

Report of the Affordable Housing Steering Group

March 2007



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1. Background

1.1 Context of Affordable Housing Steering Group

The Chief Minister announced the establishment of the Affordable Housing Steering Group on 15 August 2006 “to advise the Government on initiatives to increase the supply of affordable housing in the ACT”.

The Steering Group was chaired by the Chief Minister’s Department, with participation from the ACT Department of Treasury, and the Department of Disability, Housing and Community Services.

In establishing the Steering Group, the Chief Minister noted that the ACT had consistently performed well in national indicators of housing affordability, and that the high level of residential building approvals demonstrated strength and confidence in the housing market. The Chief Minister also acknowledged that while some members of the community were able to benefit from the buoyancy of the local economy and property market, a lack of affordable housing options was an issue for many Canberrans.

In this context, it is important to note that strong performances by the ACT in recent housing affordability surveys are linked to the higher average incomes of ACT residents rather than to the actual cost of housing in the ACT. Significantly, between 2000 and 2003 the median house price in Canberra almost doubled. Further, while all capital cities across Australia experienced significant price increases, over the last five years price growth in Canberra outstripped price increases in Sydney by around five percentage points per year on average.

1.2 Terms of Reference

The Terms of Reference are at Appendix A. The Steering Group was required to identify practical and effective measures within the ACT Government’s control, to promote housing affordability.

1.3 Steering Group’s Approach

Affordability is a relative term, reflecting the balance between the cost of housing services and a household’s financial ability to purchase those services. The Steering Group’s approach takes both of these factors into account, as explained in Section 1.3.1 below.

Analysis of the housing market is generally limited in two respects:

- analyses based on averages or medians (incomes as well as prices) are likely to mask identification of specific groups whose needs may not be met in the housing market. Not every household is on average income or has average needs. Yet information on income and price distributions is usually limited, and moreover is usually dated; and
- generally housing market measurements capture information when a household moves from a house and therefore only relate to a relatively small part of the total stock¹. At any one time there is much more going on in the housing market and household circumstances and preferences also change over time. Detailed analysis of the working of the housing market, particularly in the context of the vacancy chain, is quite difficult as quantitative information on demand (that is, the extent to which households are looking to move geographically as well as over time) is not available.

To the extent possible, the Steering Group has sought to address both these limitations by using and interpreting information from a range of sources. Section 1.3.2 indicates the sources of data and the general approach taken to update this information. Section 2 provides relevant detailed information on the trends in the housing market, incomes and housing tenures.

The Steering Group has also given considerable weight to consultation with key stakeholders. Section 1.3.3 provides a summary of the key issues identified through the consultation, and further detail is included in Appendix B.

¹ The dominant part of the stock is not for sale or rent in any period. New dwellings are less than 2 per cent of the total stock. The number of dwellings annually changing hands through purchase or renting represent less than 10 per cent of the stock.

1.3.1 Measures of Housing Affordability

The term housing affordability is relative, and has a number of specific meanings for different sectors of the community.

The Steering Group has adopted the widely used definition of affordable housing as 'housing that is safe, appropriate and accessible and where housing services are purchased for 30 per cent or less of a household's gross income'. Given that affordability and housing stress are matters of greatest concern for low-income households, most analysts apply the 30 per cent rule to the bottom 40 per cent of income earners (in the case of the ACT this would be up to a household income of around \$58,000 a year). In the case of house purchases, mortgage payments can represent an investment in an asset as well as the purchase of housing services. Thus for households on higher incomes, a figure of 40 per cent of gross income (representing 30 per cent of gross income spent on housing services, and 10 per cent for investment in the asset) might be considered reasonable. In the case of rents the entire payment represents the purchase of housing services and rents above 30 per cent of gross income are considered to be unaffordable.

1.3.2 Research and Analysis

The report focuses on providing policy responses rather than the analysis of the housing market. To that end the Steering Group has drawn on research already undertaken. Nonetheless, the Steering Group has undertaken considerable research and analysis of the ACT housing market, and has examined issues and trends in the national and international markets. The ACT housing market was considered by examining both movements in the market in aggregate, as well as in particular segments.

Data was drawn from the Australian Bureau of Statistics (ABS) as well as from the ACT Planning and Land Authority, the Real Estate Institute of Australia, the Registrar-General's Office and the ACT Treasury.

Housing tenure information was taken from the 2001 Census of Population and Housing. Unfortunately data from the 2006 Census were not available at the time of preparing this report. The Steering Group has made considerable effort to accurately project forward the 2001 Census data on the basis of known parameters. Such parameters, however, are derived from partial information sources, which may have considerable errors. Notwithstanding this potential for errors in updating estimates of population and incomes, the overall picture of housing affordability and effective policy responses are likely to remain unaffected.

Information on household income is based on the 2003-04 year, the latest available data, inflated to 2005-06 levels by average individual wage growth over this period.

1.3.3 Consultation

On 30 August 2006 the Chief Minister invited the Canberra community, including interested business and community groups to provide submissions to the Affordable Housing Steering Group. The closing date for submissions was 3 October 2006.

A total of 19 submissions were received from a range of individuals and organisations. Steering Group members also met with a number of community and industry organisations to discuss issues raised in their submissions.

A detailed summary of the issues and views raised in these submissions and consultation are contained at Appendix B. Key points raised were as follows:

- All submissions raised concerns about the lack of affordable housing in the ACT, particularly for households on low to moderate incomes. Supply of private rental accommodation was highlighted as a significant issue.
- Most of the submissions from community organisations strongly supported public housing as a major mechanism for providing affordable housing. Improving the sustainability and effectiveness of public housing was a major theme put forward in submissions by community organisations.
- Some submissions saw an increasing gap between housing assistance measures provided by government and the cost of housing provided by the market. Some community organisations were of the view that community and not-for-profit housing, and in particular Community Housing Canberra (CHC), are well placed to provide affordable housing options for these households.
- Housing and development industry groups asserted that land shortages, inefficient and unnecessary rezoning and approval processes, and the high costs of government regulation and levies have eroded housing affordability.

2. The Housing Market

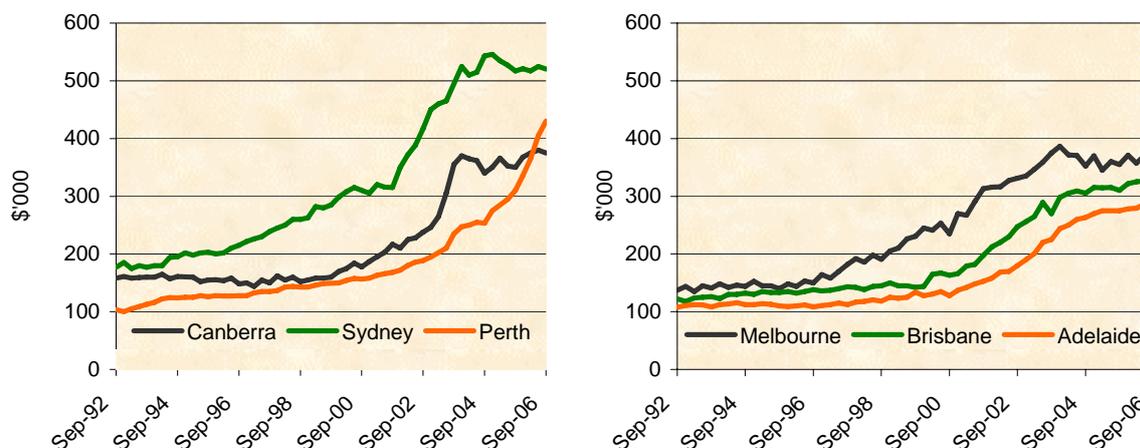
2.1 Trends in the Housing Market

House prices in Australia have increased substantially since the late 1990s. The experience in Australia is not atypical, although international movements in house prices have shown considerable divergence². The *Third Annual Demographia International Housing Affordability Survey: 2007* states “the most pervasive housing affordability crisis is in Australia, with an overall Median Multiple (median house price to median household income multiple) of 6.6. Affordability is only marginally better in New Zealand (6.0) Ireland (5.7), and the United Kingdom (5.5). On the other hand, the national Median Multiple in Canada is 3.2, indicating that housing is one-half as expensive relative to income as in Australia.” While there are limitations to this type of international comparison, it highlights the affordability issue facing a number of countries.

A key driver is the responsiveness of supply to changes in demand. For example, over the past thirty years house prices in the UK have more than doubled in real terms, in contrast to other European countries where prices have remained broadly constant or have even declined. Housing supply in the UK is only half as responsive as the French market, a third as responsive as the US market, and a quarter as responsive as the German housing market where prices have remained fairly stable³.

Within Australia, the ACT was not alone in experiencing a rapid increase in prices. The price boom in Australia was first evident in Sydney, but quickly flowed through to other states. Low interest rates, increased access to finance, relatively strong returns on housing investment and a number of government grants and subsidies drove investment in ACT housing to its highest levels in over a decade and subsequently sustained this high level. Rapidly increasing demand for housing outstripping supply caused house prices to almost double between 2000 and 2003. Chart 2.1 below shows house price movements in capital cities since 1992.

Chart 2.1: House Price Movements in Australia



Source: Real Estate Institute of Australia, Market Facts

Since around 2004, house price growth and activity in the housing market⁴ has stabilised around most of the country with some exceptions. Perth in particular continued to have rapid price growth reflecting strong growth in the mining sector. Sydney and Melbourne on the other hand have experienced a relatively sizeable fall in house prices.

The increase in house prices does not mean that housing costs are unaffordable for everyone. Aggregate affordability indicators suggest that house prices and rents in Canberra are among the most affordable in the country when the community’s relatively higher incomes are taken into account.

² See for example, *Housing Finance in the Global Finance Market*; Committee on the Global Finance System Working Group Report No. 26; Bank for International Settlements (2006).

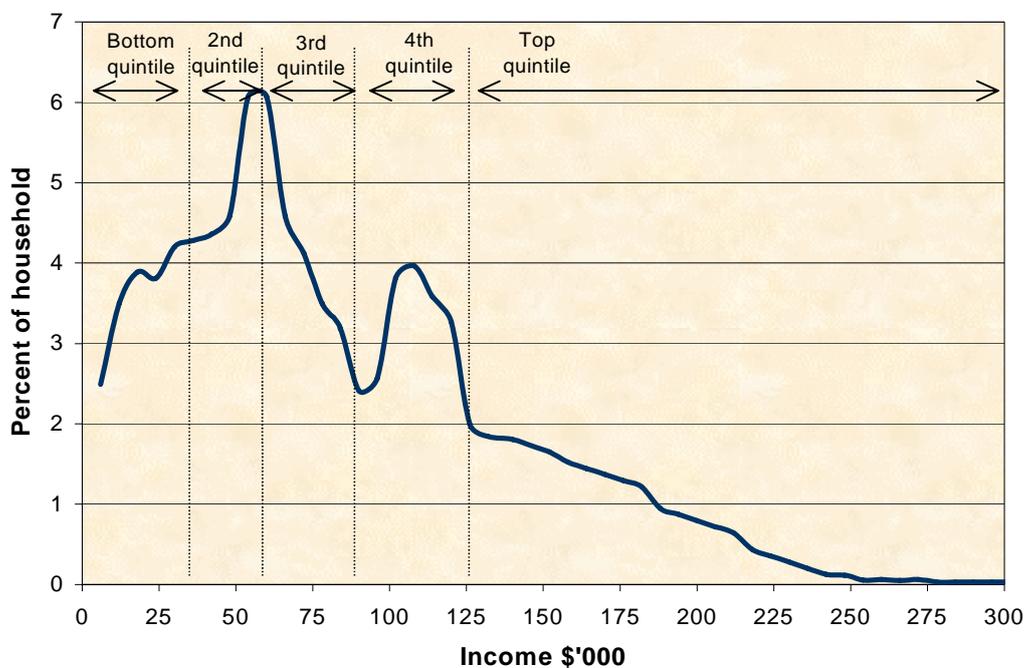
³ *Review of Housing Supply: Securing future housing needs, Interim Report*, Barker, K (2003).

⁴ Typically, the purchase of new dwellings is only a small component, around one fifth, of the total number of properties being bought and sold. Activity in the housing market therefore predominantly relates to the existing properties.

2.2 Income Distribution in the ACT

The ACT household median income in 2005-06 is estimated at around \$68,000⁵. The median household income in the ACT was around \$10,000 higher than the national median household income in 2003-04. Chart 2.2 below shows the income distribution in the ACT, which exhibits two peaks.

Chart 2.2: ACT Household Income Distribution 2003-04



Source: Unpublished ABS data.

While detailed information on the household composition is not available, it is likely that the two peaks represent single and double income households respectively and, possibly, differences in public and private sector wages and salaries. It is important to note that the income point around which the largest number of ACT households is concentrated approximates the national median income.

