HD **Housing boom delivers a potential headache for the government**

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WC 682 words

PD 18 September 2014

SN Crikey

SC CRIKAU

LA English

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The government faces a growing problem around the booming **property** markets of Sydney and Melbourne while the Reserve Bank can see danger to the wider economy, Glenn Dyer and Bernard Keane write.

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The government faces a growing political and policy issue around **property**, one not of its own making but one it might be lumbered with having to fix—and wear the political consequences of. Worse, the challenges are coming from multiple directions.

First, the Reserve Bank. Its concerns about booming house prices and investment are at their highest level for years, and are likely to be articulated in its second Financial Stability Report of 2014, next week. The bank's rising level of concern about the **property** boom can be seen by reading the minutes of the **board** meetings in the month of the release of the FSR—March and September each year—which contain a precis of the forthcoming report.

The bank's concerns about **property** have considerably escalated between March 2013 and this month's **board** minutes. In March 2013 **property** and house prices didn't rate a mention. The minutes of the September 2013 **board** meeting recorded the bank's first muted concerns, when it identified **property** gearing in self-managed superannuation funds "as one area identified where households could be starting to take some risk with their finances; members noted that this development would be closely monitored by Bank staff in the period ahead." That warning was one of several from financial sector regulators about the SMSF sector's exposure to **property** and banking.

By March of this year, the RBA had lifted its warnings considerably:

In Tuesday's minutes, the language had escalated again, with a long discussion of **property** risks.

There are some red flags in Tuesday's language, likely to be repeated and explained next week—the reference to investors rather than owner-occupiers, and especially the reference to the threat to macroeconomy rather than the financial system— i.e. there's little systemic risk to lenders, the problem is more what happens in areas like consumer sentiment and spending behaviour—already struggling given falling real wages—if a notable fall in prices prompts people to grow more cautious, perhaps inducing the first recession in 23 years. And the mention of **commercial property** (not mentioned in previous summaries) means the bank now sees the dangers from the booming interest in **property** expanding out from just housing and investor interest in that area. Traditionally Australian banks and the economy generally first feel the impact of a **property** bust in the **commercial** sector.

Meanwhile, the government faces a growing political problem around foreign investment in existing housing stock rather than new housing. Liberal backbencher Kelly O'Dwyer has been examining the issue as part of a Reps Economics committee inquiry and raised a real concern earlier this week about the Foreign Investment Review **Board** failing to properly administer the existing rules around foreign acquisition of **residential property**.

Currently FIRB is the only enforcer when it comes to ensuring foreign investment goes into new housing stock—where it is very welcome, given the continuing undersupply of housing—rather than existing stock, where it will benefit existing homeowners but potentially price Australians **purchasers** out of the market, especially in Sydney and Melbourne. There is much hype and nonsense around the issue of foreign, and especially **Chinese**, investment in existing housing but if FIRB is failing to do its job, as O'Dwyer suggests, then that's a legitimate concern.

The fact remains that we don't build enough housing in Australia, and while that supply/demand imbalance remains, the chances of a substantial fall in **property** prices is small. But the RBA correctly notes that should it occur, the damage it will inflict will spread into the broader economy, and the chances of that happening are greater now than they have been for some years.

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AN Document CRIKAU0020140918ea9i00008

