SUBMISSION ON AFFORDABLE HOUSING IN AUSTRALIA

Australians have a globally recognized love affair with real estate. It is imbedded in our socio-economic understanding of what owning property is able to realise. Owning a dwelling is expected to increase in value over time. The capital gain, when leveraged, principally as household circumstances change, is the means of moving upwards through the property market.

Speculation in real estate's capital gain, aided and abetted with tax incentives is well understood by the majority of Australians.

Whilst shelter is consider a human right, there is no unalienable 'right' this is equated to home ownership. Consequently, there is friction between what is internationally considered a human right and Australia's assigned value to the property market.

Any enquiry headed with the 'feel good' wording of 'affordability' needs to make transparent it is addressing property ownership in support of a socio-economic value and give reasons why. Alternatives need to be recognized and considered, such as reform of the Residential Tenancy Agreements to provide equivalent to what is common practice in Europe. This may be extended to changes in the tax incentives associated with speculation in real estate.

It is a useless to look at the notion of 'Affordable housing' within context of restricted variables such as the impact of tax and regulatory regimes on price, affordability and supply of housing in Australia unless what is happening in the banking sector[1] and its impact on 'affordability' is acknowledged and addressed. Such restrictions pre-determine any report's outcome.

Affordability isn't as much a planning issue related to land releases or rezoning of land, because the big picture is an ugly and deliberate mismatch between what is happening in the financial sector and what is happening in the realty market.

The root cause of the lack of affordable housing is the consequences of deregulation of the banking sector which took hold in the 1990s and what is called the 'financialisation' of property. Australia has been in a structurally engineered property bubble for the last 30 years that leaves 'affordable housing' behind the starting blocks. This would explain why Jason Falinski (LIB) drawing on data from the Reserve Bank, Treasury and the ABS shows home ownership has fallen over the last 30 years. Sadly,

[1] In this submission, the term 'banking sector' refers to those financial institutions that are in the business of mortgage lending. The submission is based on several years of tracking at the international and national scale what is happening in the financial sector and how this is incorporated into what is happening in the banking sector in Australia.

such a statement does not go far enough to explain the reasons why and the pivotal role of the banking sector in it.

Banks no longer support the economy but rather are profit focused in their own right. Lending standards have come down and interest rates have been continual cut for a number of years. What is happening in Australia since the Global Financial Crisis and accelerating in recent times is a transfer and concentration of wealth in realty and equities.

Today, the Reserve Bank's behaviour mirrors the' recommendations' that of the International Bank of Settlement[2] and the International Monetary Fund[3]. It is manipulating interest rates in the bond market and has provided $160Bn of credit to the banks at near zero interest rates specifically targeting home mortgages.

Interest rates are at an historic low and banks, most probably because of uncertainties in the economy are sloshing in deposits. Banks are profiting from the current economic conditions. CBA for example has recorded a record profit, is paying out $4Bn in dividends, flagged a $6Bn buyback and its market cap has reached $190Bn. It has borrowed $51Bn from the RBA at 0.1%.

Mortgage lending is conservatively 6-8 times household income and 60% of income is servicing that debt. Meanwhile, household debt in Australia is the highest in the world while wage growth has been virtually stagnant since 2012. Mortgage stress is clearly evident in many Australian suburbs.[4]

Mortgage loans now represent 65-70% of bank assets and the banks are lobbying for a further relaxation in 'restrictions on responsible lending'. This is in defiance of recommendations from the Haynes Royal Commission as restrictions represent a means of protecting consumers.

The banks want indebtedness! It is their core business. Mortgage loans are assets on the balance sheets and dwellings can be confiscated in times of financial crisis. In the mantra of the Reserve Bank and regulators[5], Australia's banks are 'unquestionable strong' because of the value of these mortgage loans. So determined are the banks to maintain a high level of household indebtedness their business model has come under criticism from the IMF. Mortgage lending has skewed financial resources into the housing market. Given this business model, any enquiry into 'affordability' must answer the question, 'who benefits and for what purpose' and conversely, who loses?

