

## **HOME OWNERSHIP - AFFORDABILITY**

### *Motion*

Resumed from 6 December 2006 on the following motion moved by Hon Ray Halligan -

That this house condemns the government for the undue anxiety created for the many first home buyers through its inability, in a timely manner, to -

- (a) help reduce the cost pressures on residential land;
- (b) help reduce the supply and cost pressures associated with skilled labour; and
- (c) meet its election commitments to -
  - (i) address housing affordability;
  - (ii) increase social housing stock; and
  - (iii) encourage and enable home ownership.

**HON KATE DOUST (South Metropolitan - Parliamentary Secretary)** [4.18 pm]: When I last spoke on this matter I was representing the Minister for Housing and Works. Unfortunately, I no longer do so. Over the past three months, while we have been away from this wonderful chamber, I have given serious consideration to the lengthy, fairly pedestrian monologue provided to us by Hon Ray Halligan as he outlined his concerns and views relating to the motion before us. I wondered how to respond to this. I really did not want to spend as much time on it as he had because I thought I should truly be a caring and sharing person and allow my colleagues the opportunity to have a say. I know that a number of them are very keen to do so.

I looked back at *Hansard* of 6 December and decided that in the three minutes afforded to me on that date, I had indeed provided elegant sufficiency in my response on that issue. Rather than repeating my comments, which put forward very clearly the government's position on these matters, I will sit down and allow Hon Sally Talbot or the minister representing the Minister for Housing and Works to provide good, solid debate for why Hon Ray Halligan is going down the wrong path with his criticism of this government.

**HON SALLY TALBOT (South West)** [4.20 pm]: I am very pleased to have the opportunity to contribute to the debate on this motion and to be able to pick up once again on some very positive things that have been happening over the past few months, particularly in the area where I spend most of my life outside this place; namely, Mandurah, in the Peel region. I will start by acknowledging the work that is being done by the current Minister for Housing and Works and the previous minister, Hon Fran Logan. He was the minister responsible for finally producing the government's draft housing strategy, which is a ground-breaking document. It will form the basis for discussions about the provision of housing in this state for many years to come. That document is already generating a lot of very productive discussion about the way we plan for the short to medium and long term. He ceded the portfolio to Michelle Roberts about 12 months ago.

I am taking an active interest in housing in the Peel region, which I want to talk about today, due to a particular request from Michelle Roberts. I am very pleased to report to the house that I accepted the position of chair of a working group into the provision of affordable housing in the Peel region. Our task is to develop an affordable housing plan for Peel. I am being very ably and actively assisted in my role as chair of that group by the Peel Development Commission, which is headed by Maree De Lacey, the chief executive officer. Maree has been kind enough to provide the services of Stephen Cummins, the senior policy and research coordinator for the PDC, who, in the short weeks we have been up and running, has done a stupendous amount of work getting the working party rolling. I am very appreciative of Stephen's assistance in putting together some of the background material and doing some of the practical work on the ground to get us started.

I have worked very closely with the minister on establishing the working group's objectives to guide us over the next few months. I was particularly keen to ensure that we did not produce just another centimetre or two of paper to sit on desks around the place; I want to achieve some practical outcomes. It will be no surprise to members in this place to learn of my motive for this. It is, of course, the expansion of the Peel region. They say in politics we must say something several hundred times before people start to absorb the messages. I say once again that in Peel we are poised to receive the enormous benefits of both a \$1 billion-plus rail service, which will commence operation on the last weekend of July, and the Perth to Bunbury highway, which has been costed at about \$550 million. They are two of the biggest infrastructure projects the state has undertaken. We are poised on the edge of a significant transformation. We must grab this opportunity with both hands and seize the moment to ensure that everybody in the community - including people who face the downside of the growth in the Peel region - benefits from the opportunities that arise from being located at the end of the rail service and mid-point between the Perth to Bunbury highway. That growth has been the subject of some controversy in the past 12 months or so. There has been what the media has portrayed as something of a stand-off between the city

