Australia’s housing crisis worsens—for buyers, renters and landlords alike

The black hole Australia’s big banks have created at the centre of the national economy through 25 years of concentrating lending into mortgages is now not only engulfing both renters and home buyers, but increasingly threatens to suck in the banks themselves. The banks’ true present level of exposure to the economic “downturn” they and their political henchmen have engineered remains obscured, for now, by the opacity of their mortgage securitisation and “hedging” derivatives operations. But what is sure, is that everyone else in the housing market—be they builders, owner-occupiers, renters, or even landlords—is already bleeding money, eating losses and going broke at a rate that cannot long be sustained. Let them do so long enough, and inevitably the banks will too—and as everyone from the federal Treasury to the banks themselves acknowledges, under current government policy settings still has a long way yet to run. Commonwealth legislation has long included powers which the Albanese government could invoke at any time to resolve the crisis; but so wedded is it to the neoliberal ideology that brought us here that it refuses to use them. Instead it proposes only more of the usual half-baked “market-based” solutions which, in the unlikely event they worked at all, would in any case not take effect for years, while pursuing policies in the meantime that make their realisation impossible anyway.

Rental availability and affordability are at record lows nationally, and rents are continuing to grow at a rate far in excess of the general inflation in the cost of living (which is itself the highest it has been since the recession of the early 1990s). Former Australian Treasury economist Leith van Onselen, writing 11 April for business and finance blog MacroBusiness, reported that whilst their figures differ slightly (due presumably to differences in size and composition of their sample groups), all of Australia’s private property market data providers are reporting “extreme rental inflation in the year to February amid record tight vacancy rates”, both of which factors continue to worsen. In particular, he noted, leading property market analytics firm CoreLogic “reported 11.5 per cent capital city rental growth off a vacancy rate of only 0.9 per cent”. Domain, the online real estate portal owned by Nine Entertainment, reported average annual rental growth of 13 per cent for houses and 22 per cent for units, off a vacancy rate of 0.8 per cent; while Sydney-based independent advisory firm SQM Research put annual rental growth at 18.8 per cent (houses) and 25.8 per cent (units), and the vacancy rate at 1.0 per cent. Meanwhile, per Reserve Bank of Australia (RBA) figures the overall inflation in the cost of living, as measured by its Consumer Price Index (CPI), was 7.8 per cent in the same period; while data published in February by the Australian Bureau of Statistics (ABS) had wages growing at an annualised 3.3 per cent in the December 2022 quarter, i.e. going substantially backwards in real terms.

So too, however, are landlords. As Channel 10’s current affairs show *The Project* reported 6 April, “In theory, it’s a good time to be a landlord. But in reality, ten consecutive rate rises have left most with a massive shortfall. In Sydney, for example, while renters are forking out an average extra $315 a month compared to last year, investors are getting charged an extra $835 a month on a $500,000 variable loan.” Many simply cannot find the extra cash to cover the difference, it continued, leaving them with “no other choice but to offload their assets, meaning there are fewer rentals in an already sparse market”. And so the vicious circle rolls on.

Leadership vacuum

Both by commission and omission, the Albanese government’s policies are making things worse. On the first count, “Each data provider warned that the rental crisis would worsen in the period ahead”, van Onselen wrote, “given Australia is now receiving unprecedented immigration arrivals, which will ensure that demand runs well ahead of supply.” As regular readers of the *Australian Alert Service* will know, the Australian Citizens Party by no means shares MacroBusiness’s anti-immigration bent, and in fact advocates what some call a “big Australia” built in part upon the type of well planned, purposeful immigration programs typified by those implemented to populate, develop and industrialise the nation in the wake of World War II. The Albanese government, however, lacks such a perspective, and is instead merely trying the old trick of brute-forcing a rise in nominal GDP (Gross Domestic Product, a misnomer since it really only measures aggregate spending), the standard though gravely mistaken measure of economic growth, simply by importing more consumers. The real effect of this policy is to lower the standard of living by suppressing wages while adding to competition (ergo prices, ergo inflation), especially for essentials such as housing; and also by exacerbating traffic congestion and the general overloading of infrastructure in the capital cities where most immigrants perforce end up living, for want of schemes to settle them in suitable lodgings (and employment opportunities) elsewhere.

As for Labor’s omissions, they are many; but first and foremost, as noted above, is its refusal to intervene directly in the crisis, either by re-regulating the banks as it once promised or, more immediately, using its own bank—the RBA—to issue loans, whether to state and Commonwealth agencies, private contractors, to build the social and community housing it talks about in such glowing terms but has no apparent plan to achieve. After Treasurer Jim Chalmers last October announced a “National Housing Accord” that was supposed to “align for the first time the efforts of all levels of government, institutional investors and the construction sector” to build one million new “affordable” and “well-located” homes, including social housing, in the five years beginning 2024, the *AAS* noted that every successful social housing and housing affordability program in the world has always been predicated upon direct investment and management by government—as exemplified by Labor Prime Minister Ben Chifley’s use of the Commonwealth Bank for that purpose under the first Commonwealth-State Housing Agreement (CSHA) beginning in 1945; and by the phenomenally successful South Australian Housing Trust established in 1936, which in 1945-70 built fully one third of the state’s homes—not just housing projects for the poor, but entire new cities to industrialise the state, while improving standards of living for everyone. By contrast, we warned, what Chalmers had proposed was in fact a mere re-hashing of the same market-based “Public-Private Partnership” model, centred mainly on “incentivising” private financiers by guaranteeing them returns on investment at going market rates, which had been ripping off the public for over 30 years.

