

SUBMISSION TO THE PRODUCTIVITY COMMISSION

ENQUIRY INTO FIRST HOME OWNERSHIP

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Chapter 1 - The foundations of the boom

There are four things that underpin the boom in house prices that began six years ago. They are policy misjudgment, misinformation, weak supply & vigorous demand. If even some had been neutralised it is difficult to imagine how the boom could have been so strong or so durable. All of them will need attention in dealing with the problem of what Australia's largest home builder has called the "extinction" of the first home buyer [1].

Misjudgment

A key element in the current problems of the housing sector lies in misjudgments by the Reserve Bank of Australia (RBA) and the Federal Government. On 24 November 1995 Ian MacFarlane, now the Governor of the RBA, gave a speech in Adelaide in which he focussed on the economic implications of the shift to low inflation [2].

He noted that in the high inflation era of the 1970s and 1980s economic activity was distorted towards heavy borrowing to buy assets, particularly property, as soon as possible. This drove asset prices upward very quickly. Now that inflation had been brought to a very low level, MacFarlane looked forward to gentle price rises in the housing sector:

"In an environment in which inflation is low and stable, where people's financing decisions are not infected by the inflationary mentality and interest rates are low, there will most likely be some gentle rise in house prices."

Nearly two years later, as the boom began, Deputy Governor Glenn Stevens of the RBA spoke to the Real Estate Institute of Australia (REIA). He made essentially the same argument as MacFarlane [3]. He contrasted the types of behaviour that made sense in a high inflation environment, with those that make sense in a low inflation setting:

"One has to wonder whether some of the borrowing that has been done has been based on the old idea that you borrowed heavily and over time inflation made things easier from a servicing point of view, at the same time as asset prices rose strongly".

He then forecast to emphasise his point:

"The answer to the first question [will house price inflation and asset price inflation generally, be as high in future as it was in the 1980s or even the recent past?] is surely no....Negative gearing strategies will surely be less effective at generating wealth."

This view that sound business practice was undergoing a major transformation was relatively common at the time [4]. However, it is plain that the RBA did not expect the current housing boom, nor the borrowing that has fuelled it.

Having been caught unprepared the RBA then moved to arguing that something akin to the invisible hand was guiding the sector. In September of 2001, as prices skyrocketed, Ian MacFarlane gave a speech at the University of Tasmania, during which he said that the boom was about to cool. Homeowners would cash in on high house prices, he said, increasing the supply of houses for sale, and thus curb price growth [5].

At much the same time the Federal Treasurer was similarly calming and optimistic. In the run up to the Federal election of 2001, he said that house prices could not get out of people's reach. If prices got too high, demand would drop away and prices would fall in response [6].

Since 2001, the Australian Bureau of Statistics (ABS) survey of capital city house prices records that these have risen 33%. The boom which had once been confined largely to Sydney & Melbourne, has gone nationwide [7]. In Sydney the first home-buyer is extinct and in Melbourne endangered [8]. No end is in sight to the price rises [9].

Weak supply

One of the reasons the housing sector has not behaved as expected is that in many cases, the act of supply gives rise to additional, immediate demand [10]. Only when a first home buyer purchases a newly constructed dwelling or from the executor of a will is this not the case.

The fusing together of demand and supply makes the relative balance of demand from first home buyers and the supply of unencumbered housing in many ways irrelevant. A prominent Melbourne real estate industry figure described this effect well:

"The market has been strong for so long that there is only so many times that people can move house." [11]

However, the effect of this unusual feature of the housing sector is magnified by the failure of the housing industry to keep pace with an expanding Australia. Over the last thirty years, both at the Australian level [12] and in Victoria (see tables below) the development of new dwellings has fallen relative to population, and to the number of households.

Table 1: Total dwelling completions (Victoria); selected years

1955-56;	23,900,	9.6	per 1000	people
1960-61;	26,300,	9.4	per 1000	people
1965-66;	30,400,	9.7	per 1000	people
1970-71;	37,300,	10.8	per 1000	people, 35
1975-76;	34,300,	9.4	per 1000	people, 29
1999-00;	40,600,	8.6	per 1000	people, 22
2000-01;	39,200,	8.2	per 1000	people, 21
2001-02;	38,100,	7.9	per 1000	people, 20

source: for data up to 1975-76 The Evers Report - Cost of housing: the Report of the Committee of Inquiry into Housing Costs [July 1978] Volume II, Table 4, p128. ABS Catalogue number 8752.2. For population data and household data see Appendix 1

Table 2 - Total house completions (Australia); selected years

1980-81; 101,000, 6.8 per 1000 people
1981-82; 97,000, 6.5 per 1000 people
1982-83; 79,000, 5.2 per 1000 people
1983-84; 97,000, 6.3 per 1000 people
1984-85; 112,000, 7.1 per 1000 people
1985-86; 108,000, 6.8 per 1000 people
1986-87; 92,000, 5.7 per 1000 people
1987-88; 94,000, 5.7 per 1000 people
1988-89; 118,000, 7.1 per 1000 people
1989-90; 119,000, 7 per 1000 people
1994-95; 122,000, 6.8 per 1000 people
1995-96; 95,000, 5.2 per 1000 people
1996-97; 84,000, 4.6 per 1000 people
1997-98; 95,000, 5.1 per 1000 people
1998-99; 99,000, 5.3 per 1000 people
1999-00; 112,000, 5.9 per 1000 people
2000-01; 92,000, 4.8 per 1000 people
2001-02; 96,000, 4.9 per 1000 people

Source; For house completions in years 1980 to 1990; ABS Year Book Australia (Number 74), p550. For years 1994 to 2002 ABS Catalogue number 8752.0 (Table 22). For population data see Appendix 2.

Very vigorous demand

Although demand from first home buyers has all but evaporated, the years since Australia's last recession have seen very rapid growth in dwelling purchase by intending landlords.

In mid 2002, the RBA noted that borrowing for housing had grown at an average annual rate of 15% since 1990. Growth in borrowing by intending landlords had grown by 22% annually over the same period [13]. A year later RBA Governor Ian MacFarlane reported to the House of Representatives Economics Committee that lending to budding landlords was growing at 28% annually [14].

This has led to a situation where 50% of all housing loans are going to persons who plan to lease their purchase to a tenant [15]. For at least one of the big four banks, this has seen would-be landlords become the source of lending growth. While loans to owner-occupiers shrank, the buy-to-let market expanded its demand for credit [16].

What exactly lies behind this upwelling in buy-to-let activity is relatively hard to pinpoint. The latest Australian Bureau of Statistics (ABS) publication examining the characteristics and choices of landlords relates to 1997 - effectively before the housing boom [17]. However the growth would seem to be unrelated to demand from prospective tenants. Census figures show that over the period between 1996 and 2001 (covering the bulk of the boom) households renting the roof over their heads grew less strongly, in absolute and percentage terms, than households purchasing their residence [18]. Falling rental yields, relatively high residential vacancy rates and blow-outs in the time taken to find a tenant [19] all point to over-exuberant buy-to-let activity [20].

