

Affordable Housing

Julian Disney

Affordable housing of a reasonable standard is crucial to a country and its people. Without it, people are impoverished, families and communities eroded, jobs lost, the economy weakened and the environment damaged. Australia is facing a creeping crisis of housing affordability, often accompanied by deteriorating transport systems and poor urban planning.

Housing affordability has worsened alarmingly during the last 15 years or so. Average house prices have risen almost twice as much as household incomes, even though those incomes have risen faster than general inflation in the economy. The supply of rental housing is falling sharply while rents are increasing much faster than general inflation.

At least a quarter of all lower-income Australians are now living in housing that they cannot really afford. Many others, perhaps even a greater number, are “hidden victims” of high housing costs. They have only found affordable housing by living very long distances from work opportunities and relatives, often in areas which lack adequate public services and community facilities.

These problems have been made worse by other aspects of urban development, like inadequate public transport, especially in outer suburbs and regional areas, and heavy congestion on major roads. Some high-rise apartments, smaller block sizes and other attempts at urban consolidation have cut costs and travel but often at the expense of adequate space for living and recreation.

The adverse impacts of these difficulties are already large and, in the absence of major and sustained changes in government policy, will be much worse for our children and grandchildren. Before looking at those impacts and how the current situation could be improved, it is important to understand why the problems have become so much worse in recent times.

How Did We Get Here ?

Australia's geography and the history of its early settlement have substantially affected the ways in which housing and cities have developed. This includes the fact that the first of our two centuries of urban settlement was undertaken as separate colonies, each having their own governments and capital cities and with largely distinct economies and transport systems.

The combination of our very large landmass and area of arid land, very lengthy coastline and lack of adjoining countries has had a considerable impact on patterns of urban development, including housing and transport. So has the fact that the population remained relatively small until well after the industrial revolution and even the advent of the motor car.

These factors have contributed to Australia's population being concentrated in a few large cities to a unique degree among developed countries. Most other countries at a comparable stage of development have substantial proportions of their population in medium-sized cities (that is, between 500,000 and a million people). We have no cities in that range and very few are even approaching it.

The same factors have also contributed to our cities being relatively "de-concentrated" in the sense that they cover much larger areas than most overseas cities which have as many or even more inhabitants. Relative affluence and availability of land for expansion have encouraged greater emphasis on cars than trains, and on block size than proximity, by comparison with older cities elsewhere.

House prices are especially vulnerable to upward pressures if there are few attractive alternatives to a major city. The same is

true if well-located housing in that city is at a special premium due to relatively low concentrations of housing, extensive urban sprawl and poor transport options. Those who cannot afford well-located housing also tend to bear a disproportionate share of transport costs.

Some other important influences on housing costs and urban development arose from changes in the direction of economic policy which gathered pace during the last two decades.

A series of changes in the tax system had the largely unintended effect of greatly inflating house prices. A general tax on capital gains was introduced in the 1980s, but owner-occupied housing was exempted. When combined with exemption from the new means test on age pensions, and a pre-existing exemption from land tax, the inducements to pay large amounts for housing increased greatly.

Subsequent reduction of the general rate of capital gains tax helped trigger a frenzy of “negatively geared” property investment. House prices soared as speculative investors outbid people just wanting to buy a home. A little later the general goods and services tax was introduced and a special grant was provided to compensate first homebuyers. It largely flowed on into higher house prices.

In effect, measures which purport to favour home ownership have delivered massive benefits to many wealthy people while helping to drive up prices far beyond the reach of most people of modest means who have not already got into the market. The emerging outcome is a reduction in home ownership rates which will gather pace with the passing of the older, favoured generations.

The surge of negative gearing drove prices so high that eventually the pace has slackened and investors cannot be sure of further large capital gains on new purchases. As a result, the supply of rental housing is not rising to meet the extra demand from people who were priced out of home purchase by the boom. In this environment, rents inevitably surge and many tenants lose security of tenure.

Financial deregulation is another major trend in economic policy which has greatly affected housing affordability. Some of its impact has been beneficial by triggering competition which cut mortgage interest rates substantially. Eventually, however, excessively easy access to mortgage loans has inflated house prices and led many people into dangerous levels of debt and even loss of their homes.

