



CUSTOMER
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ASSOCIATION

Housing affordability and supply in Australia

COBA submission to
Standing Committee on Tax and Revenue

20 September 2021

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Introduction

COBA welcomes this inquiry, and we applaud the decision of the Treasurer to elevate this issue by referring housing affordability and supply to the Committee for examination.

Our focus is on housing affordability for home buyers.

Customer owned banking institutions are 21st century home lenders who have been helping their customers meet housing needs from as far back as the 19th century. Our sector's housing loan portfolio recently surpassed the milestone of \$100 billion.

Home ownership is important because it provides security, both in a financial sense and a personal sense, and it is a means of stronger connection to community.

Housing is an integral part of household wealth and rising house prices means that many households are missing out on the benefits of owning a home. The home is the biggest asset for a majority of households.

First home buyers in Australia are finding it increasingly difficult to save enough money to buy a home. Housing prices as a ratio of household disposable income have climbed from 2½ times to six times in the past 30 years.

Concerns over housing affordability and home ownership are not new and there have been many inquiries and reports that have examined housing affordability, home ownership and related issues.

The biggest lever governments have to improve housing affordability is to boost supply. Impediments to reasonably priced housing supply have been identified and reforms have been proposed.

COBA recommends that National Cabinet should make keeping the dream of home ownership alive for more Australians a top priority on its reform agenda.

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Housing affordability for home buyers

Home ownership is important.

Home ownership provides security, both in a financial sense and a personal sense, and it is a means of stronger connection to community.

In the financial sense, home ownership is:

- a critical path to wealth accumulation
- an asset that a small business can use to borrow against, and
- a solution to housing costs when earning potential is reduced by retirement from the workforce.

In a personal sense, home ownership is:

- a more stable option than renting, and
- a secure environment the owner controls.

The OECD's May 2021 Housing Policy Toolkit report¹ notes that housing is an integral part of household wealth and rising house prices means that many households are missing out on the benefits of owning a home. The home is the biggest asset for a majority of households.

"Given the importance of housing in household balance sheets, especially for the middle class, housing contributes to equalise the net wealth distribution (Figure 1.13). This is because housing seems to be more equally distributed than other assets, such as financial assets."

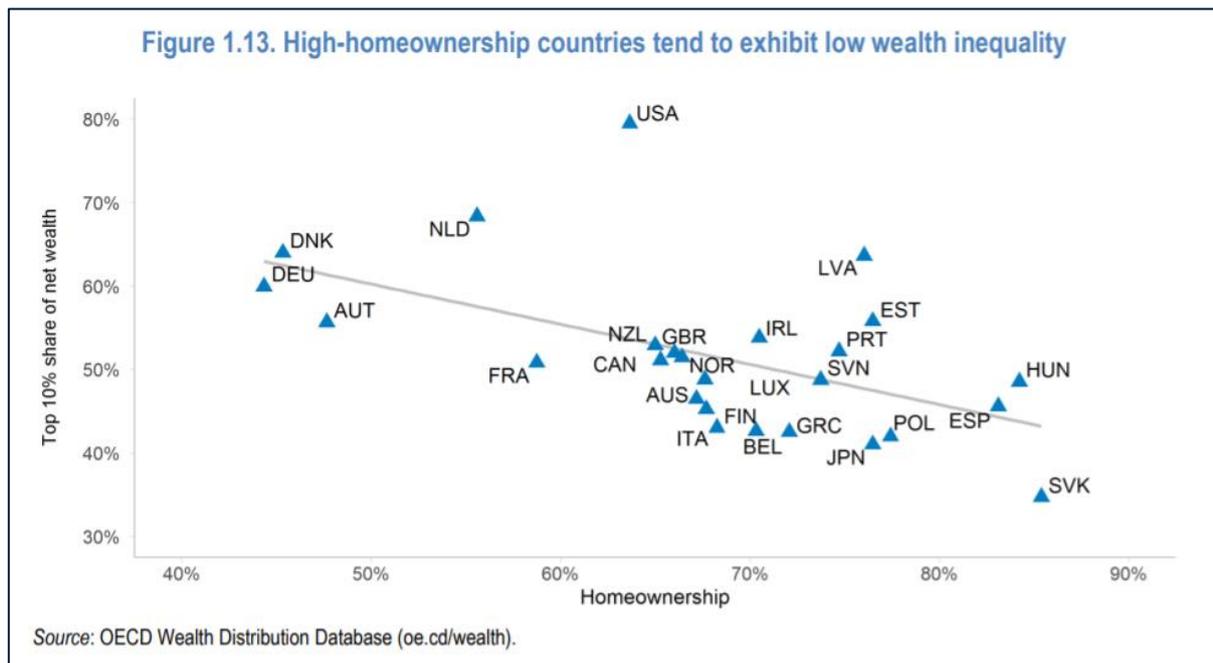


Figure 1: Home ownership graph excerpt from OECD May 2021 Housing Policy Toolkit Report

¹ [OECD Housing Policy Toolkit Report](#)

What’s happened to affordability?