Respected business and economic commentators have firm views. They put the explosion in buy-to-let activity down to a potent combination of fear and aggressive marketing. Florence Chong has described how telemarketing companies have been recruited to the task of selling property to targeted households [21]. Robert Gottlieb attributes furious buy-to-let demand to older Baby-boomers realising that urgent action is necessary to provide them with enough assets for retirement [22]. Even the RBA has noted the speculative nature of this part of the housing sector, and that financial institutions had helped create the boom by means of financial products such as deposit bonds for this market [23]. Commentators such as Alan Wood had sounded the alarm about dubious lending practices some months earlier [24].

However it would be a mistake to assume that landlords and their creditors are, alone, stoking demand and thwarting first home buyers. Strategies adopted by financial institutions in the early 1990s mean that the scale of the problem is far greater than that. The essence of the problem was pinpointed by Deputy Governor of the RBA, Glenn Stevens, in a speech to the REIA on 8 October 1997. He explained that in the early 1990s, with corporations shy of borrowing after the excesses of the 1980s, the banks fixed on households as the new target for the marketing of credit [25].

Such pushing of credit onto households [26] would, in any event, tend to create a powerful impetus towards a buoyant housing sector. Put it together with the inability of the first home buyer to offer the degree of collateral for any loan that an outright or near home owner can, and everything is in place. You have the pre-conditions for a housing sector awash with money, sloshing back and forth between existing property owners, while potential first home buyers look on.

Misinformation

Private sector

Adding to the barriers to the sound functioning of the housing sector is the dearth of rigorous information on the issue of affordability.

The two most high-profile measures of affordability (one from the REIA and the other from the Housing Industry Association (HIA)) both focus on the quotient of periodic

mortgage repayment relative to the income servicing the loan. Both the numerator and denominator are rubbery figures that make the affordability measures essentially useless for analytical purposes, especially over time.

The periodic mortgage repayment value takes no account of whether the time to repayment of the mortgage is shortening or lengthening. Its value would fall and affordability would appear to improve if many mortgagors decided to postpone clearing their debt to a point in the more distant future. This extension of time to repayment is unquestionably occurring, with the relatively recent development of the 30-year mortgage [27] [28].

The income element of the fraction may also be overstated, and public misled accordingly, by the failure of these measures to factor in the effort involved in earning the income. Australia has shifted over the past 30 years from a situation where households, especially those with mortgages, had one income to an environment where two incomes are the norm [29]. This means that the money that households can spend has been acquired with greater sacrifice, and accordingly that the value of their investment in housing becomes the greater. This shift in the time spent at work is not factored into what the public hears of housing affordability [30].

Shifting from what these measures include, it is notable that they exclude the saving of a deposit. In an era when interest payable on bank deposit accounts has fallen to very low levels and house prices have risen very high, this is a vital element in understanding what being a first home buyer actually involves. The information is not available. This issue will be addressed in detail later in this submission.

Given the failing of these measures effectively to monitor the actual effort and progress to repayment of those with mortgages it is not surprising that as affordability has declined for first home buyers, standard indicators have not detected it [31].

Public sector

The capacity of the public to gauge, effectively, conditions in the housing market, has suffered further at the hands of those employed to act in the public interest.

The Prime Minister for example, in June 2002, publicly dismissed the judgment of the RBA Governor that household debt (predominantly housing debt) was a problem. Mr Howard said that Mr MacFarlane's remarks were "needlessly negative" [32]. Finance Minister Senator Nick Minchin did the same thing several months later, saying that the housing market and rising household debt were not a problem [33]. The Commonwealth Treasurer, although he has acknowledged that "no market is a one-way bet" [34] said at the end of July 2003, as it became clear that housing affordability had crashed, rising house prices were not a problem for most people [35]. He added that intending first home buyers should not delay getting into the market.

Overall, the government has given a great deal of weight to the view that rapid price rises in housing are a good thing [36].

Despite the problems outlined above with the high profile measures of housing affordability, had the Government chosen to adhere to the standards they set others in 1995, outcomes in the housing market might have been very different. Hansard records that on 29 July 1995, John Howard condemned the Keating government because 27% of average household income was being devoured by the average mortgage payment [37]. He contrasted the Labor Government's record with that of the last Liberal Government, when only 19% of household income was required. He repeated his criticism in early October 1995 [38]. When, on 6 May 2003, the REIA announced that 27% of household income was required to service the average mortgage, the PM was silent [39].

Public sector players have also done a lot to promote the view that house price increases are a result of very advantageous interest rates. The Governor of the Reserve Bank noted this in his appearance at the House of Representatives Economics Committee on 31 May 2002. The Treasurer noted this in campaigning for the 2001 election [40] and reiterated it as recently as 29 July 2003 [41]. Even a Commissioner running the Productivity Commission enquiry into first home ownership commented recently (regarding housing), that interest rates are "very, very low" [42]. As the table below shows, adjusted for what economists call the money illusion (ie the effect of inflation on interest paid and earned) today's mortgage interest rates are not low [43]. Measured against any of the standard measures of central tendency - the median, mode or mean - today's mortgage interest rates are very average.

Table 3: Standard mortgage interest rate less CPI

-6%	1974
-5%	1975
-3%	1976
-2%	1977,1973
0%	1979,1980,1965
1%	1971,1972,1978,1960
2%	1982,1981,1983,1964,1967
3%	1968,1969,1970,2002
4%	2003 ,2001,1963
5%	1999,1998,1997,1961,1962,1966
6%	1985,2000,1986
7%	1987,1988,1994
8%	1993,1984,1996
9%	1995,1989,1990
10%	1992,1991

Source; Table F05, available at www.rba.gov.au. See also Australian Bureau of Statistics CPI data.

The overall effect of the impediments to first home buyers

The sum of the impediments outlined above means that supply is weak, demand is strong (so strong prices rise regardless of what first home buyers do) and quality information as to what is happening does not reach the public. Those who might be expected to understand the severity of the situation have done next to nothing.

In such a situation, all the conditions of a speculative boom are in place. It is understandable, though not justifiable, that many Australians would conclude that no other asset class can offer the big, easy gains the housing sector offers [44] with next to no risk. They would also understandably reach the conclusion that they should buy property as soon as possible, no matter what debt was involved, and that nobody would suffer as a result of their purchase.

Nothing could be further from the truth.

Chapter 2 - The downside of the boom

The collective mindset that takes hold in times of an asset price boom - that riskless riches are available to anyone - is very harmful. The harm it does is particularly bad when the boom is in house prices, and grows greater the longer it persists.

Macro-economic health

The fundamental problem it creates is to make irrelevant, at least superficially, the link between risk and return. The principle that the higher the return on investment, the riskier the investment, breaks down when high returns are available with the proverbial safety of bricks and mortar. The evidence is that this is already the case in Australia [45].

Without risk impacting on people's decision-making, the capacity of the economy to adapt, develop and grow suffers. To attract capital, risky ventures such as technological innovation, have to offer much higher returns than are available in the sector that is "as safe as houses". This inevitably means that some innovations fail at the first hurdle when they might have, in a sounder economy, found capital, succeeded, and brought a major pay-off in economic productivity and efficiency.

