# More warnings of a housing-led crash in Australia

**Mike Head**
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Further signs are emerging of the unravelling of the east coast apartment construction and real estate market boom that has propped up substantial parts of the Australian economy since mining investment began to slump in 2012.

Any sharp downturn in the debt-fuelled housing market in Sydney, Melbourne and Brisbane would have far-reaching consequences, including the destruction of an estimated 200,000 building industry and related jobs, a wave of mortgage defaults and a slide into recession.

This would place intense pressure on the already fragile government of Prime Minister Malcolm Turnbull, sinking any remaining hopes of it delivering its preposterous May budget forecasts of boosting economic growth from barely 1.75 percent this year to 3 percent by 2019–2020.

Fears of a housing market crash are compounding the anxieties on financial markets over rising debt levels in China, Australian capitalism's largest export market, and the uncertainties generated by the political crisis engulfing the Trump administration.

The business media was visibly perturbed this week when fund manager Altair Asset Management made the extraordinary decision to liquidate its Australian shares funds and return "hundreds of millions" of dollars back to its clients, citing an impending property market "calamity" and the "overvalued and dangerous time in this cycle."

Philip Parker, Altair's chairman and chief investment officer, issued a statement on Monday saying: "We think that there is too much risk in this market at the moment, we think it's crazy."

Parker gave reasons that included: the Australian east-coast property market "bubble" and its "impending correction;" worries that issues around China's hot property sector and escalating debt levels will blow up "later this year;" "oversized" geopolitical risks and an "unpredictable" US political environment; and the "overvalued" Australian share market.

The overheated property market was the most present danger, Parker said. "When you speak to people candidly in the banks, they'll tell you very specifically that they are extraordinarily worried about the over-leverage of the Australian population in general," he said.

"Mortgage fraud is endemic, it's systemic, it's just terrible what's going on," Parker stated. "When you've got 30-year-olds, who have never seen a property downturn before, borrowing up to 80 percent to buy three and four apartments, it's a bubble."

Altair is a relatively small fund, handling investments thought to be in the hundreds of millions of dollars and holding an advisory contract worth $2 billion. Attempts by financiers and real estate entrepreneurs to discredit or downplay Altair's move, however, were undercut when larger corporate interests echoed Parker's alarm.

Citigroup's global chief economist, Willem Buiter, in Sydney for client meetings on Wednesday, declared that Australia had to "recover from a quite spectacular housing bubble." Buiter spoke of a "housing debt overhang" and a "collective unreadiness to engage in serious infrastructure investment."

Buiter also warned that Australia remained vulnerable to an economic slowdown in China, which was a "cyclical accident waiting to happen," with excess industrial capacity and gross financial sector debt to gross domestic product (GDP) predicted to reach 300 percent by year's end.

Other fund managers pointed to fears of a share market rout. In a quarterly report to clients on Wednesday, Watermark Funds Management portfolio

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manager Justin Braitling said: "Shares are expensive at current levels." With interest rates rising and credit conditions tightening, investors would be exposed to the weak conditions that have persisted since the global financial crisis of 2008.

Already, the Australian share market lost $57 billion in May—a 3.4 percent fall attributed by the *Australian Financial Review* to international political concerns, combined with investor caution around banks.

Despite the Turnbull government's efforts to talk up optimism, Treasury secretary and former funds management boss John Fraser said last week that Sydney and Melbourne residential property prices were "unequivocally" in bubble territory.

These concerns extend to the banking system. Ten days ago, institutional investment fund JCP Investment Partners warned that the proliferation of interest-only property loans could be "Australia's sub-prime," referring to the US housing loan crash that sparked the 2008 global meltdown.

JCP said defaults on such high-risk mortgage loans to young families, professionals and other over-extended borrowers, in which they were lent amounts more than six times' household incomes, could wipe out 20 percent of the major Australian banks' equity base.

Housing prices dropped in Sydney and Melbourne over the past month, on top of the falls that have already occurred in other parts of the country, most precipitously in the mining-dependent areas of Western Australia and Queensland.

According to property researcher CoreLogic, Melbourne's prices fell 1.8 percent during May, after rising by 50 percent in the previous five years. Sydney's prices were down 1.3 percent, the second consecutive monthly drop, after soaring by 75 percent in five years.

These figures hide a disparity. While prices for stand-alone houses have not dropped greatly, apartment prices have begun to tumble.

By mid-2016, it is now clear, the highly speculative boom in apartment construction began to implode after building approvals had trebled since 2012.

The latest official building approval statistics indicate that over the past year, approvals for private sector houses have fallen 8 percent and for apartments and flats, 19.7 percent.

This mostly occurred during the second half of last year, when the number of non-house dwelling approvals fell 22 percent. They were down by 30 percent in Sydney, which accounts for around 40 percent of all apartment approvals in Australia.

This turnaround is flowing into the construction industry. The latest data, released this week, showed a 0.7 percent fall in the March quarter, prompting some economists to warn that the official GDP figures out next week could show the economy went backward in the first three months of this year.

Commenting on the latest price fall figures, AMP Capital chief economist Shane Oliver said: "We're heading for much rougher periods, which probably involve price falls of up to 10 percent in Sydney and Melbourne, and the units in those cities could be even more, 15 to 20 percent."

Underpinning the unsustainable property boom has been a combination of record low interest rates, predatory bank profiteering and government tax subsidies for real estate investment. Investment has also poured into the housing market due to inability to generate, from manufacturing and mining, the rapacious rates of return there demanded by the financial markets.

As a result, investment has plunged to historic lows in basic industry, while buying a home has been wrenched out of the reach of millions of working class people. Adding to the inequality and irrationality of the private profit system of capitalism is that much of the boom has been based on speculative investment, searching for capital gains and tax write-offs. Thousands of apartments remain empty after completion.

Property developers have enjoyed a bonanza. Harry Triguboff, the country's biggest apartment builder, has increased his fortune since 1984 from $25 million to $11.45 billion, while working people have faced falling real wages, endemic unemployment and under-employment and deepening cuts to social spending.

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