



Research Paper



Housing affordability in Victoria

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Dr Kate Raynor
Post-Doctoral Research Fellow
The University of Melbourne

Igor Dosen & Caley Otter
Research & Inquiries Officers
Parliamentary Library & Information Service

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List of abbreviations

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute
AIHW	Australian Institute of Health and Welfare
CEDA	Committee for Economic Development of Australia
CGT	Capital Gains Tax
CHP	Community Housing Provider
CRA	Commonwealth Rental Assistance
DHHS	Department of Health and Human Services
FHOG	First Home Owner Grant
GFC	Global Financial Crisis
NAHA	National Affordable Housing Agreement
NHFIC	National Housing Finance and Investment Corporation
NHHA	National Housing and Homelessness Agreement
NHIF	National Housing Infrastructure Facility
RBA	Reserve Bank of Australia
REIV	Real Estate Institute of Victoria

A note on terminology

The terms housing affordability and affordable housing are used throughout this paper, and it is important to note that these terms do not have the same meaning. According to the Australian Housing and Urban Research Institute (AHURI), the term *housing affordability* is ‘a general term, used in reference to the whole housing system, expressing the relationship between housing costs (prices, mortgage payments or rents) and household incomes’.¹ In contrast, *affordable housing* refers to housing that is appropriate for the needs of a range of very low- to moderate-income households, and priced (whether mortgage repayments or rent) so these households are able to meet their other essential basic living costs.²

For an overview of other terms used throughout this paper, please consult the glossary on page 34.

¹ Australian Housing and Urban Research Institute (AHURI) (undated) ‘[Housing affordability](#)’, Glossary, AHURI website.

² Victorian Government (2017) *Homes for Victorians*, Melbourne, State of Victoria.

Executive summary

Housing affordability has far-reaching impacts on Australia's economy and the wellbeing of the population. The dramatic increase in house prices experienced in Australia in recent years has not been accompanied by a similar level of wage growth. Consequently, home purchase and renting, particularly in capital cities, is now significantly more difficult than before.

This paper provides insights into housing affordability and housing stress in Australia, and specifically in Victoria, over the last decade.

As this paper will outline, the way Victorians live and engage with the housing market is changing.

In particular:

- Victoria's population is growing rapidly and is increasingly urbanised;
- More people are renting;
- Fewer young people are entering home ownership and they are doing it later;
- Housing is becoming more unaffordable; and
- More people are experiencing housing stress and taking on greater debt burdens.

The present housing situation is the result of several interconnected factors, including historically low interest rates and rising household debt, as well as rapid house price growth that has outstripped wage growth. Population growth and current taxation settings have also contributed to current housing affordability conditions.

There are a number of options available that may address the significant problem of housing stress and decreasing housing affordability in Victoria. This paper provides a jurisdictional comparison of some of the key strategies applied by governments in Victoria, New South Wales, Queensland, South Australia and Western Australia to address housing affordability and affordable housing supply.

Introduction

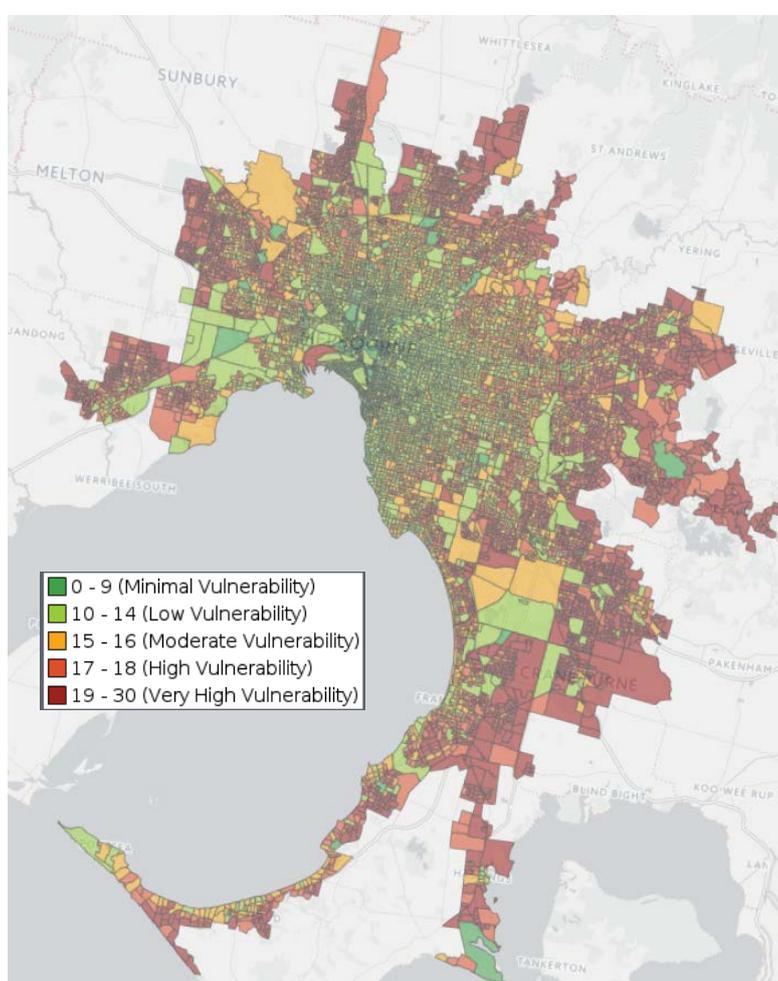
Housing in Australia's five major housing markets—Sydney, Melbourne, Brisbane, Adelaide and Perth—is severely unaffordable.³ This is partially due to historically low interest rates, existing taxation policies, and sustained economic and population growth.

Housing prices, particularly in Sydney and Melbourne, have increased dramatically. This has resulted in a substantial increase in the household wealth of homeowners who purchased properties in previous decades and experienced rapid capital growth. However, the benefits of house and rental price growth have not accrued to all segments of the population equally.

One outcome of the significant increase in the cost of housing is that many people are now unable to afford a home, or they struggle to find suitable, affordable rental accommodation. Australia's median real house price has almost quadrupled since 1970, while real wages have only doubled.⁴ As a result, younger households are struggling to get onto the 'property ladder,' with homeownership for under-35s dropping from 60 per cent in the 1980s to 45 per cent by 2016.⁵ Those households that do enter into homeownership often experience higher levels of debt and more precarious financial situations.

Declining housing affordability also has spatial implications, as lower income households are pushed to areas with lower access to employment, services and infrastructure—often at the city periphery. These locations may necessitate long commute times to access jobs or schooling. As VAMPIRE (Vulnerability Assessment for Mortgage, Petrol and Inflation Risks and Expenditure) mapping illustrates, these areas are often characterised by high levels of car dependence, low median weekly household incomes and high proportions of households currently paying unaffordable mortgages (See Figure 1).

Figure 1. Vulnerability Assessment for Mortgage, Petrol and Inflation Risks and Expenditure (VAMPIRE) index



Source: Griffith University Urban Research Program

³ Demographia (2017) *13th Annual Demographia International Housing Affordability Survey*, 2016: 3rd Quarter, Belleville, Demographia.

⁴ Committee for Economic Development of Australia (CEDA) (2017) *Housing Australia*, Melbourne, CEDA., p. 16.

⁵ J. Sheppard, M. Gray & B. Phillips (2017) *Attitudes to housing affordability: Pressures, problems and solutions*, ANUpoll, Canberra, Australian National University.

Home ownership is embedded in the Australian psyche, expressed through the ‘great Australian dream’ and its associated connotations of success and security. However, there are several factors that make it tangibly important in wider terms, as Philip Lowe, Governor of the Reserve Bank of Australia (RBA), outlines:

- The cost of housing and how we finance it affects virtually all of us;
- The home is the largest single asset for the majority of people;
- Property is also a major form of collateral for bank lending;
- Levels of debt and property prices affect the flexibility of our economy in dealing with future shocks; and
- High housing costs and high levels of debt can support the existing distribution of wealth, making social mobility challenging.⁶

This paper begins with an overview of current demographics and housing trends, highlighting key statistics from the recently released 2016 Census of Population and Housing (‘the Census’). Following that, it examines the factors impacting housing affordability in Victoria, and Australia more generally. It concludes with a discussion of federal housing policies and includes a jurisdictional comparison of housing policies between Victoria, New South Wales, Queensland, South Australia and Western Australia.

⁶ P. Lowe (2017) ‘[Household Debt, Housing Prices and Resilience](#)’, Speech delivered to Economic Society of Australia (QLD) Business Lunch, RBA website, 4 May.

1. The current housing context

The way Australians and Victorians occupy and pay for housing is continually adapting in response to changing demographics, lifestyle preferences, economic conditions and development trends. This section draws on several data sources to provide a snapshot of Australia's current housing context and to chart key changes affecting housing consumption and investment in Australia and Victoria. In particular, it will discuss the interconnected areas of population growth, urbanisation processes, tenure changes, house prices and rental costs, vacancy rates, and housing stress.

Australia's population is growing

According to the Census, the population of Australia grew by over 3.5 million persons between 2006 and 2016—an increase of 17.9 per cent. Over the same period, Victoria's population grew by almost 1 million persons—an increase of 20.2 per cent, and faster than the national growth rate.

As a result, a greater proportion of the national population now resides in Victoria, growing from 24.8 per cent in 2006, to 25.3 per cent in 2016. The population of Australia by state/territory is shown in Table 1.

Table 1. Population of Australia by state/territory

State/Territory	2006	%	2011	%	2016	%
New South Wales	6,549,174	32.98	6,917,656	32.16	7,480,230	31.96
Victoria	4,932,422	24.84	5,354,039	24.89	5,926,624	25.33
Queensland	3,904,531	19.66	4,332,737	20.15	4,703,192	20.10
South Australia	1,514,340	7.63	1,596,569	7.42	1,676,653	7.16
Western Australia	1,959,087	9.87	2,239,171	10.41	2,474,414	10.57
Tasmania	476,481	2.40	495,351	2.30	509,961	2.18
Northern Territory	192,899	0.97	211,943	0.99	228,838	0.98
Australian Capital Territory	324,034	1.63	357,218	1.66	397,393	1.70
Other territories	2,320	0.01	3,029	0.01	4,583	0.02
TOTAL	19,855,287	100%	21,507,719	100%	23,401,891	100%

Source: Australian Bureau of Statistics (ABS) 'Counting persons: Place of usual residence', Datasets for 2006, 2011 and 2016, derived from [Census TableBuilder](#), ABS website.

A greater proportion of Victorians now live in Melbourne

The Census data also reveals that Victorians are increasingly urbanising. In 2006, over 3.6 million people—73.9 per cent of the state's population—lived in Greater Melbourne. By 2016, this had risen to nearly 4.5 million people—some 75.7 per cent of the state's population.⁷

This trajectory was also evident in the number of occupied private dwellings counted in the state. In 2006, 73.3 per cent of dwellings were located in Greater Melbourne, while 26.7 per cent were in the

⁷ Australian Bureau of Statistics (ABS) Census data 'Counting persons: Place of usual residence', Datasets for 2006, 2011 and 2016, derived from [Census TableBuilder](#), ABS website; ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Greater Melbourne*, cat. no. 2003.0, Canberra, ABS; ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Rest of Vic.*, cat. no. 2003.0, Canberra, ABS.

rest of Victoria. By the 2016 Census, 74.2 per cent were located in Greater Melbourne and 25.8 per cent were counted in the rest of Victoria.⁸ As this data demonstrates, Melbourne is playing an increasingly important role in housing Victoria’s population.

Renting has increased

The 2016 Census revealed that there were more than 2.2 million occupied private dwellings in Victoria—nearly 20 per cent more than were recorded in the 2006 Census. Of these dwellings:

- 30.7 per cent were owned outright;
- 33.5 per cent were owned with a mortgage; and
- 27.5 per cent were rented.

From 2006 to 2016, the percentage of homes owned outright decreased nearly 4 per cent, while the percentage of dwellings being rented increased 3.6 per cent. This data is depicted in Table 2.

Table 2. Occupied private dwellings in Victoria by tenure type

	2006	%	2011	%	2016	%
Owned outright	648,924	34.71	671,078	33.04	689,164	30.73
Owned with a mortgage ⁹	634,797	33.96	700,583	34.49	750,389	33.47
Rented	447,073	23.92	525,604	25.88	616,985	27.52
Other tenure type ¹⁰	12,471	0.67	15,310	0.75	18,010	0.80
Not stated	126,116	6.75	118,649	5.84	167,736	7.48
TOTAL	1,869,388	100%	2,031,229	100%	2,242,283	100%

Source: ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Victoria*, Cat. No. 2003.0, Canberra, ABS.

