Housing affordability and the 2017-18 Budget: a missed opportunity

(Article published on Pearls and Irritations, a blog specializing in public policy issues curated by John Menadue, former Secretary of the Departments of Prime Minister& Cabinet, Immigration & Ethnic Affairs, and Trade, Ambassador to Japan and CEO of Qantas, on 19th July 2017).

Housing affordability was to be a key focus of the Government in this year's federal budget, according to the 'nods and winks' that traditionally precede the Treasurer's budget speech. A journalist who has often been privy to the thinking of those at the highest levels of the Abbott and Turnbull Governments wrote that the budget would represent "the most comprehensive intervention by a federal government into the life cycle of home ownership", involving "every aspect" of the housing market.

The housing measures in the budget fell well short of that breathless expectation. Perhaps the best that can be said of what the 2017-18 Budget seeks to do to improve housing affordability is that, like the proverbial curate's egg, it is 'good in parts' – although the parts where it is 'good' are fairly small – and that the parts where it is 'not so good' are not as bad as they could have been.

The 'good' elements of the Budget, from the perspective of housing affordability, are the measures which seek to improve the supply of affordable rental housing for low-income households.

This is an area which has been long neglected by governments of both political persuasions, despite the fact that low-income households – those dependent on government income support payments or minimum-wage jobs – who are renting are more commonly experiencing 'housing stress' (devoting more than 30% of their incomes to housing costs) than any other group in the population. As a report published this week by the Australian Housing and Urban Research Institute notes, "targeted government intervention [is] needed to ensure adequate supply of affordable housing" for people in this situation.

And this Budget provides some. In particular, it establishes a National Housing Finance and Investment Corporation which, based on a British model, will enable not-for-profit affordable housing providers to borrow more money at lower interest rates for longer terms, enhancing their capacity to increase the supply of affordable housing. It says that States and Territories will "be encouraged to transfer [existing publicly-owned housing] stock to the community housing sector", which would in turn allow them to use it as security for more borrowings to finance more new building – something which the States and Territories could of course do themselves, but have been reluctant to for more than two decades. And it provides incentives – including a capital gains tax discount of 60% (more on that below) – for private investment in affordable rental housing.

The Budget also indicates that the Government will seek to cajole the States and Territories – with cash and with conditions attaching to a new National Housing and Homelessness Agreement – into dealing with infrastructure 'chokepoints' that are impeding new housing developments, and into undertaking planning and zoning reforms, with a view to boosting housing supply more generally.

So far, so good, one might say.

However, as I argued here earlier this month, an effective response to the ongoing deterioration in housing affordability – and especially to the long-term decline in home ownership rates – requires actions designed to dampen the demand for housing (especially established housing), as well as to increase the supply of it.

And it is in this area that the Budget falls well short of what was possible and desirable.

The 'signature initiative' is the proposal to allow would-be first home buyers to contribute up to $15,000 per year, up to a total of $30,000, out of their pre-tax incomes, into their superannuation funds, where these contributions will be deemed to have earned the 90-day bank bill rate plus 3 percentage points per annum, which will in turn be taxed at the same concessional rate of 15% as applies to superannuation fund earnings. When subsequently withdrawn in order to fund a deposit on a first home, these contributions and the earnings on them will be taxed at the contributor's marginal rate less 30%.

The Treasurer said in his Budget Speech that this will allow "most first home savers [to] accelerate their savings by at least 30 per cent". That in turn means that they will also be able to increase the amount they can borrow by at least 30% (assuming that their income allows them to service a mortgage larger by that order of magnitude).

So, someone who might have saved a deposit of $100,000 towards the purchase of a house, and thus been able to borrow up to $400,000 under normal lending criteria, allowing him or her to spend up to $500,000 on purchasing a first home, will now be able to accumulate a deposit of $130,000, enabling him or her to borrow up to $520,000, and thus spend up to $650,000 on purchasing a first home.

The people most likely to be able to take advantage of this scheme are those who would have been able to accumulate a deposit anyway. So they will simply have more to spend on buying their first home than they would otherwise have had. And we have fifty years of history to support the view that anything which allows Australians to spend more on housing than they otherwise would results in more expensive housing, not in more Australians owning housing.

The only good thing that can be said of this Budget measure is that it doesn't allow would-be first home buyers to dip into their compulsory superannuation contributions, as the 'Super for Housing' scheme mooted in earlier pre-budget speculation would have done. However, to the extent that actual earnings on contributions to the scheme announced in the Budget do fall short of the deemed rate, those who use it will in fact be 'borrowing' from their retirement savings.

The proposal to allow retirees who 'downsize' to smaller or cheaper accommodation to contribute up to $300,000 from the proceeds of selling their home to superannuation will do little to increase the effective supply of housing. That's because the main deterrents to 'downsizing' are the possible loss of the pension (and access to the Health Care Card); and having to pay stamp duty on the smaller dwelling. The Budget does nothing about either of those concerns.

If the Government *really* wanted to do something that would improve the chances of would-be first home buyers fulfilling their aspirations, it would have done more to scale back 'negative gearing' than simply disallowing investors from taking tax-deductible trips to 'visit' their properties; and/or it would have scaled back the excessively generous capital gains tax discount.

The Government clearly recognizes that the capital gains discount affects the incentive to invest. That's why it proposes to *increase* the discount in order to encourage investment in affordable housing. But it's not prepared to *reduce* the discount in order to discourage investment in *unaffordable* housing – as it would do if it were really serious about improving housing affordability for would-be home buyers, as opposed to enhancing the after-tax returns to people who already own property.

In that sense, the 2017-18 Budget was a missed opportunity.