



**SUBMISSION TO THE HOUSE OF REPRESENTATIVES
INQUIRY ON HOME OWNERSHIP**

JUNE 2015

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SUMMARY

1. ANZ's primary role in housing is to provide finance to purchasers and developers of residential dwellings in a manner that is prudent, responsible and efficient. We indirectly contribute to the housing sector by financing businesses supplying the sector and private and public infrastructure.
2. Australia is made up of multiple housing markets. Pressure on housing affordability in particular urban centres is at the core of the current debate. Sydney and Melbourne housing prices are experiencing rapid increases whilst the rest of Australia has remained relatively flat. The fundamental drivers of price rises in Sydney and Melbourne are a mismatch in supply and demand.
3. In the Sydney and Melbourne markets, there is also a difference between the supply and demand dynamics in the market for detached houses compared to that for higher density dwellings, particularly small apartments.
4. Housing demand is a product of population growth, demographic changes and economic conditions. A rapid increase in immigration from 2004 led to a supply shortage which remains a constraint. Strong underlying economic conditions – with relatively low unemployment rates and strong household income growth prior to 2008 – and demographic changes have also added to demand.
5. There are very important factors inhibiting supply. New construction (which can be dealt with by the market), available land, and processes for obtaining the necessary building permits are constraints. Finding an appropriate balance between the roles of government and the private sector can assist with managing demand uncertainty and responding to changes in consumer needs.
6. ANZ believes the policy response to home ownership and affordability pressures should focus on those urban centres where housing prices are increasing most rapidly. For example, priority should be placed on improving long term delivery of transport and development infrastructure, making land available, and speeding up development processes.
7. Investment in property is an important means of ensuring an adequate supply of rental and commercial property. Outside Melbourne and Sydney, investment activity as a share of total mortgage lending remains around 40-42%. In Melbourne it is over 46% and in Sydney it is around 58%. Increased debt is mostly taken on by those who are in the strongest position to service it. Four-fifths of investor housing debt is held by the top 40% (the top two quintiles) of income earners.
8. Treasury has noted that the tax treatment of investment properties is the same as it is for investment in any asset that produces a mix of current income and capital gain. This is appropriate. Singling out particular asset classes for additional tax would run contrary to the principles of neutrality and efficiency. Stamp duties are widely recognised as economically inefficient taxes. However, any review of these issues should not be undertaken in isolation but should be part of a review of the whole tax system.
9. ANZ supports the supervision and measures now in place to monitor risks to financial stability posed by housing. Banks have extensive risk management capabilities and models in place to manage this asset class.

A. INTRODUCTION

1. ANZ welcomes the opportunity to contribute to the Standing Committee on Economics' Inquiry into home ownership. The Inquiry has been asked to report on current rates of home ownership, demand and supply drivers in the housing market, the proportion of investment housing relative to owner-occupied housing, the impact of current tax policy at all levels, and opportunities for reform.
2. The housing sector is important because of the social benefits of access to housing and the sector's role in the economy. ANZ's primary role in housing is to provide finance to purchasers and developers of housing in a manner that is prudent, responsible and efficient. We indirectly contribute to the housing sector by financing businesses supplying the sector and private and public infrastructure.
3. Australia is made up of multiple housing markets. This Inquiry comes at a time of heightened awareness about the rise in house prices in Sydney, and to a lesser extent Melbourne. House price rises in these particular markets have led to re-examination of the drivers of house price rises and means to increase affordability.
4. ANZ considers that the fundamental drivers of price rises in Sydney and Melbourne are a mismatch in supply and demand. Lags in housing supply, strong population growth and low nominal interest rates have contributed to higher prices particularly in Sydney and Melbourne. The same pattern of house price rises has not been seen elsewhere in Australia.
5. ANZ supports the supervision and measures now in place to monitor risks to financial stability posed by housing. Banks have extensive risk management capabilities and models in place to manage this asset class. Any policy or regulatory intervention needs to assess impacts on economic growth, stability and the interests of borrowers and homeowners.

B. HOUSING DEMAND

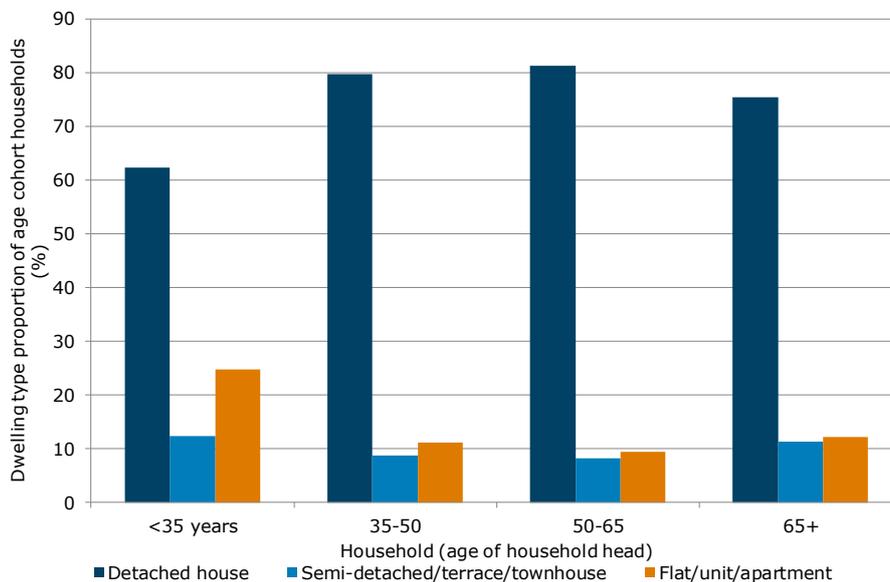
6. Housing demand has been driven over the last decade by rapid population growth, largely resulting from immigration. The acceleration in population growth was most concentrated in Sydney and Melbourne and was not matched by increasing construction of new residential dwellings. Demand is also affected by general economic conditions, including interest rates and labour market conditions. Housing demand over the last decade has also been driven by relatively low unemployment rates and strong growth in household income, particularly from 2002 to 2008.¹
7. In the medium to long-term, home owner demand will reflect underlying drivers of demand and home buyer preferences. That is, beyond the financial capacity of households to own or rent, demographics and the trade-off of consumer preferences (such as location and dwelling type and size) will determine home ownership trends.

¹ D Jacobs and E Rush (RBA), 2015, 'Why is wage growth so low?', *Bulletin – June Quarter 2015*, Reserve Bank of Australia.

