



*Final Report*

# Investigative Panel on a socially sustainable housing system for Australia

authored by

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## **EXECUTIVE SUMMARY**

This is a report from an AHURI-funded Investigative Panel set up to explore the question 'What makes a nation's housing system sustainable in the longer term?'

### **Process**

Led by Professor Mike Berry, RMIT and Dr Peter Williams, University of Cambridge, UK, AHURI brought together a panel of 11 Australian and UK experts to explore this question (plus an observer from the Reserve Bank of Australia).

The UK was involved because a parallel process was underway there sponsored by the Joseph Rowntree Foundation (JRF). Peter Williams was a panel member in the UK.

The panel operated as a continuing conversation between participants. An initial ideas paper was circulated and discussed via email. This was then followed by a forum on 2 July 2010 which brought together as many members who could attend. Further material was then circulated and discussed leading to a second forum (3 November 2010) from which this Final Report emanated.

### **Content**

In Forum 1 it was argued that the current Australian housing system was poorly placed to deal with immediate and longer-term challenges—affordability was declining and housing supply was constrained, while the traditional public housing model was 'broken' and the private rented sector was failing to deliver at the low-rent end.

More positively housing finance was more plentiful and economic growth had been sustained, but both added to demand pressures. High-cost areas remained under pressure and there has been an increase in sharing and living with parents.

Although those in greatest need might secure public housing, there was a real gap in provision for those from the 5th to 35th percentile in the income distribution.

New housing models were needed and the Commonwealth government needed to provide policy leadership in this sphere.

In Forum 2 we sought to move closer to short- and long-term sustainable solutions.

We discussed whether house prices in Australia were too high and whether the private rented sector was too unstable. It was argued that mortgage stress was somewhat overstated but it was recognised that an excess of demand over supply has put many households under considerable pressure. This triggered a discussion around the current impact of housing subsidies and taxation and whether these could be re-focused.

### **Current agendas**

There were now seven ministries at Federal level involved in housing. Treasury was currently leading a short focused review of housing. The stimulus package had been relatively successful, although some opportunities had been missed. A considerable volume of new low-rent stock is being delivered.

It was hoped the Tax Summit planned for 2011 would pick up on some of the wider taxation agendas and look at how current subsidies might be better focused to expand the affordable stock.

Planning reform was highlighted as an important issue, with states playing a stronger role

## **Principles and practice**

It was felt that a sustainable and desirable housing system needed to encompass the following:

- Land, housing and finance markets must be efficient in allocative terms over time.
- There should be horizontal and vertical equality in terms of housing opportunities.
- Housing should be accessible to all and offer an acceptable level of security.
- Housing is a long-lasting good and policies and subsidies need to be flexible.
- Housing policy needs to be coherent, transparent and feasible, and environmentally sustainable.

However, there were real constraints with current market failures and policy fragmentation. The current urban form remained problematic and further impacts from the global financial crisis (GFC) can be anticipated. There are embedded inequalities in income and wealth which impact perversely upon housing outcomes.

## **Going forward**

There were three pressing issues.

1. It was agreed new sources of finance were crucial, in particular with regard to institutional/private sector finance for social housing. There are many barriers to achieving this, but UK experience suggests that a basic requirement will be to convince investors that future revenue flows to social/affordable housing providers are adequate to ensure a viable return for investment and that they are underpinned by a long-term government commitment to adequate housing-related benefits. It was agreed there are ways that this could be done which might harness the strengths of the Australian superannuation industry. This would help address undersupply at the lower end of the market.
2. The home-ownership market should be underpinned by a safety net to ensure greater stability and security.
3. Housing taxation and transfers had to be reviewed as a way of securing a more efficient and effective housing system.

## **Reflection on the panel process**

The general response was that the panel process had been effective in giving time and space for reflection and discussion around these big strategic issues.

The process had helped clarify links and objectives.

There was an appetite for more, and not least, for short pieces of research to back the discussions.

The diversity and expertise of the panel members was appreciated.

# 1 INTRODUCTION

In March 2010, AHURI Ltd. as part of its new approach to research, established an Investigative Panel to explore the question: ‘What makes a nation’s housing system sustainable in the longer term?’<sup>1</sup> This question is also being pursued in a number of countries in the wake of the global financial crisis (GFC) which saw major dislocation in housing finance markets (and more general financial systems) and real economies of many advanced economies. Volatility in housing markets has led to and fed off macroeconomic shocks to the economy at large, especially in countries like the United States and the United Kingdom. Australia has, to date, largely escaped the level of economic and social dislocation felt elsewhere in much of the Organisation for Economic Co-operation and Development (OECD) bloc. However, increasingly greater global integration raises the risk of ‘financial contagion’ and the reality of economic interdependence which Australia cannot ignore. The AHURI panel process has run broadly alongside a similar but larger process in the United Kingdom, sponsored by the Joseph Rowntree Foundation (JRF). Peter Williams is a member of both the JRF Taskforce and the AHURI panel (for membership of both, see Appendix 1).

This exercise has been one of the first Investigative Panels that AHURI Ltd. has established. The aim of each such panel is to:

1. Bring together housing researchers and housing and related policy-makers in a confidential environment in order to explore and discuss important developments, issues and approaches.
2. Improve the interchange between researchers and policy-makers.
3. Range broadly over the issues and over the horizon, rather than be confined by the immediate forces of budgets, electoral cycles and research deadlines.
4. Think creatively about where research and policy should be heading in future. The structure and process of the panels is intended to stimulate creative thinking and innovative future approaches.

This report:

- Summarises the key ideas and policy options considered by panel members, focused on the aims of reducing the negative impacts of volatility on the most vulnerable Australian households and identifying the main supports for and barriers to sustainable housing outcomes.
- Also notes the outcomes of the JRF Taskforce to date, with the proviso that its final report is not due until March 2011.
- Identifies some possible future collaborations between AHURI and JRF, around themes raised by the two processes.

The structure of the report is as follows:

- The panel process is summarised.
- The outcomes of the first panel forum (2 July 2010) are presented.
- The outcomes of the second forum (3 November 2010) are presented.
- Key issues, agreements and conflicting positions are extracted from the two events, with an eye to future research and policy directions.

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<sup>1</sup> “The longer term’ refers to outcomes and policy interventions over the next 10-to-20 years – that is beyond a single economic and property cycle. What is to count as ‘sustainable’ housing outcomes is a key focus of the panel’s deliberations and is not defined in advance.

- The question of possible future collaborative research links between AHURI and JRF are explored.
- Finally, reflections are offered on the strengths and weaknesses of the Investigative Panel process.

It must be stressed that the AHURI panel operated on 'Chatham House Rules'. Discussion and electronic exchanges were ongoing through the period; they were also robust. No attempt was made to achieve consensus on the issues raised. The aim was to identify issues and possible directions forward, to encourage direct interchange of viewpoints between panel members and to trial for AHURI the panel process as one (more) means of generating useful interaction between the research community, the policy community, the consulting industry and the non-profit sector. Hence, the ideas presented in this report cannot be sourced to any particular panel member. The panel convenors, Mike Berry and Peter Williams, are responsible for writing this report; inevitably the report is coloured by their perceptions/interpretations of what was said and emphasised, although panel members were individually offered the opportunity to comment on earlier drafts of the report.



## **2 THE AHURI PANEL PROCESS**

The panel was conducted as a continuing conversation between participants. The convenors (Berry & Williams) circulated an initial 'ideas paper' and sought responses from participants, in order to generate an agenda for the first forum held in early July. A number of other resources were also circulated (listed in Appendix 2). The agenda for Forum 1 is given in Appendix 3.

Forum 1 was held at RMIT University on 2 July 2010. Following Forum 1, a summary report of outcomes was circulated for comment and amendment; the final version is included in Section 3, below.

Further relevant papers were circulated in the period leading up to Forum 2 in early November (see Appendix 2). The agenda for Forum 2 (also negotiated with panel members prior to the event) is included in Appendix 4.

Forum 2 was held at RMIT University on 3 November 2010. Following Forum 2, a summary report of outcomes was circulated for comment and amendment; the final version is included in Section 4.

A draft of this Final Report was then produced by Berry and Williams and circulated for comment and final changes were made before submission to AHURI Ltd. in mid-December.

### 3 FORUM 1 SUMMARY REPORT (JULY 2010)

Discussion ranged widely around and beyond the pre-circulated agenda. Key issues raised and directions identified included the following.

