Australia: one of the worst housing bubbles ever

By Lindsay David

By all accounts, Australia is experiencing what is one of the greatest credit-fuelled real estate bubbles in modern times. On the back of a collapsing mining sector, we can thank the RBA, APRA, ASIC and the political elite in Canberra for creating a flawed household wealth-creation strategy that shares all the hallmarks of a predictable economic disaster.

In plain English, since the mid-1990s, Australia's strategy is for home buyers and investors to borrow heavily from lenders and flip houses to the next buyer who has taken out even more debt to speculate.

Today, all this country has to show for it is a $1.9 trillion mountain of household debt that will make the US credit-fuelled housing bubble of the last decade look like a walk in the park when our housing bubble bursts.

The unfortunate victims of today's "wealth-creation" strategy are young home buyers and middle-income earners who are either completely priced out of the market or leveraged through the roof.

While our society lacks a meaningful and open debate on the toxic and rising levels of household debt, new home buyers in Sydney and Melbourne are entering the market and taking upon the most illogical sums of debt, courtesy of our over-leveraged banking system.

Based on median multiples, new home buyers in Sydney will spend the better part of 6.54 years savings (using 30 per cent of their income) for a 20 per cent deposit to buy a median-priced home.

When it comes to servicing the first 12 months of a 25-year/80 per cent LVR mortgage, it will cost roughly 65 per cent to 70 per cent of household income to service that debt at current record-low mortgage rates. Melbourne is not too far behind.

So what have our leading economists, regulators, public executives and politicians done to stop this debt-induced folly? Nothing. In fact, they have bent over backwards to inflate prices via stimulants such as housing grants and allowing retirees to tap into their life savings.

These powerful stimulants have been implemented, not to improve home ownership rates, but to boost prices for the benefit of existing owners, bankers' profits and government balance sheets.

If new home buyers cannot access (or are not willing to take on) a greater sum of debt compared to previous buyers, Australia's wealth-creation strategy will collapse just like it did in Ireland. Rest assured, our society is definitely caught up in the same irrational exuberance they experienced.

From 1996 to 2014, housing prices and mortgage debt significantly outpaced economic fundamentals like inflation, rents, incomes and GDP. Yet, our central bankers are more concerned about whether we will pay less tomorrow for a can of soda than new home buyers in Sydney borrowing $50,000 more than last year to buy a home. Where is the logic in that?

If the RBA factored in the expansion of debt required for a new home buyer to enter the market, inflation would officially skyrocket through the roof. Regardless, our political and economic elites are now stuck between a rock and a hard place.

Unfortunately, that is the price a country pays when it builds an unsustainable property bubble while avoiding a debate on the most important topic when it comes to housing: debt.

With Australia having the world's most indebted household sector, the seemingly unending price rises in Fool's Paradise will eventually slam to a halt. As I argue in my new book *Print: The Central Bankers Bubble*, having the largest housing bubble and mining boom in Australia's economic history going down simultaneously will cause a severe economic and social catastrophe.

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