

Tackling homelessness in Australia

**Submission to the Standing Committee on Social Policy and Legal Affairs' inquiry into
homelessness in Australia**

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1 Summary

We welcome the opportunity to make a submission to the House of Representatives Standing Committee on Social Policy and Legal Affairs' inquiry into homelessness in Australia. This submission summarises recent work by the Grattan Institute on how to reduce homelessness, focusing on provision of secure long-term housing for those most in need.

Housing is of paramount importance. Yet a growing number of Australians are homeless. Homelessness arises from a combination of personal, economic, and social factors. But poverty, scarce and costly housing, and reduced access to social housing all play a part. Many more experience financial stress and hardship because housing is unaffordable. And rising housing costs for low-income earners mean income inequality has been increasing.

There is a powerful case for more Commonwealth Government support to reduce homelessness and help house vulnerable Australians. But housing subsidies are expensive and not all policies are equally effective. The Government should prioritise reforms that target those most in need, and deliver the biggest bang for taxpayers' buck.

The Government should give priority to constructing new social housing for people at serious risk of homelessness, replicating the success of 'housing first' programs abroad. Social housing is particularly effective stimulus, but does come at a cost. Once more units are constructed, they should be reserved for those most in need, and at significant risk of becoming homeless for the long term.

The Government should steer clear of schemes to build more affordable housing. The most recent major affordable housing initiative, the National Rental Affordability Scheme (NRAS), was deeply flawed. It was expensive, poorly-targeted, and it didn't materially increase

housing supply. Future affordable housing schemes are likely to suffer from similar problems. Such schemes aren't well targeted at people at high risk of homelessness. Inevitably, more people will be eligible than there are places available, making such schemes a lottery that provide more assistance to some than others – and often not the most needy.

Boosting Commonwealth Rent Assistance by 40 per cent would be a fairer and more cost-effective way to help the much larger number of lower-income earners struggling with housing costs. Rents wouldn't increase much, because only some of the extra income would be spent on housing, but it would substantially reduce financial stress and poverty among poorer renters.

The Commonwealth Government should reform tax policies that inflate the demand for housing. Reducing the capital gains tax discount to 25 per cent; abolishing negative gearing; and including the home in the pension assets test would make housing cheaper, and also fund much-needed housing supports for vulnerable Australians.

Housing will become substantially more affordable for most low-income Australians only if we build more of it. The Commonwealth Government should provide incentives to the states to fix planning rules that prevent more homes being built in inner and middle-ring suburbs of the capital cities. More private housing can and does help those on low incomes by lowering the rents they pay. And lower rents reduce the risk of homelessness for those already vulnerable.

Housing vulnerable Australians poses substantial policy challenges. Past governments have refused to face up to the size of the problem because they feared doing so would fuel demands for massive new expenditures on housing. But the challenge is not insurmountable. Policy can make a difference, but only if we make the right choices.

2 Who is homeless in Australia?

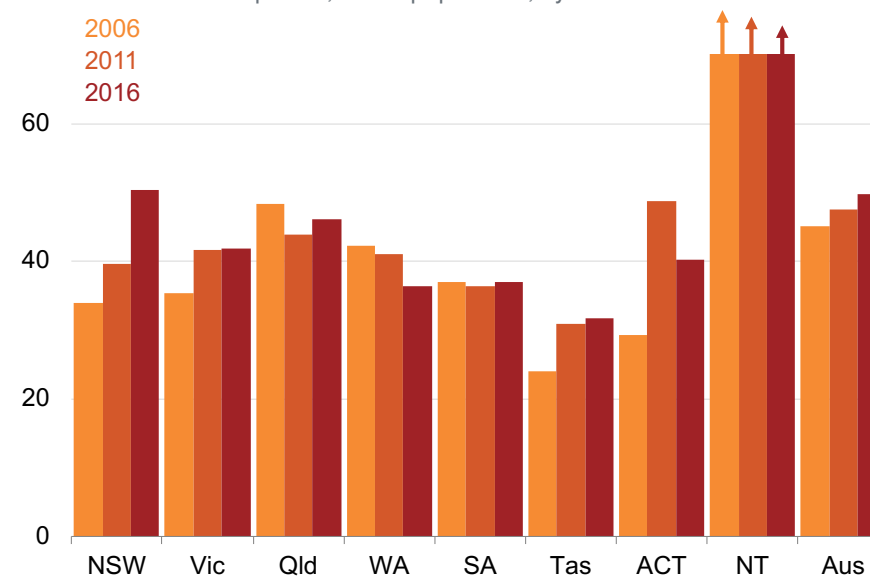
Housing is of paramount importance to almost all Australians. Housing fulfils many objectives, from basic shelter, to the emotional security of a refuge where a family can be nurtured. For these reasons, housing is considered a fundamental human right under the Universal Declaration on Human Rights.¹

Yet a growing number of Australians don't have safe and secure housing. About 50 in every 10,000 Australians were homeless on Census night in 2016. Rough sleepers are the most visible homeless, but they account for only 4 per cent of Australia's homeless.² More often, homeless people are living in homeless shelters or staying temporarily with friends or family. Almost 38 per cent of all Australians classified as homeless by the Australian Bureau of Statistics are living in 'severely crowded' dwellings (places that would need to have four or more extra bedrooms to properly accommodate the people who usually live there).

Homelessness is highest in Northern Territory, more than 10 times worse than any other state and territory. The rate of homelessness has risen across most states, and is up 10 per cent nationwide between 2006 and 2016 (Figure 2.1). The largest increase came from a larger number of people living in severely crowded dwellings.³

Figure 2.1: Homelessness is increasing in Australia, especially in states with expensive housing

Number of homeless per 10,000 of population, by state



Notes: For readability, the NT is excluded. The number of homeless in the NT per 10,000 of population was 791.7 in 2006, 723.3 in 2011, and 599.4 in 2016.

Source: ABS (2018).

1. United Nations (1948).

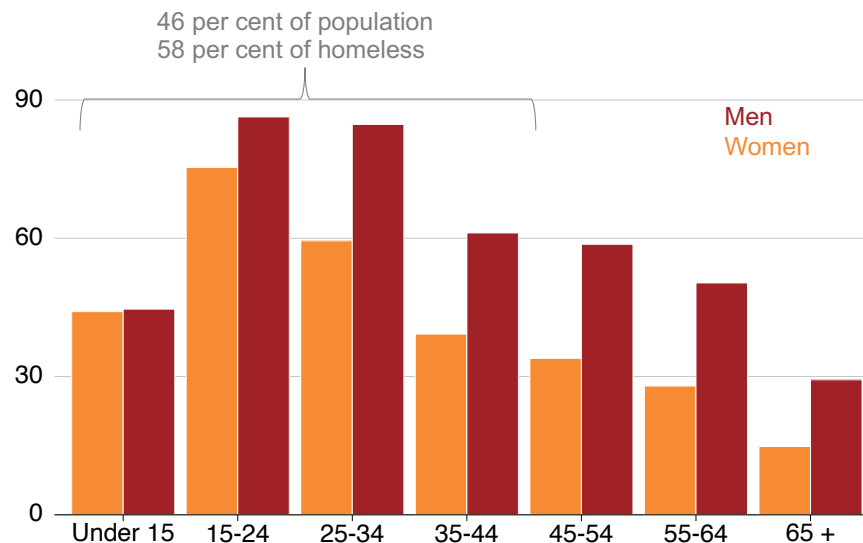
2. ABS (2018).

