HOUSING AFFORDABILITY AND LABOUR MOBILITY
Housing affordability and labour mobility (2022) © CEDA 2022
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CEDA’s submission to the Employment White Paper focuses on policy reforms to deliver a more dynamic labour market – breaking down barriers to workers moving across jobs and to more people participating fully in work. Looming structural adjustments including digital transformation, the energy transition and an ageing population will require an adaptive and agile labour market to deliver labour and skills where and when they are most needed. In preparation for these transitions, Australia needs to reverse long-term trends of declining dynamism and job mobility, while addressing entrenched barriers in the labour market. To this end, the submission will comprise five individual papers on skills recognition, housing market barriers, occupational gender segregation, training for the long-term unemployed, and the structure of unemployment benefits.

Relevant themes for Employment White Paper: Increasing labour productivity growth and incomes; reducing barriers and disincentives to work.
CEDA – the Committee for Economic Development of Australia

CEDA – the Committee for Economic Development of Australia – is an independent, membership-based think tank.

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• How can we build vibrant Australian communities?
• How can Australia develop leading workforces and workplaces?
• How can Australia leverage the benefits of technology?
• How can Australia achieve climate resilience and regain our energy advantage?

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Compared with other developed countries, Australians regularly move home, but rarely do so for work. In stark contrast to the United States, Australian renters are more likely to be forced to move by their landlord than choose to move for work.

Removing barriers to moving for work through better housing affordability, lower transaction costs (especially stamp duty) and making renting a more viable long-term option can deliver tens of billions of dollars in productivity gains via better matching of skills to jobs.

Reforms are needed to replace stamp duties with less costly taxes and remove impediments to higher density development in locations with good access to jobs and transport.

Removing barriers to institutional housing investment and preventing no-grounds evictions would benefit renters through tenure security while providing a more viable option for those who may need to move frequently for work.

Many social housing tenants are unable to work, but for those who can, increasing and better targeting social housing supply can make it easier to find and keep a job. Making rent assistance for social housing tenants portable can ensure people continue to receive support wherever they live.
Housing can be a barrier to moving for work

Compared with European countries and the US, Australians regularly move house, but less than one in 20 of these moves are for employment (Figure 1). Private renters, who comprise around one third of households, are most likely to move. Even after accounting for differences in characteristics between renters and owners, private renters still exhibit the highest rates of geographic mobility. Lack of security of tenure is a factor: more renters are forced to move by their landlord than choose to move for work or study. In the US, by contrast, renters are more than 10 times more likely to move for a new job than due to eviction.

Australians devote a relatively high share of spending to housing (Figure 2). Poor housing affordability is an important barrier to moving to a better-suited job, as median house prices now exceed $1.25 million in Sydney and $930,000 in Melbourne. Low interest rates and changed working patterns during the pandemic saw house prices soar. Evidence from the US suggests the shift to working from home during the pandemic could explain as much as a 15 per cent increase in house prices and rents due to increased demand for housing space. While prices have begun to fall with rising interest rates, dwelling prices in October 2022 were still more than 20 per cent higher than before the pandemic when averaged across capital cities, and more than 40 per cent higher in Brisbane and...

FIGURE 1

Australians frequently move house, but rarely for work

Share of population moving in the previous 5 years

Source: Causa and Pichelman (2020) Should I stay or should I go? Housing and residential mobility across OECD countries
• Created with Datawrapper
The average deposit required by a first home buyer is now more than two and a half times what it was two decades earlier, far outstripping earnings growth. Meanwhile, the challenge of getting to work intensified as commuting times increased to 4.5 hours per week on average in 2017, up from 3.7 hours in 2002. High house prices can also indirectly reduce job mobility through risk aversion due to indebtedness. Australia ranks fifth in the OECD for the scale of gross household debt relative to GDP.

Partly as a consequence of low job mobility, the match between skills and jobs in Australia is relatively poor, with more than 40 per cent of workers either under- or over-qualified for their job. Increasing the responsiveness of housing supply can reduce the level of skills mismatch in the labour market, boosting Australia’s productivity by as much as 2 per cent or around $50 billion in additional production per year. Reducing development approval timeframes and housing transaction costs such as stamp duty could boost productivity by around a further one per cent each.

