Australian Institute for Progress

Housing Affordability Index

March Quarter, 2019

A Quarterly Review of Housing Affordability

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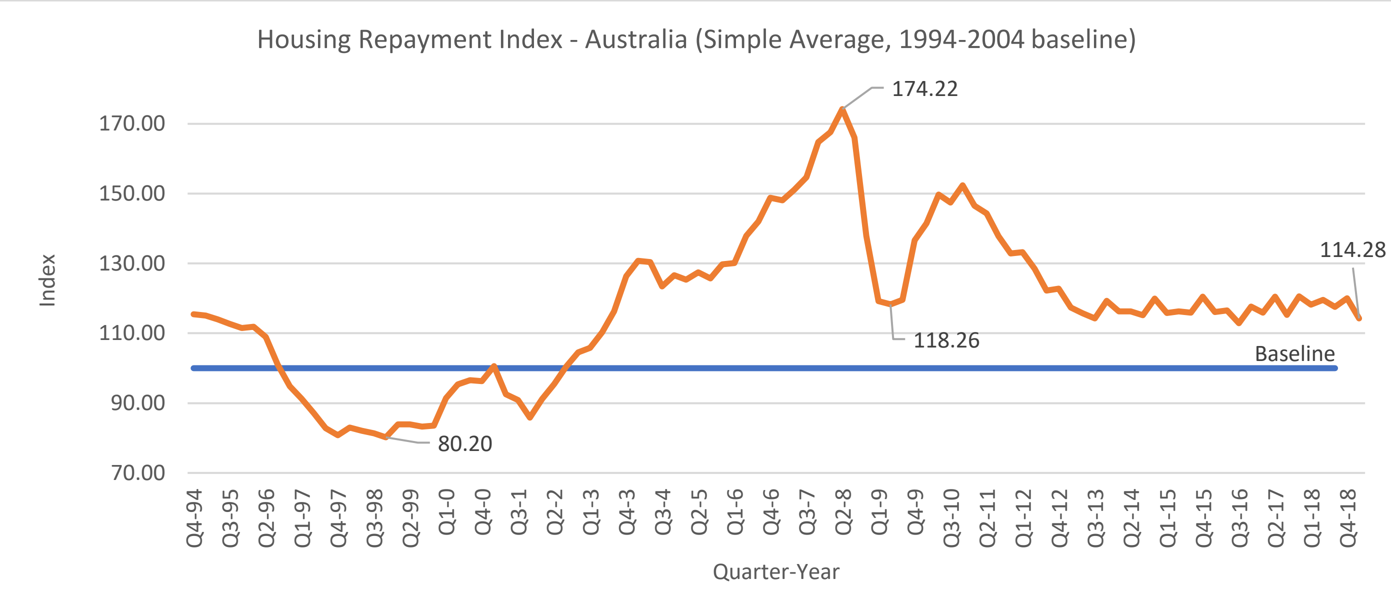
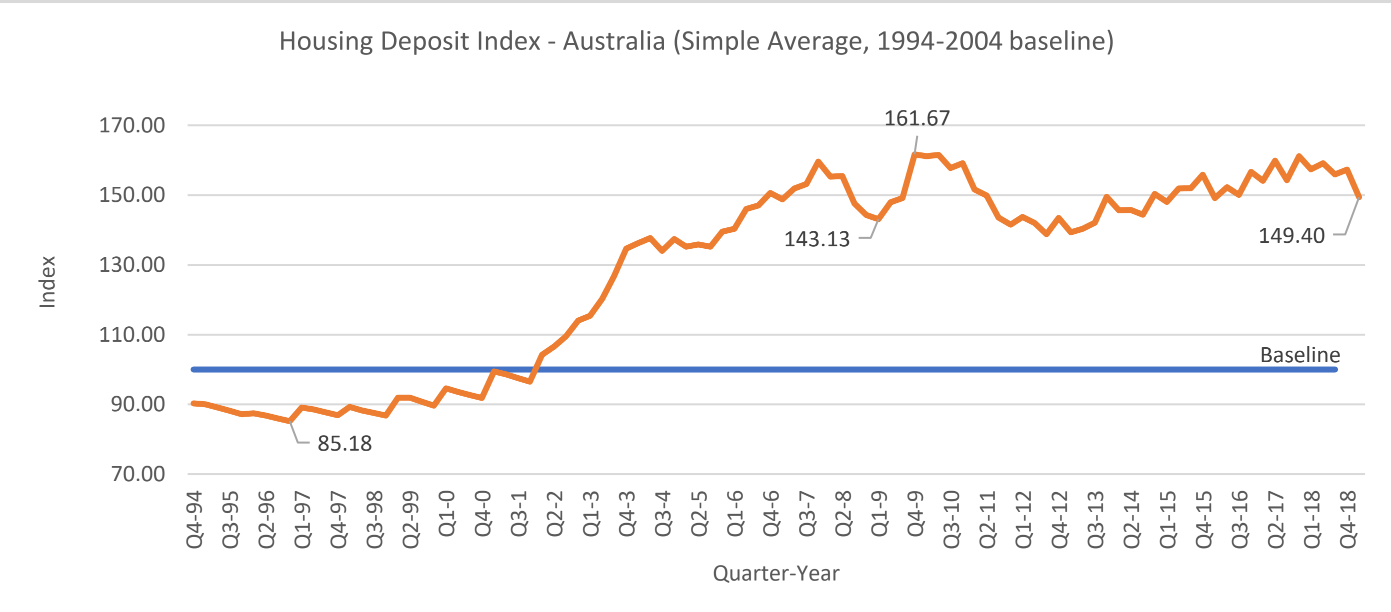
The Australian Institute for Progress exists to advance the discussion, development and implementation of public policy for Australia's future, from its base in Brisbane. The future does not look after itself.

