

Australia's worsening housing affordability crisis

Mark Church
10 November 2012

The September 6 apartment fire tragedy in the Sydney working class suburb of Bankstown has raised critical issues about Australia's worsening housing affordability crisis, which has forced growing numbers of low-income workers, students and young people to live in poor quality and potentially unsafe accommodation.

Euro Terraces Building B, where two university students were forced to jump from a fifth-floor window ledge to try to escape a blaze that rapidly engulfed an apartment, was home to many people—tenants and owner-occupiers alike—who could not afford to live elsewhere.

Over the past two decades, the cost of buying a home has almost trebled, compared to average incomes. Between 1991 and 2011, house prices increased by 263 percent, while after-tax income increased by only 95 percent. The disparity intensified particularly between 2001 and 2011, when house prices increased by 147 percent and incomes by 57 percent.

Rents too have soared—as a national average, they have risen at double the inflation rate for the past five years. This combination of rising prices and rents has hit younger people particularly hard. The average rate of home ownership for 25 to 44 year-olds has fallen by 15 percent over past 20 years.

Ordinary working people face high levels of housing-related financial stress. An estimated 720,000 low to middle income households spend 30 percent or more of their income on housing, with 460,000 of those households spending more than half.

Successive governments, both Labor and Liberal, have created this situation by dismantling public housing, and by adopting policies designed to benefit the private developers, construction companies, and banks and other finance houses that have annually

made billions of dollars in profits from rising property prices and home mortgage lending.

The decimation of public housing began under the Hawke and Keating Labor governments from 1983 to 1996. Before 1980 almost 20 percent of homes built in the post-World War II period were for public housing, often in industrial areas, intended to house low-wage workers. Within a decade, a significant proportion of these dwellings had been privatised, often by sale to the residents, while funding was slashed and eligibility criteria tightened to restrict public housing primarily to the unemployed, disabled, aged pensioners and other welfare recipients.

After 1996, this process continued under the Howard, Rudd and Gillard governments, with the level of federal funding for public housing dropping by a further 41 percent by 2010. Between 1997 and 2007, the number of public housing dwellings shrank by a further 30,000, even as the national population grew by more than 2 million. By 2010, nearly a quarter of a million households were on public and social housing waiting lists, despite the severe eligibility tests.

This transformation of the housing market was an integral part of the “free market” program of privatisation and corporate deregulation initiated under the Hawke and Keating governments. The same administrations provided increasingly generous tax incentives to private property developers and speculators, including the 1987 expansion of “negative gearing”—a tax write-off scheme that subsidises the development of private rental housing. By 2008-09, housing investors were claiming \$6.5 billion annually in losses for tax purposes.

Capital gains tax concessions handed out by the Howard Liberal government in 1999, followed by the introduction of First Home Buyers grants in 2000,

further drove up house prices. The one-off payments of \$7,000 to new home purchasers were effectively swallowed up by rising prices, giving a windfall to developers and financiers.

Because of soaring property values, the profits made by the banks on each mortgage have risen by an average of 120 percent over the past 12 years. In 2000, the average home loan of \$293,000 would net the banks \$33,540 in profit, via interest payments and fees, but a home loan in 2012 would net almost \$75,000.

During this decade, the banks increasingly focused their lending on the housing sector, at the expense of business and other borrowing. In 2000, 43 percent of bank loans went to home loans but by 2010 that ratio had risen to 57 percent. This shift has further fed property speculation and made the banks ever-more dependent on driving up their profits from home lending.

These processes have only intensified since the global financial breakdown began in 2008. The Rudd government propped up the big four Australian banks, NAB, Westpac, Commonwealth Bank and ANZ, guaranteeing both their deposits and borrowings when they were immediately threatened by the worldwide credit freeze. These guarantees enabled the banks to devour smaller banks and financial institutions and absorb their share of the market. These four banks currently control 86 percent of the home loan market between them, up from 75 percent four years ago.

Likewise, the Labor government implemented a range of stimulus packages to rescue the property development, construction and banking corporations. Under the guise of addressing the housing affordability crisis, Rudd introduced the National Rental Affordability Scheme. This scheme offered guaranteed annual income streams of almost \$10,000 per dwelling for 10 years, in return for the provision of rental accommodation at 20 percent below the prevailing market rents. Among the beneficiaries were the developers of the Euro Terraces apartments, whose completion in 2009 was effectively subsidised by the scheme.

When the government announced the rental subsidy scheme in 2008, it pledged to provide 50,000 dwellings by 2012. Even that was too few to make any real difference to the levels of housing financial stress facing millions of people. So far, however, less than

10,000 dwellings have been made available in four years—not even enough to keep pace with population growth.

Moreover, the 50,000 target is likely never to be met. Under pressure from the corporate elite to make a sharp shift from stimulus to austerity, Prime Minister Julia Gillard extended the time frame by four years to 2016, and is cutting billions of dollars in public spending to meet Labor's commitment to the financial markets to produce budget surpluses from 2012-13 onward.

Fuelled by ongoing government support for the property, construction and financial elites, home prices did not collapse across Australia, despite sizeable falls in some regions. But the underlying home affordability crisis has intensified. The level of mortgage debt had reached over 85 percent of gross domestic product by 2010, which was similar to the 86 percent level of US debt before the 2008 crash.

Working-class households are facing intense financial stress as the result of decades of one government after another subordinating the basic social right to decent, safe and affordable housing to the private profit interests that dominate economic and social life under capitalism.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact