

INDIGENOUS BUSINESS AUSTRALIA

Submission to Affordable Housing Inquiry

Aboriginal and Torres Strait Islander home
ownership

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Executive Summary

Aboriginal and Torres Strait Islander Australians face systemic barriers to home ownership that warrant specific consideration within this inquiry. While Indigenous home ownership participation has risen from 26 per cent in 1971 to 37.4 per cent in 2011, it is still significantly below the 69.6 per cent rate for other Australian households.

Aboriginal and Torres Strait Islander people derive significant financial and non-financial benefits from home ownership if given the opportunity. This is particularly significant in light of efforts to address Indigenous disadvantage and underlines the importance of having targeted measures to increase Indigenous home ownership.

Home ownership contributes to the broader employment and social inclusion picture for Aboriginal and Torres Strait Islander people. Our research has found that owning a home brings feelings of autonomy and security, creates a strong incentive for long term sustainable employment and higher wage growth for the main job-holder; and encourages children of Indigenous home-owners to gain a job themselves and to aspire to own their own home. Research also suggests mental and physical health and improved educational outcomes are associated with home ownership.

The direct economic benefits for the individual and families are also significant. Home ownership provides a critical pathway to increased personal wealth, retirement savings, and equity for business ownership or other investment.

The affordability and broader challenges of Indigenous home ownership vary according to geographic zones, so different strategies are required to address the overall gap in Indigenous home ownership.

Indigenous Business Australia (IBA) administers the Australian Government's Indigenous Home Ownership Program (IHOP), which is aimed at addressing the barriers to affordability across Australia. There is also a range of State and Territory government targeted programs that assist Aboriginal and Torres Strait Islander home buyers, such as stamp duty exemptions or discounts, shared equity schemes, concessional interest loans, and public housing tenant sales schemes. Additionally, there are specific strategies in place in some jurisdictions to

address the particularly complex barriers to home ownership on Indigenous land and in discrete remote Indigenous communities.

IBA uniquely addresses a market segment not currently serviced by mainstream banks and financial institutions. IBA provides targeted concessional home loans and other support to Indigenous Australians who have the capacity to repay a long-term loan but are unable to secure finance from a bank or other home lending institution. It focuses on people in greatest need and is slanted at first home buyers in regional areas. In addition to concessional loans the high level case management support provided to clients is the other essential element in IHOP's success.

To enable IBA to operate in this high risk market segment, its regulatory framework is different to that of banks and other financial institutions. In particular, IBA is exempt from the majority of the *National Consumer Credit Protection Act 2009* (NCCP) in recognition of the high risk profile of IBA's customer segment compared to the general population.

The likelihood of increasing pressure on Indigenous home ownership affordability, including through demographic effects of a faster growing and younger Aboriginal and Torres Islander population, underlines the need to augment IHOP and other existing measures that address the disparity between Indigenous and non-Indigenous levels of home ownership.

For Aboriginal people at the margins of home affordability, having access to the First Home Owner Grant (FHOG) and stamp duty concessions has made the difference being trapped as renters in social housing versus having home ownership. The decisions by some jurisdictions since 2011 to change their First Home Owners Grants and stamp duty concession schemes, especially by reducing or abolishing the grant for the purchase of existing homes, has had a significant adverse impact on the ability of Indigenous Australian to obtain finance from commercial lenders and/or IBA.

Fewer people will be able to be assisted by IBA and/or the banks. In effect, the discontinuation of FHOG and stamp duty concessions to buyers of existing homes incurs a significant opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership. In the long term, this cost is

compounded by the intergenerational effect - including retarding wealth accumulation and retirement savings.

Targeted application of FHOG and stamp duty relief to low to middle income Indigenous Australians by all jurisdictions would be consistent with all governments' commitments to increase Indigenous home ownership and to the overall commitment to addressing Indigenous disadvantage. It would also complement government and corporate efforts to increase Indigenous employment. Because of the small size of the Indigenous population compared to the overall population, providing grants and stamp duty concessions would not have the same inflationary and other distortionary effects on the housing market as has been argued in relation to the general application of concessions or subsidies.

Given the proportion of Indigenous households in social housing (30 per cent overall and 80 per cent in remote areas), IBA strongly believes and advocates for governments to continue initiatives and strategic directions for enabling the transition to home ownership as outlined in the Select Committee on Housing and Homelessness' *Indigenous Home Ownership Paper*.

Summary of Recommendations

1. In order that the gap in Indigenous home ownership does not increase it is critical that governments seek to augment existing market gap measures, such as the national Indigenous Home Ownership Program (IHOP) and state and territory government targeted programs. In particular:

- a. All jurisdictions should target application of the First Home Owners Grants and stamp duty relief to low to medium income Indigenous Australians regardless of whether they are purchasing an existing or new home. This will facilitate more Indigenous Australians being able to access home loans from mainstream financial institutions, in addition to those who may qualify for IBA assistance.
- b. IBA recommends that state and territory government strengthen the focus on support mechanisms that facilitate transfer of social housing into private ownership. Moreover, IBA encourages closer collaboration between state and territory government programs and loan providers, including IBA, to strengthen the pathway between social housing rental and home ownership. This builds on the coordinated

initiatives and strategic directions for enabling the transition to home ownership as outlined in the Select Committee on Housing and Homelessness' *Indigenous Home Ownership Paper*.

- c. The sale prices for government funded new houses and existing social housing stock offered for private sale in remote discrete Indigenous communities, should be set at realistic levels, so that there is reasonable security over a loan and there is a real chance of houses being bought and sold, enabling a housing market to evolve..

Introduction

This submission seeks to highlight **home ownership affordability** issues currently facing Aboriginal and Torres Strait Islander Australians. While many of these issues are similar in nature to the affordability issues experienced by all Australians, there are some systemic barriers to home ownership for many Indigenous Australians, which warrant specific consideration within this inquiry.

This submission examines the interface of policies and strategic directions in Indigenous affairs with mainstream housing policies and suggests where enhancements may need to be made so that governments can continue to support Indigenous home ownership aspirations to the maximum extent possible. The focus is on home ownership as this comes within Indigenous Business Australia's area of responsibility and experience through its operation of the Australian Government's Indigenous Home Ownership Program (IHOP).

The *Indigenous Home Ownership Paper*¹ endorsed by Housing Ministers at the 28 March 2013 meeting of the Select Council on Housing and Homelessness provides a comprehensive summary of current measures and policies as well as future directions for better enabling Aboriginal and Torres Strait Islanders to buy a home. This IBA submission draws on evidence and directions from this previous work, with particular focus on the following terms of reference of the current inquiry:

- (a) the role of all levels of government in facilitating affordable home ownership and affordable private rental, including:
 - (i) the effect of policies designed to encourage home ownership and residential property investment,
 - (ii) the taxes and levies imposed by the Commonwealth, state, territory and local governments,
 - (vi) the operation and effectiveness of rent and housing assistance programs

¹ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*. Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

² Altman, J.C., Biddle, N., Hunter B. 2004. *Indigenous Socioeconomic Change 1971-2001: A Historical Perspective*, Discussion Paper No. 266/2004, Centre for Aboriginal Economic Policy Research, ANU. Table 1,

- (b) the impacts, including social implications, of public and social housing policies on housing affordability and the role of all levels of government in providing public and social housing;
- (d) the contribution of home ownership to retirement incomes;
- (e) the implications for other related changes to Commonwealth government policies and programs, including taxation policy, aged care, disability services, Indigenous affairs and for state and territory governments;
- (m) the role and contribution of the community housing sector in delivering social and affordable renting housing;
- (n) the need to increase the supply of accessible and adaptable housing, and housing that is culturally appropriate;

IBA's statutory role and purpose

IBA is an independent Commonwealth Statutory Authority operating within the portfolio of the Department of Prime Minister and Cabinet.

IBA was created to assist and enhance the economic development opportunities of Aboriginal and Torres Strait Islander people across Australia. Its purpose and functions are set out in the *Aboriginal and Torres Strait Islander Act 2005* (the ATSI Act), which requires IBA to accumulate and use a substantial capital asset base for the benefit of Aboriginal and Torres Strait Islander people and to engage in commercial activities to promote self-management and economic self-sufficiency.

In pursuit of these functions, IBA operates a holistic set of economic development programs spanning home ownership, business development and larger scale investments.

Of relevance to this inquiry, the Indigenous Home Ownership Program (IHOP) was established in 1975 and is one of the most enduring specific purpose programs established by the Commonwealth. The IHOP provides Aboriginal and Torres Strait Islander people, who do not qualify for bank finance, with an affordable home loan. IHOP is targeted at first home buyers.