The same applies in the case of the opportunities for small business to grow and develop. In the case of at least one of the big 4 Australian banks, this process is well entrenched, with the ANZ cutting loans to business by over 25% since 1997. Lending that might have financed businesses across the economy has gone into the housing sector, where the ANZ increased its business over 40% between 1997 and 2002. Over that period the ANZ's annual return on equity rose from 16% to 23% [46] [47].

The damage does not stop there. In a boom, the very highest returns go to those who buy early, and delaying purchase any longer than necessary shrinks the eventual return. This makes debt-financed purchasing highly attractive [48] and makes saving pointless. The end of saving has already arrived for the Australian household sector, which is spending more than it earns [49]. Ultimately this, and the associated increase in foreign debt, are simply unsustainable. The debt must then be repaid from an economy whose productive capacity has not grown in line with the housing boom, even if everyone lives in a more valuable house.

The options open to individual Australians

The barriers to first home ownership that have arisen are also a problem for the wider economy, because housing is an important source of collateral in lending to business. Particularly for small businesses, the ability of the owner(s) to obtain credit against the security of their house(s) is crucial.

The implications of the crisis of affordability for first home buyers are, therefore, that over the medium and long term, young people's ability to start their own businesses will suffer. It will become that much harder for many young Australians, who might in other circumstances have become their own boss, to do so. They will have little option but to remain someone else's employee. The dynamism of the small business sector will decline proportionally.

This closing off of choice and under-performance of the small business sector is probably already underway, given that home purchase by young Australians has been falling for many years [50].

Falling home ownership amongst younger Australians will also diminish their freedoms and living standards in retirement. Currently, with rates of home ownership amongst retired Australians at high levels, these seniors have negligible housing costs. The old age pension that many of them receive (to a value of around 25% of average weekly earnings or \$9000) is money that is available for food, clothes and warmth. With lifetime renting now emerging as the probable future for many young Australians, in 30 or 40 years that pension stands to become, effectively, a transfer to landlords [51].

This raises perhaps the most pernicious effect of the marginalisation of the first home buyer - the fact that finance institutions continue making housing loans regardless. So long as they can find someone to lend money, who can provide the necessary collateral, they will make loans. Given that ownership of real estate is amongst the best collateral in the eyes of creditors, the housing sector will increasingly revolve around property owners progressively extending their holdings.

This will effectively undo arguably one of the greatest Australian achievements of the decades since World War Two. In the late 1940s, a little over half of homes were rented. In the space of little more than twenty years the percentage of households renting more than halved [52]. With the housing sector in its current state, the slow fall in the percentage of households who own or are buying their residence will continue and probably accelerate [53]. Those who own one property will be well placed to acquire more. Young Australians and those who for whatever reason cannot meet their mortgage payments will increasingly rent. Those few young Australians who avoid becoming lifetime renters, will in all probability do so on the basis of credit or gifts from relatives [54].

Over the long term the implications of the property sector continuing on its current trajectory are clear. The wealth and options that individual Australians have at their command will increasingly depend not on their talent and hard work. They will reflect how they or their forbears emerged from developments in the property sector of the late twentieth and early twenty-first century.

Chapter 3 - How big is the problem that must be fixed?

In establishing the price level at which potential first home buyers can afford to purchase, it is necessary to factor in a number of considerations. Previous chapters have touched on two such issues, namely the saving of a deposit, and ensuring that price measures are on a basis that ensures rigorous time trend analysis. They will receive closer attention in this chapter, along with an examination of the third important consideration - lifetime earnings.

This chapter will involve frequent discussion of medians and averages (also known as means). It should be noted that the distribution of house prices is such that the mean price is always higher than the median price (see Appendix 3).

Rigorous time-trend analysis

As noted above, standard calculations of housing affordability use household income as one of their variables, without factoring in the effort of earning it. This is a major factor in what has enabled housing affordability measures to produce figures that look benign, even as home purchase moves beyond reach of young Australians.

Long run data on Average Weekly Earnings is available, and goes some of the way to overcoming the problem of comparison over time. However another, more complete and thus superior measure of average household income is calculable over the very long term - Gross Domestic Product (GDP) per household [55]. Together with data on house prices stretching back to the early 1970s (when interest rates were around 6.5% [56]), this gives a robust measure of what is involved in purchasing a home [57].

Table 4: Average household income annually - GDP/household

1972.	\$10,740
1974.	\$14,500
1976.	\$19,150
1978.	\$22,650
1980.	\$28,160
1982.	\$34,530
1984.	\$40,450
1986.	\$46,730
1988.	\$57,130
1990.	\$65,290
1992.	\$66,000
1994.	\$70,570
1996.	\$76,400
1998.	\$82,050
2000.	\$88,890
2002.	\$95,990

source: GDP data from spreadsheet G12 at www.rba.gov.au. Number of households data, see Appendix 2

When these average household income figures are used as a yardstick for the cost of housing, it quickly becomes clear that housing costs have risen strongly over the last 30 years. The growth is particularly pronounced in Melbourne and Sydney.

Table 5 - Years of average household income to purchase the median house; Melbourne and Sydney [58]

1972.	1.40 (M); 2.14 (S)
1974.	1.79; 2.14
1976.	1.72; 1.93
1978.	1.66; 1.90
1980.	1.35; 2.45
1982.	1.36; 2.32
1984.	1.61; 2.13
1986.	1.76; 2.10
1988.	1.93; 3.05
1990.	2.01; 2.94
1992.	1.89; 3.08
1994.	1.84; 3.10
1996.	1.68; 2.78
1998.	2.38; 3.14
2000.	2.81; 3.48
2002.	3.41; 4.24

source: Median house price data are taken from tables compiled by Peter Abelson and published in his article "House prices, costs and policies" in the journal "Economic Papers", published by the Economics Society of Australia, March 1994. They have been cross-checked and/or supplemented by data from the Real Estate Institute of Australia and the Victorian Valuer-General's "A guide to property values - 1996/97"

However, big increases in price have occurred in other capital cities.

Table 6 - Years of average household income to purchase the median house; Perth and Brisbane

1971.	1.50 (P)*
1972.	na
1974.	na
1976.	na
1978.	1.55 (P); 1.37 (B)
1980.	1.46; 1.24
1982.	1.39; 1.59
1984.	1.19; 1.38
1986.	1.22; 1.28
1988.	1.33; 1.30

1990. 1.33; 1.64
1992. 1.53; 1.83
1994. 1.76; 1.86
1996. 1.68; 1.77
1998. 1.74; 1.76
2000. 1.77; 1.74
2002. 1.95; 2.48

source: as for Table 5. * The 1971 figure for Perth was calculated on the basis of research by Lino Iacomella into the long run change in house prices in Perth.. This was posted on the website of the Real Estate Institute of WA in March 2002.

The overall picture is that for those cities in which most Australians live, on a like-for-like basis, houses are far more expensive than around a generation ago. The shift is so great that it could not possibly be explained by earnings dispersal across the regions of Australia, and the integration of Sydney into the global economy. If anything it is likely to be damaging to the integrity of the Australian economy, particularly in terms of labour mobility, as housing costs become an impediment to movement to particular cities.

Given that house prices in 2003 have risen substantially above those of 2002, in many parts of Australia a halving of the median house price is necessary to return to past levels of affordability.

