

Media release

7 June 2016

CHANGES TO NEGATIVE GEARING NOT THE ANSWER TO HOUSING AFFORDABILITY

One of the key issues raised by Australians in response to the information campaign currently underway with the real estate industry is housing affordability, based on Labor proposing that any affordability problems can be resolved by changing current taxation arrangements negative gearing on existing properties and capital gains tax.

This suggestion is quite simply not true according to the President of the Real Estate Institute of Australia, Mr Neville Sanders.

“With large increases in house prices, particularly in our two largest capital cities, there have been many claims that the current tax treatment of negative gearing and capital gains of residential property is exacerbating housing affordability issues. This is simply not the case.”

“It is supply that is the critical factor in resolving the affordability problem. Changes to current taxation arrangements as proposed will do nothing to address affordability. If anything it will exacerbate the problem.”

“Indeed the public interest is being served and advanced through the current taxation arrangements. There is ample research that shows that negative gearing and the CGT discount are not driving excessive, unproductive and speculative investment in housing but instead they are adding to housing supply with currently \$7 billion a year invested in new dwellings. One of these, the Henry Review, initiated by the current Opposition when they were in Government and released in 2010, recognised that the current tax arrangements placed downward pressure on rents.”

“The answer to addressing affordability lies in tackling the supply side issues and the deposit gap for first home buyers”, concluded Mr Sanders.

Mr Dan White, Director, Ray White Group added “Most lenders now require a 20% deposit due to APRA requirements designed to mitigate against the kind of bad loans that helped trigger banking collapses in the US and UK during the Global Financial Crisis; the few lenders who will lend more than 80% of the purchase price also require the upfront purchase of mortgage insurance, which in itself can run into many thousands of dollars.”

“Once stamp duty and other mandatory costs associated with purchasing property are factored in, a first home buyer needs at least \$100,000 to enter the market in some capital cities and this beyond the reach of many young singles and couples today”, said Ray Ellis, Chief Executive, First National.

“It is the upfront costs, not the actual purchase price or the size of repayments, which are the greatest barrier to first home buyers. Labor’s policy on negative gearing if implemented will have a negligible effect on this. Unless house prices collapse - which Labor says will not happen – there will be no real difference for first home buyers in overcoming the deposit gap but at the same time paying higher rents whilst saving,” said Ray.

“In reality, cutting negative gearing will have the unfortunate effect of driving up rents, making it harder for tenants to save for a deposit to help them get off the rental treadmill,” said Angus Raine, Executive Chairman, Raine & Horne.

“At the same time, there are plenty of young professionals with careers tied to the property and construction industries, who will potentially lose their livelihoods if the ALP wins the election and takes the axe to negative gearing,” Angus said.

“Removing negative gearing will do virtually nothing to reduce those barriers to entry that face first home buyers,” said Marcus Williams, CEO Harcourts Australia.

“Reducing, or even removing government charges and taxes – like stamp duty – would do a lot more to help more people save up to buy a house. Stamp duty was supposed to be phased out when the GST was introduced 16 years ago. Instead of phasing out stamp duty, states instead have doubled the amount payable on the purchase of a property,” Williams added.

Meanwhile, John Cunningham, President of the REINSW, said the mere suggestion of Labor’s proposal is already causing a concerning distortion in some market segments.

“The law of unintended consequences is at play at present with investors jumping into the established home market even before any changes to negative gearing occur following on from the possible change of government,” said John Cunningham.

“Prices are rising in Sydney and Melbourne due to both the investor surge along with a lack of supply in the market. This is not good news for first home buyers where over 90% of them buy established homes – this option is now getting further and further away from them and will only get worse if changes to negative gearing take place.”

For more information on how negative gearing affects everyone go to www.negativegearingaffectsyou.com

To contact

REIA – contact Neville Sanders 0419 592 365

Dan White – contact Jamie Pericleous, Ray White 0455 802 463

Ray Ellis – contact Stewart Bunn, First National 0413 624 317

Marcus Williams – contact Darren Trinder, Harcourts Australia 0438 011 027

Angus Raine – contact Andrew Harrington, Raine and Horne 9258 5400

John Cunningham – contact John, President REINSW on 0418 216 136

The Real Estate Institute of Australia (REIA) is the national professional association for real estate agents in Australia.