

The purpose of this submission is to argue that a Liberal Government should not dismiss the *idea* of affordable housing.

**Q1: I have a \$600,000 mortgage on my own home and I also own three investment properties with a total market value of \$1,500,000. Why would I even consider the removal of negative gearing?**

The responsible way to move toward affordable housing in Australia is to do the right thing by you, the mortgage payer and landlord, as well as do the right thing by the six and a half million renters who report to their landlords each month.

**Q2: Why would any Government seriously pursue reform on housing affordability as opposed to throwing around a few handouts here and there, when a large proportion of voters either own a home or are trying to pay off their \$1.36 trillion dollar mortgage to the Australian banks (1).**

Firstly, Australian homeowners and residential property investors are not paying off their mortgage to the banks.

They are simply increasing their mortgage by billions of dollars each year and using that extra debt to bid up the price of their own homes.

During 2012 Australians increased their total mortgage loan size by \$50.5 billion dollars (1).

In 2013 Australians increased their mortgage by more than \$50 billion dollars, bringing our total mortgage debt to \$1.36 trillion by November 2013.

A responsible Government would slowly remove the demand side boosters such as negative gearing and supply side restrictions such as urban growth boundaries, whenever house prices / land prices increase by the equivalent of 3% per annum, per quarter, which is the very upper limit for price inflation as set by the Reserve Bank of Australia (2).

If house prices increased by the equivalent of 2.4% per annum, during say the first quarter of the year, those demand boosters such as

negative gearing would remain unchanged for that quarter. If house prices increased by the equivalent of 3.4% per annum during the first quarter of the year, the Government would reduce the maximum amount that can be claimed due to negative gearing by some small increment, to bring house price inflation back down to less than 3% for the following quarter.

**Q3: Why would a Liberal Government interfere in the housing market to influence house prices?**

An even better question would be, "Why does the Liberal Government allow such a large amount of interference in the housing market when the very objectives of the Liberal party are to bring about full employment and affordable housing?"

Quoting directly from the current Liberal party constitution (3):

*"The objectives of the Organisation shall be to have an Australian nation:*

*...(h) in which **constant employment at good wages is available to all** willing and able to work,*

*...(n) in which family life is seen as fundamental to the well-being of society, and in which **every family is enabled to live in and preferably to own a comfortable home at reasonable cost, and with adequate community amenities.**"*

**Q4: Why would the treasurer of a Liberal Government have any concern for housing affordability?**

The treasurer should be concerned about housing affordability simply because of the affect it has on the budget each year.

My first son is due to be born in a few months from now. I work full-time on a wage that is at least 30 % less than the average full time Australian wage of \$1,485 per week.

It has recently come to my attention that when my son is born we will be entitled to Government handouts. The first of those handouts I am aware of appears to be something called family tax benefit A and

family tax benefit B, which look as though it could bring in up to \$159.32 extra per week.

Having already put aside \$50 a week for a couple of months, by the time my son is born we will have all the essentials such as a cot/clothes/sling etc.

Why the handout?

Is there something wrong with the marketplace for food in Australia? Is there no competition amongst our food producers and trucking companies to keep the cost of food down? Is the Government restricting the supply of available farmland? Are our accountants encouraging everyone on the average wage to take out investment loans to buy our farmland and lease it back to our farmers at ever higher amounts and claiming the interest on their investment loans as a tax deduction against their normal wages as accountants, plumbers and doctors?

Is there something wrong with the market for clothing? Are there huge tariffs on the importation of t-shirts and sandals that no doubt cost less than \$2 to make in China? Are there laws against enterprising individuals identifying good quality local and offshore clothing manufacturers and selling the products online to Australian consumers thereby freeing up cash to Australian consumers so that they can buy more of some other product?

If housing became progressively more affordable and full-time workers like myself could spend a greater proportion of our weekly income on products and services instead of rent or a mortgage, by how much could the Government wind back all these handouts and subsidies?

Over 2013-14 you have a projected fiscal deficit of \$18.0 billion (4).

Over 2013-14 you intend to spend \$20.3 billion on the family tax benefit.

I guess ignoring housing affordability is costing you your surplus.

**Q5: Which economic factors could be progressively removed each time the quarterly house price inflation rose above the RBA target of 3% per annum?**

### **Negative gearing**

Negative gearing was introduced to stimulate the construction of new residential properties. As the equivalent of 94% of residential property investors purchase existing dwellings, which do not add to supply and do not add any real value to the economy, negative gearing should be removed (5).

Counter arguments about rental prices increasing if negative gearing is removed fall away with only a small amount of logic.

If less investors are bidding at auctions because negative gearing has been removed and their maximum bid is a little less overall then more homeowners will be winning bidders which will also include first home buyers.

When a first home buyer buys their first home to live in they exit the rental market, increasing the supply of rentals.

Negative gearing needs to be wound back until it is only eligible for those Australian citizens who are actually increasing the supply of homes in Australia.

### **Population growth**

The Australian population increased by 394,200 people over 2012 (8) and approximately 90,494 new private residential dwellings were completed (9). Since we know that there are approximately 2.6 people per dwelling (10) then we know that over 2012 we built enough dwellings to accommodate 234,284 of the 394,200 extra people.

