Forward Thinking – *Housing affordability: Resurrecting the Australian dream*

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Is the great Australian dream becoming a fantasy? Public anxiety about housing affordability is on the rise. Home ownership rates are on the decline, especially among the young. Australian house prices have more than doubled since the mid-1990s, outstripping incomes. Without change, a generation of Australians risks being locked out of the housing market.

Australian governments are responding. Federal Treasurer Scott Morrison says he will use the May budget to tackle housing affordability. The Victorian State Government has already announced a plan to help first homer buyers. New NSW Premier Gladys Berejiklian has nominated housing affordability as one of her top priorities. The issue of housing affordability has vexed Australian governments for decades Successive federal and state governments have told voters they can fix the problem. And all the while house prices have continued to rise. There is no shortage of proposed policy solutions. But how do we sort the good from the bad?

In this *Forward Thinking* event at the State Library of NSW, Jessica Irvine, senior economics writer for Fairfax Media, Princess Ventura, Director at Urbis and Grattan Institute Fellow Brendan Coates discussed the problem, and weighed the options for reform.

Speakers: Jessica Irvine, Economics Journalist, Author
Princess Ventura, Director, Urbis
Brendan Coates, Fellow, Grattan Institute

BRENDAN COATES: Welcome to tonight's *Forward Thinking* event hosted by the State Library of New South Wales. My name is Brendan Coates and I'm a Fellow here at the Grattan Institute. It's a great pleasure to be here with you all and thank you very much for coming. First of all, I'd like to acknowledge the traditional owners of this land, the Wurundjeri people, and pay respects to their elders past and present.

I'm privileged to be joined here tonight on the panel by two people who are both very well-placed to discuss the issue of housing affordability. Firstly, Jessica Irvine, who is one of the Australia's leading economists and is renowned for explaining complex ideas in a simple and entertaining way. She's a journalist at Fairfax's Sydney Morning Herald (SMH) and The Age and has been so for more than a decade and was National Economics Editor of News Corp, Australia's tabloids, between 2012 and 2014. Jessica is also the author of two books, *Zombies, bananas and why there are no economists in heaven: the economics of real life* – that's quite a title – and *The Bottom Line Diet,* and she has written extensively on the issue of housing affordability. Also joining us tonight is Princess Ventura, who is a Director at Urbis, one of Australia's leading property consultancy firms. She has studied and worked in the Philippines, the US, Sri Lanka and Australia, and spent eight years at the World Bank advising governments on policies to reduce poverty and promote economic growth. Princess has also worked on largescale developments at Urbis, such as Barangaroo, One Sydney and Circular Quay, and critical government initiatives, such as the Sydney Strategic Centres and the Sydney District Plans. Ken Morrison was a late apology, he is unfortunately unwell and sends his regards, but we're very grateful to have both Jessica and Princess with us tonight.

The structure for tonight's event is 40 minutes for a panel discussion, so we'll explore the issues of housing affordability and can we rebuild the great Australian dream or do we need to rethink it, then there'll be 30 minutes for questions from the audience. There's a lot to cover, so if an issue doesn't come up in the discussion that you would like to see, please ask a question about it and we can address those issues then. If there is something that comes up and we don't go into it, it's not an explicit sin of omission, it's just that there's a lot in this area. I'd like to start by setting the scene about where we've got to. House prices have risen rapidly for the last three decades and Sydneysiders would know this more than anyone else in the country. We've seen ratios of house prices to incomes rise from roughly six to nine times in Sydney and from five to seven times in Melbourne, other measures are higher, some put Sydney's ratio of prices to incomes at 12 times, although there are distinctions or differences between how different parts of the country are growing. Prices in Sydney are up very strongly at roughly 19% over the last year, with a 16% increase in Melbourne, whereas Brisbane and Adelaide are pretty flat and Perth is going backwards. Also, surprisingly, this isn't just an issue in our cities. Median house price to income ratios have also risen in regional areas over the last couple of decades, so from four to six-and-a-half times in regional New South Wales with a similar two-and-a-half times income increase in Victoria. Given the lack of supply constraints in regional and rural towns it does suggest to me that both supply and demand are to blame for this situation.

So what's this done? Well, we've seen housing become less affordable and homeownership rates are on the decline, especially amongst the young and the poor. Homeownership rates have fallen very significantly amongst those aged 25 to 34 and particularly amongst those that are in the bottom income quintile of that group. So homeownership rates amongst that age group have fallen from about 60% back in the early 1980s to less than 50% today and the fall for the next group up, the 35 to 44 year olds, has been roughly 10%. But amongst those that are aged 25 to 34, homeownership rates actually haven't changed if you're among the top 20% of income earners. They've fallen a lot if you're at the bottom, so it's an issue that's really hitting younger people and low income Australians, and the question is without change are we going to see a generation of Australians locked out of Australia's property market? We've also seen growing concerns about the issue of financial stability and whether rising house prices and rising debt are going to lead to some sort of crash or dislocation in our financial markets and the RBA Governor, Philip Lowe, spoke about this at an event last night. Household debt is certainly rising faster than income and there's been a big focus on interest-only lending.

The other issue that's floating around is the issue for renters. Purchasing is obviously one option, renting is another. Rents have grown quite slowly, they've only grown roughly in line with wages, but we have seen much higher rates of financial stress amongst those at the bottom. Financial stress amongst renters is certainly much higher than for homeowners, for example, people have skipped a meal because they can't afford to support themselves, they haven't paid a bill, they haven't paid their insurance or their registration. Amongst renters who are of working age who are not on income support, roughly 15% of renters are in that situation with roughly the same rate for age pensioners who are also renting, surprisingly, whereas those who are on income support, like Newstart, of working age is as high as 70%. Governments are responding. We've seen the Commonwealth Government with Treasurer Scott Morrison announce that the Budget is going to focus on housing affordability and the New South Wales Premier Gladys Berejiklian has promised to make this a big issue here in New South Wales, but it's not the first time that governments have promised to make housing more affordable and yet house prices have continued to rise.

So first of all Jessica, how have we got here? What's caused house prices to rise so quickly?

