DICK SMITH FAIR GO

THE AUSSIE HOUSING AFFORDABILITY CRISIS: AN HONEST DEBATE

dicksmithfairgo.com

Dear reader,

It would be fair to expect that as our society moves ahead that it becomes better off.

That is, things become more affordable and easier to purchase.

It's obvious that cars, TV sets, and travel are more affordable now than they've ever been. However, there is one standout where things are reversed – housing affordability.

Something has definitely gone wrong here and it's creating lasting economic and social divisions in Australia.

Pip and I were able to buy a house in Sydney for $32,000 in the 1970s.

Because it was a reasonable price relative to our incomes at the time, we were able to put more money into expanding Dick Smith Electronics, and employ lots of people.

If we tried to do the same thing today, virtually all of our money would have to go into paying off our house; the business may never have been started.

Think about all the Australian entrepreneurs that we may never hear of because this housing crisis is holding them back. What a tragedy for our country.

The housing affordability crisis is an issue that currently dominates our public debate – and for good reason. Shelter is a basic need, and our housing sector is of central importance to both the financial welfare of individual Australians, and the robustness of our whole economy. Sadly, though, it's a debate that is weighed down on all sides by misinformation, vested interests, political timidity, and ideological blinkers.

I have nothing to gain or lose from the housing affordability crisis – I sold Dick Smith Electronics in the 1980s, and I don't own any property that I've leased to someone else to live in.

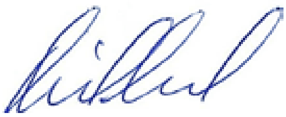
I'm not scared to say what the economists, the politicians, and the media won't tell you. I just want Australians to hear the full story from someone they can trust.

In these pages, I will show how Australia has shifted from viewing homes as a place for a family to live in with security, to seeing it as a tax-advantaged investment opportunity, how this has caused home ownership to become up to eight times less affordable that it was in the past, and why this has negative implications for the whole of Australia.

I will show how a dramatically increasing population, a tax regime that unfairly subsidises the wealthy, and overseas investors are the key drivers of this crisis.

I will also canvas what we could do to fix it all if we really wanted to, and put the spotlight on those vested interests that will try to get in the way of any government taking the meaningful action we need to give young Australians a Fair Go.

An informed people is the first step to making change, so I hope that you find this useful in understanding a complex and serious issue for our country.



DICK SMITH

CONTENTS

"We cannot persist with this position we are in where our children cannot afford to house themselves."

Paul Keating, former Prime Minister of Australia

"It's a cruel reality that sees the housing market pulling away just when you thought you had it in reach. It's like a more horrific version of the practical joke that saw your teenage friend inch the car away from you each time you tried to climb inside – it's funny for the people inside the car, but it gets increasingly more frustrating for those left out of the joke and out of the car. And those in the car would like it to stay that way."

Kerrie Armstrong, *'Think of the children – why the housing market has to change',* **SBS, 16 February 2016**

"Every year the cost of renting is increasing so much that how are you ever going to have a deposit? I can't imagine how the average Australian can do it."

Anthony Ziebell, founder of Don't Rent Me

1. AUSTRALIA'S HOUSING AFFORDABILITY CRISIS

HOUSE PRICES HAVE EXPLODED, INCOMES HAVE STAGNATED

Australian houses were once affordable. Now they are among the most expensive in the world.

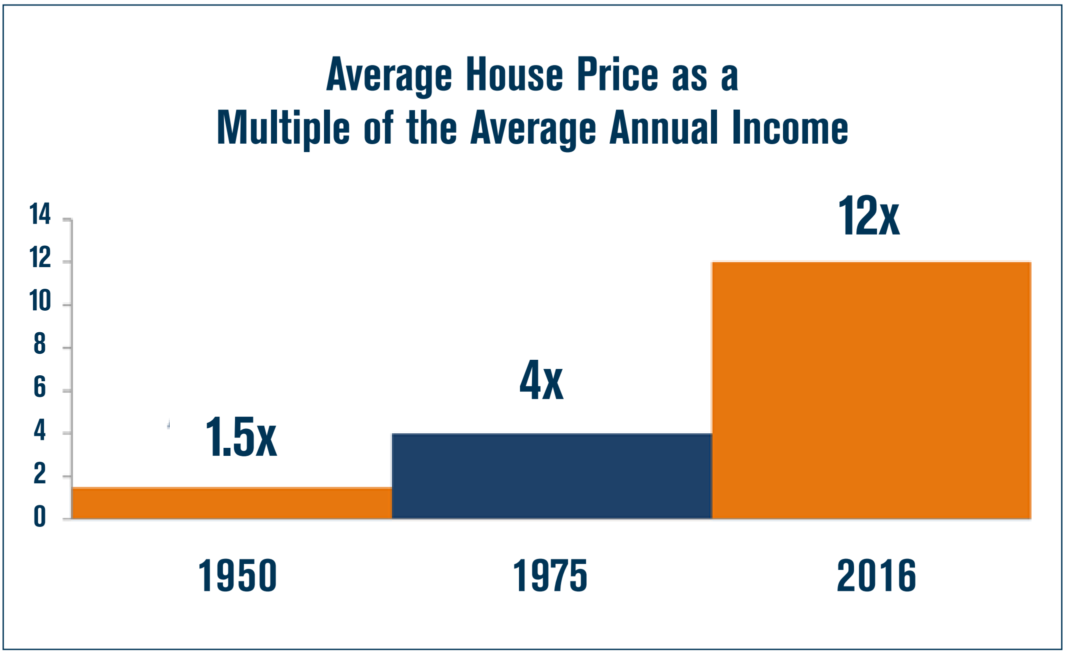
According to the Demographia Housing Affordability survey, Sydney's house prices are second only to Hong Kong's. London is more affordable than Melbourne! Even Adelaide, Brisbane, and Perth are in the top 20 most expensive cities in the world.

Between 1975 and 2016, the average house price in Australia, after adjusting for inflation, has increased a staggering 333%, while the average wage has increased only 40%.[1]

This chart shows that when my parents bought their first home in 1950s Sydney, the average price was 1.5 times the average annual income.

It is now over 12 times the average annual income. This has delivered a staggering amount of easy wealth to those fortunate enough to already be on the home ownership bandwagon at the start of this boom, but at the same time it has pushed house prices well beyond the reach of the typical Australian.

[1] *Calculated using the McCrindle Blog (http://Mccrindle-blog/40-years-of-change-1975-to-today), Australian Bureau of Statistics and the Reserve Bank Inflation Calculator.*



My dad was a salesman and my mother was a housewife. They built this house in the northern Sydney suburbs in the 1950s and were easily able to pay it off.

DEPOSITS ARE OUT OF REACH

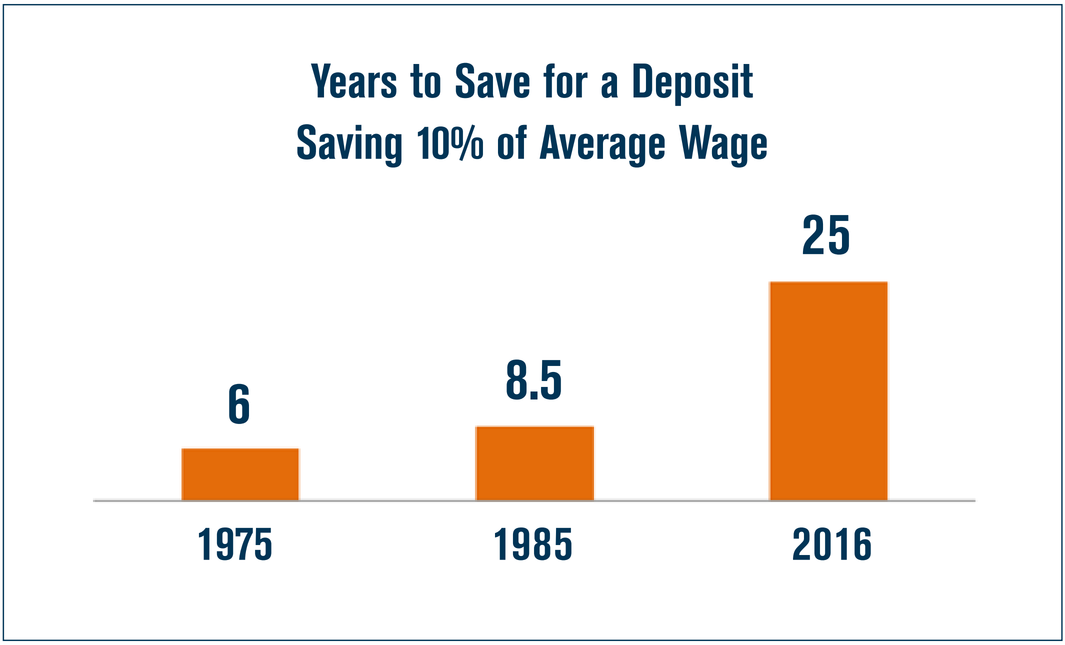
Since the 1970s, prospective borrowers looking to buy a home have needed to come to the table with a deposit.

Typically, banks require 20% of the total price of the property. But, as the previous page showed, prices have now risen to levels that bear no real relationship to people's incomes.

In the 1970s, an aspiring homeowner with an average income could save 10% of their earnings and have a 20% deposit within about six years.

Fast forward to 2016. That same 10% savings regime that worked in the 1970s would see the average Australian scrimping for a crushing 25 years to save a deposit for the average house in Sydney.

That's before they even make their first payment on the home loan itself.


Years to Save for a Deposit
Saving 10% of Average Wage
6
8.5
25
1975
1985
2016


Frank Keany
@FJKeany
Follow
Forgoing a $20 smashed avocado meal a week will save $1040 a year. A 20% deposit for a home in Sydney is ~$200,000 (@ median house price)
12:10 PM - 16 Oct 2016
103
169

HOME OWNERSHIP IS DECLINING

These changes have had a big effect.

In the years since this housing price boom was unleashed, many Australians have found it impossible to enter the housing market.

