THE AGE
INDEPENDENT. ALWAYS.

SE Business

HD **Boom threatens the great Australian dream of a home**

BY Michael Bleby
WC 2,127 words
PD 5 April 2014
SN The Age
SC AGEE
ED First
PG 10
LA English

LP

As house prices soar, traditional investment trends are shifting, writes Michael Bleby.

At the age of 29, Nicole Haddow moved back home to save for a house deposit. For the author and social media manager, moving back in with her parents after four years of renting wasn't easy, but was a necessary trade-off to try to get a foot on the bottom rung of a **property** ladder that was getting higher and higher off the ground.

TD

"It just seemed that I would be chasing constantly rising prices," she says. "The longer I waited the bigger the deposit I would have needed. I bit the bullet and went home."

In February, Haddow succeeded in purchasing a two-bedroom **apartment** in Mordialloc in bayside Melbourne. But in a country in which fewer and fewer young people are buying houses, she is an increasing standout.

Home ownership among her age bracket of 25 to 34-year-olds dropped to less than half (47 per cent) in 2011 from more than two-thirds (61 per cent) just three decades earlier in 1981, census figures show.

This is just one strand of a changing and increasingly complicated housing market - one that Reserve Bank governor Glenn Stevens last week confirmed was going through a "boom".

His use of the word in a speech in **Hong Kong** raised eyebrows, while the central bank's decision this week to keep its benchmark rate on hold at a record-low 2.5 per cent - even as house prices have continued their upward gallop - caused others to warn of a bubble.

On Friday, Barclays chief economist Kieran Davies said Australian household debt had hit a record 177 per cent of annual disposable income and that house prices were equal to 4.3 times annual income and 28 times annual rent, within a "fraction" of their historic highs.

And figures out earlier this week reinforced the strength of the market, with RP Data figures showing Sydney's median house value soared 15.6 per cent in March from a year earlier.

In Melbourne, which this weekend experiences its second straight "Super Saturday" with more than 1000 properties going to auction, values rose 11.6 per cent on the year. Both were above the national median figure of 10.6 per cent.

Even Stevens, who explicitly said the market was not in bubble territory, this week chose to warn that investing in housing was not a "sure bet" and that prices could fall, as they have done in Sydney over the past decade.

But Stevens and many others are, in fact, counting on the housing boom and the construction industry it drives to keep things ticking over as the economy's resource-fuelled sugar hit subsides.

Planning approvals for new houses - a leading indicator of construction to come - slipped in February after a surge in January, but remained 23 per cent above their number a year earlier.

Amid this flurry of activity, profound changes are taking place in Australia's housing market, sparking a debate about who buys property and how they buy it.

A growing population, changing household structures and signs of a greater appetite for renting, rather than buying, are all changing the ways we think about housing.

Some are choosing to forgo the great Australian dream of the family house on the quarter-acre block in exchange for a shorter commute and closer proximity to urban centres with better-paying jobs and opportunities.

As Stevens said, a bubble is unlikely. More housing stock is needed to make up for a decade of underinvestment in the country's largest city, Sydney - whose 4.4 million residents made up one-fifth of the total population in 2011 - and to accommodate the predictions for a national population that the ABS says could nearly double to 40 million by 2060.

But debates are also raging about whether tax incentives, most notably negative gearing, actually draw productive investment that helps build new housing, or whether they just push up the price of existing housing stock, to the benefit of those fortunate enough to already own property.

Home ownership across the whole population has slipped over the past two decades - to 67 per cent in 2011 from 70 per cent in 1991 - and the representation of first home buyers in the Australian housing market has also been falling. As of January, first home buyers accounted for just 10 per cent of the housing market, less than half of the 24 per cent they represented in October 2009, figures by research company BIS Shrapnel show.

Over the same period, investors (both local and from overseas) as well as people upgrading to a bigger property or downsizing (such as baby boomers who are selling the family home and getting an apartment) were buying more properties.

The introduction of the GST in 2000 under John Howard dampened first home buyer purchases while the first home buyer grant, given a boost in 2009 by Kevin Rudd's government as a part of wider efforts to stimulate the economy in the wake of the global financial crisis, turbocharged it.

"There's been a secular trend from something like 20 per cent to more like the 15 per cent we would regard as normal now," says BIS Shrapnel associate director Kim Hawtrey. "But it's currently 10 per cent."

Affordability is one reason for the trend.

House prices have grown more expensive relative to incomes. Another is the issue of deposits. As Haddow points out, rising prices would have meant the deposit she needed to secure a mortgage - about 10 per cent in her case - kept going up.

But housing affordability isn't just a problem for middle-class Australia. Concern about a lack of affordable housing has prompted a Senate inquiry - due to report in June - on the regimes of incentives, planning and funding that currently affect the supply of affordable housing for the country's most vulnerable and less well-off.

One key part of this is negative gearing, that almost uniquely Australian habit of permitting housing investors to offset their income made elsewhere with losses they make on a property investment.

