*, p. 8.

> prices would be modest – they would be roughly 2 per cent lower than otherwise – and would-be homeowners would win at the expense of investors. House prices at the bottom would probably fall by more, since these tax breaks have channelled investors into low value homes that are lightly taxed under states' progressive land taxes and tax-free thresholds.
>
> The dominant rationale for these reforms is their economic and budgetary benefits. The current tax arrangements distort investment decisions and make housing markets more volatile. Our reforms would boost the budget bottom line by about $5 billion a year. Contrary to urban myth, rents wouldn't change much, nor would housing markets collapse.[31]

Key taxes and tax concessions

Capital gains tax discount

6.32 The Australian Taxation Office (ATO) describes CGT as 'the tax you pay on profits from selling assets.'[32] The Municipal Association of Victoria (MAV) explained that:

> When an asset is sold for a profit the capital gain is treated as income for tax purposes. If the asset had been held for more than 12 months, a capital gains tax discount of 50 per cent is applied, meaning only half of the capital gain is assessed as taxable income.[33]

6.33 While CGT does not generally apply to a person's primary residence, it may partially apply in certain circumstances, such as when the primary residence is also used to run a business.[34]

6.34 Australia did not tax capital gains until 1985.[35] From 1985 cost base indexation was used, meaning the discount was calculated based on the rate

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31 Grattan Institute, *Submission 94*, pages 12, 14.

32 Australian Taxation Office (ATO), *Capital gains tax*, Canberra, August 2021, www.ato.gov.au/Individuals/Capital-gains-tax/, viewed 14 December 2021.

33 MAV, *Submission 105*, p. 8.

34 Name Withheld, *Submission 109*, p. [2]. See also: ATO, *Your main residence (home)*, August 2021, www.ato.gov.au/individuals/capital-gains-tax/property-and-capital-gains-tax/your-main-residence-(home)/, viewed 14 December 2021.

35 CIS, *Submission 24*, p. 14. See also: ATO, *Indexing the cost base*, August 2021, www.ato.gov.au/Individuals/Capital-gains-tax/Calculating-your-CGT/Cost-base-of-assets/Indexing-the-cost-base/#:~:text=The%20indexation%20method%20adjusts%20the,capital%%20on%20the%20asset, viewed 24 January 2022.

of inflation since purchase, until 1999 when the present system was adopted. The Department of the Treasury told the Committee that tax settings for housing have been ‘relatively unchanged’ since then.[36]

Calls to change the capital gains tax discount

6.35 The majority of submissions that addressed the CGT discount supported changing the current arrangements. Mr Adrian Pisarski, the Executive Officer of National Shelter, reflected the concerns of many when he told the Committee:

> One of the reasons that we have had a loss of homeownership is because we have been providing additional support to investors since 1999, when the Howard government brought in the capital gains tax discount …. It was reduced at the time partly for GST and partly because interest rates were very high at the time and there was a reasonable argument about reducing it at that time. Those conditions no longer exist.
>
> What we should be doing now is rebalancing that system. We should be reducing that capital gains tax discount so that we are rebalancing the system between potential owner-occupiers and investors who are going to buy rental housing, who are largely investing—and there's well-documented evidence to support this—for the capital gain. They're not investing to create a rational rental market; they're investing for short-term capital gain. That's not a rational basis on which to go forward in a national housing plan …. we want to rebalance the incentives between owner-occupiers and investors. There's no reason not to do that.[37]

6.36 The NSW Government was also critical of the CGT discount. It submitted that:

> The combination of the range of state and federal property tax settings, including the 50 per cent discount on capital gains tax…skews the incentives towards the purchases of properties for investment purposes. These tax benefits of property investment have contributed to the growing housing affordability issue. While the combined effect is likely to be a moderate increase in house prices, the most significant impact is the displacement of owner occupiers (including first home buyers) from home ownership by tax-advantaged investors, predominantly those already on higher incomes. This leads to significant extra investment demand for housing leading to higher

36 Dr John Swieringa, Assistant Secretary, Social Policy Division, Department of the Treasury, *Committee Hansard*, Canberra, 14 September 2021, p. 7.

37 *Committee Hansard*, Canberra, 10 November 2021, p. 35.

> prices (and lower affordability). It also leads to poorer asset utilisation as properties are held mainly for capital gain. This has been reflected through significant growth in spare bedrooms (underutilised properties) since the CGT 50 per cent discount was introduced in 1999.
>
> In addition to the 50 per cent discount, capital gains also receive other less explicit tax advantages compared to recurrent income. Firstly, they are taxed on sale rather than as they accrue …. Secondly, investors are able to choose the time of an asset's sale to minimise taxes on capital gains, such as selling assets when their income is low, so they are taxed at a lower marginal rate. By encouraging investors to buy and hold property, the 50 per cent capital gains discount increases investor demand for housing and pushes first home buyers out of the market.[38]

6.37 Some submitters suggested that the current system is contributing to the housing affordability problem, without proposing specific changes.[39] A few proposed that the CGT discount should be abolished entirely.[40] Others were in favour of modifying it in some way and put forward a variety of proposals as to how this should be done.[41] One popular proposal was to reduce the CGT discount rate to something less than 50 per cent, with 25 per cent often being nominated.[42]

6.38 Other suggestions submitters made regarding the CGT discount included indexation using the wage price index[43], limits on the number of properties to which the discount can be applied[44], limiting the discount to newly constructed dwellings[45], and increasing the time for which a property must

38 NSW Government, *Submission 142*, p. [27].

39 See for example: Australians for Intergenerational Equity, *Submission 60*, p. 4.

40 See for example: Mr Moore, *Submission 1*, p. [11]; Southern Youth and Family Services, *Submission 31*, pages 2-3; Sustainable Australia Party, *Submission 81*, p. 4; Housing for the Aged Action Group, *Submission 132*, pages [6-7].

41 Grattan Institute, *Submission 94*, p. 13; MAV, *Submission 105*, p. 16; Name Withheld, *Submission 155*, p. [1].

42 Mr Saul Eslake, *Submission 3*, Attachment 2, p. [14]; CHIA NSW and ACHIA NSW, *Submission 68*, p. 8; National Shelter, *Submission 93*, p. 4; Name Withheld, *Submission 109*, p. [2]; Name Withheld, *Submission 110*, p. [2].

43 Dr Bradford Sherman, *Submission 32*, p. 2.

44 Ms Suzanne Janine, *Submission 11*, p. [2]; Dr Ballard, *Submission 82*, p. [2].

45 Prosper Australia, *Submission 103*, p. [14].

be held before the discount can be applied.[46] More broadly, the NSW Government called for a review of taxation on property, with a focus on the CGT discount.[47]

Calls to retain the capital gains tax discount

6.39 Some submitters defended the current operation of the CGT discount. MBA described it as a policy that '…support[s] the supply of housing…'.[48] Save Our Suburbs NSW argued that for most of the last century, Australia had '…concessional or no capital gains tax', and yet housing remained affordable.[49]

6.40 The CIS noted that the CGT discount does not just apply to housing, and consequently stated that '[i]t is not a housing policy and should not be tampered with for housing policy reasons alone.'[50]

6.41 The CIS pointed out that the change from indexation '…was intended as more than a simplification with an equivalent average effect…', and deliberately taxes capital gains more lightly. [51] It also observed that housing booms occurred when there was no CGT, as well as when it was indexed. Finally, the CIS suggested that CGT is effectively a '…turnover tax…', and so reducing the CGT discount would reduce transactions, minimising the increase in revenue.

6.42 The issue of turnover taxes is discussed in more detail in relation to stamp duty later in this chapter.

Negative gearing

6.43 The ATO states that 'your rental property is…"negatively geared" if your deductible expenses are more than the income you earn from the property.'[52] The MAV explained to the Committee that:

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46 Name Withheld, *Submission 19*, p. [2]; Dr Sherman, *Submission 32*, p. [2]; Mr Mares, *Submission 53*, p. 13.

47 NSW Government, *Submission 142*, p. [20].

48 MBA, *Submission 125*, p. 10.

49 Save Our Suburbs NSW, *Submission 16*, p. 3.

50 CIS, *Submission 24*, p. 14.

51 CIS, *Submission 24*, p. 14.

52 ATO, *Rental expenses to claim*, July 2021, www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/rental-expenses-to-claim/, viewed 24 January 2022.

> In the context of housing, negative gearing refers to the use of net losses associated with rental properties as a deduction against taxable income from other streams (such as employment income). If the costs associated with a rental property (including management costs, interest payments, rates and land taxes, repairs, and insurance) exceed the rental income, this loss reduces the property owner's taxable income.[53]

6.44 Mr Saul Eslake, economist and Principal of Corinna Economic Advisory, provided the Committee with a brief history of negative gearing:

> 'Negative gearing' originally allowed taxpayers in effect to defer tax on their wage and salary income (until they sold the property or shares which they had acquired with borrowed money, on which they were paying more in interest than they received by way of dividends or rent). However, after the Howard Government's 1999 decision to tax capital gains at half the rate applicable to other income (instead of taxing inflation adjusted capital gains at a taxpayer's full marginal rate), 'negative gearing' became a vehicle for permanently reducing, as well as deferring, personal tax liabilities. And the availability of depreciation on buildings adds to the way in which 'negative gearing' converts ordinary income taxable at full rates into capital gains taxable at half rates.[54]

Calls to change negative gearing

6.45 The current negative gearing arrangements were a common target for submitter criticism. Mr Eslake stated that he has 'long argued' against negative gearing, and told the Committee that:

> Another long-standing policy which I have long argued has not only failed to deliver on its oft-stated rationale of boosting the supply of housing – in this case for rent – but has actually exacerbated the mis-match between the demand for and the supply of housing, as well as having distorted the allocation of capital, and undermined the equity and integrity of the income tax system, is so-called 'negative gearing'.
>
> …
>
> There's no evidence to support the assertion made by proponents of the continued existence of 'negative gearing' that it results in more rental housing

53 MAV, *Submission 105*, p. 8.

54 Mr Eslake, *Submission 3,* Attachment 2, pages [9-11].

being available than would be the case were it to be abolished (even though the Henry Review appears to have swallowed this assertion).[55]

6.46 Mr Eslake told the Committee that rental vacancy rates are lower in Australia than in the United States (which abolished negative gearing in the 1980s) or various European countries which have never allowed it, suggesting it is not supporting the supply of rental properties.[56]

6.47 Other submitters raised similar concerns, essentially claiming that negative gearing unfairly advantages investors over people looking to purchase a dwelling to live in.[57]

6.48 A significant number of submitters favoured entirely abolishing negative gearing for property.[58] Mr Eslake went so far as to suggest the abolition of negative gearing for all investments, with expenses instead being set off against CGT liability; failing that he proposed only 40 per cent of investment expenses be allowed to be deducted.[59]

6.49 Other submitters suggested various alternative changes to negative gearing. These included limiting it to only other real estate investment expenses or passive investment expenses[60], only allowing it for newly constructed housing[61], or only allowing it for one investment property per taxpayer.[62] It was also suggested that taxpayers be allowed to deduct mortgage interest on their primary residence, either in place of the current negative gearing system for investment properties or in addition to it.[63]

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55 Mr Eslake, *Submission 3,* Attachment 2, pages [9-11].

56 Mr Eslake, *Submission 3,* Attachment 2, p. [13].

57 Australians for Intergenerational Equity, *Submission 60*, p. 8; Affordable Housing Party, *Submission 85*, p. [1]; Name Withheld, *Submission 155*, p. [1].

58 See for example: Mr Christopher Rowland and Dr Joseph Brassil, *Submission 25*, p. [2] (or limit); Name Withheld, *Submission 50*, p. [3]; Mr Tone Wheeler, *Submission 58*, p. [2]; Mr Martin Carey, *Submission 84*, p. 2; Ms Madonna Waugh, *Submission 145*, p. 3.

59 Mr Eslake, *Submission 3*, Attachment 2, p. [14].

60 Dr Sherman, *Submission 32*, p. 2; Name Withheld, *Submission 110*, pages [1-2], National Shelter, *Submission 93*, p. [5].

61 Industry Super Australia, *Submission 18*, p. 2; Mr Mares, *Submission 53*, p. 13; Prosper Australia, *Submission 103*, p. [14].

62 Mr Paddy Cashman, *Submission 63*, p. 3; Dr Ballard, *Submission 82*, p. [2].

63 Mr Mark Kelly, *Submission 28*, p. [1]; Name Withheld, *Submission 100*, p. [8].

Calls to retain negative gearing

6.50 The Committee received evidence from some submitters arguing that negative gearing arrangements should remain in their current form.[64] The HIA argued that Australia's rental market is dependent on individual investors and unlike many other countries, the majority of those investors are on average incomes and that the youngest investors make the most use of negative gearing.[65]

6.51 The CIS put forward several arguments in favour of negative gearing, including that:

> Housing is not the only asset class for which interest on borrowing to invest is deductable against other income, so negative gearing cannot be considered a special subsidy or tax concession for housing
>
> …. Like all leveraged investments, negative gearing is risky, not a one-way bet.
>
> ….
>
> A case for limiting deductibility of expenses could only be justified if the rental income was in some way taxed concessionally rather than as part of comprehensive income.[66]

6.52 The Real Estate Institute of Australia (REIA) also advocated for retaining negative gearing, and submitted that:

> … negative gearing has served Australia well in supporting and promoting private rental markets, allowing the prevalence of mum-and-dad investors. 70 per cent of investors own just one investment property.[67]

6.53 Mr Adrian Kelly, President of the REIA expanded on this for the Committee, stating that 'negative gearing has served us pretty well in Australia':

> … past experience tells us that, when negative gearing is removed, someone has to pay. That generally results in rising rents. Higher rents at the moment is just not a place that we want to be and nor do we want to see any more investors selling their rental properties, because most of our rental property

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64 See for example MBA, *Submission 125*, p. 10.

65 HIA, *Submission 41*, p. [20].

66 CIS, *Submission 24*, pages 13-14.

67 REIA, *Submission 74*, p. 11, citing REIA, *Sensible Approach to Royal Commission Reforms to Benefit Home Owners and Mum-and-Dad Investors*, 2021.

markets across the country at the moment are way, way less than five per cent.[68]

6.54 Save Our Suburbs NSW argued that negative gearing was also allowed when housing was affordable for much of the twentieth century.[69] Another submitter also drew on historical example, arguing that the abolition of negative gearing for a brief period in the 1980s had no discernible effect on property prices, as well as noting the application of negative gearing to non-property investments and suggesting that in the current low interest rate environment negative gearing is not as important as it once was, as investor expenses are reduced.[70]

Stamp duty and land tax

6.55 Property transaction taxes are imposed by all state and territories, the largest of which is stamp duty on the transfer of real property. The NSW Productivity Commission explained that 'stamp duty is paid by the purchaser of the property on the sale price, which includes land and improvements on the property.'[71] These taxes will be referred to as 'stamp duty' throughout this report.

6.56 An alternative to stamp duty is a 'land tax', a term most submitters used to refer to 'a broad-based annual property tax based on unimproved land values.'[72] These two taxes are jointly discussed below.

The case for replacing stamp duty

6.57 A substantial majority of submitters who addressed stamp duty supported replacing it with some other form of tax, typically a land tax.[73] This was principally based on the view that stamp duty is an inefficient tax, whereas a land tax is efficient.[74]

68 *Committee Hansard*, Canberra, 4 November 2021, p. 49.

69 Save Our Suburbs NSW, *Submission 16*, p. 3.

70 Name Withheld, *Submission 109*, pages [1-2].

71 NSW Productivity Commission, *Submission 115*, p. [14].

72 NSW Government, *Submission 142*, p. [8].

73 See for example: Mr Eslake, *Submission 3*, Attachment 1, p. [6]; Urban Taskforce, *Submission 43*, p. [29]; City of Karratha, *Submission 76*, p. [4]; National Shelter, *Submission 93*, p. [5]; Narrow Road Capital, *Submission 135*, p. [3].

74 See for example: National Centre for Economic and Social Modelling, University of Canberra, (NATSEM), *Submission 8*, p. [3]; HIA, *Submission 41*, p. [18]; REA Group, *Submission 46*, p. [2].