JESSICA IRVINE: There is a new sense that 19% for Sydney for the annual rate is ridiculous and it's so ridiculous it must be a bubble, and nobody can quite figure out how that happened so suddenly. But I wrote a piece this week, which was the top rating article on SMH yesterday which demonstrates to me the interest in it, saying that we don't have a property bubble as such because there are very good fundamental reasons why prices have gone up that much. I reheated an article I wrote I think back in 2005 when I was trying to say back then this isn't a bubble, this is actually people responding rationally to some changed macroeconomic conditions. I think people had got the story back in the early 2000s that Sydney had a massive run-up in prices and in 2003 the annual growth rate peaked at about 25%, so we're not even there yet, the main explanation being that structural interest rates had halved since the late 1990s. So when mum and dad had the mortgages at 19% or whatever it was, the mortgage rate had come down significantly, we'd had a step change. If you halve interest rates people can borrow twice as much and we had that big step. What we've had in the last couple of years since the GFC is another step down. We're in a new low growth/low inflation environment and interest rates again have come down very low. We can debate whether they'll return to where they were before, but it does seem to me that interest rates are lower for longer, therefore people have gone out and doubled down on mortgages and been able to borrow a lot more, so you do worry whether people have overextended themselves. Then we get into the debate about whether lending standards have been to lax or whether they have been under control, and that's certainly something to watch and that they're cracking down on.

So house prices are high because interest rates have lowered and, at the same time, we haven't had supply keeping pace with demand and natural population increase. We have a "head in the sand" attitude to migration. We're actually quite liberal in letting people in, particularly people with skills and qualifications, but we don't tend to like to admit that we're doing that so we don't build the urban infrastructure that we need to support such a rapidly growing population. So we didn't keep up with supply, interest rates are low, and then we changed the tax system to massively reward investment in housing and that increases demand for housing. We increased the discount on the capital gains tax and we've seen more demand coming to the market for that, so it really should be no surprise to anyone that housing is quite expensive given that we've run policies which didn't keep up with supply and increased demand. Bingo.

BRENDAN COATES: It's quite a story, isn't it? Princess, talking a bit more on the supply side, why do you think that supply hasn't kept up with demand? What have we done that's stopped that from coming online?

PRINCESS VENTURA: You're right in that one of the fundamental reasons why we are where we are is because we haven't kept up with demand. We've had strong population growth, but we haven't built dwellings at the same rate. Nimbyism is one reason for that. Housing, that should be a metropolitan-wide issue because it's critical to the competitive positioning of our cities and the liveability of our cities, is in the hands of the local councils in terms of ability to approve development applications related to residential is another. In New South Wales we probably set a world record in terms of having the most complex planning system there is. In New South Wales it's cumbersome, it's costly and it increases the cost of development which, at the end of the day, is passed on to the final buyer. It's also increasing the risk that developers have to undertake when they go about the business of trying to deliver dwellings, which means that also then increases the internal rate of return or the return that the developers are willing to take on to be in that residential development space.

BRENDAN COATES: There are reasons why we do plan our cities, there are private or personal reasons why people like things to be the way they are, and if we just let the market rip then those private preferences for housing would be internalised. But we also regulate the housing markets and our planning systems because there are broader social costs and benefits that come with different types of development and people do feel that they should have some say or control over their neighbourhoods. We also have seen that there have been big increases in supply in areas like the CBD and in the outer suburbs. Have we seen enough supply in the inner city? We've seen big increases in supply in Sydney in the CBD or within 5km of the city centre, but what's really holding that back?

PRINCESS VENTURA: In terms of holding back supply in the inner city, I talked about nimbyism as one aspect. You'll see that, for instance, in the draft District Plans that were just released by the Greater Sydney Commission. A number of those inner city local government areas that have strong access to jobs and amenities and public transport are also really close to the CBD, but the housing targets that are set for those local councils are disappointingly low. Those include local councils such as the Inner West, Willoughby, around the Chatswood area, and Sutherland as well. If you look at those District Plans, the housing targets for growth areas, such as the northwest and the southwest, are far higher when we know we really are poor in terms of amenities and transport and infrastructure in that area, which makes it a really expensive and inefficient way to grow if we have to follow and deliver more services in these areas.

BRENDAN COATES: I think we've certainly seen that when it comes to at the aggregate level, looking at the density capacity. Sydney has become denser within the 5km closest to the CBD and it's becoming denser 20km and further out, but in that ring between 5km and 15/20km from the CBD density has hardly moved over the last 20 years or so. Interestingly enough, density in Sydney is less than what you see in Melbourne at equivalent distances from the CBD. Part of that's a question about are you constrained in having supply, but density is really a question not of the geography but of the choices governments are making. Jessica, we've had a situation where governments have been promising to solve housing affordability for about 20 years and house prices have kept rising. It sounds like we haven't dealt with some of the issues that are at the core of the problem. Why is that?

JESSICA IRVINE: I remember going to Parliament House in Canberra in 2006, I think it was, where Kevin Rudd had convened a National Housing Summit to solve the crisis. At the time interest rates were nearly double digits, so that's when it really gets the public's attention. I sat in the room, we had fantastic solutions, we needed more supply and we probably needed to wind back investor tax concessions. We ended up with First Home Saver Accounts, which nobody bought into, and that was it. Rudd was elected, the GFC hit, we unleashed stimulus, and one of the major things they did was to increase the First Homebuyers Grant, which, of course, just supports house prices and bids up the price of housing. Governments want to say the right thing and they want to have summits - I'm surprised we haven't had a summit yet, but I suspect there's one coming. We'll solve it all again. The basic arithmetic is that two-thirds of Australians own their own home, a decreasing proportion of those own it outright but they've either got a mortgage or they own, and it was John Howard who said, I think he's misquoted and I've never looked up the original quote, something to do with "nobody really complains when their house price goes up".

So the demographics are shifting on that and I do get a sense from a lot of the older owners, my parents' generation, that they do worry about what was the point of my house price going up if I'm just going to need to leave that to my children so that they can get a foot in the door? Is anyone really better off from that kind of a system? I hope that it changes but gosh, if we have any public policy change that even looks like it might lead to a 1% or 2% decline in house prices, unleash a scare campaign and that proposal is going out the door. So anything that needs to be done needs to be done in a phased way, it needs to be grandfathered, the sort of area we need to go into is open to scare tactics, and you can't change that arithmetic for the politicians, that two-thirds of people own. So I think that's why we're here.

BRENDAN COATES: Do you think that house prices actually have to fall for housing affordability to improve?

JESSICA IRVINE: Well, that would help, but it can just rise more slowly over time and I think that's where we should be aiming. I think everybody agrees that if you had gains in line with income, if they fell one year a little bit, I mean, that's what happened in Sydney over the decade from that 2003 peak. We did see some years where prices went backwards, sort of 5%, then gained a little bit, and net over a decade they hadn't moved very far relative to income. That's hopefully where we're heading again.