Other like-for-like measures

There are few occupations which were distinct in the early 1970s and have retained much the same identity today. However there is enough data to use salary figures for Federal MPs and Victorian teachers as like-for-like yardsticks for property prices. In 1971 a first year Victorian state-school teacher earned \$3,500 yearly [59]. By 2003 this had risen to \$41,000 [60]. Accordingly, the Melbourne median house price rose from being around 4 times a teacher's salary (1971), to just under 9 times a teacher's salary today. Interest rate movements could not explain this.

In 1970 a Federal backbench Member of Parliament earned \$9,500 base salary and received \$2,750 in allowances [61]. Thirty years later, this had become \$90,000 base salary and \$27,300 allowances. This near tenfold increase in earnings was paralleled in Sydney by a fifteen fold increase in the median house price. In Melbourne the increase in median house prices was seventeen fold.

Saving a deposit

The second indicator of how house prices have parted company with the purchasing power of potential first home buyers is visible in the task of saving a deposit.

It is probably stating the self evident that the task of saving a deposit is most straightforward in a situation where prices rise gently, if they rise at all. Such circumstances would enable a would-be first home buyer to pursue a target sum and

know that they have a good chance of reaching it. As the rate of house price rises increases, particularly when they increase much faster than wages, knowing what will be a 10% deposit becomes increasingly uncertain. The uncertainty becomes the greater the longer that rapid house price rises occur and the greater the number of years' saving required to reach the target sum.

For this reason, the following tables assume that it is not realistic that any first home buyer would save for more than four years to get a deposit. They also assume that a would-be first home buyer (given rising house prices) sets as their target 12.5% of the current median house price. This would allow them to have 10% deposit two or more years hence, even if price growth well in excess of inflation occurs. If it does not, any additional savings would help with the costs of the house purchase transaction.

Table 7: % of average weekly earnings (AWE) to save 10% deposit for the median house over 2 years; Melbourne, Sydney & Brisbane

1984. 21%(M); 28%(S); 18%(B) <interest on 1 month fixed deposit 10.6% p.a>
 1986. 23%; 28%; 17% <interest on 1 month fixed deposit 13.6%>
 1988. 29%; 45%; 19% <interest on 1 month fixed deposit 10.4%>
 1990. 29%; 43%; 24% <interest on 1 month fixed deposit 12.5%>
 1992. 28%; 46%; 27% <interest on 1 month fixed deposit 5.9%>
 1994. 28%; 47%; 28% <interest on 1 month fixed deposit 4.7%>
 1996. 26%; 43%; 27% <interest on 1 month fixed deposit 4.9%>
 1998. 38%; 50%; 28% <interest on 1 month fixed deposit 2.7%>
 2000. 46%; 57%; 28% <interest on 1 month fixed deposit 2.8%>
 2002. 56%; 69%; 41% <interest on 1 month fixed deposit 1.6%>
 2003* 59%; 76%; 47% <interest on 1 month fixed deposit 1.6%>

source: Reserve Bank of Australia for interest rate data and AWE data. Median house price data, as for earlier tables. *Data for 2003 are provisional.

NB the calculation of the weekly saving required was via the equation (using the common spreadsheet nomenclature) target sum = periodic payment X (((1+r)^n)-1)/r, where r is the periodic interest rate and n the number of periods.

Table 8: % of average weekly earnings (AWE) to save 10% deposit for the median house over 4 years; Melbourne, Sydney & Brisbane

1984. 9%(M); 13%(S); 8%(B) <full & part-time AWE = \$331>
 1986. 10%; 12%; 7% <full & part-time AWE = \$371>
 1988. 13%; 20%; 9% <full & part-time AWE = \$417>
 1990. 13%; 19%; 10% <full & part-time AWE = \$475>
 1992. 13%; 21%; 13% <full & part-time AWE = \$505>
 1994. 13%; 22%; 13% <full & part-time AWE = \$535>
 1996. 12%; 20%; 13% <full & part-time AWE = \$566>
 1998. 19%; 24%; 14% <full & part-time AWE = \$600>
 2000. 22%; 28%; 14% <full & part-time AWE = \$638>
 2002. 27%; 34%; 20% <full & part-time AWE = \$694>
 2003* 29%; 37%; 23% <full & part-time AWE = \$725>

source: Reserve Bank of Australia for interest rate data and AWE data. Median house price data, as for earlier tables. *Data for 2003 are provisional.

nb the calculation of the weekly saving required was via the equation (using the common spreadsheet nomenclature) $\text{target sum} = \text{periodic payment} \times \frac{((1+r)^n - 1)}{r}$, where r is the periodic interest rate and n the number of periods.

Once again, in Table 7 and 8, there is unambiguous proof that house prices have taken leave of reality. The data show that over the last 20 years, it has become around three times as hard to save a deposit. But the tables understate the impossibility of the situation. With 76% of AWE earnings required every week to save a deposit over two years in Sydney, anyone earning this income, would (after paying tax) have \$50 weekly for food, rent and transport. That is why the first home buyer in Sydney is extinct.

Again, the message is unmistakable, a fall in house prices of 50% to 60% is required to restore previous levels of affordability.

Lifetime earnings

In chapter 1, this submission touched on the fact that mortgages where repayment is scheduled over 30 years have become common. Even 90 year olds are offered and sign up to them.

In circumstances where those young Australians who do manage to buy a first home are increasingly doing so in their early thirties [62], a major problem arises. They are committing to mortgage repayments until very close to their retirement age. It is highly questionable whether this is a wise use of lifetime earnings.

Around ten years ago the investment company MLC ran a newspaper advertisement entitled "Life begins at 40". It ran as follows "Your mortgage is low. Your kids have left home. Suddenly you have a few hundred dollars to spare each month. So how can you put it to work to give yourself a chance to accumulate real wealth while protecting your hard-earned lifestyle....Plan a future you can look forward to".

MLC obviously judged that there were a worthwhile number of people with whom the advertisement would resonate. People in their late 30s or early 40s who owned or nearly owned their home, and had started to think of retirement.

The leader of the Federal Opposition spoke of the same group in his reply to the Budget speech in May 2002 [63]. He said people over 40 were of "the age when most people start getting serious about planning for their retirement".

Best-selling financial advice author Anita Bell has a similar message. In her book "Your Money" - which is an age-group guide to finance - she advocates that people in their forties should be helping their kids to buy houses of their own [64].

Another popular financial advice writer, Tim Blue (whose latest book the exacting Australian Consumers' Association advertise [65]) says that people should clear all their debts before they turn 45 [66].

In these circumstances even someone who bought their first home at around 30 years of age, under a mortgage repayable in 20 years, would be in dangerous territory. Investigation as to whether first home buyers can afford to pay for housing at current prices without compromising their financial security in old age is clearly necessary.

The most straightforward way of doing this is to look at the relationship between median house prices and earnings. This can be done by quantifying the household income necessary to pay off a mortgage of 90% of the median household price over 17 years [67]. This seventeen year period represents the time between the age of the average person at marriage, and the time they reach the age of 45.