6.58 When asked what changes should be made to taxes on housing, Mr Garrett from MBA replied:

> Stamp duty would definitely be No. 1 there. Countless studies have shown how detrimental the tax is, and not just from the point of view of housing affordability. It adds a huge cost. In Sydney and Melbourne at the moment, your typical stamp duty bill for an owner-occupier trading up would be close to 50,000… But it also has negative outcomes for the economy. It prevents people from moving around to take up the right opportunities for them and their families when it comes to the labour market, and it also acts as a huge barrier to the more effective use of the housing stock by people who would like to downsize, free up housing space and make it available to the market. The stamp duty barrier prevents them from doing that.[75]

6.59 Similarly, the NSW Productivity Commission submitted that:

> Generally, property transactions generate an increase in economic welfare because property ownership is transferred to people who value it highest. By raising the cost of transacting, stamp duty discourages property transfers, which means dwellings are not necessarily allocated to those that most value them. This economic distortion is particularly inequitable for those whose circumstances require them to move more frequently.
>
> …
>
> Stamp duty also has implications for property investment, as it taxes the market value of property, including improvements to the land. Investment decisions are based on the post-tax rate of return from the sale of property. Therefore, stamp duty reduces the incentive to deliver new supply and improve the quality of existing properties. The result is lower quality housing supply and further upward pressure on prices
>
> Across the State's major revenue sources, stamp duty on property is widely considered the most inefficient tax. That is, it imposes the largest economic cost of all existing taxes …. In contrast, a broad-based land tax on the unimproved value of land—such as local government rates—is the most efficient tax available to the states.[76]

6.60 The Department of the Treasury and the RBA were both tentatively supportive of the replacement of stamp duty with land tax but cautioned

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75 *Committee Hansard*, Canberra, 4 November 2021, p. 6.

76 NSW Productivity Commission, *Submission 115*, pages [14-15].

against hopes that this step alone would make a major difference to housing affordability.[77]

6.61 The Australian Capital Territory (ACT) Government is currently implementing a switch from stamp duty to land tax over a twenty-year period, and the NSW Government is considering switching, using a model where taxpayers can opt-in to paying such a tax instead of stamp duty.[78]

6.62 In the context of a discussion about NSW's optional transition to land tax model, Mr Mike Scott, Chairman of the HomeWorld Group, told the Committee that the relative impact of stamp duty versus land tax depends on the property type:

> It's interesting: what's being proposed has a different effect on the different types of residential property. Because it's levying on unimproved land value as opposed to stamp duty, which is actually based on the final sale price of the dwelling, when you're in our world buying a block of land and building a contract house, it's actually got a slightly more detrimental effect if you look at the effect on your borrowing because you've got an annual fee or tax and the banks will certainly clip the amount that they lend you. But, for apartment buildings, you're well in front. Then for single established dwellings, it's about a line-ball call, so the process of allowing you to be locked-in or not locked-in, I think, is a good one to go with in the early stages particularly, to give some certainty. For people who see that they're buying a property as an apartment because they're a young couple and they want to buy again in a couple of years, they can use the property tax, but then, if they see this as their forever home where they're going to raise a family over the next 15 to 20 years and decide that stamp duty is a more economical way to go, they can opt back and use the stamp duty. So I think allowing buyers their own choice and flexibility in choosing to pay that property tax is, ultimately, the fairest way to do it, but certainly, removing stamp duty helps the mobility with the capital of the loan and helps our economy work more efficiently.[79]

Challenges in transitioning from stamp duty to land tax

6.63 Submitters had various suggestions as to how a transition from stamp duty to a broad-based land tax should be managed, with a popular idea being to allow taxpayers to claim credit for some or all past stamp duty paid against

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77 Dr Swieringa, Department of the Treasury, *Committee Hansard*, Canberra, 14 September 2021, p. 10; RBA, *Submission 52*, pages 16-17.

78 NATSEM, *Submission 8*, p. [5].

79 *Committee Hansard*, Canberra, 4 November 2021, p. 66.

their land tax liabilities.[80] Domain expressed scepticism about the use of an opt-in process such as the one proposed by the NSW Government, but this was the favoured approach of the Sustainable Australia Party and the PCA, which put forward '7 principles for good stamp duty reform'.[81]

6.64 Some submitters raised the specific concern that states may be reluctant to switch from stamp study to land tax because it would have a negative impact on their share of GST revenue; hence it was argued that the Australian Government should incentivise the transition, either through extra grants or changing how GST is distributed.[82] The NSW Productivity Commission explained:

> A substantive barrier to states pursuing tax reform is the horizontal fiscal equalisation system administered by the Commonwealth Grants Commission (CGC). The current methodology for distribution of…GST revenue among states aims [to] offset differences in revenue-raising capacity and varying costs of delivering services. An unintended consequence, however, is that it also disadvantages states that undertake productivity-enhancing tax reform.[83]

6.65 It was suggested that the way the Australian Government encouraged the states to reform their competition law arrangements in the 1990s through the National Competition Policy could serve as model for how to encourage stamp duty reform.[84] Evidence regarding the National Competition Policy is discussed further in Chapter 3.

6.66 Emeritus Professor of Finance Kevin Davis suggested an alternative approach and advocated for the states to use a 'securitisation' model to avoid any shortfall in revenue during the transition. He outlined this model as follows:

> The simple solution…is to securitise the future property tax receivables. The government would receive a current cash inflow from investors purchasing

80 Mr Moore, *Submission 1*, p. [2]; NATSEM, *Submission 8*, p. [5]; Name Withheld, *Submission 19*, p. [3].

81 Domain, *Submission 89*, p. [10]; Sustainable Australia Party, *Submission 81*, p. 5; PCA, *Submission 154*, p. [26].

82 NATSEM, *Submission 8*, p. [5] (without directly mentioning GST); HIA, *Submission 41*, p. [18]; Prosper Australia, *Submission 103*, p. [13]; NSW Government, *Submission 142*, p. [14].

83 NSW Productivity Commission, *Submission 115*, p. [17].

84 CIS, *Submission 24*, p. 19; Mr Mares, *Submission 53*, pages 13-14.

securities giving them claims on those future tax receivables. This would offset the drop in cash flow from loss of stamp duty receipts.[85]

6.67 Further to these proposals, there were also some calls for a Commonwealth land tax to replace stamp duty and some other Commonwealth taxes.[86]

The case for retaining stamp duty

6.68 Some submitters advocated for retaining stamp duty. Dr Cameron Murray argued that by reducing dwelling turnover, stamp duty helps stabilise the market. He submitted that:

> … taxes on dwelling asset transactions do not add to the price but get subtracted from it. An asset that comes with an additional tax liability, like stamp duty…will be priced to take that into account. For example, if a company issued two classes of shares, one with a purchase fee, and one with no fee, the market will price the share with fees less than the other class of shares by exactly the cost of the fee. The same applies in land and dwelling asset markets.[87]

6.69 Another submitter claimed that the ACT's transition from stamp duty to land tax has 'made no improvement to affordability whatsoever.'[88]

6.70 Urbanised Pty Ltd stated that:

> The proposal [to replace stamp duty with land tax] creates perverse incentives where Government can increase revenue by not delivering more housing. (At least the present system is based on transaction and provides an incentive to deliver more dwellings.) The proposed reform model is also more costly than a homebuyer adding the existing stamp duty costs to their mortgage and amortising that cost over the life of the loan.[89]

6.71 Ms Joanne Seve, a state taxes consultant specialising in stamp duty, appeared before the Committee in a private capacity and flagged some potential challenges in administering a broad-based land tax. Ms Seve said:

> I know that land tax and unimproved land values have been around for a long time. Once it moves onto the family home, there's uncertainty about

85 Professor Kevin Davis, *Submission 128*, p. [10].

86 Mr Moore, *Submission 1.1*, p. [2]; Dwyer Lawyers, *Submission 117*, p. [11].

87 Dr Murray, *Submission 12*, p. 14.

88 Name Withheld, *Submission 100*, p. [6].

89 Urbanised Pty Ltd, *Submission 153*, p. 4.

> unimproved values, because it's an expert area in itself. It's costly to contest. If it goes to court, there are even more costs involved with that. I see a potential risk for governments in the long term if there were to be large-scale class actions for refunds for overvaluations of properties when individuals couldn't take it on, because of the costs involved.
>
> Stamp duty has done a lot of good …. in the long term, ultimately paying an annual, perpetual tax, which will inevitably increase year by year unless rates are reduced—and we've seen with stamp duty that they're not reduced at the state level—is not a preferred course for home ownership, which should be a necessity.[90]

6.72 Other submitters did not oppose a switch from stamp duty to land tax outright, but suggested caution is required since it could lead to unintended consequences such as short-term price rises.[91] The Regional Australia Institute called for a review of stamp duty[92]; and the MAV noted that when considering the impacts of a land tax it should be borne in mind that it can be negatively geared by investors.[93]

Proposed changes to stamp duty

6.73 Several submitters proposed stamp duty reforms. One specific issue that was identified was the effect of 'bracket creep' on stamp duty collections.[94] Ms Seve explained:

> When the thresholds in New South Wales were originally introduced in 1986, the rate of stamp duty on the purchase of an average home in Sydney was predominantly 1.75 per cent. Today, with the average home price in Sydney now being over $1.1 million, because of stamp duty bracket creep the rate of stamp duty is predominantly 4.5 per cent, up to 5.5 per cent—that is, the rate applying today is actually 157 per cent greater than the effective rate that originally applied and that was meant to continue to apply.[95]

90 *Committee Hansard*, Canberra, 3 November 2021, p. 41.

91 Raine & Horne Group, *Submission 34*, p. 3; City Futures Research Centre of UNSW, *Submission 42*, pages 25-26; CHIA NSW and ACHIA NSW, *Submission 68*, pages 8-10.

92 Regional Australia Institute, *Submission 114*, p. [6].

93 MAV, *Submission 105*, p. 16.

94 Urbanised Pty Ltd, *Submission 153*, p. 4; Mr Morrison, PCA, *Committee Hansard*, Canberra, 4 November 2021, p. 70.

95 *Committee Hansard*, Canberra, 3 November 2021, p. 38.

6.74 Ms Seve noted that NSW introduced indexation of stamp duty in 2019, although this did not account for the previous 33 years of bracket creep, while the other states and territories still have not addressed the issue. She recommended that the Commonwealth Grants Commission:

> …incentivise states and territories to reduce stamp duty rates, so as to optimise turnover and revenue collections and help to improve housing supply and affordability.[96]

6.75 Various other changes to stamp duty were proposed to address aspects of the housing affordability problem. These included limiting or abolishing stamp duty on primary residences[97], exempting downsizers from it[98] (Tasmania already provides a stamp duty discount for downsizing pensioners[99]), exempting those who are relocating to regional areas from it[100], and allowing it to be paid off overtime instead of upfront.[101] The HIA was critical of the fact that the price on which stamp duty is calculated includes all other taxes and government charges, whereas they are not included in the calculation of GST.[102]

Fringe benefits tax

6.76 Under Australia's FBT regime, employers can claim concessions for some goods and services, such as housing, provided to employees that are working in designated remote areas.[103] Briefly, remote area FBT concessions consist of:

- exemptions – where the good or service is not subject to any FBT. For example, housing that is owned or leased by the employer and provided to an employee as an employee's usual place of residence, and

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96 Ms Seve, *Submission 138*, pages 1-2.

97 Mr Rowland and Dr Brassil, *Submission 25*, p. [2].

98 Mr Eslake, *Submission 3*, Attachment 1, p. [5]; Mr Rowland and Dr Brassil, *Submission 25*, p. [2]; Raine & Horne Group, *Submission 34*, p. 4.

99 Mr Umesh Ratnagobal, Head of Government and Industry Affairs, REA Group, *Committee Hansard*, Canberra, 4 November 2021, p. 58.

100 Raine & Horne Group, *Submission 34*, p. 5.

101 REIA, *Submission 74*, p. 10.

102 HIA, *Submission 41*, pages [18-19].

103 ATO, *Fringe benefits tax – remote areas*, 25 September 2018, www.ato.gov.au/General/fringe-benefits-tax-(fbt)/in-detail/exemptions-and-concessions/FBT---remote-areas/., viewed 8 February 2022.

- partial concessions – for example, some assistance with rent or mortgage interest payments attract partial concessions where the taxable value is reduced, often by 50 per cent.[104]

Box 6.1 Case study: Calls to change fringe benefits tax for housing in regional and remote communities

A number of individuals and organisations participated in a letter writing campaign and lodged submissions to the inquiry relating to the lobby group 'More than Mining'. These submissions called for the FBT concessions currently available to mining employers to be extended to all Australian residents in regional and remote areas.

- In its 2020 report titled *Remote Area Tax Concessions and Payments*, the Productivity Commission concluded that '[r]emote area tax concessions and payments are outdated, inequitable and poorly designed.'[105] It stated that:

> The evidence gathered by the Commission suggests that the exemption for employer-provided housing (as an employee's usual place of residence) is the big-ticket item. This exemption is uncapped and can be worth many thousands of dollars at the employee level…
>
> …
>
> The Commission estimates that there are about 42,000 employer-provided dwellings used as an employee's usual place of residence in the FBT remote areas, with the cost of the exemptions (in terms of forgone tax revenue) ranging between $300 million and $390 million per year.[106]

Mr Brendon Grylls, a Diamond Member of the Karratha & Districts Chamber of Commerce & Industry, told the Committee about the consequences of current FBT arrangements for local communities in

104 Productivity Commission, *Remote Area Tax Concessions and Payments*, Study Report, 2020, www.pc.gov.au/inquiries/completed/remote-tax#report, viewed 8 February 2022, pages 240-241.

105 Productivity Commission, *Remote Area Tax Concessions and Payments*, Study Report, 2020, www.pc.gov.au/inquiries/completed/remote-tax#report, viewed 8 February 2022, p. [8].

106 Productivity Commission, *Remote Area Tax Concessions and Payments*, Study Report, 2020, www.pc.gov.au/inquiries/completed/remote-tax#report, viewed 8 February 2022, pages [33-34].

regional and remote areas. He explained that there are 'peaks and troughs in demand' and during the peaks:

> … everyone wants to build a house at the same time that companies are trying to construct multibillion-dollar projects. Not surprisingly, the houses become expensive because you can't get the people to do it.[107]

Mr Grylls added that:

> … when rents go above $1,000 a week … which is good for the state and good for the nation and which delivers lots of revenue to the bottom line of all government jurisdictions, but the collateral damage is the people in these communities who can't afford to keep up with the cycle and have to wear the pain.

Mr Grylls stated that the More than Mining campaign aims to put the 'property challenge in the hands of the people who have a long-term vested interest in the community…'.[108]

The Committee received a total of 53 submissions that were part of the More than Mining letter campaign and published a small selection on its website.[109] The submitters told the Committee that the More than Mining campaign seeks:

> …targeted changes to the application of Fringe Benefit Tax rules … as a means to enhance the economic drivers for a private individual to purchase, build or otherwise reside for longer within these communities.

The submitters added that this proposal addresses 'the root causes of housing affordability and supply problems' in remote communities.[110]

Specifically, the submissions stated that the More than Mining campaign

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107 *Committee Hansard*, Canberra, 8 November 2021, pages 10-11.

108 *Committee Hansard*, Canberra, 8 November 2021, p. 7.

109 The published submissions that were part of the More than Mining campaign include: Mr Jordan Ralph, *Submission 6*; Australian Mining Cities Alliance (AMCA), *Submission 146*; Connect Paediatric Therapy Services, *Submission 147*; Karratha & Districts Chamber of Commerce & Industry (KDCCI), *Submission 148*.

110 Mr Jordan Ralph, *Submission 6*, p. [2]; AMCA, *Submission 146*, pages [9-10]; Connect Paediatric Therapy Services, *Submission 147*, p. [2]; KDCCI, *Submission 148*, p. [2]. See also: Pilbara for Purpose, *Submission 127*; Isaac Region Council, *Submission 118*; Ngarliyarndu Bindirri Aboriginal Corporation, *Submission 101*.

is lobbying for the following:

- Definition of a new category of remote area within the taxation legislation named 'Remote Area – Mining Community' and defined as communities affected by the volatility of mining construction and commodity price cycles and impacted by Fly-in-Fly-out workforces.
- Remote Area Mining Communities to benefit from 100% Fringe Benefit Tax exemption for rent, owner occupier housing purchase cost and mortgage interest when an employer pays these expenses out of the employee's pre-tax income.[111]

The submissions added that this reform would:

> … give the individual more disposable income to pay off their mortgage faster, increases their purchasing power, and allows them to reinvest in their local communities.[112]

6.77 The Committee also received evidence from the Police Federation of Australia calling for the FBT concessions that are currently provided to ambulance services to be extended to the police service. The Police Federation of Australia explained that: '…in 2004, a special Fringe Benefits Tax $17,000 gross benefits exemption per employee was provided to ambulance services, because of an adverse court finding…'.[113]

6.78 Mr Scott Weber, Chief Executive Officer of the Police Federation of Australia expressed his concerns about the existing housing situation for police officers:

> We want not only police officers but all emergency services workers to live close to their stations, to live close to the communities they work with. We all know there are police officers around the country that commute large distances just to get to work. This can be a critical issue when there's a disaster or a counterterrorism issue or if we need a surging of police. It's a massive issue with regard to tasking and deployment as well as shift deployment. Fatigue, stress, burnout, workload—all of those contribute.[114]

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111 Mr Jordan Ralph, *Submission 6*, p. [2]; AMCA, *Submission 146*, pages [9-10]; Connect Paediatric Therapy Services, *Submission 147*, p. [2]; KDCCI *Submission 148*, p. [2].

