

Housing affordability in Tasmania

As a regional community, Tasmanians have historically enjoyed higher rates of home ownership than their mainland counterparts. However, as wages continue to stagnate, housing prices start to increase, and the State attracts more investment, the number of Tasmanians owning and occupying their own homes is falling.

Discussion paper

Leanne Minshull

April 2017

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE - 'RESEARCH THAT MATTERS'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.tai.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, Endeavour House, 1 Franklin St
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@tai.org.au
Website: www.tai.org.au

INTRODUCTION

As a regional community, Tasmanians have historically enjoyed higher rates of home ownership than their mainland counterparts. However, as wages continue to stagnate, housing prices start to increase, and the State attracts more investment, the number of Tasmanians owning and occupying their own homes is falling.

The current Housing Minister, Jacqui Petrusma, acknowledged this in the 2015 affordable housing strategy:

Many Tasmanians can afford private rental and we enjoy the highest level of home ownership in Australia. But this situation is changing. Home ownership is for the first time beginning to decline, more Tasmanians are living in unaffordable private rental and homelessness is increasing.¹

Demand for low cost housing in Tasmania is high. Tasmania has Australia's highest proportion of low income households – median incomes are almost \$200 per week less than the national average² and households received the highest average total income support benefits³

Anglicare's recently released Rental Affordability Snapshot found that Tasmanian rents have risen significantly over the last year and that while rental affordability continues to be dire for households reliant on government income support, it is now increasingly unobtainable for households on a minimum wage.⁴

As more households are locked out of home ownership, the consequences are felt throughout the entire housing continuum. Lower priced rental homes are being leased to moderate and high income households that previously would have secured home ownership. Many of these tenants may be occupying these lower cost rentals in order to save a deposit to purchase a home.

This market situation increases pressure on low income households who, locked out of the private rental market, seek public housing, further increasing public housing waiting lists.

¹ Tasmanian Department of Health and Human Services (2015) *Tasmania's affordable housing strategy 2015–2025*, https://www.dhhs.tas.gov.au/data/assets/pdf_file/0020/203690/Affordable_Housing_Strategy_2015-2025_-_Accessible.pdf

² Australian Treasury (2017) *Average weekly earnings (ABS cat no 6302.0)*, <http://www.treasury.tas.gov.au/Documents/Average-Weekly-Earnings.pdf>

³ ABS Government Benefits, Taxes and Household Income, Australia, 2009-10

⁴ Moffatt (2017) *Rental Affordability Snapshot 2017 – Tasmania*, <https://www.anglicare-tas.org.au/research-library/report/rental-affordability-snapshot-2017-tasmania>

As housing affordability looks set to feature in both the federal and state budgets, this paper considers what effect different affordable housing policies would have on the Tasmanian housing market.

SHIFTING TAX INCENTIVES TOWARD OWNER OCCUPIERS (NEGATIVE GEARING AND CAPITAL GAINS TAX)

According to data from the Australian Taxation Office (ATO) for financial year 2014-2015, of the 2,047,253 Australians who received a rental income for their properties, 1,277,705 did so at a loss. For Tasmania 32,713 people received income from rent with 18,420 doing so at a loss. In other words, 56% of housing investment in Tasmania was undertaken for a future capital gain and to use as an offset against income tax.

The eventual capital gain on the sale of the property is currently discounted by 50% for individuals or small business owners who hold an income producing property or other asset for more than twelve months.

The federal government has stated it will not alter negative gearing and capital gains tax (CGT) arrangements for fear that this would further undermine housing affordability.

Labor plan to implement a non-retrospective restriction on negative gearing for any second hand properties purchased. No changes would be made for investors who purchase new properties, thereby keeping an investment incentive for increasing available stock. CGT exemptions for individuals or small business owners who hold an income producing property or other asset for more than twelve months would be reduced to 25 per cent.

The Greens would abolish negative gearing tax concessions altogether, and reduce the CGT discount by 10 per cent each year from the 1st of July 2016.