3. Ibid.

There has been much attention on the emerging homelessness crisis among the elderly. But most homeless Australians are young: about 58 per cent are younger than 35 (Figure 2.2). About 81 in every 10,000 Australians aged 15-24 are homeless, falling to 39 in every 10,000 among those aged 55-64. In fact people aged 19-34 account for 65 per cent of the increase in homelessness in Australia over the five years to 2016, and men account for 69 per cent of the increase.⁴

In contrast, relatively few older women are homeless. But the risk is rising: nationally, rates of homelessness increased fastest over the five years to 2016 among single women entering retirement age.⁵ Declining rates of home ownership among younger poorer Australians, together with the lower retirement savings of many women, increase the risks that more older women will suffer poverty and homelessness as they approach retirement.⁶

Figure 2.2: Most homeless Australians are young
Homelessness per 10,000 people, by gender and age



Note: The definition of homelessness includes people who are sleeping rough, and people in supported accommodation for the homeless, temporary accommodation, boarding houses, and 'severely overcrowded' dwellings.

Source: ABS (2018).

4. Ibid.

5. The number of homeless women aged 65-74 increased by about 50 per cent in the five years to 2016. The number of homeless men in the same age group increased by nearly 30 per cent over the same period. Coates and Chivers (2019).

6. Coates and Nolan (2020).

3 Why do Australians become homeless?

3.1 Homelessness arises from a combination of social and personal circumstances

A person who becomes homeless is likely to have faced a difficult combination of economic, social, and personal circumstances.⁷

People are vulnerable to homelessness if they suffer from health problems or violence in the home, or if they have a history of incarceration, substance abuse, or unemployment.⁸ People on very low incomes are less likely to be able to respond to a shock to their employment or housing situation.⁹ For example, Johnson et al (2018) estimate that the probability of an already-vulnerable person becoming homeless increases by 4 per cent if they've never been employed, and by a further 3.7 per cent if they have previously slept rough.

A shortage of low-cost housing also increases the risk that vulnerable people will become homeless – a phenomenon O'Flaherty (2004) calls being the wrong person in the wrong place. Australian evidence shows that the risk of a disadvantaged person becoming homeless increases from 2 per cent in areas with plentiful cheap housing, to 17 per cent in areas with high rents.¹⁰

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7. As described by Bramley and Fitzpatrick (2017), 'there is unlikely to be a straight either/or between structural and individual causes of homelessness, but rather a complex interplay between the two'.
 8. Early (1998), Curtis et al (2013), McVicar et al (2015), Diette and Ribar (2018) and Moschion and Johnson (2019).
 9. Johnson et al (2018).
 10. Johnson et al (ibid). In areas where the 20th percentile of rents is \$100 per week, the probability of a disadvantaged person becoming homeless is 2.4 per cent. In areas where the 20th percentile of rents is \$550 per week, this rises to 17 per cent.

3.2 Housing has become more expensive, especially for poorer Australians

Many low-income Australian renters are struggling. Almost 43 per cent are suffering rental stress.¹¹ The share of low-income Australian renters in rental stress has increased, up from 35 per cent in 2007-08 to 43.1 per cent in 2017-18.¹²

Low-income Australians overall are spending a growing share of their incomes on rent as more secure housing in the private rental market, and fewer rely on social housing. People in the private sector pay higher rents on average, which pushes up the average for the entire cohort of low-income renters.¹³ In fact low-income *private* renters are spending *less* on housing than in the past: they were spending more than 40 per cent of their income on rent in 1995, but now they spend 36 per cent.

Higher rents in the private sector compared to social and public housing contribute to high rates of financial stress among low-income renters. Nearly half of private renters have less than \$500 a week available to meet other expenses.¹⁴ Increased financial stress among poorer Australians is likely to have played a role in the recent growth in homelessness.

Home ownership is falling sharply among younger, poorer Australians.¹⁵ Low-income Australians have to save much more for a deposit in the past – and are delaying their first home purchase. If

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11. Rental stress is defined as spending more than 30 per cent of gross income on housing costs.
 12. ABS (2019a).
 13. Productivity Commission (2020).
 14. Productivity Commission (2019, p. 55).
 15. Daley et al (2018b, Figure 4.3).

current trends continue, a greater proportion of low-income Australians will not be able to rely on the security of home ownership in retirement (Figure 3.2).

Senior Australians who rent in the private market are more likely to suffer financial stress than homeowners, or renters in public housing. About 25 per cent of renting pensioners reported financial stress in 2015-16, compared to less than 5 per cent of home-owning pensioners.¹⁶ And on current trends this problem will get worse: home ownership for over-65s will decline from 76 per cent today to 63 per cent by 2056 (Figure 3.2).¹⁷ More retirees will therefore need to rely on Rent Assistance than in the past.

3.3 Income support for vulnerable Australians is increasingly inadequate

People living in poverty are at particularly high risk of becoming homeless. The income support system plays an important role in alleviating financial stress and poverty for low-income Australians. Yet while the Age Pension, Parenting Payment, Carer Payment, and Disability Support Pension are indexed to wages, JobSeeker and Youth Allowance only increase with inflation.¹⁸ JobSeeker has therefore become woefully inadequate as a safety net for unemployed Australians. Unlike wages or pensions, JobSeeker has not increased in real terms in more than 20 years.

This has ‘squeezed’ the living standards of people living on JobSeeker relative to the rest of the population. Households of working age

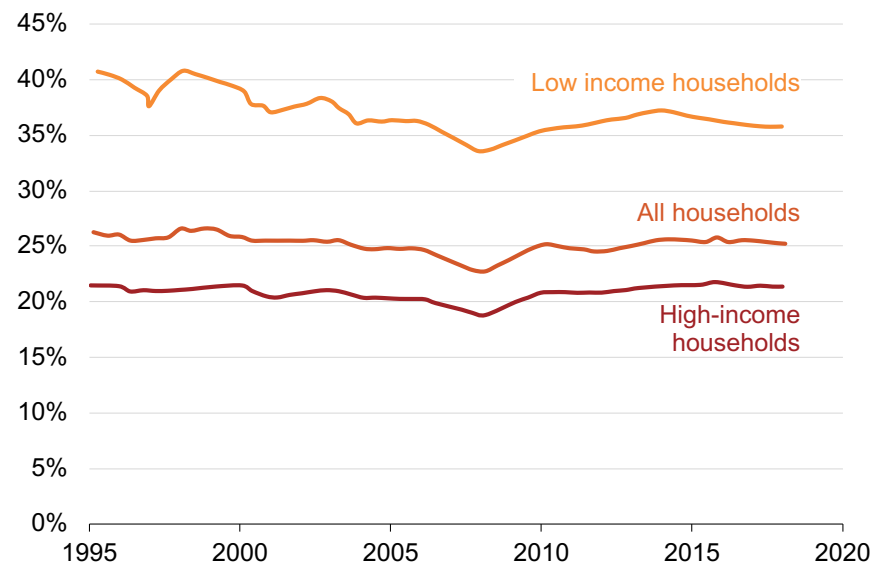
16. Daley et al (2018a, Figure 3.3).

