

Renovating Housing Policy

The Grattan Cities Program's new report looks at home ownership in Australia, and government policies that promote the 'great Australian dream'. We assess whether policies that support home ownership and property investment achieve their objectives and represent value for money. We also consider the implications for how productively our cities function, how opportunity is distributed, and the impact on the 1 in 4 Australian households who rent their housing.

At this free public seminar, Rebecca Huntley, Executive Director IPSOS Australia, discussed Grattan Institute's new Cities report with author, Jane-Frances Kelly, Director of the Cities Program.

Speakers: Jane-Frances Kelly, Cities Program Director, Grattan Institute
Rebecca Huntley, Executive Director IPSOS Australia

Moderator: James Button, Grattan Institute

JAMES BUTTON: My name is James Button, I'm the Communications Director at the Grattan Institute and thank you all for coming this evening. We're here to discuss Grattan Institute's latest report from the Cities Program *Renovating Housing Policy*.

On my left is Jane-Frances Kelly, the Cities Program Director at the Grattan Institute, a job she's held for more than four years, since Grattan started. She's also worked for governments in the UK, Victoria, Queensland, and many places. On my right is Rebecca Huntley who is Director of Mind & Mood who are Australia's leading social researchers. I don't know if people are familiar with the work of Rebecca, but as a former journalist I am always struck by her incredible capacity to tell us what's going on in Australia in a way that's both articulate and forceful. So we've got two terrific speakers tonight. I'll ask Jane-Frances and Rebecca to speak about the report for five minutes or so, then they will have a discussion, then I'll throw it open to the floor for you to ask questions.

Jane-Frances, let's start with the open question: tell us about *Renovating Housing Policy*, why has Grattan done it and what's in the report?

JANE-FRANCES KELLY: So a couple of years ago the Cities Program at Grattan did a series of work on housing preferences that people would like to be able to make and also work on the supply side and why the kinds of housing that people said that they wanted to be able to live in was not being built. And, of course, we know that there's a whole range of constraints, right from financing through planning, land issues and so on, construction cost challenges etc. And we followed that work up with a report of recommendations for increasing housing supply, so that was *The Housing We Choose* followed by a report called *Getting The Housing We Want* and I've definitely learned from that experience not to choose two such confusing titles for consecutive reports, because even I can't get it right sometimes.

Now, earlier this year we did a report called *Productive Cities* asking what would make Australian cities more productive and provide more opportunities for the residents. And so after writing that we had a really fresh renewed sense that what is built where and therefore who gets to live where really affects productivity and access and fairness in our cities. And reflecting on the work that we had done a couple of years ago on housing choices and on the supply side, we realised that there was a part that we had missed that we had not had time to do at the time, that were a series of government tax

and welfare policies that we hadn't looked at which would be strongly affecting the housing market, and so that's what this report does.

And we started by taking a look at home ownership rates in Australia and, as we know, they've been around about 70% or so for some decades. They rose steeply after the Second World War, they're currently around about 68.5%, but that fairly stable average masks quite steep declines among younger households - and I personally particularly enjoy that younger households are 45s and under in this case - and that people were finding it much harder to get into home ownership and so we wanted to uncover what was really going on.

And it also struck me really, actually almost as soon as I arrived in Australia, that the kind of character of the rental system in Australia is really fascinating and we'll come back to that, but 25% of households rent, more of us are renting, we're renting for longer and for further into our lives. And it seemed like the policies that were really skewed towards home ownership for good reasons were actually beginning in some cases to be counterproductive and make it harder for people to get into home ownership and were contributing to a situation where renters were getting a fairly raw deal.

JAMES BUTTON: And you look at the tax and welfare concessions that have evolved over time, haven't they, to create a situation where, as you say, they are actually having apparently a negative effect on housing ownership, on housing affordability?

JANE-FRANCES KELLY: In some cases, yeah.

JAMES BUTTON: In some cases.

