



HOUSING AFFORDABILITY REPORT

SPECIAL EDITION
A FOCUS ON QUEENSLAND
RELEASED NOVEMBER 2022



INTRODUCTION

This edition of the ANZ CoreLogic Housing Affordability Report places a detailed focus on affordability conditions across Queensland. Through the pandemic, the Queensland dwelling market saw one of the strongest price upswings across the states and territories, and has seen some of the highest increases in rents over the past year.

Strong capital growth prospects exist for the Queensland housing market in the long term. A highly diverse economic base, strong internal migration trends and international tourism attractions (including the 2032 Brisbane Olympic Games) are likely to see ongoing investment and competition for housing across the state.

However, the stock of social housing in Queensland remains relatively small, and some indicators of housing affordability are deteriorating. This report provides an overview of increased demand pressures on Queensland housing markets, and the change in affordability metrics over time.

The first section of this report outlines recent migration trends, which have added to demand pressures across the state. This is followed by a focus on the state of rental affordability in Queensland, and changes in housing affordability metrics from an ownership perspective.

Analysis of income, rent, and housing value data shows that the cost of servicing a new mortgage or new rental lease continued to increase as a portion of income through the September quarter, despite some aspects of housing affordability improving.

Lifestyle markets like the Gold Coast have seen the portion of income required to service a new rental lease rise from 33.3% at the onset of the COVID pandemic to 42.7% as of September 2022. While the number of years required to save a deposit has fallen to 10.1 years in Brisbane and 9.3 years across the rest of the state, the portion of income required to service a mortgage has continued to rise. Furthermore, savings rates for a deposit are likely to be impacted by rising rents and other inflationary pressures.

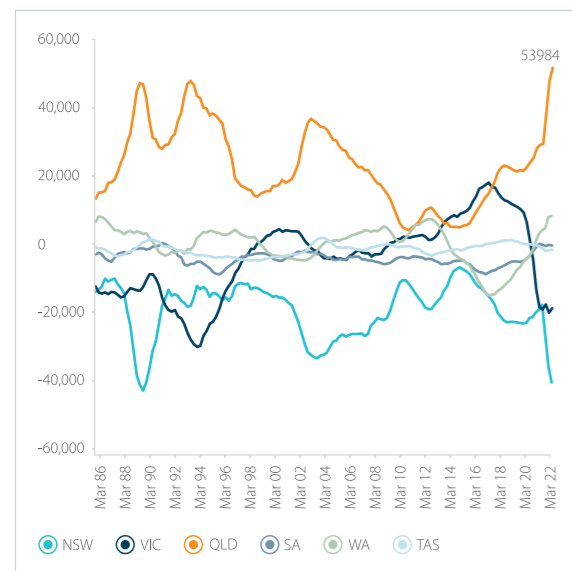
The report uses updated estimates of income data, derived from the Australian National University Centre for Social Research and Methods (ANU), combined with median home value and rent value figures produced by CoreLogic. Definitions of the metrics used throughout the report are detailed in Appendix 1.

POPULATION PRESSURES AND AFFORDABILITY IN QUEENSLAND

There are several 'push' and 'pull' factors that have contributed to a surge in internal migration to Queensland, which has impacted property prices across the state¹.

Queensland had the highest annual rate of population growth of the states and territories over the year to March 2022, at 1.8% (or an increase of around 92,000 people over the year – the highest since 2012). Unlike 2012, which saw a lift in natural increase and overseas migration, 2021 was marked by a record level of interstate migration (figure 1). This is especially remarkable considering Queensland has been the main internal migration destination since the 1970s. In the year to March, around 54,000 more Australians moved to Queensland than left.

FIGURE 1: ROLLING ANNUAL INTERSTATE MIGRATION (AUSTRALIAN STATES)



SOURCE: ABS

Granular internal migration data is currently lagged, with regional internal migration data for 2021 to be published by the ABS next year. However, historic migration data can provide a solid understanding of where the most popular internal migration destinations across Queensland have been. Figure 2 shows the portion of net internal migration that each SA4 region of the state has accounted for in total between 2017 and 2020.

The data shows lifestyle markets like the Gold Coast attract the most net internal migration from other parts of Australia, accounting for 28.1% in the four years to June 2020. High migration areas have generally also seen the biggest upswing in dwelling values since the onset of COVID-19 through to the end of October 2022. For example, the Gold Coast has also had the strongest dwelling value gains since March 2020 at 43.7%.

FEWER PEOPLE LEFT QUEENSLAND

While internal migration flows to Queensland from the southern states increased over the past two years, departures from Queensland to other states actually declined marginally in the same period. In the five years prior to the onset of the pandemic, ABS data shows interstate outflows from Queensland averaged 20,544 per quarter. This declined marginally to an average of 20,319 per quarter over the two years to March 2022. This exacerbated the increase in net internal migration to Queensland. With a higher-than-usual flow of people into the state, and fewer people leaving, housing market conditions across the state have become tighter.