The Senate crossbench is evidently of the same opinion, with the *Guardian* reporting 28 March that Labor had shelved its $10 billion housing bill for the time being, after the Greens refused to support it. Party spokesman Max Chandler-Mather MP correctly dismissed the bill as a “sick joke” that instead of actually doing anything would effectively “gamble” the entire $10 billion on the financial and equities markets à la the Future Fund (and, he might have added, compulsory superannuation) with the promise of spending the presumed winnings on housing, and demanded the government spend at least $5 billion directly.

Mortgage cliff

Yet for all that, renters are still better off than many mortgagors. House prices nationwide may have stabilised in the past few weeks, and even rebounded slightly, according to CoreLogic data; but that company’s own researchers along with various other experts have cautioned that the reprieve may well be short-lived, dependent largely on whether the RBA continues to raise interest rates in May and thereafter following its pause this month—as it likely will, none of the fundamentals that pushed it otherwise continuously to do so continually since May 2022 having changed in the meantime. Be that as it may, the fact remains that per RBA testimony to the Senate in early February, there were some 800,000 “mortgage facilities” (i.e. loans of various types), implying a similar number of borrowers, due to reset from low fixed to higher variable rates during this year, a phenomenon dubbed the “mortgage cliff”. As the AAS and others had noted, a great many of those would already then have been “underwater”—meaning their outstanding debt now exceeds the current value of their homes—and would thus remain in significant debt were they unable to meet the drastically increased repayments and be forced to sell; while the losses so incurred would rebound onto the banks in the form of ever lower resale values, the more properties were thus forced onto the market.[1]

Evidently the potential ramifications have the big banks worried. Several times since mid-February, Westpac CEO Peter King has publicly warned that the RBA’s interest rate rises were a “blunt tool” with which to try to beat down inflation, which he implied were doing more harm than good. Most recently, a widely re-posted 9 April report by NCA NewsWire paraphrased King “[telling] a business summit on Tuesday [4 April] the next year will result in a spike in the number of customers unable to make their home repayments”, causing defaults to “reach previously unseen heights”. The same article quotes ANZ boss Shayne Elliott warning that though default numbers are low thus far, the global “challenges” causing them were far from over. “The world is different when you’re living in a world with rising interest rates”, Elliott said. “To paraphrase a quote from [an] economist [at US investment bank] JP Morgan, ‘When the Fed puts the brakes on the economy, somebody always goes through the windscreen’. … I don’t think we’re heading for another huge crisis but that doesn’t mean there isn’t turmoil and that won’t impact people.” Mild statements in themselves, perhaps; but telling nonetheless, coming from bankers whose usual modus operandi is to deny vociferously that their banks are or could be having any such problems at all. NCA notes that according to SQM Research, as of March “the number of properties selling under ‘distressed conditions’ had increased to 6,220 from 5,917 the month before. ‘The increase in distressed selling activity was mainly driven by a rise in New South Wales, Victoria and Queensland’, a statement released on Tuesday said. ‘From March 2022 to 2023, distressed listings in NSW surged by 68 per cent.’”

Whilst the numbers are small thus far, the trajectory is troubling, the more so given that as the Australian investment bank Barrenjoey’s chief economist Jo Masters pointed out back in January, even were the RBA to cease raising rates now, most of the flow-on effect from its hikes to date will not arrive until the second half of this year. On 6 April the *Australian Financial Review* reported that according to the RBA’s half-yearly Financial Stability Review published that day, “About 16 per cent of households with a home loan are in ‘mortgage prison’, unable to refinance to a lower rate because they do not meet tough serviceability assessment rules”, which include a mandatory 3 per cent “buffer” to allow for potential future rate rises. Were mortgage rates to rise another 1 percentage point, the proportion of households so imprisoned would rise to 20 per cent. “The RBA also revealed the growing financial pressure facing the nation’s lowest-income borrowers”, the AFR continued, “with mortgage repayments forecast to consume a record 9.8 per cent of household disposable income by the end of next year. About 45 per cent of the poorest quarter of households with a mortgage are spending more than 30 per cent of their income on repayments, which is considered a proxy for mortgage stress. … In another sign of pressure, the RBA revealed a steady increase in the share of borrowers dipping into their [mortgage] offset or re-draw account since August, potentially to pay for day-to-day expenses.” Plainly, that paradigm is unsustainable.

Footnote:

1. “The great Australian mortgage bubble floats towards the abyss”, *AAS*, 1 Feb. 2023.

By Richard Bardon, Australian Alert Service, 12 April 2023