and the state government. Given that I am as close to the situation as almost anyone, I am confident when I say it is not an unproductive stand-off. The Victorian ID Consulting report on population, which was commissioned by the City of Mandurah, came back with a figure that I understand the state Planning Commission is not unwilling to entertain as a slight modification of its own projections. I understand the Department for Planning and Infrastructure was working around a figure of about 100 000 people by 2021. ID Consulting has come back with a figure of close to 118 000. It is a significant difference, but I think we had begun a conversation about how we factor into our plans that kind of growth dimension. I am looking forward to working over the next few months through the final implications of this growth with both the people from the Department for Planning and Infrastructure and the City of Mandurah.

On the issue of affordable housing, one of the first things my working group undertook was a half-day seminar in Mandurah, to which we invited some of the key peak bodies and important agenda setters in the state to give us a briefing on the current situation. The turnout for that morning was really impressive, and I learnt a tremendous amount. I take off my hat to those people for coming to Mandurah and sharing some of their insights with us. I am sure my colleagues on the working group shared my enthusiasm for the presentations. Among other things, we were given another insight into the kinds of challenges that the growth in the housing market is presenting for people in Mandurah. Members might recall that the previous Mayor of Mandurah used to refer to Mandurah as the “tale of two cities”. That is not a line our present mayor has picked up; nonetheless, she is one of the first people to point out that half the population of the city, which is now around 73 000, is living on less than \$300 a week. Many of them are retired people who are no longer paying rent or mortgages. It is, nonetheless, an indication that a significant proportion of the population in Mandurah and the Peel region are very likely to face housing-related stress because of the booming conditions down there.

One of the pieces of data I picked up from that half-day seminar was that the lot price in Mandurah is 148.5 per cent of the Perth metropolitan average. That gives members an idea of the extent of the challenges facing us. Another element that is a particular problem in the Peel region, and which I know the Minister for Planning and Infrastructure is taking a very passionate and personal interest in, is the future of caravan sites in the area. Caravan sites in Peel have not only traditionally provided holiday accommodation for low-income people but also have been a place to which people who can no longer cope with housing-related stress have gravitated. They provide accommodation for people on very low incomes. We have a particular problem with residents of a caravan park that is designated to have a road put through it in the medium-term future. We have added the question of caravan site accommodation to our terms of reference. I refer in a direct way to the third part in particular of Hon Ray Halligan’s motion that questions the government’s commitment to address issues of first home affordability and the provision of an affordable housing strategy for the state. As the honourable member quite rightly pointed out, this was one of the government’s election commitments. I want to take members through the objectives that the Peel Affordable Housing Working Group is working towards.

The first is the development of an affordable housing plan for the Peel region that will provide guidance to all levels of government and industry on priorities and actions for optimising the match of housing and demand in the short, medium and long term. The second is to identify specific opportunities for increasing the supply of affordable housing arising from developments associated with the southern suburbs railway and other infrastructure projects, and the economic development of the region.

The economic development of the region is a subject well worth touching on in a little detail. The Boddington goldmine is to be the site of what I am told will be the largest goldmine in the southern hemisphere. This will place the Shire of Boddington under considerable pressure to provide housing for some of the 600 workers who are likely to be employed there in the not-too-distant future. The Shire of Waroona is also experiencing growth pressures. The Shire of Waroona is a very small shire. To have between 2 000 and 3 000 lots coming on-stream in the short term will be a real challenge for a shire that does not have the resources of a larger council. Therefore, it is very pertinent to insert a clause that emphasises the necessity for an increase in the supply of affordable housing that will arise from particular economic and transport-related developments in the region.

