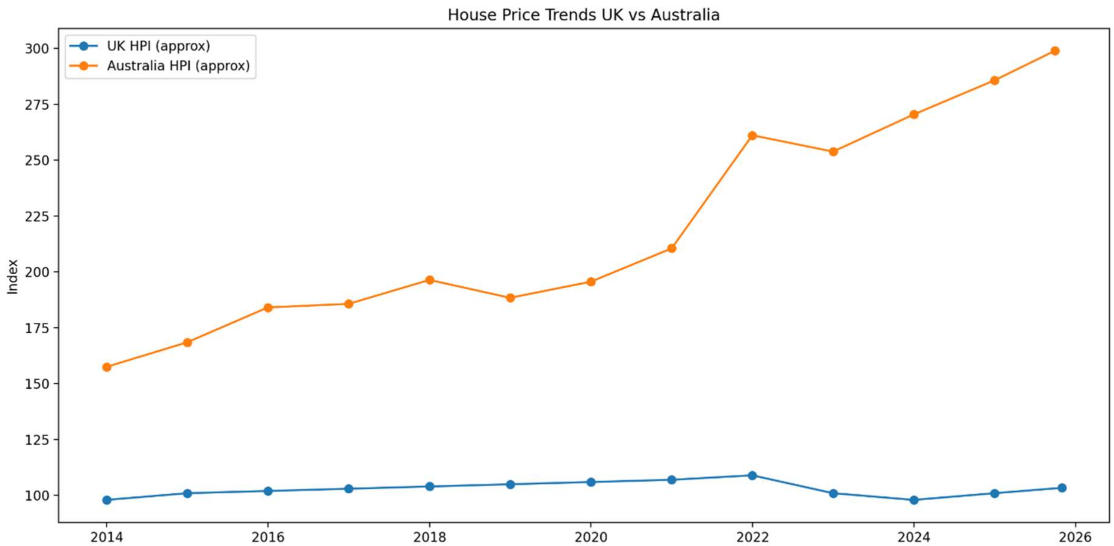
<u>UK and Australia House Price Comparison</u>

Background

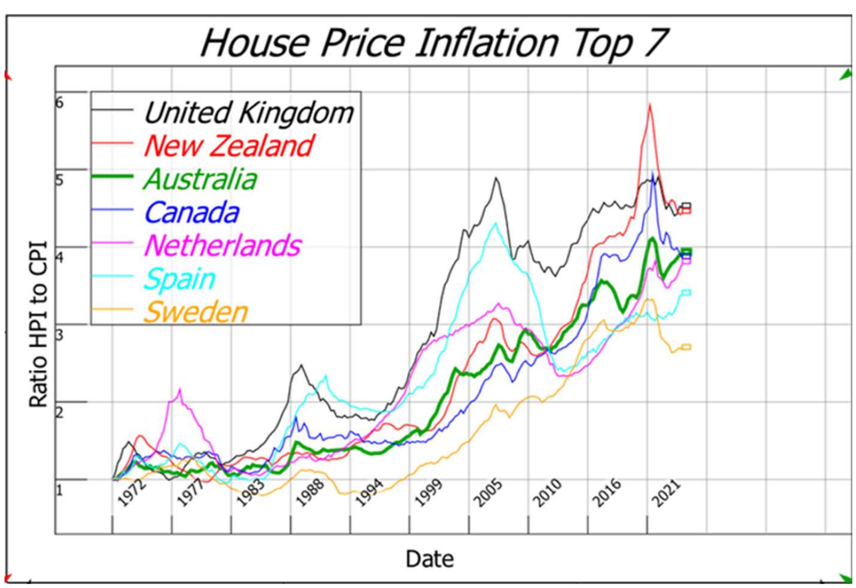
It has been widely reported that UK house prices have barely moved and, in some cases, fallen in the last 10 years compared to a boom prior to the financial crisis in 2008. In contrast Australian prices have soared and it is not immediately clear why there is such a big difference.

Evidence of Contrasting House Price Increase

The graph below generated from UK HPI date from the HM Land Registry/Office National Statistics and the Australian data is from the Australian Bureau of Statistics.



The graph shows a doubling of prices in Australia during this time, and this isn't disputed. What may be disputed is the reason. Looking further back the UK and Australia had similar growth with the UK booming before the GFC compared to the slow but steadier rise of Australia.



Why is there a Difference?

The reasons that house prices rise are complex and there are a few possible explanations for the change in the last 10 years and these are explored in the table below.

