

Australia's housing bubble fuels a social disaster

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Soaring house prices, plunging home ownership rates and a glut of empty investment properties, generated by government-subsidised speculative gains and soaring bank profits. That is the picture that emerges from a new report on the Australian housing market.

Working class households, and young people in particular, are increasingly priced out of buying a home, and this is producing rising levels of homelessness, financial stress and social problems. Yet, tens of thousands of residential properties stand empty in major cities because of the perverse character of the private profit system, which rewards the hoarding of dwellings for future capital gains.

The *Speculative Vacancies 7* report, published by Prosper Australia, seeks to warn the country's corporate elite that an unsustainable property bubble is creating an explosive social and intergenerational divide, as well as undermining business investment and laying the basis for an economic crisis.

While primarily written for a business audience, and pleading for limited "reforms" to taxation and other government policies, the report contains damning information on the workings of the profit system and the rising tide of housing inequality.

One finding is that 64,386 dwellings in Melbourne, Australia's second largest city, or 4.4 percent of its housing stock, are vacant and unused. Judging by data showing abnormally low water usage, these properties are being kept off the market in order to secure higher rates of return than can be achieved by renting them out.

The report notes that "if the latent supply of withheld land were put to effective use, it would theoretically reduce cost-of-living pressures for tens of thousands of low-income families forced to live at the margins."

Another finding is that high-risk lending for real estate speculation is dominating Australia's banking industry. About 95 percent of all bank lending is being channeled

into property, mostly residential, not into business investment.

Moreover, the investor share of housing lending, as compared to borrowing by home buyers, is close to 50 percent and rising at its fastest pace since 2007, just before the global financial crisis.

Of the loans to investors, 65 percent are on interest-only terms, with no short-term requirement to pay off the loan itself. This marks a return to the kind of over-geared speculative activity that will unravel in the event of a recession, a fall in property prices or an upswing in record low interest rates.

The report notes that investor and housing tax exemptions are worth an estimated \$36 billion a year, "distorting the Australian dream of owning a home into a vehicle for financial speculation." Even by official statistics, as many as 105,000 people are homeless, and the rate of home ownership among 25-34 year olds fell from 56 percent to 47 percent between 1991 and 2011.

One example of the "astonishing escalation of land price inflation" is that of a Melbourne family that purchased a 108-hectare "hobby farm" at Sunbury, on the city's northern fringe, in 1982 for \$300,000. After the land was rezoned for residential development, it produced "an estimated windfall gain" of more than \$60 million.

Melbourne's inner-city Docklands precinct is a severe case of empty investment homes, with 27 percent of its apartments apparently vacant. Situated just 2 kilometres from Melbourne's CBD, Docklands is described as "one of Australia's biggest urban renewal projects."

However, a combination of high rents and vacant properties in Docklands and throughout the Melbourne municipality is locking out people in "housing stress"—those in the lowest 40 percent of incomes who are paying more than 30 percent of their income on rent or mortgage repayments. Between 2001 and 2011, the proportion of low rent dwellings affordable for them

dropped from 39 percent to 13 percent of total rental properties.

Outer suburban areas are also badly affected. On the city's southeastern fringe, in the Cardinia/Clyde area, the vacancy rate stands at 46.7 percent. Melbourne's outer suburbs, which feature detached family-style houses, are dominated by investors. At Point Cook, in the city's west, they own 41.9 percent of homes.

By contrast, Melbourne's wealthier suburbs have high concentrations of owner-occupiers, underscoring the social polarisation. Vermont South, an established upper middle class area in the city's mid-east, for example, has an owner-occupier rate of 90.8 percent.

Those working class households that manage to buy and start paying off a home are drowning in debt. Often pushed to the outskirts of Australia's capitals, they must work long hours, commute long distances daily and hold down multiple jobs to pay their mortgages and make ends meet. The much-touted "dream" of home ownership has turned into a nightmare of life-long debt enslavement. Despite rising property prices giving the appearance of asset ownership, household debt levels rose nearly twice as fast as the value of household assets in Australia over the past 25 years.

During the same period, housing unaffordability rates soared, making them some of the worst in the world. In the 1980s, it took an average of about three median yearly incomes to buy a house. By 2013, that "median multiple" stood at 5.8, which is regarded by agencies such as the World Bank as "severely unaffordable." In Melbourne, the multiple reached 8.4 and in Sydney, the country's largest city, it was 9.0.

The report warns of a soaring mortgage debt-to-income ratio. Australia Bureau of Statistics data shows that household debt has reached 173 percent of gross disposable income—higher than before the 2008 crash.

Commenting on the report for *Business Spectator*, Callam Pickering said parliamentarians were among those with vested interests in this housing "con job." An estimated 94 percent of federal MPs own investment properties, accumulating around \$300 million in residential property.

This certainly highlights the social gulf that separates the entire political establishment from the vast majority of ordinary working class people. But the growing reliance of Australian capitalism on parasitic real estate speculation goes much deeper.

Between them, the country's four big banks, Commonwealth Bank of Australia, National Australia

Bank, ANZ and Westpac, reported profits of \$29 billion in 2013-14, more than double the \$12 billion recorded in 2003-04. Much of this bonanza came from home loans, which deliver profit rates of around 40 percent.

These banks now account for four of the five biggest companies listed in Australia, rivalled only by the mining giant, BHP Billiton. That is a measure of the intensifying dominance of finance capital over the entire economy.

That dominance is matched by the power that the financial institutions exert over the political elite. During the 2008-09 global meltdown, the "big four" were immediately propped up by the Rudd Labor government. It guaranteed their overseas borrowings and all deposits up to \$1 million, in order to protect them from a crippling international credit freeze.

Today, as well as fuelling a social disaster, Australian capitalism's financial edifice is increasingly precarious as the world economy heads into renewed slump. This makes the recommendations made by Prosper Australia's report completely unrealistic. Reflecting the mistaken views of Henry George, a 19th century American economist who asserted that inequality and economic dysfunction stemmed from a failure to tax land, the report urged governments to enhance land taxes, better fund housing infrastructure and spend more on public housing.

None of these proposals has the slightest chance of being implemented under the existing capitalist order. Rather, the housing crisis confronting millions of working people raises the necessity for the working class to overturn this system completely and reorganise society from top to bottom along socialist lines, which must include placing the banks and finance houses, construction conglomerates and real estate developers, under social ownership and democratic control.



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