

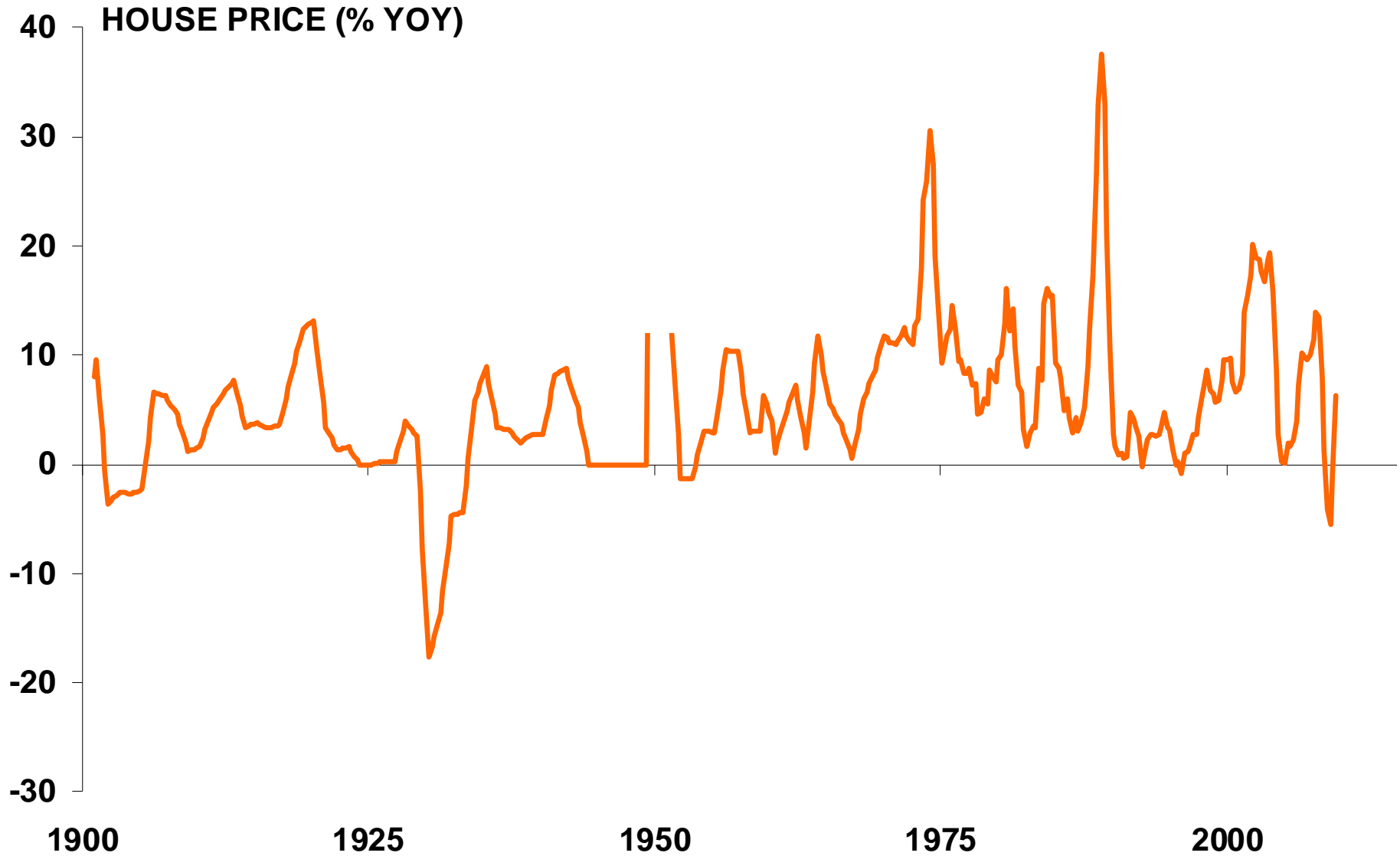
# Whither house prices and affordability?

November 2009

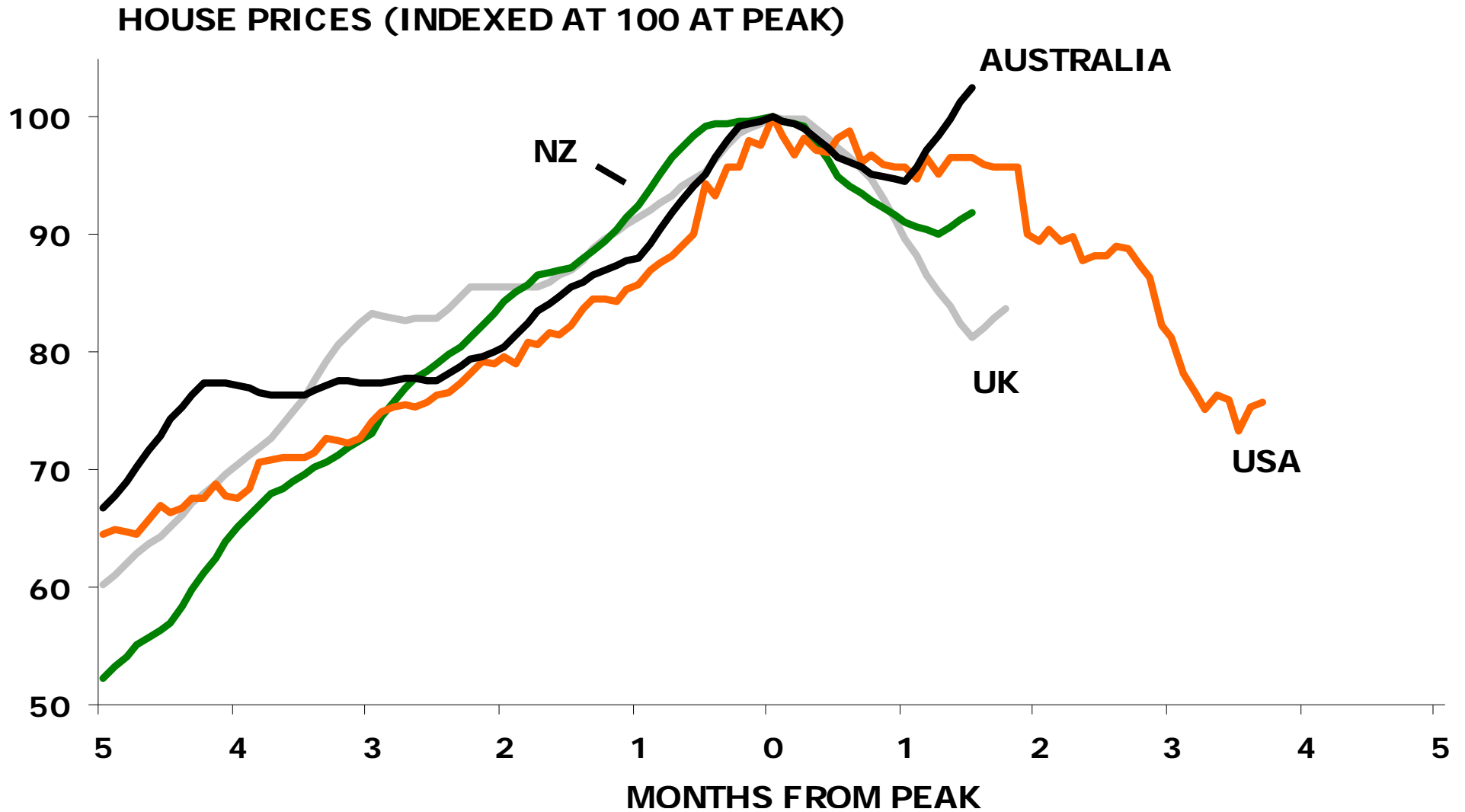
Kieran Davies & Felicity Emmett  
Melbourne

