Australia: Labor's first home buyer scheme will drive house prices even higher

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The Australian federal Labor government's expanded Home Guarantee Scheme came into effect on October 1, allowing all first home buyers, regardless of income, to take out a mortgage with just a 5 percent deposit.

Economists are warning that the scheme, which will do nothing to resolve the shortage of affordable housing, will lock millions of workers into home loans they cannot pay off and further inflate average housing prices.

Outside of the scheme, buyers need to put down a 20 percent deposit to avoid being forced to pay Lenders Mortgage Insurance (LMI), which adds tens of thousands of dollars to the cost of buying a home and which only serves to limit risk to the banks. Under the scheme, the federal government acts as guarantor for the remainder of the deposit, negating the LMI requirement.

According to Money.com.au, the average first home buyer deposit is now $159,000, 50 percent higher than in 2020. The average median-income household needs more than 10 years to save for such a downpayment, property data research firm CoreLogic states.

Both Housing Minister Clare O'Neil and Prime Minister Anthony Albanese have referred to Treasury research purportedly showing that the scheme will increase house prices by just 0.5 percent over the next six years. But this data has not been released, leading experts to question its accuracy.

Among them, Ben Phillips, an economist from the Australian National University, told the *Guardian* this meant it "cannot be properly scrutinised despite being part of the government's sales job," noting that such modelling tends to be "very imprecise at best."

Sally Tindall, director of data insights at Canstar, told the Australian Broadcasting Corporation (ABC) the scheme was likely to "add demand into a red-hot property market."

In a report written for the Insurance Council of Australia, lobby group Lateral Economics estimated the scheme would cause an overall 3.5–6.6 percent price increase by 2026, and an up to 9.9 percent rise in lower-priced areas.

Eliza Owen, Cotality's head of research, told the ABC that anticipation of the scheme had already contributed to a sharper rise in prices in September: "Anecdotally, we've heard that some people are trying to get in before that boosts demand at the lower segment of the market."

Last month alone, median home prices rose 2.2 percent, or some $18,000 on average. Already, Australian capital cities are among the least affordable in the world, with median house prices over $1 million.

This scheme will only add fuel to the fire. It is designed to further stimulate the over-inflated property market that has put home ownership beyond the reach of workers.

The scheme has been welcomed by the banks, which are looking forward to signing potentially tens of thousands of new customers up to even larger mortgages, with the federal government taking on all the additional risk.

Home buyers taking out a loan for 95 percent (rather than 80 percent) of the $848,858 median dwelling cost would pay almost $133,000 in additional interest over the course of the mortgage, according to estimates by Cotality.

This will plunge first home buyers into a nightmare of crippling mortgage repayments when, according to the National Housing Supply and Affordability Council (NHSAC), new mortgagees are already having to spend on average 50 percent of household income on loan repayments.

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Data compiled by the Parliamentary Library shows that, of the 3.8 million Australians in the ten most common occupations, the vast majority could not afford to pay a 95 percent mortgage on a median-priced home without falling into housing stress—commonly measured as having to pay more than 30 percent of earnings on mortgage payments or rent.

For example, a nurse, earning $2,011.40 per week before tax, would need to spend 76 percent of their income on loan repayments for an average Sydney house.

Sales assistants—the most common occupation in the country—earning an average $71,350 per year, could not affordably repay a house or unit in any capital city. Mortgage repayments on a median house in Sydney would amount to a whopping 139 percent of their wage.

For school teachers, repayments on a median house in Sydney would cost 87 percent of their income and for a personal carer/assistant, 122 percent.

These figures underscore the growing chasm between housing costs and wages. Over the past 27 years, average dwelling prices have increased by 483 percent, while average wages have risen by just 127.5 percent.

This process has been exacerbated since the Albanese Labor government took office in 2022. Since the March quarter of that year, public sector wages across the country have increased by just 9.33 percent. This is a direct result of Labor's pro-business agenda, expressed at federal and state level through punitive wage caps on health workers, educators and other public sector workers, with the vital aid of the union bureaucracies.

O'Neil has stated that there is "no silver bullet" to resolve the housing affordability crisis, and that the scheme must coincide with the building of more homes. Under the National Housing Accord, Labor claims to be aiming for the construction of another 1.2 million new homes over the next five years. But this is left entirely in the hands of private developers, with the role of government limited to doling out subsidies and waiving environmental, safety and quality restrictions in order to remove any impediment to their vast profits.

The federal Labor government's $10 billion Housing Australia Future Fund (HAFF), a central pillar of its 2022 campaign, has so far produced just 5,000 "social and affordable" homes, far short of its supposed 30,000–40,000 target over five years, itself a fraction of the national shortfall of some 600,000.

At the same time, state Labor governments continue to gut existing public housing. In Melbourne, 44 public housing towers are slated for demolition, which will displace some 10,000 residents. At Sydney's Waterloo South, 3,000 public housing residents are set to be turfed out.

Like these measures, the Home Guarantee Scheme will do nothing to resolve the deepening housing crisis, a manifestation of the capitalist system, which allows property billionaires to hoard land for their own profit. The scheme will saddle working-class Australians with even more debt, increase the price of homes and boost the profits of the banks.

Token gestures by federal governments are not the way forward for the working class. Housing should be a basic human right, but under capitalism, it is a profit centre for the wealthy. This means that workers need to fight for a political alternative—a workers' government to carry out a socialist program, including placing the banks, property developers and other major corporations under public ownership and democratic workers' control. Only then can society's vast resources be devoted to fulfilling real social needs, including high quality housing for all, rather than boosting the wealth of the financial elite.

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