AROUND THE HOUSE

The newsletter of Shelter NSW ▶ Working for a fair and just housing system

Does this election offer hope for housing action?

Adam Farrar, Senior Policy Officer, Shelter NSW

This election campaign began with a rush of optimism for many housing advocates. Housing affordability was actually there in the debate; and our analysis of the policies needed was being publicly backed by economists and other experts. So now that the vote is on us, were we right? Will this be the launching pad for a real response?

National Vote Home campaign

The lack of meaningful government responses to a housing system that is failing more and more Australians has been one of the great disappointments of the past decade or more.

While Labor in government took some significant initiatives – like NRAS and a systematic approach to homelessness – social housing funding fared little better than under the Coalition except for the one-off 'nation building' stimulus spending.

More importantly, both sides refused to address the dominance of speculation in housing investment; and the unaffordability (and debt) that went with it. The idea of tackling its causes – financial deregulation, the capital gains tax discount and negative gearing – was decisively rejected. In fact, at times it was suggested that rising house prices was the platform for strong domestic consumption, despite its impact on low-income households and renters. After Labor's Tax Summit, the recommended changes to negative gearing were immediately ruled out.

So as the warnings recently began to grow louder and louder through the media from voices other than housing advocates and a few academics; and when, as this election was called, Labor announced that it would limit negative gearing and CGT discount, it looked like a breakthrough had come at last. All

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Does this election offer hope for housing action?

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that remained was for both major parties to address the problem.

It seemed possible. After all, in the past the Prime Minister, Malcolm Turnbull, canvassed the need to consider reform of the negative gearing and capital gains tax treatment of rental housing, arguing that they have contributed to a significant property bubble. So it was a major disappointment when the Coalition traded sound policy for an attack on Labor, and ruled out any changes.

Where did that leave us? It left us with a campaign – the Vote Home campaign – undertaken by a coalition of National Shelter, Homelessness Australia, The Community Housing Industry Association and ACOSS.

Its aim was to do two things. The first was to push the commitments already there from Labor and the Greens further: To include commitments to a housing affordability strategy, a commitment to significantly increase the supply of social and affordable housing, to halve homelessness, to increase Commonwealth Rent Assistance and to fund disability housing.

The second was to place the issue so firmly on the agenda that, no matter who won, the awareness created during the election would not go away.

There have been some considerable wins. The Greens policy had made comprehensive commitments, not just to reform housing tax, but to use the savings to increase supply and address homelessness. And just before it's formal campaign launch, Labor came to the party with a commitment to develop a national affordable housing strategy, a pledge to aim to halve homelessness by 2025, and a (somewhat weaker) pledge to agree with the states on national targets to increase the supply of affordable housing dwellings.

But has there been enough momentum to make headway after the election – particularly if the Coalition, which so far has not made any such commitments, is elected?

a majority of voters support change. But the broader housing affordability issue seems at times to have been lost behind the taxation claims on one hand, and general worries about the cost of living on the other.

While this could make it harder to press the argument if there is a Coalition government, the firming up of the platforms of both Labor and the Greens is a strong position from which to maintain housing affordability policy as live policy debate in the life of the next government. And meanwhile, the campaign had attracted a solid base of 10,000 supporters signing its petitions.

Vote Home homelessness petition has almost 3,000 supporters

One possible concern is the extent to which housing affordability – and particularly rental affordability for middle and low-income households – has maintained a place in the election debates. The negative gearing claim and counter claim has held attention; and, if the ABC's Vote Compass is to be believed,

And were Labor to be the next government, this is a strong position from which to hold them to the policies that might – at last – start to tackle our housing crisis.

Latest rental affordability index shows worsening problem

The second release on 16 June of Australia's first ever Rental Affordability Index (RAI) reveals the lowest-income households in Australia are paying up to 85% of their income on rent, while rental unaffordability is extending to professionals.

Sydney continues to experience borderline unaffordability for all renters. The inner ring of Sydney remains unaffordable for average household incomes, and all of Sydney is unaffordable for low and moderate income households. Low income households in Sydney will be paying up to 85% of their household income to secure rental property. There has been some improvement from severe-to unaffordable between Rhodes and Epping but south of the city towards the Randwick area unaffordability has become extreme.

Sydney remains the least affordable city to rent in Australia.

National Shelter Executive Officer Adrian Pisarski said "The recent addition of new apartment supply in Sydney has done nothing to alleviate its rental affordability crisis. Sydney desperately needs a stream of dedicated new supply specifically targeted to low-moderate income households. The city's productivity suffers without it as commuters need to travel hours and soon many jobs will not be worth taking given the time and travel costs."

The data has reinforced calls for policy reform to address rental and housing affordability. The Index has been created by National Shelter, Community Sector Banking and SGS Economics & Planning. It includes data from the September and December 2015 quarters as well as historical data dating back to 1996. Data was not available for Victoria.

Under current market conditions, the RAI reveals low-income households typically need to pay 50 to 85% of their income on rent. It is generally accepted that a household is in housing stress if it pays more than 30%of its income on rent.

Adrian Pisarski, Executive Officer of National Shelter, said the latest index highlights that many rental households are falling into poverty and are being pushed to suburban fringes due to high rents.

"Australia's lowest income households – those on around $500 a week – are paying up to 85% of their income on rents. Middle-income households are also falling into housing stress as high rents chew up incomes that aren't keeping pace with rising housing costs. It is clear that rental unaffordability is dividing Australia," Pisarski said.

"Low and moderate income households are being forced out of inner-city areas into fringe suburbs where there are fewer jobs, less infrastructure such as transport, and fewer opportunities, which is only entrenching their disadvantage. Essential service workers like teachers, nurses and police are also being affected, potentially leaving service gaps in the suburbs they're being priced out of."

Ellen Witte, an Associate at SGS Economics & Planning, said rental unaffordability had started to intensify from the early 2000s in Queensland and New South Wales. "This coincided with the 50% reduction in the capital gains tax in 1999 and the fact that for the first time in decades, new housing stock was falling behind demand. This resulted in a surge of investment in housing, driving up prices, and pushing out first home buyers, forcing them to rent."

Economist Saul Eslake noted that in 1991-92, first-home buyers each accounted for about 17%

of total housing market, with the remainder going to 'repeat buyers'. "By the current financial year, however, the share of total housing lending going to first-time buyers is just 11%, while the share going to investors rising to 46%,"Eslake said.

"So would-be home-buyers have been squeezed out of the housing market by investors who have, in effect, converted dwellings that might otherwise have been acquired by home-owners into rental dwellings which those would-be home-buyers have been obliged instead to rent – a perverse example of 'supply creating its own demand," he said.

SGS Economics's Witte said the percentage of households renting has grown to 35% across Australia, with many struggling to make ends meet and cover other essential living costs like transport, food and utility expenses. "Single income households are the worst off and the trend over the last five years has mostly seen no improvement, except in Perth, where the mining downturn is likely to have taken the heat out of rents," she said.

"Historical trends between 1996 and 2011 show that rental affordability has deteriorated dramatically across all of NSW and Queensland since the early 2000s. The decline in rental affordability is expected to follow similar trends in other states," she said.

"Long-term trends in most cities present a pessimistic outlook for rental affordability. More young Australians are being squeezed out of the owner-occupier property market due to high housing costs, and this is driving up demand and prices for rental accommodation, exacerbating the rental accommodation shortage," Witte explained.

National Shelter's Pisarski said governments should be taking concrete steps to alleviate the rental crisis, including creating a national strategy that uses all available tools such as tax reform, government investment and state and local government resources.

"We need a national strategy to address the deterioration of rental stress but what we are getting is the opposite. Government cuts over the past five years, including cuts to the National Rental Affordability Scheme (NRAS), have only contributed to the current rental crisis," he said.

