Australian Citizens Party

Craig Isherwood, National Secretary
PO Box 376, COBURG, VIC 3058
Phone: 1800 636 432 **Email:** info@citizensparty.org.au **Web:** citizensparty.org.au

MEDIA RELEASE

18 August 2017

Australian property bubble close to bursting

Anyone still not convinced Australia's property bubble is close to bursting should take note of a trifecta of recent warnings: forecasts of a major contraction in construction by industry insiders, a major reversal in international capital flows to Australian real estate, and leading bank executives issuing uncharacteristic warnings.

BIS Oxford Economics forecasts a 31 per cent collapse in the residential construction market over the next three years, from 230,000 new homes built per year down to 160,000. And high-density apartment construction will collapse by around a massive 50 per cent. The economics forecasting firm's managing director Robert Mellor estimates the underlying level of demand for dwellings, based on population growth, is around 184,000. National building starts peaked in 2015-16 at $107.3 billion, so such a collapse will be obviously a multi-billion dollar hit to the Australian economy and potentially a trigger for a chain-reaction collapse.

In Sydney, billionaire Harry Triguboff, founder of Australia's biggest apartment builder, Meriton, says he expects apartment building rates to fall between 25 and 33 per cent over 12 to 18 months which, in anyone's language, is a massive decline. Given that construction and finance are the biggest sectors in the Australian economy, this forecast is truly stunning. And combined with the derivatives bubble and the end of Australia's car manufacturing, not to mention a looming trans-Atlantic banking crash, several triggers are present to smash the Australian economy.

Despite BIS Oxford Economics' dramatic forecast, Mellor seems to see property in isolation. "There will be some price declines", he said, but "it will be a correction, not a collapse, we're not talking about prices falling by 10 or 15 per cent." Melbourne and Sydney could see price falls of up to 4 per cent, he said.

Meanwhile Jonathan Tepper, founder of macroeconomic research group Variant Perception, has predicted an Australian property market crash of 30 to 50 per cent. The nation's banking system is "unstable" and Australians are living in "fantasyland" about the impact of slowing construction on the economy, says Tepper.

Foreign investment into Australian property is also rapidly drying up. A former top US Federal Reserve official, Nellie Liang, who recently visited Sydney, said a "trigger" for a real estate price collapse could be a reversal in international capital flows. In particular, recent laws in China preventing capital outflow will be significant given that China is the largest source of approved investment in Australian real estate. Master Builders Australia calculates that foreign investors accounted for as much as one-third of the approximately 230,000 houses and apartments that began being built last year.

Commonwealth Bank CEO Ian Narev in the usual banker language has just stated the obvious: "Underneath the effective wealth of the household is a whole lot of mark-to-market of what's my property worth and what are my assets worth, whereas the debt is debt," he warned. "So you've just got to be *very careful about the role of asset values* in that." (Emphasis added.)

Essentially, as the head of Australia's biggest bank Narev is warning that a large part of your nominal wealth will evaporate when property prices crash, but your debts will remain the same. This will affect most Australians and we should not tolerate such an outcome, particularly given the growing numbers saddled with a mortgage. The 2016 Census revealed that of all households in Australia, only 31 per cent owned their homes outright; 35 per cent of households were paying off a mortgage while others were renting. A trend for the last two decades shows outright homeownership is declining, while an increasing number of Australians are slaves to a mortgage.

Westpac's head of consumer banking, George Frazis has also made a frank admission: "This whole notion that you want a system where house prices drop is flawed. It is over $7 trillion in terms of an asset class. If that loses value, *it would destabilise the economy*," he said in an interview with the *Australian Financial Review*. Frazis added that about 75 per cent of the bank's first home buyers used products which allowed them to use their parents' property as security to cover part of the deposit. (Emphasis added.)

It would seem we have a choice between crashing property prices leaving millions of Australians with mortgages in negative equity, or as Frazis would have it, continued unaffordable housing locking out the next generation of home ownership. Both scenarios are crazy. A housing crash would wipe out the banks and whole kit and caboodle of ordinary Australian's investments.

The CEC has for many years warned about Australia's growing property bubble. Housing prices were overvalued even in the 1990s, but after the Howard-Costello government's 50 per cent capital gains tax discount announced in 1999, and in 2001 doubling their First Home Owner Grant for new housing purchases, the growing bubble was unmistakable, at least for those not wearing rose-coloured glasses.

In August 2007 the CEC first called to implement Lyndon LaRouche's Homeowners and Bank Protection Act as a measure to deflate the property bubble in an orderly way, protecting families from foreclosure and ensuring the integrity of the banking system. Escalating this campaign, the following year the CEC petitioned the Australian Parliament, and 260 local government councillors supported the CEC's Homeowners and Bank Protection Bill 2008. This legislation would establish a Federal agency to place Australian licensed retail Banks, Credit Unions and Building Societies under protection, freezing all existing home and family farm mortgages for as long as is needed to adjust the values to fair prices, and restructure existing mortgages at appropriate interest rates. Further, this action would also write off all of the speculative debt obligations such as mortgage-backed securities, derivatives, and other forms of Ponzi Scheme that have brought the banking system to the point of bankruptcy.

The Homeowners and Bank Protection Act would mandate banks revalue mortgages downwards to reflect true property values. This would avoid a negative equity crisis and ensure families won't lose their homes. Glass-Steagall bank separation will complement the Homeowners and Bank Protection Act to ensure Australia's banks won't suffer an insolvency crisis as they will surely do otherwise when the property bubble inevitably bursts.