A closer look at parties' rival housing policies (and 1 big risk)

Anthony Albanese and Peter Dutton have announced major changes they say will help first-time buyers. Economists fear the Coalition's tax breaks could end up costing billions of dollars more.

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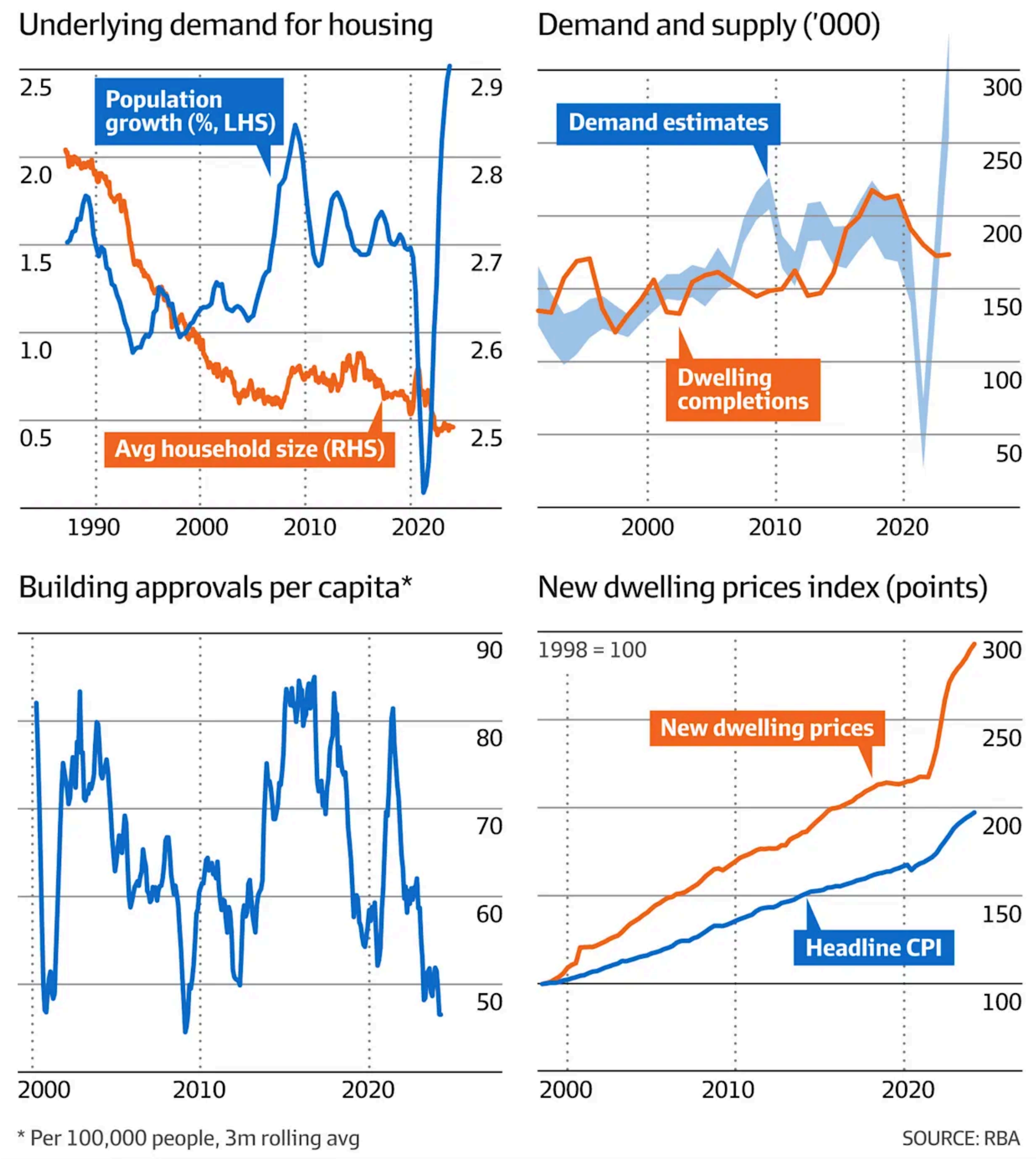
Housing affordability has long been a priority issue for voters at federal elections, but as the "great Australian dream" of homeownership slips out of reach, both sides have amplified their property policies.

