More warnings of Australian property market crash

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14 September 2017

Over the past weeks, nervous commentaries in the financial press, from international banks and major property developers, have warned that a downturn of the Australian housing market could trigger a financial crisis.

Indices of soaring mortgage debt, declining wages and falling investor confidence have pointed to the fragility of the property bubble, which is built on a mountain of debt and parasitic financial speculation.

There are symptoms of a slowdown that some commentators warn could mark the beginning of the end for record high house prices. Figures from CoreLogic showed that auction clearance rates for the first week of September were at their lowest level in over a year, at 66.4 percent across the country.

Falls were recorded in Sydney and Melbourne, the country's two biggest cities and the centres of the east coast property boom. Prices were stagnant during August in Sydney, and grew by just 0.5 percent in Melbourne. This marked a shift from growth rates that had seen prices double in both cities since 2009. Average prices reached over $1 million in Sydney this year and more than $900,000 in Melbourne.

The downturn in the apartment sector is far more pronounced.

In Brisbane, the third largest city, apartment sales from a plan fell from 1,600 in the December quarter of 2014, to just 300 in the June quarter of 2017, according to CoreLogic. In the March quarter, some 25 percent of Brisbane apartments already on the market were resold at a loss. Unit values fell by 3.2 percent over the year to the end of last month.

Tim Lawless, CoreLogic's research head, described the Brisbane apartment market as "quite problematic" and said similar processes were underway in Melbourne and Perth.

Harry Triguboff, the multi-billionaire property developer whose Meriton Group is the country's largest apartment builder, told the *Australian* on Monday that prices in the sector had fallen by as much as 10 percent over the past six months. "The falling prices will have a big impact on the economy," he said, "Australians could lose an enormous amount of wealth."

BIS Oxford Economics last month estimated that high-density residential completions could fall by 50 percent in the two years to 2020–21. The research group also forecast a 31 percent fall in new residential building starts over the next three years.

This would jeopardise the jobs of tens of thousands of construction workers, and have far broader implications. BIS managing director Robert Mellor said that with the downturn, national economic growth rates would be below the 3 percent projected by the Reserve Bank of Australia and the Turnbull government.

The Westpac-Melbourne Institute consumer sentiment report for September said confidence in the property market had fallen to its lowest level since the survey began 40 years ago. Only one tenth of respondents said real estate was the best area to invest savings, while the "time to buy a dwelling" sub-index had fallen by 13 percent this year.

Underlying the concerns are a sharp growth of mortgage debt and declining wages.

Australian Bureau of Statistics (ABS) data this week showed that in Sydney alone, 407,000 households with mortgages or other housing loans are "over-indebted." A household with debt three times greater or more than income is classified as holding excessive debt. The average debt among such households in Sydney is over $765,000.

Across the country, "over-indebtedness" among young homeowners is endemic—62 percent among 24–35 year-olds and 51 percent among 35–44 year-olds. Total household debt has almost doubled since 2003. It now stands at 189 percent of income, the second highest ratio in the world.

Modelling by Digital Finance Analytics late last month found that up to 820,000 households, a quarter of those holding a mortgage across the country, are in mortgage stress. About 32,000 of those are in severe stress, unable to meet their repayments with their current income, while 52,000 are at risk of defaulting on their loan by May.

The pressures on mortgage-holders are being driven by record low wage growth, which has been just 1.5 percent over the past year, according to one measure. Household savings levels in June were 4.6 percent of income, the lowest since 2008, and the figure has not risen for 14 consecutive quarters.

Because of rising living costs and stagnant or declining incomes, broad sections of the population are suffering financial hardship. They could be pushed over the edge by the loss of a job, or any other unexpected expense.

Commenting on the ABS debt figures, Robert Gottliebsen, the *Australian's* business columnist wrote today: "If ever property falls in Australia the effects will not just be directed to the over-borrowed parts of the society ... but it will spread through the wealth of the community."

The major banks would be heavily exposed to any housing sector slowdown, with around 60 percent of their assets composed of mortgage debt.

International investment bank UBS this week called into question the quality of much of that debt. It estimated that up to $500 billion of outstanding mortgage loans could be based on incorrect information, including about the borrower's income, debts and assets.

In a UBS survey of 900 mortgage holders, only 67 percent said their mortgage application was "completely factual and accurate." If UBS's extrapolation is correct, 29 percent of all mortgage debt, and 18 percent of private debt across the board may be based on false information.

The figures have prompted media denunciations of "dishonest" household borrowers, with headlines warning of "liar loans." In reality, the banks and mortgage brokers have aggressively pushed risky housing loans, as part of a broader promotion of the speculative housing bubble, including by governments and regulatory authorities.

Last month, for instance, a former broker told the Australian Broadcasting Corporation's "Four Corners" program the previous industry standard was for loans to be no more than three to four times gross income, but it was now common for loans to amount to seven or eight times income.

Having promoted the boom, the authorities are trapped in a dilemma, with any move to rein it in threatening a precipitous fall in lending and a rush of mortgage defaults, risking broader economic turbulence.