Gap in Indigenous home ownership

According to the Australian Census the Indigenous home ownership participation rate rose from 26 per cent in 1971² to 37.4 per cent in 2011, but is still significantly below the 69.6 per cent rate of other Australian households.³ Over this period IHOP has made an important contribution to the increase in Aboriginal and Torres Strait Islander home ownership participation rates in Australia, having assisted over 16,000 Indigenous Australian families buy their homes since 1975. IBA estimates that 20 per cent of the improvement in participation rates is directly attributable to IHOP.⁴

In the 2011 census there were 209,000 Indigenous households, with 135,000 households not in home ownership. To bridge the gap to wider Australian home ownership, approximately 65,000 new Indigenous household would need to move into home ownership.⁵ However, the Indigenous population is growing at a faster rate than the non-Indigenous population, and is relatively youthful, with 55.8 per cent less than 25 years of age compared to 31.9 per cent in the non-Indigenous population.⁶ These trends present both opportunities and challenges. A growing, youthful population has the potential to contribute to the productivity of the nation through participation in the workforce, which would contribute to the overall strategy of closing the gap.⁷ The Government is clearly responding to this through its focus on targeted education and employment programs for Indigenous Australians. Strategies to increase home ownership opportunities complement these initiatives as home ownership increases incentives for people to find work and stay in jobs. However, demographic trends mean that without

² Altman, J.C., Biddle, N., Hunter B. 2004. *Indigenous Socioeconomic Change 1971-2001: A Historical Perspective*, Discussion Paper No. 266/2004, Centre for Aboriginal Economic Policy Research, ANU. Table 1, shows 1971 census rate is 26%. Note that it dropped to around 20% by 1981 before rising again in the 1990s. Accessed 28/02/14 from http://caepi.anu.edu.au/sites/default/files/Publications/DP/2004_DP266.pdf

³ Australian Bureau of Statistics (ABS) 2011. *2011 Census of Population and Housing: Aboriginal and Torres Strait Islander Peoples (Indigenous) Profile*. See tables 10a & 10b. Excludes tenure type 'not stated'.

⁴ Based on IHOP having assisted 16,000 households and this accounting for over 20% of the increase in the number of Indigenous home owners (or purchasers) according to the census over the period of IHOP's operation.

⁵ Calculated by applying the non-Indigenous rate of home ownership to the total number of Indigenous households, and deducting the number of Indigenous households who already owned their home or had a mortgage. The difference is the number of Indigenous households required to transition to home ownership to close the gap in home ownership. Excludes tenure type not stated (ABS *Census of Population and Housing: Aboriginal and Torres Strait Islander Peoples (Indigenous) Profile*, Table 10a&10b).

⁶ Biddle, N. *Indigenous Population Project 2011 Census Papers, Paper 5 Population and Age Structure*, Centre for Aboriginal Economic Policy Research, ANU, 5. Accessed 31/03/14 from http://caepi.anu.edu.au/sites/default/files/cck_indigenous_outcomes/2012/12/2011_CensusPaper05_FinalWeb.pdf

⁷ cf *ibid*, 21.

additional efforts, the gap in home ownership will be exacerbated as the increasing demand from young Indigenous families for affordable home loans in the face of rising house prices is unmet by mainstream financial institutions or schemes such as IBA's IHOP.

Current affordability barriers for Indigenous Australians

Barriers to Indigenous home ownership are numerous, wide-ranging and include both financial and non-financial barriers. While many of the barriers faced by Indigenous Australians are not unique to Indigenous people, the barriers are more prevalent and more profound in this segment of the housing market. There are also unique barriers in terms of the cultural accessibility of mainstream services and communal land title that require special attention. The challenges also vary greatly between geographic zones. Each of these aspects is described in more detail below.

General barriers

The Housing Ministers' *Indigenous Home Ownership Paper* categorises the general challenges to Indigenous home purchasing as follows: access to mainstream finance, lack of exposure to home ownership, and shortage of affordable housing exacerbated by relatively lower incomes.⁸

Access to finance

The main financial barriers faced by Indigenous Australians relate to their capacity to qualify for and service the ongoing financial commitments associated with a home loan. Banks continue to lend only to those clients who can meet stringent eligibility criteria and where the loan-to-valuation ratio (LVR) is less than 80 per cent unless lenders mortgage insurance (LMI) is obtained. Most banks will lend only up to 95 per cent LVR even with LMI compared to IBA's median LVR for loans approved in 2012-13 of 97 per cent. IBA has a limited capital pool from which it can fund new home loans and its lending is targeted to customers who cannot finance their home purchase through another lender. In order for inroads to be made into closing the gap in Indigenous home ownership participation, it is critical that banks and other financial institutions continue to play a role in providing home finance to Indigenous Australians. State and territory grants and stamp duty concessions have

⁸ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, 4. Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

been important mechanisms assisting low to medium income Indigenous Australians to access bank finance and IBA home loans. Recent reductions in these measures are having a significant impact on Indigenous Australians ability to access finance for home loans. This critically important issue is discussed in more detail below.

Lack of exposure to home ownership

A family history and social setting where home owning is the norm also has a strong influence on whether people aspire to home ownership. In many Aboriginal and Torres Strait Islander families there has been little or no generational or familial exposure to home lending. This reflects a broader historical legacy of disengagement from the economy and mainstream services that still affects many Aboriginal and Torres Strait Islander individuals and communities. This point is demonstrated by the fact that even where Indigenous and non-Indigenous incomes are the same, there is still a significant gap between Indigenous and non-Indigenous home ownership rates.⁹

Shortage of affordable housing

The significant increase in house prices, which has occurred across the country over the past two decades, places a particularly heavy burden on first home buyers. Given that Indigenous Australians are disproportionately represented in terms of low incomes, this is a more prevalent and serious issue for them. The impact of higher home prices is that home buyers are required to set aside a greater portion of their income to service home loans. The majority of current non-Indigenous first home buyer mortgages are supported by at least two income earners, with their average incomes being 20 per cent higher than the average for all Australian households.¹⁰ It is predicted that the affordability problem is likely to continue, with interest rates staying relatively low and price growth continuing, albeit at a lesser rate than in the past two decades.¹¹ At the same time the household income for Indigenous Australians remains on average comparatively low (median household income is \$52,000

⁹ Australian Government 2010, *Indigenous Home Ownership Issues Paper*, Figure 2.1 (based on ABS 2006 *Census of Population and Housing*)

¹⁰ John Wilson, 2010. *Our non-Existent Housing Bubble*, Business Spectator. Accessed 28/02/14 at <http://www.businessspectator.com.au/article/2010/10/7/financial-markets/our-non-existent-housing-bubble>

¹¹ NSW Parliamentary Research Service 2014. *Housing Affordability in New South Wales*, Briefing Paper No1/2014, vi Summary. Accessed 12/02/14 at [http://www.parliament.nsw.gov.au/Prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/\\$File/Trends%20in%20home%20ownership%20-%20FINAL.pdf](http://www.parliament.nsw.gov.au/Prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/$File/Trends%20in%20home%20ownership%20-%20FINAL.pdf)

compared to \$64,000 for all Australians¹²); and likewise this situation is likely to exist over the longer term. Affordability of housing has also been adversely affected by reductions in state and territory government grants and stamp duty concessions, which will further limit the opportunity for many Indigenous first home buyers to access home finance.

Geographic variation in challenges and opportunities

The distribution of the Indigenous population across Australia is different to that of the non-Indigenous population. It is useful to categorise the affordability and broader challenges for Indigenous home ownership by geographical characteristics, such as remoteness, as this demonstrates the different strategies that will be required to address the overall gap in Indigenous home ownership. The table below shows the distribution of the Aboriginal and Torres Strait Islander population by remoteness classification, compared with the non-Indigenous population

Estimated resident Aboriginal and Torres Strait Islander population, Remoteness Areas, 30 June 2011. ¹³			
	Aboriginal and Torres Strait Islander	Non-Indigenous	Total
Remoteness Classification	%	%	%
Major City Areas	34.8	71.3	70.2
Inner Regional	22.0	18.3	18.4
Outer Regional	21.8	8.7	9.1
Remote	7.7	1.2	1.4
Very Remote	13.7	0.5	0.9

Major City Areas

About one third of the Indigenous population live in urban settings, that is, the capital cities and the other major cities close to these. Here the local economies are diverse and there is relatively good access to employment opportunities and hence relatively higher incomes.