First home buyers in Australia are finding it increasingly difficult to save enough money to buy a home.

Housing prices as a ratio of household disposable income have climbed from 2½ times to six times in the past 30 years.

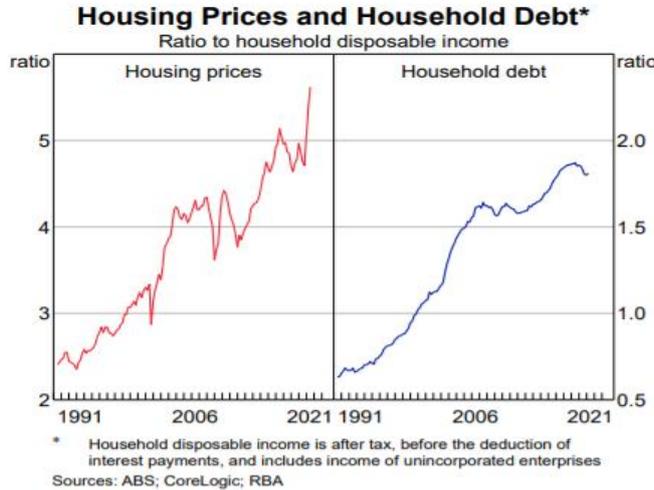


Figure 1.1: Housing Prices and Household Debt graph, Reserve Bank of Australia Chart Pack September 2021

The Domain First Home Buyer Report published in June 2021 shows that most capital cities in Australia recorded an increase in the time taken to save a house deposit of between 2 and 9 months longer than last year². For instance, in Sydney, it takes first-home buyer couples between 25-34 years old an average of 7 years and 1 month to save 20 percent deposit for an entry-priced house.

Saving for a deposit has become an ever-higher hurdle, due to house price growth outstripping income growth. This trend is not restricted to capital cities.

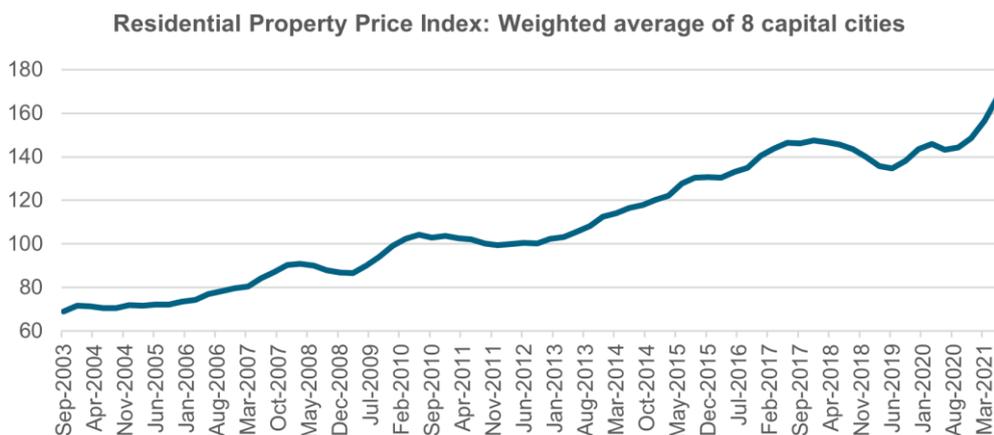


Figure 1.2: Residential Property Price Index, Australian Bureau of Statistics September 2021

² [Domain 2021 First-Home Buyer Report.](#)

