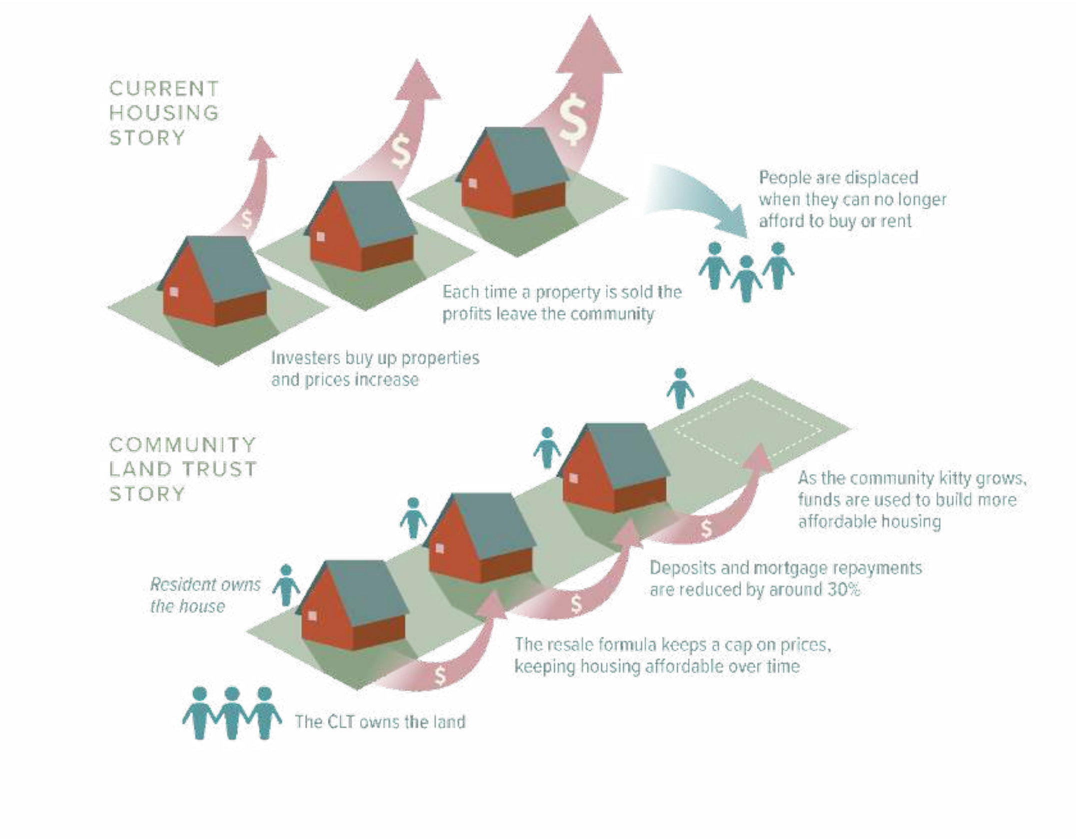
The Worsening Rental Crisis in Australia

Grounded

Community Land Trust Advocacy



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Introduction

The widespread rental crisis in Australia is continuing to escalate. The increase in housing costs, both in the ownership and rental housing markets, is having devastating impacts on individuals, families and communities. Recent reports based on homelessness services data show a dramatic increase in demand for services with women and children being among the fastest growing groups.[1] The flow on effects of housing insecurity on women and children will be long lasting.

Housing instability is linked to poorer health and educational outcomes and impacts on long term employment and financial security. In previous decades, rental housing was effectively a stepping stone for young people to move out of the family home before entering into home ownership themselves. A small percentage of people were lifelong renters but that was typically linked to low income or highly mobile workforce groups with social housing providing an effective safety net for the unemployed or those with disabilities. Times have changed.

With around 30% of households being renters and an increasing prevalence of 'generation rent' (people who will be lifelong renters), intervention is needed to ensure that this growing group of renters can access secure, affordable, appropriate and suitably located housing.

Whilst the inquiry will no doubt hear countless heartbreaking renter experiences, our submission will focus primarily on the systemic problems in the housing market. This will include the unintended consequences of previous and current government interventions, the limitations within both the private housing market and social housing sector and the need for long term secure housing models that can help to stabilise the housing system.

Executive Summary

About us

Grounded is a not-for-profit organisation established to advocate, incubate and accelerate the development of Community Land Trusts (CLTs) in Australia. We are focused on making affordable housing a reality before the 'Australian dream' becomes an urban myth. Housing options that are affordable and provide secure tenure allow people to connect, care and remain part of their local communities.