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- **RECENT TRENDS IN HOUSE PRICES**
  - **HOUSING AFFORDABILITY**

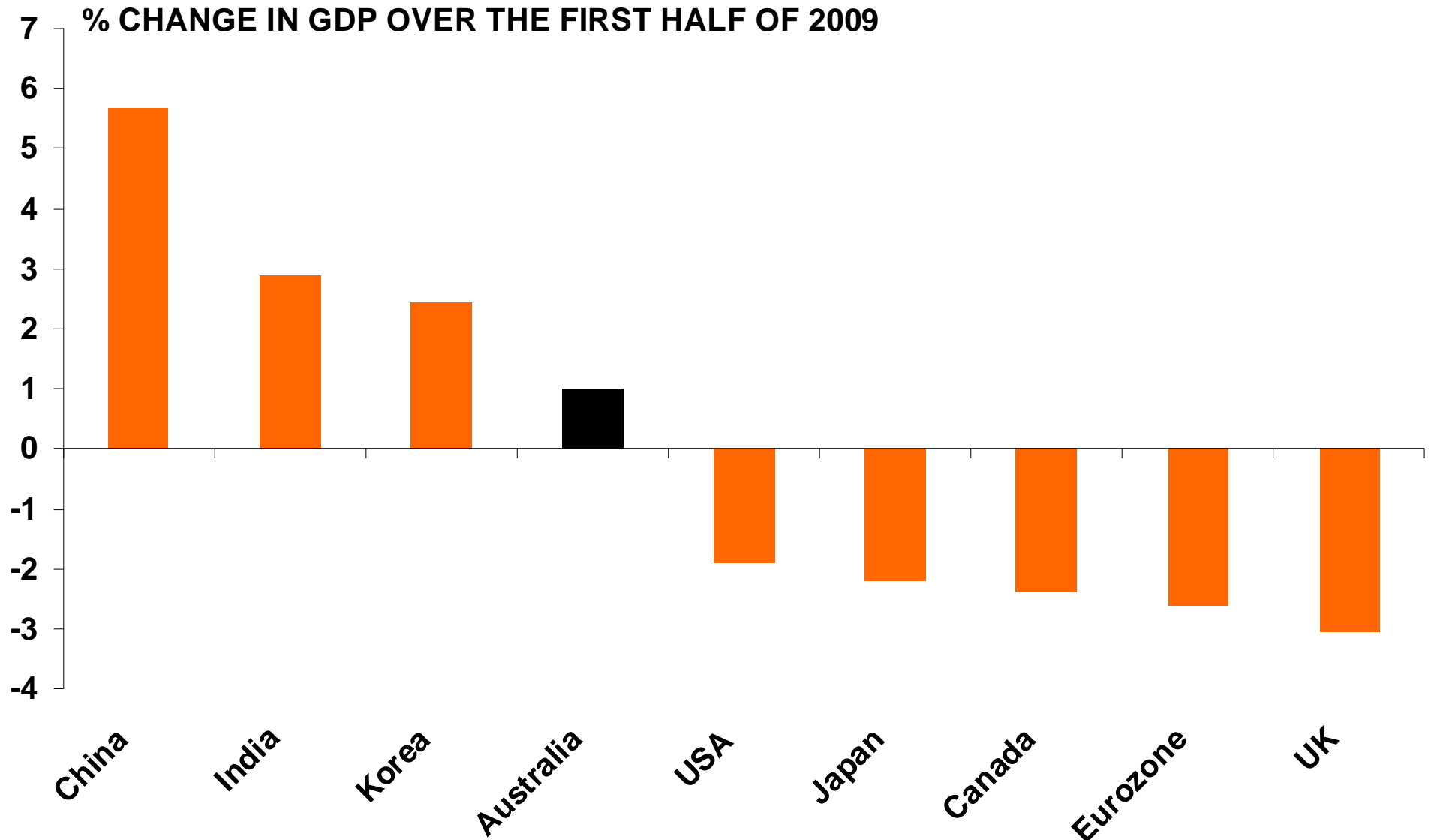
# HOUSE PRICES ARE GROWING STRONGLY AGAIN