17. These Home ownership projections have been updated since Daley et al (ibid) to better account for temporary migrants, many of whom are younger and have low rates of home ownership but are less likely to stay in Australia long term.

18. Wages typically increase faster than prices. So the Age Pension has grown more rapidly than JobSeeker over the past two decades. And several one-off changes have increased the Age Pension even more (Daley et al (2013a, p. 20)).

Figure 3.1: Private renters are paying a similar share of their income in rent as in 1995

Rent as a share of income ratio (median)



Source: Productivity Commission (2019, Figure 2).

receiving JobSeeker are under much more financial stress than households receiving other welfare payments.¹⁹

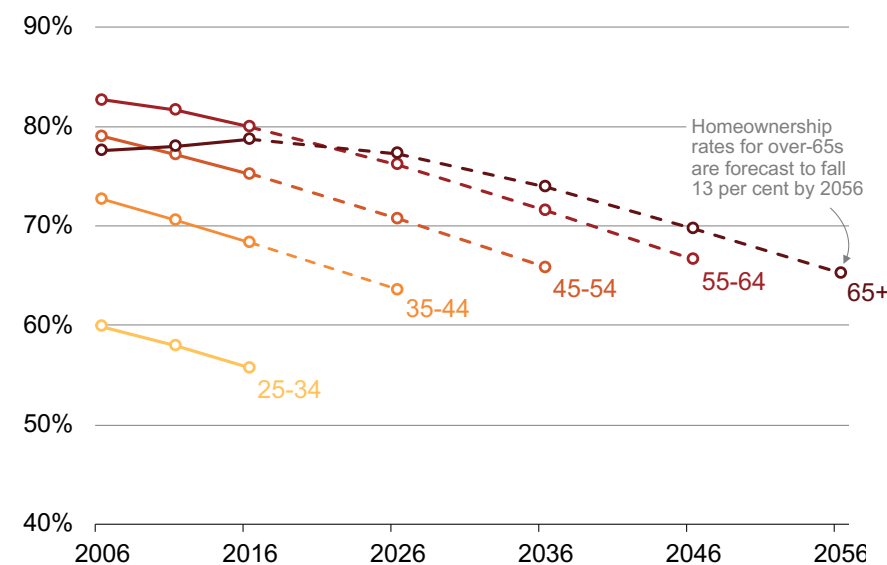
At the same, more people are having to rely on JobSeeker who would have been better supported by the social welfare system in the past. Eligibility for the Parenting Payment and the Disability Support Pension has been tightened in recent years. Changes in assessment rules for the Disability Support Pension in 2012 have especially hit Australians approaching retirement age who have musculoskeletal health problems. The changes coincide with an increase in the number of older people on JobSeeker.²⁰

3.4 Rent Assistance has not kept up with rising housing costs

Commonwealth Rent Assistance materially reduces housing stress among low-income Australians.²¹ Rent Assistance is a non-taxable income supplement, payable fortnightly to income-support recipients in the private rental market. Rent Assistance is paid at 75 cents for every dollar above a minimum rental threshold, until a maximum rate (or ceiling) is reached. The minimum threshold and maximum rates vary according to the household or family situation, including the number of children.

The maximum Rent Assistance payment is indexed in line with CPI, but rents have been growing faster than CPI over the long term. Between June 2003 and June 2019, CPI increased by about 46 per

Figure 3.2: Fewer retirees will own their own homes in the future
Home-ownership rates for Australian citizens (projected)



Note: Excludes temporary migrants, many of whom are younger and have low rates of home-ownership but are unlikely to stay in Australia long term.

Source: ABS (2019b).

19. Daley et al (2018c, p. 27); and Daley et al (2013b, p. 19).

20. The eligibility requirements for the Disability Support Pension were tightened in 2012. In 2009, about 12 per cent of 55-64 year-olds were on the Disability Support Pension. By 2017 that number had fallen to 9 per cent. Coates and Nolan (2020, p. 14).

21. In June 2016, 68 per cent of Rent Assistance recipients would have paid more than 30 per cent of their income on rent if Rent Assistance were not provided. With Rent Assistance provided, this proportion was reduced to 41 per cent (Daley et al (2018c, p. 76)).

cent, while average (quality-adjusted) rents increased by about 65 per cent (Figure 3.3).²² The actual rents paid by Australians, including improvements in the quality or quantity of housing, rose even faster.

3.5 Social housing has become less accessible

Social housing can make a big difference to the lives of vulnerable Australians. People in social housing receive a much greater average level of assistance – at much greater cost to government – than private renters receive from Rent Assistance.²³ Yet Australia’s social housing stock has stagnated in recent years despite a growing population.

The best Australian evidence shows that social housing substantially reduces tenants’ risk of becoming homeless. Prentice and Scutella (2018) found that placing those at high-risk of homelessness in social housing reduced their risk of homelessness by 65 per cent.²⁴ Similarly, Johnson et al (2018) found that being in public housing lowers a vulnerable tenant’s risk of becoming homeless by 6 percentage points.²⁵ And while many landlords rent to low-income households, some may be prepared to leave their property vacant if the only person seeking tenancy has problems associated with homelessness.