112 Mr Jordan Ralph, *Submission 6*, p. [2]; AMCA, *Submission 146*, pages [9-10]; Connect Paediatric Therapy Services, *Submission 147*, p. [2]; KDCCI, *Submission 148*, p. [2].

113 Police Federation of Australia, *Submission 37*, p. [2].

114 *Committee Hansard*, Canberra, 10 November 2021, p. 51.

Developer contributions and infrastructure charges

Criticism of developer contributions

6.79 Some submitters were highly critical of the current system of developer contributions. The Urban Development Institute of Australia (UDIA) cited a recent report by NHFIC, noting that it found that '…the costs of developer contributions were as high as $85,000 per house, and as much as 20 percent of the price paid for [the] finished product by homebuyers.'[115] The executive summary of NHFIC's report is more circumspect, stating that '…developer contributions can typically amount to around 8 per cent to 11 per cent of total construction costs…'.[116] UDIA also criticised developer contributions as funding infrastructure that benefits the whole community (rather than just the new development), and as lacking in transparency.[117] These views were echoed by other submitters who also endorsed the NHFIC report, as well as by NHFIC itself.[118]

6.80 MBA stated that '…the linkage between the value of developer contributions paid and the volume of infrastructure provided in return by the local government is often unclear, disproportionate, and lacking in transparency.'[119] Similarly, the HIA told the Committee:

> We talk about development-specific infrastructure; that's the stuff that developers should pay for because you get a block of land out of it. If you're putting the pipes and the roads and the parks in, that is the right thing to do. That's a cost of business. That's a cost of development.
>
> But we now have situations, particularly on the east coast, where the development charges and contributions are layering on top of that things which are for the broader community good. They're great infrastructure, but they're not specifically for that one person. We're building pools, we're

115 Urban Development Institute of Australia (UDIA), *Submission 33*, p. 26. NHFIC provided this report to the Committee: NHFIC, *Submission 78*, Attachment 1.

116 NHFIC, *Submission 78*, Attachment 1, p. 4.

117 UDIA, *Submission 33*, p. 26.

118 Urban Taskforce, *Submission 43*, pages [17-18], MBA, *Submission 125*, p. 13; PCA, *Submission 154*, p. [23]; Mr Hugh Hartigan, Senior Advisor, NHFIC, *Committee Hansard*, Canberra, 15 November 2021, pages 2-3, 5.

119 MBA, *Submission 125*, p. 13.

> building libraries and we're building broad community infrastructure and charging just the people who buy a house this year to pay for it.[120]

6.81 Mr Eslake argued that developer contributions encourage developers to build fewer, more expensive residences on their land rather than smaller properties that are more suited to first home buyers.[121] Dwyer Lawyers submitted that such charges are 'regressive', as they place the burden of funding infrastructure on home buyers (particularly first home buyers) instead of it being shared across the whole community, as it is when infrastructure is funded through municipal rates.[122]

6.82 Prosper Australia suggested that contributions can delay development if the developer must wait for the profitability of the site to rise, but they 'remain efficient' if they '[reflect] a cost that would otherwise be borne by the community at large.'[123]

6.83 There were some suggestions that developer contributions should be abandoned, and infrastructure instead funded from other sources. Mr Eslake suggested using rates or land tax, or levies on the increase in land value resulting from infrastructure spending.[124] The HIA proposed using general taxation, as did Urban Taskforce which recommended the Australian Government create a fund for this purpose.[125] The question of funding for development-supporting infrastructure is further discussed in Chapter 7.

6.84 Other submitters instead favoured reform of the developer contributions system. The NSW Productivity Commission noted that all 29 recommendations of an inquiry it recently conducted into the issue were accepted by the NSW Government in March 2021. It explained that these recommendations aim to ensure the system is certain, cost reflective, simple, transparent and consistent, and underpinned by two concepts:

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120 Ms Kristin Brookfield, Chief Executive, Industry Policy, HIA, *Committee Hansard*, Canberra, 4 November 2021, p. 10.

121 Mr Eslake, *Submission 3*, Attachment 2, p. [5].

122 Dwyer Lawyers, *Submission 117*, p. [6].

123 Prosper Australia, *Submission 103*, p. [14].

124 Mr Eslake, *Submission 3*, Attachment 1, p. [6], Attachment 2, p. [16].

125 HIA, *Submission 41*, p. [7]; Urban Taskforce, *Submission 43*, p. [18]. See also Mr Hartigan, NHFIC, *Committee Hansard*, Canberra, 15 November 2021, pages 5-6.

- For local infrastructure, industry should be charged for costs that are contingent on their developments proceeding—development-contingent costs – no more, no less…
- For State infrastructure, industry should be charged for costs that have a strong relationship to growth—development-associated costs.[126]

The NSW Productivity Commission recommended other states should consider adopting a similar approach.[127] It also noted that the NSW approach will require reform of that state's rate pegging, which may also be an issue for other states.[128] NHFIC suggested that the Northern Territory model where only essential infrastructure is funded is the one 'a lot of industry would like.'[129]

6.85 While the HIA supported the abolition of developer contributions, it also put forward a list of reforms as an interim measure; these focused on improving transparency and ensuring funds are spent on necessary infrastructure, and that the contributions be payable 'at the latest stage of the development process'.[130] Professor Steven Rowley also proposed that contributions be made 'payable at the completion of the development rather than upfront' to assist 'marginal projects.'[131]

6.86 MBA suggested that 'there is a role for regulatory oversight of local governments in certain areas', including to ensure that 'developer contributions are not costed excessively and that they are matched to specific infrastructure provision.'[132] It also supported capping 'local government planning department fees and charges'.

Support for developer contributions

6.87 The Committee also heard from many submitters who were supportive of developer contributions. Dr Cameron Murray argued that reducing or abolishing such charges does not reduce the price of new dwellings, but

126 NSW Productivity Commission, *Submission 115*, pages [19-20]; citing *NSW Productivity Commission, Review of infrastructure contributions in New South Wales. Final report*, December 2020, www.productivity.nsw.gov.au/infrastructure-contributions-review, viewed 10 February 2022.

127 NSW Productivity Commission, *Submission 115*, p. [19].

128 NSW Productivity Commission, *Submission 115*, p. [20].

129 Mr Hartigan, NHFIC, *Committee Hansard*, Canberra, 15 November 2021, p. 7.

130 HIA, *Submission 41*, p. [12].

131 Professor Steven Rowley, *Submission 2*, p. [3].

132 MBA, *Submission 125*, p. 13.

rather increases the price of undeveloped land, a view shared by the City Futures Research Centre of UNSW.[133]

6.88 The City of Karratha submitted that developer contributions 'do not affect supply (or demand) for property', while the Snowy Monaro Regional Council reported that it 'has discounted these contributions and has not seen a significant change in the release of approved subdivisions.'[134] It was noted that abolition or capping of these charges would mean the funding would need to come from another source, a point accepted by many the critics of developer contributions as discussed earlier in this chapter.[135]

6.89 The Queensland Department of State Development, Infrastructure, Local Government and Planning acknowledged the findings from NHFIC's report regarding development contributions and new housing prices, discussed above, but argued that 'local infrastructure creates utility which in turn creates value which would substantially exceed the 8 per cent to 11 per cent that local infrastructure costs.'[136]

6.90 Several submitters suggested that the existing developer contributions usually do not cover all necessary infrastructure, particularly in Queensland where contributions are capped.[137]

6.91 The Australian Local Government Association defended developer contributions:

> The ongoing life cycle costs of managing and maintaining infrastructure are not typically included in these [council contribution] plans; these are generally supported by rates. Infrastructure contributions are made by developers to help deliver the infrastructure needed as communities grow. This is based on the economically sound user-pays (or beneficiary pays) principle of the existing planning system i.e. new development contributes towards the cost of infrastructure that will meet the additional demand it generates and benefits from. Infrastructure contributions also equitably distribute these costs between

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133 Dr Murray, *Submission 12*, p. 14; City Futures Research Centre of UNSW, *Submission 42*, p. 27.

134 City of Karratha, *Submission 76*, p. [4]; Snowy Monaro Regional Council, *Submission 97*, p. 7.

135 City Futures Research Centre of UNSW, *Submission 42*, p. 27; Queensland Department of State Development, Infrastructure, Local Government and Planning (DSDILGP), *Submission 62*, pages [1-2]; AMCA, *Submission 146*, p. [11].

136 DSDILGP, *Submission 62*, p. [2].

137 Regional Development Australia – Barwon South West, *Submission 121*, p. 11; Local Government Association of Queensland, *Submission 126*, pages 27-29; Moreton Bay Regional Council, *Submission 139*, p. [3].

beneficiaries, lowering infrastructure barriers to development and facilitating growth.[138]

Build-to-rent

Support for build-to-rent

6.92 Another taxation-related issue that was raised by submitters was build-to-rent housing (also referred to by some submitters as BTR). Mr Ken Morrison from the PCA explained to the Committee:

> Build-to-rent housing … is really a different type of housing ownership. It's an institution which is investing in housing in the same way that it might invest in office space. The benefits for the person who rents are that you've got a long-term landlord professionally managing the property, and a building which is designed with rental needs in mind. It might have common property. It also provides the benefit of a longer-term leasing environment. The interest from the owner's perspective is that you have happy tenants who stay there for a long time, and it provides full occupancy. It's an income reward play rather than a capital return play, as with traditional build-to-sell housing. So there's a lot that makes a lot of sense, which is why we see it very prevalent in North America, the UK, Europe and Japan.
>
> It's emerging in Australia, but it really needs the right frameworks: the right planning frameworks and tax frameworks at a state government level but also the right frameworks at a federal government level. The main block at a federal government level is to equalise and provide a level playing field on withholding tax arrangements within a managed investment trust so that offshore capital, which will always be a significant part of the capital stack that you have investing in this or in commercial property, has an equivalent tax rating. At the moment, it has a tax rating which is twice that of an investor investing in a shopping centre, an office building or an industrial centre, so it means that you're just not going to be able to attract the same level of investment with the same returns. There are also a number of things that state governments need to address here.[139]

6.93 Mr Morrison stated build-to-rent 'will never take over mum-and-dad investors', and has not done so even in the United States where it is well-established.[140] The PCA also recommended 'land tax relief, local planning

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138 Australian Local Government Association, *Submission 113*, p. 4.

139 *Committee Hansard*, Canberra, 4 November 2021, pages 70-71.

140 Mr Morrison, PCA, *Committee Hansard*, Canberra, 4 November 2021, p. 71.

guides that recognise the asset class as a different form of housing to typical apartments and planning approval pathways that recognise the "shovel ready" nature of Build-to-Rent projects.'[141]

6.94 Urban Taskforce similarly recommended equalising the taxation treatment of build-to-rent with other types of property investment, and additionally recommended allowing build-to-rent construction costs to be instantly written off (as is allowed for build-to-sell), provided that the property is held at least five years.[142] Under the current system build-to-rent assets must be held for five years before GST can be offset. Urban Taskforce further noted that the NSW Government has taken steps to encourage build-to-rent housing by establishing a 'fast track planning assessment process', reducing the foreign investor stamp duty surcharge and providing a 50 per cent reduction in land tax for such housing.[143]

6.95 In its submission the NSW Government suggested the fast-track assessment process was not confined to build-to-rent, but noted that build-to-rent is specifically included in the state's new planning policy. It recommended that the Australian Government equalise the tax treatment of 'all forms of commercial residential property' and consider the impact of CGT on build-to-rent.[144] The Queensland Department of Communities, Housing and Digital Economy noted that the Queensland Government has commenced a build-to-rent pilot scheme, under which developers agree 'to deliver a Build-to-Rent development with an affordable housing component.'[145]

6.96 Dr Luci Ellis, Assistant Governor, Economic at the RBA, identified another difficulty:

> One of the things that I'm very mindful of and that we've spoken about publicly before is the tax treatment of investor property. While it is the same as the tax treatment of other income producing assets, because you can leverage it, the combination of negative gearing with concessional capital gains means that it is very attractive to leverage into investor property as opposed to thinking of yourself as a landlord with a business providing housing services. As a consequence, individual households do it. What happens is that the rental yield on rental properties in Australia is quite low, so the overall level of

141 PCA, *Submission 154*, p. [28].

142 Urban Taskforce, *Submission 43*, pages [25-27].

143 Urban Taskforce, *Submission 43*, p. [25].

144 NSW Government, *Submission 142*, pages [5], [25].

145 Queensland Department of Communities, Housing and Digital Economy, *Submission 149*, p. [3].

> rents is low relative to prices, but, because of the tax advantages, individual households investing in rental property are willing to accept a relatively low yield for that. It's still attractive relative to other investments, but they're willing to accept a relatively low yield. But, because corporates don't negatively gear and because they're not necessarily planning to sell it later on; it's a long-term investment for them, the concessional capital gains is less relevant to them …. Essentially what it means is that a household owning an individual house to rent out is willing to accept a lower yield than a corporate would.[146]

6.97 The Shop, Distributive and Allied Employees' Association submitted that:

> The two key impediments [to build-to-rent] are land tax (state land taxes are levied on the basis of individual dwellings not the entire holding and are consequently significantly higher than other property asset classes) and GST. In the latter case the treatment of housing is a complex area and would require broader consumption tax reform. In the former case, land tax on underlying land values means a single owner faces a large bill, while investors who own one or two apartments do not. In the latter, the GST treatment of BTR and build-to-sell differs. GST is embedded in acquisition and development costs; thus, it is not creditable for BTR but it is creditable for build-to-sell. In addition, overseas-based BTR investors are subject to a higher tax rate on market-rent residential investment than other asset classes which is a significant impediment given that global funds would be likely 'first movers' in establishing a new institutional funding asset class.[147]

Scepticism about build-to-rent

6.98 The Committee received little evidence opposing an expansion of build-to-rent housing, although Mr Andy Fergus, Advocacy Lead of Urban Design Forum and of Andy Fergus Design Strategy, stated that 'I don't know if I would want to follow the build-to-rent pathway', without elaborating further.[148]

6.99 Mr Robert Pradolin, Founder and Director, Housing All Australians Limited commented that:

> Let's be very clear: build-to-rent is about \$700 to \$800 a week; it is not affordable housing. As a taxpayer, if we are to give tax concessions in terms of land tax et cetera, which I would support, it must get a public outcome in

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146 *Committee Hansard*, Canberra, 15 November 2021, p. 29.

147 SDA, *Submission 88*, p. [19].

148 *Committee Hansard*, Canberra, 4 November 2021, p. 39.

> terms of providing affordable housing, otherwise you are just allowing the rental market to drop a bit but still you do not hit the affordability level.[149]

6.100 By 'affordable housing' Mr Pradolin was apparently referring to 'non-market housing', which as explained in Chapter 1 is largely not the focus of this report. No evidence set out specific arguments against tax changes to support build-to-rent such as changing the treatment of managed investment trusts, however Mr Greg Chemello, Chief Executive Officer, Moreton Bay Regional Council, expressed scepticism about the difference tax changes would make:

> Build-to-rent is interesting in Australia. I did a Property Council tour in the United States a couple of years ago to look at the build-to-rent market there. There are fundamental differences to Australia in the cost structure, aren't there? The cost of construction there seems to be something like a third or a quarter less than ours; it would be a lot less now. Also, their rental levels, particularly on the north-west coast, were double ours. So, if your cost of construction is a third less and you can get twice the rent, it makes complete and utter sense why, in the States, you would hold and hold and rent, compared to Australia. That has been the challenge in the Australian economy with our market and with our comparative cost of construction and rental levels, notwithstanding the increase in rents lately which still wouldn't have changed it; it still makes it pretty marginal. I know there are a lot of folks looking at taxation ways to make it more attractive to do that. We don't find in South-East Queensland many successful examples of that, and this is a very buoyant market too.[150]

Committee comment

6.101 As explained in Chapter 2, the Committee's view is that Australia's housing affordability crisis is primarily a supply-side problem. While a significant number of submitters were critical of some of the Commonwealth's tax concessions on housing, particularly the CGT discount and negative gearing, the consensus appears to be that reducing these concessions would only have a small, once-off effect on housing prices, while increasing rents to some degree. The Committee believes that this does not justify changing these arrangements, especially given that they are not unique to housing, but merely particular applications of broader principles of the tax system.

149 *Committee Hansard*, Canberra, 10 November 2021, p. 58.

150 *Committee Hansard*, Canberra, 8 November 2021, p. 31.

6.102 The Committee accepts the majority view among submitters – a view that has been endorsed by many prior reports on this topic – that stamp duty is an inefficient tax, and that replacing it with a broad-based land tax would improve the functioning of the housing market and the economy in general.

