Housing stress at record levels in Australia

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It is now clear that thousands of people face losing their homes in Australia, with more than a million households living in "housing stress," because of the deepening turmoil on global money markets in the wake of last year's sub-prime mortgage collapse in the United States.

Recent studies have reported record levels of housing debt, combined with the worst-ever house affordability figures, rising rates of repossessions and foreclosures, and soaring rents. Analysts are warning that the crisis will deepen, both in the short-term and the long-term.

Research by the National Centre for Social and Economic Modelling (NATSEM) shows that 1.1 million low- and middle-income households are spending about one-third of their gross income on rent or the mortgage—the traditional measure of "housing stress". This is an increase of 220,000 households since 2004—a 25 percent jump.

Among those in the bottom 40 percent of income earners, families have been worst affected. The number of low- and middle-income families with children suffering housing stress has more than doubled to 575,000, a rise of about 300,000 since 2004.

According to a JP Morgan and Fujitsu Consulting consumer survey, 300,000 households are suffering "severe" levels of mortgage stress, and face a significant chance of defaulting on their home loan. Martin North of Fujitsu commented: "I don't think that the full impact of the credit crunch has yet been disclosed and it will get worse." Last November, a previous survey by the same companies found that almost 120,000 households would have to sell their homes within six months.

The number of repossession orders issued by courts in New South Wales, Australia's most populous state, increased by 67 percent over the past two years to 5,454 in 2007. In Victoria, the next biggest state, repossession orders tripled over four years to 2,720 in the financial year ending 30 June 2007. The actual number of mortgage defaults—including people forced to quit their homes before receiving a formal court order—may be four times higher according to Roger Mendelson, chief executive officer of Prushka Fast Debt Recovery, a debt collection agency.

A survey by the Real Estate Institute of Australia has estimated the proportion of a family's income spent on an average home loan rose to 37.4 percent in the December quarter 2007, the highest level recorded by the institute since it began measuring affordability 22 years ago. The institute found that once tax was taken into account, about half a typical family's income was consumed by the mortgage.

Renters were also affected because rising interest rates and the drying up of finance internationally were driving up rents. Overall in Australia, renting families required 23.9 percent of their median family income to meet rent payments in the December quarter of 2007, up from 22.4 percent in December 2006.

BIS Shrapnel reported that average rents for three-bedroom homes had risen by 82 percent since 1996, and forecast that rents would increase further by an average of 28.5 percent before the end of the decade.

There is a severe shortage of rental accommodation with a national vacancy rate of just 2 percent—the lowest on record. Increased demand for rental properties is being fuelled by a slowdown in new home and unit "commencements". Many couples and young families are being priced out of home ownership by housing prices and interest rates. Industry analysts predict the rental vacancy rate is heading toward 1 percent, with many parts of Sydney already effectively "full".

The housing crisis worsened when, in the name of fighting inflation, the Reserve Bank of Australia (RBA) increased official interest rates in early March by 25 basis points to 7.25 percent—the 12th rise since 2004. For the second time in a row, the major banks increased their mortgage and credit card lending rates by more than the RBA, up to 35 basis points, citing the still-rising costs of borrowing money on global markets.

The impact on homebuyers can be gauged by the increase in monthly repayments over the past six years for an average size loan—$300,000. In March 2002, with an average mortgage interest rate of 6.05 percent, monthly payments were $1,942; in March 2008, with an average rate of 9.27 percent, the amount is $2,573. The extra $631 a month is a 33 percent rise, far outstripping average wage rises.

Rising mortgages and rents are just two of the factors weighing on working people; there are also rising grocery, petrol and transport prices, as well as credit card debts. Analysts have warned that many households are now "maxed out" on debt, after re-financing (extending) their home loans and resorting to credit cards to pay everyday bills. Overall, households owe banks 161 percent of their disposable income,

compared to 40 percent in 1985.

