Inquiry into First Home Ownership
Submission One

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1. Introduction

The Terms of Reference are driven by the question of whether the longstanding Australian dream to be a homeowner is slipping from the grips of "ordinary Australians". If this dream is fundamentally a 20th Century feature beyond the influence of policy, then the political implications at least during the lag of acceptance by society of this "reality" are material. The main question then is to explore whether there are avenues for policy to influence the apparent trend.

Before exploring this, it is important to note that this question attests to some considerable assumptions. Firstly, it assumes that it is a role of government to ensure the dream is "real". Naturally the role of government is a matter of perspective. Outside of the cynical short-term electoral focus, it at least involves the improvement of the welfare of all Australians – a complex and ambiguous concern. One aspect is not ambiguous; the role covers all Australians, not just homeowners or those who seek to one day live within a dwelling at least in part owned by them. Secondly, taking action assumes there is a trend. The socio-demographic make up of Australia at the birth of the dream and now are a sharp contrast, particularly in terms of housing. Society was more homogenous, in origin, expectations, and economic standing. The options available in housing were narrower and the mechanisms for attaining ownership were considerably more limited. So the dream has changed, perhaps if the dream were that framed in 1950, it would not be a dream.

Even when there is a clear definition of the "problem", the challenge is to establish what is cause and what is effect. This is exacerbated by the dynamics of the question being within and actively influenced by all layers of government and to varying degrees most arms of policy. It is a hot debate within this question as to the scale of the impact of foreign policy in terms of immigration and tourist marketing, and at the other end of the spectrum, the division of power between local councils and the State government in land use and the built environment. It would only be a slight exaggeration to say that every action of government indirectly impacts "First Home Ownership".

Australia is not alone in its apparent plight, although it has few peers. Not every advanced economy has a population seeking home ownership as a core measure of success or goal. Few societies are as willing as Australians to forego such high ratios of after-tax income to pay for housing. And fewer still focus so much of their social life around their home. It is perhaps changes in the willingness to sacrifice the present for the goals of the future, to accept responsibility and consequence that has forever changed the parameters to the affordability of housing.

2. First Home Buyers

Buying their first home is for many the most significant decision in their lives. A decision made all the more traumatic for the need to navigate an unfamiliar maze of banks, solicitors and government. Although these are barriers to entry, it is perhaps better to ensure that there is a definition for what a First Home Buyer is.

Starting with simply a Home Owner, at the highest level a Home Owner is an individual or couple whose primary residence is a dwelling in which they hold equity. This definition completely misses the emotional aspects – that with time the equity held will reach 100% and so making the dwelling theirs without recourse, that no one can tell them to leave due to a third parties circumstances as can be the case in renting, or that there is no need to get permission to personalise their home. However the key is the holding of equity, a First Home Buyer is where the holding of equity has not been the case – either they have lived at their parents home, rented property, public housing, been a ward of the state, are only recent immigrants and so on. The circumstance of each First Home Buyer is unique.

Is this uniqueness significant? The simple answer is yes, although it didn't use to be. In the era of political parties having distinct grass root supporters, the Australian society was less diverse. The "success" of the white Australia policy, the generally lower educational aspirations and the strong family role model led to a relatively homogenous group. Naturally this is a sweeping generalisation and only a little exploration can show the usual weaknesses, but the question is to seek a reference point for the "battling" Australian's trying to enter the housing market. In these days past, the common fight for *Emoh Ruo*, the rather homogenous financial starting position and the narrow purchasing options in both dwelling stock and methods of access meant that what differences existed were overwhelmed by the similarities. Today, the reliance on risk rating systems as a replacement for trust, the user-pays approach of government, the development of an asset holding middle class, the immigration of highly educated foreign nationals, the capacity for non-asset holding individuals to become significantly indebted, and the wealth accumulation and distribution habits of the "Boomers" have forever modified the housing entry environment.

It doesn't stop there, the improvement in manufacturing productivity, the growth of a service sector, the lowering of ratio of full time employed participants in the workforce and even the Button plan for motor vehicle importation tariffs have had an impact on the diversity of First Home Buyers. Some are trivial and some are key to the debate of housing affordability. At this point, what is key is an understanding of the nature of First Home Buyers in 2003.

