

17/03/04

The Productivity Commission  
Level 28/35 Collins St  
MELBOURNE Vic 3000

**Ref: Enquiry into housing affordability. Dear Sir/Madam,**

I realise submissions closed 1/3/04. However for what it's worth I'm forwarding the following.

1. I felt that the Prime Minister's decision last August to refer the matter of home affordability to the Productivity Commission was a reluctant move on his part — to appease concerns being expressed from many quarters.
2. I believe the frenzied buying of residential investment property over the last few years has forced house prices to ridiculously high levels, thereby pushing those on low to moderate incomes out of the market and into long term renting. 'Time' magazine (24/11/03) indicated that one in fourteen Australian adults is a landlord. Many of these landlords have two, three, four or more rental properties.
3. 'Time' magazine 24/11/03 indicated "Rather than trying to stifle a boom which greatly benefits existing property owners and makes it harder for younger people to buy their first home, John Howard's government has done the opposite ..."
4. The Reserve Bank (Advertiser 24/11/03) said "Generous tax breaks for property investors are key drivers of the house price boom". These Federal Government tax breaks are negative gearing, depreciation deductions, and discounted CGT from 1999. Also the bank contradicted the Federal Government saying that state stamp duty had not played a major part in higher house prices.
5. Mr Howard's stock answer to getting rid of negative gearing is that in the mid 80's when it was removed for awhile, it was reintroduced by Paul Keating because landlords were compensating for the loss of negative gearing benefits by charging tenants higher rents— and many of these tenants were from the lower socio-economic section of the community.  
While this sounds good, I don't buy it! Landlords will charge the most they can get, with or without negative gearing. If negative gearing was removed, it may trigger a temporary rise in rents, but over time these would level out in line with market forces. Sooner or later I feel that a Federal Government (Liberal or Labour) must 'bite the bullet' and remove negative gearing, for the greater good. As it is now, the appeal of negative gearing has greatly benefitted 'baby boomer' investors, at the expense of hundreds of thousands of low to moderate income-earners and first home-buyers! How just is that?
6. I have the feeling that the PM hasn't been very worried at all about the frenzied buying of residential investment property (which has now eased) because he's concluded that if

more residential properties are provided by private investors, there will be less pressure on governments to provide public housing.

7. John Howard's comment "No one has come up to me in the street and complained about the increased value of their home" is a sad indictment of his thinking.

8. Thankfully the Reserve Bank increased interest rates twice last last year. Strangely though, John Howard and Peter Costello queried both rate rises!

9. Over recent months there has been an increase in the number of properties passed in at auction. I suspect this is because many vendors have become more than a little greedy and won't budge from ridiculously high prices. So much for the chances of the next generation of home-buyers!

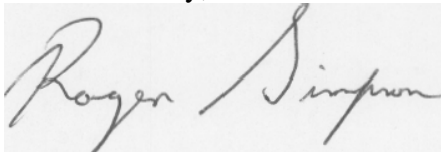
10. Although the buying of residential investment property has eased over the last few months, I fear that irreversible damage has occurred, even if prices do come down a little. Over the next year or so, property owners will have got used to ridiculously high prices and before long these prices will be perceived as the 'norm'.

11. In my view, the last few years will go down in history as the period when "Nero fiddled while Rome burned". That is, John Howard sat on his hands while house prices all around Australia skyrocketed — due to the insatiable demand of investors who could afford to pay more than what a property was worth because of the Federal Government's generous tax breaks, high rental returns, and huge capital gains.

12. The cover of BRW magazine, March 4–10, said "Property tax cheats — how investors are rorting the housing boom". Not content with huge profits, many of these investors are now trying to use the tax system to their further advantage, by committing criminal offences! BRW lists eight ways this is occurring.

13. It would be obvious from the above that my thinking is that ways must be devised whereby investment in residential property is discouraged and not encouraged as it has been under John Howard's government. **THE FRENZIED BUYING OF RESIDENTIAL INVESTMENT PROPERTY MUST NEVER BE ALLOWED TO HAPPEN AGAIN.**

Yours sincerely,

A handwritten signature in black ink that reads "Roger Simpson". The signature is written in a cursive, flowing style.

Rev'd Roger Simpson

PS Other than the above, I feel that John Howard's government has performed ok. For the record, I'm not sure who I will vote for at the next federal election. I'm concerned about the bloody-minded attitude of many unions eg the Australian Nursing Federation, the Australian Education Union, and the Public Service Association here in SA. On the other hand I'm not impressed by some of the tactics and, half-truths of the 'Liberal' unions eg National Farmers Federation, and the AMA.

Copies:           The Prime Minister, the Hon John Howard, MP.  
                      Leader of the Opposition, Mr Mark Latham, MP.  
                      Senator Alan Fergusson.