Submission to Tasmania's Housing Strategy

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Brendan Coates and Joey Moloney

We welcome the opportunity to make a submission to Tasmania's Housing Strategy.

Within living memory, Tasmania was a place where housing costs were manageable, and people of all ages and incomes had a reasonable chance to own a home with good access to jobs. But housing in Tasmania has become increasingly expensive, and public anxiety about housing affordability is rising.

Home ownership rates are falling, especially among the young and the poor. Without change, many more young Tasmanians will be locked out of the housing market. Owning a home increasingly depends on who your parents are, a big change from 35 years ago. House prices rose as interest rates hit record lows, while tax and welfare settings and rapid migration fed demand. But housing costs would have risen less if more housing had been built.

Permit more housing to be built

Not enough housing has been built to meet the needs of Tasmania's growing population. Over the past decade, Tasmania's population has grown by more than 11 per cent. But Tasmania's housing stock has grown by only 9 per cent over the same period. Australia overall has among the least housing stock per adult in the developed world, and is one of only a handful of developed countries in which housing stock per capita has been stagnant over the past 20 years.

Housing will become more affordable for Tasmanians if more homes are built. Increasing housing supply will restore housing affordability only slowly, but without a concerted effort to boost housing supply, housing affordability will probably get worse.

Boosting housing supply would especially help low-income earners. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately affects affordability for all Tasmanians. This is not merely theory: international evidence suggests that 'filtering' occurs in practice. Homes that were initially expensive gradually become cheaper as they age, and are sold or rented to people with more modest incomes. Grattan Institute research suggests that a 10 per cent fall in private market rents would reduce by 8 per cent the number of low-income households nationwide who are suffering housing stress.

The benefits of population growth accrue to society as a whole, whereas decisions about development approvals largely sit with local councils. Existing residents usually prefer their suburb to stay the same, whereas prospective residents who don't already live in those suburbs cannot vote in council elections, and their interests are largely unrepresented.

Of course, land-use planning rules have benefits by preserving the views of existing residents or preventing increased congestion. But studies conclude that the local benefits of restricting building are generally outweighed by the broader costs.

The Tasmanian Government has a key role here. The state government sets the overall framework for land and housing supply, governs the local councils that assess most development applications, and sets building regulations that affect building costs.

The Tasmanian Government should change planning processes to allow more higher-density housing close to the CBDs of Hobart and Launceston, and more medium-density housing in established suburbs that are close to jobs and transport. Fewer small-scale urban infill projects should require development approvals, and more should instead be code-assessed. More dense development should be allowed 'as of right' along key transport corridors, with height limits set up-front.

The Tasmanian Government should also consider nominating high-quality designs for medium-density dwellings that would be permitted automatically in inner-city suburbs in Hobart and Launceston; a variety of designs might be approved for different lot sizes.

The State Government should also set housing targets and make sure local councils meet the targets. When local councils fail to meet housing targets, the Government should transfer responsibility for assessing development applications to independent planning panels, as has already occurred, with some success, in Sydney.

Heritage protection is a particular form of planning regulation that slows or stops development. Protecting certain sites under heritage restrictions may be important to the extent that those sites enrich our understanding of history. But it is often done with little acknowledgement of the costs of conserving heritage sites, which include stymieing the supply of housing in areas where people most want to live.

The politics of land-use planning reform are fraught because most voters own a home (and many own investment properties), and tend to mistrust any change that might dent the price of their assets. But unless governments make changes, housing affordability will only get worse.

Target housing assistance to those most in need

There is also a powerful case for more government support to reduce homelessness and help house vulnerable Tasmanians. But housing subsidies are expensive. Nor will all policies be equally effective. The Tasmanian Government should give priority to reforms that are well targeted to those most in need, and deliver the best bang for Tasmanian taxpayers' buck.

In particular, 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. Given its costs, social housing should be reserved for those most in need, and at significant risk of becoming homeless for the long term.

The Tasmanian Government should steer clear of schemes to build more affordable housing – where rents are typically set at 20 per cent below market rent and homes made available to anyone earning less than median income – because such schemes aren't well targeted at people at high risk of homelessness. Inevitably, many more people will be eligible than there are places available, making such schemes a lottery that provide more assistance to some people than others – and generally not the most needy.

Support a joint Commonwealth-state trial increase in Rent Assistance

Boosting Commonwealth Rent Assistance would be a fairer and more cost-effective way to help the much larger number of lower-income earners struggling with housing costs.

In 2021, Rent Assistance reduced housing stress levels for recipients nationwide from 72 per cent to 46 per cent. Increasing Rent Assistance won't increase rents much, because only some of the extra income will be spent on housing. But it would substantially reduce financial stress and poverty among poorer renters. The Productivity Commission recently reported that reviewing Rent Assistance was its number one priority to help low-income renters.