BRENDAN COATES: We have also had longer periods where house prices haven't risen in real terms, as in with respect to inflation, so even after the late Federation era boom of the 1890s, prices didn't return for a very long period, like 20/25 years or more before we got prices back to where they were. So they can stabilise or flat line for a long time. I do agree with you that you probably don't want to see prices going backwards in nominal terms, certainly there are risks that come from that process because of how our financial system works, how leverage works, all the rest of it. But I do think that if you're going to see housing become more affordable then you do need price to income ratios to drop in order for people to be able to fund purchases and for housing to become less expensive as part of people's lives. Princess, I want to bring you in here on the question of why do you think we haven't tackled this problem? Do you have anything to add to what Jessica has said about why we haven't dealt with housing affordability or why governments haven't dealt with this over the last couple of decades?

PRINCESS VENTURA: There are two things that I'd add. One is really vested interests and this whole issue of the taxes that we have linked to residential housing. Government is addicted to some of these taxes. States are addicted to stamp duty. Recently the New South Wales Parliament Research Group issued a discussion paper on housing affordability, I think it was only in the last couple of days actually, that projects the reliance of the New South Wales state budget on stamp duty to increase over time because they're projecting house prices to continue rising. So I think that's one. The other thing is I think we scare easily sometimes as a country and when the housing crisis in the US hit in the late 2000s that really scared Australia, especially government, to say, "Oh, wait a second. Maybe we shouldn't be encouraging all of this supply to come online because the experience of the US might translate to Australia as well".

BRENDAN COATES: One of the things that wasn't in your list before Jessica was this idea that we see agglomeration economies of scale and that you get more benefits from clustering economic activity close to our major cities. I do think this is one of the drivers that we've had of why house prices have become higher, because when you're talking about the price of housing you're really talking about the price of land; the vast majority of the purchase price is actually the land that underpins the house. We've seen in Sydney almost half of all new jobs growth over the five years to 2011 was within 2km of the city centre, in Melbourne it was more than half the jobs growth. So you're seeing this concentration of economic activity in the centres of our cities but, at the same time, we're seeing that we're building relatively less of our housing close to those areas and more of our housing has been on the urban fringe, that's where population growth has been. What kinds of problems do you think rising housing costs present to the economy as a whole? How does this affect how our macroeconomy functions?

JESSICA IRVINE: First, that's what makes me so irate when people say, "Oh, if only these young kids would move a bit further out, like we had to, then they could stop whingeing and we could get over it." You're right. All the jobs growth in the new economy is in those knowledge-based sectors. Professional services are expanding as a share of the economy and those tend to be located in the inner city and a declining proportion of people are employed in jobs that can be spread and decentralised in that way. I see inevitably that we will need to house more people closer to the city. It would be nice to have people on the fringe and in the middle and outer rings, but the way the economy is going is that there are economies of scale generated by having people close together in a central hub, and I think Lucy Ellis, from the Reserve Bank, was pointing out that we see this in cities all over the world. Cities are drawing in the people, so we do have that need to increase the density. I've forgotten what the question was at the start.

BRENDAN COATES: So have I, but that's okay.

JESSICA IRVINE: I got distracted by all the people who have told me to move further out! And also back then the roads weren't as congested. That's another thing, we had a Premier who said that the city was closed and didn't build any new public transport or roads, therefore increasing the indirect costs of moving out because what you'd save on a lower house price you'd pay with your time being stuck in traffic. Hopefully Gladys is getting moving on that. There's certainly enough disruption going on to think that maybe that will help and that will increase supply, if you make land better located just by creating those public transport linkages.

BRENDAN COATES: So you were blinded by rage there with my question?

JESSICA IRVINE: I was blinded by rage.

BRENDAN COATES: In that case, Princess, what do you see being the consequences if you don't build the supply where the jobs are increasingly going, which is close to the city centre? What does that do to the economy?

PRINCESS VENTURA: One thing is it's an inefficient way to grow because that means we can't leverage the existing infrastructure that we have, both in terms of economic infrastructure as well as social infrastructure. We know this is an issue, for instance, when we have growth areas and how long it takes for schools to follow or for shopping centres to follow. We're a small population, unfortunately or fortunately, in a big continent, so in terms of economies of scale that's already an issue for us, even if we did grow in a more compact way. I think we're aggravating it by encouraging urban sprawl, that's one thing. The other is I think in the long run this is going to have an impact on the liveability of our cities and our ability to attract talent into our cities because knowledge workers, those who are educated and young, look for vibrant places to live in. It's pretty hard to be vibrant when there aren't that many people and there aren't any amenities in an area. We're already seeing housing sprawl, you're talking about sprawl, but in terms of housing affordability we see that's a real economic issue. It's not just a social issue, it's not just about the dream; it has an impact on our economy.

I asked one of my guys to look up the composition of population growth in New South Wales. In terms of interstate migration we've always been in the negative, we've always lost more people to other states than we have people moving from the other states to New South Wales. For 36 years it's been consistent. For 36 years we have not had one year where we've gained more people from the other states than we've lost. I'm sure some of you in this room have also experienced that conversation with someone who is bright and talented, I've had a couple of conversations where people are at the prime of their career but they're also at that age where they have that Australian dream, they want to own their home, and they've said to me, "I have to move to Melbourne or Brisbane because we can never own a home here".

BRENDAN COATES: They should look at Canberra. That would be cheaper.

PRINCESS VENTURA: That means that the advantage in terms of housing affordability not just in other cities in Australia but in cities across the world, such as Singapore for instance, people are seeing those benefits as outweighing the economic opportunities that we're able to provide in Sydney.

BRENDAN COATES: I would push back to a degree and say that there are lots of people who live in Sydney or Melbourne, in our major cities, who are quite comfortable with the way that the cities are. They value the amenity of having a stereotypical quarter-acre block or they value that style of life, while also having access to great transport links and everything else. I used to live in Carlton in Melbourne, it's a wonderful place to live to have quite a quiet, peaceful place, but you're only 3km from the city centre and you have all these transport links. I can certainly see how someone would value that as a mode of living and there are certainly lots of Australians in the social survey data that suggest they value that kind of community, not just the dense apartment-type living.

PRINCESS VENTURA: But Australia is changing. If you look at New South Wales in terms of our population growth, our strongest source of population growth is international migration. Then you look at where people are coming from. They come from really big, vibrant Asian cities. I think the Australian dream has changed. I certainly am not one to move to Australia and live on a quarter-acre block in, I don't know, the Blue Mountains or near the new airport or something like that because that's not Sydney to me, you know?