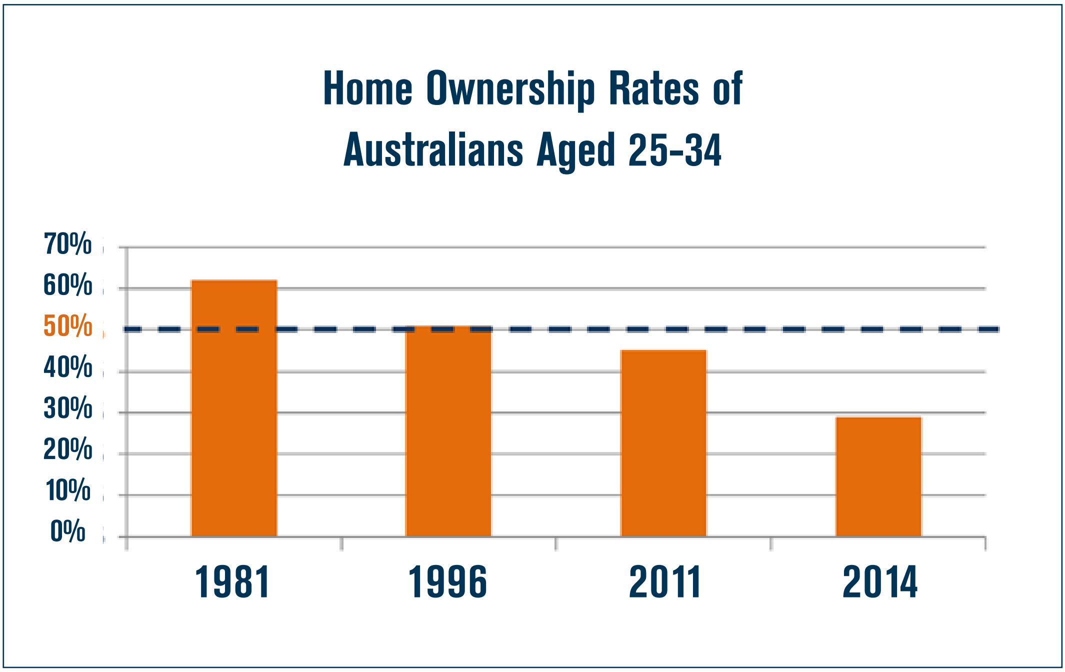
The following graph shows that in the 1980s, more than 60% of Australians between the ages of 25 and 34 owned their own home.[2]

By 2014, this proportion had collapsed to less than 30%.[3]

While young people have always had lower ownership rates, similar declines in the ownership rates of middle-aged groups show that young people are no longer catching up over time.

[2] *Gratten Institute, Renovating Housing Policy, Oct 2013, pg. 10.*

[3] *Household, Income and Labour Dynamics in Australia (HILDA) survey released by the Melbourne Institute.*


Home Ownership Rates of
Australians Aged 25-34
70%
60%
50%
40%
30%
20%
10%
0%
1981
1996
2011
2014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HOME LOAN REPAYMENTS ARE UNAFFORDABLE

Our housing crisis isn't just about the people who can't afford to buy a house.

Those lucky ones who do manage to get on the housing ladder are now buckling under the weight of the tremendous debt they've taken on.

The new norm across Australia is that people pay more than 30% of their disposable income on their home loan repayments.

This 30% mark is the point that experts consider to be a state of 'housing stress', where people have to forego other essentials, like food and health expenses, in order to meet their housing costs.

It is at its worst in Sydney, where home loan repayments are sucking up nearly half of the average Sydneysider's income (44.5%).[4]

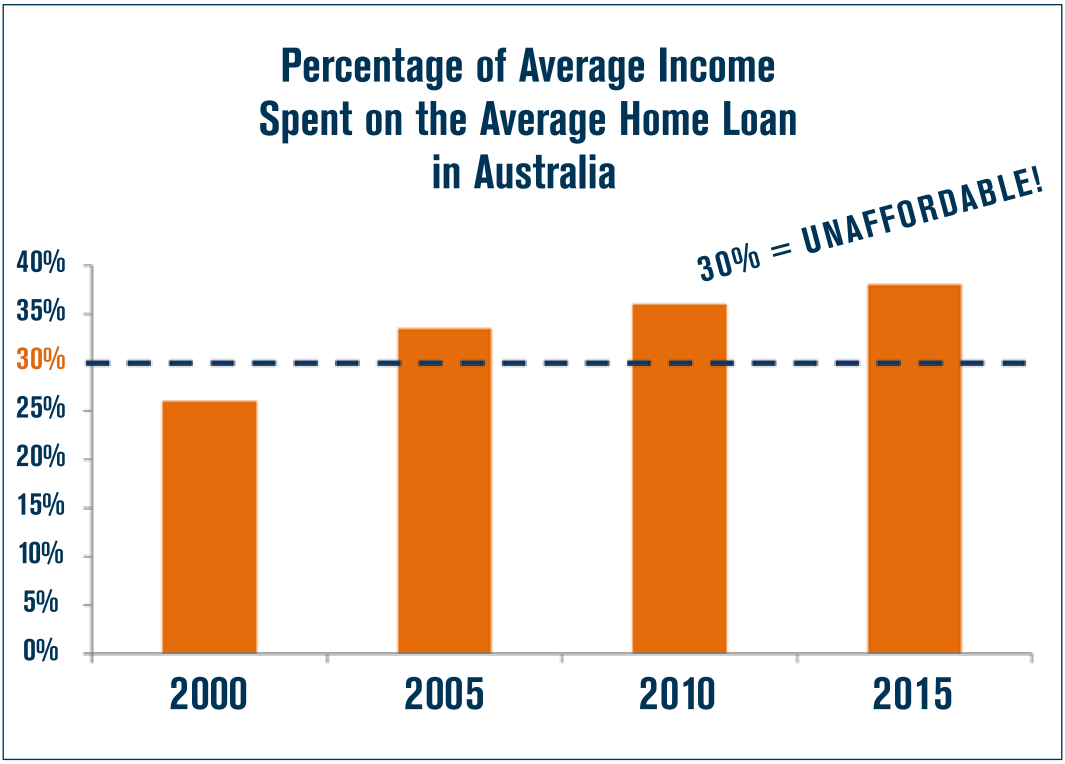
Renting presents a similar picture. Rent in Sydney now claims up to 37.9% of income too.[5]

It's not surprising then that renters are finding it very difficult to save for a home deposit, when the cost of their rent burns up every spare dollar that they may otherwise have been able to put aside.

But the cost of home loan repayments is no longer something that most young Australians worry about. After all, the majority will never be able to stump up a deposit in the first place.

[4] *http://www.news.com.au/national/nsw-act/housingaffordability-is-in-dire-straits/newsstory/118c7adcbabc6e47676943f81a3d0ed3*

[5] *http://thenewdaily.com.au/money/property/2016/02/17/rental-affordability/*


Percentage of Average Income
Spent on the Average Home Loan
in Australia
30% = UNAFFORDABLE!
40%
35%
30%
25%
20%
15%
10%
5%
0%
2000
2005
2010
2015

PEOPLE CAN'T LIVE NEAR JOBS

In 95% of Sydney suburbs, the average home loan would push someone with the equivalent income of a nurse past the 30% point of housing stress.

To live in the remaining 29 (5%) suburbs usually means living on the outskirts of Sydney, spending two, three or more hours a day on gridlocked roads or public transport. Even then, the purchase prices and deposits in the outskirts are not cheap. [6]

Small homes on pocket-handkerchief blocks can still fetch over $600,000, which brings us back to the need to save up a substantial deposit. When we're forcing essential workers such as nurses, teachers, and police officers to live so far away from where we rely on them to do their important work, we know the system is broken.

[6] *https://www.domain.com.au/news/where-sydneys-essential-workers-can-afford-to-live-20150610-ghk8sg/*

"People wonder why their youngsters can't get housing in the big cities. And the answer is that we're going for break-neck population growth and it's all about the supply and demand."

Bob Carr, former Premier of NSW, former Foreign Minister

"… Another factor that is important when considering house price movements is the extent of international immigration. […] Adding more than half to the population on top of natural increase by bringing in new immigrants is a highway to higher house prices without even mentioning the congestion costs and extra demand on public infrastructure."

Judith Sloan, Economics Editor, The Australian

"We should not be content to live in a society where it's easy for one person to reduce their contribution to schools, hospitals and other critical government services – through generous tax exemptions and the owning of multiple properties – while a generation of working Australians finds it increasingly difficult to buy one property to call home."

Rob Stokes, NSW Planning Minister

"The median house price in Tokyo-Yokohama is 32 million yen ($379,000) whereas average household income is seven million yen ($81,000), which delivers a housing multiple of 4.7. How it is that Tokyo can deliver housing affordability but Sydney cannot? It's a simple but fair question that the Australian people have a right to ask."

Bernard Salt, KPMG partner and adjunct professor at Curtin University Business School, The Australian, February 2nd, 2017

2. CAUSES OF THE HOUSING AFFORDABILITY CRISIS

CAUSE: THE POPULATION PRESSURE COOKER

There are many factors contributing to Australia's housing affordability crisis – and I will cover the ones that readers may be more familiar with in the coming pages.

But first, I've decided to put the issue of population growth front and centre.

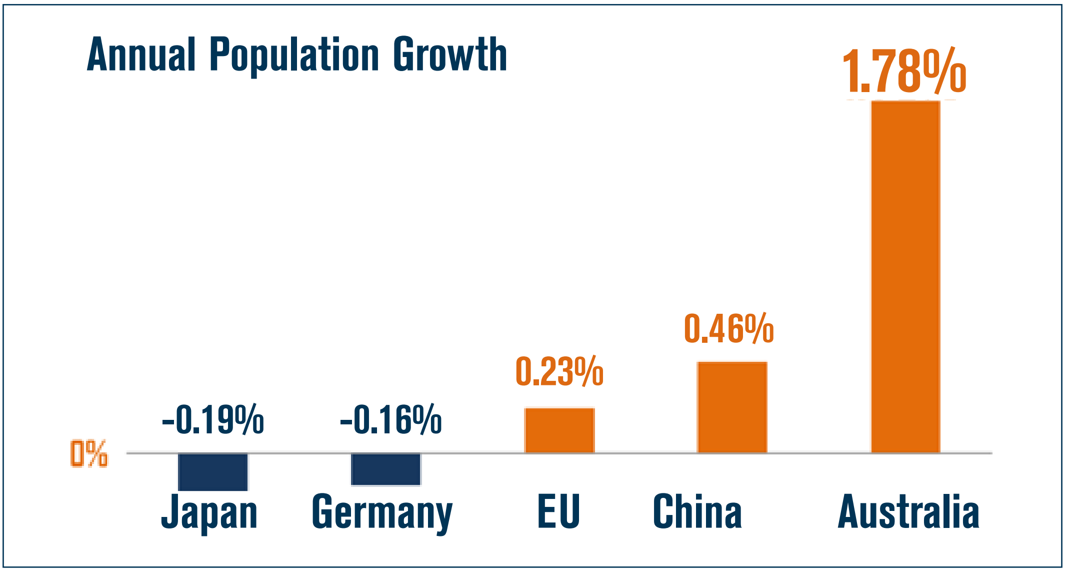
I'm doing so because, when you consider the scale of its impact on the problem, population growth gets very little scrutiny or debate relative to the other causes involved.

