No silver bullet to housing affordability mess

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Labor MP Matt Thistlethwaite (left) and Liberal MP David Coleman quiz Westpac chief executive Brian Hartzer. **Alex Ellinghausen**

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by **Michael Smith**

One lesson from the energy crisis is that a single tax change is not a silver bullet when it comes to solving a national problem.

The decision to abolish the emissions trading scheme was sold to the electorate as the solution to soaring household electricity prices. That never happened and prices are now higher than ever.

The same can be said of the debate around housing affordability, which tops the political agenda alongside energy as federal and state governments try and tackle the unrelenting growth in east coast property prices without triggering a house price crash.

What worries the big bank chief executives is that the populist political debate will dumb down a complicated issue which has ramifications for the entire economy and will further demonise the major lenders.

This is already happening in NSW where the Opposition included permanent residents in statistics about foreign investors in order to generate some voter outrage.

Politicians were hell-bent on getting the four bank chief executives to admit in last week's parliamentary banking inquiry that property prices were over-priced.
The trick for the banks is explaining the difference between affordability and overpricing. As long as demand outstrips supply, they can argue the market is not over-priced. It is, however, unaffordable for many ordinary Australians.

A raft of ideas to tackle affordability have been floated over the past week with reports that everything from using superannuation savings to help first-home buyers to fund deposits, cutting the capital gains tax discount, higher stamp duty for foreign investors or telling buyers to move to Tamworth is under consideration.
Any suggestion that a single tax change is going to dramatically make house prices in cities like Sydney, Melbourne and Brisbane suddenly more affordable is incorrect.

Like electricity prices, there are a myriad of forces at play driving up housing prices such as shortage of supply, record-low interest rates and demand from Chinese investors.

The big banks lending most of the money know there is no single thing the government can do and wholesale reform must be addressed as a package.

Bank chiefs are privately worried there will be a knee-jerk reaction to the problem, which will do more harm than good.

Tougher macroprudential measures aimed at keeping investor loan growth below 10 per cent have been a sensible approach to the problem.

The effect, while limited, tempered the mood in the investor market and it is inevitable that there will be further restrictions which limit growth to, possibly, around 7 per cent.

The Reserve Bank sent a strong signal this week it favours tougher lending rules on the banks rather than interest rate hikes to tackle the problem.
The banks are also policing the issue themselves. CBA also said this week it planned to increase the deposits required and raise interest rates for investor loans.
Ironically, this is good news for the banks as it increases their profitability and further reduces the risks of defaults which are incredibly low already.

The other problem with the debate is that the affordability issue is confined to inner city pockets in major capitals like Melbourne, Brisbane and Sydney but a proposed crackdown on investor lending would apply to the market as a whole.

Bank chiefs such as Westpac chief Brian Hartzer and ANZ's Shayne Elliott are worried about the glut of poor-quality inner-city apartments being snapped up Chinese investors.

Abolishing capital gains benefits alone will not impact the foreign money flooding into the Australian property market.
Even the big banks tightening their lending criteria often only delays an apartment purchase as the Chinese buyers still manage to come up with more cash to fund a deal.

ANZ says the current backlog of work sits at 220,000 dwellings worth $35 billion and that the vasty majority of the construction upswing is in high-rise apartments in Sydney, Melbourne and Brisbane.

The challenge for the federal government, the Reserve Bank, regulators and the big banks is to collectively address the affordability issue without triggering a house price crash.

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