



No place to call home



TONY NICHOLSON

Tax concessions to the wealthy are pricing others out of the property market.

HERE'S a tale of three Australian households. The first is an unemployed middle-aged man — let's call him Harry — who shares an unassuming middle-suburban home with four co-tenants. He pays \$175 per week for rent and utilities for an unfurnished former lounge room divided into two bedrooms by a flimsy partition, and use of a shared bathroom and a basic communal kitchen. This leaves him with \$14.30 a day from his unemployment benefit for all other living expenses. Welcome to Australia's expanding slum quarter, run by our new slum landlords.

The second is a middle-income family — the Joneses — with two parents in their mid-30s and two primary-school-aged children. They are not poor but buying a house in today's market is almost impossible unless they want to live more than an hour's drive from the city centre. Welcome to the first generation of middle Australians to miss out on the dream of home ownership — the first generation of Joneses who can't keep up.

The third is a retired professional couple — the Falconers — who were lucky enough to buy into the inner suburbs when housing was cheap and to have both a good accountant and a good eye for real estate bargains. They are doing very well. Welcome to the winners from the recent Australian housing boom and from the tax and housing policies of the past decade.

With another housing boom imminent (*The Age* 30/9/09) there seems no end in sight to Australia's housing affordability crisis. And, as the Reserve Bank acknowledges, when housing prices increase, richer households benefit at the expense of poorer ones. There will always be people in grand houses, people who want better houses and people in modest flats. There will also be landlords, home

owners and renters. And there will always be desirable suburbs and struggling ones.

But there doesn't always have to be this level of housing injustice. Better policies can change it.

A study released by the Brotherhood of St Laurence and the Australian Housing Urban Research Institute demonstrates that this state of affairs is being perpetuated by Commonwealth, state and territory housing policies that are working at cross purposes.

Here are some worrying facts. In 2006, 60 per cent of low-income renters, like Harry, paid almost one-third of their income in rent. Harry pays almost two-thirds. In the past 10 years the home ownership rate among those aged 25 to 39, like the Joneses, has fallen steadily, from 65% in 1981 to 54% in 2006. This is not surprising when you consider that since 1996 the median house price has increased from five to 7½ times the annual average wage and the average first-home mortgage has tripled, from \$94,000 to \$286,000. Today individual property investors, like the Falconers, benefit from \$5.4 billion in tax concessions each year, mainly due to negative gearing and the 50 per cent tax discount on capital gains.

So this is the problem: the affluent, the old and the well-housed are doing well from Australia's huge subsidisation of the housing market; but poorer, middle-income and younger Australians are missing out. Harry and his co-tenants are getting about \$2420 per year in Commonwealth Rental Assistance. The Falconers get about \$4500 in tax benefits from their investment properties and another \$8000 per year because their owner-occupied housing is exempt from capital gains tax. And the Joneses, without a mortgage or investment properties, get nothing. So what do we do? The good news is that governments are acting to help the most vul-



nerable. Victoria has now initiated a crack-down on illegal and immoral accommodation services. Similar policies will hopefully follow in other jurisdictions. And the Federal Government is investing \$6 billion to build 20,000 new social-housing dwellings, is encouraging private investment in quality low-cost housing, and has a long-term strategy to reduce homelessness. This will do much to protect the vulnerable from slum landlords, but it is not enough.

We simply can't afford any longer to put off changes to the very generous tax treatment that exists on Australian homes and investment properties. The research released by the Brotherhood and AHURI has found that the tax system provides indirect assistance to owner-occupiers worth \$45 billion annually — \$30 billion of this is due to the exemption from capital gains tax of owner-occupied homes, with a highly disproportionate amount of benefit going to older and wealthier Australians. This is hurting all of us by pushing up property prices for investors, middle-income families and the poor. Two changes must be urgently considered.

First, the capital gains tax exemption should be phased out on homes worth more than \$1.1 million. This would affect only about 2 per cent of all owner-occupied

dwellings at the top end of the property market.

And second, state and territory governments should remove the exemption from land tax of very expensive owner-occupied dwellings while removing or reducing stamp duty on lower-priced homes.

These measures would help take some of the heat out of the property market and the revenue gained could fund measures to make housing more affordable for those in need.

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It is true this means some of us — not just the lucky few like the Falconers — will lose part of the housing and investment subsidies we now enjoy. But the fact is, these subsidies are illusory and we will all be better off without them. Harry's life will be transformed. The Joneses will obtain security. And buying a new house will be cheaper for all of us.

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