1. The current Australian housing system was poorly placed to deal with immediate and longer-term challenges. Problems that were likely to intensify included:
  - Declining affordability for a significant and probably rising proportion of the population because of strong underlying housing demand, increasing inequality and continuing supply constraints.
  - Existing market failures have added to the policy task—chronic undersupply at the ‘bottom end’ of the market in a context of accumulated dwelling shortages that are projected to rise.
  - Home ownership rates were likely to continue to fall in spite of government aspirations and incentives.
  - New policy drivers around improving environmental efficiency of the built environment would add further pressures to business-as-usual housing markets.
  - The traditional public housing model was broken.
  - The private rental sector has failed at the low-rent end.
2. Housing supply constraints included:
  - Inadequate land supply in some metropolitan markets under current planning and development regimes.
  - (With exceptions) lagging innovation and low efficiency in house building.
  - An absence of equity investment appetite by institutional investors given the myriad risks and uncertainties involved in the residential sector and an absence of financial innovation in this space (lack of robust market returns data was mentioned as a key current barrier).
  - An inherited ‘spatial history’ of urban/metropolitan concentration, fed by international immigration.
  - Current ‘political demographics’—policy constrained by the strongly expressed housing-related interest of pre-1960s formed households at the expense of post-1960s cohorts.
  - Urban infrastructure underinvestment and current financing approaches that front-end load the cost of new infrastructure services.
  - Resistance to residential densification driven by ‘nimbyism’ in existing urban areas and obversely relaxed/weak planning controls on the extension of urban areas.
  - Labour market ‘flexibility’ that has intensified economic inequality and insecurity.
  - One-income households have fared badly in the owner-occupied market.
  - The long, slow decline of public housing has intensified competition for access to this increasingly marginalised tenure.
3. A number of countervailing factors has mitigated these supply-side failures to some extent, for example:

- Increasing financial market flexibility/innovation has increased the supply of housing finance—for example, through the growth of mortgage securitisation. This has had positive and negative effects; increasing access of developers and builders to finance but also boosting demand, especially by rental investors, second-home buyers and some more marginal buyers.
  - Increasing densification in inner and middle suburbs has reduced urban land constraint and improved access to basic urban services. However, this has not necessarily improved affordability—indeed, evidence suggests the reverse.
  - Governments, through the Council of Australian Governments (COAG), have begun to address the need for large-scale reform of public housing, land use planning regimes, use of government land, etc., but much remains to be done.
4. Housing demand pressures have been ramped up by long-term economic growth, high immigration, an ‘echo’ baby boom, and the growth of mortgage debt not least by existing owners (as this suggests a housing wealth effect seems to have been at play). Existing taxation and social security regimes (e.g. Commonwealth Rent Assistance) have intensified competition at the lower end of the housing market. Again, some countervailing forces are at work:
- Some evidence of a drift of households away from high-cost housing regions, especially by lower-income households.
  - Changes in household formation have seen an increase in shared housing and children staying at home longer and/or returning to the family home as rental markets tighten and the house deposit gap rises.
  - New forms of intra-family wealth transfers have assisted some younger households into owner occupation.
  - The Henry Review of the Australian taxation system has raised a number of possible tax reforms that could reduce demand pressures and/or increase supply responsiveness. However, most of the housing-related measures seem to have been relegated to the ‘never-to-be-touched’ basket, suggesting a long-term horizon at best.
5. There was confidence that the needs of the 3–4 per cent of households traditionally housed by the public sector would be adequately addressed by the current housing reforms underway. In part this is through specific policies introduced since 2009—NAHA (National Affordable Housing Agreement), NRAS (National Rental Assistance Scheme) and the Social Housing Initiative which have involved the growth of non-profit housing providers and changes in the strategies and policies of state housing authorities. The challenge focuses on the next group ‘up the ladder’—variously described as between the 5th to 35th income percentiles, the so-called ‘sandwich class’. Meeting the needs of this group will require:
- Development of a robust, well-regulated non-profit housing sector.
  - Provision of adequate and appropriate government subsidies/guarantees.
  - Creation of clear policy and practice transition pathways for lower-income households—for example, from renting through shared equity to ownership.
  - Mobilisation of adequate political support by and for traditionally quiescent groups, in part through distilling a suite of ‘bad news stories’ about the risks of homelessness, overcrowding and threats to public health and ‘good news stories’ about the internal and external benefits of adequate, affordable housing that encourages social inclusion and the benefits of the new policies and funding injected from 2009. Also important to get across to a broader

constituency is the importance of locating affordable and appropriate housing near the sites of lower-paid but essential jobs—that is, the ‘key worker’ argument.

6. A ‘sustainable housing system’, we thought, would ultimately depend on bringing about a ‘sustainable urban environment’ where improved access (to jobs, services—see below) is married to substantial improvements in the environmental performance of the urban built environment (re energy, water use, emissions control, decongestion).
7. In political and policy terms, it was thought that the re-entry of the Commonwealth to the urban arena will be critical to achieving real advances over the medium term. In the immediate term, the impending review of the COAG housing reform agenda will be critical. Informing this (it was suggested) could mean:
  - Explicitly developing a ‘courageous’ vision of a more sustainable system with a ‘good’ story to tell.
  - Tying that vision to the links between adequate and affordable housing/urban form to driving the overarching productivity agenda for Australia.
  - Bringing together disparate policy fields—housing, transport, basic services.
  - Recognising that individual cities and regions have particular needs, deficits and advantages and making policy settings flexible enough to account for the same (e.g. CRA as currently constituted does not meet this requirement).
  - Focusing on the institutional mechanisms for actually delivering better outcomes on the ground. This implies that institutional (re)building will need to be a significant part of the reform process. Some progress has been made in some states through the regulation and stimulation of non-profit providers and the (start of) serious consideration of a national regulatory structure for the emerging sector.
  - Dealing with the consequences of two decades of relative neglect and marginalisation of social housing, and the difficult problems of the unequal distributional effects of current policies. This suggests that seriously and positively promoting social inclusion through housing and related policies should be on the agenda at the national level. (The task is to get debate away from the negative story of marginalisation and exclusion and living off the state).
  - Encouraging and funding relevant research, monitoring and evaluation of policy impacts across interrelated domains.
8. More radically, it may be necessary for the Commonwealth to lead developments toward the (re)creation of metropolitan/regional level governance structures— for example, a ‘Greater Melbourne’ or ‘Greater Sydney’ authority with strategic urban planning and development powers and adequate statutory instruments to impose compliance and monitoring. The City of Vancouver was suggested as one model. Of course, Australian cities have had such structures in the past— for example Melbourne Metropolitan Board of Works. Other vehicles might include:
  - Urban development corporations.
  - Commissions with more flexible missions and powers (and less fiscal constraints)—for example, to provide affordable and environmentally sound residential development.
  - Metro-wide utilities with similarly diverse missions— for example, to actively reduce fuel poverty and engage local communities in planning local milieux.

9. The issue of the impacts of continuing national, and especially, global financial volatility and uncertainty was largely taken up in the last session hook-up with participants in London. A key point was that the challenges facing Britain's housing system and the financial and fiscal policy 'wind of change' underway in the UK are quite different and much less benign than those facing Australia. The latter has, to date, survived (avoided the fall-out from) the turbulent financial and economic shocks impacting on European and American markets. Continued good fortune in this regard will depend on more than good macroeconomic management and financial sector regulation. Australia cannot totally insulate itself from global developments. Our fortunes depend critically on the continued real growth of China (especially); China's growth will depend on how well its exports to the damaged economies of Europe and the US hold up and on the level of growth in domestic demand. Furthermore, Australia's financial system is heavily integrated into world markets and sensitive to developments in New York, London and Tokyo, not least in terms of the pricing and availability of funds. Attempts by the main G8 countries to re-regulate their financial systems, in the wake of GFC-One and the threat of GFC-Two, will inevitably impact on Australia, both in terms of future global financial flows and regulatory reforms (Basel 3).

### **3.1 A/V link to London**

#### *3.1.1 Comments on the UK situation: the market*

- The housing market is generally flat/falling but with warm spots in London, South East and elsewhere in chosen locations.
- Transactions remain low by historic standards but there is a suggestion that more sellers are coming to market.
- Much discussion of a double dip—certainly a very slow market if no worse—in some areas.
- Housing supply has fallen away especially in terms of starts—although slightly up in 2009. Completions held up in part as a result of a government stimulus package. However, in 2010 only 103 000 homes were completed in England.
- Mortgage supply still weak—the number of products is up from a very low figure but volumes remain very low indeed. Many lenders are inactive, although now slowly re-entering the market. However, they are only offering low loan-to-value loans and tighter terms.
- The latest Bank of England (BoE) Financial Stability Review points up the continuing funding problems that UK lenders currently face and the likelihood that these will continue.
- More specifically since the GFC lending conditions imposed on social housing providers have become tougher; for example, in relation to loan and covenant terms and the willingness to invoke penalties triggering loan re-pricing. There has been a decline in conventional long-term lending (e.g. over 20 years) for social housing.

#### *3.1.2 Policy*

- There is a new government in Westminster with elections due in Wales and Scotland in 2011. Housing and planning policy are in play. The Localism Bill now in Parliament incorporates major reforms of social housing in England, including the abolition of mandatory open-ended tenancies and a financial settlement on remaining local authority housing accounts (the income/expenditure account for local authority rented homes).

