Submission to the Productivity Commission in to Housing Affordability:

As a young Australian who, after working for more than 12 years (within the property industry), still doesn't live in their own home, I understand how difficult it is to get a foot in to the housing market.

Anecdotal evidence suggests many young people are now being forced to rent long term because they cannot afford to buy a house, or alternatively they are choosing to move out of capital cities to regional centres where they are more likely to be able to afford to buy a home.

Whilst the Government Productivity Commission into housing affordability is a positive step towards enabling more Australian's to buy their own home, the Government has also made it clear in recent years that they do not wish to support us in retirement and therefore we should be building our own asset base to ensure we are able to self fund our retirement when that time arrives.

But, how is a young person expected to built an asset base and fund their own retirement when they cannot afford to buy property?

I believe the solution in enabling more Australian's to buy their own home and at the same time increasing the number of self funded retirees (and therefore saving the Government money) lies in giving younger Australian's access to a small percentage of their superannuation savings to buy their first home. Let's look at two examples to demonstrate this solution.

In Example A we'll take a look at a typical Australian couple between the ages of 25-34, who according to the Productivity Commissions issues report, fall within the age range when most Australian's buy their first home. People in this age group normally have another 20 years of work prior to retirement.

Example A

Let's assume both partners in Example A have worked for a total of 10 years for an average income of $60,000.

Today, this would give them an individual superannuation savings pool of around $48,000 or a combined superannuation pool of $96,000.

Of course, we will assume in this example that their superannuation savings have not been eroded by falls in share or commodity markets as has been the case over the past few years.

If we project our couple 20 years in to the future we would be fairly safe in assuming that one partner (Partner A) will continue to work on a full time basis while the second partner (Partner B) takes a break from work at some point to raise children.

Let's say during this 20 year period Partner A earns $60,000 for another 5 years, then $70,000 for 5 years, then $85,000 for 5 years and finally hits a salary peak of $100,000 during their final 5 years of work.

If we assume compulsory superannuation stays at 8% of gross income, then this Partner A would end up with a total superannuation package of $174,000.

Partner B we'll assume stops work after 10 years and remains out of the work force for a period of 5 years after which time they re-enter the workforce on a part time basis, earning $35,000 per annum for the next 10 years. Partner B may then return to full time work and as a result receives a salary of $45,000 for the next five years.

This would give Partner B a total superannuation package of $94,000 and both partners a combined superannuation package of $268,000 after 20 years of work.

Now let's see how the financial position of this couple varies if they were allowed to access a percentage of their superannuation to buy property.

Example B

Once again we will assume both partners are between the ages of 25-34 and have worked for a total of 10 years for an average income of $60,000. This would give them an individual superannuation savings pool of around $48,000 and combined superannuation of $96,000.

Now let's assume the government allows our couple (being first home buyers) to access 40% of their total superannuation pool to buy their first home.

This would give our couple an amount of $38,400 (being 40% of their combined superannuation of $96,000) which they could use as a 10% deposit to buy a home.

Assuming they can service the mortgage, with this sort of deposit they could purchase a property worth around $350,000 (taking in to account additional purchase costs such as

bank or solicitors fees) on which they would have a loan of $315,000. Now let's jump forwards 20 years again.

Using the salary figures in Example A above, we can see that our partners end up with a superannuation pool of $268,000, but this time we have to deduct the 10% ($38,400) we took out to buy their home. After 20 years of work this would leave our couple with a total combined superannuation pool of $229,600.

At the same time they have been living in their own house, which they purchased for $350,000. Over this 20 year period we will assume that house prices have increased by 8% per annum compound (based on historical data Australian house prices have actually increased by around 9.7% per annum compound), which would make their house worth $1,631,000. If we subtract their original loan of $315,000, their equity in that home at year 20 would be $1,316,000. This would give them a total asset base (including combined superannuation) of $1,545,600 - $1,277,600 more than if they simply had superannuation on its own.

Even if we reduce the rate of house price growth from 8% to 4% per annum compound, they house would still be worth approximately $776,000, giving them a total asset base (including combined superannuation less their existing loan) of $690,600 - $422,600 (or two and a half times) more than if they simply had superannuation on its own.

It is likely at this asset level they would be able to support themselves in their retirement, therefore easing the burden on the Government to provide them with a pension or other aged welfare facilities.

I strongly urge the Productivity Commission to consider allowing the release of a percentage of superannuation to young people for use in funding their first home purchase.

As discussed above, this would give young Australians with a much needed deposit to enter the housing market through the use of their existing superannuation savings, provide them with a growth asset, and ease the burden on Government to provide pensions or other aged welfare payments in the future.

Kind regards,
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