Submission to the Productivity Commission for the Inquiry on First Home Ownership

As a prospective first home buyer, I would like to share my perspective on the current housing market crisis. I am a 31 year old male, married, living on a single income in a rented flat in an outer south eastern suburb. I am currently employed as a call centre operator (full time temporary position – 1 year ongoing).

Our governments perception

In the treasurers own press release, there is alarming assumption that shows our governments lack of understanding of the situation faced by many prospective first home buyers. Our treasurer states that there has been "a period of sustained economic prosperity with rising real incomes, lower unemployment and home loan interest rates at around historical lows". This "has reduced the cost of borrowing for many Australians and significantly increased the ability of people to buy a home."

Our treasurer obviously sees the benefit in referring to "many Australians", rather than the would-be first home buyers, simply because his above statement does not apply to many would-be purchasers. From a statistical standpoint, it is not difficult to find a set of figures to argue a point in either the negative or the affirmative to support a statement about "many Australians". The real question here is WHO has an increased ability to buy a home?

Rather than harping on the imperfections in the statics which the above statement is based on, including factors such as hidden unemployment, CPI measures and the GST, I would like to focus on the reality of our present situation.

Who are "would-be" first home buyers?

People with dual incomes, sufficient capital, or those employed on a permanent full time basis are the popular role models for statements referring to typical candidates to purchase a first home. What needs to be pointed out, is that this sector is hardly the "would-be" first home buyers, who are prevented from entering the market. More likely, they could be considered "definite" first home buyers, and future 2nd home buyers/investors. The key to this group is that they actually have a choice.

The real "would-be" first home buyers are those people on a less sure footing. These could include people on single incomes, currently paying rent, employed on a temporary basis, or other similar disadvantaged situations that attribute to a reduced earning/saving capacity. While these groups are able to support themselves financially, there is little scope to enter the housing market. This group is excluded from tax breaks or subsidised accommodation because they are not poor enough for concessions, and at the same time are not rich enough to invest in property or take advantage of tax breaks available to the to high income earners through legal creative accounting. These would-be home buyers are not only facing regressive taxes imposed by government, but are also victimised by financiers who dictate outrageous fees on providing finance, combined with more charges than interest on savings which could be directed to a first home.

"Sustained economic prosperity with rising real incomes"

I wonder how many prospective first home buyers would agree that the above statement is indicative of their experience with the Australian economy? In my personal circumstance, I can tell you my real income has diminished over the past 2 years, with my financial future looking less than promising. This has been affected by a downturn in the IT industry, a reluctance of employers to hire permanent staff, and increases in living, travel and rent expenses. If there is economic prosperity, it has not reached the lower echelons of our society.

Priced out of the housing market

According to the treasurer's comments, I can now theoretically obtain a housing loan at a low interest rate. Before I burst with tears of joy, let me examine this theory. In the best case scenario, which is currently bordering on fictional, I would only be able to purchase an extremely poor quality house in an outer lying area. Because of the massive price increases in the property market, the amount of money I would have to borrow will mean repayments will consume most of my disposable income, assuming my real income does not continue to decrease. Using a rough example, let me assume I can afford loan repayments of $1,000 per month. Assuming a 5% interest rate on a 30 year loan (based on NAB's loan calculator), the maximum amount I could borrow would be approximately $186,000.00. In today's market in Melbourne where I currently reside, the median house price is approximately $359,000. Even at the low end of the scale, property prices exceed my realistic purchasing power in virtually every suburb, and this is before I even begin taking into account the ridiculous fees and charges which financiers are currently charging first home buyers. I am effectively priced out of the market.

In many cases, first time buyers simply won't be able to borrow enough money to compete in the current market. Low interest rates do nothing for first home buyers if they don't qualify for their initial loan requirements.

Saving for a deposit

Now let me take a step back. How does a "would-be" first home buyer save a 10% deposit for a purchase? Firstly, all credit interest is subject to tax, so the ability to build on existing resources is limited. Secondly, the current level of interest offered and charges imposed by banks on low to middle income earners barely makes it worthwhile to save.