"We need concrete action from all governments in partnership with the community sector to alleviate this rental affordability problem," Pisarski said.

National Shelter Executive Officer Adrian Pisarski

Australians asked to Vote Home in bid to end the housing crisis by 2025

In the lead-up to the federal election, a national alliance of housing, homelessness and welfare peak bodies has formed to ensure housing and homelessness are tier one election issues.

The alliance – formed by National Shelter, Homelessness Australia (HA), the Community Housing Industry Association (CHIA) and the Australian Council of Social Service (ACOSS) – has asked all Australians to stand up for change by signing the Vote Home petition calling for all parties to commit to a national strategy to end the housing crisis by 2025.

The alliance proposes five priority reforms for such a strategy across the taxation, income security, social housing and homelessness systems, driven by a Cabinet-level minister with authority to coordinate, and supported by strong government and community sector institutions.

ACOSS CEO, Cassandra Goldie, launches Vote Home housing tax petition

Reform 1: Significant growth in public and community housing and other affordable options

Australia has a shortfall of over 500,000 rental dwellings that are affordable and available to households in the lowest 40% of incomes. Public and community housing and other affordable options, which are targeted to those on lower incomes, are a critical part of the response needed to end homelessness and adequately house all Australians.

Any reform program needs to take growth in affordable housing seriously and provide a long-term, consistent pipeline of capital funding to support it.

Parties should commit to developing an Affordable Housing Growth Fund starting with $750 million in the first year, growing to $15 billion over 15 years. This funding should be explicitly for expanding the stock of affordable housing. A number of parameters should guide its operation. These include:

- It should provide an ongoing pipeline of capital funding to grow the supply of social and affordable housing in the public and community sectors, with matched funds from the states and territories. Parties should continue to support tenancy and asset transfers from state housing authorities with appropriate safeguards for tenants.
- It should be deployed in tandem with strategies to attract private investment into the affordable housing sector, with the precise means for this to be informed by the current policy process being managed by the Affordable Housing Working Group. These strategies would involve working alongside an increasingly sophisticated community housing sector to support providers' ability to leverage private finance, spreading risk by aggregating borrowing or investment across the sector, and providing incentives that are tailored to the type of housing being provided and the cost structures of local housing markets.
- It should recognize that Aboriginal and Torres Strait Islander peoples face the highest levels of housing

stress, overcrowding and homelessness of any segment of the Australian community. This means that a significant proportion of the growth funds need to be earmarked to increase the supply of designated housing for Aboriginal and Torres Strait Islander people in urban, regional and remote areas, and linked to local employment and training plans to ensure that Aboriginal and Torres Strait Islander people are engaged in construction and in carrying out ongoing maintenance and repairs.

Reform 2: National Homelessness Strategy and Plan

In a prosperous nation like Australia there are adequate resources to ensure everyone has a home. Yet we have unacceptably high, and growing, rates of homelessness. Each day more than 400 people are turned away from homelessness services without the support or accommodation they need

Parties should commit to a renewed plan to end homelessness by 2025, which addresses the drivers of homelessness, rapidly rehouses people who are homeless, and provides adequate and flexible support for those needing help to sustain housing.

A recommitment to this target for reducing homelessness, should be integrated not only with the housing strategy but with key national strategies such as the Closing the Gap strategy for Aboriginal and Torres Strait Islander communities, strategies for improving young employment, the NDIS, aged care reforms and efforts to combat domestic and family violence.

This strategy should include the following elements:

- National Partnership on Homelessness funding is secured and is part of the ongoing funding for homelessness services as part of the overall National Affordable Housing Agreement. It is vital to end the cycle of uncertainty over funding that has dogged the homelessness sector in recent years and hampered efforts to improve services.
- Expand prevention and early intervention services to “turn off the tap”. These should include strategies aimed at identified risk factors and population groups including women and children escaping domestic and family violence, young people leaving care, and older people in the private rental market.
- Continue pilot programs such as Reconnect that have proved effective and take these to scale.

Reform 3: Reform the tax treatment of rental housing

Rental housing currently receives tax subsidies in the form of investors being able to write off losses from rental investments against other income, and significantly reduced capital gains tax compared to other investments. These tax settings have a number of negative consequences for rental housing, including:

- encouraging speculative investment in loss-making assets, driving up housing prices across the market.
- making rental housing unattractive to institutional investors such as superannuation funds as these are unable to take advantage of the negative gearing opportunities.

Over the years a number of respected figures have highlighted the need for reform in this area. In 2015 the Reserve Bank of Australia told a Parliamentary Inquiry into home ownership that “there is a strong case for reviewing negative gearing, but not in isolation”. Even the current Prime Minister, Malcolm Turnbull, canvassed the need to consider reform of the negative gearing and capital gains tax treatment of rental housing, arguing that they have contributed to a significant “property bubble”.

Parties should commit to limit the offsetting of losses on investments in rental properties purchased after a specified date to income from those assets, rather than the investor’s other income. Investments before this date should continue to be taxed in the current way. This gradual transformation would take the pressure of speculative investment out of the housing market without dramatically reducing returns on existing investments. This will allow housing values to fall slowly in relation to incomes without forcing recent home owners into negative equity.

Part of the revenue saved from this measure should be used to introduce a two-tier rental housing investment incentive paid as an annual tax offset for a fixed period (such as 10 years) in respect of new dwellings or improvements for residential rental purposes, below a fixed construction cost. A higher rate would apply to dwellings defined as 'affordable rental housing', as part of a wider package of incentives to support investment in affordable housing.

The net saving resulting from these two measures is estimated to rise slowly to $1b per year, helping to offset the costs of other initiatives in this reform package.

Reform 4: Increase Commonwealth Rent Assistance

The current level of Commonwealth rent Assistance (CRA) is inadequate with 40% of recipients still in housing stress after receiving the payment. Its real value has declined over time as rents have risen faster than inflation.

Kate Colvin outlines the Vote Home campaign to Shelter NSW election forum

In order to reduce the number of CRA recipients in housing stress, the maximum rate of payment should be increased by 30%, and it should be indexed to the rental component of the CPI. This would equate to an average increase of approximate $22 per week for tenants on the maximum payment, and would cost the Government approximately $750m per year.

There is also an urgent need to review the structure of the payment. Given that rents vary widely from place to place it may be appropriate to vary the level of payment according to the average rental cost in each location, ensuring that recipients can afford housing wherever they live.

Reform 5: Address the shortfall of appropriate, affordable housing for people with disabilities

The National Disability Insurance Scheme (NDIS) is designed to support the aspirations of people with disability for independence and control over their lives. However, a major barrier to this independence is a shortfall of affordable housing dwellings which are appropriate for and available to people with disabilities. Estimates of the scale of this shortfall vary, but a recent report by the Disability Housing Futures Working Group estimates that of the 110,000 people who will seek to move from their existing housing in the first 10 years of the operation of NDIS, somewhere between 35,000 and 55,000 are likely to struggle to find appropriate affordable housing.

In order to address this issue, the Commonwealth and State Governments need to work with the community housing sector to develop a ten year plan to:

- deliver 16,000 new units of specialist disability housing for people with high support needs, to meet the anticipated demand for such housing in the first decade of NDIS
- improve the capacity of the community housing sector to develop and manage this specialist housing, including developing sector-wide development and management capacity to support local housing organisations as they enter this business
- evaluate the housing aspects of the roll-out in various trial sites in 2016 and beyond, and modify plans, practices and funding strategies accordingly
- negotiate with states to introduce targets and processes to ensure universal housing design elements are lifted in the private market.

Along with these specific reforms, it will be important to promote and possibly to legislate the adoption of universal design standards in private market housing to ensure that mainstream housing is physically accessible to people with disabilities.