In fact, it is rarely acknowledged at all. So let me say it up front: Australia's immigration-fuelled population growth is a major cause of our country's housing affordability crisis.

Australia's Population Growth

Most of Australia's population growth comes from immigration – over 190,000 each year. Believe it or not, Australia's population growth rate is one of the highest in the developed world.

All these new Australians, almost 4000 each week, need to live somewhere – and they pile overwhelmingly into Sydney and Melbourne. It's plain common sense that this causes increased demand for land and housing.



Supply and Demand

The government, the banks, and many economists peddle the disingenuous misdirection that it's just a lack of supply that's to blame. It usually sounds something like this:

"Overwhelmingly, the single greatest contributor to the housing affordability issue is land supply, is a lack of land in the right places, is zoning restrictions that make it difficult to develop, is red tape that makes it difficult for housing estates. And also, importantly, having infrastructure, like transport, in the right places. ... Those things together probably make the greatest contribution."

Mitch Fifield – *Q&A*

When the role of demand does occasionally get an airing, like the time I stirred the pot by pointing out that Pauline Hanson's One Nation was the only political party to have a policy on Australia's population growth, many of the Twitterati breathlessly babble that "Immigrants can't all be on welfare and competing with Australian first-home buyers at the same time!"

It's true that immigrants are often unfairly scapegoated for many of society's problems, and that should always be called out for what it is.

But in this case we need to remember, as the Housing Industry Association's chief economist, Simon Tennant said, that for the most part "Australia shamelessly cherry-picks the most highly skilled migrants on offer, providing a wealth of skills and experience".

That means that most of Australia's immigrants can indeed step off the plane and very likely compete with Australian first-home buyers straight away.

Just like anything else, land and house prices depend on both supply and demand – and Australia's housing supply clearly has difficulty keeping up with our break-neck population growth.

This is not surprising considering housing supply adjusts slowly to increased demand (with the many steps and constraints involved in building new housing stock) while we have the equivalent of five wide-bodied jet-loads of immigrants coming in every week.

But many economists, and politicians like Mitch Fifield, talk as if the 'supply' of land for housing was the only thing that we could change, whereas the demand caused by immigration-fuelled rapid population growth was beyond our control.

If anything, the reverse is closer to the truth. After all, in suburbs close to jobs and opportunities, the availability of land in which to build new stock is very limited. Increased demand from more and more people trapped inside a limited ring of desirable inner suburbs sends prices sky high.

The Rapid Population Growth Ultimatum: Battery Kids or Urban Sprawl

One response to all this is to go up. We can demolish our heritage buildings, and concrete over backyards and cubbyhouses to make way for ever taller and denser apartment towers. We can cram young families into termite mounds where they'll raise 'battery kids' and all have less contact with nature than the 'free-range' chooks whose wellbeing we value so much. Not even when they're at school will our kids escape the termite mound life. The NSW Government is already planning five high-rise public schools for greater Sydney. One expected to open in 2020 will be 14 stories.

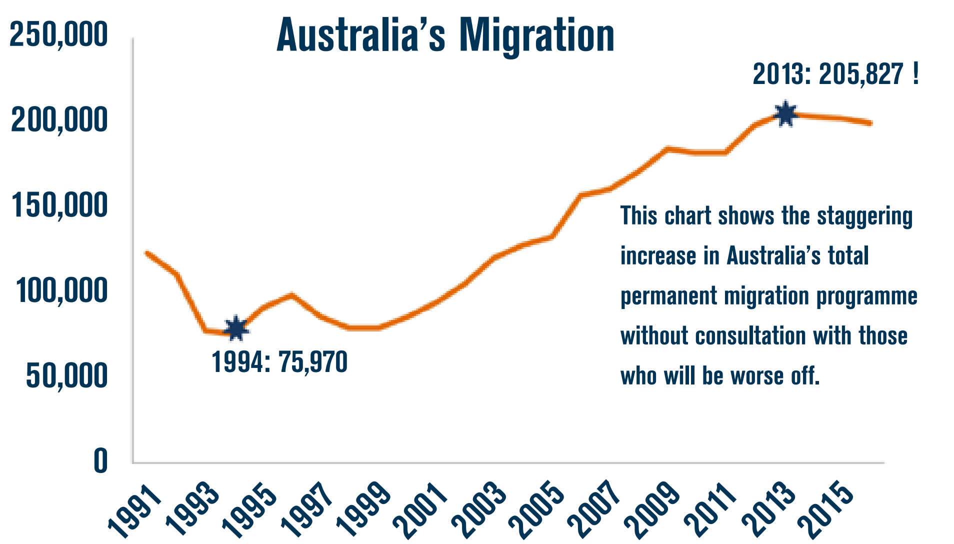
The only other housing type that doesn't face major challenges on the supply side is detached housing on the urban fringe.

But new supply on the far-flung edges is a poor substitute for housing closer to the centre, and more supply way out there actually has a very limited impact on prices closer in.

Our major cities are already struggling with urban sprawl and we can't keep on expanding outwards into the outback forever, even if we wanted to.

There are those who look at our vast land area and imagine it could be filled with people. But Australia's geography should be seen in terms of a thin coastal strip, that requires careful management and planning, bordering a vast arid interior of salty, sandy soils – a relatively low carrying capacity.

So if we want to avoid that future, and generations of battery-kids, then we need to look at our immigration-fuelled population explosion.



SOURCE: Department of Immigration

CAUSE: TAX BENEFITS –
Capital gains tax and negative gearing

After population growth, the next big driver of unaffordable housing comes from the workings of the capital gains tax (CGT) combined with negative gearing.

The Capital Gains Tax Exemption on the Family-Home

In 1985, the Hawke Labor Government, for the first time in Australia, introduced a 'capital gains tax'.

When any asset is sold, the CGT taxes the profit that is made at the same rate as the tax paid on regular income.

However, the family home was exempted from this tax.

This means that if a house is bought for $500,000 and sold for $1 million, the $500,000 profit that would usually be taxed at the same rate as the seller's other income, would be completely tax free.

Capital Gains Tax 50% Discount

While family homes that you buy to live in are totally exempt from the capital gains tax, houses bought as an investment aren't.

But in 1999, the Howard Government introduced a 50% discount on the CGT for investments, including property. It works like this:

> Say an asset (like an investment property) is sold after being held for five years, and the seller makes a $150,000 profit, the CGT discount means that this profit is taxed at 50% of their usual tax rate.
>
> So, if their annual salary is $190,000 that year, instead of paying their usual 45 cents in the dollar tax rate (the top one), they're now paying just 22.5 cents in the dollar. That is lower than the 32.5% rate that an average income earner pays – a very generous tax break indeed.

Negative Gearing

Coupled with the extraordinary tax-free capital gains advantages of buying a private residence is another desirable tax advantage for investors – it's called 'negative gearing'.

To put it simply, when the interest costs on a loan for an investment property exceed what the investor receives in rent, negative gearing allows the investor to reduce their overall taxable income by the amount of the 'loss'.

Australia has more than 2 million landlords, and more than 60% made a ‘loss’ in the 2013–14 financial year. The average loss is about $10,000. In 2013–14, the total amount of claimed tax deductions was about $11 billion.[9]

The Combined Effect

The way that the CGT 50% discount and negative gearing interact causes the most problems for housing affordability.

If high-income investors borrow money to invest in assets that primarily generate capital gains rather than income (investment properties in particular), they can pay less income tax through negative gearing, and receive their investment returns on top of that as well.

In effect, government subsidises their investment. As an investment strategy, negative gearing makes sense if the expected capital gains exceed the rental losses over the life of the investment.

Negative gearing is mainly used for housing investments because investors in other assets, such as shares or businesses, usually do not borrow so much that their interest costs are greater than their income from the asset.

Banks are understandably reluctant to lend to businesses that do not have enough cash flow to cover interest payments.

[9] *http://www.abc.net.au/news/2016-05-10/explainer-negative-gearing/7402442/*

Example of Negative Gearing:

Let's say Mr Brown purchases a property to rent out. The rates, taxes, and interest (being the most substantive part), add up to $70,000 per year. Mr Brown then rents the property for $50,000 per year.

This gives a net loss of $20,000 per annum. Let's then say that Mr Brown's salary is $120,000 per year. Tax would normally be paid on the full $120,000 (about $34,432.00), but negative gearing allows Mr Brown to deduct the amount of the losses on his investment property from this taxable amount.

This brings Mr Brown's taxable income down to $100,000 for the year. So that's $20,000 less in taxable income, and therefore about $7400 less in revenue for our government.

Of course, the government still needs the same amount to operate, so it will have to get that amount of money from somewhere else – that would mean extra borrowing and government debt or higher taxes for everyone else.

That's what makes real estate so much more attractive for investors than other kinds of investment. It is a relatively unique case where both negative gearing and capital gains tax breaks can be used in the same investment.

This is why investors pump their vast sums of (largely borrowed) money into the housing sector, which increases prices and locks out first-home buyers who can't compete.[10]

[10] *Allowing self-managed super funds to borrow to buy housing also contributed to the high demand from investors.*

CAUSE: TURBO-CHARGED BANK LENDING

After the stock market collapse in 1987, when business took a hit and slowed down, Australian banks shifted their focus to lending for property investments.

This was turbo-charged after the Global Financial Crisis of 2007–2008 when interest rates were driven to historic lows in an attempt to spur 'economic growth' by making it very cheap for people to borrow money for investment.

The more money the banks pumped in, the higher real estate prices rose to meet the increased spending power of buyers. The higher the prices, the higher the loans. This is a business model that some would call a 'Ponzi scheme' – which are illegal in Australia. Aided and abetted by negative gearing and the 50% discount on the capital gains tax, it was very profitable for everyone who could get in on the action.