CLTs offer government and the Australian public the most cost-effective affordable housing model available. They provide the best returns on investment in terms of affordability, public investment and social cohesion. Unlike demand-side subsidies such as the First Home Owners Grant (FHOG), any initial government subsidy to establish a CLT is retained within the CLT structure and the benefits remain available for future residents. CLTs have a proven track record overseas, particularly in relation to their robustness in the United States during the Global Financial Crisis (GFC).[2]

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[1] Homelessness Australia, Overstretched and overwhelmed: the strain on homelessness services, 2023

[2] Thaden & Rosenberg, Outperforming the Market - Delinquency & Foreclosure in Community Land Trusts, 2010

Currently the Australian housing market has transitioned from one where the sanctity of the family home was the basis of the property owning democracy to a scenario where now only those who own property can access the subsidies and privileges that land ownership delivers.

Whereas previously the private rental market was seen as a stepping stone between leaving the family home and entering home ownership as a young adult, the prevalence of lifetime renters is increasing. The market is not responding adequately to the need for long term, secure rentals and affordable home ownership alternatives. The current situation for many can be summed up with this quote from a recent housing needs survey:

"The bank says I can't afford $850 a fortnight for a mortgage so I pay $1200 a fortnight in rent instead."[3]

Government needs to continue the recent interventions in the market to drive the development of an affordable housing ecosystem. The mainstream housing market cannot and will not respond to renter's needs without adequate reforms. As long as it is more profitable and less restrictive to rent a property via AirBNB than as a long term rental, the market will choose the former. As long as the government continues to rely on FHOG type subsidies, the market will continue to inflate prices. New interventions are needed and community led housing solutions such as CLTs need to be prioritised.

Community led housing is an umbrella term for housing models that involve residents and communities having central roles in the development and ongoing management of housing.[4] Typically community led housing focuses on affordability relative to local wages and wider social benefits such as social cohesion. Community led housing initiatives can respond effectively to local housing needs and often as part of their grassroots development tend to avoid or minimise NIMBY objections.

The most effective housing outcomes for renters and those aspiring to home ownership will come as a result of effective collaboration between government, for purpose housing organisations and community led initiatives.

Key recommendations

- Government interventions are redirected to fund housing that delivers perpetually affordable housing
- Government recognises the benefit of community led housing approaches and demonstrates confidence in the sector via pilot projects and NHFIC backing
- The NHFIC mandate is expanded to include for-purpose housing organisations who are not registered Community Housing Organisations (CHOs) but are aligned to provide affordable housing outcomes
- Land and housing supply policies and pipelines are scrutinised to best meet housing needs rather than encourage rent-seeking
- Effective regulation of the short term holiday letting industry with any government revenue directed to community led housing outcomes.

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[3] Housing Matters Action Group, 'Housing needs mapping survey', Anon quote, 2022
[4] What is community-led housing? - World Habitat (world-habitat.org)

Government intervention is making it worse

Ineffective subsidies

Government intervention in the housing market has added fuel to the fire of the housing crisis. It is widely acknowledged that the 1999 reforms to Capital Gains Tax, which enabled investors to offset losses against capital gains, made speculative housing investment safer and more profitable. This triggered the rampant growth in national land values.[5] The various forms of First Home Owners Grants and Stamp Duty Discounts emerging over the last decade have acted to confound affordability outcomes.[6] This follows a redirection of savings into higher purchase costs, triggering bidding wars.

These demand side grants act instead as a seller's subsidy. The main beneficiaries are sellers and, specifically, developers, whilst households and young people lose out. Worse, much of this has been channelled to urban fringes of cities, where developers who engage in scarcity engineering are rewarded with additional demand.

It is in this context that a growing number of households are locked out of the housing market, left to rely on insecure and unaffordable rental alternatives. With recognition that FHOG and stamp duty discounts could be better invested in shared equity ventures, we see Community Land Trusts as the most appropriate form of shared equity. The annual expenditure on government grants has reached $3 billion annually, with subsidy rates escalating dramatically in the recent years.[7] Sending this money instead towards the for-purpose industry can provide a rebalance to the preceding advantages property investors enjoy.

Expansion of the NHFIC mandate

Government funding via NHFIC should be broadened from a reliance on CHOs and towards the for-purpose sector. This could act to recognise and assist the need for more housing from the ground up, providing communities with the agency to take housing supply into their own hands. Government must recognise that a holistic for-purpose housing industry needs start-up capital.

Further aid could be provided by simplifying the process of becoming a CHO. Community led housing could be driven by local communities that are administered under the ACNC, with further oversight provided by the ATO. If certain affordability outcomes can be met and is recognised in a community led organisation's constitution (as recognised by the ACNC), then assistance should be enabled.

Importantly, such a widening of the affordable housing mandate should ensure that any future sales have an affordability lock on price. This means that a legal covenant could be placed on the sales price such that prices could not increase faster than the wage growth rate for the area.

