

Ministerial Statement on Affordable Housing

Mr Speaker,

Declining housing affordability is a major policy issue that is confronting Governments all around Australia and indeed the world.

The ACT Government is well aware of the importance of addressing the problem in order to improve the well-being of all Canberrans and the functioning of our regional economy. It is for this reason that my Government introduced its *Affordable Housing Action Plan* on 12 April 2007 and signalled that this matter will be a priority for the Government over the coming years.

The Government is particularly concerned about easing housing stress for medium and low income households so that all members of our community, irrespective of their income or personal circumstances, can access affordable, appropriate housing.

However, before informing the Assembly of the Government's progress in implementing the Affordable Housing Action Plan, I would like to briefly outline the reasons for the affordability problem that now confronts us.

The issue of declining housing affordability is widespread and has been building across Australia for a long time – but particularly over the last decade.

The reasons are many and complex, but a major driver has been an increase in the demand for housing which has not been matched by supply. Ian Macfarlane, former head of the Reserve Bank, was quoted in the *Financial Review* on 17-18 March 2007 as follows: "Why have the prices of the 8 million houses in Australia basically doubled in the last decade? The answer...is almost entirely on the demand side." The latest *ANZ Australian Property Outlook* (August 2007) supports this demand side analysis.

In addition, the market and importantly interest rates and long term economic stability have added to this crisis.

Substantial increases in purchasing power led to intensive competition for established housing in existing inner and middle ring suburbs as owners increased equity in their dwellings. This had the effect of pushing up other property prices.

The 2004 Productivity Commission Report into *First Home Ownership* noted that since the mid-1990s house prices in Australia had risen significantly, but the escalation in prices had been more prolonged, cumulatively greater and more widely spread than in previous upswings.

The Commission concluded that while surging house prices was a signal that demand had been outstripping supply, the dominant source of this widespread escalation was the general surge in demand. The surge in demand was a product of:

- cheaper and more accessible housing finance;

- prolonged economic growth and a rise in real disposable household income;
- established home owners 'trading up' to an improved (bigger, nicer, better located etc) housing; and
- a boost to demand driven by specific Commonwealth schemes such as the First Home Owner Scheme (FHOS) and changes to capital gains taxation.

The increased liquidity caused by changes in Commonwealth economic policies and incentives, strong returns on housing investment and national economic trends, had a major impact on house prices in the ACT, as indeed it did elsewhere in Australia.

In the ACT, population increases largely due to Commonwealth public service employment, have grown sharply and rapidly increased housing demand and caught the ACT Government off guard due to a lack of consultation between governments.

The ACT's healthy economy, with an unemployment rate which is the lowest in the country and household incomes outstripping all other States and the Northern Territory, has continued to support growth in house prices. This is good news for those already owning or investing in houses but very difficult for those who are trying to buy into the housing market.

According to the latest *ANZ Australian Property Outlook*, rental markets in the ACT tightened further with the vacancy rate down to just 1.3% whilst rents have risen sharply up 14.8%.

This report predicts that affordability across Australia will “deteriorate sharply” in the years ahead. We must do all we can to stop this happening. The Commonwealth Government must also accept its responsibility.

While the Federal Government has the greatest influence over housing affordability through broader fiscal and monetary policy, taxation policies and specific programmes, the ACT Labor Government will do its bit to improve housing outcomes through those mechanisms over which it has control.

Many statistical and financial indices show that buying a home in the ACT is still affordable for the majority of Canberrans, given the ACT’s high median household income. However, changes in the housing market have made this dream more elusive for many low to moderate income Canberrans. This has placed greater pressure on the private rental market and on public and community housing services.

As mentioned above, in response to these problems and in recognition of the importance of housing affordability to the community’s economic and social well being, the Government introduced the *Affordable Housing Action Plan* on 12 April 2007.

The release of the Government’s Affordable Housing Action Plan was widely applauded as bold strategy that traverses new ground. Some commentators also recognised that the Action Plan is in keeping with our social democratic roots, which places a high priority on the provision of affordable housing for low to moderate income households.

The Government's Affordable Housing Action Plan is a comprehensive and wide-reaching plan to address housing affordability in the ACT and help Canberrans at all points on the accommodation spectrum, from home-buyers and private renters to those in public and community housing. Some of the key initiatives in the plan which include:

- increasing the supply of affordable land to the market;
- regular englobo land sales;
- over-the-counter sales of affordable housing blocks;
- streamlining land release and planning approval systems;
- providing new house and land packages priced between \$200,000 and \$300,000;
- a major expansion of community housing that will deliver an additional 480 affordable dwellings over five years;
- making more effective and targeted use of public housing;
- an initiative through institutional investors to increase the supply of private rental dwellings by 200- 400 homes in the first instance;
- ensuring the supply of sufficient land to meet the increasing demand for aged accommodation;
- land rent and shared equity schemes, including for public and community housing tenants; and
- targeted stamp duty concessions.