JESSICA IRVINE: I felt the dream about six months after my son was born and I was sort of like, "Oh no, I need the backyard!" I definitely want the dream, but I don't want it forever. I probably only want the dream, being the quarter-acre block, for as long as I have a son at home who might want to run outside, then I'm more than happy to come back into the city and go to cafes and visit the Opera House. What we really need is a new sense of flexibility that you don't buy a house that you literally get taken out in a coffin, which is still the way our entire system is generated, including the tax system. I've called it "nailing granny to the floor" just so you get all the tax breaks on her house. I get the feeling that we have the dream, but only in a limited sense and I think more of my friends are happy to live in apartments. I've accepted that I probably will never buy a three bedroom house when I eventually buy, and I think I do need to buy.

I've had a lot of very good economists come up and hit me around the head a few times for the articles that I've written extolling the benefits of renting, which I do believe in. Financially it's a terrible decision to rent, or it has proved that way over the last two decades. If you look at 23 years of data, I did see a survey recently and if you plot if you'd bought in that year versus renting there were actually four years where you were better off renting, but 19 years where you were better off buying, given what happened to house prices. So, whoops!

BRENDAN COATES: If only we knew at the time.

JESSICA IRVINE: I didn't have the money to buy at the time, but I do accept some of the criticism from Bernard Salt that I probably have eaten too many smashed avocados in my life.

BRENDAN COATES: As a recent homeowner, I tend to consume my smashed avocado at home in my backyard in Preston in Melbourne, but it's the feta that's the expensive part.

JESSICA IRVINE: Yes.

BRENDAN COATES: We've talked a bit about homeownership and whether that's the way that we should be thinking about the problem. Do you think it's a problem that homeownership rates are actually falling, Jessica?

JESSICA IRVINE: I do think it's a problem, not necessarily in and of itself. If you look back historically, we had the massive ramp up in homeownership after the Second World War. Before that there were more than 50% of households which were owner-occupied, now it's 70% and has slipped since then. If we have declining homeownership that's not necessarily something we've never had before, it's actually taking us back to a more historic norm but, unfortunately, in those interceding decades we've structured our entire tax and welfare system around homeownership. To really have any money when you're old you'd better have locked it all up in bricks and mortar and taken advantage of all the tax-free status that you have. So the way we've set it up yes, it does matter that a lot of young Australians will miss out on that security in retirement unless we change it, and what it means is a more unequal society of haves and have nots divided around whether you own property or not. We've made it important so yes, it is important that it's declining and, unless we change the system, it is a legitimate goal to try and maintain or increase homeownership.

BRENDAN COATES: I'd add to that, Grattan's work in the *Wealth of Generations* report that we did certainly showed that rising house prices have increased the risk that the younger generation may be worse off than their parents. So if someone of my generation didn't benefit from the increases in wealth that came with housing from the early '90s/late '80s for all the reasons that we've talked about, some people got into the market, but a lot of those that didn't instead are faced with a situation where they've missed out on essentially a windfall gain. Older Australians have certainly saved hard in order to fund or to develop the asset base that they have, but I look forward as a homeowner now and I certainly don't expect to see that sort of price growth. It's as much a social decision as it is an economic one. Princess, do you think that we need to change the idea of the Australian dream? Should we be tied to this idea of homeownership or should we be acknowledging that life is changing, the economy is changing, our housing market is changing, and we have to adapt at the same time?

PRINCESS VENTURA: Certainly I'm also supportive of renting in terms of it does have economic benefits at a macro level as opposed to ownership because you'd argue it facilitates labour mobility. People are not tied to their homes and they don't have to be buried there so they can move to where the economic opportunities are and it's an efficient way for our economy to work, given as well that we have a really small population base. We have to be much more adaptable, I think. Is it an issue in itself? I don't think it's an issue in itself. I was having a conversation with Brendan yesterday and he said, "Oh, the title is 'Resurrecting the Australian dream'?" and I said, "I don't know, I'm thinking we need to change or reimagine the Australian dream". Like you said, the dream needs to evolve. It doesn't always have to be that dream. Maybe at some part of your life it is, but it has to change.

JESSICA IRVINE: The flipside is to fix the Australian nightmare, which is renting.

BRENDAN COATES: That was an alternative title for the event. Since you've gone there, what do we need to do to make renting more attractive, or is there anything we need to do on that front?

JESSICA IRVINE: Yes. When I talk about we used to have lower homeownership rates, when you looked at the people who were renting around the Second World War era a larger proportion of renters were not in private rental but in state-provided rental accommodation. We've seen governments exit that space so most renters are with private landlords and we have several structural things in our tax system, which we were talking about before, that inhibit largescale investors, like Stockland or Lendlease or something, developing the property and then renting it out as a professional largescale property manager who knows that you're going to want to put hooks in and you're going to have a leaky tap and has an onsite professional handyman to come and fix things. That is something that is more common in other countries. The reason we don't have that here is because investors pay land tax and they only get a tax-free threshold on a value amount, which is $500,000, and then you progressively pay more over that. So what you'd need to do is instead levy the land tax per dwelling within the investment holding and not pay punitively high rates of land tax for having ten properties worth $500,000 and then paying a lot more land tax. So that's one thing we need to do.

Our retail tenancy laws were written before any consumer laws were written in recent decades and they are quite outrageous in the power that they give landlords over tenants. That's understandable because the landlords are mums and dads. You're living in their investment property and they get quite emotionally attached to their retirement nest egg that you're having the privilege of living in. So there are all sorts of issues around getting things fixed around the house and not fearing that your landlord is going to come round and check up on you, and the thing that really needs to change, and is being looked at in New South Wales, are changes to the no grounds evictions laws. So what we want to see is an expanded set of definitions as to when you can legitimately kick out a tenant, so if you're selling the property or if you want to move back in, but removing the ability to just end an ongoing lease outside the fixed period with no grounds. Because what that does is you say to your landlord, "Well I don't really want to pay $50 more a week thank you very much" and they say, "Righto, here's two months, you can get out. I've asked you for an excessive amount of rent, but I'll kick you out just because I don't want you to push back".

So we need to shift the power in the private rental market and when I write articles on that there's a lot of interest in that from young Australians. Renting has changed. It used to be the domain of not-very-well-off people who really can't knuckle down and get a job, but there's a large and growing class of younger Australians who need to spend longer in the private rental market before they can save the deposit and there is fear and loathing in the rental market, which I think was the sell on one of my stories. So we need to look at that too, which I don't think people are really talking about. It's still focused on get more people into homes, but we need to think about the conditions that people are living in in the meantime.

BRENDAN COATES: It doesn't surprise me that younger Australians who are renting would want to see the scales rebalanced more in their favour with respect to rental laws, but what about the other side of the equation? So you've got people who do own their own homes or own an investment property. Yes, it would be better if progressive state land taxes weren't in fact progressive in the sense that you charge more for a given property because the tax rate is assessed on the overall holdings of the institution or the firm or the individual, and that certainly seems to discourage super funds and others from investing. But you do have mum and dad investors and you hear nightmare stories of tenants that trash the place and then they have trouble getting rid of them, and we also want more supply. So what about the argument that if you shift the balance towards tenants you'll end up with less supply of investment property?

