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INSIDE

BY WEALTH ADVISER

For many Australians, the housing market does not just feel expensive - it feels fragile. Recent commentary from personal finance writer Noel Whittaker and a long-time property developer paints a consistent picture: the forces driving today's prices are powerful, but also leave households exposed if the tide turns. Understanding what is really happening on both the demand and supply sides of the market is essential if you are thinking about buying, refinancing or helping family into property.

This article brings together those two perspectives - the cautious borrower's lens and the developer's on-the-ground experience - and adds insights from regulators and the Reserve Bank. The goal is not to forecast exactly where prices will go, but to help you avoid the kind of debt decisions that become painful when conditions inevitably change.

1 Why housing feels so dangerous right now

Noel Whittaker describes the housing market as “heading into choppy waters”, a phrase that reflects how several currents are colliding at once. He points to employers across many industries, especially construction, struggling to find staff, with Master Builders Australia estimating a shortage of more than 200,000 tradespeople. When labour is scarce and materials are still costly, each new home becomes slower and more expensive to deliver, which limits supply even as demand stays strong.

The developer’s perspective reinforces this sense of structural tightness. In their assessment, Australia is not simply short of houses; it is short of the right kinds of homes in the right locations - well-located townhouses, mid-rise apartments and infill developments close to jobs, transport and services. They explain how complex zoning, lengthy council approvals, local opposition and uncertainty about who pays for roads, schools and utilities can delay projects for years or stop them altogether. Even when governments announce ambitious dwelling targets, the combination of hard costs and red tape means the pipeline cannot turn quickly.

Against this backdrop, the Reserve Bank notes that population growth and household formation have outpaced new dwelling completions for several years, with strong migration and smaller household sizes adding to underlying demand. At the same time, interest rates, while higher than the recent emergency lows, remain moderate by long-term standards. Together, these conditions explain why prices have remained resilient even as many households feel stretched - but also why taking on too much debt in pursuit of property can be risky.

2 Demand-side fuel: cheap money's legacy and risky loan designs

Whittaker’s greatest concern is not that people want a home, but that lenders and governments are making it too easy to take on more debt than is sensible. He highlights how banks are competing hard for borrowers, using incentives such as large frequent flyer bonuses and cashback offers to lure refinancers and new customers. In one example, a major bank advertises up to hundreds of thousands of frequent flyer points for new loans and is even prepared to boost an applicant’s borrowing capacity if they agree to rent out a room to increase their income. On paper, these strategies help borrowers “qualify”, but in reality they can push families to the edge of what they can safely afford.

More worrying are the loan structures that appear to ease monthly pressure while dramatically increasing long-term costs. Whittaker compares a standard 30-year principal-and-interest loan with a 40-year version at the same interest rate. On an $800,000 loan at around 5.5%, the 30-year option requires a repayment in the mid-$4,000s per month, with total interest over the term in the mid-$800,000s, while stretching the loan to 40 years trims the monthly repayment by only a few hundred dollars but lifts total interest to well over $1.1 million. That extra interest - roughly a third of a million dollars - also means many borrowers will still be paying off their mortgage into their 60s or 70s, just as they should be thinking about winding down work.

Equally concerning is the growth of very long interest-only periods. Whittaker points to a 10-year interest-only product that does not require reassessment of the borrower’s financial position during that decade. For a full ten years, the borrower pays only interest, builds little or no equity, and then faces a sharp jump in repayments when principal finally has to be repaid. Without mid-term reviews, there is no check on whether the property has held its value or whether the borrower can still comfortably afford the debt.

Australia’s banking regulator, APRA, has spent the last decade trying to rein in exactly these sorts of risks. It has repeatedly warned lenders not to chase growth at the expense of prudence and has singled out high loan-to-income ratios, very long loan terms and extended interest-only periods as particular red flags. APRA expects banks to test borrowers’ ability to repay at an interest rate at least three percentage points higher than the actual rate and to hold extra capital against riskier loans. When lenders push the boundaries, they may still comply with the letter of the rules, but they undermine the spirit of building resilience.

For everyday borrowers, the practical lesson is clear: do not let marketing, loyalty points or a temporarily lower monthly repayment distract from the real question - how much total interest will you pay, how long do you want to be in debt, and could your household comfortably cope if rates or living costs rise further? A loan that feels manageable at today’s rate may become a strain if your income drops or rates move even modestly higher.