Demographic changes

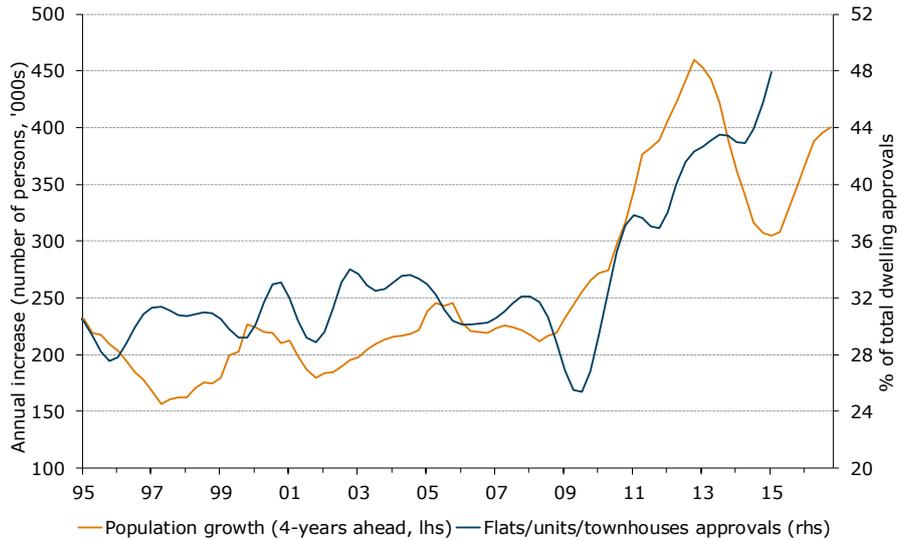
8. Australia’s ageing population is expected to slow economic growth by reducing the pool of available labour (on the supply side) and bringing weaker consumer spending and probably investment (on the demand side). How much these factors will prove a drag on economic growth and the period of transition over which it occurs will depend on a number of factors: the willingness of older Australians to draw down accumulated wealth; what happens to asset prices; the extent of further increases in labour force participation by older workers; and government policy, including any further changes to the pension age and superannuation policies.
9. An ageing population will depend less on income and more on financial wealth to support home ownership choices. Figure 1 shows the most recent data on households by dwelling type, from 2011. It reveals a strong bias towards detached housing, particularly amongst age groups over 35 years. Higher-density housing is more common among under 35s (37%) and over 65s (23%).

FIGURE 1. HOUSEHOLDS, BY DWELLING TYPE AND AGE OF HOUSEHOLD HEAD



Source: ABS, ANZ Research

10. Strong growth in higher-density housing construction supports this trend by providing lower maintenance and centrally located housing. The increased availability of more affordable dwelling types (apartments and townhouses) will provide housing options to those most impacted by deteriorating housing affordability, such as first home buyers and downsizers.
11. Population and housing construction trends show that solid population growth, led by a strong pick-up in net overseas migration since 2005, have coincided with a surge in demand for higher-density housing (Figure 2). While this relationship does not suggest that higher migration alone has driven strong demand and construction of higher-density housing, it does support the view that foreign investor demand is not the only factor driving high-rise apartment construction in the major Australian capital cities. Strong population growth, consumer preferences and solid house price growth have also contributed to a structural shift in occupier demand for higher-density housing.

FIGURE 2. POPULATION GROWTH HAS DRIVEN STRONGER DEMAND FOR HIGHER-DENSITY HOUSING

Source: ABS, ANZ Research

Economic conditions

12. Housing demand is also impacted by overall economic conditions. The downturn in the mining sector continues to drag on growth and non-mining activity is yet to adequately replace this. Broader economic recovery beyond housing remains slow. Growth in household consumption remains soft and it is difficult to see what will drive businesses to lift investment. While lower interest rates are helping with this transition at the margin, the missing ingredient seems to be confidence, both at the consumer and business level. ANZ expects that below-trend growth will see the unemployment rate edge higher through 2015, which we expect will keep interest rates at historic lows through 2015 and 2016.
13. Housing sales and construction are expected to remain strong. Dwelling construction approvals are at record highs, pointing to a solid pipeline of activity for residential construction over the next 12-24 months. However, the strength in housing is not reflected in stronger consumer spending. The wealth effect of increasing house prices is evidenced in the strength in retail sales growth in New South Wales and Victoria, but this is being outweighed by the impact of low household income growth rates since 2013-14, which are forecast to continue through 2015 and 2016. Consumers remain cautious and households seem more inclined to save any boost to disposable incomes from lower oil prices and interest rates. While higher house prices are likely to prompt households to save less over time, we expect the fall in the saving rate will be quite gradual.

Labour market conditions

14. Strong labour market conditions over the past decade have contributed to housing demand. Looking ahead, below-trend growth is likely to see the unemployment rate rise to a peak of 6½% by mid-2016 before edging lower through 2017. While job advertisements continue to rise gradually, new labour demand has not been sufficient to offset retrenchments in the mining and manufacturing sectors, and the unemployment rate continues to rise.

C. HOUSING SUPPLY

15. A range of supply-side factors affect how responsive the construction industry is to changes in housing demand. These factors include availability of land for new dwelling construction, planning approval processes and attitudes to medium-density infill development, urban transport policies, and the supply of trained construction industry workers.²

Land supply and planning approval

16. A shortfall in available greenfield land for new dwelling construction remains a concern in Australian capital cities. State governments and local councils have been slow to release land in response to the surge in migration from 2004. Natural geographic constraints to expanding the city fringe complicate this process in cities such as Sydney.
17. Adding to this bottleneck, the process for converting rural land to new dwellings can take six or more years in some cities.³ It involves six stages: land identification and release, rezoning to residential, detailed site planning and approval, subdivision and development support, major civil works and issuing of titles, development approval and dwelling construction.⁴ Complexity and delay at each stage has slowed housing supply responsiveness to changes in demand and added to the cost of development.
18. State governments have in some cases accelerated the release of greenfield land at times and some approval processes have been streamlined. This is welcomed though further reform is needed.
19. For suburban and inner-urban redevelopments, planning approvals from State government and local council are frequently subject to lengthy delays and policy changes are commonplace. This makes developing inner city properties more expensive and drives apartment prices up.

Urban transport

20. Further development of greenfield land for housing requires investment in urban transport infrastructure. Many attractive jobs are concentrated in the inner areas of cities forcing workers to commute further than before.⁵ To integrate new outer-urban dwellings into Australian cities, new housing needs to be connected to higher-value economic activity closer to the city centre. High speed rail connections and other transport infrastructure will be increasingly important to achieving this.
21. Investment to increase the capacity and performance of the existing rail network will be needed to support medium and high density suburban infill developments. This includes things such as purchasing additional rolling stock and investing in high capacity signalling.

² Recent research in the United States suggests that regulatory constraints in the supply of housing in what are traditionally high productivity cities (such as New York, San Francisco and San Jose) is constraining the reallocation of labour and is a drag on US national productivity and gross domestic product. C-T Hsieh, E Moretti, 2015, 'Why do Cities Matter? Local Growth and Aggregate Growth', *National Bureau of Economic Research*, Working Paper 21154, May.

³ W Hsieh, D Norman and D Orsmond (RBA), 2012, 'Supply-side Issues in the Housing Sector', *Bulletin – September Quarter 2012*, Reserve Bank of Australia.

⁴ Ibid.

⁵ L Ellis (RBA), 2014, 'Space and stability: some reflections on the housing-finance system', Address to the CITI Residential Housing Conference', 15 May.

