SE Domain

HD **Negative gearing impact on prices**

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EXPERTS say negative gearing is having a greater impact on Australia's rapidly rising house prices than **Chinese** investment.

But that statement comes with a qualification - it is difficult to know what the level of **Chinese** investment in Australia's **residential** real **estate** is because authorities do not have data that breaks things down that much.

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One of Australia's most respected economists last Tuesday called for the Abbott government to rein in surging house prices in Australia's capital cities by putting an end to negative gearing for new investors.

Saul Eslake, chief economist at Bank of America Merrill Lynch, says negative gearing is contributing to the inflation of **property** prices to the point where Australians could find themselves in a "bubble situation".

He says the Abbott government ought to consider ending negative gearing for new investors to help reduce the amounts that are being borrowed.

If that happened, new investors would either start to pay less for properties or not **buy** as many because the tax incentives would not be there, and that would help to reduce **property** prices.

Negative gearing allows investors to deduct losses made on rental properties from their other income, thereby reducing their overall annual tax liability.

Mr Eslake's call comes after the Reserve Bank warned last month that macro-prudential policies may be needed to keep a lid on the country's soaring house prices.

The RBA says house price growth is being driven by investors, many of whom were buying existing dwellings, rather than new dwellings, using negative gearing.

In its recent financial stability review, the Reserve Bank said strong demand by investors meant investor housing loans now accounted for about 40 per cent of all home loans.

It said it had become so concerned about Australia's overheating **property** markets that it was openly questioning whether bank lending practices were "conservative enough".

But the RBA's warning, and Mr Eslake's criticism of negative gearing, comes after repeated warnings from real **estate** agents about the level of **Chinese** investment in local real **estate** markets.

Real **estate** agents have been warning that foreigners have been circumventing Australian laws, pushing prices up and forcing locals out of the market in the process.

That is despite Foreign Investment Review **Board** data from 2012-13 showing overall foreign investment in

local **residential property** had fallen 18 per cent in the past two years.

The federal government responded to those warnings from agents this year by asking the House of Representatives Economics Committee to investigate the impact of foreign investors on the housing market.

That committee is still investigating.

Liberal MP Kelly O'Dwyer, chairwoman of the House committee, said the **board** had failed to prosecute any foreigners for illegally buying Australian homes since 2006, and that it needed to be called to account.

When asked about negative gearing, Ms O'Dwyer said she had no problem with the practice.

"There are lots of unintended consequences that flow from changing rules such as negative gearing," she said.

But Mr Eslake said negative gearing was a greater problem for rising house prices than foreign investment.

The Grattan Institute says negative gearing costs the federal government $2.4 billion a year, and there is "little justification for it".

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