



Budget 2016: Negative gearing helping drive housing prices up, Liberal MP John Alexander says

Four Corners

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Photo: John Alexander has led an inquiry into housing affordability. (AAP: Lukas Coch)

The Liberal MP who led a parliamentary inquiry into housing affordability has conceded negative gearing has contributed to the current spike in house prices.

KEY POINTS:

- Housing boom forcing buyers into huge mortgages, or out to the fringes of the cities
- Liberal MP John Alexander tells Four Corners negative gearing helped create price spike
- Jeff Kennett says Labor's new negative gearing policy is reasonable and responsible

Prime Minister Malcolm Turnbull has made it clear there will not be any changes to negative gearing in tomorrow's budget, but the debate is still going on, as house prices in Sydney and Melbourne remain out of reach for many first homebuyers.

The high prices are the result of a combination of factors — supply and demand, record low interest rates, and the mining boom — but many first homebuyers also blame negative gearing, which gives investors a big advantage in the market.

Liberal MP John Alexander led an inquiry into affordability, and told Four Corners negative gearing has led to a housing market "dominated by speculative investors".

"Too often we see the young couple getting beaten out at the auction, and then renting out the very place that they were trying to buy," he said.

Last year, more than half of new home loans went to investors, rather than to people wanting to buy a place to actually live in.

"We're travelling towards a market that is dominated by speculative investors. First homebuyers have really been unable to compete," Mr Alexander said.

Parliament's inquiry into housing affordability is due to report this year.

While his Liberal colleagues are singing the praises of negative gearing, Mr Alexander said it had helped to create the current price boom.

"Negative gearing has worked very well when it has provided affordable rental properties," Mr Alexander said.

"The moment that it intrudes on the marketplace and stops young families from buying the house, that's not ideal. And that's what's happened in this moment when interest rates have gotten so low."

MILLENNIALS SHUT OUT OF MARKET

In 2016, the generational divide in Australia splits along suburban streets.

It used to be that houses cost, on average, three or four times average earnings.

Now, it is more like 10 times average earnings in Melbourne. In Sydney, it is over 12 while in the middle and inner suburbs, it can be much, much higher, forcing first homebuyers into eye-wateringly large mortgages, or out to the fringes of the cities.

Australia's biggest ever housing boom has effectively shut millennials like Jules McKendry out of the market.

At 25, she and her partner have managed to save \$150,000 for a deposit but they cannot keep up with the rising price of houses.

Ms McKendry has bid at 20 auctions and says she has lost every one of them.

"With the savings I've got, and the money I earn, I wouldn't have thought I would be so far away from buying a house," she told Four Corners.

NEGATIVE GEARING AN ELECTION ISSUE

Labor turned negative gearing into an election issue when it announced a policy to wind it back.

Mr Alexander says that would create a freefall in the housing market but there are other Liberals who have said negative gearing's time has come.

Former Victorian Premier Jeff Kennett told Four Corners Labor's policy is reasonable and responsible.

"I'm sure if Labor hadn't introduced a policy on negative gearing, the conservatives would have, which is the great disappointment of politics today," he said.

Mr Kennett is not alone, with former treasurer Joe Hockey also having called for negative gearing to be wound back before he left Parliament last year.

Back in 2005, Mr Turnbull himself described negative gearing as "tax avoidance" but "he's now arguing against the proposition he put out before," Mr Kennett says.

"I think there's a very simple reason. It's all about winning the next election," Mr Kennett said.

Last year, banking regulator APRA stepped in to cool down bank lending to investors.

It is having an effect — the housing market is slowing.

But Ms McKendry said it is not slowing enough to make a difference to her generation.

"If the prices keep doing what they are doing now, there's no way my kids will ever own a house," Ms McKendry said.

"To them it will be normal, because no-one will own houses."