



RBR 1/00 Public Housing in Queensland: State Housing Amendment Bill 2000

The State Housing Amendment Bill 2000 was introduced in the House on 29 February 2000. In the second reading speech the Minister stated that the primary aim of the Bill is to provide the Queensland Housing Commission with the authority to offer a broader range of housing loans to borrowers than it is presently able to offer.

This Brief provides background statistics on public housing as provided by the Australian Bureau of Statistics and Housing Queensland, as well as information generally on housing affordability.

The new loan arrangements that are to apply under the Bill will only apply to loans that are taken out after the commencement of the Act. Loans outstanding at that time will continue to be calculated under the existing interest rate setting arrangements (**Clause 8**).

The main matter of the Amendment Bill is the standard interest rate policy (**Clause 7**). This policy is to be the subject of a regulation under the *State Housing Regulation* and is to prescribe the method by which standard interest rates are to be determined.

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1. COMMONWEALTH / STATE HOUSING AGREEMENT

A new housing agreement between Queensland and the Commonwealth has been signed for the financial years 1999/00 to 2002/03. Under the Agreement the estimated assistance from the Commonwealth to Queensland is:

1999/2000	\$182.4 million
2000/2001	\$180.5 million
2001/2002	\$178.7 million
2002/2003	\$176.9 million ¹

Housing policy is now being generated with a national perspective of coordination whereas previously, policy development and implementation lay with the individual State Housing Ministers.

Since 1994 reform has been under the control of the Council of Australian Governments (COAG). COAG has endorsed a framework that the States will work within that would see a shift in housing assistance away from public provision to a reliance upon the private sector.²

An objective of the new approach under the Agreement is to allow the States greater flexibility to deliver housing programs which increase consumer choice.³

Under the current Agreement the responsibilities of the two levels of government are:

- The Commonwealth accepts responsibility for housing affordability by restricting its role to the provision of income support.
- The States have responsibility for the management and delivery of public housing services.⁴

¹ Peter Osterhage, "New Housing Agreement Under Fire", *Queensland Master Builder*, June 1999 p 15.

² Monica Wolf, "Low-Income Housing Blues", *Consuming Interest*, Autumn 1997, p 24.

³ Monica Wolf, "Low-Income Housing Blues" p 24.

⁴ Monica Wolf, "Low-Income Housing Blues" p 24-25.

2. STATE HOUSING AMENDMENT BILL 2000

The State Housing Amendment Bill 2000 was introduced in the House on 29 February 2000. In the second reading speech the Minister stated that the primary aim of the Bill is to provide the Queensland Housing Commission with the authority to offer a broader range of housing loans to borrowers than it is presently able to offer.⁵

The new loan arrangements that are to apply under the Bill will only apply to loans that are taken out after the commencement of the Act. Loans outstanding at that time will continue to be calculated under the existing interest rate setting arrangements⁶ (**Clause 8**).

The main matter of the Amendment Bill is the standard interest rate policy (**Clause 7**). This policy is to be the subject of a regulation under the *State Housing Regulation* and is to prescribe the method by which standard interest rates are to be determined.

3. NEW STATE HOUSING LOAN

In October 1999 the Minister for Public Works and Minister for Housing foreshadowed that a new state housing loan would be introduced after amendments had been made to the *State Housing Act 1945* to allow for its introduction.⁷

The new loan will be available to those already renting public housing, those waiting to rent public housing and those wanting to purchase a Housing Commission home. These new loans will have the following features:

- Mortgage insurance fees may be waived.⁸
- Improvements made to Housing Commission properties by tenants who apply to buy will be financially recompensed through the loan arrangements.⁹

⁵ Hon RE Schwarten MLA, State Housing Amendment Bill, *Queensland Parliamentary Debates*, 29 February 2000, p 53.

⁶ Hon RE Schwarten MLA, State Housing Amendment Bill, p 54.

⁷ Hon RE Schwarten MLA, Questions Without Notice, 'Public Housing', *Queensland Parliamentary Debates*, 29 October 1999 p 4607.

⁸ Hon R Schwarten MLA, Minister for Public Works and Housing, 'Sales program funds new projects', Ministerial Media Statement, 2 November 1999.

⁹ Hon R Schwarten MLA, 'Sales program funds new projects'.

- For the first 5 years of the loan the interest rate level will be 1% lower than the average variable rates offered by banks. After that period, upward increments of 0.5 % will occur until the average rate offered by the banks is reached.¹⁰
- Loans of up to a maximum of \$115,000 over 25 years would be available to approved borrowers.¹¹

Borrowers under the new loan arrangements will pay the standard interest rate on the unpaid balance of their loan (**Clause 7**).