Factor	Australia	UK	Last 10 Years Impact
Tax Incentives	Very pro-property	Neutral	In 1987 negative gearing and in 1999 50% capital gains discount was introduced. No change in last 10 years
Population Growth	Higher than UK but relative reduction over the last 10 years	Lower than Australia	Relative growth has dropped for Australia, and this would be expected to reduce the impact on prices in Australia
Housing Supply	Occupancy levels have trended down slightly	Remained constant	Hard to measure, based on occupancy levels Australia has dropped recently but, on most metrics, there isn't a big difference in the last 10 years
Real Wage Growth	Relatively strong until recently	Dropped off after GFC but picking up	Appears to be broadly neutral over the long term and last 10 years
Credit Growth	Minimal regulation	Mortgage Market Review (MMR)	Significantly different approach. UK has tightened credit availability after the GFC and the MMR

Impact of Credit Growth

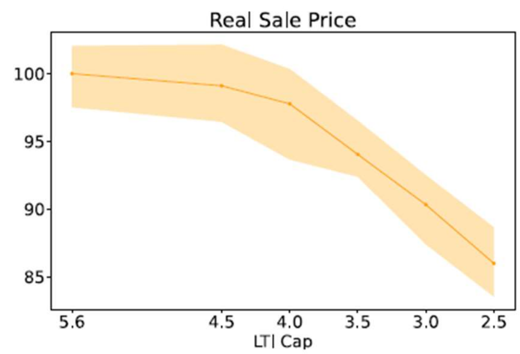
The availability of credit has seen a significant change in the UK following the Mortgage Market Review. The review was started after the GFC (2009) and the results were implemented through the rules issued by the UK regulator (Financial Conduct Authority-FCA) - https://researchbriefings.files.parliament.uk/documents/SN05808/SN05808.pdf

The Loan to Income (LTI) limit was restricted to only 15% of loans per lender for mortgages that are greater than 4 ½ times income was implemented and the FCA lending handbook tightened the rules for assessing the affordability.

Australia has slowly introduced much lighter touch requirements. The Australian Prudential Regulation Authority (APRA) the equivalent UK regulator capped interest only lending at <30% of new mortgages in 2017 and was only given powers to implement LTI limits and other tools in 2022. In 2025 LTI limits for owner occupiers of no more than 20% of loans >6.5 times income for a lender were introduced far more relaxed than the UK limits.

The UK and Australian regulators are not responsible for managing house price inflation their role is encouraging good lending practices and supporting financial stability. The impact of regulation was acknowledged by the Bank of England and their research team carried out modelling in 2024.

Titled ‘The impact of prudential regulations on the UK housing market and economy: insights from an agent-based model’ the research demonstrates the significant impact credit restriction regulations have on house prices. The graph below shows how based on the modelling the change in LTI would have a significant impact on house prices in the UK.



The effect of capital requirements (size of deposit) is not considered to have a significant impact compared to LTI requirements and potentially other affordability tests.

Summary

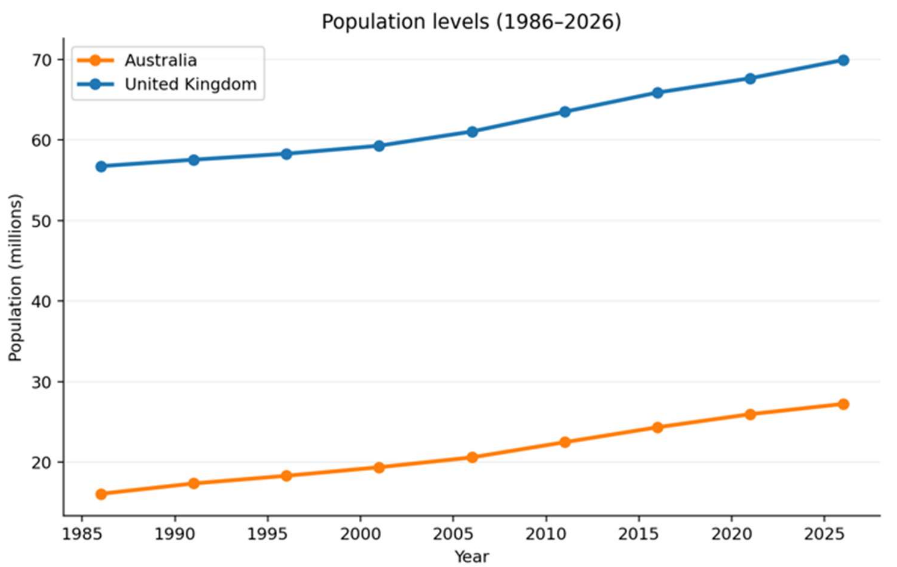
House prices are not determined by a single factor and isolating any one aspect to explain the difference in the UK and Australian housing markets is problematic. The evidence does appear to show that the only significant difference between the UK and Australia in the last 10 years has been the sharp change in the regulatory approach. Following the restrictions adopted in the UK house prices have flattened compared to the continued inflation in Australia.

