



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

Federation Chamber

COMMITTEES

Economics Committee

Report

SPEECH

Wednesday, 8 February 2017

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Wednesday, 8 February 2017
Page 387
Questioner
Speaker Kelly, Craig, MP

Source House
Proof No
Responder
Question No.

Mr CRAIG KELLY (Hughes) (10:55): It is very hard to find much to agree with in the member for Melbourne's contribution, but I will agree with him that housing affordability is an issue, particularly in our major cities. There are recent numbers from a report at the end of 2016. In New South Wales, in Sydney, we had a median house price of \$880,000. By contrast, in Tasmania the median house price is \$320,000.

Let us just assume that the member for Melbourne is correct, and it is negative gearing that is the problem. Why isn't negative gearing a problem in Tasmania? Why is it a problem in one city and not a problem in another city? Why is negative gearing not a problem in our regional and country areas? You can buy a three- or four-bedroom house in many of the regional towns in New South Wales for \$200,000, \$300,000 or \$400,000. Why is negative gearing not a problem there, but it is a problem in Sydney?

It is simple: negative gearing is not the problem. The problem is a simple basis of supply and demand. The member for Melbourne talked about how, back in 1994, housing affordability was not a problem and how, back in 1997, it was so much less costly. If you look at the numbers, it is easy to see why. It is because back in 1994 and 1997 we actually had a surplus of houses in this country, but since then we have had a deficit in the number of houses. We simply have not had constructed the number of houses needed to keep up with demand.

What has actually been driving demand? The member for Melbourne talked about 1994 and 1997. In those years—in fact, from the 1980s up to 2005—we had a net migration rate in this country of a little over 100,000 people. So, if we were having 100,000 new migrants come into this country—and I welcome every single one of them—we had to make sure that we had the housing supply to match that net migration rate, and we were able to do that throughout the 1990s. But when we got to 2006, without going into the reasons, we in this country decided that we would increase our net migration intake. We increased it from an average of a little over 100,000 to, in the last decade, an average of 250,000 people as a net migration rate. If we have a 250,000 net migration rate in this country but we do not have that supply matching up, what does one think will happen, especially when that migration increase is mainly in the cities of Sydney and Melbourne? It is like a game of reverse musical chairs, where you do not have enough chairs out to start with, you have people standing up, you bring more people in to play the game and you only put a few more chairs out. That is what has been happening and that is what has been forcing prices up year after year after year in our major capital cities. The member for Melbourne is so wrong in his analysis. He is putting the cart before the horse. If we are going to address the issue of housing affordability in this country, we must address those issues of demand and supply. If we are going to have net migration rates of a quarter of a million people settling in this country and have our population increasing above our natural increase, we have to make sure that we have the housing supply that not only catches up with the past deficit but actually meets that increase. That is the only way we are going to get housing affordability under control.

As far as the member for Melbourne's misguided attack on negative gearing, I am not even sure he actually understands the principles of what it is. If you are investing in any income-producing asset, the cost of your interest is an expense that you leverage off against the income from that asset to work out what your taxable income is. This is not surprising. This is a fundamental, basic business principle of investing. To suggest that we should wipe out negative gearing in this way will cause many distortions throughout the economy. Investors can invest in commercial property; they can invest in shares; they come invest in residential housing; they can invest in industrial property—there are so many areas that they can invest in—and the cost of the interest must be a deductible expense.

This is not some tax rort, as the member for Melbourne talked about. I would hope that the members of the opposition and also the Greens would understand the fundamental drivers of what is causing our problem with housing affordability in this nation. It has nothing to do with negative gearing. It is all about supply and demand factors. So we need to look at our migration rates, and, whatever those migration rates are, we need to make sure that our housing supply stocks are increasing by the same proportional rate. According to the ANZ analysis, we still have a shortage of over 200,000 dwellings in this country. We are 200,000 dwellings short that we need to

catch up on. We are planning to have an net migration intake next year of a quarter of a million people. We must increase the supply—and that comes back to what our state governments and our local councils do.

But there are also some things that we can do federally. We need to have another look at what we can do in this country about decentralisation. In the state of New South Wales, which has about 7½ million people, it is ridiculous to try to cram five million people into Sydney. We need an active program to make it viable for young people to relocate to country areas. One place that can start is with government. There are very few reasons why many government departments should be located in the Sydney CBD. We should go through every single government department and ask them what the basis is for them needing to be in the Sydney CBD. If there is no good reason for that, the federal government should lead the way and relocate those government departments to our regional areas and country areas.

I am sure that someone who lives in the Sydney suburbs may have an hour's trip in and out of the Sydney CBD every day. They could spend over two hours commuting. They could still have an average house in the suburbs that is worth \$1.2 million. If those people were given the option to relocate somewhere like Nowra, Ulladulla or Batemans Bay, where they could buy a house with a tennis court and a swimming pool five minutes from their office and five minutes from the beach, and put half a million dollars in their pocket, I think there would be a stampede. So that is one of the main things that we can do in the federal government.

I would call on Labor and the Greens to get off this ridiculous hobbyhorse that they have of attacking the fundamental principle that an interest cost of an income-bearing investment is somehow a tax rort. It is not. If that policy is enacted, we have seen it before; we have seen exactly what happened before. We know exactly what happened when Paul Keating thought it was a wonderful idea to get rid of negative gearing. It caused distortions. It caused a disaster. It caused rents to go through the roof. And what happened? Paul Keating then realised he had made a mistake, and he reversed it. And yet we have people on the other side, ignorant of history, unable to understand the fundamental problem, who want to repeat the same mistake without actually doing anything to tackle the fundamental problem. Talking like that and rabbiting about negative gearing takes our eye off the fundamental problem, and that is fixing the imbalances between supply and demand. *(Time expired)*