

## The 'Lucky' Country

**Ross** Welcome to Renegade Inc. Beautiful weather and beaches, plentiful natural resources, great standards of living and a fantastic education system. Australia deserved the title The Lucky Country. But today, Australians are world champions in private debt, the country presides over a massive housing affordability crisis and inequality rages. So what went wrong down under?

**Ross** Tony Locantro, great to have you on Renegade Inc.

**Tony Locantro** Great to be on.

**Ross** We have looked from afar at the Australian property market for quite some time now, and really the mania down there has been astonishing. You are apparently the lucky country. But when you say lucky, I mean, are you that lucky insofar as you've divided a society and some people have got astronomically rich and a lot of people have been left behind?

**Tony Locantro** Well, I don't think we're lucky at all because, look, what happened in Australia was in 1995 we had had the great disconnect between wages and house prices. But instead of house prices costing four to five times your yearly wage, they peaked at thirteen point seven times in Sydney and it just became fomo driven with cheap credit. And everyone was falling over themselves to get on the property ladder at the expense of first time buyers who are now going to find themselves in mortgage prisons. So that mania extended to Melbourne. But the speculative money didn't go to Adelaide, it actually went to Hobart instead.

**Ross** Wow! Mortgage prisons. Explain what a mortgage prison is and tell us from your point of view, if you think this is a turning point for the Australian property market.

**Tony Locantro** Well, mortgage prisons are suburbs where people are trapped in what's called negative equity, you could call that inequity. So I was actually in Dublin in 2010. And all over the front pages, the papers were people in negative equity that couldn't move, like teachers and emergency services personnel. So that's a mortgage prison. And often you can have mortgage prisons by the sea in all these outer fringe suburbs that do have the attraction of a water view. But people that have come in built new homes only to realise that the existing homes are far better value. So that's what I'll call a mortgage prison. And I'm expecting the mortgage prisons at some point to turn into mortgage ghettos where people will simply walk away and lawns and gardens and everything will be unkept. And that happened in Ireland. That's happened all around the world. And sadly, I think it's coming to us. So pretty much what's happened with the Australian economy is our government paid job keeper, job seeker kept everyone going. Our second largest airline, Virgin, went into administration. So a lot of those people were afforded jobs in supermarkets. But suddenly this free cash splash is about to end and suddenly you have an overpriced property market that's about to implode as the stimulus runs dry.

**Ross** Seems to me the Australians looked at the people of Ireland and said to them, hang on, hold my beer. We can do better than that. But from a trajectory point of view, economic

trajectory point of view, it's not always the best idea, is it, to base consumer spending and consumption through the mechanism of inflated land prices and an out of control banking system?

**Tony Locantro** I couldn't agree more. I think what I've pointed a lot of Australians to is the debate between Morgan Kelly and Jim Power, where Morgan Kelly went on TV and said Irish house prices were going to halve. And Jim Power said, wait a sec, we've got youth coming up. We've got six point five per cent economic growth. We've got a boom in construction. And look who was right. So pretty much once the cheap money ends and you start to see some selling and probably the two nastiest words in Australia, could he in the future, is price discovery, where we have eight hundred thousand mortgages and small enterprise loans deferred. And once these subsidies end, people in certain suburbs are going to be forced to sell. And real estate agents have to eat as well.

**Ross** It's like banging your head against a brick wall to have a British politician understand that massive investment in property, land and house prices means that there isn't any investment available for the real economy. For me, looking at the geographical differences between where both countries are, the UK and Australia, it's even more important for you to have a manufacturing base, an industrial base, so you can export around the world products that people actually use, therefore, you can get the revenue for it. How easy is it to get that argument across to people in Australia when they've been, in a sense, so giddy because they think that the house prices is going to go through the roof ad infinitum?