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[5] Ryan-Collins, J., & Murray, C, When homes earn more than jobs: the rentierization of the Australian housing market. *Housing Studies*, 1-30, 2021

[6] C Martin et al, Assisting First Homebuyers: An International Policy Review, AHURI, 2021

[7] ibid, p44

The Treasury review into the Operation of NHFIC also recommends that the NHFIC mandate be broadened to encourage 'crowd in' investment and aid the development of an affordable housing investment market.[8] This could include NHFIC being willing to invest lower down the capital stack. While this may impact on NHFIC profitability and delay the ability to pay dividends, Treasury believes that this is a cost the Commonwealth should be willing to bear as part of its role in providing housing solutions to Australians in need.[9]

NHFIC needs to also change its funding model to improve the balance sheets of CHOs and the emerging CLH sector. "NHFIC's affordable housing bond aggregator does not directly provide equity or subsidised funding to generate affordable housing supply beyond its margin of interest rate savings on borrowings."[10]

The private market cannot or will not respond

The edifice of housing policy - that supply will trickle down to provide more affordability - has failed to materialise. This has placed immense pressure on both renters and first home buyers.

After decades of answering to the beck and call of the property lobby's demands, the nation's housing market is on life support. These issues are placing further pressure on the plight of renters:

1. Land supply is manipulated to deliver maximum profitability
2. Housing supply is oriented towards mid to high priced dwellings
3. Build to Rent ignores the market segments most needing supply - low to moderate income earners
4. AirBnB delivers higher returns than the rental market
5. Moderate income earners are missing out on housing security

Land supply

Most concerning for renters is that the market power of developers is largely unchecked.

This begins by recognising that land ownership delivers considerable market power to those that control 'location, location.' The tax and planning acts should counter this power. In the absence of this recognition, there needs to be a concerted effort to champion community led housing (CLH) that has a *for-purpose* rather than a *for-profit* focus.

Algorithms offer an edgy advantage to a developer's intel, sculpted to scrape housing data such that they gain first mover advantage. Such market know-how leads to a convergence of data points, such that the industry can act in concert without the need for covert meetings.

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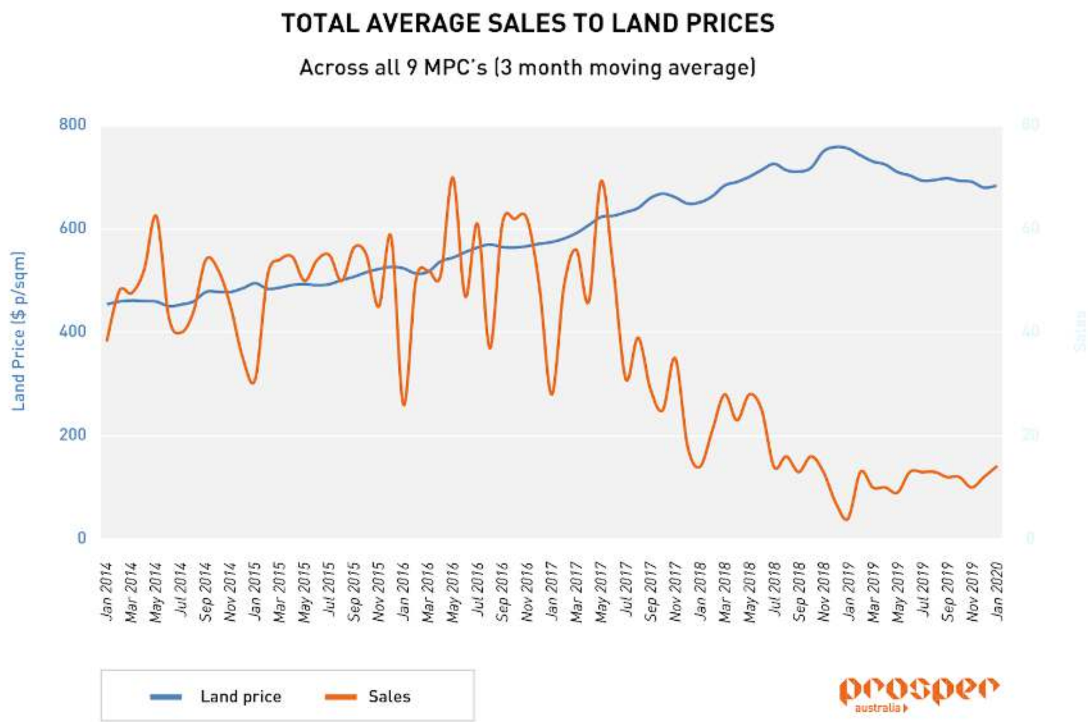
[8] The Australian Treasury, Statutory Review, Operation of the National Housing Finance and Investment Corporation Act 2018, Final Report August 2021
[9] ibid
[10] N Gurran et al, Private Sector Involvement in Social and Affordable Housing, 2022

This was demonstrated in the analysis of nine master planned communities over the last decade in the Staged Releases report.[11]

In mid 2017, with clearance rates falling across the country and days on market rising, the following reduction in supply occurred across nine unrelated developments controlling 110,000 housing opportunities.



