LABOR HAS A PLAN TO REWRITE THE GOOD NEWS ON...

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LABOR HAS A PLAN TO REWRITE THE GOOD NEWS ON THE HOUSING FRONT

ALP promises to take a wrecking ball to negative gearing, capital gains tax discount

JOSH FRYDENBERG

The housing market has slowed. Prices in our major capital cities have fallen for 12 consecutive months, with property values in Sydney down more than 6 per cent and Melbourne more than 4 per cent from last year's peaks.

These movements follow interventions by the Australian Prudential Regulation Authority, which sought to strengthen residential lending standards following an upsurge in lending to property investors.

APRA's decision to place a 10 per cent benchmark limit on the growth in bank lending to investors and clamp down on interest-only loans has had the desired impact.

From a high of 10.8 per cent in mid-2015, growth in housing loans to investors has slowed to 1.5 per cent today. This has not come at the expense of lending to owner-occupiers, but credit growth has remained relatively stable around 7.5 per cent over the last couple of years.

This changing dynamic away from investors driving much of the growth in the housing market to one where owner-occupiers are back playing the predominant role is particularly good news for people getting into the market for the first time.

Last year more than 100,000 first-home buyers received a loan approval, the highest number since 2009, and their share of the overall number of owner-occupier loans was 18 per cent. This was significantly up from 12.9 per cent in early 2016.

Acknowledging that the heat has come out of the housing market, the Reserve Bank said in its monetary policy statement last week that "conditions in the Sydney and Melbourne housing markets have continued to ease and nationwide measures of rent inflation remain low". This "pullback is a welcome development", said RBA governor Philip Lowe, and is putting the market "on a more sustainable footing".

One of the world's leading rating agencies, Standard & Poor's, recently reaffirmed Australia's AAA credit rating and has commented positively on the "orderly unwind" in the housing market, which it says "won't weigh heavily on consumer spending and the financial system's asset quality".

However, all the benefits now flowing from this managed-transition housing market are at risk from the Labor Party's reckless attack on negative gearing and the capital gains tax discount.

In its determination to drive property prices further down, Labor is taking to the next election a policy to limit negative gearing to only newly constructed housing and to cut the capital gains tax discount on assets that are held for longer than 12 months from 50 to 25 per cent.

This will punish not just the 1.3 million people with negatively geared properties but everyone with equity in their home, as when they eventually sell their property they will do so in a market with fewer potential buyers. What is more, many of those accessing negative gearing are people that the public would not necessarily consider rich.

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About two-thirds of those with negative geared properties have a taxable income of less than $80,000, and of everyone claiming a net rental loss, 70 per cent do so with only one property and 72 per cent claimed a net loss of $10,000 or less.

No doubt many of those are among the 58,000 teachers, 41,000 nurses and 19,000 police and emergency service workers who negatively gear property.

Since Labor's policy was announced, there has been no shortage of critics.

In June, a report by RiskWise warned of "unintended consequences", estimating Melbourne and Sydney median property prices could fall about 9 per cent.

Last month, Citi published research suggesting Labor's policy could, "accelerate the cyclical weaknesses in housing prices by further limiting housing demand, with spillovers to consumer spending".

Even more problematic was Standard & Poor's warning that "our ratings could come under pressure if house prices fall sharply and increase risks to fiscal accounts, real economic growth and financial stability".

Labor's policy couldn't come at a worse time and be more ill-judged.

Yesterday, opposition finance spokesman Jim Chalmers thought to bat away these dangers by saying: don't worry now about the market conditions today — trust us, as we are making this policy for the "long term".

But this ignores the real risks that Labor's policy poses to stability of the housing market, the value of the No 1 household asset and the adverse impact it could have on Australia's credit rating and economic growth.

Let's not forget the RBA governor recently said of the housing market: "It is good news that the adjustment is taking place at a time when global growth is strong, the labour market is positive and interest rates are low."

Were any of these conditions to be different at the time Labor hits the property sector with its new property tax, the consequences on housing prices could even be worse.

Australia is enjoying its 27th year of consecutive economic growth, a AAA credit rating from the three leading agencies and a budget deficit that is the lowest in a decade.

This is not the time to give Labor a chance to roll the dice with its reckless and punitive taxation policy that puts at risk our economic strength.

Josh Frydenberg is the federal Treasurer.