6.103 The Committee acknowledges that making such a switch poses significant transitional difficulties, both in terms of ensuring those who have recently paid stamp duty on a property are not disadvantaged and in replacing the revenue stamp duty provides for state and territory governments, but believes that these can be worked through.

6.104 The Committee encourages the Australian Government to lead any national coordination required to achieve this, but believes that stamp duty reform must ultimately be a matter for the states and territories. In particular, the Committee believes that it would be setting an unhelpful precedent for the Australian Government to provide financial incentives for the states and territories to engage in this reform – it is their responsibility to take what steps they can to improve the productivity of their economies.

6.105 The Committee notes evidence regarding issues associated with the current FBT regime, and the calls from multiple submitters for FBT concessions to be extended in various ways. The Committee considers this is an important issue that warrants greater interrogation and consideration from a wider range of perspectives than those covered in the evidence to this inquiry, to ensure that no unintended consequences could flow from FBT reforms.

6.106 The issue of developer contributions was a particularly complex one, as the situation appears to vary from state to state, council to council and sometimes even development to development. The Committee heard about the extent to which developer contributions increased the cost of new developments and in many cases, the funds were not being used for their intended purpose. Thus, there is a clear need to reform these charges or do away with them entirely and implement a value capture model instead.

6.107 The Committee believes that the Australian Government should lead efforts to develop a more nationally consistent and transparent approach to these charges, underlined by the principle that they should only be used to fund infrastructure that is directly necessary for the development on which they are being levied.

6.108 The Committee was intrigued by the evidence it received on build-to-rent housing, and believes this is a model that has potential to help improve housing affordability. Nonetheless, it is clear that promoting this style of housing will require detailed consideration of multiple obstacles, primarily relating to taxation but also other matters such as planning. Given the complexity of these obstacles, the Committee believes further investigation of them is required before any changes to legislation or regulations are made, and recommends that the Australian Government give further consideration to the issue.

Recommendation 8

6.109 The Committee recommends that the Australian Government not change its current policy regarding negative gearing.

6.110 The Committee recommends that the Australian Government maintain current policy with regard to negative gearing. The Committee believes the benefits this policy provides in the form of lower rents, higher housing supply, diversity of ownership and the efficiency of the tax system, outweigh the nominal impact it has on housing prices.

Recommendation 9

6.111 The Committee recommends that state and territory governments replace stamp duty with land tax.

6.112 The Committee recommends states and territories replace stamp duty with land tax. This should be implemented over time, avoiding those who have already or recently paid stamp duty facing double taxation through the replacement land tax. This change would increase housing turnover, remove an unnecessary obstacle to home ownership and stabilise government revenues.

Recommendation 10

6.113 The Committee recommends that the Australian Government conduct a review into how transitional costs regarding Recommendation 9 might be smoothed.

6.114 The Committee recommends that the Australian Government, led by the Department of the Treasury, conduct a review of how transitional costs for Recommendation 9 might be smoothed and how adverse effects on fiscal equalisation might be avoided.

6.115 As the states and territories would be the biggest beneficiaries of this transfer, any money provided by the Australian Government should be repaid by the states and territories.

6.116 In the interim, the Committee recommends that states and territories that adjust stamp duty brackets to redress decades of stamp duty bracket creep will not be penalised by the Commonwealth Grants Commission in Goods and Services Tax (GST) distributions.

6.117 Furthermore, the Committee recommends that states and territories should adjust stamp duty brackets to redress decades of stamp duty bracket creep and that they should be indexed in line with inflation in the housing market.

Recommendation 11

6.118 The Committee recommends that the Australian Government work with state and territory governments to reform developer contributions, ensuring that the money is used to fund value adding and demanded infrastructure.

6.119 The Committee recommends that developer contributions are reformed as they have ballooned, adding nearly half of the housing cost and have failed to provide increased infrastructure. There are two ways this could occur, either replacement with a value capture model or ensuring that developer contributions can only be expended on their intended purpose, development infrastructure and services.

6.120 This should form part of the incentive payments recommended in Recommendation 2.

6.121 The Committee recommends that the Australian Government work with the states and territories to increase the consistency and transparency of developer contributions across the nation, and to ensure that such contributions are only used to fund useful, value adding infrastructure that is genuinely essential for the development on which they are levied.

Recommendation 12

6.122 The Committee recommends that the Australian Government conduct a review into the build-to-rent housing market and how it is affected by current regulations and tax policies.

6.123 The evidence the Committee has heard suggests that build-to-rent housing would provide consumers more choice and has the potential to increase security of tenure. As a result, the Committee recommends that the Australian Government, led by the Department of the Treasury, conduct a review into the build-to-rent housing market and how it is affected by progressive land tax and other tax and regulatory settings.

7. Other policies

7.1 This chapter considers additional topics that submitters and witnesses raised during the inquiry as being potentially relevant to housing affordability and supply in Australia, beyond those issues covered in preceding chapters.

7.2 This chapter first discusses macroprudential and monetary policy, and the necessity of enabling infrastructure for land to be suitable for development. It further considers evidence regarding self-managed superannuation funds, the issue of land banking, and finally the importance of data to support evidence-based housing policy.

Macroprudential policy

7.3 Ms Renée Roberts, Executive Director, Policy and Advice, Australian Prudential Regulation Authority (APRA), appeared before the Committee and explained its role:

> Firstly … APRA supervises institutions across banking, insurance and superannuation. In regulating banks, APRA's role is to set prudential requirements that are designed to protect the interests of depositors and to promote financial system stability in Australia. We do this in close collaboration with other members of the Council of Financial Regulators. Secondly…in residential mortgage lending APRA seeks to ensure that banks are making sound credit decisions that are appropriate, individually and in aggregate, in the context of broader housing market and economic trends. APRA's prudential requirements, which are focused on lending practices, can influence the terms, amount and price at which banks extend housing finance. They do not target house prices or matters of affordability. Lastly, APRA's recent actions to address emerging risks to financial stability related to residential mortgage lending: last month we set an expectation that banks would assess new borrowers' repayment capacity at lending rates that are at least three percentage points higher than those currently prevailing. APRA's

> objective is to ensure the financial system remains safe, with banks lending to borrowers who can afford the level of debt they are taking on, both today and into the future. We expect the overall impact on aggregate housing credit growth flowing from this change to be fairly modest since many borrowers do not borrow at their maximum capacity.[1]

7.4 As stated by Ms Roberts, it is not within APRA's mandate to directly regulate house prices in Australia. While it may make regulatory decisions that have an effect on house prices, housing affordability is not within its remit.

7.5 In its submission to the inquiry, APRA foreshadowed an information paper, designed to set out its framework for macroprudential policy, and provide greater detail on APRA's objectives for macroprudential policy, toolkit of options and approach to implementation.[2]

7.6 Released on 11 November 2021, the paper sets out that the objective of macroprudential policy is to 'mitigate risks to financial stability at a system-wide level' and goes on to state that macroprudential measures are:

> … typically temporary and counter-cyclical in nature; they seek to build additional resilience or reduce excessive risk-taking during an upswing in the financial cycle, and can provide flexibility for the financial sector in supporting the economy during a downturn.[3]

7.7 APRA's 'macroprudential toolkit' includes levers and controls that involve capital, credit, liquidity or market, and structure, that is, exposure or concentration limits, all of which are 'deployed through the banking sector, given the critical role leverage plays in the financial cycle.'[4]

7.8 Despite APRA's measures not being 'directly targeted' to housing affordability or supply, there seemed to be agreement amongst some submitters that these measures do in fact directly impact supply and house prices. Moreover, in some instances, it was suggested that APRA should be doing more to counteract rising house prices because of the very real effect its measures can have in this regard.

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1 *Committee Hansard,* Canberra, 15 November 2021, p. 15.

2 Australian Prudential Regulation Authority (APRA), *Submission 150*, p. 5.

3 APRA, *Information Paper - Macroprudential Policy Framework,* 11 November 2021, www.apra.gov.au/macroprudential-policy-framework, viewed 15 December 2021, p. 4.

4 APRA, *Information Paper - Macroprudential Policy Framework,* 11 November 2021, www.apra.gov.au/macroprudential-policy-framework, viewed 15 December 2021, p. 13.

7.9 The PCA noted in its submission the very real effect of APRA's decisions on housing supply, stating the 'need for extreme care in targeting macro prudential action at agreed risk areas on the edge of the market, avoiding a broader confidence impact the nation's construction pipeline.'[5] It stated that 'all market observers are mindful that the last time Australia stamped on the macro-prudential brakes, in the shadow of the Hayne Royal Commission, our national housing supply pipeline was hit hard.'[6]

7.10 Mr Louis Christopher, Managing Director of SQM Research, explained to the Committee some of the effects of, and complexities around macroprudential controls:

> It's pretty clear that regulators have been increasingly leaning on macroprudential tools since about 2014, and I think they have had some success with that. I note that the last round of lending restrictions, which peaked in 2017, did create a downturn in the Sydney and Melbourne housing markets, and shortly thereafter we saw a surge in first home buyer activity during that time, so they have their merits. I get a little bit concerned, though, where I read comments to suggest that it will be used as a policy tool to potentially stimulate the housing market when it's in a downturn or try to take the heat out of the market when the market is running hard. It's very difficult to time these types of measures. One needs to be careful here that we do not create other economic waves just as a result of trying to control the housing market.[7]

7.11 In his submission, economist and Principal of Corinna Economic Advisory Mr Saul Eslake suggested that actions taken by APRA in the mid 2010's (along with other factors) saw a drop in house prices in Australia's eastern seaboard capital cities:

> … after a series of steps by the financial system regulator APRA to curb some of the more egregiously risky forms of lending to investors that had mushroomed in the first half of the past decade, stricter enforcement of rules pertaining to foreign investment in established properties, and perhaps also in response to expectations that the tax preferences enjoyed by residential property investors would be scaled back in the event of a Labor victory at the federal election due in 2019, residential property prices began falling in Sydney, Melbourne and to a lesser extent Brisbane.[8]

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5 Property Council of Australia (PCA), *Submission 154*, p. [1].

6 PCA, *Submission 154*, p. [2].

7 *Committee Hansard*, Canberra, 17 November 2021, p. 5.

8 Mr Saul Eslake, *Submission 3*, p. 5.

7.12 Mr Coates, Economic Policy Program Director at the Grattan Institute, told the Committee:

> So macroprudential rules clearly affect prices. That's undoubtedly true, because you're affecting people's capacity to borrow. After the loosening of macroprudential controls in 2019, just around the time of the election—essentially, with the election itself we didn't see much of an increase in prices, but the moment those macroprudential controls were relaxed and implemented by the banks, the next weekend, prices took off, and they took off all the way to COVID. Then obviously we had COVID, and we had a fall and then a boom again. The question is: what's the purpose of those controls? The purpose of those controls is notionally to manage risks in the financial sector, to make sure that people are not taking on so much debt that they default down the track.[9]

7.13 Mr Coates went on to suggest that macroprudential controls be incorporated more holistically into monetary policy making:

> I would probably lean towards a world where you don't try to use them to affect house prices per se, but you would probably need to integrate them into macro policymaking in a more structural fashion. One idea is to do what the Bank of England does. You have a monetary policy committee and a financial stability committee that have overlapping membership. That allows those controls to be managed in a way that's more consistent with the macro cycle.[10]

7.14 Narrow Road Capital was particularly critical of what it sees as APRA's lack of macroprudential responses to rising house prices, and suggested two macroprudential reforms:

> The ability to leverage up a minimal deposit and/or the ability to more relative to your income creates an arms race amongst buyers. The one who borrows the most can bid the most. However, the 'winning' bidder may ultimately end up losing the most in an economic downturn that is accompanied by a house price correction. The RBA [Reserve Bank of Australia] has worsened this with its monetary policy decisions…and APRA has failed to respond whilst house prices have run higher. Two simple measures can address the building systemic risk in residential property lending;
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> - Ban lending where the debt to income ratio exceeds six times
> - Ban lending where the LVR [loan-to-value ratio] exceeds 90 [per cent].[11]

9 *Committee Hansard*, Canberra, 17 November 2021, p. 36.

10 *Committee Hansard*, Canberra, 17 November 2021, p. 36.

11 Narrow Road Capital, *Submission 135,* p. [3].

7.15 Another submitter who wished to remain anonymous submitted that '[c]ombined with monetary policy Australia's macro-prudential policy is the other main cause of housing unaffordability. House price cycles in Australia correlate directly with the volume of credit, with prices rising when credit expands and steadying or falling when it contracts.'[12] They further suggested the following four macroprudential measures be taken:

- Mortgage repayments should be limited to no more than 30 per cent of incomes with no exceptions
- Where the investor already owns a property (some investors rent), a minimum of 30 per cent deposit to be required
- Residential Mortgage Backed Securities to be banned in their entirety, to encourage banks to take responsibility for their own lending practices
- Investor lending restricted to no more than 10 per cent or so of total mortgage volume.[13]

Monetary policy

7.16 The Reserve Bank of Australia (RBA), Australia's central bank, twice appeared before the Committee during this inquiry. The RBA is tasked with producing the monetary policy for Australia, that is, setting the official interest rate (the 'cash rate'), which in turn involves 'a duty to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people.'[14]

7.17 In her evidence before the Committee, Dr Luci Ellis, Assistant Governor, Economic, RBA described the complexity of the housing market and the factors that influence it:

> One of the things that makes the housing market both so interesting and so complex is that it connects up to the finance system…there are a whole bunch of things around lending, lending standards and credit worthiness. There are a bunch of things around land supply, urban structure and architecture—and, of course, migration policy is relevant. There are so many touchpoints to the housing market. If you look at one little bit in isolation, you'll miss the whole picture.[15]

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12 Name Withheld, *Submission 100*, p. [4].

13 Name Withheld, *Submission 100*, p. [8].

14 Reserve Bank of Australia (RBA), *Monetary policy*, undated, www.rba.gov.au/monetary-policy/, viewed 15 December 2021.

15 *Committee Hansard*, Canberra, 15 November 2021, p. 26.

7.18 Dr Ellis said on the question of 'affordability':

> I think there are a number of areas in housing policy that are a matter for government, not for a central bank. That said, what we're seeing here is fundamentally a distributional issue. If housing prices are rising, it's because someone can afford to pay those prices. But the issue is that not everybody can. It has never been the case that first home buyers have bought at the median house price. One of the things we say in our submission is to remind everybody that saying, 'Can you afford the median house?' is not the right question. The question is: 'Are there properties that are suitable for your needs that you can attain?' One of the other things we point out is that, typically when people say something is unaffordable, what they really mean is, 'In order to access this particular home, you need to devote more than 30 per cent of your income to that,' whether that's rent or whether that's servicing your mortgage. People will look at that rule of thumb and say, 'That's unaffordable.'[16]

7.19 Dr Ellis explained (in the context of house prices in the 1980s and 1990s):

> You've got to remember that, prior to the eighties, there were restrictions on mortgage interest rates and, therefore, restrictions on the supply of mortgage credit. As the financial sector was liberalised, credit availability went up, effective interest rates went down, and that enabled an expansion in the demand for housing, and, because most of the stock of housing is already there, that results in a bidding-up of housing prices.[17]

7.20 However, the RBA sets the official interest rate, and current interest rates are at record lows in Australia. Many submitters suggested that this is directly linked to an increase in house prices by way of increased debt serviceability. As Ms Cyrstal Ossolinski, Director, Macroeconomic Conditions Branch at the Australian Government Department of the Treasury (the Department of the Treasury) told the Committee:

> I think the key factor here really comes down, again, to that question of interest rates and the effect that interest rates have on the housing market. It is a primary channel of monetary policy globally, and, as interest rates fall, the affordability eases up for households. Over the past year, we've seen debt servicing increase a little bit, but it certainly has not increased in line with prices. This reflects that interest rates have fallen dramatically.[18]

16 *Committee Hansard*, Canberra, 14 September 2021, p. 13.

17 *Committee Hansard*, Canberra, 14 September 2021, p. 14.

18 *Committee Hansard,* Canberra, 14 September 2021, p. 3.

7.21 Mr Jonathan Rochford, Managing Director of Narrow Road Capital told the Committee that central banks around the world are facing a wake-up call, that is:

> … whilst low interest rates are stimulatory in the short term, in the long term they reduce the prosperity of the economy, they create financial instability risks and they are negative for productivity. So, in the long term, low interest rates are a bad thing … essentially, what low interest rates have done is that they have stimulated asset prices but they've done very little to stimulate the real economy. They have switched people's thinking from productive investment to speculative investment.[19]

7.22 In its submission, Narrow Road Capital contended that:

> The global evidence on the effectiveness of ultra-low interest rates has become clearer now that more than a decade has passed since implementation … Ultra-low interest rates have inflated asset prices, including Australian housing. Lower interest rates reduce the monthly repayment required to repay a loan. Many buyers have used lower interest rates to increase the amount they borrow rather than borrowing the same amount and repaying it faster.[20]

7.23 Narrow Road Capital described measures used by governments to hold down interest rates as 'financial repression'.[21] It suggested to the Committee that the Australian Government should amend the RBA's current inflation target of two to three percent, to keep inflation below three percent or to an inflation band of between minus three to three percent. Further, Narrow Road Capital proposed that the RBA should be required to ensure that the cash rate allows all citizens to receive a positive after-tax real rate of return to prevent 'financial repression.'

