

Submission by [REDACTED] to the Senate Inquiry into Affordable Housing

Thank you for this opportunity to make a submission to this inquiry.

As a Chartered Accountant who takes a keen interest in this topic I am eager to share my views. I am also a young Australian who feels, like many of my peers, that I have been priced out of the Australian property market due not to market or economic factors, but rather due to government policy decisions.

Un-affordability of housing has nothing to do with houses

Houses are a consumer good that are in great demand. In recent times, other consumer goods that are in great demand, such as smartphones, consumer electronics, furniture and clothing have been coming down in price as new technologies, mass production and efficient distribution have allowed the markets to be supplied more efficiently than ever. As demand for these items has increased, the market has been so effective in supplying the demand that prices have continued to fall, even while quality has improved and selection expanded. The abundance provided by this efficiency has been the best economic news of recent history.

This raises the question, why is the market for housing so ineffective that, not only can it not provide falling prices, its prices seem to always go up? Surely the components of houses should be benefiting from the same newfound efficiencies?

The answer is that houses, unlike smartphones and clothing, must be placed on a fixed block of land. Land, unlike smartphones, clothing and houses, cannot increase in supply due to increased demand. Thus, Australia's housing affordability problem has nothing to do with houses, it has to do with choices made about land allocation.

Why should Australia aspire to have affordable housing?

Moral arguments aside, just as ubiquitous, affordable, high-quality smartphones have enriched our lives by providing us with newfound options and productivity, so would be the case if we had ubiquitous, affordable, high-quality housing.

Houses are a consumer good, and like all consumer goods, the cheaper they are relative to income, the better off people are. As we are freed from the need to devote so much of our resources to the imperative of shelter, we could devote those resources towards other more fulfilling and productive activities.

Government policy should encourage the productive use of land

More than 80% of Australians live in cities, and, understandably, it is in Australia's cities that housing is least affordable. As Australian cities have seen their populations and economies grow, and their infrastructure and services improve, the demand for access to their land has increased. This has had the predictable effect of increasing land values. The economic benefit of these land value increases has flowed to the owners of the land.

The problem is that these benefits flow to the landowners regardless of what they do with the land. If the land is a vacant lot in an area where there is intense demand for accommodation, the rise in value, spurred by this demand, rewards these owners even if they do nothing more than hold what could, perhaps should, be a productive resource away from productive use.

In this scenario, government policy should aim to incentivize the owner to put the land towards its most productive use. In an area which has intense demand for accommodation, this would likely be a residential development. If built, this development would increase supply of housing in the area, which, under the laws of supply and demand, leads to an improvement in affordability.

Introduce a broad Land Value Tax (LVT) - and call it a 'Community Value Rental' (CVR) in order to avoid the word 'tax'

Land derives its value from its location. If it is in the middle of the Simpson Desert and is hundreds of kilometres from any infrastructure, the value is probably very low. If it is in inner Sydney, with all the benefits of public services, infrastructure, commerce and entertainment in close proximity, the value is probably very high. This value is created by the community, yet the economic benefit flows to whoever owns the land. As such, it is reasonable that the economic benefits that have been created by the community be paid for by those to whom the economic benefit flows, thus it could properly be called a 'Community Value Rental'.

Details of how a land value tax/CVR could work can be found in chapter 6 of *'Australia's Future Tax System Review'* (2009) (The Henry Tax Review), in which it was recommended to Treasury and noted *'land tax in particular should reduce current impediments to housing supply'*.

Under the previous example, a landowner with a vacant lot would face a large CVR, as the value of the land would be high. This would incentivize them to build the residential development in order to generate income from the lot, allowing them to cover the CVR and generate income for themselves. This would increase supply and improve affordability.

At local and state levels of government, existing residents in well-served communities tend to support zoning and planning restrictions in their community in the face of rising demand for access. This stymies the construction of higher density housing developments to supply the demand. This is understandable, as they wish to protect the value of their properties and character of their community, in other words, there is an economic incentive *not* to allow new developments. The fundamental unfairness of this, is that the people who would like to, but don't, live in the community, don't get a say, because their houses never get built. If there was a CVR, there would be an economic incentive for existing residents to consider allowing new residential developments. This would increase supply and improve affordability.

These incentives will only work if the CVR is as broad as possible. There should be no exemptions for owner-occupiers.

Land, as a tax base could generate enough revenue to significantly reduce, or even replace the income tax. By allowing people to keep more of their income while simultaneously nurturing policies that stimulate housing supply, this would further aid housing affordability. Reducing or eliminating the income tax would also alleviate income tax related distortions that cause higher prices. The controversial practice of 'negative gearing', which arbitrarily provides a tax incentive to buy real estate, is just one of these distortions.

End the First Home Owner's Grant

The First Home Owners Grant (FHOG), when applied to pre-existing dwellings, stimulates demand without doing anything for supply.

Seeing that the housing affordability problem is one of lack of supply in the face of rising demand, there is no sense in having a policy that stimulates demand for the pre-existing supply.

Though there is an argument to say the FHOG stimulates construction if directed towards new dwellings, increasing supply through incentives to allocate land towards productive use would be simpler, cheaper, less distortive and more effective.