

The Commissioners
First Home Ownership Enquiry
The Productivity Commission
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SUBMISSION: COMMENT ON DRAFT REPORT – DECEMBER 2003

The recent draft report provides some excellent economic data on the property market and key trends over the last few decades. However, the report does not seek to determine what is in the hearts and minds of the average Australian, especially those who are potential first homebuyers, who at present have had little involvement with the inquiry. Coming from a research background and as a potential first home buyer, it is obvious to me that the study fails to interview/survey property owners, investors, potential homebuyers etc. to determine their motives and intentions for investing/purchasing property over the last 3-5 years. An in-depth study of these groups of people should indicate the motives of investors and homeowners. If the commission does undertake a study of this kind, they will most likely determine that negative gearing and other tax incentives for high-income earners largely drove the property boom over the last 3-5 years. Australian property investment incentives appear to be far more generous than other comparative developed countries and thus rental returns are half of those of these countries (7-9% Vs 3-4%); or asset prices double. The typical Australian 'mum and dad' property investment philosophy is that it is better to pay less tax now and have a positively geared investment in 10-20 years time. This investment philosophy is largely driven by the nature of our taxation system and would bewilder similar investors from the US, UK and other developed nations. Thus an asset bubble has emerged from a situation where house price growth has outstripped wage growth by threefold over the last few years and shut out first homeowners.

Additionally, many reports suggest that young adults are choosing to defer home ownership, which is totally untrue. To put it frankly, first homeowners are priced out of the market due to the recent intense investment demands of 40-60 year old baby boomers and speculators that are purchasing multiple properties to finance their future retirement/wealth. This generation typically owns their own property in an inner city location, earn 80-100k per year due to their experience and age, pay the top tax rate and would do anything to reduce their tax burden (even purchase multiple properties in Sydney that returns less than 3 per cent), have been deterred from other investments such as shares due to a flat share market and recent corporate failures, and seek at least 3-5 properties to give them an income of 30-60k per year in retirement. If the Government property investment policy is not revised this trend will ultimately lead to a long-term economic downturn for Australia.

Recent articles from the Housing Industry Association pointed to another reduction in home ownership rates amongst under forty year-olds. The commission should be aware that it is the under forty year olds who are those having the children in this country and if those people (such as myself) cannot afford to purchase a property before starting a family it is very unlikely that they will ever afford to own a property. These are the people that will still be renting in their 60's and beyond and become a substantial burden on future Government budgets. Any democratic Government should not implement/maintain policy that promotes class-system ethics and inequality between age groups; unfortunately the current policy is leading to this end.

In summary, I would hope that the final report and the commissioners responsible for its formulation have the valour and self-respect to go beyond 'safe' (skirting around the issue) recommendations and present real policy recommendations, that the current government parties may find hard to swallow, but is in the best interest of Australias' equitable future.

Dr Rodney A. Stewart (27 years old)
Potential First Home Owner (if something is done)