A 48.7% reduction in supply occurred in just a few months. Prices continued unabated. Government has shown no interest in acting upon this breach of the social contract. Literally hundreds of press releases have been written by the property lobby saying that supply will make prices more affordable. However, no office bearer is holding them accountable.

Based on this insight, recent interest rate rises could be expected to result in tightly managed supply levels in master planned communities. Algorithms collecting data on falling clearance rates and rising days on market will have dictated a similar supply withdrawal - right at the time such supply could affect prices.

Blind faith in the market has run out of steam.

We recognise that developers have to meet fiduciary duties to shareholders and banks, alongside their own self-interest as CEO's. However, these should not outweigh the social contract of

[11] K Fitzgerald, The Staged Releases report - Peering Behind the Land Supply Curtain, 2022

rezoned supply delivering on affordability. Housing policy has not acted accordingly to ensure an effective public interest outcome.

The market failure inherent in this practice of staging releases makes it difficult for renters to save and enter housing ownership.

Rental affordability is further undermined by the very nature of the master-planned development model. The production pipeline is heavily weighted towards owner occupiers over investors, meaning that the supply that is released to the market largely sidesteps the potential for rental supply.

Conversely, closer to town we see the same pursuit of capital gains driving the provision of penthouse apartment developments. The negative gearing write-offs are also more substantial, encouraging the development of housing products that are tailored more closely to investors than actual housing need.[12]

Housing supply

The current housing supply is oriented towards mid to high priced dwellings. "Most of the growth in housing supply has been taking place in mid-to-high price segments, rather than low price segments. There seems to be structural impediments to the trickle-down of new housing supply."[13] Lack of affordable rental supply further compounds the position of households locked out of the owner occupied market.

This product imbalance will only continue with the development of the fractionalisation of housing investment, where investors are able to purchase a $2,000 interest in a property via a smart contract administered via blockchain.[14] Further, products such as Midkey allow investors to borrow based on future land value uplift, with no repayments required until the home is flipped.[15] APRA should not be permitting such products to intensify speculative capital into an already stretched market.

To alleviate some of this stress, Self Managed Super Fund reform is urgently required and should channel investment away from the open market and into affordable rental supply.

Build to Rent

Build to rent has attracted significant fanfare as another supply side solution to housing affordability challenges. The main achievement so far has been the scuppering of tax provisions designed to protect local developers from international investors. The rental results appear to reflect a luxury rental product suitable for mobile middle to upper income earners.[16] This may

[12] M Rachwani, Sydney Families are Being Priced into Apartment Living But Even then their Options are Limited, 2023
[13] R Ong et al, Housing Supply Responsiveness in Australia, 2017
[14] A Zunino, The Future of Tokenisation and its Impact on the Industry, 2023
[15] Midkey - About Us
[16] Boulter & Winter, BTR - Can it live up to the hype?, 2023

remove some rental stress from those rental segments, but will not impact the section of the market most in need - low to moderate income earners.

This shows how the housing market follows market dictates to deliver products that deliver greater returns to their investors. It reiterates that relying on the market system to deliver affordable outcomes is a design flaw when market power is left unchecked.

Both NSW & Victoria handed the BTR sector multi-million dollar tax subsidies with precious little oversight. An attempted legislative motion was raised by Victorian Greens leader Samantha Ratnam for a minimum occupancy rate of 90% to offset the market power the BTR operator may have in a location.[17] This was quickly voted down and has never been mentioned again. Addressing this market power is vital, since such rental supply will never impact housing costs if rental supply can be matched to demand - and never oversupplying it.

AirBnB

Compounding the pressures, AirBnB returns have outperformed the rental market, incentivising investors to switch supply into this unregulated field. "When compared to a long-term rental on Domain.com.au for a similar property advertised at $700/week, the MadeComfy property outperforms by 60.1% in the six months to March 2023."[18]

Byron Bay provides further insight into the AirBNB dilemma. *"Byron shire has been a petri dish for the open market. This community exemplifies everything that is wrong with an unregulated property market"* says Byron shire councillor and lawyer, Mark Swivel. [19] An estimated 35% of housing stock is in the unregulated short term holiday rental market while traditional accommodation such as hotels experience low occupancy rates of around 60% - 70%.[20]

As long as the market can deliver higher returns via short term holiday letting, even if annual caps are introduced, these properties are unlikely to return to the long term private rental market. Greater detail is provided in the Locals First policy (p14).

The 'Missing Moderates'

With the housing crisis affecting young people, over 55's, solo mums and families trying to care for Alzheimer's affected parents, we have concern that this cascading of housing pressures is reducing the upward mobility of middle income earners into ownership. These are solid citizens who earn too much to access subsidised housing options but are blocked from the security of home ownership due to the deposit gap.