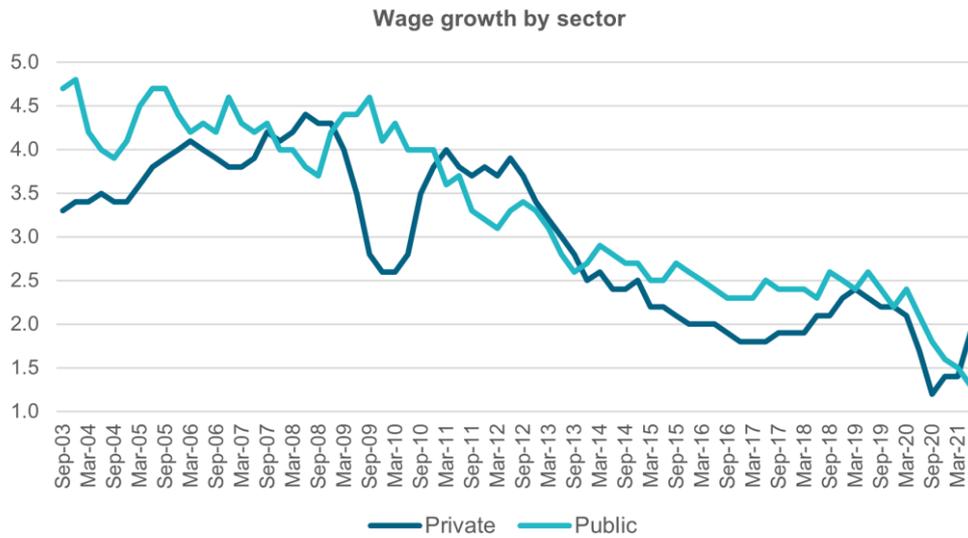


Figure 1.3: Wage Price Index, Australian Bureau of Statistics August 2021



Figure 1.4: Housing Prices, Reserve Bank of Australia



Figure 1.5: Graph from State of the Nation's Housing 2020, National Housing Finance and Investment Corporation

Based on analysis by realestate.com.au, it would take first home buyers eight years and one month to save a deposit for a house in Sydney and in Melbourne, first home buyers would need six years and nine months to put together the money for a house based on a 20 per cent deposit.

Analysis published in June 2021³ by the Australian Institute of Health and Welfare charts the long-term decline in home ownership by younger cohorts.

Home ownership data from the 2016 Census show a home ownership rate of 67%, down slightly from 68% in 2011. While the home ownership rate remained around 67–70% from the mid-1960s, the rate for different age groups has varied markedly over this time.

The home ownership rate of 30–34 year olds was 64% in 1971, decreasing 14 percentage points to 50% in 2016, according to Census data. For Australians aged 25–29, the decrease was similar—50% in 1971, decreasing to 37% in 2016. Home ownership rates have also decreased among people nearing retirement. Since 1996, home ownership rates have gradually declined; rates for the 50–54 age group have seen a 6.6 percentage point fall over these 20 years (80% to 74%) (ABS 2017b).

Key workers

Research commissioned by COBA members has examined the problem of Australia’s key workers increasingly being locked out of home ownership, particularly in the metropolitan housing markets of Sydney and Melbourne.

“Significant price pressure over the past five years has made saving for a deposit and financing a loan prohibitive for many aspiring homeowners on moderate incomes such as teachers, police, and nurses,” the 2018 report *Key Worker housing affordability in Sydney* says. “If current patterns continue these essential workers will remain stuck in the private rental system, unable to compete with investors and upgraders to purchase their own home.”

Key worker housing affordability in Sydney⁴

“In performing their roles in education and public health and safety, key workers significantly influence the social and economic wellbeing of cities. Failure of regions to attract and retain key workers can generate large social and financial costs for society. On the other hand, research suggests that supporting key workers to live in high values areas can have significant ‘spillover’ benefits for economic efficiency and productivity.

“In Sydney there is a growing spatial mismatch between where key workers live and work. Although key worker jobs are situated throughout the metropolitan region, and particularly in inner Sydney, the majority of the metropolitan region’s key workers reside in outer ring suburbs.

“There is evidence to suggest that high house prices and rents are “pushing out” some of Sydney’s key workers. Since 2006, some inner and middle ring subregions of metropolitan Sydney have experienced a net loss of key workers meaning that more key workers left the subregion than moved in, while outlying areas including the Illawarra, Newcastle and the Hunter Valley have experienced net gains.

“Home purchase affordability is declining for key workers who are seeking to purchase a house for the first time. Many key workers currently live in their own home. However, our analysis suggests that even dual income key worker households looking to purchase a home for the first time would struggle to find an appropriate home in most inner and middle ring suburbs of Sydney.

