

Stephen Koci – Submission to Productivity Commission Inquiry into First Home Ownership.

17th October 2003

I was very concerned that this inquiry was just a political exercise used by the Federal government to pass blame to the State governments for the destruction of housing affordability and availability of housing for first home buyers in an election year (2004) but after receiving confirmation from Mr Gary Banks that the Productivity Commission are independent of the government I make this submission.

I think the major area of concern regarding first home ownership is rising prices making it harder and harder for first homebuyers to enter the market and scaring them into jumping into the market at levels and with debts that may cause them a lot of pain. This should and must be addressed by the groups that Australians look to, to address these problems. I make reference to these groups being the Reserve Bank of Australia and the Federal Government that I believe have let first home buyers down. I would like to look at their roles in the rising cost of houses. I also make some general comments and address Real Estate Agents:

The Role of the Reserve Bank of Australia

I believe that part of the role of a Reserve Bank is to control asset price inflation but all they have been doing is talking about the risks of a rising property market. I also question their independence from the Federal government, it will be very interesting to see what happens with interest rates in an election year being next year. They state that they are independent of the political process:

“The Reserve Bank Board makes decisions about interest rates independently of the political process – that is, it does not accept instruction from the Government of the day on interest rates. This principle of central bank independence in the operation of monetary policy, in pursuit of accepted goals, is the international norm. It prevents manipulation of interest rates for political ends, and keeps monetary policy focused on its long-term goals.” Source “The Reserve Bank of Australia Website”.

The Role of The Federal Government

The Federal government has been very active in making housing very attractive for investors thus causing prices to increase, this has been done via reductions in Capital Gain taxes in 1999 and on going support of Negative gearing and the governments relentless efforts to keep interest rates low and their GST.

I believe that the actions of this Federal Liberal Government in supporting investors has generated problems that now are so heavily weaved through the Australian Society that there are just too many votes to lose if anything is done to reduce the influence of investors. Through the actions of the Federal government and the amount of votes riding on the mortgage market it will be very hard for Labor (I have been impressed with the minor parties) to address the problem of negative gearing and capital gains tax without the Liberals attacking them for Political gain, and the Federal government will do anything to win an election.

This is very sad for first home buyers as they are losing the chance to own “The Great Australian Dream”, it has been sold out, investors are more important than first home buyers.

I believe the Federal government has fostered greed, it's not now about owning a home it's about how many homes, how rich you are.

The federal government has generated a wealth gap that will hurt a whole generation of first homebuyers.

Capital Gains Tax reductions and negative gearing are totally geared to investors and the Facts are a damning tale:

1. Just in the past month being September 2003 alone investors have borrowed a massive 6.8 billion, up 5%. A record Level
2. Lending to Property investors has jumped a massive 35 per cent since August last year.

(Australian Financial Review 14/10/03)

The federal government may not get any direct gains from rising property prices but they get political gains.

Economics plays a very poor second to Political gains.

From my research the UK and USA don't offer reduced Capital Gains tax if you hold an asset over 12 months, only in Australia and look at what it has done to first homebuyers, it has destroyed them.

The \$7000 First Home buyers grant is a joke, house prices go up by that in a month, it does not help at all, if it did help why have first home buyer levels slumped to less than a fifth of all houses traded in May 2003 – the lowest level since the measurement of first-home buyer levels began in 1991, it has got no better since then.

The first homebuyers grant has been rorted with no controls or restrictions on it. It has been used to buy 73, million dollar homes that have cost the government many millions of dollars and the grant has been used by parents to buy properties in their Children's name to be able to get the first home buyers grant. Source: Herald-Sun 14th October 2003

General Comments:

- Property prices have doubled in only about 5 years, when wages have grown at nowhere near that rate, every year people who don't own property fall further behind.
- I don't believe immigration is being used as a reason for the massive increases in property prices, they are a soft target, the facts are immigration levels have not increased over the past 10+ years but property prices have. Immigration was 107,000 in 1992 and 88,000 in 2002 (Australian Bureau of Statistics). There seems to be no connection to link the two issues, as immigration has not increased by the same percentage as housing prices, it has actual dropped.