JANE-FRANCES KELLY: And also there are some policies that affect housing an enormous amount which are not housing policies at all. Like stamp duty for example, it's just a revenue raising mechanism of states, but it's got an enormous effect on whether we're able to use our current very constrained housing stock effectively or not. So it's an incredibly complex issue and one of the things we wanted to do was to shine some light on which policies, that might have been adopted for completely different reasons, had what consequences and how it all is. It really is complicated, housing policy.

JAMES BUTTON: And that applies to negative gearing as well which, of course, is not a housing policy is it, but it's had a huge impact on housing?

JANE-FRANCES KELLY: It's an investment policy, yeah, exactly.

JAMES BUTTON: Rebecca, you've read the report. How did the findings of Jane-Frances and her team fit with your understanding of the housing market in Australia and peoples' attitudes to housing now and their feelings about whether they're getting the housing that they want?

REBECCA HUNTLEY: They fitted very perfectly. Reading through the report there were very direct correlations between some of the things that have been written in the report about barriers to home ownership, how people perceive the whole issue of housing affordability, particularly across generations. I want to go back to basics about thinking a little bit about the question of housing affordability, which is one that's particularly close to my heart which is why I'm very glad Grattan, it's a wonderful organisation, has asked me to come and speak today.

I'm the daughter of Italian migrants and when my great-grandparents came here they thought that the quickest way out of the working class into the middle class was to buy land and to buy property. And that's what my mother's father did; he bought rundown shitty old houses and did them up, because he was a builder, and turned them over and sold them. And very quickly he was able to move – in one generation his daughter went to university and his grand-daughters moved in probably what we call the upper-middle class. And that's a very Australian story about the way that migrants look at home ownership and it's been one particularly in Australia.

When my mother got divorced and there was a question of whether or not she'd be able to afford to stay in the family home, and she was able to, this was in the early '80s and she said to me when I was in my early teens "I never want you to rent and I never want you to rely on a man for a house, so I'm going to make sure that you and your sister can have houses". She did something very clever, she spent a lot of time driving around Sydney in the early '80s, she came home one day and she said "This city doesn't have enough medium density, it has bad public transport and state government will not have the vision to put in good public transport. So I'm going to buy the shittiest houses I can close to the city". So she bought numerous houses leveraging off the house. She's the one who's capitalised on negative gearing, so a typical boomer. She bought lots of shitty houses in Redfern and Glebe and Ultimo, was told by property agents at the time that "Why would you want to buy houses here next to the Abos?"

Anyway, so she is set for her life and in fact the only way that my sister and I have been able really, despite the fact that we earn relatively high incomes, has been with her help, to be able to get into the housing market's happened reasonably late. And in fact, when we talk and we listen to the people that we do our research with there's a very clear divide, and the report talks about both an income and generational divide that is developing and has developed and will continue to develop unless we don't start to do some really dramatic things. That is happening and I see it every time we go into field and we talk to people in their 20s and 30s, and even early 40s, about housing affordability. And the ones that get either help with parents or are on extremely high incomes, and we're talking about top 5%, they're the only people who really find their way into houses relatively easily. And if you don't have that family support or if you're on a single income or if you're a sole parent, then you find it extremely difficult and also extremely demoralising. And what is demoralising, it's clear that what's demoralising is not just being able to get into the housing market, but the rental market is just as demoralising and that has also been a significant change in the last 10 to 15 years, it's become a bigger issue in our group certainly in the last five years in terms of the rental stock available, both its quality as well as its availability, and that doesn't even touch all the other issues around renting.

So when I did move into my first apartment courtesy of my mother's boomer benevolence I started researching a book on Generation Y, so this is about eight years ago. And whenever people write about generations they often imagine that some things that they find are new or dramatically different, and that's not always the case. But the one thing that I was struck by talking to 18, 19 and 20 year olds, when I asked them about "What do you think are the big issues facing your generation? What are the big political issues?" they named housing affordability. And when I was 18, housing affordability was not something that I would describe as a political issue. This is a generation that's recognised their parents have got a lot of capital, they don't see their parents moving out of the family home any time soon, they also see their parents and want their parents to live for a long period of time, but they're also wondering how the hell am I going to advance to where I would like to be with the system as it is as the moment without some help?