Many homelessness programs now adopt a ‘housing first’ strategy, in which the priority is getting homeless people, or people at risk of homelessness, into social housing.²⁶ Once vulnerable people are

22. Coates and Nolan (2020, Figure 2.6).

23. Productivity Commission (2018).

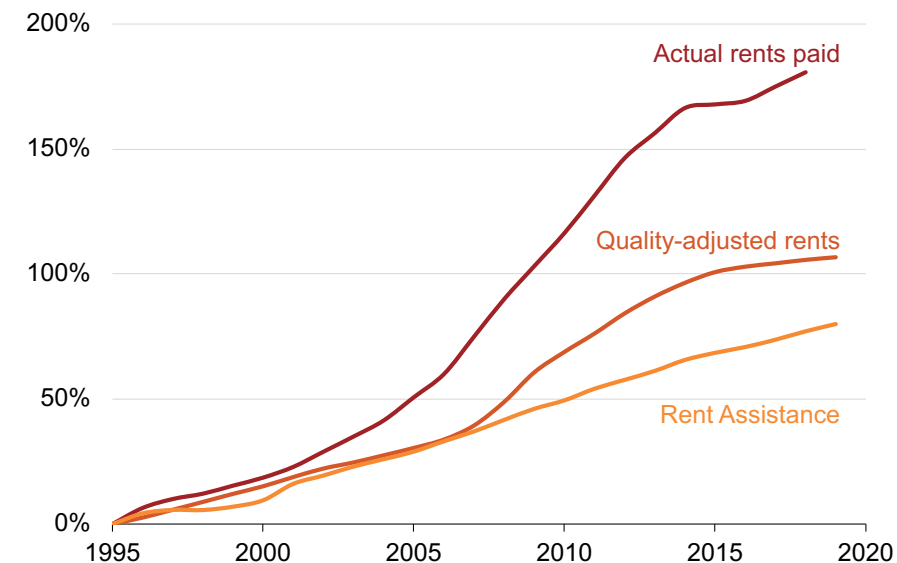
24. The authors use data from the Journeys Home survey, which is a longitudinal study of Australians who were identified in Centrelink data as being homeless or at risk of homelessness. The survey tracked people over a two-and-a-half year period, starting in 2011.

25. Other explanatory variables in the authors’ model of homelessness entry include demographic variables, tenure history, and socio-economic factors.

26. For example, see Conroy et al (2014). Mares (2018) argues that Finland’s Housing First strategy has all but eradicated homelessness through the provision of social and affordable housing to at-risk groups.

Figure 3.3: Rents have risen faster than Rent Assistance

Increase in actual rents paid, quality-adjusted rents, and Rent Assistance since 1995



Notes: Actual rents paid refers to actual rents paid according to the Survey of Income and Housing. Quality-adjusted rents refers to the ABS’s quality-consistent measure of rent increases.

Source: Coates and Nolan (2020, Figure 2.7).

housed, it's easier for community workers to help them with any other social problems.

The public health crisis caused by COVID-19 has resulted in an unplanned trial of a 'housing first' approach. Many people sleeping rough who would have previously been denied access to safe housing were given hotel vouchers, to help them socially isolate through the crisis. By one estimate rough sleeping was reduced by 60 per cent almost overnight.²⁷

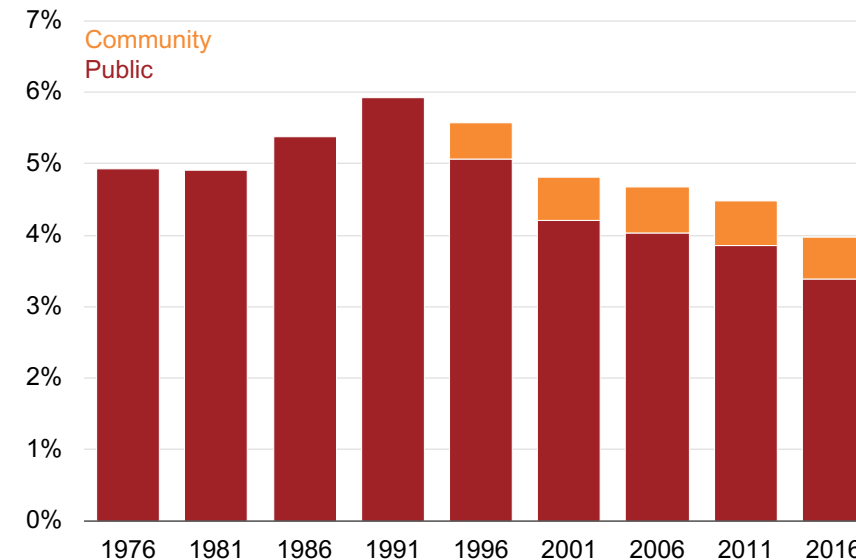
But people rough sleeping cannot stay in hotels forever. Despite its importance to vulnerable Australians, Australian governments have invested little in social housing over the past two decades. The number of social housing dwellings has barely grown over that period, while Australia's population has increased by 33 per cent. (Figure 3.4).

Tenants generally take a long time to leave social housing: most have stayed for more than five years.²⁸ And when people do leave public housing, it is rarely by their own choice. In 2012, only 18 per cent of people leaving social housing voluntarily entered the private rental market or bought their own home.²⁹

As a consequence, there is little 'flow' of social housing available for people whose lives take a big turn for the worse, and many people who are in greatest need are not assisted. The result is that fewer Australians are living in social housing than in the past, and every year proportionally fewer social housing units become available for new tenants.

Figure 3.4: Australia's social housing stock has not kept pace with population growth since 1991

Share of Australian households in public or community housing



Note: Before 1996, community housing was not recorded in the Census, but it is likely to have accounted for a small amount of the total social housing stock.

Sources: Grattan analysis of ABS (1978), ABS (1983), ABS (1988), ABS (1993), ABS (1997), ABS (2001), ABS (2006), ABS (2011) and ABS (2016).

27. Boseley (2020).

28. AIHW (2019).

29. Wiesel et al (2014).

4 How can we reduce homelessness in Australia?

There is a powerful case for more government support to house the most needy Australians. But housing subsidies are expensive. Nor will all policies be equally effective.

Since government resources are finite, governments should prioritise, to do the most good with the funding they have. But prioritisation inevitably means hard choices: it involves choosing to help some groups first before others. Governments should therefore give priority to reforms that are well targeted to people most in need, and deliver the biggest bang for the taxpayers' buck.

4.1 Fund an increase in social housing

The Commonwealth Government should increase funding for social housing. Grattan Institute has previously estimated that 100,000 new dwellings would be required to return social housing to its historical share of the total housing stock.

updated from homelessness submission Estimates of the average upfront cost of building a unit of social housing range from \$330,000 per unit up to \$500,000.³⁰ That figure includes the cost of buying land, designing a home and building it. Directly funding the construction of 100,000 homes would cost \$33-to-\$50 billion.

Yet the actual cost to government of providing more social housing is less than the up front cost. After construction finishes the state government or community housing provider owns an income producing asset, and will receive rental income (albeit at a heavy discount) from the tenant. The ongoing public funding needed to bridge the gap between building and maintaining a social housing dwelling, and the

rental income received from the tenant, is around \$13,000 per year depending on location.³¹

Given its costs, social housing should be reserved for people most in need, and at significant risk of becoming homeless for the long term.³² In the meantime, the existing social housing stock needs to be better managed: it could be better allocated to meet the needs of tenants;³³ it is often not well-suited to their needs;³⁴ and it is often of poor quality.³⁵

While a substantial boost to the social housing stock would make a big difference to people who are homeless (if it were tightly targeted towards them), more than two thirds of low-income Australians would still remain in the private rental market.

