Senate Committee on
Housing Affordability in Australia

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Introduction

In addressing the issue of housing affordability there is no single solution that would provide a balanced or equitable remedy to this crisis. In essence there are several issues that first must be determined and understood in both addressing behavioural response to the perception and tenure of home ownership and residential property investment. The following points highlight issues that may be considered in formulating solutions to this issue.

Capital Gains Tax free status of the Principal Place of Residence

One of the primary issues associated with housing affordability relates the CGT free status of the PPR. This status leaves the PPR as an anti-competitive investment vehicle when compared with income producing property and other investment vehicles including shares and businesses on which CGT may be payable.

In the case of property returns, in the least affordable areas of Sydney the ratio of the annual yield on rental property is less than 25 percent of the total annualised return from property. Unlike rental income from rental property which is assessable, the CG on the PPR is not assessable. To a large extent this is resulting in many well located residential investment areas which were predominantly rented in the past now becoming owner occupied. Annual rental yields are pushed down by competing owner occupiers, who on higher incomes are able to subsidies the non-receipt of annual returns in exchange for the non-taxed capital gain afforded to the owner occupier.

The steady increase in the importance of home ownership over the past 20 years has expedientialy changed. Home ownership is a haven for the building and storage of wealth and is perceived as part of retirement planning. This objective is fine however, in concert with this an inordinate and disproportionate amount of income is channelled into the PPR which may also be a haven for undeclared income through the ongoing refurbishment of that part of the residence that does not require council approval. These improvements include kitchens, bathrooms, decore, landscaping and renovation of existing swimming pools. In summary, home ownership has become a barometer of wealth in Australia. This is in contrast to former ambitions of home ownership as a place of domicile. In summary, either all or no property should be capital gains taxed, however the introduction of CGT on the PPR would be political suicide.

Recommendation

Allow a CGT free status or further halve the CGT free status on investment property allocated to affordable housing for the period used for affordable housing.

Residential tenancy laws
Residential tenancy laws have been considered by State Government's across Australia and the extension of minimum lease terms an option. To regulate the rental market would further compound the existing issue of existing rental stock, as some existing investment property owners with low or minimum debt could afford to withhold rental property from the market. To regulate tenancy tenure and mechanisms for reviewing of rent would create a more critical issue than the former removal of negative gearing in the 1980s. This would fracture the non-owner occupied residential market into rented v vacant markets, of which the sale of a vacant property would attract a premium to a sitting tenant property. This has been experienced in Lisbon City, Portugal. Changes to tenancy laws would create a key money black market of which subleasing and assignment would become an inevitable sub-market regardless of legislation to prohibit it.

Recommendation
Do not regulate tenancy laws, peg rents or introduce minimum tenancy periods.

State Government Taxes on entry
The removal of stamp duty on property purchase would make no impact on the cost of housing in locations in which people wish to live and in the beginning would be counter productive. Simple analysis shows that if property transacts at $600,000 plus stamp duty of $25,000 and stamp duty was removed, the price for the house would increase to $625,000 as that is the gross purchase price. There are no mechanisms in the market to stop a seller or developer from adjusting their sale price to account for the reduction or removal of stamp duty. In contrast, the First Homeowners Grant is easily absorbed into the selling price paid for property by a seller or developer.

Recommendation
Do not remove stamp duty. Removal of stamp duty would compound the existing problems of housing affordability. At present, stamp duty is one of a number of key barriers to both the PPR and residential investment property becoming a tradable commodity.

Land release, transport infrastructure & location desirability
The issues confronting home owners in addition to cost, is that of location desirability. A key attribute of that desirability is transportation to work. Land releases without adequate public infrastructure including roads and public transportation are not desirable too, nor promote homeownership in the outer locations of major cities. In dealing with this issue, grant and other revenue from Commonwealth to State Government needs to be earmarked for the provision of infrastructure and the building of sinking funds for the replacement of existing infrastructure. Playing catch-up by hiking developer charges is in theory passing the cost onto potential homeowners.

In contrast to urban sprawl, States promote urban renewal and filling in existing undeveloped locations. Either or a combination with land releases in the right proportion are part of the solution. The primary issue associated with additional development in existing areas is that a disincentive to Local Government revenue in the form of rate pegging exists. The cost and maintenance and its acceleration through population growth is financially prohibitive for local government. Rate revenue to local government constitutes close to half of total income, has been pegged at close to 3.5% p.a. for the past 10 years. There is no incentive for local government in major cities to increase the cost of running LGAs when the primary source of income is pegged and land value taxation raised by State Government is tied to land value. In essence local government competes with state government for the same revenue source, of which local government is an instrumentality of state government.

Recommendation

1) Provide Local Government with a portion of State Government land tax revenue based on their willingness to allow affordable housing development within their LGAs, or
2) Provide an exemption or reduction in land tax payable on residential housing for the period it is used for low cost housing.

The role of financial institutions in home lending

I have attached my thesis on this subject as part of my submission. In brief, the rationale for lending on housing is a contributing factor to housing affordability. Since the deregulation of banking and lending, money has become a saleable commodity on which the ability to attract borrowers has been based on the amount that may be lent rather than the value of the property to be purchased. As part of this process, the valuation profession which was previously employed by the banks are now engaged on contract to confirm purchase prices of property after the property is purchased. This is in contrast to the practices in the United Kingdom, where valuers, or chartered surveyors are also consulted and engaged prior to purchase. The mortgage lending and broking industry has provided more options and availability of funds to borrowers, however has become more predatory in their means of lend money. To this end, the distinction between property as an asset and money as a financial means of attaining property has blurred.

Summary

In dealing with this issue careful consideration must be given to the responses adopted in effecting change. A detailed stakeholder analysis is first needed to understand the participants and potential behavioural responses that could result in any changes in the provision of housing or incentive to stimulate supply. The answer cannot be swift but needs to be transitional in catering for all sides of the demand, supply and concession factors to this complex evolving issue.

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