“Single key workers face particular barriers to home purchase. Based on median house prices in 2016, a single enrolled nurse (with 5 years’ experience) would need to travel to Cessnock, which is approximately 150 km from central Sydney, in order to find an affordable home to purchase. A single teacher (mid level graduate), with a slightly higher income, would only be able to purchase a median priced home in a few locations, including Wyong, Cessnock, Lake Macquarie, Maitland, Port Stephens and Shellharbour, all of which are more than 75km from the Sydney CBD.

“Home purchase affordability is also constrained for key worker couple households with children. The majority of Sydney’s inner and middle ring suburbs are unaffordable for key worker couple households with children.

“Some key worker groups, such as nurses and police, also struggle to find affordable rental accommodation in Sydney’s inner and middle ring. Further, local government areas with the most affordable rental prices (which are predominantly outer urban) also tend to have the lowest stock of private rental housing units, particularly smaller (one

³ [AIHW Home ownership and housing tenure](#)

⁴ [Key worker housing affordability in Sydney report](#)

bedroom) rental properties. This means that while renting might theoretically be affordable in some locations, affordable private rental housing is often not available.

“Housing affordability for key worker groups is likely to decline further without effective market innovation or policy change. Compared to contract workers and those in less stable employment, key workers have steady and predictable incomes, enabling them to service a mortgage. However, without some intervention to improve purchase affordability, home purchase rates amongst key workers will fall.”

Given that housing prices are 19 per cent higher than they were before the pandemic, the housing affordability issue is now acute and now is the time to bring a new commitment to tackling the problem across all levels of government.

COBA strongly supports action to keep alive the dream of home ownership for more Australians.



Figure 1.6: Derived from the Statement on Monetary Policy, Reserve Bank of Australia August 2021

Customer owned banking

The customer owned banking sector has a proud record of helping Australians to realise the dream of home ownership through 19th century building societies, 20th century credit unions and 21st century mutual banks.

Our sector is funded primarily by household deposits, which means customer owned banks take household savings and lend them to other households to enable home ownership.

The latest quarterly data by APRA shows the mutual sector reached a milestone in household lending of \$101 billion as of June 2021 out of a total assets portfolio of \$151 billion illustrating the primary business of the mutual sector. KPMG’s mutuals industry review for 2020⁵ highlights this:

The Mutuals’ loan book remained concentrated on residential lending with 93.7 per cent (2019: 93.6 per cent) of their portfolio comprising residential loans at 30 June 2020. This is a core area of strength and expertise of the sector.

Our sector is characterised by strong balance sheets, conservative business models, strong customer loyalty and community involvement. The strengths of our sector are strengths for the financial system, contributing to stability and genuine consumer choice. The sector’s singular focus on its customers is demonstrated by market-leading customer satisfaction ratings.

Compared to system, our sector is tilted towards owner-occupiers rather than investors (see graphs below).

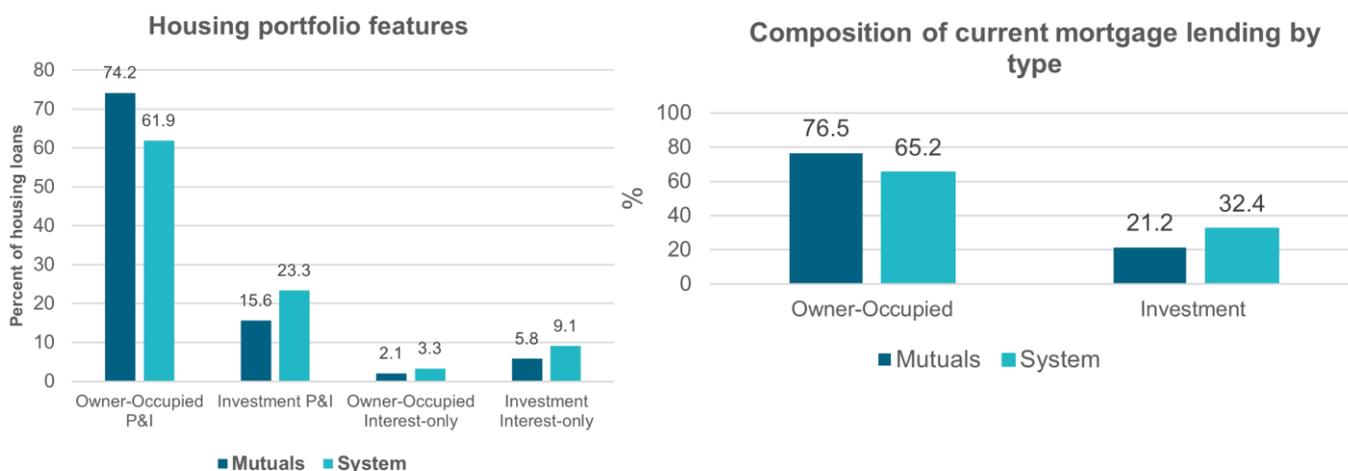


Figure 2 and 2.1: Derived from Quarterly Authorised Deposit-Taking Institution Property Exposures Statistics, APRA September 2021