A First Home Buyer is at first a buyer in the residential property "market", and in these times a minor player. To purchase any property takes the breaking through of a threshold. This threshold is almost exclusively financial. Unless their liquid assets are in excess of the property's purchase price, the first issue is a track record to a financial institution, directly or via a credit rating and other details, to establish their capacity to borrow. This is not simply a multiple of their income, if they haven't ever had debt, then the lack of proof of managing it may turn the noses of many an institution. The amount to borrow is not without caveats, in particular, the LVR (Loan to Value Ratio) or equivalent – the ratio of the purchase price of the property to which the lender will lend. In general this is 80% without Mortgage Insurance, and 90% perhaps 95% with. Although this is during a rising property market, at other times these ratios have been lower. It is not the business of at least the banks to participate in housing property risk – the governance mechanisms of the Reserve Bank ensure this. However the above is mostly true regardless of institution as the market is set by the price of the lender – and the lack of spread between the cash rate and the mortgage rates drives a low risk environment. The existence of Mortgage Insurance is a double-edged sword. Assuming the buyer qualifies to yet another institution, this group then underwrites the bank for the risk of the buyer. The buyer pays, but the gain is to cap the risk of the bank and due to the shape of the lending market, allowing the buyer to be just that – a buyer.

The above ignores the details of the suitable track record for both the lending institution and in many cases the Mortgage Insurer. The eagerness of the banks to provide unsecured debt, as personal loans and credit cards, and the ease of entry to hire purchase agreements for anything – particularly motor vehicles provides debt management history, but it also exchanges future earnings to consumption. This maybe good for the economy, profitable to the banks and greases the cogs of the manufacturing sector, but in terms of breaking through the purchasing threshold, a strong negative. It is perhaps important to note here that it even impact the buyer's total borrowing capacity. It is the practice of Australian financial institutions to explore affordability through taking income and subtracting monthly outgoings, the latter including the servicing cost of their capacity to borrow. That is, the minimum payments to credit cards if they were at their limit, regardless of the habit of the particular buyer. It is therefore a complex balance of history and present to pass the hurdle to be a "valid" participant in the house buying market.

In passing these hurdles, the potential buyer now is aware of what they can borrow and given their liquid assets as the other limitation, can establish the value of what they could purchase. Not that their "cash" can all go into equity. The State Government gets their Stamp Duty. There are the fees for conveyancing, Mortgage Insurance if required, costs of moving and so on. It can be the case that the costs eat decently more than 50% of the "cash".

The process of working this out can be a depressing saga. The learning curve of finding out what costs eat up the "deposit", the reminding of the mistakes of the past and most significantly the comparison of the eventual answer with their initial aspirations. The aspirations of First Home Buyer's are a key aspect of the perceived affordability of property. Few are suggesting that the housing in Dubbo or Rockhamption is beyond the reach of First Home Buyers, these property markets have not undergone the pressure experience in the cities, in fact to some extent parts of these markets have been softened for the precisely the same reasons. The affordability is a complex question directly related to the aspiration of the buyer.

The diversity of backgrounds and starting points for First Home Buyers is event in their aspirations. Cultural cringe for one area over another, the acceptance of certain quality issues for the dwelling and the proximity to that which is familiar weigh heavily on what is acceptable. They also weight heavily on the basic desirability of the property and so it's value. Although not a direct relationship, it is clear that the buyer with more capacity generally has a narrower view on these and other factors and so seeks a high valued property. The result is that the value of the property that is "acceptable" is just or more beyond the value that can be purchased – hence housing is unaffordable.

It is perhaps important to note that Australia has a rather unique rental market, at least in terms of markets where property ownership is of a high ratio – renting is cheaper than owning, even at the present historically low interest rates. To rent a property in Australia is to accept a rental return in the order of 3.5-5% on the value of property. This is a poor return. However, this is offset by the capital gain and the provision in the taxation system for the offset of accounting losses in the operating of a rental property against income. The former is of course offset in itself by capital gains tax, but this is offset by indexation and the 50% discount for the holding of assets beyond a year. Nevertheless, the willingness of Australian's to provide rental property within this framework is still unusual.

In Great Britain, there is capital gains tax, offsetting of losses against income, and a population that seeks home ownership. In contrast, rental has generally been more expensive than buying. That is, rental return has generally been 1-2% over the mortgage rate[1]. It is true that the law does not protect the landlord in the fashion provided in Australia and as such a higher return maybe appropriate. Nevertheless, the acceptance by Australian investors of such a low rental return is something of a leap of faith in the capital return aspects of the investment.