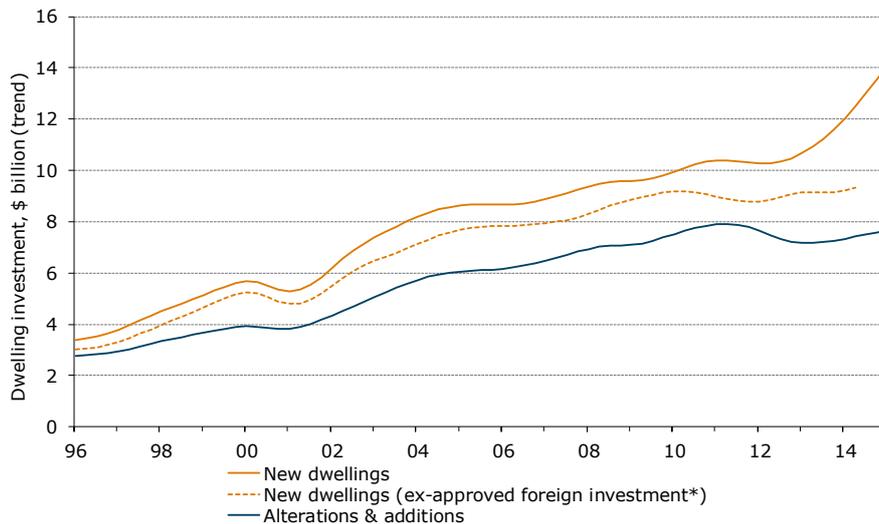
Labour in the housing construction industry

22. Residential building is relatively labour intensive. Dwelling investment represents around 5% of Australia’s GDP. The share of economy-wide employment directly generated from residential construction is likely, at a minimum, to be of a similar magnitude – that is, more than 500,000 persons. The ABS *Labour Force Survey* only classifies around one-fifth of this number as employed in residential building with plumbers, carpet layers, architects, etc classified elsewhere. Nonetheless, it is clear that the upswing in residential building over the past couple of years has seen a noticeable increase in employment in this industry. Further, construction workers’ earnings are one of the highest of all industries such that the boost to household income and spending from jobs growth in this industry is outsized.

Housing supply outlook

23. Foreign investment and an increased appetite for higher-density housing have largely driven the strong cyclical response in housing construction rather than the lower cost of borrowing (Figures 3 and 4).

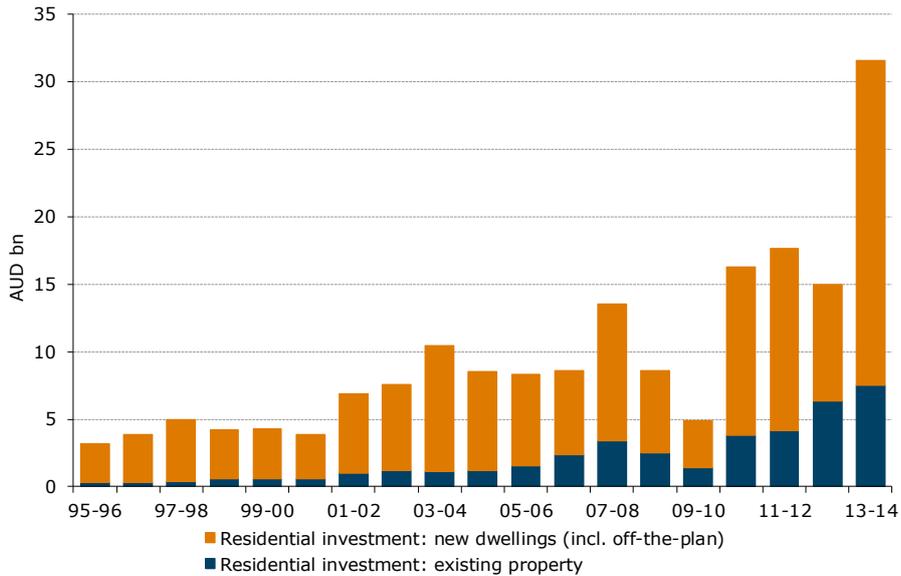
FIGURE 3. AUSTRALIAN DWELLING INVESTMENT (INCLUDING AND EXCLUDING FOREIGN INVESTMENT)



* Based on 50% realisation of foreign investor new dwelling applications approved by the Foreign Investment Review Board

Source: ABS, FIRB, ANZ Research

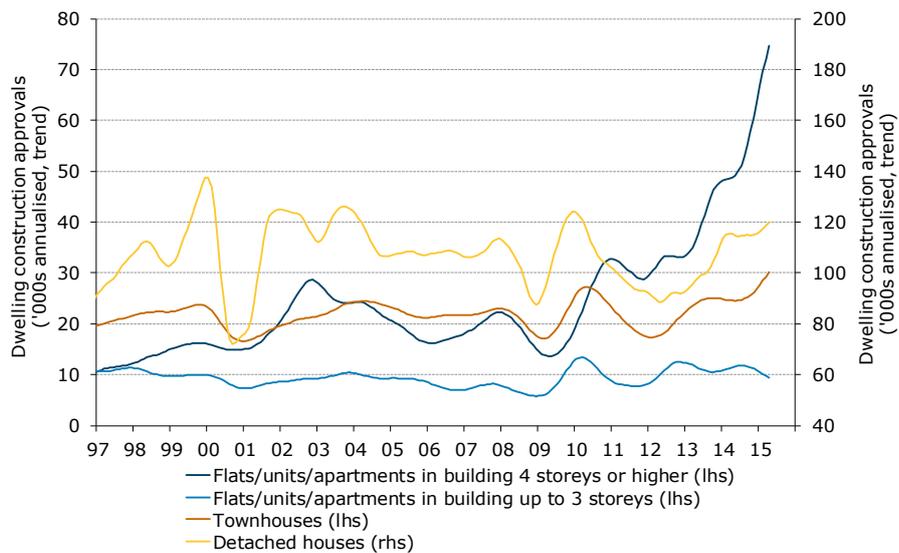
FIGURE 4. FOREIGN INVESTMENT IN NEW HOUSING CONSTRUCTION HAS SURGED



Source: FIRB, ANZ Research

24. Housing construction activity is expected to hit an all-time peak in 2015, with annual housing starts likely to reach around 200,000-210,000 dwellings. This is led by unprecedented approvals for high-rise apartments (Figure 5). Lags in the construction of high-rise apartments are likely to sustain construction activity for longer than previous cycles.
25. Nonetheless, housing construction is entering uncertain territory and the number of approved projects that 'break ground' is likely to be impacted by at least three factors: concerns about the continued depth of investor and occupier demand for high-rise apartments; an expected increase in investors' appetite for alternative assets (given the current very low return on alternative assets and a more stable outlook for property in other economies); and a subdued outlook for employment, business investment and household income growth.

FIGURE 5. HIGH-RISE APARTMENTS IN MAJOR CAPITAL CITIES ARE DRIVING CONSTRUCTION BOOM



Source: ABS, ANZ Research

26. In addition, the broader economic benefits of the current housing construction upturn will be weaker than previous cycles. Despite surging new housing investment, net construction employment remains lower because of job cuts to mining-related construction. In addition, while growth has improved in recent months, the positive impact of housing construction to household item sales has been relatively subdued. This is most likely because of the high proportion of smaller dwellings and the number of new unoccupied dwellings.