Therefore, beyond ensuring a flow of additional social housing for people most at risk of long-term homelessness, further support for low-income housing should be focused on direct financial assistance for low-income renters, and improving housing affordability more broadly by increasing the number of homes constructed.

31. Lawson et al (2018, p. 82).

32. Of all social housing allocations in 2018, almost 90 per cent went to 'greatest needs' applicants – that is, low-income households which at the time of allocation were either homeless, had their life or safety at risk in their current accommodation, had housing inappropriate to their needs, or had very high rental housing costs: Productivity Commission (2020).

33. Potter (2017).

34. Tenants have little choice over the home they are offered; the type of housing available can be incompatible with their needs. For example, the public housing stock is dominated by three-bedroom houses, yet most recipients are singles or couples without children.

35. In 2018 almost one-in-five Victorian social housing dwellings did not meet minimum acceptable standards (Productivity Commission 2020).

30. **AFR2020social**. Although the costs vary significantly across Australia.

Box 1: Social housing as stimulus

Social housing is a quick and affordable way to stimulate the economy in the wake of COVID-19. The construction sector has lost nearly 7 per cent of its workforce since March.^a Migration has slowed to a trickle, some 2.6 million Australians have either lost their jobs or had their hours cut in the past two months, and many economists expect property prices to fall. Equity Economics is forecasting a 23 per cent reduction in the construction workforce over the next 18 months.^b

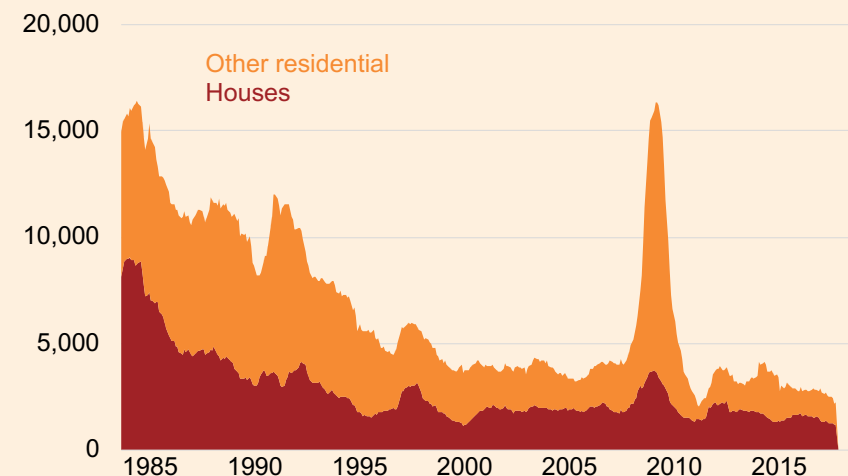
Building more social housing would help the construction industry through the crisis. Estimates vary, but a new job is created for about every \$115,000 spent.^c Unlike some other large infrastructure projects, social housing does not require years of planning before construction can commence.

The best blueprint for social housing stimulus is the GFC-era Social Housing Initiative (SHI), under which 19,500 social housing units were built and another 80,000 refurbished over two years, at a cost of \$5.2 billion.^d Under the SHI, the federal government funded the states to build social housing units directly or to contract community housing providers to act as housing developers. Public residential construction approvals spiked within months of the announcement, providing valuable stimulus to the construction industry and increasing the stock of social housing available to house the homeless (Figure 4.1).

- a. ABS (2020).
- b. Equity Economics (2020).
- c. Equity Economics (2020); and SGS (2020).
- d. Coates and Horder-Geraghty (2019).
- e. Coorey (2020).
- f. Victoria has committed \$500 million to construct new social housing and upgrade 23,000 existing homes: DHHS (2020). Western Australian is spending \$319 million to build (McGowan et al (2020)). Tasmania has committed \$100 million: Gutwein (2020).

The Commonwealth Government should immediately fund the construction of more social housing. Building 30,000 new social housing dwellings would involve an upfront cost of between \$10-to-\$15 billion.^e State governments manage social housing and several states have already committed funds towards social housing in response to COVID-19.^f But states will struggle to fund the level of construction required on their own. They will need Commonwealth support.

Figure 4.1: The Social Housing Initiative delivered new dwellings quickly
Dwelling approvals, public sector, rolling 12-month sum



Source: ABS (2019c).

4.1.1 Public financing of social housing is the cheapest option

Social housing involves large upfront costs. *Financing* of social housing refers to the capital needed to pay for the investment costs up-front, either from existing government revenues, government borrowing, or private finance. In contrast, *funding* reflects who ultimately pays for the infrastructure to be built and maintained over its life.

There have been numerous calls to involve private sector finance in the construction of social housing, most commonly via Australian superannuation funds.³⁶ Yet governments should be wary of proposals for the private sector to finance the construction of social housing.

No amount of innovative financing can paper over the need for extra *funding* to boost the supply of social housing. Social housing provides heavily discounted rents to tenants, to assist them with their housing costs. And therefore government funding will be required to make up the shortfall between what tenants can afford to pay and the cost of acquiring land, building social housing, and maintaining it over the life of the asset.

In the words of the Productivity Commission:

All else equal, the replacement of public finance with private finance does not create a new source of funds or value – the expected value of a project over its life remains unchanged. In this sense, there is no magic pudding from private sector involvement in the long term.³⁷

Super funds are obligated by law to maximise returns for their fund members, which is why existing super fund investments in social and affordable housing typically requires much higher returns in the range of inflation plus 4-to-6 per cent.³⁸

36. For example, see: Duke (2020) and Anthony (2018).

37. Productivity Commission (2014, p. 209).

38. Anthony (2018). For instance, one recent affordable housing investment by a superannuation fund yields a return of 5 per cent above inflation: Myer (2020).

A stronger case can be made for private finance for large and complex infrastructure projects such as major roads and rail lines where there are large risks or opportunities for private sector innovation.³⁹ But the construction and management of social housing is a relatively standardised process across Australia. The GFC-era Social Housing Initiative showed that the public and community sectors are more than capable of delivering large-scale social housing projects (Box 1). On the revenue side, there is very little opportunity for the private sector to raise more money than government from tenants.

Instead the most cost-effective way to finance construction of further social housing is via direct government finance: either sourced from past tax collections, or more realistically, from government borrowing.⁴⁰ And Australian governments can currently borrow incredibly cheaply – for 10 years at an interest rate of less than one per cent, or well below the current rate of inflation.⁴¹ Therefore state public housing agencies could finance the construction of social housing directly, with funding support from the Commonwealth Government. And governments could provide capital injections to community housing providers with access to government-guaranteed finance via the National Housing Finance and Investment Corporation (NHFIC).