¹² Australian Bureau of Statistics (ABS) 2013. *2011 Census QuickStats: All people-usual residents*. Accessed 21/03/14 at http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/0

¹³ ABS 2013. *Estimates of Aboriginal and Torres Strait Islander Australians, June 2011*. 3238.0.55.001. Accessed on 21/03/14 from <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3238.0.55.001>

There are also lower construction costs as a result of economies of scale and increased competition.¹⁴ The main issue affecting affordability in these areas, for Indigenous people, is house prices. In many urban areas the housing market is heated and home ownership for people on low to medium incomes is problematic. The net result of having a strong housing market and access for only some Indigenous people to higher incomes are reflected in the low proportion of IBA loans in major cities (26 per cent of new loans in 2012-13).

Inner regional areas

Inner regional areas include the fringes around the major cities and larger regional towns/cities close to the capital cities or in the corridor between Melbourne and Sydney. House prices are more moderate and in these areas there is also good access to employment opportunities. This is reflected in the high concentration of IBA home loans in inner regional areas (42 per cent of all new IBA loans).

Outer regional

Regional centres with relatively large Indigenous populations, such as Dubbo in New South Wales or Cairns in Queensland are defined as outer regional areas. Houses are generally more affordable for people on low to medium incomes in these areas; building costs are comparable to city areas; and there is access to relatively low priced housing. However, offsetting these cost advantages, the employment situation can be quite variable. Overall employment participation is lower and employment opportunities are more dependent on variability in the local economy, and the presence and continuing viability of major employers. As a consequence, the incomes of Indigenous Australians are generally lower and less secure. Dependency on social housing is greatest in outer regional and remote areas.

Remote and outer remote

The challenges to Indigenous home ownership are most significant and complex in remote and outer remote areas.¹⁵ The form of land tenure is one of the biggest concerns. Many

¹⁴ Crabtree L, Blunden H, Milligan V, Phibbs P, Sappideen C, Moore N, 2012. *Community Land Trusts and Indigenous housing options*, Australian Housing and Urban Research Institute, Final Report No. 185, 78. Accessed 13/03/14

http://www.be.unsw.edu.au/sites/default/files/upload/research/centres/cf/publications/cfprojectreports/AH_URI_fin_185.pdf

¹⁵ *ibid*; Memmott, P, Birdsall-Jones, C, Moran, M, and Long, S. 2009. *Indigenous Home Ownership on Community Title Lands*. AHURI Positioning Paper No. 112. Australian Housing and Urban Research Institute

Indigenous people in these areas reside in discrete Aboriginal communities that are particularly reliant on social housing, which in many cases may not be located on freehold land. The land tenure may be communal-titled land or other land fettered under various state-based land rights legislation regimes; or a mix of different forms, including freehold, such as at Hope Vale and Coen in Queensland. For private home ownership to occur in these locations, the land tenure legislation often needs to be reformed (at least to enable long term leasing) to provide suitable security for mortgages, which is a basis for a housing market to evolve. Secondly, even when security of land tenure has been established, there may be inadequate infrastructure in place and/ or lack of the appropriate governance, planning and state and territory government administrative frameworks to facilitate private home ownership.

In addition to these barriers, household income levels in these communities are lower and more fluctuating than in other locations, reducing the likelihood of obtaining home loan finance.¹⁶ Higher cost of building and lack of employment opportunities in remote areas, as well as long standing inadequate tenancy arrangements in Indigenous communities with low and below market rental levels, are also seen to act as a disincentive to home ownership.¹⁷

In resource rich areas in remote towns with normal freehold land and opportunities for employment, the presence of mining workforces can inflate the cost of housing. In addition, harsh climatic conditions and poor access to skilled tradespeople in many remote areas results in larger depreciation rates of dwellings, and higher maintenance and insurance costs.¹⁸

People in this region are most likely not to have been exposed to home ownership and are therefore less likely to consider it as an option. Nevertheless there are people on Indigenous

(AHURI). Accessed 29/02/2014 from <http://midja.org/data/storage/f/2014-02-14T01%3A27%3A41.956Z/ahuri-positioning-paper-no112-indigenous-home-ownership-on-communal-title-lands.pdf>

¹⁶ Crabtree L, Blunden H, Milligan V, Phibbs P, Sappideen C, Moore N, 2012. *Community Land Trusts and Indigenous housing options*, Australian Housing and Urban Research Institute, Final Report No. 185, 74. Accessed 13/03/14

http://www.be.unsw.edu.au/sites/default/files/upload/research/centres/cf/publications/cfprojectreports/AH_URI_fin_185.pdf

¹⁷ Australian National Audit Office 2010. *Home Ownership on Indigenous Land*, Performance Audit Report 23:2010-11, 19.

¹⁸ Crabtree L, Blunden H, Milligan V, Phibbs P, Sappideen C, Moore N, 2012. *Community Land Trusts and Indigenous housing options*, Australian Housing and Urban Research Institute, Final Report No. 185, 78. Accessed 13/03/14

land who are in a relatively strong financial position with the desire to own a home.¹⁹ Indeed, IBA has 16 home loan customers in the Tiwi Islands in the Northern Territory.

There have been concerted efforts underway for several years to address barriers to Indigenous home ownership in remote areas. These are described further below.

Benefits of Indigenous home ownership

The value to IBA's customers from home ownership has been considerable. This value includes both direct economic benefits (measurable by, for example, increases in personal asset value and savings), to broader indirect benefits such as encouraging stable employment and better education outcomes and reduced costs to government.

Broader economic benefits and social benefits

Increasing Indigenous home ownership contributes to the broader picture of addressing Indigenous disadvantage. IBA's research has found that owning a home and the responsibilities that this brings create:

- a strong incentive for long term sustainable employment;
- higher wage growth for the main job-holder; and
- children of Indigenous home owners being more likely to have a job themselves and to aspire to own their own home.

IBA's research based on 58 of its customers showed that the household income of home owners increased on average by more than 50 per cent over the average period of six years since they had purchased their home.²⁰

There are a number of positive developmental factors that converge with, and are influenced by, home ownership. Home ownership is reported to provide greater security, control and autonomy, which are thought to support mental health (for example increased self-esteem),

¹⁹ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, 6. Accessed 28/02/14 from

http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

²⁰ Moran, M., McQueen K. and Szava, A. 2010. *Perceptions of Home Ownership among IBA Home Loan Clients*. Urban Policy and Research, Vol 28, No 3, 311-325

physical health and improved educational outcomes for children.²¹ In IBA's survey of 58 customers, all school-age children - in every family who participated in the survey - were attending school.²² IBA's own research, and research into the non-financial benefits of home ownership undertaken in the broader community, has also demonstrated that the social values of owning a home are often as important as the financial benefits to the home owners.²³ As noted in the Housing Ministers' *Indigenous Home Ownership Paper*, home ownership can potentially improve the quality of life for Indigenous families for years to come.²⁴

By targeting clients who would not otherwise even consider or be able to enter into home ownership, IHOP provides the education, pathways and role models to promote home ownership aspirations more broadly.

Individual wealth creation

For Australians generally, home ownership is one of the main sources of financial security, which can be relied on to assist in savings, generate equity for investments, support retirement, and to hand on an inheritable asset. For Indigenous Australians, home ownership has an even greater importance as the sole means for wealth generation, given that it is only in recent decades that they have been in a position to acquire property and begin to accumulate assets.

The potential for home ownership to contribute to personal wealth is demonstrated by IBA's estimate that capital gains resulting directly from home ownership have created an additional \$2.0 billion in personal asset value for its customers.²⁵

²¹ Hulse, K. & Burke, T. 2009. *The Benefits and Risks of Home Ownership: Disaggregating the effects of Household Income*. Australian Housing and Urban Research Institute Positioning Paper 120. Accessed 15/03/14 from <http://www.ahuri.edu.au/publications/>

²² Szava, A and Moran, M 2008 *Perceptions of Home Ownership among IBA Home Loan Clients*, Indigenous Business Australia, Canberra, and the Centre for Appropriate Technology, Alice Springs, 12. Accessed 31/03/14 from <http://www.iba.gov.au/about-us/news-publications/publications/#Reports>

²³ Memmott et al. 2009; Crabtree L, Blunden H, Milligan V, Phibbs P, Sappideen C, Moore N, 2012. *Community Land Trusts and Indigenous housing options*, Australian Housing and Urban Research Institute, Final Report No. 185. Accessed 15/03/14 from http://www.be.unsw.edu.au/sites/default/files/upload/research/centres/cf/publications/cfprojectreports/AH_URI_fin_185.pdf

²⁴ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, 4. Accessed 28/02/14 from

http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

²⁵ Estimate based on the individual capital gain each customer has made from owning their home during the time they held an IBA home loan from the program's inception in 1975.

