B1 and B2 are creating counterintuitive reinforcement of rising prices over time: if rising prices help banks meet lending targets, followed by tightened lending criteria, this leads to a drop in demand, slowing the growth in prices. However, this in turn will stimulate further demand as asset affordability increases.
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Households able to meet income repayment criteria → demand for houses to buy → national median house price → asset affordability for households not yet owners → asset affordability for current home owners

limits to growth through affordability

B1

R1 current owners buy more: rising prices increase property asset wealth for households already in the property market, allowing them to buy more expensive properties

limits to growth through affordability

B2

asset wealth in property
R2 current owners buy more: rising prices increase property asset wealth for households already in the property market, allowing them to buy a private rental property or second home.
As private rental investment increases, the increasing supply of private rental housing will tend to balance out rent levels and therefore the attractiveness of investment (B6 limit to rental investment).
R3 price rises push people into private rental: as home ownership becomes less affordable, demand for private rental housing grows, driving up rents and enhancing the attractiveness of private rental investment.
private median house price

households able to meet income repayment criteria

demand for houses to buy

limits to growth through affordability

national median house price

B1

B2

asset affordability for current home owners

B5

allowable loan to value ratio

R1

R2

current owners buy more

private rents

private rental demand

R3

price rises push people into private rental

gap between bank target and actual property market lending

number of mortgages lent

B6

limits to growth through affordability

asset affordability for households not yet owners

B5 limit to growth through meeting bank targets: if banks have a property lending target based on total lending rather than mortgage numbers, house price rises increase the total value of mortgages lent, helping them meet their target. As this target is approached, this may lead them to reduce their risk by tightening up lending criteria, reducing demand and balancing out prices.
B4 limits to growth through lending criteria: If banks have a property lending target based on total lending rather than mortgage numbers, house price rises increase the total value of mortgages lent, helping them meet their target. As this target is approached, this may lead them to reduce their risk by tightening up lending criteria, reducing demand and balancing out prices.
R7 price rises increase construction costs: in areas where prices are high, land values for development also increase, making new development more expensive (but also possibly more lucrative). Attracting construction workers in areas where property prices are high may also be difficult, further increasing the cost of construction.
R6 focus on mortgages harms construction: if banks focus heavily on lending into the property market at the expense of business and production, it is possible that this reduces lending to housing construction. This limits the supply of housing, reinforcing price rises.
RS5 property speculation: rising property prices also make property investment an attractive proposition for wealthy investors, including from overseas. This accelerates rising prices, as many of these investors have budgets many times the size of the median household income.