Highlights

- Repayments have decreased over the 1st quarter of 2019, with the repayment index decreasing from 120.01 to 114.28 since Q4 20181, a fall of 4.78% on average. The cost of repayments are back to the levels of three years ago and are only 14% over the levels of the average between ‘94 and 2004.
- Sydney and Melbourne had increases in repayment affordability of 9.64% and 10.02% respectively, a huge increase in affordability, which may explain the strong bounce in real estate prices in those cities.
- Time to save a deposit has also decreased, reflecting a fall in house prices. The deposit index has decreased on average from 157.35 to 149.4 since Q4, 2018, a decrease of 5.05%.
- Sydney and Melbourne had the largest decrease in time to save a deposit with improvements of 9.89% and 10.27% respectively.
- With home loan interest rates remaining stable on the national level, the change in repayment and deposit costs is attributable to declining median house prices across Australia
- The gap between repayment and deposit costs has shrunk, with the fall in deposit costs being good news for first home buyers looking to enter the housing market





Summary

The 2019 Quarter 1 Australian housing market saw an increase in the affordability of both housing deposits and repayments, reversing the increase seen in 2018 Quarter 4.

This was particularly marked in Sydney and Melbourne where the improvements were in the order of 10%. The combination of a fall in servicing costs, and a deposit being easier to acquire will put upward pressure on houses in those markets in particular.

On average, repayment costs across Australia are even more affordable now than they were at the depth of the GFC housing market crash while deposit costs are at a 4-year low. Save for Hobart and Perth, the increase in deposit and repayment affordability is consistent across all capital cities with Melbourne, Sydney, and Darwin experiencing the greatest fall in costs. With home loan interest rates and average weekly earnings having remained stable, the change in housing costs is attributable to falling median house prices.

We measure repayment affordability by using ABS statistics for median house prices and calculating the ratio of repayments to average weekly earnings and expressing it as a percentage of the average for the first 10 years of the series to produce an index figure. We measure deposit affordability by calculating the ratio of an average 20% deposit to average weekly earnings and expressing it as a percentage of the average figure for the first 10 years of the series to produce an index figure.