This is an ambitious programme but we are getting on with the job of implementing this bold Plan.

The Government moved quickly to implement the Action Plan by establishing a high-level team headed by the former Executive Director of the Master Builders' Association, Mr David Dawes, to drive the reforms and coordinate the initiatives across government.

The initiatives were backed up with substantial resources in the 2007-08 ACT Budget which included:

- \$375,000 to Chief Minister's Department for two years to co-ordinate and implement the Action Plan;
- \$300,00 per annum to the ACT Planning and Land Authority for detailed planning for future land releases to help ensure land supply meets projected demand for at least five years into the future;
- \$20,000 a year for a new annual award to recognise excellence in sustainability, design and construction in the ACT affordable housing market;
- reduced stamp duties for first home buyers under the Home Buyer Concession Scheme, at a cost of \$1.5m annually;
- deferral of stamp duties for eligible purchasers will cost approximately \$300,000 in a full year;
- the provision of \$4.3m to Housing ACT to construct or purchase approximately 17 two-bedroom units over the next year; and
- \$80,000 a year to the Department of Justice and Community Safety for expanded tenant and advocacy services to increase support for rental tenants.

Supported by these resources departments and agencies, co-ordinated by the Chief Minister's Department, have been actively implementing the Plan recommendations.

A key element in the Government's strategy is to help more Canberrans achieve their goal of home ownership.

Around two thirds of Australian households own their own homes but this percentage has been declining in recent years.

The Government is attempting to reverse this trend in the ACT by helping to ease entry into home ownership. It is doing so by providing a diversity of housing products, increasing the supply of land, providing affordable house and land packages and demonstration villages and introducing a range of home purchase arrangements, such as a land rent program.

A fundamental element of the Government's Action Plan is to increase land supply. This builds upon a range of existing announcements to increase the supply of land, such as the release of an additional 500 residential blocks, which increased the release of dwelling sites to 2,672 in 2006-07 and we will continue to roll out this accelerated land release program

The Government has completed the estate planning for Franklin 2 and will release over 360 blocks onto the market by the end of this year. This estate will be the first to include a more diverse mixture of block sizes, with 15% being smaller, and more affordable blocks scattered throughout the estate.

The Government is bringing forward the release of an additional 1,000 house blocks in this financial year in Casey increasing the overall number of new residential to 3,200.

The Government is also working hard to accelerate other land releases with planning documentation for Franklin 3 and Bonner 1 underway.

Concept planning for suburbs 1 and 2 in Molonglo is well advanced. The Minister for Planning, Mr Barr, recently announced that the draft variation to the Territory Plan and the draft amendment to the National Capital Plan have been released for public consultation. Subject to statutory processes, it is expected that the first blocks could be released in 2008.

The Government is pleased to see the speed with which the first englobo land release at Macgregor West is progressing. Further englobo land releases will be made regularly throughout this and coming years.

The principles embodied in the Action Plan have been embraced at a policy and legislative level. The 2007-08 Statements of Intent for both the Land Development Agency and the ACT Planning and Land Authority incorporate the objective of delivering affordable housing outcomes.

Reforms to the Territory Plan and planning legislation through the *Planning and Development Act* passed by the Assembly along with business systems improvements in both those Authorities, will improve land release and planning approval systems and streamline planners', developers' and builders' land supply pipelines.

To cater for smaller, affordable housing, ACTPLA has released a Planning Guideline on Compact Block Housing for New Estates, to allow for the introduction of the affordable house and land packages. This will

provide opportunities and market entry points for housing choice for small house blocks of up to 250m².

The Action Plan introduces new house and land packages priced between \$200,000 and \$300,000. As part of the Plan, the Government will particularly target supply of blocks in the \$60,000 to \$120,000 price range, well below what is currently available in the market.

This initiative is designed to introduce an exciting range of new affordable housing options for Canberrans. In particular, it will introduce stand-alone two-bedroom housing similar to the types of products that have proven popular in other States.

The Estate Development Plan for Franklin 2 has been approved and includes the Action Plan requirement that 15 per cent of blocks are in the smaller affordable range (i.e. \$200,000 to \$300,000 for house and land packages with \$60,000 - \$120,000 for the land component). The Franklin 2 Estate will also include a demonstration housing precinct.

As more estates are developed by the LDA they too will include the requirement to provide 15 per cent affordable house and land packages.