3 Supply-side squeeze: why “just build more” is not simple

On the supply side, the developer article argues that Australia’s housing shortage is not just a story of builders dragging their feet or developers hoarding land. Instead, it is the cumulative result of decisions made over decades by all levels of government and by communities that have resisted change in established suburbs. The author outlines how many councils still favour detached houses over medium-density projects, how height limits and minimum parking requirements constrain what can be built, and how local opposition can see well-located projects rejected or scaled back.

Infrastructure is another major barrier. Developers often need to fund or contribute to new roads, utilities, parks and community facilities before projects can go ahead. When there is no clear or shared plan for who pays and when, viable projects can become uneconomic. This is particularly acute in infill areas, where underground services may need costly upgrades to support more residents, and in new growth corridors, where multiple agencies must co-ordinate investment.

The Reserve Bank has highlighted that, even when new dwellings are approved, construction capacity is constrained by labour and material shortages, as Whittaker also observes from his conversations with employers. This means that even strong policy intent has a long lag before it shows up as completed homes. Some new models, such as build-to-rent developments owned by institutions and designed for long-term renting, are growing from a low base and may help over time, but they are unlikely to solve the shortage on their own. For borrowers, the implication is that scarcity in well-located areas is likely to persist, but scarcity does not guarantee ever-rising prices if demand or borrowing capacity weakens.

4 What today's conditions mean for different borrowers

The combination of risky loan offers and stubborn supply constraints affects different groups of Australians in different ways.

For first-home buyers, especially those using low-deposit schemes or stretching to 40-year loans, the main risk is fragility. A small rise in interest rates, a change in employment or an unexpected expense can quickly absorb the thin buffer between income and repayments. If prices fall or stall, these borrowers may find themselves with little or no equity, trapped in a property that no longer suits their needs but is too costly to sell and repay. Low-deposit schemes can be valuable tools when used conservatively, but when paired with maximum borrowing and long loan terms, they amplify, rather than reduce, risk.

Upgraders - families trading a smaller home or unit for a larger property - face a different challenge. Many already have equity but are tempted to "max out" their borrowing based on current incomes and low advertised repayments. In practice, this can leave them highly exposed to income shocks or rate rises, particularly when combined with other financial commitments such as private school fees or business loans. For this group, resisting the pressure to buy at the edge of affordability, or to over-capitalise in a single property, is often the key to long-term financial comfort.

Investors, meanwhile, have increasingly relied on interest-only periods and high leverage, assuming rents and prices will continue to rise. The developer article notes that investor activity is a significant source of demand in some markets, especially for established stock that does not add to overall supply. APRA has, in the past, targeted investor lending with higher serviceability expectations and could tighten again if speculative activity re-emerges strongly. An investor strategy that only works if interest rates fall or if prices keep climbing each year is inherently fragile.

There is also an intergenerational dimension. Many parents are using their own housing equity to help adult children into the market, either through guarantees or cash gifts. While this can be a generous and sensible choice in some circumstances, it can also concentrate the family's financial risk into one asset class and a small number of properties. If the market softens or if a borrowing child gets into difficulty, both generations may feel the strain.

5 Building resilience: practical steps for clients and advisers

In this environment, the most valuable thing you can gain from an adviser is not a prediction about next year's prices, but a framework for staying afloat under a range of conditions. Whittaker repeatedly stresses that wealth is built by "keeping things simple and avoiding costly mistakes", a principle that resonates even more strongly when the market is running hot and novel loan products proliferate. The developer's reflections, meanwhile, remind us that housing policy and supply responses are slow moving; there will be cycles within the bigger trend, and borrowers need to be able to ride them out.