I draw members’ attention to a couple of other points before I hand over to other members to make their comments on this most important of subjects. Rental assistance provided under the Commonwealth-State Housing Agreement has fallen to a level pathetically inadequate to the task, and this is another reason for the urgent need of a housing strategy for the Peel region. I have been able to get some data that illustrates how the commonwealth Rent Assistance Scheme affects people living in Mandurah. My latest advice from the Real Estate Institute of Western Australia is that the average rental figure in 2003 for a three-bedroom house in Mandurah was in the range of \$160 per week. In the June 2006 quarter - these figures are over a three-year period - the average rental was in the range of \$220 per week. That is a \$60 increase over three years. Commonwealth rent assistance in 2003 represented 34 per cent of Mandurah’s median rent. That figure had fallen to 27 per cent by June 2006. Over this period, Mandurah rents increased by 37.5 per cent, compared to the

8.1 per cent increase in commonwealth rent assistance. That is another reason we have a real challenge in coming up with practical solutions to the housing difficulties faced by families in the Peel region.

The fact that there is no federal minister for housing is another major problem that falls well within the commonwealth government's ability to resolve; I cannot understand why it does not seem to be more willing to take on this problem. I share with the house an analysis of exactly why this presents a problem. I refer to a paper of April 2006 written by Julian Disney entitled "Over Our Heads - Housing Costs and Australian Families", in which he states -

It is remarkable that the Commonwealth Government has no Minister for Housing, let alone one with the requisite seniority and breadth of responsibilities that are needed to provide national leadership in an area of such fundamental economic and social importance. No other area is of greater importance to the daily lives of Australians or to the country's future.

Each of the policy initiatives that could achieve major improvements in housing affordability, rather than just tinkering at the edges, is crucially dependent on Commonwealth action on issues such as taxation and infrastructure investment. Yet there is no Minister around the Cabinet table with principal responsibility for promoting the interests of affordable housing and sound urban development.

Although the government will do its best to address housing issues in Peel and, indeed, at the statewide level, it could do with some assistance at federal level to iron out some of these inequities. I leave my comments there. I look forward to reporting back to the house in due course about the outcomes of the deliberations of this working group.

**HON GIZ WATSON (North Metropolitan)** [4.36 pm]: We are dealing with a motion that has been before the house since September last year, but it is as relevant now as it was when first moved by Hon Ray Halligan. The motion addresses the claim that the government has been unable or unwilling to help reduce the cost pressures on residential land, to do anything about skills shortages or to honour its election commitments with respect to housing affordability, increasing social housing stock and encouraging and enabling home ownership. It is a very important motion, and I am glad that Hon Ray Halligan has raised it for debate in Parliament. Access to affordable housing, whether it be one's own home or affordable rental accommodation, is a huge issue in Western Australia, which is of great concern given that we are a very wealthy state. Nevertheless, there is a huge shortfall for many Western Australians in achieving the security and, indeed, the basic right of affordable housing.

Although the motion from the opposition carries some merit, and the Greens (WA) are happy to debate it, we also recognise the genuine attempts by the government to assist first home buyers. No doubt government members can talk about that issue. The Greens (WA) are therefore not particularly inclined to support the proposition that we condemn the government for this particular issue.

**Hon Ray Halligan:** You don't tap them on the head, either. Are you suggesting they've done the wrong thing?

**Hon GIZ WATSON:** I will continue with my comments. The answer, honourable member, is yes and no!

Appropriate housing, as we all know, is a fundamental precursor to a range of other matters, including people's health, dignity and life opportunities. It is a fundamental prerequisite - perhaps in some respects, the most fundamental prerequisite - to social equity. To digress briefly, I recently attended a round table discussion on child protection. It was interesting to listen to the contributors from a range of not-for-profit organisations and others involved in the very difficult task of providing child protection in Western Australia. The underlying theme was housing. If we do not get housing right and cannot provide secure and affordable housing, all the other factors fall out. If children do not have reliable and secure housing, everything else falls apart also. I came away from that round table discussion with a very clear re-emphasis on that issue.

I refer to a media statement produced by the Western Australia Council of Social Service on 21 July 2006 regarding the need to address the imbalance of the lack of housing affordability, which states -

WACOSS is concerned about the escalating costs of housing but the solution is greater social infrastructure investment, not cutting taxes.

WA is in the midst of a prolonged housing affordability crisis. It is putting increasing pressure on WA homebuyers and renters, but the issue is also a matter of availability, and investment in social infrastructure.