# AUSTRALIA HAS BUCKED THE GLOBAL TREND



# AUSTRALIA, THE LUCKY COUNTRY



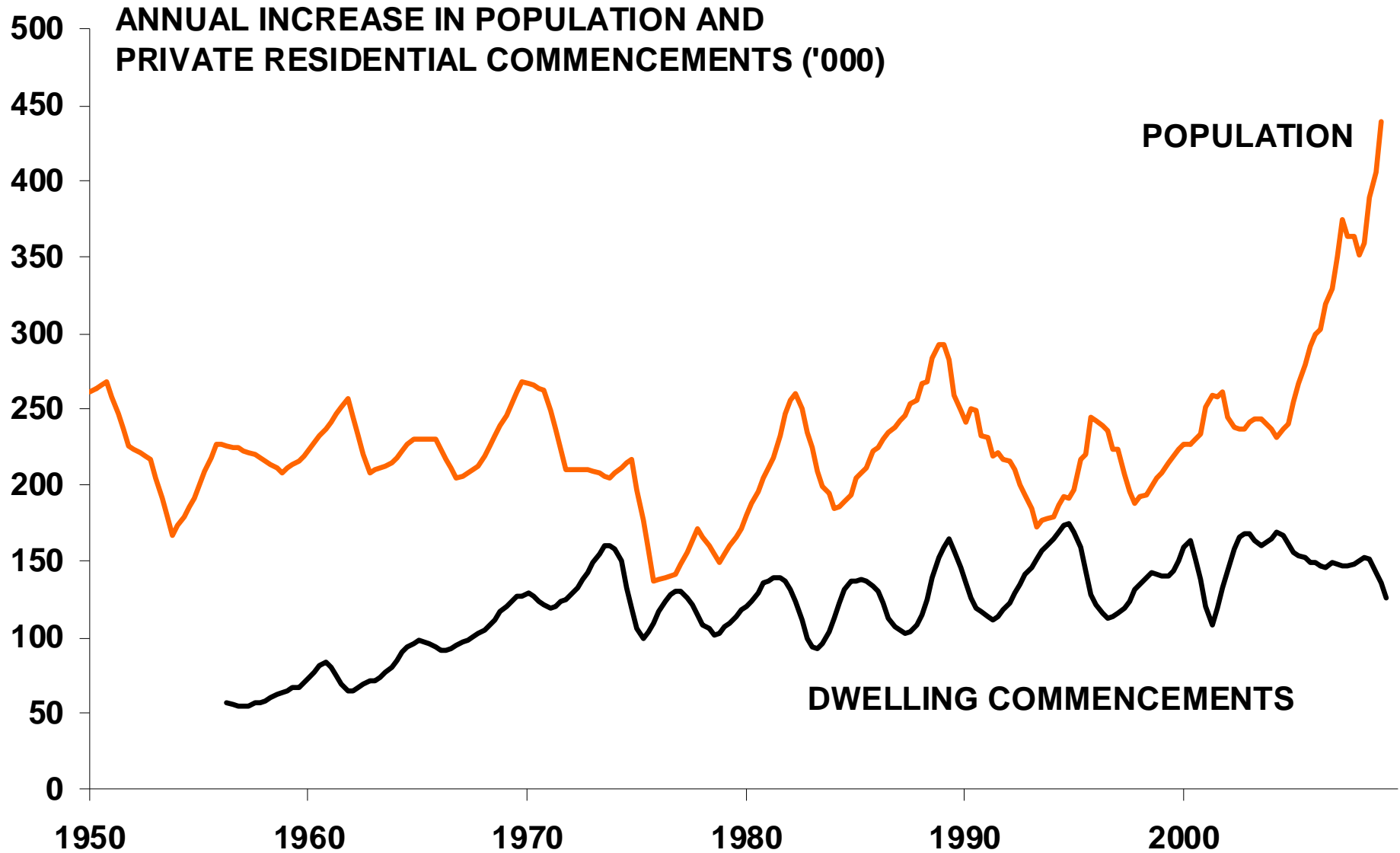
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## WHY DID AUSTRALIA OUTPERFORM?

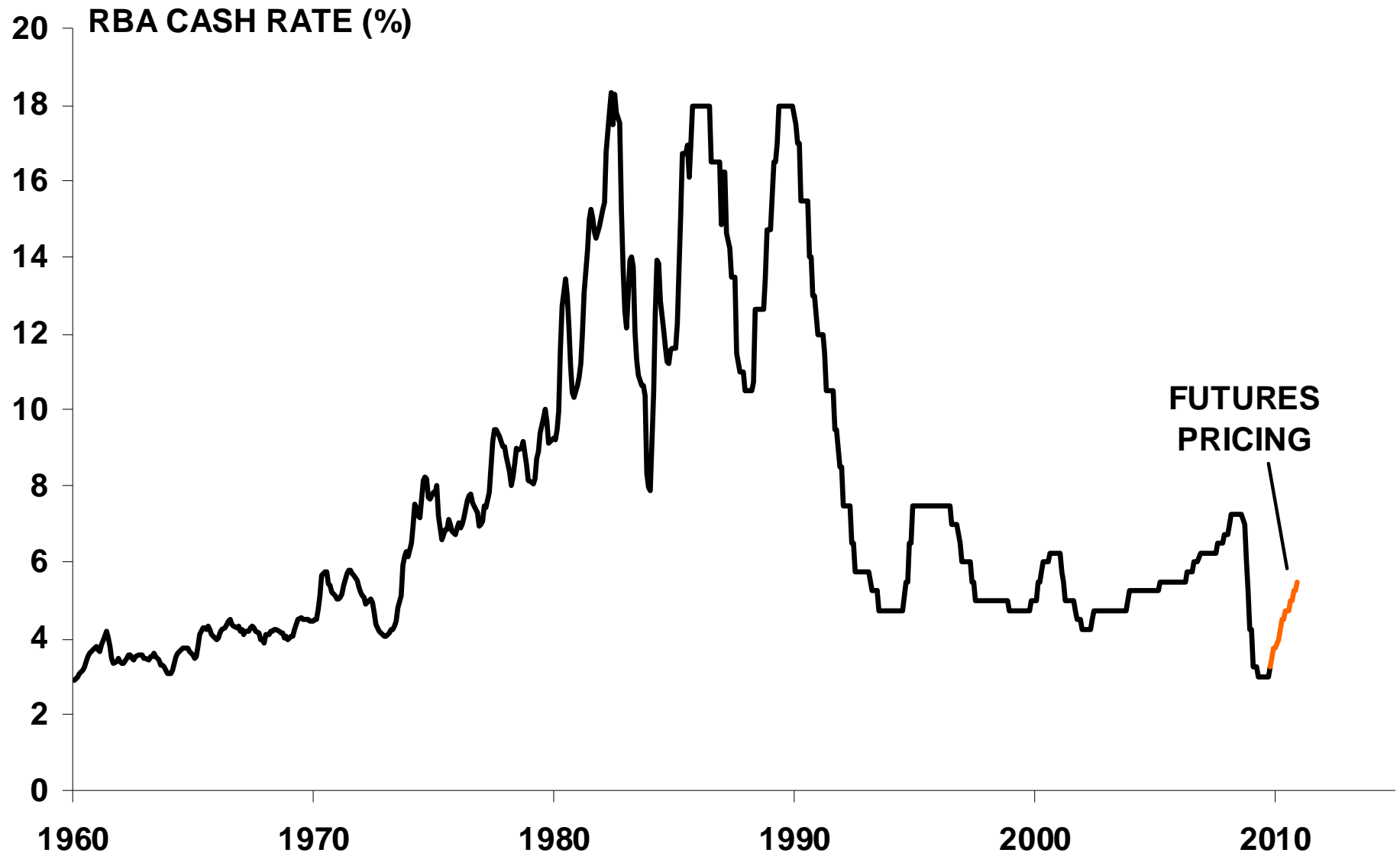
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- **BILLIONS IN CASH GIVEAWAYS**
- **UNEMPLOYMENT**
- **CHINA**
  