On Sunday, Prime Minister Anthony Albanese and Opposition Leader Peter Dutton announced [https://www.afr.com/link/follow-20180101-p5lrbu] new interventions in the housing market, and each claimed to be doing more to help first home buyers.

Most economists are cynical about the measures, saying these will simply increase demand for housing in a market where the supply of new homes is constrained because of government regulation and the high cost of construction.



The expected result? Higher house prices and more [https://www.afr.com/link/follow-20180101-p5lrce] risky debt levels.

Nonetheless, there are differences between the Labor and Coalition housing policies that will have varying consequences for different buyers and sectors of the property market.

In the most radical move, Dutton is pledging to introduce tax deductions on mortgage interest for first home buyers.

Interest paid on the first $650,000 of a mortgage would be eligible for a tax deduction against income for up to five years, saving an average buyer about $12,000 a year or $60,000 in total.

Albanese unveiled a $10 billion investment to build 100,000 new homes exclusively for first home buyers.

Labor also pledged to expand the former Morrison government's first home guarantee from 35,000 first-time buyers to an unlimited number of people. This provides free government-backed lenders' mortgage insurance to buyers with deposits as little as 5 per cent, helping them get into the market without the need for the 20 per cent deposit they would require if a bank was willing to lend to them.
Both parties had previously announced other measures, such as the Coalition enabling first buyers to access $50,000 of their superannuation funds and Labor's $10 billion Housing Australia Future Fund for social and affordable housing.

Here's what the new policies mean for different parts of the market.

What buyers and properties are eligible?

Under the Coalition, mortgage interest deductions will be available to individuals earning up to $175,000 and joint applicants with combined incomes of up to $250,000.

There is no cap on the overall mortgage size or home price, but only the interest on the first $650,000 of the loan will qualify for deductions.

Labor's expanded mortgage insurance guarantee will become available for all first purchases worth up to $1.5 million in Sydney, $950,000 in Melbourne, $1 million in Brisbane and Canberra, $850,000 in Perth, $900,000 in Adelaide, and $700,000 in Hobart.

The existing guarantee scheme is restricted to 35,000 first buyers a year, or about one in three first home buyers. However, from 2026, it will not have a cap on the number of applicants.

Who is targeted by the different policies?

The Liberal policy will favour people who can probably get a home loan already but can now borrow more because of the tax break giving them higher after-tax incomes.

The Labor policy will help some people with small deposits get into the property market, says former prudential regulator John Trowbridge.

Labor's extension of free government lenders' mortgage insurance for all first-time buyers with deposits of as little as 5 per cent will favour those with smaller deposits of less than 20 per cent. The cost of private mortgage insurance is about $26,888 for a person with a 5 per cent deposit on a median priced apartment of $670,000, according to Canstar.

"If I needed lenders' mortgage insurance, I would be more attracted to the Labor one," Trowbridge says.

"If a first home buyer with a larger deposit didn't need mortgage insurance, they would certainly be more attracted to the Liberal policy of five-year tax deductibility."

Economist and former Housing Australia head of research Hugh Hartigan says the biggest barrier to first-time buyers is scraping together a deposit, not the subsequent mortgage payments.

Who will get the biggest tax breaks?

The Coalition's tax deductibility for mortgage interest on loans up to $650,000 favours people on higher incomes because they pay more tax.

For individuals in the 30 per cent tax bracket, the maximum deduction they could receive is about $12,000 per year or $60,000 over the five years, based on a variable mortgage interest rate of 6.1 per cent.

Labor argues that the tax break is inequitable because it gives more dollars back to higher earners. A household with one worker earning $250,000 on a 47 per cent marginal tax rate (including 2 per cent Medicare levy) will save up to $18,992 a year on income tax, Labor says. A worker earning $95,000 paying a 32 per cent income tax rate will save $12,931.

