

10. HOUSING EXPENDITURE

10.1 INTRODUCTION

- 10.1 There has been a great deal of discussion in recent months about mortgage and rental costs.
- 10.2 ACCI wishes to address any arguments that an upward increase across all minimum wage rates is justifiable due to a housing affordability “crisis”.
- 10.3 While the AFPC is under an obligation to have regard to providing a safety net for the low paid, the extent to which minimum wages should be adjusted to service these particular factors is finely balanced and needs to be very carefully considered.
- 10.4 The AFPC needs to be particularly cautious evaluating the extent of these considerations by giving appropriate weight to those submissions which are purely narrative and not based on data. The AFPC needs to treat sceptically any calls to add to wage rises based on housing factors. Properly analysed there is no basis to act based on housing notwithstanding recent media attention.
- 10.5 It is also important to note that the CPI data includes a “housing component” which measures household rent, associated outgoings and house purchases (such as new homes and major improvements to existing homes).¹ It is important that the AFPC does not engage in double-counting relating to housing costs when it is setting pay scales.

¹ ABS Cat. 6401.0 - Consumer Price Index, Australia, Dec 2006, www.abs.gov.au/ausstats/abs%40.nsf/mf/6401.0

10.2 RENTAL ACCOMMODATION

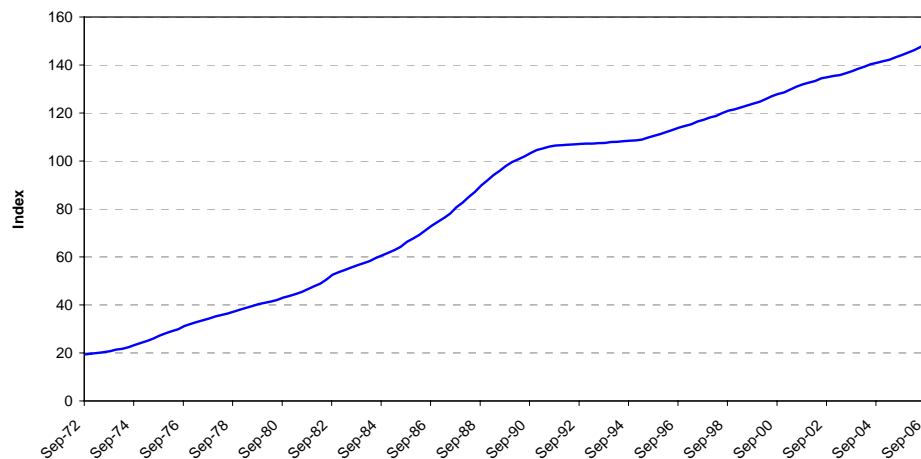
10.2.1 - Crisis in the rental market?

10.6 Various recent stories from media and various organisations² indicate that there is a “crisis” in the residential rental market, due to a lack of rental properties and affordability. While there will always be some rental properties which for a variety of reasons see rental increases, data does not support the notion that there is an Australia wide rental crisis.

10.7 In the December quarter, rents increased by 1.0 percent in the CPI, contributing 0.08 percent to the total inflation figure for the quarter of a fall of 0.1 percent.

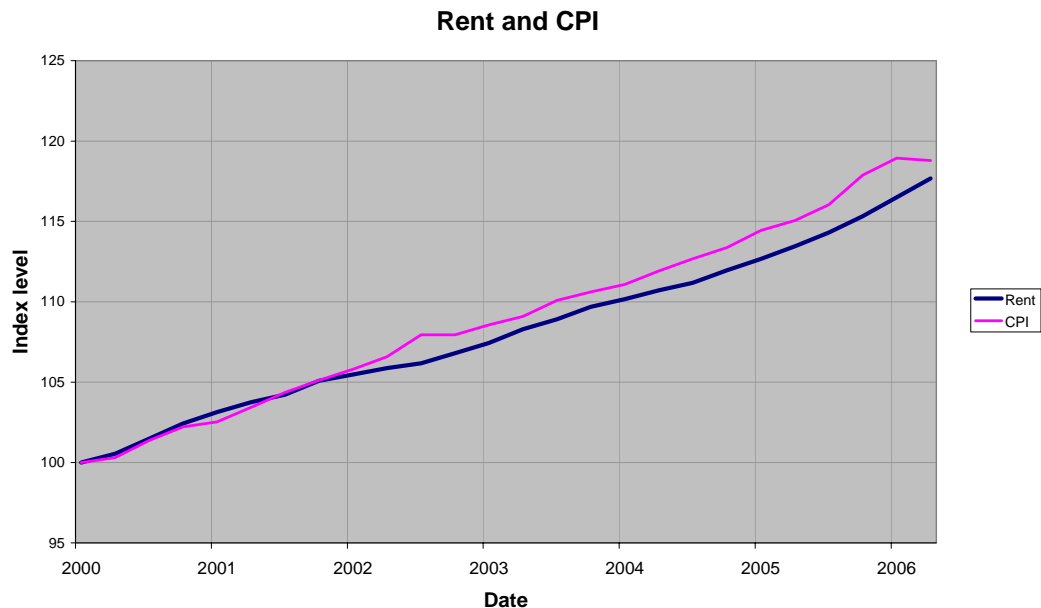
10.8 The graph below confirms that rent is increasing around the long term rate of growth and about the same rate as the average over the past 20 years. Rents are increasing at around the same rate as overall inflation (CPI).