- Publicly is justified by the need to reduce spending but also inspired by its overriding commitment to 'localism'; the government has moved to close quangos. The National Housing and Planning Advice Unit has gone along with most regional governments in England and some regional agencies. Regional house building targets were abandoned. Social housing regulation is being scaled back to focus on economic rather than consumer issues. In the process, both the Audit Commission and the Tenant Services Authority are being abolished with the rump of regulation being re-integrated with the funding body for affordable housing, the Homes and Communities Agency (HCA). Planning moves from top-down to bottom-up, with local communities being able to sanction development or not. There will be incentives to do so but these might not be big enough to encourage support for development (current proposal is six times the annual council tax for each property built, together with 'the stick' of cuts in mainstream funding for those who do not bid for it).
- We await to see the future of Section 106 through which developers were required to provide land and funding for affordable housing as part of the negotiation associated with the granting of planning permission.
- Under the October 2010 three-year spending review, housing investment was subject to cuts larger than in almost any other program—provision in England was reduced by 50 per cent as compared to the previous review period. Freedoms for social landlords to let homes at up to 80 per cent of market rents (coincidentally the rent threshold for Australia's NRAS) are intended to ensure additional rental income to support increased borrowing capacity for developing landlords. One important consequence will be higher borrowing by housing associations and thus higher gearing against assets. This may restrict some associations.
- Incorporated within wider benefit reforms, housing benefit cuts will come into force between 2011 and 2013. For private tenants these will include local area eligible rent caps in the private rented sector, while for social renting there will be a new stipulation for working age households that will restrict the amount of benefit payable to the rent chargeable for a property of the 'appropriate size' This last will limit the ability of housing associations to raise rents and make management much harder, and also will concern financial institutions.
- Government has scrapped Home Information Packs which were aimed at helping buying/selling but which have been extremely unpopular.
- Modest Capital Gains tax increase for residential property investors (and perhaps edges taxation closer to agenda?). Stamp Duty changes are being reviewed but it is unclear what policy will be.
- The Financial Services Authority goes and becomes part of the BoE which brings all oversight powers together. A new Financial Policy Committee (FPC) is set up concerned with managing out bubbles via counter-cyclical capital requirements/buffers.

Basically, the focus is on reducing borrowing as a response to the GFC. The risk is that taking spending out of the economy, plus rising unemployment/taxation and possibly interest rates generates further downward pressure. The housing market is limping and could add to downward drag on the overall economy. At the same time the new Housing Minister spoke of the 'Age of Aspiration' being back in terms of helping first-time buyers—but there is no evidence of this yet.

The new Secretary of State for Communities and Local Government talked of his three new priorities: localism, localism and localism. The aim is to return power to communities (not necessarily local government). As noted above, planning powers

are being reworked to give more power to local groups, albeit within a regime in which there is a presumption in favour of development. The aim is to 'incentivise' local communities to accept development via rebates of council tax to their authority (with this funding coming mainly as a top slice out of overall revenue budget for local authorities so those who do not develop suffer reduced funding).

It is a big gamble. Will non-government-funded activity pick up and thus ease the downward pressures? Will housing supply fall away or increase and again add to cost/affordability pressures? Perhaps one thought we share is that government might do little in housing terms in three–four years and perhaps it will not show for a while. The question of instability in the housing market looms large alongside distribution issues re gainers/losers.

All of this might suggest an opportunity for the private rented sector. However, the Treasury ruled out any significant reform to tax and regulatory structures relevant to the private rental sector in the autumn of 2010. The HCA has tried to encourage pension funds to invest in the private rental sector but actual take-up has been almost zero to date.

If all of this is different than in Australia then we are conjoined by G20 thoughts on bank taxation and by reform of Basel 3 plus other global measures. Much might turn on the new FPC but we have no detail on that at present. The BoE has given thought about how to help restore mortgage funding flows but done nothing more to date—there was some earlier Treasury discussion of how to open wholesale market. The latest Bank of England Financial Stability Report shows in Chapter 4 the BoE is finally showing concern regarding the funding gap. We await to see what it does about it.

### *3.1.3 Comments on the initial paper (reflected in the summary report)*

What struck the UK participants most was that there was a consensus behind all your points which simply would not be found except among a fairly narrow range of academics in England now.

The emphasis in the first part of the paper was mainly on market failures, while in the UK the argument is about administrative failures. There is also an assumption that demand is not being met, but this looks more like need from the other side of the world.

It is not clear that the Australian public housing model was ever 'not broken', but also not clear whether there is perceived to be costs to those actually housed there—very much part of the current UK debate. Also one-income households appear to be disadvantaged in all sectors—not just owner occupation.

The discussions on the mix of inadequate land supply and resistance to densification look to be in opposition with one another. Presumably the story is more complex than this, but there is a surprising lack of emphasis on costs in water/local services/transport and access. The environmental elements of this debate are very important—as is this story in relation to existing housing. We would have expected this to be higher up the agenda than the pure more land story. Topic 6 sounds rather out of date (reflecting our generation's views)—that is a nod rather than central to debate.

Topic 3 is the more fundamental issue that demand inherently is more elastic than supply. This needs to be separated from the question of additional volatility arising from the current crisis and responses to these problems.

Under Topic 5 there must be important differences between cities and within urban areas—are these more important than suggested for the development of national policy? Topic 7 seems to be the most important—not clear where the political will is

really coming from, given the nature of the Australian government(s). The stimulus package helped, but presumably much of what was done turned out not to work 100 per cent—will there be a backlash?

How are the points in Topics 8 and 9 to be supported and how can we really make a contribution given our very different short-term opportunities—most to learn from financial regulation and development of vanilla markets?



## **4 FORUM 2 SUMMARY REPORT (NOVEMBER 2010)**

### **4.1 Introduction**

Investigative Panel Forum No. 1 (July 2010) concluded: *A 'sustainable housing system', we thought, would ultimately depend on bringing about a 'sustainable urban environment' where improved access (to jobs, services) is married to substantial improvements in the environmental performance of the urban built environment (re energy, water use, emissions control, decongestion).*

Forum 2, held at RMIT on 3 November 2010, continued the discussion, with an eye on outcomes to date of the JRF process in the UK. This report:

1. Provides a summary of the discussion through the day.
2. Outlines a set of criteria for 'a sustainable housing system'.
3. Identifies the constraints on achieving such a system and then looks at three issues of particular concern, namely:
  - The challenge of attracting institutional finance to expanding the supply of affordable housing.
  - Creating a 'safety net' for households (at risk of) falling out of home ownership.
  - Addressing the potential role of changes in taxation and transfer regimes.

To some extent, these three issues/challenges of concern are linked. Clearly, taxation (and subsidy) arrangements will impact on the prospects of institutional investment and the nature of any safety net scheme. A meeting of the JRF Taskforce in London in (September 2010) focused on similar issues.

As noted, in the conclusion to the next section, panel members also raised a number of other key ideas for further consideration.

### **4.2 Forum summary**

#### **Introduction**

After introductions and apologies, we began with an overview from Mike reminding the panel what we were there to do. We were constituted as an AHURI panel of experts charged with looking at Australia's housing futures, including trends, problems, hurdles, drivers and directions. We were asked to consider what might constitute a sustainable housing system for Australia and to ask whether Australia had achieved that and, if not, how it might move closer to it.

Mike reminded members of the process that had been followed in terms of circulating notes from the first panel forum held in July and other materials. We were seeking to inform the policy process through our deliberations in terms of providing a guide to future priorities for both policy and research, as well as testing the value of the AHURI panel process.

#### **Reflections on the JRF Housing Market Taskforce**

As an introduction, Peter Williams presented a progress report on the JRF's Housing Market Taskforce in the UK. Peter is a member of that Taskforce and the AHURI panel—a deliberate link because it had been recognised that there might be synergies between the two processes underway, as well as crossovers in terms of the substantive content of the inquiries. There was no suggestion that the UK was a model for Australia but that there was value in contrast as a means of sharpening the

reflection process. The Taskforce is preparing a report that has five main chapter headings which will summarise the focus of the work. These are:

- Reducing housing market volatility.
- Protecting home owners from the consequences of volatility.
- Promoting access and affordability.
- Developing alternatives to ownership.
- Towards a socially sustainable housing market.

He highlighted a number of possible recommendations in brief. First, in relation to price and volume volatility which the UK continued to experience, the panel was likely to opt for both revised stamp duty and an explicit property tax as mechanisms to reduce the amplitude alongside other controls on credit and capital requirements which were emerging from the authorities. Second, with regard to vulnerable owners, it favoured a 'partnership' safety net funded by borrowers, lenders and the state. On the third theme of accessibility, this is challenging given funding and the mortgage market and a new untried housing supply system. With reduced access to home ownership, we had an expanded intermediate market (can't buy, can't rent—social) which needed addressing but the question was where to put the focus. The Taskforce's priority was on the bottom end of this market through both low-cost home ownership and affordable rented homes. Although it was recognised that the Australian system was quite different (and might be more similar to other countries, e.g., Canada) it does suffer from high house prices, an oligopolistic mortgage market, weak housing supply and significant housing stress.