One young man in one of our groups said to me “Look, the reality is I’m only ever really going to afford the kind of house I’d like when my parents drop dead. So they’re a road bump on my progression through life. They’re kind of corpses in the road and I’ve got to kind of drive over and I want to know when that corpse will appear on the highway”. And that sounds kind of extreme, but there is a sense in those young generations, Generation Y in particular but also younger Generation X, that they’ve missed the boat in terms of that housing affordability question. And so everything that was in the report in terms of that income and generational divide plays itself out in our research, and hopefully in questions we’ll be able to explore that more deeply.

JAMES BUTTON: Just a quick question Rebecca, you wrote your book eight years ago. About that time, 10 years ago, housing affordability was a huge issue and I think John Howard described it as a barbecue stopper at that time. It’s not a huge issue in the media in the same way now. Has something changed? I mean, your groups, are they still talking about housing affordability?

REBECCA HUNTLEY: They are. I think one of the things that has changed is that there’s to some extent some kind of acceptance that this is the way things are and so what you get is flashpoints around, for example, cost of food and other things. But I think that what has happened in the post-GFC environment is that people have – because in terms of Australia as one of the home-owning democracies, the price of a house in Australia has still held up during these turbulent economic times in a way it really hasn’t in America or places like Ireland; Canada’s done okay. So people still imagine that the mortgage still carves an enormous amount out of the income and is a burden, but for some reason it still feels like it’s money well spent. The average mortgage for people in Australia bears the burden of being so many different things. It’s a retirement plan. For most people it’s hopefully the last step before the hospice, most people aren’t that interested in moving out of their homes or feel that they can’t really see the kind of housing stock that they’d like to move out of.

So for whatever reason, we’ve seen that issue subside but it still comes up when you are with people in their 20s and early 30s as a huge concern for them. It comes up with their parents’ and grandparents’ generation as “Oh, it’s really difficult, it must be hard for them” but not an enormous amount of idea about how to make it easier, other than me moving out of my house and giving them half the capital or whatever, which is not always what people want to do.

JAMES BUTTON: While we were talking beforehand you used a terrific phrase “Generational Gerrymander” to describe this situation. Jane-Frances, as you said –

JANE-FRANCES KELLY: I should say in defence of the older generation, they didn’t do it deliberately.

JAMES BUTTON: No, indeed.

REBECCA HUNTLEY: No.

JAMES BUTTON: You said that young people, people under the age of 45, are particularly physically affected by this. So what is the response? You and Rebecca have sketched out the dimensions of the problem, how does government respond and how does society respond more broadly? Will there be a response or is it too hard for politics?

JANE-FRANCES KELLY: It is very hard and we quoted John Howard when he famously said that “No-one has complained to me about the price of my house going up” and also Saul Eslake’s Henry George speech earlier this year when he says “The raw political calculus is essentially that there’s maybe, what, 120,000 people each year buying a house and so for them lower prices matter, but in

any particular year there's at least 8million Australians owning a house and for them, once they're in the home ownership system, then higher prices are good". So it does seem like a no win situation for politicians in that sense.

Look, the solution is to adopt all the recommendations that all Grattan Cities Programs have ever made. So obviously a great deal of the issue is to do with problems on the supply side and in a situation of constrained supply, which has been most acute in Sydney but is seen in most of Australia's big cities, the whole situation is exacerbated essentially. And so supply is a very important part of the issue and actually also transport links. When I heard your mother's diagnosis a couple of decades ago I was just like "Goodness, does she need a job?"

REBECCA HUNTLEY: No, she's retired now. She doesn't have to worry about working.

JANE-FRANCES KELLY: So yes, there's a whole series of responses required. Of course, we made some recommendations about swapping out stamp duty for a broad-based annual property tax which will help us use our existing housing stock more effectively; about winding back negative gearing provisions which in the current situation are simply not stimulating any extra supply and they're pushing prices higher; and also – and maybe we can talk about this a little bit just now – about trying to reform some of the rental settings and actually often some of the cultural norms around renting.