According to figures from the Bank of International Settlements, Australian households now have the second highest debt levels in the world, when measured against GDP. In 1990, household debt accounted for about 70% of disposable income. By 2016, it had risen to 189%.[11]

[11] *RBA Statistics*

Interest Rates

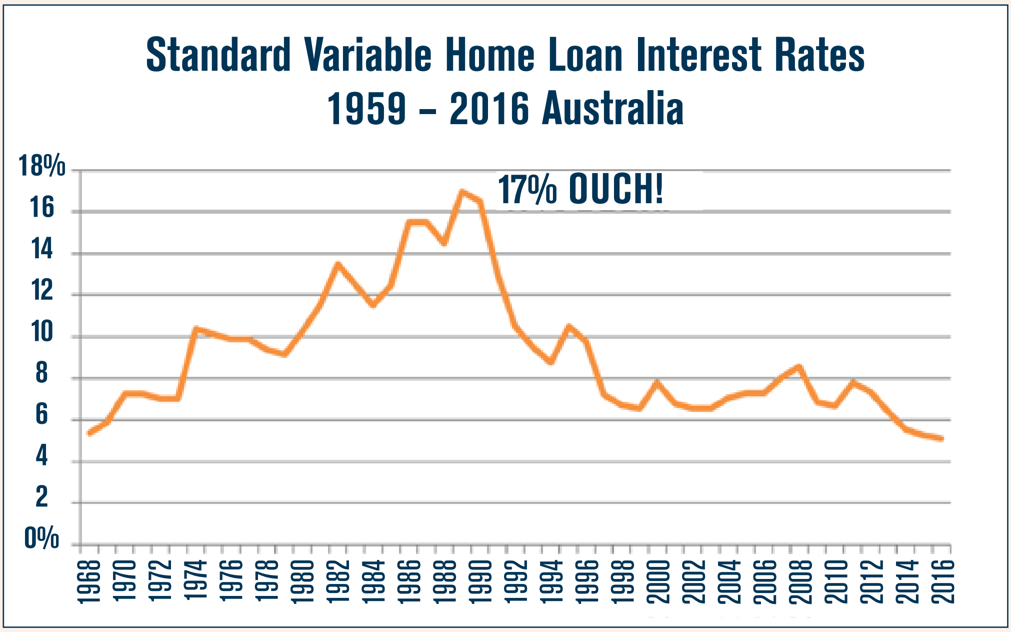
All up, Australians owe an eye-watering $1.4 trillion on their houses, and this is rising each month.

This has all been sustainable while interest rates have been at record lows.

But loans run for 25 to 30 years. Anyone who thinks rates will stay at record lows for that length of time must have their head in the sand.

Many people lost everything in the 1990s when home loan interest rates peaked at 17%, and loans for small businesses were as high as 27%. It will very likely happen again.

There are plenty of people who've bought into the frenzy, borrowed to the hilt, and given themselves little room to move in the event of a rise in interest rates. Such a rise could send enough people broke to put our banks and our economy at great risk.



CAUSE: OVERSEAS INVESTMENT AND SPECULATION

Another factor that is having a major effect on the price of housing is the influx of capital from overseas investors.

In the 1950s there was virtually no overseas investment in the Australian housing market.

Government has passed token legislation in an attempt to restrain its effect, but there are always ways of circumnavigating these laws.

As it stands, non-resident foreign investors are technically allowed to purchase new homes and apartments, off-the-plan properties and vacant land.

However, survey data consistently shows that foreign buyers account for a significant share of established home sales.

In fact, 19% of all newly constructed Australian apartments, and 14.9% of new homes are purchased by foreign buyers.[12] In many areas these properties are being left vacant.

As an example, in Melbourne 18.9% of all investor-owned housing stock is not being rented out to anyone.[13]

These investors forgo any rental income that they may gain, preferring to simply sit on their asset and watch the price rise (fuelled largely by population growth) before selling down the track and taking full advantage of our generous capital gains tax settings.

It is also possible that many of the purchases are funded by ‘black money’; that is, corrupt money from countries whose governments are attempting to crack down on corruption.

Indeed, the global anti-money laundering regulator (the Paris-based Financial Action Taskforce) found that Australian homes are a haven for laundered funds, particularly from China.

It's almost as if Australia would prefer to cooperate as a launderer of corruption than deal with the negative effects on young first-home buyers.

Why Foreigners Invest in Australia:

Foreign investors like investing in Australia because it is a safe haven outside their own country. It gives them access to higher standards and quality of living and is, in effect, a refuge for them.

It also creates a great opportunity for their own children and grandchildren to emigrate to Australia, as the parents and grandparents of today are creating a foothold in a secure and stable government and environment where the rights of individuals are put first and respected.

[12] NAB's quarterly residential property survey, October 2015.

[13] Bleby, Michael, 'Nearly 20 per cent of Melbourne's investor-owned homes empty', Domain, Dec 9 2015 www.domain.com.au/news/nearly-20-per-cent-of-melbournes-investorowned-homes-empty-20151209-glixgs

"To have an entire generation affected by a shift in the social contract of reasonable access to capital-city housing diminishes our nation's social cohesion."

Bernard Salt, KPMG

"Housing affordability is driving people into a spiral of disadvantage."

Associate Professor Rebecca Bentley, University of Melbourne School of Population and Global Health

"A 2013 report by the Grattan Institute found that $36 billion in tax concessions a year subsidised those who already own property and a further $7 billion went to investors who employed negative gearing as an investment strategy. In contrast, tenants on low incomes received $3 billion a year in rental support."

Neha Kale, SBS

"… actually no, Dick, a house with a backyard isn't so much a fundamental right as it is a very specific fantasy manufactured by Western notions of entitlement and ownership."

Neha Kale, SBS

"… one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will."

Sir Robert Menzies, twice Prime Minister

3. WHY IT MATTERS

WHY IT MATTERS FOR THOSE MISSING OUT

The Great Australian Dream of home ownership is about more than just having a roof over your head.

It's about financial security and stability.

Owning a home gives a person access to so many prospects to grow their wealth.

Renting does not provide that stability and undermines financial security.

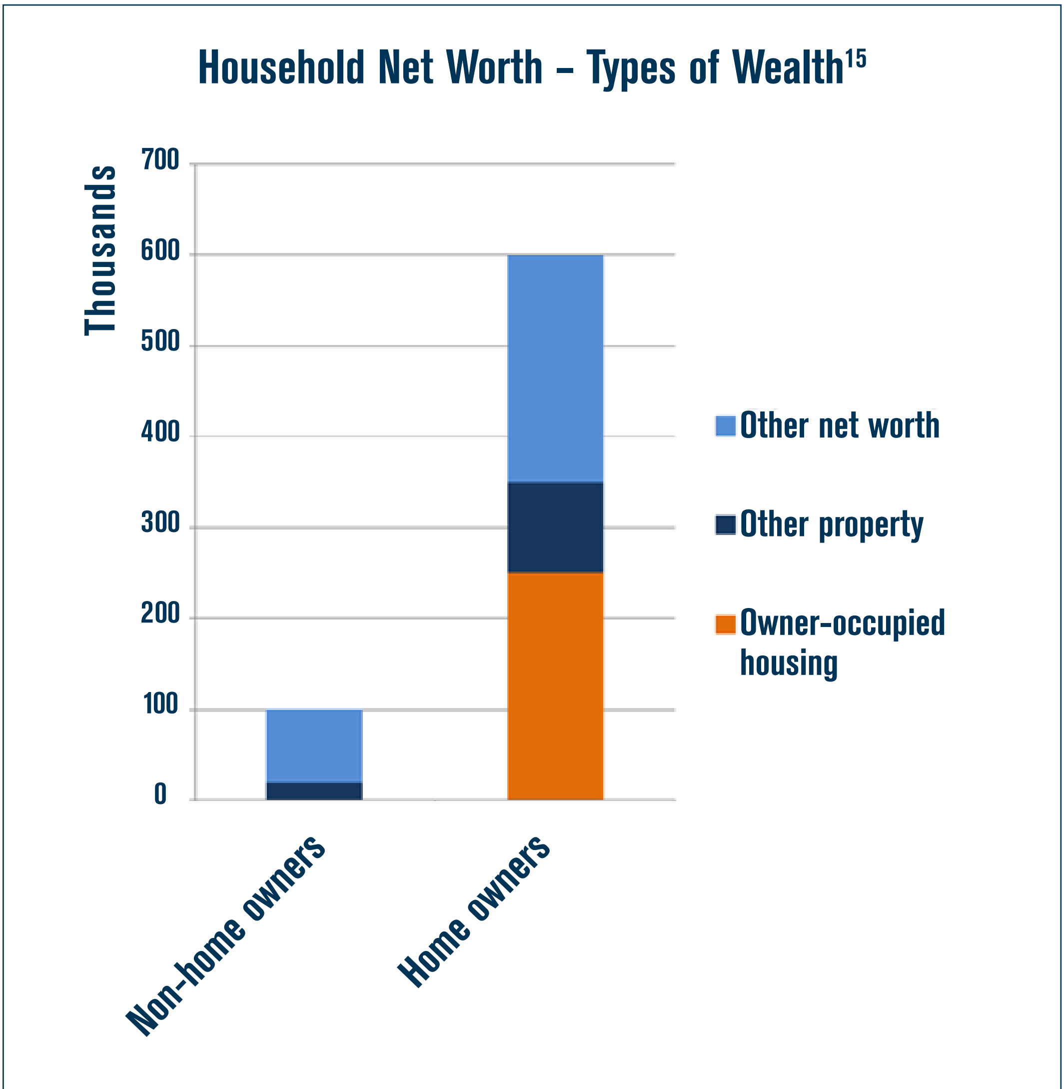
Being locked out of wealth-creating opportunities puts renters in danger of experiencing poor outcomes across the course of their life.

The chart opposite shows a clear connection between wealth derived from home ownership and total wealth. Home owners not only have greater average housing wealth, but significantly greater non-housing wealth too.

It doesn't seem fair.

And with the top 10% of income earners receiving 55% of all investment income (and 67% of all capital gains income),[14] it's making Australia a much less equitable country.

[14] Gratten Institute, 'Hot Property: Negative gearing and capital gains tax reform', John Daley and Danielle Wood, April 2016.



[15] *Affordability and access to home ownership: past, present and future? National Research Venture 3: Housing affordability for lower income Australians. Research Report No. 10, Judith Yates for the Australian Housing and Urban Research Institute, Sydney Research Centre, November 2007.*

WHY IT MATTERS FOR OUR GOVERNMENT'S BUDGET

As you can see from this chart,[16] the government provides a smorgasbord of tax breaks, advantages, and subsidies to those who already own a home.

It's clearly not fair that taxpayers shell out billions every year to help people buy their second, seventh, or 27th investment property, while aspiring home owners in Australia get no real help from the government to buy their first home.

We're paying for these lavish tax breaks for the Australians who need the least help. And we're doing it with money we don't even have.