I would reiterate that this requirement to provide 15% of affordable blocks is not inclusionary zoning by stealth, but provides a range of choice across new estates by salt and peppering a mix of smaller and hence cheaper blocks

The Government is introducing regular englobo land sales and is targeting two land sales annually with at least one third of land released through this means. The first major englobo release was MacGregor West, which is being developed by Village Building Company.

The LDA is developing a programme of series of englobo releases on an annual basis for the coming four years.

There will also be over-the-counter sales of affordable housing blocks. Work on the legislative changes that will be required to enable this to occur is progressing well.

While increasing land supply is a major plank of our strategy, the Government has no intention of precipitating a fall in property values or engineering a solution for some Canberrans that will harm the interests of others.

Giving people a foot in the door is also the aim of the Action Plan's initiatives for first home-buyers.

The Government knows that the first step into the housing market is often the hardest. We are putting in place a range of measures to make that step a little less daunting and a lot less painful.

The Government's innovative package of measures includes land rent and shared equity schemes, including for public and community housing tenants. Through an initiative unique to the ACT, we are introducing a land rental scheme, allowing eligible homebuyers to rent their land rather than buy it outright.

By paying rent on a block of land rather than finding the full purchase cost, homebuyers can potentially reduce their housing costs by hundreds of dollars a week. On average, we expect land rent payments to be around a quarter of the mortgage costs of purchasing a block.

This scheme takes advantage of the ACT's land leasehold system, and will make buying a home a possibility for many people who might previously have thought home ownership out of their reach. The initiative will enable Canberrans to purchase a typical house and rent the land for the same monthly payment they now make to rent an equivalent house.

Shared equity programs are a feature of many of the individual strategies that make up the Action Plan.

In addition to the shared equity programs to be offered through Community Housing Canberra and the private rental scheme, we propose extending shared equity options to public housing tenants on incomes of more than \$50,000.

To further broaden the reach of shared equity programs, we will seek expressions of interest from not-for-profit providers – expanding the range of choices beyond the products currently available in the market.

Discussions have been held with a number of financial institutions regarding the development of new finance packages to support both land rent and shared equity initiatives.

To further ease the burden of upfront payments for first homebuyers, we announced that the eligibility of the Home Buyer Concession Scheme would be increased from the 40th percentile house price, to the median house price. As the Assembly is aware, the Home Buyer Concession Scheme was amended to increase property value criteria to include median priced properties and the arrangements commenced on 1 July 2007.

The Government has also introduced the *Revenue Legislation (Housing Affordability Initiative) Amendment Bill* to allow conveyance duty deferral for first home buyers for up to five years. The Bill, which was debated and passed on Tuesday, will also enable people to defer payment of land for affordable house and land packages until the Certificate of Occupancy issued. This will reduce the upfront cost for first home buyers and will also prevent the need to pay rent whilst attempting to repay a mortgage.

A small but increasingly important player in the ACT's housing market is community housing. The Action Plan involves a multimillion-dollar investment in the not-for-profit community housing sector by enhancing its capacity to deliver innovative affordable housing solutions.

We will help Canberra's main provider of community housing — Community Housing Canberra — undergo a major expansion, delivering an additional 500 affordable dwellings over five years and more than 1100 over the next decade. Community Housing Canberra will keep around 250 of these extra properties for rent over five years, increasing to 470 over the decade.

The Government has begun to deliver on this expansion of the community housing sector. It has agreed to the direct grant of three properties to CHC, being in at Holt, Gungahlin and Gungahlerra, and to the development of a rolling programme of land sales in conjunction with CHC.

Members will be aware that the *Revenue Legislation (Housing Affordability Initiative) Amendment Bill* which was passed on Tuesday also introduces new provisions in the Duties Act, the Rates Act and the Land Tax Act that provides for organisations such as Community Housing Canberra to be exempt from the payment of duty and land tax

The community housing initiatives include a \$40 million injection of equity through title transfers to Community Housing Canberra, a revolving \$50 million loan facility and a \$3.2 million capital subsidy over three years. The Department of Disability, Housing and Community Services transferred 132 properties to CHC by the 30 June 2007 and this major investment recognises the important role that community housing plays in meeting the housing needs of our community

Public housing also continues to play a vital role in providing affordable housing for Canberrans.

With a stock portfolio of over 11,500 properties, it is estimated that Housing ACT directly houses some 30,000 people. The public housing stock represents approximately 9% of all properties in the ACT - almost double the national average.

The ACT is the only jurisdiction to increase public housing property numbers both in real terms and as a percentage of total properties under the current Commonwealth State Housing Agreement.

The Government has invested an additional \$30 million over three years for additional public housing stock from 2006-07. In the first year of this

program, 25 additional properties were acquired for needy families on the waiting list.