2.3 Profile of Housing Tenure in the ACT

Two thirds of all households in the ACT own their home outright, or have a mortgage⁶. Around 9 per cent of households are in public housing, and less than a quarter of the households are in the private rental market.

Chart 2.3 shows that the rate of outright ownership across incomes is quite similar. In the lower income quintiles, this reflects the fact that a large proportion of retirees currently earning low incomes have purchased a home over their lifetime. The proportion of households paying off a mortgage increases with income, as households with higher current income are more likely to have entered the housing market more recently.

⁵ The 2005-06 estimate is derived by using Average Weekly Earnings as a proxy for household income growth from 2003-04. Between 2003-04 and 2005-06, AWE increased by 17.1 per cent. Higher estimates of median household income can be derived from national accounts data, which includes imputed rental income for owner-occupiers.

⁶ According to 2001 Census, about 33 per cent of all families in the ACT owned their home outright. A further 33 per cent were in the process of buying their homes.

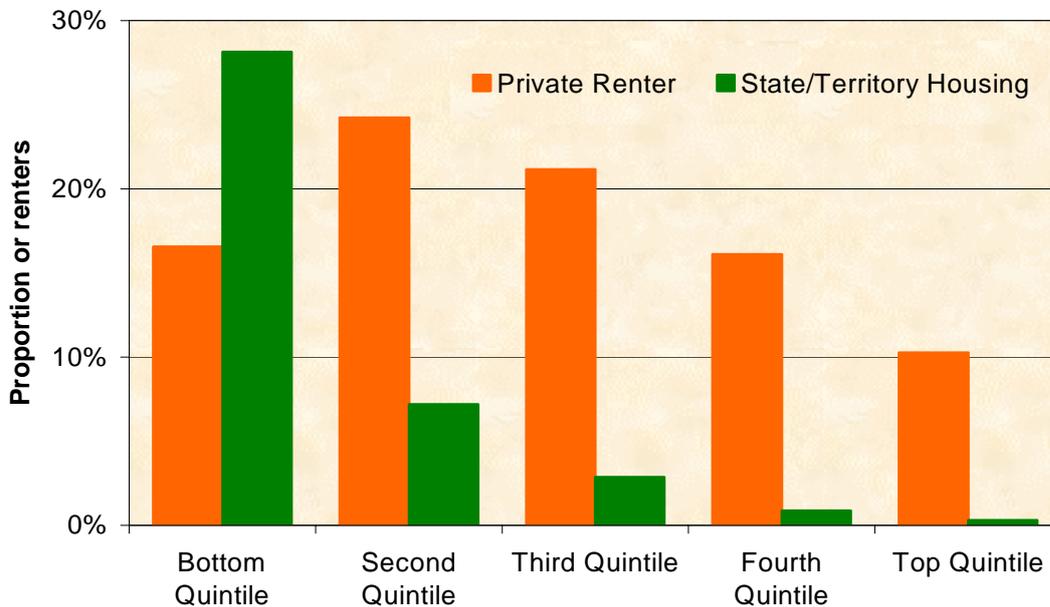
Chart 2.3: Home Ownership by Income (2001)



Source: ABS 2001 Census

Chart 2.4 shows that there are households at all levels of income in private rental accommodation. However, the private rental market is used most by households in the second and third income quintiles. In contrast, rental households in the bottom income quintile predominantly use public housing accommodation.

Chart 2.4: Rental Accommodation by Income (2001)



Source: ABS, 2001 Census

2.4 Dwelling Prices

As at the December quarter 2006, the median house price in Canberra was \$398,000⁷. This was only lower than the Sydney and Perth house prices.

While house price growth has been stable since around 2004, in the period between 2000 and 2003, the median house price in Canberra almost doubled. This price growth reflected strong demand for dwellings driven by a low unemployment, sustained wages growth, low interest rates, relatively lower returns on competing investments and subsidies such as the first homeowners grant.

The effect on housing affordability was significant. In 2000-01 a median priced house in Canberra cost around three times the median household income. By 2003-04, this ratio had risen to around six, due to house prices growing considerably faster than income. As a result, access to affordable properties for ACT households on Australian median income became limited. This issue is further discussed in Section 3.

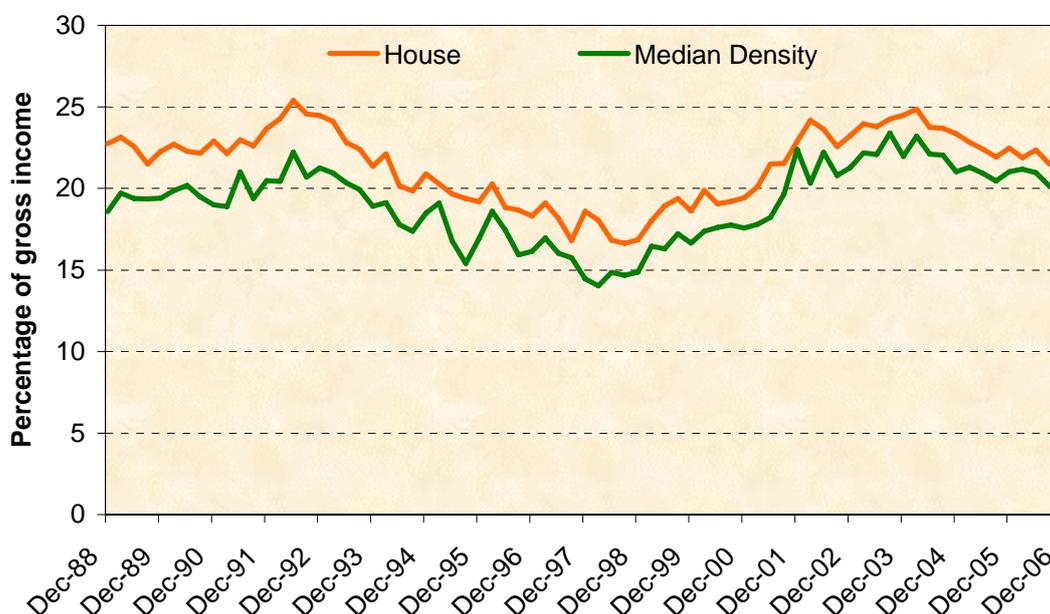
2.5 Rental Accommodation

2.5.1 Private Rental

Since December 2001, median rents for a three-bedroom house in Canberra have been the highest across the capital cities. According to the latest available data from the Real Estate Institute of Australia, the median weekly rent for a three-bedroom house in Canberra was \$330 per week in the December quarter 2006. This was \$15 higher than the next most expensive city, Darwin, and \$55 higher than Sydney. Median rents for medium density properties in Canberra are similarly high relative to other cities.

Relative to income, rents vary cyclically as shown in Chart 2.5 below. Currently, rents as a proportion of incomes are at levels similar to the early 1990s.

Chart 2.5: Median rent as a proportion of median household income⁸



Source: ABS Cat. Nos. 6523.0, 6302.0, REIA and ACT Treasury

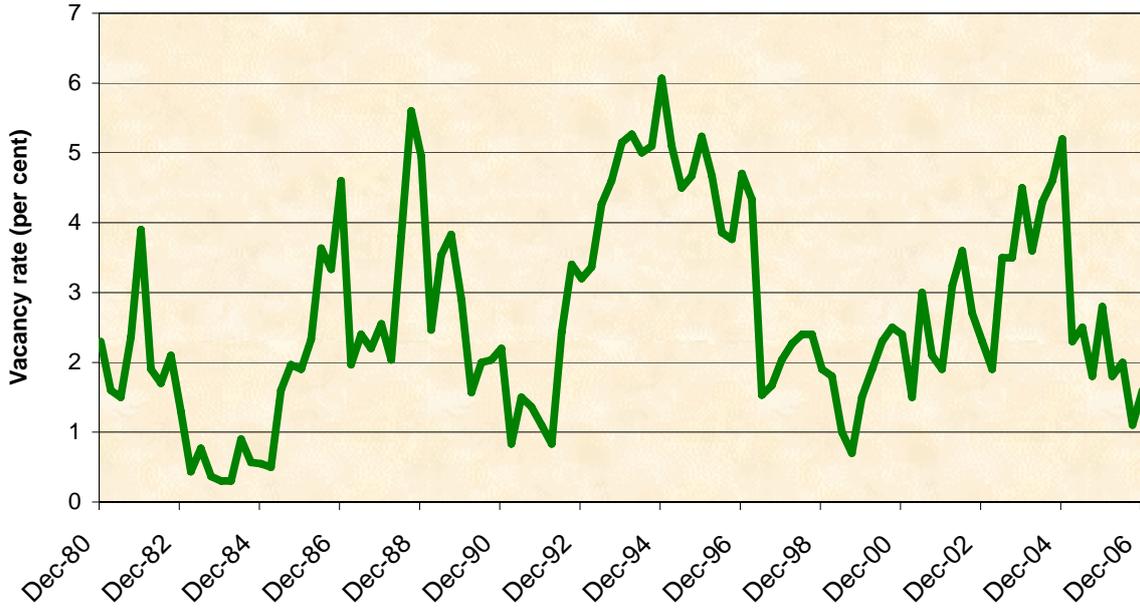
Rental vacancy rates have been highly volatile (see Chart 2.6) over the last 25 years. More recently vacancy rates have fallen significantly from an average of 3.7 per cent in 2004-05 to average 2.1 per cent in 2005-06. The December quarter 2006 rental vacancy rate in Canberra was 1.6 per cent – well below its longer-run average.⁹

⁷ Real Estate Institute of Australia Market Facts, December 2006.

⁸ For years where household income is not published by the ABS, it is calculated as 1.4 times individual median income.

⁹ The longer-run average vacancy rate in the ACT is 2.7 per cent (rate for other state capitals excluding Hobart, is 3 per cent).

Chart 2.6: Quarterly Rental Vacancy Rate



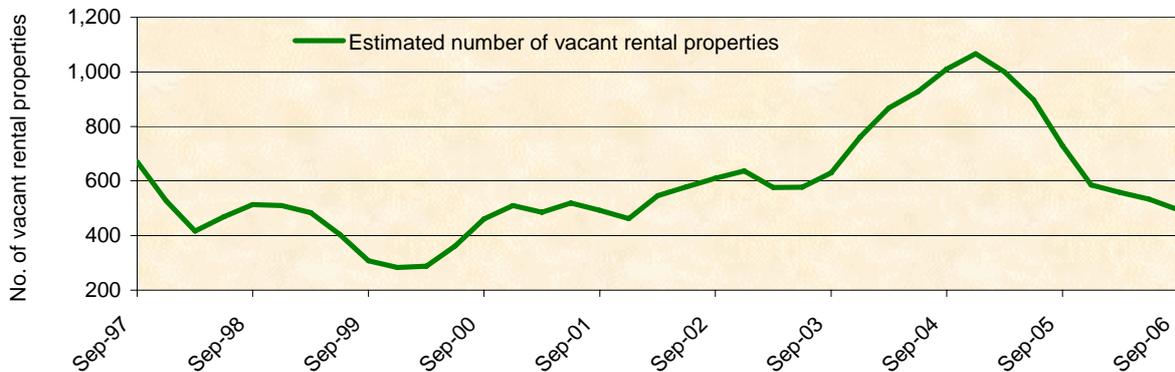
Despite the recent fall in the vacancy rate, as shown in Chart 2.7, the supply of rental accommodation in the ACT has increased steadily by around 4,000 dwellings over the past four years. While this initially resulted in an increase in the number of available rental dwellings, these additional dwellings have since been occupied and the number of vacant dwellings has returned to more usual levels (Chart 2.8).

Chart 2.7: Stock of Rental Properties



Source: ACT Treasury

Chart 2.8: Number of Vacant Rental Properties



Source: ACT Treasury

2.5.2 Public Housing and Community Housing

The Commonwealth-State Housing Agreement funds both public and community housing. Under the Agreement, the ACT and Australian Governments jointly provide \$168 million over the period 2003 to 2008.

Public housing is the major source of low-cost rental stock and the major affordable housing provider in the ACT. Most tenants pay income related rents so that their rent does not exceed 25 per cent of their gross household income.

Housing ACT within the ACT department of Disability, Housing and Community Services currently manages around 11,500 dwellings. This is around 9 per cent of the ACT's total housing stock and has an asset value of around \$3 billion. This level of public housing is twice the national average.

The community housing sector provides 0.4 per cent of the total ACT housing supply and 3.2 per cent of affordable housing. This is lower than the national average of around 6 per cent of affordable housing.

