

Submission to

**Senate Economics Committee**

**Affordable Housing**

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## Introduction

The Tenants Union of Victoria (TUV) welcomes the opportunity to provide a submission to the Senate Standing Committees on Economics Inquiry into Affordable Housing.

Housing affordability is a wide ranging and complex issue that potentially impacts on health, employment and education outcomes. It is critically important that housing affordability is not consigned to the 'too hard basket' and we welcome the wide ranging terms of reference for this inquiry.

The TUV was established in 1975 as an advocacy organisation and specialist community legal centre, providing information and advice to residential tenants, rooming house and caravan park residents across the state. We assist about 16,000 private and public renters in Victoria each year. Our purpose is to improve the status, rights and conditions of all tenants in Victoria.

The TUV's activities can be divided into three broad categories:

### *1. Advice & Advocacy*

The aim of the general Advice Service is to provide accessible and effective assistance to residential tenants across Victoria, with a particular focus on metropolitan Melbourne. Advice is provided by telephone and a drop in service. During 2012/13, the TUV received 16,635 advice enquiries. The majority of these came through the telephone advice service (12,070) with the balance made up of drop in and email inquiries.

### *2. Community Education*

The TUV produces a wide range of publications and resources for tenants, rooming house and caravan park residents, as well as tenancy workers.

In 2012/13 the TUV distributed:

- more than 215,000 fact sheets covering 30 common residential tenancy problems including some rooming house issues;
- more than 39,000 step by step guides to the process for resolving about 15 of the most common tenancy problems;
- more than 28,000 handbooks for public tenants and residents of rooming houses, caravan parks and transitional housing.

In addition, there were more than 428,460 individual user sessions on the Tenant's Union website. This represented about 400,000 unique users.

### 3. Social Change

The TUV undertakes a broad range of social change activities to represent the interests of tenants and to highlight the impact of living in the rental sector. This work includes research, policy formulation, lobbying and media liaison.

The TUV's social change agenda is based on four broad areas in the rental sector:

- *legitimacy*: to address the often negative portrayal of issues affecting tenants and the rental sector in the public domain;
- *accessibility*: to address non-financial barriers to housing in the rental sector including discrimination;
- *affordability*: to address the poor financial situation of many tenants, particularly in the private rental sector; and
- *appropriateness*: to address the poor standard and location of rental housing, poor management practices and the limited legislative protections for tenants.

The TUV is an active participant in Australians for Affordable Housing which is a coalition of housing, welfare and community sector organisations, established to highlight the problem of housing affordability in Australia.<sup>1</sup>

The TUV also publishes the *Affordability Bulletin*<sup>2</sup> that examines the percentage of income that would be required to pay median rent in selected suburbs around Melbourne and in a number of regional cities. Data for September 2013 shows that all households receiving income support across Melbourne would have experienced "housing stress" which is defined as spending more than 30 per cent of their income on rent.

The TUV submission does not address all elements of the terms of reference – it primarily focuses on issues related to affordability in the private rental market.

This submission covers the following topics:

- Rental market conditions;
- Impacts of rental affordability on low income households;
- Commonwealth Rent Assistance;
- National Rental Affordability Scheme/Social Housing;
- Taxation arrangements.

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<sup>1</sup> <http://housingstressed.org.au/>

<sup>2</sup> <http://tuv.org.au/policy+and+research/research>

## Recommendations

### 1. *Rent increases*

- State Governments should amend their respective residential tenancy laws to better regulate rents by limiting the frequency and quantum of rent increases.

### 2. *Commonwealth Rent Assistance*

- Increase Commonwealth Rent Assistance by at least \$25 per week to restore the value of the payment and catch up to recent rent increases.
- Index Commonwealth Rent Assistance to median rents, rather than the Consumer Price Index.
- Undertake a fundamental review of CRA to improve rental housing affordability and other outcomes.

### 3. *Increasing the supply of affordable housing*

- The Australian Government establish an affordable housing growth fund of \$750 million each year to build new affordable homes, rising to \$1 billion over time as the budget allows.
- The National Rental Affordability Scheme should become an ongoing part of Australia's housing system delivering 10,000 below-market rental properties each year, indexed to population growth and need.

### 4. *Taxation arrangements*

- Negative Gearing and the Capital Gains Tax discount should be reviewed with regard to their effectiveness in increasing the supply of affordable rental housing. Existing arrangements for negative gearing and capital gains tax exemption could be grandfathered to minimise any adverse transitional consequences.
- Work with State and Territorial governments to abolish stamp duties and replace with a broad-based land tax.

## Rental market conditions

The private rental market is typified by historically low vacancy rates and significant annual median rent movements. Key drivers include increasing costs and a substantial supply gap both in the broad market and more importantly in low cost stock.

