ABC NEWS

What does a housing slump actually look like?

By Jessica Haynes

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Ever looked at a house or apartment and wished it was cheaper, only to realise you still couldn't afford it even if the price was 10 per cent lower?

Maybe you'd need to slice twice that from the price to have a fighting chance.

It turns out you might be wishing for a disaster which would engulf the entire economy.

With thousands of young people locked out of the housing market, you could be forgiven for hoping for prices to tumble as a way to get your foot on the property ladder.

Last week, we heard the case for why a housing crash was more likely than a correction. Soon after, CoreLogic predicted a price fall of up to 10 per cent in east coast capital cities.

We've asked the experts what a downturn would actually look like and the message is clear: **be careful what you wish for.**

Why? Won't housing be more affordable in a downturn?

Not necessarily, said economist Saul Eslake.

He said a $50,000 drop in prices would help a person's ability to purchase a buy in at the $500,000-$600,000 price range, but that is not the reality for many in the current market.

"It certainly wouldn't make much difference to anyone's ability to purchase the price at the median currently in excess of a million," Mr Eslake said.

Surely there will be a big increase in supply...

While there may be some supply boosted by investors selling off properties, it might not have a widespread impact.

And that's down to two reasons: our **financial laws** which allows banks to chase down debts and ... **our ego**.

"It's never going to be rational for Australians ... in a position where they owe more on their property than their property is worth to walk away from a mortgage in this country," Mr Eslake said.

"Unlike the United States, the banks can go after you for assets and income that you might have.

"The second thing is that while Australians are shameless about many things, one of the few things in our culture that still carries a great deal of stigma is having a 'mortgagee in possession' sign go up outside your house and all your neighbours knowing you have defaulted on your mortgage.

> "History shows, Australians will go to considerable lengths to avoid putting themselves in that position."

That means people will do pretty much anything to keep their house, including stopping spending elsewhere.

Problem 1: A drop in household spending affects the economy ... and your job

Mr Eslake said that could be an **even more dangerous proposition** than people defaulting on their home loans.

"That's the thing that worries the Reserve Bank and other policy makers more ... [the chance we'll start] cutting back on a wide range of spending in ways that would have implications for many other sectors of the Australian economy," he said.

Philip Soos, LF Economics co-founder and co-author of Bubble Economics, said any burst would have **big implications for young people**.

"We already have an unemployment rate of 6 per cent, [and] we have the highest underemployment rate on record, that is people who are employed but would like to work more," he said.

> "So we have a weak labour market, and any kind of shock to that is going to wreak havoc for a lot of people."

Problem 2: Getting a loan could be even harder

Even if you're one of the lucky ones with a full-time job, and a deposit saved, Mr Eslake said banks would "almost certainly" make **restrictions on new loans**.

"After the housing crash in the United States in 2007/2008 the US had solved its housing affordability problem in the sense that housing in the US was at face value more affordable after 2008 than it had been for more than 40 years ... but that was *if* you could get a mortgage," he said.

He said lending restrictions would be two-fold, caused by a fear of the further decline in house prices as well as pressure from regulators.

Problem 3: What about my one asset? (My super)

Think you don't have any assets? What about your **superannuation**?

It's the one you've probably forgotten about, and is increasingly vulnerable to the housing market.

"It's going to impact their super funds quite badly," Mr Soos said.

"And it's not a scenario I'd like any young [person] to face, or anyone for that matter."

But Mr Eslake said there was a silver lining to that.

"Big proportionate falls in share prices are often followed by sharp rebounds and the worst thing that people can do in the aftermath of the falling in shares, is to bail out of the market altogether," he said.

In other words, if you're young enough you would still have enough time to rebuild your super — and there should be plenty of bargains on offer.

Can we learn lessons on other housing crashes around the world?

The head of the School of Economics at the University of Sydney, Professor Colm Harmon, who lived through the **Irish housing crash in 2007/2008**, described its impacts as "devastating".

"Banks collapsed — total bailout was required because we hit the perfect storm of falling prices and the GFC," he said.

> "One might say the GFC was the cause but we had no capacity to deal with that because the banks had so much lending out on property.

"The peak to trough fall in GDP was largest in western economic history, and unemployment went from 4 to 14 per cent in two years."

He agreed that gunning for a housing collapse was the wrong take.

"The idea that some big shock is needed is wrong," Professor Harmon said.

"The Irish experience is one where prices started to fall before the shock."

He said as consumer confidence fell, so did prices. Figures out last year from Ireland's statistics office showed a 54 per cent drop in prices from 2007 to 2013.

So will this crash actually happen?

Mr Eslake said he put the chance of a major American, Irish or Spanish-style property bust in Australia happening in the next year or two at **less than one in five**.

"I'm not saying it can't happen, but I would still not say that it is the most likely scenario. Particularly in the near-term," he said.

Mr Soos said while there was no denying there was a housing bubble, there was no indication that it would end anytime soon.

"My position has been as long as household debt keeps growing the bubble will keep on growing and once household debt takes a dive, then that's the end of the housing bubble. But it's simply impossible to predict," he said.

> "All I'll say is by my definition, there is a housing bubble, it's historically and internationally large, but I simply cannot predict when it will peak and burst."

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