Our sector’s prudent approach is highlighted by the non-performing loans ratio, where we are tracking at around the third of the system rate (see graph below).

⁵ [KPMG Mutuals Industry Review 2020](#).

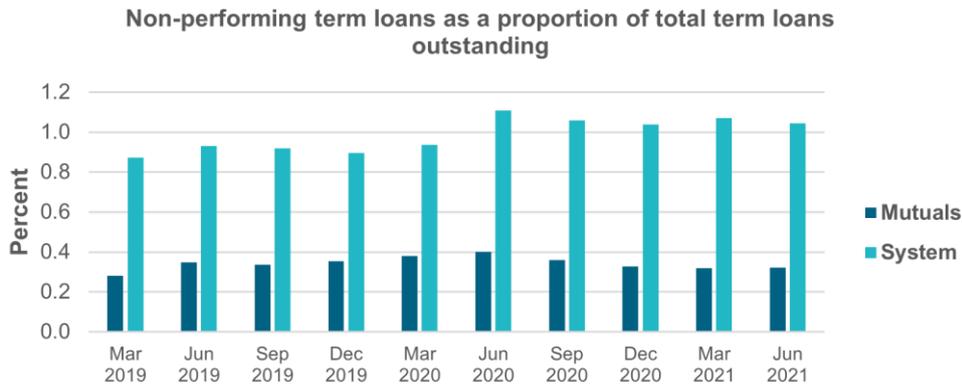


Figure 2.2: Derived from Quarterly Authorised Deposit-Taking Institution Property Exposures Statistics, APRA September 2021

Our sector’s proportion of high debt-to-income loans is tracking higher but is significantly lower than system (see graph below).

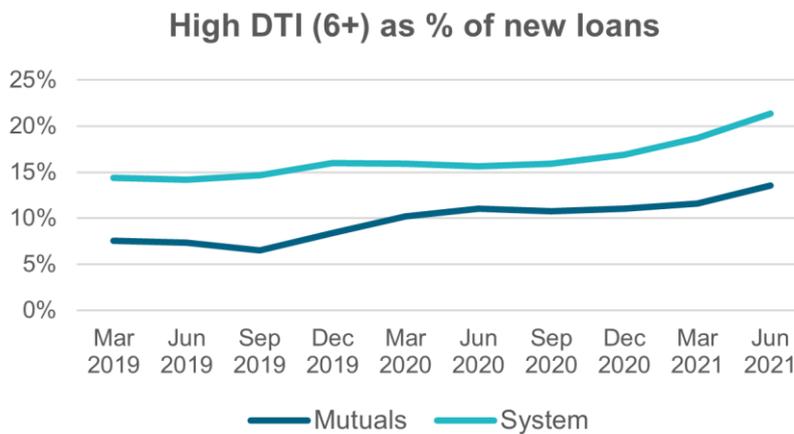


Figure 2.3: Derived from Quarterly Authorised Deposit-Taking Institution Property Exposures Statistics, APRA September 2021

Our sector’s focus on first home buyers is illustrated by our departure from system in high LVR loans as a percentage of new loans (see graph below).

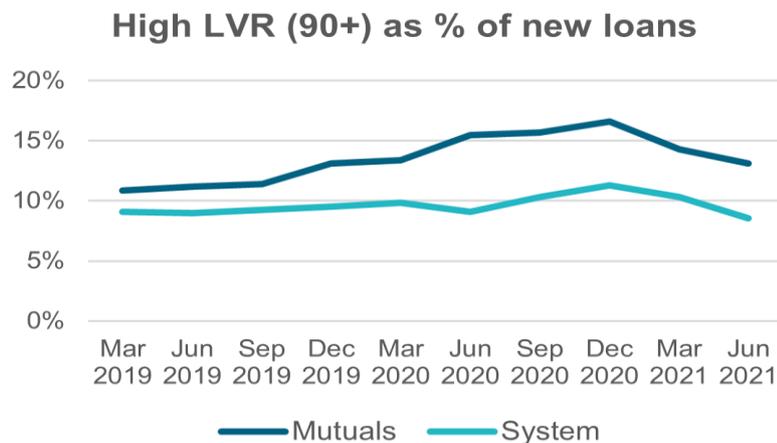


Figure 2.4: Derived from Quarterly Authorised Deposit-Taking Institution Property Exposures Statistics, APRA September 2021

