

House prices 'world highest'

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AUSTRALIA has by far the most overvalued houses in the Western world, with prices 52 per cent higher than justified by rental values, the OECD says.

In a new analysis of the housing boom sweeping developed nations, the OECD also says the price of housing relative to incomes is 50 per cent higher in Australia than in other countries as a group.

The Paris-based think tank warned that historically, most booms in housing prices have ended in busts which, at worst, wiped out all the rise in prices during the boom.

While no country was named as vulnerable to a housing-led economic bust, on each of its three measures, Australia was one of four countries where house prices were most out of line with fundamentals.

Of 15 OECD countries compared in the study, Australia had the highest prices relative to rental levels, the third-highest prices relative to incomes, and the fourth-highest levels of household debt relative to incomes.

"If house prices were to adjust downward, possibly in response to an increase in interest rates or for other reasons, the historical record suggests the drops (in real terms) might be large, and that the process could be protracted," the OECD warned.

A correction of these inflated prices could generate an economic downturn, affecting growth, employment, government budgets and bank lending, the OECD said. "If financial intermediaries (banks) misjudge risks, the potential for credit and asset booms to derail and turn into busts is increased."

Its warning comes as a grim report on welfare services says the struggle to find affordable housing is now affecting middle-class Australians as well as those on low incomes.

The Australian Institute of Health and Welfare said 1.7 million people were in "housing stress" in 2004, spending more than 30 per cent of their income on accommodation.

Making it worse, demand for affordable housing had risen at the same time as the public housing stock in Australia had dropped from 372,000 in 1995-96 to 345,000 in June 2004.

The report said average household debt had skyrocketed as a proportion of household disposable income. From 49 per cent of income in 1990-91, the debt ratio trebled to 143 per cent in 2004.

"The major component of this rise in household debt has been the even greater increase in borrowing for housing," the report said. "Such borrowing has grown more than four-fold in real terms since 1990."

Labor and the Democrats blamed the Federal Government for the growing levels of housing stress and debt. Labor housing spokesman Kim Carr said the institute's

report, Australia's Welfare 2005, confirmed that housing affordability had fallen to an all-time low.

"In 2003 the Productivity Commission recommended that a national public inquiry be established to examine the housing needs of low-income residents. But the Howard Government rejected that recommendation", Senator Carr said.

Former Democrats leader Andrew Bartlett said the Government's tax breaks for investors "have played a big part in Australia gaining this unwanted status of having such excessively expensive and unaffordable housing".

"The price of housing, and the ability of every citizen to gain access to an affordable home should be a fundamental priority for all governments," he said.

The OECD report warned that the current boom had lasted twice as long as past housing booms, increasing the risk of a bust. "The cumulative increases (in prices) have far exceeded those of previous upturns", it said.

LINKS

www.oecd.org; www.aihw.gov.au.

OVER- VALUATION OF HOUSES (% in 2004)

	Our over-valued home	Housing debt (% of income in 2003)
Australia	52	120
UK	33	105
Netherlands	20	2018
Ireland	15	92
Spain	13	67
Denmark	13	188
Canada	13	77
New Zealand	8	129
USA	2	78
Japan	-21	58
Germany	-26	83

SOURCE: OECD ECONOMIC OUTLOOK.