**Tony Locantro** Well, we've lost our motor industry. Obviously, the Koreans, Hyundai and Ikea are pretty much seizing that. I mean, Holden dealerships now are effectively shut down. They're shut off the brand. We've got no real other exports. Obviously our iron ore and coal which is at the beckon call of the Chinese, but our industry is simply uncompetitive. You know, our wages, minimum wage is high. People have a good quality of life here. But if you've got someone delivering pizzas on twenty five dollars an hour, it is going to be hard to have a competitive manufacturing industry. So Australia has ridden on the back of housing speculation. Our house prices relative to our wages are the most ridiculous on earth outside of Hong Kong. We aren't the miracle economy at all. All our youth have put clothes and money on after pay. So this buy now, pay later bubble has seen a spike we don't need and I'd hate to be doing a kerbside clean up in two years with all the junk that we've consumed.

**Ross** So the lucky country moniker that you're dubbed the lucky country. Was that actually a derogatory term but people just took it the wrong way?

**Tony Locantro** Well, that's actually a good one. I mean, we've got great beaches, but it takes you an hour in bumper to bumper traffic to get there. We do have a great way of life. We've got a great climate. But humans have a tolerance to debt and paying a certain amount of their income on shelter. And now couples, both couples, have to work. They have to now pay childcare. And instead of pushing a shopping trolley around and throwing in a couple of pieces of fillet, everyone's worried about paying their mortgage on an asset that's going to lose 30 to 40 percent of value. My 30 to 40 percent price target - this is mainly for Sydney and Melbourne - is based on common sense. It's based on long term price to income ratios. So I've looked at about seven times for starters in Sydney, which is still expensive. So I've actually based that on a 90,000 dollar per annum income and said, well, six hundred and

thirty is a good place to start. But that price target is based on a functioning economy and a lot of Gen X and baby boomers who are sitting on tax free millions of dollars. Once they decide to sell, all bets are off. So what I'm seeing is what will gradually happen is we'll develop a more European style of living as opposed to just looking for shelter and where a lot of people would rather rent, than try and have an 800,000 dollar mortgage on a house that's not worth a million dollars.

**Ross** Are you shocked that you've got a government that is so interventionist when it comes to housing? These people are apparently free marketeers, let capitalism do its thing. But actually, the props that you've had for that housing market over the last 20 years have been really significant haven't they?

**Tony Locantro** It's been absolutely ridiculous. And it was since negative gearing was allowed. As I mentioned, there was a great disconnect in 1995. So we've had everything thrown at it, but I don't think what people realise is that once a couple of houses in a suburb put their prices down, it's going to be a snowball and there's just absolutely nothing left to prop up our market apart from all these handouts and bonuses. And apparently in Perth, the applications for all these new properties has gone through the roof. And they're actually the fringe suburbs they're in. They're in nice locations, but they're that close to nothing. So I think we're setting up a whole generation to come in and fail as well. But you've got all that old money sitting on all these properties that aren't worth a pinch of what they're trying to sell. And it's just going to be a cascade affect. And I just can't see how our government can't see it coming. We have had some people speak up and say, like Martin North, some others even Scott Pape, the Barefoot Investor, has said a 40 per cent fall. But the longer this goes on, everyone is getting complacent. I think it's complacency that's going to really kill off investors and those that aren't prepared to move.

**Ross** You've put your head above the parapet and been very vocal about this to warn people of the negative effects and, as you put it, a life of debt or life and bankruptcy, a life of misery, ultimately. And this isn't financial advice, but what observations would you make and what would you say to younger people now who look at this market and they're trying desperately to get into it? What would you say to young Australians now?

**Tony Locantro** What I would say is, be grateful you've got a job for starters. We are still going to have massive job losses which are going to come in. I mean, I've lived in a five by two brand new and now I live in a one bedroom unit and I'm just as happy. I don't know why people want their kids to have their own rooms, their own backyards, where they can roll a cricket pitch. I think they listen to the demands of their kids and they listen to their parents that have made bucket loads of money through sitting on their backsides. I just think, you know, get a reality check. Do not even think of buying a house unless you're going regional, where you've got decent Internet and you can work from home and you can pay one hundred and sixty to two hundred thousand dollars for a house, which is where a lot of them should be. And the other option is, I advise people to dollar cost averaging to precious metals through safe organisations. Gold and silver prices have had a huge run and admittedly they've come off, but that's what you should do. And then you should start looking at alternative investments such as quality companies once the market becomes less heated. And there's going to be opportunities to buy financial stocks, to buy quality industrials at good prices. But to me, going into a massive loan with no job security is financial suicide.