- **FIRST HOME-OWNER GRANT**
- **VARIABLE MORTGAGE RATES**
- **DEPOSIT/BANK DEBT GUARANTEE**

## WHAT ABOUT POPULATION?

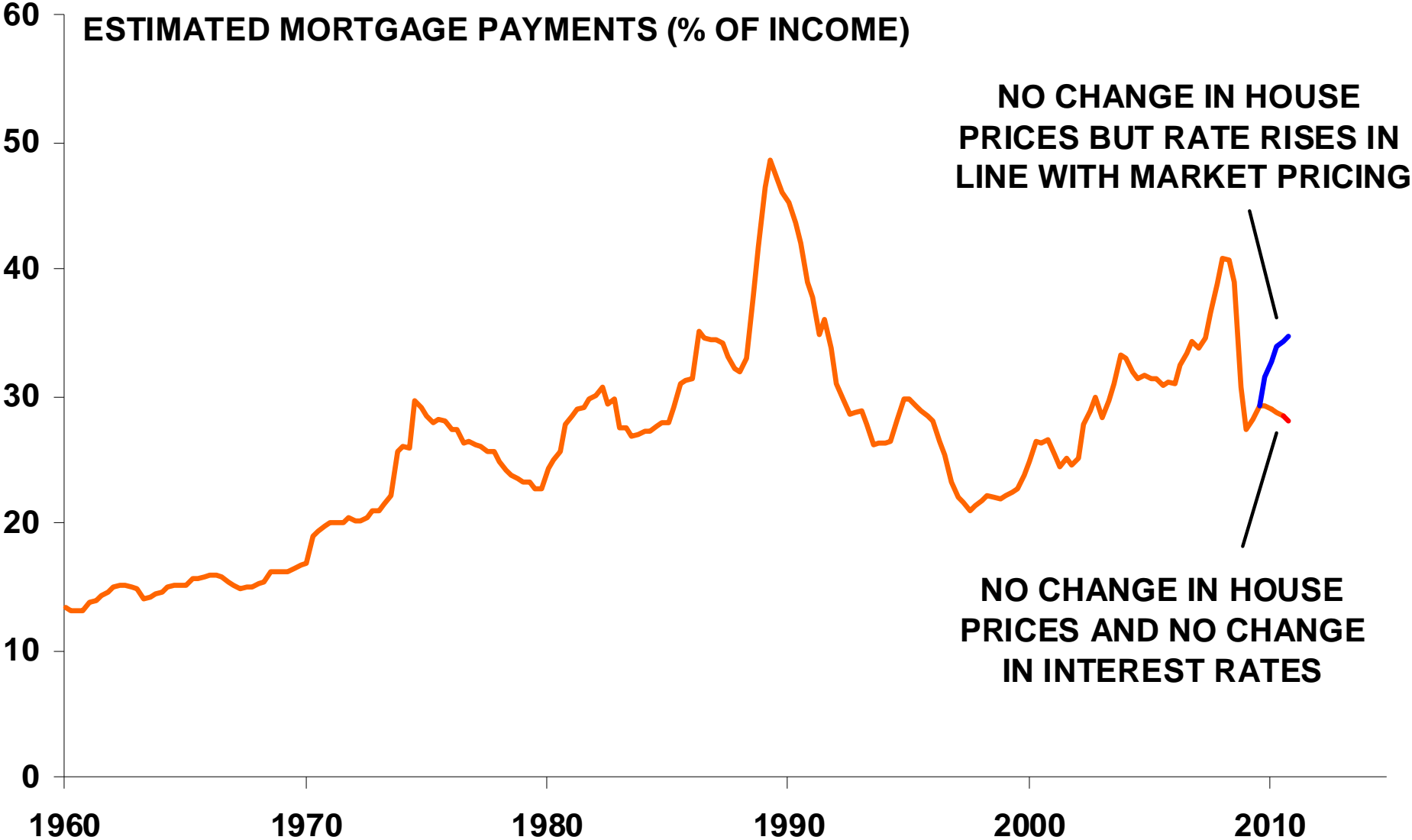


# THE CASH RATE IS HEADING HIGHER



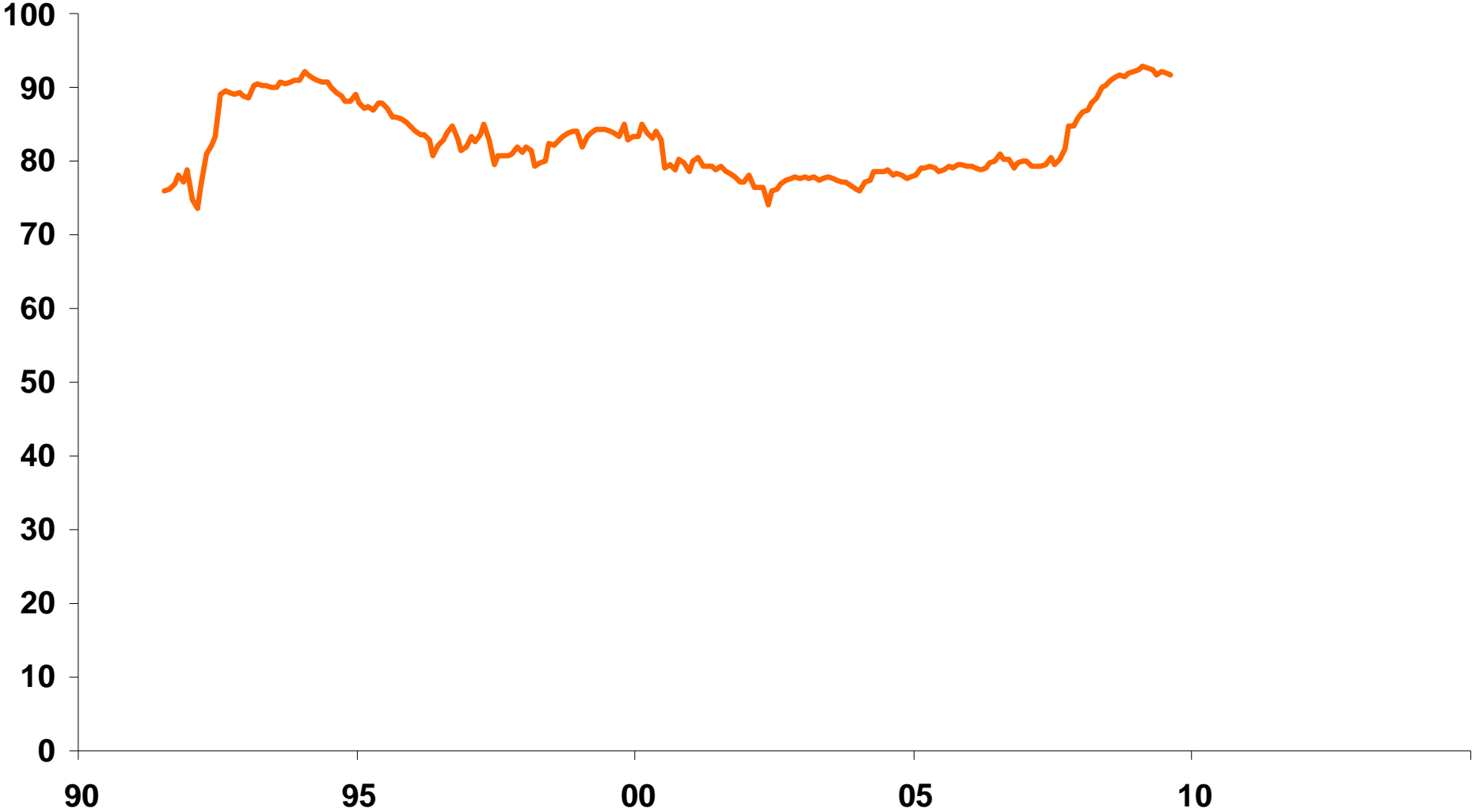


