‘Affordable’ homes a risky promise for politicians

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Sooner or later Scott Morrison will rue his declaration six months ago that “housing affordability will be an important policy focus of the Turnbull government in this parliamentary term. And it is important we get it right.” Politically, the Coalition has little, if anything, to gain from meddling in the issue and much to lose. About a third of households own their homes outright; another third are paying off mortgages. Only the one-third who are renting have anything to gain from values falling.

Most of the Turnbull government’s electoral base is entrenched in the market; while a substantial fall in prices would help their children and others climb on to the housing ladder, it would damage their wealth. The Treasurer’s pledge has put the government in the firing line in the event of a housing shock or if prices continue to soar.

After a 19 per cent price hike in Sydney and 15.9 per cent in Melbourne in the year to March, Reserve Bank governor Philip Lowe voiced concern about the market yesterday, warning banks to ensure customers taking out mortgages had the ability to service them.

Housing affordability traditionally has been a state rather than federal responsibility. The NSW government and other states could make a serious dent in the so-called housing affordability crisis, as Adam Creighton wrote recently, by rezoning land in the most desirable locations — where more people want to live — to boost supplies of high-rise accommodation near beaches and inner cities. In the two years to October last year, only 42 and 72 new homes were built in Woollahra in Sydney’s inner east and in the northern beachside suburb of Manly. In contrast, 4834 and 4022 new dwellings, respectively, were built in the outlying areas of Blacktown and Parramatta.

Red tape also is a problem, with the Property Council of NSW recently condemning Sydney’s development approvals system as “the worst in the world”. Malcolm Turnbull has complained that development applications in parts of Sydney take three times longer than in Brisbane. Many local authorities need to lift their games.

The Prime Minister and Mr Morrison could make a constructive contribution to housing policy by providing incentives for one-person and two-person "empty nesters" living in substantial homes worth several million dollars in quality inner suburbs to downsize to smaller properties in comparable areas. Such an incentive would boost the stock of family homes.

Unfortunately, the government's superannuation changes have had the opposite effect. By limiting the amount savers can transfer into tax-free pension phase accounts to $1.6 million from July 1 this year, the government has created a powerful disincentive for older people with large properties to sell, downsize and invest the proceeds. Australians in that position know a high proportion of such an investment would be lost to tax, possibly at the top marginal rate. Other changes — such as cutting the concessional (before tax) contributions caps from $35,000 (for workers over 50) and $30,000 (for those under 50) to $25,000 — have created fresh incentives for such workers to build their nest eggs by investing in rental property rather than superannuation.

As Robert Gottliebsen wrote yesterday, the superannuation changes are fuelling the housing boom. Rather than claiming it will make houses more affordable, the government should be creating conditions to boost productivity, savings and investment in a range of assets.