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Response to Australian Labor's Discussion Paper on Housing Affordability March 2015

The Tenants Union of Victoria (TUV) welcomes the opportunity to provide a comment on Labor's Discussion Paper on Housing Affordability March 2015.

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'.

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 mission is to inform and educate tenants and residents about their rights, and improving the conditions in which they live. 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.

This submission will focus on Taxation, Rent Assistance, and Tenancy Agreement policy.

For further information or comment please contact Liam Cooper, Research Worker (03) 9411 1407 or lcooper@tuv.org.au

Yours sincerely



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Recommendations

1. *Taxation Policy:*

- Negative gearing should be reviewed with regard to the policy's effectiveness in increasing the supply of affordable rental housing. Negative gearing could be restricted to loans that contribute to building new housing stock.

2. *Rental Assistance:*

- The maximum rate of Rent Assistance must be significantly increased to reflect the rents actually paid by households receiving income support. The indexation of Rent Assistance to the Consumer Price Index is woefully inadequate as median rents in the private housing market have increased at a much faster rate. It is the TUV's contention that this disparity can be mitigated by indexing Rent Assistance increases to a national index of actual rents paid by income support recipients.
- The TUV agrees that Rent Assistance should form part of the income support system. Eligibility should be based on rent paid and the income support means test, rather than on eligibility for other payments.

3. *Tenancy Agreements:*

- Restrict the provisions for eviction notices to a narrow list of reasonable grounds, such as when the landlord needs the dwelling for his/her own housing, when the sale of the dwelling requires it to be vacant, or when there is a breach of duty on the part of the tenant, such as non-payment of rent or misconduct.
- Increasing the length of notice periods from 30 days to closer to 3 months, the typical notice period in France and Germany.
- Limiting the frequency that rent can be increased in a year and increases in rent should be indexed to CPI or a pool of rents made up of similar rental properties.

D. Taxation

Negative gearing

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.

Negative gearing remains a sacred cow when it comes to tax policy in Australia. 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.¹ The policy, in combination with the halving of the Capital Gains Tax by the Howard Government in 1999, has fuelled the bidding up of existing properties, typically in desirable locations, as investors take advantage of low interest rates and fast capital gains.

Research and discussion from the likes of the Grattan Institute and eminent economist Saul Eslake highlights the fact that since the turn of the century negative gearing has failed to deliver on its historical goal to increase the housing supply. Australian rental markets are currently experiencing acutely low vacancy rates. However, when 95% of residential property investment is for the purchase of existing dwellings² rather than stimulating new construction the potential for negative gearing to contribute to substantial increases in the supply of rental dwellings is small.

The TUV recommends that negative gearing be reappraised on its capacity to increase the supply of housing stock. In an effort to increase housing stock and reduce the prevalence of investors bidding up of existing properties, negative gearing could be restricted to those investors who are building new houses.

E. Rental Assistance

Households receiving income support are experiencing significant housing stress. Given the painfully long queues for public and community housing, low-income households are forced in greater numbers to seek housing in the private rental market where housing stress is most acute. National Rental affordability data for September 2014 illustrates the precarious situation faced by low income households – the median weekly rent for a one bedroom flat ranges from \$185 in Hobart to \$450 in Sydney, while three bedroom houses cost between \$320 in Hobart and \$570 in Darwin. TUV research has consistently shown that a typical income support recipient paying median rent in all Australian capital cities is highly likely to exist well below the After Housing Poverty Line.³ This is particularly the case in inner city areas and middle ring suburbs where rents are critically unaffordable. When income support recipients are able to access affordable and appropriate housing, they are often likely to be consigned to outer suburban areas, with poorer access to employment, services and transport options.

¹ *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)

² *Renovating Housing Policy*, Grattan Institute, Melbourne (2013)

³ Tenants Union of Victoria 2014, "Private Rental Affordability Bulletin: Capital Cities", September Quarter 2014, found at <http://www.tuv.org.au/articles/files/bulletins/PRAB2014-Q3September-National.pdf>

Accessing and maintaining suitable housing and living standards is fundamental to participating in society and the provision of support for low-income households is an important tool to help achieve this. The *Report on Government Services*⁴ illustrates the ongoing affordability crisis facing low income tenants and the important role Commonwealth Rent Assistance (CRA) plays in easing housing affordability pressure for low income private renters. The number of CRA recipients in Victoria increased from approximately 204 000 to 300 000 between 2005 and 2014. Victorians receiving CRA are typically singles with no dependent children (57 per cent), either living alone or sharing. However, the past decade has witnessed substantial increases in the numbers of all household types relying on CRA. Significantly, the number of privately renting couples with dependent children requiring CRA support has increased almost 76.8 per cent (approximately 21 000 households) to over 48 000 over the period.⁵

