

Master Builders Australia continued its advocacy on housing affordability in the wake of the meeting of Federal, State and Territory Treasurers at the Council on Federal Financial Relations on Friday.

Treasurers focus on housing affordability, *Radio 2CC, 5/12/2016*

Listen to Wilhelm Harnisch, CEO of Master Builders Australia comment on the issue on radio 2CC today with the attached audio file.

Low interest rates, not negative gearing to blame for unaffordability?, *Broker News, 5/12/2016*

Reports comments by Wilhelm Harnisch, CEO of Master Builders Australia backing the statements by Treasurer Scott Morrison following the meeting of Federal and State/Territory Treasurers last Friday that negative gearing is not to blame for housing affordability pressures.

Low interest rates, not negative gearing to blame for unaffordability?

The *Australian Financial Review* has published an opinion article expressing the low interest rates are to blame for unaffordable housing in Australia, not negative gearing, which only becomes profitable for the home owner if house prices always go up.

"Your expected capital gain must be significantly higher than the interest you have paid on your loan," the article states, adding that this has not been the case for Western Australian property purchasers.

"The lesson is that anyone who thinks the one way bet to wealth is as simple as buying a property, with an interest-only loan and negatively gearing it, should go and ask someone who did that five years ago in any of the major mining towns and see how it turned out for them."

By contrast, in Sydney and Melbourne house prices have continued to climb, but negative gearing is not the cause of this, says the AFR.

"If negative gearing really does force house prices higher then, in theory, there should never be a time when prices go backwards or even tread sideways," the report states. "They should always go up. But of course they don't."

Rather, it is the current record low interest rate environment that is the root cause of unaffordability, says the AFR, which have led to the highest debt burden Australian borrowers have ever had.

In slashing interest rates to half of what they were ten years ago – from around 8% to under 4% - the [RBA](#) has created a situation in which borrowers have been able to double the size of their mortgage but keep their payments as a percentage of their income roughly the same – something Australians have been doing since the 90s, according to BetaShares chief economist David Bassanese.

Cheap money has led to borrowing more which has led to higher house prices, not negative gearing, he says. He also thinks that the tendency of Chinese investors to prefer investing on the east coast and the geographical constraints of building in regional areas have pushed up prices in Sydney and Melbourne.

"And Sydney also faces a huge 'proximity premium' from poor planning that has concentrated most job opportunities in the urban centre, yet provided far from adequate transport links to the regions where more affordable homes could be built" Bassanese added.

The government weighs in

The AFR's article comes following NSW Premier Mike Baird's backing of calls for the federal government to consider reforming negative gearing.

Speaking at the National Press Club in Canberra last week, the NSW Premier said that while he was yet to finalise his own view on the need for changes to negative gearing, a proposal from his planning minister Rob Stokes to act "should be considered".

Treasurer Scott Morrison responded by saying that cutting negative gearing tax breaks was a "reckless" policy that would hurt the 30% of people who rent. "I am not about to do something that will jack up their rents which was the result of negative gearing changes last time," Morrison told reporters.

The National CEO of Master Builders, Wilhelm Harnisch also backed the Treasurer's comments, stating that abolishing negative gearing is not a solution and that housing undersupply is the root cause of overheated property prices.

"Removing impediments to supply must be the first priority if we are to seriously tackle housing affordability, not tinkering with negative gearing rules," Harnisch said.

"Negative gearing helps mum and dad investors, and plays a critical role by supplementing the shortage in public and social rental housing stock where there is a waiting list estimated at upwards of 200,000 dwellings ... Without negative gearing the supply of rental properties would be lower, and/or the rents charged would be higher."

Bassanese agrees that rather than scapegoat negative gearing, the government should be looking at other policies to improve housing affordability.

"Rather than blame negative gearing, the NSW Government should be concentrating

on both improving regional-city transport commuting times and/or encouraging more jobs growth in the more affordable regions" he said.

Bassanese also proposes changes in capital gains tax discounts, which would slow down the amount of speculating that goes on in the property market.