Not a super idea to make saving for deposits hard SIMON COWAN

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Much about the recent election result came as something of a surprise, but the central importance of housing policy was not surprising in the least.

Home ownership is not merely important in its own right; our entire retirement system is built around the idea of owning your home. This makes recent trends showing the declining rate of home ownership among millennials even more concerning.

Home ownership among those aged 25 to 34 has fallen from above 60 per cent in 1981 to about 45 per cent in 2016, and from about 75 per cent to just above 60 per cent for the 35 to 44 age group. During the same time, the house price to income ratio has approximately doubled.

Labor rightly diagnosed that housing affordability was a serious problem. However — as its default solution to any policy challenge has become to tax, regulate and spend more — it wrongly focused on reducing investor demand. But lack of affordable housing is primarily an example of government failure, not an area desperately in need of more government intervention.

Reserve Bank research from last year indicates that zoning restrictions raised detached house prices 73 per cent above marginal costs in Sydney and 69 per cent in Melbourne. And though the bank's researchers do not claim fixing zoning would reduce prices by this much, the Grattan Institute estimated house price falls from Labor's negative gearing reform would be just 1 per cent to 2 per cent. It is clear housing affordability is a supply side problem.

Yet it is also clear that concerns over large falls in house prices — which is what housing affordability actually means — cost Labor voters. This is the impossibility of housing reform: we want it to be easier to afford houses, especially for first-home buyers, but without lowering prices. The only viable solution is to implement simultaneously supply side reforms that also would benefit existing owners (by lowering the cost of land use and development) but offset some of the fall in house prices by removing demand side impediments preventing first-home owners from entering the market. And the biggest impediment for first-home owners is not the increasing ratio of house prices to income, it is the huge increase in the deposit needed to buy a home.

In Sydney the average deposit as a multiple of average earnings almost doubled between 2000 and 2015. And despite recent falls, the gains of 2015-17 have not been completely eroded — suggesting the problem has continued to worsen. There is little doubt that rising deposit requirements disproportionally affect first-time buyers. This means people will enter the market later and will be older when they pay off their mortgage, in some cases substantially so. For some, this hurdle will never be overcome.

During the election campaign, the government promised to help combat this via a first-home loan deposit scheme. Similar to the Welcome Home Loan scheme in New Zealand, and even the Keystart program in Western Australia, the government’s proposal will support up to 10,000 first-home buyers’ access to finance without having to save a 20 per cent deposit, likely via a government guarantee.

Yet this is at best an imperfect solution. First, it will boost demand without an appropriate supply side response. Second, it will expose government to the risk of losses on defaults: at a 5 per cent deposit, house prices would not have to fall far before buyers — and therefore government — would be in negative equity. Moreover, the scheme as now formulated will cover a relatively small percentage of first-home buyers. A potentially better solution would be to limit the ways government is already making it harder to save for a deposit. Compulsory superannuation, especially the proposed increasing guarantee rate of 12 per cent by 2025, is one hurdle that makes the task of saving a deposit harder still.

At the same time millennials are trying to save hundreds of thousands of dollars to get on the bottom rung of the property ladder, their income is being docked nearly 10 per cent.

In 2017 it seemed briefly like the government might have understood this problem. It introduced the First Home Super Saver Scheme, which allows prospective first-home buyers to make voluntary super contributions — up to $15,000 a year, and $30,000 in total — that can be accessed to fund the purchase of a home.

Yet because this scheme applies solely to voluntary savings in addition to super, rather than allowing the diversion of compulsory contributions, it is not nearly as attractive. As a consequence, it is likely to benefit those who are already likely to buy a home, not those who are unlikely to be able to save enough to do so. It’s probably unsurprising the scheme has not proved popular, with just 2374 people accessing funds in the first seven months of operation (fewer than 4 per cent of all first-home buyers who were granted a home loan during this period).

The retirement system forces young workers to prioritise superannuation above homeownership. Yet for many — especially those who are consequently unable to ever get into the property market — this may not be in their best interests.

Increasing compulsory super isn’t just bad housing policy, it’s also bad retirement policy.

Housing affordability is too important to focus on the wrong problems and ineffective solutions. Having won the debate over negative gearing and capital gains tax reforms, the government has a genuine chance to reform housing policy for the better. Let’s hope it can supply the right answers.

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