

Fundamental overhaul of Australian housing system required to ensure affordability for future generations

Clearly 'inflationary pressures' are in the economy



Australia's overheated housing market will struggle to meet supply and demand for future generations. Picture: Penny Stephens

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- By COURTNEY GOULD
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Aussies who do not own their own home by the age of 45 are heading for trouble in retirement, a parliamentary inquiry has been warned.

House values across the country have increased over 21 per cent in the 12 months to the end of October – the highest annual growth rates since June 1989.

It now takes an Australian almost a decade to save for a 20 per cent deposit on a house, up from five and half years in September 2001. Home ownership rates are also declining.

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The Grattan Institute's Brendan Coates warned the falling home ownership rates would have profound consequences in the years to come.



House values across the country have increased more than 21 per cent in the 12 months to the end of October. Picture: Richard Walker

“If you own your own home in retirement, you have a very good chance of living a very comfortable retirement,” he told the inquiry on Wednesday.

“If you are a renter, then given the current structure of an income support system, you are in potentially quite a lot of trouble.

“Basically, anyone who doesn't own their own home by the time they're around 45, given the current settings, is probably looking at potentially quite a big drop in their living standards when they hit retirement.”

He warned that without access to the “bank of mum and dad” or family support, it will become very difficult for young Australians to purchase their own home.

Earlier, the inquiry was told the overheated market would need fundamental structural reform to meet the supply and demand requirements of future generations.



Australia's housing market has a structural affordability problem.

A revival of the controversial housing policy, negative gearing, is just one of the avenues the federal government has been encouraged to take to cool the market.

UNSW City Futures Research Centre's Hal Pawson said without a doubt Australia's housing market had a structural affordability problem.

"What is needed is a much more fundamental reform of the entire system that looks at housing supply and demand issues – policy settings that affect both of those things," he said.

CoreLogic's Eliza Owen said the low rates of home ownership were "exacerbated" in low income cohorts.

"So that would suggest that you have widening wealth inequality, perpetuated through Australia's housing system," she told the inquiry.

While CoreLogic noted the tighter credit conditions introduced by APRA last month could create a headwind in the market, SQM Research's Louis Christopher said longer term tax reform was required.

"We should consider phasing out negative gearing. Our view is that you need a phase-out period, you don't do it all in one hit," Mr Christopher said.

"Otherwise, you could create quite a wave in the market. Rather, you take us over a three to five year view in terms of changing these taxes over."



A raft of tax reforms have been suggested as a way to help cool down the market.

The Grattan Institute agreed, indicating the current policy settings were “making this problem worse”.

“So if we want to make meaningful progress, we will need to make progress on both those (tax and supply) arms,” Mr Coates said.

“What concerns me ... is it seems like we’re becoming entrenched; either it’s a supply problem or a demand side problem.

“It is clearly both. And if we want housing to be abundant and affordable to future generations, we will have to deal with both of those issues.”

A national housing strategy, spearheaded by the federal government, was also suggested as a way to ensure infrastructure is built in areas so people actually want to move there.

“Housing is inherently a product that you can’t bring to market instantly ... But other factors around the supply side, like the provision of infrastructure, are really critical as well,” Mr Pawson said.

“We can’t ignore that.”