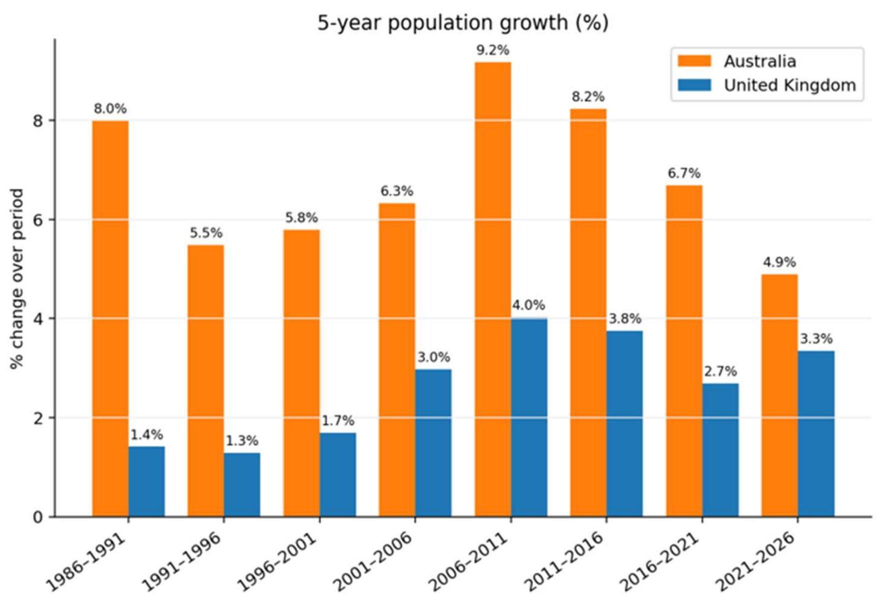
There is no regulatory authority responsible for the management of house price inflation in Australia. The Reserve Bank of Australia excludes house price inflation in its calculations and therefore its statutory requirements to maintain a set rate of inflation doesn’t apply. APRA is focused on lenders remaining financially stable and has no mandated role influencing house price inflation. Australian banks force customers with low capital levels to take out insurance to protect the bank reducing the risk to the bank and therefore the APRA appetite to implement restrictive rules is even less than the UK.

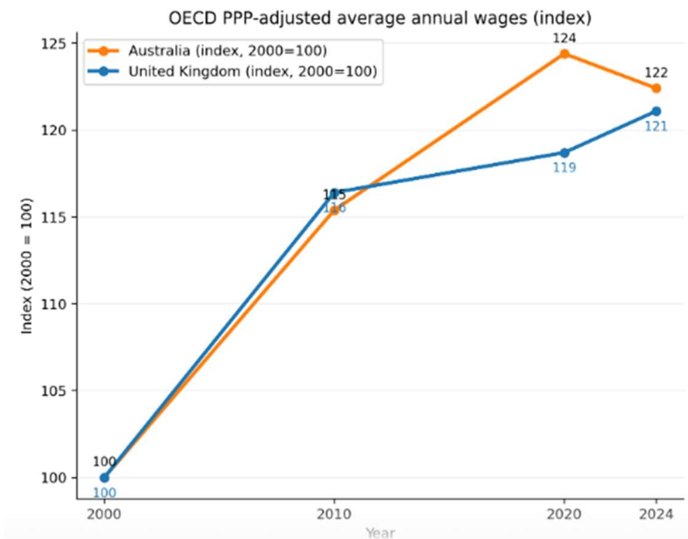
Recommendation

Public Money Australia recommends that the government carry out an urgent mortgage market review like the exercise carried out in the UK and reviews the role of the RBA and APRA in the management of house price inflation. Australia needs house price inflation to be treated as seriously as the price of clothes and food. It needs a credit environment that discourages prolific lending and a growing debt burden on households.

EXTRA GRAPHS






OECD PPP-adjusted average annual wages (index)
Australia (index, 2000=100)
United Kingdom (index, 2000=100)
Index (2000 = 100)
Year
2000
2010
2020
2024
100
105
110
115
120
125
124
122
121
119
115
116
100
100