In Victoria, the vacancy rate has remained below 3.5 per cent since 2005. Industry data for February 2014 indicates vacancy rates of 2.9% for Metropolitan Melbourne and 2.6% for Regional Victoria.<sup>3</sup>

In Metropolitan Melbourne the average rent for a three bedroom house has gone from \$210 in December 2003 to \$350 in December 2013, while in non-metro areas it has gone from \$180 to \$280 over the same period. This represents a rise of over 55% in each case.

Unsurprisingly, the impact is greatest on lower income households. Just 9.8 per cent of properties let in Melbourne during the December 2013 quarter were affordable for low income earners compared to 31.4 per cent in December 2003.<sup>4</sup> The National Housing Supply Council (which was abolished) estimated that 9.1% of all Victorian households were paying over 30% of their income on rent in 2011<sup>5</sup> - this equates to around 177,000 households.<sup>6</sup>

The TUV believes that tenants experiencing severe housing stress require greater protection from the harsh conditions in the bottom segment of the market. TUV receives frequent enquiries from tenants struggling with rental costs. Over the 2012-13 financial year there were 293 enquiries regarding problems with rent increases and 699 rental arrears enquiries, the latter including tenants who were facing eviction after being in arrears for more than 14 days.

In Victoria, the *Residential Tenancies Act 1997* currently allows landlords to increase rents every six months with the provision of 60 days notice (unless a fixed term tenancy is in place). Similar provisions exist in other States. Given the magnitude of unmet need for housing and likely market conditions in the foreseeable future, we believe there are sufficient grounds for restricting rent increases further.

The TUV recommends:

- State Governments should amend their respective residential tenancy laws to better regulate rents by limiting the frequency and quantum of rent increases.

<sup>3</sup> Real Estate Institute of Victoria (2014) Vacancy Rate data .<http://www.reiv.com.au/Property-Research/Rental-Data>

<sup>4</sup> <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research-data-and-statistics/rental-reports-2013>

<sup>5</sup> National Housing Supply Council (NHSC) 2013, *Housing Supply and Affordability Issues 2012-13*, Australian Government, p.11.

<sup>6</sup> The total number of households in 2011 was 1,944,689 (ABS 2012, Census of Population and Housing, Basic Community Profile, Victoria, Table B32)

## Impacts of rental affordability on low-income households

Housing affordability pressures require households to adapt to their circumstances. As housing affordability is largely related to income, higher income households are better able to adapt to a change of financial, employment, health or familial circumstances by using their financial resources to ensure their existing housing is either retained or alternative housing of an appropriate standard is secured.

Low income households are much less able to make these adaptations without serious detriment to their financial situation or general wellbeing. The table below provides an overview of the adaptations households make to particular housing affordability problems and the problems associated with each of these.<sup>7</sup>

### *Adaptations to housing affordability problems*

<b>Adaptation</b>	<b>Process</b>	<b>Associated problems</b>
<i>Deferment of move to independent living</i>	Individuals remain at home, particularly young people.	Reduces personal space, creates family tensions and in some cases may precipitate family breakdown. May defer marriage and child birth plans.
<i>Over-crowding</i>	Household and individuals share a dwelling so that housing costs are spread. Affordability may be achieved but at cost of housing appropriateness.	Over-crowding can create health problems, particularly those of a contagious nature. Reduces personal space, creates tensions and can accentuate domestic violence and relationship breakdown.
<i>Relocation</i>	Households relocate to areas where property is more affordable.	Areas of higher affordability may be affordable because of lack of other amenities and resources including transport and employment. The affordability problem is substituted by employment and social isolation problems, as in many small rural towns.
<i>Change household arrangements</i>	People form new households (partner or re-partner) and/or share housing costs or increase household income such that housing costs are more affordable.	Only a problem if this is a constrained decision. If so, it may create tensions and increase relationship breakdown, starting another round of housing hardship

<sup>7</sup> Adapted from Burke, T (2010) Housing Economics and Finance Course notes, Department of Human Services and Swinburne University.

Households adapting to affordability problems are forced to make trade-offs. Burke et al<sup>8</sup> found many low income renters are making trade-offs which are arguably unacceptable in an affluent society. Trade-offs reported by low income households experiencing housing stress include economising on food, heating and cooling, going without health or dental care, withdrawing from children's educational activities, selling or pawning possessions. These are stark indicators of the effect of housing affordability problems on the health and wellbeing of low income households. Burke's data shows low income home purchasers were much less likely than low income renters to report negative effects on their wellbeing in most categories.

Experiencing rent arrears is a consequence of low or irregular income observed very strongly in our case work. While we are not able to collect demographic income on our clients, anecdotally the vast majority of those provided with advice or representation with rent arrears who are in paid employment are in insecure or non-standard work. This experience is also associated with those clients who regularly move into and out of paid employment.

