Affordability Report

A quarterly update on the affordability of housing

December 2018 Quarter

AFFORDABILITY IMPROVES IN THE DECEMBER 2018 QUARTER

HIGHLIGHTS:

- Affordability improvements were driven mostly by housing price declines but also slight upticks in wages growth.
- Sydney experienced the strongest annual improvement in housing affordability in the December 2018 quarter, followed by Melbourne, Perth and Darwin.
- Perth remains Australia's most affordable capital city, followed by Darwin. Sydney and Melbourne remain the least affordable despite recent improvements
- Mortgage repayments account for 39.8 per cent of earnings in capital cities and 33.6 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

Australia's record long and strong new home building boom – while it has now developed into a downturn – continues to bear fruit for home buyers. The strong flow of additional supply (the industry commenced construction on over 200,000 homes per annum for five consecutive years) is continuing to enter the market and is a key factor behind reduced price pressures and ultimately improved housing affordability across the majority of the country.

The other key factor behind latest affordability improvements has been the improvement (albeit nascent) in wages growth. In particular, the pivotal period was mid-2018. The combination of strong dwelling price growth and weak wages growth (which was also a protracted affair – almost five years where the former outstripped the latter) was finally reversed. Wages growth finally outpaced dwelling prices midway through last year, with the trend affirmed in the December 2018 quarter.

Nationally, dwelling prices in the December 2018 quarter were 1.5 per cent lower than in the previous quarter and 2.3 per cent lower than in the same period in 2017. In contrast, average weekly earnings in the December 2018 quarter are estimated to have grown by 1.1 per cent over the December 2018 quarter to be 2.7 per cent higher than a year earlier.

Lending rates have risen only marginally in recent quarters, despite the RBA's official cash rate remaining on hold. This is a development that obviously reduces (somewhat) the aforementioned improvements to affordability. What is not figured however into the affordability calculation but is nevertheless having a significant effect on potential home buyers' ability to purchase a home is the current credit squeeze. Not only are home loan processing times increasing, but HIA research shows that an increasing amount of new home buyers are having their loan applications simply rejected.

Summary of movements in HIA Affordability Index– December 2018

Affordability across the country has improved for three consecutive quarters – the HIA Affordability index registered 78.4 in the December 2018 quarter, a reading that is 1.5 per cent higher than in the previous quarter and 3.3 per cent higher than a year earlier.

The estimated weighted capital cities median dwelling price of $618,626 gives rise to a monthly mortgage repayment of $3,112, given current averaged interest rate settings. Such a repayment would account for 39.8 per cent of an average wage – still some way off the 30 per cent 'affordable' threshold. For an individual home buyer to have mortgage repayments account for 30 per cent of their earnings, they would require 1.3 times the average earnings of a full-time worker to do so.

Five of the eight capital cities saw improved affordability over the year to December 2018. Sydney continues to be home to the greatest improvements, its index up by 11.3 per cent. This was followed by Melbourne (+5.9 per cent), Perth (+5.7 per cent), Darwin (+3.2 per cent) and Brisbane (+0.8 per cent). Affordability deteriorated in Hobart (-9.3 per cent), Canberra (-3.6 per cent) and Adelaide (-3.3 per cent).