This low yield results in an interesting option for the First Home Buyer – live where they cannot afford to buy. In psychological terms, this could be considered cruel. It distorts the perception of what is acceptable and further drives the perception of un-affordability.

[1] Excluding the period in the late 80's and early 90's, particularly following the United Kingdom's break from the pegging of it's currency that drove interest rates beyond 20%.

The core to understanding the First Home Buyer is to understand two diametrically opposed points, firstly the trials of the true battling family and the other the upper middle class challenge. Both are First Home Buyers, but their starting points and expectations are far apart. It is often said that Australia is without the class structure. It is true that Australia is too young to have had the upstairs/downstairs class structure of established Victorian Anglo-Saxon society bedded in, but all maturing and wealthy societies have a class structure – Australia in the 21st Century cannot avoid this.

It would be incomplete for this Commission to explore only the issue for the "battler" – it is a quest for all Australians and it is not our right to consider the expectations of the better off as foolish. They are creations of our society and more cynically voters – part of the group of all Australians.

Affordability is often measured in terms of average earnings and median house pricing. However, this can be a misleading approach. The "battler" is not looking at the median house, nor do they earn the average wage – this is also the case for the middle class. The question is about whether the individual or couple can obtain an equity position in a dwelling that fits their expectations and doesn't impact their life as an employee, a provider, a family member and a member of a community too much. So, if their life is based in the CBD fringe, but can only afford to buy in the city fringe – then the threshold for them is not passed. If they are what are termed an essential worker and they work in the inner city, they will generally be excluded from the property market – they cannot balance their work with living where they can afford. It is not that these people cannot afford property; it is that where their lives exist, where they know, where they can rent is beyond their ability to purchase.

What is sought is sacrifice. To sacrifice where you live today, to sacrifice time with your family, to sacrifice sleep to allow for the realisation of the dream. However, rather cynically, Australians of now are not so eager to sacrifice as those of the past. Perhaps romantically recalled, these sacrifices and more were par for the course for those who survived the trials of Europe in the mid 40's, or the challenges of the Cold War. The compare and contrast drove an acceptance with glee of what fortunes were provided. Today, the First Home Buyer is without this background and so without the understanding for the worth of what can be built and what is provided in a society such as Australia's.

The government today is now left with trying to satisfy the whims of the electorate. Some of who are potential buyers of their first home. Many of whom know only the selfishness of the "Baby Boomer" generation. Some of whom only recall the good times of the 90's. The First Home Buyers are not a homogenous group and cannot be dealt with or placated in a single approach.

3. No single product, not a single market

The property market is not in Keynes' or Smith's terms a market. In Australia, the assumptions of both are broken too completely to suggest that as a whole it is a market. However, at certain layers it maybe.

3.1 The nature of residential property

In essence this is about the supply in the "market". For commercial property, a property is a risk discounted net present value of investment and return, or space at a cost and location to provide the platform for the business to operate – little more[2]. This relative simplicity leads to a common finding of value on public and quantitative information with investment providing a return usually directly related to the utilisation of the site/building and thus closely represents a functioning market. To gloss over much, commercial property is a purely financial consideration with few qualitative concerns and most significantly is a market dominated by the circumstances of the property.

Residential property as a whole couldn't be further removed from this – its value is heavily influenced by the circumstances of the purchaser. Residential property has quantitative attributes. The number of bedrooms, the overall internal area, the size of the block of land, period of the building, state of repair, the proximity to public transport, main road corridors, retail, school and employment land and so on. However where the purchaser is a retired person, a newly married couple, a property investor, or whether there is need for finance, to be a second home and so on changes the perception of these quantitative attributes. This variance in perception is then added to by qualitative considerations that are as unique as their circumstances. It is a given that 200 years of building, decay and redevelopment has created a dwelling stock where no two are exactly alike, but in terms of exploring the market issues it is not the uniqueness of supply that frames or shapes the market, but the diversity with which the participants enter and perceive this uniqueness.

3.2 Markets by approach

That a residential property can not be evaluated quantitatively means that it may be better to consider the housing stock in terms of supplying a number of markets that are held together by the participants entering with a common approach.

This is not a results paper for a survey, or a thesis for review and as such there is little to gain or support a particular arbitrary breakdown of the approaches to residential property. However it is important to explore the issues and influences that may define such segmentation. The key is in the demographic changes of the Australian population.