#### **Australia—structural issues and long-term solutions**

The discussion began by noting that the US had now 'solved' its affordability problems through a 30/40 per cent fall in house prices (along with one-third of households being in negative equity and a million foreclosures in the year). If Australia's house prices are too high, what might induce a fall? Answer: higher interest rates and rising unemployment along with an abrupt contraction in mortgage finance. Australia had experienced 20 years of economic growth and rising real incomes with an excess of housing demand over supply fuelled not least by in-migration. Little wonder prices had moved upward. Measures to stimulate the economy post-GFC had added to this via increased First Home Owners Grant (FHOG) by the Commonwealth and stamp duty concessions by state governments and open access to foreign purchasers. In reality there had been long-term policy failure through a focus on demand-side stimuli over the last 40 years, both via home purchase and through negative gearing on rents. There was no evidence that the latter had boosted supply. Moreover, a recent AHURI study by Wood and Ong (see AHURI Research & Policy Bulletin No. 127, May 2010) found that 50 per cent of negatively geared private landlords exited the rental market within one year of entry—as opposed to around four years for non-negatively geared investors. This accounts for about one-in-four rental dwellings and suggests that negative gearing materially increases instability and insecurity of tenure for private renters. However, this result may reflect problems with the data and/or the particular period covered, since there is a clear taxation disincentive to hold rental property for less than a year.

It was suggested that current mortgage stress measures overstated the problem, but it was agreed that we had to address housing supply, not least because of a growing population underpinning continuing long-term growth in housing demand. Land needed to be released and urban densities had to increase. The COAG process needed to push the states to secure more affordable housing supply. The house building industry had become more fragmented with fewer significant firms in terms of

scale of output. Institutional investors had not moved to invest in housing (as hoped by policy-makers). The question was posed whether the FHOG might be used to subsidise their involvement rather than be capitalised into house prices, a point picked up later as part of the discussion concerning the growing role of a viable non-profit provider sector. More supply was seen as crucial to the volatility agenda and a new asset class for institutions might be needed to open up this new funding/supply route. Summarising the current situation—Australia needed to respond to the realities of increasing housing demand in excess of investment, constant upward pressure on prices, its long-term affordability problems and the decline in home ownership.

### **Current policy agendas**

Attention then turned to current policy agendas. There were now seven ministries at Federal level involved in housing. Treasury was preparing a focus paper on housing looking at overall objectives. This might include renegotiating the NAHA and moving to exploit public housing assets that were near major transport nodes and could be developed. The NRAS was felt to be poorly targeted. Federal spending via the stimulus package on social housing was significant (around \$6B) but the way this was structured did not fully exploit this commitment. The program certainly succeeded in its primary aim to stimulate aggregate demand and prevent unemployment from rising sharply, especially in the construction sector. However, because of the speed with which housing construction had to be ramped up and the relatively underdeveloped nature of the non-profit housing sector, it is likely that opportunities were lost with respect to the quality, type and location of new dwellings produced. Nevertheless, in volume terms it appears that more than 10 000 new houses will be delivered by the early part of 2011, targeted at the low-rent end of the market, intended to achieve a *net increase* in low-rent stock. If achieved, this would represent a significant improvement on other social housing policy outcomes in recent times. The further lesson is that if state housing authorities and the non-profit sector are well organised and strategically managed (more so than when faced with the GFC challenge) then the affordable housing sector could in future also be used effectively in a *counter-cyclical* manner.

There would be a tax summit in 2011 and it was hoped some of the wider housing agendas in the Henry Commission might be aired there. NRAS, tax concessions, public housing stock transfer and regulation, all needed further consideration and were key to the growth of the social housing sector, which all agreed was too small to be effective. NRAS was seen as expensive and perhaps even unfair and inflexible and had not achieved the goal of bringing in institutions like the industry superannuation funds. It provided a poor return for expenditure. FHOG was similarly criticised in discussion as a subsidy that was simply capitalised into prices, thus in reality not helping those it was aimed at.

Subsidies of \$5–6 billion were provided for the private rental sector (via negative gearing) compared to about \$45 billion for home ownership via the absent imputed rent and capital gains tax regimes. The cost of NRAS \$0.3 billion, NAHA, \$1.2 billion, Rent Assistance \$2.8 billion and FHOG \$1.5 billion could fund 20 000 new homes. An approach was outlined whereby the non-profit sector could leverage redirected subsidies to expand social housing supply.

There was a shared view that planning needed to move from local councils to state bodies and that further thinking needed to be done re land tax disincentives. Furthermore, to secure a step change in the non-profit sector, a national framework for regulation was required as a prelude to securing significant private finance. This triggered a discussion around the role of guarantees—both those extant to the banking sector and their potential in the housing sector. Government in many

countries are not supportive of offering guarantees, as this is seen as encouraging otherwise risky behaviour.

It was also agreed that housing had to be closely linked to the broader urban and regional agenda and framework for policy. In particular, housing should form part of 'the productive city/region' and be linked to transport and employment developments and policy. Successful urban and regional policy would embrace 'the four Ps'—productivity, population, participation, popularity. This theme was continued (see immediately below).

### **The research/policy interface**

A short overview paper was presented on how AHURI worked at this interface. Highlighted were the new research synthesis service and the clearing house role. Discussion stressed the need for both Commonwealth and states to adopt a transparent and open policy regarding data which might underpin research, particularly research which was aimed at supporting good policy. Further discussion highlighted the barriers to home ownership and the need for clear pathways, with a further focus on productive cities and how housing and planning fit into that, along with taxation treatment, infrastructure provision and institutional investment. Widening the housing debate to the question of the functioning of cities was seen as a strong way forward and part of the lateral thinking process. Similarly there were clear links between, for example, home ownership, house prices and the private rented sector through yields and returns. We need to link agendas of volatility, sustainability and productivity. We also need to recognise impacts and the ways these vary by segments of the population.

### **Conclusions**

In our concluding discussion we returned to the question of principles by which we might judge the effectiveness of the system and how we might measure success (see next section). Members were then asked for their views on what they saw as the most pressing agendas and the responses covered the following (without generating consensus on all points):

1. The introduction of a reformed land tax that would be levied on a wider base (including owner-occupied dwellings) and on an individual rather than aggregate property value.
2. Full-rate capital gains tax on second property and other assets.
3. Market-based rents for social housing, related to:
  - adequate levels of rent assistance
  - a sustainable not-for-profit sector
  - creation of an affordable housing bond.
4. Tackling the infrastructure deficit.
5. Institutional reform of Federal and state arrangements regarding housing, planning and cities.
6. Removing planning from local politics.

These policy directions can be considered in the light of the criteria for and constraints on housing outcomes considered in Section 4.2.1, below.

## 4.2.1 *Toward a sustainable housing system*

### **What do we want?**

Building on the above discussion, we might say that a ‘sustainable *and desirable* housing system for Australia’ would satisfy a number of high-order principles. It must be said that a housing system may be sustainable in the sense of persisting indefinitely, without delivering housing outcomes that would be judged acceptable by most observers. The criteria discussed below are explicitly value-laden—they express largely conventional views on what are desirable or ideal outcomes.

#### *1. Efficiency, allocative and dynamic*

Ideally, competitive housing, land and financial markets would produce and distribute housing services to residents/consumers, maximising utility over the long-run. Continuous innovation in both sets of markets would ensure dynamic as well as allocative efficiency. Adequate housing is part of the productivity challenge. Tax and transfer arrangements should be ‘non-distorting’ and tenure neutral. Mobility of households, between tenures and spatially, should reliably reflect labour market signals and resident preferences (and income constraints). Housing should be located in order to maximise the home-work interface. However, we live in a ‘second-best’ world where existing market and administrative imperfections (failures) abound. Good policy will be introduced with an explicit awareness of, and taking account of, existing pervasive market failures. For example, competition and taxation policies should seek to move all industries in the housing and land sectors toward a common level of ‘market imperfection’, rather than impose onerous ‘first-best’ conditions on an individual industry in isolation.<sup>2</sup>

#### *2. Equity, horizontal and vertical*

Residents in similar situations should have similar housing opportunities. Poorer residents should have adequate housing opportunities, meeting basic standards; inadequate or insecure primary income should not result in housing situations deemed unacceptable in contemporary Australian society. Lack of affordability is ‘a case suitable for (policy) treatment’. Homelessness is the extreme result of market and policy failure. Again, in the real world we deal with, this means acting to reduce the worst inequities wherever possible (a position strongly argued by Amartya Sen in his recent book, *The Idea of Justice*). The issue of location poses complex policy challenges. Locational disadvantage can be extreme and cumulative, with relative advantages and disadvantages reinforced through the normal operation of regional housing (sub)markets. Outcomes on the ground also reflect the highly differentiated choices households make, reflecting class, ethnic, cultural and life-course factors.

#### *3. Accessibility*

Discrimination in accessing housing on cultural/ethnic/Indigenous/gender/household type grounds is unacceptable. Housing form should be accessible to people with disabilities and complex needs. Housing should be located to maximise resident access to basic services through the life course.