	Repayment Index	*Deposit Index*
Sydney	109.6 (-9.64%)	142.2 (-9.89%))
Melbourne	130.4 (-10.02%)	169.3 (-10.27%)
Brisbane	103.6 (-1.57%)	136.1 (-1.85%)
Adelaide	122.5 (-1.39%)	160.0 (-1.67%)
Hobart	139.6 (1.42%)	183.6 (1.13%)
Darwin	90.9 (-7.09%)	120.0 (-7.35%)
Canberra	125.5 (-3.89%)	163.8 (-4.17%)
Perth	100.8 (0.28%)	131.8 (0.00%)
Average	114.3 (-4.78%)	149.4 (-5.05%)

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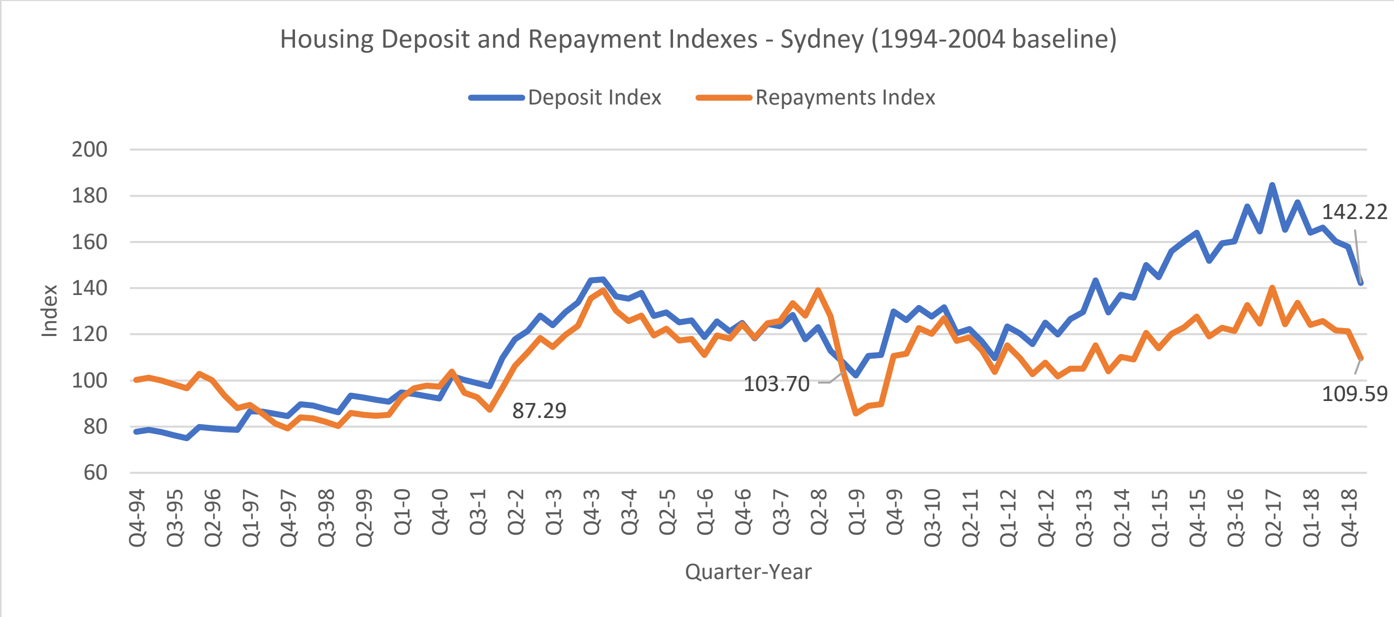
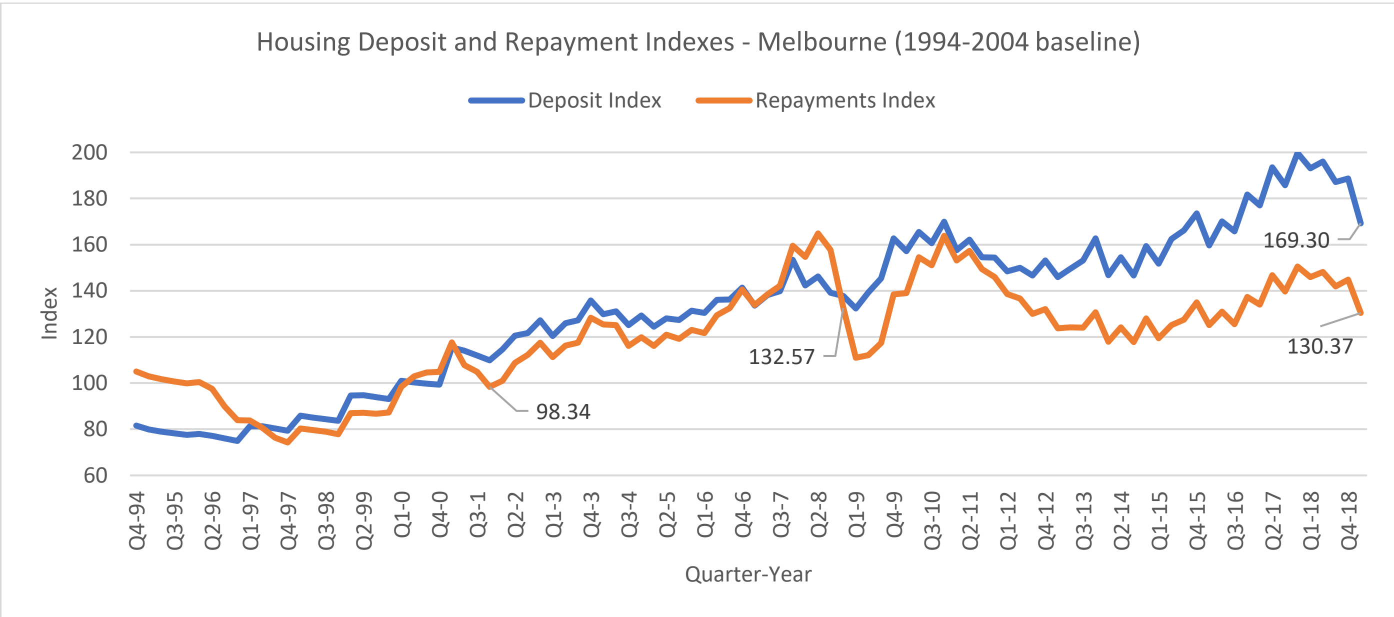
Deposit and Repayment Costs by State