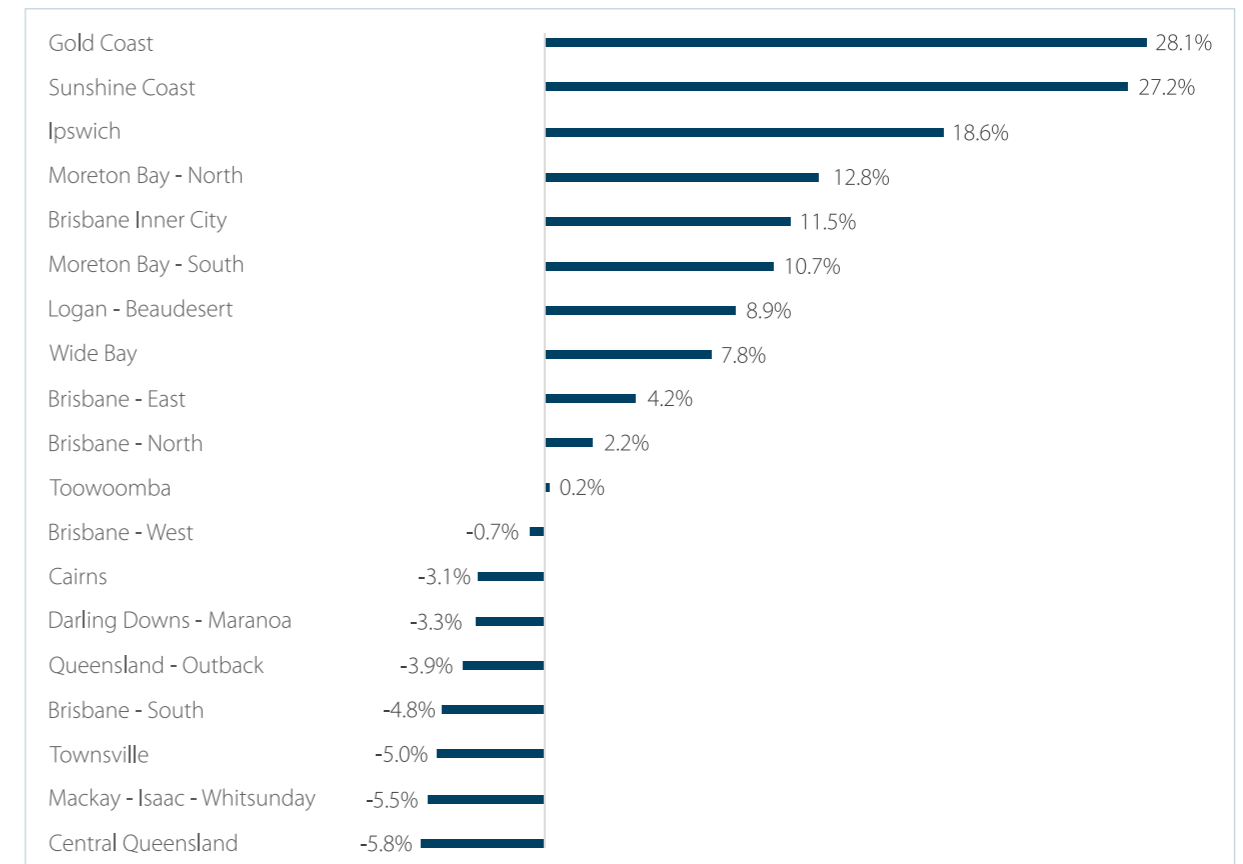
A FLIGHT TO AFFORDABILITY CREATES PRICE PRESSURES FOR LOCALS

The relative affordability of housing across Brisbane and the rest of Queensland compared to NSW in particular is one potential 'pull' factor that drove higher migration to the state through to early 2022, lifting property prices.

Internal migration data from the ABS suggests that over the year to March 2022, 47.8% of interstate migration to Queensland was from NSW, while a further 27.9% of migration to the state came from Victoria. In the five years prior to COVID-19, quarterly departures from NSW to Queensland averaged 12,321, and this increased to an average of 14,681 from March 2020 to March 2022. As prices rose on a broad-basis across Australia through the pandemic period, increased housing values in the southern states may have prompted more migration to Queensland.

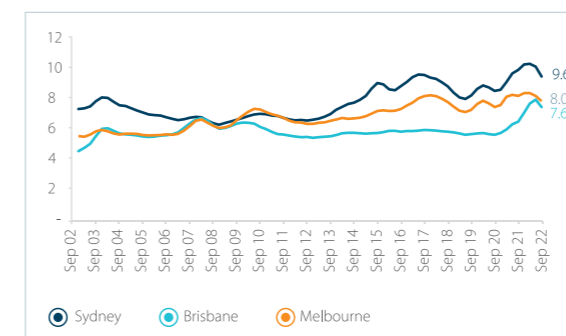
Figure 3 shows the affordability advantage offered across Brisbane relative to Sydney and Melbourne. The chart shows the median dwelling value to income ratio across the greater capital city areas over time. The ratio of dwelling values to income has trended around 30% lower in Brisbane than in Sydney over the past five years, though this difference has now narrowed to around 20% as Brisbane home values have moved higher. Between Brisbane and Melbourne, the difference in the dwelling value to income ratio has narrowed from a five year average of 21%, to just 5% in September 2022.

FIGURE 2: WHAT ARE THE MOST POPULAR INTERNAL MIGRATION DESTINATIONS OF QUEENSLAND? PORTION OF QUEENSLAND NET INTERNAL MIGRATION (2017-2020).



SOURCE: ABS

FIGURE 3: DWELLING VALUE TO INCOME RATIO - SELECT CAPITAL CITIES



SOURCE: CoreLogic, ANU

The premium on Sydney and Melbourne home values has further reduced in recent months, largely because dwelling values in these cities experienced an earlier (and initially, faster) downswing than Brisbane. The recent premium on the median Sydney dwelling value compared to Brisbane peaked at around \$430,000 in September 2021, and has since eased to around \$308,000 as of September 2022. This diminishing gap between Sydney and Brisbane housing values may start to ease internal migration flows to Queensland.

INTERNAL MIGRATION RISES WITH ECONOMIC ACTIVITY

Another reason for increased internal migration flows may be heightened job opportunity amid the low interest rate environment to May 2022. The emergency interest rate setting, used to stabilise the economy at the onset of COVID-19, has contributed to the lowest levels of unemployment in decades. Annual jobs growth in Queensland was 4% in September 2022, well above a 20-year average of 2.4%. Previous studies of migration trends have cited that the 'intensity' of internal migration (the portion of population changing address) rises during periods of economic expansion².

Furthermore, the pandemic itself prompted a significant shift in remote work trends. The productivity commission estimates around 38% of full time workers have the capability to do aspects of their job remotely, and the pandemic opened up more employers to the idea of remote work for employees³. This may have allowed more Australians (particularly knowledge workers on a relatively high income) to move to high amenity lifestyle markets through the pandemic. Many of these desirable locations include parts of the Gold Coast and Sunshine Coast, where affordability has become extremely stretched for long-term residents of the regions, who may have lower incomes relative to recent internal migrants.

RENTAL AFFORDABILITY IN QUEENSLAND

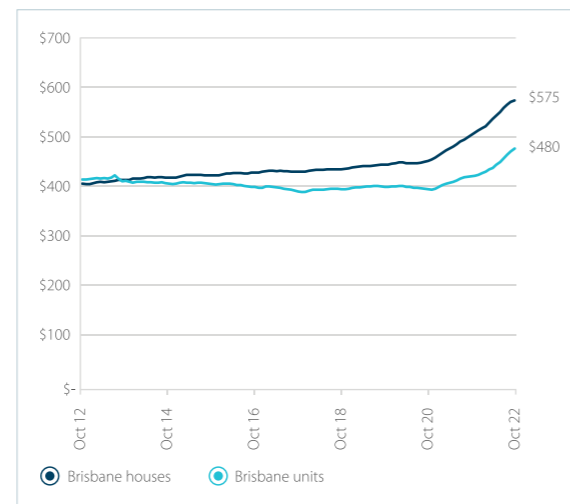
There are many aspects of housing affordability that are important to measure across tenure type, sectors and dwelling types. In 2022, one of the most significant pain points has been decreased availability of rental properties. Limited levels of rental supply, record-low vacancy rates and higher demand for rentals through migration and higher levels of household formation have pushed rents higher since late 2020. A tight rental market is particularly concerning for lower income households, as it is one of the key factors that increases the risk of losing secure housing⁴.

While the rise in rents has been broad-based nationally, Brisbane saw the highest increases of capital city house rents in the year to October 2022, at 13.6%. This is equivalent of a \$68.70 lift in weekly rents. Brisbane had the third-highest increase of capital city unit rents behind Sydney and Melbourne, at 13.1%, the equivalent of a \$55.60 rise in weekly rents. In the rest of Queensland, rents increased the highest of any other combined regional market over the year, with an 11.7% rise in house rents and 13.3% increase in unit rents.

Figures 4 show the change in rent values across Queensland over time. The stark rise in rents is evident from late 2020. The median weekly house rent across the rest of state region reached Brisbane levels in October, despite historically being around \$30 cheaper in the decade prior to COVID-19.