Reducing government spending or cutting taxes on housing such as stamp duty will not fix the complex challenges of housing affordability. Cuts to stamp duty, whilst improving affordability in the very short term, can often lead to further housing price inflation due to increasing the high demand for properties.

WA's boom has meant that many low-income Western Australians are now experiencing increased housing stress and for some vulnerable groups, they are facing homelessness.

There are a number of reasons for WA's current house shortage and high prices;

- demand for housing (more jobs, more wealth, more people buying homes);
- lack of housing infrastructure (not enough bricks and mortar to match demand);
- lack of labourers (not enough people in the workforce to build at the rate of demand);
- low vacancy rate of rental properties (1.4%) so less homes available,

I believe that the current rental vacancy rate is even lower at about one per cent. The statement continues -

- inadequate investment in social infrastructure for housing the poor and disadvantaged.

We continue to urge the Government to provide adequate social infrastructure such as housing, health, education and improved social services as a matter of priority, and not to reduce spending or hand out tax cuts that don't deliver better long-term outcomes.

That is a concern that we share. Ironically, if there was a move to address the issue by cutting taxes on housing, such as stamp duty, it could add further fuel to the affordability crisis. In 2005, the ACT Consumer Law Centre undertook research into the repossession of family homes due to the failure of families to repay debt. The report is titled "They Want to Take our House" and was released in September 2006. It found that there is a growing social cost to the idea that everyone should own their own home, despite ballooning debt and spiralling prices for house construction. My ACT parliamentary colleague, Dr Foskey, commented on the report as follows -

The research conducted by the Consumer Law Centre shows people on low incomes or with insecure employment are getting caught out by aggressive mortgage providers and refinancers. It might be good business practice for those providers, but it is clearly hurting a lot of people.

Pushing people into home ownership isn't always the best thing; and Governments need to remember that public housing and other affordable rental accommodation are an invaluable part of the housing mix.

Housing affordability isn't simply a question of price. It is as much about people's ability to pay over the long term, and the charges and penalties applied by lenders for defaulting. It is safe and secure affordable housing that we need to aim for.

The reality is that more and more people in Western Australia will never be able to own their own home with a median house price of more than \$400 000 and a family income on average of \$60 000, which in a lot of cases is not enough to meet the cost of the mortgage. This should not necessarily be a problem as long as tenancies in private and rental accommodation are readily available.

I have lived in other countries that have a lesser rate of home ownership than Australia. It suits many people to live in rental accommodation for the long term. I am suggesting that people should have the choice. During many times in my life, rental accommodation was the best option. It provided more flexibility and less financial commitment, especially when I was younger. Young people do not necessarily want to take on a mortgage. Apart from anything else, that is a huge decision for young people to make. I am not saying that they should not make it, but there should be a range of options, including a much higher availability of affordable and secure rental accommodation. Unfortunately, this is not the case in Western Australia. We have been waiting long overdue changes to the Residential Tenancies Act to strengthen the rights of tenants and to make tenancy more secure and, therefore, more attractive. That would solve part of the problem. I am not suggesting that that would deal with the supply side, but it would make tenancy a more attractive option.

Access to housing is listed under the Greens (WA)'s social justice portfolio. To inform members of our position on increasing the affordability of home ownership, I will read from the Greens (WA) policy on home ownership, which is to -

Increase the affordability of home ownership by:

- requiring new residential developments over 30 dwellings to provide at least 10% affordable housing;

I acknowledge that some councils, particularly Subiaco, have been very steadfast in honouring their commitment to provide affordable housing in their redevelopment projects. The second item in our policy is -

- eliminating the tax bias towards passive investment in property by making expenses incurred deductible only against income for the same type of investment in the current or future years;

- improving the targeting of and coordination between property-related taxes and concessions, such as stamp duty, GST, First Home Owners Grant and land tax to support first home buyers in the bottom 40% of incomes; and
- consulting with builders, real estate agents and lending institutions to promote smaller, more diverse housing as a legitimate option, not a resale risk.

