

**Media Source:** The Age  
**Date of Publication:** 24th February 2010  
**Author:** Chris Zappone

---

## Australia's mortgage debt blow-out

Debt doom prophet Professor Steve Keen has criticised the government's decision to open the door for more foreign investment in local real estate, accusing the government with "importing a bubble" from China.

"If houses aren't for the people in their own country, then who the hell are they for?" Dr Keen asked. "And if you let incomes in other countries determine your prices, all you're doing is importing a bubble," he said.

The federal government relaxed its foreign investment rules for residential property early last year. While the controlling body, the Foreign Investment Review Board, does not disclose the exact number of sales to overseas investors, anecdotal reports from would-be local buyers and real estate agents across the country point to a surge in spending from Asia - particularly mainland China. Agents are also setting up offices in China and arranging "property tourism" to tap the demand.

**Have you been squeezed out of the market or facing rising rents? Email [czappone@fairfax.com.au](mailto:czappone@fairfax.com.au)**

The apparent additional demand from abroad is contributing to rising property prices - with average median prices surging more than 10 per cent in capital cities last year - and fuelling the disappointment of would-be local buyers who are being out-bid.

"We have lost three properties (that we know of) to overseas investors who pushed the prices well above the limits of the Australian residents in the room," said Nikki Symonds, from Sydney's Lane Cove. "Three overseas online bidders pushed the price up from \$880,000 to \$950,000."

"Our search continues, but we are forced to look further and further outside of Sydney to have even the faintest hope of securing a house," she said. "Great Australian Dream? I don't think so."

### China boom

While Dr Keen has made some contentious comments about the local real estate market, his view that China is facing a real estate bubble of its own - which is part of the reason for the overflow into the Australian market - is gaining wider currency.

Property prices in 70 Chinese cities jumped 9.5 per cent in January from a year ago, the fastest pace in 21 months, prompting the central government to direct its banks to slow lending. China resorted to massive stimulus spending to prevent the economy sliding into recession, but much of the money has ended up in asset markets, including real estate.

Charter Keck Cramer senior economist George Bougias said Asian countries are playing a bigger role in the local property market and people are increasingly looking at Australia as an attractive investment destination.

"As economic relations between Australia and China deepen, we can expect more interest from Chinese nationals in the Australian property market," he said.

Nevertheless, the lack of statistics measuring the pace of their investment makes it difficult to determine the final impact.

"We want to ensure that housing remains affordable for the majority of the population whether they've been here for 200 years or just got off the plane."

### A floor in prices

Dr Keen, who is Associate Professor School of Economics & Finance at the University of Western Sydney, says Australian politicians viewed the trigger of the global financial crisis to be falling house prices in the US, and worked hard to prevent the same wave sweeping Australia.

The relaxing of foreign investment rules on property took effect in April, exempting temporary residents from giving notice to buy residence for their own use. The rules also relaxed the definition of a "new" home, giving buyers from overseas more choice.

But the move was only part of the government's actions to put a floor under housing prices, with Dr Keen singling out the boost to its First Home Owner Buyer's grant in late 2008 as another major factor stoking demand for real estate.

In terms of heading off a major price correction, the policies worked. Home prices dipped just 5.5 per cent in the year to the March 2009 quarter, before posting a 13.6 per cent rise in the year to December quarter.

### **\$100 billion mortgage blow-out**

According to Dr Keen, though, the hangover from the latest real estate binge is going to be a heavy one.

"The crisis is caused by too much debt and it's too late to stop too much debt," said Dr Keen.

The government stimulus, the investment rules change and low interest rates have combined to swell the country's mortgage debt by \$100 billion more than where it was headed when it began to dip in March 2008, according to numbers Dr Keen will deliver in a speech in Melbourne today. (China's lending rates are typically lower than Australia's.)

Dr Keen said the ratio of mortgage debt to the size of the economy - as measured by gross domestic product - hit 81.29 per cent in March 2008. It then eased to 80.37 per cent by November 2008, before rising to a new record high of 84.28 per cent "from where it is still rising," he said.

### **Hiking for house prices**

Dr Keen, it must be said, has drawn a legion of critics for his earlier predictions of a house price slump, which were coupled with the sale of his own residence in late 2008 in anticipation of a market collapse. Those predictions included [these made earlier this month](#).

He also famously lost a wager with Macquarie Bank analyst Rory Robertson that home prices would fall 40 per cent from peak to trough in a year, and so Dr Keen must now hike 224 kilometre from Canberra to Mount Kosciuszko, while wearing emblazoned with the phrase "I was hopelessly wrong on house prices. Ask me how."

Dr Keen says he plans to begin the trek on April 15, but is undeterred.

"I'm being criticised for being consistent with the rest of the world", he offers as a defence.

Now that Australian home prices are rising, the cycle is again under way: prices must continue to climb to prevent a vicious cycle of forced sell-downs and asset price falls, he said.

"Normally, once (home prices) go flat, they go down for the simple reason that if they stabilised and people have got themselves geared on rising prices, they've got servicing costs that can only be met by selling on a rising market."

Further, the overall economy is depending on households borrowing more since business credit remains in the doldrums, he said.

### **'Warders among us'**

Whichever direction house prices go, their growth over time and ease with which borrowers have been ushered into huge loans by banks have made Australia a "less equitable society" than it was twenty years ago, Dr Keen said.

Describing himself both as an optimist and a cynic, Dr Keen compared the banks' role in people's lives to the warders of Australia's penal era.

The huge amount of money being paid for homes is a "classic case of a huge inequality and injustice behind the veneer of the fair go."

"But the warders are still among us," he said. "The warders are working with banks, they got us working as debt slaves and there's an enormous transfer of wealth as a result."