A similar type of housing loan policies for low income earners has been in use in the United Kingdom since 1980. The “Right to Buy” program backed by legislation was described as a success as the level of occupier ownership in the United Kingdom rose from 54% in 1979 to 67% in 1990.¹²

4. HOUSING AFFORDABILITY

The provision of public housing for those on lower incomes has always been an important concern for State governments. Australia has had in the past one of the highest rates of home ownership in the world with around 26% of households in the process of buying their own homes with another 44% already owning their own home.¹³

There is more than one reason for this trend but affordability is always a consistent factor that contributes to the level of home ownership. Affordability is determined by a combination of price, interest costs and the level of income.¹⁴

Families and singles on low incomes are the first to be adversely affected by rising housing costs no matter what the underlying cause happens to be.

Home loan interest rates affect all householders who have a mortgage. Research has shown that a number of consequences result from increased interest rates that contribute to a downturn in affordability. These consequences include:

¹⁰ Hon RE Swarten MLA, *Queensland Parliamentary Debates*, 29 October 1999, p 4607.

¹¹ Hon RE Swarten MLA, p 4607.

¹² Barbara Schmitter Heisler, “Housing Policy and the Underclass: The United Kingdom, Germany, and the Netherlands”, *Journal of Urban Affairs*, Volume 10 (3) 1994, p 209.

¹³ ‘Housing: only for the better off?’, *Social Action*, (173) June 1997, p 4.

¹⁴ ‘Housing: only for the better off?’, p 4.

- Family plans are changed with the purchase of cheaper dwellings requiring smaller loans. The possibility of future rate rises will contribute to this in order that there be spare capacity for repayments to cover interest rate rises.
- Purchase of the first home will be postponed in order to accumulate a larger deposit.
- Moving into a better dwelling will be delayed.
- Young people will postpone leaving the parental home.¹⁵

The Australian Consumers' Association believes that reforms must recognise the central role that housing has to play in the reduction of poverty and ensuring a decent standard of living. From this perspective, the issues of affordability, adequate supply, and home ownership for low-income renters can be addressed effectively.¹⁶

The Director-General of the Department of Housing in an article written for the Urban Development Institute of Australia has argued that affordable housing is housing that costs low-income earners a maximum of 30% of their gross income on rent.¹⁷ This figure is also subscribed to by the Australian Housing and Urban Research Institute.

The Director-General went on to say that the goal is the provision of affordable housing within a system that shows fewer distinctions between provision in the private sector and public sector.¹⁸

It would not be unrealistic to see an equivalent percentage level for income expenditure for home loan borrowers as a 25%-30% figure is also a general rule followed by private sector lenders.¹⁹

Those who are spending more than 30% of their income on housing payments are deemed to be spending disproportionate amounts on housing and are likely to face housing affordability problems.²⁰

¹⁵ "Its harder to buy housing", *Social Action*, (147) February 1995 p 4.

¹⁶ Monica Wolf, "Low-Income Housing Blues", *Consuming Interest*, Autumn 1997, p 26.

¹⁷ Linda Apelt, "Affordable Housing – Part 1", *Urban Developer*, Summer 2000, p 8.

¹⁸ Linda Apelt, *Urban Developer*, Summer 2000, p 9.

¹⁹ "Housing: only for the batter off?", *Social Action*, (173), June 1997 p 4.

²⁰ John Minnery and Emma Greenhalgh, "Housing Beyond the Capitals", *Urban Policy and Research*, 17(4) December 1999, p 320.

BIS Shrapnel forecast that house prices in Brisbane could rise by as much as 40% over the next 15 years, pricing more lower-income earners out of the private ownership market.²¹

5. MORTGAGE INSURANCE AND INTEREST RATES

Mortgage insurance is an important financial product for most home buyers but for low income earners it is essential. **Section 31** of the *State Housing Act 1945* authorises the Queensland Housing Commission to impose special conditions on its advances to borrowers. **Section 31** would cover the imposition of mortgage insurance.

There are basically two types of mortgage insurance. Firstly, there is the type of insurance that protects lenders from any capital loss when borrowers default on their loans. This type of insurance does not keep borrowers in their homes as they are not the ones covered by the insurance.

Secondly, there is the type of mortgage insurance that protects borrowers; ie income insurance. Irrespective of what type of insurance is used it is financed by an additional charge levied on the borrower.²²

It is proposed that mortgage insurance fees be waived in the new policy.

