

HOUSING TOMORROW'S CHILDREN

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**HOUSING -
A PROBLEM OF SUPPLY OR DEMAND?**

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By

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1. INTRODUCTION

Housing policy is a matter of supply and demand, for finance, new and existing homes, and serviced land. Australia's housing policies have been heavily influenced by supply side interests.

Policy input generally comes from the supply side. Industry bodies such as the HIA play an influential role in the development of housing policy. The State Housing Commissions have been the main policy bodies since the Second World War at State level. These Commissions are essentially housing supply bodies whose reaction to housing problems is to suggest solutions which will increase the supply of houses built by them. Even in enlightened States such as South Australia responsibility for housing policy is seen as part of the Construction Department.

At this time of recession we have the opportunity to rebuild the housing industry on a new basis. We can only do this if the full range of issues are addressed. I argue in this paper that at the Commonwealth and State levels housing policy and building industry policy have always been to the advantage of our cities nor have they achieved a fair distribution of housing stock. They have resulted in distorted priorities for the investment of scarce capital.

If we are concerned for the welfare of tomorrow's children it is time for the housing industry to give a lead in correcting the distortions in both Commonwealth and State policies.

2. DEMAND SIDE ISSUES

In this paper I want to talk about some demand as well as supply issues as an attempt to overcome the lack of attention to demand side policies. I will start with the demand side.

2.1 INVESTMENT DISTORTIONS

If we are concerned with housing (as well as educating and feeding) tomorrow's children then we must urgently address demand issues. There is a real problem with housing in Australia because:-

- (1) With our immigration policy and the age structure of our population we have had a high rate of growth in household formation.
- (2) There has been substantial over investment in housing by some groups of households in the community which has had the consequence of crowding out of the market less well off households.
- (3) There has been a severe under investment in urban infrastructure, particularly in new urban areas.

Let me quickly illustrate the consequences of these issues. During a decade when the dialogue of housing policy has been dominated by the problem of housing affordability, according to the HIA excellent document "Housing Towards 2000" the size of new private houses has gone up 40m². Since 1971 it has increased from a time when the Housing Affordability Index showed a reduction of almost half (see Attachment "B"). During the same 20 year period public sector investment has declined by over 2% of gross domestic product, that is from over 8% to 6% (see Attachment "A") [from EPAC Report "Australia's Capital Needs in the 1990's" page 25].

Housing and community public sector gross investment as a percentage of GDP has decreased from over 1.5% between 1975 and 1979 to 1% since 1985.

The size of new houses has gone up while public sector investment has gone down. Our indebtedness to the world in the last decade has gone from 7% of GDP in 1980 to 28% in 1990.

For a nation with a critical shortage of domestically generated capital this pattern of capital investment is folly. The priorities for investment as between investment in domestic housing and investment in supporting infrastructure are wrong and we have failed to invest sufficiently in export generating infrastructure. The increasing inequalities resulting from certain groups in the community being in a position to obtain large amounts of housing while other groups are denied access, are leading to unnecessary social and economic disruption and cannot be justified. The priorities of the last decade were well illustrated by the entrepreneur recently departed from the scene in Perth who knocked over 5 (or was it 7?) houses to put up one.

2.2 WHY HOUSING MARKETS ARE DISTORTED

We all know the reasons for the distortions in national priorities. The fault lies essentially with Commonwealth policies which affect the ability of certain groups to demand more housing than others. The taxation advantages of home ownership are twofold:-

- (i) homeowners are not taxed on the imputed rental value of their homes; and
- (ii) owner occupied homes are not subject to capital gains tax during the life of the owner or after his or her death.

In addition owner occupied homes are not included in the asset tests used to determine eligibility of various social services. (It is true that, thankfully, interest on housing mortgages not deductible by owners. This would have to occur should the taxation advantages mentioned above be abolished).

These advantages have been increased as the playing fields have been levelled elsewhere.

As a consequence, wringing the boom out of the artificially inflated housing industry undoubtedly required the monetary brakes to be put on harder than would have been necessary had housing investment not been so favourably treated.

Existing home owners benefit from these taxation advantages and some advantages can be obtained by those about to buy. However, taken together, their effect is to reduce non homeowners access to housing.

As well as benefiting the haves to the detriment of the have nots, these Commonwealth policies distort the nature of urban development. One has but to think of the situation of an ageing surviving parent, on the pension, living in a family home in an inner suburb. It is in the interest of no one in the family for that house to be sold to a young family with children. If the house is sold and a smaller and cheaper house bought nearby (presuming council will allow such a thing to be built) the occupant could lose pension rights. When the parent died the children would have to pay capital gains tax on that part of the estate which was invested in something other than the home. It is little wonder that there is severe under-occupancy of houses in the older suburbs of most Australian cities.

