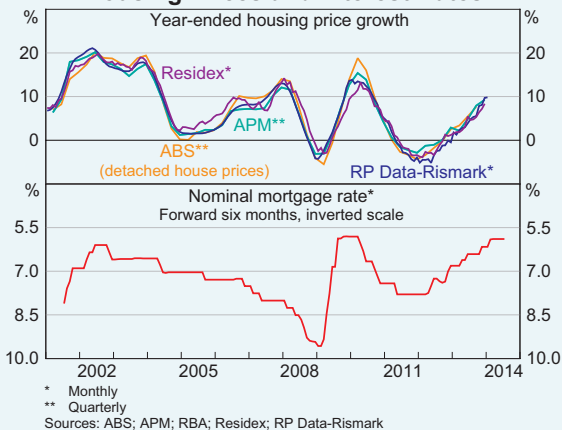


Box B

The Housing Market

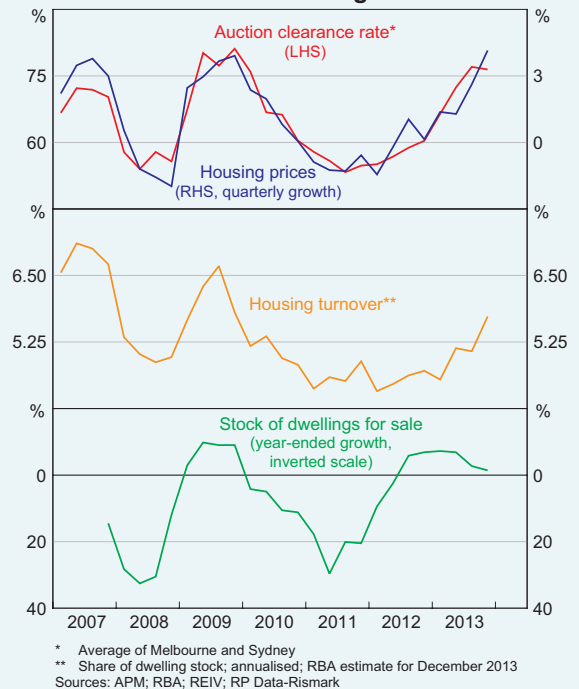
Housing prices are sensitive to interest rates and are an important channel of the transmission of monetary policy. More broadly, developments in the housing market have an important bearing on economic activity and financial system stability.¹ Following earlier reductions in interest rates, housing prices have been rising quite strongly, though growth has been well below the rates seen in the early 2000s (Graph B1). Housing price inflation over 2013 was around 10 per cent, with the rate of increase slightly stronger in the second half of the year than in the first half.

Graph B1
Housing Prices and Interest Rates



The strengthening in the housing market is evident in a range of other indicators. In particular, dwelling turnover (or sales) has been picking up since the middle of 2013 and auction clearance rates remain at very high levels (Graph B2). The total number of dwellings for sale (listings) has also declined, which tends to occur when the market is strong, as sales typically pick up

Graph B2
Established Housing Market

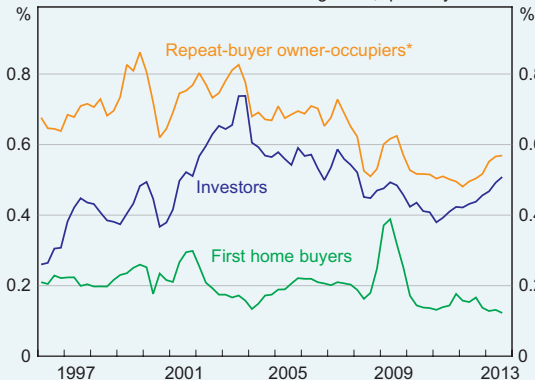


more strongly than new listings. The extent of seller discounting (relative to the original listing price) and the average time taken to sell a property also vary inversely with the housing cycle and have fallen considerably, to be close to their lowest levels in nearly a decade.

The increase in turnover over the past year or so has been driven by investors and repeat-buyer owner-occupiers, with the value of loan approvals to these types of buyers increasing by around 35 per cent and 25 per cent, respectively, over the year to November (Graph B3). Growth of investor loan approvals in New South Wales has been particularly

¹ See, for example, RBA (2013), *Financial Stability Review*, September, pp 2 and 49.