# AFFORDABILITY IS DETERIORATING

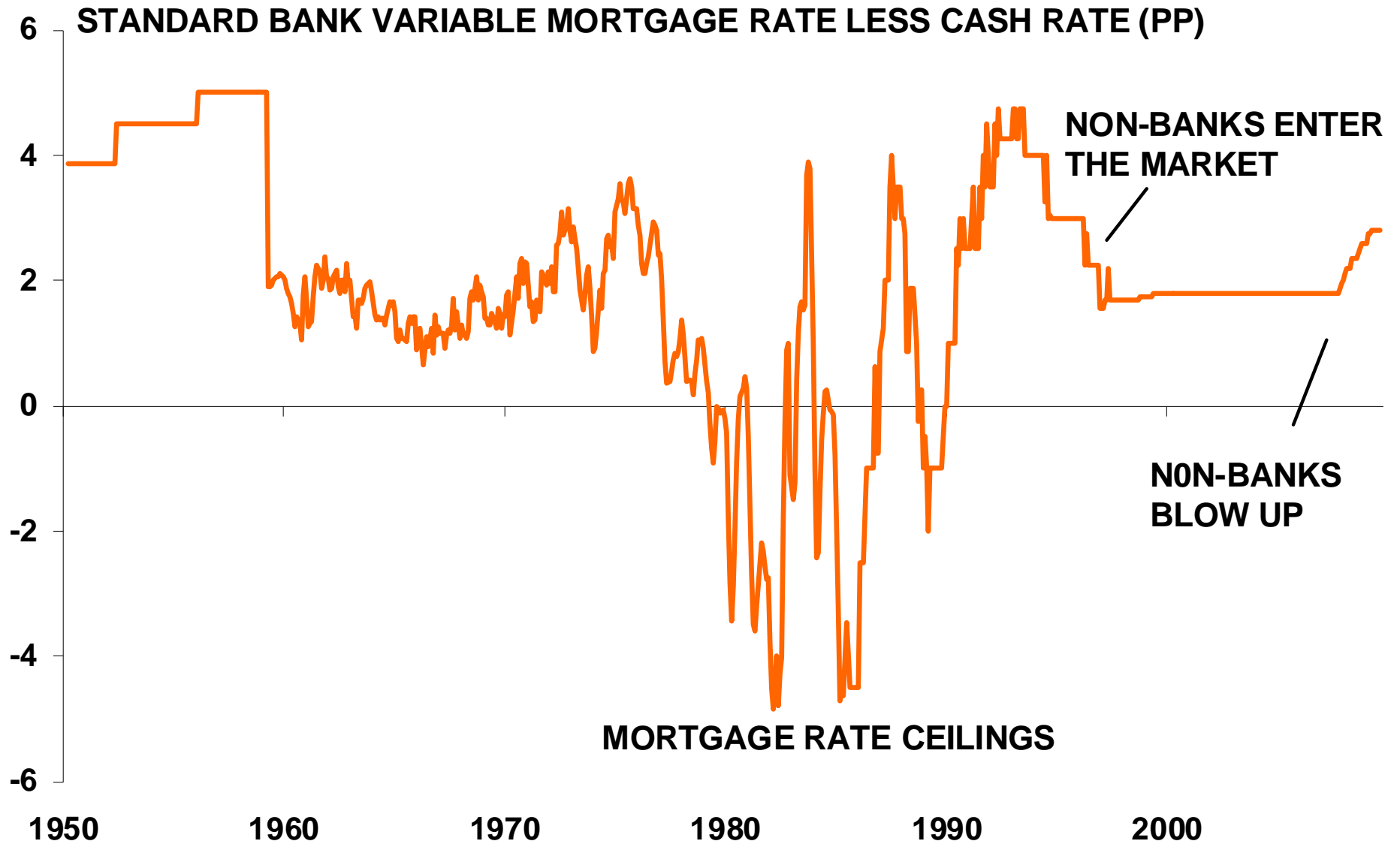


# THE STRUCTURE OF THE MORTGAGE MARKET HAS CHANGED

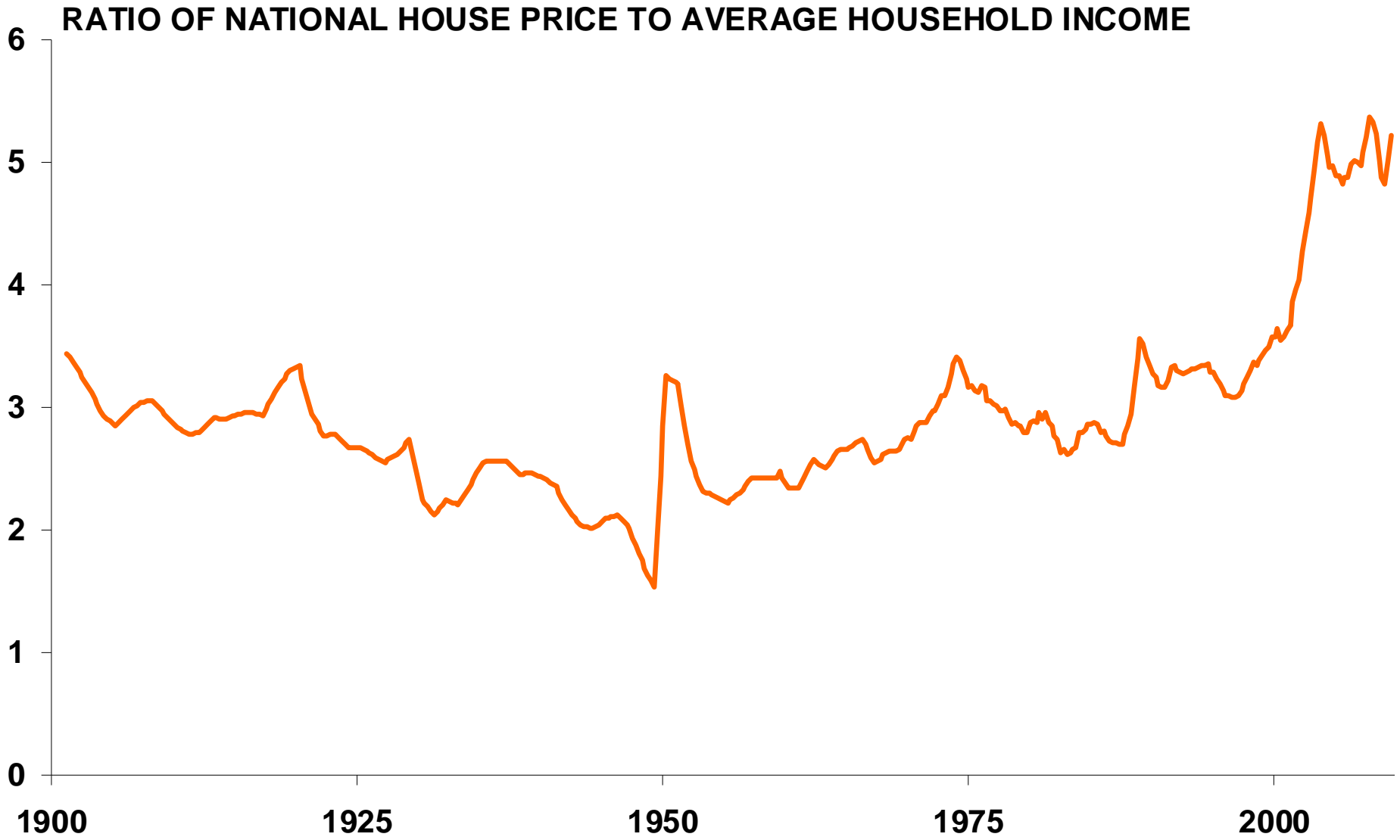
BANK SHARE OF TOTAL NEW LENDING FOR HOUSING (%)