Powerful arguments for reducing the tax discount on capital gains

Saul Eslake, Vice-Chancellor's Fellow, The University of Tasmania

Adam Smith is often regarded as the founder of modern economics. It was he, writing in the second half of the 18th century, who first proposed that the pursuit of self-interest (by 'the butcher, the brewer, and the baker') was the principal source of wealth and prosperity. It was he who first characterized 'market forces' as an 'invisible hand' guiding those motivated by the pursuit of self-interest also to 'promote the public interest'. He was one of the first to identify the 'division and specialization of labour' as a primary source of productivity growth.

In the work for which is today best remembered, An Inquiry into the Nature and Causes of the Wealth of Nations (published in 1776), Smith set out four principles, or 'canons' as he called them, of good tax design. The first of these was that 'The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state'[1].

Capital gains – increases in the value of assets which people own – are a form of income or 'revenue' which people accrue 'under the protection of the state', just as much as other forms of investment income – such as interest, dividends or rent – and just as much as wages or salaries earned from working. That's why, since September 1985, capital gains have been subject to income tax.

In principle, there is no reason why income from capital gains should be treated any differently by the taxation system than income from any other source – since income from capital gains enhances an individual's (or a company's) 'capacity to pay' no less than any other kind of income. Indeed, Malcolm Turnbull, in a paper co-authored with ANU academic Jeromey Temple in August 2005, wrote that "the arguments for taxing capital gains at the same rate as income are compelling"[2].

However, there is also a principled argument that, to the extent that the increase in the value of an asset has merely kept pace with the general rate of inflation, it does not represent any increase in 'purchasing power' or 'capacity to pay', and thus should not be subject to taxation. For that reason, when Australia's capital gains tax was first introduced in 1985, it provided that only increases in the value of an asset over and above the increase in the consumer price index during the period for which that asset has been held by a taxpayer should be included in the taxpayer's taxable income – that is, that only 'real' capital gains were subject to tax.

Although seemingly simple, this arrangement often proved complex in practice, especially when assets were paid for in instalments, or when investors spent money which added to the value of their assets (as is often the case with property investments).

Partly for that reason, in 1999 the Howard Government replaced this arrangement with one that, since then, has taxed half the full nominal value of capital gains (ie, without any adjustment for inflation) earned by individuals at the applicable marginal rate – or, alternatively, taxed the full nominal value of capital gains at half the applicable marginal rate. That is, capital gains earned by individuals are subject to a 50% discount for tax purposes[3].

This change was also recommended by the Review of Business Taxation chaired by businessman John Ralph.

The Ralph Review envisaged that it would "enliven and invigorate the Australian equities market", "stimulate greater participation by individuals", and "achieve a better allocation of the nation's resources"[4].

In fact the 1999 changes to the capital gains tax regime did nothing of the sort. Australia has not become a nation of shareholders: the proportion of Australian adults owning shares, directly or indirectly, declined from 39.7% in 1998 (the year before these changes took effect) to 35.7% in 2014[5]. Nor have we become a nation of entrepreneurs: the proportion of Australian adults who are owner-managers of their own businesses has fallen from 11.6% in 1998 to 10.6% in 2015[6]. What we have become, or at least become more of than we were, is a nation of landlords and property speculators: the proportion of adult Australians who report receiving rental income to the Australian Tax Office has risen from 8.9% in 1997-98 to over 11% in each of the three years 2011-12 through 2013-14.

This shouldn't be altogether surprising. The post-1999 capital gains tax regime has been much more generous to property investors, compared with the taxation arrangements which applied between 1985 and 1999. The relative 'generosity' (from a taxpayer's perspective) of the two successive regimes depends on the inflation rate and the rate of return on particular investments. Analysis by the Grattan Institute suggests that property investors have been more lightly taxed by the post-1999 regime than they would have been under the arrangements which applied between 1985 and 1999, whereas the reverse is true for share investors, given that capital city house prices have at more than two-and-a-half times the inflation rate since 1999, whereas share prices have risen by less than 20% more than inflation rate over the same period[7].

The introduction of a capital gains tax regime which has proved to be significantly more generous to property investors than its predecessor, and to other investors, appears to have played a significant role in enhancing the appeal of 'negative gearing' as an investment strategy.

Since 1998-99, the proportion of individual taxpaying landlords claiming deductions for interest expenses has risen from 71.6% to 82.0%; while the proportion reporting net losses (after interest) has risen from 51% to a peak of 68% in 2011-12, before falling back to just under 63% in

2013-14 as interest rates have fallen to record lows. Collectively, individual landlords reported net profits averaging $75mn per annum in the ten years to 1998-99; since then, they have reported net losses averaging more than $5bn per annum. The change to the capital gains tax regime in 1999 had the effect of converting 'negative gearing' from a strategy whose primary purpose was to allow investors to defer income tax, into one which allowed them to defer and permanently to reduce their tax liabilities, by allowing them in effect to convert wage and salary income taxable at full marginal rates in the year in which it is earned, into capital gains taxable at half marginal rates in the year in which they are realized.

And given that the overwhelming majority of property investors purchase established dwellings, rather than new ones, it is hard to characterize their activities as 'entrepreneurial', or in any other way of the sort that would be especially deserving of explicit encouragement through the tax system.

The Australian Treasury estimates the cost to revenue of the 50% capital gains tax discount for individuals and trusts at $6.84bn in 2016-17, rising to $9.10bn by 2019-20[8]. That's a cost which results in a larger budget deficit than otherwise (and hence more debt to be serviced and repaid by future generations), or which requires more tax to be collected from other taxpayers and/or less spending than would otherwise be possible.

The benefits of the capital gains tax discount accrue disproportionately to high-income earners. Tax Office statistics show that, in 2013-14 (the latest available year), the 2.9% of taxpayers in the top tax bracket earned 58% of the capital gains reported in that year (a much larger share than their 17.7% share of total taxable income) and paid 74.0% of the total amount of capital gains tax paid by all individuals in that year. Since the amount of capital gains tax paid by individuals in the top tax bracket in 2013-14 was $3.5bn (out of total individual capital gains tax payments of $4.8bn), one interpretation is that the 50% capital gains tax discount was worth $3.5bn to them (equivalent to 7.1% of the total amount of tax they paid), as against $1.2bn to the remaining 97% of taxpayers (equivalent to 1.1% of the total amount of tax paid by them).

As noted earlier, the desire to avoid taxing that part of income from capital gains which merely 'compensates' an investor for the impact of inflation is a defensible rationale for taxing capital gains less heavily than an equivalent amount of wage or salary income. However, it is worth noting that capital gains are not the only type of income which includes an 'inflation compensation' component. Most obviously, interest income includes a component intended to provide 'compensation' for the impact of inflation on the underlying principal sum, which is one reason why interest rates tend to vary in line with inflation (unless precluded from doing so by government regulations). Yet there is no correspondingly concessional treatment of interest income for tax purposes. This works to the detriment of lower-income households, most of whose discretionary savings (if they have any at all) earn interest, as opposed to more tax-advantaged forms of investment income such as dividends or capital gains.

The preferential tax treatment of capital gains, compared with other types of investment income, thus distorts saving and investment decisions, as well as detracting from the equity of the personal income tax system. For these and other reasons, the Henry Review recommended that the tax discount on capital gains be reduced to 40%, and that this discount be extended to other forms of savings or investment income[9]. This recommendation has also been supported by the Business Council of Australia[10]. Even the Property Council of Australia appears to have shifted its thinking on this question: its submission to the Abbott Government's tax white paper process advocated retention of the full 50% capital gains tax discount[11], but more recently has appeared "prepared to have a conversation around the edges" of this topic[12].