A common thread in this submission is the change in expectation for that first home. This change is not through watching too much *Dynasty* or reading too much about the lives of rich and famous, but from the improvement in national wealth and demographic changes in society. Certainly the media influences expectations, much to the chagrin of policy makers. However this pales in comparison to the power of the demographic trends and the true capacities of the peer group. "Keeping up with the Jones" may have more to do with trends in the property market than any policy lever available to government.

The trends in society are well documented; the challenge is to establish cause, effect and action. The most important of these for residential dwellings is the shrinking of the average household – a trend that moves faster than can be attributed to the lowering birth rate. It may be fashion that is a significant factor for the revival of the inner city rings, but it is demographics that have meant the apartments have been one and two bedroom, rather than three or four that would have been required had society still been shaped as it was in the post war years – a development style reflected in apartment cities of that era.

Smaller families doesn't cover it however, it is also the group called "empty nesters". Baby

[2] This ignore issues such as prestige for corporate headquarters, signage rights for occupation and the softer variables such as proximity to the business owner's home or proximity to transport links to address human resource concerns – although the latter is perhaps less common within Australia.

boomers and older who exchange the family home for a smaller place, an option unavailable in the past where they would occupy a granny flat or live with one of their offspring. That this has spawned a booming childcare market is good for the GDP, but the national investment in more dwellings for the same number of people is not. Finally, for the more well off, it is not a shift from the family home to a smaller pad, but the purchase of a second home. Demographic shifts set one frame for the entry to the residential property scene.

This is incomplete. Another frame for entry is the reason for participation. The above concerns personal use of the dwelling, entrants may do so for family, business or investment. Today, the latter is the most significant. Independent of the get-rich-quick schemes and the perhaps collusive roulette game fuelled by deposit bonds; there is a significant trend for participation as an investor. The average Australian of the 1960s would not have seen themselves as an investor. Today, by default every employed Australian sees themselves as investors – the reengineering of the funding for retirement started in the early 90s has seen to that. This effective transfer of ownership of risk to the common man is been responded to. The response at least in part is to consider the home, and perhaps someone else's home as an investment.

It is important to notice the change. In the past as today, Australians seek to own their own home, but today it is often seen as part of the portfolio – a path to wealth. This has developed to a point where some enter the property "market" to purchase the home they will live in, but their approach is purely financial – a reasoning based upon financial return. That is, it is not indicative of the approach to entry to the market how the dwelling is used. Therefore it is not possible to know how many have entered the market as investors.

The demographic frame, the reason for entry frame and other more minor frames divide the "market" into its many parts. Although the supply is a relatively fixed and mature stock, it is these frameworks that define the many markets that play and compete over the stock. Although we might say "the property market", we also easily accept the concept of "the inner city apartment investor". There is perhaps no property market, but many markets for property.

There are many statistical views for the trends in society. The trend to the coast with the dying countryside, the overly centralised settling of immigrants, the rising proportion of renting of the family home and so on. However many of these statistics are "observation at 10,000ft" and can leave much to be desired. In particular is the use of the median house price. To some extent, the present crisis is statistically supported in the ratio of median house prices against income, but to what extent does this ratio provide insight? The purchase of a property is not purely dependant upon income – the asset base of the purchaser is also a factor. It is no surprise that as Australians become richer and the structural nature of the built environment increases the qualitative value of established property, the median price should rise. This however provides no reflection upon the issue of those who enter the purchasing of property without significant liquid assets. The First Home Buyer is looking at entry points relevant to them, not the median residential dwelling. Affordable housing is also about function – can living in the dwelling work considering their specific circumstances – the location of work, school and so on. The high level statistics provide headlines and column inches for the policy makers, but may tell little of the nature of the market and its participants in terms of First Home Buyers.

Finally, it is the combination and inter-relationship of the various frameworks that create a chaotic system. That is, a system with its own latent properties and most important for policy, a system that does not react directly or proportionally to influence. Most famously, chaotic systems are seen in what is called the "Butterfly effect" – the hurricane in Florida being caused from the flap of a butterfly wing in the South Pacific. Although extreme, it is telling of chaotic systems – they are not a place of chaos, but a structure where small can create large and the heavy stick may do little or nothing.

4. Role of Government

A diverse group operating in a chaotic system does not appear to hold much hope for policy and the role of government. However, government has over time created much that defines the frameworks – if mostly with blunt instruments. The complexity is however exacerbated with each layer of government having a role to play, each part of policy dividing the efforts causing government to appear as having no single goal and not working as a team.