This missing housing supply for low to moderate income earners, which we call the 'missing moderates', needs to be a priority focus in a housing market that demonstrates so many market failures. Interventions that specifically target this cohort will reduce the growth in demand for

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[17] Victorian Parliament, Windfall Gains Tax and State Taxation and Other Acts, 2021
[18] Made Comfy, What is the Earning Potential on Sites like Air BnB, 2023
[19] Chenery, 'A lot of money at stake': investors irate as Byron council pushes to cap short-term rentals like Airbnb, 2022
[20] ibid

social housing, homelessness services and affordable rentals. Options such as CLTs will help to stabilise local housing markets and ensure that essential workers have access to housing in suitable locations.

In a world where affordable rental supply is disappearing day by day, such a product will help remove the rampant fear so many feel when moderate income earners are just one eviction notice away from homelessness.

Social housing should remain as the safety net, not the solution

Social housing is predominantly built, owned and managed by state housing authorities or community housing providers. At 30 June 2020 there were approximately 400,000 households living in social housing.[21] Social housing is allocated to very low and low income households in accordance to prioritisation policies. In most cases new tenancies are allocated to those with the most significant challenges such as those experiencing homelessness, domestic violence or complex needs.

Over time, this allocation strategy has increased the proportion of tenants with complex needs who require greater levels of relief and rely on benefit payments. At 30 June 2020, 84% of social housing tenants relied on social security payments as their main source of household income.[22] Social housing rents, which are based on a percentage of household income, result in a 'funding gap' between the revenue generated and cost of provision. This funding gap makes it difficult for the private sector to invest in social and affordable housing.[23]

Social housing provides a vital safety net and needs adequate funding to deliver housing to vulnerable households that will never be viable in the broader market. One of the most effective ways to limit the demand for social housing is to focus on upstream investment in housing that can provide secure housing for low to moderate income households and the expansion of the affordable housing market sector.

The 2021 Treasury Statutory Review of the Operation of the NHFIC Act 2018 has a number of relevant recommendations regarding the expansion of the investment mandate beyond CHOs and the role of NHFIC to build confidence in the affordable housing sector to encourage private financiers.[24]

Of particular relevance is Recommendation 5:
" *The Review recommends that NHFIC's Investment Mandate be amended to extend NHFIC the ability to lend to other not-for-profit providers of social and affordable housing that are not registered community housing providers, where it is satisfied that the risks of doing so are manageable."*[25]

[21] Op cit The Australian Treasury
[22] ibid
[23] ibid
[24] ibid
[25] ibid, p.9

The review also acknowledges that the $2 billion in institutional investment via the bond aggregator is miniscule compared to the estimated needs for $290 billion over the next two decades. The scale of the problem, and therefore the scale of the required solutions is much greater than what can be delivered by the CHO sector.

Why CLT's?

CLTs offer a unique model of housing where the Trust owns the land and the resident the house. By separating the land and dwelling, the cost to the resident is significantly reduced while still providing the benefits of home ownership. CLTs also assist to stabilise house prices for future residents as the rapid increase in property values is generally linked to increases in median wages, rather than land prices inclusive of speculative drivers. This can ensure that housing stock remains affordable and relevant to essential workers on local wages.

CLTs will assist the missing moderates by reducing the deposit gap. By only having to borrow for the improvements, a CLT resident may only require a deposit of $40,000 instead of a $180,000 deposit. This will reduce rental pressure, with those missing moderates who once could afford their own homes with a $40,000 deposit, now able to enjoy security of tenure.

CLTs have also been found to deliver significant 3:1 return on investment in the UK when health, wellbeing and income distribution benefits are factored in over 30 years.[26] With less spent on land, there is more headroom for development designed for our climate altered future. This could include a fire bunker in bushfire prone regions, or hurricane proof housing.[27]

The UK CLT Network has helped facilitate the growth of CLTs from just a handful to over 350 - just since the GFC. Similar growth is happening in the US, with major donations from super philanthropist Mackenzie Scott adding to the impetus. [28] [29]

The nature of the CLT model sees the development cost shared between funds raised by the Trust (often via government and philanthropy) and the resident (via mortgage). This delivers a scalable return for government investment that operates in the knowledge that any future sale has an affordability lock on it. One subsidy can assist a lifetime of affordable housing.

This compares to government run shared equity programs that rely on selling to the open market to recoup the 20-40% equity lent to the home buyer. The new buyer is required to enter at a higher price, potentially requiring even higher government subsidy.

CLTs close the loop by ensuring prices do not increase beyond wage growth.