JESSICA IRVINE: Maybe. So if an investor decides, "I can't be bothered dealing with these terrible young people who wreck the joint, I'll put my money in cash instead" that frees up a house that the young person could buy.

BRENDAN COATES: That's the immediate response and then the question is we have a housing stock that we only add 2% to each year. So at the time yes, that's precisely what you would see happening, but the question is what happens over time? Do you start to see more or less supply of new housing because it's a less attractive investment class?

JESSICA IRVINE: But if investors didn't own ten properties and they only owned one that would free up nine properties for other people to buy, so yes.

BRENDAN COATES: Fair enough. Onto the question of what we should actually do about the problem of home ownership rates falling. We've certainly seen a bunch of proposals flagged at the Commonwealth level by Treasurer Scott Morrison, by other members of his government, by overeager backbenchers and via the pages of The Australian or The Australian Financial Review. It's not quite clear who's proposing which policies at all time, but here are a few of the ideas that have been flagged: allowing first home buyers to access their super; state-sponsored shared equity schemes; a bond aggregator for the social housing sector; and providing incentives for the states to boost housing supply. I'm sure there are others that you could talk to as well, but how do you characterise the proposals that have been put forward? Do you think it looks like we're going to try to solve the problem or are we sitting somewhere else?

PRINCESS VENTURA: All those proposals and every other proposal or policy in the residential development space that has been implemented, the majority of them, don't address the root cause of the problem, and the root cause of the problem is we don't have enough supply, we're not delivering enough dwellings. It's a classic economic issue. It's the first class you take in economics on demand and supply. If demand goes up but supply stays the same, the outcome is higher prices. That's one thing. The second is the cost of development. It is very expensive to develop residential property in Australia, particularly in Sydney, and part of that is not just about the taxes but the burden of regulation and the risk that developers have to undertake in terms of timeframe. They don't know whether their planning application will be approved in one year, in two years or in five years, so they build that in in terms of the return on investment that they require. Third are the transaction costs, the fees. We have a really, really inflexible residential market and part of it is stamp duty which makes it very expensive for people to try and move to the dwelling that might be more suitable to their current life stage.

For instance, we also work in the retirement living space and we do primary research where we ask potential buyers of independent living units what they are willing to pay in terms of price, what they are looking for and so forth, and one of the common themes is they say, "Why would I move from a four bedroom detached house to a two bedroom independent living unit if when I add the transaction costs in, when I add stamp duty in I'm not going to gain financially from it, I'll be in the same position financially?"

BRENDAN COATES: A lot of the issues relating to the supply side, and you've mentioned stamp duties and so on, sit on the state side of responsibilities, either state or local councils. Victoria has released a housing plan in recent weeks that will seek to address some of these questions, they do so with a various level of success, but I want to stay focused on the Commonwealth for a little bit longer. Supply is a big part of the question and that's obviously a state government responsibility. Treasurer Scott Morrison likes to talk about supply a lot and it might be a coincidence that there is a level of state government responsibility. Jessica, what should a Commonwealth Government do on the demand side to solve this problem?

JESSICA IRVINE: The Commonwealth really has control over the demand side of the equation. So we can bring prices lower by increasing supply or we can decrease demand. I sit very much on do both, why not? Our situation is you're probably more supply and I'm saying we really need to clamp down on demand. I have a bold new tax plan and this is what I think Morrison should stand up on the second Tuesday in May and say.

We are not going to touch negative gearing. I think that debate has become too toxic from the last election. Negative gearing is a feature of the way we tax our other forms of investment as well, like when setting up a small business you can deduct losses in that way. For tax simplicity, we won't touch negative gearing, that's too toxic. What we do think is it's not fair that there is a large tax discount on capital gains on property but not an equivalent tax discount on other forms of saving, like interest earned in bank accounts. So what we're going to do is reduce one of those discounts and increase it. We're going to have a 40% capital gains tax discount but first time savers, who are trying very hard to enter the property market and have got all their money sitting in a term deposit, like a good person should who wants to buy something, will get a 40% discount too on the bank interest that they earn on that. So investors have to lose a little bit, we'll phase it out. We're not going to do anything until 2020, but we'll start to phase it down one percentage point every year for ten years and we will help first home buyers first up, or something like that.

They could do something quite creative like that. They're the politicians, they should figure out the optics of it. My sense is that Scott Morrison is receptive to doing things like that, but it's the Prime Minister's Office who doesn't want to touch that. I may be wrong, but we could see something courageous. And given that Labor has already come out and said reduce the capital gains tax discount to 25% I think, I may have that wrong, they will get bipartisanship. Easy win, problem solved.

BRENDAN COATES: So Treasurer, my next question to you would be you're looking at providing a high discount on various forms of savings, but we also have this budget problem that sits here that's quite large, it's sitting at about $40 billion a year and, despite our best efforts to wish it away over the course of the last six or seven years, it hasn't got any smaller. In fact, it's still around 2% to 3% of GDP. On my rough estimates, moving to a 40 percentage point discount for all forms of savings would probably cost the budget quite a lot of money. There is a question about what level you go to.

JESSICA IRVINE: But you raise money because you're not giving as much of a discount on the property and shares.

BRENDAN COATES: Yes, so it's a question of the balance of those two things.

JESSICA IRVINE: Yes, whether it could be done in a revenue-neutral way.

BRENDAN COATES: So my question would be you might want to go a bit further, and this is based on research that we did for a previous report called *Super Tax Targeting*. There is a lot of evidence to say that households are very sensitive to relative tax rates in discerning where they save. Part of the issue about negative gearing and the capital gains tax discount and the combination of those two together is that, given that it's much easier to get access to leverage for property, we've seen a lot of investment in housing and it's probably distorted the investment mix towards housing. We know that there's lots of evidence that people care where they save. There's a lot less evidence to say that people actually change how much they save based on the aggregate tax rate that they face. So I would take your plan and I try to solve both problems at once and, say, drop it to 30, 20 percentage point discount.

JESSICA IRVINE: Right.

BRENDAN COATES: Grattan's own position in a previous report was to move the capital gains tax discount to 25% and to restrict negative gearing in the sense that you would no longer be able to offset investment property losses, like the interest that you're paying, against your wage and salary income. Our estimate would be that that would save the budget around $5 billion a year upfront, which would fall gradually over time because people would then be able to withhold their investment losses and offset them against the capital gain at the end. And it would probably see house prices fall by maybe one to two percentage points compared to where they would be otherwise, so in a world of 19% growth maybe they grow by 17% in Sydney instead, which wouldn't be so bad.