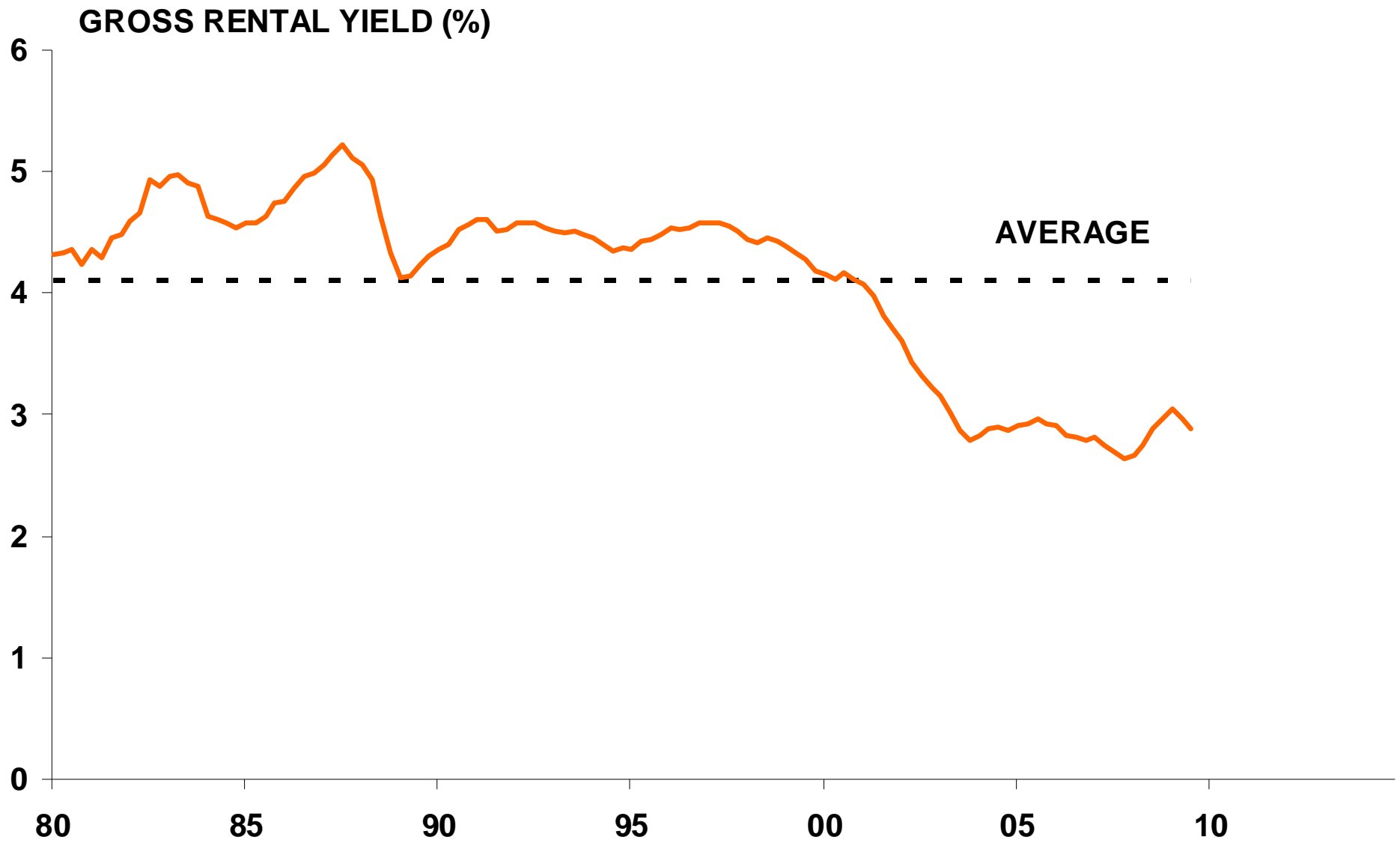
# LESS COMPETITION + HIGHER COST OF FUNDING = HIGHER RATES



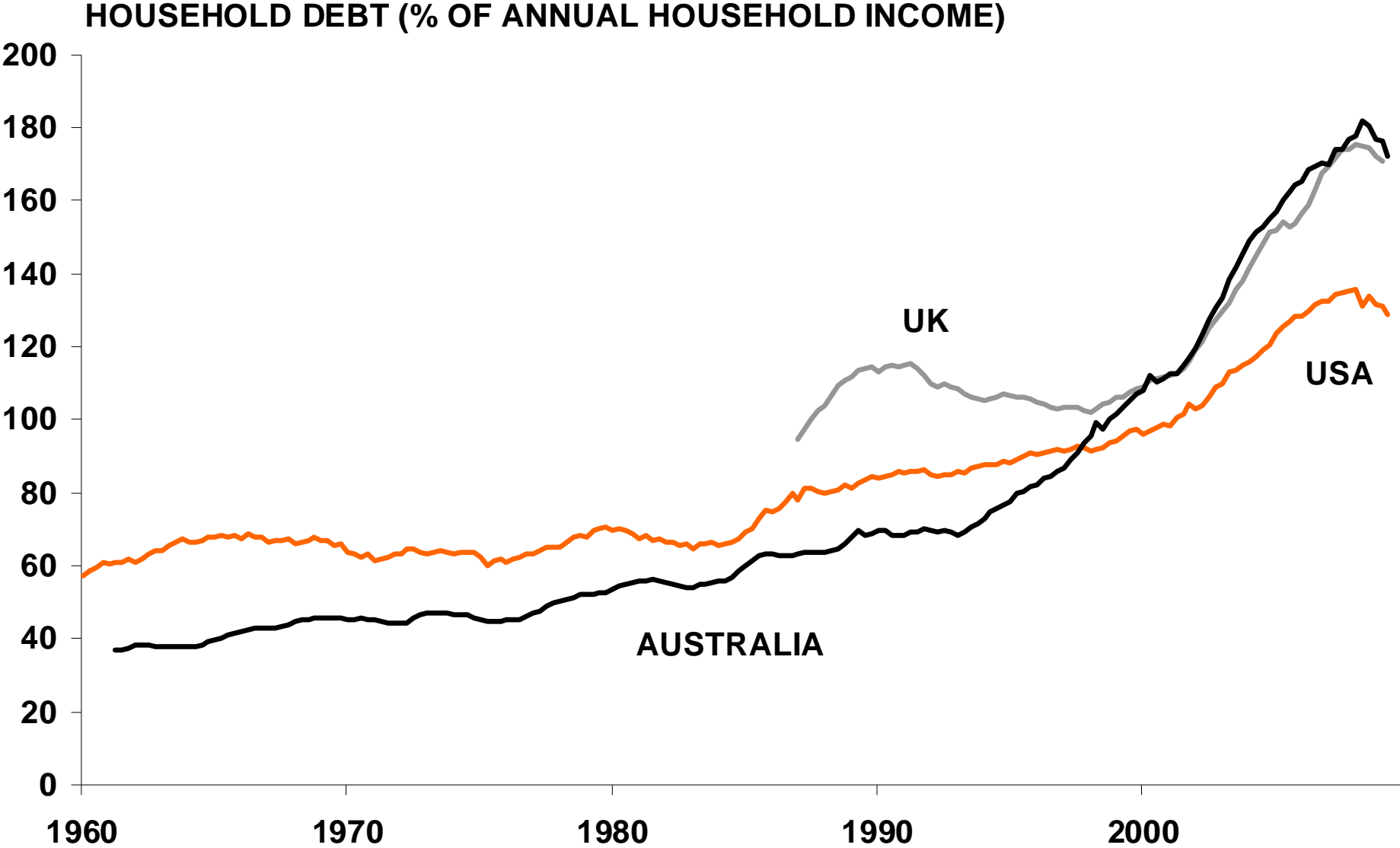
# HOUSE PRICES ARE OUT OF LINE WITH THE FUNDAMENTALS #1



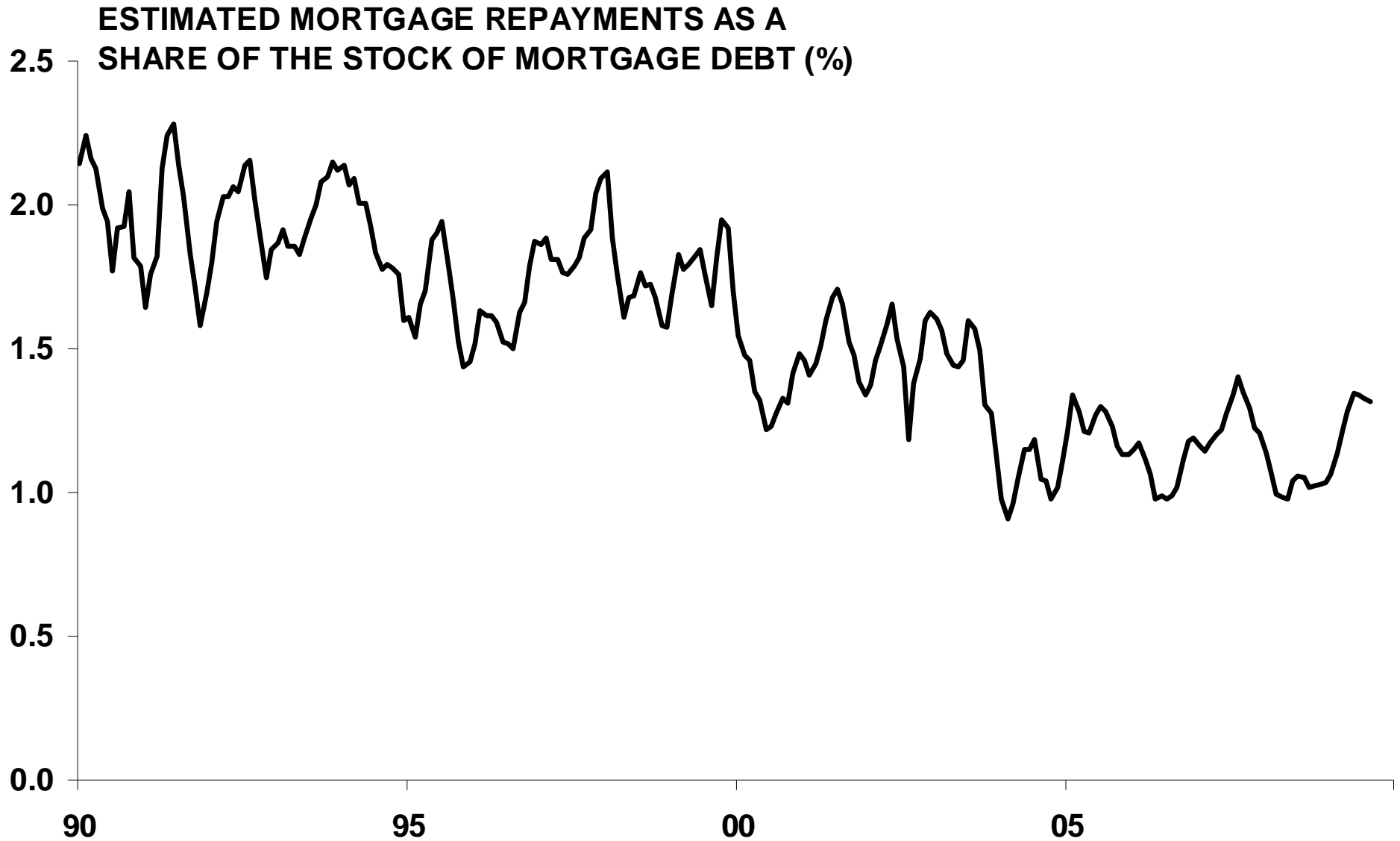
# HOUSE PRICES ARE OUT OF LINE WITH THE FUNDAMENTALS #2



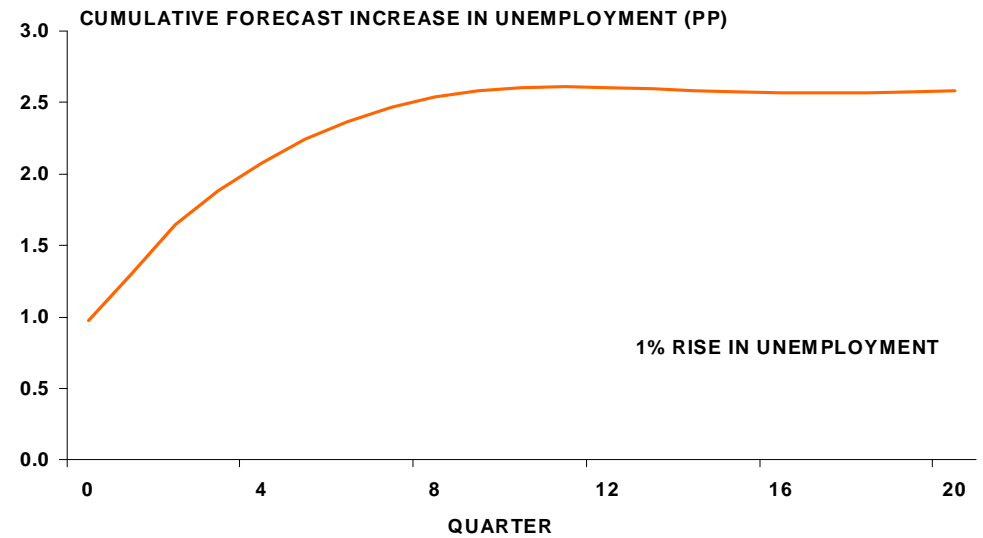
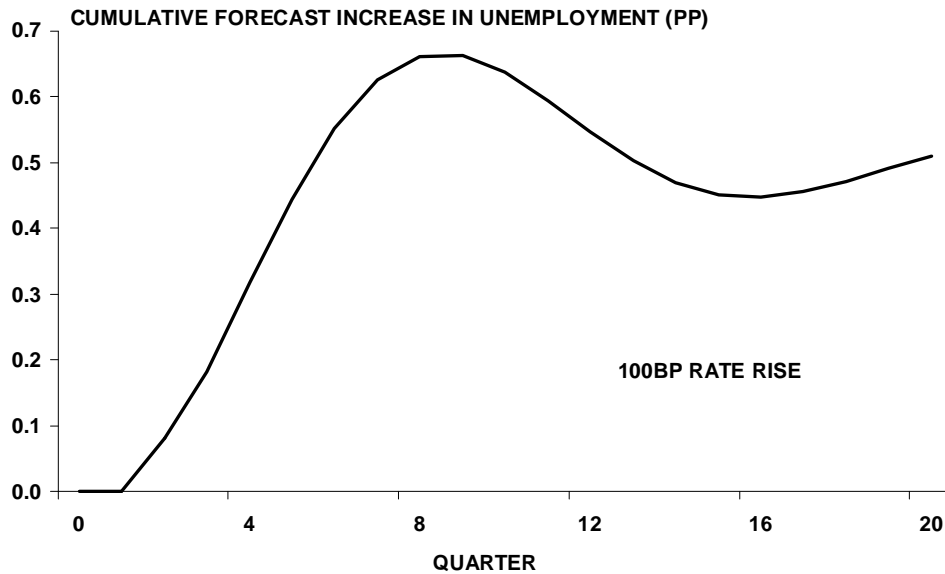