Equity in the home is also a basis for further wealth creation through small business formation. IBA is aware that a number of its customers have used home equity to generate business income (or have plans to do so). A survey of 58 home ownership customers in outer regional and remote towns demonstrated that 26 per cent of home owners intended to invest in other property, 9 per cent in starting a business and 9 per cent already derived income from their home (usually by basing a small business there).²⁶ IBA has examples of home loan customers that after obtaining a level of financial security and equity, have then taken out a business loan to become self-employed and in turn employ other Indigenous Australians. In this way, home ownership has been a stepping stone to greater participation in the economy.²⁷

In summary, the current gap in Indigenous home ownership participation is particularly worrying, given the importance of home ownership in enabling Indigenous people to accumulate savings or make additional investments. Already much worse off at retirement than non-Indigenous people, this situation will be exacerbated if home ownership is kept out of reach. As observed in the Housing Ministers' *Indigenous Home Ownership Paper*, it is significant to note that most Aboriginal and Torres Strait Islander people have not benefited from the capital gains of the increasing property values of the last two decades because they do not own a home.²⁸ This has significant intergenerational repercussions.

Cost saving to government

The participation in Indigenous home ownership has positive long term cost benefits for government. The more economically independent Indigenous Australians can become, the less dependent they will be on financial and other support from government. For example, the cost savings from home ownership versus public housing costs have been estimated to be in the order of \$167 million to \$669 million per 100 households over a 20-year period (this research is discussed further below).²⁹ Thus encouraging Indigenous families from social

²⁶ Szava, A and Moran, M 2008. *Perceptions of Home Ownership among IBA Home Loan Clients*, Indigenous Business Australia, Canberra, and the Centre for Appropriate Technology, Alice Springs, 42. Accessed 31/03/14 from <http://www.iba.gov.au/about-us/news-publications/publications/#Reports>

²⁷ Further research is needed to quantify the indirect benefits of this wealth accumulation in terms of Aboriginal and Torres Strait Islander business development and jobs growth. However, based on trends in the wider Australian economy, this indirect impact is expected to be significant.

²⁸ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, 16. Accessed 28/02/14 from

http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

²⁹ Urbis Pty Ltd 2010. *Cost effectiveness assessment of IBA's home ownership program*, Sydney (report commissioned by IBA), 25-6. Accessed 13/03/2014 from <http://www.iba.gov.au/wp-content/uploads/2012/01/20120110ReportHOPCostEffectivenessAnalysis.pdf>

housing into home ownership, even with subsidies to facilitate the process, is financially beneficial to government fiscal outlays.

Government commitment to supporting Indigenous home ownership

In recognition of the importance of home ownership in addressing Aboriginal and Torres Strait Islander disadvantage, all Australian governments give a high priority to helping Indigenous Australians achieve their home ownership aspirations. This position is reaffirmed in the Housing Ministers' *Indigenous Home Ownership Paper*, which describes a range of government initiatives in place, which aim to, or have the effect of, increasing the number of Indigenous Australians ready for home ownership.³⁰ These are summarised in **Figure 1**. Note that aside from the First Home Owners Grants (FHOG) and to some extent stamp duty concessions, there is little data available on the take up by Indigenous people of mainstream programs.

Type of housing purchase assistance program	There are mainstream programs that apply in two or more jurisdictions	There are also targeted Indigenous specific programs or elements of programs
First Home Owners Grants	√	-
First Home Saver Accounts	√	-
Stamp duty exemptions or discounts	√	√
Shared equity schemes for social housing tenants and others	√	√
Concessional loans	√	√
Public housing tenant sales schemes	√	√
Miscellaneous small programs*	√	√

*Mortgage relief, assistance with fees, deposit assistance, land rent assistance

Figure1: Summary of mainstream and Indigenous-specific housing purchase assistance programs available (they apply variably across jurisdictions)³¹

³⁰Select Council on Housing and Homelessness 2013, *Indigenous Home Ownership Paper*. Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

³¹ This table has been compiled based on information presented in the Select Council on Housing and Homelessness' 2013 *Indigenous Home Ownership Paper*. Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

Indigenous Home Ownership Program

To address the gap between Indigenous and non-Indigenous home ownership rates, the Australian Government has for many years provided funding for concessional housing loans to eligible Indigenous Australians, through the Indigenous Home Ownership Program managed by IBA. IHOP is the main home ownership program nationwide and has a current portfolio of over 4,000 loans worth \$800 million.

Addressing a gap in the housing market

Based on the specific socioeconomic characteristics that define them as a group, low to medium income Aboriginal and Torres Strait Islanders can be viewed as comprising a specific segment of the overall Australian housing market. This segment is not currently being adequately serviced by financial institutions. This situation can be viewed as a 'gap' in the market in which banks do not operate.

IBA provides targeted concessional home loans to Indigenous Australians who have the capacity to repay a long-term loan but are unable to secure finance from a bank or other home lending institution. The program aims to address barriers such as loan affordability, low savings, impaired credit histories and limited experience with long term loan commitments. It focuses on people in greatest need and is targeted at first home buyers. The program sets interest rates, deposit requirements and other support arrangements at levels that support people on low to middle incomes to buy a home, who may otherwise never obtain home ownership.

Many Indigenous Australians, particularly in major towns and cities close to employment opportunities, have sufficient income to service a mortgage. However, they may not have the income to save for the upfront capital costs of purchasing a home, including a deposit, stamp duty, conveyancing and other fees. IHOP also helps Indigenous people living in remote Indigenous communities overcome additional barriers, such as a lack of readiness by financial institutions to accept restrictive land tenure arrangements, higher construction costs and the absence of established residential property markets.

The effective targeting of the IHOP program to customers who cannot afford the usual bank financing options is demonstrated by the distribution of the income and equity contribution of IHOP loan customers. In 2012-13 the median annual income of applicants was \$68,059 and

the average income was \$72,547 compared to non-Indigenous Australian first home buyers who on average have incomes 20 per cent higher than the average household income (first home buyers in 2009-10 had an average household income of \$104,000).³²

Generally, IBA interest rates commence at 4.5 per cent, gradually increasing until they reach the maximum IBA home loan rate, which is set in accordance to an index of average industry standard variable rates. All properties purchased by customers under the program are subject to satisfactory building and valuation reports and secured by a registered mortgage.

In the 2012-13 financial year the program received 4,780 enquiries and made 664 loans for \$172.9 million. The median IBA house purchase price was \$340,000 and the median loan amount was \$269,000.

To maximise the impact of the Commonwealth's investment, IBA funds as many loans as possible in partnership with mainstream lenders (these loans are known as 'split loans'). Last financial year, 196 split loans were made representing 30 per cent of new loan approvals. These IBA applicants had the financial capacity³³ and creditworthiness but lacked the necessary savings for the required deposit and associated fees to qualify for a full loan from another lender. The private sector contribution was equivalent to \$42 million in funding for Aboriginal and Torres Strait Islander home buyers.

By focusing on a high risk market segment and offering basic entry level concessional loan finance products, the program does not compete with mainstream banks or other home loan lenders. The operation of IHOP in this unique market segment is reflected in the characteristics of IBA's lending. For example:

- Around 90 per cent of new IBA housing loans are to first home buyers. This contrasts with banks and other home lenders where the latest data highlights that only 12.2 per cent of loan borrowers are first home buyers.

³² ABS 2011. *Housing Occupancy and Costs, 2009-10*, 4130.0 (Feature article: First Home Buyers in Australia). Annual income amount extrapolated from weekly income amount of \$2006. Accessed 13/03/2013 from <http://www.abs.gov.au/AUSSTATS/abs@.nsf/featurearticlesbyCatalogue/6B12D0A255A76E8ECA257665001EA4D8?OpenDocument>

³³ Generally more than 100% of the IBA Income Amount (IIA). The IIA is equivalent to the national average weekly male earnings, as calculated by the Australian Bureau of Statistics.

- More than 80 per cent of loans approved in 2012-13 were to customers with incomes less than \$94,000 (125 per cent of the IBA Income amount-IIA³⁴). **Figure 2** below highlights the distribution of IHOP lending by upper income level of customers.³⁵
- Customers contributed on average less than \$10,000 to the purchase of their home, including FHOG. This represents less than 3 per cent of the average purchase price. **Figure 3** below highlights the distribution of IHOP lending by equity contribution.

