

John Hawkins  
Secretary  
Senate Inquiry into Housing Affordability.

FAIRE (Fair Access to Initial Real Estate) has today found out about this inquiry so would like to make a late submission. We have run a website on this for about two years, [www.perthland.info](http://www.perthland.info).

George Megalogenis wrote in the Australian recently: "Households are certainly carrying higher levels of debt and are, as a result, more vulnerable to future financial shocks than ever before. And the price to enter the property market has increased from roughly four times average wages to seven times average wages over the past decade." Thousands of young Australians are now being denied any chance of owning their own home.

WA at the present time faces a different housing problem to parts of the eastern states (prices here generally are rising while some there are falling).

1. The prime component of home prices is the land price. eg. 25 km from Perth, land which sold for \$70, 000 three years ago is now triple that. A previous WA consumer affairs minister in the 1983-93 ALP government did not agree to examine whether profits made by developers are too high, even though the price of one en globo parcel of land was public knowledge. It took a family income of \$110,000 to service a mortgage on the median price house in Perth when it was \$450,000. The median price went up 34% in one year. It is now \$500, 000 with interest rate hikes as well to contend with.
2. Loosening of longstanding mortgage lending guidelines has contributed to the upward pressure on home prices. Low doc loans have been convenient for governments because they reduce the demand for public housing, at least in the short term.
3. Real estate interests (backed in WA by newspapers with big revenue flows from them) create a climate where their predictions of the future add to current prices - what George Soros called reflexivity. The Australian Bureau of Statistics noted that real estate agents' fees went up 15% in 2006.
4. In WA at least, land tax, originally levied at a rate to deter holding onto undeveloped land, no longer has this effect.
5. In WA various boards operate to provide input to government on housing. It is possible that real estate interests have to some extent "captured" these boards. Where are the consumer representatives on them?

6. If the WA state government had intervened more actively (eg. conditional release blocks sold by ballot as the WA 1971-4 ALP government did) ) when the median house price was around half what it is now), it would not now be need to be reluctant to intervene because of the effect the intervention might have on the equity of mortgage holders in nearby areas.
7. The Productivity Commission (in 2004) found that negative gearing and the revised CGT were the prime drivers of the spiral. The previous government did nothing to act on this. The former federal government refused to require entities acquiring real property to provide details on that year's tax return, thus making capital gains assessment more difficult.
8. The major component of the problem is land prices. The banks have identified uncontrolled speculation as the prime cause. So there is no real shortage, just a lot of people holding land they don't need while others who do can't afford to buy it. The other issue is that there are forty thousand lots approved for development in Perth, but they are reportedly being released by some developers in a trickle rather than say 40 or 100 lots at a time. Joint government' private projects in WA are supposed to provide a percentage of lots at lower prices, but this results in only a few percent of the lots being available for sale in this way. The WA Housing Industry Association is critical of current lack of action on this issue by governments.
9. This is the view from the WA government in August 2007 about a proposal to require as a condition of subdivision approval that a certain proportion of lots be released at cost plus a reasonable margin to first home buyers: : "If land were sold [to first home builders] for less than market value at locations such as Alkimos, there would be a direct benefit flowing from the taxpayers in general to those who acquire lots. Purchasers of non-Landcorp land would be required to meet the full market price. It is difficult to see this as an equitable outcome."  
Well the thing is, taxpayers will still need to fund other ways of alleviating the problem. The WA government also said: "At this time there is no intention to put in place legislative or regulatory mechanisms to compel private developers to give preference to first home buyers or sell land at prices within certain ranges."  
Also " As LandCorp is charged to deal appropriately with public assets it is not within the scope of our discretion to provide land for sale at other than the assessed market value. We do however impose a range of conditions to discourage land speculation including the requirement to build on lots within a set timeframe and before any onsale can occur. LandCorp has also progressed alternative housing product delivery models to achieve a more affordable housing product for buyers." Landcorp refuses to sell at cost plus reasonable markup but at market prices.
10. Governments urgently need to find out if developers are sitting on developed blocks for which development approval has been given, and not reducing prices to a point at which genuine homeseekers, not speculators, can buy, but

which still returns a fair, but not excessive profit, to the developer. The government is not there to maintain inflated land values for speculators who have bought land in earlier subdivisions, which they are not using, on borrowed money. The WA government said on April 8 that unwillingness to reduce prices on outer suburbs land enough had the effect that developers remained sitting on them.