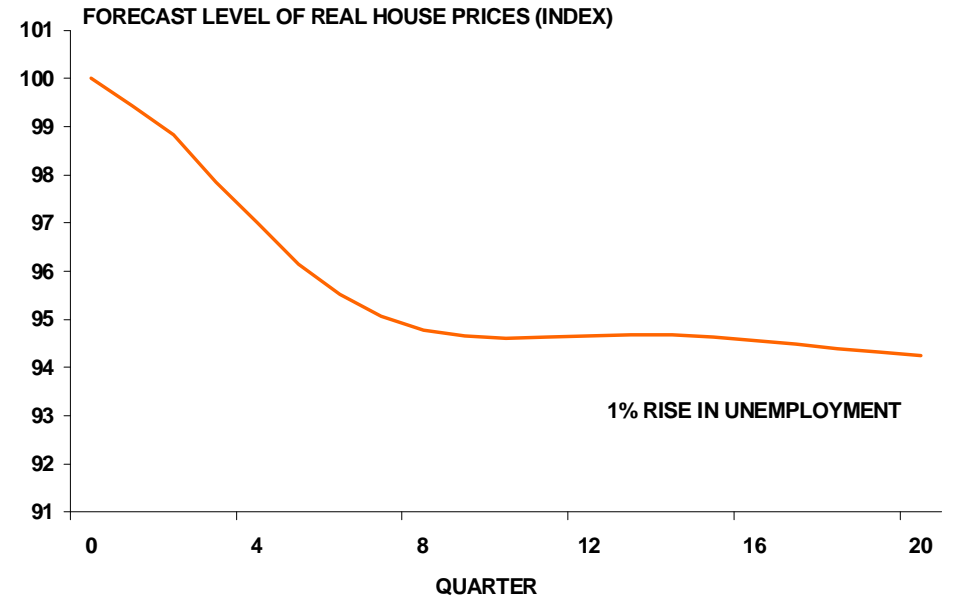
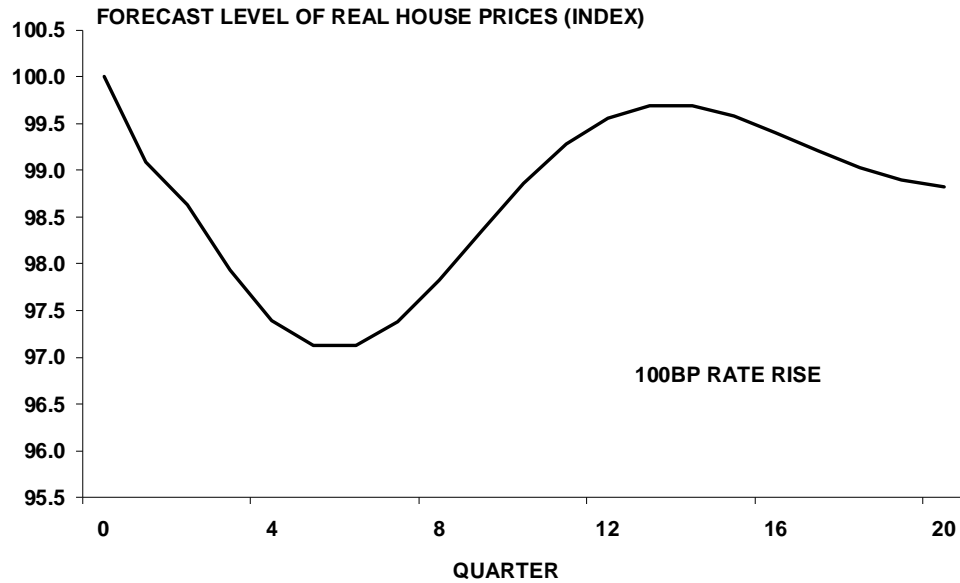
# GEARING LEVELS SUGGEST THAT HIGH PRICES MATTER



# HOUSEHOLDS CAN WITHSTAND INITIAL INTEREST RATE RISES



# WHAT MATTERS MORE? INTEREST RATES OR UNEMPLOYMENT?





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## CONCLUSIONS

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- **AUSTRALIA BUCKED THE GLOBAL TREND BECAUSE OF GOOD LUCK AND GOOD POLICY-MAKING**
- **AFFORDABILITY IS DETERIORATING BECAUSE THE PRICE OF PROSPERITY = HIGHER INTEREST RATES**
- **A CHANGED FINANCIAL STRUCTURE IS ALSO IMPORTANT**
- **HOUSE PRICES ARE OUT OF LINE WITH FUNDAMENTALS & HOUSEHOLDS ARE HEAVILY GEARED**
- **HOUSEHOLDS CAN WITHSTAND INITIAL RATE RISES, WITH UNEMPLOYMENT MORE IMPORTANT**