Modelling of the Labor proposal undertaken by the McKell Institute calculated that its implementation would cause house prices to rise by 2.6% p.a. (down from the current

rate of 3.1%).⁵ The Grattan Institute predicted that the implementation would lower price rises by 2% when the impact was fully realised.⁶

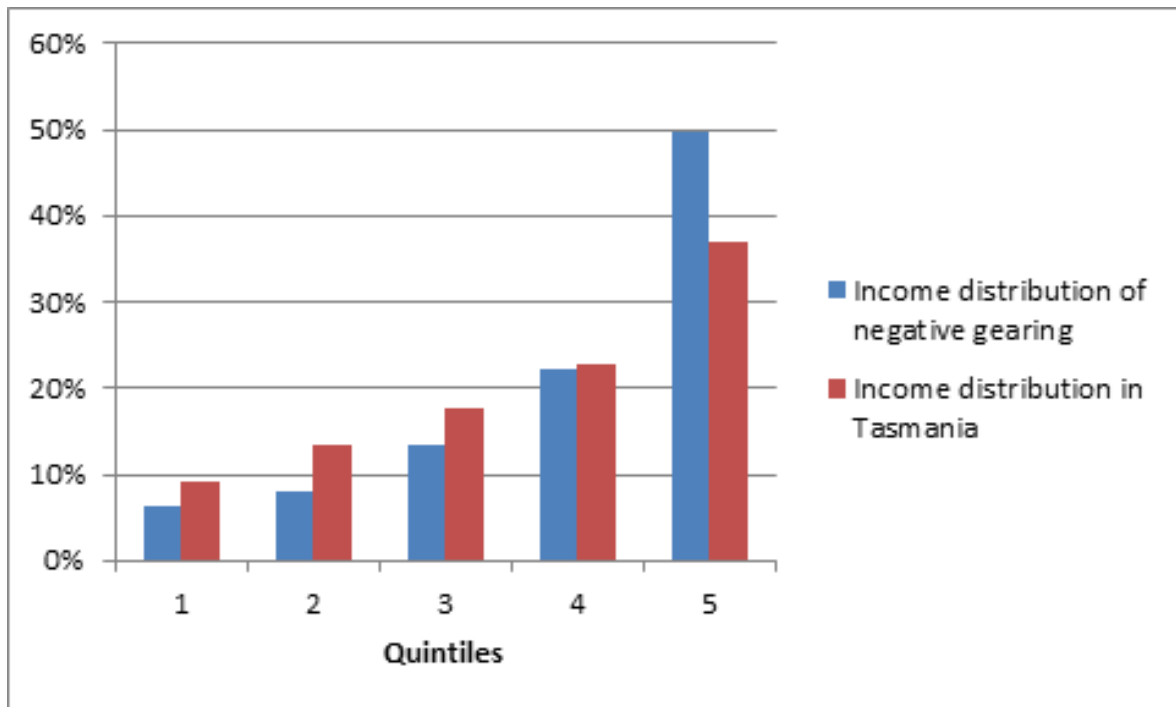
A LOWER PERCENTAGE OF TASMANIANS BENEFIT FROM NEGATIVE GEARING AND CAPITAL GAINS TAX

The purpose of negative gearing and CGT concessions is to promote the creation of wealth through property. Wealth that is created and reinvested back into the local community is a good thing. However, while the Tasmanian housing market is suffering from the inflated prices associated with the policies, the Tasmanian community is not proportionately benefiting from the wealth creation. The chart below shows the distribution of income across Tasmania and the corresponding income distribution of negative gearing. In short, the larger the cohort of those in a high income earning bracket, the higher the percentage of wealth created via negative gearing. Since Tasmania has lower than average household incomes, its residents are less likely to benefit from negative gearing and CGT.

⁵ Lee (n.d.) *Switching gears: Addendum II*, <https://mckellinstitute.org.au/app/uploads/The-McKell-Institute-Switching-Gears-Addendum-II.pdf>

⁶ Daley and Wood (2016) *Hot property: Negative gearing and capital gains tax reform*, <https://grattan.edu.au/wp-content/uploads/2016/04/872-Hot-Property.pdf>

Figure 1: Income distribution of negative gearing compared to overall income distribution



CHANGING TAX REGIMES WOULD DISCOURAGE INVESTMENT IN NEW STOCK

Federal treasurer Scott Morrison has been at pains to explain that any legislative changes that deter investment in housing will lead to a decrease in available housing. This is true if investment is in building new stock or existing stock that would not be purchased by a potential owner occupier.