Extreme aversions to government borrowing, even for long-term investment in infrastructure, have dominated economic policy in recent decades. Many home buyers in new suburbs now pay for infrastructure, which in older suburbs was funded from the public purse. Government failure to invest adequately in public transport and highways has often left them unduly dependent on cars and toll roads.

Another result of this approach has been a fall of 100,000 dwellings in the share of overall housing needs which is met by public housing commissions. The under-supply of private rental housing has been aggravated and rent inflation has been fuelled. Policy changes have also reduced the cost-effectiveness of public housing from the viewpoints of the housing commissions and many tenants.

These problems have been aggravated by the understandable but poorly implemented closure of large institutions that provided accommodation and support for people with mental health difficulties and other disabilities. Very little funding or other support was allocated to ensure that “de-institutionalised” people had adequate access to group housing or other appropriate accommodation.

Changes in the labour market during the last quarter-century or so have also had major impacts on housing costs and urban development. This applies especially to the huge increase in the number of women in paid work. A generation ago, most households had only one person’s work location to take into account when deciding where to live and that location would rarely change in their lifetime.

Now, however, there are often two people's workplaces to consider as well as the need for "side-trips" to schools and child care centres. Jobs are also likely to change more frequently, whether by choice or necessity. Many are now part-time jobs, often outside standard daylight hours, which make lengthy travel to and from home especially undesirable.

As a result, many households now have greater need to live near a wide range of job options or a major transport hub. This applies especially to parents wanting to move quickly and reliably between their work and their children. The daily transport task of most households is much more complex than was common a few decades ago.

These changes have added substantially to house price inflation, especially in inner suburbs. A second job in the household has enabled many people to bid more for the kind of well-located house which the extra job makes more necessary. Some couples can readily earn enough to compete in this market and some others can do so if they work longer hours than is good for them or their families.

Many other households, however, are unable to earn enough even if they are able to take on two full-time jobs. They are increasingly unable to find an affordably priced home without living in substandard housing or a long way from their workplaces. The time and money involved in daily commuting seriously erodes their quality of life.

Changes in women's opportunities and independence have also affected the overall number and size of households. Marriage and childbearing has tended to begin much later, if at all, and divorce has become more common. This has greatly increased the number of people who live on their own and now, with rents rising rapidly, the number who are sharing group accommodation.

The growth of apartments in inner suburbs has met the needs of many single people on high incomes. But for other singles the supply of low-cost housing is now so low that they comprise the largest proportion of all people in unaffordable housing. Many young adults have to stay living at home for much longer than in

the past and than they, or at least their parents, would otherwise have preferred.

Why Does it Matter?

About 1.5 million lower-income Australians live in households which are paying more than 30% of their income on mortgage or rent payments. The 30% benchmark is widely used as a rough indicator of the upper limit of affordability. Many people are paying well above that figure — about a quarter of a million are in households paying more than 50% of their income on housing.

Some of these people may be paying extra to achieve a relatively high standard of accommodation. On the other hand, as mentioned earlier, many people who pay less than 30% have only been able to do so by living in poor quality or badly-located housing. Others are only below the benchmark because they bought when prices were much lower than younger generations can expect.

Direct housing costs are often aggravated by high costs of travel between home and workplace, especially if diversions to drop or pick up children are also involved. Two cars and heavy expenditure on petrol are increasingly necessary, especially for families in outer suburbs with poor public transport. Use of toll roads is becoming more difficult to avoid as governments neglect other options.

The indirect costs of lengthy travel from remote housing through poorly designed cities are also considerable. It may be necessary to pay for much longer periods of child care each day. It may be much harder to find time for economical food shopping and cooking rather than grabbing convenience food and pre-prepared meals on the run.

These financial stresses have contributed very substantially to Australia having about the highest level of household debt per capita in the world. Credit card debt has reached alarming levels and is starting to cause real hardship as interest rates rise. Some of the debt is due to over-consumption by middle- and high-income households, but much of it is incurred by low-income people struggling to survive.

This financial vulnerability is greatly increased by the fact that more of our jobs are casual or part-time than in almost every other developed country. Travel to part-time jobs can consume a much larger share of the wages earned, especially at hours when safe public transport is not available. The insecurity of casual work can prevent major equipment purchases which will save money in the longer term.

Some of the greatest problems arising from high housing costs, however, are not directly financial. The need for both parents to work lengthy hours away from home is causing severe stress in many families at heavy expense to their relationships with each other and their children. For sole parents the stress can be even worse and the impacts on their children even greater.