Assuming their repayments are fortnightly, at 6.5% interest yearly, and do not take more than 25% of their income, implies

Table 9: Yearly household income required to repay 90% of median house price over 17 years

Sydney	\$163,000
Melbourne	\$126,000
Brisbane	\$101,000
Adelaide	\$77,000
Perth	\$74,000

nb the calculation of the above incomes was via the equation (using the common spreadsheet nomenclature); $\text{sum borrowed} \times 1 / ((1 - (1 + r)^{-n}) / r) = \text{periodic payment}$, where r is the periodic interest rate and n the number of periods.

But clearly this does not represent actual income levels in those cities, particularly those of the Eastern States. According to press reports, property developer Devine Homes regard an \$80,000 annual income as that of a tertiary qualified professional [68]. Table 9 shows that Sydney's property prices only make sense if a middling household can call on two such incomes. Despite being willing to lend 100% of the value of a house to one person who earns \$80,000 yearly, Devine Homes has quit the Sydney market for standard house and land packages [69].

It is worth reiterating that Table 9 shows the scale of income that would be appropriate if the median house price were to be on a sound footing. The average or mean house price is higher still, perhaps 20% higher. For current prices to be at a healthy level, that would require that, on average, Sydney households bring in around \$195,000 each, annually. Melbourne households on average should have incomes of \$150,000, and Brisbane households should average \$120,000 [70].

The gap between the level of incomes that would mean house prices were affordable, and actual incomes can be estimated. It can be gauged by using data on household

expenditure in the regions of Australia. As noted previously, because Australian households spend their entire income, this should be a good proxy for household income.

This regional household expenditure data shows, for each State, what household spending is in the capital city and in the remainder of the jurisdiction. This enables calculation of the relationship between national average household spending, and the level of household spending in parts of Australia [71]. Cross checking with more recent household expenditure data broken down to State level shows that these relationships are relatively stable [72]. Using the national average weekly earnings figure as a reference point then produces the following table

Table 10: An estimate of average weekly earnings in the capital city and the rest of a selected State (2003)

NSW \$806 (Syd); \$659 (Rest of State)
VIC \$764 (Melb); \$626 (Rest of State)
QLD \$717 (Bris); \$674 (Rest of State)
SA \$695 (Adel); \$579 (Rest of State)
WA \$732 (Perth); \$679 (Rest of State)

Source - calculated by multiplying the current AWE by the fraction given by local household expenditure over national household expenditure, using the data from page 130 of Australian Social Trends 1996 (Australian Bureau of Statistics)

Assume that the average household in any capital city earns two such incomes and household income in Sydney would be just 45% of what it should be. The average Melbourne household would bring in just over 50% what it should, and in Brisbane there would be a 40% shortfall.

With tables 9 & 10, again, the evidence is that affordability problems are broad-based and large.

Are these estimates accurate for young Australians?

Although the analysis above shows that housing has become much less affordable than it was, there is a good evidence to suggest that this chapter has, so far, been optimistic. The calculations above assume that young Australians are to be found across the income distribution in rough proportion to their share of the population. To the extent that this is not the case, the calculations also assume that on a stage-of-life basis, young people's earnings are comparable with the earnings of young people in past decades.

The evidence does not support this.

The report *Australia's Young Adults: The Deepening Divide* published by Dusseldorp Skills Forum in 1999, for example, suggests that the earning power of young Australians is weaker today than it was in the 1970s. Noted economist Professor Bob Gregory has

found the same [73], reinforcing the findings of research released by the Reserve Bank in July 1992.

Economic consultants NATSEM [74] and the Committee for the Economic Development of Australia (CEDA) [75], have found that the young struggle to make the transition to independent adulthood.

Even those young people who are able to obtain tertiary education are not assured of a good income. In 1997 the Department of Employment, Education, Training and Youth Affairs published *The Labour Market Experience of Higher Education Graduates over the Last Decade*. The report noted "graduate starting salaries relative to the workforce salaries in general have been declining". It also found that graduates were accepting part-time work despite preferring full-time work.

The dire problems of low income earners

Bad as the situation is for young people on outwardly good incomes, it is worse for those on low incomes [76].

On 31 December last year, noted academic authority on the housing sector, Professor Mike Berry spoke on 2BL on the issue of housing affordability. He noted that government policies had simply failed to attract investment into basic housing.

In this he added his voice to that of the Affordable Housing National Research Consortium (AHNRC). They have spent recent years, researching the scale of the problem and lobbying politicians on the need to tackle the forces that are driving lower income earners to leave our capital cities [77]. The Federal Opposition have acknowledged that this is a problem and that they intend to address it, particularly for workers in essential services such as nurses and police.

The concerns that Berry and the AHNRC have voiced, however, are simply a reiteration of what has been recognised at the highest level for a long time. On 23 April 1990, the AFR published a story on the housing market, citing then Commonwealth Government Housing Minister Brian Howe. He was reported as having decided that tax measures such as depreciation for new rental dwellings and negative gearing had "simply not worked in terms of the lower income sector".

Despite this recognition of a major problem, 12 years have passed, and the failed tax measures that in theory ensure adequate provision of housing remain. The argument that they are essential for the poor has continued doing the rounds [78].

Chapter 4: Recommendations

The previous chapters have identified a range of factors that mean the housing sector behaves in a way that is inconsistent with the broad interests of Australians. They have shown how the housing sector is damaging the economy and will damage it further. Unfortunate as it may be from some people's perspective, to restore the affordability of housing for first home buyers and put the economy on a sound footing, major drops in house prices are necessary. A fifty percent drop in prices, especially in our capital cities, would be a good start. But further reductions in prices may prove necessary.

This chapter outlines a range of measures that are designed to ensure that prices fall. They are designed to make the housing sector function more like a market, which it conspicuously fails to at present. Without such measures, demand for housing will indefinitely exceed supply, the popular belief that housing is a safe way to riches will persist, and the industry will increasingly churn property amongst existing property owners.

The measures below aim to ensure that first home buyers move from the periphery of the housing sector to centre stage. They aim to make first home buyers the most attractive potential customers for the various participants in the housing industry, and to ensure that all Australians have quality information about the housing sector.

Unless first home buyers drive a properly functioning housing market, industry players will inevitably find it more profitable to ignore them.

1. Dealing with misinformation

The Office of the First Home Buyer Advocate

There may be some Australians who simply have no regard for first home buyers or interest in issues of affordability. However it is probably best to believe that had there been an organisation to publicise, vigorously, the collapse of housing affordability, remedial action could have begun 10 years ago.

To ensure that a damaging silence can never afflict the housing sector again, the Commonwealth Government should establish the Office of the First Home Buyer Advocate. The role of the Office would be to produce timely, comprehensive and robust data on issues of affordability, and to advise the Government on all matters that may affect affordability. It should also be empowered to act, directly or through other agencies, to counter developments, acts or statements prejudicial to affordability for first home buyers.

Given the problems of what, sadly, looks like the politicisation of issues of affordability - the First Home Buyer Advocate will need a strong power base, that Governments will

struggle to erode. The following are proposed in order to form a strong base for the Advocate:

(i) The Advocate should be appointed by a 75% majority of both houses of Parliament from a list agreed at the Council of Australian Governments.