However, the choice of a 40% discount was entirely arbitrary, and the Henry Review provided no rationale for choosing that figure rather than some other one. Any other figure would be no more or no less arbitrary than 40% - or 50%. Reducing the discount to, say, 33⅓% (as currently applies to superannuation funds), or to 25% (as proposed by the Australian Labor Party) would also be arbitrary. It would also be – by design - less concessional than the present regime: but it would still be concessional, compared with the tax treatment of wage and salary income. As such, it could not legitimately be depicted as 'penalizing' saving, investment or 'risk-taking'. If it were extended to other types of investment income (such as interest), it would be both more equitable as between taxpayers at different points on the income distribution, and more neutral as between different types of saving and investment vehicles – all of which constitute, in my opinion, powerful arguments for reducing the tax discount on capital gains.

1 Adam Smith, The Wealth of Nations (London, 1776), Book V, Chapter II, 'Of the Sources of the General or Public Revenue of the Society', Part II

2 Malcolm Turnbull and Jeromey Temple, Taxation Reform in Australia: Some Alternatives and Indicative Costings (August 2005), p. 10.

3 For superannuation funds, capital gains are subject to a 33⅓% discount – ie, they are taxed at a 10% rate rather than the 15% applicable to their other income. Companies do not get any tax discount for capital gains.

4 Review of Business Taxation (John Ralph, Chairman), A Tax System Redesigned (Canberra, July 1999), p. 585.

5 Australian Stock Exchange, The Australian Share Ownership Study 2014, and previous issues.

6 Australian Bureau of Statistics, Labour Force, Australia, Detailed – Electronic Delivery (cat. no. 6291.0.55.001), April 2016.

7 John Daley and Danielle Wood, Hot property: negative gearing and capital gains tax reform, Grattan Institute (Melbourne, 2016), p. 10.

8 Australian Government, 2016-17 Budget Paper No 1, Budget Strategy and Outlook (Canberra, May 2016), p. 4-20. These estimates exclude the (much larger) revenue cost of the complete exemption of owner-occupied housing from capital gains tax (a separate issue which I have not considered here).

9 Ken Henry et al, Australia's future tax system – Report to the Treasurer (Canberra, December 2009), Part Two – Detailed analysis, Volume 1, pp. 70-76.

10 Business Council of Australia, Realizing Our Full Potential: Tax Directions for a Transitioning Economy (Melbourne, March 2015), pp. 62-64.

11 Property Council of Australia, Prosperity and fairness: using tax reform to grow the economy, Submission to the Re:think Tax Discussion Paper (Sydney, June 2015), p. 34.

12 PCA Chief of Policy and Housing Glenn Byres, quoted in Jennifer Duke, 'Industry bodies defend negative gearing, but leave changes to capital gains tax on the table', www.domain.com.au, 10th February 2016. See also comments by PCA CEO Ken Morrison in Kara Vickery, 'Billions wiped from Federal Government coffers through capital gains tax property discount', www.news.com.au, 8th January 2016.

What does the federal election mean for tenants?

Ned Cutcher, Senior Policy Officer, the Tenants' Union of NSW

As federal elections go, there's a lot on the table for tenants in 2016. It's more about quality than quantity, as many of the usual concerns – like increases to Commonwealth Rent Assistance and a commitment to new social housing – take a back seat to tax reform. But changing the way landlords are taxed is the biggest lever a federal government could pull if it wants to start fixing Australia's dysfunctional housing system.

Labor and The Greens have brought this to the fore with proposals to change the tax treatment of negatively geared investments and "non-business related" capital gains. These tax settings give landlords a considerable edge over first homebuyers, and have driven up the cost of housing. Despite assertions to the contrary, they've also driven up rents, and they play a key role in maintaining chronic housing insecurity for tenants.

Those who'd like to keep negative gearing and capital gains tax concessions argue they keep rents down by encouraging more investment in housing, but there are two problems with this argument.

First of all, data from the Australian Taxation Office shows that while their numbers do continue to grow, the growth of new landlords in Australia

Peter Butler questions politicians at Shelter election forum

is starting to slow. The number of landlords who are buying a second, third or fourth investment property is growing faster. This points to a future where "new investment" in housing will largely come from those who already have a foothold in the market. Or, if we look at it another way, the current trend suggests our housing system is producing a greater increase in the number of tenants than it is encouraging new investment.

Second, more investment by landlords has not resulted in an increase in the supply of new housing. Lending and finance figures from the Australian Bureau of Statistics show that at least nine out of every ten dollars borrowed for rental housing in Australia is used to purchase an already existing dwelling. This means that where new housing supply is being produced, it's being driven by other factors.

Combined, these tax settings have had a considerable impact on the private rental market by distorting supply and demand. Regardless of what the market needs, negatively geared landlords are prepared to pay a premium for well-located, well-appointed properties with high prospects for rapid gains. Not only does this push up the cost of housing-to-buy, it pushes up rents too. It ensures large numbers of relatively well-off households remain in the rental market for longer, competing with one another for rental housing rather than transition to unaffordable home-ownership.

At the same time, less expensive properties are disappearing from the rental market because they do not produce such impressive capital gains, even at high rates of growth. Negatively geared landlords tend to pass these over, leaving an ever-diminishing pool of affordable rental housing for tenants on low incomes to compete for. Social and Affordable Housing might be expected to fill this void, but even with political will to expand these portfolios, Australia's high cost of housing makes it prohibitively expensive to do so.

Given how negative gearing and capital gains tax concessions affect Australia's rental markets, reform should be high on the list of federal election concerns for tenants and housing advocates.

Both Labor and The Greens are running with policies that would wind back these concessions significantly. The Greens propose to end the current tax treatment for any negatively geared investment that is not a "business asset". Labor would retain the current tax settings for negatively geared investment in newly built housing, but remove them for established dwellings. Both parties would "grand-parent" these policies, so existing investments would not be affected. The Greens would completely phase out the capital gains tax discount over five years, while Labor would halve the capital gains tax discount for any property purchased after July 1st 2017.

The Greens may push for a seat or two in the House of Representatives, and will be hoping for further influence in the Senate after the election. Short of finding themselves around the negotiation table in a hung parliament, they cannot hope to be involved in the formation of government. Their proposals are really only useful to the extent that they can influence others.

Labor, however unlikely it may have seemed six months ago, may find themselves in a position to form Government again after the election. Arguably their position on housing affordability has played some part in this, and with the support of the Greens we might see their tax reform policies implemented with a reasonable degree of confidence – if they are elected.

If this were to happen, the housing market would undergo a series of adjustments as both tenants and landlords respond to the change.

Some real estate agents have suggested that rents will rise during this period, but there is no reason for this to happen – other than landlords taking these agents at their word. This could be a costly mistake. Any change to the supply of rental housing will be offset by a similar change to demand, as first homebuyers would start to buy the properties their landlords no longer want. And as there will be no change to the system for landlords who are currently negatively geared, there should be no significant adjustment to their costs.

Suggestions they will need to increase rents to cover rising costs should be strongly and decisively challenged, and the NSW government could pre-empt this in its response to the current review of the Residential Tenancies Act. Even so, landlords who try to increase the rent beyond what the market will bear may find themselves sitting on a vacant property for longer than their cash flow could accommodate.

The Coalition has pledged to leave negative gearing and capital gains tax settings as they are. If they successfully retain Government at this election, the challenge for tenants and housing advocates will be to keep these important proposals for tax reform on the table for another three years.

What are the parties offering to solve the housing crisis in this election?

Compiled by Nadia Ballantine-Jones, Alison Peters & Adam Farrar, Shelter NSW

The election has had its mantras, such as 'jobs and growth'. But what are the policies that will really make a difference to most people's lives after this election? In particular, what are the policies that will address the most pressing problems of housing affordability and housing need?

For this article we asked the parties to provide their housing policies. We approached The Coalition and Labor because one of these will form the next government. We also approached the Greens because it is the third largest party in the Senate.