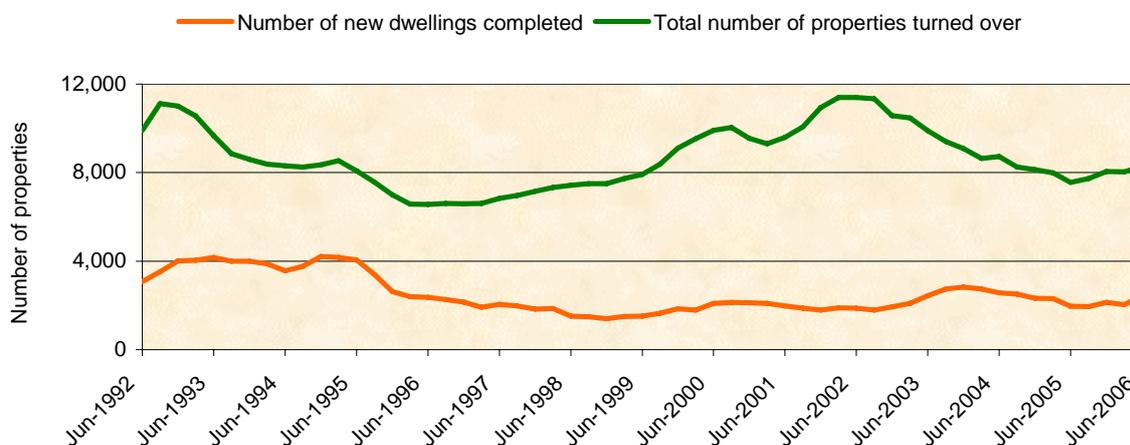
2.6 Activity in the Housing Market

Activity in housing markets tends to be cyclical and the ACT market is no exception. Following the housing market boom between 2000 and 2003, most ACT housing activity indicators have returned to around their longer-run averages.

2.6.1 Residential Building

Residential property turnover boomed from the late 1990s to 2003. Almost all the increase in turnover related to existing dwellings with the total number of new residential properties constructed during this period remaining below the longer-run average (Chart 2.9).

Chart 2.9: New Residential Completions and Residential Turnover



Source: ACT Planning and Land Authority, ABS

Since 2004, property turnover has slowed and is currently stable at around its long-term average rate. New residential building construction has also continued its trend decline as has the residential property pipeline (approvals and commencements).

2.6.2 First Home Buyers

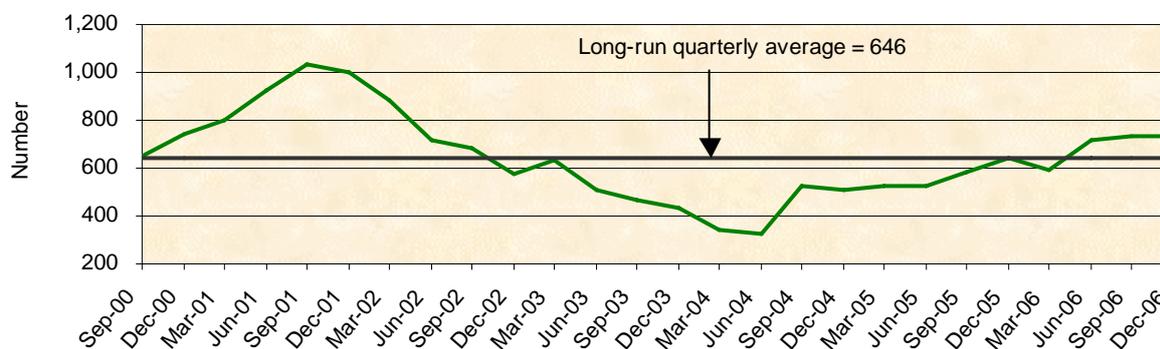
The subsidies for first homebuyers introduced by the Australian Government stimulated first homebuyer activity in the early 2000s. Shortly after this time, first homebuyer activity in the market decreased substantially. The size of the average loan taken by first homebuyers increased by over 75 per cent between 2000 to 2004¹⁰.

¹⁰ Australian Bureau of Statistics Cat. 5609.0.

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More recently, first homebuyer activity has returned to around, or slightly above, long-term average levels. These trends are shown in Chart 2.10 and Table 2.1.

Chart 2.10: Number of First Home Owner Grants (quarterly)



Source: ACT Treasury

Table 2.1. First Home Owner Grants, ACT

	Applicants (Number)	As a proportion of total turnover (Per cent)
2000-01	3,118	28.9
2001-02	3,632	22.7
2002-03	2,406	15.2
2003-04	1,565	12.5
2004-05	2,077	19.2
2005-06	2,749	24.1
2006-07 ^(a)	1,464	26.1

(a) Financial Year to Date as at 31 December 2006

Source: ACT Department of Treasury

2.6.3 Investors

The ACT experienced a long-run upward trend in the investor share of total housing finance commitments from the early 1990s, reaching a record share of close to 40 per cent at the height of the housing boom in 2003-04. Investment property fervour was fuelled by a combination of many factors including strong economic and income growth, historically low interest rates, increased access to finance and relatively lower returns on equity markets.

Strengthening returns on equity markets, interest rate rises and a change in investor perceptions has subsequently seen the investor share in the ACT decline to close to its long-run average.

The introduction of the land tax in 1991 had no discernable effect on the level of investor activity in the ACT's residential property market. There is no evidence that land tax is having a measurable effect on market behaviour.

3. The Policy Framework

Activity in the housing market reflects a number of diverse transactions by households in a range of different circumstances. Each of these transactions affects the capacity of another household to rent or purchase property.

If one section of the housing market stops operating effectively, this can have a wider impact on the housing market as a whole. A more detailed knowledge of the dynamics of the housing market is required, in addition to aggregate information on activity and prices.

This section provides an overview of the dynamics in the housing market, and a context for the definition of the affordability problem. It also provides an overview of policy responsibilities and the context in which policy measures can be formulated.

3.1 Dynamics of the Housing Market

Measurements of the housing market occur when a dwelling changes hands, that is, when a transaction takes place. Typically, such transactions relate to around 10 per cent of the total stock. At any time, however, a lot more goes on in the housing market, and in general, those effects are difficult to measure.

The dynamics of the housing market will vary both within and between generations. For example, a single person may initially rent then purchase a small unit or move into a small house before starting a family, then purchase a larger house when they have a family and then move back into a smaller house when their children leave home. As incomes increase, a household may also look to upgrade the quality of their home and spend a greater amount on housing services.

In addition, housing preferences are constantly changing. For example, while the quarter acre block was the predominant form of housing in the 1960s, there is currently a much greater demand for medium density properties. The increasing number of single person and couple only households also affects the demand for certain types of housing and requires a change in the housing stock.

The affordability of first home ownership needs to be viewed in the context of changing household consumption patterns including an increase in discretionary expenditure, which in some cases has eroded households' capacity to save for a housing deposit¹¹.

There is evidence of increased housing consumption over the past few years. For example, dwelling sizes have increased considerably, and a 'standard' dwelling is now expected to have 4 bedrooms, ensuite and double garage, compared to previous expectation of, say, 3 bedrooms, single bathroom, and a carport.

It is also important to recognise that the rental and owner-occupied housing markets are closely linked and cannot be considered in isolation. A shortage of land will reduce the capacity of households to move from rented accommodation to purchased property through both the price and availability of housing. The effect of this on the rental market will be a lower vacancy rate and higher rents.

Similarly, an insufficient supply of higher quality dwellings is likely to see households stay in their existing dwellings and/or renovate their properties rather than purchase a new dwelling. This in turn may reduce the amount of lower cost housing that is available and so make it more difficult for moderate income households to purchase a property.

In summary, housing is a complex commodity subject to factors (such as social and aesthetic motives) that go beyond markets and production. It is characterised by spatial immobility and durability – a house cannot be relocated if demand falls, typically lasts more than one generation and may be occupied by many households over its lifetime. Different households have different preferences and circumstances at any one time, and these preferences or circumstances will change over time. There can be significant lags for supply to adjust to changes in demand. There are competing interests at play¹². States of equilibrium - where the wishes of both buyers and

¹¹ MacDonald F and Holm S; *Employment for 25- and 34-Year-Olds in the Flexible Housing Market: A Generation Excluded*; Future Directions in Australian Social Policy: New Ways of Presenting Risk; The Committee for Economic Development of Australia; Melbourne; 2001.

¹² Besides, the competing interest of buyers and sellers that are the characteristic of any market, there is a range of other competing interests. For example, higher rents benefit investors, in turn attracting further investment in the property market. Higher rents, however, increase housing costs, which may result in affordability problem. Similarly, higher property values are beneficial for the existing homeowners, but limit first homebuyers' choices – again, the affordability problem.

sellers are met, and demand equals supply - are rare if indeed they ever exist. In this context, the housing market is in a permanent state of disequilibrium¹³.

Therefore, while governments may need to respond to emerging issues from time to time, public policy needs to take into account the long-run dynamics of the housing market. In the long-run, the combination of rental yields and capital growth in residential housing can reasonably be expected to match comparable investment yields in lower risk areas of the equity market. While a range of short-term shocks could upset this prospect from time to time, these assumptions are a reasonable basis for housing and land policy settings.

3.2 The Affordability Problem

Aggregate affordability indicators suggest that house prices and rents in Canberra are among the most affordable in the country when the community's generally high incomes are taken into account.

Nonetheless, the capacity of households to purchase houses in Canberra has deteriorated over the last five years. In 2000-01, a median income household could afford to purchase around 80 per cent of the properties sold during the year without spending more than 40 per cent of their gross income on mortgage repayments¹⁴. By 2005-06, a median income household could have purchased around 50 per cent of the houses sold during the year for 40 per cent or less of their gross income. For a median income household, therefore, the choice has been significantly reduced compared to 2000-01.

The reduction in affordability is more marked for households earning 75 per cent of median income where the proportion of affordable houses dropped from around 55 per cent to around 14 per cent over the same period. Households in this income group are likely to be single income households, or university graduates entering the workforce. This income level is also close to the Australian median income. It is reasonable to conclude that for an average Australian household, entry into Canberra's housing market has been severely eroded. This has implications for the attraction and retention of skilled workers.

Besides risks to the potential for economic growth, there are likely to be a range of social impacts. There is anecdotal evidence that children are leaving home later. However, no data is available as to the extent that this represents a change in preferences or the impact of house prices or rental availability. Similarly, no data is available to determine the extent to which households are upgrading or reducing their housing stock in response to their changing circumstances. This lack of data makes it difficult to determine the extent to which the market remains dynamic or is being constrained.

It is notable, however, that household formation has slowed in the ACT¹⁵. Over the period 1997-2001, the change in household size in the ACT was around half the change at the national level¹⁶. As a result, the ACT has moved from having relatively smaller households to having relatively larger households¹⁷. This trend in household size is in contrast to the rest of Australia where declining household size continued to contribute strongly to household formation. To some extent, shortage of houses for purchase or rental accommodation reduces the capacity of households to form¹⁸.

Movements in rents have not been as significant as for house prices, with around 70 per cent of households currently having widespread capacity to access the rental market. However, the low vacancy rate suggests that even where households can afford rents, they may not be able to secure a rental tenancy.

¹³ This issue is typically touched on in papers discussing housing market cycles – for example, Jovanoski, S *et al*, *Modelling the Dwelling Cycle in the Treasury Macroeconomic (TRYM) Model*; Commonwealth Treasury, 1997.

¹⁴ Calculated as the mortgage that can be serviced by a median income household based on a 30 year mortgage of 90 per cent of house price, at an interest rate of 7.82 per cent.

¹⁵ Changes in household size may reflect factors other than housing affordability. Care must be taken in examining movements in household size between census years as an underestimation of population growth may hide a constraint on the household formation rate. For example, the estimated average ACT household size in 2000 was 2.5; however, in the 2001 census this was increased to 2.6. This was the result of an underestimation of the resident population and an over estimation of the number of households in the ACT.

¹⁶ The average Australian household size fell by more than 0.04 persons, while the average ACT household fell by less than 0.02 persons. Australian Bureau of Statistics, Cat no. 3101.0 *Australian Demographic Statistics*, June Quarter 2006.

¹⁷ The ACT currently has the fourth largest average household size.

¹⁸ There is insufficient data to indicate that this is the case; however, anecdotal evidence suggests that there is increased competition in the rental market across the range of available rental accommodation.

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Most rental households pay less than around 25 per cent of their income in rent and are therefore not in housing stress. However, for many low-income households, particularly those not accommodated by Housing ACT, there are indications of housing stress.

This reflects a situation where some (but not all) households with incomes in the vicinity of the Australian median income (and below that level) are facing housing affordability issues. The affordability problem is considered from both the home ownership and the rental accommodation perspectives in some further detail below.

3.2.1 Entry into Home Ownership

Traditionally home ownership rates in Australia have been around 70 per cent, which would be a reasonable target for entry into home ownership in the ACT. This would equate to households earning around \$50,000 a year being able to purchase a house.

Table 3.1 below sets out access to the housing market by income level. This table summarises the house prices that can be accessed affordably at a range of income levels and the cumulative proportion of houses available at each price. For example, for a household earning \$50,000 per annum, a property valued at around \$210,000 would be at the margin of affordability. However, properties at this price or lower are underrepresented in the market, making up around 8 per cent of available properties. A household earning \$50,000 a year could have therefore afforded to purchase around 8 per cent of the houses sold in 2005-06 based on the bank lending criteria.