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**FIGURE 2**

A relatively high share of spending is on housing

Imputed and actual housing rentals (% of total household consumption)

*Imputed rent is the estimated price a household would pay if they did not own the house themselves.*

Source: OECD Affordable Housing Database • Created with Datawrapper
Increase supply and reduce transaction costs

Reforms are critical to increase the capacity of housing supply to respond to higher demand, particularly as immigration recovers and if greater working from home continues to increase demand for housing and contribute to smaller households. For example, the NSW Government has estimated that 42,000 new homes will need to be built each year in the state, requiring a record level of new builds to be sustained every year for 40 years.

Growth-accommodating reforms to planning arrangements are crucial and have a statistically significant positive effect on housing supply. For example, upzoning and relaxed land-use regulations in Auckland in 2016 added around four per cent to the city’s housing stock in subsequent years and saw rents grow considerably slower than in the rest of New Zealand. By allowing higher density development in inner areas and transport corridors, such development can also boost productivity through shorter commutes. Improved clarity and defined timelines for development approvals are also important to reduce risk for developers, enabling them to ramp up production when economic conditions are favourable.

Planning practices that constrain development of medium-density housing are widespread, such as bans on townhouses in low-density residential suburbs that make up large parts of Brisbane and Sydney. The institutional arrangements under which planning operates – with highly decentralised decision-making and involvement of multiple levels of government – are the most likely to lead to restrictive land-use planning among OECD countries. Restricting development has important distributional consequences, contributing to higher house prices that benefit wealthy owners of multiple properties at the expense of first home buyers. Strict land use regulation can thus drive greater segregation between wealthy and middle-income households.

Planning and zoning restrictions should be relaxed to allow higher density development in appropriate locations. Land-use rules are necessary to prevent inappropriate development and protect community values, but restricting development means more housing is needed elsewhere, often further from city centres where infrastructure is not as well-developed, exacerbating congestion. An example of reform to enable density and overcome local neighbourhood resistance by taking a broader perspective is the Low Rise Housing Diversity Code in NSW, which fast tracks development approval for dual occupancies, multiple-family manor houses and terraces. More generally, a forward-looking approach is necessary, prioritising relaxed regulation.
and supporting infrastructure in regions likely to see significant jobs growth under key shifts such as the energy transition.

Key reforms to planning and zoning vary by jurisdiction, requiring analysis to proceed at the local government level, but as set out by the Productivity Commission a good starting point would involve:

1. Reviewing zoning rules that only allow single detached housing;
2. Allowing more dense development along key transport corridors;
3. Relaxing regulations limiting the use and tenure of secondary dwellings;
4. Relaxing minimum carpark requirements where there is good access to public transport; and
5. Using design guides or nominating high-quality designs for medium-density dwellings that would be permitted automatically.
The housing accord announced in the October 2022 Federal Budget is a positive starting point for increasing supply through direct support for affordable housing and laying the foundations for institutional ownership (including by superannuation companies). Critical to its success in practice will be the outcomes from the state and territory government commitment to work with local governments to deliver planning and land-use reforms. Also important is integrated regional planning that brings together housing and infrastructure needed to service a greater population and future workforce needs. There are examples of positive steps in this direction in NSW through the Greater Cities Commission and Regional NSW.

**FIGURE 3**

Stamp duty revenue has soared

Total all states and territories, $ billion

Source: ABS and state and territory governments • Created with Datawrapper

**FIGURE 4**

Increasing its share of tax revenue

Total all states and territories, per cent
“Stamp duties on the purchase of houses are a direct barrier to moving for work; federal, state and territory governments should cooperate to overcome the short-term fiscal costs of replacing stamp duties with more efficient taxes. The importance of stamp duties for state and territory revenue has grown over time as house prices have soared (Figures 3 and 4). Stamp-duty revenue has tripled in NSW, Victoria, Queensland and Tasmania over the past decade and is at record highs in all states.

Stamp duty is a volatile source of revenue that is difficult to forecast and subject to property market downturns. As it reduces housing investment and mobility, stamp duty is a particularly inefficient tax. In NSW alone, replacing stamp duty with land taxes is expected to boost long-term incomes by $10 billion. Politically, however, this has proven difficult: the ACT Government took the welcome decision to phase out stamp duty over 20 years from 2012, but in 2021-22 stamp duty revenue was still 80 per cent higher than a decade earlier.

From 2023, NSW will allow first-home buyers to choose to pay an annual property tax instead of stamp duty, but such a piecemeal approach will not deliver the full benefits of a complete transition from stamp duties. It also has the potential to push up house prices disproportionately in the lower end of the market by increasing the deposits that first home buyers can make.

