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Dear Committee members,

Re: Inquiry into the financial regulatory framework and home ownership

I am housing scholar based in the Institute for Public Policy and Governance at the University of Technology Sydney. This submission addresses the term of reference 5, ‘the tax treatment of residential property and impacts on demand and house prices’. It is apparent that the highly attractive tax arrangements for investors in residential property are significantly distorting the housing market. Pawson et al (2020, p.193) in their substantial review of the impacts of negative gearing and the capital gains tax discount conclude,

> They [negative gearing and the capital gains tax discount] depress home ownership by pumping up house prices and thereby make house purchases unaffordable for marginal buyers … They exacerbate wealth inequality by accruing disproportionately to the already wealthy.

All the evidence indicates that first time home buyers are constantly outbid by investors (Whelan et al., 2023). The difficulties first time home buyers have entering home ownership is illustrated by the drop in home ownership among younger age cohorts. Thus between 1996 and 2021, the proportion of 25- to 34-year-olds who were homeowners slumped from 52% to 43% and for 35- to 44-year-olds, from 70% to 61% (Ong Viforj, 2022). A survey in January 2023 of people between 18 and 34 found that 72% of respondents felt that they will never be able to buy a home (Galloway & Malo, 2023).

A journalist for *The Sydney Morning Herald* poignantly described her fruitless endeavour to buy a unit in Sydney and the way she was constantly outbid by investors:

> After a meagre 10-minute inspection, we commit to the most expensive decision of our lives only to find out we never had a chance in the first place. Faceless investors bidding over the phone will always win (Schultz, 2024).

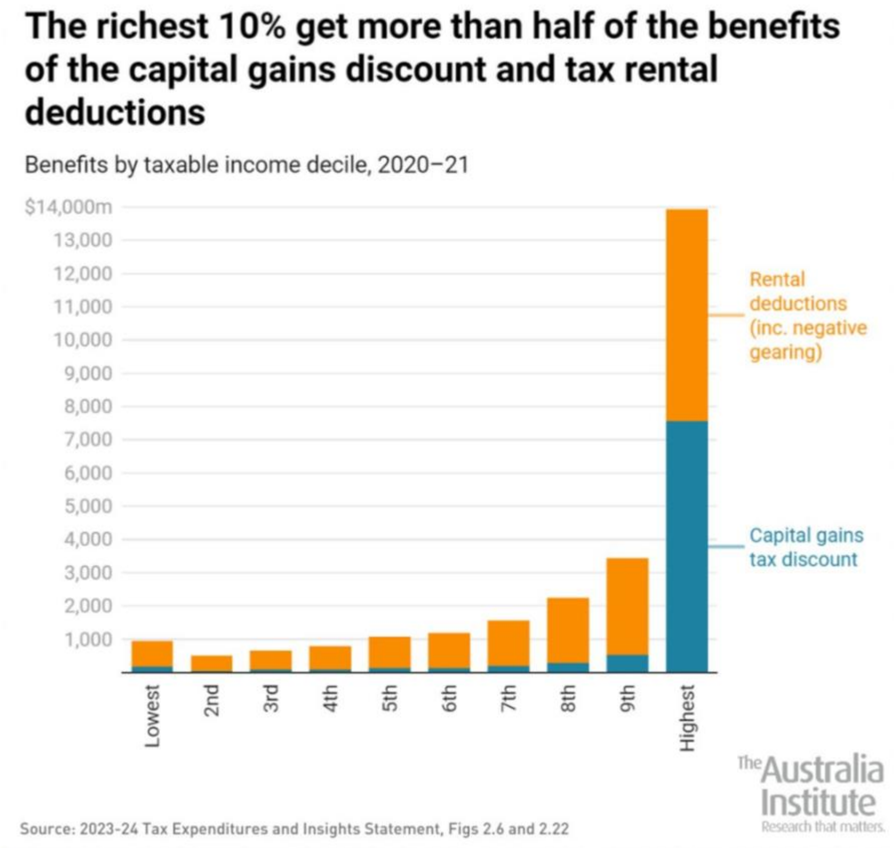
She could only contemplate purchasing a property because her parents had offered financial support.

The most recent Australian Bureau of Statistics (ABS) data on loans for residential property indicate that investors accounted for 38.2% ($11.71 billion) of all loans for housing in July 2024 and first home buyers for 35.4% ($10.83) (ABS, 2024). We can safely conclude that in most cases, where an investor succeeds in purchasing a property, they are outbidding a first-time home buyer.

It is evident that the tax regime in place has shifted the way housing is viewed. Housing is increasingly viewed as an investment rather than primarily as a home.

Housing scholars have coined the term the ‘financialisation of housing’ to capture this phenomenon (Aalbers, 2016).

In order to dissipate the financialisation of housing, negative gearing and the capital gains tax discount need to be reviewed. Besides pushing up the price of residential property and preventing thousands of potential first-time home buyers from becoming homeowners, the revenue forgone due to these taxes is staggering. The Parliamentary Budget Office (PBO) has calculated that between 2013-2014 and 2023-24, the revenue forgone due to negative gearing and the capital gains tax discount totalled $84.11 billion. The PBO predicts that between 2024-25 and 2033-34,the revenue forgone due to this tax regime will total $165.58 billion. The Australian Institute has calculated that in 2020-21, the richest 10% of investors benefit more than the remaining 90%; this top grouping receives more than half of the benefits accruing from the capital gains tax discount and negative gearing (Thrower, 2024).



If the tax regime for investing in residential property is made far less attractive and housing is no longer subject to speculative investment, it would likely result in house prices stabilising and facilitate the entry of many more first-time home buyers into the market. The NSW Treasury has estimated that home ownership would increase by 4.7% if negative gearing was abolished and the capital gains tax discount was halved (Warlters, 2023). Further, if a significant proportion of the revenue saved through reforming negative gearing and the discount on the capital gains tax was directed to the building of social and affordable housing, Australia’s housing market could be dramatically transformed over the next couple of decades. The housing crisis urgently requires bold intervention by the federal government. Reforming the present tax regime around investing in residential property should be a priority.

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Professor Alan Morris, September 2024