11. The CGT quarantine on principal residence acts to encourage people to sink a higher proportion of investment into their own home, lifting prices.
12. Although rising home prices are one of the outcomes of the ore boom in WA, the general population and particularly first home owners are asked to bear the burden of government expenditure to deal with it, eg. for services infrastructure, whereas the resources companies can probably afford to pay more in royalties towards alleviating the problems.
13. In WA at least, state taxes on property transfer have been reduced for first home owners, a useful step as long as sellers don't react by simply moving the intersection of the supply and demand curves. No government steps were taken to deal with this possibility, just as none were taken with the federal government's first home owner grant.
14. The federal government has ruled out the Family First and Christian Democrat policies of tax deductions for home owner mortgage interest, saying it is inflationary.
15. The WA Minister responsible for tenancies has written to say that in the face of projected increases in home rents of up to 50% in 2008, she will not introduce rent control.
16. The WA Home Start program for those qualifying is a good thing, but the thresholds are now much too low in the light of the way median home prices have been allowed to soar. 200 shared equity homes were recently made available by the state government, but there need to be more.
17. There may have been an increase in SMSF funds flowing into blocks and residential property, driving prices up. A suitable tax regime would make it attractive to invest in unit trusts which would provide funds for more shared equity homes.
18. There was a time when bank loan rates for housing were quarantined from other loan rates. Many of the parliamentary beneficiaries of this as children or adults have now decided that it shouldn't be applied for the benefit of the present young home seeker generation. Ryan Heath's book "Please Just F\*

Off, Its Our Turn Now “ gives a 25-year old’s perspective on the tax changes which have led to Baby Boomers, particularly, heavily inflating the property market. The overdrive cut in when capital gains tax was cut to 24.25% in 1999. It is creating property apartheid. 70% of Perth people in recent survey said housing was unaffordable. Money going there cannot be used to raise children, or go into purchases from other suppliers. Add to that negative gearing. On present low cashflow rates of return on property value from many rentals, arguing with the ATO that the dominant purpose of the investment is not to cut tax could be problematical. Heath’s views are backed up by the recent Industry Commission report which was ignored by the government. On p 177 he asks: Do you really believe half a generation of people will be happy never to own a home?

- 19.** Every extra dollar that goes on a mortgage is a dollar not saved or not spent with another service provider or retailer.
- 20.** Having slashed public housing funding going to the states by ending the joint housing agreement, the former Liberal government in 2007 found its voice on home affordability and blamed the states for lack of public housing.
- 21.** When the Census data was published last year, it showed that one quarter of Australians on mortgages were having trouble paying their mortgage. Despite this the Treasury denied that real estate investment based on negative gearing was forcing up prices, contrary to the Industry Commission findings.
- 22.** WA state government policies aimed at increasing urban densities to cut greenhouse gases and the cost of service provision are all very well, but only if there are appropriate controls to manage price increases inside the preferred urban limits.
- 23.** The federal government’s first home owner savings plan will be outstripped by price rises and could result in nasty tax shocks if a couple separate after saving for say three years..

FAIRE’s moral standpoint that the first call on new land or homes belongs to those who have none at present. This is Article 11 of the International Covenant on Economic Social and Cultural Rights which Australia has signed: " 1. The States Parties to the present Covenant recognize the right of everyone to an adequate

standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions."

### **Some suggestions:**

New land releases be approved subject to blocks going to those who presently own no real property and with controls on speculative onsale. Also require prices to be set at cost plus a reasonable profit margin.

Stamp duty should be used as the tool to stamp out speculation. Firstly increase the threshold for no stamp duty for first home (or land) buyers. Secondly, increase stamp duty to 20% for people other than those who are not transferring between their own home and another own home. Or increase land tax rates further using a progressive scale as now based on holdings. to make it unattractive to sit on large aggregate areas of unused land.

Government policy in providing real estate should also operate on the basic equity principle that preference goes to those who have no real estate over those who already do have some.

Ensure that ministers, public servants and board appointees who are involved in decision-making in this area of housing and land do not have a vested interest through their family investments in increasing real estate prices (other than that of their own home and maybe holiday house). Interests must be declared. It is not being suggested that any present ones do have vested interests.

Ensure that government/private joint venture developments do stick to the rules on providing a proportion of blocks at low prices, and a bigger proportion than now.

The government should cost a proposal to give every young person, when they reach 21, the right to purchase one block of land at a government-controlled price with a low interest rate, and compare that with the cost of existing support policies.

See also 17 above.

Thank you for the opportunity to submit to the Inquiry.  
FAIRE (Fair Access to Initial Real Estate), Perth.