Australian property bubble fuelling mortgage stress

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Recent figures show that soaring house prices, especially on the east coast of Australia, have fuelled a deepening social crisis. Millions of working people are mired in “mortgage stress,” with not enough funds to cover housing repayments and other living expenses. Millions more are on the precipice, sparking warnings of a housing market crash that could trigger an economic breakdown.

According to modelling by Digital Finance Analytics, featured on the Australian Broadcasting Corporation’s “Four Corners” program last week, a quarter of all mortgaged households, numbering some 820,000, are in stress. Of those, around 32,000 are estimated to be in severe stress and 52,000 are thought to be at risk of defaulting on their loans by next May.

The modelling highlighted the social divide that underlies the housing crisis. In working-class areas of Sydney and Melbourne, mortgage stress is endemic, while in the wealthiest suburbs it is in the single digits.

In Sydney, for instance, 47 percent of around 13,000 mortgaged households in the southwestern suburb of Liverpool are in stress. The figure is 38 percent of the 2,634 mortgage-holders in North Parramatta, 53 percent of 4,495 in St Mary’s, 40 percent of 5,848 in Mount Druitt, and 51 percent of 10,683 in Campbelltown.

Each of these suburbs, in the city’s west and southwest, has been hit by the decimation of manufacturing and industry, and the gutting of social spending on education, healthcare and other necessities, overseen by Labor and Liberal-National governments over the past three decades.

These are centres of poverty, youth unemployment and myriad social problems for which government authorities offer no solutions. Despite lacking basic services, and being over an hour from Sydney’s central business district, affordable home ownership in such areas is out of reach for tens of thousands of workers.

Across Sydney, dozens of working-class suburbs registered rates of stress at, or approaching 20 percent of the mortgaged population. The figures mean that a substantial proportion of working people are already unable to cope with their housing repayments, and could be tipped over the edge by the loss of a job, a health problem or unanticipated expenses.

By contrast, mortgage stress is at 6 percent in Vaucluse and 7 percent in Rose Bay, two of the city’s most affluent eastern suburbs.

Similar figures were recorded in Melbourne. In seven working-class suburbs in the city’s northeast, for instance—Diamond Creek, South Morang, Epping, Meadow Heights, Fawkner and Mill Park—mortgage stress stands at well over 50 percent, affecting more than 20,000 households.

The annual Household Income and Labour Dynamics in Australia survey, released earlier this month, also showed that a substantial proportion of mortgage-holders are increasing their housing debt, indicating difficulties with existing repayments. Between 2011 and 2014, at least 40 percent of young homeowners increased their nominal home debt. Between 2002 and 2014, average housing debt for young mortgage-holders rose from $169,000 to $337,000.

This is part of a broader explosion of household debt, which stands at 189 percent of total income, the second highest ratio in the world. Average annual wage growth was 1.9 percent last financial year, the lowest in recorded history, and barely on par with the official inflation rate.

House prices have risen far more quickly. Average prices in Sydney and Melbourne, the centres of the property bubble, have doubled over the past eight years, reaching more than $1 million in the former and over

$900,000 in the latter.

The divergence between soaring property prices and declining or stagnating wages, and the massive increase in debt, has sparked fears of a housing market crash.

On “Four Corners,” Martin North, the head of Digital Finance Analytics, commented: “I’ve been studying the market here for a good number of years and I have never seen this perfect storm of issues coming together.” North added: “We’ve got households in some degree of difficulty already now and so it doesn’t take much to see the tipping point, such that then we get this downward spiral and boy if it goes, it could be as bad as Ireland or the US.”

The modelling featured in the program underscored the dilemma confronting the Reserve Bank of Australia and other government authorities. Having promoted the boom through low interest rates and incentives for speculative property investment, any move to rein in the market could trigger widespread mortgage defaults, and a rapid fall in lending.

According to the modelling, a 1 percent interest rate increase by the Reserve Bank would push an additional 200,000 households into mortgage stress, taking the total to over a million. A 5 percent rise would lead to rates of stress among mortgaged households of 90 percent or more across 170 metropolitan suburbs.

Already, despite official interest rates being at record lows of 1.5 percent, there are indications of a slowdown in the property market. National apartment sales fell in July, on a month-to-month basis, by 15.7 percent, contributing to an overall fall in housing sales of 3.7 percent. The release of those figures followed warnings by BIS Oxford Economics that the construction of residential apartments will fall by 31 percent over the next three years.

If that occurs, it would have far broader implications, indicating a collapse in investor confidence in the property market and impacting on every sector of the economy, as well as wiping out thousands of construction workers’ jobs. The major banks would be heavily exposed to any marked slowdown of the housing sector, as around 60 percent of their assets consist of mortgage debt.

A substantial proportion of that debt is composed of high-risk “interest only” loans, which do not require the borrower to pay off any of the principal, for a fixed period of up to seven years. Such loans account for up to 40 percent of all housing loans, and an estimated 60 percent of loans to investors.

The “Four Corners” program documented how mortgage brokers have been actively encouraged to sell risky loans. Phillip Dempsey, one former broker, noted that in the past the industry-standard was for loans to be no more than three to four times combined gross income. Now the standard is seven or eight times income.

The promotion of speculation in housing, and the massive expansion of debt, has not been simply a product of individual banks or brokers. It is part of the broader rise and rise of finance capital, aided by the deregulation of the economy, including the housing market, by successive governments, beginning with the Hawke and Keating Labor governments in the 1980s.

The tendency toward speculation has accelerated since the 2008 global meltdown, amid fear on the part of investors that they will not receive a sufficiently profitable return on investments in the productive economy.