[26] C Colquhoun, Housing by the Community, For the Community, 2022
[27] A Applegate, CLTS are Building Disaster-Resilient Neighborhoods, 2022
[28] J Cohen, Mackenzie Scott Gives $10m affordable homeownership in Seattle, 2023
[29] J Menderson, Historic Contribution, 2023

The affordability lock is ensured with a triple check process. The CLT formula can include a monthly land lease, a resale formula (Capital Gains Tax-like) and a legally enforceable covenant that limits prices to 30% of the median income earner in the region.

Community led projects could be a much more exciting way to incorporate local factors seen as essential to that location, rather than government run shared equity programs that struggle to capture the heart and soul of a community.

For CLTs to have impact we need government assistance in the following areas:

1. Government to develop a CLT startup fund, encouraging community led housing
2. NHFIC to offer a lender of last resort capacity, so that finance is supportive
3. LMI insurance to be covered by NHFIC
4. Redirecting demand side subsidies such as FHOG towards funding CLT projects
5. Capital Gains Tax reforms to encourage land and cash donations
6. Sales of government land should be offered to CHOs and CLH before the wider market

In detail:

1. Government to develop a CLT startup fund, encouraging community led housing

With major developers often acting in concert to ensure higher prices, we need genuine competition in the housing market. Community Land Trusts offer an exciting opportunity for local groups to gather, connect and forge forwards to provide the type of housing that often gets overlooked.

We need NHFIC to provide the backing for such a community driven housing ecosystem. This will start on a small scale, but with a perpetually affordable focus there is no reason it could not grow over decades to a similar size of Sweden's innovative Sveriges Allmannytta, where 30% of Swedes live in rental housing where security of tenure is guaranteed.[30]

NHFIC must fund CLT pilot projects.

2. NHFIC to offer a lender of last resort capacity, so that finance is encouraging

NHFIC should act as **lender of last resort** for CLTs, lowering risk and expanding lending options. In the Netherlands, social housing corporations have remained largely independent of the state since 1995. This has been enabled by three layers of guarantee, the last by government. Layers two and three have never been called upon.[31]

3. LMI insurance to be covered by NHFIC

An **LMI guarantee for CLTs will signpost to the finance sector** that this form of shared equity is viable. Fannie Mae has largely absolved this requirement for CLTs as the LVR is so low.[32] NHFIC already provides this service to for-purpose housing and should expand this aid to the emerging CLT sector.

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[30] Sveriges Allmannytta, Public Housing in Sweden
[31] BCCM, Supplementary Submission #64 to the Falinski Inquiry, 2022
[32] Fannie Mae, Community Land Trusts FAQ, 2023

4. Capital Gains Tax reforms to encourage land and cash donations

The Federal government can elevate CLTs **by encouraging land donations to CLTs with a tax incentive.**[33] This could be based on existing incentives for land donations to environmental land trusts.[34] Donations of land to Community Land Trusts would be capital gains exempt. Additionally, a tax credit or deduction can be provided in exchange for the land, based on fair market value.

5. Sales of government land should be offered to CHOs and CLH before the wider market

The paucity of public land remaining should be channelled towards housing organisations that have **for-purpose housing as their primary aim**. The Federal government could work with the states to enable a density bonus for such housing providers, allowing an extra 2 stories for a public-interest development. This is particularly important to establish as public debt post covid has accelerated, alongside the pressures of rate capping in many local government jurisdictions. This has pushed councils to consider the once unthinkable - **selling public land to meet short term objectives.**

Further Reforms to Enhance Affordability

Further policy refinements are required to reduce pressure on the rental market. These include:

Community led housing planning assistance

Community coming together to solve the housing problems of a region must be celebrated and incentivised. Reforms and enabling conditions must be set at the macro level, ensuring that communities have a role in identifying local housing priorities and appropriate solutions will produce better housing outcomes.

Action: Affordable housing planning applications are to be fast tracked through council, regardless of their investment size.

Rural Exception Sites

A greater balance between the preference for regional hobby farms over affordable farming should be investigated. Affordable dwelling pods of 3-4 homes should be encouraged to ensure farm based labour has a long term commitment to the land. Permaculture principles allow small scale farming to be more productive.

With greater off-grid capacity provided by solar, water and septics now possible, the strains on local council have reduced. This could enable greater food security with affordable farm pods

[33] MP F Caputo, [Petition to the Government of Canada](), 2023
[34] ATO, [Claiming conservation covenant concessions](), 2020

helping to reinvigorate the demographic potential of regions. Such planning permissions could be limited to a few kilometres from an arterial road.

Action: Assist local councils to allow Rural Exception Sites, as per in the UK.[35]

Locals First - AirBnB policy

Government must recognise that the returns available in Air BnB have had a significant impact on rental supply. The federal government must incentivise states to enact planning law that prioritises the rights of local communities first.