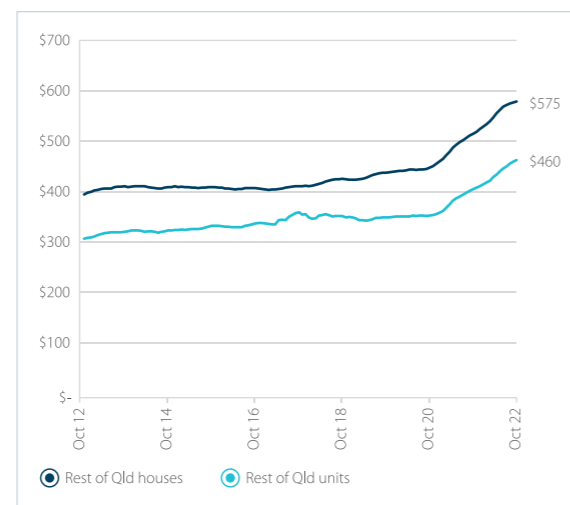


FIGURE 4.1: INDEXED CHANGE IN MEDIAN RENT VALUE (GREATER BRISBANE)



SOURCE: CoreLogic

FIGURE 4.2: INDEXED CHANGE IN MEDIAN RENT VALUE (REST OF QUEENSLAND)



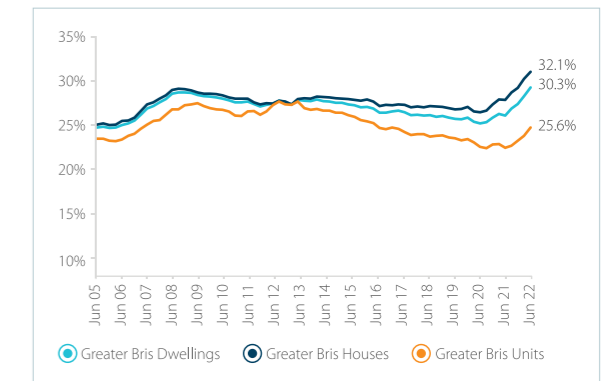
SOURCE: CoreLogic

While rents have increased sharply, it is important to consider growth in rents with respect to income. Indeed, higher incomes may be one of the many contributors to increased rental demand across Queensland, where tenants were empowered to seek out lower-density housing options as they spent more time at home through periods of lockdown. Between March 2020 and September 2022, modelled income data from ANU suggests median household incomes across Brisbane and Queensland's rest of state region increased around 14%, compared with an increase of around 30% in median rent values in the same period.

The result is that rental affordability has deteriorated sharply. The charts below figure 5 show the portion of median income required to service a new lease over time across Queensland. Brisbane house rent serviceability hit a record high in September 2022 at 32.1%. Unit rents as a portion of income across the rest of Queensland were also at a record high of 35.8%.

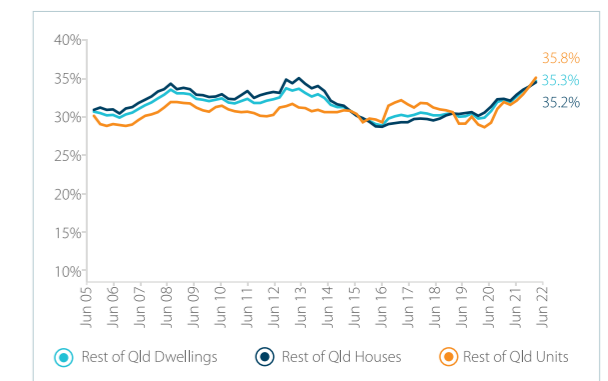
RENTAL SERVICEABILITY FOR HOUSES IN BRISBANE (32.1%) AND UNITS IN THE REST OF QUEENSLAND (35.8%) HIT RECORD HIGHS IN THE SEPTEMBER QUARTER.

FIGURE 5.1: PORTION OF INCOME REQUIRED TO SERVICE NEW RENTS (GREATER BRISBANE)



SOURCE: CoreLogic, ANU

FIGURE 5.2: PORTION OF INCOME REQUIRED TO SERVICE NEW RENTS (REST OF QUEENSLAND)



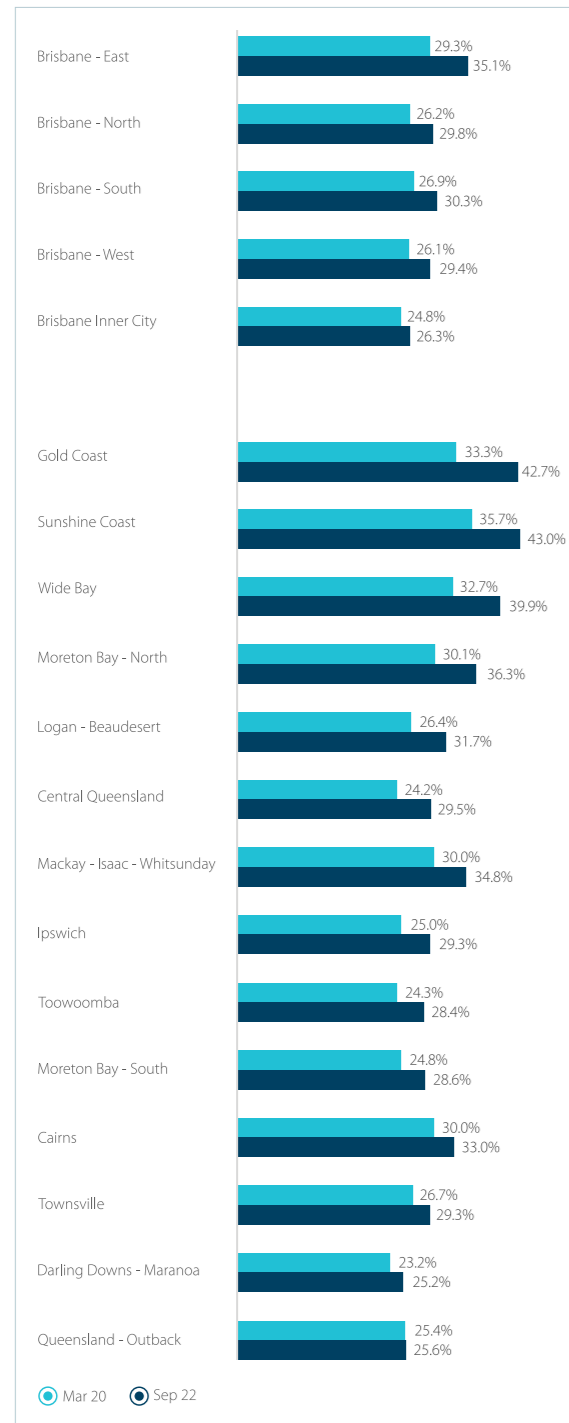
SOURCE: CoreLogic, ANU



ALL SUB-MARKETS OF QUEENSLAND SHOW DETERIORATING RENTAL AFFORDABILITY

Since the onset of COVID-19, each SA4 submarket of Queensland has seen an increase in the portion of income required to service rents (Figure 6).