Investors in Western Australia are encouraged to build very large houses. I am not suggesting that there are not good developments that offer a smaller two-bedroom home rather than a four-bedroom home. The trend is to have smaller families. Why are on earth are people being encouraged by all the economic levers, builders and the building industry to build enormous houses? They say it is because it is a better investment. We must challenge that notion. Apart from anything else, we then build incredibly energy inefficient houses. I am not suggesting that all large houses are energy inefficient, but there is a correlation. An extraordinary amount of resources are invested into building houses in our suburbs that remain half empty. It is a crazy trend that has been developed in this state, and it must be challenged. At a policy level and in the public debate, why do we continue to build mansions that might be fully utilised only by the shrinking part of the population that has more than two children?

I refer next to a briefing paper written by John Wilkinson from the New South Wales Parliamentary Library and titled "Affordable Housing in NSW: Past to Present". It makes some interesting findings that appear to relate also to the current situation in Western Australia.

The executive summary of that document states -

- The onset of booms, in business activity, has frequently led to escalations in house prices which, in turn, result in a shrinkage in affordable housing . . .

I guess that is self-evident. It continues -

- Incomes, earned by those on the basic wage or just above, have increased far less than house prices have increased, during the last 25 years . . .

This has been particularly true in Perth, Western Australia, in the past 12 months. It continues -

- During the period immediately after the second world war, governments, at both a federal and state level, decided on intervention to solve a crisis in affordable housing . . .
- Since the late 1970s, however, governments have largely withdrawn from providing housing for people encountering housing difficulties . . .
- Rather than providing homes, governments have turned to providing small amounts of rent assistance as a means of alleviating the accommodation difficulties of those on low incomes . . .

There has been a policy shift, not only in Western Australia, but also in New South Wales. It continues -

- Sydney has become a particularly difficult environment for those on the basic wage (or just over) to find affordable housing . . .
- In recent years, the NSW government, in conjunction with Sydney local governments, has attempted some initiatives to provide a small amount of affordable housing . . .

The same is true for Western Australia. I hear it said repetitively - I am sure this goes for other members also - that the injection of affordable housing is not going anywhere towards meeting the demand in the community for affordable housing.

The question of whether high land prices influence property prices is a bit like discussing whether it was the chicken or the egg that came first. Whether high land prices lead to high property prices, or whether high property prices lead to high land prices, is debatable and has been the subject of academic research around the world. Housing prices are influenced by supply and demand. However, I guess the market is equally strongly influenced by the desire of real estate agents to maximise their returns, which provides a further impetus for an escalation in prices.

**Hon Ljiljanna Ravlich:** But people cannot build a house unless they have the land to put it on.

**Hon GIZ WATSON:** Yes, but if land prices are going up as well -

**Hon Ray Halligan:** Land prices are escalating a lot more quickly than property prices.

**Hon GIZ WATSON:** Yes.

I turn now to a report titled “First Home Ownership - Productivity Commission Inquiry Report - No 28, 31 March 2004”. Although the market in Western Australia has tightened since that time, the findings in that report are still valid, and some of its recommendations are worth mentioning. The key findings in that report are as follows -

- Fluctuations in prices and ‘affordability’ are inherent features of housing markets.
- The upswing in housing prices since the mid-1990s has been bigger and more widespread than in previous cycles.

Notwithstanding lower interest rates, housing ‘affordability’ has declined considerably in the past two or three years.
- Rising house prices indicate that demand has been outstripping supply.

Much of this increase in housing demand has been due to cheaper, more accessible finances and buoyant economic growth through the 1990s.

This led to higher prices because of the inherent limitations on the responsiveness of housing supply to surges in demand, particularly as much of the demand came from existing home owners seeking to ‘upgrade’ in established areas.

**Hon Ray Halligan:** That is not talking about Western Australia at all. It is talking about the 1990s, when Western Australia had among the lowest costs in this country.