CPI Components – Rental Index



² See for instance Anthony Klan, “Rental 'crisis' could be a myth”, *The Australian*, March 03, 2007. <http://www.theaustralian.news.com.au/story/0,20867,21316261-25658,00.html>; ABC PM Transcript, Housing industry not helping rental 'crisis': experts, Friday, 23 February , 2007 <http://www.abc.net.au/pm/content/2007/s1855811.htm>.

10.9 The following chart shows the same data since 2000 (just after the GST).



10.10 This data shows there is clearly no rental crisis.

10.11 In any case, rents are included in the overall CPI and there is no evidence that rents should be given more weight than any other component of the CPI.

10.12 Taking NSW as an example, the latest NSW Department of Housing December Quarter 2006 data³ indicates that there were no overall substantive increases in weekly rents (as recorded by new bonds) across houses and units in Sydney and across NSW, with some recording a decrease in rents.

10.13 The following table provides a snapshot of overall median rents in all dwellings across Sydney and NSW and indicates only modest quarterly and annually changes.

³<http://www.housing.nsw.gov.au/NR/rdonlyres/8C69BF47-1E17-44A4-AA69-65913264948D/0/RSReportNo78.pdf>

Median Rents – All Dwellings⁴

	<u>Inner Ring</u>	<u>Middle Ring</u>	<u>Outer Ring</u>	<u>Sydney SD</u>	<u>NSW</u>
Dec Qtr 06	\$380	\$310	\$260	\$310	\$270
Qtly change	4.1%	3.3%	0.0%	3.3%	1.9%
Ann change	7.0%	6.9%	4.0%	6.9%	3.8%

10.14 Furthermore, the data indicates that there have been zero percent quarterly change for one bedroom dwellings (overall in NSW), two bedroom dwellings (middle and outer ring suburbs), three bedroom dwellings (outer ring suburbs) and four plus bedroom dwellings (outer ring suburbs). While quarterly increases across NSW for two to four bedroom dwellings cover a moderate of 1.9% to 5.3%.⁵

10.15 Overall median figures for the State of NSW, indicate that there has been no increase in the December quarterly figures for two-bedroom houses, with a moderate increase of 2% for three-bedroom houses.⁶ Similarly, median figures for one and two bedroom flats/units, indicates an increase of 1.9% across NSW.⁷

10.16 Similarly, the Rental Report for the September 2006 quarter, published by the Victorian Office of Housing⁸, the metropolitan median rent increased by only 2.1% (while recording a real annual change of 3.0%) and non-metropolitan recorded a zero percent change, with the real annual change decreasing by -0.6%.

⁴ Ibid, p.1 Table 1 extract.

⁵ Ibid, p.3 Table 2. Weekly Rents for New Bonds – Greater Metropolitan Region – All Dwellings – December Quarter 2006.

⁶ Ibid, p.4 Table 3. Weekly Rents for New Bonds – Greater Metropolitan Region – Separate Houses – December Quarter 2006.

⁷ Ibid, p.5 Table 4 Weekly Rents for New Bonds – Greater Metropolitan Region – Flats/Units – December Quarter 2006.

⁸ www.housing.vic.gov.au

10.17 Inner Melbourne recorded a decrease of -1.6% while other suburbs recorded changes ranging from -2.9% to 5.6% over the quarter.

10.2.1.1 - RBA Statements

10.18 Indeed, recent statements by RBA Governor, Glenn Stevens, rejected that there is crisis and indicated claims that overall rental yield in Australia is “quite low”:

Mr Stevens—I also read about the rental crisis in the papers—of course, everything in the media is a crisis. Is it a crisis? I am not sure I would use that word, but it certainly is a continuing rental market. What we know is that rental vacancy rates are low right around the country; no particular region stands out all that much. It is quite common. But let us think back to what the fundamental economics are here—and there is some material in our latest quarterly statement on this. The fact is that because of the much higher price level for housing around the country, the rental yield, which is the actual running yield as a return to the investor for holding that investment, is quite low. I think the chart in the statement shows that rentals relative to incomes have been falling for a long time—in Sydney in particular for a very long time—and they are quite low. So the rental yield of two or three per cent is quite a low yield.