5.1. THE INFLUENCE OF INTEREST RATES ON AFFORDABILITY

The information below on housing loans is offered by way of background material.

In the initial years of the loan period, interest repayments consume the largest proportion of repayments. For example in the first year of a \$100,000 loan at 10% over 25 years, 90% of the repayments go toward interest repayments for that year. For the first year at 7% the interest charge would account for 82% of the repayments and for a 5% loan the interest charge would account for 70% of the repayments in the first year.²³

²¹ Andrew Beer, "What Housing Future?: Housing and Housing Assistance into the Next Millennium", *Parity*, 12(4) 1999, p 10.

²² Judith Yates, "Housing and Home Ownership: Current Prospects for New Families", Paper prepared for Housing Forum: *A Place to Live, Family Policy and Housing Policy: The Essential Links*, Hosted by the National Council for the International Year of the Family and the National Advisory Committee on Housing and Urban Development, Canberra 30 August 1994.

²³ Stephen Barber, *Home Loans: Size, Interest and Repayments*, Research Note No 15 1997/98, Department of the Parliamentary Library, Canberra.

The higher the interest rate the higher the proportion paid on interest in the early years and the more years before more of the repayments go toward reducing the principal.

For instance when \$100,000 is borrowed at 5% over a 25 year period with the interest being calculated and paid monthly on the unpaid balance of the loan it will take 12 years before the monthly repayment is equally split into repaying the interest and the capital. At an interest rate of 7% over the same period it will take 16 years and for an interest rate of 10% it will take 19 years.²⁴

A \$100,000 loan taken out at 7% over 25 years will result in a total repayment over the loan period of \$214 500.²⁵ If the interest rate falls then the total repayment amount would be smaller but if it increases the total repayment would be larger.

If the affordability figure of 30% of income (mentioned in this Legislation Brief) is adopted by the Queensland Housing Commission then borrowers would need to be earning somewhere in the vicinity of \$26,000 per annum to be able to afford a \$100,000 loan at 7% over 25 years. This income figure would be higher if the interest rate was higher.

For many years the private sector banks have worked on 25% of income as an affordability level. This 25% level would mean that a borrower would have to be earning approximately \$34,000 per annum to repay a \$100,000 loan at 7% over 25 years.

The figures in **Table 1** at the end of this paper indicate the approximate annual income that would be required to obtain a loan at the 25% and 30% affordability levels for various loan amount at various interest rates over 25 years.

²⁴ Stephen Barber, *Home Loans: Size, Interest and Repayments*.

²⁵ Stephen Barber, *Home Loans: Size, Interest and Repayments*.

Australian Bureau of Statistics figures show that in 1997-1998 the break-up of housing costs for the population of Brisbane were²⁶:

Housing Costs as % of gross income	Percentage of Brisbane Population
25% or less	75.6%
26%-30%	6.6%
31%-50%	11.4%
More than 50%	5.7%

In 1997-1998 the mean housing cost as a proportion of gross income for the 33,400 Housing Commission renters in Brisbane was 15.28%. In that same year the recorded mean weekly income for renters of Housing Commission dwellings in Brisbane was \$399 (\$20,748 per year).²⁷

5.2. ABS STATISTICS OF OCCUPIED PRIVATE DWELLINGS

The rate of ownership of occupied private dwellings in Queensland fell only marginally between the census of 1991 and the census of 1996.

The categories of “outright ownership” and “part ownership with a mortgage” accounted for 64.60% of all occupied private dwellings ownership in 1991. By 1996 this figure had only fallen marginally to 63.42%. This represented a fall of 1.18% over the period.²⁸

Had the 1991 trend continued into 1996 there would have been approximately another 14,200 prospective home owners across the State under these two categories.

The increase in the State median housing loan repayments between 1991 and 1996 (\$543 to \$800) far exceeded the increase in the median weekly rent (\$106-\$125).²⁹

²⁶ Australian Bureau of Statistics, *Housing Occupancy and Costs 1997-1998*. Table 17 p 31.

²⁷ Australian Bureau of Statistics, *Housing Occupancy and Costs 1997-1998* Table 16 p 30.

²⁸ Australian Bureau of Statistics, *1996 Census of Population and Housing: Selected Social and Housing Characteristics Australia*, July 1997, Table 2 p 27 Cat. No. 2015.0

²⁹ Australian Bureau of Statistics, Table 2 p 27.