Longer-term trends are also at work: the rising share of income being diverted from wages to profits and the impact of increasingly speculative investment on land and housing prices. Over the past 10 years, according to NATSEM, the ratio of the cost of an average home to the average wage has risen from 4 to 7. That is, houses are now nearly twice as expensive relative to income.

Looking ahead to 2045, an Australian Housing and Urban Research Institute report warned of an unsustainable reliance on the private rental market to meet the needs of a growing and ageing population. It projected that 3.3 million people would be renting by 2045, up from 1.8 million in 2006, and the number of households in housing stress would rise 77 percent.

The burden would fall mainly on low- and moderate-income people, with almost two-thirds of those who rent projected to be in housing stress by 2045, compared with just over half in 2006. The proportion of all households in housing stress could increase from the current 12 percent to 24 percent.

Anxious to head off mounting public discontent, Prime Minister Kevin Rudd announced two new programs on February 3, supposedly designed to ease the home affordability crisis by giving private developers incentives to build new homes for sale and rent. Rudd acknowleged: “Across Australia, there is no greater source of financial stress for working families than housing ... housing affordability is the worst it has been in living memory.”

The reality is that neither program will make a dent in the burden on working people. Millions of dollars will be handed out to those who have played a central role in the deteriorating housing situation—the real estate developers, construction conglomerates and investment houses.

In one program, the government will allocate $30 million to municipal councils to establish electronic development assessments (eDAs) and online tracking services to streamline planning approvals. This is part of a $500 million “Housing Affordability Fund” to “reduce infrastructure charges and streamline planning approvals processes” over the next five years. Under the pretext of reducing housing costs, Labor is meeting longstanding demands from developers and construction firms for faster, cheaper and easier approval procedures.

Second, Rudd said the government would extend its so-called National Rental Affordability Scheme, to subsidise the construction of 100,000 dwellings over 10 years. Investors will be offered $8,000 in tax credits or offsets from federal and state governments for each unit they build and rent out at 20 percent below “market rental”. These handouts are on top of the estimated $3 billion a year in tax write-offs that landlords received under the negative gearing tax scheme, which Labor has pledged to retain.

Rudd cited housing industry reports demonstrating that the number of homes built nationally last year was 30,000 less than the number required by the growing population. By his own estimate, over 10 years, the rental scheme would possibly cover one-third of the housing gap. Few of the promised dwellings will be built anytime soon—the first year of the scheme allows for only 3,500.

Explaining the plan to a Business Leaders Forum, Rudd told his audience it was “a new partnership with the private sector—a PPP [Public Private Partnership] in concept,” assuring them that the government would “calibrate the future issuing of tax credits to market demand” so that profit rates were maintained. “The government believes we can improve rental affordability which still produces good returns for investors,” he emphasised.

Despite these assurances, investors expressed reservations. Peter Verwer, from the Property Council of Australia, the developers’ peak body, said the “subsidy would have to be topped up to attract investment”, adding that “$8,000 is well on the way but it might fall short”.

Significantly, these demands were echoed by Construction, Forestry, Mining and Energy Union (CFMEU) national secretary John Sutton, who is a director of CBUS—the construction industry employer-union superannuation fund. Sutton expressed concern that “there was not enough detail to make an investment decision” and has backed calls by developers for further “incentives”. Thanks to compulsory employee-employer contributions, introduced by the previous Labor government in the 1990s, superannuation funds, many of them jointly controlled by trade unions, have some $800 billion in their coffers, about half the funds under management in Australia.

Sutton’s comments reveal the intimate connections between the union bureaucracy, the superannuation funds and corporate interests. Far from defending the interests of workers and their families, the unions have massive stakes in the financial and property markets. On housing, like wages, working conditions and every other issue, Labor and the unions are committed to meeting the requirements of business, at the expense of the working class.

By every indication, the fallout from the deepening global financial breakdown will only worsen the housing crisis confronting working people.