Greater Melbourne¹¹

In 2006, 1,370,068 occupied private dwellings were recorded in Greater Melbourne. Of these:

- 33.1 per cent were owned outright;
- 34.8 per cent were owned with a mortgage; and
- 24.3 per cent were rented.¹²

By 2016, 1,664,540 occupied private dwellings were recorded. Of these:

- 29.0 per cent were owned outright;
- 34.3 per cent were owned with a mortgage; and
- 28.8 per cent were rented.¹³

This data indicates that, between 2006 and 2016, the proportion of households in Greater Melbourne who owned their homes with a mortgage remained relatively unchanged. However, the proportion of

⁸ ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Greater Melbourne*, op. cit.; ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Rest of Vic.*, op. cit.

⁹ Includes dwellings being purchased under a shared equity scheme.

¹⁰ Includes dwellings being occupied under a life tenure scheme.

¹¹ *Greater Melbourne* and *Rest of Victoria* are *Greater Capital City Statistical Areas* as defined by the Australian Bureau of Statistics.

¹² ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Greater Melbourne*, op. cit.

¹³ *ibid.*

rented households increased 4.5 per cent, while the proportion of households who owned their homes outright decreased more than 4 per cent. This is a significant shift and is indicative of a trend towards higher levels of rental tenure.

Rest of Victoria

A similar, although less pronounced, trend is apparent in the rest of Victoria. In 2006, 499,318 occupied private dwellings were recorded in the rest of Victoria. Of these:

- 39.1 per cent were owned outright;
- 31.8 per cent were owned with a mortgage; and
- 22.8 per cent were rented.¹⁴

By 2016, 577,735 occupied private dwellings were recorded. Of these:

- 35.7 per cent were owned outright;
- 31.2 per cent were owned with a mortgage; and
- 23.9 per cent were rented.¹⁵

The difference in levels of homeownership is partially a reflection of lower dwelling prices outside Melbourne and a reflection of differing housing market factors like movement for jobs, ‘sea change’ and ‘tree change’ and holiday home purchases, length of time in a location and the presence of children.

Lower home-ownership is most prevalent in young households

High housing prices are leading to the growth in what has been called ‘generation rent’, and homes are being purchased later due to unaffordability.¹⁶ This trend is disproportionately affecting young people, who are being locked out of the market by rising house prices.

Between 1982 and 2013, the share of home owners among 25–34 year olds shrunk by more than 20 per cent—more than for any other group.¹⁷ As a result, the rate of renting has spiralled among young people and, by 2013, renting had outstripped home ownership among 25–34 year olds.¹⁸

A growing number of young people are also living at the family home for longer. Between 2011 and 2016, the proportion of 20- to 24-year-olds living with their parents grew from 41.4 per cent to 43.4 per cent, while for 25- to 29-year olds, the proportion grew from 15.7 per cent to 17 per cent.¹⁹ Although the increase appears small, it is significant in that there was virtually no increase in percentages between 2006 and 2011.²⁰

First home buyers

First home buyers—often younger Victorians—have been most impacted by the increase in residential prices. Data from the ABS shows that for the past decade an average of approximately 20 per cent of

¹⁴ ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Rest of Vic.*, op. cit.

¹⁵ *ibid.*

¹⁶ M. Bleby (2017) ‘Homes bought later due to unaffordability’, *Australian Financial Review*, 27 September.

¹⁷ R. Ong (2017) ‘How governments have widened the gap between generations in home ownership’, *The Conversation*, 29 August.

¹⁸ *ibid.*

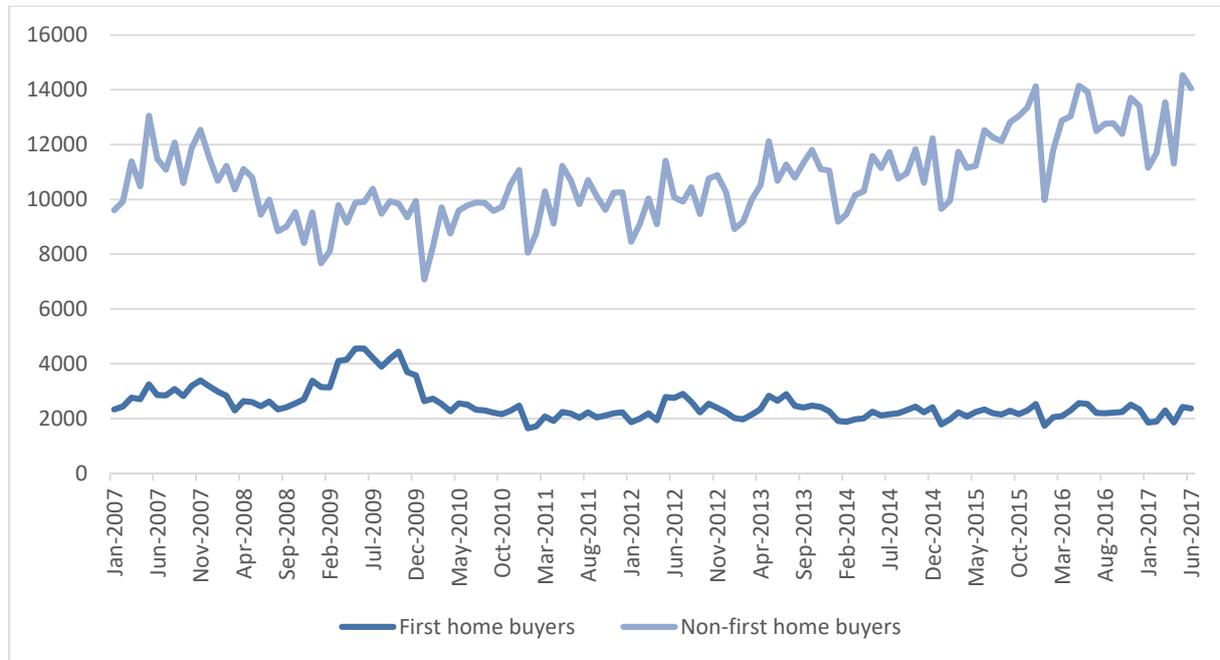
¹⁹ C. Zhou (2017) ‘More Australian adult children are living at home, census data shows’, *Domain*, 13 July.

²⁰ *ibid.*

mortgages have gone to first home buyers. When examining data from the period between January 2011 and June 2017, the figure drops to 16.6 per cent. Taking into account only the years 2016 and 2017 sees the figure drop further, to 14.7 per cent.²¹

Chart 1 outlines mortgage distribution between first home buyers and other buyers over the past decade.

Chart 1. First home buyers vs non-first home buyers – dwellings financed; Victoria



Source: ABS (2017) *Housing Finance, Australia, June 2017*, cat. no. 5609.0, Table 11, derived, Canberra, ABS.

Housing is becoming more unaffordable

Measuring housing affordability

Normally, housing affordability is described as the relationship between expenditure on housing and household income.²² However, there are two primary approaches to measuring housing affordability in Australia: ratio measures and residual measures. Ratio measures examine the relationship between housing expenditure and household income. Residual measures focus on the ability of a household to maintain an acceptable living standard after housing costs are deducted.

Generally, affordability indicators show progress when average household incomes grow faster than house prices, and when mortgage interest rates are falling.²³ When residential property prices outpace household income growth, housing becomes less affordable. Thus, housing affordability is essentially a function of the interaction between three elements: household income, household housing costs, and the cost of remaining components (within a defined standard of living).²⁴

²¹ ABS (2017) *5609.0 – Housing Finance, Australia*, June 2017, Table 11, derived, Canberra, ABS.

²² M. Thomas (2016) *Housing Affordability in Australia*, Canberra, Parliamentary Library, Commonwealth of Australia.

²³ C. Angus (2017) *Demand, deposits, debt: Housing affordability in Sydney*, Sydney, NSW Parliamentary Research Service.

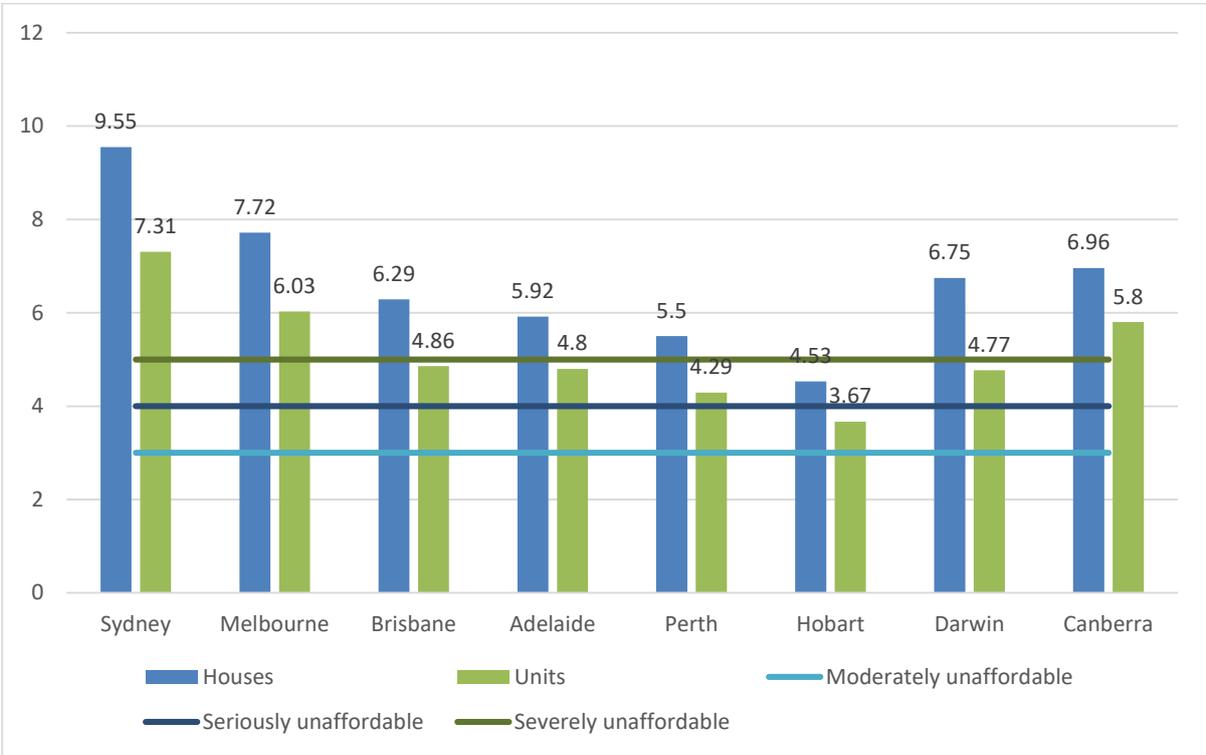
²⁴ Swinburne University of Technology (2008) *Housing in Victoria*, Melbourne, Swinburne University of Technology.

The house price-to-income ratio is the most widely used indicator to assess trends in affordability, and is calculated by dividing the median house price by median household earnings. The higher the ratio, the more unaffordable housing becomes, as a higher percentage of earnings are required to service mortgages or to pay rent. According to the *Demographia International Housing Affordability Survey*, this calculation is known as the 'median multiple', and Demographia has classified these median multiples into housing affordability ratings, as follows:

- **Affordable** – median multiple of 3.0 & under
- **Moderately unaffordable** – median multiple of 3.1 to 4.0
- **Seriously unaffordable** – median multiple of 4.1 to 5.0
- **Severely unaffordable** – median multiple of 5.1 and over.²⁵

Chart 2 offers a comparison of the house price-to-income ratio in each of Australia’s capital cities, with a breakdown by houses and units. As the chart indicates, many of the dwellings in these cities would be classified as severely unaffordable according to the Demographia ratings.

Chart 2. Rate of median dwelling price to average earnings by capital city, June 2016 quarter



Source: HIA Economics (2016) *Dwelling Prices: What’s the current state of play?* Campbell, HIA Economics, August, p. 8.