The almost $3 billion spent in 2020 on first home buyer grants and stamp duty concessions also pushes up house prices by boosting demand; this money would be better spent on measures to reduce homelessness.

Make renting a more viable long-term option

While many Australians still seek to own their own home, for others, renting can be a more attractive option. For example, young and/or mobile households may not wish to buy and sell a house with each move. As the Productivity Commission has noted, homeownership is not an end-goal and does not improve society on its own. But for rental housing to provide for the needs of a diverse set of renters, they need security of tenure. Benefits of secure tenure include improved connections to community, better health outcomes and higher levels of social and economic participation. Indeed, stable and secure rental tenure is protective of mental health, with average mental health of private renters lower than that of comparable homeowners until five-to-six years of tenure, when the difference becomes indistinguishable.

Greater rental security should be pursued by properly removing landlords’ capacity to evict tenants without cause. While some jurisdictions have made reforms in this direction in recent years, it is still possible to evict tenants without grounds at the end of a fixed-term tenancy (with 30 days or less of notice in NSW, Western Australia, South Australia and the Northern Territory) or by demanding a disproportionate rent increase. Although tenants can dispute a rent increase if they think it is excessive, in practice this is complicated as it requires comparison of rents with similar properties.

iii Acceptable reasons for eviction include the landlord or their immediate family moving in, the landlord selling to another owner who wishes to move in, or breaches/notice of intention to leave by the tenant.
Regulations that control rental prices across-the-board carry significant economic costs, but there can be benefits from simple metrics to regulate price increases for existing tenants. By pushing returns below market rates, rent control holds back the supply of new housing and works against mobility by locking people into favourable arrangements. Equally, however, once tenants are already living in a property, they can be in a situation of “economic hold up” and vulnerable to excessive rent increases where they do not want to move away from work, school, family or friends. A solution would be only to allow rents on existing tenants to be increased in line with a local measure of rental prices (with allowance made to recoup expenditure on major renovations). Such an approach in Germany has maintained a link with market rents without forming a barrier to investment.

Enable institutional investment in rental housing

Building a stronger market for institutional investors in rental housing could also help, by reducing eviction due to the landlord’s personal situation, for example if they or a family member wish to move in. One way to do this is via ‘build to rent’ whereby the developer maintains ownership of dwellings and rents them out after completion. Institutional investors currently play a small role in the Australian market, with the largest investors only holding a few thousand units. In Germany and the US, by contrast, the largest institutional investors hold a combined total of more than half a million dwellings.

Institutional investors face tax disadvantages relative to individual landlords in Australia due to land tax, which is levied in a progressive fashion on the total value of non-own-home land holdings and thus favours holders of few properties. They are also disadvantaged because they do not have access to negative gearing, whereby annual losses can be offset against unrelated wage income. These disadvantages are particularly strong for houses, where they are magnified by high land values and low rental yields (Figure 5).

There is currently an opportunity for institutional investors as yields rise and land values fall, particularly build-to-rent investors who benefit from land-tax discounts in NSW, Victoria and Western Australia. This opportunity could be enhanced by flattening the payment schedule for land tax and reforms to reduce the importance of negative gearing. The US, for example, has a vibrant build-to-rent market and only allows individuals to make tax-loss write-offs against other forms of passive income (i.e. not against wage income). Student housing demonstrates the potential for institutional investment in Australia where there is a more level playing field: the largest owners have more than 60,000 beds under management in a market where average yields exceeding 6 per cent (prior to the pandemic) make negative gearing less relevant.

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iv Institutional investors face further disadvantages where they source money internationally, as managed investment trusts used to package such investment are generally subject to a 30 per cent withholding tax on residential investment.

v Student housing is also subject to a lower rate of withholding tax for foreign investment as it is classed as ‘commercial residential’ investment.
More support for low-income renters

Rent increases greater than wage growth during the recovery from the COVID pandemic point to the need to strengthen support for low-income renters to protect them from a cost-of-living crunch. Asking rents increased by more than 10 per cent in the year to September 2022, which easily exceeds average wage growth of around three per cent and will gradually flow through to more private renters as fixed contracts expire. Low-income private renters face the greatest housing affordability challenges of all tenure types, with 20 per cent of renters in the lowest income quintile spending more than half of their gross wages on rent.