Two years ago Paul Farley bought a one-bedroom apartment off the plan in a complex in Melbourne's St Kilda. Rather than living in it, the professional property manager chose to rent another one in the same complex.

"I could pay rent for the one and negatively gear the other," he says. "If you had two identical flats, you're better off not living in your own, but renting one." Critics, such as Aussie Home Loans boss John Symond, say negative gearing, along with capital gains tax and other discounts, inflates property prices and should be phased out.

Not so, Hawtrey counters. Any capital going into housing should be welcomed. "I don't see negative gearing as the problem, as it generally increases supply by attracting capital into the property asset class as opposed to other asset classes," Hawtrey says.

Economist Saul Eslake is also scathing of tax benefits, along with the direct handouts that take the form of first home buyer grants, saying that without removing the blockages that continue to restrict the growth in housing supply, they are misguided and damaging fiscal tools.

"The ostensible benefits of those policies have in effect been expropriated by the people who owned homes at the beginning of the 1990s," Eslake says. "What government policy has done has been to inflate the demand for housing by giving more money to **buy** it with, whilst local governments have constricted the supply of housing through their urban land use and planning policies and by changes in the way they charge for the provision of suburban infrastructure."

It is clear, however, that something will need to be done and a day of reckoning may yet come in the **property** investment market for Australians.

Eslake says that with more than 1 million taxpaying and voting Australians enjoying negative gearing - a long-established feature of the economy - no politician will dare take it away. It would be easier, he says, for a federal government to simply stop new people adopting the measure.

"If you say it's too hard to take the benefits away from people who have entered into it in good faith, doesn't mean you have to continue extending it to all others in perpetuity," he says.

The nature of Australian **property** investment is changing in any event, but not in ways many people imagine.

The burgeoning self-managed super fund industry insists that it is not distorting the market.

DIY funds have increased their exposure to **property** over the past four years - but as of December last year just 3.57 per cent, or $19.4 billion of the $543.4 billion held by SMSFs were in **residential** real **estate**.

In fact, SMSF exposure to **commercial property** was three times as great, at almost $64.9 billion - and has grown even faster than **residential** investment - principally because of the tax benefits that **commercial** properties get from depreciation.

Nor is it the case that overseas investors are taking over the country. While the value of approvals of **residential** real **estate** by the Foreign Investment Review **Board** grew last year to $5.4 billion - up from $2.9 billion a year earlier - this was less than 3.2 per cent of the $185 billion Australians borrowed from banks to finance **residential** real **estate purchases** in the same time.

If the cash, rather than bank loans, Australians used to **buy** housing is added to the total, the foreign investment becomes even smaller by comparison.

"That's swamped multiple times by the amount Australians put in," Eslake says. "For the most part, it's people in their 40s and upwards who are driving the upward pressure on prices."

Another change is creeping into the housing market, however. The inevitable move towards more dense living in urban areas - as people choose to move up, rather than out - is driving a proportionately greater investment in apartments than ever before.

While detached houses have traditionally accounted for two-thirds of new house commencements, with high-rise and townhouses making up the rest, that proportion has been shrinking and is likely to be closer to between 56 and 44 per cent, research **company** Macromonitor says.

Over the next decade, so-called other dwellings - not stand-alone houses - are expected to make up a larger share (37 per cent) of commencements than previously (32 per cent from 2000-01 to 2009-10). In NSW the proportion of high-rise and townhouse dwellings will rise to 57 per cent of all commencements over the next decade, driven by Sydney's push towards infill development and higher-density living near existing infrastructure.

At the same time, the proportion of people settling for **apartment** life as long-term renters is growing, as is the case in Europe, where people rent and have less of their personal wealth tied up in **property**. This trend will change the nature of **property** investment into a more professional game, and less of a mums-and-dads game than it has been in the past.

"The traditional people who bought their first flat as an investment and have had it for 30 years - the mums and dads - is changing considerably to more astute investors who have a portfolio of shares, or investments or **property** altogether, and they look at it as an investment product far more," says Little **Residential** chief executive Phil Meggs, whose **company** seeks to tap that trend by developing apartments, selling them and then managing them for investors.

The world of **property** has changed in Australia from the market it once was. As the retiring baby boomers live longer than their own parents and hold onto their dwellings for longer, as the population grows and as inefficiencies hold up the development of new properties, the way Australians live and pay for that accommodation will change.

For many people, this will simply mean not owning **property**, as their parents' generation did.

"I'm surprised there isn't more anger among young people about the way in which the housing system has been rigged against them by their parents," Eslake says. "Perhaps young people are getting their revenge by refusing to move out of their parents' homes!"

Haddow, for her part, is staying with her parents for a few more weeks to boost her savings before she joins Australia's dwindling ranks of owner-occupiers. This weekend, hundreds more people will flock to auctions hoping to join those ranks. The current boom - as declared by Stevens - means it may well be harder than ever.

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

RE austr : Australia | melb : Melbourne | sydney : Sydney | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania | nswals : New South Wales

PUB Fairfax Media Management Pty Limited

AN Document AGEE000020140404ea4500046