Graph B3
Value of Housing Loan Approvals
 Ratio to value of the dwelling stock, quarterly

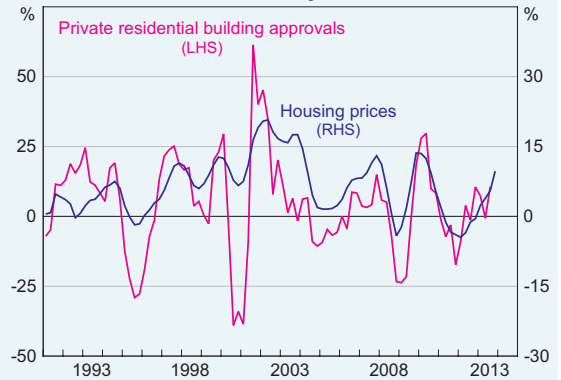


* Net of refinancing
 Sources: ABS; RBA

strong at nearly 55 per cent over the year to November. In contrast, first home buyer demand for housing has been subdued, reflecting especially weak demand for established housing. The changes in state government incentives for first home buyers away from *established* dwellings and toward *new* dwellings has shifted their purchases accordingly.

The rise in housing prices over the past year or so is broadly consistent with the historical relationship between interest rates and housing prices (see Graph B1). The reduction in interest rates has eased some financing constraints, reduced the user cost of housing and increased the attractiveness of investing in riskier, higher-yielding assets, resulting in stronger demand for residential property. Indeed, this effect of lower interest rates on housing prices is an important channel through which expansionary monetary policy supports economic activity. Increases in housing demand and prices boost dwelling construction as well as renovation activity (Graph B4). Higher housing prices and turnover also stimulate consumer spending by easing some home owners' borrowing constraints and raising home owners' perceptions of wealth. The demand for some real estate, legal and financial services also moves in tandem with housing transactions.

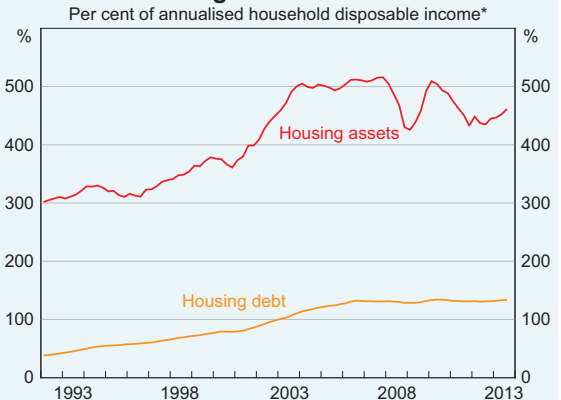
Graph B4
Housing Prices and Building Approvals
 Year-ended growth



Sources: ABS; APM; RP Data-Rismark

The upswing in housing asset values to date has not been fuelled by a rapid expansion in borrowing. Growth in housing credit is gradually picking up but remains relatively moderate and the ratio of households' housing debt to income has been little changed at around 130 per cent (Graph B5). While the value of loan approvals has been rising strongly, this follows a period of weak growth and, as a share of the stock of housing credit, new loan approvals remain relatively low. Loan approvals tend to move closely with the value of dwelling turnover, which

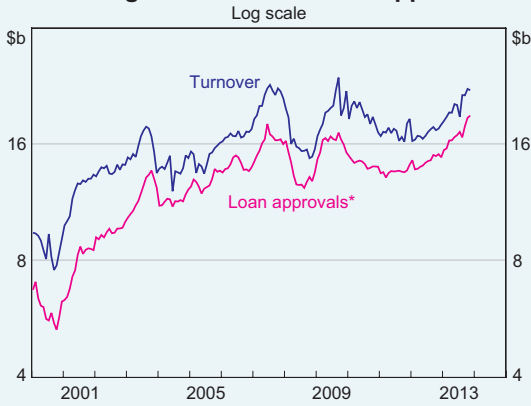
Graph B5
Housing Assets and Debt
 Per cent of annualised household disposable income*



* Household sector excludes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments
 Sources: ABS; RBA

has picked up owing to both higher prices and turnover volumes. Nonetheless, to date, the rate of dwelling turnover has been a little below average (Graph B6 and Graph B2; see the 'Domestic Financial Markets' chapter for further details on developments in housing finance). ↕

Graph B6
Housing Turnover and Loan Approvals



* Excludes loans for refinancing, construction and alterations & additions by owner-occupiers, and construction loans by investors
 Sources: ABS; RBA; RP Data-Rismark