It should be noted that for some income point, houses at an affordable price may not be available in the market or a particular affordability criteria may not be applicable. For example, a household on an income of \$25,000 a 40 per cent of gross income rule would not be applicable.

Table 3.1: Affordable House Prices by Income

Annual Household Income	Percent of Households	30 per cent of Gross Income		40 per cent of Gross Income		Bank Lending ^a	
		Maximum Affordable House Price ^b	Percentage of affordable houses sold	Maximum Affordable House Price ^b	Percentage of affordable houses sold	Maximum Affordable House Price ^b	Percentage of affordable houses sold
\$	%	\$	%	\$	%	\$	%
25,000	14	96,000	0.7	128,000	1.8	101,000	0.8
50,000	35	193,000	6.5	256,000	14.9	211,000	8.1
75,000	53	289,000	26.3	385,000	63.6	395,000	66.4
100,000	65	385,000	63.6	513,000	85.9	576,000	90.7
125,000	79	481,000	83.0	642,000	93.5	723,000	95.6
150,000	86	578,000	90.8	770,000	96.6	869,000	97.5

(a) Calculated using a major bank's lending tool. Calculations are based on 2 adult households with 2 dependent children where principal applicant earns 75 per cent of household income. It also assumes no other debt. It should not be interpreted that any commercial bank would be prepared to automatically lend this amount.

(b) It is assumed that households would have a 10 per cent deposit and that the interest rate was the current standard variable rate charged by the major banks.

Source: ACTPLA and ACT Treasury

Any strategy to improve entry into home ownership for households earning less than \$50,000 would need to ensure an adequate supply of dwellings at prices around \$200,000.

3.2.2 Rental Accommodation

Everyone should have the potential to access rental accommodation, whether that accommodation is provided by the private rental market, public housing, or a community housing provider.

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For a household on median income Table 3.2 highlights that more than 90 per cent of the rental stock is affordable. For a household earning \$50,000 per annum, this reduces to around 34 per cent of the rental stock. For a household with income of \$25,000, only 2 per cent of the stock is affordable.

Table 3.2: Affordable Rental Houses by Income

Annual Household Income	Percent of Households	30 per cent of Household Income		25 per cent of Household Income	
		Maximum affordable weekly rent	Percentage of affordable houses rented in 2005-06	Maximum affordable weekly rent	Percentage of affordable houses rented in 2005-06
\$	%	\$	%	\$	%
25,000	14	144	1.0	120	0.5
50,000	35	288	34.2	240	11.5
75,000	53	432	91.0	360	73.6
100,000	65	575	98.3	479	95.3
125,000	79	719	99.7	599	98.9
150,000	86	863	100.0	719	100.0

Source: Registrar-General's Office and ACT Treasury

While rental costs may not be a barrier to all households, the low vacancy rate suggests that lack of access to properties may be an issue. Therefore, lower income households, particularly those just above the eligibility limit for public housing, are likely to face difficulties in finding affordable rental properties.

It is noteworthy that a number of public funded programs improve affordability for households in lower income ranges. The ability to finance the consumption of housing services is significantly enhanced if they are eligible for Commonwealth Rent Assistance¹⁹. Households earning less than \$32,700 a year and which are in receipt of certain Australian Government benefits are eligible for public housing.

The existence of low vacancy rates will put some upward pressure on rents in the short-term. However, the extent to which rents actually increase will depend on a number of factors, including the timing of rental contracts currently in the market and expected capital gains from housing investments.

3.3 Policy Responsibilities

The Australian Government has the dominant role in tax and distributional policies. These policies establish the demand pressures on housing markets. The Australian Government also has the main policy responsibility for ensuring that low-income households have access to socially accepted minimum level of housing.

Two large programs, rental assistance and public housing are designed to ensure that there are fewer disparities in consumption of housing services than would otherwise exist in the market. However, such programs and policies cannot be reasonably expected to underwrite higher rental costs that result through supply constraints. Demand subsidies in particular (rental assistance and mortgage relief) are not likely to be effective²⁰, but are likely to be costly.

In general, policies relating to residential land supply are the responsibility of State and local governments. There is considerable evidence that land supply has not kept pace with demand in many Australian urban centres in recent years. This has also been the case in Canberra. The most effective approach is to ensure a level of supply that would emerge in a competitive market.

¹⁹ For example, a CRA eligible couple earning \$40,000 a year could potentially pay rent of up to \$291 a week without going into housing stress, allowing them access to 35 per cent of the rental market, compared to around 10 per cent access in the absence of CRA.

²⁰ Comparative studies for Australia, New Zealand, Canada and the United States indicate no evidence of an increase in affordable rental housing from housing allowances. See for example, *Demand Subsidies for Private Renters: A Comparative Review*; Hulse K; Australian Housing and Urban Research Institute; Swinburne-Monash AHURI Research Centre; September 2002.

3.4 Demand and Supply Responses

In responding to housing affordability the Government can introduce either demand or supply side measures.

Demand-side measures try to improve affordability by subsidising demand, or increasing the capacity of a household to meet the cost of a new or existing dwelling. For the ACT Government, these could include direct grants (such as the first homeowners grant), or concessions on stamp duty. In a market where prices have been driven upward by excess demand, demand side measures are not the ideal solution. Seeking to solve a demand-side problem with a demand-side solution will generate additional demand and exacerbate the existing problem. An example of this is the Australian Government's First Home Owners Grant Scheme, which was designed to assist first homebuyers. In effect it generated so much additional demand that prices were eventually pushed well beyond the level of assistance that the Commonwealth was providing.

Supply-side measures try to improve affordability by increasing the availability of housing. The main affordability policy variable for the ACT Government on the supply-side is residential land supply. Residential land supply has a major long-run influence on dwelling prices, and hence long-term housing affordability. The Government has a monopoly on the supply of new residential land and considerable control of redevelopment opportunities through planning policies. In recent years, for the consumer, dwelling prices have increased disproportionate to the cost of production (labour and materials). Clearly, there have been supply constraints on the market.

4. Strategy to Improve Long-term Housing Affordability

The dynamics of the housing market and the policy responsibilities outlined in Section 3 provide a context for the proposed strategy to improve long-term housing affordability.

The strategy does not seek to address the cyclical nature of the housing market, which depends on factors beyond a state or territory government, and indeed to a large extent, beyond the Australian Government's control. House prices will continue to have high and low points as demand and preferences change. However, the size of these movements should not be exacerbated by government policy.

A sustainable long-term improvement in housing affordability will therefore be achieved by addressing impediments to the efficient operation of the housing market and not the symptom of high house prices.

Ensuring and safeguarding the supply of affordable accommodation will:

- increase community and individual wellbeing;
- attract and sustain a diverse community;
- enhance the ability of the ACT to attract essential workers; and
- stimulate the growth of the economy.

The strategy aims to support the supply of affordable housing and to ensure that all individuals, irrespective of circumstances, are able to access accommodation suitable to their needs.

The Strategy adopted by the Government is to:

1. allow the housing market to operate as efficiently as possible through ensuring sufficient supply of land and stabilise house prices in a period of growth;
2. maintain a planning and land release system that supports the delivery of an adequate supply of land and is responsive to changing demand;
3. ensure competition in the market to deliver cost efficiencies;
4. facilitate diversity in housing products and prices through the planning regime to deliver an innovative, affordable house and land package;
5. facilitate growth in the community and not for profit housing sector and encourage shared equity;
6. make efficient and effective use of public housing assets;
7. support the delivery of adequate supplies of private rental properties to stabilise rental vacancy rates; and
8. encourage industry cooperation in demonstration villages and estates and through advisory processes, and through support of projects that complement the Government's affordable housing objectives.

As different needs cluster around the various stages of the housing continuum, the strategy outlines initiatives to improve access to affordable housing at all levels, and covers options for people accessing or eligible to access:

- home ownership;
- private rental;
- community and not-for-profit housing;
- public housing; and
- supported accommodation.

5. Recommendations on Specific Measures

5.1 Home Ownership

5.1.1 Land Supply

A key tool available to state, territory and local governments to ease pressure on house prices is to increase the supply of land. By ensuring that there is a sufficient supply of land to meet demand at an affordable price, the Government can minimise the housing market cycle. In particular, as demand for housing increases, whether due to an increase in desired household formation or from speculative investment, increasing the land supply will reduce the impact on house prices.

In December 2006 the Government released its Land Supply Strategy for 2006-07 to 2010-11. The Strategy is guided by key principles that land supply should promote economic and social development, achieve optimal benefits for the community, provide an appropriate choice of land and housing options, assist in the provision of affordable housing and allow a private land development market to operate competitively.

Importantly, the Strategy provides for the release of sufficient sites to meet a demand for around 2,800 sites in 2006-07 and between 11,000 and 14,000 dwellings over the next five years.

Greenfields land will be released over the next five years in Gungahlin, Belconnen and Tuggeranong. The Government is also keen to see the release of land in Molonglo to commence by June 2008, subject to Australian Government planning approvals and further site investigations.

The release of this additional land will work to unwind the unmet demand in the ACT housing market and ease the pressure on both house prices and rents, while not undermining the value of existing housing assets in Canberra.

The successful implementation of the Land Supply Strategy is critical to addressing housing affordability issues. It is also important that the implementation of the Land Supply Strategy be monitored.

Recommendation 1

- **Adopt the principles of the Land Supply Strategy 2006-07 to 2010-11 as the foundation for addressing housing affordability.**

Recommendation 2

- **Supplement the land release targets in the Land Supply Strategy by initiatives relating to community housing and institutional investment in rental accommodation.**

To ensure that land is being priced as competitively as possible, it is important that the Government encourage the existence of a private land development market in the ACT.

The Land Supply Strategy provides for a trial englobo sale of 500 dwelling sites in 2006-07 in West McGregor. This englobo sale will assist the private development market to operate efficiently and assist in providing the benefits of effective competition for ACT residents.

At present a land ballot has been the mechanism for delivering affordable land for moderate-income households. This process has not met the demand for affordable housing. Introducing over the counter sales will increase certainty, meet community need for reasonably priced land and demonstrate that an adequate supply of land is being provided.

Recommendation 3

- **Introduce over-the-counter sales of land in a range of block sizes and prices, with particular emphasis on the release of land that provides for dwellings in the price range of \$200,000 to \$300,000. Transitional arrangements should apply in the short-term, but be in place for no more than 6 months.**

Recommendation 4

- **Establish quarterly targets for over-the-counter sales, and implement monitoring systems to ensure performance against those targets.**

Recommendation 5

- **To limit speculation in the land market, announce a program of regular englobo land releases, targeting two land sales annually with at least one third of land released by this means.**

Recommendation 6

- **Urgently review the need for trunk infrastructure to meet land supply, community housing and private land release needs, and have Cabinet consider funding for this infrastructure as soon as practicable.**

The ACT Government, in its 2006-07 Budget, noted that the Land Development Agency's costs were higher than the industry average and directed both the implementation of immediate savings and the initiation of a benchmarking study to guide future cost setting.

Recommendation 7

- **Benchmark land development costs every two years through independent analysis.**

5.1.2 *Land Supply Pipeline*

As foreshadowed in the Land Supply Strategy, the Government is seeking to ensure market responsiveness by releasing sufficient greenfields land to maintain sufficient supply in the builders' and developers' 'pipelines'.

The Steering Group supports this approach and notes the need to improve the measurement, monitoring and management of the land development and house building pipeline as a means of enhancing the land supply process. The direct sale process also needs to be more efficient to be responsive to community needs.

Recommendation 8

- **Develop more robust mechanisms for calculating and monitoring the developers' and builders' pipelines and distinguish between the greenfields and the redevelopment pipelines (these principles should also apply to commercial and industrial land).**

Recommendation 9

- **In addition to the planning pipeline, adopt a four-year builders' and developers' pipeline (one year builders' and three years developers') maintaining inventory on the shelf at each stage of the pipeline to improve responsiveness.**

Recommendation 10

- **Add additional inventory to the pipeline of approved Estate Development Plans (EDPs) accounting for 8 to 12 months of current demand.**

Recommendation 11

- **Progress with implementation and status of the pipeline be reported twice a year.**

Recommendation 12

- **Review the practices, processes and delegations associated with land supply (including direct sale). This review should cover the financing, planning, land release and development approval aspects of land supply.**

5.1.3 *Agency objectives*

Each year the Government releases its land development strategy which contains a statement of intent, an agreement between the Government and the LDA containing objectives, performance measures and financial targets for the LDA based on a four-year forward plan. The Steering Group believes that, in order to assist with the production of affordable housing, the LDA's statement of intent should reflect a greater balance of financial, social (including geographic needs) and urban design objectives.

While it remains beneficial to the ACT for the LDA to operate in a commercial manner, it is important that the Government more clearly specify affordable housing targets and require all agencies to work co-operatively achieve these targets. Achieving these objectives also requires a public assessment framework to be established.

