The Question the Government must agree to, before the Senate Enquiry into Housing Affordability can commence.

As the deadline for the senate enquiry into housing affordability approaches, some notable submissions have thus far been made.

- **Saul Eslake**, One of Australia's most respected chief economists, and previous member of the now disbanded 'National Housing Supply Council,' has submitted the address he gave last year at the 122nd Annual Henry George Commemorative Dinner, in which he eloquently outlines Australia's "50 Years of Housing Failure."

  Eslake advocates the need to remove policies that stimulate demand, such as negative gearing, in favour of those that increase supply. 'Rethinking' infrastructure financing and removing stamp duty, in favour of a broad based tax system on the unimproved value of land, as was recommended in the 2009 Ken Henry tax review.

Any detail Eslake misses on the supply side, is dutifully covered by Senator Bob Day.

- Senator for South Australia, a registered builder and founder of major construction companies, such as '*Homestead Homes* and *Home Australia,'* **Bob Day's** submission, is his May 2013 policy paper - 'Home Truths Revisited,' - in which he shares an intricate understanding of the history and complexities of supply side policy, which have seen land prices increase more than 'tenfold,' in comparison to the cost of building, which has seen 'virtually no increase at all.'

  Importantly, for my industry colleagues who 'blog' that price rises were simply down the increase in demand stimulants, (such as dual income households.) Senator Day notes, *"while influential bodies like the Productivity Commission and the Reserve Bank focused their attention on demand drivers, like capital gains tax treatment, negative gearing, interest rates, readily accessible finance, first home buyers' grants and high immigration rates" … "**the real culprit, the real source of the problem**, was the refusal of state governments and their land management agencies to provide an adequate and affordable supply of land for new housing stock to meet the demand."*

- Other notable submissions come from **'Grace Mutual Limited,'** - a not-for-profit entity who "designs investment mechanisms to attract wholesale funding into the social sector" - in particular -"the National Rental Affordability Scheme."

  GML outline the 'unduly complex' regulations that have disadvantaged investors, noting; *"Large numbers of NRAS incentives (at least 4,000) were awarded for the construction of student housing," yet "There appears little evidence that this has any positive impact on the middle to low-income families that were the target of the original policy."*

- And the last two submissions to date (2/2/2014) come from **"Home Loan Experts,"** who want an abolishment of negative gearing, but predictably think that the first homebuyer grant should stay. And an **anonymous paper,** with an overview of the points made by both Saul Eslake and Bob Day, noting as I did back in December 2013 that nothing has been done since the last Senate enquiry.

Rinse and Repeat

To emphasise - The 2008 Senate report, entitled *"A good house is hard to find: Housing affordability in Australia"*

- Made the same points regarding Australia's tax policies, such as capital gains tax and negative gearing, which impact affordability and market activity.

- **It made the same points** regarding each states planning laws, overviewing the construction industry's future skilled labour workforce, the impact of urban boundaries on land prices, and the funding of community infrastructure.

- **It made the same points** regarding the need for a diverse range of accommodation suited to both young and old alike, advocating greater competition within the building industry.

- **It made the same points** in relation to both the both the public and private sector, addressing tenancy laws, and renters rights.

It was both comprehensive and detailed in content, and yet - 5 years later - at every level - both state and federal government have **failed**.

Failed to provide a ready surplus of 'cheap land.'
Failed to overhaul infrastructure funding.
Failed to boost a sluggish construction sector in relation to population growth.
Failed to reign in speculation.
Failed to overhaul a system that results in too few rental properties for low-income households. And;
Failed to reduce the need for social housing or raise standards in the public sector.

Instead – we're left with a new record median house price, which sits close to $600,000 ($597,556 APM.) - Following the highest quarterly rise for 4 years - built on the back of a diminishing first home buyer sector, which is instead supported by a record number investors, benefitting from a pace of growth in Sydney, which all agree, is 'unsustainable.'

As far as affordability is concerned, we're simply sitting on a merry-go-round of repeated mistakes.

Housing affordability a Mystery – too complex?

This is not due to any lack of understanding on the Government's part. There is no secret or mystery to housing affordability. The solutions are well understood.

- They were discussed at length in the previous senate enquiry.

- The RBA has outlined them in papers, as recently as the 2011 bulletin entitled 'supply side issues in the housing sector.'

- AHURI has repeatedly tacked both supply and tax policy.

- VCOSS, Shelter, the Tenants Union, the 'Annual Demographica Housing Affordability Survey' and Leith Van Onselen, have all provided their own valuable contributions to the 'solutions' surrounding housing affordability.

- **And this senate enquiry will do the same**.

The recommendations fall in line with other countries and states that have successfully achieved a consistent correlation between gross median house price and income – and so to some degree of detail or other, share the following two points in common;

1) They have taxation system that discourages speculation, but encourages productivity. The most successful of which is well-administrated broad based land value taxation system, such as that adopted in various cities in the USA - like Pennsylvania for example - where the tax on the unimproved value of land is heavier than that of property –a process of which I explain in full here - or as in Texas, where property is taxed, yet income isn't, reducing the level of speculative demand.

And;

2) They have created an environment in which liberal supply side policies ensure 'fringe' land is sold close to its agricultural value, ensuring zoning laws do not impede development, and there remains strong competition within in the construction sector.

Why we have failed.