Sustainability of the supply chain

27. In ANZ's view there is a strong case to review laws governing presale contracts for larger scale developments, primarily apartment complexes, to provide a more balanced allocation of risk between buyers and developers/sellers.
28. At present, buyers in all States except Queensland can pay a 10% deposit for an off-the-plan purchase with the remaining 90% paid on practical completion. ANZ's experience is that this deposit has proven to be an inadequate pre-estimate of the loss that a developer suffers if a buyer does not complete a contract. Banks accordingly require high levels of equity from developers to finance apartments given the presale settlement default risk. This adds to supply constraints.
29. When a buyer fails to complete the purchase, a seller is exposed to:
- Loss on sale price if the market has fallen;
 - Additional legal expenses associated with the resale;
 - holding costs (including interest on debt, greater levels of land tax and local council rates, and higher insurance premiums);
 - marketing and agent commissions; and
 - costs of enforcement against a defaulting buyer or in claiming a disputed deposit.
30. Standard contracts for building a house often share settlement risk more equitably, with the purchaser paying a portion of the total cost at 'slab, frame, lock up and finish'. The practice for apartment construction is a carry-over from when apartment development was a "cottage" industry and additional protections were built in for consumers. Other markets, such as Singapore or China, require purchasers to pay their commitments during construction on a cost to complete basis.
31. To ensure the sustainability of the supply chain, and to protect the industry against a downturn in Melbourne or Sydney, consumers should carry more of the risk. This is likely to lead to increased funding availability, reduced funding costs and earlier funding of projects.

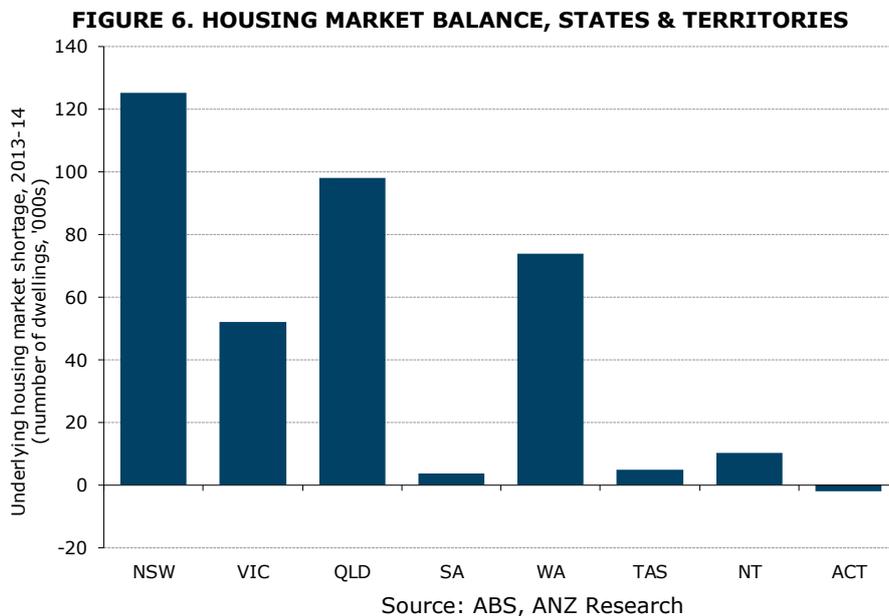
D. ANZ VIEW OF HOUSING MARKET

Current state of the market

32. Capital city dwelling values have risen by 9.0% for the 12 months to May 2015 (house prices up 9.5%, apartments up 5.4%) and have averaged 5.0% for the past 10 years. In recent months house price growth has accelerated, whilst apartment price growth has

slowed. In annualised terms, house prices have increased 11.9% in the past three months while apartment prices have eased 4.7% lower.

33. Housing lending grew 18.7% in the 12 months to April, or 14.6% excluding owner-occupier refinance activity. The owner occupier segment grew by 15.6% over 12 months, or 6.3% excluding refinance.⁶ Growth was stronger in the housing investor segment, with system growth of 23.6% over the 12 months to April.⁷
34. The housing sector continues to see considerable activity and new investment, and is performing more strongly than much of the rest of the Australian economy. Housing price rises, especially in Sydney and Melbourne where foreign investment in residential real estate is greatest, are attributable to a combination of factors: underlying demand for housing, positive market sentiment, and the construction industry responding to these conditions. Outside Sydney and Melbourne, housing sales, prices and construction are more subdued. The housing market in these regions reflects the flat economic conditions and does not benefit from strong investor demand.
35. The outlook for residential building activity continues to be positive, particularly for new housing construction in the major capital cities. New dwelling approvals are at an all-time high supported by higher prices, low interest rates and strong housing sales. As outlined above, we forecast 200,000-210,000 dwellings to be added to the total dwelling stock in 2015 (estimated to be around 9.5 million dwellings) and around \$8 billion (or 0.5ppts) to Australian GDP.
36. However, this will only keep pace with the number of houses needed each year to take account of population growth and demographic changes. It does not account for the pent-up shortage of 370,000 dwellings across Australia (see Figure 6), reflecting 10 years of underbuilding relative to underlying demand.

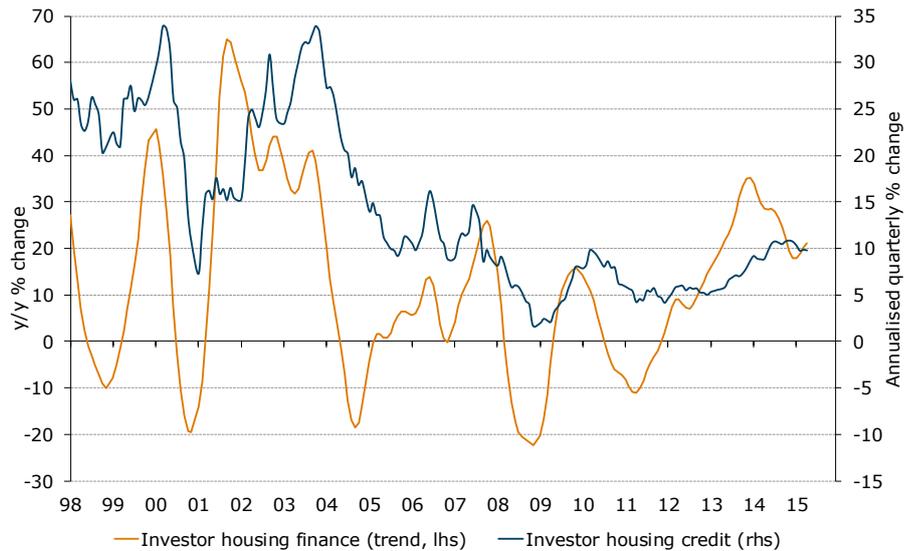


⁶ ABS, Cat. No. 5609.0, Housing finance, Table 11.

⁷ ANZ is currently reviewing reporting of housing data in consultation with the APRA, ABS and the RBA with the aim of improving the classification of different types of lending.