Two of these, Labor and the Greens, provided housing policies. The Coalition did not provide any. However, where there have been few, or no election policy releases, we have drawn on public statements or even party platform to give a flavour. Labor specifically referred us to their Platform. However, it should be noted that public statements and party platforms will not be comprehensive.

We have grouped the policies of the three main parties under the key actions and reforms that the VoteHome campaign – an alliance of National Shelter, Homelessness Australia, the Community Housing Industry Association and ACOSS – have called on the parties to support.

These are the policies announced two weeks out from the election. Parties might continue to release further policies right up to the election date – so keep an eye out.

A coherent 10-year strategy to get all federal and state policies pulling in the same direction to address housing affordability and end homelessness

The Greens

- The Greens have a National Housing Affordability Plan. In 2013 they released a nine point plan to address Australia's housing crisis. In 2016 they are building on that work. So far, as part of this, they have released policies on: reforming negative gearing; removing the Capital Gains Tax discount over time (and using the additional revenue from these measures to increase social housing and homelessness funding); funding homelessness services.
- Additional elements of the Greens housing affordability package will be announced in the remaining weeks of the election campaign

Adrian Pisarski (National Shelter), Lee Rhiannon (Greens) & Jenny McAllister (ALP) at Shelter election forum

Labor

- Labor will develop a national affordable housing strategy to drive the development of an agreed, coordinated approach to addressing housing affordability in Australia.

It will also:

- Appoint a Minister for Housing and Homelessness.
- Make housing affordability a standing item on the COAG agenda.
- Include a more comprehensive coverage of housing as part of the Closing the Gap report.
- Develop an Affordable Housing Industry Plan to ensure the long-term development of a sustainable affordable housing sector.
- Re-establish the National Housing Supply Council.
- Investigate the development of national rental standards.
- Include more comprehensive coverage of housing in the Closing the Gap report, in recognition of the importance of housing to achieving the Closing the Gap.

The ALP also referred Shelter to a suite of housing statements as part of its Party Platform, which includes a section entitled 'Labor's National Housing Strategy'. (A fair go for all, 134 – 142)

The Coalition

- The Coalition has not made any commitment to an affordable housing strategy. Rather it has expressed a view that:
- "The key to improving housing affordability is more houses, more dwellings, houses and apartments. So our Cities policy is focused on delivering city deals which will encourage the right type of development that produces greater amenity, more liveable cities, and more affordable housing. This is a supply and demand problem. There has not been enough supply." (Malcolm Turnbull, Doorstop, Penshurst, Sydney 24 April)

REFORM 1: Significant growth in public and community housing and other affordable options

The Coalition

- Will continue the work of the Affordable Housing Working Group (comprising Commonwealth and State & Territory Governments) which is looking at ways to boost the supply of affordable rental housing through innovative financing models
- In a joint media release in April, the Minister for Social Services, Christian Porter and Assistant Minister to the Treasurer, Alex Hawke said that submissions to the Working Group showed there was strong interest from institutional investors and that the Working Group were now looking to identify barriers to large scale private investment in social and affordable rental housing and to identify complementary reforms to better encourage and facilitate investment
- Smart Cities Plan launched in May 2016 calls for improved collaboration across the three tiers of government, the private sector and community to improve the supply of affordable housing in well located areas.
- Commonwealth investment in infrastructure, especially transport, is supported as this will enable urban renewal and development of housing

Labor

- Labor, in partnership with State and Territories, will agree on national targets to increase the supply of affordable housing dwellings; and report annually through COAG on progress towards the targets.
- It will provide a one-off establishment grant of $3 million to Homes4Homes (H4H) - a social enterprise by The Big Issue, looking to raise capital funds to invest back into affordable housing supply.
- In the section of its Platform on 'Labor's National Housing Strategy' it says, amongst other things: " Labor will encourage greater private investment in the affordable rental sector. Labor will consider the National Rental Affordability Scheme approach in future policy development." (149, Ch 9)

The Greens

The Greens propose that revenue from negative gearing and Capital Gains Tax reforms be redirected to:

- Directly fund construction of 7,000 new homes for the homeless by 2020 – enough to house every person currently sleeping rough or without adequate shelter. (This is estimated to cost $1.12b over forward estimates.)
- Directly fund construction of 7,500 new social housing dwellings over the forward estimates, taking more than 15,000 people off the waiting list in just the next four years. (This is estimated to cost $1.875 billion over the forward estimates)
- Include a target of high quality, fast build, modular or 'prefabricated' housing which will be significantly faster and more affordable to construct. It's proposed that one third of the social housing and half of the homelessness housing supply be prefabricated.

REFORM 2: National Homelessness Strategy and Plan

Labor

- Labor, in partnership with State and Territories, will aim to halve homelessness by 2025.
- Labor will immediately hosting

Judy Singer and David Adamson at election forum a national roundtable on homelessness and a meeting of State and Territory Housing and Homelessness Ministers.

- In its Platform Labor also say it "will resume the 12- year strategy laid out in the 2008 White Paper to reduce homelessness." (128, Homelessness, A Fair go for all)
- Labor will also provide $88 million over two years for a new Safe Housing program, to improve transitional housing options for women and children fleeing domestic and family violence.
- It has announced a policy on family violence, which includes an initial investment of $15 million in Safe at Home grants to help people affected by family violence stay safe in their own home.

The Coalition

In government the Coalition has:

- Support for reducing homelessness
- Committed funding for NPAH until June 2017

During the campaign it has

- Announced will call together States and territories to give greater priority to addressing homelessness amongst veterans (RSL Centenary Conference)
- The Coalition's 'Our Plan' policy statement on tackling domestic violence states that:
- The 2016 Budget provides $100 million in new funding over three years to implement the Third Action Plan of the 12-year strategy National Plan to Reduce Violence against Women and their Children 2010 – 2022.
- This builds on the $100 million Women's Safety Package already being implemented by the Turnbull Government. The package focuses on three key areas: keeping women safe at home; support and training for frontline services; breaking the cycle of violence

NSW Federation of Housing Associations CEO, Wendy Heyhurst

The Greens

The Greens have a commitment to double the federal funding for homelessness services – for at least the next ten years. They propose to:

- Double the federal funding for specialist homelessness services provided under the original National Affordable Housing Agreement (and index the funding by 7%), at a cost of $507 million pa; and,
- Sign a new ten year National Partnership Agreement on Homelessness and double funding under the original agreement, at a cost of $320 million pa. This funding would be matched by the states, bringing the annual total to $640 million.
- The Greens will also create a new National Partnership Agreement on Domestic Violence and Violence, some of which may impact on homelessness.

REFORM 3: Reform the tax treatment of rental housing

The Greens

Negative gearing

- Remove negative gearing for all asset classes, for assets purchased on or after 1 July 2015, with grandfathering arrangements for existing investments. It is estimated to generate over $42 billion over ten years.
- The increased revenue would be redirected to increasing the supply of housing for the most vulnerable: people who are currently experiencing primary homelessness and families and individuals stranded on the social housing waiting list to: Directly fund construction of 7,000 new homes for the homeless by 2020 – enough to house every person currently sleeping rough or without adequate shelter (estimated to cost $1.12b over forward estimates); and directly fund construction of 7,500 new social housing dwellings over the forward estimates, taking more than 15,000 people off the waiting list in just the next four years (estimated to cost $1.875 billion over the forward estimates).

Capital gains Tax discount

- Phase out the CGT discount by 10% each year from 1 July

2016 until there was no longer any discount from 1 July 2020. This would generate $7 billion over forward estimates, and $119.5 billion over ten years.

Labor

Negative gearing

- Labor will limit negative gearing to new housing from 1 July 2017. All investments made before this date will not be affected by this change and will be fully grandfathered.
- This will mean that taxpayers will continue to be able to deduct net rental losses against their wage income, providing the losses come from newly constructed housing.
- From 1 July 2017 losses from new investments in shares and existing properties can still be used to offset investment income tax liabilities. These losses can also continue to be carried forward to offset the final capital gain on the investment.

