

Stabilising the Housing Market

The Inquiry seeks further information on the following area:

What measures can be taken to mitigate the effects of developments in the housing market on the financial system and the economy? How might these measures be implemented and what practical issues would need to be considered?

The housing market will remain volatile and a threat to the economic stability while ever there are few alternatives for safe, secure, inflation proof investments for individuals and for those who look after their savings. In another submission titled "Tradeable Claims for Infrastructure Development" I proposed such a vehicle. If governments provide an inflation proof high return investments through infrastructure, investments in other areas, particularly housing, will be under pressure to adopt the approach. The Reserve Bank with the Government will control the money supply by deciding the rate of infrastructure development while investment in other sectors of the economy including housing, will adjust itself to market demands for housing rather than housing investment being seen as a hedge against inflation.

In "Tradeable Claims for Infrastructure Development" the investment purchased goods and services produced by the borrower. With housing an investor purchases months of occupation or future rent and owns future occupancy months rather than owning part of the house. The investor can still take out a mortgage on the dwelling if they believe they need more security and there will be little change in the operation of the existing housing market. What will change will be buyer's expectations regarding future asset price growth and obtaining value through Capital Gains because of Asset Inflation.

"Tradeable Claims for Housing" can be introduced rapidly through existing institutions such as Banks. Governments could encourage its adoption by using the process in public housing. Tradeable Claims for Housing gives a way for residents to build up equity in the houses they occupy and so become able to move out of public housing into the private market. If public housing moves in this direction so it is expected that most housing investment will move in the same direction.

Recommendation

The Federal Government introduce a "Tradeable Claims for Housing" scheme for the Public Housing it controls and encourages the States to introduce "Tradeable Claims for Housing" for Public Housing provided by the States.