In the period when the investor was getting a return from price appreciation he was getting some of the return that way, although rental yield did not seem to matter so much. But it is hardly sustainable for a major asset market to continually give you most of your return through capital appreciation. That does not sound to me like a sustainable equilibrium.

Ultimately, the running yield, the rental yield, has to be higher than it has been. That is what is starting to happen.

In time, as the rental yield improves, I expect there will be more interest on the part of potential investors to supply rental accommodation, so the market will work. But at the moment, you have a tight supply situation because the rental yield is very low—historically quite low.

One way or another it is going to need to rise. That could happen by the rentals going up; it could happen by the prices coming down. In many financial asset markets that is what would occur: the price would fall until the yield came up. We have had some price decline in some of these areas but not all that much. So one way or another that higher rental yield will need to be re-established and that will alleviate this excess demand situation.⁹

10.19 And further:

Mr Stevens—You have put your finger on a very important distinction in the housing market.

⁹ Hansard, House of Representatives Standing Committee On Economics, Finance And Public Administration, Wednesday, 21 February 2007, Perth, P.8

The 'crises' that we keep reading about are basically the problems of people who would like to be in the housing market but are not there yet. People worry greatly about affordability for those people and whether interest rates rises might make that affordability more difficult. But the real problem for those people is not that the rate of interest is high. We could argue about 25 or 50 points here or there but, by and large, interest rates today by historical standards, for those of us who remember earlier times, are low. The real problem is that house values are so high. Frankly, if one is really concerned about aspiring entrants to the home market, what you really want is lower prices.

For renters, the equation is a little different, but, again, as I was saying earlier, the rental yield is very low. A big reason for why that has occurred is that the capital value of these properties is so high. If you were deciding whether or not to take ownership of a property as an investor and looking at what your return would be, it is a very low number because the entry cost of that asset is so high. I am oversimplifying a bit, but these very high home prices are a problem for those particular parts of the home market. As you say, those of us who are fortunate enough to already have a home feel more wealthy, but there is this other group of people who see the prospect of that receding as prices rise.¹⁰

10.3 MORTGAGES

- 10.20 While the residential property market has experienced a rapid capital growth phase over the last decade, the factors are play are numerous and complex both at the macro and micro level.
- 10.21 We have experienced a period of low interest rates which has fuelled household debt and demand. Supply has not kept up with demand, the population of capital cities has increased, and various State and federal initiatives to encourage first home ownership has also contributed to the buoyant property market.
- 10.22 While there are numerous factors at play, claims that households are unable to buy properties or service mortgage repayments needs to be carefully and critically evaluated.

¹⁰ Ibid, p.26

- 10.23 The RBA has previously stated that there is no single universally applicable measure of affordability, which makes it difficult to determine the extent of the problem.¹¹

- 10.24 It must be noted that not all properties are experiencing continued growth and indeed, some states have actually recorded a downward trend in sale prices.

- 10.25 The table below, from the RBA’s Statement of Monetary Policy of February 2007, shows that house prices have significantly moderated in the most recent quarter. Even in the boom regions of Perth and Darwin, prices have risen only moderately over the December quarter (which is the relevant period to look at, as the most recent pay scale increase occurred in December).

Table 7: House Prices
Percentage change

	APM		REIA		Residex	
	Dec qtr 2006	Year to Dec qtr	Dec qtr 2006 ^(a)	Year to Dec qtr	Dec qtr 2006	Year to Dec qtr
Sydney	1	1	..	..	1	1
Melbourne	1	3	1	5	1	4
Brisbane	1	5	..	..	2	7
Adelaide	3	8	-1	4	2	7
Perth	1	31	3	37	2	27
Canberra	3	5	3	8	-2	3
Hobart	-1	7	-3	5	4	8
Darwin	5	17	-4	13	0	21
Australia	1	6	..	..	1	8

