

Mr. Glenn White
127 Framara Drive,
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31-3-2014

Financial System Inquiry
GPO Box 89
Sydney NSW 2001

Attn: Mr David Murray AO

Dear Sir,

As I have just become aware that submissions to your enquiry close today 31 March I have been forced to limit my submission to a single item. I have also been forced to restrict my submission to a brief letter.

I believe your enquiry must address the role of finance in the growth of sustainable cities if it is to meet its major mandated term of reference. Specifically "how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth".

The specific issue I raise is growing inequity. In raising this issue I will raise one specific yet generic example of how the financial system and in particular the banking system is complicit in ever increasing social inequity in Australia's major cities. Functioning major/mega cities are seen by many as the future engine of growth and innovation through the linking of skills and economics of scale. Functioning cities rely on a mix of skills among their inhabitants. For the lower paid vocations access to affordable accommodation in reasonable proximity to their place of work is essential to maintain a reasonable lifestyle.

Real estate in Australian cities is entirely based on an open market. Some limited government finance is devoted to social housing but this is typically to address social issues and not accommodation for city CBD workers. As your enquiry would be aware Australian real estate prices have grown at better than 4.7% for average house prices in Melbourne and Sydney over the past eight years. Price rises for properties close to the CBD have been significantly greater and are up to 10% in some areas. Average wage growth for the corresponding period has been 3.5% while inflation has averaged close to 2.5%.

Using workers in the hospitality area as an example from current affairs news we have seen calls for the reduction or elimination of penalty rates. We are also seeing calls for \$27 per week wage rises for low paid workers being called "unsustainable" and restaurateurs threatening closures if wage rises are granted. The hospitality industry is increasingly supported by cheaper labour in the form of backpackers who are able to find cheap temporary accommodation and willing to work in low paid work to have an Australian experience. Employment indicators have declined by 1.5% to 2% over the last 8 years with a recent acceleration quite notable. All of this activity needs to be seen through the lens of housing affordability and sustainable lifestyle and in the context of cities being the engines of growth. While real estate prices continue to grow faster than other major economic indicators it is a drain on growth. Cities that become unaffordable are restricting their efficiency and growth.

The Financial system services and has some control within the real estate industry. The present market based systems are failing to provide cities with a balanced ratio of affordable housing and are feeding social inequity. Your enquiry should address this market failure and recommend innovations that will continue to meet this need since the failure to do so will result in the restriction of growth and innovation and the continued decline in affordability and workforce participation.

Affordable accommodation must be financed and this will be at the expense of some other sector if the finance is privately funded. Governments are reluctant to borrow further to fund such measures as affordable housing. A need exists to construct affordable CBD housing to maintain sustained growth. The superannuation sector invests very little in the real estate sector yet rent from affordable housing should be capable of providing an adequate return for investors. Affordable housing will not remain affordable if it is returned quickly to the real estate market. Potentially significant profits from the future sale of affordable housing less the return to investors should be directed back into further new affordable development in a sustainable loop provided growth in cities continues to be the engine of innovation.

I believe my concern here lies directly within many of your specific terms of reference. Unfortunately I lack the time today to prepare a more detailed submission which discusses these individual terms of reference. I would be more than willing to elaborate in the future should you require further explanation.

Yours faithfully
Glenn White