



TIPS

The Investment Property Strategists

Why negative gearing is a 'no-go' zone for the Government.

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The recent federal Budget and response to the Henry tax review showed yet again that politicians are loath to tinker with negative gearing benefits.

Negative gearing benefits are a vital cog in the wheel of Australia's economy. By cutting them out, the federal government would cripple investment not only in residential property, but a wide range of other sectors.

Despite the popular image of residential property investors as 'fat cats', the reality is quite different.

Many people borrow against their family home to buy a residential property and take on considerable debt in anticipation of long-term capital growth.

Without gearing benefits to increase cash-flow and help them meet loan repayments, many investors simply couldn't afford to keep their properties. The result would be a mass sell-off, which would soften demand and dampen price growth in areas like the inner and middle suburbs where investors have traditionally made up a substantial proportion of the market. In this scenario, even long-established 'blue chip' investment locations would suffer.

Many Australians invest in residential property to supplement superannuation and provide a nest egg of equity for their later years. The federal government knows that if property values suffered after removing negative gearing benefits, the net worth of millions of Australians would also suffer.

The lower their net worth, the greater their reliance on a government pension in years to come. This would increase pressure to raise revenue by increasing income tax rates-not a scenario that governments on either side of politics want to contemplate.

What's more, around 30 per cent of Australians rent privately owned investment property. The federal government knows that a mass investor exodus from residential property would substantially increase the ratio of demand to supply-tightening rental vacancy rates and driving up asking rents.

And many tenants are young people saving to buy their first home.

If they had to spend more of their income on rent, they would find it harder to get a deposit together. This would soften demand in first homebuyer-dominated areas, put a dampener on building activity and reduce job prospects for tradesmen.

The availability of negative gearing benefits also means that, unlike first homebuyers, investors can stay in the market for longer when interest rates go up.

Take this advantage away, and the subsequent investor exodus would put a serious dent in the profits of banks, which lend the lion's share of funds for residential property.

Cut the banks' profits, and they would be less inclined to invest in other key sectors of the economy, such as small business. In turn, this would reduce business activity and drive up unemployment-another scenario no politician wants to face.

It should also be remembered that negative gearing benefits don't just assist property investors.

Many people use it to offset the cost of holding shares. Removing negative gearing would affect Share-market activity, inhibit company expansion and share prices, and ultimately, drive down the value of pretty much everyone's superannuation accounts.

I think residential property investors can rest easy about negative gearing for some time yet.

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