## **Commonwealth Rent Assistance**

As demonstrated the bottom segment of the market is coming under increasing pressure to deliver affordable rents to low income households. In this context the role of Commonwealth Rent Assistance (CRA) is becoming more important.

CRA provides financial support to eligible income support recipients to offset some of the costs of renting. The latest *Report on Government Services* demonstrates the ongoing affordability crisis facing low income tenants and the importance of assistance for households on low-incomes who are tenants in the private rental market.

The *Report*<sup>10</sup> shows that 40% of all renters in Australia receiving CRA remain in 'housing stress', where they spend 30% or more of their income on housing costs. Without CRA over 67% of these renters would be experiencing 'housing stress'. Across the whole of Victoria over 38% (109,697) of all CRA recipients are in 'housing stress', while in Melbourne the figure is over 43% (86,251).

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<sup>8</sup> Burke, T, Pinnegar, S, Phibbs, P, Neske, C, Gabriel, M, Ralston, L, and Ruming, K (2007) *Experiencing the housing affordability problem: blocked aspirations, trade-offs and hardships*, Final Report, AHURI, Melbourne.

<sup>10</sup> Table GA.24 - <http://www.pc.gov.au/gsp/rogs/housing-homelessness>

Historically, median rents have increased as a percentage of median income from 19 per cent in 1981 to 26.9 per cent in 2011.<sup>11</sup> The situation is even worse for low income families where rental costs can regularly exceed 30% of their income which then leaves them below the poverty line.<sup>12</sup> Combined with a lack of social housing (the public housing waiting list in Victoria alone is around 34,000) this has led to an increase in CRA recipients, rising from 943,877 in 2002, to 1,267,979 in 2013.<sup>13</sup>

CRA expenditure by the Australian Government in 2012–13 was \$3.6 billion which makes it one of the single largest housing costs. As a comparison, in 2005–06 owner-occupiers received \$45 billion in indirect taxation assistance while property investors received \$5.4 billion in assistance through negative gearing and untaxed capital gains.<sup>14</sup>

TUV research from 2010 found that assistance to low income renters had not kept pace with Australia's rental market. The report, *Falling Behind – The growing gap between rent and rent assistance 1995-2009*<sup>15</sup> analyses the relationship between CRA and housing costs in Australian capital cities between 1995 and 2009. The research finds the real value of this assistance has diminished significantly over time.

Despite receiving CRA, over 500,000 Australians remained in 'housing stress' in 2013. Without CRA this number would be over 840,000.<sup>16</sup>

By any calculation the current levels of CRA are manifestly inadequate.

*The TUV recommends:*

- Increasing Commonwealth Rent Assistance by at least \$25 per week to restore the value of the payment and catch up to recent rent increases.
- Indexing Commonwealth Rent Assistance to median rents, rather than the Consumer Price Index.
- Undertaking a fundamental review of CRA to improve rental housing affordability and other outcomes.

<sup>11</sup> Stone, W., Burke, T., Hulse, K. and Ralston, L. (2013) *Long-term private rental in a changing Australian private rental sector*, AHURI Final Report No.209. Melbourne: Australian Housing and Urban Research Institute.

<sup>12</sup> <http://tuv.org.au/policy+and+research/research> - See *Rental Affordability Bulletins*

<sup>13</sup> Table GA 15 - <http://www.pc.gov.au/gsp/rogs/housing-homelessness>

<sup>14</sup> [http://www.ahuri.edu.au/housing\\_information/review/evrev031](http://www.ahuri.edu.au/housing_information/review/evrev031)

<sup>15</sup> Colic-Piesker, V, Ong, R and McMurray, C (2010) *Falling Behind. The growing gap between rent and rent assistance 1995-2009*, Prepared by RMIT AHURI Research Centre for the Tenants Union of Victoria, available

<http://www.tuv.org.au/policy+and+research/research>

<sup>16</sup> Table GA.24 - <http://www.pc.gov.au/gsp/rogs/housing-homelessness>

## National Rental Affordability Scheme & Social Housing

As discussed earlier, for those on low incomes, the private rental sector continues to be characterised by a general undersupply of low cost dwellings relative to low income households.

This failure to meet the needs of low and moderate income Victorians is illustrated by the following:

- In December 2013 only 0.6 per cent of private rentals in Melbourne, were affordable for a single person on Newstart allowance, and only 2.8 per cent were affordable for a single parent with one child on a Centrelink income.<sup>17</sup>
- Security of occupancy is weak in the private rental sector by international standards, meaning tenants are at excessive risk of eviction, and face disruptions to education and work.<sup>18</sup>
- In 2012/13, there were more than 20,000 applications for evictions, mostly for rent arrears.<sup>19</sup>
- Homelessness increased 20 percent between 2006 and 2011, with 22,000 Victorians now experiencing homelessness on any one night (ABS 2011). Growth in legal and illegal rooming houses, and overcrowded caravan parks, has accompanied the increase in homelessness.<sup>20</sup>

Although these are not market failures in the classical economic sense of market failure they never the less constitute a failure of the private housing market to provide adequate housing to a large number of households.

The core purpose of social housing is to provide an alternative supply of housing to meet the needs of those who cannot secure or maintain adequate housing in the private market.

For these reasons the TUV believes there is a legitimate and ongoing role for Governments to play in the market for affordable housing through programs such as the National Rental Affordability Scheme (NRAS) which commenced in 2008.

The scheme 'seeks to address the shortage of affordable rental housing by offering financial incentives to persons or entities such as the business sector and

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<sup>17</sup> Affordable time series by LGA December 2013 - <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research-data-and-statistics/rental-reports-2013>

<sup>18</sup> Page 19, *Renovating Housing Policy*, Grattan Institute, Melbourne (2013)

<sup>19</sup> In 2012/13 there were more than 20,000 applications for possession of rented premises in Victoria per annum mostly for rental arrears. *V.C.A.T Annual Report 2012-13* – Page 25 - [http://www.vcat.vic.gov.au/sites/default/files/2012-13\\_complete\\_annual\\_report.pdf](http://www.vcat.vic.gov.au/sites/default/files/2012-13_complete_annual_report.pdf)

<sup>20</sup> ABS (2011) *Census of population and housing: Estimating homelessness*.

community organisations to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below the market value rent.<sup>21</sup>

NRAS aims to:

- increase the supply of new affordable rental housing
- reduce rental costs for low and moderate income households
- encourage large-scale investment and innovative delivery of affordable housing.<sup>22</sup>

NRAS has played an important role in bringing private finance to increase the amount of affordable housing in Australia. It benefits many tenants who are not eligible for other housing assistance but who are priced out of the private rental market. It is also consistent with the Government's commitment to an infrastructure agenda, providing an efficient mechanism for private financing of infrastructure and construction of cost-effective affordable housing.

We note that in the five years to 30 June 2013, NRAS delivered 14,575 dwellings with 23,884 dwellings in progress. This has promoted significant investment at the affordable end of the rental market where it is desperately needed.

NRAS has been subject to recent negative media coverage regarding allegations it has been rorted to provide accommodation for wealthy international students, and that foreign investors, brokers and small time investors are exploiting NRAS tax breaks.<sup>23</sup>

While there may be legitimate concerns regarding some aspects of NRAS the TUV does not believe it should be abandoned. Any large scale scheme such as NRAS needs to be properly regulated, audited and subject to ongoing improvement. There is scope to improve NRAS but the Government should seek to build on the strengths of the program, rather than condemn the whole structure.

*The TUV recommends:*

- The Australian Government establish an affordable housing growth fund of \$750 million each year to build new affordable homes, rising to \$1 billion over time as the budget allows.
- The National Rental Affordability Scheme should become an ongoing part of Australia's housing system delivering 10,000 below-market rental properties each year, indexed to population growth and need.

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<sup>21</sup> <http://www.dss.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme>

<sup>22</sup> <http://www.dss.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme>

<sup>23</sup> <http://www.theaustralian.com.au/national-affairs/crackdown-on-abused-national-rental-affordability-scheme/story-fn59niix-1226852026622#>

## Taxation arrangements

The most important aim of the property market should be to provide housing for all those who require it. Providing financial gains for property investors should also be considered but it should not override the primary purpose. The TUV believes that the creation of affordable housing is currently more important than the creation of more wealth for those who can afford to invest in housing.

There has been extensive discussion of the taxation arrangements regarding housing and their effect. The TUV does not have the expertise to add to this debate in the context of this submission; however we note there have been numerous calls to reform the taxation arrangements that seem to provide incentives for building wealth rather than building houses.<sup>24</sup>

Negative gearing is intended to encourage the supply of rental housing. However, when 92% of residential property investment is for the purchase of existing dwellings rather than stimulating new construction there is unlikely to be any net increase in the supply of rental dwellings.

*The TUV recommends:*

- Negative Gearing and the Capital Gains Tax discount should be reviewed with regard to their effectiveness in increasing the supply of affordable rental housing. Existing arrangements for negative gearing and capital gains tax exemption could be grandfathered to minimise any adverse transitional consequences.
- State and Territorial governments to abolish stamp duties and replace with a broad-based land tax.

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• <sup>24</sup> *Australia's Future Tax System* – Report to the Treasurer, Commonwealth of Australia, (2009);

• *Renovating Housing Policy*, Grattan Institute, Melbourne (2013)

• *It's time to abolish negative gearing* Philip Soos (2012) <http://theconversation.com/its-time-to-abolish-negative-gearing-9879>

• *50 Years of Housing Failure*, Saul Eslake (2013)