The lack of affordable housing near major sources of employment means that many parents of young children are now spending three or more hours every day travelling to and from work. Their ability to initiate or join in activities with their family is severely restricted, especially if they are amongst the growing number of people whose employers do not provide predictable work schedules.

It is almost inevitable that parenting suffers significantly under these circumstances. When children see their parents for little more than a hectic evening hour, informal support and supervision is much less likely to be available when needed. There is also mounting evidence that work-related stress in parents adversely affects children's development and well-being.

Concern is also growing about adverse impacts of poor urban development on physical health. They include increased risk of obesity or other medical problems from sitting in a car, bus or train for very long periods each day. Similar risks may arise when families with young children can only afford housing in apartments or houses which have no backyards or other recreational areas nearby.

A major advantage of being able to buy and pay off a home has traditionally been the degree of security which it can provide in retirement. If mortgage-free, older homeowners are much more

likely than renters to be able to survive reasonably on a pension or other limited income in their later years. They will also tend to be less at risk of having to move house prematurely.

The house price blowout is substantially reducing the number of young people who can look forward to this kind of retirement security in future. If they do manage to buy a house, they will be much less likely than their forbears to be able to pay off their mortgage before retirement. Many may have better retirement incomes due to superannuation but most may face much higher health care costs.

Even for many people who can afford to buy a home, however, it may be a less appropriate option than in the past. The attractions of a long-term commitment to a particular house and mortgage become less broadly compelling when most households are likely to have at least two earners, the location of the jobs is likely to change and marriages are more likely to end in divorce.

A fall in the overall level of home ownership should not, therefore, be seen as inevitably undesirable. But it would increase the need for affordable, well-located rental housing, reasonable security of tenure and other protection of vulnerable tenants. It would also increase the need to ensure adequate income and services for those older people who do not have large superannuation benefits.

It is important to recognise also some of the broader impacts of high housing costs and poor urban development on the general community, the economy and the environment.

One of the most disturbing impacts is a large increase in inherited inequality. It is increasingly difficult and often impossible for younger generations to buy a home without very substantial assistance from their parents or other relatives. Those who are lucky in this respect not only enjoy the benefits themselves but can pass on further tax-free gains to their successors. Others, however, may fall further behind.

There is also an increasingly geographic dimension of inequality. Deeper and more clearly delineated divides are developing between the wealthier and poorer areas of major cities.

Neighbourhoods are less likely to be as economically diverse and as a result their schools and community activities may be less effective at promoting interaction, understanding and transitions across sectors of society.

These trends towards further inequity and exclusion are already causing hardship to a large number of lower-income Australians and will affect a much larger number in future. In turn, they are weakening the relative degree of social cohesion and tolerance which has been a hallmark of the Australian community and is becoming even more important as our racial and cultural diversity increases.

Our general economy is also weakened by inflated house prices. They divert too much of our national savings and investment into bidding up the price of land rather than strengthening industries which can improve our trade balance with the rest of the world. By increasing pressure for wage rises to meet housing costs, they threaten our ability to compete internationally without slashing living standards.

Many parts of Australia are suffering labour shortages because their housing costs have risen well beyond the capacity of low- and moderate-waged workers. This includes hospitality, cleaning, retail and other workers needed to service resort areas, mining towns and higher-income metropolitan areas. It also includes many essential service workers like police, nurses and teachers.

House price inflation has helped drive our overall household debt so high by world standards that our economy will be especially vulnerable when the inevitable economic downturn arrives. Much of this debt is owed by wealthy households using the increase in their house value to boost an already luxurious lifestyle. But their extravagance has put many frugal low-income people at greater risk.

Our patterns of urban development are also environmentally damaging. A sprawling city with a largely unrelieved expanse of asphalt and concrete tends to raise temperatures and reduce water retention more than if a population of similar size was in a more compact city or spread across several smaller cities.

Unless well-supplied with public transport, especially trains, it also tends to cause more pollution.

What Should We Do?

The creeping crisis of housing affordability will inevitably get much worse before it gets better. Warnings about the deteriorating position were ignored for more than a decade, leaving the situation to deteriorate further and be much harder to rectify. It is now very difficult to achieve any significant improvements for home purchasers in the short- or medium-term without causing further price inflation.