Another measure of housing affordability can be found in the *Housing Affordability Report* by CoreLogic, which uses four primary measures:

- The ratio of dwelling prices to annual household income;
- The proportion of household income required for a 20 per cent deposit;
- The proportion of a household income required to service an 80 per cent loan to valuation ratio mortgage; and
- The proportion of household income required to pay the rent.²⁶

²⁵ Demographia (2017) op. cit., p. 1.

²⁶ CoreLogic (2016) *Housing Affordability Report*, Sydney, CoreLogic, p. 3.

The housing affordability report released by CoreLogic in December 2016 lists the median dwelling price in Melbourne at \$566,000 and the median annual household income at \$79,266. In Regional Victoria, the median dwelling price is \$300,000 and the median annual household income is \$53,969. From these figures, the following results are calculated for Melbourne and regional Victoria:²⁷

Melbourne

- The median dwelling costs **7.1** times the median annual household income (up from **4.7** times in 2001);
- A 20 per cent deposit on a median-priced dwelling costs \$113,200, which equates to **143 per cent** of annual household income (up from **93 per cent** in 2001);
- Annual loan repayments on a median-priced dwelling with an 80 per cent loan to valuation ratio mortgage total \$30,024, which equates to **37.9 per cent** of annual household income (up from **29 per cent** in 2001); and
- Annual rental payments on a median dwelling amount to \$20,280, which equates to **25.6 per cent** of annual household income (up from **22.9 per cent** in 2004).

Regional Victoria

- The median dwelling costs **5.6** times the median annual household income (up from **3.4** times in 2001);
- A 20 per cent deposit on a median-priced dwelling costs \$60,000, which equates to **111 per cent** of annual household income (up from **68 per cent** in 2001);
- Annual loan repayments on a median-priced dwelling with an 80 per cent loan to valuation ratio mortgage total \$15,914, which equates to **29.5 per cent** of annual household income (up from **21.2 per cent** in 2001); and
- Annual rental payments on a median dwelling amount to \$14,560, which equates to **27 per cent** of annual household income (up from **21.6 per cent** in 2004).

Dwelling prices are increasing

Residential property prices in Victoria have continued to grow over the last decade. The state's median house price rose 73 per cent between 2006 and 2016.²⁸

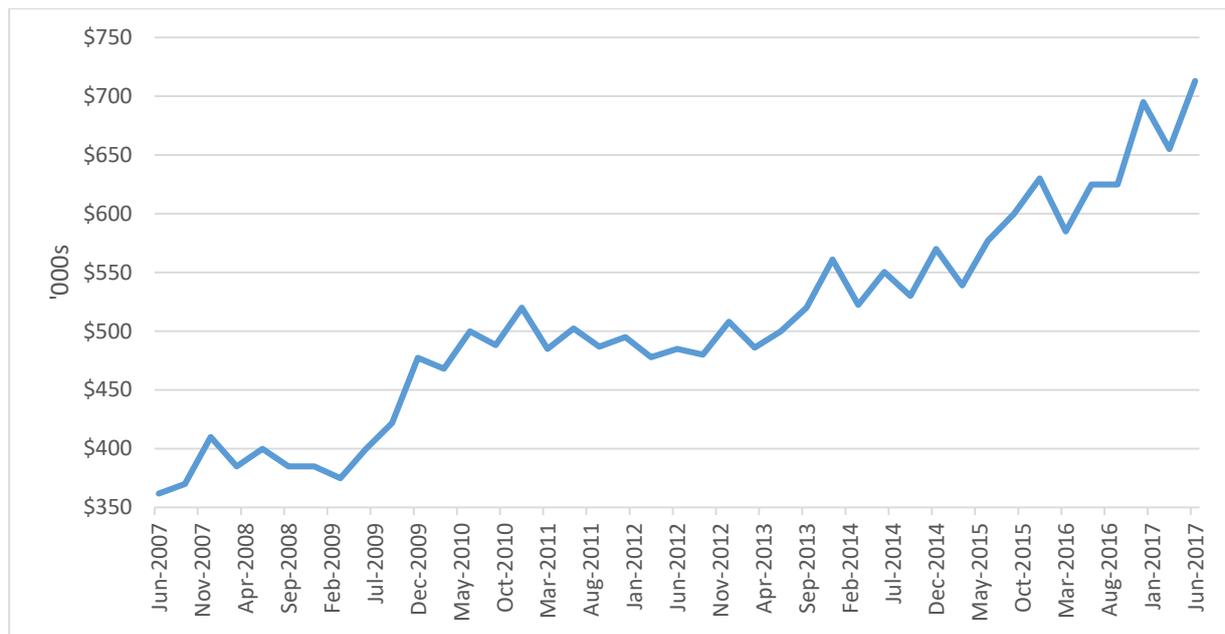
Metropolitan Melbourne

Prices in metropolitan Melbourne continue to rise faster than those in regional Victoria. Chart 3 displays the median price of established house transfers in Melbourne for the past decade.

²⁷ *ibid.*, pp. 13–15

²⁸ Valuer-General Victoria (2016) *A Guide to Property Values: Annual data and analysis from Valuer-General Victoria 2016*, Melbourne, Department of Environment, Land, Water and Planning, p. 1.

Chart 3. Median price of established house transfers, Melbourne



Source: ABS (2017) *Residential Property Price Indexes: Eight Capital Cities, Jun 2017*, cat. no. 6416.0, Tables 4 and 5, derived.

Residential property prices in Melbourne saw a 13.8 per cent rise in one year alone, from the June quarter 2016–2017.²⁹ This was higher than all other capital cities for the same period, with the exception of Sydney, which experienced the same rise of 13.8 per cent. Prices in Hobart grew 12.4 per cent, while Brisbane and Adelaide experienced a price rise of 3.0 per cent and 5.0 per cent respectively. Prices in Perth fell 3.1 per cent.³⁰

In its *State of the Market Report* for the September quarter 2017, Domain reported that the median house price in Melbourne was now over \$880,000, while the median apartment price sat above \$506,000.³¹

Additionally, recent data from the Real Estate Institute of Victoria (REIV) reveals that one in three Melbourne suburbs now have a median house price of at least \$1 million.³²

Regional Victoria

House prices have also been rising in regional Victoria, though not as dramatically as in metropolitan Melbourne. The REIV recently reported that the median sale price in regional Victoria is now \$385,000 for houses, and \$301,000 for units, with quarterly price changes of 1.2 and 1.9 per cent, respectively.³³ Chart 4 outlines median house and unit price changes in regional Victoria.

²⁹ ABS (2017) *Residential Property Prices Indexes: Eight Capital Cities, Jun 2017*, cat. no. 6416.0, Canberra, ABS.

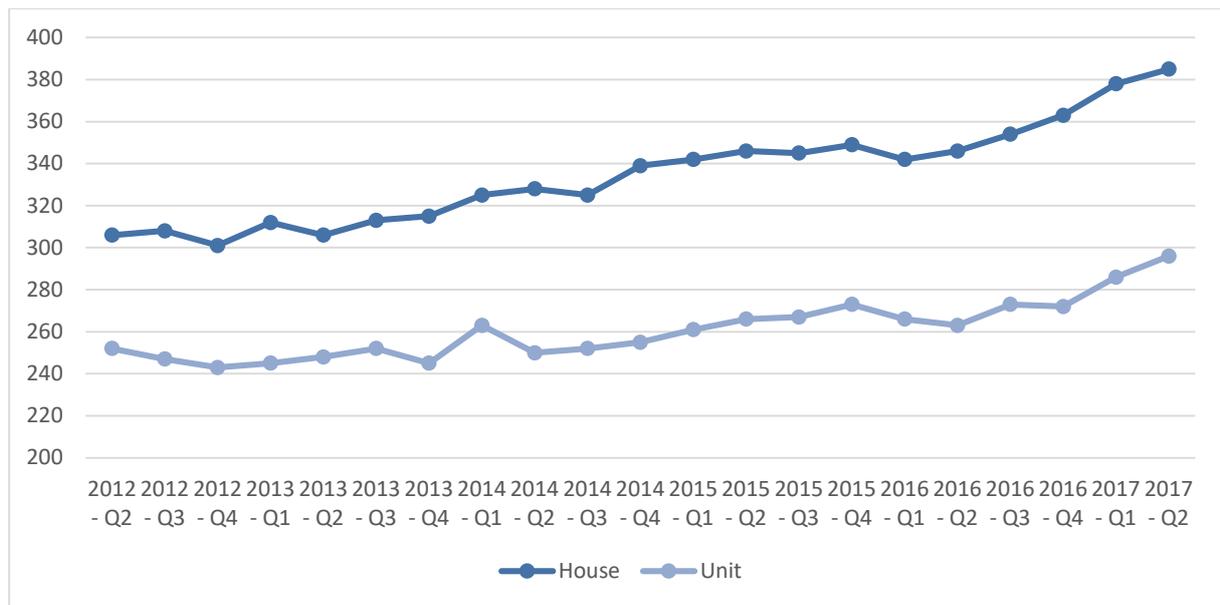
³⁰ *ibid.*

³¹ Domain (2017), 'State of the Market Report', Domain website, September.

³² (2017) 'Melbourne property: One in three suburbs have \$1m median house price, REIV says', *ABC News*, 10 December.

³³ Real Estate Institute of Victoria (2017) 'Victorian Insights', REIV website.

Chart 4. Median house and unit price changes in regional Victoria



Source: Real Estate Institute of Victoria (2017) *Victorian Insights*, REIV website.

More people are experiencing housing stress

The 30:40 indicator is a common measure of housing affordability stress. According to AHURI:

The 30:40 indicator identifies households as being in housing affordability stress when the household has an income level in the bottom 40 per cent of Australia's income distribution and is paying more than 30 per cent of its income in housing costs.³⁴

As AHURI explains, the underlying assumption is that those on higher incomes who pay more than 30 per cent of their income on housing do so as a choice, as housing costs have less impact on the household's ability to purchase necessities (for example, food, health care and education).³⁵

The terms 'mortgage stress' and 'rental stress' are used to describe housing stress in the respective housing market. According to the ABS, rental stress is used:

to describe households at risk of experiencing difficulty meeting their rental costs. High levels of rental stress mean that affordability may be low and, as a result, those households experiencing rental stress may be less able to rent housing that meets their basic needs.³⁶

As rental stress is likely to have a greater impact on low-income households (who are more likely to be renting basic shelter) than high-income households (who have greater economic resources at their disposal), the ABS states that the indicator on rental stress relates specifically to low-income households.³⁷ In terms of mortgage stress, the financial comparison site, Canstar, explains that 'the widely accepted wisdom is that mortgage stress equates to spending 30 per cent or more of your pre-tax income on your home loan repayments'.³⁸

³⁴ AHURI (2016) op. cit.

³⁵ *ibid.*

³⁶ ABS (2010) 'Measures of Australia's Progress—Housing: Rental Stress', cat. no. 1370.0, Canberra, ABS.

³⁷ *ibid.*

³⁸ J. Hurwood (2017) 'What is Mortgage Stress?', *Canstar*, 7 July.

Renting

Victoria

In 2006, the Census data for Victoria recorded median total personal income was recorded as \$456 per week,³⁹ while the median rent was \$185 per week—equating to 40.6 per cent of median total personal income. By 2016, the median total personal income was recorded as \$644 per week, while the median rent of \$325 per week equated to 50.5 per cent of personal income—a rise of nearly 10 per cent.⁴⁰

This data reveals that while median weekly rent grew 75.7 per cent over the period 2006–2016, median weekly total personal income grew only 41.2 per cent—indicating that renting in Victorian has become less affordable over time.

Greater Melbourne

Melbourne's rental market is becoming increasingly expensive. In 2006, the median rent for Greater Melbourne was \$200 per week—equating to 41.6 per cent of the median total personal income of \$481 per week. By 2016, the median rent was recorded as \$350 per week, equating to 52.0 per cent of the median total personal income of \$673 per week—a rise of over 10 per cent.⁴¹

This data also reveals that, in Greater Melbourne, median weekly rent grew 75.0 per cent over the period 2006–2016, while median weekly total personal income grew only 39.9 per cent—indicating that **rent prices increased at nearly twice the rate of income.**

Rest of Victoria

In 2006, the median rent for the rest of Victoria was \$144 per week, equating to 36.4 per cent of the median total personal income of \$396 per week. By 2016, the median rent of \$233 per week equated to 40.5 per cent of the median total personal income of \$576 per week—a rise of over 4 per cent.⁴²

The data indicates that, in the rest of Victoria, median weekly rent grew 61.8 per cent over the period 2006–2016, while median weekly total personal income grew just 45.5 per cent over the same period. So, although renting is more affordable in the rest of Victoria than in Greater Melbourne, rent prices were still growing at a faster rate than income in both regions over the ten-year period.

