



Affordability Report

MEDIAN
DWELLING
PRICES

INTEREST
RATES

MORTGAGE
REPAYMENTS

WEEKLY
EARNINGS

HOUSEHOLD
INCOME

DWELLING
PRICE
MOVEMENT

A quarterly update on the affordability of housing

March 2020 Quarter

HOUSING AFFORDABILITY TIGHTENS IN MARCH 2020

HIGHLIGHTS:

- > House price growth continued to offset growth in earnings and cuts to interest rates in the March 2020 quarter across all eastern states capitals.
- > This marks two quarters of tightening affordability across these capitals.
- > Perth, Adelaide and Darwin continued to become more affordable over the last two quarters but thanks to modest price growth in Perth recently, Darwin has overtaken Perth as the most affordable city in Australia.

Housing affordability in the March 2020 quarter across Australia continued to tighten modestly, largely reflecting the (then) ongoing recovery in housing prices. This tightening follows a run of improvements in affordability that occurred throughout 2018 and most of 2019.

During that time all the ingredients of housing affordability improved. Housing prices declined – as a result of additional supply from the housing construction boom, a credit squeeze, and last year's election uncertainty – while interest rates fell and wages increased.

The improvement in housing market conditions from around May 2019 saw price increases start to offset wage growth and give rise to the more recent deterioration in affordability.

Despite this recent deterioration, the previous gains largely remain intact - housing across Australia is still historically affordable. In the March 2020 quarter housing affordability in every capital city was better than each city's own 20-year average. These improvements are especially so for Perth and Darwin. For Sydney however the difference between the latest level of affordability and the 20-year average is marginal.

The March quarter decline in affordability across all of Australia's eastern capitals was led by Sydney but there were also marked declines in Canberra and Melbourne. Affordability in Brisbane and Hobart declined only marginally, while affordability continued to improve in Adelaide, Perth and Darwin. The nascent signs of recovery in WA's economy had started to flow through to growth in Perth's housing prices. As a result it lost

the mantle of Australia's most affordable capital city to Darwin. For the Northern Territory more broadly, it is the only jurisdiction where housing in the capital is more affordable than in regional areas.

While most of the federal and state government responses to the COVID-19 emergency took effect in the March 2020 quarter, key restrictions affecting the day to day operations of the housing market only occurred very late on in the quarter. The impact of these on drivers of affordability – dwelling prices, interest rates and wages – is not yet evident.

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

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