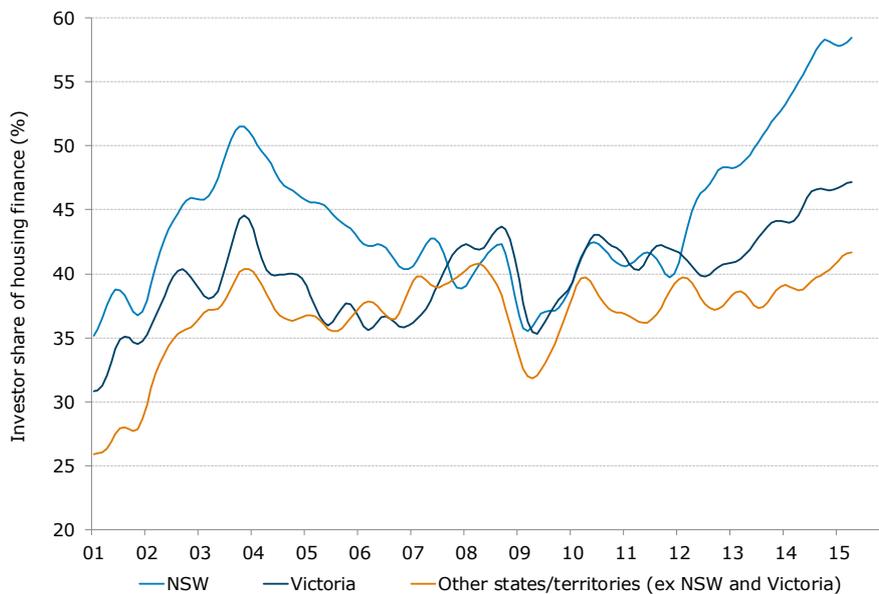
- 37. In the absence of an unexpected sharp economic downturn, ANZ remains optimistic about the housing market outlook. Supply continues to be tight relative to demand and an extended period of low interest rates is expected.
- 38. Regulators are currently focussed on not increasing leverage in the system. Figure 8 shows that outside Melbourne and Sydney, investment activity as a share of total lending remains around 40-42%. Appropriate consideration should also be given to the wealth creating effects of home ownership and the benefits these bring to the domestic economy.

FIGURE 7. NEW INVESTOR MORTGAGE LENDING VS OUSTANDING INVESTOR CREDIT



Source: ABS, ANZ Research

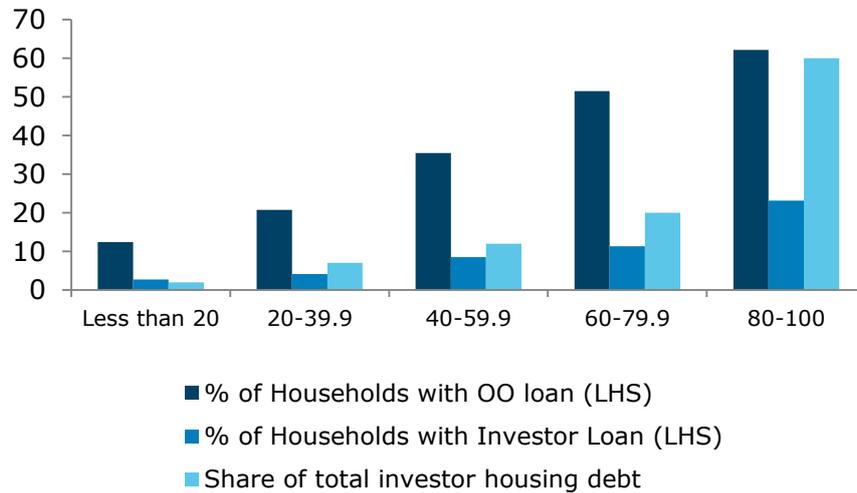
FIGURE 8. INVESTOR SHARE OF TOTAL NEW MORTGAGE LENDING



Source: ABS, ANZ Research

39. Increased debt is mostly taken on by those who are in the strongest position to service it providing stability for aggregate household debt. Figure 9 shows that 80% of investor housing debt is held by the top 40% (the top two quintiles) of income earners. The bottom two quintiles account for less than 10% of this debt. This distribution has remained relatively stable.⁸

FIGURE 9. HOUSEHOLD DEBT AND DISTRIBUTION BY INCOME



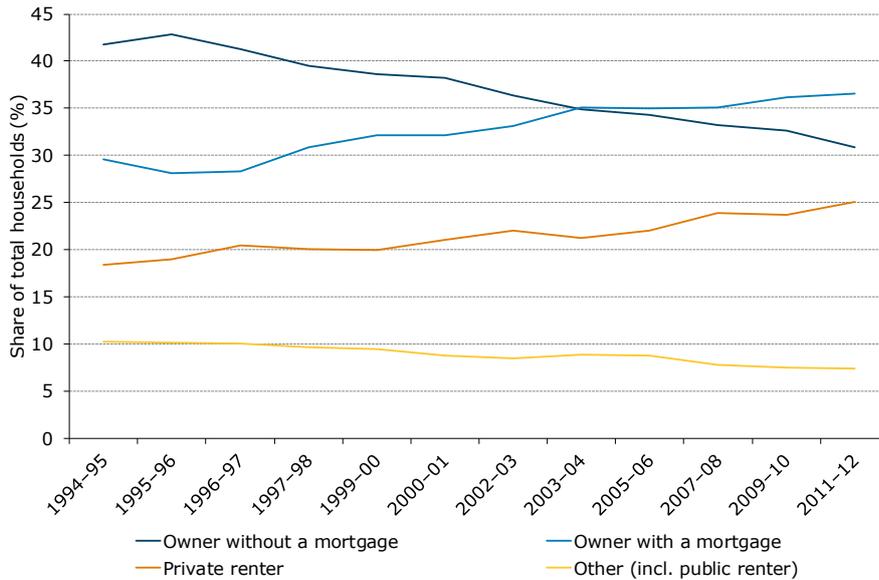
Source: RBA

Data on home ownership

40. ABS data on housing occupancy for 2011-12 shows that of the 8,630,400 households in Australia at that time, 30.9% of all dwellings were owned outright, 36.6% were owned with a mortgage, 25.1% were rented privately and the remaining 7.4% were either renters through the public system or had another tenure arrangement. Figure 10 shows the long term decline in the number of home owners without a mortgage.
41. In recent years, investors have been increasingly attracted to residential property as an asset class due to solid long-term risk-adjusted returns (including low downside volatility), the low cost of borrowing, and solid underlying market fundamentals. Figure 11 shows that investor lending now accounts for 50% of total housing finance, slightly higher than peak in 2003-04.
42. Since 2011-12, a larger share of new mortgage lending commitments have been issued to the investor segment, particularly in the Sydney housing market where the share of new mortgage lending in NSW was 58% in March 2015 (compared to 44% across the rest of Australia). Given this trend in recent years we expect low mortgage rates and strong investor sales to continue to drive current trends in the composition of household tenure in coming years.

