Dear Mr Hawkins

There are 2 ways to address housing affordability problems for first home buyers:

1. Introduce measures which reduce the cost of a house (either by increasing supply or reducing demand).
2. Provide more Government subsidies (FHOG, etc) to increase the amount of money a first home buyer has.

There are 3 groups of people seeking to buy a house today:

- First home buyers.
- Investors.
- Existing home buyers.

The third group is selling one house to buy another and therefore is largely neutral in the problem. The competition for a house is therefore between first home buyers and investors.

It seems silly for the Government to provide huge tax benefits to investors (negative gearing, 50% capital gains tax concessions) and to then counteract this by providing subsidies to first home buyers. In times of higher unemployment it could make sense, but at present it doesn't.

On this basis, providing subsidies sounds like the Government is helping but in reality is simply a waste of more Government money. In the current environment it is also inflationary. Having said that the new deposit accounts are a good idea as they will encourage people to save, not just for a house but for the rest of their lives.

Increasing supply is an obvious option. There are questions as to who pays for new infrastructure (schools, hospitals, parks, etc) and how they pay for it. Overall this needs to be part of the solution.

Reducing demand is perhaps the most effective of the 3 options. In the competition between investors and first home buyers, this means reducing demand from investors.

I note the problem is HOUSING affordability, and not UNIT or TOWNHOUSE affordability. Especially in the big cities there is a demand for units to rent rather than to be owned. People through life leave home and wish to rent a unit. They later become a family with children and want a house to own. I appreciate that there is also a need for some houses for rent where a family moves to an area for work for 1 or 2 years. More rental units are part of the solution as this reduces rent costs and therefore increases people's ability to save.

My vision is that an investor is able to invest in rental units, commercial property, listed property trusts and 1 rental house. That is a lot of diversity for any 1 person in this sector. Measures should be put in place to discourage or prevent an investor from having more rental houses. The best social outcome is for the great majority of houses to be owned by families.

There are a number of ways in which demand by investors for houses can be reduced:

- Removing their tax concessions such as negative gearing and/or the 50% capital gains tax discount. This also saves Government money. I understand there were problems with this in the 1980's, however that was a time with higher unemployment. An effective way to start would be to quarantine losses on rental properties. The loss would be available in future years as the rent income exceeded the expenses, but in the early years it can't be used to reduce overall taxable income. This would have an effect without being a massive change. In future years the law could be changed so any rent expenses in excess of income in a year are lost, ie end the carry forward of rental losses measure.

- Prevent the ownership of rental properties in concessionally taxed vehicles such as superannuation funds. This could be done via the Superannuation legislation or at Land and Titles offices of states.

- Restrict the number of rental properties any 1 person can own. Only allow rental properties to be owned by individuals. Maybe only allow rental properties to be owned by Australian residents. This again could be done at the Land & Titles Office level.

Reducing demand will reduce prices. This is great for helping first home buyers enter the market. Lower prices do effect others of course:

- It reduces the value of assets of investors. Is the Government's housing policy aimed at helping investors or young families.
- It reduces the value of homes sold after someone passes away. Is the housing policy to help 50 year olds get a greater inheritance or young families.
- It has a neutral effect for a home owner trading up as the home they are selling will go for less but the home they are buying will also be cheaper.
- A family who recently bought could lose. If planning to live in their home for life then the loss is to their beneficiaries. If planning to trade up then this next home will also be cheaper. If they are forced to sell and return to renting then they could lose.

My family moved out of Sydney and bought a home 2 years ago. We are being squeezed as our interest is 25% higher than when we started. We do not benefit by measures to assist first home buyers. We are happy to lose, if house prices fall, as falling house prices achieves so many social benefits that it is worth pursuing.

State Taxes

I don't support removing state taxes. When we bought our home we had $300,000 to spend. If state taxes are $30,000 then the seller gets the other $270,000. If state taxes are $0 then the seller gets the entire $300,000. We spend the same, the seller gains and the state government loses. The state government has to raise the money from somewhere so we end up paying anyway.

Financial Institutions

I believe it would be beneficial to place some restrictions on people's ability to borrow. Overall I believe each person is the best judge of their spending and future income situations, and so placing caps based on current incomes will disadvantage some.

I perceive there is a problem where a young couple borrows the maximum based on both their salaries. A couple of years later and they decide to have children. As they borrowed so much they can not afford to have either parent stay at home.

The effects of this are:

- Childcare places are needed.
- Women (predominantly) have swapped the 1960's 'you must stay at home' for a 2000 'you must go to work' scenario. Surely the goal of the 1970's was choice.
- Potential future social problems from children being disconnected from parents further eroding the strength of the family unit and the benefits that flow.

These last 2 effects are of course outside the scope of the committee. Presently with skills shortages we need young parents to return to the workforce. I believe this is an issue anyway, and worth raising.

The solution is that when taking out a loan it is based on 1 person's entire income plus only 50% of the other's income. Having this as the law in all situations where 2 people are on the loan will mean it doesn't skew affordability away from young couples.

Finally, I expect the while most submissions you receive are from experts in the industry, these people will be influenced by the group they represent. The building industry is focussed on building more houses, etc. They will all be able to put up impressive arguments supporting their ideas. It may be simply coincidence, or a bonus consequence, if their ideas also address housing affordability.

thanks and good luck

Campbell

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