Rental reports

The Department of Health and Human Services (DHHS) publishes a quarterly rental report that provides key statistics on the private rental market in Victoria. The major source for the statistics presented in these reports is the Residential Tenancies Bond Authority, which collects data on all rental bonds lodged under the *Residential Tenancies Act 1997* (Vic).

The DHHS rental report provides an indication of rental stress and housing affordability in the state, collecting data since 2000. According to the rental report for the June quarter 2007, overall, just 27.5 per cent of new lettings were affordable to lower income households. The report stated that this figure represented the lowest proportion of affordable rental accommodation over the eight-year period for which the data was available.⁴³ In 2017, the rental report for the June quarter indicates that

³⁹ All median weekly total personal income figures stated are for persons aged 15 and over.

⁴⁰ ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Victoria*, Cat. No. 2003.0, Canberra, ABS.

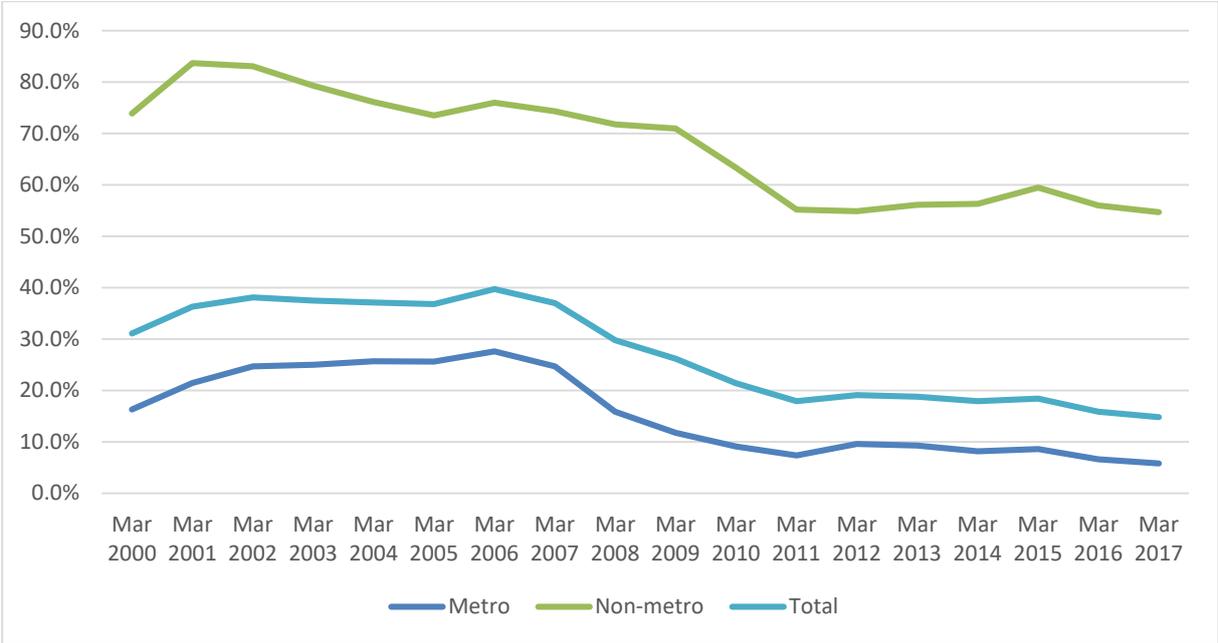
⁴¹ ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Greater Melbourne*, op. cit.

⁴² ABS (2017) *2016 Census of Population and Housing: Time Series Profile, Rest of Vic.*, op. cit.

⁴³ Department of Human Services (2007) 'Rental Report, June quarter 2007', Department of Health and Human Services website, p. 1.

only 17.3 per cent of all rentals in Victoria are considered affordable—down more than 10 per cent on the same period ten years earlier. Affordable rentals as a percentage of all rentals for the period June 2012–June 2017 are depicted in Chart 5.

Chart 5. Affordable rentals as percentage of all rentals, Victoria



Source: Department of Health and Human Services (2017) 'Rental Report', Victoria State Government.

As Chart 5 indicates, rental affordability has declined significantly since 2000 in metropolitan Melbourne and the rest of Victoria. In metropolitan Melbourne in 2017 only 6.6 per cent of rentals are considered affordable, down from a high of 28 per cent in 2005. The data shows that, while rentals are more affordable in regional Victoria, there has been a concurrent drop in affordability outside Melbourne since records began in 2000.

Households on Centrelink incomes

The DHHS rental reports calculate the level of rental affordability for those households on Centrelink incomes. The data indicates that the rental situation is the most difficult for a single person on Newstart Allowance, who in the June quarter 2017 had only 2.8 per cent of rentals across Victoria affordable to them. If that person wished to live in metropolitan Melbourne, **only 0.4 per cent of rentals** were affordable to them, while rentals were much more affordable to that person in regional Victoria (at 31.3 per cent).⁴⁴

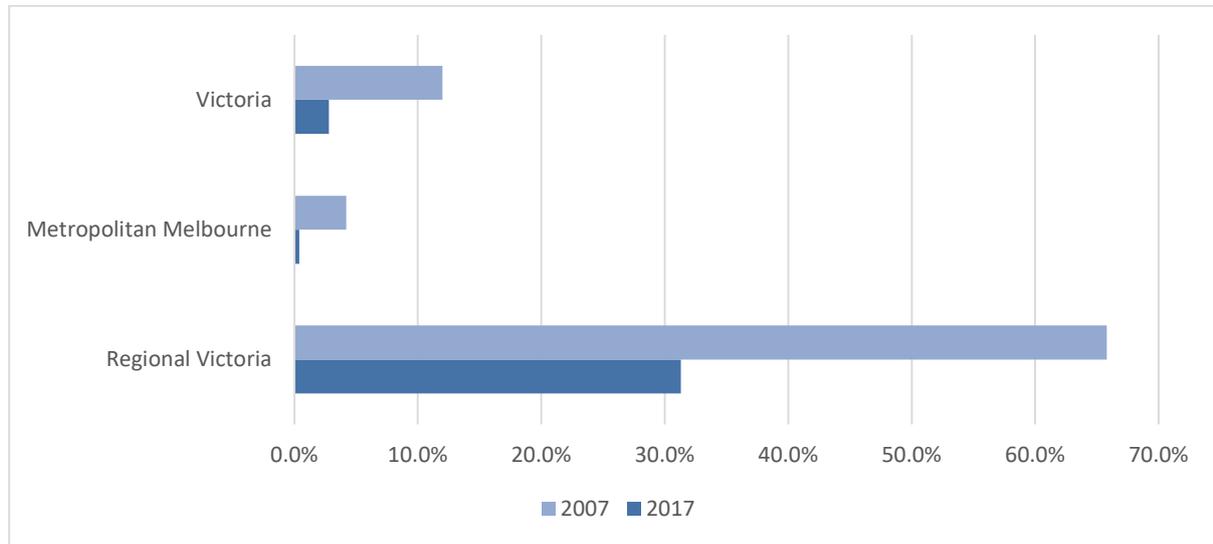
Comparatively, ten years earlier in the June quarter 2007, a single person on Newstart Allowance had 12.0 per cent of rentals in Victoria affordable to them; in metropolitan Melbourne, 4.2 per cent of rentals were affordable to that person; whereas 65.8 per cent of rentals in regional Victoria were affordable to them.⁴⁵

This means that, for a single person on Newstart Allowance, rental properties in Victoria are now considerably less affordable than they were ten years ago: in Victoria, rental properties are four times less affordable to them; in regional Victoria, they are two times less affordable than they were; and in

⁴⁴ Department of Health and Human Services (2017) *Rental Report: June quarter 2017*, Table 9, Melbourne, DHHS, p. 18.
⁴⁵ Department of Human Services (2007) *Rental report: June quarter 2007*, Table 6, Melbourne, DHS, p. 5.

metropolitan Melbourne, the situation is the most pronounced, where rental properties have become **ten times less affordable** than they were ten years ago. This data is depicted in Chart 6.

Chart 6. Affordable rentals as percentage of all rentals for a single person on Newstart, Victoria



Source: DHHS (2017) *Rental Report: June quarter 2017*, Table 9, Melbourne, DHHS, p. 18; Department of Human Services (2007) *Rental report: June quarter 2007*, Table 6, Melbourne, DHS, p. 5.

These figures are exacerbated by the fact that, even if a rental property is affordable to a single person on Newstart, there is no guarantee that it will be *available* to them, as they are competing with higher-income households for an extremely constrained number of properties.

Vacancy rates are low

Vacancy rates for rental properties provide an indication of how tight the rental market is and the level of demand for rental accommodation at a point in time. In addition to affordability concerns, rental property seekers in Victoria have had to contend with consistently low vacancy rates. Though rates have generally improved over the last ten years, they have nonetheless remained well below 4.0 per cent.

Mortgage stress and debt burdens are increasing

Not only are we seeing a decline in home ownership in the Australian population, but also the growing indebtedness of those in owner-occupation.⁴⁶ The latest figures from the ABS Survey of Income and Housing show that average household debt has almost doubled in Australia since 2003–04, and that just under half of all households with a mortgage were over-indebted in 2015–16.⁴⁷

Researchers at the Centre for Urban Research at RMIT University have determined from ABS data that, in 1982, the average home-buying household in the lowest two quintiles of the income distribution in Australia was spending 18.9 per cent of its gross household income on mortgage payments. By 2013,

⁴⁶ G. Wood & R. Ong (2017) 'The Australian Housing System: A Quiet Revolution?', *Australian Economic Review*, 50(2), pp. 197–198.

⁴⁷ ABS (2017) *Property driving rise in over-indebted households*, media release, 13 September.

this share had increased to 30 per cent.⁴⁸ The proportion spending more than 30 per cent of income on housing costs rose from 27.9 per cent to 48.1 per cent over the same period.⁴⁹

A recent report by the ABC's *Four Corners* program into mortgage stress in Australia determined that there are already one in four mortgaged households in stress, though the program acknowledged that its definition of mortgage stress—'when a household's income doesn't cover its outgoings, including mortgage repayments'—was a higher threshold than in most analyses.⁵⁰ The report showed that, though there are some postcodes where less than 10 per cent of mortgaged households are in stress, there are others where at least **90 per cent are in stress**. Most of those postcodes were in regional and remote Australia, where mortgage stress is worse than in major capital cities.⁵¹

The *Four Corners* report also highlighted that mortgage stress increases as interest rates rise. The study determined that, should interest rates rise just 0.5 per cent, mortgage stress jumps from one in four mortgaged households to one in three. This is because the combination of flat incomes, rising costs and large mortgages means stress spreads quickly, even with small rate changes. An increase of 2.0 per cent from current rates would place half of all mortgaged households in Australia into stress.⁵²

The result of this mortgage stress, it is argued, is the emergence of 'a new housing precariat that is perilously positioned on the margins of our housing system'.⁵³ While it was once believed that those leaving rental housing for home ownership would not return to the rental market, we are now witnessing 'enduring moves out of home ownership by significant numbers of financially stressed households that have been unable to juggle saving, spending and mortgage repayment commitments'.⁵⁴

⁴⁸ G. Wood & R. Ong (2017) op. cit., p. 199.

⁴⁹ *ibid.*

⁵⁰ I. Ting, R. Liu & N. Scott (2017) '[Mortgage stress hotspots revealed](#)', *ABC Four Corners*, ABC website, 23 August.

⁵¹ *ibid.*

⁵² *ibid.*

⁵³ Wikipedia explains that, in sociology and economics, the [precariat](#) is defined as a social class formed by people suffering from precarity, which is a condition of existence without predictability or security, affecting material or psychological welfare; Wood & Ong (2017) op. cit., p. 197.

⁵⁴ *ibid.*, p. 202.

2. How did we get here?

The *Demographia International Housing Affordability Survey* assesses housing affordability worldwide through a dwelling-price-to-household-income mechanism. The 2017 survey reveals Melbourne to be the sixth most unaffordable major housing market in the world.⁵⁵ As in all previous surveys, results show that all of Australia's five major housing markets are severely unaffordable.