Yet, the reason countries like Australia, the UK, certain states in the USA, for example, **fail** to successfully move away from the boom/bust cycle, which leaves us counting the minutes on the 'property clock,' until a major correction is experienced, - which ultimately offers little help to struggling home buyers, small business, or low income earners, due to consequential restrictions in lending.
Was summed up neatly in a 2007 parliamentary report entitled *'New directions in affordable housing: Addressing the decline in housing affordability for Australian families: executive summary'* - in which it confidently stated;

*"Improving housing affordability **does not** mean reducing the value of existing homes, which are usually the primary asset of any individual or family."*

It's a comment that sits right up there along with *'saving doesn't mean spending less'* or *'dieting doesn't mean reducing calories.'*

If only it were so…!

To create a sustainable and affordable housing market, in line with the majority of recommendations put forward in the senate enquiry, would inevitably have a dampening effect on existing house and land values, in particular sites which are banked for 'idle' speculation.

Fear over falling prices justified?

The fear is understandable when you consider residential real estate is Australia's largest domestic asset class, with an estimated aggregate value of over $4 trillion, pinned to a banking sector which has the highest exposure to residential mortgages in the world, in a country in which most Australian's are home owners.

However, please don't fall into the trap – once again as many of my industry colleagues do - of thinking just because a large number of homeowners in Australia own their own properties debt free, it prevents a potential 'crash' in prices - because the level of commentary on this matter is really very low.

A huge portion of private debt for the appropriation of business and commerce is **secured** against residential real estate.

A lack of active buyers in the market - (which produces an atmosphere in which price falls are inevitable) – stagnates turnover, prevents those who need to 'fund' their retirement through an equity release from doing so. Prevents those that need to move state to find employment else where, from doing so. It locks people into their homes – unable to downsize or upsize – and the effects are felt across all demographics.

Businesses which run into financial trouble are unable to reach into their house 'ATM" and secure additional funding, and as a result, industries close, lay offs are invoked, investment ceases - the list goes on.

Importantly, it does not prevent a major economic crisis.

It did not prevent it in Ireland, America, or other countries in Europe, which also had a large proportion of owners, who owned outright.

We are not immune from a major downturn – no market, which exhibits land cycles is – and be assured, when it does happen, it won't matter whether the banking system is 'wiped out' or not (as suggested as another reason we cant 'crash') – the Government will rush to their assistance – leaving ordinary people to suffer their debt consequences alone. As has been demonstrated repeatedly on an international scale.

Rising house prices or a stable market?

An economy that relies on high and rising house prices is one that's ultimately set to fail. It's a symptom of poor housing policy and can only supported over the longer term, by making debt 'ever more affordable.'

Therefore the best protection from such is political reform, which ensures stability across gross price to income ratios - and if managed proficiently in line with the two points outlined above;

- It would assist productivity,
- Boost the construction sector,
- Aid infrastructure financing,
- Keep prices accessible for new homeowners and business – which need to buy or rent land to compete with established players.
- Ensure tenants are not subject to ever increasing yields.
- Weather the unwanted impact of real estate ‘booms and busts.’
- Protect vendors from plummeting property values during an economic crisis - (whenever that point in Australia’s future is) – and;
- Reduce inequality between the asset rich and income poor.

Land speculators would not advantage from it – but ordinary taxpayers would love it.

What the Senate & Government must agree to allow, prior to commencing its enquiry.

Thankfully, we don’t need to have an initial debate with the senate, over whether the market is or isn’t affordable – as has been the case with various commentators across the mainstream media.

Instead, we need collaborative assurance from the government, that any outcome from yet another Senate enquiry, will allow **land prices to reduce –** the process of which would have an gradual roll-on effect across the established real estate sector.

Once - and only once - we have an affirmative answer to that question – can we begin the debate over how this could be achieved - and once we do, it must ensure the following.

1) That fringe land is immediately available for residential development, overriding existing urban boundaries and zoning requirements that render it otherwise, and ensure it remains close to its agricultural value.
2) Increase competition within the construction sector, simplifying the planning process, and eliminating ‘upfront’ infrastructure costs. Additionally, a review of the many ‘hidden taxes’ such as development overlays, application fees, stamp duties and so forth, that are charged through the planning and development process, must be reduced to ensure they are ‘fair and transparent’ as advocated by the HIA.
3) The removal/phasing out of policies such as the first homebuyer grant and tax incentives, that reward speculation into the established sector, and rely on housing inflation to stimulate demand.
4) Reopen the discussion to abolish stamp duty; moving instead toward a broad based land value taxation system. Following practices across the world where it has been deployed with success, and noting that the ACT is adopting such measures, over a slow transitional 20 year period. And;

5) Ensure we build for homebuyers, not just investors – paying particular attention to the needs of an ageing population, for which downsizing into apartments is not the preferred, or readily adopted option.

The above recommendations would assist the rental sector, but additionally, the Government should work closely with organisations such as Shelter and the Tenants Union, to satisfy that the quality, provision and standard, of both rental and public housing, is improved and maintained, along with an overhaul of tenancy laws for long-term tenants.

Conclusion.

The details on how to achieve this will be discussed at length, however, if both state and federal government refuse to let land prices drop, acting reactively to affordability issues, rather than proactively. I suggest the voting public use whatever vote they have wisely – ignoring **both** major parties - and instead, placing it behind smaller players, who act in the best interests of community, and not their own ‘back pocket’ interests.

Catherine Cashmore