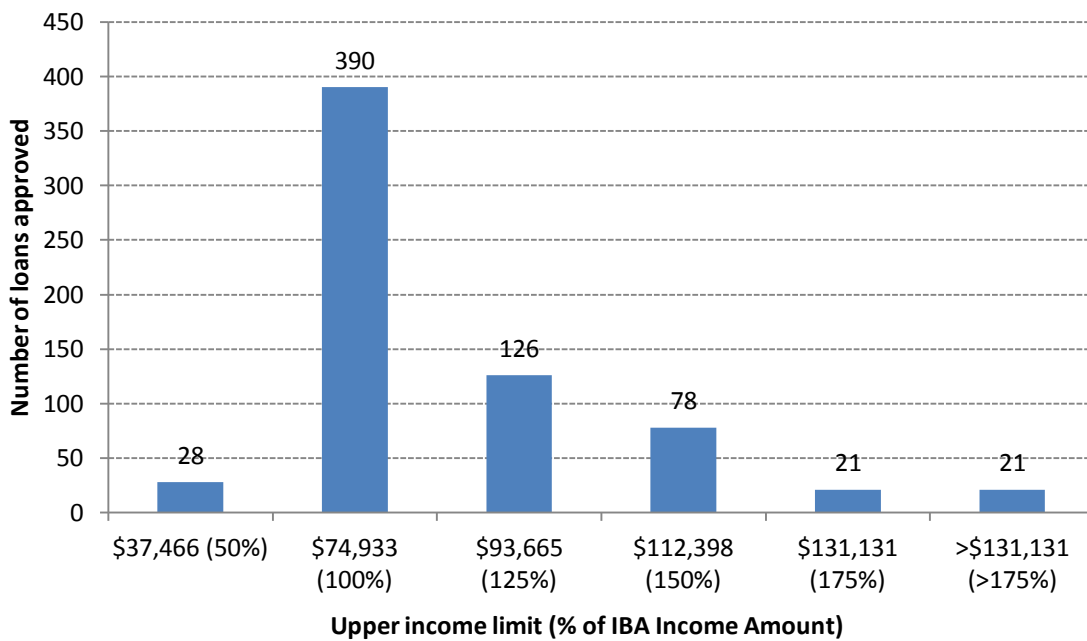


Figure 2: Distribution of Approvals by Income Band (2012-13)

³⁴ IBA Income Amount is equivalent to the national average weekly male earnings, as calculated by the Australian Bureau of Statistics.

³⁵ Income levels are percentages of the IBA Income Amount (IIA).

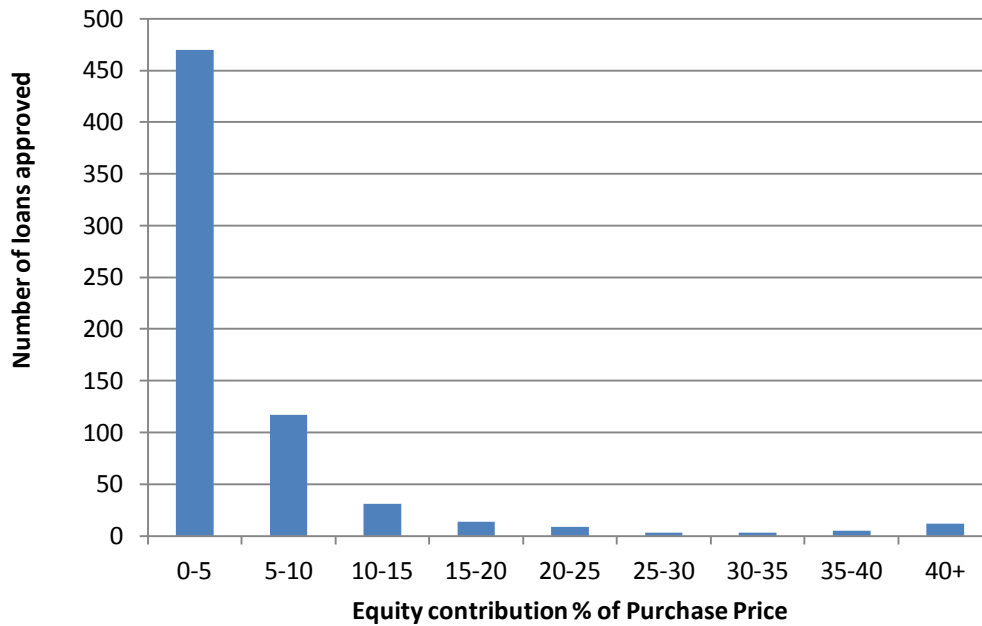


Figure 3: Equity contribution % of purchase price (2012-13)

Most mainstream lenders have developed sophisticated automated points scoring loan assessment processes, which are the primary determinate of loan affordability. Mainstream applicants who have low wages, negligible assets, limited or no savings, high consumer debt or a blemished credit history are assessed as too high risk. The IHOP adopts a far more flexible approach where each case is considered on its merits.

The distribution of the 4,110 housing loans outstanding at 30 June 2013 showed that a high proportion (85.6 per cent) of loans had a loan-to-property valuation ratio (LVR) of 72 per cent or more (**Figure 4**), in sharp contrast to the broader lending market, which has only 32.2 per cent in this category (a proportion of which may be investment property purchases). The majority of IBA’s new clients can only contribute very small deposits (several thousand dollars).

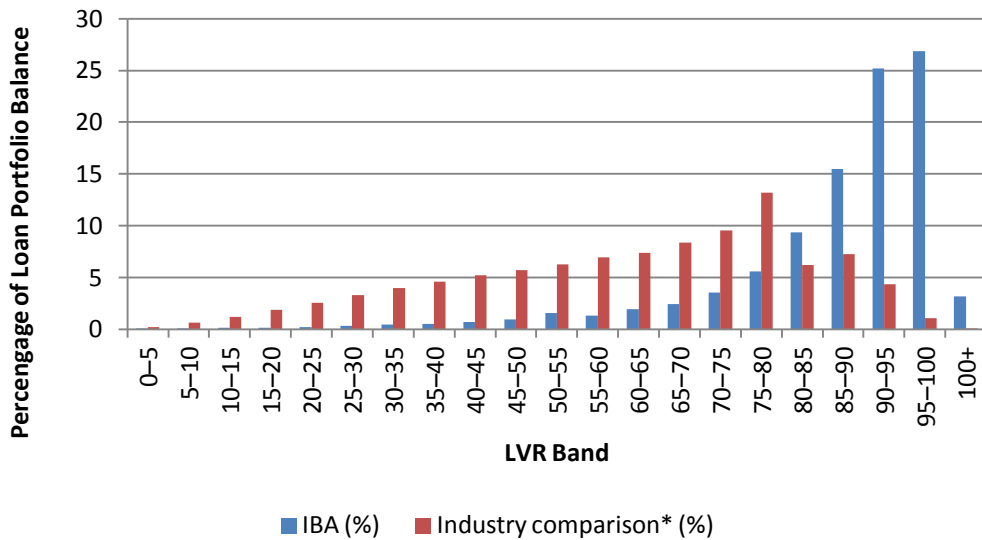


Figure 4: Loan-value-ratios (LVR) bands – IBA and Industry comparison (2012-13)

IBA borrowers are not required to take out expensive mortgage insurance where the LVR exceeds 80 per cent, which is the main customer segment. Normally the cost of this insurance is passed on to the customer by financial institutions.

IBA has different regulatory framework to banks

To enable IBA to operate in its market segment, its regulatory framework differs in two significant ways to that of banks and other financial institutions.

First, IBA is not an Authorised Deposit-taking Institution (ADI) and therefore is not required to comply with Basel II legislation, which sets out international standards and regulations in relation to credit risk and minimum capital requirements of financial institutions for ADIs. Under applicable capital adequacy rules, Australian banks are required to hold additional capital for lending with high loan-to-value ratio (LVR), amongst other risk metrics. This lending is closely scrutinised by Australian Prudential Regulation Authority and shareholders.

Secondly, IBA is exempt from the National Consumer Credit Protection Act (NCCP). This legislation also has significant implications for mainstream lenders. IBA’s exemption is in recognition that application of the Act would preclude the customer group that IBA was created to facilitate into home ownership. This legislation is supervised by Australian Securities and Investment Commission and is far reaching in how lenders must assess and

provide regulated credit, such as mortgages. Credit providers are legally obliged to determine that borrowing is ‘not unsuitable’ for the customer. The different banks approach this in different ways, however typically they will take in to account evidence such as genuine savings (i.e. whether the person has saved their own deposit), and that there has been no evidence of significant hardship in the last two years. A large number of IHOP customers don’t have genuine savings and would face hardship.

Regional and Remote focus

IBA’s strategy is to ensure its program reaches clients in regional areas who would not normally have the opportunity of home ownership. This also reflects the greater affordability of houses in regional Australia.

The program also gives particular priority to applicants in emerging market locations (very remote Indigenous communities, usually to construct a new house on leased communal land). Emerging market applicants are eligible to receive free financial literacy training and have access to apply for a range of extra support to assist with home ownership affordability.

