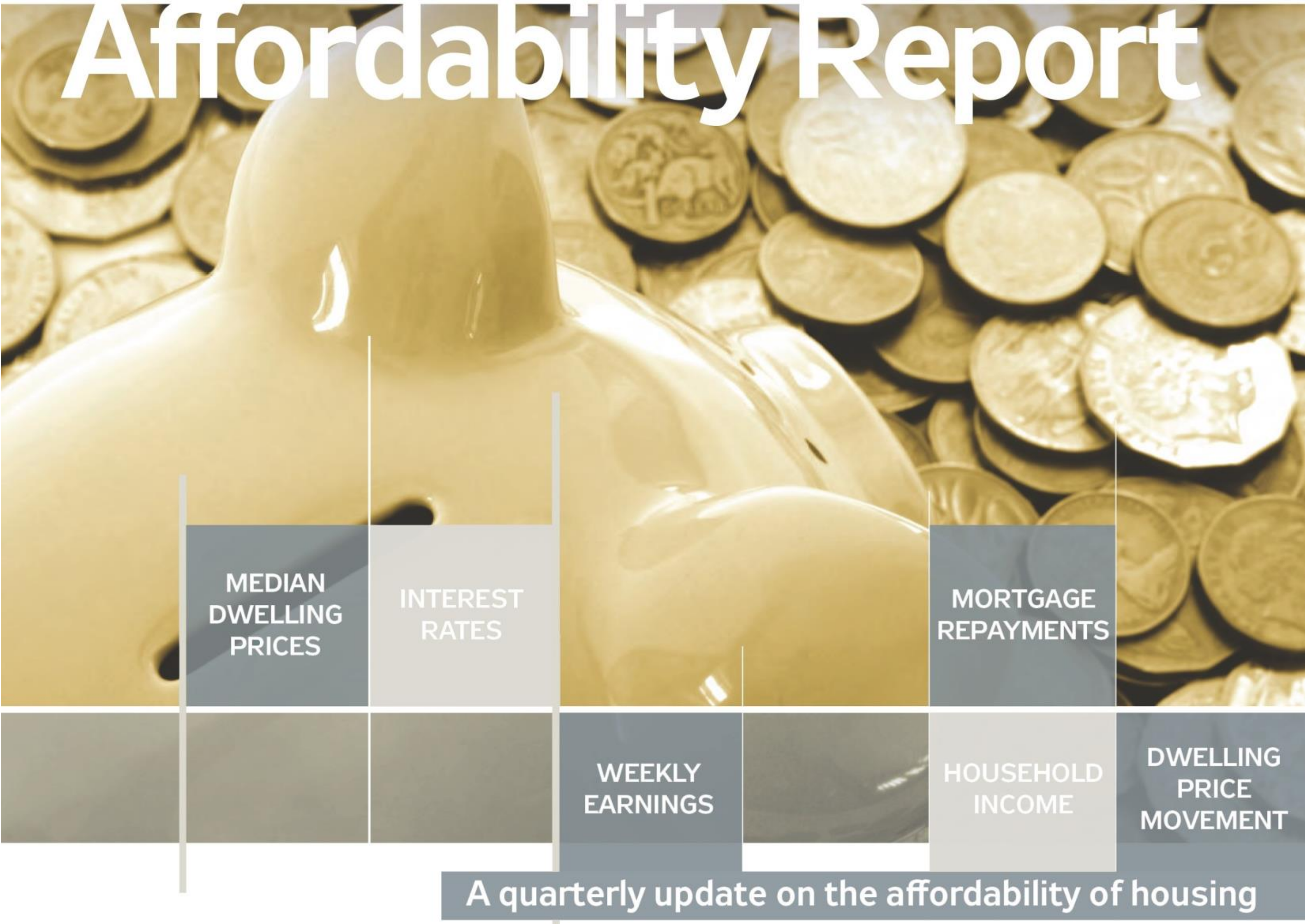

March 2021 Quarter

AFFORDABILITY DETERIORATES AND SAVING A DEPOSIT TAKES LONGER

HIGHLIGHTS:

> Housing became less affordable in the March 2021 quarter, as home price rises outpaced income growth.

> Servicing a mortgage has been more affordable in recent quarters than at any stage over the prior 19 years.

> It takes first home buyers more than 7 years to save for a 15 per cent deposit on a typical home. This wait grew by 4 months in the March 2021 quarter.

> Government stimulus measures that support first home buyers are very effective at bringing activity forward when the economy is weak, particularly those with finite application periods.

The HIA Affordability index measures the extent to which average weekly earnings can repay and service a mortgage for a median-priced dwelling. The index is calculated based on prevailing mortgage interest rates, average weekly earnings and median home prices. The concept of affordability essentially explores the proportion of earnings absorbed by servicing costs on a 25 year mortgage with a 90 per cent Loan-to-Valuation-Ratio at inception. An index reading of 100 indicates the threshold for 'affordable' market whereby mortgage repayments account for exactly 30 per cent of average earnings under current market conditions. An index level above 100 indicates an affordable market and index level below 100 indicates an unaffordable market. When the index level is rising affordability is considered to be improving while a decline in the index indicates a deterioration in affordability

Housing became less affordable in the March Quarter of 2021, as the price of a typical home rose faster than the capacity of borrowers to repay a typical loan.

The HIA Affordability Index fell by 4.6 per cent in the quarter. This means it now takes 1.2 average incomes to service the mortgage of a typical loan. Affordability in the regions deteriorated faster than in the cities, which is unusual. Affordability fell by 5.2 per cent in the regions, and by 4.3 per cent in the capital cities.

The most significant deterioration in affordability occurred in Hobart, with a 6.8 per cent decline in affordability, followed by Canberra (-5.4 per cent), Darwin (-5.1 per cent), Sydney (-5.0 per cent), Perth (-4.4 per cent), Melbourne (-4.4 per cent), Brisbane (-4.1 per cent) and Adelaide (-2.8 per cent).

Servicing a mortgage has been more affordable in recent quarters than at any stage over the prior 19 years. For comparison, it took around 1.9 average incomes to service the typical mortgage pre-GFC. The combination of lower interest rates, relatively slow house price growth and steady wage growth over the past two decades have driven this improvement in affordability.

Unfortunately this is cold comfort for first home buyers. The challenge for first home buyers is no longer their ability to repay a loan, but in obtaining a mortgage in the first place.

Data for the March quarter of 2021 shows that it takes the average first home buyer around 7.4 years to save for a 15 per cent deposit on a typical home in Australia's capital cities. This means it now takes a first home buyer 4 months longer to save a deposit than it did just three months ago.

Over the last 20 years, the time taken for first home buyers to save for a deposit has cycled around an average of 7.0 years.

Despite the deterioration in affordability and house prices rising faster than first home buyers can save, they now account for more than 40 per cent of all loans in the established market. In recent quarters

HomeBuilder has offset these factors for those purchasing a new home. Government stimulus measures that support first home buyers are very effective at bringing activity forward when the economy is weak, particularly those that have finite application periods. As the housing market does not generally shift in favour of first home buyers, it follows that whenever a government subsidy is on offer, this is likely to be the best time to get into the market.

But HomeBuilder does not explain how first home buyers have overcome these obstacles and taken advantage of the low house price growth in 2020 and the record low interest rates. This suggests that the 'bank of mum and dad' are another factor driving the housing market.