JESSICA IRVINE: I think you put that report out before the last election and Morrison said no.

BRENDAN COATES: On the negative gearing side, yes. On the super side we've had quite a lot of progress but yes, on the negative gearing side that's true. It interesting that Labor have picked up the capital gains tax discount, we were one of many people advocating for that and that it's actually the capital gains tax discount that does all the work in this problem; it's not negative gearing.

JESSICA IRVINE: Yes, because negative gearing only works if you eventually do make some money at the end of the day, and not having to pay as much tax on that certainly helps you to get over the line.

BRENDAN COATES: We've hit the end of our time for panel discussion. I want to give both of you the opportunity to give any parting comments or reflections that you wanted to add before we go to questions.

PRINCESS VENTURA: The last thing I want to say is that housing affordability is not just a social issue. It is absolutely an economic issue. It will impact on the competitiveness of our economy if we don't fix it now in terms of our cities' ability to attract talent. You see places like, for instance, Singapore, which is held up as an excellent example of where they treat housing affordability as an economic issue, not just a social issue. I was in Singapore last month and we met with the Urban Renewal Authority, which is the arm of government that is in charge of releasing land. While there are a lot of Singaporeans who have studied in Australia and who have university degrees from Australia, many of them choose to go back because of this housing affordability question. In Singapore an average apartment would be two bedrooms, about $60m^2$ and cost around $200,000.

What does that mean? Well, 90% of Singaporeans nationals own their own homes. As a ratio of income that's held up as an example, you look at Demographia, they say the ratio in terms of income versus median property price is five compared to our call it 10, call it 12. It's a ratio of five, which points to what the impact could be of really good planning policy, because when you think about Singapore they don't really have much land. We think in Sydney we don't have much land, but they have less land in Singapore. How have they been able to do that? It's about supply, they track data, which I think is critical - we don't track the market as well as we should - and they ensure that they have enough supply to keep up with demand. So that's one reason, the second is they have a very simple and streamlined planning process so they can deliver dwellings as quickly as possible to market.

BRENDAN COATES: Jessica, any other thoughts?

JESSICA IRVINE: I want to believe that we're on the precipice of doing something fantastic which will reverse the slide in homeownership rates and get more people into the market. I've been here before ten years ago, so once bitten twice shy. They will have to come up with something and there will be measures to the extent that they may just be targeted measures at helping low income people. Scott Morrison's idea of the bond aggregator, which is to help community housing sector providers to access finance, the government chips in a subsidy which increases the attractiveness to investors to give money to build low-cost rental housing. I think we really have to go about this with a sense of equity and helping low income people, because if we just let the market rip there are people who will be trapped in rental housing forever and they will miss out on all of the fantastic tax system and perks that homeownership brings, and that takes us down a really troubling road for society I think. Maybe they will do something on capital gains tax, maybe they won't, but I do hold out some hope that there might be something more solid at the margin things to provide those on a low income with quality affordable housing, whether that's at the state level or the feds. So I find that encouraging. I'm not going to hold my breath for massive reform to the tax system, but I will secretly hope for it.

BRENDAN COATES: I share your desire for optimism. I think the way I characterise the debate so far is being one where governments have spent the last 20 years sitting in the corner doing things that either don't make much difference or have big collateral budgetary costs or make the problem worse, in the case of First Homeowner Grants. There are a bunch of policies that would make a big difference, but they sit on a different part of the spectrum of easy and hard. They sit at the hard end and they involve big political trade-offs. Doing something on supply in the middle ring, addressing negative gearing, addressing other parts of the tax rules that favour investment or incentivise investment in housing would make a big difference, but it will require governments, either at the Commonwealth or state level, to tackle some pretty difficult challenges if they want to make a difference. You've heard enough, so I'd like to go to questions.

AUDIENCE: I think there's a different version of the Australian dream and I'm interested in your comments on this. Rachel Botsman has written a very interesting book about co-operative consumption versus hyper-consumption, that is you don't have to own a big house, three cars, a swimming pool, a garden, a home theatre and all these things yourself, but you can get access to them. I think the apartment way of living is starting to do that, you share more, but you still own a certain component. I think there's a mid-path here between totally renting and not owning anything and sharing, getting access to a whole lot of things, even GoGet cars down in the basement and things like this. I'm interested in whether you feel there's a mid-path in Rachel Botsman's version of co-operative consumption?

BRENDAN COATES: Any thoughts from the renters on the panel?

JESSICA IRVINE: I just realised that's me! I think that's the way it's going, whether by force or by design. I've been following a lot of blogs on minimalism, which is a really big thing amongst my generation or younger. I've recently chucked out 50% to 60% to 70% of the objects that I own and I'm happier to now live in a smaller space because I'm not accumulating all the things. I still own a car, but there's a GoGet down the road. This idea that there are online markets where you can access things, you don't have to own, you can rent the things, is a huge trend. I don't know if I'm being forced into that or it's something that people are naturally attracted to from this generation, but I do value being flexible, being able to move when I want to. I still haven't quite caught the bug of the Australian dream yet. I still remain attracted to some of the advantages of renting. I think young people, by force or by choice, that's the way that we will increasingly live. I hadn't heard of that particular term, that's interesting.

PRINCESS VENTURA: I think we are heading that way, particularly with the younger generation. We work in the retail space as well at Urbis. When you look at retail spending there is a real structural change you see, and I'm sure you experience this and live this. We went through that phase where we were about accumulating stuff, you buy the biggest TV, you change your DVD player to the newest model every couple of years, you accumulate heaps of clothes and shoes - I probably still accumulate shoes, that hasn't changed. Now a higher proportion of people's disposable income has shifted from that to purchasing experiences. The real growth in retail in the last five to six years has been on food and beverages. This is why shopping centres suddenly, instead of one boring food court, now have a fake street facing a food and beverage precinct because that is where the growth is. You see it in the CBD, you see commercial buildings, for instance the DEXUS Gateway, I worked on that, it's a new standard of food in a commercial tower, because you're finding that people are actually starting to purchase or spend more on and value experiences. I think that's why I can see that trend going forward, where owning something yourself is not necessarily going to be the way forward.

BRENDAN COATES: I would add to Jessica's comment that it's much more attractive to have the great Australian dream when the house is in Bondi than out in the west or somewhere else.

