

House of Representatives
Standing Committee on Economics
Inquiry into Home Ownership

Submitted by Siow Tung - 25/6/2015

Introduction

The real estate bubble in Australia is now world class. It has even attracted the attention of the IMF. (1) Australia has become a very expensive place to do business in and it is losing its international competitiveness. Some sectors of manufacturing are being entirely shutting down. Household debt is at an all time high. Many Australians are experiencing mortgage/rent stress and have little disposable income. People don't spend and this is affecting the domestic economy.

Demand and Supply Drivers

In a free and fair market, any price anomaly would be taken care of by the interaction of demand and supply. In other words, the market would correct itself over time. With regards to the Australian property market, government policies and central bank intervention have introduced distortions that prevent any significant market correction. Thus, we have an artificial market where prices are only allowed to go up.

Demand Drivers:

- a) Negative Gearing - Speculators are encouraged to buy properties even if it doesn't make sense from a rental income perspective. According to the ATO, property speculators have claimed negative gearing tax breaks of \$12 billion in 2012-2013. (2) Most countries do not allow negative gearing. Australia, New Zealand, and Japan are the only countries that have unrestricted negative gearing. (3)
- b) High Population Growth – 60% of population growth is now due to net overseas migration. (4) Since overseas migration is a matter of government policy, it is an artificial demand driver. The influx of migrants also puts additional pressure on already stretched health care systems, education, public transportation, roads, environment, etc.
- c) Foreign Speculators - Even though foreign buyers are confined to investing in new construction, they are still a demand driver. If a newly built house or unit wasn't bought by a foreign investor, it would still be available to a local home buyer. Ironically, many of them don't even rent out their investment properties. For example, it is claimed almost 500 apartments in Melbourne's Docklands are empty. (5) The practice is also common in Hong Kong where an estimated 250,000 apartments are uninhabited. (6) Adding insult to injury is the possibility that Australians are being priced out of their own market with money from international organised crime and corruption. (7) (8)

Supply Drivers

While demand can be artificially created and increased, supply on the other hand is limited. Land is a finite resource. Australia may be a big country but it is also very dependent on farming and agriculture for export revenues and for its own food security. As urban sprawl takes over arable land, food will become more and more expensive. (9) Increased high density housing is also not a viable long term solution. Australian cities have already become congested and polluted. The environment and quality of life in Australia is under threat.

Opportunities for Reform

Naturally, the focus of reforms should be the reduction or elimination of artificial demand. Negative gearing should be removed. Immigration numbers should be reduced. And foreign buying should be restricted.

In that regard, Government has taken a step in the right direction. It has flagged the introduction of application fees on foreign purchases. (10) Under that proposal a property of \$1 million would be subject to a fee of \$10,000. That's 1%. Will that deter people who pay cash for million dollar homes and don't need to rent out their investment properties?

For guidance perhaps we should look at what their rules are in their home country with regards to foreign ownership. For instance, lets look at the City of Beijing:

“Foreigners who intend to buy a house in Beijing need a certificate issued by the Beijing Municipal Public Security Bureau to prove that they have stayed in China for at least one year for reasons of work or study, according to a statement jointly issued by six ministries led by the Construction Ministry. The rule required that foreigners only use and dwell in the house themselves and not buy a house for other purposes. Foreigners were also required to use their real names when buying a house in China.” (11)

Conclusion

In addition to economic pain, the bubble is also creating deep divisions within society. Young Australians are being priced out of the market. The gap between rich and poor has widened and homelessness is on the increase. The most recent count shows that 105,237 people are now homeless. (12)

Irrespective of macro-economic figures, the emergence of a two-tier society with a rich landlord class and poor tenant class would represent a step backward in the field of human development.

References

(1)

<http://www.afr.com/business/banking-and-finance/financial-services/imf-to-probe-australias-record-property-and-debt-levels-20150501-1mxjmi>

(2)

<http://www.smh.com.au/business/the-economy/negative-gearing-tax-claims-fall-thanks-to-low-interest-rates-20150429-1mvol1.html>

(3)

https://en.wikipedia.org/wiki/Negative_gearing

(4)

<https://www.immi.gov.au/media/fact-sheets/15population.htm>

(5)

<http://news.domain.com.au/domain/real-estate-news/flood-of-empty-flats-fuels-property-hoarding-fears-20141128-11vw72.html>

(6)

<http://www.marketwatch.com/story/hong-kongs-property-hoarding-problem-2011-10-16>

(7)

<http://www.afr.com/real-estate/corruption-crackdown-sends-ripple-of-chinese-cash-around-the-world-20140322-ixbw2>

(8)

<http://thediplomat.com/2015/06/property-probity-high-prices-china-and-australias-real-estate-market/>

(9)

<http://www.heraldsun.com.au/news/victoria/urban-sprawl-threat-to-farms-and-price-of-local-fruit-and-vegetables/story-fni0fit3-1226930497531>

(10)

<http://www.abc.net.au/news/2015-02-25/foreign-real-estate-buyers-to-pay-fees-up-to-10000-dollars/6260748>

(11)

<http://www.china.org.cn/english/LivinginChina/220516.htm>

(12)

<http://www.homelessnessaustralia.org.au/index.php/about-homelessness/homeless-statistics>