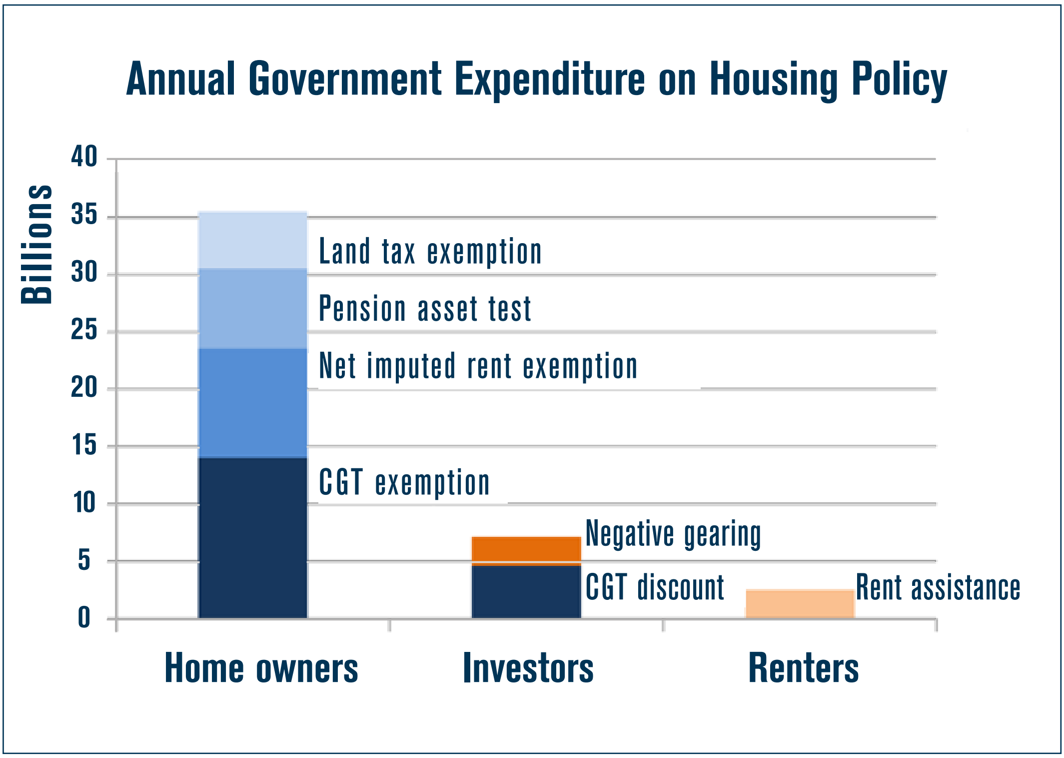
Last year, the government had to borrow $47 billion to cover its spending. That gets heaped on to the government debt pile, which is currently at $500 billion.[17]

In 2015–2016, the capital gains tax exemption on the family home alone cost taxpayers an estimated $46 billion – more than the total amount that the government had to borrow that year to cover its spending. And it grows every year.[18]

[16] Grattan Institute analysis of ABS (2013a) Survey of Income and Housing 2011-12. Note: Estimates vary depending on assumptions and data sources. For consistency Grattan used the Survey of Income and Housing 2011-12. See the Commonwealth Treasury Tax Expenditure Statement and individual state budget papers for alternative measures of tax expenditures.

[17] http://www.smh.com.au/federal-politics/political-news/scott-morrison-to-lift-credit-limit-as-australias-debt-hurtles-towards-500-billion-20170128-gu0iin.html

[18] http://www.abc.net.au/news/2016-01-11/capital-gains-tax-reform-could-raise-46-billion-report/7079882


Annual Government Expenditure on Housing Policy
Billions
40
35
30
25
20
15
10
5
0
Land tax exemption
Pension asset test
Net imputed rent exemption
CGT exemption
Negative gearing
CGT discount
Rent assistance
Home owners
Investors
Renters

WHY IT MATTERS FOR OUR ECONOMY

The Housing Crisis is holding back and threatening Australia's economy in many ways.

The tax changes mentioned earlier have caused investment dollars to flood into property instead of more productive assets, such as assisting manufacturing businesses.

The graph opposite[19] shows that before the introduction of the capital gains tax 50% discount in 1999, banks lent more money to people to invest in businesses (the orange line) than for people to invest in property (the blue line). Immediately after the changes, lending for property romps ahead and lending for business investments gets left behind.

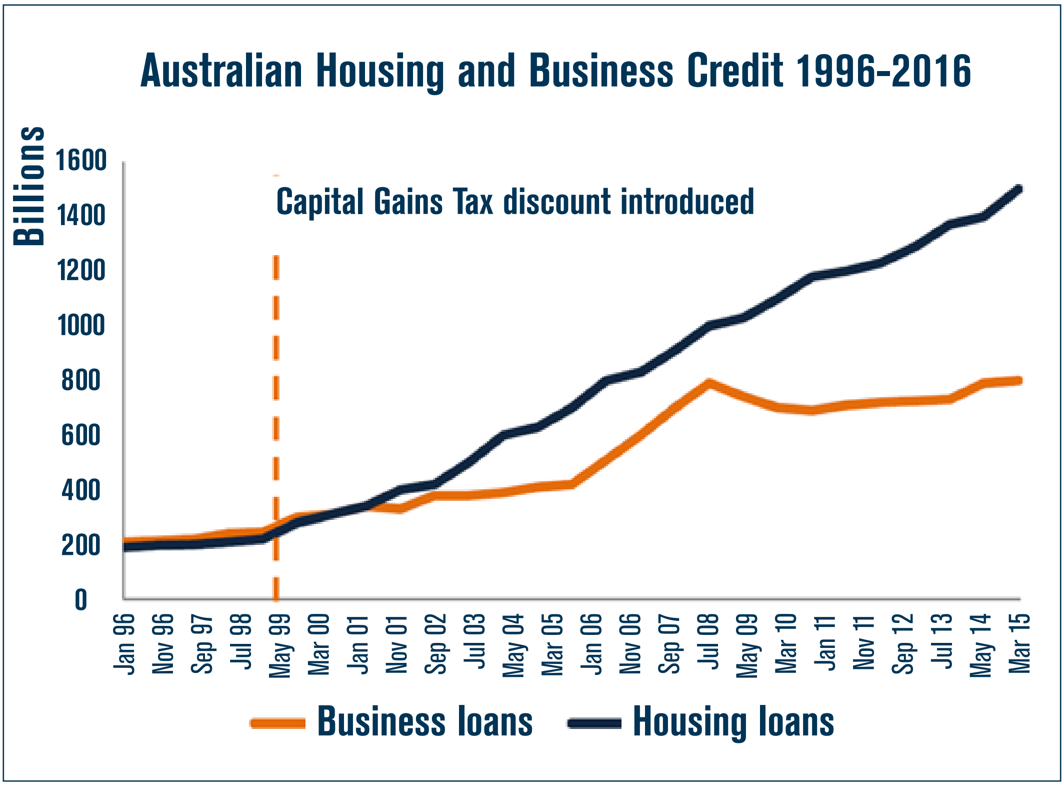
We know that 95% of the lending for property investment was for existing houses, not to build new ones that would help boost supply.[20] The problem with this is that selling the same house half a dozen times doesn't produce very much, expand the economy, or create many new jobs.[21]

There is a hidden threat to our whole economy in all this.

Substantial amounts of the money that Australians are borrowing from our big banks to buy these houses were originally borrowed by the big banks from overseas. Australians have now borrowed so much for housing that we have the highest household debt levels in the world when compared to the size of the country's economy – around $2 trillion in household debt relative to $1.6 trillion in GDP.[22]

Borrowing money from overseas and investing in economically unproductive assets, like housing, is a recipe to crash the economy. Similarly, many of those who've borrowed to the hilt to get in on the housing frenzy have given themselves very little room to move in the event of a rise in interest rates. Work by the Grattan Institute shows that a rise of just 2 percentage points would cause the highest stress levels since the famous 17% squeeze in 1989.

If this were to happen while wages growth remains as flat as it's been, borrowers might not be able to afford their loan repayments. En-mass this would put our banks in dire straits. At the same time, higher mortgage costs would lead to less spending, which would hit employment rates and the government's budget, and plunge us into a recession.



[19] *http://thenewdaily.com.au/news/election-2016/2016/06/28/turnbull-economic-contradiction/*

[20] *http://www.fresheconomicthinking.com/ 'Housing affordability: an honest debate', March 19, 2017*

[21] *Although some houses undergo renovation to increase the return.*

[22] *https://www.theguardian.com/business/2016/jan/15/how-australian-households-became-the-most-indebted-in-the-world*

"As someone who watched their father lose everything in the 1990s when mortgage interest rates resembled today's credit card rates, I know the consequences of not planning for the worst."

Rachel Corbett, *'Forget simple solutions: we need to face some hard housing facts'*, **The Daily Telegraph, Feb 24, 2017**

"As we move from housing as somewhere to live in, [to] housing as an investment vehicle, that's [where we] introduce all the problems with housing affordability. We need to think about how we change the way we think about housing, and take it back to the use value of homes – a home as a place to live in."

Omar Dabbagh, SBS

"If we end the "big is best" thinking of the federal Treasury, and scaled back immigration (at least until housing starts and infrastructure have caught up), we can take the pressure off home prices."

Tony Abbott, former Prime Minister

"A place like Sydney has 80,000 extra residents per annum. Melbourne has 90,000. And it's mainly fuelled by Australia's 200,000-plus immigration programme each year. We run the biggest immigration in the West per capita. So wouldn't it just be plainly logical to make [the] demand for housing part of the equation when considering housing affordability?"

Mark Latham, former Leader of the Australian Labor Party

4. HOW WE CAN SOLVE OUR HOUSING AFFORDABILITY CRISIS

HOW CAN WE SOLVE: STABILISE THE POPULATION

One way to make a big difference to the housing affordability crisis is to admit that both supply and demand factors are at play.

With more than half of Australia's break-neck population growth coming from immigration, our government needs to look at what it can do about overheated demand.

The prudent path forward is to plan for the population to peak and stabilise at the highest level that our continent can sustain at the standard of living that we've achieved in Australia today.

How do we do this?

With our current net immigration numbers (arrivals minus departures) of around 200,000 each year, the Productivity Commission estimates that Australia's population will increase from around 24.5 million currently to around 40 million by 2060.

By comparison, under zero net immigration (where we admit the same number of immigrants into Australia as we have people leaving the country) of about 70,000 new immigrants each year, Australia's population would peak at 27 million by 2060.