The Report on Government Services demonstrates the impact of CRA on the number of households experiencing housing stress between 2005 and 2014. In 2014, for example, without CRA approximately 196 000 Victorian households (66 per cent) receiving CRA would experience housing stress. The provision of CRA reduces this to around 114 000 households (38 per cent). However, as Figure 4 demonstrates, the number of Victorian CRA recipients still paying more than 30 per cent of their income on rent has been steadily rising since 2005. This is particularly the case for those living in Melbourne. Further, the number of Victorian households receiving CRA who still had to pay greater than 50 per cent of their incomes in rent was almost 37 000 (12.4 per cent).⁶

However, there is a growing gap between the rent increases and the provision of CRA and necessary changes to CRA payments to accurately reflect the dramatic increase in private rents remains a critical policy area. 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*⁷ 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.

To ensure effective Rent Assistance the TUV supports the following recommendations set out in the Harmer Review (*Pension Review Report*) and the Henry Review (*Australia's Future Tax System Review*), and referred to in the Interim Report, as follows:

1. The TUV believes that the maximum rate of Rent Assistance must be significantly increased to reflect the rents actually paid by households receiving income support. The indexation of Rent Assistance to the Consumer Price Index is woefully inadequate as median rents in the private housing market have increased at a much faster rate. It is the TUV's contention that this disparity can be mitigated by indexing Rent Assistance increases to a national index of actual rents paid by income support recipients.
2. The TUV agrees that Rent Assistance should form part of the income support system. Eligibility should be based on rent paid and the income support means test, rather than on eligibility for other payments

⁴ <http://www.pc.gov.au/research/recurring/report-on-government-services/2015/housing-and-homelessness>

⁵ Figures sourced from PC 2015b, Table GA.15 and PC 2006, 'Housing', Report on Government Services, Chapter 16, Canberra: Steering Committee for the Review of Government Services, Table 16A.46. Found at <http://www.pc.gov.au/research/recurring/report-on-government-services/2006/2006/housing>.

⁶ Figures sourced from PC 2015b, Table GA.24 and PC 2010, 'Housing', Report on Government Services, Chapter 16, Canberra: Steering Committee for the Review of Government Services, Table 16A.48.

⁷ 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>

F. Tenancy Agreements

The security of tenure for tenants is an ongoing issue in Australia. Tenancy law is currently heavily weighted towards giving landlords maximum flexibility and as a consequence tenants are provided with fewer rights and greater insecurity. Finally, low vacancy rates and typical rental tenancy agreements of six or 12 months can impact a tenant's ability to obtain stable, secure housing. The Grattan Institute's report, *Renovating Housing Policy*,⁸ demonstrates the significant difference between tenure security in Australia to many countries in Europe, where the typical lease term in France is 2-3 years and indefinite in countries such as Germany and the Netherlands. Longer leases, as the Grattan Institute contends, could be a valuable way of increasing the security of tenure for some tenants. However, necessary safeguards would need to be included to provide tenants with flexibility when their circumstances change, such as having to move for work or study and when there are changes in household size.

The TUV believes that tenure security would be significantly impacted by the following:

1. *Reasonable grounds for eviction:*

Laws in Australia currently permit landlords to terminate leases without grounds. The TUV believes laws should be altered to restrict the provisions for eviction notices to a narrow list of reasonable grounds, such as when the landlord needs the dwelling for his/her own housing, when the sale of the dwelling requires it to be vacant, or when there is a breach of duty on the part of the tenant, such as non-payment of rent or misconduct.

2. *Longer notice periods for vacating premises:*

In Australia landlords are generally only required to give 30 days notice for termination of a tenancy agreement and vacation of the dwelling. Low vacancy rates and increasing unaffordability in the private rental market can restrict tenants from finding affordable and appropriate accommodation in such a short period of time. The TUV believes that increasing the length of notice periods from 30 days to closer to 3 months, the typical notice period in France and Germany.

3. *Protection from excessive rent increases:*

The security of tenure is significantly impacted by excessive rent increases and the difficulty and costs associated with moving can reduce the power of a tenant to contest these. There are currently no clear restrictions on the number of times that rent can be increased, nor by how much. The TUV believes that excessive rent increases could be addressed by limiting the frequency that rent can be increased in a year and increases in rent should be indexed to CPI or a pool of rents made up of similar rental properties.

⁸ *Renovating Housing Policy*, Grattan Institute, Melbourne (2013)