Recommendation 13

- **Incorporate principles from the Land Supply Strategy and Affordable Housing Steering Group report into the Statements of Intent for both ACTPLA and the Land Development Agency. In particular, the key activities for 2007-08 to 2010-11 should include clear, quantitative measures for delivering affordable housing outcomes.**

Recommendation 14

- **Incorporate into the work plans of other agencies relevant elements of the Land Supply Strategy and the Affordable Housing Steering Group Report.**

5.1.4 Compliance

Current Government legislation requires that development on a block be completed two years after purchase. Compliance with this requirement is variable. Large-scale noncompliance risks are undermining land releases and current penalties may not be adequate to drive compliance. Compliance measures need to operate effectively to support the Land Supply Strategy, while allowing for genuine hardship.

Recommendation 15

- **Increase the penalty for failure to develop on new land within the specified times to up to five times the rates applied to the block.**

Recommendation 16

- **Introduce a hardship test for owners of individual blocks where financial difficulties may impact on completion of development, and set lower penalties for individuals and higher penalties for corporations.**

5.1.5 Diversity of housing products

As a result of the recent rapid rise in house prices, a range of households which had been able to access a significant proportion of the housing market five years ago now have access to only a very small range of housing. In broad terms, the middle third of households have had their access to purchasing housing reduced dramatically. In particular, there is a shortage of new housing in the \$200,000 to \$300,000 price range.

Planning initiatives in the form of revision to the codes or by specific provision in Estate Development Plans may allow the provision of house and land packages in this price range, which would be affordable for households earning up to \$70,000 a year. The introduction of such products would fill a major gap in the current housing market and substantially help overcome the barriers to entry into home ownership for middle income households.

It is important to cater for a diversity of needs within the market. Current industry advice is that there is a strong need for single-level dwellings on small lots to cater for the growing market of 'empty nesters', first home owners and newly formed households looking for low maintenance new homes. Housing ACT advises that one of the most sought after accommodation forms not currently available is a stand alone two bedroom house.

While further market testing will be required to determine the extent to which investors will take up these products, these relatively lower cost accommodation options should nevertheless be made available to broaden consumer and investor choice. Indications from a comparison of the structure of the market in 2001 and 2005 are that the potential demand for this product could be up to 20 per cent of total greenfields developments. However, because a new product is being developed, it would be reasonable to commence with a smaller proportion and monitor market response.

Careful planning and design will be essential. Blocks of land would need to be in the range of 160 to 300 square metres in size and the houses to be two bedrooms with an ensuite, a study or a media room, in the range of 75 to 100 square metres in size with a single carport or garage. These units will need to be spread carefully throughout the new development areas and be located close to neighbourhood parks or other amenities.

The primary objective for sustainability in energy and water use is to have a small environmental footprint. Whereas for large houses the objective is achieved by controls on insulation and recycling, for smaller

construction an effective solution may be a combination of these controls and the limitation on primary emissions achieved by controlling the size of the building and the reduced number of occupants.

The planning, cost effective design, efficient building and marketing of these innovative housing forms requires careful attention. A demonstration village and estate featuring the new housing would assist to develop community and builder awareness. In this way the products, if successful, can become part of the mainstream land release and housing program.

Recommendation 17

- **Increase diversity in the market by introducing a new, affordable house and land product.**

Recommendation 18

- **Ensure that the land released each year provides a range of appropriately priced block sizes in diverse locations.**

Recommendation 19

- **Require that 15 per cent of the blocks released each year target house and land packages within the \$200,000 to \$300,000 price range (\$60,000 to \$120,000 for land).**

Recommendation 20

- **Work with the industry to establish one or two demonstration villages showcasing affordable land and housing packages.**

Recommendation 21

- **Release two new demonstration projects (100-200 blocks) with about 25 per cent of the housing targeted at households of median income or lower.**

Recommendation 22

- **Incorporate examples of highly sustainable and accessible housing in the demonstration village packages.**

Recommendation 23

- **Work with the industry to enhance apprenticeship training and other skills development in the demonstration villages.**

Recommendation 24

- **Introduce an annual Excellence in Housing Affordability Award, with a total prize value of \$20,000, to encourage excellence in affordable dwelling construction and design.**

5.1.6 Planning and Building Regulation

It is important that the planning system support the provision of affordable housing. The Territory Plan - which is the main strategic planning document - supports the provision of affordable housing in its principles, objectives and land use policies. The Plan's policy settings provide a firm platform for initiatives to promote greater provision of affordable housing. However, it does not articulate specific strategies to promote actual provision of such housing.

While fully supporting the need for high quality developments and housing products, the Steering Group believes it is important that planning legislation or requirements not operate to unreasonably impede the achievement of key Government objectives and that planning requirements not unduly add to the cost of construction or development. The Steering Group notes and supports the current direction of the planning reforms.

Recommendation 25

- **As part of the ACT Planning and Land Authority Review reassess the impact of planning requirements on the cost of new dwellings.**

5.1.7 *Other Measures*

The Steering Group noted a range of options not directly associated with land supply which can also have a positive impact on housing affordability.

Shared equity

Western Australia, Victoria and the Northern Territory have introduced shared equity schemes, allowing public housing tenants and others on low incomes to purchase a proportion of their dwelling, with the housing provider or financier providing the remaining proportion. The Australian Housing Ministers Conference has also been examining the potential for a nationally consistent approach to shared equity as part of its 'Framework for National Action on Affordable Housing'.

The Steering Group supports the proposal by Housing ACT to introduce a shared equity scheme for tenants on appropriate incomes.

Having examined the various models in operation, the Steering Group considers an approach through not-for-profit providers most appropriate for the ACT. This is primarily because the Steering Group considers the full set of measures recommended in this report will serve to address many of the barriers to accessing affordable housing.

Recommendation 26

- **Seek not-for-profit providers to participate in shared equity scheme or schemes for low-income earners and eligible first homebuyers.**

Recommendation 27

- **Continue to work through Housing Ministers' Council to explore a national approach to addressing housing affordability, particularly in relation to shared equity.**

Land Rent

A land rent scheme would allow households to rent land from the ACT Government rather than purchase land. The rent could initially be set at a concessional rate (for example 2 per cent of the market value of the land) but would revert to market rents after a period of time (say 5 years).

On sale of the house and land, the ACT Government would require reimbursement of the market value of the land as its share of the total sales price unless the new owner was eligible to continue the rental arrangement. The discount rental rate would have a time limit imposed, and mechanisms would be in place for the owner to purchase the land from the Government at any time. Access to the scheme could be limited in the first instance to moderate-income households, for example, earning less than \$70,000 a year.

The Steering Group notes some preliminary analysis of this model was undertaken in 2003.

Recommendation 28

- **Introduce a land rent scheme.**

Recommendation 29

- **Increase the Home Buyer Concession Scheme property value criteria to include median priced properties.**

Stamp Duty and Land Payment

The Steering Group noted the adjustments made to the Home Buyer Concession Scheme in 2003 to ensure the concessions kept pace with changes in home prices. The Steering Group considers further, highly targeted adjustments to the Scheme would further assist eligible homebuyers to access the housing market.

The Steering Group also considers it important in terms of housing affordability that stamp duty not be levied more than once during the initial development processes.

Similarly, the Steering Group believes entry to the housing market will be eased through the deferral of land payment on the affordable house and land package products described earlier to those eligible for the Home Buyer Concession Scheme.

Recommendation 30

- **Provide conveyance duty deferral for first homebuyers for up to 5 years.**

Recommendation 31

- **Work with industry to consider whether there is an efficient and effective mechanism for charging stamp duty once during the initial development process.**

Recommendation 32

- **Defer land payment (except for deposit) on affordable ACT Government house and land packages until a certificate of occupancy is issued.**

Miscellaneous Measures

The Steering Group considers that excellence in affordable housing should be encouraged and recognised, and that potential inequities in the Australian Government's taxation regime should be addressed.

Recommendation 33

- **Work, including through the Housing Ministers' Council, to seek a review of the taxation regime to ensure equitable treatment of home mortgages.**

5.2 Private Rental

The Steering Group Support considers it important to support the effective operation of the private rental market to ensure a balance between supply and demand and the availability of a range of accommodation options to suit varying income levels and individual needs. While acknowledging the dynamics of the private rental market, the Steering Group considers the Government should aim to both increase the supply and range of properties for private rental and to assist people in need who do not qualify for public housing to access private accommodation.

Noting the very low vacancy rates and high rents in the ACT, the Steering Group considers it appropriate for the Government to work with industry, non government agencies and investors to explore options to increase the supply of private rental accommodation. Rental properties would need to be interspersed with other housing either throughout Canberra or in a larger estate.

The state of the rental market has also placed increased pressure on tenancy support and advocacy services, which can be alleviated with the injection of additional resources.

Recommendation 34

- **Call for expressions of interest from institutional investors to develop and rent 200-400 private rental dwellings incorporating the potential for shared equity and on-sale to eligible tenants as part of a wider land release of up to 1000 sites.**

Recommendation 35

- **Support the introduction, through a non-government provider, of a homeshare program to provide accommodation for low-income singles or students and support older people to remain in their homes.**

Recommendation 36

- **Expand the provision of tenant information and advocacy services by providing an additional worker.**

Recommendation 37

- **Work with the Australian Government and other States and the Northern Territory to improve the effectiveness of Commonwealth Rental Assistance to reduce the housing stress of private renters.**

5.3 Community and Not-for-Profit Housing

The ACT has an active but relatively small community housing sector, currently catering for people who may be eligible for public housing and for some who, although on lower than median incomes, would not meet the eligibility criteria for public housing²¹.

The sector has a number of community organisations of varying sizes which provide tenancy management for people eligible for public housing, and for households who may have special or complex housing and support needs.

With the exception of Community Housing Canberra (CHC), these organisations do not own any stock. Community Housing Canberra owns 19 affordable rental housing units, and also acts as an asset manager and a supplier of affordable housing stock through small-scale developments.

Housing managed by the community housing sector is less than half a per cent of the total housing stock in the Territory and its relative share has been decreasing²². Yet CHC has delivered some innovative housing solutions that are otherwise not delivered by the housing market.

The development of the community housing sector in the ACT, and indeed in other jurisdictions, has been influenced by both its roles as a competitor with public housing, and as a residual provider of special needs housing. The sector, however, does not have the scale and economies of public housing. These “outsourced” arrangements do not increase the overall supply of social housing. On the other hand, there is evidence of housing stress and thus the need to supply affordable housing to households above the eligibility criteria for public housing.

A more effective approach would be to refocus the community housing sector as a supplier of affordable housing that complements public housing, and supplies rental housing, particularly for households with incomes above the eligibility criteria for public housing (those earning above \$32,700 and up to \$50,000)²³.

There is considerable need for, and potential to increase supply of, affordable housing for households in the above income range through Community Housing Canberra.

Over the next five years, with some restructuring of arrangements, CHC could grow the number of dwellings it owns at an average rate of around 10 per cent each year. This would see over 500 houses owned and rented out by the community housing sector by 2012.

The role of CHC in housing market innovation and diversity could change, with CHC increasing its activities in the development of affordable housing products for moderate income homebuyers.

At the same time, CHC can play a key role in providing affordable housing options for households wishing to purchase houses as part of its development activities – providing a transition from tenancy to home ownership.

The ability of CHC to make a significant contribution to affordable housing is dependant on the following key factors:

- start up equity²⁴;
- charitable status²⁵;
- availability of finance at the government rate²⁶; and

²¹ Affordability for community housing tenants is assisted by tenants being eligible for Commonwealth Rent Assistance, an allowance that is not available to public housing tenants.

²² Community housing supply is largely leased from the Territory under a variety of arrangements. CHC has 135 ACT Government dwellings for which equity (property title) can be transferred.

²³ This, however, should not preclude low-income households from being housed by the community sector. Community sector organisations should also continue to provide tenancy management services for households with special or complex needs.

²⁴ CHC’s ability to finance stock growth is limited. Its leverageable assets are in the order of \$6 million, created by development profit on its housing projects.

²⁵ This allows CHC to have access to Federal (and State) tax concessions, including income tax, CGT, GST, stamp duty and land tax.

- availability of land.

In order to increase supply of affordable housing, it is important to ensure that the community housing sector has access to sufficient land through direct sale of land from the LDA and market processes.

Recommendation 38

The following objectives be adopted for community housing:

- **Enhance the capacity of the community housing sector to deliver innovative affordable housing solutions;**
- **Focus community housing sector as a provider of affordable housing for people on low to moderate incomes, particularly those who are not eligible for public housing;**
- **Enhance the capacity of the community housing sector to deliver innovative affordable housing solutions;**
- **Ensure the supply of land to enable community housing providers to meet future client needs; and**
- **Support the transition from rental accommodation to home ownership.**

In order to achieve the above objectives, a number of specific measures and initiatives would be necessary. Some of those (for example, in relation to supply of land) are covered in other parts of this Section. In relation to CHC, changes to its governance arrangements including appropriate changes to its constitution should be undertaken in the near future.