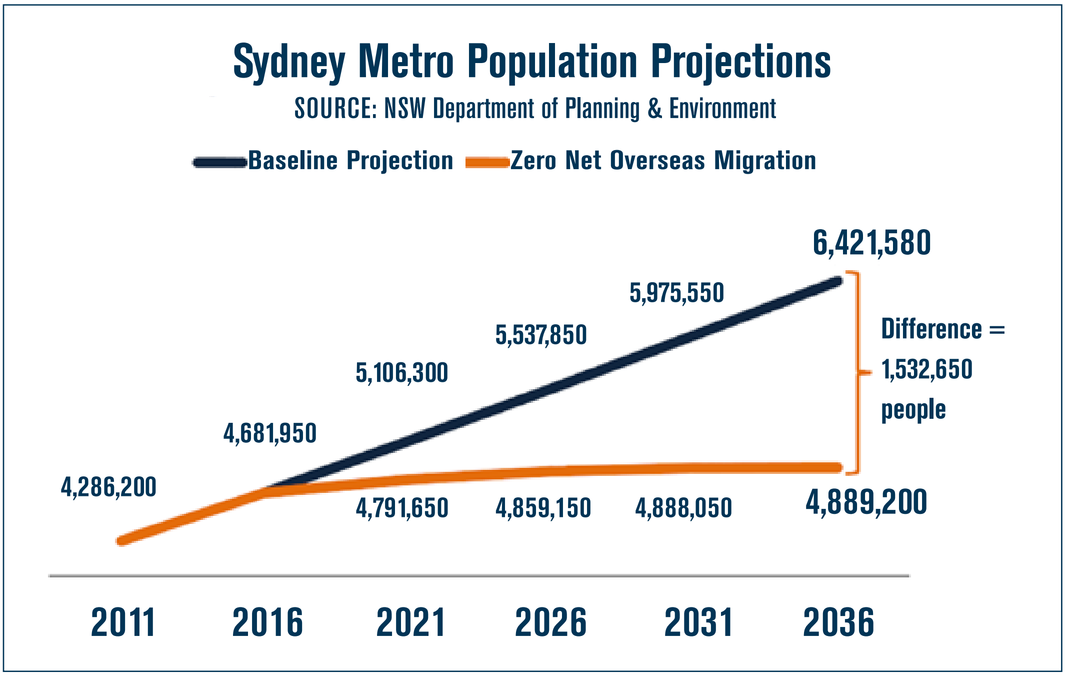
So our current 200,000 net immigration intake would add some 13 million people over these years, while our natural increase would add just 2.5 million.

A lower population growth rate and a stabilised population under zero net overseas migration would reduce the demand for housing and give supply a chance to catch up.

It would also reduce the pressure on our national infrastructure and help Australia's economy stay within the ecological limits to growth on the arid continent we call home.

To illustrate, consider Sydney in the chart below, where State Government projections have the city's population growing by 1.53 million fewer people over the next 20 years with zero net overseas migration.

That's the equivalent of nearly four Canberras that would not need to be built across Sydney, along with all the extra people competing for housing and choking-up Sydney's roads and public transport.



HOW CAN WE SOLVE: TAX REFORM PRIORITIES

Capital Gains Tax:

First, removing or reducing the 50% discount on capital gains made from investing in housing would help to reduce the incentive for investors to pile money into property and encourage them to channel their money into more productive, job-creating ventures.

If we bring housing prices down by reducing immigration and increasing supply, investors wouldn't be seeing much in the way of capital gains anyway, which will also reduce their incentive to invest in housing.

Negative Gearing:

Second, negative gearing rules should be reformed so that investment interest expenses on property can only be deducted against taxable income from other investments earned in that year.[24] This reform would reduce house prices by making residential property less attractive to the investors, and further encourage them to channel their money into other, more productive assets, like job-creating businesses.[25]

A Broad-based Land Tax:

It would also make sense to apply a broad-based land tax (preferably in place of stamp duties) in Australia.

Such a reform would encourage a more efficient use of the housing stock and improve labour mobility, penalise land banking and vagrancy (increasing effective land supply in the process), and help to make infrastructure investments self-funding for governments, since any land value uplift brought about through increased infrastructure investment would be partly captured by the government via increased land tax receipts.

WHAT EXTRA WEALTH DOES PROPERTY INVESTMENT ACTUALLY CREATE?

"If I invest in buying shares in a company, or by purchasing a working property like a shop or petrol station, then there is clear productive output. My financial return is my share of that output that was created by putting my investment to work (paying workers' wages and covering other production costs).

There is a good reason why we don't refer to the national stock of houses and apartments as an 'industry'. The reason is simple: homes are useful, but their use is primarily in their ability to just sit there so that people can live in them. If I buy a home and let it to tenants, then nobody gets employed and nothing tangible gets produced. My financial return is not a portion of anything that my investment helped to produce.

Instead I get an income from my ability to extract money from people who need a place to live but couldn't afford to outbid me at the auction. Most property investment is not a way of creating new wealth. Too often it is a way of concentrating existing wealth in the hands of those able to play the investment game, and who (quite understandably) wish to avoid the risk of investing in real industry."

Dr Dan Halliday, University of Melbourne

[24] It has been suggested that when negative gearing was briefly abolished in the 1980s, rents went through the roof. While it is true that rent increases in Sydney and Perth coincided with the temporary removal of negative gearing, ABC Fact Check debunked the connection and outlines why it is unlikely that that change had a substantial impact on rents in any major capital city in Australia. http://www.abc.net.au/news/2015-05-06/hockey-negative-gearing/6431100

[25] We should also look at continuing to allow negative gearing on new properties in the meantime to encourage construction and supply.

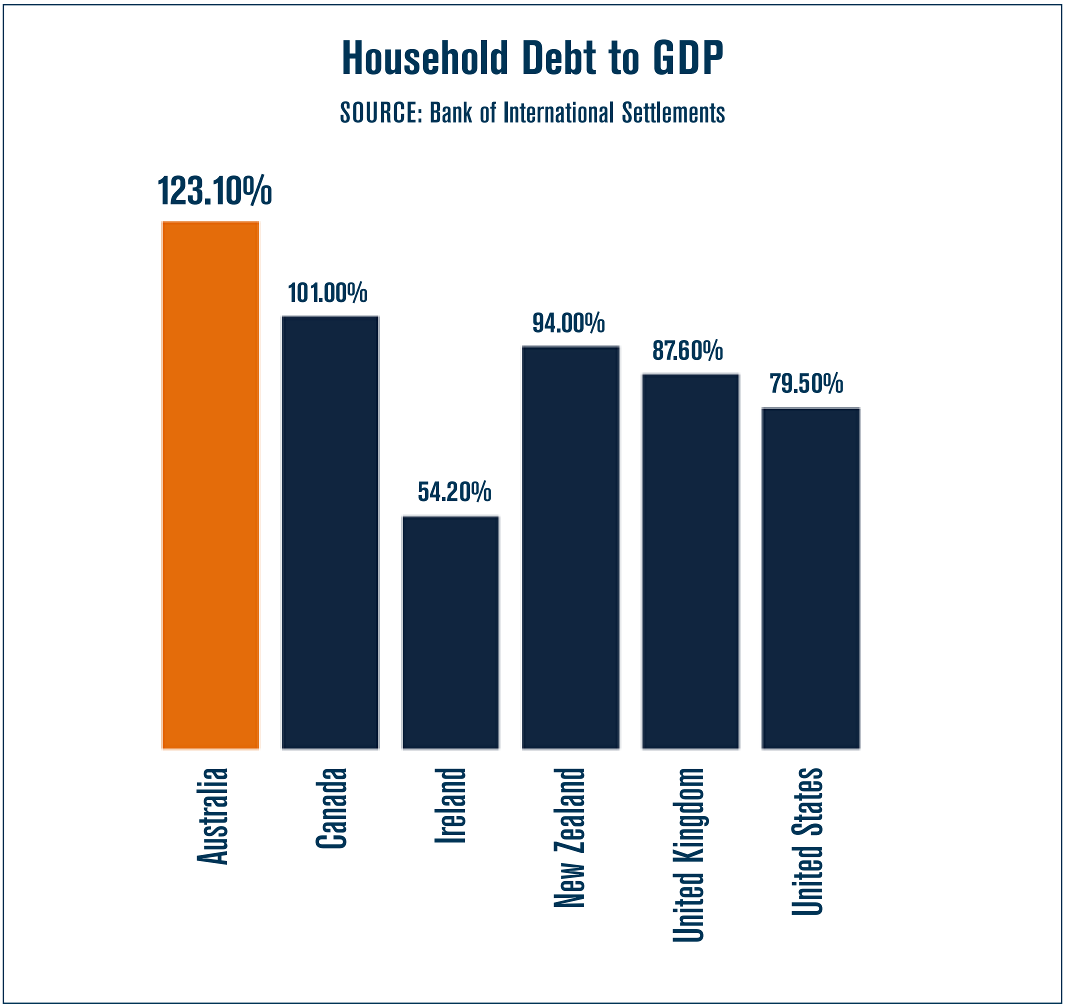
HOW CAN WE SOLVE: RELIEVE HOUSEHOLD DEBT

In the short term, lowering house prices to restore fairness to the housing market would put many people at risk of financial strife.

Many home owners have borrowed to the hilt to purchase properties, and any significant drop in their price would cause serious financial difficulties as the value of their property would be lower than the amount of debt they took on to purchase it in the first place – an undesirable position called ‘negative equity’.

That’s why we need a plan to get household debt levels down before we can do anything to bring house prices down to a level where average Australians can have a Fair Go.

For an individual to reduce household debt, they need to either earn more or make a decision to pay off debt. If salaries don’t go up, many people will need two or three jobs to do this.


Household Debt to GDP
SOURCE: Bank of International Settlements
123.10%
101.00%
54.20%
94.00%
87.60%
79.50%
Australia
Canada
Ireland
New Zealand
United Kingdom
United States

HOW CAN WE SOLVE:
INCREASED TAXATION ON OVERSEAS INVESTORS

Let's increase the tax on foreigners who want to buy Australian property.

In Victoria, the foreign tax is currently 7% of the value of the purchase. In New South Wales it's 4%, and in Queensland its 3%. The remaining states and territories currently have no foreign tax at all.

The last thing that we want is more young Australians being outbid at auctions for inner-city apartments by overseas investors looking for somewhere safe to park their wealth away from their own government – especially if they're going to leave them empty.

Using a tax to hit the profitability of foreigners investing in the Australian property market would make some of them look elsewhere and give Australians looking to buy their first home a chance to take their place.