#### *4. Flexibility*

Housing assets embedded in space are long-lived, so are housing policy mistakes. Ideally, we should ensure that policies, and especially subsidies, can be adapted to meet changing demands on our housing system—changes in housing preferences

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<sup>2</sup> This prescription follows from the ‘theory of the second best’ in standard welfare economics, designed to improve allocative efficiency in the economy under actual market conditions.

and needs, employment location and communication technologies, for example. Opening up pathways between tenures over time poses special policy challenges.

#### *5. Policy coherence, transparency and feasibility*

Many public policies impinge, some indirectly, on housing outcomes and opportunities. Ideally, governments would have an accurate map of the range of relevant policies, their direct impacts and their resultant indirect and interactive impacts. The policies and the impacts should be transparent and mutually reinforcing in intended directions. In a federal system, effective co-operation/harmonisation is necessary. Sharing of data and relevant research findings across and within government jurisdictions and with industry, community and research organisations can facilitate more coherent policy outcomes. Policies must be feasible—in economic, technical and political terms; implementation may therefore, be staged and undergo review and changes over time.

#### *6. Stability*

Housing market volatility—price and quantity/turnover—can result in unintended and undesirable effects, including over-indebtedness in booms and forced de-leveraging in sharp downward corrections, with broader macroeconomic impacts on regional and national economies. Volatile shifts in sales volumes and new construction have severe impacts on housing industry activity and state government revenue flows. Industry and household planning environments are disrupted, increasing the likelihood of sub-optimal investment and consumption decisions. Heightened downside risk for households increases the need for (and cost) of safety net protection.

#### *7. Environmental sustainability*

The design, siting and form of housing should minimise resource usage and emission/pollution outputs. Different policies will be appropriate for different housing forms, locations and impacts. Policies will also differ across existing and new stock and (possibly) locations. The details of what this would entail are beyond the scope of the panel—but could form the focus for a further panel exercise.

#### *8. Security, tenure, financial and ontological*

All Australians should have an acceptable level of shelter security. This should not be at the expense of being able to satisfy other basic needs, material and psychological. Policies need to recognise that adequate housing is centrally implicated in creating a sense of personal identity and community belonging. To achieve these ends governments will need to seriously consider reversing current trends in economic inequality and addressing current administrative as well as market failures in the housing system (see comments below).

### **Getting real—the constraints/challenges**

Australian housing and related policy interventions face many real-world constraints and challenges. In part this comes from the nature of the asset—large, expensive, fixed in space and providing multiple services. As such, housing is bound to fall across a number of government jurisdictions and involve a number of policy aims. Critical constraining or defining factors include:

#### *1. Current market failures*

Inelastic housing supply in regions undergoing pronounced long-term economic growth (rising disposable incomes) and population growth is leading to increasing (chronic) shortages at the lower and low-middle price points of the housing market. Excess demand has been reinforced by relatively low interest rates since the early 1990s and inappropriate policies, like FHOG. Existing taxation settings distort private rental provision toward higher rent segments of the market, increasing overcrowding

and homelessness at the bottom. Existing property-related taxes are aimed more at revenue-raising than housing provision—for example, stamp duties on land transfer. Taxes like land tax positively deter investment by large institutions or companies in the residential sector, since they are progressive to a maximum rate and levied on the aggregate value of asset holdings. Negative externalities may include impaired productivity and employability of poorly housed and homeless people, increased health (including mental health) problems, disrupted schooling and increased engagement with the justice system.

## *2. Current government structure and governance arrangements*

Housing policy is split between many government agencies; hence policy responses are inevitably fragmented—across and between levels of government. Corporatised state government land development agencies are constrained from engaging directly in the provision of affordable (sub-market) housing. Long-standing divisions of responsibilities between Commonwealth and states, added to a history of non-transparency, aborted reform attempts and mistrust, have hampered effective cooperative efforts to expand the affordable housing sector in Australia. Recent fragmentation at the Commonwealth level may intensify the challenge of agreeing and implementing a coordinated attack on housing problems. The COAG process offers the best avenue for achieving advances in this as well as other fields. Any progress will have to deal with the traditional issues of Australian federalism: vertical fiscal imbalance; governments at different stages of the electoral cycle; small states versus large states, east versus west; battles over cost shifting and differential impacts on public revenue flows. Finally, it is not clear that housing, *per se*, can maintain high political saliency in relation to other policy fields—like immigration, health and water—especially in the immediate term. Housing is a complex policy terrain and one where there is real benefit in linking it to wider agendas/outcomes.

## *3. Current urban form*

The existing spatial distribution of population and current trends in further urban concentration, given the inherited stock of housing and infrastructure, place severe limits on policies that might seek to improve affordability through both decentralisation and densification. The concentration of employment opportunities and job growth mitigate against the former, while local planning regimes and political forces limit the latter approach.

## *4. The macro-housing nexus (in a global context)*

Experiences courtesy of the GFC focused minds on the links between housing aspirations (in the sense of boosting home ownership), mortgage markets, social policy aims and the broad economy in an international context. Continuing reform of the global financial system aimed at ensuring greater stability and reduced systemic risk is likely to impact on mortgage markets and future financial flows into the housing sector in Australia (and especially in countries more adversely impacted by the GFC). Lending for housing may be more limited and selective as well as costing more and being available over shorter periods, raising possible problems for policies that rely heavily on leveraging private finance through traditional mortgage routes.

## *5. Embedded (path-dependent) inequalities of income and wealth*

Although real incomes have risen consistently over the past two decades, lower-income households have fared less well than higher-income groups in Australia and have faced increasing competition from the latter in accessing lower-rent dwellings. Wealth—including housing wealth—has become more unequally distributed over this period. Superannuation savings are forecast to be inadequate to support retirement of a significant minority of baby boomers. Existing taxation arrangements reinforce these

inequalities, especially with respect to superannuation. A future recession, especially if accompanied by rising energy costs impacting disproportionately on less accessible suburbs in major centres, would intensify problems for lower-income households seeking to maintain their grip on home purchase or tenure in a tightening rental market. The current policy debates in Australia, the UK and other countries, on the introduction of pricing carbon emissions may bring this issue to the fore.

#### 6. *'Political realities'*

Public attention (and anger) tends to focus on media-induced reactions to short-term events like Reserve Bank official interest rate changes and the responses of big lenders. Housing is peculiarly well-placed to arouse populist sentiments and political 'debate'. Improving housing outcomes to express the principles adduced above seems to have no natural political constituency. Special interests—builders, bankers, welfare groups, churches, non-profits—have particular aims and levers, further complicating the task of devising and implementing a coherent reform program. The history and outcomes of the NAHA exemplify this reality.

#### 4.2.2 *Key issues*

This section takes up and discusses further some of the key ideas emerging in the Forum. Three concerns are particularly pressing.

#### **Institutional finance**

All members of the panel agreed that we had to increase supply to the lower end of the market and securing a new stream of finance for housing was important, given the vagaries of the NAHA and the pressure on public finances. Moreover from the perspective of the most obvious source of this finance, that is institutional investors who are looking for long-term stable and secure returns to fund pension liabilities, there is a need to reach out beyond government debt which itself is not sufficient, to support this substantial market. This is particularly urgent given that the Federal government has embarked on a medium-term fiscal strategy of generating budget surpluses to reduce public debt incurred during the Nation Building program of 2009–10. The case for new instruments had been recognised by government and the Reserve Bank and this provides the housing sector with an opportunity.

There was general agreement that institutional finance for social housing made sense, although it might need a degree of revenue subsidy to ensure that returns to investors are adequate (or it might be possible to lower costs of developments via controls or taxes on land). The argument was that the combination of the following was powerful in terms of making a bond or hybrid product an attractive investment:

- Good quality social housing for which there was a long-term demand and which could be created in pools of sufficient size to attract investors.
- Providing entities which were both regulated and underwritten by government in a variety of ways, including capital grants and revenue subsidy.
- Inflation-proofed payment streams based on rents plus any government rental assistance.
- As the above suggests, implicit and explicit government guarantee on parts of this package.
- This should allow the bonds to be priced above government debt but well below commercial bond rates.
- That in turn would allow lower (than current market) rents to be charged.



- This would create a new pool of assets to underpin stable long-term returns to institutional investors and their clients.
- It would give further momentum to the creation of large national highly professionalised social housing organisations who could secure efficiencies in both development and management.

This has considerable attractions addressing problems in two sectors. However, work has to be done to bring these assets to market in an attractive package and to ensure there is an appetite from investors. Although this would be a new market in Australia such bond financing is commonplace elsewhere, for example, Switzerland, Austria and the UK (see the Lawson et al. 2009 paper).

A large and buoyant superannuation industry in Australia harnessing some of that capacity to support wider social and economic objectives would be very attractive for a variety of reasons. The task now is to bring this to fruition—securing buy-in by institutions and preparing the social housing sector to deliver the required assets/income streams.