- There has been warnings from some very long term economic and business commentators and business leaders but all of these have just fallen on deaf ears in Canberra, I think that the Reserve Bank and the Federal government think they know better than all these commentators. History will be the judge. Also the former Governor of The Reserve Bank, Mr Bernie Fraser has called for the abolition of negative gearing. When will the Reserve Bank and the government Act?
- The International Monetary Fund has now warned on the economic risks of the property market, when will someone take action?
- The governments and the Reserve Banks own expert, Dr Henry admitted the housing bubble and growing household debt could be a problem – The Australian 23/9/03.
- Stamp duty can be blamed but this has not changed in years, but also it has not been reduced by the State governments to compensate for the massive increases in property prices. Now it seems like the States need the revenue just to be able to balance their budgets, it is unbelievable.
- What does household wealth mean? If it costs you the same or more to buy a home then the one you are in now where is this a benefit? The only winners are investors. But household wealth is growing and growing as pushed by the Reserve Bank and the Federal Government, but what does it really mean?

My Concerns have been raised a number of times with the RBA and my Local Liberal Federal Member Mr Phillip Barresi (Member for Deakin) with very little response.

I have been concerned about the rising costs of houses and first home buyers for a long time and I have copied my local Liberal member, Mr Phillip Barresi (Member for Deakin) in on a number of letters I mailed to the Reserve Bank with specific questions and comments directed towards the Liberal Party and these have never been addressed. I only finally got an answer from Mr Barresi when I wrote to the Prime Minister and still my concerns were not addressed.

I have also written to the Reserve Bank regarding my concerns about the rising prices of houses and I've been very disappointed, mostly got non-replies or replies that didn't address my concerns. I'm still waiting.

I have a feeling of non-interest by the RBA, I definitely have one from the Liberal Federal government.

Real Estate Agents and their role in rising prices and influencing first home buyers.

Another area that I find very misleading for first home buyers and it has a very negative effect on the confidence of first home buyers is Real Estate Agents they scare first home buyers into getting into the market, they quote figures and advise with no qualifications or very basic qualifications and no accountability. Would this be allowed in the financial markets eg: Listed ASX companies, financial planners etc? They can just about do anything and get away with it.

They advertise Price ranges that are misleading, where they underquote the selling price, this adds to undermine first home buyers confidence. Would this kind of misleading information be allowed in a Prospectus or other mailings from ASX listed companies?

Also what is another depressing thing is things like “I can’t see anything to suggest property prices are going to start to fall and because of that I can’t see it getting any easier for first-home buyers for the next two to three years” Enzo Raimondo – Chief Executive of the Real Estate Institute of Victoria.

Another area that kills the confidence of first home buyers is all these TV shows like Hot Auctions, Auction Squad etc, they just depress people as they show all these homes being sold for hundreds of thousand when first home buyers are struggling to save just a deposit, they can’t save quick enough to keep up with the rising prices, all these shows do is make the “Great Australian Dream” just seem further and further away. They just stand for greed.

Neil Jenman is the sole person that speaks out about Real Estate agents; he promotes ethics in real estate and talks about all the scams that are used, if you believe Real Estate agents you never lose on property. Some State governments are trying to address dummy bidding but this is not enough and how is it going to be policed, if it is at all.

The Future

No actions have been taken at all to address this massive escalation in property prices by people that can take action and are looked to, to take action being the RBA and the Federal and State Governments.

They talk about the dangers when will they realise that people are just not listening.

I hope that the commissions report does not fall on deaf ears in Canberra and at the Reserve Bank of Australia and all the Politicians in Canberra and in the States.

I hope history judges the people harshly that had the chance and could have addressed housing affordability and rising house prices and choose to do nothing or just to talk.

Actions speak louder than words.