**Ross** So the jig's up?

**Tony Locantro** Well, the jig's been up for a while. I honestly think - this might sound bad - that for a lot of people, this Covid pandemic is an excuse to do nothing, is an excuse to take handouts. Apparently, thousands of Australian millionaires are taking the handouts. I think for a lot of people, as sad as it is, this is their security blanket or their teddy bear. And once you come out of it, it's about to get ripped away from them. So I'm saying to people, I use the acronym, if you're thinking of selling, GTFON. And viewers can work out that acronym for themselves.

**Luke McInnes (Video clip)** I look at Australian property, which has gone up basically in one direction for almost 30 years now. And on fundamental terms, if you look at a slowing economy from Covid, you've got reduced immigration, increasing tensions with China, unemployment, restricted credit growth. Every single measure makes it a very, very valid argument as to why Australian property cannot keep going up. But I think that the Australian real estate market's going to face challenges it's never faced before. I think however, though, with the 30 year run up in prices and an entire economy that's built around people feeling wealthy through their paper wealth in real estate, it's now a bubble that's too big to burst. That doesn't mean that governments are all powerful and that they can just keep propping this property up. It just means that the pressure valve is going to come elsewhere. And I think looking at every single policy that the government has put in place over the last 10 years, they're too far down the path to reverse course now. We've seen that, you know, we had the budget come out today. I think we've got a two hundred and thirteen billion dollar deficit. There's a two hundred thirty five billion dollar line support facility in there. So I think the Australian government have set that path. They are not going to let this property market deflate. But I think the pressure valve is going to be in the Australian currency. So for me, if you're bearish Australian property, well, then you need to be bullish Australian dollar's relative to that property. And I haven't heard anyone make a really strong case as to why they're bullish Australian dollars. In my opinion, the pressure valve is going to be that currency. And I think Australian real estate now could out-perform that currency in the event where it crashes.

**Ross** Asher Spira, great to have you here on Renegade Inc.

**Asher Spira** Thank you very much, Ross. It's great to be here.

**Ross** The rest of the world looks over to Australia and looks at the real estate mania that has gone on and is going on there and thinks my word, we thought Ireland was bad, what's happened to the Aussies? Can you dissect some of this for us and tell us what's really going on on the ground?

**Asher Spira** Well, for most of the past 30 years, real estate prices have been increasing. They've been increasing relative to incomes. But they've been tracking fairly closely with the increase in GDP. So as Australia became more productive and as our country grew in the 2000s, we had extraordinary jumps in living standards and house prices rose with respect to GDP. But around 2012, the market was actually undervalued. So if you look at the house prices and track them with GDP, house prices in Sydney were actually undervalued relative

to GDP in 2012. Now, you know, I argue our GDP is not evenly shared amongst population. Inequality is rising, right? But they were still undervalued relative to GDP. But then after around 2012, 2013, 2015, 2016, 2017, house prices just took off. They took off. They went crazy, right? We had cardboard placards on the side of the highway saying we buy houses fast, make a million dollars. Be a millionaire within a year. Suburbs that were previously working class suburbs would hit the one million mark and there'd be articles in the newspapers about the latest suburb that's gone over a million dollars. The market went absolutely crazy and it peaked at around 2017. And that's when the regulators started to react. I think they started to react. They started to tighten. And so then we had a pullback in house prices, a correction, that went for two years. So a correction went from 2017 to 2019. And then we had another house price mania during 2019. And I've got some stories about that too.

**Ross** Is it any coincidence that your current prime minister is a former real estate spruiker? What is a spruiker and is there any coincidence?