The practical problem of implementing demand side policies is summed up by the following extract from a 1987 housing report:-

"The more fundamental problem is that inequalities in housing policies combine with other inequalities in Australian public policy. People on high incomes, who typically do well out of home ownership, pay tax rates which are not very much higher than those paid by modest earners. Unearned wealth received from inheritance and gifts - much of which comes from housing assets and is in turn reinvested in housing - is not taxed at all. It would not be hard to design sensible policies which overcome these inequalities and effectively solve most housing

problems. The country has the resources to provide appropriate support where necessary for people to become a buyer or a public tenant; housing poverty could be abolished; and residential car could be available as needed - all without increasing budget deficits. But such ideal plans benefiting a disadvantaged minority have tax implications which inevitably have little appeal in a property owning democracy". (Towards Fair Shares in Australian Housing page 74 by Hall Kending & Chris Paris a report prepared for the National Committee on Non-Government Organisations Canberra 1987).

2.3 A COMMONWEALTH GOVERNMENT RESPONSIBILITY

The responsibility for tackling the fundamental inequalities and inefficiencies in our national housing policies lies clearly with the Commonwealth government. And its importance to the national economy cannot be underestimated. In a recent article, commentator, Max Walsh pondered the fate of Australia's economic future if the Commonwealth did not "challenge the culture it and its predecessors have nurtured through the tax and banking system - the idea that home purchase and improvement takes priority over all other investment and savings options for the individual". (SMH, 14 February 1991, p.9).

Walsh drew an interesting comparison with Denmark which, in 1986 and facing similar foreign debt problems as Australia, chose to reduce tax breaks for home ownership as well as imposing a levy on credit for consumer interest. Notably Denmark's trade position began to improve immediately and it is now in a position of having a current account surplus.

However, no government is going to change the highly advantageous (to wealthy groups) tax system or the asset test without, if not bi-partisan political support, at least the support of that most effective lobby group, the housing industry. Evidence for this reluctance can be found in the recently released "Framework for Reform" from the Commonwealth's National Housing Strategy. Exhibiting a kind of breathless undergraduate style, this rehash of Uren and Whitlam speeches endorsed by the present Minister hardly mentions the distortions to housing policy caused by the tax system. (Significantly the Report does not give as one of its references the excellent Kendig and Paris document referred to above).

If this fundamental and increasingly damaging fault in Australia's micro and macro economic structure is to be tackled, then the housing industry must raise itself above the traditional response to such reforms and recognise the broader national interests involved. by restructuring the tax system as it affects housing we can effectively restructure the housing industry, reduce housing inequality and, hopefully, substantially influence the way our cities develop and change. If we do not tackle these hard taxation issues as a community then housing inequalities will continue to grow, scarce capital resources will continue to be wasted and, while the children of existing home owners may benefit in short term, other Australian children will suffer. In the long term, the whole community will be the poorer.

3. SUPPLY SIDE ISSUES

3.1 RIGID SYSTEMS

Fixing the demand side of housing will not, of itself, cure all the problems of housing in Australia. We must also recognise that there are things which can be done to assist the housing industry to supply the right products to what, hopefully, will be a much more appropriate set of demands. For example, there simply is no reason for us to continue to put up with the incredibly complex system for planning, development approval and title systems which make it so difficult for the housing industry to offer products to suit real market needs.

There is no reason, other than a failure of political will and bureaucratic inertia, for the continuation of three separate approvals to be obtained for the building of houses and for there to be different title systems depending on the design of the housing. There is no entrepreneurial flair and enthusiasm to remain unrewarded.

Little change has occurred because the organisational structure of State and local government ensures it is not in the interests of certain sections of government to see such changes made.

Happily, award restructuring and pressure from the industry and now from the Premiers and the Prime Minister are making some bureaucrats aware that a change may be required. May I suggest some simple tests you can apply to the development approval process:-

- (1) Does the system of approval allow you to apply for approval in any sequence which suits your operation and which maximises your cash flow?
- (2) Does the system allow government to consider the qualities of the total project rather than only particular aspects of it?
- (3) Does the system allow you to obtain greater benefits from good design which achieves higher densities?
- (4) Is the system as easy to operate when you are being innovative as it is when you are producing a standard product?
- (5) Is the system neutral so far as the widest possible range of housing choices for the widest possible range of sub-markets?

3.2 A STATE AND LOCAL GOVERNMENT RESPONSIBILITY

The maturity which I am asking from the housing industry with respect to supporting fundamental change to taxation policies as they affect housing demand is the same type of maturity which the housing industry should expect from State and Local governments with respect to the reform of the planning, approval and title systems which they operate.

4. HOUSING AND PLANNING ISSUES

4.1 INTEGRATING HOUSING AND PLANNING ISSUES

Let me now turn to the type of planning issues which should be addressed if we are going to house tomorrow's children. When South Australia's housing and planning policies were administered from the one Department for those three short years at the end of the 1970s, we were able to develop some far reaching integrated policies, especially on demand side issues. There has been little change to the thrust of those policies in the intervening 10 years.

One of the major problems for Adelaide in the middle 1970s was the excessive concentration of first home buyers and low income rental housing in new suburbs on the outskirts of Adelaide. This was the result of the Housing Trust building large fringe estates and the way in which low interest first mortgages were only given to first home buyers on the condition that they purchased a new house.

