

Vic

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### **Inquiry into First Home Ownership**

Productivity Commission

LB2 collins St East

Melbourne VIC 2003-09-25

First home ownership affordability, or more generally excessively high house prices, especially in the major Capital cities, and now spilled to coastal belts, results mainly from one principal demand driven cause. To put it bluntly, the proverbial drovers' dog can see that unsustainable high immigration since WW2 is the issue, relentlessly migrating to the principal Capital cities.

Under a misconceived, unbalanced immigration policy, and foolish multiculturalism, it is manifestly evident that a significant and sustained reduction in immigration is required to eliminate the relentless demand, perhaps as part of a population policy.

Distortions caused by associated speculative investment activities and rorts would recede and some stability return to the market. In many areas, house prices are twice, or even three times what they would be otherwise. In regional Australia and most country towns house and land prices are stable and affordable. Some are unsaleable or undervalued, illustrating the supply and demand equation in a buyers market due to declining population, drift to city, unemployment, drought and farm economics. Meanwhile in the major cities, such as Melbourne, there has been the spectacle of land buyers sleeping overnight in cars at estates to snap up overpriced land on opening the next morning. A lot of developments are on the more fertile coastal lands, resulting in large losses of former productive agricultural lands.

The Commission inquiry is timely, all issues are important.

We live in the driest continent and there are associated and seriously intractable infrastructure problems. Increasingly overcrowded and ever sprawling cities are now becoming subject to permanent water restrictions, hospital shortages, aged, child and disability care facilities. Also schools, transport and skilled services, forests and environment are under pressure.

The Victorian stage government is pro-population growth, talking of another million people for Melbourne by the year 2030!

Where will the resources come from? Taxes are already high, excessive, and escalating.

The national current account deficit is at a record level, with personal consumer debt at an all time high.

Those who know something about business should also know that rapid growth needs huge amounts of money to finance that growth. With the partial demise of our manufacturing industry, closures and moving offshore (exporting jobs) we have entrenched unemployment and poverty, including also migrant groups.

There are IR problems in the building and construction industry, which paradoxically is keeping the economy buoyant with a housing boom. Otherwise, claimed economic success and prosperity would be somewhat illusory. Some migrant groups have brought in money for property acquisitions adding to demand and price pressures.

Inquiries often delay action and divert attention to doing something – when robust action and tinkering at the edges become options. High immigration has powerful vested interests at many levels outweighing low immigration considerations.

1. The G.S.T. was supposed to eliminate many other taxes. This has not been fully realised – another tax has been imposed, often with taxes on taxes eg. petrol, housing, etc. Complexity and paper work has worsened business confidence. If necessary, the GST should be increased, say 15%, but get governments hands out of our pockets by abolishing all land and housing imposts – such as stamp duties, taxes, fees, charges. Simplify and free up the system for buyers and sellers.
2. Produce a National uniform code for building and planning permits, in conjunction with governments and industry bodies. Simple, workable, fast and efficient, are a must.
3. Abolish the FHOG – it has served its purpose. Opinions are that it was a vehicle for opportunistic add-on pricing and rorting by the wealthy.
4. Abolish the “negative gearing” provisions. It is an advantageous rort for greedy investment, distorts the market at taxpayers expense, and disadvantages the owner occupiers. I have heard that Australia is the only country in the world that has this system, but I am unable to verify this.

It encourages, bankers speculators, real estate operators, investment, finance, and property seminar operators, using questionable vertically integrated practices feted to make millionaire property owners.

Upbeat property and hot auction TV programmes create a misleading and frenetic atmosphere bordering on the obscene, only likely to fade when some overdue stability returns.

Tax deduction are a grey area for negative geared investors depending on whether they are for maintenance of improvements. Along with a huge raft of deductions available, their abolition would reduce speculative market distorting activities.

5. Issues Paper – this excellent document gives good trend graphical data, covering pricing between 1978 and 2002 – going higher in 2003!

House building is competitive, price increases are restrained despite a difficult regulatory environment. The high demand and shortage of land is the high cost component, the house sometimes almost incidental. How many more golf course or wetland/lake developments often based on inferior land, must we see? Small blocks get hyped up to 200 or 400 K dollars. It may be instructive if the Fig 1 house price graphs could be extended back to the year 1950 when large scale immigration was underway. ample quantities of cheap blocks were then available. I attended numerous land sales and auctions, witnessing huge migrant demand driven price increases in the 50's and 60's unrelenting to this day.

Now 76 years of age, I see a whole new generation unaware of this history and the concept of a stable property sector, except for some minor recessions, then further pent up demand.

This has caused couples to continue at work to meet repayments on homes. Some normalcy needs to be restored.

Currently it is no secret amongst local real estate agents where I live, that they cannot get enough properties to list for sale owing to continued high population growth from migrants (nearly 18,000 in the March quarter for the State), from other States, and from investors. This government is looking at a target of 6 million population within 25 years – a prime example of a growth oriented government seemingly ignoring the aforementioned constraints.

## 6. Macroeconomic Policy – Interest Rates

An effective tool in the supply and demand equation. Perceive this as a likely action for small upward adjustments, possible after an election, to dampen demand.

7. I revisited a reference book related to above issues – “Among the Barbarians” – The Dividing of Australia by Paul Sheehan, publisher Random House Australia.

Chapters 7,8,15 are pertinent and relevant, providing some balance to the issues.

8. In Conclusion, I am not overly optimistic about long term outcomes for Australia – we may be lucky because of our natural attributes and resources given the right leadership, and become more clever and less foolish about our limits. A range of press cuttings are included herewith

Yours faithfully

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