**Asher Spira** So spruiker is a property bull. So, in any financial market you have your bulls and you have your bears. So the bears are the people that think the prices should go down and you have your bulls, which are people that think the prices should go up. And if you look at Australia's history, that's what they've done. And what they want to do is they want to get you to buy a house, right? And so they'll pump the narrative's like property doubles every seven years. Sydney is the best city in the best country in the world. Because of the high immigration intake, Sydney is going to be a mega city by 2050 or whatever, so you'd better buy now. Buy your land now because it's going to get flooded full of people. But they'll say things like all this foreign money coming in. You know, very wealthy people probably from parts of Asia are coming in and they've got lots of money. They can buy up all the houses. So spruiking is basically pumping those narratives into the public's consciousness. It could be via seminars. I've seen seminars where they are saying properties are going to double every seven years and like the average price is going to be, you know, some insane amount in 10 years time. It's possible. It is possible that house prices being this high could be a permanent feature of our civilisation. But that's basically spruiking.

**Ross** If you do have a prime minister that is a former spruiker or a property bull, as you'd put it, it's not going to be possible, is it, to get any leadership from on high to say, actually, there are negative societal effects to massive house prices and persistently rising house prices, not least inequality, lack of investment in the real economy. From a political leadership point of view, is anyone in Australia making sounds to say, well, actually, we can't just look at the past and say this is going to happen in the future? Education has been smashed by the coronavirus, immigration has been smashed also. Tourism, not only the coronavirus, but also the bushfires, suddenly, you've reached a different place in Australia. Is anybody in the political realm saying, actually, this can't go on forever and nor should it go on forever?

**Asher Spira** No. If you look at the last election, we were in a property price correction. Prices in Sydney were falling from their peak into 2017 and they were falling all the way through to 2019 when we had the election. There were double digit falls, right? And then at the time, we had our progressive party or a left wing party or the Labour Party run on a platform where they were going to even the playing field for property investors and property owners. So they proposed things like removing the most visible tax incentives for investment properties to try and like you're saying with this issue where you get people investing too

much in land and in business, they wanted to make property investment less attractive. And that actually caused part of the correction. So if you actually look at the 2017 to 2019 correction, it happened in two legs. The first step was when the regulators started to tighten the property market. And then the second leg was when the market started to price in what would happen if Labour would win the election and Labour was tipped to win the election.

**Ross** And what did the electorate do?

**Asher Spira** They voted in our Conservative Party or the Liberal Party.

**Ross** Do people realise that investment, heavy investment, into the property market, housing market and land prices ultimately means that you can't invest in the real economy, in businesses, in manufacturing, in an industrial base, in green technologies? Have people made that jump in their mind yet, or are they just a bunch of people who are so self gratifying, if you like, that they're just going to look after their little patch and to hell with the real economy?

**Asher Spira** Look, everybody's a rational agent, right? So you have you have 80 to 100000 home buyers every year. They want prices to go down, whereas the people that own properties are in the millions. So, you know, of course, that's going to have an effect on your democratic outcome, right? It's a situation where the majority gangs up on the minority to take resources, right? And that's just people being rational. I mean, even first homebuyers, even though they understood that the Labour Party, you know, would level the playing field for them, even first home buyers were still scared because the mainstream media in this country is generally anti Labour Party. They generally don't like the Labour Party. I'm apolitical. I don't really take sides. But it's abundantly clear that our media does not like the Labour Party. And they were running article after article about how if the Labour Party got in, house prices would go down. It would crash the economy, I think yes, people did vote with their wallets. People did vote because they wanted to preserve their asset prices. But I think there was also some fear, right? There was fear. There was fear of the unknown. There was fear what would happen if house prices did go back down to normal. And all they had to do was correct another 10, 20 per cent, and then they'd probably be after Labour got in and then then probably being in alignment with where they should be in relation to GDP.

**Ross** You mention the word rational. Is it not perfectly irrational to say we're not going to invest in the real economy and we are going to invest in banking, which is a cost centre via the land market? Do people not make that jump?