Recommendation 39

- **Establish Community Housing Canberra as a not-for-profit entity independent of Government.**

Recommendation 40

- **Increase the asset base of Community Housing Canberra by around \$40 million by transferring title to 135 dwellings and also provide a \$3 million capital injection.**

Recommendation 41

- **Provide a revolving finance facility of \$50 million to Community Housing Canberra.**

Recommendation 42

- **Implement with LDA a rolling program of land sales to Community Housing Canberra for affordable housing projects with the first three projects in Belconnen and Gungahlin to start in 2006-07.**

Recommendation 43

- **Identify development sites throughout Canberra for a mix of housing developments which enhance the provision of affordable and accessible housing.**

Recommendation 44

- **Ensure that Community Housing Canberra incorporates a shared equity scheme for eligible tenants and homebuyers, as part of its business model.**

The new “business model” being proposed for community housing in the Territory is a change in direction and draws on elements of models in other jurisdictions, while ensuring that the philosophy pertaining to not for profit sector is retained.

²⁶ For every one percentage point reduction in the cost of borrowing, CHC is expected to be able to provide an additional 25 - 30 affordable houses over the next 10 years.

Like any policy initiative, firm targets should be identified and agreed. Progress against the implementation plan should be monitored every six months to ensure that any emerging issues are addressed promptly. An evaluation framework needs to be developed through which the effectiveness of the business model could be assessed²⁷.

Recommendation 45

- **Target the growth in Community Housing Canberra owned dwellings at 10 per cent per annum.**

Recommendation 46

- **Establish with CHC a program of monitoring of the delivery against targets, and evaluation of the business model.**

5.4 Public Housing

The Steering Group notes the ACT Government's 2006-07 Budget contained a number of measures to increase the efficiency of Housing ACT, better match stock to tenant needs and ensure public housing support is successfully delivered to those most in need. The Budget also contained \$30 million in funding to increase stock numbers over three years. This funding is expected to deliver an additional 90 dwellings.

As part of the Budget, the upper income limit for new tenants was set at 60 per cent of national average weekly earnings for singles and 75 per cent of national average weekly earnings for couples. Following the Budget, the waiting list decreased to just over 1000 in January 2007 (15 in the Priority Category, 479 in the High Needs category and 507 in the Standard Housing category). Further, the timeframes to house those in need has improved significantly.

The Budget also included requirements to:

- amend the Public Rental Housing Assistance Program to facilitate better stock management through relocation of tenants to more suitable accommodation across the system;
- examine structural reform, including addressing security of tenure; and
- consider options for the sale of 500 public housing dwellings be examined as one approach for reconfiguring public housing assets to match tenant demand and need.

The Steering Group understands that these decisions are being implemented, with the first two focusing on targeting assistance to those most in need. The Steering Group endorses the concept under consideration of introducing shared equity scheme for tenants whose incomes would support this form of home purchase – the proposal offering the benefits of ongoing tenure and the capacity to acquire and progressively pay for a housing asset.

In terms of stock numbers, the Steering Group notes the Budget projections and that Housing ACT is aiming for stock replacement in the region of 50-60 per cent in future joint developments.

Housing ACT's role as the key provider and supplier of social housing in the ACT should be strengthened.

Recommendation 47

- **Housing ACT continue to provide housing support to households in stress on low incomes (below \$32,700).**

Recommendation 48

- **Sell up to 500 public housing properties with a tranche of sales to be to public housing tenants on moderate or high incomes.**

Recommendation 49

- **Housing ACT aim to house top priority waiting list applicants within three months.**

Recommendation 50

- **Continue stock restructuring program to increase proportion of two bedroom dwellings including the purchase of up to 20 of the new stand alone house and land packages.**

²⁷ The Steering Group understands AHURI is currently developing an evaluation framework. This could be adopted to periodically evaluate the community housing model in the ACT.

Recommendation 51

- **Continue to maximise the return to public housing in future joint ventures and redevelopments.**

Recommendation 52

- **Housing ACT to continue to better align stock to client needs.**

Recommendation 53

- **Introduce a shared equity program for eligible tenants through enabling Housing ACT to retain equity in houses sold to tenants.**

Recommendation 54

- **Work with other States and Territory Governments to encourage the Commonwealth to fund public housing based on the realistic cost of managing the asset, including provision for managing higher complexity tenancies.**

5.5 Supported Accommodation

The Steering Group noted that in addition to jointly providing \$11.7 million with the Australian Government in 2006-07 the ACT Government will provide a further \$1.3 million in 2007-08 to fund a range of homelessness accommodation and associated support services.

A number of reforms were implemented as part of the 2006-07 Budget in recognition that ACT housing and accommodation costs were well above the national average. The reforms are designed to support SAAP to provide a crisis response or intervention, with public and community housing providing longer term options.

The Steering Group considers that the role of supported accommodation providers should be maintained and enhanced to ensure that all Canberrans at risk of homelessness, on low incomes, with special needs or requiring emergency accommodation are able to be appropriately accommodated with no or minimal delay, and if appropriate, assisted to move to longer term accommodation.

Recommendation 55

- **Expand the stairwell model of accommodation for key client groups.**

Recommendation 56

- **Continue reforms of the Supported Accommodation Assistance Program and expand outreach programs to assist in preventing evictions.**

Recommendation 57

- **Strengthen the transitional housing program.**

5.6 Aged Accommodation

The Steering Group noted the *Building for our Ageing Community* strategy released by the ACT Government in 2004, which has succeeded in removing many obstacles to the supply of residential aged care accommodation in the ACT. The strategy noted the rapid ageing of the ACT's population and the need to ensure adequate aged care accommodation. It placed an emphasis on establishing a rolling program of aged persons accommodation sites and on identifying and removing unnecessary delaying in projects for aged accommodation by streamlining planning approval process.

The Steering Group notes a continuing need to ensure the availability of sufficient land suitable for aged persons accommodation and a need to address any impediments to the ability of older people to move into accommodation more suited to their changing needs.

Recommendation 58

- **Continue to identify development sites throughout Canberra for a mix of housing developments that enhances the provision of affordable aged housing.**

5.7 Other Measures for all Tenures

Activities in all types of housing tenures are affected by the supply of sufficient skilled workers, in particular to meet current and future demand for housing construction.

Recommendation 59

- **Ensure there is sufficient labour for the building industry to deliver the goals of the affordable housing strategy. This is to be achieved through the work of the Skills Commission; by working with the Australian Government and other jurisdictions on mutual skills recognition; and by continuing the Live in Canberra campaign.**

Recommendation 60

- **Investigate accommodation options such as a caravan park and a 2-3 star motel in areas such as Stromlo to accommodate workers on a short-term basis and to respond to peaks in industry demand.**

Accurate and timely data is important for planning and responding to changes in the demand for housing. There is potential for improving ACT information to improve assessments of demand.

Recommendation 61

- **Ensure the ACT has access to accurate data on which to base future land release and service projections, and continue to work with the Australian Bureau of Statistics to ensure the availability of high quality data.**

Recommendation 62

- **Implement an education campaign to ensure people who move to Canberra update their address with Medicare immediately.**

Appendix A: Terms of Reference

The Terms of Reference for the Steering Group are to:

1. Make recommendations to Government on initiatives to increase the supply of affordable housing in the ACT.
2. Identify and assess the factors that promote housing affordability that can be influenced by the ACT Government.
3. In undertaking the above, examine the effectiveness of initiatives to address housing affordability currently being undertaken in other jurisdictions, and their appropriateness in the ACT context and liaise with relevant organisations and agencies in other jurisdictions examining housing affordability, including but not limited to Federal and State Housing and Planning Ministers, industry groups and community organisations.

The Steering Group was requested to provide advice to the Government by the end of November 2006 and a final report in March 2007.

Appendix B: Summary of Submissions and Consultations

On 30 August 2006 the Chief Minister invited the Canberra community and interested business and community groups to provide submissions to the Affordable Housing Steering Group. The closing date for submissions was 3 October 2006.

Submissions were received from the following individuals and organisations:

- ACT Ministerial Advisory Council on Ageing (MACA);
- ACT Council of Social Services (ACTCOSS);
- ACT Shelter;
- Coalition of Community Housing Organisations of the ACT (CCHOACT);
- Community Housing Canberra (CHC);
- Companion House Assisting Survivors of Torture and Trauma;
- Council on the Ageing (COTA);
- Havelock Housing Association (HHA);
- Mr Ian Hay;
- Housing Industry Association (HIA);
- Mr Jack Kershaw;
- Ms Helen Merritt;
- Mr Graham Moss;
- National Seniors Association;
- Petree Pty Ltd Offsite Manufacture;
- St Vincent de Paul Society;
- Mr Kip Tanner;
- Ms Lucy Tylman; and
- Mr Derek Yip.

Steering Group members also met with ACTCOSS, COTA, MACA, CCHOACT, CHC, the Master Builders Association (MBA) and Mr Angus Hall (Petree Pty Ltd) to discuss issues raised in their submissions. Members of the Steering Group and the secretariat held workshops with industry representatives (from HIA and MBA) and noted academics from the Australian Housing and Urban Research Institute (Dr Vivienne Milligan, Dr Judith Yates and Professor Mike Barry). Informal discussions and conversations were also held with members of organisations and members of the public who wished to convey their views and concerns on the topic of affordable housing in the ACT.

The individuals and organisations listed above put forward a range of views and perspectives in relation to the issue of housing affordability in the ACT.

General

All submissions raised concerns about the lack of affordable housing in the ACT, particularly for households on low to moderate incomes. ACTCOSS stated that the lack of affordable housing made a range of social issues more difficult to address. CCHOACT referred to a 'crisis' in the public and private rental markets. St Vincent de Paul Society expressed concern for the poor and disadvantaged in the current tight housing market. Consultations and submissions asserted the need for immediate government action.

Companion House Assisting Survivors of Torture and Trauma considered that the issue of affordable housing is the single biggest barrier to refugee settlement in the ACT.

Some submissions saw an increasing gap in housing assistance measures provided by government and those provided by the market (eg ACTCOSS, ACT Shelter, CHC, CCHOACT, HHA, COTA). As public (and community) housing has become more targeted and as the private rental and home purchase have become more expensive, many low to moderate income households are finding it difficult to gain access to affordable housing, or are paying greater than 30 per cent of their income to remain in the private rental market (see also comments below under the expansion of the not-for-profit sector).

ACTCOSS/ACT Shelter noted that the decline in affordable rental was exacerbated by the redevelopment of Housing ACT's multi-unit complexes.

COTA observed that housing assistance measures were failing to address a 'generation of trapped renters', where household incomes are too high to qualify for public/community housing but not high enough to purchase private housing.

Various submissions called for increased investment in social housing by Governments and through greater private sector participation in affordable housing (through public private partnerships, taxation changes and subsidies etc).

ACT Shelter and ACTCOSS put forward a comprehensive strategy and have jointly published *The Wealth of Home: A Call for Action on Affordable Housing in the ACT* (February 2006). ACTCOSS stated that the goal of their strategy is to provide additional low-cost housing for low income households who would otherwise struggle, not to make all housing cheaper.

Many submissions sought a comprehensive approach that covered all housing tenures and the various types of households (eg Ms Tylman urged the Government to remember single person households).

Most submissions acknowledged the complexity of the problem and supported the need for a wide ranging, inter-governmental strategy to address the housing affordability problem. A number of submissions (eg ACT Shelter, ACTCOSS, St Vincent de Paul Society) called for a more concerted national effort with the development of a National Housing Plan/Strategy, or National Affordable Housing Agreement. The HIA submission stated that the Commonwealth has a major role in addressing the housing affordability problem.

CCHOACT urged the ACT Government to take a whole of government approach and commit to additional funding in the public, community and affordable housing sectors.

COTA would welcome the opportunity to work with the States, Territories and Commonwealth to strengthen and diversify the social housing sector and amend the Commonwealth State Housing Agreement (CSHA).

ACTCOSS noted the need for a robust definition of 'affordable housing' and for researched-based policy development. Housing affordability should take account of total housing costs (maintenance, water and energy efficiency/costs etc), as well as take into account absolute income levels, including after housing incomes, not just direct rental costs as a proportion of income.

Public Housing

Most of the submissions from community organisations strongly supported public housing as a major mechanism for providing affordable housing. Improving the sustainability and effectiveness of public housing was a major theme put forward in submissions.

ACT Shelter noted that a functional and sustainable public housing system is part of a healthy community and should be seen as an asset.

The National Seniors Association stated that the Government should continue to support public housing, as it is still the most desirable option for significant group of older people.

ACTCOSS and ACT Shelter sought an immediate capital injection (supported also by Companion House and other individual submissions), explicit targets for public housing (eg minimum 9 per cent of total residential stock), and maintaining security of tenure (supported by Ms Merritt) and income diversity in public housing.