The *Perception of Housing Affordability Report 2017* assesses the attitudes Victorians and Australians have towards housing affordability. Eighty-six per cent of Victorians said that home ownership was important to them, while 73 per cent expressed concern about not being able to afford what they needed or wanted to buy.⁵⁶ Furthermore, 66 per cent of Victorians believed housing affordability to be worse than last year and 58 per cent think housing affordability will be worse in some way in the future.⁵⁷ Attitudes towards accessible and affordable housing, especially from young people, are growing increasingly negative.

Corroborating these findings, the *Attitudes to housing affordability: Pressures, problems and solutions* report, published by the Australian National University, surveyed 2,513 Australians and found a widespread concern about housing affordability. Eighty-eight per cent of respondents reported they were very concerned or somewhat concerned about future generations not being able to afford to buy housing in their lifetimes.⁵⁸ Similarly, over two-thirds of non-homeowners are very concerned or somewhat concerned that they will not be able to afford to buy housing during their lifetime.⁵⁹ These figures are particularly troubling, given that homeownership remains an aspiration for most Australians—as a primary residence and as an investment vehicle.

Reasons for price increases

The increase in residential property prices, particularly in Melbourne, can be attributed to several interlinked factors. Conventional economic analysis suggests that property prices are primarily influenced by interest rates, building activity and population growth.⁶⁰ However, these work in combination with other exacerbating factors to influence property prices, such as the strength of the economy, wage growth, owner-occupier compared to investor purchases, and housing supply.

Historically low interest rates and rising household debt

The relationship between housing prices and household debt is a key factor in understanding rising property prices. The past two decades have seen periods of relatively sharp increases in both housing prices and debt, both of which currently sit at record highs.⁶¹ While the debt-to-income ratio has increased—particularly in the past couple of years—the ratio of debt to the value of housing stock has remained steady. This has occurred because of a continuing increase in housing prices and the flow of new homes into the market. The value of households' financial assets has also seen a substantial increase. Thus, both the value of assets and liabilities have increased relative to incomes.⁶²

⁵⁵ Demographia (2017) op. cit.

⁵⁶ CoreLogic (2017) *Perceptions of Housing Affordability Report 2017*, Sydney, CoreLogic Asia Pacific, May, p. 18.

⁵⁷ *ibid.*

⁵⁸ J. Sheppard, M. Gray & B. Phillips (2017) op. cit.

⁵⁹ *ibid.*

⁶⁰ KPMG Economics (2017) *Housing Affordability: What is driving house prices in Sydney and Melbourne*, Melbourne, KPMG, June, p. 2.

⁶¹ P. Lowe (2017) op. cit.

⁶² *ibid.*

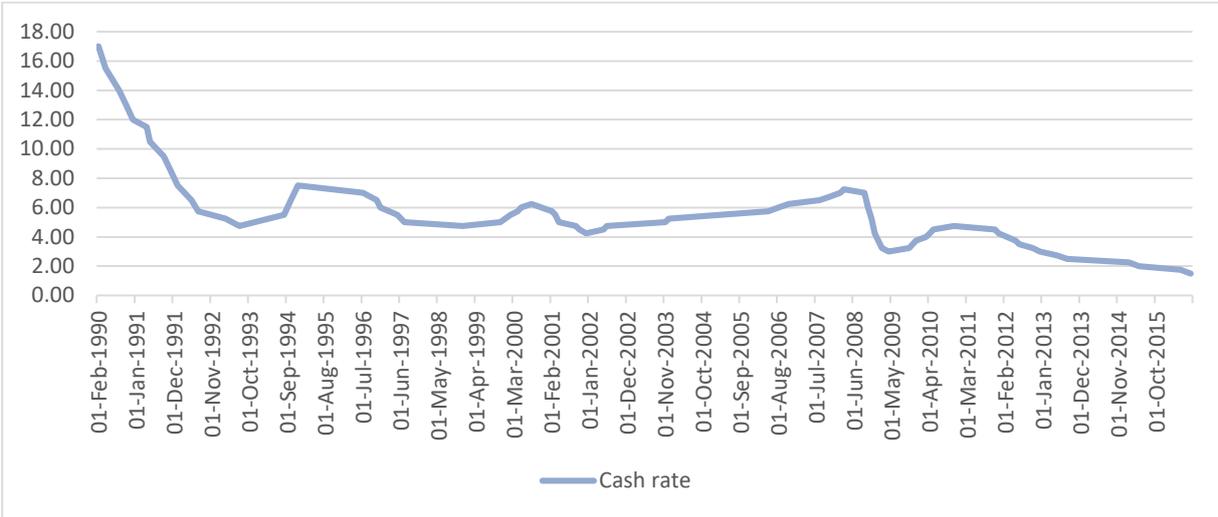
A key factor as to why the ratios of housing prices and debt-to-income have risen is people’s increased ability to borrow—primarily because of financial liberalisation and low interest rates. The early period of lower nominal interest rates in the 1990s saw an increase in borrowing for residential property purchases, driving up housing costs and constraining the supply of housing stock. Philip Lowe, Governor of the RBA, explained that ‘[an] increased ability to borrow, more demand and constrained supply meant higher prices’.⁶³ Although the ratios of housing prices and debt to household income remained somewhat steady throughout the 2000s, they are again increasing rapidly.

The RBA’s decision to drop interest rates from over 4 per cent in 2013, to just 2 per cent in 2015, has facilitated the expansion of an ‘asset price bubble’.⁶⁴ Such low interest rates are an incentive for investors to find alternative assets with high yields, namely residential property. In an environment of continually rising property prices and low interest rates, homebuyers in Melbourne looking for capital gains have clear incentives to enter the market. Consequentially, Australian bank exposure to residential property loans has increased rapidly—with more than half of the increase occurring in Victoria and NSW.⁶⁵ The majority of these loans have been used to purchase existing property, rather than to finance new housing. Australia-wide, over 80 per cent of loans to owner-occupiers, and about 90 per cent to investors, were used to purchase established dwellings.⁶⁶ Although the increase in housing finance has led to an increase in dwelling construction, it has been generally contained to high-rise apartments.

Nevertheless, the long-term downward trend in real interest rates in Australia has had an impact on residential property prices. Real interest rates have been at less than 1 per cent since 2012, and by the end of 2016 were approaching zero. This is due to a combination of below target band inflation as set by the RBA, and low cash rate settings.⁶⁷

Chart 7 shows the cash rate in Australia since 1990, and demonstrates the drop in interest rates in the long term.

Chart 7. Interest rate decisions, Australia, long term



Source: RBA (2017) ‘Interest Rate Decisions: About the cash rate’, RBA website.

⁶³ *ibid.*
⁶⁴ B. Birrell & D. McCloskey (2016) *Sydney and Melbourne’s Housing Affordability Crisis – Report Two: No End in Sight*, Melbourne, The Australian Population Research Institute, March, p. 2.
⁶⁵ *ibid.*, p. 2.
⁶⁶ *ibid.*
⁶⁷ *ibid.*, p. 13.

Increased borrowing

Lending to investors as a proportion of total lending to purchase residential property has increased over the medium and long term.⁶⁸ KPMG contends that investors have become more prevalent in the residential property market because asset allocation preferences have shifted from equities to property:

This post-GFC risk diversification strategy can be seen through the lending data as well, with investors' share of lending to purchase residential property just under 33 per cent on average between January 1999 to December 2008, but steps up to 36 per cent on average between January 2009 and February 2017.⁶⁹

Although borrowing is not the only underlying cause of continually increasing house prices, it has certainly added to the upward pressure on prices. In Melbourne particularly, increased borrowing has acted as a 'financial amplifier,' adding to upward pressure on prices.⁷⁰ Investor borrowing is also adding to the continuing rise in aggregate debt-to-income ratio.

Low interest rates are not the only culprit. Household income increased at an average rate of approximately 7 per cent during the 2000s, but from 2012 to 2016 has averaged at about 3 per cent. Slow income growth has pushed up the debt-to-income ratio.

Wages are not keeping up with property prices

In Victoria, the average full-time adult weekly earnings in May 2007 were \$1,100.10, rising to \$1,562.60 in May 2017.⁷¹ This represents an increase in earnings of **42 per cent**, without accounting for inflation or seasonal adjustments. Similarly, underemployment, or people working part time but with a desire to work more hours, has increased substantially in the last 40 years, particularly in younger age groups.⁷²

However, the growth in house prices has exceeded the growth in wages across the same period. Using Metropolitan Melbourne as an example, the median sale price jumped from \$522,000 to \$822,000, representing an increase of over **57 per cent**.⁷³

Increases in housing prices can also be attributed to strong national population growth as well as to the increase in foreign homebuyers. In Australia, residential real estate purchases from foreign buyers were valued at \$60.8b in 2014–15; this rose to \$72.4b in 2015–16.⁷⁴ Currently, it is estimated that foreign property-buyers represent 17 per cent of all apartment buyers and 11 per cent of all house buyers in Australia.⁷⁵ In the first quarter of 2017, overseas investors bought more than 10 per cent of all new housing in Australia, and more than 7 per cent of existing stock.⁷⁶ Recent data indicates that the proportion of foreign buyers in new property markets is highest in Victoria, accounting for

⁶⁸ KPMG Economics (2017) op. cit., p. 12.

⁶⁹ *ibid.*, p. 13.

⁷⁰ P. Lowe (2017) op. cit.

⁷¹ ABS (2017) *Average weekly earnings, Australia, May 2017*, cat. no. 6302.0, Table 13B: Average Weekly Earnings, Victoria (Dollars) – Original, Canberra, ABS.

⁷² Brotherhood of St Laurence (2017) *Generation Stalled: Young, Underemployed and Living Precariously in Australia*, Melbourne.

⁷³ REIV (2017) op. cit.

⁷⁴ Foreign Investment Review Board (2017) *Annual Report 2015–16*, Parkes, Commonwealth of Australia, p. 16.

⁷⁵ *ibid.*, p. 7.

⁷⁶ D. Scutt (2017) 'CHARTS: The strength of foreign investment in the Australian housing market', *Business Insider*, 7 April.

20.8 per cent of new property sales in the second quarter of 2017. In the established dwellings market in Victoria, the proportion of foreign buyers was 9 per cent.⁷⁷

An increase in population creates a growth in underlying demand for new housing. From 1990 to the mid-2000s, Australia experienced relatively low population growth—primarily because of a declining birth rate and lower migration rates.⁷⁸ For the past decade, Australia has seen much higher net migration, meaning population growth has increased to a significantly higher rate. The RBA argues that annual demand for housing was relatively stable prior to the previous decade, but has seen an increase by around 40 per cent, largely because of strong population growth caused by increased net migration.⁷⁹

The impact on price growth is exacerbated by the concentration of population growth occurring in Australia's two least affordable cities—Melbourne and Sydney. Projections from the ABS show that Melbourne and Sydney will receive about 50 per cent of net overseas migration, with both cities expected to reach between six and seven million inhabitants by 2050.⁸⁰

Capital gains tax and negative gearing are having an impact

Negative gearing allows investors who make a loss on their property to reduce the overall tax they pay on their income. The capital gains tax generally sees half the profits from the sale of an investment property go untaxed. Both schemes help property investors but do little to put downward pressure on residential property prices.

The *Perception of Housing Affordability Report 2017* indicates that 30 per cent of Victorians believe negative gearing is a large or huge impediment to affording a home.⁸¹ However, there are conflicting arguments as to whether a change or abolishment of negative gearing would help bring about more affordable housing.

A report by the Grattan Institute outlines that:

the interaction of a fifty per cent capital gains tax (CGT) discount with negative gearing distorts investment decisions, makes housing markets more volatile and reduces home ownership [and] like most tax concessions, these tax breaks largely benefit the wealthy.⁸²

The negative gearing scheme in Australia is one of the most generous within the OECD.⁸³ As outlined in CEDA's *Housing Australia* report:

prior to the 1999 Ralph review,⁸⁴ capital gains on investment properties were taxed at their real values at investors' marginal income tax rates. However, after the Ralph review, the capital gains tax (CGT) discount system was reformed such that only 50 per cent of capital gains would be taxed, albeit at nominal values, to encourage greater levels of investment.⁸⁵

⁷⁷ National Australia Bank (2017) *NAB Residential Property Survey Q2-2017*, Melbourne, NAB.

⁷⁸ M. Kohler and M. van der Merwe (2015) *Long-run Trends in Housing Price Growth*, Sydney, Reserve Bank of Australia, September.

⁷⁹ *ibid.*, p. 25.