Some practical resilience strategies include:

- Set a conservative borrowing limit. Instead of asking, "What will the bank lend me?", work backwards from what your household can comfortably afford if interest rates were two or three percentage points higher than today and if one income were temporarily reduced.
- Prefer shorter loan terms where possible. While a longer term may appear attractive, the huge increase in total interest and the prospect of carrying debt into later life should not be underestimated. Whittaker's 30- versus 40-year loan example illustrates how small monthly savings can come at a very high long-term cost.
- Be wary of long interest-only periods. Short interest-only phases can have a role for investors or during specific life events, but locking in a decade without principal reduction, and without reassessment, leaves borrowers vulnerable to shocks at the end of the term.
- Look beyond incentives. Treat frequent flyer points, cashback offers or other perks as a bonus only if the underlying loan is otherwise suitable on rate, features and flexibility. A slightly higher headline rate with better terms can be safer than the "cheapest" loan that relies on aggressive assumptions.
- Diversify and plan for liquidity. Property can be an excellent long-term asset, but it is also illiquid and concentrat-

ed. Balancing housing exposure with superannuation, diversified investments and a robust emergency buffer can reduce the pressure to sell at the wrong time.

Most importantly, resist the fear of missing out. Both Whittaker and the developer emphasise that housing markets are cyclical and that easy money and loose lending standards "always end the same way" - with some borrowers overextended and vulnerable when conditions tighten. A home purchase or investment that fits your goals, budget and risk tolerance under a wide range of scenarios is far more valuable than stretching for a property that only works if everything goes perfectly.

For many households, working with a qualified financial adviser to stress-test different borrowing levels, compare loan structures and consider broader goals - such as retirement, education costs and lifestyle priorities - can turn a high-stakes property decision into a deliberate and sustainable step. The aim is not to avoid property altogether, but to make sure that, if the housing market does move into rougher seas, your financial ship is sturdy enough to stay on course.

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Q&A: Ask a Question

Question 1

I've heard I can either salary sacrifice into super or make a personal contribution and claim a tax deduction. Is one better than the other?

Both options can provide similar tax benefits, but they work slightly differently. Salary sacrifice means your employer sends part of your pay straight into super before you receive it. Personal deductible contributions are paid by you from your bank account, and you later claim a tax deduction in your tax return.

The key difference is flexibility. Personal contributions give you more control over timing and amounts, which can help if your income changes during the year. Salary sacrifice can be simpler and spreads contributions evenly over time. In both cases, it's important to stay within contribution caps to avoid extra tax. Whether either option works better depends on the individual

Question 2

My super balance has grown over time and I've paid off some debts. Do I still need personal insurance cover?

When your financial commitments increase, such as taking on a new loan, it's a good time to review your insurance rather than automatically buying something new. The purpose of insurance is to make sure debts can still be managed and your lifestyle protected if your income stops or something unexpected happens.

Your existing cover may already provide sufficient protection, or it may simply need to be adjusted, for example, increasing benefit amounts, extending benefit periods, or updating ownership structures. Taking out additional policies without reviewing what you already have can sometimes lead to unnecessary cost or overlap.

A review allows your adviser to check that your cover aligns with your current income, loan size, and family situation, and that the policy features still suit your needs.

Question 3

I've got a will in place, so does that mean my estate planning is already sorted?

A will is a crucial part of estate planning, but it's only one piece of the puzzle. Many assets, such as superannuation and life insurance, don't automatically form part of your estate and may not be distributed according to your will unless they're structured correctly.

Estate planning also involves making sure beneficiaries are nominated appropriately, powers of attorney are in place, and that your wishes can be carried out efficiently if you pass away or lose capacity. Without this broader planning, loved ones may face delays, added stress, or outcomes that don't reflect your intentions.

A coordinated approach helps ensure your assets are passed on in the way you intended, at the right time, and to the right people.

FROM MONEY PRINTING TO RATE RISES

WHAT BROAD MONEY GROWTH MEANS FOR SAVERS AND BORROWERS

BY WEALTH ADVISER

For many Australians, the pandemic years blurred into a confusing mix of government support, low interest rates, surging house prices and, later, a sharp jump in the cost of living. Economists have argued fiercely about why inflation rose and whether it is truly under control. One of the clearest voices in this debate has been Professor Tim Congdon, whose work focuses on the growth of "broad money" - the total stock of bank deposits and similar money-like assets in the economy - rather than just interest rates or government spending. In a recent Firstlinks article, he argues that the rapid surge in money growth during 2020 and 2021 helped to create the inflation that followed, while the subsequent stagnation in money growth explains why inflation later eased back.