The mutual sector’s commitment to first home buyers is also highlighted through the Government’s First Home Loan Deposit Scheme (FHLDS) where 20 of the 27 participating lenders on the panel are COBA members.

NHFIC FHLDS Panel



Figure 2.5: FHLDS Panel, COBA members highlighted

COBA members individually engage in a range of programs and initiatives to promote access to affordable housing.

Teachers Mutual Bank, Firefighters Mutual Bank, Police Bank and My Credit Union commissioned the University of Sydney’s Urban Housing Lab to examine the housing situation of key workers in, Australia’s most expensive housing market, the Greater Sydney Metropolitan Region. This work produced two reports in January 2018, focused on teachers, nurses, ambulance officers, fire/emergency workers, and police. As noted above, the first report⁶ highlighted declining home purchase affordability for Sydney’s key workers who have been priced out of inner, middle, and many outer areas of the metropolitan region. The second report⁷ identified opportunities to help restore housing options for key workers in Sydney through a series of potential market innovations and policy interventions.

Bank Australia has lent more than \$170 million to the affordable housing sector⁸, including the Women’s Property Initiative.⁹ Bank Australia is a founding member of Specialist Disability Accommodation Alliance.¹⁰ Bank Australia is involved in the ACT Government’s Land Rent Scheme and the South Australian Government initiative, HomeStart Finance.¹¹

Beyond Bank partners with community organisations to help people at risk of homelessness to find affordable, social or crisis housing.¹² Beyond Bank is also a participant in the ACT’s Land Rent Scheme.

Australian Unity Bank and Bank Australia have formed a new strategic partnership with Indigenous Business Australia (IBA)¹³ to support financial wellbeing for Indigenous Australians. The two customer owned banks will form a new banking panel that will provide a diverse range of products and services, including home loans, to IBA customers.¹⁴

People’s Choice publishes guides to the most liveable and affordable housing in Adelaide and Melbourne as part of its People’s Choice of Housing reports.¹⁵

⁶ [Key worker housing affordability report Part 1](#)

⁷ [Key worker housing affordability report Part 2](#)

⁸ [Bank Australia, Affordable housing](#)

⁹ [Bank Australia, Using social enterprise to fund affordable housing for women](#)

¹⁰ [Bank Australia, Providing housing choice for Australians who have a disability](#)

¹¹ [Bank Australia, Looking outside the box](#)

¹² [Beyond Bank Australia, housing affordability](#)

¹³ [Indigenous Business Australia, housing affordability](#)

¹⁴ [Australian Unity, Indigenous Services](#)

¹⁵ [People's Choice, People's choice of housing](#)

Causes & solutions

"If society wants to do something about housing prices it's really about the value of the land embedded in your house. We can keep doing research on that, but the tools are not within our hands; they're within the hands of governments. It's about urban design, planning laws, transportation and taxation."¹⁶

The above comment by RBA Governor Philip Lowe is a useful starting point to consider the problem of housing prices dramatically outpacing income growth.

The biggest lever governments have to improve housing affordability is to boost supply, according to the 2019 Grattan Institute report *Generation Gap – Ensuring a fair go for younger Australians*.¹⁷ Building an extra 50,000 homes a year for a decade would leave Australian house prices 5-to-20 per cent lower than they would have been otherwise, the report says.

Impediments to reasonably priced housing supply have been identified and reforms have been proposed. The Productivity Commission's (PC) March 2021 information paper¹⁸ *Plan to identify planning and zoning reforms* nominates nine priority reform areas for planning and zoning regulation.

The PC paper lists some of the studies on the costs of zoning and planning policies.

