

FINANCIAL REVIEW

SE **Property**
HD **No to housing bubble and yes to tax breaks**
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Former federal treasurer Peter Costello has backed current Treasurer Joe Hockey's dismissal of a housing bubble in Australia.

In a speech to the **Property** Council of Australia's forum in Sydney on Wednesday morning, Mr Costello said the economics of demand and supply of **residential** housing were the reason for high prices, not speculation arising from excessive debt used in house **purchases**.

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"For a Western developed country, Australia's population growth is very strong," he said.

"So we have to factor in the fact housing supply is not meeting demand. It's important the public understands this."

Mr Costello's comments strengthened Mr Hockey's stand in the disagreement with the Reserve Bank **board** members who escalated their warnings about the dangers of rapid price gains and speculation in the housing market on Tuesday.

"I'm not so sure it's credit-fuelled," Mr Hockey said during a forum organised by Bloomberg News in Sydney on Tuesday. "There's a lot of cash going into **property** now."

Of the G20 countries, Australia's annual growth rate from 2009 to 2013 was second after Saudi Arabia, Mr Costello said.

"If you speak to anyone outside Australia, they will ask if the Australian **residential property** market is overvalued," he said. "It is the first thing any economic investor will ask."

"They think it is overvalued using multiples against world standards, and the US. But we are growing so fast, faster than the Mexicans, Argentinians, South Africans." High cost of land

Mr Costello also supported the view housing is not overvalued by saying high prices are a result of expensive land.

"Building a house is comparatively cheap," he said. "What is expensive in Australia is land. We have increasing demand but quite a restrictive supply of land and so, prices are high."

"Houses are so expensive because the government has the control on land, the taxes on the lease and transfer of land are also very high."

In a near-evangelical setting, Mr Costello delivered a message to Sydney's leading **property** agents and developers that Australia must be "fiercely competitive" and have an open economy to stay prosperous.

He credited the federal Minister for Trade and Investment, Andrew Robb, with pursuing free trade agreements with South Korea and **China**.

"The biggest thing that happened in 2008 was not the collapse of Lehman Brothers but the emergence of **China**," he said.

The number of **Chinese property** developers in Australia is growing and increasing housing stock in major cities.

"Are we attracting enough foreign investment? The only thing I'd say is you'd want to be careful that a few bad eggs don't deter foreign investment," Mr Costello said.

"Clive Palmer has made a lot of money on foreign investment but his litigious approach to the **Chinese** is being noticed in **China**."

While foreign investment is largely on track, he said removing negative gearing is not going to solve the housing supply or pricing problems.

"People talk about negative gearing as if it is unique to housing, which it's not. Companies and the sharemarket do it all the time. People are doing it in the housing market.

"We got rid of it once and it was a disaster because it dried up the supply of rental units," he said.

"This is not a new best idea to somehow solve the housing problem. What is driving house prices is land release in big cities."

Negative gearing is where the deduction of borrowing costs against rental income results in a negative return.

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