4.1.2 Consider broader reforms to the provision of social housing

Social housing in Australia is currently rationed: more than 400 000 households are eligible for, but cannot access, social housing. Over 150 000 are on waiting lists.⁴² The Productivity Commission has recommended the Commonwealth and state governments introduce a

39. Chan et al (2009). Nonetheless the case for public-private partnerships for public infrastructure remains contested.

40. Lawson et al (2018).

41. RBA (2020). As of 15 June 2020.

42. Productivity Commission (2018, p. 171).

rights based system of financial assistance for housing – similar to how Medicare or JobSeeker is funded.⁴³ Such a system would guarantee access to financial support for housing costs to anyone that meets the eligibility criteria.

There are merits to broader reforms to social housing.

1. Funding could be increased according to need. For people with complex needs, more funding could be provided to ensure that nobody falls through the cracks. And increased assistance could be provided to people who currently just miss out on social housing.
2. Funding would be responsive. Like JobSeeker, each individual would have a right to funding, regardless of how many people apply. If homelessness increased, there would be an automatic increase in funding to ensure that everybody can be housed.
3. It would give recipients more choice about how to use their assistance package based on their preferences for the size and location of their home.
4. A demand-driven subsidy based on eligibility – much like Commonwealth Rental Assistance today – would avoid the risk of under-investment in social housing in future should needs increase.⁴⁴

However, such changes also raise substantial policy design and implementation questions, which are beyond the scope of this submission.

43. Ibid (p. 171).

44. Annual Commonwealth Government expenditure on Rent Assistance, adjusted to 2020 dollars using CPI, has risen from \$2.82 billion in 2003-04 to \$4.51 billion in 2018-19. See FaCS (2004, p. 115) and DSS (2019, p. 94).

4.2 Raise Rent Assistance

Beyond building more social housing for people at risk of homelessness, support for low-income Australians struggling with high housing costs should focus on lifting Commonwealth Rent Assistance. Rent Assistance provides also provides a similar level of financial support to all those in a similar financial position. In other words, it achieves *horizontal equity*.

Rent Assistance materially reduces housing stress among low-income Australians. Even current low rates of Rent Assistance materially improve rental affordability in the private rental market. The typical (i.e. median) low-income renter spends 29 per cent of their income on rent. Without Rent Assistance, they would spend 39 per cent.⁴⁵ But as Section 3.4 showed, the value of Rent Assistance has not kept pace with rent increases.

Grattan's 2020 working paper, *Balancing Act*, recommended a 40 per cent increase in the maximum rate of Rent Assistance. This would cost about \$1.5 billion a year.⁴⁶ Rent Assistance would then provide the same level of assistance to low-income earners as it did 15 years ago, taking into account the rising cost of their rent. In future, Rent Assistance should be indexed to changes in rents typically paid by people receiving income support, so that its value is maintained, as recommended by the Henry Tax Review.⁴⁷

Some worry that boosting Rent Assistance would lead to higher rents, eroding much of the gain in living standards for low-income renters.⁴⁸

45. Productivity Commission (2019).

46. Coates and Nolan (2020), updated to 2021/22.

47. Henry (2009, p. 595). While the rental component of the CPI is a readily available and transparent measure, an index of rents paid by Rent Assistance recipients would provide a more accurate assessment of their rental costs.

48. Senate Economics References Committee (2015, chapter 22).

But an increase in Rent Assistance is unlikely to substantially increase rents.

While Rent Assistance is ostensibly paid to cover housing costs, retirees are free to spend the money as they wish. Households are therefore unlikely to spend all of the extra income on housing. Since Rent Assistance pays 75 cents for every dollar paid in rent above a minimum threshold, those paying rents below the threshold for receiving the new maximum rate of Rent Assistance would only pay 25 cents out of their existing income for each extra dollar they spend on rent. Yet the majority of Rent Assistance recipients – around 75 per cent – are already paying so much in rent that they would receive the new maximum rate of Rent Assistance without spending a dollar more on rent than they do today. And only half of low-income renters actually receive Rent Assistance, since eligibility is linked to receiving an income support payment.⁴⁹

Any potential impact on rents could be further reduced by reforming land use planning rules to allow more homes to be built in the inner and middle- ring suburbs of our major cities to boost the supply of housing.

4.3 Increase JobSeeker

Increasing incomes at the very bottom of the distribution will help people who are unemployed to hold onto their homes and look for a job.⁵⁰ Increasing JobSeeker would also reduce the number of people

with insufficient resources to pursue lives they have reasons to value,⁵¹ and reduce inequality.⁵²

Consequently, many commentators have argued that JobSeeker payments are much too low.⁵³ A ‘catch up’ increase to JobSeeker of at least \$75 a week would have a material impact on the incomes of low-income households,⁵⁴ and would bring payments closer to community living standards. Increasing JobSeeker would do more to reduce poverty rates per budgetary dollar spent than other welfare changes.⁵⁵

4.4 Steer clear of schemes to build more affordable housing

Several commentators have called for governments to fund the construction of more affordable housing to help people on low-to-moderate incomes.⁵⁶ Others have explicitly called for a repeat of the National Rental Affordability Scheme (NRAS),⁵⁷ a Rudd government which aimed to reduce rental costs for people on low-to-moderate incomes.

Yet past affordable housing schemes, such as NRAS, have not been effective.

Affordable housing, such as that constructed under NRAS, is typically not targeted at people most in need, including those at greatest risk of

49. Daley et al (2018a).

50. The OECD noted concerns that the low level of JobSeeker ‘raises issues about its effectiveness in providing sufficient support for those experiencing a job loss, or enabling someone to look for a suitable job’: OECD (2010, pp. 127–128).

51. Reducing absolute levels of poverty that prevent people exercising meaningful choices is broadly regarded as of intrinsic value: Daley et al (2013a, p. 37).

52. Although the *intrinsic* value of reducing inequality is contested: Daley et al (ibid, p. 36).

53. ACOSS (2018); Bagshaw (2018); BCA (2012); BCA (2018); CEDA (2018); Deloitte (2018); Iggulden (2018); and KPMG (2018, p. 14).

54. Deloitte (2018, p. ii).

55. Phillips et al (2018).

56. These calls are often made under the banner of supporting a specific ‘build to rent’ affordable housing sector in Australia. For example, see: Palm (2017), PwC (2017) and Pawson et al (2019).

57. Burke (2018) and Bleby (2018).

homelessness. Eligibility thresholds for NRAS were set far too high: \$50,000 for a single adult, or nearly \$70,000 for a couple – much higher than the equivalent eligibility thresholds for Commonwealth Rent Assistance.⁵⁸ As a result, a substantial proportion of people allocated NRAS housing were on moderate-to-higher incomes.⁵⁹

NRAS was also expensive: the scheme offered investors a subsidy of \$8,000 a year (about \$11,000 in today's money) in exchange for providing new dwellings for rent for at least 20 per cent below market rents. The average private renter pays rent of \$19,240 a year.⁶⁰ Providing a 20 per cent discount to market rents for the median private renter should therefore cost less than \$4,000 a year – much less than the \$11,000 subsidy offered per dwelling.⁶¹ Any extra subsidy beyond the cost of providing affordable housing flowed to NRAS investors.