FIGURE 6: PORTION OF INCOME REQUIRED TO SERVICE NEW RENTS (QUEENSLAND SA4 SUBMARKETS, DWELLINGS)

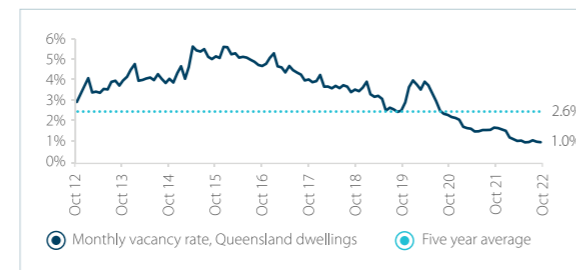


SOURCE: CoreLogic, ANU

Notably, there is considerable variation in the deterioration of rental affordability across Queensland markets. Increases in the portion of income required to service rents ranged from almost zero in the Queensland – Outback region (where 25.6% of income was required to service rents on a new lease in September 2020), to a 9.4 percentage point increase in the Gold Coast (where 42.7% of median income was required to service new rents).

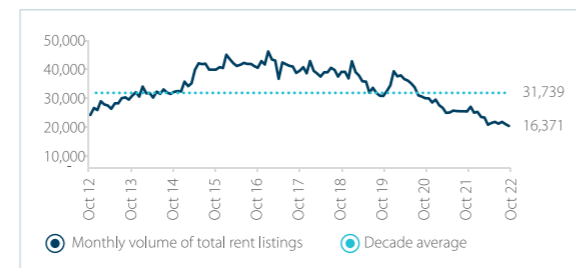
Vacancy rates across Queensland have declined markedly over the same period that rental affordability has worsened. Figure 7 shows a time series of the monthly rental vacancy rate across Queensland, which reached a record low 1.0% through the month of October 2022. The lowest vacancy rate of the SA4 submarkets in October was in Toowoomba, at 0.76%.

FIGURE 7: MONTHLY RENTAL VACANCY RATE (QUEENSLAND, DWELLINGS)



SOURCE: CoreLogic

FIGURE 8: TOTAL MONTHLY RENT LISTINGS (QUEENSLAND)



SOURCE: CoreLogic

The main driver of low rental vacancy rates is the low level of advertised rent listings across Queensland. Total rent listings across Queensland in October 2022 were 16,371, which is 48.4% lower than the decade average.

HIGH JOB AND INCOME GROWTH, ALONG WITH INCREASED REMOTE WORK TRENDS, MAY HAVE INCENTIVISED LOWER DENSITY LIVING, WHICH HAS ADDED TO HOUSING DEMAND ACROSS THE RENTAL MARKET

A 'PERFECT STORM' IN RENTAL CONDITIONS

The decline in rental affordability is the result of several demand and supply factors. On the demand side, the drivers of a soft rental market at the onset of COVID-19, including closed international borders, reduced interstate migration and job loss, have now reversed. For Queensland in particular, migration to lifestyle markets through the pandemic is reflected in higher-than-usual interstate migration through 2021.

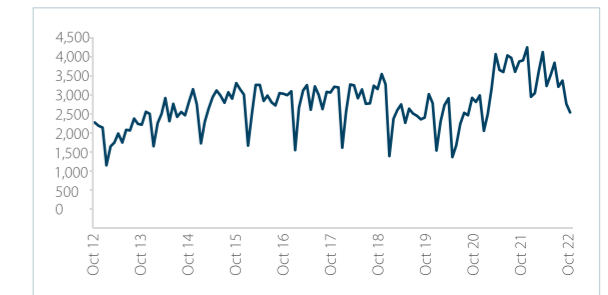
High job and income growth, along with increased remote work trends, may have incentivised lower density living, adding to housing demand across the rental market. Census data indicates the typical number of people per dwelling across Queensland declined from 2.6 people in 2016 to 2.5 in 2021. According to the November 2022 Statement on Monetary Policy from the RBA, this trend of a declining number of people per household continued into 2022, suggesting enduring demand for spacious homes.

Another reason for additional demand in the private rental market, and a factor putting low income households at greater risk of homelessness, may be the low level of additional social housing delivered in the state.

According to the Australian Institute of Health and Welfare, Queensland had 72,086 social housing dwellings at June 2021. This is up just 1% from June 2016, despite the overall dwelling stock in Queensland increasing around 9.8% over the same period. This means the portion of social housing stock actually fell from 3.7% to 3.4% between 2016 and 2021.

On the supply of private rental housing, CoreLogic data suggests a higher-than-usual amount of investment housing sales through 2021, which may have contributed to disruption in the rental market. Figure 9 shows the volume of new advertised sales listings that were listed as rental properties prior to selling in Queensland. New investor listings through 2021 averaged 3,670 per month, up from a previous five year average of 2,759.

