Housing supply chokehold is self-inflicted

Alan Moran, Herald Sun
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FOR the past 30 years, Australian house price increases have vastly outpaced general inflation. We are talking here of standard homes, not those in the inner suburbs, still less harbourside mansions.

In the Australia of the 1980s, it took three times the median household income to buy the average house. Today it takes six times the median income (in Sydney and Melbourne respectively it's over 12 and nine times median household incomes).

The basic reason why prices have risen so strongly is because government policies have restricted supply of housing land, both on city edges and for urban redevelopment.

As a result, since the 1980s, the number of houses and apartments increased by only 40 per cent compared with population growth at 60 per cent and an even greater increase in household numbers.

Other factors have amplified the resulting price increases.

The Commonwealth is contemplating allowing people to tap into their superannuation for a house deposit.
Among these is a growth of (mainly Chinese) foreign investment, which accounts for 25 per cent of new supply in Sydney and 16 per cent in Melbourne (foreigners are not generally permitted to buy existing dwellings).

That demand could bring a welcome increase in jobs and incomes were it not for the regulatory barriers on land supply.

The seemingly relentless increase in property prices, combined with low interest rates, has brought a further impetus — highly borrowed investors seeking to capitalise on the "inevitable" increase in prices.

And while the Commonwealth is considering measures to increase housing supply by offering tax breaks on downsizing, it is also contemplating allowing people to tap into their superannuation, a measure that will add further demand.

Governments and regulators are concerned that present levels of speculative buying may lead to a sudden price collapse.

To head this off they have been soaking foreigners with higher stamp duty rates — which are set to be further increased — as well as tightening up on foreign purchases of established houses. Regulatory authorities are also requiring banks to force borrowers to contribute more of their own funds and to reduce the share of interest-only investor lending.

One nightmare is a local version of the US 2008 housing bubble collapse, which destabilised the banking system.

Governments and regulators are concerned that present levels of speculative buying may lead to a sudden price collapse. Picture: AAP

However, though price increases cannot continue indefinitely, such an abrupt price fall is unlikely.

Unlike in the US boom, Australian lenders have not been obliged to avoid “discriminating” against the poor by offering default-prone “no income, no job, no assets” NINJA loans that led to a widespread dumping of unaffordable properties onto a depressed market.

But state governments are proving themselves unable to unwind decades of progressively greater land supply constraints they have introduced.

These have incubated the current outcome where house prices are double what they should be.

The benefits of correcting this go beyond assisting non-owners.

Existing policies divert household savings away from productive investment uses.

Over half of households’ $11,000 billion of assets are in dwellings.

Because regulatory measures have doubled their underlying value, this means we are wasting $3000 billion of savings.

Placed in perspective, that’s equivalent to 10 times the total asset base of the electricity supply industry. Clearly, we could be so much more affluent if we could eradicate the wealth-sapping waste caused by government housing policies.

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