7.24 Mr Keith Almeida, a Fellow of the Actuaries Institute of Australia, submitted that the most obvious factor that has had a negative impact on housing affordability is interest rates – '[t]he fact that property is highly levered, means that it is not a coincidence that property prices worldwide are steeply rising as central banks have reduced rates to zero.'[22]

7.25 Mr Almeida and Digital Finance Analytics both raised New Zealand as an example where the Reserve Bank there 'now has a direct mandate to

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19 *Committee Hansard*, Canberra, 3 November 2021, p. 45.

20 Narrow Road Capital, *Submission 135*, p. [3].

21 Narrow Road Capital, *Submission 135*, p. [3].

22 Mr Keith Almeida, *Submission 20*, p. [4].

consider home prices when setting monetary policy'.[23] Mr Almeida stated that this would be the 'neatest, and most effective method for addressing housing affordability in Australia and is backed by robust mathematical modelling.'[24]

7.26 Digital Finance Analytics argued that any discussion of improving housing affordability in Australia must look to the ability of the Australian Government and financial regulators to pull the levers of interest rates, monetary policy and credit availability when needed.[25]

7.27 The anonymous submitter mentioned earlier in this chapter suggested:

> One of the principle causes of the rise in house prices is monetary policy. The RBA's own research shows a large response in the housing market to interest rates. In 1998 the Australian Bureau of Statistics reformed the CPI [Consumer Price Index]. Part of this included changing the old housing method, based on total mortgage costs of all properties, to a method that is effectively a new house construction index. This was at the explicit request of the Reserve Bank of Australia, who made the argument that land is an asset and not consumption. At a stroke this removed many household's largest item of spending from the index. Prior to 1998 income and house prices used to track each other. Since then they have diverged. Although another important factor (the capital gains tax discount) was introduced that year, the loss of the interest rate buffer is likely the primary cause of house price rises since 1998. It is notable that the housing 'booms' beginning in 2013 and again in 2019 and accelerating in 2020 were both associated with significant interest rate cuts. Had land not been removed from the CPI, interest rates would have risen and checked the booms.[26]

7.28 That anonymous submitter went on to suggest that the RBA, in effect, wants house prices to rise, stating:

> A very large number of parts of speeches and policy statements refer to real estate, usually in the sense that rising prices are a positive. Reference is often

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23 Digital Finance Analytics, *Submission 95*, pages [2-3]; Mr Almeida, *Submission 20*, p. [4].

24 Mr Almeida, *Submission 20*, p. [4].

25 Digital Finance Analytics, *Submission 95*, p. [5].

26 Name Withheld, *Submission 100*, p. [1]; citing T Saunders and P Tulip, 'A model of the Australian housing market', *RBA*, March 2019, www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-01.pdf, viewed 10 February 2022.

made to the 'wealth effect', where people will speed more if house prices rise. The wealth effect does not hold over the long term.[27]

7.29 They suggested the following actions be taken in respect of monetary policy:

- the Consumer Price Index be reconstituted to include land prices to the extent of their actual proportion of consumer spending and price movements.
- inflation targeting and average inflation targeting are either abandoned or the inflation target be reduced to 0-1 per cent. Rates should be returned to equal with inflation to prevent economic malinvestment.
- the RBA board is reconstituted to reduce the number of academic economists, bankers and business people, with seats being reserved for the trade unions, small business and so on.[28]

Enabling infrastructure

7.30 Over the course of the inquiry multiple parties including state and territory government, local government, and the private sector, raised the importance of basic infrastructure for new housing supply to be built.[29] Various terminology was used to refer to foundational infrastructure that supports development, including 'catalyst', 'trunk', or 'enabling' infrastructure.

7.31 For brevity the term 'enabling infrastructure' will be used hereafter and the Queensland Department of State Development, Infrastructure, Local Government and Planning's (DSDILGP) definition of catalyst infrastructure will be used, that is, physical or hard infrastructure which unlocks development, including the construction of roads; sewerage, wastewater, stormwater, and water distribution systems; and transport infrastructure.[30]

7.32 As defined by the Australian Government's *National Housing Supply Council 2nd State of Supply Report*, greenfield developments are those that occur on 'former agricultural or undeveloped natural land on the periphery of towns

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27 Name Withheld, *Submission 100*, p. [2].

28 Name Withheld, *Submission 100*, p. [8].

29 New South Wales (NSW) Government, *Submission 142*, p. [15]; Mount Isa City Council, *Submission 4*, p. 3; Urban Taskforce, *Submission 43*, pages [3-4].

30 Queensland Department of State Development, Infrastructure, Local Government and Planning (DSDILGP), *What is catalyst infrastructure?*, undated, statedevelopment.qld.gov.au/economic-development-qld/buying-and-developing-land/infrastructure-planning-and-funding/building-acceleration-fund-accordion-group-0/what-is-catalyst-infrastructure, viewed 21 December 2021.

and cities… [where the land is] rezoned for urban development', whereas infill developments occur 'within existing urban areas' (that is, on developed or serviced land).[31] The installation of enabling infrastructure is necessary for greenfield sites, and upgrades of existing enabling infrastructure may be required for infill developments.

7.33 Mr Simon Basheer, the National President of the Urban Development Institute of Australia (UDIA), told the Committee that 'inefficient methods of funding and of delivering the enabling infrastructure' are impeding the supply of new land viable for development.[32] Professor Nicole Gurran and Emeritus Professor Peter Phibbs echoed this view, stating:

> … the costs and complexity of new and augmented infrastructure can be a constraint to new housing supply, and… further work is needed to untangle and address these constraints in Australian cities and regions.[33]

7.34 As an example of how delays in the installation of enabling infrastructure can impact greenfield sites, a recent UDIA report found that 'enabling infrastructure (sewer, water, power, roads) is a major constraint on the development of new homes in the South West and Greater Macarthur…', noting that '60 per cent of lots expected between FY22 and FY29 [financial year 2022 and financial year 2029] are constrained by sewer infrastructure'.[34]

7.35 As another example, the rezoning of new suburbs Marsden Park North and West Schofields in North-West Sydney, permitting 8,000 new homes, has been paused because an upgrade to Richmond Road had not yet been funded.[35] The UDIA estimates that this and other delayed infrastructure have prevented the supply of approximately 70,000 homes in the western

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31 Commonwealth of Australia, *National Housing Supply Council 2nd State of Supply Report*, April 2010, treasury.gov.au/sites/default/files/2019-03/stateofsupplyreport_2010.pdf, viewed 21 December 2021, pages [244], [246].

32 *Committee Hansard*, Canberra, 4 November 2021, p. 14.

33 Professor Gurran and Emeritus Professor Phibbs, *Submission 51*, p. 2.

34 Urban Development Institute of Australia (UDIA) NSW, *Greenfield Land Supply Pipeline Report*, June 2021, udiansw.com.au/wp-content/uploads/Greenfield-Land-Supply-Pipeline-Report-FINAL-1.pdf, viewed 22 December 2021, p. 12; cited in UDIA, *Submission 33*, p. 20.

35 UDIA NSW, *A practical approach to land supply*, May 2021, 63lh534dvlp1yhlsm1o3ds2k-wpengine.netdna-ssl.com/wp-content/uploads/Building-Blocks-2021-Greater-Western-Sydney.pdf, viewed 25 February 2022, p. 4.

suburbs of Sydney.[36] The required infrastructure costs an estimated $423 million, or $6,000 per lot.

7.36 Transport infrastructure was mentioned by some witnesses as a particularly critical form of enabling infrastructure for the viability of greenfield sites. Dr Ellis of the RBA observed that 'increasing transport infrastructure is the way to increase the supply of well-located land'[37], and cited the Geelong-Melbourne transport corridor in Victoria as an example.[38]

7.37 However, Mr Maxwell Shifman, Vice President of UDIA, told the Committee that due to the significant upfront costs involved, transport infrastructure typically requires the existence of a minimum population density to support it – which creates a problem.[39] He explained:

> You've got a chicken-and-egg problem, which is exacerbated by the fact that behavioural change is really hard. If someone moves into an area and they have fantastic public transport from day one then they're likely to use it, but, if someone has lived in an area for 10 years and the only way they've been able to get around the place is by having a car … it's really hard to convince them, when you bring in the bus line 10 years later … It's important to have the infrastructure running early…

7.38 Enabling infrastructure is also often important for increasing housing supply via infill developments. The DSDILGP submitted that:

> In many locations that may be suitable for urban consolidation (increasing density) there is often a deficit of infrastructure or infrastructure is sized such that it will not support increased population.[40]

7.39 Professor Steven Rowley noted that '…the capacity of infrastructure and services is an important consideration for councils in planning for future growth.'[41] In support of this, Professor Rowley also referenced research by the Australian Housing and Urban Research Institute (AHURI) which found that infrastructure capacity – particularly transport infrastructure – has been

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36 UDIA NSW, *A practical approach to land supply*, May 2021, 63lh534dvlp1yhlsm1o3ds2k-wpengine.netdna-ssl.com/wp-content/uploads/Building-Blocks-2021-Greater-Western-Sydney.pdf, viewed 25 February 2022, p. 11.

37 *Committee Hansard*, Canberra, 14 September 2021, p. 18.

38 RBA, *Submission 52*, p. 17.

39 *Committee Hansard*, Canberra, 4 November 2021, p. 19.

40 DSDILGP, *Submission 62*, p. [2].

41 Professor Steven Rowley, *Submission 2*, p. [2].

identified as a common factor that helps 'to explain high and diverse housing supply' in certain local government areas.[42]

7.40 Thus, as outlined above evidence received by the Committee identified that a lack of enabling infrastructure, and/or delays in its installation or augmentation, can slow the creation of new housing supply in both greenfield and infill developments.

Responsibility for enabling infrastructure

7.41 The division of responsibility between levels of government and the private sector for enabling infrastructure is complex and not a focus of this inquiry. At a high level, funding and responsibility for various aspects of enabling infrastructure belongs to or is shared between local governments, state and territory governments, the development sector through developer contributions (see Chapter 6), and the Australian Government.[43]

7.42 The majority of enabling infrastructure for new housing supply is shared between state and territory government, local government, and developers. As Mr Basheer from UDIA explained:

> It's a combination of the developers requiring infrastructure to service their needs, but there are what's called large-scale general scheme costs, which are regionally based, that are required to open up from a transport point of view, major sewer upgrades, major water upgrades and things like that. It's a state, local and developer partnership for enabling infrastructure to be developed and delivered.[44]

7.43 At the federal level, the National Housing Finance and Investment Corporation (NHFIC) is a key entity that contributes to increasing housing supply through enabling infrastructure. Established in 2018, NHFIC administers multiple programs to 'help improve housing outcomes across the housing continuum' (that is, across market housing and sub-market housing).[45]

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42 Professor Rowley, *Submission 2*, Attachment 1, p. [56].

43 Mr Richard Webb, 'The Commonwealth Government's Role in Infrastructure Provision', *Parliamentary Library*, March 2004, aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp0304/04rp08, viewed 22 December 2021.

44 *Committee Hansard*, Canberra, 4 November 2021, p. 15.

45 Mr Nathan Dal Bon, National Housing Finance and Investment Corporation (NHFIC), *Committee Hansard*, Canberra, 15 November 2021, p. 1.

7.44 Among its responsibilities NHFIC manages the $1 billion National Housing Infrastructure Facility (NHIF) which helps fund enabling infrastructure for new housing supply by offering concessional loans, grants and equity funding.[46] The NHIF aims to increase new housing supply by exclusively supporting infrastructure projects that 'without NHFIC financing…would be unlikely to proceed or would proceed only at a much later date or with less new affordable housing.' The NHIF can be used for eligible enabling infrastructure projects including but not limited to new or upgraded stormwater, sewerage, water, gas and electricity infrastructure, and telecommunications and transport infrastructure. Community infrastructure projects or housing itself are not eligible for funding through the NHIF.

7.45 Entities that are eligible to apply for the NHIF include: state and territory governments or government-owned development corporations or utility providers, local governments or their investment corporations or utility providers, registered community housing providers or special purpose vehicles that have at least one of these eligible entities as a member.[47] As of October 2021, over $300 million has been allocated under the NHIF, in support of the delivery of more than 5,700 new social, affordable and market dwellings.[48]

7.46 An independent statutory review of the *National Housing Finance and Investment Corporation Act 2018* (the NHFIC Review) was tabled in Parliament on 28 October 2021.[49] The NHFIC review found that the NHIF had been relatively underutilised and made four recommendations regarding the NHIF. On 16 December 2021, the Department of the Treasury published a Government Response to the NHFIC Review which supported these four recommendations.[50]

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46 NHFIC, *National Housing Infrastructure Facility Fact Sheet*, undated, nhfic.gov.au/media/1576/nhif-fact-sheet.pdf, viewed 22 December 2021, p. 1.

47 NHFIC, *National Housing Infrastructure Facility Fact Sheet*, undated, nhfic.gov.au/media/1576/nhif-fact-sheet.pdf, viewed 22 December 2021, p. 1.

48 Australian Government Department of the Treasury, *Additional documents 1*, Answers to Questions on Notice, p. 2.

49 Australian Government Department of the Treasury, *Government response to the National Housing Finance and Investment Corporation Act 2018 Review*, December 2021, treasury.gov.au/publication/p2021-222021, viewed 22 December 2021.

50 Australian Government Department of the Treasury, *Government response to the National Housing Finance and Investment Corporation Act 2018 Review*, December 2021, treasury.gov.au/publication/p2021-222021, viewed 22 December 2021.

Calls for more enabling infrastructure

7.47 A common theme throughout the inquiry was calls for greater Australian Government financial support for enabling infrastructure to increase housing supply. Some submitters advocated for increased funding for enabling infrastructure broadly[51], others for funding directed at state and territory government[52], local government[53], or for new housing supply in regional or rural Australia.[54]

7.48 In advocating for greater Australian Government support for enabling infrastructure, some submitters referenced the budgetary limitations facing local government. For instance, Regional Development Australia Southern Inland stated that 'councils are not properly renumerated for either the strategic planning work or the infrastructure development itself to provide a future-focussed investment pipeline.'[55] The Australian Local Government Association elaborated that:

> While many local governments work closely with their local communities to provide affordable housing, councils are often unfairly criticised for lack of land availability even when they are constrained by financial resources and legislative requirements.[56]

7.49 NHFIC's report titled *Developer contributions: How should we pay for new local infrastructure?* also acknowledged that funding constraints impact local government's ability to provide enabling infrastructure, stating:

> Local councils find it difficult to produce the necessary infrastructure to meet the demand and expectations of its constituents while also balancing their budgets.[57]

7.50 Submitters to the inquiry also called for an increase in enabling infrastructure funding in regional and remote areas. For example, Urban

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51 Mrs Helen Dalton MP, Member for Murray, NSW Legislative Assembly, *Submission 22*, p. 4.

52 UDIA, *Submission 33*, p. 30.

53 Mount Isa City Council, *Submission 4*, p. 3; Urban Taskforce, *Submission 43*, p. [18].

54 Urban Taskforce, *Submission 43*, p. [25]; Tatiara District Council, *Submission 49*, p. [3]; Western Queensland Alliance of Councils, *Submission 140*, Attachment 1, p. [30]; Regional Australia Institute, *Submission 114*, p. [5].

55 Regional Development Australia Southern Inland, *Submission 35*, p. 3.

56 Australian Local Government Association, *Submission 113*, p. [3].

57 NHFIC, *Submission 78*, Attachment 1, p. 11.

Taskforce submitted that 'many regional communities have suffered from not having the funds available to commit to the construction of critical infrastructure (water, sewerage, roads).'[58] Tatiara District Council and Regional Development Australia Barwon South West agreed that the high costs of providing enabling infrastructure in these areas, combined with lower property values, can make development 'cost prohibitive/unviable'[59] and create 'market failure'.[60]

7.51 In addition, the Local Government Association of South Australia told the Committee that the COVID-19 pandemic, combined with subsequent government investment in infrastructure including the HomeBuilder program, has encouraged 'intrastate migration' and thus:

> … placed further pressure on regional real estate markets and contributed to many trades and material shortages, adversely affecting the supply of resources available for regional residential construction.[61]

7.52 Evidence provided to the inquiry referenced existing programs run by the Australian Government such as the NHIF or by state and territory governments such as the Queensland Government Building Acceleration Fund, which can assist local government with low-cost loans for infrastructure investments.[62] However, NHFIC noted that:

> …local governments in Australia tend to have an aversion to using debt. Local councils generally lack large-scale financial capabilities and may fail to understand the value of well-positioned debt.[63] Some stakeholders indicated that key performance indicators placed on local councils would mean debt is perceived negatively.[64]

7.53 At the state and territory government level, the New South Wales (NSW) Government called for greater funding for enabling infrastructure from the

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58 Urban Taskforce, *Submission 43*, p. [25].