Box 1 Studies estimating the impacts of planning and land use regulations

- Jenner and Tulip (2020) estimate the gap between what homebuyers pay for a new apartment and the supply cost to be about 68 per cent of costs in Sydney, 20 per cent in Melbourne and 2 per cent in Brisbane. They indicate these gaps are sustained by planning restrictions.
- Kendall and Tulip (2018) estimate that in 2016 zoning restrictions raised detached housing prices 73 per cent above the marginal cost of supply in Sydney, 69 per cent in Melbourne and 54 per cent in Perth.
- The Centre for International Economics (2013) estimated that Sydney's land use restrictions were inhibiting between \$8 billion and \$16 billion in economic value when estimated in 2012 (or between \$665 million and \$1289 million each year).
- Better Regulation Victoria (2019) cites estimates that reducing unnecessary development delays could deliver between \$400 million and \$600 million per year in benefits.
- The Property Council of Australia (2017) modelling suggests that improvements to the efficiency of the agency referral process across jurisdictions could be worth as much as \$360 million per annum in additional economic value.

Figure 3: Excerpt from PC's Information Paper – *Plan to identify planning and zoning reforms*, March 2021

The PC says State and Territory governments could mitigate these impacts, and boost economic activity, by improving the operation of planning and zoning systems and development assessment processes. Commonly cited impediments to efficient planning and zoning systems include:

- conflicts between state and local-level strategies, which confound efforts to achieve development objectives such as providing for projected future housing demand
- overly prescriptive zoning systems, which create unnecessary barriers to business entry and diversification – prescriptive land use regulations can also contribute to greater reliance on rezoning, which is often a costly, time-consuming and uncertain process, and
- unnecessarily complex and onerous development assessment processes, which add to the costs of investment and housing.

¹⁶ [House of Representatives, Standing Committee on Economics, Hansard](#)

¹⁷ [Grattan Institute, Generation Gap Report](#)

¹⁸ [Productivity Commission, Plan to identify planning and zoning reforms](#)

Conflicts on development objectives can arise between different levels of governments due to:

- different visions for urban areas, particularly how they accommodate population growth (there is often strong local opposition to increased density)
- the need for local governments to interpret how to implement State strategic plans and statutory planning requirements, and
- the discretion of Local Governments to determine local land uses in accordance with their particular community preferences.

“That there often appears to be few consequences for Local Governments that do not ultimately seek to implement State-level policies can compound this issue.”¹⁹

An important consideration in approaching reform to planning and zoning policy is the incentives facing developers. Research into “landbanking” has produced claims that developers seek relaxed planning controls “not because it results in faster supply and lower prices — which, if true, would undermine their own profitability — but because it increases the value of their land.”²⁰

The National Housing and Investment Corporation (NHFC) has started publishing an annual report on the housing market. The inaugural December 2020 report²¹ noted that policies which constrain supply, either in aggregate or in specific locations, can distort the market.

Supply constraints in inner city suburbs affect the spatial distribution within cities, particularly if people are forced to live further from the CBD where housing costs are lower. For example, while there has been a strong trend towards high density in Australian cities (for Sydney in particular), that does not mean demand has been met or satisfied. Constraints on density in these inner areas puts upward pressure on prices and creates unmet demand. A recent study has estimated that, despite the trend to higher density, there is significant unmet demand in the inner areas of Sydney. Over the past 15 years, new housing constructed in cities like Sydney has typically fallen well short of agreed housing targets, which has helped exacerbate affordability problems, and reflects the challenges of building enough homes in areas of need.

As noted above, COBA members commissioned the University of Sydney’s Urban Housing Lab to examine the housing situation of key workers in Sydney. Report Two of this project identified opportunities to help restore housing options for these workers through a series of potential market innovations and policy interventions.

Options to improve key worker access to home ownership²²

“Five primary strategies for addressing the barriers to home ownership faced by Sydney’s key workers are identified. These include:

“Reducing the deposit gap faced by key workers in seeking to enter home ownership. This may be achieved through a shared equity scheme where eligible households can purchase up to 75 per cent of the value of a property (reducing the overall mortgage size), and allowing for lower deposit requirements (for example, of 5 to 10 per cent).

“Securing alternative development and financing models for keyworker housing developments, to boost affordable purchase opportunities. This could be achieved by fostering ‘deliberative development’ models for key worker housing, under which purchase prices may be 10-12 per cent lower than for units delivered through the conventional multi-unit development model (McLeod 2016).

“Establishing alternative tenure arrangements to enable affordable home ownership for key worker households. Under the ACT Government’s Land Rent scheme, for example, eligible households purchase a dwelling (with a conventional mortgage) but are able to rent the land at a marginal rate (2 per cent of unimproved capital value). This approach could be implemented in NSW through a community land trust model, potentially resulting in a capital cost savings of 25 per cent or more per dwelling.

