

TITLE: At home with contradictions

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It is impossible for politicians to satisfy the conflicting desire for housing affordability while trying to keep home owners happy.

Political priorities are often contradictory in Australia. We support individual freedom and liberty, but we accept that, in the war against terror, we must sometimes be searched or delayed at random. We support individuals taking responsibility for their own lives, except of course when it comes to deciding when to end it or who we can marry.

One of the biggest contradictions, however, must surely be the way our political leaders claim to support the objectives of making housing more affordable while simultaneously trying to protect home owners from declines in house prices.

In Australia, about one-third of people own their homes outright, about one-third are paying their home off and about one-third are renting. The problem is that the interests of the two-thirds of people who own or are paying off their home are quite different to the third who can not afford one. The former group want prices to go up and the latter want them to come down.

Unsurprisingly, most politicians suggest they are on both sides at once.

Apart from the fact that there are more of them, the home owners have a number of major advantages over the non-home owners, which helps to ensure that the goal of rising house prices is more likely to be pursued, the biggest of which is that they have the banks on their side.

Australians banks, the biggest of which are among the most profitable in the world, have a huge interest in the upward trend in house prices. Put simply, if house prices are trending upwards the banks can't lose. This is because banks typically lend about 90 per cent of the value of a home to borrowers who, in turn, repay a few more per cent of the loan every couple of year. The banks make a nice profit margin on the difference between the interest rate they pay for money

and the interest rate they charge home buyers and if anything goes wrong they can simply sell the house and recoup the money owed to them. In a rising housing market it is virtually risk-free.

As the American banks found out, however, if the price of houses falls sharply then the banks face potentially catastrophic losses. Repossessing a house that has declined in value by 40 per cent doesn't help the bank very much if you still owe them 80 per cent of the original sale price.

Australian housing is expensive, which the 60 per cent of people who own or are paying off their homes often think is great. But why is it so dear compared with the price of housing in similar countries? The reluctance of governments to release more land to property developers is often claimed to be a major cause, particularly by the property developers, but house prices are growing far more rapidly near Australian CBDs than on the outer fringes of our cities. Apart from paving over our existing parks there isn't much governments can do about land availability in the CBD and if the people willing to pay a premium to live near the city are not willing to bid for the existing houses on the urban fringe then it is unlikely they will see houses in newer, and farther flung, suburbs as much of an alternative either.

The major reason that housing prices are growing so rapidly is Australia's population growth. Each year hundreds of thousands of new residents move in and, perhaps unsurprisingly, try to find somewhere to live. Just as the retail sector sees population growth as their solution to slowing retail sales the banking industry sees population growth as shoring up the value of the loans they have made for housing. Population growth is an easy way to boost GDP growth and a great way to boost housing prices but while our state and federal politicians are quick to take credit for the former they are quite adept and dodging the blame for the latter. Of course, it's not just population growth that drives up house prices, our tax system plays a pretty important role as well. The current system tries to make everyone happy by providing first home buyers grants to those without homes and generous tax concessions for those seeking to buy an investment property. How balanced, you might think, but the reality is that in giving assistance to both investors and first-home buyers we are simply driving up the prices that both are willing to pay.

The tax system is like an arms dealer selling weapons to both sides in a (bidding) war. So who wins out of all this largesse? The 60 per cent of people who own a house and the banks who have lent billions against the value of those houses.

The final culprit that no one wants to admit is driving up house prices in Australia is the growth in the size of the houses themselves. Australians now live in some of the biggest homes in the world, with spare bedrooms replacing shared bedrooms decades ago. If people want to live in bigger homes then, like who they should marry, that should be a decision for them to make. But that said, we can't avoid the fact that if we want to live in much bigger homes they likely will cost more than smaller ones.

Access to affordable housing should be central to the development of an equitable society. There is voluminous evidence that those who lack secure tenure in appropriate housing can face enormous financial, work-related, personal and health problems.

But next time someone predicts that house prices might fall by 10per cent pay close attention to how people respond. Do our leaders herald the news that housing is becoming more affordable and express hope that the trend will continue? Or do they express concerns about deflation and the stability of the financial system? There is no doubt that most politicians want to see housing made more affordable in Australia. The problem is that they want to achieve that while house prices continue to rise steadily. Good luck with that.

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