4.1 Federal Government

Directly, the constitution does not provide the Federal Government with much participation in the factors for the First Home Buyer. It doesn't have any say in the supply, the infrastructure or services to the property, the design constraints or codes for construction or repair. In reality this is a little more vague, as by agreement the States succeed powers for standards and the like that "make sense" to have considered nationally. This is all well and good, but given the creation of this inquiry at this level, what is within the direct influence of the Federal Government?

In reality, the two arms of financial policy are key – monetary policy and fiscal policy. The former is now independent and driven by GDP growth and inflation concerns, so it is the latter that provides all the leverage. Before discounting monetary policy, it is perhaps significant that the focus upon CPI inflation means that asset growth is not an influencer, nor is equity funding of consumption a detractor as this fuels the perceived positive of GDP growth – another flow statistic. It is possibly naïve to have such a significant tool and influencer upon domestic issues such as housing affordability to be based purely upon targets that exclude capital or cross-period financial concerns. It is fallacy to suggest that monetary policy only influences the timeframe to which the Reserve Bank's influencing factors explore.

The most blunt instrument for the fiscal policy is income tax. In Australia it is a progressive tax with a great capacity for exemptions. There has been no need for the deductibility of the cost of operation of the main residence to encourage home ownership as has been the case in America and except for a period in the 90s the cost of operating an investment property has been deductible against income. It could even be seen as encouraged or at least facilitated with the acceptance of losses before proof of their occurrence with the use of the ATO Form 221D. However outside of adjusting allowable deductions, the ability to exclusively influence the affordability of property through income tax is non-existent.

It is a valid concern as to whether the ability to offset income tax with the losses from operating an investment property has an impact to the affordability of property for First Home Buyers. The lessons of the 90s show that the removal of this provision has a significant effect on the supply for the rental market – however it is not now the early 90s. If the market were a market and not chaotic system, then it may be tempting to explore adjusting this tool. However, the changes since the 90s are likely to exacerbate the negative results of this policy move.

Capital gains tax is yet another tool. Again a tool that covers more than just the concerns of property, yet of interest is the exclusion of the primary residence and the halving of the liability to the investor where the investment is held more than a year. The trend for Australians to consider their home as a just part of their portfolio means that the former exemption is a distortion – it makes the family home a more significant financial focus than other options. This definitely impacts the pricing of residential property and although not popular with the electorate as a whole, would address pricing concerns. However, such a change would impact choice, create a default death duty and more –again a blunt tool on a complex system.

Lastly, grants. It could be said that a major contributor to the economic success of Australia in spite of the global economy is due to the fiscal priming of the economy with the First Home Owners grant. Regardless of the policy goals of the grant, it is a clear indicator that relatively small provisions can have a significant macro-economic impact[3]. Grants are expensive and they both alienate and perversely encourage. The perception of "money for nothing" can create results in the detail that can not been seen until the dust settles – a process that can take years. Nevertheless, grants are a last resort and one that can create ripples that best not be created.

Fiscal policy is perhaps a secondary influencer. The above then leaves the tertiary tools untouched. Some have an influence that is hard to establish cause and effect, such as health, others may be no less ambiguous, but politically critical, such as immigration.

The press would suggest at times that Australia is having record immigration and the statistics are in question. However, no matter what the perspective, the immigration of today is nothing to that of the post war era of 1947 through 1953 or so. In those days some 115000 and more were immigrating to Australia each year. Not dissimilar to the higher numbers quoted today, but today Australia is a nation of 20 million, then closer to a quarter of this. Few things that make a difference are about the actual number, but the relative number. It is the ratio of income to the desired First Home that is important, not the actual price. Immigration is relatively a quarter of what it was, but it is a hot topic – not because it is small, but that those immigrating are economically viable and ethnically more diverse.

The successful but average gentleman of the late 1950's would not lament the immigrant as they were battler's to fight up the ladder to which they had already climbed to one extent or another. Today, the new immigrant may move to Gordon in Sydney to purchase a near $1 million property with cash – perhaps a rare example, but the key is that the new immigrant of the 21st Century is just as likely a competitor – a competitor making it harder to "keep up with the Jones's". This changing nature of who arrives makes for a changing nature to the consideration.