59 Tatiara District Council, *Submission 49*, p. [3].

60 Regional Development Australia Barwon South West, *Submission 121*, p. 5.

61 Local Government Association of South Australia, *Submission 72*, p. [3].

62 NHFIC, *Submission 78*, Attachment 1, p. [23]; DSDILGP, *Submission 62*, p. [1].

63 J Comrie, *Debt is not a dirty word: Role and use of debt in local government*, February 2014, uts.edu.au/sites/default/files/ACELG_Role-Use-of-Debt.pdf, viewed 25 January 2022; cited in NHFIC, *Submission 78*, Attachment 1, p. [23].

64 NHFIC, *Submission 78*, Attachment 1, p. [23].

Australian Government, noting that 'housing growth is still constrained due to shortfalls in funding for enabling and supporting infrastructure'.[65]

7.54 The Committee heard additional detailed requests for increased Australian Government financial support for enabling infrastructure to unlock new housing supply. For instance, UDIA recommended the Australian Government provide funding to close 'gaps in the delivery of enabling infrastructure' for projects that, once enabling infrastructure is in place, will be 'shovel-ready'.[66] UDIA specifically proposed the Australian Government deploy:

> … capital available to NHFIC under its revised mandate, with an allocation of $1 billion to be matched by the states and territories. This will foster greater progress against dedicated housing supply targets.

7.55 Focusing on regional areas, Urban Taskforce proposed the Australian Government 'create a $3Bn fund… to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated.'[67]

7.56 At the same time, some submitters drew the Committee's attention to shortages in construction trades and materials which are increasing the cost and availability of skilled labour for residential development.[68] The Insurance Council of Australia called for greater investment in technical and further education (TAFE) and vocational studies to address this, and stated:

> Large infrastructure and commercial projects are drawing up the available skilled labour leading to a lack of supply in residential construction which has seen the … affordability of skilled labour increase.[69]

Self-managed superannuation funds

7.57 Some evidence to the inquiry has suggested that property investment through self-managed superannuation funds (SMSFs) may be having an adverse impact on housing affordability.[70] SMSFs are superannuation

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65 NSW Government, *Submission 142*, p. [15].

66 UDIA, *Submission 33*, p. 30.

67 Urban Taskforce, *Submission 43*, p. [25].

68 Local Government Association of South Australia, *Submission 72*, p. [3]; City of Karratha, *Submission 76*, Attachment 4, p. [17].

69 Insurance Council of Australia, *Submission 73*, p. [5].

70 See for example: Mr Eslake, *Submission 3*, Attachment 1, p. [3].

(hereafter, super) funds with fewer than five members, all of whom are trustees or directors of a corporate trustee. These funds can borrow or gear their super into property, through an arrangement called 'limited recourse borrowing', strictly regulated by the Australian Taxation Office.[71]

7.58 As of June 2021, the value of residential real property investments through SMSFs was over $43 billion.[72] Regional Development Australia Southern Inland told the Committee that property investment through SMSFs has 'become the highest returning investment, given the low cash rate returns and unstable stock market.'[73]

7.59 The Sustainable Australia Party, among others[74], proposed that the Australian Government should 'phase out provisions allowing Self-Managed Superannuation Funds to borrow for investment in real estate'[75]. An anonymous submitter claimed that this has an 'unnecessary distorting effect':

> In this case houses that could have been owned by a young worker are instead being used to help fund the retirement of somebody who has almost certainly paid off their house or is close to doing so and who experienced a higher rate of lifetime wage growth.[76]

7.60 Mr John Goodman, a private member of the public, similarly highlighted this issue:

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71 Australian Taxation Office (ATO), *Restrictions on investments*, September 2016, www.ato.gov.au/Super/Self-managed-super-funds/Investing/Restrictions-on-investments/, viewed 10 February 2022. See also: Moneysmart, *SMSFs and property, Mixing property and your self-managed super*, undated, moneysmart.gov.au/property-investment/smsfs-and-property, viewed 13 January 2022.

72 ATO, *SMSF quarterly statistical report June 2021*, August 2021, data.gov.au/data/dataset/self-managed-superannuation-funds/resource/a7990d56-11ba-4ba5-b185-32a9421d3497, viewed 10 February 2022.

73 Regional Development Australia - Southern Inland, *Submission 35*, p. 2.

74 See for example: Name Withheld, *Submission 100*, p. [7]; Name Withheld, *Submission 110*, p. [2]. A limited recourse borrowing arrangement involves an SMSF trustee taking out a loan from a third party lender; ATO, *Limited recourse borrowing arrangements*, July 2021, www.ato.gov.au/super/self-managed-super-funds/in-detail/smsf-resources/smsf-technical/limited-recourse-borrowing-arrangements---questions-and-answers/, viewed 10 February 2022.

75 Sustainable Australia Party, *Submission 81*, p. 4.

76 Name Withheld, *Submission 100*, p. [7].

> The mass hoarding and snowballing effect of investment properties, through personal investment of that of a SMSF, distort the price that home owners (those who will reside within their property) are forced to pay.[77]

7.61 Another anonymous submitter told the Committee that allowing property investment through SMSFs was 'introduced in 2007' and:

> … had the effect of increasing the amount leverage[d] in the financial system as well as increasing [the] level of competition that first homebuyers have faced in trying to get into the market (given the houses being purchased by SMSFs are at the lower end of the market).[78]

7.62 The RBA has also previously opposed gearing property investment through SMSFs, telling the Committee that it had submitted to the Department of the Treasury's Financial System Inquiry in 2014 (the Murray Inquiry) that it 'opposed leveraging into self-managed super'.[79] In its submission at the time, the RBA stated that 'at least some of the increase in property investment by SMSFs is a new source of demand that could potentially exacerbate property price cycles.'[80]

7.63 Clamping down on direct borrowing by super funds was a key recommendation of the Murray Inquiry, with the objectives to:

- Prevent the unnecessary build-up of risk in the superannuation system and the financial system more broadly.
- Fulfil the objective for superannuation to be a savings vehicle for retirement income, rather than a broader wealth management vehicle.[81]

7.64 The Government did not agree with the recommendation in its response to the inquiry, stating that:

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77 Mr John Goodman, *Submission 80*, p. [1].

78 Name Withheld, *Submission 110*, p. [2].

79 Dr Luci Ellis, Assistant Governor, Economic, RBA, *Committee Hansard*, 15 November 2021, Canberra, p. 27.

80 RBA, *Submission to the Financial System Inquiry*, March 2014, www.rba.gov.au/publications/submissions/financial-sector/financial-system-inquiry-2014-03/pdf/financial-system-inquiry-2014-03.pdf, viewed 13 January 2022, pages [187-188],.

81 Australian Government Department of the Treasury, *Financial System Inquiry Final Report*, November 2014, treasury.gov.au/publication/c2014-fsi-final-report, viewed 13 January 2022, p. [116].

> While the Government notes that there are anecdotal concerns about limited recourse borrowing arrangements, at this time the Government does not consider the data sufficient to justify significant policy intervention.[82]

7.65 In contradiction to this, the Grattan Institute submitted that the political difficulty of changing government policy to limit SMSF borrowing is 'easy', but the positive impact on affordability would be almost neutral.[83]

7.66 In addition, Mr Malcolm McNeil, a private member of the public, stated that there should be greater incentives for super funds to invest in affordable housing, proposing that an incentive 'would be if the profit was replaced by a reduction in tax', also enticing smaller funds and SMSFs to invest.[84]

Land banking

7.67 The City Futures Research Centre of the University of New South Wales (UNSW) described land banking as:

> … a specific and long-established developer practice, in the expectation of building out gradually so as not to depress local prices and to benefit from any increase in dwelling prices during the land release period.'[85]

7.68 Many local councils and council organisations claimed in evidence that land banking is occurring and is a significant problem, which limits the ability of councils to influence housing prices through their zoning decisions.[86] Other submitters agreed that it is occurring[87], and in some cases were critical of it[88],

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82 Australian Government, *Improving Australia's financial system, Government response to the Financial System Inquiry*, 20 October 2015, treasury.gov.au/publication/government-response-to-the-financial-system-inquiry, viewed 13 January 2022, p. [17].

83 Grattan Institute, *Submission 94*, p. 13.

84 Mr Malcolm McNeil, *Submission 30*, p. [1].

85 City Futures Research Centre of the University of New South Wales (UNSW), *Submission 42*, p. 12.

86 See for example: Municipal Association of Victoria, *Submission 105*, p. 7; Local Government Association of Queensland, *Submission 126*, p. 24; Councillor Linda Scott, President, Australian Local Government Association, *Committee Hansard*, Canberra, 8 November 2021, pages 16-17, 20; Mr Peter Bascomb, Chief Executive Officer, Snowy Monaro Regional Council, *Committee Hansard*, Canberra, 8 November 2021, p. 19, Councillor Anne Baker, Mayor, Isaac Regional Council, *Committee Hansard*, Canberra, 8 November 2021, p. 26.

87 Planning Institute of Australia (PIA), *Submission 29*, p. 6; Mr Michael Lawrence, Chief Executive Officer, Customer Owned Banking Association, *Committee Hansard*, Canberra, 3 November 2021, p. 19.

including the NSW Government and the City Futures Research Centre of UNSW.[89]

7.69 The University of South Australia argued that allowing more building will be ineffective if developers choose not to build. They used an example from the United Kingdom (UK) suggesting that planning reform does not necessarily improve affordability. It described the studies examining the failure of reforms in the early 2000s to improve affordability as follows:

> These projects found that the competition between developers to acquire land suitable for development in the UK was so intense that developers were compelled to bid too aggressively to acquire the land. Having won the land, but at a very high cost, they were then locked into a strategy of building out slowly to allow rising prices to recoup the optimistic land acquisition costs.
>
> These studies also found that local housing markets cannot 'absorb' too much new-build housing supply per period. This seems principally because consumers of newly developing housing are often a niche demand group, and because developers can only be confident of their sales rates when the level of new-build supply is not too high with respect to supply generated from the established stock.[90]

7.70 Discussing a subsequent review by the UK Government, the University of South Australia stated that an important finding was that:

> … greater diversity of housing supply, and a larger number of smaller developments, would have a larger impact on housing affordability than the release of very large sites, leading to development of homogenous dwelling types and sizes.[91]

7.71 Other witnesses were more ambivalent about land banking and its impact. For example, Mr Coates from the Grattan Institute said that in his view it is 'not an issue' for 'apartments or medium density urban infill', although it may be more of a problem for 'the greenfield market…particularly in regional areas.'[92]

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88 Mr Paddy Cashman, *Submission 63*, p. 2; Name Withheld, *Submission 100*, p. [7].

89 NSW Government, *Submission 142*, pages [15-16]; City Futures Research Centre of UNSW, *Submission 42*, p. 12.

90 University of South Australia, *Submission 69*, p. [3].

91 University of South Australia, *Submission 69*, p. [3].

92 Mr Brendan Coates, Economic Policy Program Director, Grattan Institute, *Committee Hansard*, Canberra, 17 November 2021, p. 37.

7.72 Professor Steven Rowley suggested that 'land banking might be relevant to the big players but not to others …. We can't have a broad-brush conversation about the development industry because it is so diverse.'[93]

7.73 Dr Cameron Murray, an independent researcher, explained that 'all the major listed developers' engage in this practice.[94] However when asked what portion of current housing prices is attributable to land banking, he responded with 'zero', adding that 'land banking is just a feature of how property markets work.'[95]

7.74 Dr Peter Tulip, Chief Economist for the Centre for Independent Studies criticised Dr Murray's work on land banking and argued that various reports on the issue have 'not found evidence that it's very important.'[96]

7.75 Developer groups that gave evidence to the Committee strongly rejected claims of land banking, with Mr Basheer from UDIA describing these as 'an absolutely fundamental myth' and 'nonsense.'[97]

7.76 In contrast to many claims of land banking, which imply non-competitive behaviour, the developers and builders appearing before the Committee argued that the Australian market was highly competitive. They argued that any developer withholding supply in order to raise the price would be undercut by their competitors.

7.77 Ms Kristin Brookfield, Chief Executive, Industry Policy, Housing Industry Association, commented:

> I think land banking as a concept is extremely complex, and people refer to it in a very glib way. You have got to start with land and look at the actual process again. The process of zoning land and subdividing land, before you

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93 Professor Steven Rowley, *Committee Hansard*, Canberra, 17 November 2021, p. 27.

94 Dr Cameron Murray, *Committee Hansard*, Canberra, 17 November 2021, p. 20; *Submission 12.1*, pages 3-4.

95 Dr Murray, *Committee Hansard*, Canberra, 17 November 2021, p. 22.

96 Dr Peter Tulip, Chief Economist, Centre for Independent Studies, *Committee Hansard*, Canberra, 17 November 2021, p. 18; citing Productivity Commission, *First Home Ownership*, 23 June 2004, www.pc.gov.au/inquiries/completed/first-home-ownership/report, viewed 9 February 2022; Productivity Commission, *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, April 2011, www.pc.gov.au/projects/study/regulation-benchmarking/planning/report?a=108835, viewed 9 February 2022.

97 *Committee Hansard*, Canberra, 4 November 2021, p. 14. See also Mr Tom Forrest, Chief Executive Officer, Urban Taskforce, *Committee Hansard*, Canberra, 4 November 2021, p. 20 and Mr Mike Zorbas, Group Executive, Policy and Advocacy, PCA, *Committee Hansard*, Canberra, 4 November 2021, p. 69.

> get shovel-ready land to put that house on, is nothing short of 10 years in Australia, and it's been that way for a very long time. I can't see any reason right now why that would change. If you call 10 years of being stuck in the process 'land banking', you are being disingenuous. If you have shovel-ready land, and then you are having a conversation about, 'Do I let out 20 blocks or do I let out 200 blocks,' that's a conversation we can have…[98]

7.78 Some developers who appeared before the Committee were likewise emphatic that they are supplying housing as fast as they can, and are unable to keep up with demand.[99] They agreed that large inventory was common and that it took many years to bring property to market. However, they attributed these observations to delay in infrastructure and in planning approvals. It was not due to withholding property from the market to force up the price. Mr Toby Long, General Manager NSW from Mirvac stated, 'we don't have land banks.'[100]

7.79 Mr Richard Rhydderch, General Manager NSW, Stockland explained:

> The key part for us is you need to trade and trade quickly, otherwise your rate of return—we're an internal rate of return business and the longer periods of time that we actually take to deliver products means our internal rate of return is less, and our shareholders don't reward us for that, because we're a publicly listed company. Our whole thing is about speed trying to get it to market.[101]

Data and analysis to support evidence-based housing policy

7.80 Two common themes throughout this inquiry have been the lack of data regarding certain aspects of housing, and the need for government housing policy to be evidence-based.

7.81 Master Builders Australia (MBA) described gaps within housing data and outlined how these gaps impact public policy, advising the Committee:

98 *Committee Hansard*, Canberra, 4 November 2021, p. 9.

99 Mr Richard Rhydderch, General Manager NSW, Stockland, Mr Toby Long, General Manager Residential Development NSW, Mirvac and Mr Leigh Warner, Senior Director, Research, Jones, Lang LaSalle, *Committee Hansard*, Canberra, 26 November 2021, p. 4. Jones, Lang LaSalle is a real estate agent rather than a developer.

100 Mr Long, Mirvac, *Committee Hansard*, Canberra, 26 November 2021, p. 1.

101 Mr Rhydderch, Stockland, *Committee Hansard*, Canberra, 26 November 2021, p. 5.

> …there are serious issues with the collection and publication of data relating to the residential land market. While adequate figures are available for some jurisdictions, the lack of a nationally consistent set of figures relating to the volume of land at different stages of the pipeline and information relating to transaction volumes and sales price in the market means that any future improvement (or deterioration) will be difficult to detect.[102]

7.82 More broadly, MBA submitted that these data gaps 'prevent us from fully understanding the sources of affordability problems and make it much more difficult to know how well we are addressing the issues contributing to unfavourable housing affordability.'[103]

7.83 Mr Hugh Hartigan, Senior Adviser from NHFIC, observed that 'the whole [housing] data landscape is very fragmented' and noted that NHFIC in conjunction with the City Futures Research Centre of UNSW is leading a housing data project known as the Australian Housing Data Analytics Platform.[104] As NHFIC and the City Futures Research Centre explained:

> Australian housing datasets are disparate, making it a challenge for housing researchers and policy makers to search, process and implement data into evidenced based housing research and analytical models. The Australian Housing Data Analytics Platform (AHDAP) seeks to address this challenge by bringing together nationally significant and harmonised housing-related datasets with a view to improving overall housing outcomes. The platform will significantly improve Australia's current housing evidence base, providing research and policy makers with a prioritised set of nationally harmonised housing data...[105]

7.84 The Committee further heard that data presented an issue for some states and territories, with the NSW Government commenting that 'inconsistent data for evidence-based decision-making' was a contributing factor to housing pressures in the state.[106]

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102 Master Builders Australia (MBA), *Submission 125*, p. 17.