⁸⁰ *ibid.*, p.

⁸¹ CoreLogic (2017) *op. cit.*, p. 21.

⁸² J. Daley, D. Wood and H. Parsonage (2016) *Hot property: negative gearing and capital gains tax reform*, Melbourne, Grattan Institute, April, p. 2.

⁸³ CEDA (2017) *op. cit.*, p. 83.

⁸⁴ Business Income Tax Review; please see federal Treasury [website](#) for further information.

⁸⁵ CEDA (2017) *op. cit.*, p. 82.

Since the reforms were implemented, evidence has shown that they are pro-cyclical and work to exacerbate existing housing market volatility. Because of generous negative gearing provisions combined with the CGT, investors have been incentivised to purchase debt-financed property to achieve speculative gains that are taxed softly when compared to other sources of income.⁸⁶

The Grattan Institute concludes that:

negative gearing in Australia goes beyond generally accepted principles for offsetting losses against gains. It distorts investment decisions and increases the volatility of housing markets. Among its antisocial effects it reduces home ownership and the availability of long-term rentals, but does not materially increase housing supply. It reduces tax collections, imposing pressures on the budget and creating the need for higher taxes of deficits. And it is regressive, benefiting those on high incomes much more than those on low incomes.⁸⁷

These reports demonstrate that the use of subsidies such as CGT and negative gearing has contributed to inflationary pressures on the residential property market, increasing competition for housing.⁸⁸

⁸⁶ *ibid.*

⁸⁷ J. Daley, D. Wood and H. Parsonage (2016) *op. cit.*, p. 20.

⁸⁸ CEDA (2017) *op. cit.*, p. 91.

3. How are we addressing it?

Housing affordability is a pressing issue in Australia that has attracted significant media attention, research, community concern and policy change. As previously mentioned, housing affordability is at an unprecedented level due to historically low interest rates, a sustained period of economic growth and high levels of immigration.⁸⁹ In this context, rising unaffordability will need to be addressed. There is a wide variety of policy, taxation and funding mechanisms that can contribute to housing outcomes in Victoria and Australia. The following section reviews current actions and commitments from the federal government, before highlighting the differing policies across Victoria, New South Wales, Queensland, South Australia and Western Australia.

This section acknowledges policies relevant to housing affordability and affordable housing. While these are interlinked concepts, they are not the same. *Housing affordability* refers to the relationship between expenditure on housing (prices, mortgage payments or rents) and household incomes, and usually uses price-to-income ratios to measure affordability. In contrast, *affordable housing* specifically refers to housing that is appropriate for the needs of a range of very low- to moderate- income households, and priced (whether mortgage repayments or rent) so these households are able to meet their other essential basic living costs.⁹⁰

Federal government policy

Federal government policy impacts on both housing affordability and affordable housing. The primary contribution the federal government makes to *housing affordability* in Australia is through taxation mechanisms and policies that impact population growth. As mentioned earlier, key taxation policies have supported home ownership and investment in Australia for decades. In particular, financial deregulation in the 1980s increased access to credit for previously credit-constrained households. At the same time, changes to the tax treatment of owner-occupied housing exempted these homes from capital gains tax and assets testing for the aged pension, thereby advantaging investment in owner-occupied housing. Similarly, negative gearing and capital gains tax policies continue to distort the market by encouraging over-investment and over-leveraging in the housing market as ‘the tax treatment of investor housing, in particular, tends to encourage leveraged and speculative investment.’⁹¹

The federal government supports low income households to access *affordable housing* through the National Housing and Homelessness Agreement (NHHA). The NHHA was announced in 2017 and replaces the National Affordable Housing Agreement (NAHA) that functioned from 2009.⁹² The NHHA is an agreement between the federal government and state and territory governments, designed to increase the supply of new homes and improve outcomes for all Australians across the housing spectrum. It commits \$4.6 billion over three years to states and territories with funding linked to outcomes in aggregate supply targets, including:

- Targets for affordable and social housing;
- Residential land planning and zoning reforms;
- Inclusionary zoning arrangements;

⁸⁹ CEDA (2017) op. cit.

⁹⁰ Victorian Government (2017) op. cit.

⁹¹ Financial System Inquiry Committee (2014) *Financial System Inquiry: Final Report*, Parkes, Commonwealth of Australia, p. 278.

⁹² Australia Government Department of Social Services (2017) *National Affordable Housing Agreement*, DSS website.

- Renewal of public housing stock; and
- Homelessness services.⁹³

The other major federal investment in housing affordability is delivered through Commonwealth Rent Assistance (CRA), an on-going, non-taxable income support payment to eligible households currently renting in the private market or from a housing association. The CRA was accessed by 1.35 million households in 2016 with a median payment of \$130 per fortnight.⁹⁴

May 2017 federal budget

The May 2017 federal budget reflects an increased focus on housing affordability and affordable housing at the federal level. The budget contained a ‘comprehensive plan to address housing affordability,’⁹⁵ including measures to influence consumers of property and measures to increase the supply of housing. Measures to influence consumers of property included changes to superannuation options for first home buyers through the ‘first home super saver scheme.’ This scheme allows voluntary contributions of \$15,000 per annum and \$30,000 in total (per person if in a couple) to superannuation for prospective first home buyers from July 2017.

First home buyers who choose to save for a deposit using this mechanism will receive a small benefit in tax concessions. Similarly, changes will allow older Australians who are downsizing to make a non-concessional (post-tax) contribution into their superannuation of up to \$300,000 from the proceeds of selling their home. This policy is aimed at encouraging ageing Australians currently occupying large homes to vacate these properties, move to smaller homes and open this housing stock to larger households. These policies received a tepid response from housing commentators.⁹⁶

The federal budget also contained policies designed to increase the supply of housing. These included:

1. Establishing a National Housing Infrastructure Facility (NHIF) to fund infrastructure that supports housing development;
2. Releasing surplus federal land; and
3. Creating the National Housing Finance and Investment Corporation (NHFIC) to provide cheaper and longer-term finance to community housing providers.

The NHIF is a \$1 billion fund to support critical infrastructure that facilitates the supply of new housing. Delivered through concessional loans, grants and equity investments issued to local governments through a competitive application process, the funding will support transport links, power and water infrastructure and site remediation works in locations with the potential for significant new housing supply.⁹⁷ This funding is intended to empower local councils to address blockages in the development of land and expedite the progress of housing to the market. The NHIF will be complemented by the release of federal government land for housing development. The first major Victorian site is the Maribyrnong Defence Site in Melbourne, which is expected to support around 3,000 homes.⁹⁸

⁹³ The Treasury (2017) *Reducing Pressure on Housing Affordability*, Fact Sheet 1.7 – A new National Housing and Homelessness Agreement, Treasury website.

⁹⁴ Australian Institute of Health and Welfare (2017) *Housing Assistance in Australia 2017*, AIHW website.

⁹⁵ Australian Government (2017) *A Comprehensive Plan to Address Housing Affordability*, Fact sheet 1.1, Budget 2017–18 website.

⁹⁶ See, for example: R. Holden (2017) ‘Budget 2017: government still tinkering with housing affordability’, *The Conversation*, 9 May; and C. Whitzman & K. Raynor (2017) ‘2017 Budget – Affordable housing for whom?’, *Pursuit*, 10 May.

⁹⁷ The Treasury (2017) *Reducing Pressure on Housing Affordability*, Fact Sheet 1.2 – National Housing Infrastructure Facility, Treasury website.

⁹⁸ VicUrban (2010) *Maribyrnong Shared Vision: September 2010*, Places Victoria website.

The federal budget also announced a new affordable housing bond aggregator mechanism to be delivered by the NHFIC. It will aggregate and source large amounts of capital from the bond market to provide lower-interest, long-term loans to not-for-profit housing associations developing housing for lower-income households.⁹⁹ The NHFIC will:

- Assess loan applications from Community Housing Providers (CHPs);
- Raise funds from bonds issued by specific banks to institutional investors;
- Distribute the money to CHPs; and
- Manage repayments.

By aggregating funds and guaranteeing the loans, this mechanism reduces the cost of finance and increases the length of funding for community housing providers, thereby increasing their capacity to deliver affordable housing. However, the bond aggregator will not create a development pipeline on its own. This is because the improved access to credit will not be significant enough to dramatically increase the viability of affordable and social housing. One housing expert has argued that the mechanism must be accompanied by public co-investment or subsidy, and good regulation, in order to be effective.¹⁰⁰

State and territory housing policy

Victorian housing and planning policy

In March 2017, the Victorian State Government released two key policy documents: *Homes for Victorians* and the revised *Plan Melbourne*. These documents were released soon after Infrastructure Victoria's *30-Year Infrastructure Strategy*,¹⁰¹ which defines social housing as critical social infrastructure and draws attention to a significant deficit of affordable and social housing in the state.

*Homes for Victorians*¹⁰²

According to the Victorian Government, *Homes for Victorians* provides a 'co-ordinated approach across government, and across our state'.¹⁰³ It includes:

- Abolishing stamp duty for first time buyers on homes up to \$600,000 and cuts to stamp duty on homes valued up to \$750,000;
- Doubling the First Home Owner Grant to \$20,000 in Regional Victoria to make it easier for people to build and stay in their community;
- Creating the opportunity for first home buyers to co-purchase their home with the Victorian Government;
- Making long-term leases a reality;
- Building and redeveloping more social housing – supporting vulnerable Victorians while creating thousands of extra jobs in the construction industry.¹⁰⁴

The document is an example of integrated planning policy from the Victorian Government. It outlines actions to improve access to secure housing under the themes of:

⁹⁹ J. Lawson et al. (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, Melbourne, AHURI.

¹⁰⁰ J. Lawson (2017) 'Bond aggregator helps build a more virtuous circle of housing investment', *The Conversation*, 10 May.

¹⁰¹ Infrastructure Victoria (2016) *Victoria's 30-year Infrastructure Strategy*, Melbourne, State of Victoria.

¹⁰² Victorian Government (2017) op. cit.

¹⁰³ D. Andrews (2017) *Homes for Victorians*, Premier of Victoria website, 5 March.

¹⁰⁴ *ibid.*

1. Supporting people to buy their own home;
2. Increasing the supply of housing through faster planning;
3. Promoting stability and affordability for renters;
4. Increasing and renewing social housing stock; and
5. Improving housing services for Victorians in need.¹⁰⁵

These actions and strategies will be further outlined in Table 3, below.

*Plan Melbourne*¹⁰⁶

Plan Melbourne outlines a goal to reform planning systems for social and affordable housing. In particular, the Minister for Planning introduced the Planning and Building Legislation Amendment (Housing Affordability and Other Matters) Bill 2017 in June of this year,¹⁰⁷ which amends the *Planning and Environment Act 1987* (Vic) to formally recognise and give statutory effect to the delivery of social and affordable housing as a legitimate planning outcome in Victoria. This Bill introduced a definition of affordable housing to the Victorian planning system¹⁰⁸ and allowed for future applications of inclusionary zoning in Victoria. The Bill received Royal Assent in September 2017 and all provisions come into effect by June 2018.¹⁰⁹

Another key housing-related change to emerge from *Plan Melbourne* is the creation of metropolitan regional planning groups charged with creating housing plans. These plans are required to outline the capacity for additional dwellings in an area, identify opportunities for higher densities and housing diversity and assess what policy, statutory planning and infrastructure frameworks will be required to realise this housing capacity.

Comparing housing policy across selected Australian states

State governments have a range of tools they can use to have an impact on housing affordability. The following section provides an overview of the various tools and mechanisms employed in Victoria, New South Wales, Queensland, South Australia and Western Australia. The policies have been categorised based on what they intend to achieve:

1. Supporting first home buyers;
2. Supporting tenants in the private market;
3. Supporting social housing; and
4. Increasing the supply of market and affordable housing.

¹⁰⁵ Victorian Government (2017) op. cit.

¹⁰⁶ Victorian Government (2016) 'Plan Melbourne 2017–2050', State Government of Victoria website.

¹⁰⁷ R. Wynne, Minister for Planning (2017) 'Second reading speech: Planning and Building Legislation Amendment (Housing Affordability and Other Matters) Bill 2017', *Debates*, Victoria, Legislative Assembly, 21 June, p. 1920.