Implement anti money laundering rules on residential property

In 2008, the Australian Government was supposed to implement anti-money laundering (AML) rules for real estate gatekeepers, such as real estate agents, accountants and lawyers. This legislation has been sitting in limbo for nearly a decade, despite explicit warnings from the global AML regulator (the Paris-based Financial Action Taskforce), AUSTRAC, and Transparency International that Australian property is a potential haven for laundered funds.

Bringing Australia's real estate gatekeepers into the AML net would meet Australia's global commitments as well as dampen foreign demand for Australian property.

Vancouver:

In Vancouver, Canada, low interest rates and demand from foreign investors have seen housing prices grow by 249% since 2005. But authorities have acted to try to bring their skyrocketing house prices under control.

One measure has been an additional 15% tax on foreigners looking to purchase a home in Vancouver. The tax will be levied on all home buyers in Vancouver who are not Canadian citizens or permanent residents. It will also apply to corporations that are not registered in Canada or which are controlled by foreigners.

Money collected from the tax will be put towards housing initiatives for renters, low-income residents, and first-time buyers. Like Sydney and Melbourne, many of the houses and apartments purchased by rich foreign investors are being left empty.

To help address that, this year the Vancouver City Council also introduced a 1% tax on empty homes. The tax will be based on the assessed value of the property, meaning the owner of a C$500,000 condo left vacant would pay an additional C$5,000 a year in taxes.

The Victorian Government has recently announced plans to implement a similar tax there. The other states and territories could follow Victoria’s lead.

"Why doesn't anyone talk about the common sense in bringing down the biggest immigration programme to give some relief on housing prices and relief on home buyers? Well, it's a classic case of vested interests…

You've got the two main tribes of left and right agreeing they won't discuss immigration, they won't discuss a cut to population as a way of improving housing affordability. And then you've got more naked vested interests in the system. You've got the left-wing attachment to open borders ... they support Big Australia for that reason.

For the Labor and Liberal parties ... a big migration programme they weaponise for ethnic branch stacking ...

The property and housing industries, of course, they want more people coming in as that's more money as you build the houses and you develop the property. Big retailers, they love Big Australia, as they get more people walking through the door to buy their goods – easy money. The financial sector, the home loans ... The big advertising industry of course ... they make money out of it.

The Department of Treasury in Canberra is very much pro-immigration and a Big Australia ... because it's a good way for Australia to achieve economic growth ... Australia's had 25 years of economic growth.

But the truth is, in recent times, Australia's growth has been sustained by the big immigration programme. It hasn't been sustained by productivity and competitiveness ... We sustain our GDP figures artificially. Per head of population we are not going so great ... Politicians love the idea of artificially inflating GDP figures, so that also sustains the Big Australia, big immigration programme ethos ..."

Mark Latham, former Leader of the Australian Labor Party

4. WHY IT WILL BE ALMOST IMPOSSIBLE TO FIX IT

WHY SO HARD TO FIX: THE GREED OF VESTED INTERESTS

The major roadblock to bringing home ownership to affordable levels is that any change threatens too many vested interests.

The richest and most influential people in Australia benefit in a major way from the present system and will be against any meaningful change.

For a start, they won't allow a serious reduction in our huge immigration-fuelled population growth.

The Coalition, Labor, The Greens, industry, and the media are all 'Big Australia' allies in a code-of-silence on the role that population plays in our housing affordability crisis.

But why?

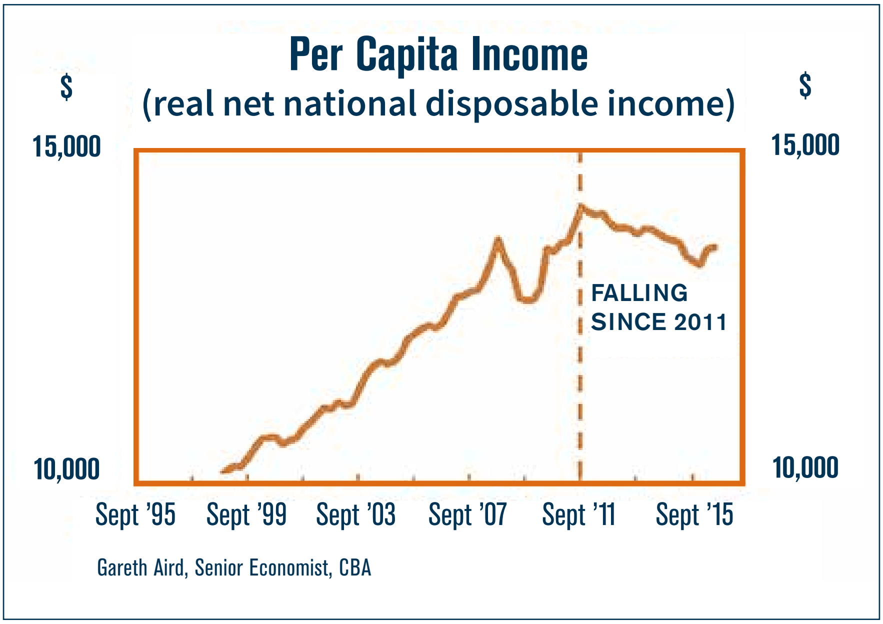
Well, the most common grudging response is that while, yes, the population may be having an adverse effect on housing affordability, overall the effects of rapid, mass-immigration are good for Australia. That one usually goes something like this:

"If the only objective you have is to ease housing prices, a cut to immigration would make a difference in the short term ... Immigration is a source of national strength ... It's a source of dynamism and vigour and, ultimately, national competitiveness. To give that advantage up just so we can take pressure off housing prices I find problematic."

Reserve Bank Governor Philip Lowe

But does this claim stack up?

Australia has now had 26 years of economic growth, without a recession. But in recent years, individual Australians haven't felt their living standards improving because, since the GFC, Australia's per capita income has actually gone backwards.



Economic growth only raises our material standard of living if GDP grows faster than the population grows. This has not been the case in Australia, where we've seen the benefits of economic growth spread (unevenly) across more and more and more people.

A 2006 Productivity Commission study concluded that even skilled migration does not increase the incomes of existing residents. According to the Commission: "the distribution of these benefits [from skilled migration] varies across the population, with gains mostly accrued to the skilled migrants and capital owners (i.e. the rich). The incomes of existing resident workers grow more slowly than would otherwise be the case".

So much for the benefits of mass immigration to Australian living standards!

On the other side of the ledger, though, there are the very real and immediate costs. Immigrants and their dependents use the health, education, and every other public service, put extra pressure on our infrastructure, and add to congestion. Not to mention the environmental impacts.

So why do we persist with this myth?

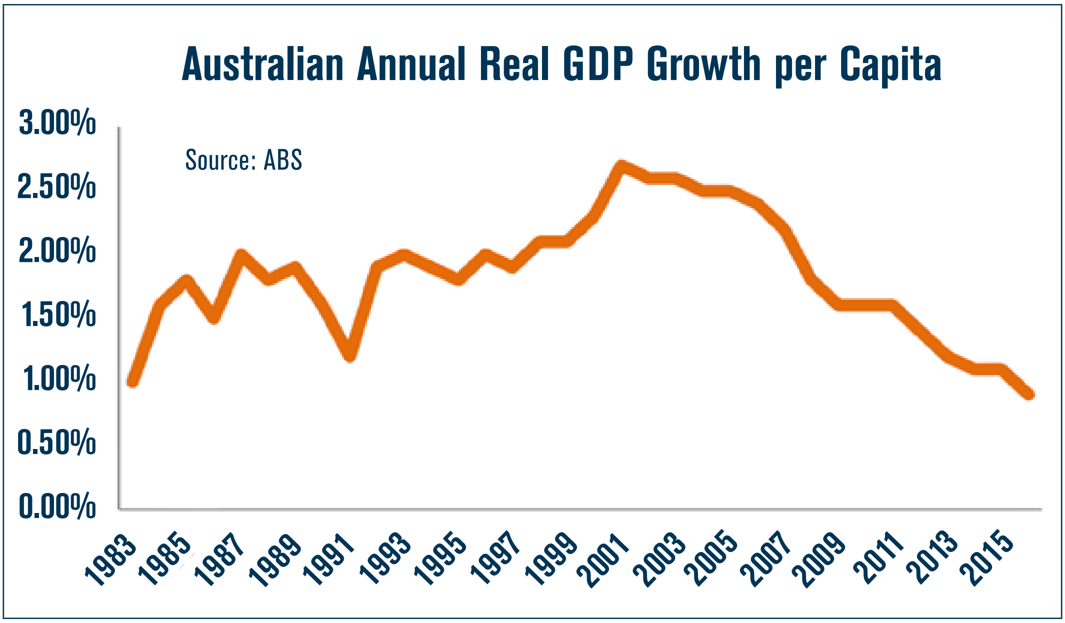
For big business, the huge population growth that is pushing house prices up means more competition for jobs, which holds down wages and maximises profits. More people also means more demand for their goods and services, which allows big business to charge higher prices. That's why the business community lobbies so hard for high immigration and will fight any attempt to reduce it.

Governments like it too, because that huge increase in migration fuels overall GDP growth and keeps Australia technically out of recession. The politicians get to crow about economic growth while in reality the average Australian's income is going backwards.

In fact, Australia's per capita GDP growth is now running at the lowest in recorded history – even worse than the 1980s and 1990s recessions.

Our rapid immigration-fuelled population growth is great for existing home owners and investors too, because they have that pressure-cooker situation from ever-increasing demand trapped inside a supply of housing that can't keep up with the growth in population.

And while all this is going on, those who you would expect to at least care about the environmental impacts of a rapidly expanding population in Australia prefer to mix up concern about overall numbers with racism, and refugees with regular immigrants. That may make them feel righteous, but they don't realise that shutting down a rational debate on Australia's population plays right into the hands of big business and political elites.


Australian Annual Real GDP Growth per Capita
Source: ABS
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015


ZARA

WHY SO HARD TO FIX: SIXTY-EIGHT PER CENT OF VOTERS ARE ON THE HOME-OWNERSHIP GRAVY TRAIN – LOCKING OUT THE NEXT GENERATION

Those home owners benefiting from the population pressure-cooker and generous government tax advantages are also a majority in the electorate.

Why would a turkey vote for an early Christmas?

Since 2012 alone, Sydney's home owners have seen the value of their houses rise 70% and the value of their investment properties boom far past their 'real' value.

