

The Falling

Australian Dream

The battle to buy a home is fought on two fronts. First, scaring prices stretch budgets to agonising limits. Then rising interest rates make the pain worse . . . **NORMAN ABJOENSEN, DAVID PORTER** and **FIONA HIGGINS** listen to some typical stories.

THE great Australian dream of home ownership has turned into a grim race on a treadmill for many people as they struggle to meet higher interest charges. But these are the denizens of the lucky country, the privileged, the ones who have broken out of the rental spiral and clambered — at almost any cost — on to the coveted rungs of the home ownership ladder.

For another group below them, the dream remains just that: a distant prospect daily receding.

But if it is hurting out there in the mortgage belt now — and the evidence says it is — the month's ahead will be even more painful as another hike in interest rates becomes almost inevitable.

Somewhere, in the stampede into the jungle of financial deregulation, the vital element of housing finance was lumped in with commercial finance to the point where the dictates of the marketplace now drive directly into home buyers' pockets. The regulators argue that it is a small national economy with the rest of the world, but a crucial distinction has been swept aside.

Commercial institutions can pass on interest hikes to their clients, but the poor old homeowner does not have that safety valve. In a period of restrained wage increases, the knot of interest rates just tightens around the homeowner's neck.

Just over a week ago, the State Bank of Victoria bowed to market pressures and became the last bank to lift home interest rates in the previous round of rises, raising its prime housing loan rate from 14.25 to 15 per cent. The bank explained that it had held out against the rise for as long as possible, but in order to remain competitive in attracting deposits it had had to fall into line.

More ominous was the move at the same time by the Commonwealth

average housing loans through savings banks had stayed beneath the national average, but with a rise in median housing prices in Melbourne of 26.6 per cent in the 12 months to September 1988, Victoria's average housing loan shot up to \$61,507 against a national average of \$54,300.

Prices have far outstripped earnings. The Housing Industry Association's Mr Les Groves points out that in 1982 it took 179 weeks of average weekly earnings to buy the average house and land package at Kellor. By 1988 it took 215 weeks of average earnings.

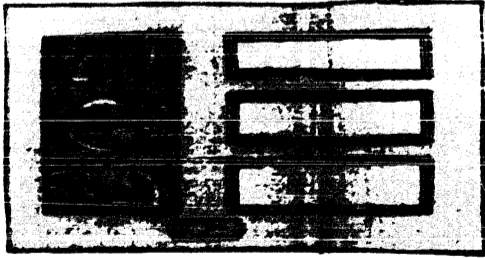
And for all those sweating under an increasingly heavier repayment burden, there are many others who find their saved deposits inadequate to secure a loan in a skyrocketing market. The director of the Australian Institute of Family Studies, Dr Don Edgar, sees a sinister new dividing line in Australian society: the growing wealth gap between the haves and have-nots is essentially about home ownership.

MICK GARDINER and JEN ANDERSON

"EVEN THE best laid plans . . . That popular unfinished sentence, usually accompanied by a rueful shake of the head, was custom-made for Mick Gardiner and Jen Anderson.

Mick, 34, and Jen, 31, joined with Jen's brother Eddy almost two years ago to buy a rundown home on a double block in Northcote. They paid \$68,600 at auction for a three-bedroom, weather-board place in need of extensive renovations and borrowed \$54,000 from the Commonwealth Bank.

With plans to renovate the home gradually themselves to save on labor costs, and with the repayments shared among three wage-earners, the wicket was looking good. But it did not take long for the cracks to appear and for Mick and



Bank in raising its prime lending rate from 16.5 to 17 per cent, the highest level since March 1987. Other banks would follow suit and be under strong pressure to lift housing interest rates again from 15 per cent to 15.5 per cent. On an average loan of \$60,000 over 25 years, this would add \$23.40 a month to repayments, bringing the figure to \$792.

Banks have so far cushioned the impact to some extent by increasing the terms of loans, but this adds substantially to the overall cost. There is, however, a limit to the extent that this cushioning can be used and indications are that it may now be very close.

A profound statistical change has crept like a shadow over home ownership in Australia in the past few years, years which have seen the Sydney and Melbourne property markets soar. Banks in particular, but also other lending bodies, for years operated on a rule of thumb that repayments should not eat up more than a quarter of gross household income. But by the September quarter last year, average monthly home repayments in Sydney had leapt to a staggering 38 per cent of median family income and in Melbourne 30 per cent.

Until the end of 1986, Victorians' home ownership had been a dream. The great Australian dream of home ownership has turned into a grim race on a treadmill for many people as they struggle to meet higher interest charges. But these are the denizens of the lucky country, the privileged, the ones who have broken out of the rental spiral and clambered — at almost any cost — on to the coveted rungs of the home ownership ladder.



Mick Gardiner, Jen Anderson and daughter Bronwyn outside their Northcote home, but still wary.



Jane Sharwood: "All I'm doing is trying to keep up."

while but hopefully now we are getting back on track," says Mick. "But if interest rates suddenly push themselves up another per cent or so, we could be in trouble again."

Between them, Jen (who recently resumed work) and Mick (a carpenter) bring home about \$700 a week. They consider this a good income but Jen despairs: "Where does it go? We're always skint!" Mick works at least six days a week to keep the money flowing but it all disappears on necessary renovations, bills, child-care and, of course, mortgage repayments.

Their Northcote home is now valued at about \$100,000 and the pair are working on raising its value with renovations. With interest rates and housing prices soaring, Mick and Jen are relieved to be in the market, but still wary.

"The great Australian dream may not yet be a nightmare but the reality is that it is very difficult to achieve," says Jen. "If you want to own your own home, you have got to make sacrifices and I think over the last few years those sacrifices have become larger."

Jen to witness the inflexibility of a mortgage.

A fortnight after signing the deed, Jen discovered she was pregnant. "We were ready for a house or for a baby," says Mick, "but not both." Having Bronwyn (now 16 months old) forced Jen to quit her typesetting job, and they had to juggle their repayments one income short while feeding another mouth.

Jen and Mick then decided to get married, which meant an expensive trip to join parents who live overseas. Eddy later moved out of the Northcote home to make way for the young family and the newly-weds bought Eddy's share of the house for \$15,000. On top of this change of ownership came solicitor's fees and duplication of the stamp duty.

Jen then wrote off their car in an accident last year and they scraped around to replace it with an old Holden. Bronwyn fell ill and ran up crippling hospital costs. Meanwhile, they had taken on the whole burden of the housing loan and watched their repayments rise to \$850 a month.

"Things were looking a bit grim for a

JANE SHARWOOD

"YOU KNOW, someone once told me that the stress of buying a house was about the same as the stress of having a baby," says Jane Sharwood, 28, single and childless, but steeped in home repayments.

A recreation consultant on \$32,000 a year, Jane invested in an \$88,000 Northcote home in November 1987. The price was right — she wanted to live within 10 kilometres of the Central Business District and, after recovering from the shock of her first few landlords, had set herself a \$90,000 limit.

Jane had envisaged a three-bedroom brick home in North Fitzroy, with a separate dining room and off-street parking. She wound up with a smaller, two-bedroom, weatherboard home in Northcote with street parking and no dining area.

For someone who always thought owning a home "was the most boring, settled, middle-class thing to do," she was desperate to get into the market

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