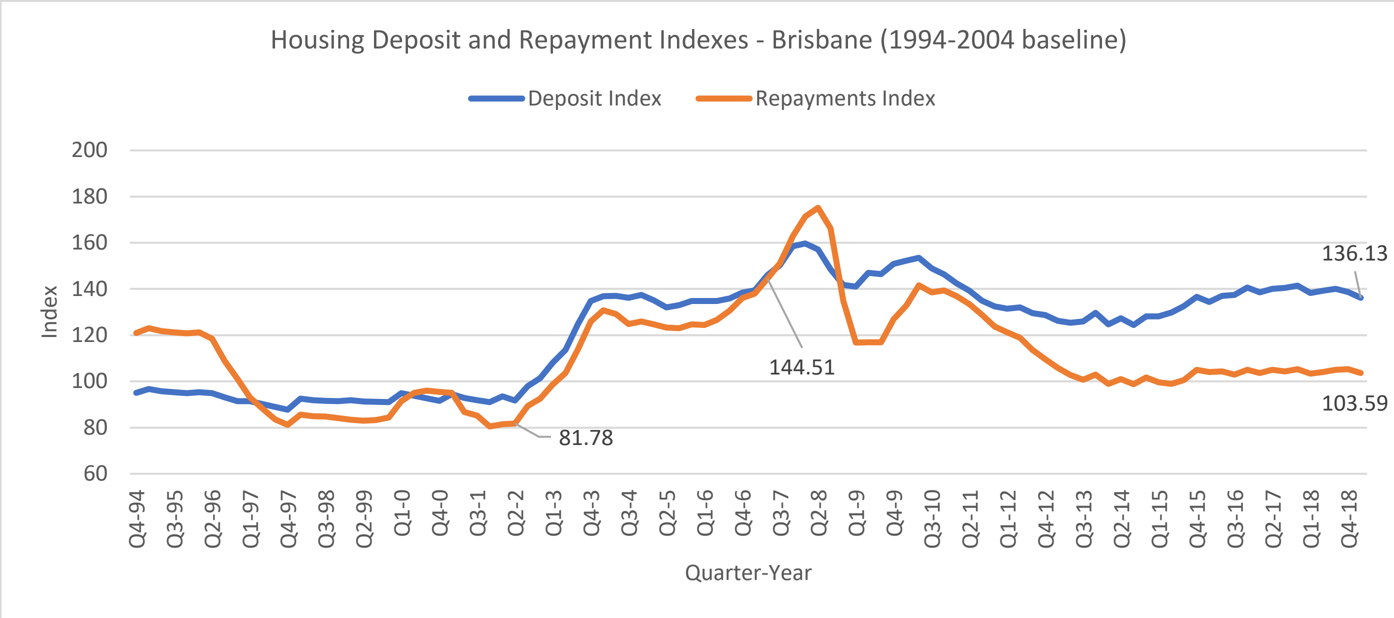
Sydney



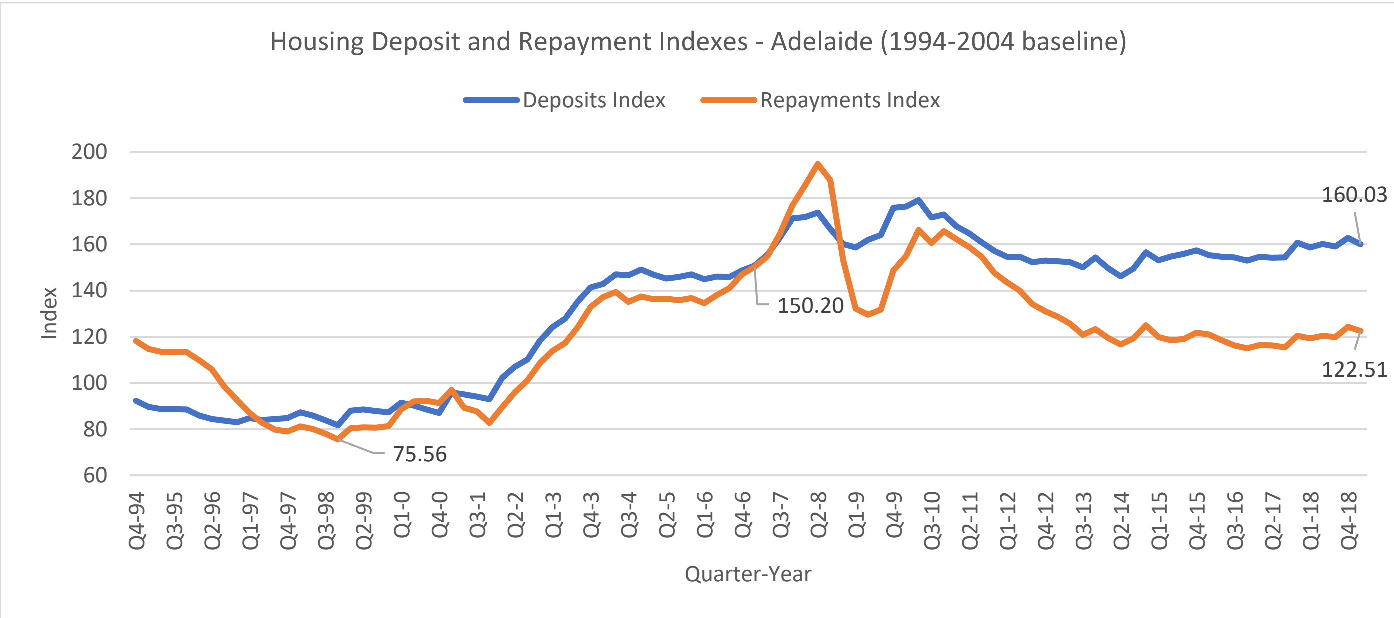
Melbourne



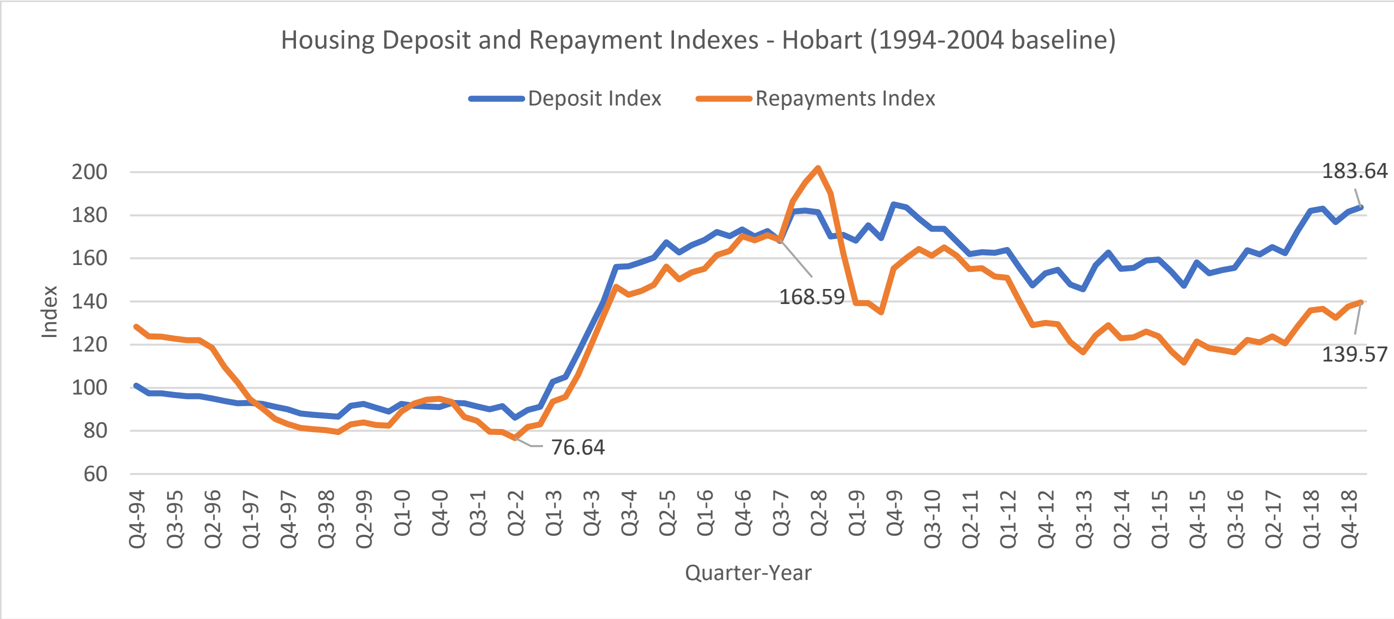
Brisbane



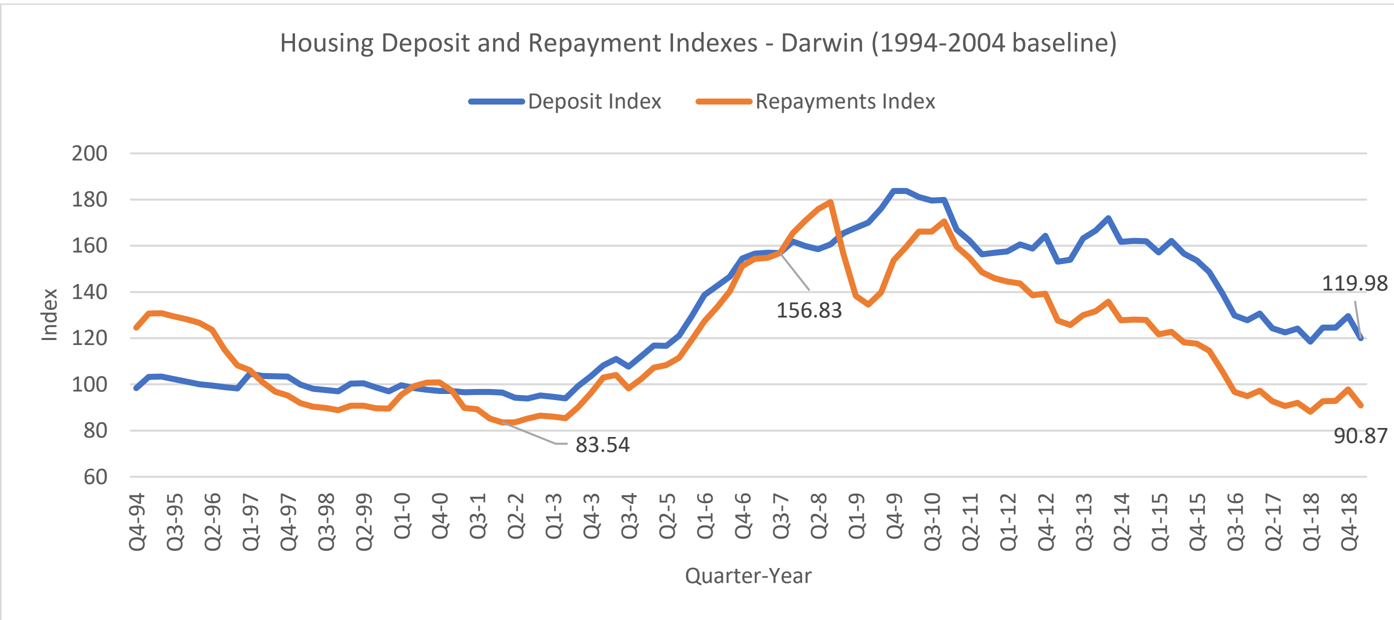
Adelaide



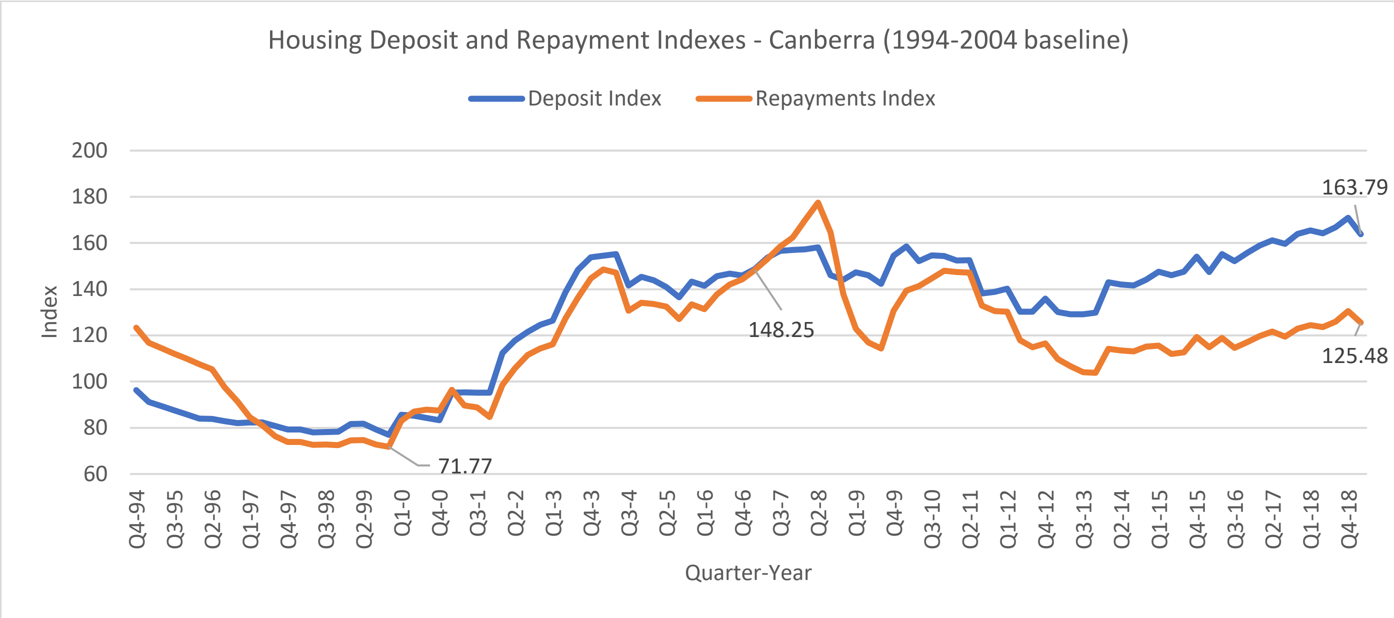
Hobart



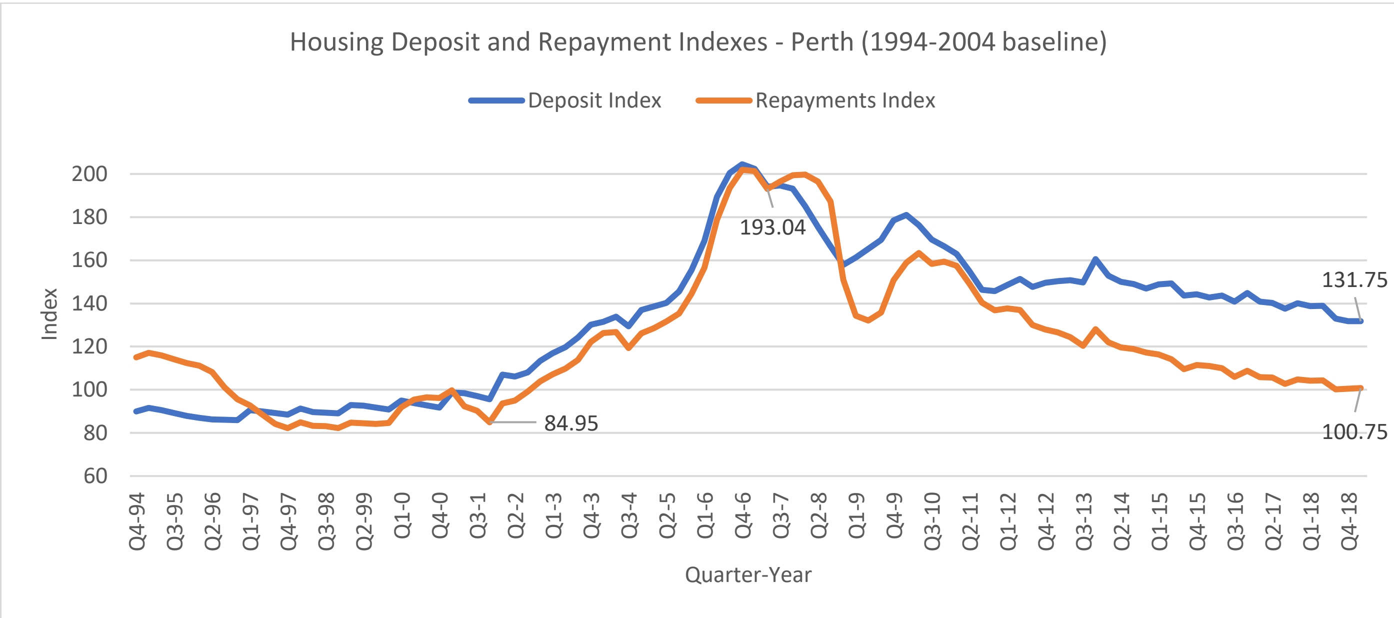
Darwin



Canberra



Perth



Methodology

Since the majority of Australian's rely on a mixture of debt and equity to purchase real estate, it is necessary to analyse housing affordability based on the cost of deposits and repayments. To reflect the real experience of home