### **A safety net for home buyers?**

Given the relatively low level of mortgage default currently evident in Australia (and in previous years) there has been limited interest in what might be termed the 'safety net' for home owners compared to say both the UK and the USA where for slightly different reasons this is now a well-trod path. However, as is evident from the recent Berry, Dalton and Nelson report (AHURI July 2010) there has been an increase in the number of households in arrears—up from 23 000 at the end of 2008 to 27 000 in March 2010. It is recognised that rising interest rates will put additional pressure on households as evidenced by the Fujitsu 'Stress-o-Meter'. Whatever the arguments regarding this measure, the fact is that there are pressures and although numbers remain low at present, the impact upon households is still considerable, with households selling up/refinancing and drawing down on their superannuation funds.

It is worth going back to first principles to think what might be achieved through a safety net for home owners and how best it might be structured. This discussion draws upon a parallel debate in the UK and not least around the JRF Housing Market Taskforce.

### **Overall objectives**

Although it might be possible to create a complete safety net for owners, our current view is that any such structure can only really be justified in public expenditure terms if it focuses upon those experiencing a temporary loss of income, thus impacting upon their ability to sustain home ownership through that event. This makes a set of initial assumptions.

- The state has responsibility for the overall management of the economy and through which conditions for continuing employment are secured.
- The state will also have taken steps to ensure that the mortgage industry can supply adequate credit and in the right ways to ensure households are able to enter into sustainable home purchase contracts.
- Moral hazard remains important and owners cannot be protected from everything. They have to play a part in this process. However, they do not manage the economy, so where that fails them they might reasonably expect short-term support.
- Government might offer such support partly because it is short term and potentially outside of the control of households and because if they don't the

state will take on other costs—directly via rehousing or indirectly via a weakened housing market which might in turn damage the wider economy.

Our view is that short-term support to owners is both efficient and justified in equity terms. We also take the view that it is a shared responsibility across borrowers, lenders and government. Some support schemes focus on helping lenders, for example, mortgage indemnity insurance, but it is through this that access to mortgages and support when in difficulty (because the lender's exposure is protected by mortgage insurance, the lender is able to show forbearance) is secured. Alternatively, direct help to borrowers can help lenders and the economy in turn.

Any system put in place needs to work positively in relation to work incentives—the current UK system helps unemployed home owners but only with a very sharp withdrawal on return to full paid employment regardless of the wage secured. It also needs to cover all relevant households—opting in/out creates problems and increases costs for those involved. Given individual households benefit from the extra security given to the market as a whole, regardless of whether they become claimants, there is a good argument for making it 'compulsory' for all home buyers, although such structures need to come with safeguards regarding efficiency and moral hazards.

So if support is justified, how might it be delivered? There seem to be a number of different options in place around the world. These include the following.

- Restrictions on entry to home ownership with compulsory mortgage indemnity insurance above the LTV cap—this means controlled access and reduced impacts upon lenders if owners get into difficulty (and creates 'space' for lenders to work with borrowers). Canada operates such a scheme and it proved to be effective in the GFC in terms of reduced downward pressures.
- Unemployment, accident or sickness insurance via the state or privately, protecting buyers if they lose their job/cannot work. There are questions of eligibility and when such insurance is underwritten, for example, point of sale or point of claim with the latter bringing in the risk that they might not be eligible. There are also issues re take-up—the UK experience was that only 30–40 per cent of buyers bought it—and length of entitlement. There is also an issue here with the overlaps with other insurance, such as permanent health care and 'over-insurance'—there is a move toward a menu-driven product where buyers can chose the cover they require.
- Forbearance and mortgage rescue schemes have multiplied through the GFC with the USA developing a substantial loan remodelling program to deal with both poor lending, unemployment and negative equity. Borrowers are able to reduce their loan commitments and thus retain their ownership, with lenders being prepared to accept the write-down because they are still better off than if the property is sold through auction. There have been some practical difficulties where loans are securitised.
- In the UK the government has put in place both a loan modification program—extended lender forbearance for two years with government meeting most of the cost of any losses—and a 'mortgage rescue scheme' which helps failed borrowers stay in their homes as tenants. Such schemes as these are at the backend of the default process, along with a new court protocol which forces lenders to consider these options when seeking possession.
- Equity shares have emerged as a subset of these arrangements where a third party buys into the home in question, thus helping the household remain, while securing part of what is a devalued asset.

- In many ways the most common way of managing downward exposure is by moving and trading down. Obviously this depends upon market conditions and in the worst case there is little opportunity to exercise this option.
- With substantial reductions in the Central Bank interest rate around the world, many borrowers in difficulty have been saved by reduced payments and then in some cases they have been able to overpay and thus reduce their exposure going forward. In many respects base rate adjustments have been at the heart of the 'temporary' safety nets put in place and with rate rises being slow to be implemented in most countries, this has provided ongoing comfort and flexibility. Clearly not all households have been able to reduce their debt in any significant way, even though they have been able to sustain their ownership. If rates rise in the future they will remain exposed. The issues of over-exposure and levels of consumer debt/controls on debt have yet to be resolved.

What this brief review suggests is that there are a range of mechanisms with different costs and impacts which can be used at different points in the cycle of difficulty that might emerge for borrowers and markets. The table below seeks to capture the different routes in summary form.

<b>Scheme</b>	<b>Prevention of arrears</b>	<b>Dealing with failure</b>	<b>Comments</b>
Mortgage regulation	Product/process prescription limiting access/exposure/forcing lenders to adopt processes and procedures which allow borrowers to better manage debt problems	Clear requirements on lenders to explore options before/during any legal default process	Helps protect borrowers by limiting risks etc. and the market. However, better products/lending still can't stop problems arising
Mortgage advice	Helping borrowers understand what they are taking on and managing their loan when in place	Helping borrowers choose between the range of options when facing difficulties	Who will pay?
Insurance for borrowers	Protection against loss of income	Temporarily keeps up repayments	What length of cover? Possible work disincentives and moral hazard
Insurance for lenders	Puts limits on LTV advances	Protection against losses in default	Increases access to the market but does not provide a safety net as such
Forbearance schemes	Their existence acts as a caution to lenders	Slows arrears/possessions and allows time for recovery. For those who cannot pay the scheme below is an option	Helps deal with problems as they arise
Mortgage rescue schemes by which buyers become renters		Reduces the household impact of failure	Eases overhang on market in downturn
Lender protocols regarding 'responsible' lending	Useful at the margins?	Useful at the margins?	

Trading down/equity shares	Can assist borrowers better manage process		Limited appetite by both borrowers and funders?
Negotiated write-downs	Acts as a caution to lenders	Right to a write-down given specified fall with subsequent shared appreciation (or government pay down borrower debt)	Being explored in the USA
Right to rent		Switch to renting with bank becoming full owner/landlord	Being explored in the USA

As is evident from the table there are a range of options tackling slightly different problems. In our view there are a number of core components:

- A well-regulated mortgage market and a readily accessible and competent advice sector.
- Clear legal processes that ensure lenders' behaviour is fully tested in the event of borrowers getting into difficulty.
- A partnership scheme (funded by borrowers/lenders/government and structured to avoid perverse incentives and secure efficiencies) to deal with temporary loss of income (maximum of two years) so reducing impact on households/market (with, where relevant, lender having assisted borrower as far as possible beforehand in terms of forbearance/change of products).
- A scheme to deal with possession to reduce impact on households/market. We would need to decide which households flowed through to this and how (including both shared ownership and renting).

### **The thorny issue of taxation and transfers**

The panel discussed taxation and transfer-related issues at some length, covering negative gearing, FHOG, as well as capital gains tax, stamp duty and land tax. Partly this reflected concerns with the impacts of current transfers such as FHOG and negative gearing and their impact on the markets to which they are applied, but also as part of the wider discussion around volatility and sustainability, which lay at the heart of the panel's remit. Taxation was also one element of the Rowntree panel discussion, with some momentum toward recommending both reformed stamp duty and a new land tax, although the precise details of this have still to be resolved. The focus had been on seeking to produce housing market-related taxes that were either or both counter-cyclical and progressive, thus addressing the UK panel's core issues of sustainability and vulnerability.

Given the release of the final report of the Henry Commission into Australia's future tax system in May 2010, the AHURI panel had the advantage of recent thinking and analysis in this complex and contentious area. It was significant that the Henry report recommendations on land tax and conveyance stamp duty were part of the process, but the recommendation was that they should be replaced subject to a 'long transition to slow the valuation effects'. The Federal government in its initial response steered clear of any mention of these recommendations, with the implication that they were not for immediate consideration. The 2011 Tax Summit offers the possibility of re-opening this debate and the recent work by Yates (2010) is important here, offering a very clear exposition of current flows, impacts and alternatives.

It is significant that the Henry Commission focuses on affordability and the impact of current measures, but emphasises the role of housing supply and the role of reforms in this sector ‘after which the taxation of investment housing should be reformed to ensure a more neutral treatment of rental property’. Stamp duty was seen as a significant but volatile tax which discourages turnover and mobility (and of course is pro-cyclical in the sense that revenues rose alongside rising house prices and vice versa) while existing land taxes discouraged the building of investment portfolios by institutions. The FHOG transfer was capitalised into house prices and was pro-cyclical, while Commonwealth Rent Assistance helped support rents in the private sector.