What are the remaining 159,916 supposed to do? Can they rely on the housing market to respond to the increase in house prices and thereby wait for an increase in the supply of new homes?

The answer is no.

Over the ten years from 2003 to 2013, the number of building completions per quarter averaged about 26,000. In the three months to September 2013, less than 24,000 new residential buildings were completed.

Since we are unable to increase the supply of new residential homes, net migration needs to be reduced until the population increase each year is in equilibrium with the supply of housing.

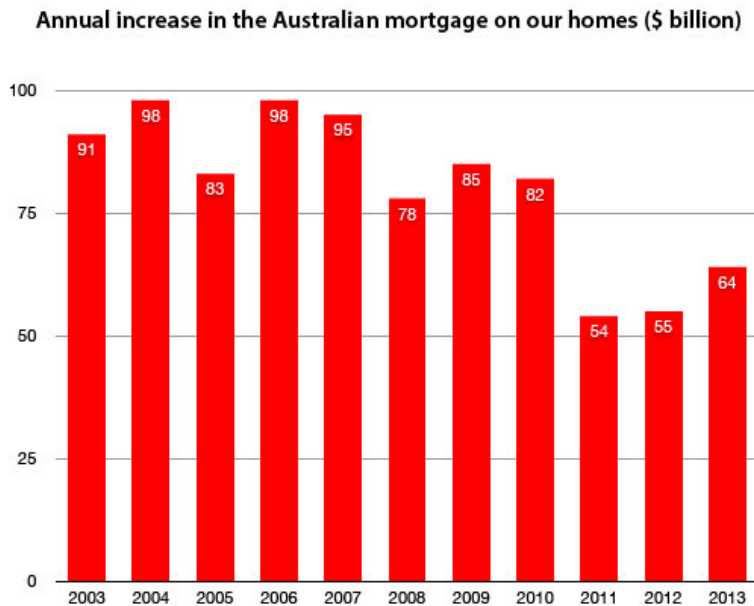
### **Unrestricted credit growth**

On December 12, 2012 the reported weighted average median house price across the eight capital cities was \$515,669 (6). By December 11, 2013 the average house price had increased to \$562,503 (7).

In 12 months our average Australian house price increased by \$46,834.

Where do you think the extra money came from?

The answer can be seen below.



Source: RBA, D2 Lending and credit aggregates.

An obvious counter argument would be that the increase in our total mortgage each year is simply to fund the increase in supply of our housing.

However, if we divide the \$55 billion from 2012 by the 90,494 residential homes completed that year we have \$611,111 per new home, which is \$95,442 above the average house price for that year.

Hence a reasonable rule would be that the annual increase in the private debt we owe on our houses when divided by the total new dwellings for that year cannot be greater than the average price of houses for that year. If the amount is greater then house prices will increase due to citizens taking on extra debt.

#### **SMSF property purchases**

If superannuation funds / SMSF view residential property as a good investment then by definition they believe Australian property will increase in value faster than the reported inflation rate.

Again, you face a choice.

Is the purpose of the Australian property market to create capital gains for property investors from borrowing more each year from our banks, or is the purpose of our property market to provide a home for our families that is affordable, thereby freeing up an average workers wage to spend on other products and services in the economy, instead of a mortgage or rent.

Until the demand boosting and supply restricting factors have been removed from the property market, superannuation funds and SMSF should not be able to purchase residential property in Australia.

#### **Chinese investors**

Approximately 13% of all home buyers are estimated to be Chinese investors (11). Australian citizens should have the first choice on whether they would like to purchase a home at a reasonable price on an average wage.

### **First home buyer grants**

Giving money to first home buyers to purchase their first property simply adds to demand and therefore price.

### **Lowering lending standards**

The interest rate buffer on new mortgages needs to be at least as high as interest rate highs over the past 5 to 10 years (11).

### **Capital gains tax concessions**

The capital gains tax concessions need to be changed so there is no rational incentive to preference investing in real estate compared with other forms of investment.

### **Insufficient access to accurate and timely sale price data**

All property sale data such as number of bedrooms, suburb, dwelling type and sale price needs to be aggregated, anonymous and available for free to consumers. From personal experience working in real estate, agents can choose to report a sale if it is a "good result".

Imagine if stockbrokers only had to report the price on a share transaction if it was a "good result" (12).

### **Stamp duty**

Instead of having a transaction tax every home sold each year, the tax revenue should be collected via either a broad based land tax, an increase in the GST or by an increase in income tax or by a combination of the above.

### **Delayed release of land for residential development**

Restricting the supply of land available for residential house and apartment construction shifts the supply curve to the left and therefore increases the price of housing (13).

1. D2 Lending and Credit Aggregates, RBA, Statistics Tables.
2. RBA inflation target, <http://www.rba.gov.au/monetary-policy/inflation-target.html>
3. Liberal Party of Australia Federal Constitution
4. Budget 2013-14
5. RBA, Lending Commitments-All Lenders, November 2013
6. [http://www.reia.com.au/userfiles/MEDIARELEASE\\_1355265275.pdf](http://www.reia.com.au/userfiles/MEDIARELEASE_1355265275.pdf)
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