The success of the Asian Tigers, regardless of the recent tarnishing of their success, still has created a populous of economically successful people some of whom seek to live in Australia. Entry to Australia is now a matter of equality and the consequence is that Australia is shifting in its cultural base once again – each time in the past this has been a hotbed of racism and ignorance. At first it was the settlers following the end of convict shipment in 1840 and then again with the Mediterranean's in the 1950s and 60s. Each time it made a better and greater Australia, but each time it took time.

The question is not really about immigration itself, but whether the settling of immigrants in the cities of Australia has a significant impact upon the affordability of housing. It is suggested that 1000 immigrants settle in Sydney each week – roughly 50000 a year. Sydney has a population that is nearing four million, so immigrants and in this case almost half the national intake make up 1.25% growth in the population. Of course, Sydney is a magnet for Australians as well and the demographic trends of four million people are perhaps something to consider. So, is it significant? Naturally the answer is yes. However, everything in context and this is the key in terms of policy. The political sphere so easily plays with context. Immigration is really an investment in the future and in this has a cost today, true in the past and actually less true today. Nevertheless, the electorate is now keen to focus on any cost that doesn't have a direct and personal payback. The issue is in communicating that today's immigration has little impact to the entry point or affordability for First Home Buyers, regardless of the impact on median or other prices[4].

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3 Some would argue that $7,000 or $14,000 is not a small provision, however if the GDP of Australia was 1% higher because of the policy, then the multiplier is significant.

4 It is clear that regardless of any held position for the perception for the influence of immigration on house pricing, the changing structure of immigration over time has meant that the impact on the entry price for First Home Buyers has lessened over time.

4.2 State Government

Technically, the most influence upon the housing market exists as the State level. The release of land, the costing for infrastructure, the building standards, the rule for transfer, duties and fees, and the zoning of land use are within the domain of the State Government.

The concern is whether this power of influence in the detail impacts the affordability of housing as perceived by the First Home Buyer. Naturally the answer is yes. If the building standards allowed a dwelling of the 1940s to be built today then the price would be lower – the standard, a reflection of the expectation of society, do drive the cost of housing. It is important to note that they do not simply drive the cost of new housing. New dwellings set the market in a number of ways. If a property in a new fringe development area of a city is $A, then a dwelling of similar size and renovation in an older area will be perceived as been $A+X, where X is a premium for location, style, gentrification or other factor. This creates an on-flow to the entire residential property environment.

Much debate has been made of land release. This is however much like the argument about immigration, it is not to be ignored but it is a minor ratio issue – the release of land is not anymore going to represent a significant ratio against the current stock of the city. It is not the 1930s with the release of the North Shore of Sydney following the opening of the Harbour Bridge. It is a valid concern as raised by the State Governments that the release of land is an intensive investment that is not recovered by the home purchasers – although neither is the infrastructure refresh cost for the establish areas.

The contrast of the Adelaide and Sydney solution shows both success and failure. The lack of physical barriers to the present scale of Adelaide has Adelaide branch out without exploring re-development of the closer environs of the city. This keeps the property cheaper, but in the long run makes the city poorer. In Sydney, following changes in the mid-90s, the planning laws have changed to allow density increases and changes of use for office towers. A move that although has change the nature of the city will enrichen the city. The question for Sydney is whether it wishes to be a Los Angeles or more a New York or London – the choices of the 90s suggest the latter.

New property has become more expensive in real terms, having grown in excess of build cost inflation, and if not from land release management, what? Certainly the quality of dwellings provided has increased and this comes at a cost, but that is a true market concern. The significant policy influences have been the effective bracket creep of Stamp Duty and the drive for user-pays.

In focusing on new property, the rising prices of new housing which at least in part are due to State charges is then subject to duty – perceptibly a double taxation. Outside of new property, the lack of indexation of Stamp Duty to median house prices or equivalent measure has resulted in a revenue boon to the State Treasuries, but at a increasing real cost to the transactions. Although this is a good dampener to an overheating market, it is a significant impact for the entry to market and thus to the First Home Buyer.

The major change in policy however is the shift towards user-pays. In the development of the more established areas of Australia's cities, the battlers who moved into what was then the fringe suburbs did not pay for the sewage treatment plant that was needed or the local electricity substation. In that day, this was subsidised across the community. Today the community is evidently less forgiving and now requires the buyer of new development to pay for the infrastructure up front. On the surface it would appear that the people of the past had a free ride and those today are now paying their dues. The problem is that infrastructure requires maintenance and eventually replacement. In the present system the new dwelling buyers will inherently pay for their own infrastructure and then with their rates and taxes pay for the maintenance of the infrastructure of the people living in the older areas. There is no system to manage the equity in this user pays approach – and hence it is inequitable.

