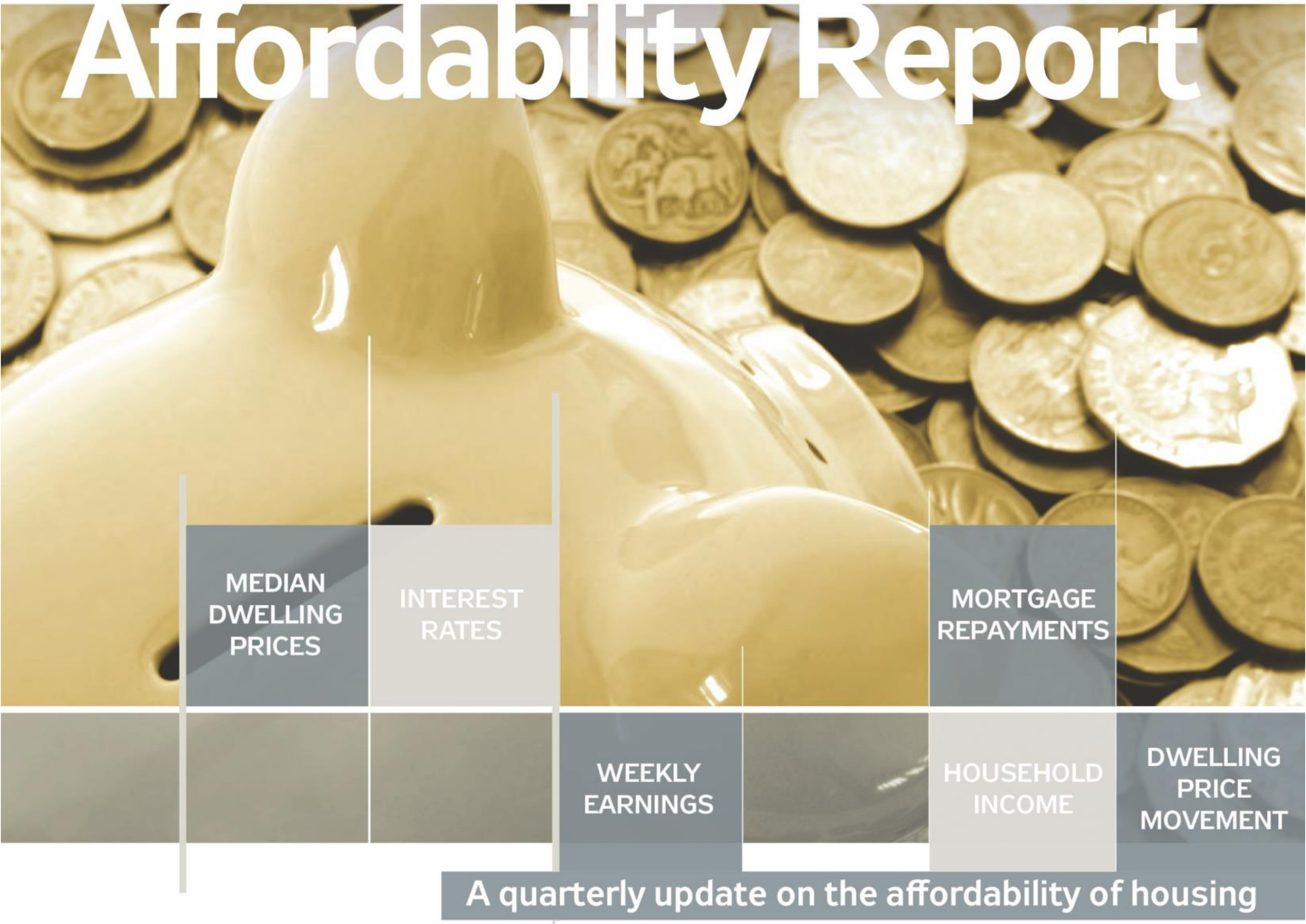

September 2018 Quarter

SYDNEY ENJOYS STRONGEST GAINS IN AFFORDABILITY

HIGHLIGHTS:

- Affordability improvements driven by housing price declines, while a modest lift in wages growth provides some assistance.
- Sydney experienced the strongest annual improvement in housing affordability in the September 2018 quarter, followed by Perth, Darwin and Melbourne.
- Perth remains Australia's most affordable capital city, followed by Darwin and Hobart.
- Mortgage repayments account for 41.2 per cent of earnings in capital cities and 33.9 per cent in regional markets.

The HIA Affordability Index is designed so that a result of exactly 100 means that precisely 30 per cent of earnings are absorbed by mortgage repayments. This is because a repayment burden of 30 per cent or lower is regarded as being manageable. Higher results signify more favourable affordability – those above 100 signify that mortgage repayments account for less than 30 per cent of gross earnings, whereas scores below the 100 mark mean that more than 30 per cent of average earnings are absorbed by mortgage repayments

Housing affordability continues its streak of improvement, with the HIA affordability index climbing for a fifth consecutive quarter in September 2018.

Strong housing price growth and weak wages growth were once a potent combination working against housing affordability but recent developments have seen a shift in favour of improved affordability.

Declining house prices are the key factor driving affordability improvements. Nationally, dwelling prices declined by 1.1 per cent over the September 2018 quarter to be roughly unchanged from a year earlier (down by 0.2 per cent).

The national declines are being driven by the major Sydney and Melbourne markets – markets that had previously experienced the most acute pressures from rising prices.

Underwhelming growth in wages has been the Achilles heel of advanced economies the world over. Domestically, there have been tentative signs of improvement. Weekly earnings had been growing at an annual rate of around 1.6 per cent during from 2014 until 2017. Only in late 2017 was there been something of an acceleration in wages growth up to 2.4 per cent, a pace which has been maintained into 2018.

Interest rates remain relatively steady. There was a slight increase in lending rates during the September 2018 quarter, largely a result of most of the major banks lifting their variable rates in August and September this year. While the official cash rate is set to remain steady at the current all-time low for quite some time yet, banks' funding costs have been rising for some time. The effects are only now starting to flow through to mortgage rates. This has the potential to take some of the wind out of the sails of improving affordability in the quarters to come.

The affordability improvements, in conjunction with changes to incentives mean that first home starting to return to the market after years on the sidelines. In this edition of the Affordability Report we take a closer look at recent developments in first home buyer lending activity in the context of the changing incentives.

Summary of movements in HIA Affordability Index– September 2018

The September 2018 quarter saw the HIA Affordability Index rise again, registering 76.3, a reading that is 1.5 per cent higher than in the previous quarter and 2.2 per cent higher than in the September 2017 quarter.

The estimated national median dwelling price of $549,137 gives rise to a monthly mortgage repayment of $2,726, given current averaged interest rate settings. Such a repayment would account for 39.3 per cent of an average wage. This is edging closer to the 30 per cent 'affordable' threshold, but is still some way off. For a household to have mortgage repayments account for 30 per cent of its earnings, it would require 1.3 times the average earnings of a full-time worker to do so.

To summarise the overall results in affordability across the states; five of the eight capital cities saw improved affordability over the year to September 2018. The greatest improvement was in Sydney (+9.0 per cent) followed by Perth (+5.1 per cent), Darwin (+4.4 per cent) and Melbourne (+3.3 per cent). There was a minor improvement in Brisbane (+1.4 per cent), while affordability deteriorated in Hobart (-8.3 per cent), Adelaide (-2.1 per cent) and Canberra (-1.1 per cent).