This would see a three year median of rental supply pre-2015 calculated (when Air BnB came to prominence). As an example, the typical proportion of rentals is about 33% of all dwellings. This would be compared to the current supply of rentals, say in a coastal tourist town of some 7%. A pathway would then be drawn between the two, aiming to return supply near where it was relative to population growth.

The State would be encouraged to create **a zoning for short term rentals** (STR). This STR zoning right would be auctioned off. The revenues would be hypothecated towards housing - preferably in the CLT sector. Over time the amount of STR zoning rights would be **scaled downwards**, inferring that more stock would be freed up for rental. By doing this over time, Air BnB investors will have time to switch their focus to where needed. A related precedence exists in Sao Paolo, where the auctioning of development rights occurs.[36]

We feel this policy would have a more immediate impact on rental supply and avoid the typical delaying strategies involved in the debate over 60 - 90 day limits for nights rented. It delineates the problem in black and white and provides a clear pathway back to ensure the longevity of a town, a community. Census data fields should also be adjusted for a more accurate understanding of short term rentals under the Tenure Type.

Action: The Federal Housing Ministry to develop and oversee this policy in conjunction with State planning and housing ministries.

Public Ownership of Construction Accelerator

To assist in the supply of affordable construction in an emergency situation, government should buy and lease out 3D printed concrete printers per state. They are having an impact in the northern hemisphere.[37]

Action: 3D printing machines would be made available for affordable hire by CHOs and CLH.

[35] UK government, Housing Needs of Different Groups, 2021
[36] R Davis, The Benefits of Auctioning off Development Rights, 2021
[37] M McCluckey, 3D Printed Houses to Help Solve the Housing Crisis, 2022

Construction Input Alternatives

With the Construction Costs Index[38] increasing by more than double wage growth, an urgent need for competition is required in construction inputs. In regional areas, earth works regulations should be updated to enable greater uniformity. Environmental regulations should consider not just the thermal potential of a product, but also its shipping miles. If local clay, straw or timber can be sourced sustainably, it should be encouraged through the relevant code.

Action: Assist states to loosen planning regulations so that locally available and sustainably sourced building inputs, including traditional means of housing construction such as earth works, are approvable by building surveyors.

Mortgage lengths

Legislate that **30 year mortgages are the maximum timeframe** allowed. This will ensure land prices cannot increase even further beyond wage growth. This should be **a matter of urgency** before buyers are led towards multi-generational mortgages that countries like Japan endure. With wages so low and governments tiring of wasting billions in demand-side grants, the expansion of mortgage lengths appears the most likely candidate to **keep the music playing.**

Action: Limit mortgage lengths to 30 years in length - urgently.

Interest only loans

Interest only loans must be reduced in proportion, if not banned ooutright. They also must be limited to first home buyers, rather than the domain of property flippers.

Action: Limit interest only loans to genuine first home buyers only.

Macroprudential Lending

The RBA's efforts to reduce the number of loans to investors in the period 2018-19 must be seen as a rare win in effective housing policy. Further analysis of this process must be undertaken, in particular its synergy with successive interest rate rises.

Action: Develop a series of metrics that can inform when macroprudential lending should be enacted to curtail market fervour. Ensure that the RBA is much more proactive in activating this policy lever.

First Home Buyer Grants

If such grants are to continue, it must be ensured that banks can't include the grant as income, therefore enabling higher loan borrowings and further inflationary pressures that lock renters out of upward mobility. Grants or concessions should only be enabled in locations where the Minimum Viable Supply Rate is being met by developers (see below).

[38] Core Logic, Growth in Australian Constructions Costs Finally Show Signs of Easing, 2023

Action: APRA to legislate and provide oversight such that FHOG's are not included as income by banks.

Capital Gains Discount

Remove the CGT discount for interest only loans. Interest deductibility could also be wound back for property flippers who sell within three years. Government should also act to reduce the CGT deductibility from 50% to 25% immediately.

Action: Government to remove the CGT discount for any property sold within 3 years.

Self Managed Super Funds

The relatively recent capacity for SMSF investment in the residential sector must be curtailed or removed altogether. Any SMSF investment in residential should be limited to for-purpose housing developers that are delivering 100% affordable housing projects. In this way, SMSF investments could be channelled towards younger generations who were not able to buy before the 1999 CGT discount was introduced.

Action: Legislate to incentivise SMSF residential investment streams into dedicated affordable housing projects, with a particular focus on affordable rental supply.

Commonwealth Rental Assistance

Expand the CRA threshold towards housing supply provided by the wider for-purpose housing industry. Ensure that such housing developments have an affordability lock in their constitution. This is important for over 55 women who may rely on such income to meet mortgage requirements but are limited to buying from CHOs.

Action: Widen the CRA qualification threshold to include for-purpose housing providers.