St Vincent de Paul Society indicated support for public housing, but also for community housing and partnerships with the private sector. Specifically, the St Vincent de Paul Society:

- expressed concerns with public housing waiting times;
- considered that rent rebates should be cashed out and paid through the ACT Budget;
- was of the view that Housing ACT should borrow off its assets;
- believed that public housing should be restricted to those who can't pay market rents; and
- suggested that Housing ACT lease properties from the private sector (as per Defence Housing).

The HIA recommended better utilisation of public housing stock, including through joint ventures with the private sector.

Mr Yip suggested that the Government provide support for public sector tenants purchasing their homes, for example through shared equity schemes or concessions stamp duties. COTA noted that shared equity schemes could be important for older people with small amounts of capital (from superannuation) who may not qualify for public housing but may not currently be able to achieve home purchase.

Not-for-profit affordable housing sector

A number of submissions indicated support for community housing and consider that the not-for-profit sector generally could, with government support, expand to provide a wider range of affordable housing options in the ACT. In particular there was a generally supported view that the sector could cater for that group of low to moderate income households who are currently missing out on public housing.

CCHOACT noted that there was an emerging 'gap' in housing assistance, notably those households that sit between public housing eligibility and income needed to meet the median weekly rental in the ACT. CCHOACT considers that this segment of the market covers households with incomes between \$30-50,000, where rent is set at 30 per cent of income and capped at 74.9 per cent of market rent (rent calculations can include CRA). CHC saw the gap in housing assistance as being between the public housing eligibility limit of \$32,000 and \$85,000, the income needed for home ownership.

CCHOACT and CHC would like additional funding to be allocated to this area of affordable housing. They consider that community housing and particularly CHC, is positioned to deliver the expansion of affordable housing options and that access to capital is hindering growth. MACA supported the provision of interest free finance to non-government affordable housing providers.

CHC considered that it has the skills, the infrastructure, risk management methodologies, and housing delivery methods to expand affordable rental housing and assist first home buyers, and that a range of measures were needed to accelerate growth in the sector. CHC, CCHOACT and COTA requested that the titles of the 200 properties 'transferred' to CHC be granted so that it can leverage these assets and facilitate growth. HHA is keen to work with CHC in developing new, innovative projects.

ACTCOSS and ACT Shelter supported the use of direct subsidies and the taxation system to promote affordable housing. Some submissions supported the development of innovative financing models to expand the sector, though not if this was at the expense of public housing (ACT Shelter).

Timely access to affordable and well located land was seen as essential for growth of the sector (see also land and planning below).

HHA considered that group shared accommodation should be phased out and supported the Gungahlin Singles accommodation model. It was also of the view that there is a strong need for long-term supported accommodation for people not capable of independent living, such as some residents at Ainslie Village.

CCHOACT noted that a restructuring of the community housing sector was underway and was critical of the reduction in funding to the sector in the recent ACT Budget.

HHA expressed concern at the Government's reduction in the level of funding to community housing providers, while ACTCOSS and ACT Shelter officials stated that such reductions would not support growth of the sector.

The submission by Petree Pty Ltd Offsite Manufacture presented a financing scheme using manufactured housing, which would be rented to moderate income tenants, perhaps managed by community housing. The private sector provides the 'manufactured' house on land supplied by the Government for an agreed time eg 15 years. Investors receive a guaranteed return on investment.

Private rental

A number of submissions were of the view that the private market was not providing an affordable housing option for renters in the ACT, particularly for those in need (ACT Shelter, ACTCOSS). There was a general view that there was a shortage of affordable private rental stock, that rents were too high (St Vincent de Paul Society) and that low and moderate income households were finding it difficult to access private rental accommodation.

Companion House asserted that in the private rental market refugees faced severe financial hardship and family fragmentation due to overcrowding, financial disputes and inappropriate housing.

The HIA thought that more recognition and support needs to be given to the private rental sector and suggested that the ACT Government:

- work with other jurisdictions and larger national institutions and funding bodies to become involved in affordable rental properties, or assisted home purchase schemes; and
- investigate a locally based loan scheme or shared equity scheme for first home buyers (this proposal was also supported by a number of other submissions).

In the current tight rental market there had been a number of reported instances of ‘auctioning’ of private rental properties to prospective tenants. A number of submissions were opposed to this practice (eg Ms Merritt).

MACA argued for the introduction of a rental guarantee scheme and incentives to expand rental options for older people.

Mr Yip suggested concessions for private investors to increase private rental and recommended that the Government regulate landlord blacklists.

Home Purchase

Submissions and consultations with individuals and organisations observed that the cost of housing in the ACT had risen markedly in recent years and was extremely expensive. In particular, it was increasingly difficult for moderate income households to enter home ownership and there were few affordable properties on the market.

There were some indications that high cost of housing was forcing people to seek accommodation or remain across the border in NSW.

The HIA asserted that land shortages, cumbersome rezoning and approval processes, the high costs due to government regulation and levies have eroded housing affordability in the private market. Mr Kershaw agreed that land was too expensive claiming that the ACT Government was restricting land supply and that there was private ‘private profiteering’. The HIA recommended that the ACT Government review future legislation to determine the possible impacts on housing affordability.

The HIA asserted that a number of regulatory decisions by the ACT Government have pushed up the cost of housing. It opposed mandatory individual rainwater tanks for new housing, instead favouring the installation of broader infrastructure that will benefit the whole community. The MBA claimed that stamp duties and the imposition of a range of water and energy efficiency measures have increased the price of a standard house by almost \$12,000 over the last 18 months.

Land and Planning

The HIA asserted that shortages in the supply of land have been a major cause in house price increases in recent years (supported by MBA). The HIA suggested that land prices not be increased any further, that land parcels be provided with capital funded infrastructure (by government). Land should be ready for immediate release when market demand increases and financial components of land development costs should be more transparent.

The MBA also expressed concerns at the shortage of land and the escalation in the price of land, its cost, the lack of variety in size and location. As an example, it stated that 3 years ago a 500 square metre block of land in Dunlop could cost around \$80,000 and now costs over \$200,000. The MBA also expressed disappointment in the Land Development Agency’s (LDA) performance in providing and servicing land.

The MBA asserted that the current ballot system rations the allocation of too few blocks (limited in size and location) to a greater number of eager buyers thereby pushing up prices. They claimed that the system is too restrictive and many builders are unsatisfied, as they can’t get access to land.

The MBA considered that ACTPLA is being too prescriptive at the Concept Plan and Estate Development Plan stages, thereby leaving little room for innovative input from the private sector, particularly in relation to the provision of innovative smaller land and housing packages.

The HIA proposed that competitive land supply locations in north and south Canberra be identified and that the Government quickly release Molonglo. It suggested that closed schools sites be utilised for housing.

In relation to planning, the HIA stated that:

- the Government continue the introduction of the planning reform agenda;
- the review of Garden City Variation should be expanded – increased number of blocks developed to a higher density; and
- in relation to estate planning and house design, a challenge for government and the sector existed as to how moderately sized houses, particularly on smaller blocks, could be extended or adapted as household needs change.

Various submissions argued that the ACT Government should better utilise the land and planning system to improve housing affordability or to expand the supply of affordable housing.

ACTCOSS and ACT Shelter submissions supported the encouragement of affordable housing through the use of the regulatory, building and planning systems. They specifically supported the use of inclusionary zoning to retain and encourage affordable housing (supported also by Ms Merritt), while MACA supported the use of planning bonuses.

The HIA opposed the use of inclusionary zoning and believed instead that the Government should provide planning incentives to public agencies and accredited private organisations that want to develop low income rental accommodation.

CCHOACT considered that the ACT Government should:

- take a flexible approach to planning guidelines (parking requirements);
- encourage use of the supported housing provision of the Territory Plan to expand affordable supported housing;
- allow remission of change of use charges for affordable housing projects; and
- include affordable rental housing in major projects in urban development or infill.

CHC, ACTCOSS, ACT Shelter, CCHOACT, COTA and MACA stated that a cheap and adequate supply of land is essential for the expansion of affordable housing in the ACT (through direct grants, concessional leases etc). This was also seen to be important to increase the supply and diversity of housing options for older people (COTA). CCHOACT and CHC suggested that the LDA develop a five-year ongoing agreement to provide land for affordable housing and that a new Disallowable Instrument be drafted to provide land for affordable housing, with land 'gifted' to affordable housing providers such as CHC.

ACTCOSS, MACA, Ms Tylman and Mr Hay also noted that in addition to the affordability of housing, issues such as location (particularly proximity to work), accessibility and adaptable design ('housing for life') were also important.

The National Seniors Association supported a more proactive approach to incorporating adaptable housing standards in new dwellings.

Taxes and Charges

ACT Shelter/ACTCOSS supported targeted changes to the ACT taxation system (stamp duty, land tax and change of use charge concessions) to improve housing affordability, to provide assistance to non-government affordable housing providers and to promote private investment in affordable housing.

The National Seniors Association and Mr Hay suggested that the Government review charges such as stamp duty or provide help with transaction costs to help older people move to more appropriate housing.

The submission from Mr Moss also suggested that the Government modify stamp duties for first home buyers, while Ms Tylman noted the importance of 'tax breaks' to assist home purchase.

Older Persons Accommodation

MACA recommended a review of the *Residential Tenancies Act 1997* and the Retirement Villages Code of Conduct to allow communities to care for older people, particularly the vulnerable.

COTA welcomed the recent CMD report by Dr Anna Howe *Retirement Accommodation and Residential Care in the ACT 2006-2026 – Demand and Supply Study*, and asserted that it should be used as a basis for policy and program initiatives.

The National Seniors Association submission noted the need for a range of housing options for older people and for better integration of housing and support services. It saw particular problems for people on low incomes with limited assets. The Association also stated that:

- ageing at home should be encouraged as far as practicable (though this depends heavily on the provision of informal care);
- the objectives of the Federal Government policies are not being met due to lack of choice in available housing options and limited linkages to services;
- in relation to Independent Living Units, current stock needs replacement as it is not meeting current needs; and
- aged rental villages are constructed with a view to property investment, not owner occupancy.

COTA noted that the elderly required affordable and appropriate housing options in their local areas to maintain social networks.

Other

In relation to refugees, Companion House Assisting Survivors of Torture and Trauma recommended that:

- the ACT Government fund an on-arrival housing facility for newly arrived refugees, through community housing, to allow time for appropriate rental housing to be found;
- the ACT Government fund a dedicated program to encourage the private rental sector to understand the humanitarian program and the advantages of renting to refugees;
- Housing ACT staff undertake consultation with relevant communities and agencies regarding current needs of refugee communities;
- the ACT Government raise issue of refugee housing with the Commonwealth as a priority in inter-jurisdictional forums; and
- the ACT Government review needs of refugee entrants and formulate a plan for the next 5 years.

A number of submissions sought increased funding and options for people with disabilities or mental illness.

St Vincent de Paul considers that there is little evidence that the homelessness strategy is meeting its goals. Mr Yip supported a holistic approach to homelessness.

In discussions ACTCOSS asserted that it is now harder to get into SAAP agencies (3 out of 4 people turned away); there is less focus on crisis accommodation; there is a reduced capacity to provide adequate support to individuals once in the system; and it is harder to move people on to longer term accommodation options (public and private). As a result, per unit costs are high in the ACT. ACTCOSS is concerned that the recent cuts in SAAP have left provider beds without adequate support funding.

COTA urged the Government to implement the recommendations of the 2002 Task Force Report *Strategies for Action* and considered that it should be used as a blueprint for future policy and program development. MACA also generally supports the commitment to the implementation of the 46 recommendations of the Taskforce Report.

APPENDIX C — TAXES AND HOUSING AFFORDABILITY

The Effect of ACT Government Taxes on Housing Affordability

All state and territory governments impose taxes on property and property transactions. In the case of the ACT, the main taxes imposed on residential land are conveyance duty and land tax. Conveyance duty is payable on all transfers of residential property. Land tax is payable only on properties that are rented, or if it is owned by a trustee or a corporation.