¹⁰⁸ **Section 3AA - Meaning of affordable housing:** (1) For the purposes of this Act, *affordable housing* is housing, including social housing, that is appropriate for the housing needs of any of the following— (a) very low income households; (b) low income households; (c) moderate income households (...) **Section 3AB - Order in Council specifying income ranges:** (1) The Governor in Council, on the recommendation of the Minister, by Order published in the Government Gazette, may specify— (a) a range of household income as a very low income range; and (b) a range of household income as a low income range; and (c) a range of household income as a moderate income range. (2) An Order under this section may specify a range of household income as a very low income range, a low income range or a moderate income range by reference to statistical data published by the Australian Bureau of Statistics.

¹⁰⁹ *Planning and Building Legislation Amendment (Housing Affordability and Other Matters) Act 2017* (Vic)

Table 3. Comparison of housing policy across selected Australian states

	VIC Homes for Victorians, 2017	NSW Diverse and Affordable Housing policies	QLD Queensland Housing Strategy 2017–2027	SA Housing Strategy for South Australia 2013–18	WA Affordable Housing Strategy 2010–2020: Opening Doors to Affordable Housing
First home buyers and homeowners					
First Home Owner Grant	\$10,000 for new homes in Melbourne \$20,000 for new homes in regional Victoria ¹¹⁰	\$10,000 for builders of new homes up to \$750,000 and purchasers of new homes up to \$600,000 ¹¹¹	\$20,000 for new homes up to \$750,000 ¹¹²	Up to \$15,000 for new homes up to \$575,000 ¹¹³	Up to \$10,000 for new homes up to \$1,000,000 ¹¹⁴
Stamp and transfer duty concessions	Abolition of duty fees for first home buyers for properties up to \$600,000 and concessions on properties up to \$745,000	Abolition of stamp duty for first home buyers on all homes up to \$650,000, staged up to \$800,000 ¹¹⁵	First home transfer duty concession of up to \$8,750 ¹¹⁶	Off-the-plan stamp duty concession of up to \$21,330 ¹¹⁷	Transfer duty concessions vary depending on home and land value
Shared equity schemes	Newly implemented HomesVic program will allow Victorian Government to co-purchase properties with 400 eligible first home buyers Newly implemented Buy Assist program managed by the National Affordable Housing Consortium ¹¹⁸	-	-	The state government's <u>HomeStart</u> home loans business has provided more than 2,500 shared equity loans to first home buyers	KeyStart Home Loans help low income first home buyers through Shared Home Ownership ¹¹⁹

¹¹⁰ Victorian Government (2017) op. cit.

¹¹¹ New South Wales Government (2017) *A fair go for first home buyers*, NSW Government website.

¹¹² Queensland Government (2016) *Queensland First Home Owners' Grant*, Queensland Government website.

¹¹³ RevenueSA (2017) *First Home Owner Grant*, Government of South Australia website.

¹¹⁴ Government of Western Australia (undated) *About the First Home Owner Grant*, Department of Finance website.

¹¹⁵ New South Wales Government (2017) op. cit.

¹¹⁶ Queensland Government (2017) *Home transfer duty concession rates*, Queensland Government website.

¹¹⁷ RevenueSA (2017) *I am a First Home Buyer*, Government of South Australia website.

¹¹⁸ Victorian Government (2017) op. cit.

¹¹⁹ Government of Western Australia Housing Authority (2016) *Shared Home Ownership: Frequently Asked Questions*, East Perth, Housing Authority.

Social housing tenants purchasing their home	Social tenants can apply to purchase their social housing dwelling if they have been a tenant for over seven years and are not in a high-demand area ¹²⁰	Sale of home to tenants at any point pursuant to conditions	Pathways to home-ownership for public housing tenants through shared equity, loans and rent-to-buy schemes ¹²¹	Social tenants can purchase their own homes if they are available ¹²²	The Good Start Home Loan supports Housing Authority tenants to purchase their own dwelling or any other dwelling offered by the Housing Authority ¹²³
Rebates on purchase price	-	Rebates on purchase price for eligible low- to moderate-income households	-	Affordable Homes is a SA government program that offers affordable homes to low income households at an affordable price before they are offered to others ¹²⁴	-
Government-supported low-interest and low-deposit loans	-	-	The Queensland Housing Finance Loan may be available for Queenslanders who can afford to buy or build a home but cannot get private finance from a bank or building society ¹²⁵	Since it was established, HomeStart has helped more than 66,000 South Australians into home ownership using low deposit and low interest loans ¹²⁶	KeyStart provides a variety of low deposit and low interest loans to eligible Western Australians ¹²⁷
Changing the balance between home buyers and investors	Abolishing off-the-plan stamp duty concessions for all purchasers except first home buyers 1.5% vacant residential land tax surcharge in inner or middle ring Melbourne to be instigated from 2018	Foreign Investor Surcharge Duty doubled from 4% to 8% in 2017 Land tax surcharge on foreign buyers will rise from 0.75 to 2 per cent a year in 2017	1.5% land tax surcharge for foreign investors	-	-

¹²⁰ Department of Human Services (2017) *Buy your public housing property*, DHS website.

¹²¹ Queensland Government (2017) *Queensland Housing Strategy 2017–2027*, Queensland Government website.

¹²² Government of South Australia (2017) *Buying your public housing property*, Government of SA website.

¹²³ Keystart Home Loans (2017) *Goodstart Home Loan*, Keystart website.

¹²⁴ Affordable Homes (undated) *Buy your home the smart way*, Affordable Homes website.

¹²⁵ Queensland Government (2017) *Queensland Housing Strategy 2017–2027*, op. cit.

¹²⁶ Government of South Australia (undated) *HomeStart Finance: Fast Facts*, HomeStart Finance website.

¹²⁷ Keystart Home Loans (2017) op. cit.

Supporting renters in the private market					
Changing tenancy rights	<i>Residential Tenancies Act 1997</i> currently under review to allow leases of more than 5 years and additional tenant rights	<i>The Residential Tenancies Act 2010</i> was passed in 2010, to fairly balance rights and obligations for landlords and tenants. This was the first substantial change to tenancy laws in NSW in 20 years	<i>Residential Tenancies and Rooming Accommodation Act 2008</i> currently under review to increase transparency and add limitations to rental increases		
Private rental assistance	Private rental assistance of approximately \$16 million per year for 4,000 households ¹²⁸	Social housing providers can provide a variety of supports to help a tenant sustain and access private market rentals including private rental brokerage, brokerage funds, tenancy guarantees and medium-term private rental subsidies	A range of financial assistance including loans, rental subsidies, head leases and supports such as the extension of bond loans ¹²⁹	PR Connect is a SA Government service to help eligible people pay bond and rent	Rent subsidies
Supporting social housing					
Direct funding and revolving funds	Social Housing Growth Fund of \$1 billion to draw down on to support projects and partnerships. The goal is 2,200 homes over 5 years ¹³⁰	Social and Affordable Housing Fund of \$1.1 billion Purchasing holistic social housing services on up to 25 year contracts ¹³¹	\$1.6 billion investment in social and affordable housing over 10 years ¹³²	-	\$560 million social housing investment package – the goal is to create 1,000 new homes
Redeveloping public housing estates	The Public Housing Renewal Program will redevelop up to 2,500 public housing dwellings and increase the number of social housing properties by at	Communities Plus is a \$22 billion building program to renew the NSW Government’s social housing portfolio. It includes major projects, new	Better Neighbourhoods Logan may involve redevelopment of public housing estates and public housing properties in Logan	Neighbourhood Urban Renewal Projects will renew social housing sites and create a mix	The New North urban renewal project in Perth saw 1,405 former public housing properties refurbished and sold, 1,255 properties

¹²⁸ Victorian Government (2017) op. cit.

¹²⁹ Queensland Government (2017) *Queensland Housing Strategy 2017–2027*, op. cit.

¹³⁰ Victorian Government (2017) op. cit.

¹³¹ New South Wales Government (undated) *Social and Affordable Housing Fund*, NSW Government website.

¹³² Queensland Government (2017) *Queensland Housing Strategy 2017–2027*, op. cit.

	least 10 per cent across metropolitan and regional sites ¹³³	communities and neighbourhood projects that mix public and private housing ¹³⁴		of affordable, social and market housing ¹³⁵	refurbished and retained as social housing rentals and 290 residential lots developed ¹³⁶
Stock transfer from public housing to community housing providers	Title transfer of 1,200 homes to Aboriginal Housing Victoria over the course of three years from 2017 to 2020 ¹³⁷	14,000 public housing management titles will be transferred to community housing providers between 2017 and 2020 ¹³⁸	4,700 units were planned to be transferred to Community Housing Providers through the Logan Renewal Initiative as part of a larger goal of 90% of public housing being transferred by 2020 in QLD. This plan was cancelled in 2016.	Property management of 1,100 public housing dwellings was transferred from public housing to Community Housing providers in 2015 and a further 4,000 will be transferred in September 2017 ¹³⁹	The Social Housing Initiative saw 1,291 transfers to WA community housing providers as at September 2012. Transfers have increased at a slower rate since then ¹⁴⁰
Promoting supply					
Government development role	Development Victoria focused on development, urban renewal and community connection, although little focus on affordability	UrbanGrowth NSW is the NSW Government urban transformation agency that focuses on large-scale urban transformation projects	Economic Development Queensland is a land use planning and property development unit that engages with state and local government, the development industry and the public to identify, plan, facilitate and deliver property development and infrastructure projects	Renewal SA facilitates development opportunities through access to government land holdings. They also manage the 15% affordable housing policy mandated by the government	Land Corp works to deliver affordable housing by supplying land in areas of market failure, delivering affordable land and housing options and implementing affordable living initiatives ¹⁴¹
Annual development targets	-	61,000 dwelling completions per financial year to 2020–21 ¹⁴²	-	-	-

¹³³ Victorian Government (2017) op. cit.

¹³⁴ New South Wales Government (undated) *Communities Plus*, NSW Government website.

¹³⁵ RenewalSA (2017) *Renewing our streets and suburbs*, Government of South Australia website.

¹³⁶ B. Grylls, Minister for Housing, Racing and Gaming (2016) *New North urban renewal 18 years in the making*, media release, 1 September.

¹³⁷ Victorian Government (2017) op. cit.

¹³⁸ New South Wales Government (undated) *Management Transfer Program*, NSW Government website.

¹³⁹ Government of South Australia (2017) *The transfer of public housing properties to community housing providers*, Government of South Australia website.

¹⁴⁰ Community Housing Coalition WA (2015) *Doing more with what we already have*, Perth, Community Housing Coalition WA.

¹⁴¹ LandCorp (2016) 'Affordability,' *Sustainable Development*, LandCorp website.

¹⁴² New South Wales Government (2017) op. cit.

Land supply	100,000 additional lots in growth areas at the city periphery Commitment to government-driven urban renewal projects	Proposed Greenfield Housing Code designed to expedite housing approvals on greenfield sites ¹⁴³ Commitment to government-driven urban renewal projects	\$5 million commitment to planning and land-supply monitoring across the southeast from the state government announced in July 2017 ¹⁴⁴	Commitment to government-driven urban renewal projects	Commitment to government-driven urban renewal projects
Inclusionary Zoning	Currently negotiated on a case-by-case basis Inclusionary zoning on government land pilot program Voluntary inclusionary zoning on major developments	2% of housing in Ultimo-Pymont and Green Square ¹⁴⁵	5–25% inclusionary zoning on underutilised government land proposed ¹⁴⁶	15% affordable housing in all significant development projects – at least 5% for high-needs groups ¹⁴⁷	-

¹⁴³ New South Wales Government Department of Planning and Environment (2017) *Review of Complying Development in Greenfield Areas*, DP&E website.

¹⁴⁴ A. Palaszczuk, Premier (2017) *Expert panel to monitor SEQ land supply and housing demand: Premier*, media release, 25 July.

¹⁴⁵ City of Sydney (2016) *Affordable Housing*, Sydney, City of Sydney.

¹⁴⁶ Queensland Government (2017) *Queensland Housing Strategy 2017–2027*, op. cit.

¹⁴⁷ RenewalSA (2017) op. cit.

