Australia: Sydney’s median house price tops $1 million

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According to figures released last Wednesday by Fairfax Media’s Domain Group, median house prices in Sydney have soared to unprecedented levels, topping the $1 million mark. The housing bubble has also seen dramatic rises in Australia’s other main cities, particularly Melbourne.

The figures show that house prices in Sydney grew by almost 23 percent, year-on-year to June, 2015, sending median property prices from $814,285 to $1,000,616.

The national increase stands at 10.7 percent over the past year. In Melbourne, the median house price has jumped by over 10 percent. Smaller rises were recorded in Darwin, Brisbane, Canberra, Adelaide and Hobart. Median prices for units have also spiked in the major centres, leading to a national rise of almost 8 percent. In Sydney, the figure was a 14 percent year-on-year rise, while in Melbourne, it stood at 4.5 percent.

By contrast, average earnings, as calculated by the Australian Bureau of Statistics, rose by only 1.3 percent to $58,702 in the year to November 2014, the most recent estimate available. That means that in Sydney, the median house price is now more than 17 times average earnings.

As some commentaries noted, Sydney’s median house prices are now greater than in London, and approaching those of Paris, two of the most unaffordable cities in the world. The latest spike in prices is part of a longer-term trend. House prices have grown in Sydney by 57 percent between 2009 and January 2015, and by 50 percent in Melbourne.

The figures underscore the utterly parasitic character of the housing bubble. Amid a sustained slowdown in the real economy—with productive investment declining, the vestiges of manufacturing being destroyed, and the resources boom collapsing—housing prices continue their stratospheric ascent. The property bubble is part of an international process, with investment being directed into ever more speculative channels, centring on finance, shares and real estate.

As if to underscore the contradiction between the growth of house prices, and the situation in the real economy, Reserve Bank governor Glenn Stephens suggested that low growth would be the new norm. Speaking last Wednesday, he commented: “Perhaps trend output growth is lower than the 3 per cent or 3¼ per cent we have assumed for many years. That is, perhaps the growth we have seen is in fact closer to trend growth than we thought.”

The dramatic rise in house prices, under conditions of widespread job cutting and growing poverty, has priced broad sections of workers, young people and retirees out of the housing market.

On Saturday, Fairfax reported that an ordinary, unrenovated three-bedroom home in Bankstown, a working class suburb in Sydney’s west, sold for $1.01 million. According to Domain Group, in nearby Greenacre, 30 houses sold for more than $1 million last year, three times the number for 2013.

Such astronomical prices have created a major social crisis, expressed in rising levels of mortgage and rent stress, as well as homelessness. According to figures released earlier this year by Moody’s rating agency, mortgage repayments on average nationally account for 27 percent of income, while in Sydney, the figure is over 35 percent.

Rental affordability has hit unprecedented lows. A report by the Anglicare Australia charity found that nationally, around 1.6 million people struggled to pay their rent in 2014. The report found that of over 14,000 rental properties on the market during one weekend in Sydney in April, just 58 were affordable for those living on government benefits, including the old-age pension.

At the same time, the privatisation of public housing stocks by successive governments has created waiting lists nationally that total 200,000 people.

According to Mission Australia, another church charity, over 100,000 people are homeless on any given night, around the country. The numbers are spiking, with over 250,000 people reportedly accessing homeless services in 2013-14, 44,000 of them young. The growth of homelessness is a visible, though little commented upon, feature of social life. Just in one small park in Sydney's Central Business District, a virtual tent-city has emerged in recent years, with dozens of tents lining its perimeter.

Last Wednesday, federal Social Services Minister Scott Morrison said the housing affordability crisis was a sign that the Australian Federation "is failing us." He suggested that the crisis was at the centre of social ills. However, according to the *Sydney Morning Herald*, Morrison defended the private market, and rejected calls for the abolition of negative gearing—a lucrative tax break for property investors.

Just last month, Treasurer Joe Hockey denied any housing affordability issues in Sydney, contemptuously declaring that those wishing to buy a new home should, "get a good job that pays good money."

In reality, the soaring housing prices are a product of a flood of investment into the sector, which has been promoted by low-interest rates and government policies, such as negative gearing. A report released by the property forecaster Biz Shrapnel last week predicted that the boom will result in housing oversupply by 2018.

The development of the housing bubble has been based on a vast expansion of debt. Private sector debt reached over 200 percent of gross domestic product early this year, while household debt stands at 130 percent.

The major banks are heavily exposed to the growth of debt centred on the housing market and would potentially face a liquidity crisis when the market crashes. According to a report published by Prosper Australia last year entitled *Speculative Vacancies 7*, a staggering 95 percent of bank lending is channelled into the property market. While mortgages represented around 25 percent of outstanding credit in the late 1980s, that figure now stands at 61 percent.

Fears of a slump in the housing market were reflected last week by an announcement by the Australian Prudential Regulation Authority, which regulates the banking sector, that the major banks would need to boost their capital holdings to protect against potential mortgage losses.

Commenting in the *Australian Financial Review* on Saturday, Larry Schlesinger noted: "The consensus among economists is that the housing boom has peaked." He quoted CoreLogic RP Data's head of research, Tim Lawless, who said: "Confidence from investors in markets like Sydney is going to start to wane. There is a growing acceptance that the market has run its course."

A housing market collapse could see millions left with mortgages worth more than the properties they hold, intensifying the social crisis confronting the working class, and creating a financial catastrophe.