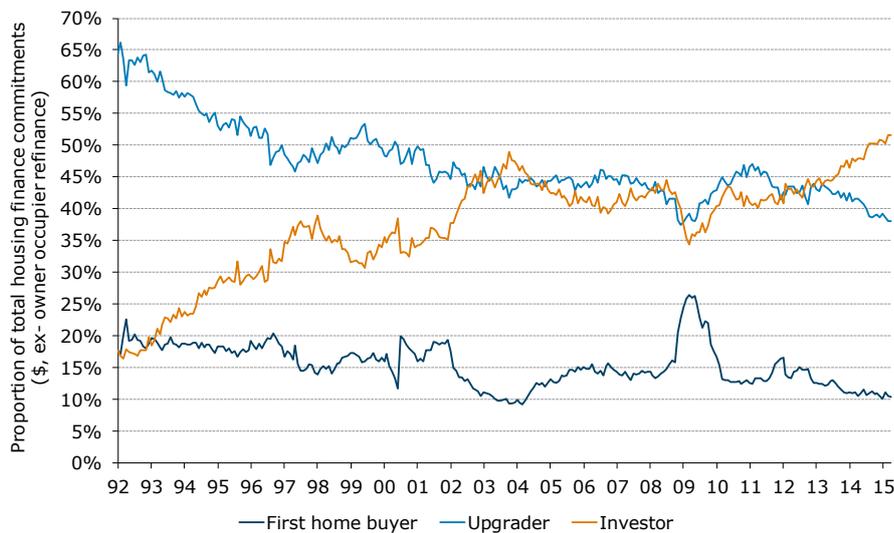
⁸ RBA, 2012, 'The distribution of household wealth in Australia', March Quarter Bulletin.

FIGURE 10. HOUSEHOLDS BY TENURE



Source: ABS, ANZ Research

FIGURE 11. HOUSING FINANCE BY BUYER SEGMENT



Source: ABS, Residex, ANZ Research

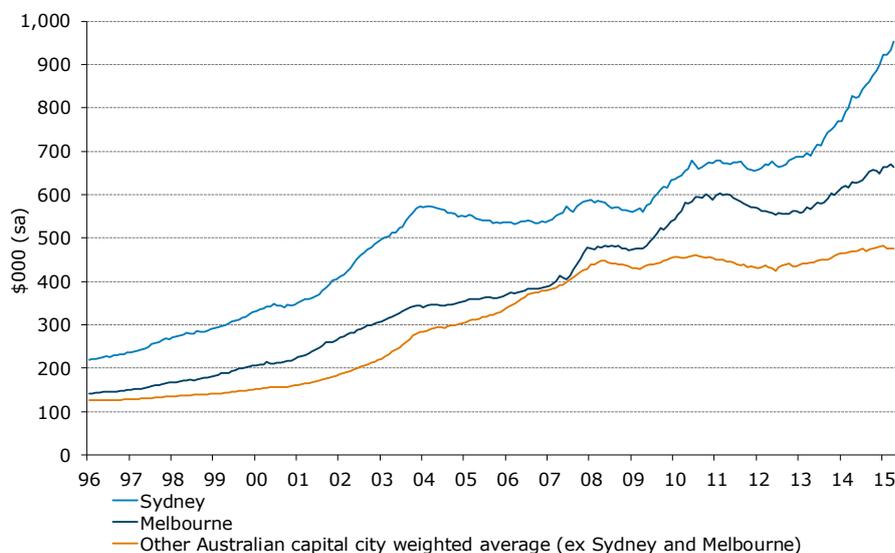
44. Foreign investor demand for Australian housing has also increased sharply in recent years. The Foreign Investment Review Board (FIRB) approved a record AUD34.7 billion of foreign investment in Australian housing in 2013-14, up from AUD17.2 billion in 2012-13. Note that this data is for FIRB approvals, not actual sales (investors can be granted approval to purchase property without a committed property sale). We estimate that 'realised' foreign investment added around AUD12-18 billion to dwelling investment in 2013-14, and contributed to the increased supply of housing available for rent.

Housing affordability

45. The focus on this inquiry is home ownership, however the concept is linked to the issue of housing affordability. The cost and availability of housing and household income influence choices in home ownership. Australian house prices are fundamentally a function of housing supply and demand. This is particularly true in Sydney, Melbourne and Brisbane where demand pressures on the existing housing stock are most

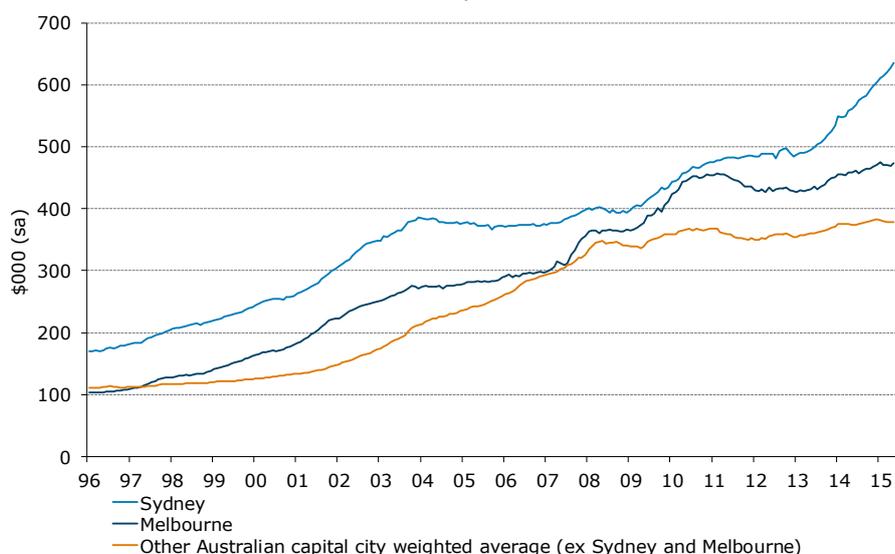
significant. Median house and apartment price growth in capital cities over the last 20 years is shown in Figures 12 and 13.

FIGURE 12. HOUSE PRICES, AUSTRALIAN CAPITAL CITIES



Source: ABS, Residex, ANZ Research

FIGURE 13. APARTMENT PRICES, AUSTRALIAN CAPITAL CITIES



Source: ABS, Residex, ANZ Research

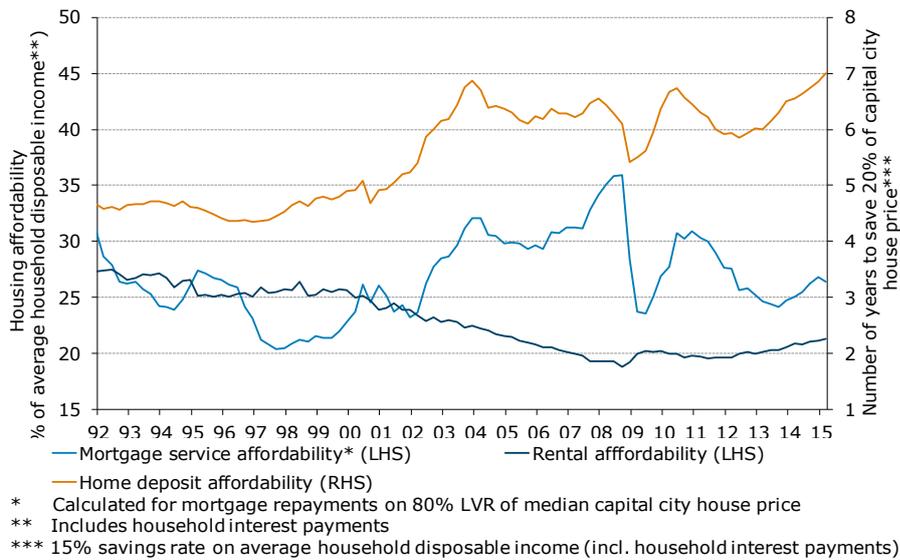
46. RBA research of the price of housing has suggested that "if real house prices grow at their historical average pace, then owning a home is about as expensive as renting. If prices grow more slowly...the average home buyer would be financially better off renting."⁹
47. In addition to long-run house prices reflecting underlying market conditions, short-term cyclical movements in house prices, housing affordability and home ownership choices will be determined by (i) household financial stability (ie household income growth and debt servicing) and (ii) households' expectations of economic conditions (ie consumer

⁹ R Fox and P Tulip (RBA), 2014, 'Is housing overvalued?', Research Discussion Paper 2014-06, July.

confidence and job security). These factors, in particular households' economic expectations, largely explain house price movements and housing affordability measures since the Global Financial Crisis.