So I've been renting since I arrived in Australia and so I've been through many of the conversations about "You really need to grow up and get serious" and so on, and also been on the other side of the extraordinary culture that there can be with rental agents. I was telling someone last night, my parents now spend six months a year in Australia and have a place here, but before they did that regularly there was one point where they were coming for four months and so I was looking for a furnished rental for them. And I remember a young rental agent saying to me "What is it with you Irish, you always want short term contracts?" and I just remember thinking it's quite hard to know where to start with that comment. And at the time I was working for the Vice Chancellor of Melbourne University and the Chief Commissioner of Victoria Police, and it asked for employer references so I wrote those two down, and I knew they'd just call their offices and they would say "No, she won't burn the place down, it'll be fine" and so on, but I kind of wanted to make a point. She looked at "Christine Nixon, Victoria Police Chief Commissioner" and she looked down and she looked back up and said "Three referees would be better".

And since then, of course, with all the inspections that happen every six months I've gone through this experience of people walking round your place, not treating it like it's your home, not looking you in the eye, making suspicious comments about how many books you have and all of that kind of stuff and it's an absolutely fascinating culture, it's such a second-class scenario. We've got such an outdated sense of what a rental system is for, you're only supposed to be in it temporarily while you're saving up to be a real Australian.

JAMES BUTTON: So your data shows that 25% of Australian households are now renting households and half of them are renting for five years or more. What does Grattan's report propose about doing something to improve the situation of renters?

JANE-FRANCES KELLY: Well, we compared the situation that renters face in Australia with other comparable countries and Australia comes out on the shortest lease terms available, so it tends to be a six or a 12 month lease followed by a month-by-month situation. So I've now been living eight years on a month-by-month rental contract. I mean, I couldn't do that if I had kids because you can't live in a

situation whereby you may have to take your kids out of their school at 30 days' notice, it's completely crazy. The reason that landlords can give notice can be more or less anything in Australia. There's very little culture of renters being able to make a home out of any kind of rental property, so just little things like being able to put up pictures or have small pets, I mean, we're not talking horses or anything here.

And by looking at what has happened in other countries we realise it is possible to actually shift some of those without compromising unduly the returns that come to landlords because, as you say, negative gearing, it's a financial investment. It's as though people have become accidental landlords; they have tenants as a by-product of their choice of investment vehicle. But, of course, a place to live is so fundamentally important to us and that we feel a sense of security, and all Australians should have a sense of security no matter what sector they're in. Plus, you need a strong rental system for a modern mobile economy. It's crazy.

REBECCA HUNTLEY: We did a report last year on peoples' attitudes to their homes and it was one of those, you know, often when we do research it's an opportunity for people to complain about all of the things that are making them unhappy, but it was a resolutely positive report and people saying "I love being in my house" and "It's a sanctuary". The people that didn't feel that way were people who were renters and they said "I actually feel like this is a kind of temporary life I'm living" and I just want to share a quote from that report with you. One man said "I'm quite envious of the three of you because you've got your own homes, I'm renting. The whole idea of painting, I would love to be able to do that but I'm still waiting two months for the landlord to do the taps". So there is this kind of sense of feeling constantly on tenterhooks for whatever reason, whether that's actual, because in some cases if you're good and the landlord wants you could stay there for three or four or five years, which might be as long as you might live in a house that you decided to buy.

The interesting thing in terms of that issue about children and permanency, we did a report a couple of years ago on newlyweds or people who'd just had their first baby who bought their first house. And we found that a really strong trigger for home ownership was not marriage but children and, in fact, if a couple were unmarried and they were about to have a child they said it's actually almost more important to buy the house than get married, because the house is almost a bigger investment than the marriage itself and if they had a big lump of cash it seemed much smarter to get into that house. So this sense of renting as being a precarious form of living very much comes to the fore when people think about having kids and, whilst people might criticise that as a somewhat narrow-minded or parochial approach to living, I think all you've got to know is anybody who's tried to get a childcare place in places that are difficult, being close to your childcare position or your kid's school and public transport and where you live is so crucial to your just general way of life that knowing that nobody can chuck you out and your kids are at a certain place is very important. And you can see the way it messes with peoples' minds if they can't actually find that kind of permanence where they're living.