The subsidies offered to developers through NRAS were not tied to the type and location of any new affordable dwelling constructed. The same subsidy was offered for a new one-bedroom apartment or a three-bedroom home in the same location, and for dwellings in central Sydney and rural NSW.⁶²

58. Department of Social Services (2018). For example, the income cut-off for a single receiving JobSeeker is \$27,959 a year (Services Australia (2020)).

59. Department of Social Services (2016). Only one third of tenants had gross household incomes less than \$30,000, and one third had incomes greater than \$50,000 a year.

60. Median rents varied from \$22,412 a year in NSW to \$13,520 a year in Tasmania in 2017-18. Therefore the cost of providing a dwelling at 20 per cent below market rent will vary from \$4,500 a year in NSW to \$2,700 a year in Tasmania. ABS (Table 12.2 2019a).

61. While the market rent on a new dwelling built under the scheme may be higher than the median, the rents paid by low-income earners are likely to be lower than the median since they have lower incomes.

62. Participants in NRAS receive a subsidy of \$8,000 per year for 10 years (indexed) for new dwellings that were rented out for 20 per cent below market value rent to eligible tenants. Department of Social Services (2018).

Nor was NRAS an effective way to boost the *overall* supply of housing. New housing construction in Australian cities is relatively unresponsive to demand,⁶³ largely because land-use planning rules prevent greater density. Since even affordable homes are subject to those planning rules, many homes constructed under the scheme were likely to have been built anyway.⁶⁴

One prominent feature of NRAS was the mix of subsidised homes in otherwise private developments. Yet there is nothing unique about affordable housing in this regard. If there are grounds to mix subsidised housing with private housing, it should be social housing to ensure help goes to people who need it most.

Given these issues, the bulk of low-income private renters should be helped via increased Commonwealth Rent Assistance, along with funding for more social housing targeted at the long-term homeless. If affordable housing schemes are pursued, they should be focused on providing pathways for people already in social housing to transition out of social housing.

4.5 Adopt reforms to improve housing affordability generally

The Commonwealth Government should also pursue reforms that will improve housing affordability more generally.

Grattan Institute's 2018 report *Housing affordability: re-imagining the Australian Dream* evaluated a wide range potential measures to improve housing affordability. These are summarised in Figure 4.2.

Studios and one- and two-bedroom dwellings accounted for two-thirds of all homes constructed under NRAS (Department of Social Services (2019, p. 4)).

63. The best estimate of the 'price elasticity of supply' in Australia is that a 10 per cent increase in dwelling prices leads to an increase in the stock of new housing of between 3 per cent and 5 per cent. See: Daley et al (2018b, p. 46).

64. Senate Economics References Committee (2015, p. 362).

Governments should focus on the policies in the top right of Figure 4.2: policies that will materially improve affordability without substantially dragging on the economy or the budget. Almost all of them are measures that would boost the supply of housing. They include planning changes to facilitate subdivision in the inner and middle rings of our largest cities; boosting density along major transport corridors; and increasing greenfield land supply.

A number of tax reforms to remove distortions in housing investment would have large budgetary and economic benefits, but more modest impacts on housing supply. These include reducing the 50 per cent capital gains tax discount, limiting negative gearing, including owner-occupied housing in state land taxes, and including more of the value of owner-occupied housing in the Age Pension assets test.

None of these reforms are politically easy. But housing won't become more affordable, including for many low-income Australians at risk of homelessness, unless Australian governments make tough choices.

In contrast, many policies that sound good, but won't help much in practice, live in the top left of Figure 4.2. These include banning self managed super funds from borrowing, and taxes on empty dwellings. Tighter rules or higher taxes on foreign investors may affect house prices more, but only if set at very high levels, and they may reduce supply overall.

While those ideas won't do much to make housing more affordable, they won't do much harm either. Several other ideas, shown in the bottom left of Figure 4.2, are less benign: they involve big risks either to the budget or the economy. For example, allowing seniors to downsize their homes and keep the pension, or avoid stamp duty without then paying land tax, would have big budgetary costs, but would make very little difference to affordability because finances are not typically the major motivation for downsizing. Other proposals, such as stamp duty concessions for first home buyers would not only cost the budget, they

would make the affordability problem worse by boosting house prices further.

4.5.1 Encourage states to reform planning rules to boost housing supply

Housing affordability will only get a lot better if governments ensure more homes are built. This is primarily a problem for state governments: they set the overall framework for land and housing supply, and they govern the local councils that assess most development applications. The Commonwealth Government should encourage states to reform land-use planning rules to allow more housing to be built close to the centres of our major cities.

Making existing private housing cheaper overall will help low-income earners struggling with rising housing costs. New housing doesn't need to be specifically targeted at lower price points to improve overall housing affordability. More housing supply – even at the top end – will ultimately free-up less-expensive housing stock. The people who move into the newly constructed housing are either existing residents who move out of less-expensive housing, or new residents who would otherwise have added to the demand for less-expensive housing. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately affects affordability for all home buyers.⁶⁵

This is not merely theory: international evidence suggests that 'filtering' occurs in practice. Initially expensive homes gradually become cheaper as they age, and are sold or rented to people with more modest incomes, and this is a strong source of more affordable housing, especially in the private rental market.⁶⁶

65. While gentrification can push up prices in a particular area, constructing more housing in total should lead to overall prices being lower than otherwise.

66. For a detailed discussion of 'filtering' see: Daley et al (2018b, pp. 64–66).

And by reducing the cost of housing overall, such steps would also reduce the size of the public subsidies needed to bridge the gap between the market cost of housing and what low-income earners can afford to pay.

4.5.2 Fix taxes that artificially inflate housing demand

The Commonwealth Government controls several policy levers that are set to increase housing demand. These distortions of the housing market should be abolished to make renting fairer and allow more low-income Australians the opportunity to buy a home.

Fix negative gearing and capital gains tax exemptions

As recommended in our 2018 report, *Housing affordability: re-imagining the Australian Dream*, the capital gains tax discount should be reduced from 50 per cent to 25 per cent, and negatively geared investors should no longer be allowed to deduct losses on their investments from labour income.⁶⁷ The effect on property prices would be modest – they would be roughly 2 per cent lower than otherwise – and the change would primarily advantage would-be home owners at the expense of investors. The dominant rationale for these reforms is their economic and budgetary benefits: they would boost the budget bottom line by about \$5 billion a year.