Less pressure on the Bank of Mum and Dad?

Both policies are likely to take some pressure off parents helping their adult children buy a home.

Their need to be a guarantor on loans could be reduced under Labor's mortgage insurance scheme.

"Probably the thing this disrupts the most is the Bank of Mum and Dad, which is estimated to be the ninth-biggest home lender in Australia," Hartigan says.

"Instead of dishing out a 20 per cent deposit, they can just stump up 5 per cent."

People will be able to borrow more themselves under the Coalition, perhaps also reducing demand for parental support.

Will the policies lead to higher debt and increased risks?

Australia already has among the highest housing debt in the world, and first-time buyers are typically the most leveraged.

A former financial regulator says the Labor and Coalition policies would increase the financial risks to first home buyers by encouraging them to take on more debt and leave them more exposed to financial risks during economic downturns, job losses and illness.

"It pushes up demand for housing and makes people live their lives with higher levels of debt."

Aaron Scott, the co-founder of Aussie real estate agent app bRight Agent, says first buyers should be aware of the risks of Labor's expanded 5 per cent deposit home scheme.

"There is a dangerous flip side to 5 per cent deposit home purchases, and it's called a 95 per cent mortgage."

Economist Saul Eslake says the Coalition's tax deduction will also enable borrowers to have higher leverage.

"Of course the effect of this policy – which is equivalent to a large reduction in interest rates for eligible first home buyers, funded by other taxpayers – will be to encourage borrowers to take out bigger mortgages, as we know happened during the global financial crisis and COVID when interest rates were cut sharply," Eslake says.

What's the impact on house prices?

Albanese admitted on Monday that the government did not intend for house prices to drop and that "historically around Australia prices have tended to rise".

Trowbridge says the policies of both parties will put upward pressures on prices, but the magnitude of the price impact is highly uncertain.

"They keep doing things to push up demand and prices, without much of a supply response."

What do the plans do for housing supply?

Labor says it is expanding the housing supply by a pledge to build 100,000 new homes for first-time buyers and other initiatives such as the Housing Australia Future Fund. This fund aims to build 30,000 social and affordable homes over five years using the investment earnings generated by it.

Similarly, the Coalition argues that under its scheme, more homes will be built because the tax break is only for new builds.

It is also pledged $5 billion for community infrastructure on greenfield sites to help build 500,000 homes at new developments.

But former Treasury economist Steven Hamilton [https://www.afr.com/link/follow-20180101-p5lr5o] says that because the new supply of homes is relatively fixed, many of the policies will just lead to higher demand.

"Given highly inelastic housing supply, a big demand subsidy pushes up prices, which pushes up the average mortgage for a first home buyer buying a new dwelling," Hamilton says of the Coalition tax break.

But what is needed to build more homes is streamlining local and state planning, zoning and approvals, boosting density, rejecting NIMBYism [https://www.afr.com/link/follow-20180101-p5cqam], reviving lacklustre construction productivity and reducing building costs including property taxes. Many of these are state and local responsibilities.

Labor's $10 billion investment scheme is more focused on federal and state governments delivering homes.

Dutton says he wants private developers to build the homes driven by home buyer demand.

What is the cost to the federal budget?

Labor wants to spend an additional $10 billion building 100,000 homes for first-time buyers over the next decade.

Its extended mortgage insurance guarantee is also exposing the federal government balance sheet to more risk.

Hartigan says that under the existing guarantee scheme, many borrowers roll off it after about four years once they have built up equity in a home and/or refinanced a home loan. Hence, the government balance sheet's exposure is limited, he says.

The Coalition says the estimated cost of the tax breaks will be about $1.25 billion over four years.

But economists Peter Downes, Steven Hamilton, Chris Richardson and Saul Eslake all agree that there are big risks to the cost of the Coalition's tax breaks, and it could end up costing billions of dollars more.

Eslake says the cost of the Coalition policy will depend on how much its tax subsidy skews first home buyer demand towards new homes.

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