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To: housing@pc.gov.au

Subject: Discussion Draft Submission

Having looked at the Discussion Draft, I found the discussion of supply and demand factors to be excellent. However, I was disappointed to find that no attempt had been made to analyse the variance of cost of housing as a function of house price and interest rate. I believe that this analysis is a requisite of the Terms of Reference, i.e.

"• Identify and analyse all components of the cost and price of housing, including new and existing housing for those endeavouring to become first home owners;"

Even a preliminary discussion of the relation of housing affordability to house price and interest rate would give a quantitative understanding of the cost savings to a buyer per a percentage reduction in house price or interest rate.

I was also disappointed to note that while the Discussion Draft authors considered immigration to be a factor in higher house prices, they considered estimates of the effect of immigration levels on housing affordability to be without the scope of the report. But surely the Terms of Reference dictate an analysis of impact of adjusting all supply and demand factors on housing affordability, i.e.

"• Identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments."

Thus the report would then give government a complete set of tools for adjusting housing affordability. What tools are used is of course the choice of government.

To give a rather crude hypothetical of why I believe the above to be of considerable importance in a report on housing affordability, I cite the example of Jason and Belinda, henceforth J&B, a couple in their late twenties living in Sydney's western suburbs. They have saved \$100,000 and have just purchased a house for \$500,000. J&B can afford weekly repayments of \$700, and the dubious assumption of a constant interest rate of 6.5% is made. Weekly repayment, loan term and total interest paid were calculated. The calculations were made using the Loan Repayment Calculator from realestate.com.au. I have redone the calculations with the scenarios of reduced immigration and stable population, having arbitrarily assumed price reductions of 40% and 60% for each scenario. The results are summarised in the following table.

House Price	Loan Amount	Weekly Repayment	Term of Loan	Total Interest Paid	Saving over 23 years
\$500,000	\$400,000	\$698.45	23 years	\$371,091.06	-----
\$300,000	\$200,000	\$695.13	7.6 years	\$53,583.49	>\$515,000
\$200,000	\$100,000	\$683.36	3.4 years	\$11,524.10	>\$655,000

If the above analysis has any merit then it is easy to see why some are keen to see that no analysis of the impact of immigration on housing affordability is included in the report. As an example, the following comment was made by Chris McNeill, the assistant director of UDIA(Victoria) at the

opening of the Melbourne Public Hearing held on Monday, 9th February, 2004 (page 248 of the transcript)

"To section 4 - What Role for Other Demand Side Forces - the commission made note of the issue of immigration and population growth and its impact on housing affordability. In our response, we would just like to reinforce the findings of the commission, and that is to say that the impact or effects of population growth and movement on demand for housing are subtle and complex - page 49 - and a detailed analysis requires a far deeper and greater understanding of a number of the underlying trends and variables. We would like to reinforce the following points: firstly, we note that rapid price rises have occurred in many areas where there has not been rapid population growth; we support and reinforce the Productivity Commission's view that the highly complex issues underpinning population growth make it almost impossible to accurately assess its impact on house prices; lastly, we agree that overall immigration policy and population policies in general need to be determined by far broader community considerations than their alleged impact on house prices."

The preceding argument is, I believe, invalid. Immigration equates to demand for a number of houses, the estimate of which would vary for many factors. Therefore a quantified estimate of housing demand from immigration is possible. If Chris McNeill's claim that the impact of immigration on housing affordability is not quantifiable, it then logically follows that no quantified estimate of a supply or demand factor can be used to give a quantifiable estimate of its impact on housing affordability. This is clearly a nonsense: If it were true then the Productivity Commission's report would be of very limited use in making policy decisions. I would also point out that to make an exception for immigration would give it a unique status in the study of commodities.

It may come as no surprise to many that some financial institutions actively promote the fraudulent claim that high immigration is the road to prosperity*. For them at least it might be, but only at the expense of other Australians. A Schadenfreude prosperity, if you like.

With the current concerns being expressed by the Federal Government in relation to the elderly being able to support their retirement in the coming decades, some more sophisticated analysis regarding the potential impacts from all supply and demand factors on housing affordability would be timely. To leave such analysis for any supply or demand factor out of a report would be negligent of the Terms of Reference. i.e.

"• Identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments."

I thank the Commission for the opportunity to comment on such an important matter.

Bill Meredith

*Per capita GDP has no correlation with either population size or population growth rate.(Conclusion of seven years of research in 1995 by the UK's Bureau of Immigration.)