As noted, the Henry Commission focuses more on affordability than macroeconomic effects and structural adjustments. This may partly reflect a view in Australia that the housing market is well founded—there is no bubble and that the authorities are ‘in control’ both via Reserve Bank interventions on rates, monetary policy and its so-called ‘open mouth’ operations and through tighter regulatory controls on banks. This is the conclusion reached by Lea in his review of mortgage finance systems in different countries (Lea 2010) and the Reserve Bank itself in its recent research discussion paper (Bloxham et al. 2010), although the International Monetary Fund has expressed a somewhat less benign view. In addition, there are unresolved issues of equity between households and tenures which clearly should be addressed as part of a wider view of the housing system.

Taxation and transfers are clearly a sensitive area but this does require some clear thinking which Yates has provided in her June 2010 paper ‘Housing and tax: the triumph of politics over economics’ an assessment of the current tax and transfer system and why this needs to be amended to take Australia closer to a fair and sustainable housing system.

The diverse but interrelated nature of these three large issues underlines the complexity of crafting policy that progresses a sustainable whole-of-housing system outcome, while reflecting a commitment to both the ideal aims and real-world constraints discussed above.

## **5 FUTURE DIRECTIONS: COLLABORATION WITH JRF?**

The three issues noted in Section 4.2.2 could each provide possible future areas of joint research efforts between AHURI and JRF. The three issues were explicitly raised in a discussion between Mike Berry, Peter Williams, Christine Whitehead and Kathleen Kelly (of JRF) in London on 8 September 2010, as worthy of joint research in 2011. One further topic of research was raised at that meeting, namely the impacts of regulatory change on the shape and operation of national residential mortgage markets, and the implications for access to and exit from owner occupation. It was felt that a comparison between the UK (especially England) and Australia would be particularly instructive, given the different states of their financial systems and mortgage markets and the likely different impacts of regulatory reforms to be negotiated through international institutions like the Bank of International Settlements and G20.

A further area of joint research could connect with AHURI's proposed new research program on socio-spatial disadvantage. Housing and related social policy changes introduced or mooted by the new Coalition government in the UK suggest that the impacts will vary substantially between and within regions. Areas of relative growth and decline, with associated major economic restructuring and social dislocation, may also arise in Australia over the next decade—but for quite different reasons, associated with the prospect of a 'two-tier economy'.

## **6 REFLECTIONS ON THE INVESTIGATIVE PANEL PROCESS**

The panel convenors posed a number of questions to panel members concerning the usefulness or otherwise of this panel and the panel process in general. The following summarises responses received and finishes with the views of the convenors. Quoted responses are not sourced.

### **6.1 How useful was this panel?**

A number of panel members thought that the process, especially the face-to-face forums were very useful:

- 'Protected time with colleagues across the various domains in strategic discussion improves the underpinnings of policy advice and the relevance of research.'
- 'As someone who is relatively new to housing it is really important to get out and talk to experts and hear a range of views as well as road test a few of our own. The investigative panel provided a fabulous opportunity to do that.'
- 'I thought the second panel [forum] was very worthwhile. I enjoyed the discussion, although it's a pity that some of those who were meant to be there weren't able to come in the end. The absence of any requirement for formal presentations I think helped the discussion flow more freely.'
- 'Perhaps the one thing that limited it was the lack of a burning bridge. I suspect that it would have been even more useful if the government was about to do something or had announced something concrete that could then be shaped or discussed by the panel.'
- 'As a panel member (as opposed to having the responsibility for distilling and writing a report around it) I found it incredibly informative ... I'm also weighing up the pros and cons of having such a strong 'inside' policy presence. Absolutely brilliant ... but maybe sometimes discussion became too pragmatic/too tied to the realities of government. I think on balance, you couldn't have done much better in terms of the line-up ... [that] helped spur useful discussion not only about the task at hand but also wider housing policy issues.'

Reservations concerned the limited scope for panel members to contribute outside the forum context. The Final Report could have focused more tightly on the issues and solutions/policy directions and less on the process; the final report [inevitably?] reflects the input of the panel convenors (Berry & Williams).

### **6.2 How useful is the panel process in general as a means of bringing (a) key issues to the surface and (b) practitioners and policy-makers together?**

In general, panel members thought the panel process beneficial, particularly with respect to interpersonal exchanges.

- 'The process did bring us to key issues and established context for the relationships between the issues. I appreciated the spirit with which the conversations were held. Bringing "thought leaders" to a broad consensus on next steps might be the most powerful strategy we can employ in the current context.'
- 'Very good on both counts, although it might be argued that because it was such a good environment for bringing said policy-makers and practitioners

together that the opportunity for broad engagement and sharing a bread of ideas was too good to miss—again making the task of keeping a focus harder.’

More succinctly and ambivalently:

→ ‘Excellent at (b) but I suspect we stayed too polite for (a).’

### **6.3 Should there be more face-to-face meetings during the panel process?**

There was some support for more meetings.

→ ‘For me the face-to-face meetings were the highlight and I would have benefited from more of them.’

→ ‘Yes, subject to not expecting too much of individual panellists.’

→ ‘I’d enjoy more meetings. Perhaps it’s possible to think about how to piggy back them on other events/conferences etc. I also wonder whether bringing in a Director-General Planning, a Director-General transport or a CEO Landcom/VicUrban might be valuable.’

But some caution:

→ ‘As a *volunteer* these were the best part but I’m not sure that more would be obtained from the process without a more formal contribution required.’

→ ‘No—I think early on the process/towards the end two panel meetings works well, and you did an excellent job of keeping the panel ‘live’ and informed in the interim.’

### **6.4 Should the panel run for longer (than the 10 months this time)?**

There was a range of views here.

→ ‘In a sense, the panels could be open—running for as long as members believed there was value in them. Alternatively, more targeted panels could be developed around particular issues— for example, transit-oriented development, community housing, the rental property market, etc.’

→ ‘I don’t think you could get people to meet more than once every six months as you did and I suspect the process would run out of steam if it ran longer unless there was a formal associated research agenda running alongside.’

→ ‘Yes. AHURI should run five–six panels in key research/policy/practitioner research areas (of which this area would be one) over a two-year cycle and use them as a mechanism to a) bolster and keep robust the agenda-setting process and responsiveness/connectivity of the research community and b) obviate some of the need for user groups tied to specific projects.’

→ ‘No.’

### **6.5 Should the panel have more formal input as in the JRF Taskforce process—for example, key issue or targeted research papers?**

Again, some variation of views was apparent.

→ ‘... most probably “yes” so that points of agreement and disagreement could be better identified.’



- ‘I like the notion of short targeted research pieces along the lines of [AHURI’s] research synthesis service, to provide input into the discussion process. Perhaps some data coming in from government or private sector partners would be possible.’
- ‘... I think the informality aided this particular process. There are plenty of other occasions for more formal presentations.’
- ‘I think so, but for that to be done as a panel, rather than both of you having to nut out the outputs, would become hard to coordinate and expensive and therefore unattractive to AHURI.’

## **6.6 Do you have any concrete suggestions for improving the panel process?**

- ‘There may be other perspectives worth bringing in— for example, community housing sector, especially not-for-profit community operators, institutional investors, mortgage providers, real estate agents.’
- ‘Depends on whether more funding is available. It would have been good to have more formal analysis and critique rather than just presentation of information. Maybe some greater focus on just what evidence there is to support the views espoused.’
- ‘I wouldn’t mess too much with the panel process because you might lose the essence of it. I strongly support keeping the model going to drive the consensus about the future—‘thought leaders’ need to stand up and be counted in complex times. The confidence one can derive from being well-grounded in the issues with colleagues can enhance the ability to drive agendas.’

## **6.7 Did you personally enjoy and benefit from this exercise?**

Both written and verbal responses provided a definite ‘yes’ to this question.

- ‘Absolutely—it was a wonderfully indulgent exercise and a real privilege to be able to discuss issues with such an informed cross-section of experts.’
- ‘I got a lot out of the exercise and I hope other participants feel the same way.’
- ‘Yes, very much.’
- ‘Of course!’

## **6.8 Final comments from the panel coordinators**

We would make the following comments on the panel process, both with respect to this particular panel and this approach to bringing participants together from across the broader policy environment.

- It is clear that people enjoy and feel that they get useful returns from involvement in such a process. This has, we think, much to do with the relative isolation that many actors in this sphere experience in their everyday working lives. To that extent the panel may form one (just one) of the means that a brokerage organisation like AHURI can contribute to facilitating better policy outcomes.
- An important facilitative device is the application of Chatham House Rules, since this frees participants to speak their minds and raise and debate contentious issues without fear of criticism later. However, it does limit to some extent the capacity of the coordinators to provide definite, transparent and well-supported general conclusions, even where (especially where) consensus is attained.