Vacant Land and Housing Tax

Government must investigate the importance of penalising lazy property owners who hold sites empty. It is paramount that we measure vacant land and housing more effectively - particularly during an era where housing supply has been central to the government's housing focus.

Such a tax is the most immediate policy solution that could bring thousands of vacant and under-utilised homes onto the market, pushing down both rents and prices. Such a charge should escalate over time if the vacant site remains.

A comparison must be made between Vancouver's highly effective vacancy tax (where vacant homes dropped by 26.5%)[39] and the Victorian Vacant Residential Land Tax, which has been implemented in name only.[40]

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[39] J St Denis, Data Shows Taxing Empty Homes Works, 2022
[40] K Fitzgerald, Speculative Vacancies 10 - The Persistent Puzzle, 2020

Action: A Federal vacancy tax based on abnormally low utility consumption (ie water), charged at 1% of the site value. All revenues raised are to be hypothetised towards a CLT start up fund.

Staged Releasing in Master Planned Communities

Housing Minister Julie Collins answered a question on the issue of developers manufacturing scarcity by altering supply according to market conditions at the 2023 CHIA conference.[41] She responded that her Ministry was interested in reforms that assisted a smoother supply delivery to the market.

Oversight must be provided to ensure a Minimum Viable Supply Rate is maintained by developers. A typical development is expected to sell out in 20 years. However, based on recent selling rates, some projects in Queensland are expected to be still selling in 60 years time.[42]

Governments should tie any future infrastructure spending in such a development envelope to an average 5% supply of total lots p.a averaged over three years - the Minimum Viable Supply Rate. The developers studied were willing to crunch supply from 5% to 2.95% when market conditions softened. However, when the market was buoyant, supply rose well above the 5% rate.[43]

How is supply to impact the market if such scarcity engineering continues - particularly if negotiations for a new $400m train station are underway? At what point in the property cycle is supply meant to impact prices?

A Minimum Viable Supply rate for master planned developments must be used for the developer to qualify for any form of government expenditure (homebuyer grants or infrastructure).

Additionally, an escalating land tax should be applied on land banks that aren't meeting the 5% supply rate.

Furthering the penalties for property hoarding, **the Vacant land interest deduction** must be expanded to include company structures. In 2018, a Treasury consultation on Enhancing the integrity of tax deductions in relation to vacant land was undertaken. The consultation paper stated "This is to address integrity concerns that deductions are being improperly claimed for holding vacant land where the land is not genuinely held for the purpose of earning assessable income."

Whilst the imperative was made clear, the draft consultation found: "The measure also does not apply to corporate tax entities, managed investment trusts, public unit trusts and unit trusts."[44] The law passed but only acted to impinge upon small-time land users. Those with already considerable market power were in effect protected by the change.

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[41] Housing Minister Julie Collins, Address to the Chia Victoria Conference, 2023
[42] Op cit, Fitzgerald, Staged Releases Report, 2022
[43] ibid
[44] Treasury Laws Amendment (2019 Tax Integrity and Other Measures No. 1) Bill 2019, Legislation, p14.

Action: Ensure the National Housing Supply Council monitors supply rates post rezoning. A rubric is to be developed for master planned communities to meet a 5% supply average over a rolling three year timeframe in order to qualify for infrastructure grants and home buyer subsidies. Further, remove the vacant land interest deductions for all corporate entities.

Conclusion

We are witnessing a housing market in the crosshairs of rent-seekers. The hopes of renters are being eaten alive as outdated approaches are force fed by the property lobby's hundreds of PR agents and a compliant political class.

It is essential governments act now to protect housing from further commodification. The implications for renters are dire.

The looming fractionalisation of housing into tokens, allowing a larger number of smaller investors to 'own' a property is ominous. When this is combined with the advantages enabled by the securitisation of rental payments and the insights handed to property insiders via proptech, renters will be further disadvantaged.[45]

Community housing operators and the wider for-purpose development movement require a raft of incentives to rebuild the sector after the combined underinvestment in public housing and the failure of trickle down housing supply. Such stimulus will begin to offset the benefits enjoyed by the $4 trillion property industry.

CLTs offer a proven model of housing that can address today's unmet housing needs in a manner that is cost effective, perpetual and scalable. This can be enhanced with the expansion of NHFIC's remit to encourage a wider investment stream into the affordable housing ecosystem.

An effective CLT movement will help renters segue into more secure ownership, reducing rental pressure. It will also provide hope that a fairer pathway into housing is possible, where a $180,000 deposit is no longer required. The impact this will have on the mental health of renters is important and worthy of immediate action.

While recognising the need for government to work with industry groups, the government's role is to develop policy and enable conditions that benefit all Australians.

We look forward to a future when the housing policy of either side of politics does not read like it was written by the property lobby, but instead recommends policies that represent the genuine public interest.

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[45] Progress Magazine, Corporatising the Rental Market, 2018.