(ii) The Advocate would have an automatic seat on the board of the Reserve Bank of Australia.

(iii) The Advocate should report to the Prime Minister in the first instance. However the leader of any Party represented in Parliament should receive, promptly, a briefing from the Office of the Advocate on any nominated topic.

(iv) The Office should have a generous budget for education and publicity.

(v) Real estate agents, finance industry workers and construction industry workers, or their agents would be required to distribute Office of the First Home Buyer Advocate education material at any time they gave advice to a member of the public on purchasing property.

(vi) The Commonwealth Government should fund the Australian Bureau of Statistics to increase the frequency, precision and range of surveys of housing, in collaboration with the Office of the First Home Buyer Advocate.

(vii) The Office of the First Home Buyer Advocate would operate under a Charter. The opening of the Charter should be

"While periods of quite strong increase in house prices make the present owners of housing richer, they also make those next in the queue poorer...a significant rise in the real price of housing, in effect makes some people better off at the expense of their children".

(Ian MacFarlane, Deputy Governor of the RBA, 24 November 1995)

2. Ensuring that first home-buyers become the drivers of the housing market

The other major lesson of the last decade or more is that the property industry and finance industry are able to operate profitably, in fact very profitably without first home buyers. They simply churn property through a series of existing owners and collect a margin.

In order to ensure that this is no longer possible, a basic principle must be re-established in policy-making and administration. The second or third home-buyer, and the intending landlord must be low priorities compared to the first home-buyer. At times it may be that the rights of the first home buyer require that other potential purchasers of property cease to matter at all.

It should be noted that in the late 1960s, State Bank of Victoria data show that young home buyers were over 50% of all applicants for mortgage finance [79]. Currently, in just the market for finance for owner occupation, first home buyers are 14% of the market. It is time that the market share of new credit going to existing property owners shrank, and that going to first home buyers grew.

To that end the following are required:

(a) Differential interest rates

(i) The Reserve Bank, with legislative support from the Commonwealth Government if required, should ensure that buy-to-let purchasers of property pay a rate of interest on any borrowings that is above normal mortgage interest rates

(ii) The landlord's tax position should, however, be calculated as though they faced normal interest rates.

(iii) Payments of the differential by residents of any given State or Territory would fund public housing in that same State or Territory.

(iv) The Reserve Bank, with legislative support from the Commonwealth Government if required, should, in times of excess demand in the housing sector, impose penalty interest rates on those owner occupiers who have debt financed the purchase of a second or third home, such that their debt is greater than the annual accumulation of average weekly earnings.

(v) Interest receipts due to imposition of this differential should also go directly from the lending institution into public housing. Again, money collected from residents in one State/Territory should remain in their State/Territory.

(vi) The Reserve Bank should, where shortage of rental property justified it, lower the differential.

(b) Disincentives to protracted or saw-tooth borrowing

(i) The Reserve Bank, with legislative support from the Commonwealth Government if required, should institute a cash reserve ratio and penalty interest rate system that provides strong disincentives to housing debt among those over 45 years of age.

(ii) Debt to finance a bona fide non-housing or housing lending business would be exempt.

(iii) Beginning from 2006 and half yearly, lending institutions should deposit with the RBA, at 0.1% interest per year, twice the value of housing credit to persons (as

individuals or jointly) who are over 45 years and have housing loans with a total value of more than 25% of the yearly accumulation of average weekly earnings.

(iv) The lending institutions should, in making that deposit, provide proof to the RBA that they have raised the equivalent sum by issuing new shares or by input of additional equity.

(v) Such borrowers over the age of 45 who have housing debts more than 25% of the annualised average weekly earnings should be subject to a penalty interest rate, with revenues in excess of the standard mortgage rate going directly from the lending institution into public housing.

3. Recognising that the private sector does not deliver solutions to the housing problems of low income earners.

The data that underpin Table 1, although some detail has been omitted, show that public sector construction of housing has fallen substantially from past levels [80]. Since the 1980s, government policies have placed great reliance on providing incentives for private financing of housing for those needing housing support.

As noted at the end of Chapter 3, the lesson of the last decade or so is that private finance for housing that is affordable for low income earners, has not been forthcoming.

It is essential that governments acknowledge the limitations of leaving matters to the private sector. The public sector should return to an active role in construction of housing, as it did in the 1950s, 1960s and 1970s. This will make up for a shortfall of housing for the very needy.

Expansion of public housing construction should also be conducted with a view to increasing the number of skilled building workers. This should facilitate an increase in the capacity of the housing industry that has failed to build at a rate consistent with Australia's population growth.

Appendix 1 - Victorian population (000s of people); year ending 30/6
source Victorian Department of Infrastructure

1956.	2480
1957.	2555
1958.	2632
1959.	2700
1960.	2770
1961.	2811
1962.	2888
1963.	2955
1964.	3011
1965.	3071
1966.	3137
1967.	3195
1968.	3249
1969.	3303
1970.	3324
1971.	3443
1972.	3502
1973.	3547
1974.	3586
1975.	3631
1976.	3667
1977.	3746
1978.	3782
1979.	3818
1980.	3853
1981.	3887
1982.	3946
1983.	3994
1984.	4037
1985.	4078
1986.	4122
1987.	4160
1988.	4208
1989.	4261
1990.	4321
1991.	4406
1992.	4434
1993.	4462
1994.	4490
1995.	4520
1996.	4552
1997.	4590
1998.	4632
1999.	4676
2000.	4722
2001.	4776
2002.	4825

Appendix 2 - Millions of Australians, millions of households & average number of persons per household (calendar year)

1972.	13.30 million persons;	4.13 households;	3.23 persons per household
1973.	13.50;	4.22;	3.20
1974.	13.69;	4.31;	3.18
1975.	13.89;	4.41;	3.15
1976.	14.05;	4.49;	3.13
1977.	14.20;	4.58;	3.10
1978.	14.36;	4.67;	3.08
1979.	14.55;	4.77;	3.05
1980.	14.73;	4.87;	3.03
1981.	14.92;	4.97;	3.00
1982.	15.14;	5.08;	2.98
1983.	15.36;	5.19;	2.96
1984.	15.58;	5.30;	2.94
1985.	15.81;	5.41;	2.92
1986.	16.03;	5.53;	2.90
1987.	16.26;	5.65;	2.88
1988.	16.53;	5.78;	2.86
1989.	16.79;	5.91;	2.84
1990.	17.07;	6.05;	2.82
1991.	17.26;	6.16;	2.80
1992.	17.46;	6.28;	2.78
1993.	17.66;	6.40;	2.76
1994.	17.86;	6.52;	2.74
1995.	18.07;	6.64;	2.72
1996.	18.28;	6.77;	2.70
1997.	18.50;	6.90;	2.68
1998.	18.72;	7.04;	2.66
1999.	18.94;	7.18;	2.64
2000.	19.17;	7.32;	2.62
2001.	19.42;	7.43;	2.60
2002.	19.67;	7.54;	2.58

source: for population data Victorian Treasury; for average household size Australian Bureau of Statistics "Australian Social Trends, 1998" (Catalogue Number 4102.0), p158. Some interpolation and extrapolation has been used