Last year approximately 75 per cent of new housing loans were to customers purchasing homes in regional and remote areas, as shown in **Figure 5** below. This contrasts with mainstream lenders where a majority (70 per cent) of home lending occurred in major urban centres.³⁶

³⁶ Industry comparison is sourced from Standard & Poor’s *Residential Mortgage-Backed Securities (RMBS) Performance Watch Report*, March 2012. As cited in Indigenous Business Australia’s Annual Report 2011-12, 61.

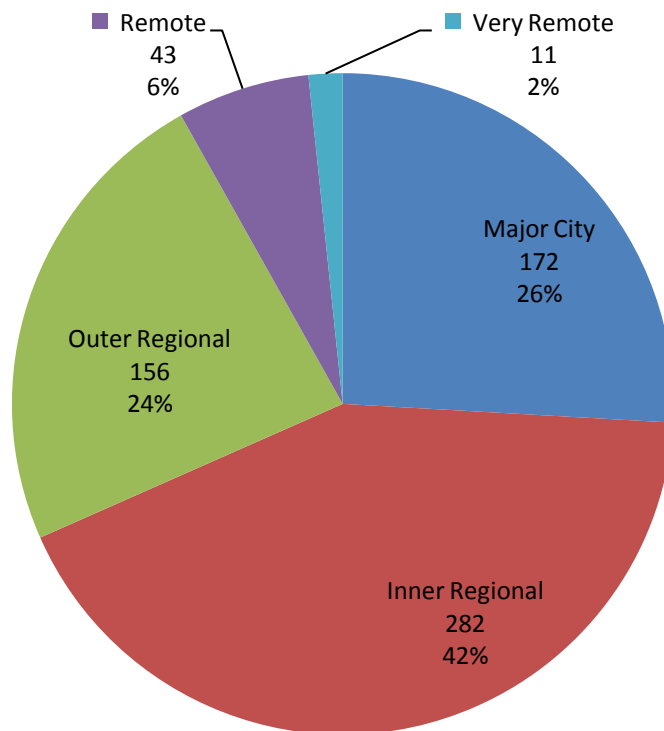


Figure 5: Approvals by Indigenous Geographic Classification 2012-13³⁷

Customer Support and Arrears Management

Coupled with the provision of concessional loans, high level case management support provided to clients is the other essential element in IHOP’s success. IBA supports Indigenous clients at all stages of the process of applying for, committing to and managing the financial impact of their first home loan. A close relationship is established between the loan officers (located in regional Service Delivery Units throughout Australia) and the client that is maintained for the course of the loan, enabling support to be provided when needed. The personalised ongoing support that IBA provides to borrowers operates beyond the normal mandate of a bank or other financial institution. This level of pre and post-loan support reduces the risk of default and ensures IBA’s customers successfully make the transition from renters to home owners, which can be a challenging transition.

The levels of arrears for the IHOP loans portfolio are slightly higher than for other lenders in the broader market, which is to be expected given the programs focus on low-income first

³⁷ Based on number of loans and using Accessibility/Remoteness Index of Australia (ARIA) classifications.

home buyers who are more susceptible to economic downturns. However, in relation to the industry benchmark for **non-conforming loans** (high risk, non-standard loans), IBA's arrears rates compares favourably. The banking industry average of non-conforming loans 90 day+ in arrears is 3.39 per cent; whereas IBA has only 2.34 per cent of loans in this category.³⁸

Program Funding

While IHOP is largely self-funded, from time to time it has received additional capital injections from Government, and from IBA itself, to meet the high demand from potential Indigenous first home buyers. Funds for new housing loans are derived from revenue received from repayments, the early discharge of loans, bank interest on cash funds not yet lent, and from Australian Government appropriations. Since 2012-13 the program has received capital funding of approximately \$23 million each year as a result of merging the Home Ownership on Indigenous Land Program with the IHOP.

As at 31 December 2013, the program portfolio consisted of 4,265 active loans with a gross value of \$847 million. As IBA's loans are considered riskier than those of mainstream lenders the risk and return characteristics are recognised in the financial statements by a \$272.1 million write-down in accord with accounting standards.

Section 181A of the *Aboriginal and Torres Strait Islander Act 2005* establishes the New Housing Fund and sets out how program funds can be spent. Money in the fund can only be spent on the making of new housing loans or related grants and cannot be used to fund day to day operation expenses in running the program. The legislative restrictions imposed on the New Housing Fund necessitates that an annual appropriation is made to cover the day to day administration costs of running the program.

Effectiveness of IHOP compared to social housing programs

IHOP³⁹ has consistently been evaluated and assessed as an effective and efficient program for increasing affordable access to Indigenous home ownership. It is a model that has stood the

³⁸ Industry comparison is sourced from Standard & Poor's Residential Mortgage-Backed Securities (RMBS) Performance Watch Report, March 2013. As cited in Indigenous Business Australia's Annual Report 2012-13, 63.

³⁹ In 2013 the name of IBA's home loan program changed from Home Ownership Program (HOP) to IHOP. To avoid confusion the IHOP acronym is used here rather than HOP as referred to in the studies.

test of time through changing economic circumstances. Some of the salient research that has been conducted into IHOP's effectiveness is described below.

A 2007 evaluation by the Department of Finance and Deregulation, found that "IBA Homes is a well established program that has been diligent within its resource limitations...and appears to be making a significant impact on Indigenous home ownership rates"⁴⁰. The evaluation found that the program was instrumental in giving Indigenous households entry into the housing market, that demand for the program was strong and that the significant waiting list for loans was largely due to capital constraints within the program. The evaluation recommended that IBA seek to increase the size of the capital base through supporting transition of eligible clients to mainstream lenders, partnering with other lenders to access their capital, private borrowing against equity held in the Homes portfolio (though this would require legislative changes) and through additional government funding.⁴¹

The Perceptions of Home Ownership among IBA Home Loan Clients report⁴², confirmed that IHOP was meeting its social and economic objectives and having a real impact on the quality of life for a growing number of Indigenous Australians. The report highlighted improvements in home-owners socio-economic conditions including an increase in household income of, on average, more than 50 per cent over the average period of six years since the purchase of a home. Other positive effects cited by home owners were about having independence and control over their living environment, feelings of satisfaction and pride that came from owning their own home, and being free of restrictions and interference with their privacy, were seen as important improvements in their quality of life.

A 2010 analysis found that IHOP represented a cost-effective form of government-supported housing, particularly relative to public housing. The analysis compared the net cost to government of providing housing support to Indigenous Australians through the Home

⁴⁰ Office of Evaluation and Audit (Indigenous Programs) 2007. *Evaluation of Indigenous Business Australia*, Department of Finance and Deregulation, Canberra, 7.

⁴¹ *ibid*, 17.

⁴² Moran, M., McQueen K. and Szava, A. 2010. *Perceptions of Home Ownership among IBA Home Loan Clients*. Urban Policy and Research, Vol 28, No 3, 311-325.

Ownership Program with the net cost of providing housing through two alternative housing programs, Commonwealth Rent Assistance (CRA) and state-delivered public housing.⁴³

The analysis found that the net cost of IHOP was significantly lower than the net cost of public housing and that, overall, significant savings could be made if home ownership was made available to those Indigenous Australians currently accommodated in public housing. These savings were conservatively estimated under the research model to be in the order of \$167 million to \$669 million per 100 households over a 20-year period. This estimate is conservative as it did not include consideration of broader social benefits in the calculations. The research concluded that there would be benefit in government considering additional funding for the IHOP program, particularly as a means of facilitating home ownership for eligible Indigenous clients who were currently supported through public housing assistance.

Importance of maintaining measures to address Indigenous home ownership affordability

Potential for the gap to increase

The Indigenous segment of the population is particularly vulnerable to the impact of decreasing affordability. This arises not only from the relative social and economic disadvantage of this group, but also the demographic pressures at play. Already on the margins in terms of having low employment rates and incomes, the Aboriginal and Torres Strait Islander population is also younger and growing faster than the Australian population as a whole. There will be an increasing number of Indigenous households unable to gain access to home ownership and thus any chance of accumulating personal wealth. This means that the gap in home ownership rates and personal wealth may increase over the coming years.

Consideration of these factors, underpins the need to augment existing measures that address the disparity between Indigenous and non-Indigenous levels of home ownership in order to close the gap.