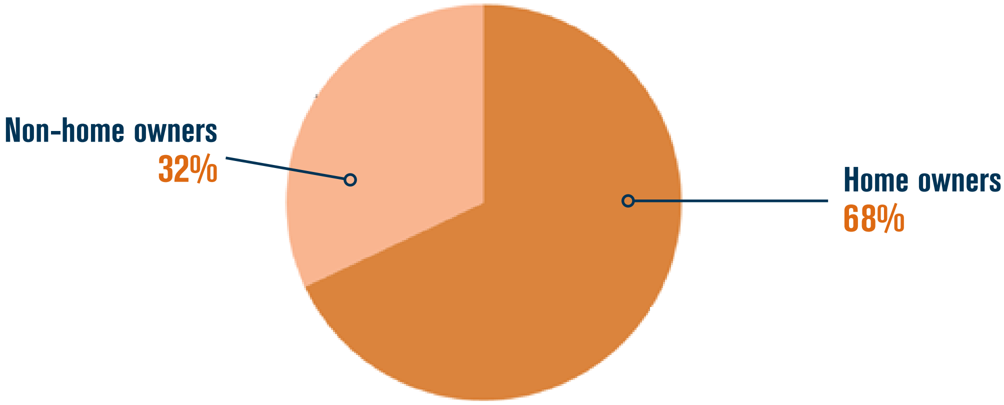
And they've liked it.

They had the good fortune to be born in time to get on the housing bandwagon when prices were realistic and have ridden the good times since.

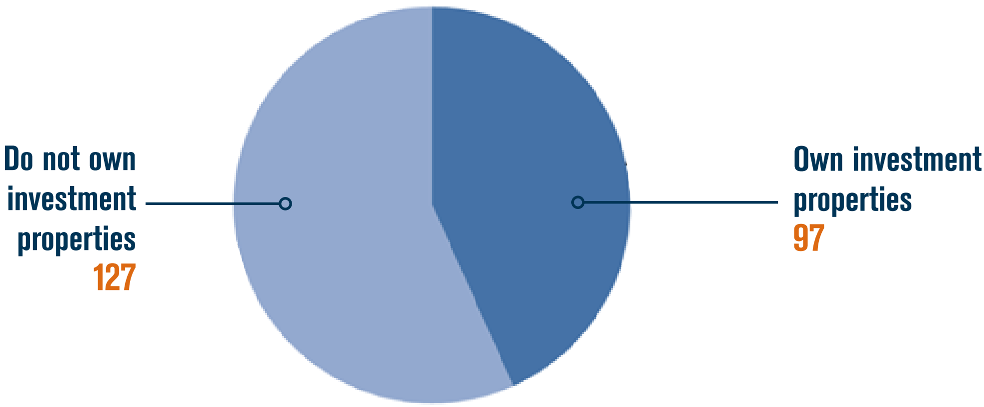
These people may be aware that the system that has skewed the game so heavily in their favour is now locking the next generation out of financial stability and security but, along with property developers, they want to hold on to their investment properties and milk younger Australians for all they're worth.

That is one reason why politicians are unlikely to take the kind of bold action needed to turn this situation around. The best we can hope for from them is timid tinkering at the edges.

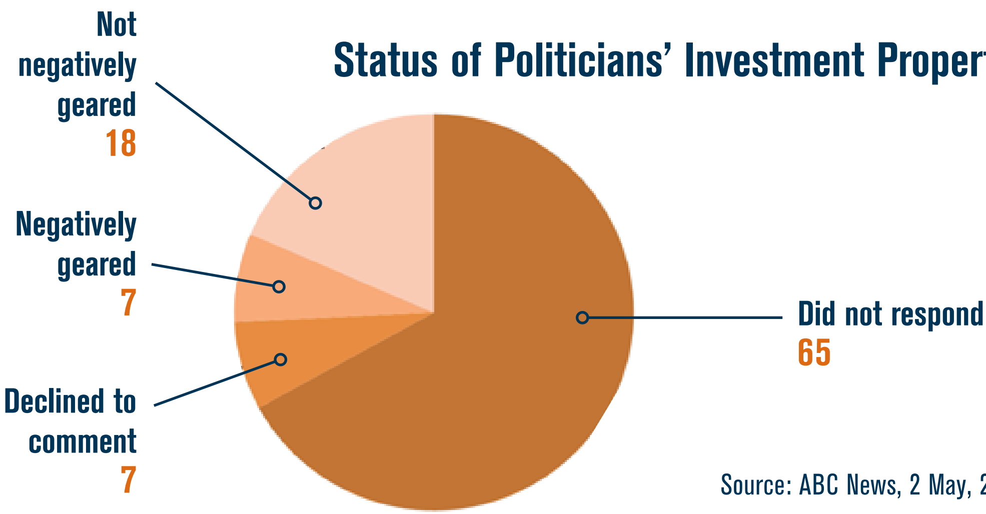
Home Ownership in Australia



Politicians with Investment Properties



Status of Politicians' Investment Properties



Source: ABC News, 2 May, 2016

APPENDIX

Population growth rate (average annual %) 2010–2015
UN Figures

Chad	3.3%
Iraq	3.3%
Afghanistan	3.0%
Ethiopia	2.5%
Australia	**1.6%**
India	1.3%
Indonesia	1.3%
Iran	1.3%
World	**1.1%**
Canada	1.0%
Brazil	0.9%
USA	0.7%
Iceland	0.7%
New Zealand	0.7%
United Kingdom	0.6%
China	0.5%
France	0.5%
Denmark	0.4%
Netherlands	0.4%
Ireland	0.3%
Germany	0.1%
Italy	0.1%
Russia	0.04%
Japan	-0.1%

ABOUT DICK SMITH

Dick Smith is one of Australia's most recognised individuals. After a successful business career in retailing and publishing, Dick has become well known as a restless adventurer, making many pioneering and record-breaking flights by helicopter, aeroplane and balloon.

He has also been active in public service, having served as Chairman of the Civil Aviation Authority and later as Chair of the Civil Aviation Safety Board. He led the National Council for the Centenary of Federation and is an Ambassador for the Council for Aboriginal Reconciliation.

Dick is a passionate supporter of environmental and conservation efforts and founded the Australian Geographic Society.

He was honoured as Australian of the Year in 1986 and in 2015 received the award of Companion of the Order of Australia (AC).

Dick has never been shy to take on controversial issues, from aviation safety to support for refugees and the campaign for David Hicks to receive a fair trial.

For the last decade, Dick has involved himself in the contentious issue of Australia's addiction to perpetual growth. Concerned also about our expected rapid population increase, Dick is calling for a national debate on what he considers to be the most important issue facing the nation. In January 2012, Dick's work in this field was recognised by Stanford University (USA) through their appointment of Dick as Consulting Professor to the Department of Biology, School of Humanities & Sciences.

Now, he is founding the **Dick Smith Fair Go** group to take his advocacy for a fair and sustainable future further.

BECOME A SUPPORTER OF THE DICK SMITH FAIR GO GROUP

- **GROWING INEQUALITY**

The rich are getting richer while the poor are finding times are tougher

- **ENVIRONMENTAL DEGRADATION**

Mass consumption runs down the Earth's resources faster than they can be replenished, and pollutes more than natural systems can cope with

- **POWER HAS BEEN CAPTURED BY VESTED INTERESTS**

Many Australians are disenchanted with our democratic system

- **RISING DEPRESSION AND ANXIETY**

Growing wealth isn't making us any happier

THESE CHALLENGES ARE ALL LINKED

If we want to turn them around, we need to do more than just tinker at the edges.

We must look to the root causes of what's unfair, unsustainable, and undemocratic in the system we live by.

We must ask how we got here. And who benefits from the status quo.

We must empower people to take action to change the system.

But talk is cheap, so I've decided to show leadership.

That's why I'm establishing a powerful new people's think-tank to influence the public debate, communicate to Australians about the challenges we face, and bring together like-minded Australians to strive for the necessary change.

The guiding light of this movement will be the ideal that Australians cherish most, the principal on which our nation was founded, and the creed that was once so important to all of us: the fair go.

POPE FRANCIS HAS WISDOM!

"Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralised workings of the prevailing economic system. Meanwhile, the excluded are still waiting."

Pope Francis

BECOME A SUPPORTER OF THE DICK SMITH FAIR GO GROUP TODAY!

dicksmithfairgo.com.au

"Solving the population problem is not going to solve the problems of racism … of sexism … of religious intolerance, of war, of gross economic inequality. But if you don't solve the population problem, you are not going to solve any of those problems."

Paul Ehrlich

"Australian billionaire rich listers swell from 2 to 60 in 30 years."

Australian Financial Review, 27 May, 2017

"The reason why many people feel they haven't benefited from Australia's long stretch of economic expansion is quite simply because they haven't."

Carrington Clarke, Business Reporter, ABC News, 20 January 2017

"… high levels of immigration have aggravated upward pressure on housing prices, benefiting home owners but at renters' expense, and worsened congestion on public transport and major roads."

Henry Ergas, The Australian, July 29-30, 2017

"There is a generation now that feels cut out of the housing market, and that means being cut out of economic and social participation in Australian society."

Paul Kelly, Weekend Australian, July 29-30, 2017

"The hungry world cannot be fed until and unless the growth of its resources and the growth of its population come into balance. Each man and woman – and each nation – must make decisions of conscience and policy in the face of this great problem."

Lyndon B. Johnson

"The Government wants to increase the population because it means more young taxpayers to pay the rising health and pension costs of the ageing population."

AAP, 2017

"The latest data from Credit Suisse shows that wealth in Australia is concentrated in the hands of a few: the top 1% have over 22% of total Australian wealth – and the top 1% own more wealth than the bottom 70% of Australians combined.

"What will be the population booster solution in 30 years' time when current migrants grow old? retiring needs taxpayer support. More immigration and an even larger Australia? In this regard a big Australia brought about by high immigration is just another Ponzi scheme."

Leith van Onselen – economist ex-Goldman Sachs

"The idea that economic growth can continue forever on a finite planet is the unifying faith of industrial civilisation. That it is nonsensical in the extreme, a deluded fantasy, doesn't appear to bother us."

Christopher Ketcham, The Pacific Standard, 16 May, 2017

"If our species had started with just two people at the time of the earliest agricultural practices some 10,000 years ago and increased by 1% per year, today humanity would be a solid ball of flesh many thousands of light years in diameter."

Gabor Zovanyi

"Under-employment has been rising steadily for 40 years and is now the highest it has ever been."

Alan Kohler, The Australian, 20 May, 2017

Prepared by

Zann Maxwell and Dick Smith

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and Leith van Onselen

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