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[2] Phillip Lowe, Governor of the Reserve Bank heads the BIS's Committee on Global Financial Stability.
[3] IMF research paper is supportive of a global digital ecosystem for the purposes of the ease of transmission of monetary policy. Only in the most recent times is the IMF expressing concerns about the global inequity in housing yet at the same time wants extremely low interest rates as a monetary tool to kick start economic growth
[4] Martin North of Digital Finance Analytics has evidence of mortgage stress by postcode for Australia. His data is based on current household surveys whereas CoreLogic's data, is generally one month old before it is used by the Reserve Bank.
[5] Wayne Byres, head of APRA is ex the International Bank of Settlement

Mortgage loans are bundled into Collatorised Loan Obligations[6] and leveraged as derivatives in the financial market. To date, these are traded intra Australia. What could possibly go wrong? No one wants to address the role of derivatives! Derivatives are off the balance sheet of the banks yet are one of the most risky of financial instruments with potentially big gains or losses. They also have first claim on a bank's assets which under the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 could be increased by converting deposits (a bank's liability) into an asset and writing them down or off in order to save a bank from failing. Section 5.15 of the Explanatory Memorandum of the Act provides for the conversion of instruments that would otherwise not be considered capital to capture deposits. Both political parties recently refused to amend the Act to make explicit that deposits were excluded from conversion into assets on the balance sheet. If the bank fails, what is the impact on households?

Banks are a protected species in Australia[7] and have immense political power in government decision making. Consequently, credit is pouring into real estate as a stimulus to economic growth while investment in the real economy such as manufacturing, agriculture and infrastructure are being by-passed. Thus, growth in the economy languishes whilst those needing 'affordable housing' are not even in the race as money pours into higher real estate prices and equities. The 'fear' of losing out saw people taking up the $20K early withdrawal from superannuation and using it as part deposit on the purchase of property. This 'fear' has been aided by the 'Mum and Dad' bank, now the ninth largest bank in Australia. The effect is to push real estate prices higher.

Government fiscal policy has merely added more fuel to the current property bubble. Furthermore, the government and the Reserve Bank's embrace of Quantitative Easing has injected further liquidity into the financial sector. The effect merely pushes real estate prices higher.

First Home Buyer's scheme needs to be reconsidered. There are far too many tales of the first home buyer failing to meet mortgage repayments by the third year. So, the notion of 'affordability' for that market is highly questionable. However, for the astute purchaser it is a means of leverage upwards in the property market with those who can sustain the required mortgage payments deliberately taking advantage of public monies.

The private sector is a highly questionable source of investment in 'affordable housing'. The behaviour of private developers in Byron Shire, under the NSW government's SEPP Affordable (Rental) Accommodation Act has been appalling.. The intent of the legislation has been violated. The legislation has opened up a gold mine for the private developer whose only obligation is to nominate a minimum number of dwellings within a complex as 'affordable 'for a minimum of time to satisfy the legislation. Tax incentives, in the form of depreciation have merely added to the attractiveness of this SEPP. If this

[7] The banks learned as a result of the Global Financial Crisis that governments will BAIL OUT any risk of failure…..Then Prime Minister, Kevin Rudd guaranteed the banks facing their inability to service 90 loans. The socialization of debt is now well and truly institutionalized in the banking sector. Job Keep/Job Seeker saw money pouring into mortgage repayments. This could readily be interpreted as saving the banks in 2020.

practice and experience has been duplicated elsewhere and in all likelihood has, private sector 'affordable housing' in Australia has not achieved mission.

Government policy has abdicated any responsibility for public housing or structural reform of the banking sector. The Reserve Bank, formerly the Commonwealth Bank until 1959, must take responsible for directing resources into the mortgage market, aiding and abetting the transfer and concentration of wealth in realty. The effect is to make Australia one of the most expensive housing markets on the globe.

Summed, the Reserve Bank, and government will do whatever it takes to keep the property bubble going and politicians wouldn't want the bubble to burst on their watch.

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[redacted]

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