**Hon GIZ WATSON:** I will check that. I understand that was Australia-wide, but I will check the reference. It continues -

- Only in the last couple of years have housing prices surpassed levels that are explicable on this basis, with some additional investment seemingly predicated on unrealistic expectations (in a ‘supportive’ tax environment) of ongoing capital gains.
- To the extent that currently low housing affordability reflects cyclical price pressures, this will eventually be reversed. (Evidence of market cooling is already emerging.) However, there is a role for policy to address forces that can cause prices to be excessive over the entire housing cycle.
- Interactions between negative gearing, ‘capital works’ deductions, post-1999 capital gains provisions and marginal income tax rates have lent impetus to investment demands during the housing boom.
- These influences are not confined to housing and selective ‘fixes’ could have ramifications across the economy. Potential reforms need to be assessed through a broader review, with a focus on capital gains provisions.
- Reducing reliance on stamp duties would help first home buyers and improve the efficiency of housing markets over time.
- There is also scope to moderate price and affordability pressures over time by:

improving land release and planning approval processes; and

ensuring that developer charges for infrastructure relate approximately to the benefits provided to home buyers in new housing developments.
- The First Home Owner Scheme, though conceived to compensate for the GST, would have more impact on home ownership if better targeted at lower income households.

But the funds may generate larger social benefits if used to address the broader housing needs of the lowest income Australians, which would be subject of a separate public review.

To focus on home ownership when prices are outside the reach of most households starts to appear a bit theoretical, as fewer people will ever be able to own a home if the current trends continue. The first question that needs to be addressed is: who are the people whom the government does not need to assist to buy their own home? The people whom the government does not need to assist are people who already own a house and are buying a second or third house as an investment, or perhaps as speculators hoping to make a return through negative gearing or tax breaks. The distinction between those two groups of people could easily be made by implementing policies that are means tested. That would better target the people who are least able to afford to buy their own home.

The second question is: who are the people whom the government does need to assist? The answer to that question can be found in a document titled "The State of Affordable Housing in Western Australia, 2006 - Shelter WA Occasional Paper 2006-1". The people who must be given priority are the people who are the most vulnerable in the rental market. I am talking about people in public housing, low income earners and battlers. I am talking about migrants who are neither able to find suitable rental accommodation nor finance their own home. I am talking about people who have been on the public housing waiting list for a two or three-bedroom home for many years. In the North Metropolitan Region, some people have to wait for five or six years to be allocated a dwelling. I am talking about young families that need a reliable home in which to live. Under the Residential Tenancy Act, tenants face the risk that they will have to move every six months. That act is long overdue for reform so that it will provide greater protection for tenants as opposed to landlords, because in many cases all landlords want to do is maximise their returns, because they regard their rental property as a business.

The Shelter WA paper asks some interesting questions and provides some interesting statistics. It asks -

**What low income groups are struggling in the current housing boom in WA?**

- Those on the top of the second income quintile (i.e. Gross income in June 2006-\$51,000 per annum), and;
- Median household income (i.e. Gross \$59,000 per annum or \$1, 137 p/week), . . .

**Do these income groups have the financial capacity to secure home ownership?**

- In June 2006 none of Perth's 291 metropolitan suburbs were affordable for households at the top of Q2

That is the second income quintile. It continues -

- 21 suburbs have become unaffordable over last 12 months

The paper states also -

**The data indicates that:**

- Median rental return has not kept up with property values resulting in return falling to 3.2% in 2006;
- Rental return of around 5% required to cover property management costs . . .
- Investor attraction is driven more by future capital gain as opposed to rental return

**Other factors affecting the supply of affordable housing include:**

- Population growth (WA recorded the second fastest population growth of the states and territories in 2004-05) . . .
- Lack of smaller dwellings. Comprised less than a 10% of housing approvals in 2006;
- Increase in labour and material costs;
- Labor Shortage

**The data reveals that:**

- In June 2006 the "affordability gap" (the difference between income required to affordably purchase house and median income) was 86%, double that of June 2005 (43.5%)
- Annual median housing price growth reached 32%

It is probably even higher now.

Debate interrupted, pursuant to standing orders.

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