Appendix 3 - The relationship between median and mean house prices (\$000) - Melbourne Metropolitan Area

	<u>Median</u>	<u>Mean</u>
1974.	26	28
1976.	34	38
1978.	38	42
1980.	40	48
1982.	47	55
1984.	65	76
1986.	82	101
1988.	110	140
1990.	131	164
1992.	125	152
1994.	130	160
1996.	130	161

source: A Guide to Property Values (1996/97), Valuer General Victoria, 1997

ENDNOTES

- [1] CPG Australia, Radio National's Business Report, 2 Aug 2003
- [2] The text of this speech is available at the RBA website - www.rba.gov.au
- [3] This speech of 8 October 1997 is available at www.rba.gov.au
- [4] Australian Financial Review, 21 May 1996, p7 - quoting Andrew Threadgold of AMP
- [5] 2 October 2001, Radio National, 'AM'.
- [6] Australian Broadcasting Corporation, 'Breaking Stories' website, 3 October 2001
- [7] Australian Financial Review, 5 Sept 2003, quotes President of the REIA, John Hill noting that people are going to regional towns and buying 20 to 30 properties at one time.
- [8] see Footnote 1
- [9] The Australian, 25 Jan 2003, p33, columnist Florence Chong, quoted John Hill, President of the REIA saying that price growth of 6% annually in the housing sector was "achievable" through to 2010. See also remarks by Enzo Raimondo, President of the Real Estate Institute of Victoria (REIV) reported by ABC-TV on 6 May 2003, or his statements to Radio National, reported on 26 July 2003 that he expects 10% annual growth in property prices for the foreseeable future.
- [10] Professor Mike Berry, Big Ideas, Radio National, 20 Oct 2002
- [11] Adrian Jones, The Sunday Age, 1 Sep 2002 (commenting on the lack of availability of property for sale)
- [12] Prominent member of the Liberal Party, Malcolm Turnbull, interviewed on Life Matters, on Radio National, 9 Jun 2003, noted that the number of new homes approved for development around Sydney in 2002 was less than were approved in 1972.
- [13] Sydney Morning Herald, 13 Aug 2002, quoting the RBA's Statement on Monetary Policy
- [14] Transcript of these statements of 6 June 2003 is at www.rba.gov.au
- [15] Mark Rider of UBS Warburg, on The Business Show, SBS Television, 23 May 2003
- [16] Saul Eslake of the ANZ Bank quoted in The Australian of 25 Jan 2003, p33. Testimony of Ian MacFarlane to the House of Representatives Economics Committee on 6 Jun 2003 also shows that this is the fastest growing form of lending for housing.
- [17] See ABS Catalogue number 8711.0
- [18] Census data record that in 1996 1.62 million households were purchasing their residence and 1.39 million households were renting privately. By 2001 that had become 1.82 million being purchased and 1.52 million rented privately.
- [19] Statements by Macquarie Bank and BIS Shrapnel regarding the state of housing rentals, Australian Financial Review, 16 Oct 2002.
- [20] It has been argued, as in the article referred to in endnote 19, that demand from tenants was artificially lowered by the Commonwealth Government's First Home Owner Grant drawing people into buying homes and thus out of renting. Given that identical problems with finding tenants were occurring in the UK at the same time, where no such grant was available, this argument looks flimsy. Stories on the UK's problems are at news.bbc.co.uk/1/hi/business/2278377.stm
news.bbc.co.uk/1/hi/business/2222759.stm
news.bbc.co.uk/1/hi/business/1961628.stm
- [21] The Australian, 25 Jan 2003, p33

[22] The Australian, 14 Sept 2002, p42

[23] The RBA's statements about the role of financial institutions were cited by the Sydney Morning Herald, 20 Dec 2002. The central bank's views about the speculative nature of activity emerged on 6 June 2003, when Ian MacFarlane appeared before the House of Representatives Economics Committee. That transcript is available at www.rba.gov.au/Speeches/

[24] The Australian, 21 Sept 2002, page 4

[25] The text of this speech is available at the RBA website - www.rba.gov.au

[26] The Australian, 3 October 2002, quoted Dr Peter Brain of National Economics, on conditions in the housing sector. He said "banks have an unfettered capacity to create demand for their own product". The capacity of banks to determine such market outcomes can be gauged by the remarks of the highly regarded Investment Manager, Peter Morgan (formerly of Perpetual Investments). He told Radio National's Business Report on 15 Dec 2001 that banks "have an oligopoly".

[27] In his speech of 24 November 1995, Ian MacFarlane noted that lenders and borrowers were both showing an increased willingness to enter into long term financing arrangements.

The enthusiasm of financial institutions for 30 year mortgages can be seen in the fact that the ANZ Bank, as recorded in The Courier Mail of 23 Sept 2002, lent \$190,000 to a 92 year old woman, repayable over 30 years. The Australian of 27 Aug 2003 (on page 6 of its 'Wealth' liftout) noted Liberty Financial had entered into a 30 year mortgage with a 90 year old woman.

[28] Ian MacFarlane noted in a speech on 3 April 2003, that households were tending to stay in housing debt to a much greater value over a much longer period than they used to.

[29] That two incomes are now essential to Australian families has been acknowledged by the Prime Minister in commenting on the November 1999 Labour Force figures (9 December 1999), by Commonwealth Government Minister for Children and Youth Affairs, Larry Anthony (ABC-TV's 7.30 Report 21 August 2003) and by Simon Crean (see Hansard 16 May 2002).

[30] Even in the early 1980s lending practices often meant that banks would lend only on the basis of the earnings of one person in the household.

[31] The Australian Financial Review sounded a warning about the crisis of affordability for first home buyers in "The Great Aussie Home Dream; only half need apply" on 13 Mar 2001, page 1. It noted that conventional measures of housing affordability had failed to detect any problem. It is worth noting that this article focussed on the work of economist Dr Judith Yates. Her concerns about falling home purchasing among young Australians were publicised as early as 11 Nov 1993 by Ross Gittins writing on page 20 of The Age.

[32] These remarks of the PM were reported on the website www.news.com.au on 3 June 2002.

[33] Senator Minchin said this during an interview on ABC TV's 7.30 Report, 1 October 2002.

[34] As reported in the Australian Financial Review 18 June 2003.

[35] Press Conference on re-appointment of Ian MacFarlane to the position of Governor of the Reserve Bank of Australia - 29 July 2003.

[36] See also remarks of the PM in announcing the Productivity Commission Enquiry into First Home Ownership, as reported by Tony Harris in the AFR of 5 August 2003. "The value of our homes has increased, and that is a good thing"

[37] The then Leader of the Opposition was referring to the REIA indicator of affordability - see The Age 13 April 1995 (page 3)

[38] Sydney Morning Herald, 7 October 1995, page 34

[39] It is worth noting that, had the Howard Government pursued a target of 19% of household income servicing the average mortgage (all else remaining the same) average house prices could still have risen at far above the rate of inflation. They would currently be around \$250,000 in Melbourne and \$330,000 in Sydney.

[40] Australian Broadcasting Corporation, 'Breaking Stories' website, 3 October 2001

[41] see endnote 35.