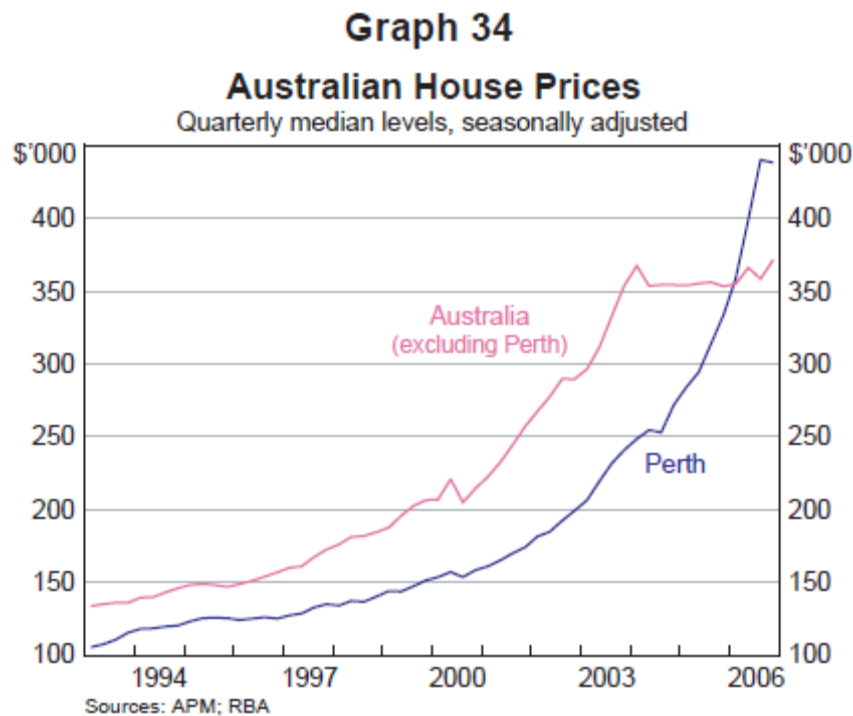
(a) Seasonally adjusted by the RBA
Sources: APM; REIA; state REIs; RBA; Residex

- 10.26 Over the longer term, it is clear that house prices have remained relatively stable over the past couple of years, particularly when Perth is excluded (and employees in Perth are much less reliant on pay scales than the national average¹²). The graph below from the

¹¹ RBA Submission into Productivity Commission Inquiry on First Home Ownership, November 2003, p.23.

¹² In Western Australia, 11.1 percent of employees are award only, compared to the national average of 19 percent. Source: ABS Employee Earnings and Hours, Table 17.

RBA's Statement of Monetary Policy of February 2007 shows house prices over the past decade:



10.27 Clearly the position on mortgages does not favour any conclusion that mortgage affordability is in crisis, even in Australia's largest city.

10.3.1.1 - NSW

10.28 Again, taking the latest figures from the NSW Housing Department, median sales price for all dwellings across the Sydney SD decreased by -3.7% over the quarter and -2.6% over the year.¹³

10.29 Non-Strata quarterly changes all recorded decreases in sale prices in the ranges of -4.8% (Sydney SD) to -6.1% (Inner Ring), -1.2% (Middle Ring), -3.3% (Outer Ring), -3.0% (Rest of GMR). While annual changes were in the ranges -3.5% (Sydney SD) to 0.7% (Rest of GMR).¹⁴

¹³ <http://www.housing.nsw.gov.au/NR/rdonlyres/8C69BF47-1E17-44A4-AA69-65913264948D/0/RSReportNo78.pdf>, Table 8. Sale Prices – Greater Metropolitan Region – All Dwellings – September Quarter 2006, p.10.

¹⁴ Ibid, p.11.

10.30 Strata sales all recorded decreases in sale prices, with quarterly changes ranging from -4.9% (Inner Ring) to -3.0% (Middle Ring). Annual changes also recorded decreases from -5.9% (Outer Ring) to -1.1% (Inner Ring).¹⁵

10.3.2 - ABS Data

10.31 According to the latest ABS House Price Indexes Data¹⁶, preliminary estimates show the price index for established houses in Australia increased by just 0.9% in the December quarter 2006, compared with an increase of 2.1% in the September quarter 2006.

10.32 House prices rose in Brisbane (+3.0%), Darwin (+3.0%), Adelaide (+2.6%), Perth (+1.7%), Canberra (+1.7%), Melbourne (+1.5%) and Hobart (+0.2%), and fell in Sydney (-1.0%).

10.33 The movement in the established house price index between June and September quarters 2006 has been revised from the first estimate, an increase of 2.2%, to an increase of 2.1%.

10.34 Such changes are in line with prevailing inflation, and offer no support for additional pay scale increases.

10.4 CONCLUSIONS

10.35 Housing costs are essentially already included in measures of inflation. To have specific or additional regard to this risks double counting, and inappropriate short term-ism in setting minimum wages.

10.36 Housing costs (both rental and mortgage) have not changed character across recent months. They remain a function of a complex market, which in turn inter-meshes with various settings of the macro economy.

¹⁵ Ibid, p.12.

¹⁶ ABS Cat. 6416.0 - House Price Indexes: Eight Capital Cities, Dec 2006

- 10.37 There has been no radical change in the nature or outcomes of this market, notwithstanding the amount of recent media attention paid to housing.
- 10.38 Data shows a far more mixed and moderate set of outcomes than media and commentator debate may have led some to conclude. For the AFPC and its prescribed role, ACCI argues there is no need to give additional attention or determinative relevance to this issue.
- 10.39 As previously outlined in other sections of this submission, the role of a properly functioning safety net must be considered in its new statutory context and therefore, claims of a need for minimum wages to somehow additionally seek to “keep up” with housing prices are erroneous.