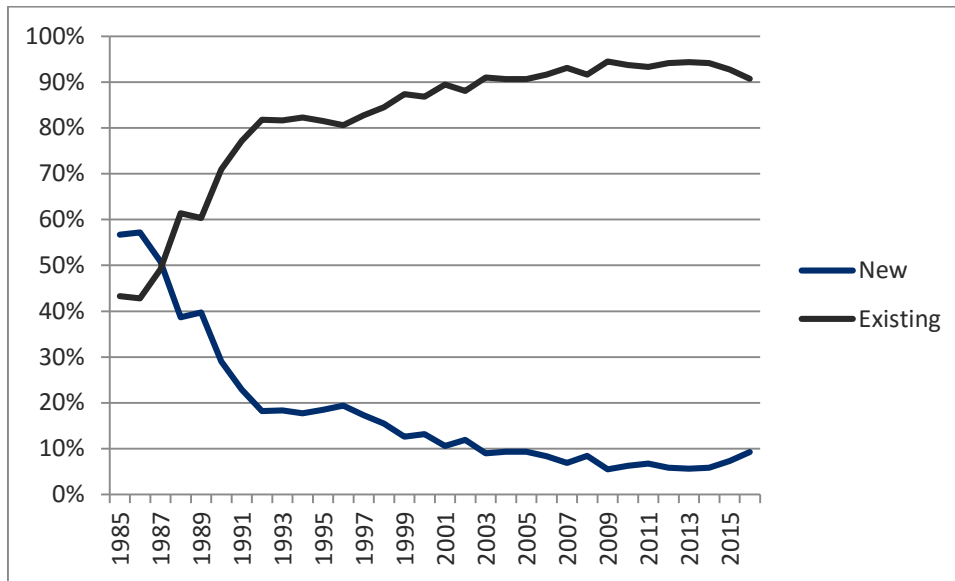
The increase in lending for houses from 2000 to 2017 was 155% for owner occupied (excluding refinancing) and 329% for investment housing.⁷

The increase in investment has not been matched by an increase in new housing, leading to investors bidding up the price of existing homes.⁸ Of all investment loans, only 9% are for new properties. That means 91% of investment loans are used to buy existing housing stock.

⁷ ABS (2017) 5609.0 - *Housing Finance, Australia, February 2017*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0February%202017?OpenDocument>

⁸ ACOSS (2015) *Fuel on the fire: Negative gearing, capital gains tax and housing affordability*, http://www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf

Figure 2: Investment loans for new and existing properties



While there is no available state breakdown of data, there is no logical reason that this would be any different in Tasmania.

Inner suburbs of Launceston and Hobart deliver higher rental yields than inner suburbs of Sydney and Melbourne. However, as competition to get into the Hobart and Launceston housing market has increased the yield is decreasing.⁹ This suggests speculative investment (based on an expectation of securing a capital gain), an increase in population, or both.

Treasurer Scott Morrison acknowledged this investment trend when he stated that:

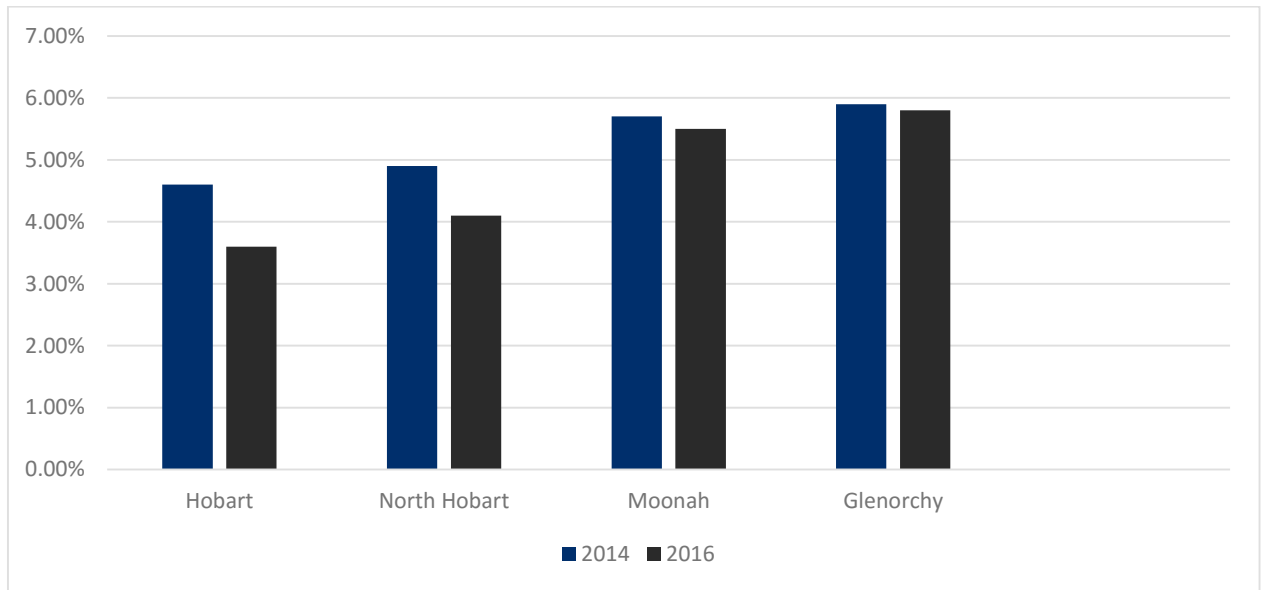
Australian residential property investment is more geared to capital gain than yield.

In other words, investors are mostly speculators.¹⁰ Given these factors, it is difficult to see how changes to negative gearing or capital gains tax could dramatically reduce new supply .

⁹ See for example: Realestate.com.au (2017) Ravenswood, http://www.realestate.com.au/invest/house-in-ravenswood,+tas+7250?shd=rental_yield

¹⁰ Morrison (2017) *Address to the Australian Housing and Urban Research Institute, Melbourne*, <http://sjm.ministers.treasury.gov.au/speech/005-2017/>

Figure 3: Rental yield of inner Hobart suburbs



ACCESSING SUPERANNUATION

The federal treasurer has floated the idea of being able to access superannuation in order to purchase your first home. This policy could have the unintended consequence of pushing housing prices up even further. This problem aside, the average sum of superannuation available to young first home owners in Tasmania is possibly too low to make a major impact. In 2013/2014 the national average balance for individuals between 30–34 (the key age bracket for first home owners) was around \$36,400 for men and \$25,550 for women.¹¹ These are national averages; while no state data exists, the lower average wages and higher casualisation of the Tasmanian workforce means that balances for young Tasmanians are probably even lower.