Capital Gains Tax discount

- Labor will halve the capital gains discount for all assets purchased after 1 July 2017. This will reduce the capital gains tax discount for assets that are held longer than 12 months from the current 50 per cent to 25 per cent.
- All investments made before this date will not be affected by this change and will be fully grandfathered.
- This policy change will also not affect investments made by superannuation funds. The CGT discount will not change for small business assets. This will ensure that no small businesses are worse off under these changes.

The Coalition

Negative gearing

- Will not remove or limit negative gearing – as “that would increase the tax burden on Australians who are just trying to invest and provide a future for their families. Negative gearing is used by over 1 million Australians, two thirds of whom have taxable incomes below $80,000.” (Our Plan – Helping families get ahead, Protecting negative gearing)

REFORM 4: Increase Commonwealth Rent Assistance

The Coalition

No policy so far.

The Greens

- Increase Commonwealth Rent Assistance by 30%, through an increase of 10% on current levels in each of 2017-18, 2018-19 and 2019-20. This would equate to an increase of between $13-25 a week.
- The Greens will also review the structure of CRA payments in accordance with reports by peak bodies recommending that the level of payment should vary according to the average rental cost in each location.
- We will look at abandoning the Rent Assistance rules regarding ‘sharers’ and aim at linking payments to the level of rent paid, rather than the type of living arrangement people may be in.

Labor

- The ALP has made no election commitments with regard to Rent Assistance.
- Its Party platform says: “… Labor will maintain programs to improve the affordability of private rental accommodation. Rental assistance should recognise actual housing costs and help people move from welfare to work.” (147, Ch 9, A fair go for all)
- As part of the election campaign Labor has released policy on renters in general: Labor will ensure that the needs of renting households are considered within the national strategy on affordable housing.
- Labor will work with the States and Territories to reach agreement on a set of national minimum rental standards. It will commission work to examine: rental contract lengths; fair processes where landlords seek termination; ways to provide greater freedom of choice for tenants.

REFORM 5: Address the shortfall of appropriate, affordable housing for people with disabilities

No specific announcements so far.

For further reference to the party policies go to:

The Greens: greens.org.au/platform

Labor: www.100positivepolicies.org.au

The Coalition: www.liberal.org.au/our-policies

Urban renewal driving public housing higher

Geoff Turnbull, Publications Officer, Inner Sydney Voice

In January 2016 Social Housing Minister Brad Hazzard released *Future Directions for Social Housing in NSW* which sets out the government's strategy for redeveloping its public housing over the next ten years. The policy expects to generate $22 billion in construction activity in NSW over 10 years with 23,500 new and replacement social and affordable housing dwellings through redevelopments associated with UrbanGrowth and other renewal projects.

While Minister Hazzard's Waterloo redevelopment announcement predates the *Future Directions* announcement, Waterloo will be, along with Ivanhoe estate at Macquarie Park which is specifically mentioned in the policy, one of the first estate redevelopments under the policy. Waterloo is hence a useful lens through which to look at how broader urban renewal is being used to leverage the renewal of social housing.

In 2004 Premier Carr flagged to the Committee for Sydney that Redfern and Waterloo would be redeveloped in a transformation he compared to the transformation of Darling Harbour. At that time the Redfern Waterloo Partnership Project was undertaking studies in the area in what was known at the time as the RED Strategy.

Some of these plans, including those for public housing redevelopment, were leaked in late 2004 to the *Sydney Morning Herald* when the NSW Government announced the establishment of the Redfern Waterloo Authority (RWA) and the appointment of Frank Sartor as the area's own Minister.

The 18 storey buildings opposite Redfern Station on private land and the Channel 7 Media City building at the Australian Technology Park were some of the few visible legacies of the RWA's Built Environment Plan. Apart from the court house to medical centre transformation, the sale of the Rachel Forster Hospital site for units and Redfern Public School being transformed into the National Centre for Indigenous Excellence, the former Eveleigh rail yards saw little change.

It was not until 2011 that the RWA released its draft plans for the redevelopment of the Redfern and Waterloo public housing estates. In a victory for community groups the exhibition was a non-statutory exhibition. The RWA draft proposal would have lost 700 of the 3,500 units of housing on

Diagram produced by Urban Growth at the request of the community to indicate how density might work the two estates and was opposed broadly by the community.

The RWA exhibition coincided with Land and Housing Corporation receiving federal funds to undertake a parallel master plan for the redevelopment of the same public housing estates which generated the planning absurdity of undertaking a master plan before the RWA had proposed planning controls.

The proposals of both processes are reported to have disagreed and were then reviewed by the Government Architect's Office. The proposals did not proceed because government considered them not to be economically viable. None of the broader urban renewal studies, nor the work into the redevelopment options for public housing, have been released to the community.

The RWA morphed into the Sydney Metropolitan Development Authority and picked up growth centre responsibility for Granville, as well as the power to compulsorily acquire private property to facilitate development. It subsequently became the UrbanGrowth Development Corporation which sits alongside UrbanGrowth NSW which, as the Minister of the day announced, is "Landcom on steroids".

The focus of the rebadged Landcom changed from primarily retail housing development to driving development in areas of strategic importance such as Newcastle, Green Square Town Centre, The Bays Precinct, Sydney Metro Northwest, Parramatta North, Parramatta Road and Central to Eveleigh in Sydney, just to name a few of its current project locations.

UrbanGrowth NSW was given the Central to Eveleigh corridor in July 2013 when the NSW government, through UrbanGrowth NSW, called for expressions of interest for the renewal of the railway corridor between Central Station and Eveleigh. Amid much hype about the prospect of building over the railway corridor at Central Station, the easier deliverable was seen to be in the old RWA area.

For the next two years the focus for community discussion was around the redevelopment of government owned land railway land, especially at Eveleigh. The Urban Transformation Strategy, for exhibition in the second half of this year, is based on consultations built around railway corridor redevelopments, but it will guide development across the entire corridor.

The Newtown end of the North Eveleigh site is being fast tracked as an example of what UrbanGrowth is planning to deliver. It proposes buildings up to 20 storeys (two storeys taller than those currently next to Redfern Station) rather than the RWA's proposed 12 storeys on the site, to provide around 700 units in addition to the 88 units of social housing already on the site.

One of the issues of concern is the low level of affordable housing being considered. The RWA affordable housing contributions plan, which is still in effect, prescribes a contribution of only 1.25% of gross floor area towards affordable housing.

The pre-existing affordable housing on the site will deliver a proportion of 11-13% affordable on this part of North Eveleigh. UrbanGrowth say this will be higher than other parts of the corridor. Other sites will be lower because funds generated from the sale of the Australian Technology Park and development sites at Eveleigh are earmarked to support infrastructure, such as a Redfern station upgrade, rather than affordable housing.

Local groups point out that while 30% social housing and some affordable housing are promised for one government site in Waterloo only 5-10% affordable housing is being contemplated in the Eveleigh development.

This has led some local groups to suggest there should be a moratorium on the redevelopment of government land until a robust affordable housing plan is in put in place by the NSW government. Otherwise they argue there is a risk there will not be much government land left to leverage for affordable housing if government has already used it to replace treasury expenditure on maintaining state infrastructure.

The current proposal for the redevelopment of public housing is a recent addition to the current Redfern Waterloo discussion. It happened in 2015 when UrbanGrowth lobbied strongly for a new Metro line Station at Waterloo rather than Sydney University. The argument was that a station at Waterloo would justify much higher densities around the station and make redeveloping the Waterloo public housing estate viable without the loss of public housing.

The new Metro station for Waterloo and the redevelopment of Waterloo were announced simultaneously on 15 December 2015 leaving many public tenants in limbo over Christmas.