FIGURE 9: MONTHLY NEW INVESTOR LISTINGS, QUEENSLAND

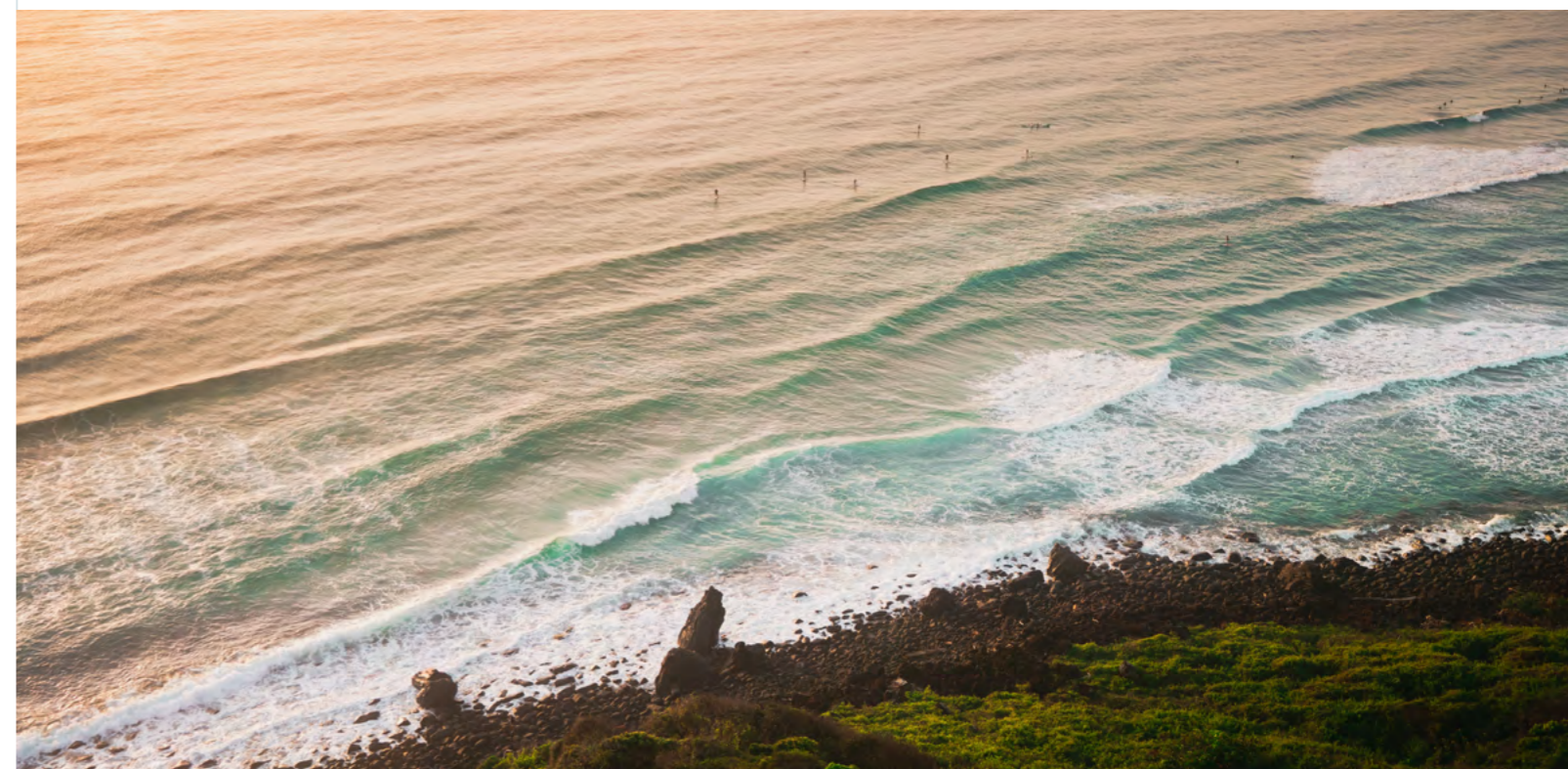


SOURCE: CoreLogic

With the perception the housing market would see softer conditions amid rising inflation and interest rates, market conditions may have been a factor for investors to take advantage of selling in the springtime of 2021.

Change in the regulation of investment properties may also deter holding investment properties. For example, the not-for-profit organisation, Council to Homeless Persons Queensland, reported in their submission to the federal budget that investors were already selling properties in anticipation of the end of the National Rental Affordability Scheme (NRAS) in 2026⁵.

While there is not a lot that can be done to expand rental supply in the short term (housing supply is relatively inelastic in response to demand changes), there are some important lessons from the past few years about the sustainability of the rental market, both across Queensland and the rest of Australia. One example is the disruption to rental markets that can happen during periods of high capital growth, if individual investors become more inclined to sell. This necessitates a diversity in rental housing providers, such as boosting government or community housing. Maintaining a high portion of social housing creates a safety net for households during periods of surging rental demand.

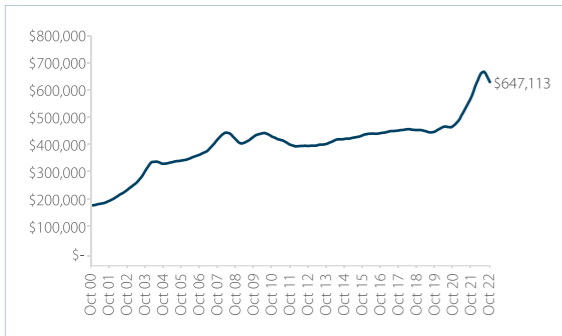


THE QUEENSLAND PRICE BOOM AND HOME OWNERSHIP

Queensland housing market values soared 42.7% between August 2020 and June 2022, following a long period of price stability through the 2010s⁶. This sharp lift in prices over the course of 23 months was the fastest in over two decades across Queensland.

This is visible in **figure 10**, which shows a time series of the median Queensland dwelling value, adjusted by changes in the CoreLogic home value index. Amid rapidly rising interest rates, dwelling values have declined 5.5% since a peak in June 2022 through to the end of October. However, values remain a staggering 34.8% above the start of the upswing period, almost \$170,000 higher than the median at August 2020.

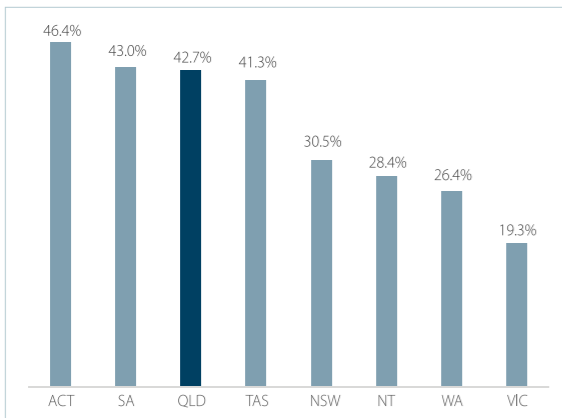
FIGURE 10: CORELOGIC HOME VALUE INDEX (QUEENSLAND DWELLINGS)



SOURCE: CoreLogic

The lift in Queensland housing values was also the third highest of the states and territories in the past few years (**figure 11**), suggesting a greater deterioration of housing affordability in a relatively short period of time than in other parts of the country.

FIGURE 11: TROUGH TO PEAK INCREASE IN DWELLING VALUES THROUGH PAST UPSWING.



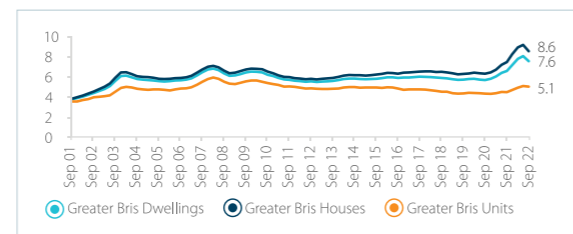
SOURCE: CoreLogic

Figure 12 shows the median dwelling value to income ratio across Brisbane and the rest of Queensland over time. Through the recent upswing, the house value to income ratio rose to a record high 9.2 in June quarter of 2022. This has since eased to 8.6 through to the end of September, but remains well above the decade average of 6.6.

Brisbane unit values increased 24.3% between August 2020 and July 2022. This culminated in a median unit value to income ratio of 5.2 in June 2022, which has eased to 5.1 as of September 2022. Despite the recent uplift in Brisbane unit values, the value to income ratio has not diverged greatly from a decade average of 4.8.

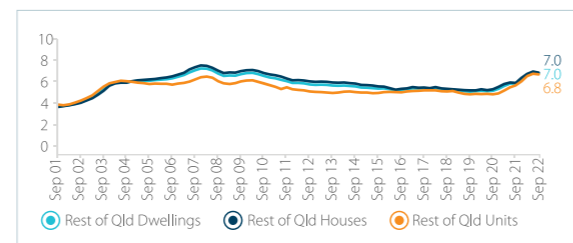
Across Regional Queensland, the value to income ratio has seen far more convergence across houses and units over time, because more expensive regions of Queensland have higher levels of unit stock, such as in the Sunshine Coast and Gold Coast. Unit values across the rest of state saw a record high value to income ratio in June 2022 (6.9), while the ratio for Queensland house values actually saw record highs of 7.7 in December 2007, as a booming resources sector saw values climb across regions associated with the mining sector, such as Townsville.