Commonwealth Rent Assistance (CRA) is a valuable way to support renters without dampening mobility, as it is fully transferable. It also has very little negative impact on employment. CRA should be ramped up for those in greatest need, at least in line with recent rent increases, while maintaining or improving targeting to manage budgetary costs. For example, reforming CRA eligibility rules to better reflect housing need would substantially improve housing affordability while generating cost savings. Improving targeting would also minimise the extent to which higher payments would raise rents through increased demand.
Expand social housing to improve affordability and employment

Social housing can play a vital role as a safety net for those who are not well-served by private rental markets. There has been little change in the number of social housing properties since the Social Housing Initiative ended in 2012. The proportion of the population who live in such housing declined from about 4.8 per cent in 2012 to 4.2 per cent in 2021, substantially below the 7.0 per cent average for OECD countries.

Since social housing has a strong protective effect against homelessness, the failure of supply to keep up with population growth is a contributing factor to the increase in homelessness between the 2011 and 2016 censuses and the 18 per cent increase in people seeking support from specialist homelessness services between 2011-12 and 2020-21. There are some initiatives to increase supply, most notably in Victoria, where the government in 2020 announced a $5.3 billion package to build 12,000 new social housing, affordable and low-cost homes. New stock must address the need for smaller units: most social housing households are single adults, but only 26 per cent of the stock is one-bedroom or a bedsit, as it was built to meet different needs historically.

Overcoming the barriers to unlocking institutional investment in affordable and social housing can contribute to supply. Collaboration and partnership across the public, community, and private sectors, underpinned by firm funding commitments and viable delivery mechanisms, has the potential to improve the residential housing stock while supporting skills and capacity building across the housing industry. Case studies in Australia and internationally demonstrate that there is private sector appetite and capacity to deliver affordable and social housing, and that there can be positive outcomes where incentives are aligned between partners.

The labour market effects of improving social-housing provision are likely to be small. Nonetheless, it should be delivered in a way that allows residential mobility and does not disincentivise employment. More than half of social-housing households receive the age or disability-support pensions, and the Department of Communities and Justice NSW has found that about 57 per cent of adults in public housing were unlikely to ever be able to work. For those who can work, however, stable tenure means social housing can act as a springboard to improve workforce participation. Important here is avoiding lock-in effects, where tying support to a specific housing unit or rapid withdrawal of support as income increases can act as a disincentive to moving to (better) work.

As the Productivity Commission has recommended, portable rent assistance should be trialled for social-housing tenants. Tailoring the magnitude of rent assistance (relative to market rents) to the household instead of the property they are allocated would result in better targeting to disadvantage. It would also sharpen incentives to better match households...
to the stock of rentals, since the household would need to pay the difference in market rent for a larger property. Better integrating housing assistance with income-support arrangements could prevent excessive disincentives to work and allow for tenant mobility, including moves for jobs for those able to work. Portable rent assistance would entail extending CRA to public-housing tenants. This would be a significant additional federal expenditure, but would reduce complexity and address the current lack of coordination between state-based public housing and CRA.45

ZONING RULES
Review planning and zoning rules in all jurisdictions to reduce obstacles to higher density in areas with good access to jobs and transport. Priority actions include:

- Relaxing rules that only allow single detached housing;
- Allowing more dense development along key transport corridors;
- Easing minimum carparking requirements; and
- Nominating high-quality designs for medium-density dwellings that would be permitted automatically.

STAMP DUTY REFORM
Federal and state governments should work together to phase out stamp duties and shift to land taxes, with the Federal Government providing revenue support during the transition period. First home buyer grants should be phased out.

PROTECTIONS FOR RENTERS
Improve protections for renters to make their tenure more secure, including banning ‘no grounds’ evictions at any point of the contract cycle and restricting rent increases for existing tenants in line with local market changes.
RECOMMENDATION 4

REDUCE BARRIERS TO INSTITUTIONAL INVESTMENT
Review land tax, negative gearing and foreign-investment rules to reduce barriers to institutional investment in rental housing.

RECOMMENDATION 5

INCREASE COMMONWEALTH RENT ASSISTANCE PAYMENTS
Increase generosity of Commonwealth Rent Assistance payments to at least match recent rent price increases, while reforming eligibility rules to better reflect housing need.

RECOMMENDATION 6

SOCIAL-HOUSING SUPPLY
Continue to increase social-housing supply while trialling portable rent assistance for social-housing tenants and working to better match housing stock to need by reducing the average unit size.
References


24 Ibid

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40 AIHW. (2022). *AIHW National Housing Assistance Data Repository*. 


Ibid