buyers, rather than just the increase in capital values, we model the cost of notional deposits and house repayments between Q4:1994 and Q1:2019 across Australia's eight most populous cities.

For the mortgage structure, we assume a 20% home deposit as well as monthly payments and daily compounding over a 25-year mortgage period. We calculate the average owner-occupier home loan rate over a given quarter, providing us with an estimate for the mortgage rate over the following 25-year loan period. In addition to using the median residential price for a given capital city, we also use average weekly earnings reported on the state level.

To calculate the repayment multiplier, we take the total yearly payment for a principal interest loan divided by the average weekly earnings for a given city and quarter. To calculate the deposit multiplier, we instead divide the cost of a deposit by average weekly earnings. Note that due to the limited housing data available, we take the national average weekly multiplier to be the simple average of the weekly multiplier for Australia's 8 most populous cities. Using the weekly multiplier values, we use a city's average weekly multiplier over the period Q4:1994 to Q4:2004 as the baseline for that city's index (with the baseline indexed to 100).

The datasets used within this model include: ABS 6302 Average Weekly Earnings, ABS 6412 Residential Property Prices Indexes for post-2002 median house prices, table 1 of Abelson 2003 for pre-2002 median house prices, and RBA F5 Indicator Lending Rates for owner-occupier variable standard housing loan rates.

References

1. Abelson, Peter; Chung, Demi. (2004). *Housing Prices in Australia: 1970 to 2003*. Published by The University of Sydney. Obtained via: https://www.researchgate.net/publication/5165791_Housing_Prices_in_Australia_-_1970_to_2003

2. ABS 6416. (March 2019 series). *Residential Property Price Indexes: Eight Capital Cities*. Obtained via: https://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0

3. ABS 6302. (November 2018 series). *Average Weekly Earnings: Australia*. Obtained via: https://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/7F76D15354BB25D5CA2575BC001D5866?opendocument

4. RBA F05. (June 2019 series). *Indicator Lending Rates*. Obtained via: https://www.rba.gov.au/statistics/tables/xls/f05hist.xls