[42] Gary Banks, in interview on Radio National 19 Sept 2003.

[43] Over the very long term, reaching back into the heyday of the economy of maximum market forces that prevailed in Victorian England, 3% interest (in a time of negligible inflation) was a typical return on capital. See "On Socialism" by prominent nineteenth century economist and philosopher John Stuart Mill, Prometheus Books, ISBN 087975-404-4.

[44] If you had bought \$1m of shares in the Australian Stock Exchange in early 1996, by mid 2003 you would have made a \$300,000 capital gain. Purchase of \$1m of capital city residential property in early 1996, would have netted by mid 2003, a \$900,000 capital gain.

[45] The CEO of the ANZ Bank, John MacFarlane on the Opinion page of the Australian Financial Review of 22 Sept 2003. MacFarlane wrote that research by the ANZ had shown that Australians think one can achieve an investment combination of high return and zero risk.

[46] AFR - 25 October 2002

[47] The evidence is good that this has been happening across the board in the finance industry. The AFR reported on 29 August 2002 that the RBA's Annual Report had stated that household debt (mainly housing debt) was greater than business debt, for the first time in 50 years. In the light of concerns that the RBA expressed in 1996 (see AFR 31 Dec 1996 - Chanticleer), that banks' return on equity was at a 100 year high, finance institutions themselves would appear to be seeking very high returns on very low risk.

[48] AFR - 28 July 2003 reports that Devine Homes are developing a housing loan where the sum borrowed would be greater than the value of the home which is mortgaged.

ABC Radio National's Business Report of 13 Sept 2003 reports that Mortgage Makers, will, for selected customers, lend 100% of the purchase price of a home.

[49] Financial commentator Ross Greenwood noted on Channel Nine's "Today" program on 22 September 2003 that Australian households are spending \$1005 for every \$1000 they earn.

[50] This long-running decline in home purchase was noted by Ross Gittins in the Sydney Morning Herald of 6 August 2003 (page 11) and by Mr Anthony King of economic consultants NATSEM on Radio National's "The National Interest" on 18 November 2001.

[51] Financial assets accumulated under the superannuation system that has been in place since the early 1990s do not appear to offer comfort for young Australians when they retire. Data that the Australian Bureau of Statistics released on 17 September 2001 show that the average person in the workforce has just \$10,000 in superannuation assets.

[52] The Eyers Report - Cost of housing: the Report of the Committee of Inquiry into Housing Costs [July 1978], volume III, page 6. See also volume II, p 129.

[53] The REIA noted in its press release of 6 May 2003 (along with its latest housing affordability figures) that the percentage of Australian households owning or buying had fallen from 69% in 1986 to 67% in 2001.

[54] Dr Judith Yates as quoted by Matt Wade in the SMH of 5 April 2003, page 52. Dr B Badcock and Dr A Beer reached a similar conclusion in their book "Home Truths" (published by Melbourne University Press, 2000)

[55] One major change that has occurred over the period, where this method of calculation of household income eliminates distortions, is the shift in the wage and profit share of economic activity.

[56] That interest rates were at a level last seen in the early 1970s formed the basis of Liberal Party advertising prior to the 2001 Federal election - Radio National 5 November 2001. It is interesting to note that, referring to Table 3 of this submission, real mortgage interest rates were lower in the early 1970s than in 2001.

[57] There is a view that because the finance system of today operates differently from how it did in the decades post WWII, that such long run comparisons of the housing sector are not possible. Use of house price data from that era in the forecasting of at least one prominent housing industry analyst (see Robert Harley's "Dark days of '89" in the AFR of 12 Aug 2003, page 61) refutes this.

[58] Expressing average house prices in terms of this GDP per household data is a little less than ideal. The household income figure is what is known as a mean, and the mean house price is not the usual measure of the cost of housing, rather the median house price is. However they are both good indicators of the mid range values of any data. For the purposes of this submission it is sufficient to note that the mean house price is higher than the median house price (see also Appendix 3).

[59] The Herald, 8 Jan 1971, p5

[60] Premier Bracks, Victorian Hansard, 4 Oct 2000

[61] "Remuneration of MPs of Australia" (Research Paper 30, 1999-00), available at www.aph.gov.au.

[62] The Sunday Age (Domain section) noted on 27 July 2003 that very few people buy homes while they are still in their early twenties, and increasingly rarely do they buy in their late twenties. Senator Ian Campbell, Parliamentary Secretary to the Commonwealth Treasurer made a similar observation on ABC-TV's Lateline on 12 Sept 2003 "very rarely does anyone come straight out of Uni and buy a house".

[63] Hansard 16 May 2002, 7.31pm

[64] Anita Bell, "Your Money" (Random House 2001), p26

[65] See page 36, Choice, September and the advertisement for "The Seven Ages of Money"

[66] The Australian, 27 February 2002

[67] The time between marriage and 45 years of age, for the average couple, is currently 17 years. The average age of men at marriage is 29 years and for women 27 years. Source; the ABS - as quoted in The Sun Herald 10 August 2003.

[68] The AFR reported on 28 July 2003 that Devine was developing a loan for 100% of the property value. Its target market was tertiary qualified professionals earning \$80,000 yearly, not the ordinary worker earning \$40,000.

[69] The AFR reported on 3 July 2003, page 44, that Devine had stopped trading in that market in Sydney

[70] An average/mean household income of \$195,000 across Sydney's 1.6 million households, implies that Sydney households' combined annual income is \$310 billion. It is clearly nonsensical that Sydney incomes could be that high, given that the total income of New South Wales can be expected to be around \$270 billion in 2003. Even assuming that a mortgage of 25 years is standard in Sydney, would require that 95 of every 100 dollars earned in NSW are earned in Sydney.

This serious misalignment of incomes and house prices has also been highlighted by economic and business consultants National Economics. They have found that 90% of households do not have the income to purchase the median house in the suburb in which they live. This has risen sharply from 60% of households being similarly unable to purchase their suburb's housing in 1996. See the Sydney Morning Herald 26 October 2002

[71] Household Expenditure - Australian Bureau of Statistics, Australian Social Trends (1996), Catalogue No 4102.0, p130

[72] ABS, Household Expenditure Survey: Detailed Expenditure Items (ABS Catalogue No 6535.0)1998-99, p26

[73] See The Sydney Morning Herald 1 August 2001

[74] See Ross Gittins "Why our children will be the poorer" - The Sydney Morning Herald, 21 November 2001.

[75] See The Age 11 Feb 2002.

[76] See the transcript of "Housing Market Catch-22" - a story that went to air on Radio National's 'AM' program on 16 January 2001. Research by the Australian Housing Research fund was cited, showing, in nearly every capital city, a 25% or greater decline in the availability of low cost rental properties during the 1980s and 1990s

[77] AFR 19 Sept 2002

[78] See <http://www.pm.gov.au/news/interviews/1998/3awmitch.htm>

[79] The Eyers Report, 1978, vol 2, p138

[80] The Eyers Report, 1978, vol 2, p128. Combining this data with more recent ABS data from ABS publication catalogue number 8752.2, it is clear that public sector construction of dwellings has fallen around 80% below levels of the 1960s and 1970s.