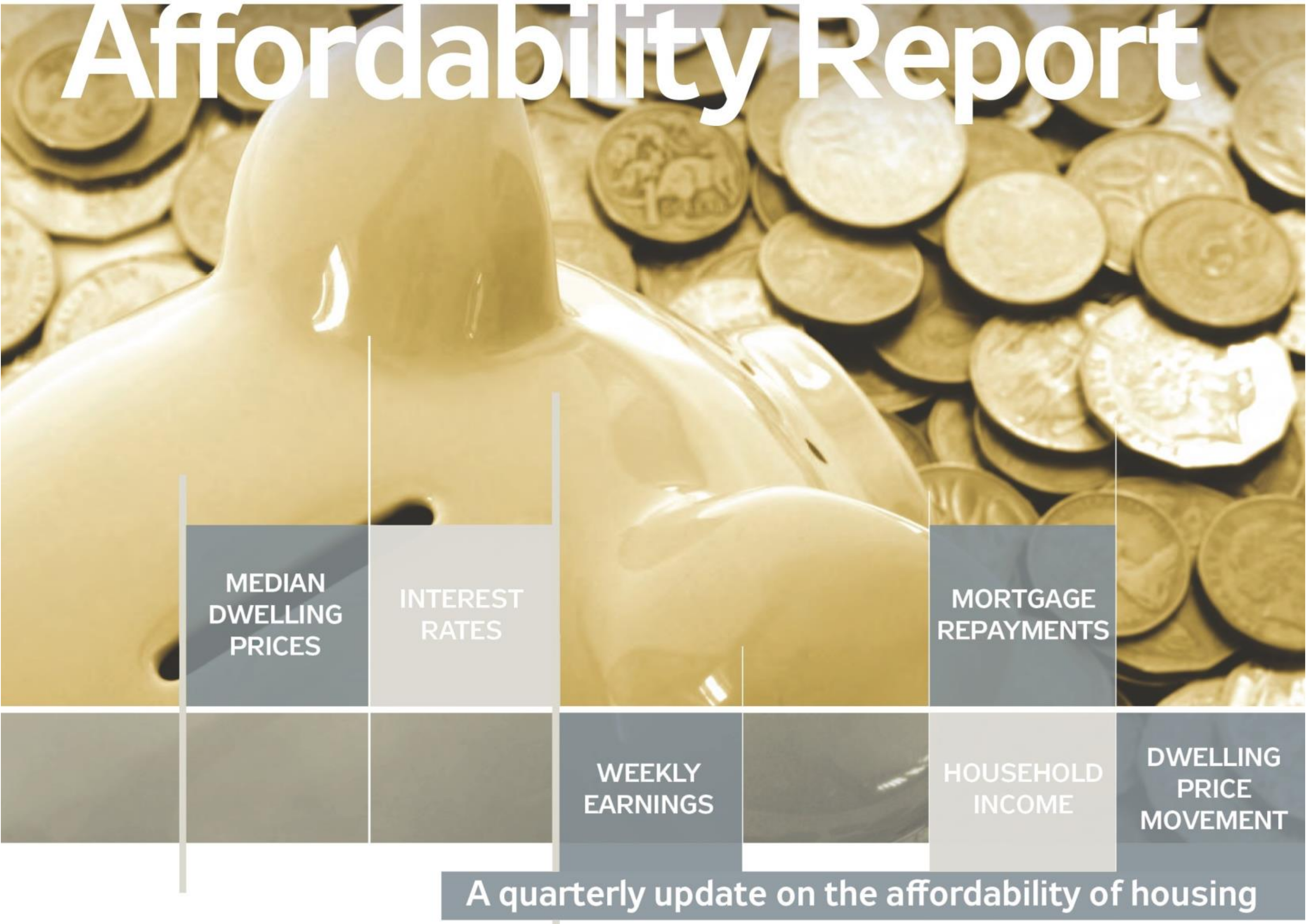

June 2020 Quarter

RED TAPE SQUEEZING FIRST HOME BUYERS OUT OF THE MARKET

HIGHLIGHTS:

- Housing is more affordable than at any point in over 20 years.
- The combination of lower interest rates, slow house price growth and relatively steady wage growth over the past three years have driven this improvement in affordability.
- The challenge for first home buyers is no longer their ability to repay a loan, but in obtaining a mortgage in the first place.

The HIA-Housing Affordability Index for capital cities improved in the June quarter, reaching its most favourable level since 1999, up by 5.6% per cent to 83.4.

This improvement in affordability means that it now requires less than 1.2 average incomes to service a mortgage on a median-priced dwelling in Australia's capitals. This is a rapid improvement from just three years ago when it required more than 1.4 times the average income to service the same mortgage.

The combination of lower interest rates, slow house price growth and relatively steady wage growth over the past three years have driven this improvement in affordability.

Unfortunately this is cold comfort for first home buyers. Repaying a mortgage is no longer the constraint it was over the past two decades.

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

A decade of additional red tape has seen it become increasingly difficult to obtain a mortgage for a first home buyer, even with a 10 per cent deposit.

Since the Global Financial Crisis, Australia's financial market and banking regulators have sought to create an 'unquestionably strong' financial system. A decade of additional regulation imposed on first home buyers have reduced risk in the system, but at a cost. This cost is borne by first time home buyers who are being forced out of the housing market.

Banks have been required to increase their capitalisation for loans with less than a 20 per cent deposit which makes them less willing to lend to first home buyers. This is in addition to tighter scrutiny of household budgets and the measures imposed to restrict interest only loans.

In 2009, lending to home buyers with a 10 per cent deposit accounted for 21 per cent of all new mortgages. In 2018/19, it has accounted for less than 7 per cent of new loans.

The problem is that this regulatory squeeze has forced the banking sector to eliminate much of the flexibility in the mortgage market that made home ownership accessible for households of variable credit quality, such as first home buyers. This is having the effect of forcing first home buyers to achieve a deposit of greater than 10 per cent at a time of record low interest rates. As a consequence, banks are increasingly lending to those that already own a home, making it harder for first home buyers to get onto the home ownership ladder.

Having an 'unquestionably strong' financial system is essential to the future of the building industry, but home ownership must remain an attainable goal for all Australian households.

The 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.

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

Copyright
© Copyright 2020. HIA Limited is the sole and exclusive owner of all rights, title and interest (including intellectual property rights) subsisting in this publication, including any data, analytics, statistics and other information contained in this publication.
This publication is strictly private, confidential and personal to its recipients.
This publication may not be copied or transmitted in whole or in part in any form, including by photocopying, facsimile, scanning or by manual or electronic means. Multiple copies can be supplied by arrangement/for an additional charge.
Unauthorised copying is a breach of HIA's copyright and may make you liable to pay damages.
Permission is not given for any commercial use or sale of this material.

Disclaimer
The data and information (including commentary) provided in this publication is of a general nature only.
While HIA uses commercially reasonable efforts to ensure that:
(a) any data and information is current at the time of publishing; and
(b) all opinions, conclusions or recommendations are reasonably held or made as at the time of their compilation,
HIA does not warrant the accuracy, reliability or completeness of the publication in whole or in part.