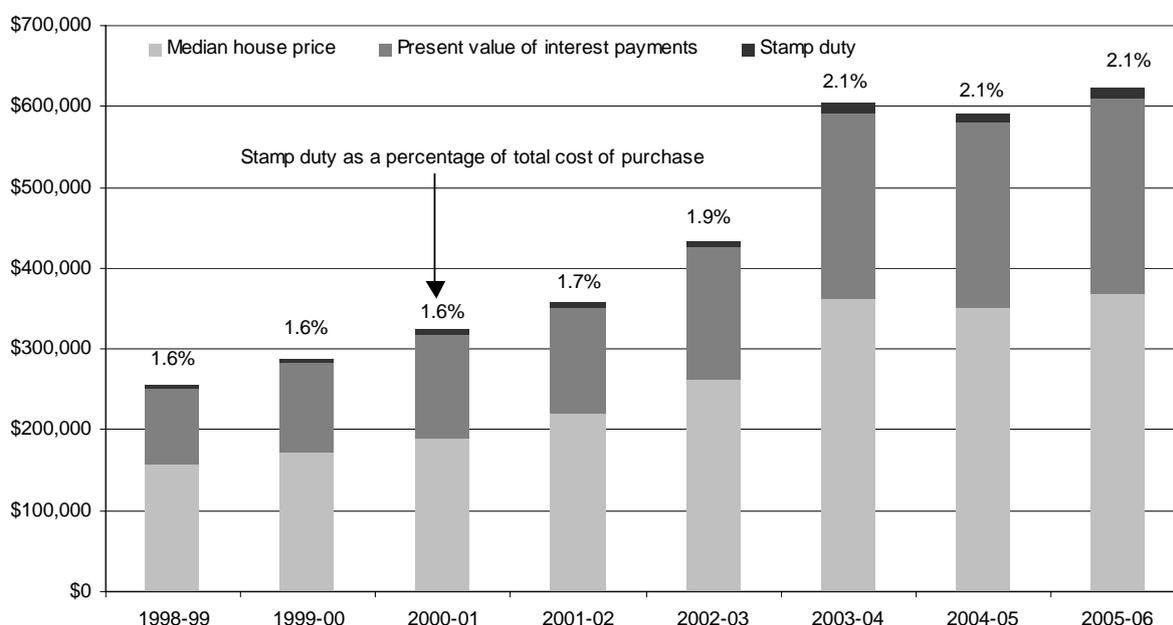
These ACT Government taxes do not have a significant effect on housing affordability and are unlikely to have a major impact on the residential property market when applied at their current rates. This reflects the fact that the average value of these taxes is a relatively small proportion of the value of the property, and moreover, a relatively small proportion of the wider costs and benefits of owning property over time. The incentives provided by these taxes are also minor compared to the potential impact of changes to superannuation legislation and movements in investor expectations.

Duty on Conveyances

The only ACT Government tax directly associated with the purchase of housing for owner-occupiers is duty on conveyancing, and the duty payable is only a small proportion of the price of a given residential property. For example, on a median priced house, currently around \$398,000 as estimated by the Real Estate Institute of Australia, the duty payable is \$14,890 or 3.7 per cent of the purchase price. This compares to the interest cost on the associated housing loan of around \$26,800 in the first year²⁸. Moreover, while duty is a one-off payment, interest costs continue to be incurred over the life of a loan. For a 30-year loan, the interest cost would amount to around \$250,000 in present value terms.

Chart A1 highlights the fact that duty continues to be a small proportion of the cost of purchasing residential property, especially when the likely financing costs are taken into account. The slight rise in duty as a proportion of the purchasing cost — from around 1.6 per cent in 1998-99 to 2.1 per cent in 2005-06 largely reflects the effect of the doubling in house prices over this period and the progressive nature of the tax scale.

Chart A1: Major costs associated with purchasing a house



Source: The Real Estate Institute of Australia, the Reserve Bank of Australia and ACT Treasury.

Note: The amount borrowed is assumed to be 90 per cent of the median house price and the discount rate used to estimate the present value of the interest payments over the 30-year term of the loan is the standard bank interest rate prevailing in the given year.

²⁸ Assuming the loan is for 90 per cent of the purchase price and an interest rate of 7.5 per cent.

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It should also be noted that the long-term real growth in house prices means that the increase in wealth will exceed the cost of conveyance duty within the first year of home ownership.

The ACT Government's Home Buyer Concession Scheme (HBCS) assists people in purchasing residential property by charging duty at a concession rate. The HBCS is intended to provide support for households most in need of assistance rather than to assist homebuyers who can afford to purchase more expensive properties. Under this scheme, eligible first home buyers can reduce their duty to only \$20. The ACT Government also provides a First Home Owner Grant of \$7,000 which assists first home buyers to meet the costs associated with purchasing a house.

The *Residential Development Cost Benchmarking Study* (released by the Property Council of Australia in March 2006) shows that ACT Government taxes are only around \$22,000 or 5 per cent of the cost of purchase of a new four-bedroom home and land package. Almost this entire amount is accounted for by the duty incurred when a developer purchases land and the duty incurred when a person(s) purchases the new house.

The Property Council report shows that compared with the other areas examined Canberra has the third lowest level of state and local government taxes with only Adelaide and Mandurah (74kms south of Perth) ranked lower.

The Property Council study also shows that the bulk of Government taxes and charges are Australian Government taxes and other government costs.

The other government costs primarily relate to the cost of complying with government regulations and include the impact of amendments to the Building Code of Australia and local regulatory requirements. It is worth noting that the costs associated with meeting the Building Code of Australia (BCA)²⁹ are to "enable the achievement and maintenance of acceptable standards of structural sufficiency, safety (including safety from fire), health and amenity for the benefit of the community now and in the future". The costs associated with achieving safe and appropriate housing are generally regarded to be in the public interest.

Upfront Costs Associated with House Purchases

For both a moderate (25th percentile) and median (50th percentile) priced house the upfront cash requirement associated with house purchase has increased over the past five years. This is primarily due to the increased deposit required to meet higher house prices.

For a moderately priced house, the Government currently makes a net deduction from the upfront costs of purchase rather than adding to these costs (see Table 1). For a median priced house the duty does add to the upfront cash requirement (see Table 2). However, after taking government assistance into account, the net impact is currently around only 11 per cent of the potential upfront cash requirement.

It should be noted that some of these upfront costs facing home buyers could be rolled into a mortgage package. For example, households can borrow up to 100 per cent of the value of a house and can also incorporate government charges into their mortgage repayments. Similarly, banks are often willing to waive upfront loan fees.

Nonetheless, there remains some scope to increase eligibility to the HBCS to reduce the upfront costs for a greater number of first home buyers.

²⁹ The Building Code of Australia is produced and maintained by the Australian Building Codes Board (ABCB) on behalf of the Australian Government and State and Territory Governments. The BCA has been given the status of building regulations by all States and Territories.

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Table 1 Potential upfront costs for a moderate priced house

	2001 June \$	2002 June \$	2003 June \$	2004 June \$	2005 June \$	2006 June \$	2006 December \$
Purchase price (25th percentile)	148,000	185,800	260,000	298,000	278,500	295,000	293,000
Upfront costs							
Deposit (10%)	14,800	18,580	26,000	29,800	27,850	29,500	29,300
Duty	3,695	5,018	7,900	9,420	8,640	9,300	9,220
Mortgage insurance ^(a)	1,998	2,508	3,510	4,023	3,760	3,983	3,956
Other up-front costs ^(b)	1,550	1,550	1,550	1,550	1,550	1,550	1,550
Total up-front Costs	22,043	27,656	38,960	44,793	41,800	44,333	44,026
Government assistance							
FHOG	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Duty relief	0	0	0	0	8,620	8,186	7,087
Total government assistance	7,000	7,000	7,000	7,000	15,620	15,186	14,087
Up-front cash requirement <i>of which the amount due to Government is:</i>	15,043 -3,305	20,656 -1,982	31,960 900	37,793 2,420	26,180 -6,980	29,146 -5,886	29,938 -4,867

(a) The mortgage insurance premium is calculated as 1.5 per cent of the loan amount. Actual mortgage insurance premium rates will vary depending on the insurer and the deposit. The estimated premium rate is based on a survey of major lenders.

(b) Includes loan establishment fees, building and pest inspections, and settlement costs.

Source: ACT Planning and Land Agency, Commonwealth Bank of Australia, Homebuyers Inspection, ACT Treasury data.

Table 2: Potential up front costs for a median price^(a) house

	2001 June \$	2002 June \$	2003 June \$	2004 June \$	2005 June \$	2006 June \$	2006 December \$
Purchase price (50th percentile)	190,000	237,500	320,000	369,000	340,000	355,000	360,000
Upfront costs							
Deposit (10%)	19,000	23,750	32,000	36,900	34,000	35,500	36,000
Duty	5,165	6,828	10,600	13,295	11,700	12,525	12,800
Mortgage insurance ^(b)	2,565	3,206	4,320	4,982	4,590	4,793	4,860
Other up-front costs ^(c)	1,550	1,550	1,550	1,550	1,550	1,550	1,550
Total up-front Costs	28,280	35,334	48,470	56,727	51,840	54,368	55,210
Government assistance							
FHOG	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Duty relief	0	0	0	0	3,823	2,951	0
Total government assistance	7,000	7,000	7,000	7,000	10,823	9,951	7,000
Up-front cash requirement <i>of which the amount due to Government is:</i>	21,280 -1,835	28,334 -173	41,470 3,600	49,727 6,295	41,018 878	44,416 2,574	48,210 5,800

(a) Consistent with Table 1, the house price data in Table 2 are based on ACTPLA data. The median house price of \$360,000 in the December quarter 2006 is lower than the Real Estate Institute of Australia estimate of \$398,000 used elsewhere in this report.

(b) The mortgage insurance premium is calculated as 1.5 per cent of the loan amount. Actual mortgage insurance premium rates will vary depending on the insurer and the deposit. The estimated premium rate is based on a survey of major lenders.

(c) Includes loan establishment fees, building and pest inspections, and settlement costs.

Source: ACT Planning and Land Agency, Commonwealth Bank of Australia, Homebuyers Inspection, ACT Treasury data.

The Impact of Land Tax on Investor Activity

In addition to duty, residential properties that are rented or owned by a trustee or a corporation are subject to land tax.

Land tax is again a relatively small component of the costs of investing in property. The average land tax paid for a house in 2005-06 was around \$1,950 per annum or \$37 per week. For a unit, the average land tax for last financial year was around \$520 per annum or \$10 per week.

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Notably, land tax is a deductible rental property expense for income tax purposes and therefore investors do not bear the full burden of the tax. In addition, over time, the impact of land tax will tend to be offset by an adjustment in the price of housing. This reflects the fact that investors take land tax into account when determining the expected returns on their investment and would therefore be willing to pay less for a property.

The residual impact of land tax is shared between property owners and renters, with the shares determined by the capacity of investors to pass this tax on to tenants through rents.

Reducing land tax would not significantly improve house purchase or rental affordability in the ACT. In particular, there is no evidence that the introduction of the land tax has affected the level of investor activity in the ACT. In fact, the strong level of investor activity was a key factor driving up house prices in the early 2000s.

Interstate comparisons

Significant differences between the States and Territories on individual taxation revenue lines are to be expected because the nature of State and Territory economies differs. For example, Australian Government activity accounts for far more of ACT economic activity than is the case for any other jurisdictions and the ACT Government cannot tax the Australian Government. Therefore, it is to be expected that, compared to other jurisdictions, the ACT Government will collect relatively more revenue from some taxation lines and relatively less from others.

The table below shows the ACT collects a higher proportion of its own-source taxation revenue from taxes on conveyances than any other jurisdiction. However, such proportions can be significantly affected by the nature of a state/territory's economy. The ACT is the only jurisdiction that does not have a mining industry tax and therefore the proportions for the taxation lines that the ACT does have are inflated by comparison to other states. For example, if Western Australia did not have a mining industry, other things being equal, taxes on conveyances would account for 24.8 per cent of Western Australia's own-source revenue i.e. in line with the ACT share of 24.5 per cent.

Table 3: State own-source revenue by source
(Average percentage of total revenue for 2001-02 to 2005-06^(a))

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll Tax	28.4	28.1	19.4	19.4	24.5	24.0	27.9	27.4
Taxes on Land	8.6	7.8	4.1	5.7	7.1	4.6	7.5	0.0
Taxes on Conveyances	21.9	22.0	20.1	19.4	17.4	14.8	24.5	16.6
Taxes on Financial Transactions	2.1	0.0	1.8	1.4	1.4	0.0	0.6	0.2
Taxes on Insurance	2.9	6.2	4.3	4.7	7.2	4.3	4.7	5.2
Motor Vehicle Taxes	11.3	11.4	12.2	11.0	13.8	15.1	12.8	10.3
Taxes on Gambling	8.5	13.6	9.1	2.3	12.8	10.2	8.0	11.3
Taxes on Mining	2.0	0.2	11.3	21.7	3.2	1.5	0.0	11.8
Other Revenue (b)	14.4	10.7	17.6	14.6	12.6	25.5	14.0	17.2
Total	100.0							

(a) Some variability from year to year, but patterns are stable.

(b) Includes miscellaneous taxes and revenue, and contributions by trading enterprises.

Source: CGC's adjusted budget (annual average of 2001-02 to 2005-06).

The ACT, Victoria and the Northern Territory are also the only jurisdictions that do not have mortgage and loan security duty. The mortgage duty scheme applying in New South Wales would add around \$900 to the cost of the average ACT loan.

It is also misleading to consider taxation revenue without regard to government service provision. It does not necessarily follow that it is preferable to live in a lower taxing jurisdiction than a higher taxing jurisdiction as the benefit of lower taxes may be more than offset by a lower level of government services. ACT residents demand a high level of services, which can only be sustained by raising sufficient revenue to meet this demand.