**Asher Spira** No, because it's just a hard sell. It's a hard sell intellectually to explain to people that there are situations where sometimes the whole can be better than the sum of its parts. If maybe some of those parts feel a little less wealthy because their house isn't worth as much or make it slightly easier for first home buyers to get into the market, you know. I think we've broken a societal contract here. The societal contract is that each generation should have access to the same or better living standards than the previous. And if you look at first home buyers and what they are able to buy 10, 20, 30 years ago compared to now, it's a lot less, right? But people do make the connection. They know something's wrong, right? So my parents are baby boomers. They're disgusted by the house prices, how high they are, even though they've benefited from it. I've been to auctions where there have been parents that

have been sitting there with their kids and they go to this house that's listed for still a high, high value. And they go there and they think they're going to get it and they are priced out immediately, right? They're priced out immediately. So this is sort of like 1.4 million dollars. You know, a professional family on a high salary that's young could still afford that, right? But when this market goes off, it goes off like a rocket. That house that was 149 will sell for 181.

**Ross** From your point of view, what happens when you use the land price mechanism and banking to fund consumer spending? What happens to the society? What are the societal effects of this land price mania?

**Asher Spira** If you think about what a mortgage is, right? So a mortgage is when a bank can create money to increase your purchasing power in the now, right? and have that paid off with future cash flows. But what all of this increase in debt has done is it's created price inflation for the sake of price inflation. And what's happened is that if land goes up in value because the amenity increases or because they renovate the house and have done something good with it, that's fine because we want to motivate people to fix up things and to improve the amenity. And that's a good form of property investment. But all this debt has done is it's basically shunted purchasing power from one group to another. And what that has done as a society is that has created perverse incentives, right? If you actually look at most suburbs and you look at what most income's make in that suburb, I reckon only about a third of people can actually afford the house that they're in, right? And as a society, because you need two incomes now to have a middle class lifestyle, I reckon that's starting to affect the fertility rate, right? I think I think there's reasons why the fertility rate drops like it correlates with the education in your society, it correlates with all sorts of things like that. But at the end of the day, if you need two incomes to service a loan and live comfortably, you're not going to be wanting to raise as many kids. So I think it does a lot of things. It stratifies your society. It causes things like decreased birth rates because people can no longer afford to have the same homeownership opportunities in their cities. It starts to displace people. A third of my friends have left. They've all gone, right? Because they look at the house prices and they look at all of the education they've had and they look at how hard they work and they're thinking, well, what can we actually buy with that now? So we're starting to get inequality, you get brain drain, you get declines in fertility, you get perverse incentives. Once you get one of these things in your society, once you start targeting wealth creation through housing, through none other than government policies to pump the prices and keep the prices inflated, you get all of these awful things in your civilisation. And there's no easy way out of it because people have planned their retirements around it, right? That's the ugly side. Like, if we get the house price correction that that we could be facing right now, we're going to get a retirement crisis, because a lot of these boomers, a lot of these people that have these massive portfolios, their retirement depends on these house price gains as well, right? So, look, the best cure for this sort of thing is prevention. And we haven't done that. In fact, our recent elected government actually pumped the property prices, right? They deliberately engineered house price rises as soon as they were elected.

**Ross** So if I'm going to put you in charge of Australia for a decade. What's the one thing that you'd do?

**Asher Spira** My solution would be to have a circuit breaker, okay. So when house prices start to get out of control, you know, when we start to get the double digit gains, the cardboard blackouts, the rumours of suitcases of cash, the guy that bids against himself at auction, when you start hearing about fights at auctions, all of these insane things that go on when a Sydney house price mania kicks in. We need to basically start. We need the banks lent on immediately and get them to tighten credit, to tighten the money creation, right? And that needs to happen fast, right? What happened last time was when we had the massive acceleration from 2014 to 2017, it took them until 2017 to react. And by then house prices were trading at 40 per cent above where they should have been in relation to GDP, right? So what I'd propose is a circuit breaker. If house prices start to look like they're going to go parabolic, the regulator needs to step in immediately and kerb the mania, not wait years.

**Ross** There's a lot of Aussies that would vote for that. Asher, thank you very much for your time.

**Asher Spira** My pleasure. Thank you very much, Ross.