103 MBA, *Submission 125*, p. 7.

104 *Committee Hansard*, Canberra, 15 November 2021, p. 4.

105 NHFIC, *Submission 78*, Attachment 3, p. [1].

106 NSW Government, *Submission 142*, p. [10].

7.85 While advocating for a National Housing Strategy, Mr David Williams, Chief Executive Officer of the Planning Institute of Australia (PIA) suggested that it 'needs a strong evidence base underpinning it'.[107]

7.86 The Real Estate Institute of Australia told the Committee that a National Housing Strategy should include 'the establishment of a government-led mechanism for reliable data on housing demand and supply.'[108]

7.87 Some submitters suggested that nationally consistent data holdings could enable the performance of different policies to be assessed and best practice models identified. For instance, MBA proposed that national data on developer contributions could inform policy analysis.[109]

7.88 However, Mr Darren Crombie, President of the PIA expressed caution about how data is used and compared, stating:

> … there needs to be a very well-informed understanding of what that data is telling you. You wouldn't want for that to then end up as a league table where states which are doing the right thing but might be doing it more slowly because they are front-end loading the planning systems are criticised for it.[110]

Committee comment

7.89 Macroprudential and monetary policy have large effects on housing prices, which in turn have substantial effects on the ultimate objectives of those policies: financial stability for macroprudential policy and stable inflation and full employment for monetary policy.

7.90 However, it would be wrong to regard housing prices, or housing affordability more broadly, as an objective of these policies in their own right. To do so would involve distracting policy from the ultimate objectives noted above.

7.91 The Committee heard several appeals to tighten prudential policy in order to restrain housing prices. If these are intended to promote financial stability, the Committee is confident that APRA will consider them as part of its standard operations. However, if these appeals are intended to promote

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107 Mr David Williams, Chief Executive Officer, PIA, *Committee Hansard*, Canberra, 4 November 2021, p. 34.

108 Real Estate Institute of Australia, *Submission 74*, p. 12.

109 MBA, *Submission 125*, p. 22.

110 *Committee Hansard*, Canberra, 4 November 2021, p. 32.

housing affordability, the Committee regards them as counter-productive. You don't make it easier to access housing by denying credit.

7.92 The Committee also heard appeals to restrict lending to investors, so as to reduce prices for owner-occupiers. However, discouraging investors would mean fewer properties available for rent and hence higher rental prices. That is undesirable on both an equity and efficiency grounds. Many submissions argued that affordability for renters was an even greater problem than affordability for owner-occupiers.

7.93 In February 2021, the New Zealand Government formally added a clause to the mandate of the Reserve Bank of New Zealand, instructing it to consider housing prices in making monetary policy decisions. Such a measure would be inappropriate in Australia. If it is intended to ensure that the RBA pays attention to housing prices it is redundant. The briefest perusal of RBA publications shows that it already pays enormous attention. If it is intended to place greater weight on housing prices at the expense of conventional objectives, it would lead to inferior macroeconomic outcomes. The Committee notes there is a very large body of economic research on the question of whether monetary policy should directly target asset prices, the consensus of which is that it should not.

7.94 The Committee would further note that Australia's problems with housing affordability are long-run trends. A cyclical instrument like monetary policy is singularly unsuited to deal with those.

7.95 The Committee is cognisant of the need for greater infrastructure funding, especially as developments occur and cities get denser. In particular, infrastructure bottlenecks are often a significant constraint on housing construction. The expenditure of relatively modest amounts on roads, sewers or schools can unlock much greater sums of property development. Moreover, improved transportation effectively increases the supply of well-located land.

7.96 Primary responsibility for the administration of such services lies with state and local governments. Decisions are best made by key stakeholders and local communities. State and local governments are best placed to decide which projects are most worthwhile and how they should be financed.

7.97 The Committee considers that a greater Commonwealth funding of enabling infrastructure should be directed to those state and local governments building the most housing, as recommended in Chapter 3.

7.98 Evidence the Committee has received indicates that land banking is not a significant factor in supply constriction. There are several reasons for this:

- evidence in support of land banking was not strong
- this claim was strongly disputed by builders and developers
- past inquiries, such as by the Productivity Commission, have not found it to be important; and
- it seems only relevant to greenfield land development, but not the more important issues of infill and higher density developments.

7.99 Furthermore, the Committee does not believe that land banking is a major determinant of housing prices (though it was not clear whether this was being suggested). To explain increases in housing prices over a significant period of time would imply land bankers holding large and increasing inventories, which we do not see.

7.100 Even if land banking was important, it is not clear what implications would follow from this. Those submissions that emphasised its importance did not argue for policy changes to remove it. Nor is it clear how its importance would affect other policy recommendations the Committee is making. As noted earlier, the relevant of land banking to planning reform is not clear.

7.101 The Committee commends recent efforts by the ABS, NHFIC and others to develop detailed nationally consistent databases. The Committee encourages further efforts along these lines, in consultation with industry, researchers and other affected parties.

Recommendation 13

7.102 The Committee recommends that the Australian Government continue to support the Australian Prudential Regulation Authority's (APRA) Prudential Standard APS 2020 to manage authorised deposit-taking institutions' (ADIs) lending on housing loans.

7.103 The Committee supports APRA's Prudential Standard APS 2020 to manage ADI lending on housing loans. This support transpires to the powers introduced in 2018, to allow APRA to make rules relating to the lending activities of non-ADI lenders if APRA considers that lending by non-ADI lenders is materially contributing to financial system stability risks.

Recommendation 14

7.104 The Committee recommends no changes be made to the Reserve Bank of Australia's current charter and monetary mandate, ensuring that house prices are not a specific objective of monetary policy.

7.105 The Committee recognises that internationally, policy makers have been considering whether house prices should be taken into account, in addition to inflation and the unemployment rate, when setting monetary policy.

7.106 The Committee rejects the recent changes to the Reserve Bank of New Zealand's mandate by the New Zealand Labour Government to consider house price sustainability when setting interest rates.

7.107 The Committee reaffirms that housing prices should not be an objective of monetary policy. The Committee considers these changes to be retrograde to the economy with questionable benefit to home buyers.

Recommendation 15

7.108 The Committee recommends that the Australian Government, led by the National Housing Finance and Investment Corporation, implement mechanisms and work with the states and territories to receive their current and up-to-date forecast data on population, housing approval and completions.

Recommendation 16

7.109 The Committee recommends that the Australian Government continue to support the National Housing Finance and Investment Corporation's concessional loans to infrastructure projects and community housing providers that will unlock new housing supply, particularly affordable housing, with a stronger focus on funding being contingent on supply outcomes.

Mr Jason Falinski MP

Chair

9 March 2022

Dissenting Report

1.1 With regret, the Labor Members of the Committee do not support this report. We had hoped that this inquiry would begin to address the structural issues in the housing market and begin the path to more affordable housing for the many. Unfortunately, it falls well short and with few exceptions, largely recommends business as usual.

1.2 The Labor Members note that the report does not set the big picture or attempt to define what success in housing policy might look like or answer the basic questions of 'affordability for whom', or whether the market is delivering the range of housing that people want, or even define the extent of the crisis. Several witnesses attempted to define reasonable outcomes – for example, that a person on the median wage should be able to afford the median priced home, others reflected on whether the range of housing options was broad enough to meet latent demand.

1.3 The report fails to set the frame through which the Committee measured desired overall outcomes.

1.4 In part, the report fails because the Chair's focus was, and remains on supply – a pre-conceived view that prevailed. There was little acknowledgement of the complexities in the market, well documented by many submissions and largely ignored or openly rejected in 'Committee Comment'.

1.5 While evidence was presented that challenged the assumption that increasing supply would solve all, most evidence was ignored or rejected. Evidence was presented that covered: the lag in supply relative to demand; the supply chain and labour shortage issues that risk increasing costs as supply increases; how natural disasters in one location increase costs elsewhere; and that the building of social housing can compete for labour or supplies with commercial builds. The report does not address the impact of changing climate on existing housing and how that will impact both supply and demand.

1.6 One of the reasons for the narrow focus of this report was the timeframes for the inquiry. For an issue this complex and important, it was unreasonably short. Time pressures for the Secretariat and the Committee meant that the Chair made decisions that important issues – like affordable housing, social housing, homelessness, mortgage stress and rental stress were largely sidelined as was shocking evidence on the growing proportion of the population that could not afford commercial rent.

1.7 The Committee Chair decided that the report would focus primarily on 'market housing' with 'non-market' housing for the growing number of 'individuals and families who are unable to fully afford market prices' relegated to a single chapter. That chapter was strongly influenced by the blanket statement that 'the Government should avoid being one's landlord'.

1.8 The short timeframe meant that many important views were not considered. State Governments were largely absent from the witness list – with only Queensland appearing.

1.9 Given that the historical approach to regulation, planning, funding etc. has led to a spaghetti bowl of costs, taxes, rental subsidies, regulatory delays, and planning failure, shared across three levels of Government in a system which is arguably not fit for purpose now, that is a major flaw.

1.10 Most recommendations are for tweaking the status quo. Those that do recommend something new are poorly thought through and badly explained.

1.11 Yet we have a housing crisis in Australia. It's harder to buy than ever before, it's harder to rent than ever before and there are more Australians experiencing homelessness than ever before.

1.12 The National Housing Finance and Investment Corporation's (NHFIC) recently released *State of the Nation 2021-22 Report* has revealed that "affordability for renters and first home buyers deteriorated across most cities and regions in 2021".

1.13 The State of the Nation Report also revealed that the housing crisis is hitting regional Australia the hardest. Regional dwelling prices grew an average of 26 per cent, significantly more than capital cities which grew 21 per cent.

1.14 There is no simple or single solution to address housing affordability. But it does require leadership from the Federal Government.

1.15 This includes the development and implementation of a National Housing and Homelessness Plan – with real, hard engagement with States and Councils. Housing industry experts have been calling for this for years, but the Government has refused to act, repeating, as this report does, that this is the responsibility of state and territory governments.

1.16 In March 2021, at the Australian Labor Party Special Platform Conference, Labor committed to working with the state and territory governments, local government and experts in the housing sector to develop and implement a National Housing and Homelessness Plan in government.

1.17 Improvements in land use planning and land supply are important and have the potential to improve housing affordability and provide a boost to national productivity and economic growth.

1.18 To support these improvements, Labor acknowledges the need for closer collaboration between federal, state and territory governments and the need to improve the quality and consistency of housing data. The NHFIC State of the Nation Report highlights that consistently measured, detailed and publicly available data on land supply is extremely limited and new initiatives should improve this situation.

1.19 Labor Members note that many of the recommendations of this report are ill-conceived, disorganised and largely driven by the opinions of the Committee Chair rather than considering the evidence provided by expert witnesses.

1.20 Labor notes that Recommendation 4 recommends that the Morrison Government adopt the recommendations of the House of Representatives Standing Committee on Social Policy and Legal Affairs' Final Report – Inquiry into homelessness, which included a recommendation that the Federal Government develop and implement a ten-year national strategy on homelessness.

1.21 On 17 February 2022 the Morrison Government tabled its response to the Inquiry into Homelessness in Australia concluding that it would not support this, or the majority of the 35 recommendations made by the Committee in August 2021.

1.22 Labor Members further note that the Committee also received evidence about the need to increase investment in social and affordable housing and concerns that the availability of social and affordable housing has not kept up with demand.

1.23 The Morrison Government refuses to show leadership and take responsibility for increasing investment in social and affordable housing.

1.24 In contrast, during the Opposition Leader's Budget-in-Reply speech in May 2021, Labor announced that a future Albanese Labor Government will create a $10 billion off-budget Housing Australia Future Fund to build social and affordable housing.

1.25 Over the first 5 years the investment returns will build around 20,000 social housing properties. Four thousand of the 20,000 social housing properties will be allocated for women and children fleeing family and domestic violence and older women on low incomes who are at risk of homelessness.

1.26 Over the first 5 years 10,000 affordable housing properties will also be for frontline workers.

1.27 In addition to this, a portion of the investment returns will be available to fund acute housing needs in perpetuity. This funding will be used for additional crisis, transitional and long-term social housing in parts of the country with the greatest need.

1.28 In the first 5 years these investment returns will:

- invest $200 million for the repair, maintenance, and improvement of housing in remote Indigenous communities.
- invest $100 million for crisis and transitional housing options for women and children fleeing family and domestic violence and older women on low incomes who are at risk of homelessness.
- invest $30 million to build more housing and fund specialist services for veterans who are experiencing homelessness or at-risk homelessness.

1.29 Finally, Labor members note that the standards that usually apply to Reports of Parliamentary Committees have not been met. The report includes statement of opinion in sections that traditionally present evidence. The separation between evidence and Committee Comment is not clear. There are statements that refer to practices overseas that are not referenced. There are recommendations that do not draw on any of the evidence taken. There are some extraordinary statements that reject outright the evidence submitted by experienced and reputable practitioners. There are recommendations drafted by the Chair that are so badly worded as to have more than one meaning to an ordinary reader.

1.30 The standards in report writing are important, in that they ensure that readers will have a common understanding of the intent of the Committee in pursuing an agenda. In the world of governance, that matters, as people consider future options and make decisions based on the words of Parliamentary Committees.

Ms Julie Owens MP

Deputy Chair

Ms Ged Kearney MP

Member

Hon Matt Thistlethwaite MP

Member

A. Submissions

1 Mr Chris Moore
- 1.1 Supplementary to submission 1

2 Professor Steven Rowley
- Attachment 1

3 Mr Saul Eslake
- 3.1 Supplementary to submission 3
- Attachment 1
- Attachment 2

4 Mount Isa City Council

5 Ms Patricia Warren

6 Mr Jordan Ralph*

7 Apple Lodge

8 National Centre for Economic and Social Modelling

9 Broken Hill City Council

10 ShelterTAS

11 Ms Suzanne Janine

12 Dr Cameron Murray
- 12.1 Supplementary to submission 12

13 City of Salisbury

14 Australian Network for Universal Housing Design

15 Mr Leith van Onselen

16 Save Our Suburbs (SOS) NSW

17 Mr Fraser Faithful

18 Industry Super Australia

- Attachment 1

19 Name Withheld

20 Mr Keith Almeida

21 Name Withheld

22 Mrs Helen Dalton MP

23 Mr David Reiling

24 Centre for Independent Studies

- 24.1 Supplementary to submission 24

25 Mr Christopher Rowland and Dr Joseph Brassil

26 Mrs Louise Ackland

27 Mr Ronan O'Connor

28 Mr Mark Kelly

29 Planning Institute of Australia

30 Mr Malcolm McNeil

31 Southern Youth and Family Services

32 Dr Bradford Sherman

33 UDIA National

34 Raine & Horne Group

35 Regional Development Australia - Southern Inland

36 SGCH

37 Police Federation of Australia

38 Anglicare Australia

39 Shoalhaven City Council

40 Housing Trust

41 Housing Industry Association

- 41.1 Supplementary to submission 41
- Attachment 1

42 City Futures Research Centre UNSW

43 Urban Taskforce

44 Macarthur Legal Centre

45 Mission Australia

- Attachment 1
- Attachment 2

46 REA Group

47 Housing All Australians Limited

- Attachment 1
- Attachment 2

48 Cairns Alliance of Social Services

49 Tatiara District Council

50 Name Withheld

51 Professor Nicole Gurran and Emeritus Professor Peter Phibbs

52 Reserve Bank of Australia

53 Mr Peter Mares

54 Professor Andrew Beer, Professor Emma Baker, Professor Chris Leishman, Professor Rachel Ong ViforJ, Professor Robyn Dowling, Professor Rebecca Bentley