This factor alone would have made renting a more attractive proposition to many who would have been contemplating ownership.

Commensurate with the decline in the percentage of home ownership in Queensland compared with the national average there has also been a decline in the proportion of housing finance for owner occupation as a percentage of the national total.

In recent times the strongest period was 1992-1993 when Queensland accounted for 21.1% of the national total of housing finance. Since then it has declined to a level of 15.4% in 1997-1998 which is trending back to the 14.5% level of 1987-1988.³⁰

5.3. ABS PUBLIC HOUSING STATISTICS

During the 1990s the number of persons waiting on the public housing waiting list was trending upward. The recorded waiting lists were³¹:

1992-1993	23,200
1993-1994	27,700
1994-1995	28,500
1995-1996	29,000
1997	25,800

The public sector rental dwelling stock pool in Queensland rose from 47,000 in 1992-1993 to 58,300 in 1997.³²

The number of applicants accommodated annually has remained fairly constant since 1992-1993. Since that time the Queensland Housing Commission has assisted somewhere between 10,000 and 11,000 applicants annually from the housing waiting list for accommodation, the lowest being 10,100 in 1994-1995 and the highest being 10,900 in 1993-1994.³³

³⁰ Queensland Government Statistician, *Compendium of Queensland Statistics 1998*, Table 6.4 p 89.

³¹ Australian Bureau of Statistics, *Australian Social Trends*. Various Issues 1995 to 1999 Cat No 4102.0

³² Australian Bureau of Statistics, *Australian Social Trends*. Various Issues 1995 to 1999. Public sector dwelling stock is defined as those rental dwellings held by State and Territory housing authorities.

³³ Australian Bureau of Statistics, *Australian Social Trends*. Various Issues 1995 to 1999.

5.4. STATISTICS FROM HOUSING QUEENSLAND ANNUAL REPORT 1998/99

In its first Annual Report for the 1998/99 financial year, the newly created entity Housing Queensland provides the following statistics:

- The Department provided bond loans to 16,614 households, enabling them to access private rental housing
- The Department provided 8,803 new tenancies to families and people in need of housing, bringing the total number of tenants in public housing at 30 June 1999 to 48,504.
- Some 8,500 households received interest subsidies or lease payment subsidies to help them afford their homes, and 1897 households were able to pay out their housing loans with 717 of these able to refinance with the private sector.
- Mortgage Relief Loans were provided to 52 households to help people experiencing short-term financial difficulties to make their home loan repayment commitments.

**TABLE 1 –
PART A - 25% AFFORDABILITY RATE**

Source: Adapted from Stephen Barber, "Home Loans: Size, Interest and Repayments"
Research Note, No 15 1997/98, Department of the Parliamentary Library, Canberra.

25% Affordability Rate Over 25 Years

6% interest rate

\$ Loan	Monthly repayment	Annual Income Required
50,000	322	15,456
60,000	387	18,576
70,000	451	21,648
80,000	515	24,720
90,000	580	27,840
100,000	644	30,912

25% Affordability Rate Over 25 Years

7% interest rate

\$ Loan	Monthly repayment	Annual Income Required
50,000	353	16,944
60,000	424	20,352
70,000	495	23,760
80,000	565	27,120
90,000	636	30,528
100,000	707	33,936

25% Affordability Rate Over 25 Years

8% interest rate

\$ Loan	Monthly repayment	Annual Income Required
50,000	386	18,528
60,000	463	22,224
70,000	540	25,920
80,000	617	29,616
90,000	695	33,360
100,000	772	37,056

25% Affordability Rate Over 25 Years

9% interest rate

\$ Loan	Monthly repayment	Annual Income Required
50,000	420	20,160
60,000	504	24,192
70,000	587	28,176
80,000	671	32,208
90,000	755	36,240
100,000	839	40,272

**TABLE 1 -
PART B - 30% AFFORDABILITY RATE**

30% Affordability Rate Over 25 Years

6% interest rate

\$ Loan	Monthly repayment	Approx Annual Income Required
50,000	322	12,751
60,000	387	15,325
70,000	451	17,859
80,000	515	20,394
90,000	580	22,968
100,000	644	25,502

30% Affordability Rate Over 25 Years

7% interest rate

\$ Loan	Monthly repayment	Approx Annual Income Required
50,000	353	13,978
60,000	424	16,790
70,000	495	19,602
80,000	565	22,374
90,000	636	25,185
100,000	707	27,997

