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# Labor's plan is having a lend of us all

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**ALTHOUGH the details of the Government's proposed lending facility for commercial property are not yet known, it is fair to say that what is known raises more questions than answers.**

At its simplest, why would supporting loans to developers of shopping centres and other forms of commercial property be a particular priority of policy? The vast bulk of loans relate to assets that already exist or are at advanced stages of development. When commercial property prices fall, the owners of those assets take a loss, while the purchasers of the assets, and the assets' users (that is, tenants) make a gain. As revenues from the buildings almost invariably continue to exceed the buildings' operating costs, the assets continue to be operated, so the real flow of services to the economy is unchanged.

Obviously, reductions in commercial property prices force banks to write down the value of their property investments. In practice, the impacts are likely to be very small, as most of the banks' commercial property loans have been securitised and are no longer on the banks' books.

But even putting that aside, any such impacts are no different from those that occur when prices fall for the many other asset classes that banks have invested in or relied upon as collateral. Should the result threaten the adequacy of banks' capital base, the right policy response is to facilitate the banks' recapitalisation, rather than artificially propping up the price of one particular kind of asset. Directly facilitating recapitalisation would be far more transparent and far less distorting of the pattern of asset prices in the economy as a whole.

With commercial property accounting for some 12 per cent of the investments made by Australian super funds, reductions in commercial property prices would also have an impact on the funds and especially on those that have been negligent or tardy in writing down the value of their property investments. It is understandable that the Government would be concerned about the resulting write-downs. But moving to a policy of trying to control asset prices is a very big call; and it seems foolish to get into that game by targeting the prices of one and only one class of asset, and a relatively minor one at that, for the purpose of protecting funds that are so poorly managed that they have failed to properly disclose the deteriorating quality of their balance sheet.

All this is not to deny that credit restrictions will result in some development projects for commercial property being cancelled or deferred. But the projects at risk are those that are most marginal and whose value to the economy has in fact diminished as growth has slowed. It makes no sense for the Government to prevent those cancellations and deferrals from occurring, all the more so as our economy, whatever its defects, is hardly short of office blocks.

This is especially the case as commercial property values are notoriously cyclical. Developers know this, and most developers hedge their position by securing anchor tenants (such as large supermarket chains in the case of shopping centres) to underpin their revenue base and their ability to secure finance. By intervening to prop up the market, the Government sends all the wrong signals, both in the short run and in the longer term.

In the short run, the scheme seems likely to induce developers to play off their existing foreign lenders against the safety net the scheme provides. This could accelerate the very withdrawal of foreign lenders the scheme is intended to guard against, while allowing developers to secure some free kicks on the basis of what amounts to taxpayer-funded insurance.

As for the longer run, the risk is that of protecting precisely those developers who did not take adequate precautions, while signalling to others the likelihood of government bailouts. The result will be to make property markets more, rather than less, cyclical.

What about the impact on jobs? This seems a furphy. To begin with, changes in the value of existing assets in no way directly alter employment prospects. Indeed, were rents to fall, business costs would be reduced and that might improve conditions across a wide range of sectors. True, the development projects that would otherwise not occur may create some jobs. But why would those jobs be any more valuable than the jobs that could be created by using the $2 billion for other purposes, including cutting economically distorting taxes?

The Government claims that taxpayers will make money from its proposed investments. This claim seems difficult to believe, especially when account is taken of the high level of risk involved in what are likely to be the most marginal commercial property projects in Australia. Funds devoted to those projects need to earn a return far above the bond rate if they are to cover their economic costs: and that is precisely why banks, foreign or domestic, are reluctant to underwrite them. If the Government has credible estimates that show it can do better as an investor than the commercial banks, with their many years of experience in real estate lending, it should make those estimates public. Until it does, taxpayers will have every right to be sceptical.

At the end of the day, the only sense one can make of the proposed fund is as a wealth transfer: from taxpayers to property developers, banks and the managers of the most poorly run superannuation schemes that would otherwise have had to incur reductions in asset values. If forcing taxpayers, most of whom have low incomes, to underwrite the incomes of property developers and financiers is not "extreme capitalism", it is very difficult to know what is.

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