In the lead up to the announcement, residents noted the highlighting of public housing estates on the UrbanGrowth study area maps, where previously only the railway corridor was highlighted. Indicative density diagrams also changed from only showing the railway corridor to including indicative density on the public housing estates.

Most recently, the indicative density diagrams also started to show higher densities on private land in Redfern, Waterloo and Alexandria, demonstrating what might happen more broadly.

Throughout this process the City of Sydney Council have been operating under a Memorandum of Understanding with UrbanGrowth that allowed for participation by City planning staff in the planning process. Recently however the City has very publicly voiced concerns about the densities being proposed by UrbanGrowth for Waterloo, which it says implied densities far greater than anything seen in Australia and that are rare internationally.

The increase in densities pushed by UrbanGrowth have been a major concern to residents surrounding the site. Where the RWA proposed a maximum of 18 storeys near the station and eight plus or minus four for public housing UrbanGrowth is proposing up to 35 storeys across the sites.

The concern about such densities is the lack of open space per capita in the developments. At the North Eveleigh community consultation residents asked if the park should be made of AstroTurf rather than grass given the high use it was likely to receive. High densities also raised concerns within the community about solar access and amenity, so Council's recent entry to the public discussion has been welcomed.

The City of Sydney CEO's report to Council in May 2016 also revealed that the City had been asked to cooperate in a government proposal to declare a new State Significant Precinct within the broader UrbanGrowth study area surrounding the currently identified UrbanGrowth Central to Eveleigh sites. This would include parts of Surry Hills, Redfern, Chippendale and Alexandria.

This new mechanism will remove Council's role in setting planning controls and, by rezoning privately owned land, push density into surrounding areas. The RWA operational area was removed from Council planning control when the RWA was established, and Council fears the same outcome from the proposed precinct.

The final domino, so far, in this story is that the City also revealed that the proposed State Significant Precinct would take in the Redfern public housing estate. Given the pattern of things appearing on maps and then later being flagged for redevelopment, there is concern that public housing at Northcott in Surry Hills may also follow as it has also recently appeared on maps publically shown by UrbanGrowth.

The *Future Directions for Social Housing in NSW* policy is quite specific about the way public housing renewal will be delivered. At the heart of this new strategy, Land and Housing Corporation (LAHC), which owns public housing, will fast-track redevelopment through a new mechanism to grow supply of housing stock – *Communities Plus*. This will be done through partnerships with private sector developers, finance and non-government organisations.

Central to the strategy is development of projects in proximity to UrbanGrowth's priority renewal areas where planning agencies can up-zone land to build larger redevelopments that deliver ideally 70:30 ratios of private to social housing. The aim is to renew social housing stock and increase the amount of social housing where practicable, funded by the creation of private housing.

The interaction between UrbanGrowth's Central to Eveleigh project and the redevelopment of the public housing estates fits the *Future Directions* model. Firstly, UrbanGrowth pushes for new infrastructure that would allow for up-zoning on the Waterloo Estate and surrounding industrial land. Secondly a proposal for a growth centre extending more broadly into the area would allow for up-zoning on the Redfern Estate and allow it too to be redeveloped.

The message is clear – public housing situated near railway stations, a proposed light rail line or which is in an area targeted for increased density is ripe for redevelopment under the new policy.

Waterloo public housing redevelopment snapshot

The December 15, 2015 Waterloo announcement was short on detail. It created great anxiety and uncertainty just before Christmas when local community centres were closed. It took until Minister Hazzard's meeting on 18 February for a Q&A sheet to be produced which clarified that the area to be redeveloped was the consolidated estate with its 2,013 public housing units.

An initial map included the adjoining heritage conservation area where estate consolidation was stopped by the 1970s Green Bans, as documented in Tom Zubrycki's film *Waterloo*. In 2011 there were 188 apartments and 336 terraces and town houses in this area – some have since been sold and it has not been clarified if sales will continue.

Central to Eveleigh Study Area. Precincts of government-owned land are coloured orange

The Waterloo announcement was for "the delivery of an additional 10,000 homes". In May 2016 UrbanGrowth clarified that half of these homes would be in the surrounding area and half would be new private and affordable housing delivered in addition to an increased amount of social housing on the estate. Together the total number of units expected on the current estate will be a bit over 7,000, increasing by three and a half times.

Depending on occupancy estimates, that is between 13,000 and 14,000 people on 19 hectares (ha) – approximately 700 people per ha. By contrast Central Pyrmont has 395 per ha and the old ACI site has 360 per ha. UrbanGrowth says density will be similar to Green Square Town Centre. Council argues that this contains a lot of commercial so it cannot be compared with residential areas.

According to Sydney City Council papers, the proposed density is much higher than the Green Square average and rivals the densest parts of Hong Kong and New York. UrbanGrowth has said developments in the corridor will be up to 35 storeys – the highest towers currently in Waterloo are 30 storeys.

Earlier proposals for Waterloo estate proposed lower densities. The leaked Redfern-Waterloo cabinet papers in 2004 indicated around 5,600 units and the RWA's draft plan in 2011 proposed 3,920 units with a loss of 305 public housing units which was opposed by local groups. The earlier plan was considered uneconomical by government until the Metro station offered the possibility to increase densities.

UrbanGrowth has indicated it wants to talk to the community about how tenure mix might be delivered at Waterloo. In the earlier suburban estate redevelopments, the aim was to have public and private houses in the same street looking the same, but what is the equivalent for high-rise estates like Waterloo and Ivanhoe? Do they have mix on each floor, within each building or in separate buildings? How will this work if social tenants are people with high needs and human services support does not improve?

Six months after the initial announcement there is still no clarity about the details of the proposal. The Environment Impact Statement (EIS) for the metro line and Waterloo station went on exhibition in May 2016, but it only covers the metro station construction and not what might be built above the underground station – that will be in a separate EIS when plans are finalised. It will presumably take up some of the other 5,000 private units.

UrbanGrowth's Central to Eveleigh team has been preparing an urban transformation study for the entirety of its area, which will go on exhibition in the second half of the year. While much of the preparation predates the Waterloo announcement, it will also guide renewal in the estate. UrbanGrowth will prepare the master plan for LAHC, and FACS Housing will continue to have responsibility for dealing with tenants.

Commonwealth budget – housing settings beyond the election

Adapted from the Shelter *Commonwealth Budget 2016-17 Update* by Craig Johnston

The election campaign has diverted most people's attention from the May Budget's housing measures. But whatever policies are announced and whoever wins, the 2016-17 Budget provides the context and will be the fiscal framework for housing for the coming year.

The budget presented — as did its predecessors in the last two years — a moderately-rosy picture of the Australian economy. While the 2.5% growth in real GDP is less than that forecast in last year's Budget (2.75%), this 2.5% growth is expected to repeat in 2016-17. The Government expects the economy to 'transition to broader-based growth', with less dependence on revenue from exports from mining.

The housing market is expected to continue to be 'buoyant', backed up by rising household wealth and consumers' spending on housing-related products like furnishings. The rate of growth of investment in dwellings is not expected to match the growth rate of 7.9 %in 2014-15, and is expected to drop to a 2% growth rate in 2016-17.

While it looks to surplus budgets in the medium term, this year's deficit is expected to be $37.1 billion. And while the deficit is expected to drop, it will still be $6 billion some 4 years hence (2019-2020).

Two of the key election issues are part of the budget's revenue measures. The most contentious in the coming election is the announced cuts to company tax rates. On the positive side for the budget are the proposed changes to the tax treatment of superannuation contributions, although very few of these have an impact in the current year.

However, the changes to tax treatment of superannuation generated media debate about their impact on investment in rental housing.