55 PowerHousing Australia

- 55.1 Supplementary to submission 55
- 55.2 Supplementary to submission 55

56 Name Withheld

57 Mr Geoffrey Hodgkinson and Mr Richard Gay

58 Mr Tone Wheeler

59 Australian Tiny House Association

60 Australians for Intergenerational Equity

61 BlueCHP

62 Queensland Department of State Development, Infrastructure, Local Government and Planning

63 Mr Paddy Cashman

64 Business Council of Co-operatives and Mutuals

- 64.1 Supplementary to submission 64

65 Mr Ben Cameron

- Attachment 1

66 Community Industry Group

67 Townsville Enterprise

68 Community Housing Industry Association NSW and the Aboriginal Community Housing Industry Association NSW

- 68.1 Supplementary to submission 68

69 University of South Australia

70 Alpine Shire Council

71 ACTCOSS

72 Local Government Association of South Australia

- 72.1 Supplementary to submission 72

73 Insurance Council of Australia

74 Real Estate Institute of Australia

75 Ms Sarah Nelson

- Attachment 1

76 City of Karratha

- Attachment 1
- Attachment 2
- Attachment 3
- Attachment 4

77 MGS Architects and Andy Fergus Design Strategy

- 77.1 Supplementary to submission 77
- Attachment 1
- Attachment 2

78 NHFIC

- 78.1 Supplementary to submission 78
- Attachment 1
- Attachment 2
- Attachment 3

79 Australian Housing and Urban Research Institute

80 Mr John Goodman

81 Sustainable Australia Party

82 Dr Angela Ballard

83 Mr Peter Neil

84 Mr Martin Carey

85 The Affordable Housing Party

86 Constellation Project

- Attachment 1
- Attachment 2

87 Mr Peter Jones

88 SDA National

89 Domain

90 Community Housing Industry Association

- 90.1 Supplementary to submission 90
- Attachment 1

91 Mr Robert Heron

92 Name Withheld

93 National Shelter Inc.

94 Grattan Institute

95 Digital Finance Analytics

96 New South Wales Aboriginal Land Council

97 Snowy Monaro Regional Council

- Attachment 1

98 MJH Group

99 Australian Banking Association

- Attachment 1

100 Name Withheld

101 Ngarliyarndu Bindirri Aboriginal Corporation

102 Brida Pty Ltd

103 Prosper Australia

104 Dr Wolfgang Babeck

105 Municipal Association of Victoria

106 Australian Bureau of Statistics

- 106.1 Supplementary to submission 106

107 Mr Don Mills

108 Confidential

109 Name Withheld

110 Name Withheld

111 St Vincent de Paul Society National Council of Australia

- 111.1 Supplementary to submission 111

112 Townsville City Council

113 Australian Local Government Association

- 113.1 Supplementary to submission 113

114 Regional Australia Institute

115 NSW Productivity Commission

116 Proppie

117 Dwyer Lawyers

- Attachment 1
- Attachment 2
- Attachment 3

118 Isaac Region Council

119 Customer Owned Banking Association (COBA)

120 Inspector-General of Taxation and Taxation Ombudsman

121 Regional Development Australia – Barwon South West

- Attachment 1

122 National Aboriginal Community Controlled Health Organisation (NACCHO)

- Attachment 1

123 Regional Development Australia South Australia

- Attachment 1

124 Regional Development Australia – Gippsland

125 Master Builders Australia

126 Local Government Association of Queensland

127 Pilbara for Purpose

- 127.1 Supplementary to submission 127
- Attachment 1

128 Professor Kevin Davis

129 Maroondah Winter Shelter Homelessness Advocacy Group

130 Australian Finance Industry Association

131 Name Withheld

132 Housing for the Aged Action Group

133 HomeWorld

- Attachment 1
- Attachment 2

134 Mornington Peninsula Shire

135 Narrow Road Capital

136 Name Withheld

137 Confidential

138 Ms Joanne Seve

- 138.1 Supplementary to submission 138

139 Moreton Bay Regional Council

140 Western Queensland Alliance of Councils

- Attachment 1

141 Dr Adam Paul Heaton

142 NSW Government

143 Australian Property Solutions

144 Name Withheld

145 Ms Madonna Waugh

146 Australian Mining Cities Alliance*

147 Connect Paediatric Therapy Services*

148 Karratha & Districts Chamber of Commerce & Industry*

149 Queensland Department of Communities, Housing and Digital Economy

- Attachment 1

150 Australian Prudential Regulation Authority

151 Civitas Solutions Pty Ltd

152 Australian Retail Credit Association

153 Urbanised Pty Ltd

- 153.1 Supplementary to submission 153

154 Property Council of Australia

- 154.1 Supplementary to submission 154

- Attachment 1

155 Name Withheld

156 Mr Peter Ingall

- Attachment 1

157 Ms Anne Carroll

158 Name Withheld

159 Mr Lindsay David

160 Confidential

161 Mrs Kim Simpson*

162 Mrs Kelli Hitching*

163 Calebrid Pty Ltd*

164 North West Recycling*

165 Name Withheld*

166 Mr George Shaw*

167 Beyond the curve consulting*

168 H&M Tracey Construction Pty Ltd*

169 GHD Pty Ltd*

170 Ms Niamh Herd*

171 Leichardt Industrials Pty Ltd*

172 Mrs Elle McLaren*

173 North West Tree Services*

174 Name Withheld*

175 Name Withheld*

176 Karratha Earthmoving and Sand Supplies*

177 Name Withheld*

178 Name Withheld*

179 Mr Levi Ellis*

180 Name Withheld*

181 Xtreme Edge*

182 Finbar Karratha Pty Ltd*

183 North West Brewing Company Pty Ltd*

184 Nickol River Enterprises*

185 Name Withheld*

186 Tidal Solutions*

187 Mr Scott Duff*

188 Name Withheld*

189 Budget – Port Hedland office*

190 Red Earth Restaurants Pty Ltd*

191 Name Withheld*

192 Name Withheld*

193 Name Withheld*

194 Pilbara Inland Chamber of Commerce and Industry

195 Name Withheld*

196 Shire of East Pilbara*

197 City of Kalgoorlie-Boulder*

198 Karratha Steel and Industrial Supplies*

199 Pilbara Aboriginal Corporations and Enterprises Inc*

200 Water2water*

201 NAANDA*

202 Budget – Karratha office*

203 Budget – Paraburdoo office*

204 Ms Peta Dawson*

205 Budget – Newman office*

206 Budget – Perth office*

207 Budget – Bunbury office*

208 Budget – Exmouth office*

*Submissions marked with an asterix are form letter submissions part of the 'More than Mining' campaign.

Additional documents received

1 Answers to Questions on Notice (QoN) – the Treasury

2 Answers to QoN – Department of Social Services

3 Answers to QoN – Mirvac and Stockland

4 Answers to QoN – Mirvac and Stockland Attachment 1

5 Answers to QoN – Mirvac and Stockland Attachment 2

6 Answers to QoN – Mirvac and Stockland Attachment 3

7 Answers to QoN – Joint response from Queensland Government DSDILGP and DCHDE

B. Exhibits

1 Dwyer Lawyers

2 Australian Bureau of Statistics

3 PowerHousing Australia

C. Public Hearings and witnesses

Tuesday, 14 September 2021 - Canberra

The Treasury (via videoconference)

- Mr Trevor Power, First Assistant Secretary
- Ms Sam Reinhardt, First Assistant Secretary, Corporate and International Tax Division
- Mr Geoffrey Francis, Assistant Secretary, Indirect, Industry and State Tax Branch
- Dr John Swieringa, Assistant Secretary, Social Policy Division
- Mr Will Devlin, Acting Assistant Secretary, Education, Migration and Housing Branch, Social Policy Division
- Mr Patrick D'Arcy, Director, Macroeconomic Analysis and Policy Division
- Ms Crystal Ossolinski, Director, Macroeconomic Conditions Branch, Domestic Demand Unit

Reserve Bank of Australia (via videoconference)

- Dr Luci Ellis, Assistant Governor, Economic
- Dr Bradley Jones, Head of Economic Analysis

Department of Social Services (via teleconference)

- Mr Matt Flavel, Deputy Secretary, Social Security
- Ms Julia Chandra, Branch Manager, Housing and Homelessness Policy Branch
- Mr Rob Stedman, Branch Manager, Housing and Homelessness Program Delivery Branch

Wednesday, 3 November 2021 - Canberra

Mr Harrison Jones, Private capacity (via videoconference)

Ms Sarah Nelson, Private capacity (via videoconference)

Mr David Reiling, Private capacity (via videoconference)

Customer Owned Banking Association (COBA) (via videoconference)

- Mr Michael Lawrence, Chief Executive Officer

Insurance Council of Australia (via videoconference)

- Mr Andrew Hall, Chief Executive Officer

Brida Pty Ltd (via videoconference)

- Mr David Walker, Chairperson, Brida Pty Ltd; Chairperson, Ngarliyarndu Bindirri Aboriginal Corporation
- Mr Francois Langlois, Chief Executive Officer, Ngarliyarndu Bindirri Aboriginal Corporation
- Ms Nellie Connors, Director, Ngarliyarndu Bindirri Aboriginal Corporation; Aboriginal Engagement Manager, Brida Pty Ltd
- Mrs Susan Shirtliff, Director, Brida Pty Ltd

Connect Paediatric Therapy Services (via teleconference)

- Mrs Caitlin Breheny, Director

Business Council of Co-operatives and Mutuals (via videoconference)

- Mr Anthony Taylor, Policy and Research Adviser

Common Equity Housing Limited (via videoconference)

- Mr Bradley (Brad) Hosking, Acting Managing Director

Ms Joanne Seve, Private capacity (via videoconference)

Mr Stephen Albin, Private capacity (via videoconference)

Narrow Road Capital (via videoconference)

- Mr Jonathan Rochford, Managing Director

Thursday, 4 November 2021 - Canberra

Master Builders Association (via videoconference)

- Mrs Alexandra Waldren, National Director
- Mr Shane Garrett, Chief Economist

Housing Industry Association (via videoconference)

- Ms Kristin Brookfield, Chief Executive, Industry Policy
- Mr Geordan Murray, Executive Director, Industry Policy

Urban Development Institute of Australia (via videoconference)

- Mr Simon Basheer, National President
- Mr Maxwell Shifman, Vice President
- Mr Glenn Byres, National Policy Manager

Urban Taskforce Australia (via videoconference)

- Mr Tom Forrest, Chief Executive Officer

Planning Institute of Australia (via videoconference)

- Mr Darren Crombie, President
- Mr David Williams, Chief Executive Officer
- Mr John Brockhoff, National Policy Manager

MGS Architects (via videoconference)

- Ms Katherine Sundermann, Associate Director

Mr Andy Fergus, Advocacy Lead, Urban Design Forum; Urban Design Director, Andy Fergus Design Strategy (via videoconference)

Domain (via videoconference)

- Ms Sarah Macartney, Director of Communications
- Dr Nicola Powell, Head of Research and Economics

Real Estate Institute of Australia

- Mr Adrian Kelly, President *(via teleconference)*
- Mrs Anna Neelagama, Chief Executive Officer *(via videoconference)*

Real Estate Australia Group (via videoconference)

- Mr Umesh Ratnagobal, Head of Government and Industry Affairs
- Mr Cameron Kusher, Director of Economic Research

HomeWorld Group (via videoconference)

- Mr Mike Scott, Chairman

Property Council of Australia (via videoconference)

- Mr Ken Morrison, Chief Executive
- Mr Mike Zorbas, Group Executive, Policy and Advocacy
- Mr Collin Jennings, National Policy Manager, Cities, Housing and Planning

Monday, 8 November 2021 - Canberra

Queensland Government Department of State Development, Infrastructure, Local Government and Planning (via videoconference)

- Mr Christopher Aston, Executive Director, Policy and Statutory, Planning Group
- Mr Kerry Doss, State Planner and Deputy Director-General, Planning Group

Queensland Government Department of Communities, Housing and Digital Economy (via videoconference)

- Ms Liza Windle, Executive Director, Housing and Homelessness Services
- Mr Mark Wall, General Manager, Strategy, Policy and Programs

Karratha & Districts Chamber of Commerce & Industry (via videoconference)

- Mrs Tanya Dodd, Chief Executive Officer
- Mr Jordan Ralph, Treasurer
- Mr Brendon Grylls, Diamond Member

Pilbara for Purpose (via videoconference)

- Ms Sylvia Winkler, Treasurer

Australian Local Government Association (via videoconference)

- Councillor Linda Scott, President

Regional Australia Institute (via videoconference)

- Dr Kim Houghton, Chief Economist

Snowy Monaro Regional Council (via videoconference)

- Mr Peter Bascomb, Chief Executive Officer

Townsville City Council (via videoconference)

- Mayor Jenny Hill

Isaac Regional Council (via videoconference)

- Councillor Anne Baker, Mayor

Regional Development Australia - Barwon South West (via videoconference)

- Mr Bruce Anson, Chair

Tatiara District Council (via videoconference)

- Ms Anne Champness, Chief Executive Officer

Local Government Association of South Australia (via videoconference)

- Dr Thomas Caunce, Acting Director, Policy

Moreton Bay Regional Council (via videoconference)

- Mr Greg Chemello, Chief Executive Officer
- Mr Peter Flannery, Mayor

Municipal Association of Victoria (via videoconference)

- Mr Troy Edwards, Executive Director, Policy and Advocacy

Wednesday, 10 November 2021 - Canberra

Community Housing Industry Association (via videoconference)

- Mr Andrew Hannan, Chair
- Ms Wendy Hayhurst, Chief Executive Officer

PowerHousing Australia (via videoconference)

- Ms Nicola Lemon, Chair
- Mr Nicholas Proud, Chief Executive Officer

Community Housing Industry Association NSW (via videoconference)

- Mr Mark Degotardi, Chief Executive Officer

Aboriginal Community Housing Industry Association NSW (via videoconference)

- Ms Lisa Sampson, Chief Executive Officer

St George Community Housing (via videoconference)

- Mr Scott Langford, Group Chief Executive Officer

Community Industry Group (via videoconference)

- Ms Nicky Sloan, Chief Executive Officer

Apple Lodge (via videoconference)

- Mr John Douglas Byrne, Owner-Operator

ACT Council of Social Service (via videoconference)

- Dr Emma Campbell, Chief Executive Officer

National Shelter (via videoconference)

- Mr Adrian Pisarski, Executive Officer

Constellation Project (via videoconference)

- Mr Keith Bryant, Chair of the Board
- Ms Jacqueline Jones, Chief Executive Officer

Amelie Housing (via videoconference)

- Mr Brian Murnane, Chief Executive Officer

St Vincent de Paul Society National Council of Australia (via videoconference)

- Mr Toby O'Connor, Chief Executive Officer

John Curtin Research Centre (via videoconference)

- Dr Nick Dyrenfurth, Executive Director

Police Federation of Australia (via videoconference)

- Mr Scott Weber, Chief Executive Officer

Shop, Distributive and Allied Employees Association (via videoconference)

- Mr Gerard Dwyer, National Secretary and Treasurer

Housing All Australians Limited (via videoconference)

- Mr Robert Pradolin, Founder and Director
- Mr Colin Keane, Property Research Expert; Director, Research4 Pty Ltd

Monday, 15 November 2021 - Canberra

National Housing Finance and Investment Corporation (via videoconference)

- Mr Nathan Dal Bon, Chief Executive Officer
- Mr Hugh Hartigan, Senior Adviser

Australian Bureau of Statistics (via videoconference)

- Mr David Zago, Program Manager, Household Surveys Branch
- Ms Michelle Marquardt, Program Manager, Prices Statistics Branch
- Mr Daniel Rossi, Director, Construction Statistics
- Mr Neel Tikaram, Director, Prices Branch

Australian Prudential Regulation Authority (via videoconference)

- Ms Renée Roberts, Executive Director, Policy and Advice
- Mr Gideon Holland, General Manager, Policy

Reserve Bank of Australia (via videoconference)

- Dr Luci Ellis, Assistant Governor, Economic
- Dr Bradley Jones, Head of Economic Analysis

Wednesday, 17 November 2021 - Canberra

CoreLogic (via videoconference)

- Ms Eliza Owen, Head of Research

SQM Research (via videoconference)

- Mr Louis Christopher, Managing Director

City Futures Research Centre, University of New South Wales (via videoconference)

- Professor Bill Randolph
- Mr Hal Pawson, Associate Director

Centre for Independent Studies (via videoconference)

- Dr Peter Tulip, Chief Economist

Dr Cameron Murray, Private capacity (via videoconference)

Professor Steven Rowley, Private capacity (via videoconference)

Grattan Institute (via videoconference)

- Mr Brendan Coates, Economic Policy Program Director

Mr Saul Eslake, Private capacity (via videoconference)

Professor Nicole Gurran, Private capacity (via videoconference)

Prosper Australia (via videoconference)

- Mr Jesse Hermans, Policy Coordinator

- Ms Emily Sims, Research and Policy Manager

Dr Shuping Shi, Private capacity (via videoconference)

Friday, 26 November 2021 - Canberra

Jones, Lang LaSalle (JLL) (via videoconference)

- Mr Leigh Warner, Senior Director, Research

Mirvac (via videoconference)

- Mr Toby Long, General Manager, Residential Development NSW

MJH Group (via videoconference)

- Mr Andrew Helmers, Managing Director
- Mr Brett Lavaring, Head of Corporate Affairs

Stockland (via videoconference)

- Mr Richard Rhydderch, General Manager, NSW