The size of the Rent Assistance program has increased, because the number of people eligible has expanded as home ownership rates among low-income earners have fallen. Total Commonwealth Rent Assistance (CRA) spending has gone from $1.9 billion in 2003-04 to $5.4 billion in 2020-21. After adjusting for inflation, that is a 93 per cent increase in spending on Rent Assistance, or a compound average growth rate of 3.9 per cent a year over that period.

Given the challenges in getting governments to spend more on poverty alleviation, that's a big success. Few other spending programs have enjoyed that level of real spending growth. It shows the benefits of a demand-driven program.

But the maximum rate of Rent Assistance hasn't kept pace with the rents paid by low-income Tasmanians. The Tasmanian Government should consider co-funding an expansion in Rent Assistance across parts of the state. A 40 per cent boost in Rent Assistance, if applied to all eligible Tasmanians, would cost roughly $50 million a year. A regional trial of an expanded rate of Rent Assistance in parts Tasmania would provide robust evidence of the impact of raising Rent Assistance on market rents paid by low-income earners, and also demonstrate the benefits to recipients in terms of reduced financial stress and improved nutrition and mental health.

In time, Tasmania should also consider working with the federal government to extend Rent Assistance to low-income renters in need of assistance but currently excluded because they do not qualify for an income-support payment.

Encourage institutional investment in rental housing

Renting could also be improved by removing barriers to institutional investors investing in market-rent residential housing. Institutional investors are better placed to offer renters security of tenure, since the costs of getting a bad tenant are defrayed across hundreds if not thousands of properties.

Australia's rental stock is dominated by 'mum-and-dad' landlords. About 85 per cent of rental properties are owned by landlords who have three or fewer properties. With such small portfolios, landlords prefer shorter leases and relaxed tenancy laws in case the relationship with the tenant turns sour, or they want to sell the property (which often results in the tenant having to leave against their wishes). And, as anyone who has rented will attest, trying to get a landlord to complete simple repairs via a property manager can be painful.

In contrast, institutional investors, with a much larger and diversified portfolio, would have a stronger tolerance for these risks, meaning renters could get more secure tenure. And while mum-and-dad landlords are essentially anonymous, prominent institutional landlords would have a brand to protect.

But to get institutional investors, including superannuation funds, investing in housing, we need to reform state land taxes.

Currently, states levy land tax rates on the combined value of all properties owned by a landlord, charged at progressive rates, often with generous tax-free thresholds. These state taxes were introduced by the colonies in the late 19th Century to force large rural landholders to subdivide their land and sell it to settlers. Nowadays, these land taxes simply make it uneconomic for large investors to own residential property.

Take the example of 100 investors each owning one house in Tasmania worth the average price of $650,000. Assuming the land accounts for half the house value, they'd pay $1,062 each year. But a super fund owning the same 100 houses would pay $4,818 in land tax on each home, taking nearly 20 per cent of the rent. It's no wonder Australian super funds invest in housing in the United States, but not here.

The simplest way to remedy this would be to flatten land tax rates and abolish tax-free thresholds, or to apply progressive rates based on the value of individual properties rather than the combined value of holdings. But doing so would create both winners and losers if state governments were to collect the same revenue as before. Therefore, if the federal government wants super funds to invest in housing, it should help states to make the switch.

And the Tasmanian Government, via Homes Tasmania, shouldn't be afraid to build more housing itself, and rent it out at market rents to tenants. A state-owned developer could help sustain housing construction during downturns, while also acting as a model landlord in the rental market.

Further Grattan work on housing

The Grattan Institute has produced a large volume of work on housing affordability, particularly for low-income earners, that is relevant to Tasmania's Strategy. Attached are:

- Our 2018 report *Housing Affordability: Re-imagining the Australian Dream*
- Our 2018 paper *Most new housing is not high-end housing*
- Our 2018 report *State Orange Book 2018: Policy priorities for states and territories*
- Our 2021 proposal for a Social Housing Future Fund
- Our 2019 paper *Learning from past mistakes: Lessons from the National Rental Affordability Scheme*
- Our 2021 submission to the federal parliamentary inquiry into housing affordability and supply in Australia
- Our 2022 submission to the Productivity Commission review of the National Housing and Homelessness Agreement
- Our recent presentation on progressive land taxes and rental tenure security to the Tasmanian Housing Strategy team

We would also welcome an opportunity to appear before the Committee. For further information please contact Brendan Coates, Program Director, Economic Policy, Grattan Institute: brendan.coates@grattaninstitute.edu.au.