FIGURE 12.1: DWELLING VALUE TO INCOME RATIO (GREATER BRISBANE)



SOURCE: CoreLogic, ANU

FIGURE 12.2: DWELLING VALUE TO INCOME RATIO (REST OF QUEENSLAND)

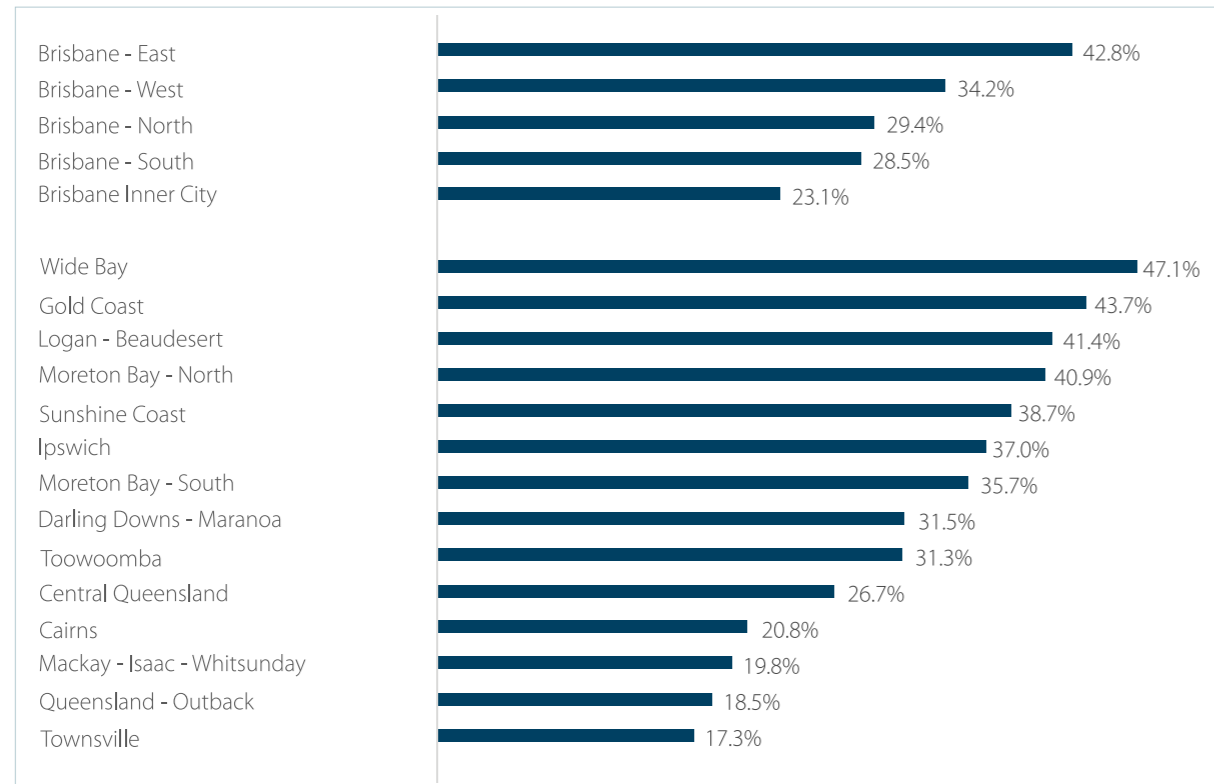


SOURCE: CoreLogic, ANU



MAINTAINING A HIGH PORTION OF SOCIAL HOUSING CREATES A SAFETY NET FOR HOUSEHOLDS DURING PERIODS OF SURGING RENTAL DEMAND.

FIGURE 13: CHANGE IN DWELLING VALUES - MARCH 2020 TO OCTOBER 2022



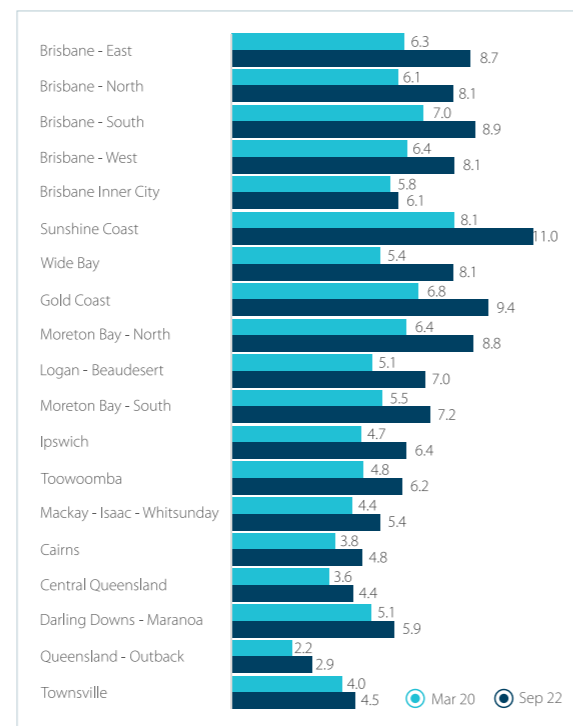
SOURCE: CoreLogic

Importantly, Queensland has highly diverse economic and housing market conditions across the state, meaning the deterioration of housing affordability will be worse in some markets than others. As of October 2022, median dwelling values across the SA4 submarkets of Queensland ranged from \$969,651 across West Brisbane, to a median of \$361,748 across Townsville.

Figure 13 shows the cumulative growth in dwelling values across SA4 sub-markets of Brisbane and Regional Queensland, since the onset of the pandemic in March 2020, to the end of October 2022. This means the growth rates take into account recent declines in value amid rising interest rates. Among the largest gains are a mix of inherently high-end markets, like the Gold Coast, as well traditionally more affordable markets like Wide Bay.

Many of the dwelling markets with value increases of 40% or more in the past two-and-a-half years have proximity to the coastline, or offer a tree-change lifestyle in the hinterlands. These markets attracted a particular premium through the COVID period, as metropolitan lifestyles were hampered by ongoing social distancing restrictions. Additionally, the normalisation of remote work may have empowered housing purchasing decisions in remote, lifestyle locations among higher-income knowledge workers. The increase in housing values from March 2020 through to October 2022 is broadly in line with the areas that have seen the biggest jumps in the dwelling value to income ratio between the March 2020 and September 2022 quarters (figure 14).

FIGURE 14: DWELLING VALUE TO INCOME RATIO - SA4 QUEENSLAND MARKETS



SOURCE: CoreLogic, ANU

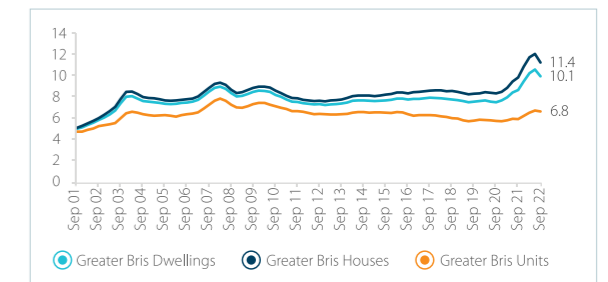


THE DEPOSIT HURDLE HAS FALLEN WITH PRICE DECLINES, BUT REMAINS ELEVATED FOR HOUSES AND REGIONS

Alongside a reduction in the median dwelling value to income ratio, recent price falls have also seen a reduction in the time it would take the median household to save a 20% deposit.