AUDIENCE: I rent and notice that there is a massive exodus or haemorrhaging of creatives from the city because it's far cheap to live in Berlin than it is to live anywhere in Australia. My first question is related to the previous question, why is the conversation about housing so boring? Why don't we consider other forms of social housing, like community land trusts which is a very successful model in America and also Europe? My second point is no-one mentioned the 120,000 vacant dwellings in Sydney, that are quite possibly 200,000 by now.

JESSICA IRVINE: I do know that vacant dwellings are something that the New South Wales Treasury has been looking at with the same idea as Vancouver, the difficulty there being that it's administratively hard, you have to survey, do a census of all the properties and get the owners to declare honestly whether it was vacant or whether they lived in it for a bit. So it becomes administratively a bit of a hassle, but yes, I'm interested in the idea at least that you would have a vacant home tax and you would have to pay more if you didn't actually lease out the property to renters. If the whole thing is we can't wind back investment taxes because all these investment properties provide great shelter for renters, then if they're not, if they're just sitting there vacant, what's the point? I'm interested in that, but I think administratively it becomes harder to do and people would lie and say they've lived there for one night out of 30 or something. So it's not quite as easy as that. In terms of community housing, I think the way forward is new smaller developments where if people can buy in and then access some of the tax breaks, we can either remove the tax breaks that insist that we must own, or create smaller, more innovative ways for people to live. That's an option.

PRINCESS VENTURA: I agree, I think we need to restructure incentives so that they incentivise those sorts of outcomes, more creative outcomes, things that are really out of the box, rather than rewarding the everyday and the ordinary. In terms of the empty dwellings that we have across Sydney, it's absolutely the outcome of capital gains. I'm not a fan of negative gearing; it's also an outcome of that. You kind of go, "Well, I'll get capital appreciation. I don't need to make money out of the rental income. I'm just going to invest in that in terms of capital gains". That's the outcome that we're getting.

BRENDAN COATES: Victoria is introducing a Vancouver-style tax on vacant properties and we wrote about this in The Age when the housing plan was announced. The issue is how do you actually enact this, how do you enforce or seek to do that? We were quite sceptical of the Victorian approach because it naturally includes exemptions for holiday homes, it includes exemptions if you have to be away from Australia for a period of time, it includes exemptions if you're in the country and you keep a residence in the city. And the tax is quite large, it's 1% of the land value, so it's worth trying to avoid and if you can't find a decent lawyer or accountant who can help you avoid it then you're probably not trying very hard.

AUDIENCE: Obviously the other side of this equation is wage or income growth. We're seeing a period in which there's been very low income growth and, although we've got a "jobs and growth" Prime Minister and a "jobs and growth" President in the US, I'm not seeing a lot of predictions that wage growth is going lift substantially in the near term. Given the disparity between income growth and price growth, can we realistically address this problem without prices coming down? Can we do this painlessly or will we have to wear the negative economic effects of decreasing house prices in order to open up property to a new generation?

BRENDAN COATES: We've certainly seen wages grow quite slowly or in fact be flat for a while. Part of that is an overhang of the mining boom. We saw terms of trade massively increase, that did flow through economically into the wages not just of those working in those sectors, but through the rest of the economy and into the eastern states. On the question of wages growth going forward I'm a little bit pessimistic. We keep seeing the Treasury and others forecast recovery in wages and unemployment coming down, and it hasn't happened. I do think that the global economy is heading into a better place. Despite some of the political turmoil that you might be seeing in the US or Europe, the economies of those countries are recovering quite well compared to where they have been and the RBA is obviously committed to trying to meet its inflation target. If you can get inflation back towards some level then wages probably will lift a little bit. Obviously, if you have higher wage or income growth then this helps solve the problem of price to income ratios for housing and housing being unaffordable, although I would add that rising incomes are one of the reasons why house prices have risen, given the constrained supply. If you do have further income growth it may not actually help you all that much. Any thoughts?

PRINCESS VENTURA: You see that in the Perth market. The boom is over, they had a period of really strong price growth and also rental growth and we've seen it come back in the last three to four years, so there is that adjustment. Do we have to go through that? If we don't lift productivity, which should result in wage increases, definitely I think they need to go back.

JESSICA IRVINE: Don't compare 19% price growth in Sydney to 2% wages growth, because prices have been falling in Perth where wages growth has been particularly slow while it's probably been a bit more above average in Sydney. But it's definitely not been 19%, which is why we do need to have a period of hopefully slow adjustment to slower growth in prices.

AUDIENCE: The government's just been through a bruising 12 month process on getting very incremental productivity growth for the economy through lowering company tax rates. When their supposed mantra is "budget repair, innovation and growth" why haven't they been able to transform this argument to remove the concessions or restructure concessions so that there is productive investment in the rest of the economy, which surely is the message that they want to give?

BRENDAN COATES: One, I think there's a genuine disagreement, for example, within the Coalition as to whether on both principle and political grounds you should do something on capital gains taxes. If you reduce the discount with respect to property you're probably also reducing it through other productive capital investments. If you're an investor you want to make a return and, depending upon where you're investing, that return is going to come partly in the form of an income stream, like a dividend, and partly in the form of capital gains. There is certainly a legitimate argument that one could subscribe to that reducing the capital gains tax discount will disincentivise innovation in capital investment and all the things you care about. Interestingly enough, it's the flipside of the coin to the company tax cuts story. It's not the company tax rate that matters to investors, it's the personal income tax system because of dividend imputation and there's a lot of debate about that. So I think that's one.

The other half of that story is a chronology. Labor announced that it would move on negative gearing and the capital gains tax discount. The reports that we have are that the Coalition was potentially thinking about going down that path, but they saw a clear political advantage in opposing that decision. I'm not sure that worked for them at the election or not. I think an observer might say that Labor was not heard as much as they thought they might be from taking a stand on something that, whether you agree with it or not, is clearly going to take something away from quite a lot of people and is obviously a very risky thing to do in Australian politics. Jessica, do you have anything to add on that?

JESSICA IRVINE: Yes. We had Ken Henry review the whole tax system and he told us that it's good to tax things that can't move, like land; it's bad to put taxes on things you do want to move, like stamp duties, they're terrible; and it's not really good to tax incomes or profits too much because they're mobile. We had the whole conversation, we were getting that, and then we had the mining tax debacle and I remember one of the members of the Henry panel saying, "The way that was mishandled has set back the cause of tax reform for at least a decade". He was right, it's been about a decade and we haven't been able to muster a sensible conversation about changing the tax mix since then. I get quite fatalistic about it, I don't see any chance that that's about to change, but people seem to have accepted the company tax cuts are going through and the polling shows it passes the pub test or whatever. None of the politicians are trying to look over the long term and have that sensible conversation. Sorry to bum you out on that, but it's true. I don't know what the catalyst is that changes that, but definitely people have been watching this for a long time. We sit around the newsroom and go, "Gosh. Yes, we used to talk about policies and we used to have really sensible discussions". It's very hard to do that these days.