From these funds Housing ACT will also purchase up to 20 new affordable house and land packages developed under the Affordable Housing Action Plan.

A further \$4.3m capital injection in 2007-08 will allow Housing ACT to purchase 17 two-bedroom dwellings.

This brings the Government's total additional commitment to public housing stock to more than \$34 million over three-years.

Through the Action Plan and the broader public housing reform initiatives, the Government is making more effective use of public housing assets and resources and strengthening Housing ACT's role as the principal social housing provider in the Territory.

Housing ACT has:

- reviewed its procedures to ensure that the top priority applicants are house within 3 months;
- continued the restructuring of housing stock to better meet the needs of Housing ACT clients;
- announced the introduction of eligibility reviews to encourage tenants with sustained incomes over \$80,000 to purchase their home;
- commenced development of a shared equity product for eligible tenants that allows tenants to purchase a majority share of their home; and

- commenced a pilot for a youth stairwell model whereby tenants with similar backgrounds in multi-unit complexes receive appropriate levels of support.

These initiatives highlight the Government's ongoing commitment to house the less well off in our community.

Many households in the private rental market suffer the highest levels of housing stress. While the Commonwealth Government continues to exert primary influence over the private rental market, through its economic and taxation policies and programs such as the Commonwealth Rent Assistance programme, the Government is pursuing initiatives to improve affordability for private renters.

To maximize the impact of the new land release policies on the availability of rental properties, the ACT Government will embark on what I believe is an Australian first.

We will boost the supply of rental accommodation by encouraging institutional investment in private rental accommodation. We will seek expressions of interest from the private sector to develop and rent between 200 and 400 dedicated private rental dwellings, as part of a development or developments of up to 1,000 dwellings. Discussions have commenced with private institutions and are encouraging.

The government is leading the charge in providing affordable aged persons accommodation.

The government recently agreed to direct sell the former O'Connell Education Centre site in Griffith to Baptist Community Services for the

purpose of a 160 bed aged care facility. BCS was granted a 100% concession and thus are paying nothing for a site worth almost \$2 million. There will be 57 new beds and 103 residents will be relocated from Morling Lodge. Of these 160 beds, at least 32 and perhaps up to half will be concessional.

In a first for the Territory, in exchange for the concession on the purchase price of the Griffith block, the Baptist Community Services has agreed to redevelop the Morling Lodge site for aged persons supported accommodation and provide \$1.8 million worth of affordable supported accommodation units over 15 years.

The Affordable Housing Action Plan will result in a lot more construction activity over the next few years. And for this to take place we will need to attract and retain skilled workers.

Through the affordable house and land packages we will put a strong emphasis on developing the skills of our apprentices and trainees.

For those who travel from interstate to work on these new homes, we will provide better affordable accommodation options, with a new two- or three-star motel and a five-star caravan park.

Lastly, this plan takes account of another of the pressing issues of our time and policy priorities for the Government including climate change.

We don't want to add greatly to the cost of home ownership or construction, but I can assure you we will be paying close attention to sustainable design in our quest to deliver affordable housing.

Some commentators continue to assert that ACT Government taxes have a significant effect on housing affordability. I dispute this assertion and would make some comments.

A recent report commissioned by The Property Council of Australia showed that ACT Government taxes account for only 5.1 per cent of the cost of purchase of a house and land package.

Moreover, of the 13 residential growth markets considered by the Property Council report, Canberra has the third lowest state and local taxes as a proportion of the purchase price of a house and land package - with only Adelaide and Mandurah (74kms south of Perth) ranked lower.

I note that the only ACT Government tax directly associated with the purchase of housing for owner-occupiers is stamp duty on conveyancing, and the duty payable is only a small proportion of the price of a given residential property. For example, on a \$400,000 house, the duty payable is \$15,000 or 3.8 per cent of the purchase price. This compares to the interest cost on the associated standard housing loan of around \$26,000 in the first year alone.

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 over \$300,000 in present value terms.

It is also important to note that the long-term real growth in house prices of around 4 per cent means that the increase in a home buyer's wealth

will exceed the cost of conveyance duty within the first year of home ownership.

The Government's Affordable Housing Action Plan is bold, innovative and far reaching and we have hit the ground running. We have accepted all the recommendations of the Affordable Housing Steering Group and have moved rapidly to their implementation

We have made significant strides. At the launch of the Action Plan I asked for some patience on the part of those who desire rapid change. It is understandable that people are keen to immediately obtain cheaper land or acquire the new affordable housing land packages and other new products. However, we are not about a quick fix but rather a fundamental change to the system. .

An enormous amount of work is underway but the Government alone cannot tackle the issue of housing affordability.

I welcome the support of industry, the not-for-profit sector and the community generally in working collaboratively to improve housing affordability.