Further land release could help to reduce upward pressure on prices. But it could further aggravate the problems of urban sprawl, especially if not accompanied by adequate public investment in rail transport and local infrastructure. In any event, many developers already have a lot of residential land but are holding it back from the market in order to boost further price inflation.

Most proposals to boost subsidies for homebuyers would be at least as likely to inflate prices as to provide any lasting improvement in affordability. Subsidising savings which are to be used for home purchase could be less inflationary. It would discriminate, however, against people who still would not be able to buy a home but need to save for some other important purpose like education or health care.

Rental housing is the area where significant improvements can be achieved in a reasonable time without risking further aggravation or putting unreasonable burdens on government budgets. It is also the area in which hardship is most widespread and likely to become much worse in the near future, perhaps even enough to overcome the lack of attention paid to it by most politicians and media.

A high priority is to strengthen the present system of government funding for public housing commissions and non-profit housing organisations. The amount of funding should be restored to the higher levels of a decade or so ago and a wider range of

tenants should be housed rather than only those who are in very severe difficulty. The housing should not remain concentrated in large estates.

Another high priority is to provide a special incentive for large financial institutions like banks and superannuation funds to invest in low-rent housing. For example, governments could pay them a cash subsidy on condition that the housing is let to lower-income households for at least 20% below market rent and is managed by a non-profit organisation that has been accredited for the purpose.

An incentive scheme of this kind has operated very successfully in the United States for more than twenty years. It can be a very cost-effective way of boosting the supply of low-rent housing without having to spend vast amounts of public money. By requiring a rent discount it also helps to reduce inflationary pressures on the general rental housing market.

These two changes would expand the role of non-profit housing organisations, which are very prominent in many other countries but not yet here. Experience in areas like residential aged care, employment assistance and child care shows that non-profit organisations can make a great contribution, provided they are reasonably funded and not subject to excessive commercial competition.

A third high priority is major, sustained improvement of rail transport services, especially for outer suburbs and regional cities. This would substantially reduce the economic, social and environmental damage caused by excessive urban sprawl. A carbon tax would help to raise budget resources for the improvements and, by discouraging excess motor car usage, would help generate rail passenger revenue.

Over the short- and medium-term, this kind of infrastructure investment is the most cost-effective way of helping homebuyers of modest means. It would save travel time and expense for many of them, especially young families forced by housing costs to live in outer suburbs or commuter towns. It would also be much less likely than homebuyer subsidies to further inflate house prices.

Over the longer term, major tax reform is essential to reduce the counter-productively generous tax exemptions enjoyed by owner-occupied housing. The present arrangements are upside-down and back-to-front. They give much more assistance to rich people than poorer people and they tax people when trying to enter the housing market rather than when they obtain benefits from doing so.

The best approach may be to reduce or remove the upfront stamp duties on people buying low- or moderate-priced houses but limit the exemption from annual land tax so that it does not apply to expensive homes. This would help younger people get into the market, reduce inducements to pay excessive amounts for housing, and generate public funding for more rental housing as suggested above.

“Negative gearing” by property investors depends on them being able to claim the interest on their mortgages as a tax deduction against their income. Our current system generates excessive borrowing and inflates house prices. These problems could be greatly reduced by adopting tight restrictions on the scope for tax deductions of this kind, as has applied in the United States for many years.

Another major priority for long-term reform is to boost regional development so that we can start to develop medium-sized cities which provide ample work and other opportunities without the housing costs and travel problems of major cities. Investment in fast inter-city trains and state-of-the-art telecommunications is an important part of this strategy, as are stronger incentives for business relocation.

The Way Ahead

The last decade has been a housing boom for many people, especially those who were already relatively wealthy. But their windfall gains have come at a heavy price for many other Australians who are less fortunate or materialistic. Younger generations have good cause to be angry with the damage that has been done to their prospects and the world they will inherit.

Damage to genuine economic development, social justice and the environment will become even graver and entrenched without principled and far-sighted reforms. Many useful directions for action have been identified, often drawing on experience in other countries which have avoided the worst of our problems. We must insist that governments move rapidly to implement them.



Julian Disney is a Professor and Director of the Social Justice Project at the University of New South Wales. Previously he was Professor of Public Law at the Australian National University and Director of its Centre for International and Public Law. He is also a Visiting Professor at the University of Technology Sydney, Chair of the National Affordable Housing Summit, National Chair of Anti-Poverty Week and Convenor of the Community Tax Project and the Neighbours Program.