We took the view then (and I consider it to be even more valid today) that all other things being equal, the worst solution for a low income first home buyer or low income renter is a new house in a new suburb on the outskirts of a city. Wherever possible, new suburbs should be pioneered by households trading up. This is not to say that a free choice for first home buyers should not be available. The problem in Adelaide in the middle '70s was that housing assistance policies had been captured by the housing industry; and the interests of the housing industry were seen to be the same as the interests of low income home buyers and renters.

The policy was wrong for two reasons. Firstly, a new house in a new suburb is an expensive solution, even if its initial cost is less (which was not necessarily the case in the late '70s). Gardens have to be established, in two income families two cars are needed, jobs and services are few or non-existent and supporting relatives are usually back in the established suburbs. From the point of view of the city, particularly a rapidly ageing one like Adelaide, young families who are likely to have school age children are needed in the older suburbs not in the new ones. It is in the older suburbs that the support services and schools are to be found - services which increasingly are under utilised.

Our policies then were directed at getting rid of the tie between housing assistance and the need to live in a new house. We were successful in doing this and as a result the planned development of Munno Parra and suburbs south of the Okaparinga River did not take place. On the other hand, we were keen to see the Golden Grove development proceed. It was more attractive land and we were anxious to see second and third home buyers attracted to the new areas.

Since the late 1970s the Housing Trust has most successfully kept itself out of the new suburbs wherever possible and has obtained much of its new housing by purchase or redevelopment. Housing loan assistance has not been used to bribe first home buyers to purchase a new house.

4.2 INFRASTRUCTURE PRICING

What we were not able to do in those days was to get proper pricing policies for the provision of infrastructure. As well as the taxation advantages for home owners provided by the Commonwealth, the pricing of infrastructure to new suburbs provides a capital gain to home purchasers.

Let us be under no misapprehension as to the magnitude of the gains. A recent Victorian report put the social infrastructure cost at as much as \$60,000 a block.

Whilst the transfer of the costs of infrastructure to present and future communities possibly can be justified for first home buyers, there is no justification for second home buyers to receive yet another tax free capital windfall. Future generations are saddled with the debts of the cost of infrastructure to public authorities, while present generations of second and third home buyers add to their wealth. Unfortunately proper infrastructure pricing policies are like changes to tax and asset test policies - politically bad news and can be represented as being sure to ruin the housing industry whatever its stage in the economic cycle.

However, this is a key issue which must be addressed in the Adelaide planning review presently underway. If there are to be new suburbs in Adelaide then they should be designed for second and third home buyers who should pay the full costs of their development. If first home buyers are (in my view wrongly) to be assisted into home ownership in these suburbs (instead of existing suburbs), then they should be specifically assisted rather than the assistance being available to all. Tomorrow's children should not be saddled with debts, the benefit of which will have been largely captured by today's home owners.

4.3 SHOULD ADELAIDE GROW?

Another key issue for the planning review is whether Adelaide needs to grow much at all over the next few years. Infill programmes such as Northfield and possibly the MFP, should be pursued vigorously in preference to fringe development. I must say that I was disappointed to see the Willunga development go ahead. Personally I had always favoured the City ending at the River, for all sorts of environmental and urban form reasons. (Indeed, I think we should review the Hill Face Zone to see if there are not pockets which could become environmentally sensitive cluster housing, before any more development goes into the Willunga Basin).

Adelaide already has a great deal of urban infrastructure and housing stock. There is now in Adelaide almost as many bedrooms as there are people - I reckon about 950,000 for 975,000 people. Taxation and asset test policies of Commonwealth government have severely distorted the distribution of that accommodation. Fringe growth has been encouraged by the underpricing of urban infrastructure.

As well as getting its pricing policies right, the State government and the housing industry should urge the Commonwealth government to adopt policies which, over time, will see a better distribution of the existing housing and urban

infrastructure. We should not be wasting further scarce capital creating additional housing stock, especially family housing, on the fringe of cities like Adelaide.

5. CONCLUSION

As a nation we need to encourage an acceptance of housing not as a vehicle for excessive and wasteful wealth generation but as a place to live. We need to see housing in its urban context rather than some sort of investment package which happens to be located on a block of land. For as long a Commonwealth (and, to a lesser extent, State Government) policy encourages over investment in housing by the better off households we will never have economic, urban and housing policies suitable for tomorrow's children.

There is, I believe, a general community perception that fundamental change in Australia's institutions is required if we are to survive the next decade. There is a recognition that by working together we can achieve these changes. The HIA's publication *Housing Towards 2000* is an example of this increased maturity. With the planning review that is underway in South Australia at the moment and, despite its early lack of promise, the National Housing Strategy, there is a great opportunity to get it right.

These changes need not see the destruction of the housing industry (although they may not be good news for the land development industry). The fundamental changes which are needed will give the housing industry a new role in adapting existing stock and our existing cities to make much more effective use of the massive capital investment the community has already made in our urban and housing assets.

I have mentioned today a number of reforms which I would have liked to have seen brought in when I was here a decade ago. The time was not right then. I am hopeful that somewhere in the system there are people who recognise what needs to be done and can put aside the traditional view of housing policy to the ultimate benefit of the community, especially the housing poor, the industry, and government.