First home buyers and home owners

First Home Owner Grant and duty concessions

Each of the states surveyed above currently has a First Home Owner Grant (FHOG) scheme. While this is a politically popular mechanism, research is divided as to whether this increases the purchasing power of first home buyers, or whether the grant is passed directly to existing home owners and developers in the form of higher purchase prices.¹⁴⁸ This is because the grant stimulates demand instantly while supply is relatively inelastic. Perhaps in response to this criticism, the most recent iterations of these grants across Australia no longer apply to existing dwellings and only apply to new dwellings to stimulate supply and encourage new construction. Concessions on transfer duties for first home buyers is also widespread, but is similarly questioned for its ability to increase purchase prices in response to increased purchasing power. Reducing transfer duties is part of a wider debate about the inefficiency of transaction costs in the housing market. Many parties advocate the use of an annual land tax to replace stamp duty in order to reduce transaction costs of purchasing and selling property.¹⁴⁹

Shared equity schemes and low-deposit and low-interest loans

According to the Victorian Government, shared equity:

involves the Government, or another entity, taking part ownership or equity in a dwelling in partnership with the home buyer. By allowing the home buyer to pay less than 100 percent of the property they require a smaller loan and deposit – thereby allowing them to enter the market earlier.¹⁵⁰

By allowing lower-income first home buyers to co-purchase their home, this strategy reduces a major barrier to homeownership—gathering a home deposit.

Shared equity programs have functioned in SA and WA for decades in the form of HomeStart and KeyStart, respectively. HomeStart Finance is a state government organisation that functions as a profitable financial organisation with a focus on social responsibilities. KeyStart was established in 1989 to provide low-deposit home loans to West Australians unable to meet the deposit requirements from mainstream lenders. The Western Australian Housing Authority is the sole shareholder in the business. Homestart and Keystart also offer more traditional low-interest and low-deposit loans to eligible households. Keystart helped more than 85,000 West Australians access home ownership between 1989 and 2014.

Despite its long-running application in SA and WA, shared equity has only recently been introduced in Victoria in the form of VicHomes—run by the state government—and Buy Assist, run by the National Affordable Housing Consortium. Shared equity is being investigated in Queensland. It is yet to be applied in NSW, despite considerable lobbying efforts from the Sydney Alliance. Similarly, Victoria, NSW and QLD do not currently offer state government-managed low-deposit home loans.

Shifting the balance

Recent policy in QLD, NSW and Victoria has featured a strong focus on shifting the housing market away from investors and towards owner-occupiers—and particularly first home buyers. In Victoria, this has taken the form of a proposed tax on properties left vacant for more than six months of the year, and variations to the treatment of stamp duty on off-the-plan purchases. In NSW this involves doubling

¹⁴⁸ D. Blight, M. Field & Eider. Henriquez (2012) 'The First Home Buyer Grant and house prices in Australia', *Deakin Papers on International Business Economics*, Vol. 5.

¹⁴⁹ J. Daley & B. Coates (2015) *Property Taxes*, Carlton, Grattan Institute.

¹⁵⁰ Victorian Government (undated) *Fact sheet: Shared equity*, State Government of Victoria website.

the Foreign Investor Surcharge Duty from 4 per cent to 8 per cent in 2017. Both NSW and QLD have recently implemented a land tax surcharge for foreign investors.

Supporting renters in the private market

The 2016 Census revealed that renters in the private market constituted 30 per cent of Australia's households and 30 per cent of Greater Melbourne's households.¹⁵¹ Renters are the group most likely to experience housing stress and insecurity of tenure. Australia has one of the most unregulated rental markets in the world and, by international standards, tenants in Australia receive relatively little protection through tenancy law legislation.¹⁵²

Across Victoria and NSW, legislation is currently being reviewed to increase the rights of renters. In Victoria the *Residential Tenancies Act 1997* is being reformed to allow for five-year leases. Changes in NSW are focused on increasing the transparency of tenancy agreements. The primary support for low income households in the private market is delivered through Commonwealth Rental Assistance payments. However, all states provide some support in the form of bond guarantees, short-term rental assistance, rental brokerage services and head-leasing arrangements.

Build-to-rent housing

The private rental market is likely to change significantly in coming years as investors and developers increasingly embrace build-to-rent housing. Build-to-rent housing is a housing form in which a single entity, usually an institutional investor like a superannuation fund, owns an entire building and retains the building as a long-term rental asset. This housing form is common in Switzerland, Japan and the United States, and is increasingly common in the United Kingdom. It isn't currently occurring on a large scale in Australia, partially due to existing taxation policies, changing government policy settings, a lack of industry knowledge and a lack of product liquidity.¹⁵³ However, it is likely that this housing form will be increasingly common in Australia over the next decade. This change may result in longer-term leases, more regulated rental conditions and the professionalisation of tenancy management services. It is unlikely to deliver significantly more affordable housing if it is not accompanied by explicit policy that enforces degrees of affordable housing provision.

Supporting social housing

The latest tranche of housing policy in Victoria, QLD and NSW has included a pool of funds to support investment in additional social housing. In Victoria, this has taken the form of the Social Housing Growth Fund that is anticipated to support 2,200 homes over five years. This Fund is a pool of funding designed to support partnerships between community housing providers, private developers and the government, that result in new social and affordable housing. The fund will be issued on a competitive basis to bidding consortia.

In NSW the \$1.1 billion Social and Affordable Housing Fund will fund the purchase of social housing services from a range of organisations on up to 25 year contracts. Both the Victorian and NSW approaches reflect a strong focus on partnership and market-led development of social housing. The QLD housing strategy explicitly focuses on stimulating the construction sector and commits \$1.6 billion to increasing affordable and social housing between 2017 and 2027, with a goal of delivering 4,522 social homes and 1,034 affordable homes statewide.

Another wide-spread approach impacting public housing is the redevelopment of public housing estates. In Victoria, the plan to redevelop nine public housing estates in Melbourne will draw on private

¹⁵¹ ABS (2017) *2016 Census QuickStats*, ABS website.

¹⁵² T. Seelig, T. Burke & A. Morris (2006) *Motivations of investors in the private rental market*, Melbourne, AHURI.

¹⁵³ V. Milligan et al. (2015) *Next moves? Expanding affordable rental housing in Australia through institutional investment*, Sydney, City Futures Research Centre, UNSW.

developers to create higher-density mixed-income and mixed-tenure communities on the public housing estates. The plan will deliver both social and market housing at each location and result in at least a 10 per cent increase of social housing on each site; the state government will retain ownership of the land and management of the public housing component. A similar approach to renewing social housing to incorporate market housing and other land uses is evident in the \$22 billion Communities Plus program in NSW and in the Neighbourhood Urban Renewal Project in SA.

Encouraging supply

All state governments include a department or unit that plays a role in facilitating and delivering urban development, often with a focus on renewal of inner-city sites that are transitioning from industrial to mixed-use purposes. However, only SA and WA feature an explicit mandate to ensure housing delivered through these programs is affordable.

State governments also focus on facilitating the development of large parcels of land, both within existing areas and at the periphery of cities. While all capital cities in Australia now have Urban Growth Boundaries and a policy focus on infill development and densification, the release of greenfield land continues to be used as a strategy for increased housing supply. The Victorian Government rezoned 100,000 new lots of land and created 17 new suburbs in Melbourne's key growth zones on the city periphery in early 2017.¹⁵⁴ In NSW, the proposed Greenfield Housing Code is intended to expedite planning approvals on greenfield housing developments at the city's outskirts.¹⁵⁵ This is a less relevant consideration in WA and SA where stagnating populations have reduced demand for greenfield development.

Inclusionary zoning

Another key mechanism used extensively in SA and internationally is inclusionary zoning. Inclusionary zoning is a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings. Despite being used extensively in San Francisco, London, New York and Vancouver,¹⁵⁶ inclusionary zoning is not commonly applied in Australia. In SA a 15 per cent affordable housing policy has been in place since 2005, resulting in certainty for the property industry and over 5,000 affordable housing commitments.¹⁵⁷ In Sydney's Ultimo Pyrmont District an inclusionary zoning program has yielded 450 affordable rental dwellings.¹⁵⁸ *Victoria's Planning and Environment Act 1987* is currently being revised to include a definition of affordable housing and to designate affordable and social housing as a legitimate planning concern. These changes are intended to empower local councils to negotiate inclusionary housing contributions on private developments.

How the policies compare

While there are some policies that are applied across all reviewed states, such as the FHOGs and stamp duty concessions for first home buyers, there is also significant jurisdictional difference. This can be partially attributed to the time in which the strategies were released, the political context in each state and the affordability pressures impacting each location.

South Australia and WA, with their current housing strategies having launched in 2010 and 2013 respectively, have longer histories of embedded housing affordability strategies than QLD, NSW and Victoria. These states have implemented and managed several strategies that are not evident in other

¹⁵⁴ Victorian Government (2017) op. cit.

¹⁵⁵ New South Wales Government Department of Planning and Environment (2017) op. cit.

¹⁵⁶ K. Breen (2015) *International approaches to facilitating affordable housing outcomes and their application to Victoria, Australia*, AV Jennings Churchill Fellowship, Acton, Churchill Trust.

¹⁵⁷ B. Hallsworth (2015) 'Ten years of inclusionary zoning in South Australia', *Parity*, 28(9), November.

¹⁵⁸ City of Sydney (2016) op. cit.

states or have only recently emerged. In particular, HomeStart and KeyStart have played key roles in facilitating home-ownership in these states through low-deposit loans and shared equity programs.

Similarly, RenewalSA plays a strong governmental role in managing the 15 per cent affordable housing targets for the state and facilitating development. These states are experiencing different housing pressures to Victoria and NSW. In WA, the end of the mining boom has resulted in a property glut and a period of house price decline after years of dramatic price increases. In SA, lacklustre job growth is presenting challenges for the state and has contributed to lower house prices.

In contrast, NSW and Victoria are responding to rapid house price increases and strong population growth. Queensland, NSW and Victoria show substantial similarities in their housing policy. All three states released a housing strategy or significant policy changes in 2017. In particular, all three have targeted foreign investors in recent strategies through land taxes, vacancy taxes and changes to stamp duty concessions.

Additionally, all states have committed funds to social housing projects, based on a partnership model with the private sector. These are accompanied by public housing renewal programs that aim to integrate public and private housing on publicly owned land. Finally, QLD, Victoria and NSW have recently made moves to increase the supply of greenfield housing at the city periphery, whether through the release of land, changes to expedite planning processes or through the reinstatement of land management departments.

Glossary

Affordable housing – housing that is appropriate for the needs of a range of very low- to moderate- income households, and priced (whether mortgage repayments or rent) so these households are able to meet their other essential basic living costs.

Asset price bubble – when the price of an asset (such as housing) becomes over-inflated, meaning its price strongly exceeds its intrinsic value.

Bond aggregator – aggregates large amounts of capital from the bond market in order to provide low interest, long-term loans to not-for-profit community housing providers.

Debt-to-income ratio – measures an individual's debt payment to their income and is often used to assess one's ability to manage monthly mortgage repayments and other debts.

Generation rent – a generation of young adults who, because of high house prices, live in rented accommodation and are regarded as having little chance of becoming homeowners.

Head-leasing – a practice undertaken in the community housing sector, where non-government organisations head-lease housing stock from the private sector and state and territory governments, and sublease it directly to the tenants.

Housing affordability – refers to the relationship between expenditure on housing (prices, mortgage payments or rent) and household incomes, and usually uses price-to-income ratios to measure affordability.

Inelastic (supply) – a situation where an increase or decrease in the price of an asset, good or service does not result in the parallel increase or decrease in its supply.

Inflationary pressures – the demand and supply side pressures that can cause a rise in price levels.

Mortgage stress – a household paying 30 per cent or more of its income on home loan repayments.

Price-to-income ratio – the relationship between median house prices and median household earnings; often used as an indicator to assess housing affordability. It is calculated by dividing the median house price by median household earnings. The higher the resulting figure, the more unaffordable housing is.

Pro-cyclical – a positive correlation between the value of a good or asset (e.g. residential property) and the overall state of the economy. In this example, housing tends to move in the same direction as the economy.

Quintile – a statistical value representing 20 per cent of a given population.

Ratio measures – a measure of the relationship between housing expenditure and household income.

Real interest rate – an interest rate that has been adjusted to remove the effects of inflation in order to reflect cost to the borrower.

Residual measures - a measure of the ability of a household to maintain an acceptable living standard after housing costs have been deducted.

Rental stress – a household paying 30 per cent or more of its income on rent.

Speculative gains – the buying or selling of goods or assets based on the belief that a future event or policy will result in a substantial change in price.

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Enquiries:

Jon Breukel

Coordinator, Research & Inquiries

Victorian Parliamentary Library & Information Service

Parliament House

Spring Street, Melbourne

Telephone (03) 9651 8633

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