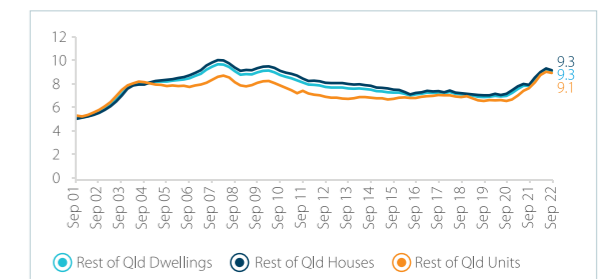
The accumulation of a housing deposit for a home loan, also known as the 'deposit hurdle', has been an important measure of affordability for first homebuyers in particular. Across Brisbane, the time taken to save a 20% deposit was estimated to be 10.1 years in September 2022, down from 10.8 years in June 2022. The reduction reflects a 4.3% decline in Brisbane dwelling values through the September quarter. However, it is still a long time to accumulate a deposit, especially compared with the 7.5 years needed in September 2012. The decade average time needed to save a 20% deposit sits at 8.1 years for Brisbane.

FIGURE 15.1: YEARS TO SAVE A 20% DEPOSIT (GREATER BRISBANE)



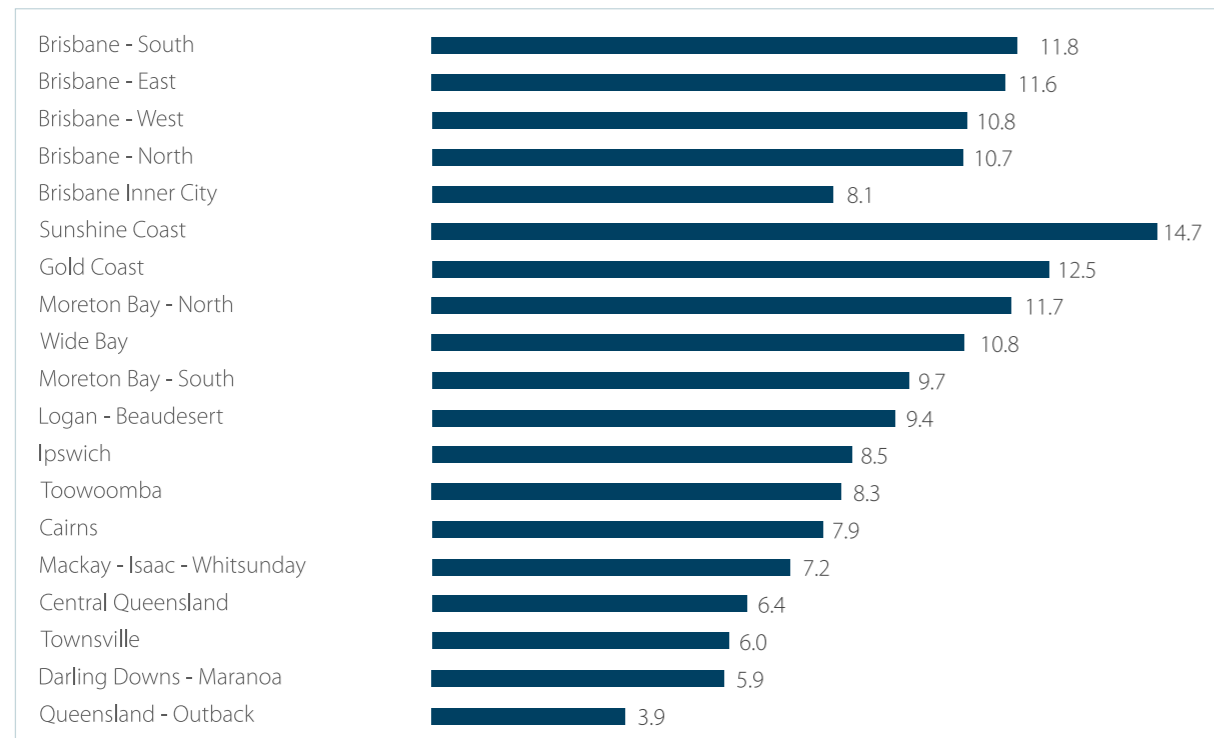
SOURCE: CoreLogic, ANU

FIGURE 15.2: YEARS TO SAVE A 20% DEPOSIT (REST OF QUEENSLAND)



SOURCE: CoreLogic, ANU

FIGURE 16: NUMBER OF YEARS REQUIRED TO SAVE A 20% DEPOSIT - QLD SA4 SUBMARKETS, DWELLINGS



SOURCE: CoreLogic, ANU

Across the 'rest of state' region, dwelling values across Queensland have declined a more marginal 3.5% through the September quarter, meaning the deposit hurdle has not moved as much from recent highs. The number of years required to save a 20% deposit declined to 9.3 years across all dwellings in September 2022, from 9.4 years in June. The decade average time needed to save a deposit is 7.6 years for the broader rest of state region.

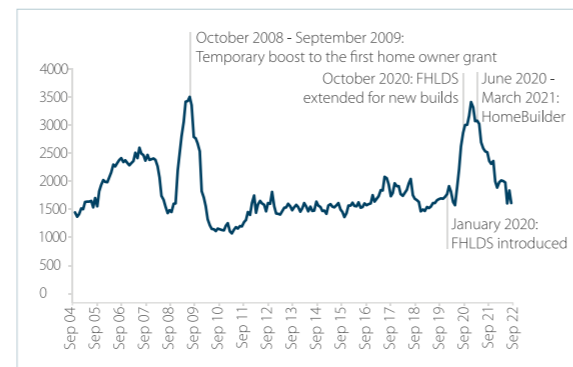
Across the SA4 sub-markets of Queensland, the highest amount of time required to save a 20% deposit is in the Sunshine Coast, with an estimated 14.7 years required for the median income household at September 2022 (the median value was around \$952,000 in September).

This measure of years to save a deposit is based on the assumption that homebuyers would save 15% of their income per annum. In reality, the circumstances around saving for a home loan deposit have fluctuated markedly in Australia over the past few years. Through the pandemic lockdown period, strong jobs growth, high levels of government fiscal support, and a decline in consumption related to physical distancing restrictions pushed the national household saving rate to almost 24% in the June quarter of 2020.

More recently, there are several factors that may have contributed to a reduction in the household saving rate, which declined to 8.7% in the June 2022 quarter. These factors include high inflation (particularly in non-discretionary spending where annual inflation to September was 8.4% nationally), rapidly rising rent values and the bounce-back in economic activity related to social consumption post lockdowns.

In addition to recent price falls, low home loan deposit schemes have also served to reduce the barriers to home ownership for eligible first homebuyers in recent years. However, first homebuyer demand for housing finance has been on the decline in Queensland since February 2021, coinciding with the end of the HomeBuilder period. This is likely because the time-limited nature of the scheme, which was open to an unlimited number of eligible new homebuyers, may have brought forward first homebuyer demand. Although first homebuyer loan volumes looked to be trending higher through the start of 2022, volumes began declining again from May, at the start of the rate-tightening cycle.