“Reducing development and or construction costs for affordable key worker homes and passing savings on to purchasers or affordable housing providers. Cost reductions of 25 to 35 per cent, accrued through cost-savings designs, construction material and processes would equate to a savings of \$75,000 to \$100,000 for two-to-three-bedroom units or townhouses.

¹⁹ [Productivity Commission, Plan to identify planning and zoning reforms](#)

²⁰ [The Fifth Estate, The truth behind the housing supply nonsense](#)

²¹ [NHFC, State of the nations housing report 2020](#)

²² [Key worker housing affordability report Part 2](#)

“Reducing land costs for affordable housing development targeting key worker households through inclusionary planning requirements. If 20 per cent of new dwellings in all major new housing developments were required to be affordable home purchase products for moderate income earners including key workers, this could yield around 6,000-7,000 ‘startup’ homes per year in Sydney.”

Many inquiries

Concerns over housing affordability and home ownership are not new²³ and there have been many inquiries and reports that have examined housing affordability, home ownership and related issues.

The 2015 report²⁴ of the Senate Economic References Committee *Out of reach? The Australian housing affordability challenge* found that Australia’s housing policy and effort is fragmented, which has led to a good deal of confusion and discord in attempts to address housing issues.

The various levels of government, and indeed different areas within the same government, often have contradictory objectives that pull in different directions. Clearly, one of the dominant messages coming out of this inquiry is the need for the Australian Government to give coherence to the numerous local, state and national incentives and schemes intended to contribute to the provision of affordable housing. A long-term, integrated and coherent plan with consistent policy governing a national approach to affordable housing is needed.

The most recent Parliamentary inquiry to examine the issue, an inquiry into homelessness by the House Standing Committee on Social Policy and Legal Affairs²⁵, set out the division of policy responsibilities across governments.

Australian Government	State and territory governments	Local government
Housing demand (including tax incentives and migration policy).	Funding public housing and transferring housing to community housing providers.	Zoning laws. Minor infrastructure. Rates.
Home ownership.	Home ownership.	
Social housing investment.	Major infrastructure funding.	
Welfare support.	Land release.	
Major infrastructure funding.	Taxes and duties.	

Source: Australian Housing and Urban Research Institute

Figure 3.2: Excerpt from Parliamentary Inquiry into homelessness July 2021

The Committee’s report concludes with an overarching recommendation for the establishment of a ten-year national strategy on homelessness.

While state and territory governments are primarily responsible for housing and homelessness, a clear and consistent message in evidence given to the Committee was that there is a need for a national approach. The Committee considers that a national strategy would lead to more cohesive policies, better coordination and more accountability, particularly in relation to the use of Australian Government funding. A national strategy could also recognise and harness the important roles of local governments, community organisations and the private sector in preventing and addressing homelessness.”

COBA supports the adoption of a similar approach to home ownership.

²³ [Housing affordability and home ownership: previous inquiries and reports](#)

²⁴ [Out of reach? The Australian housing affordability challenge](#)

²⁵ [Inquiry into homelessness in Australia](#)

No more buck passing?

Responsibility for housing policy is a complex mosaic across three levels of government.

Our federal system has benefits such as flexibility, diverse responses to problems across and within jurisdictions, multiple points of access to government and competitive policy environments between constituent governments.

However, the flexibility and benefits of shared responsibilities can also morph into confusion, overlap and buck-passing.

Effective intergovernmental relations is the key to avoiding such issues and enhancing the benefits of our federated system of government.²⁶

National Cabinet has reformed and rationalised the intergovernmental architecture. The formation of National Cabinet was announced in March 2020 to replace the Council of Australian Governments (COAG).

COAG was a slow, bottoms-up framework for intergovernmental cooperation that too often resulted in lowest common denominator outcomes. National Cabinet, in contrast, deals with issues quickly, based on advice from experts, with leaders dictating the priorities and parameters for their governments to implement.

COBA recommends that National Cabinet should make keeping the dream of home ownership alive for more Australians a top priority on its reform agenda.

This should involve clear goals and timelines about removal of impediments to the supply of reasonably priced housing, with a focus on planning and zoning restrictions and provision of infrastructure, particularly transport and communications infrastructure.

²⁶ [Review of COAG Councils and Ministerial Forums](#)