⁴³ Urbis Pty Ltd 2010. *Cost effectiveness assessment of IBA's home ownership program*, Sydney (report commissioned by IBA), 25-6. Accessed 13/03/2014 from <http://www.iba.gov.au/wp-content/uploads/2012/01/20120110ReportHOPCostEffectivenessAnalysis.pdf>

Disproportionate impact of changes to First Home Owners Grant

For Aboriginal and Torres Strait Islander people at the margins of home loan affordability, having access to FHOG and stamp duty concessions will make the difference between being trapped as a renter in social housing versus having home ownership.

The inability of customers to fund their purchase costs is a major impediment for customers being able to qualify for a commercial home loan. IBA estimates that more than half of home purchases assisted through the IHOP over a five year period from January 2007 to December 2012 would not have been able to proceed if customers did not have access to FHOG and stamp duty concessions. Without access to this additional assistance, customers would not have had sufficient savings to meet stamp duty and legal/incidental costs associated with the home purchase. Previously, these applicants would have been able to utilise FHOG for the cost and would most likely have been eligible for an IBA loan.

The decisions by some jurisdictions since 2011 to change their FHOG schemes by reducing or abolishing the grant for the purchase of existing homes, and in some cases withdrawing stamp duty concessions for first home owners, has had a significant impact on the types of properties being purchased by IBA customers.

Figure 6 below shows the increase in the proportion of first home buyer IBA customer who are purchasing newly erected dwellings and funded through construction loan finance.

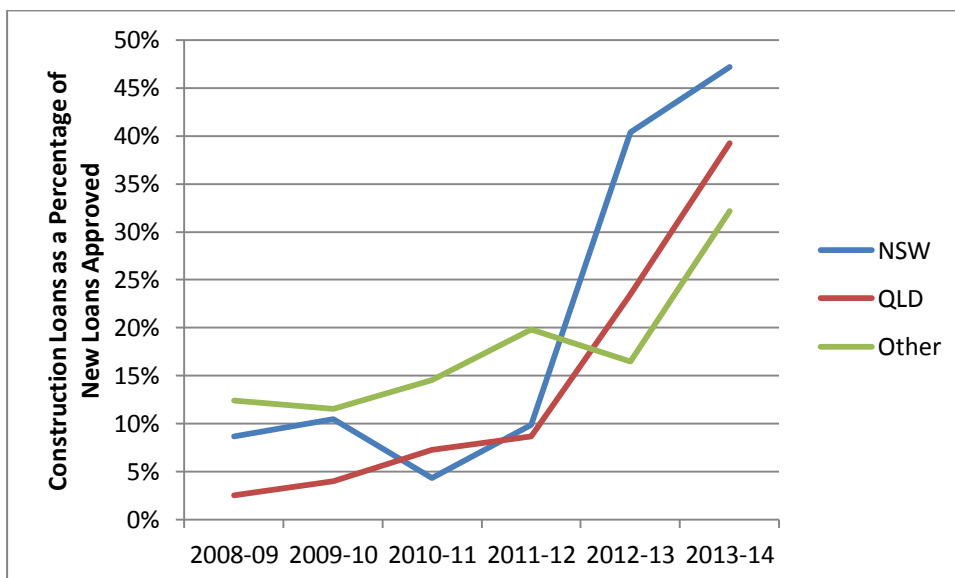


Figure 6: Construction loans as a percentage of new IBA loans approved

While the shift to construction of new dwellings may be in line with the intention of changes to FHOG and other state based assistance, IBA believes that this is impacting on home ownership opportunities for a significant segment of potential Indigenous home owners by excluding the option of purchasing existing properties with a minimal deposit. There will be a particular disadvantage to potential Indigenous home owners seeking to purchase a home in rural and remote areas that have high construction costs and limited access to suitable land.

This suggests that in many areas Indigenous Australians will not have a sufficient deposit to access home loan products (IBA or mainstream finance) to purchase existing dwellings and will remain bound to social housing. Fewer people will be able to be assisted by IBA. In effect, discontinuing FHOG and stamp duty concessions for existing home buyers incurs a relatively large opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership.

Additionally, clients who previously may have met bank criteria must now come to IBA for home loans, thus increasing the burden on the limited funding pool for new concessional home loans. It is critical that financial institutions be able to continue to loan to Indigenous Australians if inroads are to be made into closing the gap in home ownership participation.

Targeted assistance to Indigenous first home buyers

Keeping the FHOG and stamp duty concessions on existing dwellings for low-to-middle income Indigenous Australians, would be a relatively small cost given the small size of this market segment. As discussed, however, the social, wealth creation, and reduction in long term government outlays benefits far outweigh the small upfront cost.

We do not believe that such assistance delivered in a targeted way to address this market shortcoming would have the same inflationary and other distortionary effects on the housing market as has been argued in relation to the general application of concessions or subsidies, such as the First Home Owners Grant.⁴⁴ Aboriginal and Torres Strait Islanders make up only

⁴⁴ Eslake, S. 2013. *Australian Housing Policy: 50 years of failure. Submission to the Senate Economics References Committee*, Senate Economic References Committee Affordable Housing Inquiry. Accessed 14/02/14 from http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Submissions

3.0 per cent of the Australian population⁴⁵, and within that group, the segment of potential home buyers is much smaller again.⁴⁶ Research has suggested that, apart from its potential inflationary effects, FHOG also has the effect of bringing forward demand by drawing intending purchasers into the market, rather than making houses more affordable in real terms.⁴⁷ This clearly does not apply with respect to low income Indigenous home buyers who are at or just below the threshold of affordability and rely on assistance to ever be able to make the transition into home ownership.

Targeted application of the First Home Owners Grants and stamp duty relief to those eligible for an IHOP loan would be consistent with all Governments' commitment to increase Indigenous home ownership and to the overall commitment to addressing Indigenous disadvantage. It is consistent with the strategy for targeted measures already in place to encourage Indigenous home ownership in all jurisdictions as outlined above.

Strengthening pathways between social housing and home ownership

The Housing Ministers' *Indigenous Home Ownership Paper* notes that

'home ownership should be viewed in policy terms as part of a housing continuum, from group homes, public housing and rental through to home ownership (Milligan et al 2007), with an acknowledgement that the opportunities and capacities for individuals and families will vary over time'.⁴⁸

Tenancy can be viewed as a pathway to private home ownership, with the capacity and skills for home ownership being gathered through the experience of tenancy. According to the 2011 census, Australia-wide around 30 per cent of Indigenous households are in public or community housing. In remote areas, where around 25 per cent of the Aboriginal population

⁴⁵ Australian Bureau of Statistics 2013. *Estimates of Aboriginal and Torres Strait Islander Australians, June 2011*. 3238.0.55.001 <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3238.0.55.001>

⁴⁶ If we assume households need incomes of at least \$65,000 to buy a home (they generally need much higher in the mainstream), then there is an estimated 40,000 Indigenous households with this level of income. Of these, there would only be a few thousand each year Australia-wide who may be in a position to consider home purchasing, as reflected in the level of inquiries to IBA (4,780 in 2012-13)..

⁴⁷ NSW Parliamentary Research Service 2014. *Housing Affordability in NSW. Briefing Paper No1/2014*, 19-23. Accessed 12/02/14 at

[http://www.parliament.nsw.gov.au/Prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/\\$File/Trends%20in%20home%20ownership%20-%20FINAL.pdf](http://www.parliament.nsw.gov.au/Prod/parlment/publications.nsf/0/B3D723202932C63ACA257C61001D07AF/$File/Trends%20in%20home%20ownership%20-%20FINAL.pdf)

⁴⁸ Select Council on Housing and Homelessness 2013, *Indigenous Home Ownership Paper*, Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

resides, social housing accounts for around 80 per cent or more of Indigenous dwellings.⁴⁹ This ties social housing policy to the efforts aimed at increasing Indigenous home ownership.

While providing safe, sound and affordable housing to those in need always remains the priority, there are likely to be a number of opportunities within state and community managed public housing to provide mechanisms, support and incentives for people who have the capacity to make the transition to private home ownership. This already occurs to some extent, through mechanisms such as shared equity schemes for social housing tenants and public housing tenant sales schemes.

Strengthening focus by state and territory agreements on developing innovative mechanisms that facilitate transition to home ownership (e.g., rent-to-buy, discounted sale prices, an Indigenous First Home Owners Grant) will, over the longer term, also add to the affordability and sustainability of social housing, as pressure is relieved on the social housing system by tenants moving to private home ownership. Social housing stock and other resources can then be targeted to those in greatest need.

Given the proportion of Indigenous households in social housing and the compound economic and social benefits that accrue to home owners and cost savings to government discussed previously, proactive support for the transitioning of Indigenous tenants to home ownership is a sound public policy to pursue.