AUDIENCE: No-one's mentioned that Australia's household debt to GDP is by far the highest in the world and it seems that it would only take a small shock, whether it be interest rates going up or whether it be some sort of macro-shock, like unemployment going up, that could really be the catalyst for a significant fall in house prices, which could go a big way towards solving the affordability problem. What do you think about that?

JESSICA IRVINE: I know I've run this past really good people who say it's hard to compare debt to GDP ratios of us to the rest of the world, it's something to do with the mining boom which is eluding me now. Well-informed people are quite strongly saying that we don't actually have the highest once you take into account our unique use off offset accounts, but it is very high compared to other countries. We just have a really good way of paying our mortgages that we've done for decades and we sacrifice everything for the mortgage, and I don't see the trigger for what brings that all undone. If we have a recession, and that's what the recent talk from the Reserve Bank is all about, that when the next recession comes and we do see forced joblessness and people being forced to put the properties on the market, that is where the real vulnerability is. So if we hit the next recession we are more vulnerable than we were before, but what is the catalyst for the next recession? An international shock perhaps, the rest of the world is picking up. It's more likely to be just a low stagnant economy for quite a long time. It could happen and we're more vulnerable, but I don't see what the immediate trigger that we should be worried about is.

BRENDAN COATES: I think it is a good question and it's certainly something that's capturing the public imagination at the moment, that there's this threat of a big crash and financial instability. It is worth taking seriously. There are strong fundamental reasons why house prices have risen, and we can all point to them, and then the question turns about whether you have a real problem, or it turns to a couple of points.

One is it's not high house prices that would cause some sort of dislocation of financials markets as leverage, so leverage has gone up. It's not the average investor that will default, it's the marginal investor, so what you really care about is lending standards and I see a lot of sense in what APRA is trying to do in trying to limit interest-only loans. The mortgage offset account issue means that even though the statement is that 40% of our lending at the moment is interest-only loans, the net effect of that is not that high because people don't have to repay but they are choosing to hold money in an offset account to reduce their leverage. The part of the market that worries me the most is if you think of the decisions for an investor. At the moment you're getting 3%, 3.5% gross rental yields in Melbourne and Sydney. If you take off 0.5% for land tax, 0.5% or something similar for council rates and 0.5% for maintenance costs you've got a gross rental yield of 2%. That decision doesn't make sense compared to alternative investments if you've got a benchmark rate of return of 6% unless you think there's going to be some more capital gains, and that at the moment appears to be generated by lower and lower interest rates. So it really depends on where you think the bottom of the interest rate cycle is.

As we mentioned earlier, the global economy is picking up and that could see us start to report more inflation, something we haven't done for a while. Commodity prices are higher, whether that stays up because of China who knows. That is probably the one part of the market that I look at and ask does it actually make sense anymore? You've got to be expecting more capital gains for that investment strategy to work and I think that might be starting to run its course.

AUDIENCE: Nobody's mentioned foreign investment. What role do you think that's playing on the rising house prices and should something be done to curb that?

PRINCESS VENTURA: Definitely it is increasing demand in Sydney, we are seeing that. It's also contributing to what somebody mentioned in terms of the number of dwellings that we have that are not occupied, because it is attracting money from overseas, particularly from Asia, that's looking for a safe haven. So it is increasing the demand and it is resulting in higher prices. In most countries, and I mentioned Singapore, which is one, what they do which we don't here is they levy a higher tax rate on foreign investors than on residents. That's one way of trying to manage that.

JESSICA IRVINE: And that's something that has only recently been introduced in New South Wales, but could definitely be increased because I think it's something quite small. One thing that I had heard is that foreign investors want the capital gain. The laws are different in Asian cities where there aren't as many powerful landlords to evict tenants when they need to, so people coming from those cultures are even less willing to rent out the investment property because in other countries if somebody lives there they get squatters' rights and it's very hard to kick people out. So there might be a cultural thing where people are buying into these massive apartment blocks and literally leaving them empty. So I think tax them. If you don't want something to happen, tax them. What's to lose? Maybe we would have fewer apartments get off the ground because another thing is that the developers say that these foreign buyers are the cornerstone investors, if you will, to get some developments up that wouldn't happen without them.

PRINCESS VENTURA: I don't know whether I believe that. I think they are the cornerstone of what would keep prices high, obviously, because they want to fetch the highest possible price and demand is always good for an investor, demand is always good for any business. I liked and worked in Sri Lanka for a while and after the end of the civil war there was real growth in terms of not just tourism, but also in attracting a lot of foreign investment. There is an emergence of apartments in Sri Lanka and it's pushing prices up. It's the same debate, people are getting priced out of the market, they're saying, because of foreign investors. Well, the tax on the property is equivalent to the value of your property. It's 100% on the value of your property. Has the market crashed? Not at all, although it has moderated demand because those investors are investing in Sri Lanka for the same reason that they're investing in Sydney, for capital gain. They see that market is just starting, let's buy up there and then go and sell it to the poor locals a couple of years later at double the price. So tax them.

JESSICA IRVINE: Good, we've found a tax we can increase.

BRENDAN COATES: On that note, that we should tax them more, we will finish. A couple of final thoughts, this is a problem that's taken a long time to unfold and will probably take a long time to solve, and we probably do need action, at least in my view, on the demand and on the supply side. It'll be really interesting to see over the coming months what the Commonwealth Government does in the Budget and what the New South Wales Premier does in June in their Budget. I do think it will take a long time, but unless we take action we'll probably be here in another ten years. There may have been another tax review by then.

JESSICA IRVINE: Yes, book the room, I think.

PRINCESS VENTURA: We've all moved to another city because of housing affordability being such an issue.

JESSICA IRVINE: Yes.

BRENDAN COATES: Thankfully, we don't have to book the room this early because of our partnership with the State Library of New South Wales; they'll keep it aside for us. We'd like to thank the State Library for the partnership, it's really valuable for us and particularly for the Grattan Institute to be able to come and engage in public debate on important public policy issues in Sydney. Thank you to the State Library staff that are here tonight and to Megan French, our communications specialist at Grattan. Thank you to all of you for coming along, thank you for the questions. I know I didn't ask any questions that were from the pre-prepared list, but that's largely because they were covered off in the discussion. If your question was not answered feel free to come up and we'll have a chat about what we think about it. Lastly, thank you to both Princess and Jessica, our speakers for tonight. We really value your input. We haven't solved any problems here, but hopefully we've got some extra food for thought.

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