While the government continues to move toward a more regressive taxation system and financial institutions continue to aim for record profits from even their least well off customers, the situation is unlikely to change.

Unemployment

In the current unstable employment market, it is common to be unemployed for intermittent periods. Centrelink's Newstart allowance stipulates that if you have above $5000 (for a couple) in liquid assets, you do not qualify for assistance for an additional period of 13 weeks from the time you find yourself unemployed. If this liquid asset (cash) was invested in property, individuals can be eligible for benefits after 1 week. This causes problems for people employed on short term temporary contracts who may need to face this waiting period at regular intervals. Isn't it enough that these individuals work without the benefits of annual/sick leave at rates that are equivalent to permanent employees?

Once again, the aussie battlers are persecuted by government regulation and forced to live off their prospective home deposit for an additional 12 weeks, just because they have found themselves unemployed, often brought on through no fault of their own. Meanwhile, home owners and investors are rewarded for keeping their wealth securely hidden in property.

Conflict of Interest

I find it alarming that many of the opinions being expressed on behalf of prospective first home owners are originating from individuals that already own their own homes or investment properties. Furthermore, those groups in the property industry which are motivated to suggest ways a prospective home owner can buy into the current precarious situation, need to be viewed with suspicion.

Several well established property investors are continuing to talk up and encourage the current trends because understandably, appreciation of real estate is in their best interests. Prospective first home owners cannot be sacrificed to maintain these individuals return on investment. The issue here is the great Australian dream, which equates to affordability for the first home buyer. The appreciation of house values over a sustained period of time is of little benefit to a first home buyer who simply intends to be an owner occupier.

Relevant groups must investigate into methods to control the level of appreciation to firstly bring prices down to realistic levels by addressing the fundamental demand and supply issues. Once in check, there needs to be continued monitoring to ensure average price increases are kept in line with inflation.

Psychological Impact

There is little doubt that financial insecurity combined with insecure or impermanent tenures can exert excessive pressure, anxiety and psychological impacts on individuals or families. By not owning any significant assets or more specifically a home, families have little to fall back on and have little opportunity to build wealth for their future.

The commonly referred to "great Australian dream" represents the importance held by others, and also represents the social stigma placed upon those individuals that cannot afford such dreams. Not being able to adequately provide for one's family can result in feelings of failure.

Those who cannot afford their own home are often forced to endure inadequate living arrangements and face problems common to the rental market. While legislation has moved towards protecting both tenants and land lords, the possibility of rent increases, inspections, low levels of maintenance, and even eviction from rental properties can have a negative psychological impact. In other cases, families and individuals who are forced to share accommodation with others face issues such as overcrowding, strain on personal relationships/marriages, a lack of privacy and security concerns.

By decreasing the reliance on others through home ownership, we can give people the opportunity to overcome these issues.

Future implications
When future generations spend all of their retirement funds on purchasing a house, or making rental payments at the end of their working lives, it will be the tax paying community that shoulders the burden of meeting their pension or welfare needs when they are no longer able to support themselves. Trends are already showing that the level of home ownership is being delayed as the population ages. This will have a direct effect on the level of retirement savings. It is therefore in our societies best interests to address this imbalance which has already been left unchecked for far too long.

First home owners grant
In proportion to the cost of properties, it could be argued that the current grant is inadequate and should be increased, not removed. The "real" first home buyers (as per my earlier definition) make up a relatively small proportion of bidders at the low end of the property market and do not have sufficient means to compete without government assistance. Because this group make up such a small proportion of the market, it is difficult to attribute any significant housing price increases to the first home owners grant and its direct relationship to purchasing power. This is because competition for entry level property is not currently driven by the true would-be first home buyers.

If the home owners grant is causing price rises in this corner of the market, then perhaps the property and real estate industry should not have access to details on whether or not an investor is a first time buyer. If the extra spending power allowed by this scheme was invisible to these industries, then perhaps the buyer could maintain more of an advantage, for a lack of a better word. Alternatively, the government needs to issue a more strict means test.