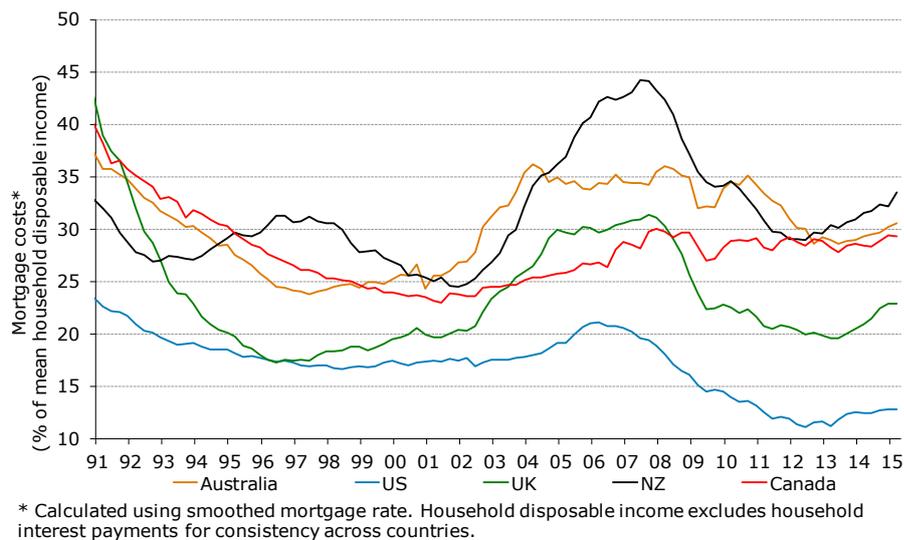
48. Figure 14 suggests that nationally, rental affordability has remained fairly stable over the past five years, though anecdotally renters can pay more than advertised prices to secure a property. Mortgage service affordability is better than for much of the last decade, though Figure 15 suggests Australian households pay more of their disposable income on mortgages than those in the United Kingdom and the United States. The US is an outlier on this measure and has a far lower share of its population in urban areas.

FIGURE 14. VARIOUS MEASURES OF HOUSING AFFORDABILITY



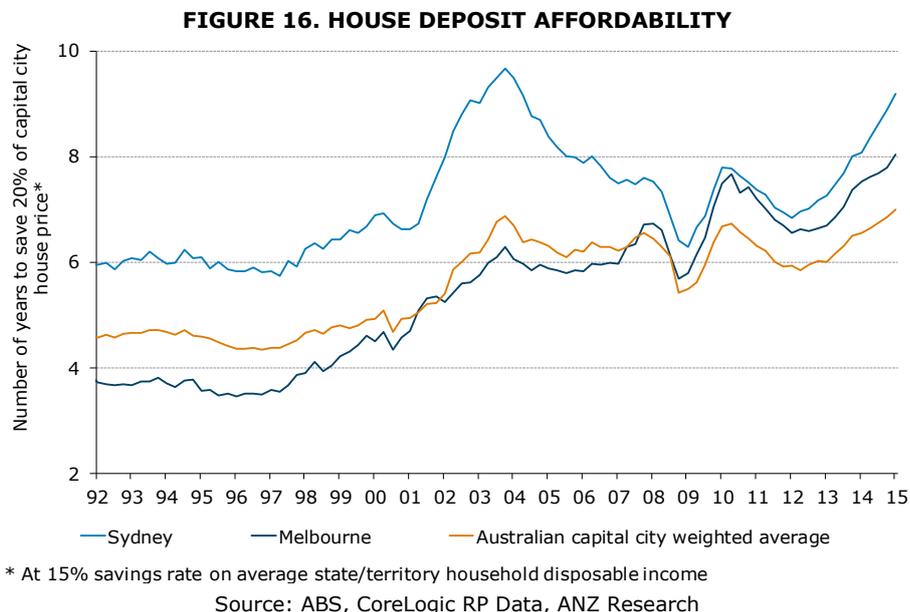
Source: ABS, CoreLogic RP Data, ANZ Research

FIGURE 15. MORTGAGE SERVICE AFFORDABILITY: INTERNATIONAL COMPARISON



Source: ABS, Case Shiller, Datastream, Nationwide, RBA, REINZ, Residex, Teranet, ANZ Research

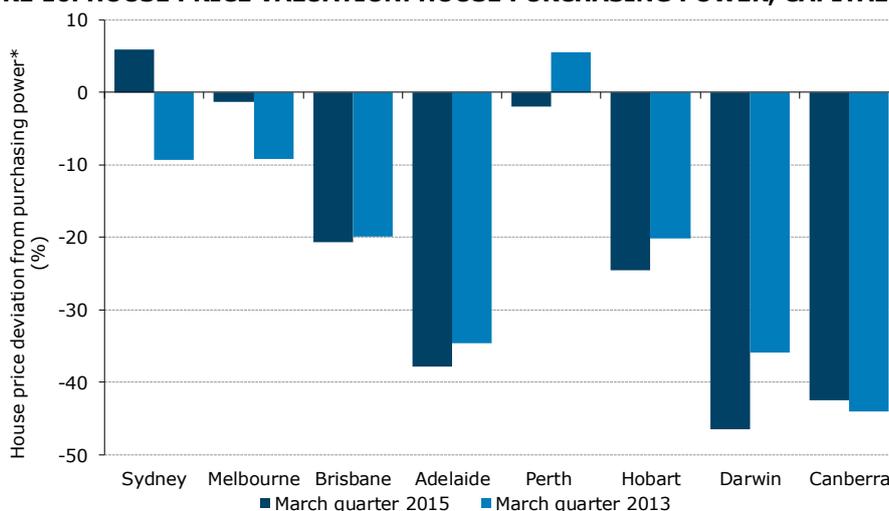
49. Home deposit affordability (shown at an aggregate level in Figures 14 and disaggregated in Figure 16) continues to decline as the number of years it takes to save a deposit increases. In Sydney, the number of years peaked in 2003-04. Sydney's affordability under this measure then improved for a period, but has now returned to levels that are close to the previous peak. Other capital cities are at or near record levels.



