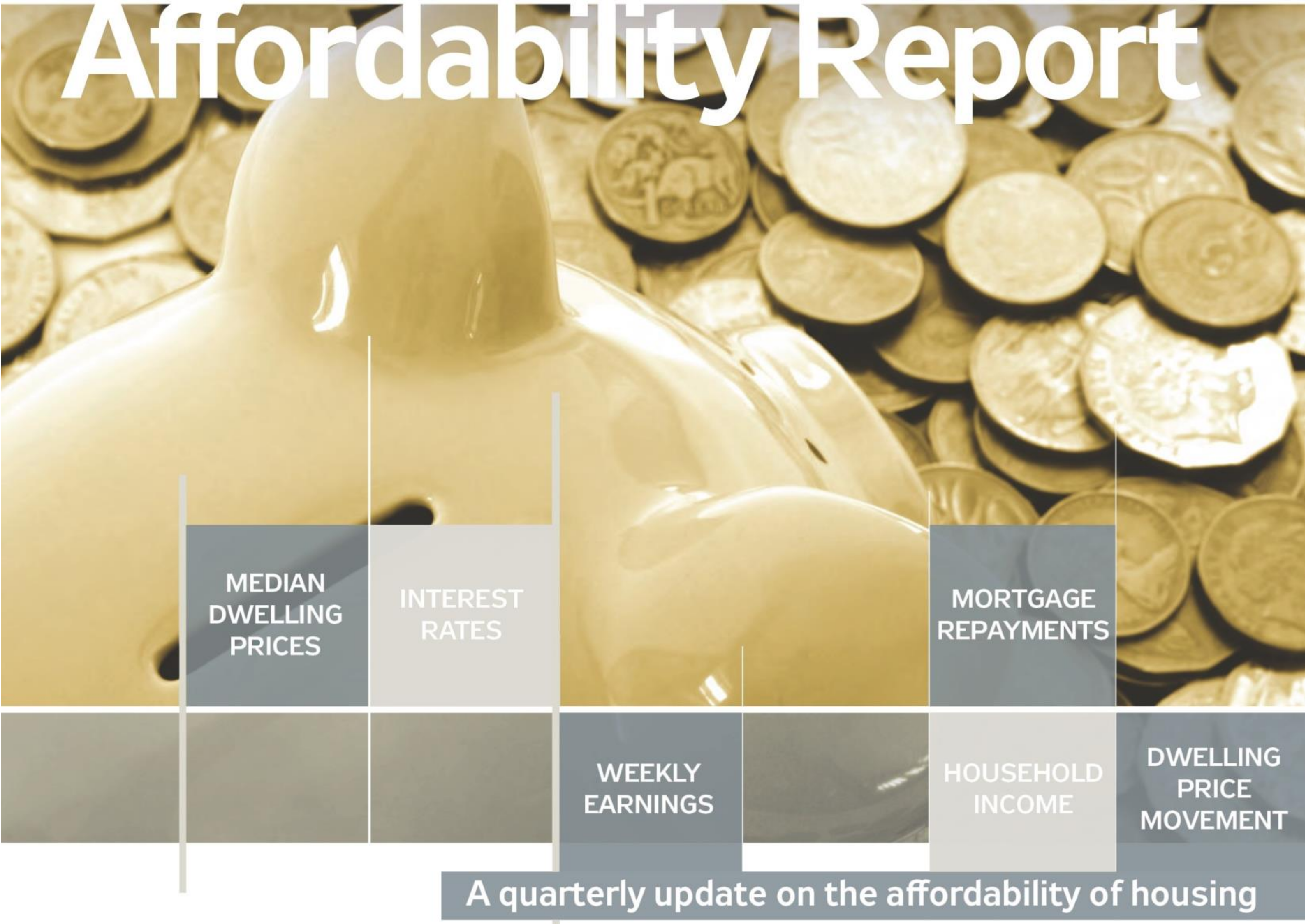

September 2020 Quarter

First Home Buyers Take Advantage of Window of Opportunity

HIGHLIGHTS:

- Housing affordability index improved during the September 2020 quarter.
- This improvement was predominantly driven by record low interest rates.
- Wages also increased during the quarter but this may be an unintended consequence of the JobKeeper program.

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 affordability in Australia improved in the September 2020 quarter. The HIA Affordability Index increased by 2.6 per cent, which means that it now requires 1.10 average incomes to service a mortgage on a median-priced dwelling. This is an improvement from the September 2019 quarter when 1.24 average incomes were required to service a typical mortgage.

This is the most affordable that housing has been in over two decades. First home buyers have been taking advantage of this affordability window.

First home buyers had been forced out of the housing market for many years as rapid house price growth, high rental prices and the credit squeeze that emerged in 2018 combined to force first home buyers to delay their goal of purchasing their first home.

In September 2020 the number of loans issued to first home buyers reached a decade high of 40 per cent of all new home loans. This surge in first home buyer activity is only exceed in 2008 and 2009 when first home buyer grants saw their participation rise to 49 per cent of the market.

A number of changes have occurred in the market that has seen first home buyers increase their share of the market rise, including:

- Slow house growth over the past three years
- Falling interest rates
- Ongoing wage growth
- Government support and incentives such as the First Home Loan Deposit Scheme and HomeBuilder

House price growth has slowed since reaching a peak nationally in 2017. Over the year to October 2020, house prices have grown by 3.9 per cent. This is vastly different to the annual growth recorded over the past decade which was often in the double digits.

Falling interest rates combined with changes to serviceability requirements by APRA have made it easier to obtain and service a mortgage. In many places servicing a mortgage is cheaper than paying rent.

Wages grew modestly during the September quarter 2020 despite the rise in unemployment. JobKeeper support is likely to have impacted heavily on wages. While it is unclear exactly how JobKeeper payments influenced wages as some individuals took home more pay than usual while others would have taken home less, first home buyers are more likely to be the cohort that received a temporary boost to their take home pay.

The Government's First Home Loan Deposit Scheme has been temporarily extended to provide an extra 10,000 places for new homes. This Scheme supports first home buyers to achieve home ownership sooner.

While not specific to first home buyers, the Australian Government's HomeBuilder program provides further opportunity for first home buyers to enter the new housing market. In some states there are also additional incentives available for first home buyers.

COVID-19 has also changed the dynamics of the housing market.

Rental vacancies outside of Sydney and Melbourne remain tight with less than a 2 per cent rental vacancy rate across most regions. Data released on Monday also shows that regional population growth has been stronger than anticipated and stronger than would have otherwise occurred in 2020. There are numerous reasons for this outcome.

Firstly, the nature of the COVID shock has seen the population shift out of high rise for lower density housing and toward more regional