4.3 Local Government

Local government is a non-homogenous arena. The Council of a leafy established area has concerns for development that are quite separate from that of the fringe, part rural Council. It is an over simplification, but the generic enforcement of State level concerns within Councils will tend to cloud the capacity for local council to impact affordability for First Home Buyers.

Councils as a whole impart restrictions that impact affordability. It is important to once again consider context. Councils by their nature reflect the mood of the local residents – this means that the restrictions are about keeping an aspect of their community. The focus on cost in money terms avoids the qualitative, a point at the Council level that becomes much more obvious. It is important not to follow a destructive spiral to the lowest common dominator where no one will be satisfied. It is perhaps the last point that is key – the goal regardless of label is qualitative. So, in order to have democracy that means anything and delivery to the community, then the community concerns require a voice.

Today, it appears that the voice has too often become “the mouse that roared” – rarely is the greater good of Australians accepted by the “not in my backyard” arguments. Councils are without the resources of other layers of Government and should take leadership from policy at State and Federal levels to address the issues of Australians as a whole.

An outstanding point is to recognise the role of government as employer. It is a common concern that “essential” workers are unable to find affordable housing, as owner or renter, in a practical location to their work. This distorts the perception of affordability. It is widely recognised that the government is not a good payer for service and that this is a modern phenomenon. Had the government continued to pay at the same socio-economic point as they had in the 50s or 60s, then perhaps the argument of affordability would not be influenced as it is today. It is quite a separate concern to explore appropriate pay within aspects of the public sector, however it is important here to realise that it is not the role of the participants in the housing sector and the influences upon it to address housing affordability of “essential” workers.

5. Private Sector

The Government provides the framework, establishes rules and for the most part provides useable urban land – but people do not live on land, they live in apartments or houses. The private sector builds, maintains and redevelops the dwellings in which people live.

In a world with no incentive to build, people would have to fend for themselves. So, as dwellings are built, the system provides incentive. Here again the chaotic nature plays a hand. The incentive, although largely financial and quantitative, is not aligned with demand. That is, there is no implicit relationship for the largest incentive being to provide the appropriate or required dwelling in the location of the highest need.

Large-scale land development or redevelopment is often defined by policy. This requires the government to liaise with the private sector to have the goal realised. The de facto result is the setting of a minimum incentive and indirectly has the government provide a "guarantee" for the return to the developer. The common practice for the outsourcing of the infrastructural components to the developer and the numerous standards for this development cause a closed shop. That is, significant barriers of entry that result in an oligopolistic supply and the potential, if not realisation of the all the weaknesses of such a market. The potential lack of competition at certain points in the dwelling construction environment that this may create directly impacts pricing. As many a First Home Buyer's dwelling is a new home in a policy led urban fringe land development, this has a direct impact upon the affordability of First Home Ownership.

6. Beneficiaries

The residential property "market" involves more participants than the group focused upon for this inquiry – in fact First Home Buyers represent a minor player. Therefore, any leverage to the system provided by policy for only part of the "market" may and most often will have consequences outside of the intended goals. In worst case scenarios the flow-on effects may offset any gains as the impact washes through the system.

It is argued that the recent grant has fuelled the base of the property market and thus supported a growth in the value of property that is not based on market fundamentals and so unsustainable. Even if the property market is overheated and deflates or crashes, there will never be a clear answer to such a proposition. It is that it is partly true that requires attention.

The beneficiaries of the development of and the rising prices in the property market far outnumber the First Home Buyers. The solution for one part of society may involve the nepotism of the wider community.

7. Options

In terms of providing any guidance, this submission does not paint a rosy picture. However, it is not intended to simply highlight the complexity of the task and suggest there are few options to address the issues that will deliver the desired result. The intention is to suggest the limitations of the first port of call. It is a rare opportunity to explore such a fundamental issue for the country – how can and does government impact the housing choice and availability of Australians. It is a question that requires looking both inside and outside the box.

The addressing of options such as immigration are macro-political, with unclear side-effects and high-level political impact. However, exploring the double taxation in new housing development, the equity of user-pays or provisions in governance of the banking sector by the Reserve Bank is relatively micro-political and may represent a sharper tool in delivering the goals.