For everyday savers and borrowers, these ideas can sound distant from daily life. Yet the story of broad money, quantitative easing and quantitative tightening is ultimately about how much purchasing power is coursing through the financial system and how that power shows up in the prices of groceries, mortgages, rents and investments. The aim of this article is not to take sides in academic debates, but to use Congdon's framework, together with material from the Reserve Bank of Australia (RBA) and the International Monetary Fund (IMF), to explain in plain language how money growth connects to inflation and interest rates - and what that might mean for household decisions in the years ahead.

From "money printing" to your household budget

Professor Congdon's core claim is simple: when the amount of broad money in an economy grows much faster than the economy's ability to produce goods and services, inflation tends to rise; when money growth slows or reverses, inflation tends to fall. In the United States, he points to a period in 2020 when the Federal Reserve's bond purchases were so large that broad money on a widely-used measure jumped by more in a single month than in any full year during the previous decade, followed by a long period from 2022 where money growth was close to zero. Inflation initially climbed to multi-decade highs, then declined towards central bank targets as money growth stalled.

Broad money sounds technical, but for households it largely consists of the balances held in transaction accounts, savings accounts, term deposits and other money-like instruments with banks and similar institutions. The RBA notes that when banks create new loans they also create new deposits, so strong credit growth typically shows up as faster growth in broad money. In practical terms, when interest rates are slashed and lending standards are relaxed, more borrowing occurs, more deposits are created and more money competes for a limited supply of goods, services and assets. That is one reason why the period of very low interest rates in 2020 and 2021 coincided with surging housing prices and, with a lag, higher everyday prices.

How QE and QT move from the central bank to everyday prices

The mechanics of quantitative easing (QE) and quantitative tightening (QT) sit at the heart of Congdon's story. QE is the process by which a central bank buys government bonds and other securities from the financial sector, paying for them by creating settlement balances that support more deposits and, indirectly, more lending. Congdon highlights how, in 2020, the Federal Reserve's holdings of securities rose by over a trillion US dollars in a matter of weeks, and then kept climbing until 2022, helping push broad money sharply higher. Once inflation had taken hold, the central bank reversed course, allowing its bond holdings to shrink and thereby slowing money growth.

The RBA did something similar, though on a smaller scale. Its own explainers describe how QE in Australia involved large-scale purchases of government bonds, which lowered longer-term interest rates and encouraged borrowing and risk-taking, while QT - the decision not to reinvest maturing bonds and, later, to allow its balance sheet to run down - pulled in the opposite direction. These balance-sheet actions operate alongside the more familiar setting of the cash rate, which influences the interest rates charged on variable mortgages, personal loans and savings accounts. Over time, the mix of QE, QT and cash-rate changes affects household borrowing costs, deposit returns, asset prices and eventually inflation.

For a household, the chain can be summarised as follows. QE makes it easier and cheaper for governments and businesses to raise money and tends to lower interest rates across the economy, which can lift asset prices and encourage borrowing. QT and higher policy rates do the opposite, making it more expensive to borrow and moderating demand. These effects are not immediate; central banks and the IMF both emphasise that it can take one to two years for changes in money growth and interest rates to flow fully through to inflation. That lag is one reason the period of strong money growth in 2020 and 2021 translated into higher inflation mainly in 2022 and 2023, while today's policy settings will shape inflation outcomes over the next several years rather than overnight.

Broad money, inflation and Australia's 2–3% target

The connection between money growth and inflation is not unique to the United States. Firstlinks has carried several analyses arguing that a "forgotten" indicator - Australian broad money growth - has historically lined up well with the ups and downs of inflation. In those pieces, broad money growth running comfortably above nominal economic growth, particularly into double-digit territory, tended to precede periods of higher inflation, while moderate money growth was associated with inflation within or near the RBA's target. Although the relationships are not perfect year by year, they provide a useful cross-check on more familiar indicators such as wages, unemployment and commodity prices.

Congdon's recent commentary extends this reasoning. He argues that with QT now winding down in the United States, and large fiscal deficits still being financed through the banking system and money market mutual funds, money growth is likely to settle into the high single digits. In his view, that rate of expansion in the money stock is simply incompatible with maintaining inflation at 2 per cent; instead, he expects inflation to hover in a band closer to 2–5 per cent while current policies persist. For Australian readers, the key question is whether a similar pattern might play out locally if money and credit growth continue to accelerate from the subdued pace seen in the immediate aftermath of the pandemic.