50. ANZ expects subdued economic conditions in coming years and a higher unemployment rate will impact consumer confidence and the financial capacity of households (ie household income growth), despite an extended period of low interest rates.
51. While this will affect owner-occupier housing sales, demand by housing investors will likely continue to more than offset slower owner-occupier housing growth. This is because of the relatively favourable (risk-adjusted) returns of residential property compared to other asset classes.
52. In a recent speech, the RBA's assistant governor, Dr Christopher Kent, noted that those close to retirement have been encouraged into investments previously considered too risky as they search for yield. This may have contributed to the surge in investor housing demand in this cycle, particularly in Sydney.¹⁰
53. In net terms and absent the policy changes and other recommendations made here, we expect increasing home prices, weak household income growth, stable interest rates and increasing underlying pressure on the existing housing stock will continue to reduce housing affordability across all measures in coming years.
54. Figure 16 shows the impact of long term growth in disposable income and mortgage rates on housing affordability. It suggests Australian capital cities except for Sydney are undervalued and may continue to increase in price. In 2013, all capital cities except Perth were undervalued based on this measure.

¹⁰ C Kent (RBA), 2015, 'Monetary policy transmission – what's known and what's changed', public lecture, 15 June.

FIGURE 16. HOUSE PRICE VALUATION: HOUSE PURCHASING POWER, CAPITAL CITIES



* Calculated using constant mortgage servicing rate on average household disposable income and structural discounted variable bank mortgage rate

Source: ABS, Residex, RBA, ANZ Research

E. HOUSING POLICY

55. Pressure on housing affordability in particular urban centres is at the core of the current debate, flowing through to rates of home ownership. ANZ believes the policy response should focus on these markets. For example, priority should be placed on improving long term delivery of transport and development infrastructure, making land available, and speeding up development processes.
56. There appears to be broad agreement on key elements of housing policy, including the importance of long term planning. Other widely acknowledged policy goals are:
 - Promotion of a diverse range of housing to meet different consumer and community needs;
 - Primacy of the market in meeting housing need, supported by targeted government programs addressing areas of need;
 - The continuing importance of home ownership for Australian families, noting that a diversity of housing is needed;
 - The importance of a growing and stable housing sector to the economy.
57. There is acknowledgement that responsibility for this long term planning primarily sits with the States. As the Council of Australian Governments' Housing Supply and Affordability Report¹¹ sets out:
 - The Commonwealth has responsibility for policies related to taxation, population, investments, banking and financial sectors, competition policy, national infrastructure funding and specific housing programs;
 - State governments have responsibility for State taxes affecting housing, State level infrastructure, planning and building policy and regulation, development policies and infrastructure levies, and delivery of State housing programs;

¹¹ Council of Australian Governments, Housing Supply and Affordability Report, July 2012.

- Local governments have responsibility for local planning and building policy and regulation and approvals, and local infrastructure development.
58. The pressures on home ownership and affordability are particularly acute in key urban centres. In these areas, housing with ready access to public and private transport has not kept pace with economic and population growth. As the RBA has indicated, given demographic and economic growth, it is unsurprising that housing prices in sought after locations have risen. In housing markets outside the fast growing urban centres, there is little evidence of falling affordability.
59. Long term planning for housing and infrastructure development is complicated by uncertainty of demand and the need to plan beyond the electoral cycle. Finding an appropriate balance between the roles of government and the private sector can assist with managing demand uncertainty and responding to changes in consumer needs. For example, further associating property development rights with infrastructure investment might be appropriate.
60. Alternatives to improving long term development of infrastructure and housing present other challenges. Limiting demand, for example, by changing population growth or foreign investment policies would have an economic cost. Major changes to legislation or the roles of government may increase uncertainty without addressing core demand and supply mismatches.
61. An important element of the apparent policy consensus is that highly interventionist housing policies are not supported. There is no official support for the use of non-traditional mortgages or looser banking standards, explicit government policy to increase home ownership rapidly, or the assumption of housing financing risk by government. As is widely recognised, such policies contributed significantly to the depth and severity of the Global Financial Crisis.¹²

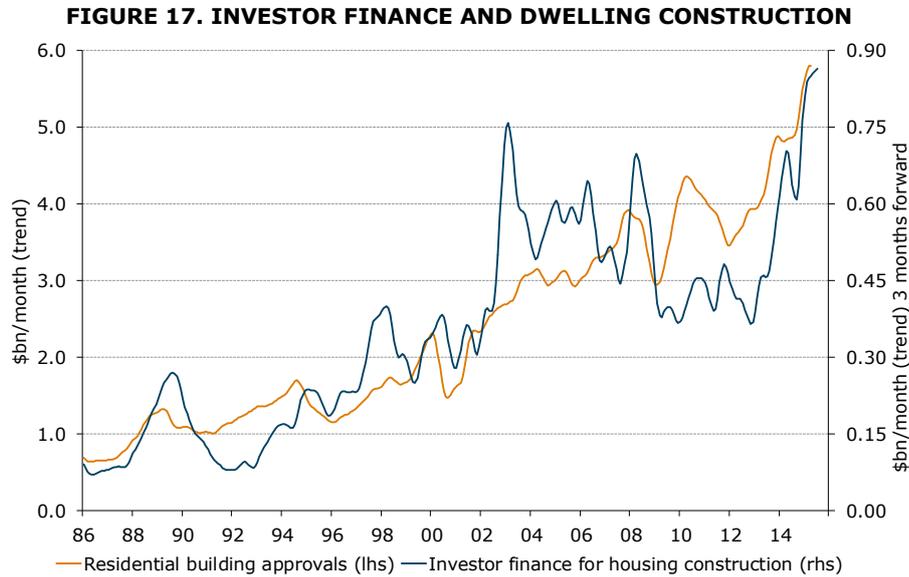
F. TAX POLICY

62. Discussion of capital gains and negative gearing usually arises in the context of property investment. In ANZ's view, investment in property is an important means of ensuring an adequate supply of rental and commercial property. In relation to negative gearing, ANZ notes the analysis in the Treasury's tax discussion paper, *Re:think* that any tax advantage for individuals investing in property does not come from borrowing but arises from taxation of the capital gain earned from the asset.
63. *Re:think* also notes that the tax treatment of investment properties is the same as it is for investment in any asset that produces a mix of current income and capital gain. This is appropriate. Singling out particular asset classes for additional tax would run contrary to the principles of neutrality and efficiency.
64. Recent price increases in Sydney and Melbourne have led to suggestions that this is driven by tax treatment of investment. This seems a contentious conclusion given the wide variation in price changes across Australia. Increasing prices in Sydney and Melbourne are most likely to stem from the attractiveness of, and development

¹² The Financial Crisis Inquiry Commission, 2011, Final Report of the National Commission on the Causes of the Financial and Economic Crisis In The United States, Stanford Law School.

bottlenecks in, those markets. Increased housing supply and appropriate development policies are likely to ameliorate price rises over time.

65. Figure 17 shows that investors (and negative gearing) do add to new housing supply and ease pressure on housing stock.



Source: ABS, ANZ Research

66. Stamp duties are widely recognised as economically inefficient taxes. They are inefficient because they raise the cost of consumer and business transactions. There is also considerable variation between States raising costs for businesses and consumers. The removal of these types of taxes should be a priority given the potential net benefits from reform. A broad-based land tax has been canvassed as an alternative approach. Any review of these issues should not be done in isolation but should be part of a review of the whole tax system.