Include more of the value of the family home in the Age Pension assets test

The current rules effectively count only the first \$203,000 of home equity when applying the Age Pension assets test; the remainder is ignored.⁶⁸ Inverting this so that all of the value of a home is counted above some threshold – such as \$500,000 – would make pension

arrangements fairer without compromising the incomes of retirees, and contribute between \$1 billion and \$2 billion a year to the budget.⁶⁹ Many Age Pension payments are made to households that have substantial property assets. Half of the government's spending on age pensions goes to people with more than \$500,000 in assets.⁷⁰

Low-income retirees with high-value houses could continue to receive the pension and live in their existing home. Using the Government's *Pension Loans Scheme*, retirees can top-up their income with a loan secured against their home.⁷¹ If retirees responded rationally, the reform would have no effect on their actual retirement incomes – instead it would primarily reduce inheritances.

Reforming the assets test would also encourage a few more senior Australians to downsize to more appropriate housing, although the effect would be limited given that research shows downsizing is primarily motivated by lifestyle preferences and relationship changes.⁷²

This reform would also reduce the unfairness of the current system that treats homes and other assets very differently. And it seems unfair that the current system pays welfare to retirees who own homes that many in a younger generation will never be able to buy.⁷³

The impact of the change could be mitigated if the value of owner-occupied housing that is included in the pension assets test was

67. Daley et al (2018b).

68. Daley et al (2018a, p. 84).

69. Daley et al (2018b, pp. 98–99). In principle, changes to the Age Pension assets test should also apply to the assets tests for other pensions, such as the Disability Support Pension and Parenting Payment, but reforms to these payments have not been the focus of Grattan work to date.

70. Ibid (pp. 98–99).

71. The pension loan scheme allows people to borrow up to 150 per cent of the Age Pension rate: Treasury (2018, p. 175).

72. Daley et al (2018a, p. 84); and Valenzuela (2017).

73. Daley et al (2018a, p. 85).

increased only gradually. This would give retirees more time to decide how to respond to the new rules.⁷⁴

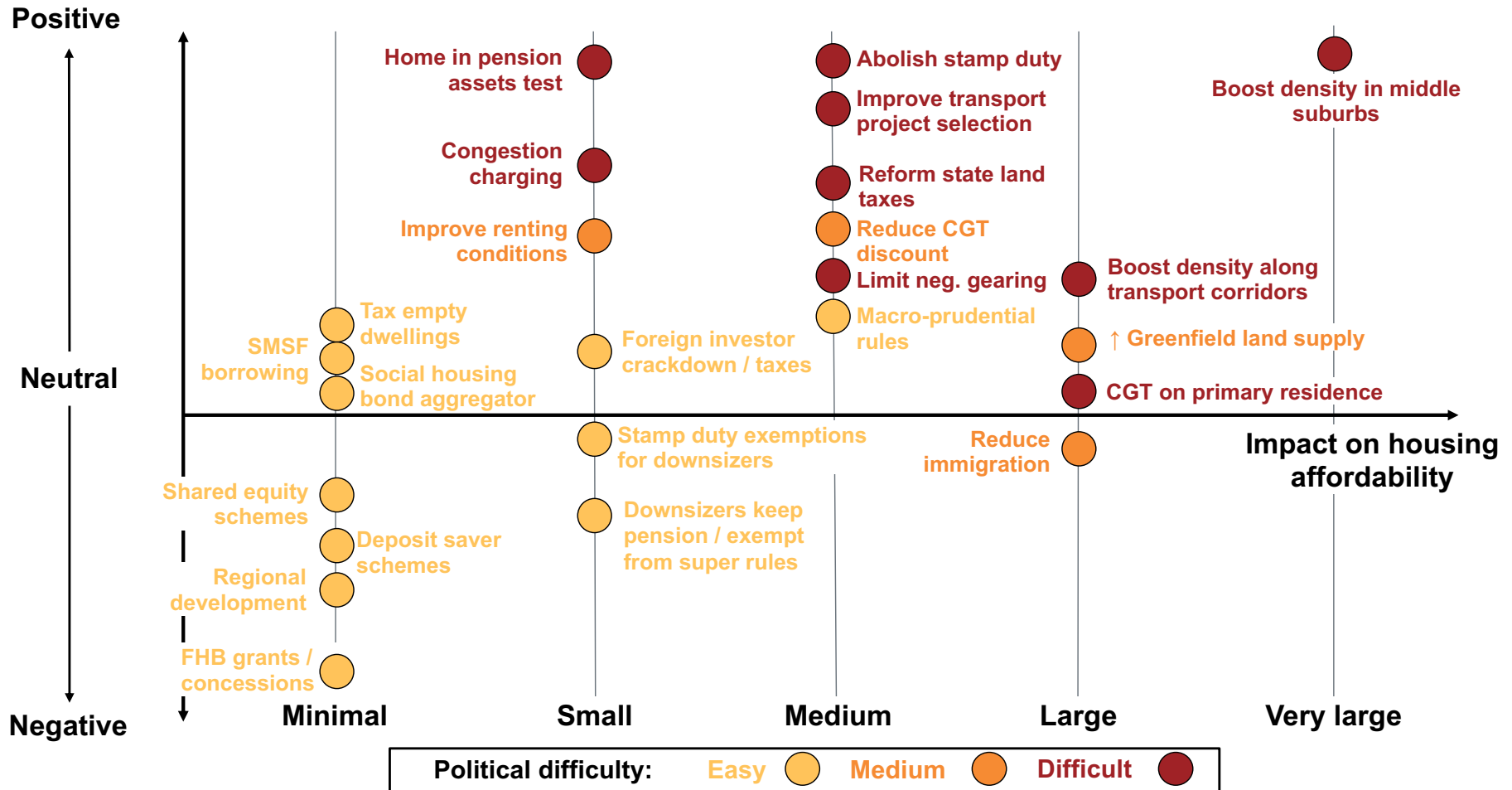
Other tax reforms should be considered

Other tax and transfer settings that affect housing include the (non) taxation of imputed rent, the corresponding (non) deductibility of mortgage costs, and the (non) taxation of capital gains and imputed rents on owner-occupied housing. But the policy merits of changes to these settings may be desirable, and the politics is likely to be intractable.⁷⁵

74. Ibid (p. 85).

75. Investment would be less biased towards housing, where any capital gains and imputed rents – the value of owning the home that you live in – are untaxed, compared to investing in other more productive assets. But it would be difficult to resist calls to allow deduction of interest payments and the cost of any capital improvements made to the home such as renovations, which could wipe out most or all of the benefit to the budget. Taxing imputed rents in particular presents a number of practical policy design and implementation challenges, which is why only five OECD countries – the Netherlands, Iceland, Slovenia, Luxembourg, and Switzerland – tax imputed rents, and they often substantially under-estimate the rental value. Daley et al (2018b, pp. 101–102).

Figure 4.2: Only some policies will actually improve housing affordability, and these are politically difficult
 Summary of economic, budgetary, and social impacts



Notes: FHB = first homebuyers. Prospective policies are evaluated on whether they would improve access to more-affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary, or social impacts should not be treated with spurious precision. Our assessments are generally directional and aim to foster a more informed discussion.

Source: Daley et al (2018b, Figure 5.2).

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