The RBA's formal inflation target, as explained in its education material, is to keep consumer price inflation between 2 and 3 per cent on average over time. That wording is deliberate. It allows inflation to move above or below the band in response to shocks, so long as the central bank aims to guide it back towards the middle over a reasonable horizon. According to recent Statements on Monetary Policy, inflation in Australia has come down from its peak but remains above target, with the Bank expecting a gradual return to the band if policy remains sufficiently restrictive. From a monetarist perspective, that forecast implicitly assumes that money and credit growth will not re-accelerate in a way that reignites inflationary pressure.

What renewed money growth could mean for savers and borrowers

If broad money in Australia were to grow substantially faster than the economy again, the concern is that inflation could prove more stubborn than hoped, even if headline figures temporarily dip. Congdon's analysis suggests that when large government deficits are financed in ways that boost bank deposits and near-money assets, and central banks are no longer shrinking their balance sheets, it becomes harder to keep money growth in check. In that environment, inflation might well settle at levels that feel uncomfortably high to those on fixed incomes or with large cash holdings, even if it is no longer surging.

For borrowers, including mortgage holders, the link between money growth and inflation matters because it influences where interest rates may need to sit over the long term. The RBA and other central banks have been clear that policy is "forward-looking and data-dependent", meaning that rates will stay higher for longer if inflation does not convincingly return to target. Research from the RBA on the household cash-flow channel of monetary policy shows that in an economy with a high share of variable-rate mortgages, changes in the cash rate rapidly alter the disposable income of many households, amplifying the impact of each rate move. If money growth remains strong and inflation only slowly declines, households may need to live with higher nominal rates than they became used to in the decade before the pandemic.

Savers face a different, but related, challenge. A term deposit rate that looks attractive on the surface can erode purchasing power once inflation and tax are taken into account. Using the simple framework set out in the notes to the Firstlinks article, a worker on a marginal tax rate of 47 per cent earning 4.5 per cent interest in an environment of 5 per cent inflation would experience a negative real after-tax return, because the combination of tax and rising prices outweighs the nominal income. In that situation, it may feel as though money is "standing still" or even going backwards, despite the apparent improvement in headline rates compared with the near-zero levels of 2020.

Practical steps for building resilience when money matters again

None of this means that households should try to forecast broad money growth month by month or make dramatic portfolio shifts based on a single indicator. Monetary policy, fiscal decisions and global events interact in ways that are difficult to predict, and even the strongest analytical frameworks can be wrong for a time. However, understanding that inflation is related to the interaction between money growth and the real economy can help investors interpret headlines about rate decisions, budget deficits and central-bank balance sheets with a little more clarity. It also encourages a focus on real, after-tax outcomes rather than just nominal figures.

For borrowers, one simple resilience measure is to test how household finances would cope with higher interest rates than today, particularly if money and credit growth remain firm. This might involve checking whether repayments would still be manageable if the mortgage rate rose by one or two percentage points, building an emergency buffer in an offset account, or accelerating principal repayments when possible. Research on Australia's mortgage market suggests that many households have built "shock absorbers" in the form of prepayments and redraw balances, but these buffers are unevenly distributed and can be run down over time if rates stay elevated.

Savers and investors, meanwhile, can think about constructing portfolios that are less vulnerable to a single inflation or interest-rate scenario. This could mean staggering term deposits so that only part of the cash is locked in at any given time, combining cash with a mix of high-quality bonds and growth assets, or ensuring that retirement income plans do not rely entirely on stable, low inflation. IMF work on the distributional impact of inflation notes that those on fixed nominal incomes are often hardest hit when inflation surprises on the upside, while those with diversified assets and moderate debt tend to be better placed. Diversification is not a guarantee, but it is one of the few tools households can control.

Above all, it may help to pay at least occasional attention to indicators that rarely make the nightly news, such as broad money growth, alongside more familiar measures like the cash rate and the consumer price index. If money is expanding rapidly while inflation remains elevated, it may be prudent to assume that higher nominal interest rates could remain part of the landscape for some time. If money growth slows and inflation comes back towards target, the pressure on rates is more likely to ease. For retail clients of Australian financial advisers, using this broader picture as a backdrop to conversations about debt, savings and investment can support decisions that are more resilient, regardless of which inflation camp - transitory or persistent - ultimately proves correct.

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