- Having a diversity of participants and at a senior level was very important, as was keeping the numbers relatively small. Resolving diary dates was a challenge as a consequence! We also think having a comparative element was helpful, as long as it was not allowed to dominate and in essence provided a contrast.
- We have mixed thoughts on the efficacy of targeted papers as formal inputs to the panel process. Clearly there are some advantages in providing background information, relevant data and a range of ideas to spark discussion and development of panel views. However, this might also undercut the spontaneity of participation, as well as impose greater demands on participants who currently donate their valuable time. It also has implications for (greater) AHURI funding.
- It is not clear to us (from this current exercise) what product AHURI wishes to generate from the process. This uncertainty follows from the experimental nature of the panel process. For example, is this report in the appropriate form for wider dissemination as a stand-alone publication? Or should an extended summary be published instead? Or should a report be crafted in the form of a JRF Viewpoints format? If so, more resources would be needed to support a more scholarly output. It may be useful for AHURI to operate several panel models, ranging from the formal to the informal. In the latter case, the primary output would be to maximise the quality of interaction between carefully selected panel members in order to facilitate greater collaboration, strategic vision and transparency in policy development.
- Trying to align AHURI and JRF objectives remains a challenge, partly because processes are so different and the mechanisms for bringing agendas together between two countries are quite weak. This remains an unanswered ambition and one we continue to work on. Our view is that selectively it has real merit and at present there is a coalescence of agendas around funding and sustainability which remains worth pursuing. This might not always be the case.

## REFERENCES

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- Bloxham, P., Kent, C. and Robson, M. (2010) *Asset Prices, Credit Growth and Other Policies: An Australian Case Study*, Research Discussion Paper 2010-06, Reserve Bank of Australia, Sydney, June.
- Lawson, J., Berry, M., Milligan, M. and Yates, J. (2009) 'Facilitating investment in affordable housing in Australia: towards an Australian model', paper presented to *Housing Studies Workshop on Housing Markets and Housing Finance*, Sydney.
- Lea, M. (2010) *Alternative Forms of Mortgage Finance: What Can We Learn From Other Countries?*, paper presented to Harvard Joint Center for Housing Studies National Symposium, Harvard Business School (February).
- Wood, G. and Ong, R. (2010) *What makes a landlord decide to invest and dis-invest in private rental housing*, Research and Policy Bulletin Issue 127, Australian Housing and Urban Research Institute, Melbourne.
- Yates, J. (2010) 'Tax expenditures and housing' in M. Stewart (ed.) *Housing and Tax Policy*, Conference Series No. 26, Australian Taxation Research Foundation.

# APPENDICES

## Appendix 1: Panel members

### *AHURI Investigative Panel*

Andrew Tongue, Deputy Secretary, Department of Families, Housing, Community Services and Indigenous Affairs, Canberra.

Ian Winter, Executive Director, Australian Housing and Urban Research Institute, Melbourne.

Martin North, Director, Fujitsu Consulting, Sydney.

Michael Lennon, CEO Housing Choices Australia, Melbourne

Saul Eslake, Program Director, Grattan Institute, Melbourne.

Ken Downie, Office of Housing, Department of Human Services, Melbourne.

Marcus Spiller, Principal, SGS Economics and Planning, Melbourne.

Paul McBride, Australian Treasury, Canberra.

Owen Donald Chair, National Housing Supply Council.

Christine Whitehead, London School of Economics and Political Science, London.

Judith Yates, Sydney University, Sydney.

Simon Pinnegar, University of NSW, Sydney.

(Luci Ellis. Reserve Bank of Australia, Sydney was not part of the panel but provided comments on circulated papers)

Panel coordinators:

Mike Berry, RMIT University, Melbourne

Peter Williams, University of Cambridge, London.

### *JRF Housing Market Taskforce*

The members of the Taskforce are:

Julia Unwin – Chief Executive of JRF

Kate Barker – Author of the Barker Review of Housing Supply

Dr Peter Williams – Director, Cambridge Centre for Housing and Planning Research

Keith Exford – CEO of the Affinity Sutton Group

Elaine Kempson – Professor of Personal Finance and Social Policy and Director of the Personal Finance Research Centre at Bristol University

## **Appendix 2: Circulated papers**

M. Berry and P. Williams, *Briefing Notes on Context and Key Issues: Future Housing Policy Challenges for Australia and the United Kingdom* (29 March 2010)

P. Williams, *Developments in the UK housing and mortgage markets – a brief update* (31 May 2010)

Council of Mortgage Lenders, *CML Market Commentary* (21 May 2010)

Chartered Institute of Housing, *Briefing Paper: The Queen's Speech and Public Expenditure Savings* (May 2010)

Joseph Rowntree Foundation, *JRF Housing Taxation and Subsidies Roundtable: Addressing housing market volatility: Can housing taxation smooth volatility?* (20 April 2010)

M. Oxley and M. Haffner, *Housing Taxation and Subsidies: International Comparisons and the Options for Reform*, JRF Housing market Taskforce (February 2010)

M. Lea, *Alternative Forms of Mortgage Finance: What Can We Learn From Other Countries?*, paper presented to Harvard Joint Center for Housing Studies National Symposium, Harvard Business School (February 2010).

J. Yates and M. Berry (2010) *Housing and Mortgage Markets in Turbulent Times: Is Australia Different?* (paper submitted to Housing Studies, June 2010)

Council of Mortgage Lenders, *An evidence-based review of MMR proposals on responsible lending* (5 October 2010)

Council of Mortgage Lenders, *Deep impact: how many good borrowers is regulation prepared to exclude?* (5 October 2010)

## Appendix 3: Agenda for Forum 1 (2 July 2010)

Investigative Panel: Towards a Sustainable Housing Policy

Friday 2nd July Forum

RMIT University, Building 15, Level 3, Room 03 (10 am – 6:30 pm)

(124 Latrobe St., Melbourne)

### Agenda

1. What do we mean by 'a sustainable housing system?' 10:15 am
  - Implications for tenure structure
  - Are current policy settings adequate?
  - If not, what should they be?
2. How can policy-makers encourage growth in the supply of affordable housing? 11:15 am
  - Which households should be targeted? Why??
  - What time period are we talking about?
  - What policies are needed? How should they be sequenced?
  - Is it enough to increase new supply and/or should we be addressing the distribution/allocation of the total stock? If the latter, how?
- LUNCH 12:30 pm
3. What are the mutually reinforcing links between economic inequality housing tenure, socio-economic segregation, changing urban form, increasing environmental stress and the real costs of living (in place)? In the Australian context:- 2:00 pm
  - Can governments *realistically* intervene—to improve equity and efficiency outcomes?
  - Are there strategically opportune entry points to begin to unravel the complex interactions?
  - Are there any applicable international guides here?
  - What would we need to know in order to make progress on this front?
- Afternoon Tea 3:30 pm
4. How will Australian housing policy be impacted by continuing volatility in global financial markets? 4:00 pm
  - What are the implications for housing finance?
  - Will Australia continue to be lightly touched by global volatility?

- To what extent will mooted regulatory changes in other nations' financial systems change the situation for Australian institutions as related to housing finance?

5. International hook-up: PW and CW from London

5:00 – 6:30 pm

FINISH

6:30 pm

## Appendix 4: Agenda for Forum 2 (3 November 2010)

Investigative Panel: Towards a Sustainable Housing Policy for Australia

Wednesday 3rd November

RMIT University, Building 15, Level 3, room 03 (9:30 am – 5:30 pm)

(124 Latrobe Street, Melbourne)

### *Agenda*

- |   |          |
|---|----------|
| 1. Introduction   | 9:30 am  |
| 2. Report on Joseph Rowntree Foundation Housing Market Taskforce: and implications for Australia (Peter Williams). Discussion on how Australian situation compares.   | 9:35 am  |
| Morning Tea   | 10:30 am |
| 3. Key housing issues facing Australia over the next decade (1): Discussion led by Martin North, Saul Eslake and Luci Ellis. [we suggest that Saul, Luci and Martin might focus on structural issues and longer-term solutions]                             | 10:45 am |
| LUNCH   | 12:30 am |
| 4. Key housing issues facing Australia (2): Discussion led by Andrew Tongue, Michael Lennon and Paul McBride. [We suggest that Andrew, Michael and Paul focus on shorter term problems and solutions in the context of current policy/political parameters] | 1:30 pm  |
| Afternoon Tea   | 3:00 pm  |
| 5. The role of research in guiding new policy directions (general discussion led by Ian Winter and Owen Donald)   | 3:15 pm  |
| 6. Developing THREE housing policy directions for government (general discussion led by Mike Berry and Peter Williams)  | 4:00 pm  |
| FINISH  | 5:30 pm  |

Note: Dinner for those who can attend, where further ideas can be discussed in an informal environment.



## **AHURI Research Centres**

AHURI Queensland Research Centre

AHURI RMIT Research Centre

AHURI Southern Research Centre

AHURI Swinburne-Monash Research Centre

AHURI UNSW-UWS Research Centre

AHURI Western Australia Research Centre

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