The Housing Minister's *Indigenous Home Ownership Paper* provides a comprehensive summary of the current Commonwealth and State/Territory strategies, initiatives and strategic directions for enabling this transition. It recommends the Australian Government and state and territory governments work collaboratively to improve Indigenous home ownership outcomes by targeting potential groups such as Indigenous social housing tenants who are in a position to transition to home ownership. This kind of approach is already being trialled in some areas. For example the New South Wales Aboriginal Housing Office (AHO) has a partnering arrangement with IBA to provide home purchase assistance to AHO tenants to buy their AHO home in certain remote NSW townships.

⁴⁹ Select Council on Housing and Homelessness 2013. *Indigenous Home Ownership Paper*, 18. Accessed 28/02/14 from http://www.dss.gov.au/sites/default/files/documents/05_2013/indigenous_home_ownership_paper.pdf

In relation to remote Australia, the property and tenancy management reforms being carried out under the National Partnership on Remote Indigenous Housing (NPARIH) provide a vital platform for private home ownership by supporting and encouraging tenants to move into a ‘normalised’ system of paying market rents, taking greater responsibility for maintenance, and building financial resilience and discipline.

This strategic direction of governments underlines the need to flexibly consider tailoring mainstream initiatives that may impact on the reform efforts. In this context, the Housing Ministers’ paper says:

‘...more could be done to address key barriers, such as access to finance and a deposit. In particular, jurisdictions should consider the impacts on Indigenous home owner aspirants of any changes to the FHOG scheme and strategies may be needed in the short term to offset negative impacts of these changes, acknowledging that some jurisdictions may already have such strategies in place.’⁵⁰

IBA recommends that state and territory government strengthen the focus on support mechanisms that facilitate transfer of social housing into private ownership. Moreover, IBA encourages closer collaboration between state and territory government programs and loan providers, including IBA, to strengthen the pathway between social housing rental and home ownership.

Affordable and quality housing for remote Australia

The Australian Government has been working in conjunction with state governments, the Northern Territory Government, and IBA for several years to address the multiple barriers to home ownership that exist in relation to discrete Aboriginal communities in remote Australia. This began with the launch of the Home Ownership on Indigenous Land Program in 2006 (now part of the IHOP program).

The challenge is twofold. On the one hand there is a need to address the capacity of individuals and groups to aspire to and obtain home ownership in areas and family situations where there has been a minimal level of home ownership previously. Progress has been made on this front and we have evidence of demand for home ownership in a number of

⁵⁰ *ibid*, 22-23

communities. Under IBA's IHOP program, special grants and other support, in addition to concessional home loan rates, are available to assist people in these 'emerging market' areas.

On the other hand there is a major challenge for governments to put in place the kind of infrastructure, legal and administrative arrangements necessary to support land and house sales and private ownership – something that is taken for granted in major towns and cities. This involves addressing barriers relating to communal land tenure, a pervasive social housing model, and having little or no housing market yet established for the re-sale of houses.

From its work with remote communities, IBA has seen that there is considerable demand for affordable private home ownership. Given the overcrowding that exists and the condition of many of the existing houses this demand is expected to continue, especially as the employment situation improves.

Two of the major barriers that remain that are particularly relevant to the terms of reference for this inquiry are the cost of new housing construction in remote areas and the valuation of social housing stock for sale (both newly constructed and existing stock).

Construction costs in remote areas

Given the shortage of existing social housing and the poor condition of many of the existing houses, new construction or substantial refurbishment is generally required to provide the housing stock that would enable private home ownership in discrete Aboriginal communities. At the same time it is estimated that construction costs in very remote locations are likely to be at least double the costs of non-remote locations.⁵¹

These factors cause an escalation of the cost of housing in remote areas, which could put home purchasing beyond the reach of most. At the same time, the absence of a developed housing market means that the houses' resale value could be less than its true cost or the loan value, which means there is the risk of homes becoming 'debt traps' should a resale become

⁵¹ Szava, A. Moran, M. Walker, B & West, G. 2007. *The cost of housing in remote Indigenous Communities: Views from the Northern Territory Construction Industry*. Centre for Appropriate Technology Paper. Alice Springs, Northern Territory. Accessed 15/03/14 at <http://www.icat.org.au/wp-content/uploads/2012/05/Cost-of-remote-housing-construction-industry-views.pdf>

necessary due to changing family circumstances. This issue has been raised previously by the Cape York Institute.⁵²

Continuing investigation into alternative and more innovative construction materials and methods is essential if rising costs are not to make new home construction (utilising lending available through IHOP) out of reach for Indigenous families and communities.

Sale of social housing

A recent research article in relation to pricing of houses in discrete Aboriginal communities suggests that existing approaches - particularly with respect to new houses - may compromise the creation of sustainable home ownership markets.⁵³ The approach to pricing social housing stock is different depending on whether it is old stock or newly constructed houses. New houses tend to be priced based on cost, which makes the price very high, and virtually unaffordable for most local Indigenous people. With respect to existing stock, governments take account of the age and condition of the building, which means prices tend to be more affordable, but as noted above such houses may not be desirable for home purchase without substantial refurbishment.

Governments also need to be prepared to release social housing for private purchase, having weighed up the priorities for maintaining adequate stocks of social housing. The successful sale of social housing may also require a willingness to be flexible in terms of other jurisdictional policies or guidelines for the sale or transfer of assets, which in the context of the broader policy objective of encouraging Indigenous home ownership may be overly restrictive. Policies that require social housing stock to be held for a period of time before it can be sold are an example of this.

From IBA's perspective as a lender, it is essential that sale prices for government funded new houses and existing social housing stock offered for private sale in Indigenous communities are set at realistic levels so that there is reasonable security over a loan and there is a real chance of houses being bought and sold in order that a housing market can eventually evolve.

⁵² Cape York Institute, *From Hand Out to Hand Up- Cape York Welfare Reform Project*, 2007.

⁵³ Terrill, L. 2014. What Price to Pay? *Home Ownership on Aboriginal Land in the Northern Territory*. Indigenous Law Bulletin, Vol8, Issue 9.

Conclusion

The likelihood of increasing pressure on Indigenous home ownership affordability, including through demographic effects of a faster growing and younger Aboriginal and Torres Islander population, underlines the need to augment IHOP and other existing measures that address the disparity between Indigenous and non-Indigenous levels of home ownership.

For Aboriginal people at the margins of home loan affordability, having access to FHOG and stamp duty concessions will make the difference between being trapped as renters of social housing versus having home ownership. In the long run, fewer people will be able to be assisted by IBA. In effect, discontinuing FHOG and stamp duty concessions to existing Indigenous home buyers incurs a relatively large opportunity cost in terms of the economic and social benefits that would have accrued through increased rates of Indigenous home ownership.

Targeted application of the First Home Owners Grants and stamp duty relief by all jurisdictions for low to middle income Indigenous Australians would be consistent with all Governments' commitment to increase Indigenous home ownership and to the overall commitment to addressing Indigenous disadvantage, including complementing Government and corporate efforts to increase Indigenous employment. It would not have the same inflationary and other distortionary effects on the housing market as has been argued in relation to the general application of concessions or subsidies and would represent a long term cost saving to governments.

Given the proportion of Indigenous households in social housing (30 per cent overall and 80 per cent in remote areas), it is particularly important that governments continue initiatives and strategic directions for enabling this transition to home ownership as outlined in the Select Committee on Housing and Homelessness' *Indigenous Home Ownership Paper*.

Recommendations

Having considered the factors impacting home ownership affordability for Indigenous Australians, IBA makes the following recommendations:

1. In order that the gap in Indigenous home ownership does not increase it is critical that governments seek to augment existing market gap measures, such as the national Indigenous

Home Ownership Program (IHOP) and state and territory government targeted programs. In particular:

- a. All jurisdictions should target application of the First Home Owners Grants and stamp duty relief to low to medium income Indigenous Australians regardless of whether they are purchasing an existing or new home. This will facilitate more Indigenous Australians being able to access home loans from financial institutions, in addition to those who may qualify for IBA assistance.
- b. IBA recommends that state and territory government strengthen the focus on support mechanisms that facilitate transfer of social housing into private ownership. Moreover, IBA encourages closer collaboration between state and territory government programs and loan providers, including IBA, to strengthen the pathway between social housing rental and home ownership. This builds on the coordinated initiatives and strategic directions for enabling the transition to home ownership as outlined in the Select Committee on Housing and Homelessness' *Indigenous Home Ownership Paper*.
- c. The sale prices for government funded new houses and existing social housing stock offered for private sale in remote discrete Indigenous communities, should be set at realistic levels, so that there is reasonable security over a loan and there is a real chance of houses being bought and sold, enabling a housing market to evolve..