30% Affordability Rate Over 25 Years

8% interest rate

\$ Loan	Monthly repayment	Approx Annual Income Required
50,000	386	15,285
60,000	463	18,334
70,000	540	21,384
80,000	617	24,433
90,000	695	27,522
100,000	772	28,591

30% Affordability Rate Over 25 Years

9% interest rate

\$ Loan	Monthly repayment	Approx Annual Income Required
50,000	420	16,632
60,000	504	19,958
70,000	587	23,245
80,000	671	26,571
90,000	755	29,898
100,000	839	33,224

APPENDIX A – MINISTERIAL MEDIA STATEMENT

Sales program funds new projects

The Hon. Robert Swarten MLA

Minister for Public Works/Housing

2 November 1999

Minister for Public Works and Housing, Robert Swarten, says a planned scheme allowing public housing tenants to buy Department of Housing dwellings will help fund future projects similar to new seniors units at Smithfield.

Mr Swarten said the new home purchase scheme - expected to start next year - was designed to boost home ownership levels as well as generate funds to help provide new or upgraded public housing.

The Minister and the Member for Barron River, Lesley Clark, today inspected progress on 10 seniors units in Mt Millman Drive at Smithfield. The development- providing four, one-bedroom and six, two-bedroom units - is being built by CMC Cairns at a cost of more than \$700,000.

Ms Clark said the units were expected to be completed by the end of the month. "The new Department of Housing seniors units will help meet a real need for high-quality accommodation for elderly people in our local area," she said.

"There are more than a dozen applicants for public housing seniors units at Smithfield dating back to 1992."

Mr Swarten said the proposed owner/occupied home loan product announced last week would be restricted to:

- tenants wanting to buy their current public rental property,
- tenants wishing to buy an alternative and available public housing property,
- eligible waitlisted applicants wanting to buy an available public housing property;
- and other purchasers currently not assisted by the public rental program who wished to purchase an available public housing property.

The scheme would provide loans up to a maximum of \$115,000 over 25 years. About \$20million could be made available to finance at least 200 home purchases in the first year of the new scheme.

“Funds will be sourced from within the existing home lending program of the Department and profits re-invested in the public housing system,” Mr Schwarten said.

Mr Schwarten said for existing tenants and those on the wait list it would provide:

- a concessional interest rate for the first five years with safeguards against steep rises while passing on drops in interest rates,
- a deposit assistance grant of half the minimum required amount of five percent of the sale price,
- a grant to recognise the value of property improvements provided by a tenant,
- the waiving of mortgage insurance fees -a saving of close to \$900, and
- \$100 reimbursement towards compulsory independent financial advice.

Public tenants and waitlisted tenants will also receive \$1,000 to assist with the costs of legal fees, and the waiving of application and transfer fees.

For the first five years of the loan:

- the initial interest rate would be capped at one percent below the Department of Housing’s standard variable interest rate, which itself was aligned to the rounded average of the four major banks,
- the initial rate would be effectively fixed for the first five years of the loan,
- if the department’s rate fell below the initial rate during the first five years, the borrower would pay the lesser rate.

Mr Schwarten said amending legislation to set up the new program should be ready for consideration in the new year and performance of the scheme would be reviewed after 12 months.

Further information: 3237 1832.

APPENDIX B – NEWSPAPER ARTICLE

Loan plan to tempt tenants.**By Brendan O'Malley****The Courier Mail, p.3****30 October 1999**

PEOPLE who rent public housing will be offered cut-price loans from early next

year to encourage them to buy the properties in which they live.

Mortgage insurance fees would be waived, saving potential home owners up to \$900, tenants would be rewarded for property improvements and granted generous deposit assistance.

The offer would be restricted to tenants or tenants on waiting lists who want to buy their own home or another vacant Housing Commission home.

People who were not public-housing tenants but wanted to buy a Housing Commission home could also apply.

Under the \$20 million scheme, announced in State Parliament yesterday, tenants would be offered interest rates 1 percent lower than the average variable rates offered by the major banks.

The Government promised there would be no repetition of the disastrous Home Ownership Made Easy scheme.

The sharp drop in interest rates in the mid-1990s saw low-income people in the

scheme saddled with fixed-interest loans well above market rates.

The proposed home loan product would provide loans up to a maximum of \$115,000 over 25 years.

Housing Minister Robert Swarten estimated the offer would help as many as 1200 public housing tenants who were effectively paying off the equivalent of a home loan in rent.

“Only some 64 percent of Queenslanders own their own homes.

That is something of concern to this Government,” Mr Swarten said.