One change limits the amount that can be held in retirement phase superannuation accounts with their untaxed earnings. Amounts of accumulated superannuation over $1.6 million will , instead, have their earnings taxed at 15%. In another change, the budget introduced a lifetime cap of $500,000 on non-concessional ('after-tax') contributions, effective from the date of the budget. This new cap replaced annual caps that allowed such contributions (up to $180,000) each year.

Budget commentators suggested the changes could encourage people with that sort of money, who were using concessionally-taxed superannuation savings to 'park' money, to switch to alternative tax-friendly options such as investing in property while 'negative gearing'.

This is particularly significant in the context of the pre-election debate about the need to modify the tax treatment of negatively geared properties. The Coalition had rejected the changes proposed by Labor; and the Government did not make any changes in the budget.

Despite the suggestion by commentators that the changes to superannuation tax might create a surge in negatively geared rental property investment, the Grattan Institute suggested that, while some taxpayers might take that path, most would not.

The Institute's CEO commented: "Anyone with more than $1.6 million in their super fund at retirement is likely to be in the top marginal tax rate. That means paying 15 per cent tax on the earnings in their super accumulation account is a big discount to their income tax rate of 4%. Even with a 15% earnings tax applied to the excess of balances over $1.6 million, super will remain a wildly attractive savings vehicle."

The other big issue in the election is where expenditure cuts should be made in an attempt to reduce the deficit. The policy areas where spending will be biggest are social security and welfare, health, and education, which, together, are 59% of the government's spending (the same proportion as last year).

Table 1: Expenses: housing and community amenities

	Actuals		Estimate $		Projections	
$m	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Housing	3269	3267	3568	3517	3057	3027
Urban and regional development	679	703	688	592	439	386
Environment protection	887	895	1026	942	960	998
	4835	4865	5282	5051	4455	4412

Spending on the 'housing and community amenities' policy area is a much smaller proportion of the total spending (1.2%). It is expected to increase in real terms by 6.6% from 2015-16 to 2016-17, but to decline over the following years of the forward projections. Part of this decline comes from cuts to urban and regional development on the completion of regional projects; but the largest part comes from housing programs. See Table 1.

Housing programs are 67% of this policy area. They include the Commonwealth's contributions under the National Affordable Housing Agreement and related National Partnership agreements on homelessness and Indigenous housing, provision of housing for people with specific needs, and the expenses of Defence Housing Australia.

While spending on these housing programs will jump by 7% from last year (related to rescheduling of the Defence Housing Australia's works program), spending on this policy area is expected to decline over the next 3 years with the winding down of the National Partnership Agreement on Remote Indigenous Housing (NPARIH) and because Defence Housing Australia is to reduce its construction and acquisition of dwellings.

The Commonwealth's payments to the states for their affordable-housing services fund most of the on the ground housing services for low-income households. See Table 2. (The other major support is through Commonwealth Rent Assistance.)

They key programs fall under the National Affordable Housing Agreement (NAHA) (social housing and specialist homelessness services in particular), and Aboriginal housing, and other homelessness initiatives, funded through National Partnership agreements.

The NAHA will increase by 1.4%, an increase set under the intergovernmental agreement that underpins it. While overall payments for affordable housing programs will increase in 2016-17 (by 2.7%), there will be a 28% drop between this year and 2018-19 as a result of the completion of the term of the NPARIH and the lack of any commitment to continue funding under the homelessness national partnership agreement.

The Commonwealth's payments to New South Wales for its affordable-housing services reflect this. (See Table 3.) NSW allocations comprise 24% of the national total in 2016-17.

The most significant change for New South Wales from previous years is the cessation of grants under the NPARIH.

In last year's Budget the Commonwealth announced a new remote indigenous housing strategy, focuses on the Northern Territory, with the new strategy to be funded at $1.1 billion over 3 years, starting in 2015-16. In this year's budget, $1.5 billion is to be spent over that 3-year period, with this new initiative to wind down after that.

Two other housing programs for Aboriginal Australians are located in the Prime Minister and Cabinet portfolio.

Aboriginal Hostels Limited, as a government-owned company, does not get a direct budget appropriation, but gets funds through the Department of Prime Minister and Cabinet. These are some $39.5 million in 2016-17, and are the majority of the company's expected total net resourcing of $82 million in the new financial year. This figure for total net resourcing is 5% more than in 2015-16.

Table 2: Payments to support states' affordable-housing services

$ million	2015-16	2016-17	2017-18	2018-19	2019-20
National affordable housing SPP	1324.1	1342.6	1362.7	1383.2	1405.3
National partnership payments:					
First Home Owners Boost	-0.3				
Homelessness	115.0	115.0			
Remote Indigenous housing	388.3	428.5	345.7		
NT remote Australia strategies	56.0	49.7	50.7	3.6	3.6
	1858.1	1916.4	1779.5	1386.8	1408.9

Table 3: Payments to support NSW affordable-housing services

$ million	2015-16	2016-17	2017-18	2018-19	2019-20
National affordable housing SPP	424.4	430.2	436.4	442.8	449.8
National partnership payments:					
First Home Owners Boost					
Homelessness	30.0	30.0			
Remote Indigenous housing	48				
	502.4	460.2	436.4	442.8	449.8

The Indigenous Home Ownership program is provided by Indigenous Business Australia. The program's funding is not disaggregated from that agency's other programs in the Budget statements. The number of new home loans expected to be made in 2016-17, at 530, is similar to the 525 forecast to be delivered in 2015-16. The aggregate number of loans in the portfolio is expected to be 4,730, which is similar to be 4,630 in 2015-16. The total capital base for the program is expected to be $1,110 million, again, pretty much as was the case in 2015-16.

The other National Partnership payment attached to the National Affordable Housing Agreement — the National Partnership Payment on Homelessness — had an enhancement in funding in the form of an extra year's extension. The funding is at the same level as in 2015-16. Despite strong lobbying from the housing and homelessness sector before the budget, there has been no commitment yet to maintaining this funding.

In last year's Budget the Government allocated $4 million for a 'reform' process for Defence Housing Australia — a body that been recommended for privatization by the National Commission of Audit in 2014. This year's Budget papers signal 'business as usual'. And Defence Housing Australia is indeed a business, a government business enterprise with 2 shareholders — the Minister for Defence and the Minister for Finance. It is not funded from the Budget, pays tax, and contributes 60% of net profit after tax as an annual dividend.

Defence Housing Australia is Australia's largest provider of key worker housing. It has about 19,000 dwellings across Australia valued at about $10 billion, manages 14,000 defence force members on Rental Assistance, and allocates on-base accommodation for about 11,000 defence force members. In 2016-17 it is budgeting for revenue of $1,447 million and expenses of $1,372 million.

The social security system also provides important housing assistance to low-moderate income renters in private, community, and Indigenous rental-housing, with the Rent Assistance payment. Rent Assistance payments are projected to be $4.5 billion in 2016-17. The rate of payment will be the same (apart from the usual indexation).

In a move questioned by many tenant advocates, the Commonwealth Government will also negotiate with the states and territories to establish a compulsory rent deductions scheme for public housing (and some community housing) tenants receiving Commonwealth income-support or Family Tax Benefit.

The Commonwealth will deduct rents and related tenancy costs direct from social-security payments and transfer the money to public-housing providers and state-approved community-housing providers. Relevant housing costs are tenancy charges (such as rent, water and bond as authorized by the customer), costs ordered by a tenancy tribunal, and other housing costs if separately authorized by the customer, such as arrears, occupant damage and debt from a former tenancy.

The deductions will be compulsory, and customers of the Department of Human Services will not be able to cancel the deductions without the agreement of their social-housing provider. This measure is planned to start on 1 July 2017, and is subject to the passage of legislation.

In short, the Budget offered no positive change (such as enhancements) to housing assistance programs for households disadvantaged in housing markets, or to income-support payments for low-income renters.