While our Government proudly quotes the 482,000 people that the first home owners grant scheme has assisted, it makes no reference to the fact that their means test may be missing its target. A clearer distinction needs to be made between a first home owner/occupier, and a first home investor. The government's requirement for the acquired property to be occupied by the first home buyer for a period of 12 months simply acknowledges the fact that they are willing to have the scheme exploited by those that are really entering the market as an investment, rather than as a serious owner/occupier. These groups obviously do not require housing as a necessity, and it is therefore questionable whether they should be eligible for government assistance. This is particularly applicable in cases where family members are acting as a first time home buyers for an existing home owner. In such cases, their collective resources far exceed the first home buyers that are excluded from the current market.

Demand and supply

Undoubtedly we need to examine why demand has exceeded supply in the current housing climate, and investigate why investors or non first time home buyers are encouraged or forced to purchase entry level property.

We need to examine why investors are buying up property at the lower end of the property market. Is this because other typical investment markets are no longer viable? Why has the local/global economy, government policy on taxation and superannuation moved people toward investing in property to secure their future?

One of the possible factors influencing the market could be attributed to the influx of people into the housing market, possibly as a result of sustained immigration rates. According to ABS figures in 1999-2000, 92,300 immigrants came to Australia. It would not be unreasonable to assume that this creates additional competition and related price rises on the limited property market. The problem is exacerbated since most immigrants (83% in 1999) obviously prefer to live in capital cities (with more than 50% choosing Melbourne or Sydney), the areas which are already experiencing high demand.

These factors, combined with a lack of employment opportunities in both our less populated cities and regional areas, can only add to the problem. Perhaps the government can take more of an interest in encouraging investment and developing opportunities in regions which are currently not subject to high demand.

Reversing current trends
Deterrents need to be adopted for investors who seek to hide their wealth by reducing their level of measurable assets through investment in property. The government taxation system needs to address tax avoidance through investment in property.

Stamp duty and taxes – Reducing the level of taxation and stamp duty will not significantly benefit first home buyers if cuts are made across the board, since there will be no change in the overall competition for the limited supply of property. The drive from the real estate and investment industry for abolition of taxes is aimed at easing restrictions on investors that already have the capacity to invest in the market.

Increasing supply of land – In the current climate, increases in the supply of land may be eaten up by opportunistic investors who will ultimately be motivated to charge rent or reselling at a higher price. We need to investigate how to curb the frenzied bidding by investors before states begin releasing more land.

Pricing & the cost of borrowing - Low interest rates have little stimulus amongst would-be home buyers if the price of property exceeds their principal borrowing amounts. If increasing interest rates can significantly reduce the level of demand and prices for property, then it is feasible that this could actually be a positive step to slow housing prices and eventually assist first home buyers. Controls over financial institutions to limit the fees and charges on would-be home buyers need to be explored.

Typical investment areas – The government needs to investigate why investors have turned away from traditional areas in the short and medium term investment markets and implement policies encouraging existing and new areas of interest. While many of these markets are subject to global influences, first time home buyers will have little chance until demand pressures on the property market are reduced.

Immigration and demand for rental property – Whether it be external immigration, or immigration between states, our government needs to investigate why investors believe that there will be sufficient demand to enter the rental property market. If current trends in immigration to several capital cities suggest that the supply of property is not keeping up with the influx of new residents, then perhaps this needs to be reviewed. Groups need to explore methods to encourage opportunities in less popular regions and cities in order to reduce the excessive demand in our capital cities.

Home owners grant – The means test for first home owners needs to be tightened. Grants should be allocated to each family unit who in turn must give an undertaking that the properties will remain owner occupied in the long term. The current level of support needs to be further increased to give buyers a reasonable chance of entering the current market. The scheme needs to be transparent to the property industry so that first home buyers are not exploited.

<u>Conclusion</u>

The affordability of housing effects our entire community, and is continuing to cause great anguish amongst many would be first home buyers. While investors and profit takers continue to reap the benefits of a market which has spiralled out of control, would be home buyers are watching their great aussie dream disappear. Decisive measures need to be taken immediately to ensure every member of our community has the opportunity to own their own home and have a secure future.