

Property market like a Ponzi scheme

AFR 03 MAR 2016

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Liberal MP John Alexander, who is chairing a parliamentary inquiry into home ownership, warned senior Coalition colleagues that the property market resembles a Ponzi scheme after reports of a "Big Short"-style meltdown.

Mr Alexander spoke to Treasurer Scott Morrison about the situation amid ongoing speculation about whether the government will follow Labor's lead by cracking down on negative gearing. "Ponzi is a word I mentioned when I spoke to the Treasurer because a situation has emerged that we have never had before in this country, which is that interest rates are lower than rental returns," he said.

The economics committee inquiry chaired by Mr Alexander is due to deliver its final report within weeks. He is among the politicians who have been most vocal about housing affordability and the risks of a bubble.

"The question for responsible policymakers is whether there are enough vulnerable people that when interest rates do go up there is a major impact on the whole of the market," he said.



John Alexander warns the Treasurer.

"If rates do go up, the investor with multiple properties will find it as difficult as the newcomer with limited income to fund their losses. The home owner-occupier highly geared who has to pay their interest with after tax-dollars is even more disadvantaged."

Leading economist Saul Eslake said property prices were undoubtedly high but there was no "imminent danger" of a collapse akin to the subprime crisis in the US. "There hasn't been, unlike in the United States, a whole lot of lending to people with no income, no job or assets," he said.

"Instead, most Australian mortgage borrowers have been using the period

of exceptionally low interest rates to pay down their outstanding principal more quickly than they have to, and as a result have built up considerable buffers against the prospect of future increases in interest rates, which have to happen at some point, even if it's unlikely in the near term."

Mr Eslake said there had been a surge in housing supply.

The Reserve Bank of Australia left interest rates on hold at 2 per cent on Tuesday. Mr Alexander has proposed giving the RBA the power to set the rates at which property investors can deduct net rental losses, or negatively gear, against other income.

The idea is that the bank would, in parallel with interest rate decisions, announce a rate of deductibility that would serve to either cool or heat the housing market.

"Consideration should be given to grant the RBA with a control lever to counterbalance the effects of the setting of interest rates," Mr Alexander, the Liberal member for Bennelong, said. "Therefore, much as they control the rate of inflation, this mechanism could moderate dangerous spikes and stimulate as required."