JAMES BUTTON: Rebecca, do you have any thoughts about solutions to these problems? It seems unlikely for change to happen if change is via lower house prices, that's just not going to be something that's going to be embraced easily by –

REBECCA HUNTLEY: No, and I think that other than the broader how we plan our cities, and how we plan our cities and imagine our cities in a way that erodes that mentality that still is entrenched in Australia that really to live properly you have to live in a semidetached or detached house and you can't possibly have quality of life in medium density housing. We don't have enough of that stock to make people think "Oh, I could live in that place" –

JAMES BUTTON: As your mother foresaw?

REBECCA HUNTLEY: Yeah, as my mother foresaw. I remember once vividly – I’ve used this quote many times, but it was so dramatic – I was with a whole lot of younger men in their early 20s that were about to buy their first apartment, because a lot of them were either engaged or married, and they were all adamant that the moment that they were about to have their first child they’d move out of the apartment into a house. One guy said “Oh, you can’t possibly raise children in an apartment”, you know, you couldn’t raise them because they’d turn into fat retards if you raised them in an apartment. And they were like “Oh, yeah” and I just thought “But half the world raises children in apartments”. And then you realise that Australia is a suburban nation that clings to the coast, but we are primarily a suburban nation.

So, other than those things, I think about the three recommendations about Grattan are quite powerful. I think changing the laws as well as the culture around renting is crucial because for some people it may be smarter in terms of their quality of life or in terms of the decisions they want to make or where they live or the nature of their living, to rent and to find other places to put money in terms of long term investment. But you’ve got to create not only the right rental stock, but the right culture and laws around renting, so that’s absolutely crucial. I think the idea of getting rid of stamp duty would be, I think, very much embraced.

JAMES BUTTON: And achievable too.

REBECCA HUNTLEY: Absolutely achievable.

JAMES BUTTON: It’s more achievable than some of the other –

REBECCA HUNTLEY: Absolutely, and I think that the wrong way to go is the idea of these kinds of one-off grants because, as was said at the time, in a lot of our research with first home buyers they said “We just felt that it just bumped up what people” –

JANE-FRANCES KELLY: Yeah, they just increase prices.

REBECCA HUNTLEY: “They knew that we had that money and it just bumped it up. In the end, it just ended up covering the taxes that we had to pay anyway.” So what I think happened with those Home Owner Grants is it didn’t necessarily make it more affordable, it just made people mentally think “Oh okay, maybe I should do it now because they’re available” rather than actually making prices cheaper. And, in fact, lots of people perceive that it bumped prices up.

JANE-FRANCES KELLY: Which means that the seller’s getting the money again, so the people who are in the home ownership system already again get, yeah.

REBECCA HUNTLEY: Exactly, yeah. Negative gearing is I think harder. I don’t think that it’s not achievable but I think it’s a harder sell because, again, it’s just what those people who are trying to get into the market aspire to is not only owning their own home, but also buying an investment property. So even though they realise that things like negative gearing might be standing in the way of better house prices, they still think “Oh, but one day maybe that’s the way that I’m going to make money because that’s how my parents made money” and their parents and so forth. So that’s harder to dismantle, but I’m not saying that there aren’t creative ways to find a way to talk about it.

JAMES BUTTON: Before we finish, the report is on our website. Grattan Institute, if you don't know, we do a range of work in health, school education, higher education, economic productivity, energy, as well as cities. We publish reports a lot, we write a lot of op-eds, so please visit our website frequently. And finally, I'd like to thank you all for coming and thank you Rebecca for being our wonderful guest tonight.

REBECCA HUNTLEY: You're welcome, happy to be here.

JAMES BUTTON: And Jane-Frances, thank you. Thank you for coming.

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