ABOLISHING STAMP DUTY AND MOVING TO A BROADER BASED LAND TAX

Stamp duty

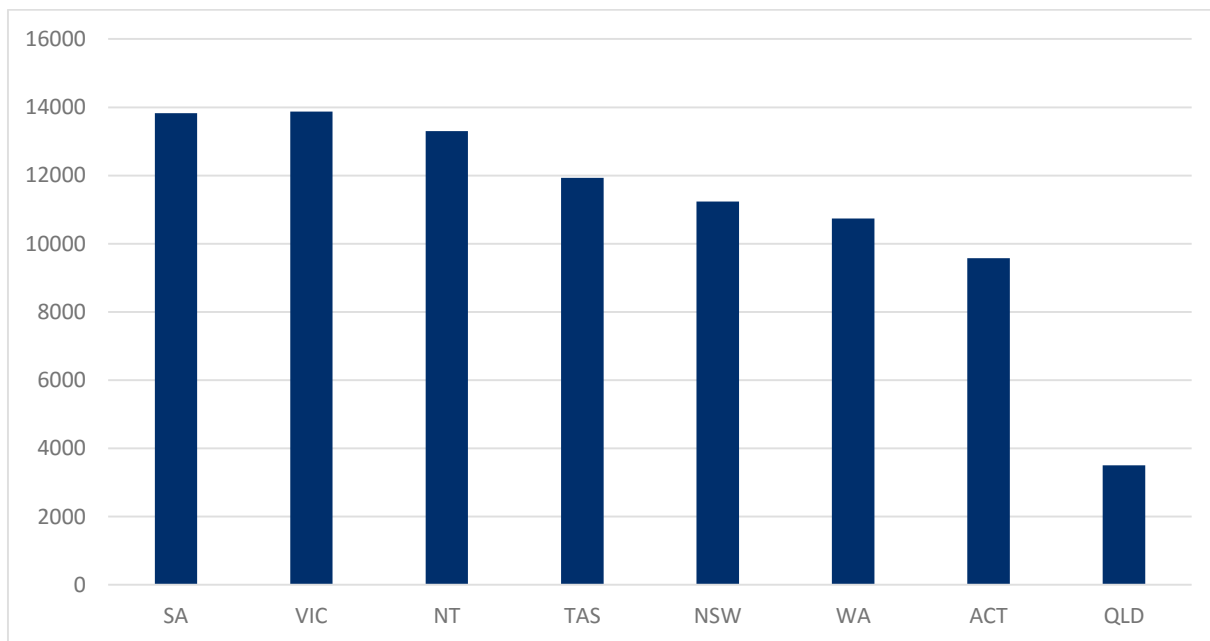
The push to abolish stamp duty in favour of a broad based land tax is being led federally by the Greens with the broad support of tax specialists. Under the proposal,

¹¹ Clare (2015) *Superannuation account balances by age and gender*

the Commonwealth would provide concessional loans to state and territory Governments to assist the transition.¹² For Tasmania, this would mean the introduction of land tax to owner occupied properties, which are currently exempt.

Despite Tasmania having the lowest average income of all states, stamp duty charges are at the upper end of the national range.

Figure 4: State stamp duty



The abolition of stamp duty could assist first time buyers¹³ and remove a barrier for older Tasmanians wanting to downsize. The proportion of the Tasmanian population aged 65 years and over is projected to almost double by 2062, with 31 per cent of the Tasmania’s projected population growth over the period from 2013 to 2062 comprising of persons aged 65 years and over¹⁴ Making it easier for older Tasmanians to downsize to smaller houses and units could help free up the 3 bedroom houses that are in demand.¹⁵

¹² Belot (2017) *Parliamentary Budget Office costs plan to abolish stamp duty in favour of broad-based land tax*, <http://www.abc.net.au/news/2017-03-18/stamp-duty-could-be-abolished-in-favour-of-land-tax/8366188>

¹³ Like access to superannuation this also has the potential to further increase housing prices.

¹⁴ Tasmania’s affordable housing strategy 2015 – 2025 September 2015

¹⁵ Tasmania’s affordable housing strategy 2015 – 2025 September 2015

For the year 2015/2016, stamp duty returned \$180 million to the state. The treasurer has stated that due to an increase in housing activity, the 2016/17 state budget is likely to show a windfall of an extra \$60 million.¹⁶ During the same period, the state forwent \$102 million via land tax exemptions for principal residences¹⁷. Removing the exemption on principal residences is supported by some tax experts but is politically fraught and would not fill the revenue gap left by abolishing stamp duty.

¹⁶ Hobart Mercury (2017) *House boom nets \$60m for budget*,
<http://www.themercury.com.au/news/politics/tasmanian-state-budget-to-gain60m-from-property-market-boom/news-story/caab0a7dd49c4b53b41e6a85be8baa7e>

¹⁷ 2016/17 state budget paper
<http://www.sro.tas.gov.au/domino/DTF/DTF.nsf/d4790d0513819443ca256f2500081fa2/110b7277325873a7ca256d6b0081db6a?OpenDocument>