

# Australian housing market slumps toward potential crash

James Cogan  
17 October 2018

Amid the growing global economic turmoil and uncertainty, statistics, studies and comments published in the financial press are drawing attention to the fragility of the Australian real estate market and the immense social and political implications of a severe slump.

After close to a decade of soaring house prices in the major cities, Australian households are among the most indebted in the world, with household debt compared to income close to 200 percent. Millions of families have been compelled to borrow staggering sums to achieve the so-called “Australian dream” of home ownership.

At the same time, speculators have gambled that the purchase and resale of real estate offered greater capital gains than stocks and other investments. The major Australian banks became among the most profitable in the world by facilitating a speculative frenzy, borrowing at near zero interest rates internationally and lending at higher margins in Australia.

By the end of 2017, housing in Sydney and Melbourne, the country’s largest cities and the focus of real estate speculation, was ranked as among the “least affordable” in the world. Sydney was ranked as the second worst after Hong Kong, with median house prices nearly 13 times median household income. Melbourne was the fifth worst internationally, with prices close to 10 times higher than what the median household earns in a year.

In August 2018, there were 613 suburbs nationally where the median house price was over \$1 million—double the number just five years ago and overwhelmingly in Sydney and Melbourne.

Rampant profit-gouging is rife in the financial industry, some aspects of which were revealed during the recent Royal Commission. Between 2013 and 2015, for example, the banks doubled the amount they lent, mainly to speculative investors, on “interest only” repayment terms, meaning lenders did not have pay any of the principal on a loan for as long as seven years. More

generally, bank assessors overestimated the income or underestimated the weekly expenses of applicants to justify extending huge loans to make home purchases or acquire small businesses.

A great deal of money has been made by the capitalist class and sections of the upper middle class at the direct expense of millions of workers, who have been effectively transformed into debt slaves to the banks and finance houses. Outstanding housing debt in Australia reached \$1.762 trillion in May 2018—a historic high of 130 percent of Gross Domestic Product.

Under these conditions, a slump in the real estate market is now underway. The median home price has fallen 4.4 percent this year in Sydney and 4.6 percent in Melbourne. Auction clearances have dropped to barely 50 percent. The number of unsold properties on the market has soared by 19.5 percent in Sydney and 18.4 percent in Melbourne.

The developing crisis is partly due to oversupply, but also because the banks have taken belated and desperate steps to tighten credit and therefore their exposure to potential problem loans. Up to 40 percent of applications are now being rejected, compared with barely 5 percent in 2017. The number of new loans to investors has fallen 17.7 percent compared with 12 months ago. Even new loans for owner-occupier dwellings are down 3.6 percent.

The downturn is just beginning. Investment house Morgan Stanley predicted this month at least 10 to 15 percent will be slashed off property values over the next several years.

Other analysts are giving more dire estimates. Martin North, a researcher with Digital Finance Analytics, was widely criticised for predicting on the “60 Minutes” current affairs program that prices could crash by as much as 30 to 45 percent and plunge Australia into its worst economic conditions since the Great Depression.

North’s worst-case scenario, however, is based on significant and credible research. A major study this year

by his company found that at least one in four mortgage-holding households—some 820,000—are already in financial stress, meaning they can only meet repayments by reducing other expenses such as food, health care and entertainment.

Digital Finance Analytics considered the implications if interest rates rise. While the Reserve Bank of Australia (RBA) has sought to keep rates at historic lows, its ability to continue to do so is in question due to the steady rise of official rates in the United States. The US Federal Reserve is expected to raise rates again in December and throughout 2019.

Each US rise puts downward pressure on the value of the Australian dollar, increasing the borrowing costs of the banks, which source anywhere up to 40 percent of their capital from overseas markets, especially Wall Street.

Even if the RBA did try to resist matching US increases, the major banks will raise their rates regardless. Their parasitic business model consists of borrowing internationally and lending within Australia at higher interest rates. As the cost of their borrowings increase, they are passing on the burden to Australian households.

Even small rate rises will cause staggering social distress. If rates rose just by 2 percent, back to the level in 2012, well over 50 percent of mortgaged households, some 1.6 million, would sink into financial stress due to their huge repayments.

In dozens of working class and middle class suburbs, between 60 and 100 percent of households would be affected. Many borrowers face the prospect of becoming so-called “mortgage prisoners,” condemned to paying off outstanding loans that are greater than the value of their homes. A wave of foreclosures would have to be expected, further aggravating the slump in property prices.

The Digital Finance Analytics study into the impact of interest rates did not consider the impact of a significant rise in unemployment. That is, it assumed that mortgage holders still had jobs and could struggle to meet their repayments.

Several factors are coming together, however, that threaten to plunge Australia into recession and cause a sharp increase in unemployment.

The construction industry and related real estate activity collectively employs 1.4 million people. As the property slump develops, tens, if not hundreds of thousands of workers in this sector may well lose their jobs.

The launch of open trade war by the United States

against China, Australia’s largest export market and trading partner, as well as the general descent into dog-eat-dog competition between the major economic blocs, looms as the greatest threat.

On October 12, the RBA expressed guarded, but serious concerns in its latest “Financial Stability Review”. The central bank stated:

“Australia would be sensitive to a sharp contraction in global growth or dislocation in global financial markets because of the importance of trade and capital inflows. A worsening in external conditions could see a downturn in the domestic economy, reduced availability and higher cost of offshore funding and falls in asset prices, with a resulting deterioration in the performance of borrowers and lenders.”

The RBA continued: “In the current environment, a range of possible triggers could precipitate a global economic downturn. An escalation of trade protection could see a sharp fall in trade, business confidence and investment.”

The central bank issued pro forma reassurances about the “resilience” of the Australian financial system and the ability of households to continue to meet their debt obligations.

In the scenario of a property market crash, however, the Australian capitalist class would face the same situation as its counterparts in the US and Europe after the 2008 financial crisis. To save the banks from insolvency, they would demand that the government step in with massive multi-billion bail-outs and impose savage austerity on the working class to pay for them.

It is essential that the working class advance its own interests against the social disaster that the capitalist system has already produced and threatens to inflict. A mass political movement must be developed to fight for a workers’ government that will implement the most far-reaching socialist policies.

The socialist re-organisation of society would necessarily start with the expropriation of all banks and financial institutions which would be placed in public ownership, and an end to the subordination of the basic right to decent housing to the profit interests of a super-wealthy minority.



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