FIGURE 17: MONTHLY NUMBER OF FHB OWNER - OCCUPIER LOANS - QLD



SOURCE: ABS

PRICE FALLS HAVE NOT BEEN ENOUGH TO OFFSET THE IMPACT OF RATE RISES

In some ways, market conditions have become slightly more favourable for home buyers in Queensland over the course of 2022:

- Since the start of the year, properties have taken longer to sell, with median days on market across Brisbane lifting from just 13 days in the three months to January, to 31 days in the three months to October. Across the rest of Queensland, median selling times have increased from 19 to 38 days over the same period;
- Median vendor discounting from initial listing price to the contract price has deepened across Brisbane, from -2.9% in the three months to January, to -4.4% in the three months to October. In the rest of the state, vendor discounting has reached -4.5% in the past three months, up from -3.4% at the start of the year
- Home values across the state have fallen -5.5% from the recent peak, with some markets such as the Sunshine Coast, and Brisbane's Northern suburbs, down over -9% from a peak value in 2022.

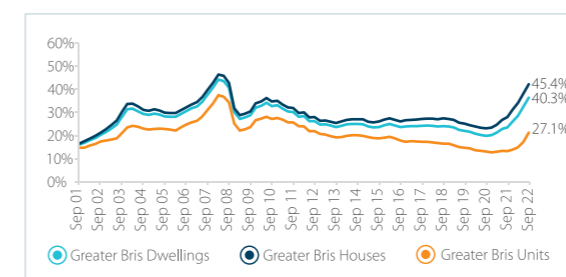
These factors mean first homebuyers may have more bargaining power in negotiations, and have more time to carry out due diligence, and compare properties.

However, these softer market conditions are the result of higher costs of debt, amid the most rapid cash rate-tightening cycle in Australia since the early 1990s. For example, despite the median dwelling value in Brisbane declining almost \$40,000 between June and September 2022, the lift in the average variable mortgage rate means the mortgage repayment at this lower price point works out an estimated \$26.50 higher per week.

At the median household income level in Brisbane, CoreLogic estimates it would take 40.3% of income to service a new mortgage on the median dwelling value. This is up markedly from 29.1% one year ago, and a recent low of 25.8% in September 2020.

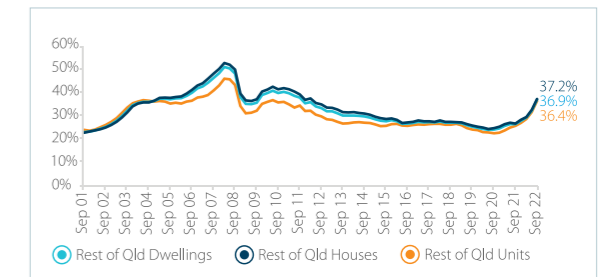
Despite the rapid increase in the portion of income required to service a loan on a new mortgage, this is not the highest level of income required historically. In March 2008, an estimated 47.2% of median income in Brisbane was needed to service a new mortgage on the median dwelling value, with the cash rate target then sitting at 7.25%.

FIGURE 18.1 PORTION OF INCOME REQUIRED TO SERVICE A NEW MORTGAGE (GREATER BRISBANE)



SOURCE: CoreLogic, ANU

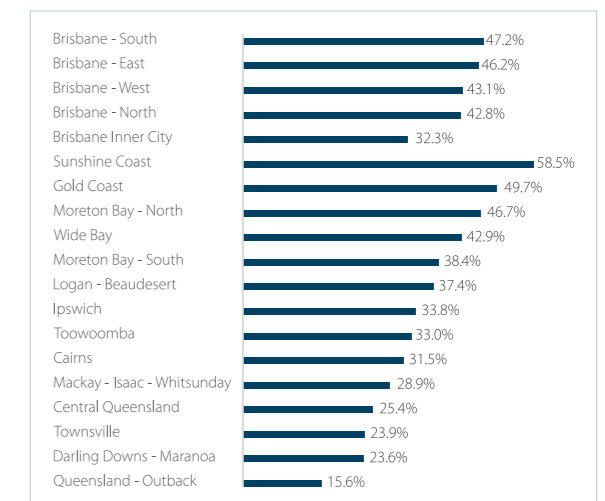
FIGURE 18.2: PORTION OF INCOME REQUIRED TO SERVICE A NEW MORTGAGE (REST OF QUEENSLAND)



SOURCE: CoreLogic, ANU

Across the rest of state region, the portion of income required to service a new mortgage on the median dwelling value at September was 36.9% (figure 18), but results vary widely across geographies. Figure 19 shows the portion of median income needed to service a new mortgage on dwellings across the SA4 submarkets of Queensland. As with other affordability metrics, conditions for mortgage serviceability are most strained across the traditional 'lifestyle' markets of the Gold Coast and the Sunshine Coast, it would take almost 60% of median income to service a mortgage on the median dwelling value.

FIGURE 19: PORTION OF INCOME REQUIRED TO SERVICE A NEW MORTGAGE (QUEENSLAND SA4 SUBMARKETS, DWELLINGS)



SOURCE: CoreLogic, ANU

AT THE MEDIAN HOUSEHOLD INCOME LEVEL IN BRISBANE, CORELOGIC ESTIMATES IT WOULD TAKE 40.3% OF INCOME TO SERVICE A NEW MORTGAGE ON THE MEDIAN DWELLING VALUE.

UNIT AFFORDABILITY IN BRISBANE PERSISTS, BUT THIS DYNAMIC COULD CHANGE

The oversupply of Queensland units, particularly in Brisbane, was evident in the late 2010s. But the flip-side of this “problem”, is that the deposit hurdle for purchasing into Brisbane units has been low, and affordability metrics have been contained.

However, in the past few years, a combination of moderating unit supply, and the demand-driven factors noted in this report around COVID-19 means that unit supply conditions across Brisbane have become more constrained.

Over the 2010s, high levels of unit development across Greater Brisbane, alongside a sharp drop-off in investment lending, contributed to a 10.1% fall in unit values. Greater Brisbane house values increased 13.4% in the same period.

Figure 20 shows rolling annual approvals and completions of units, with completions following the approval trend at a lag. While weak capital growth and investor demand contributed to a moderation in unit supply through the late 2010s, rising interest rates have created a renewed dampening of the unit approval pipeline in recent months. In the year to September 2022, unit approvals across the state totalled 12,945, below the decade average of 16,199.

Further downward pressure on Queensland unit approvals have the potential to create a period of unit undersupply in the years to come. For Brisbane, where the return of overseas migration is likely to skew to high-density rental markets, this could place additional strain on already soaring rental costs.

The subdued construction pipeline relative to the decade average is a market-driven response to relatively weak growth in unit values over time. Given the inelasticity of housing supply relative to sudden shifts in demand, it is worth considering how a greater number of units can be delivered counter-cyclically. This would help to maintain affordability in the unit segment, as the state sees the return of overseas migration and tourism in coming years.

FIGURE 20: ROLLING ANNUAL COMPLETIONS AND APPROVALS (QUEENSLAND, UNITS)



SOURCE: ABS

APPENDIX

DEFINITION OF AFFORDABILITY METRICS:

Ratio of dwelling values to income

Utilising median household income data from ANU and median dwelling value data from CoreLogic, we determine the ratio of dwelling values to household income over time. The expressed figure is a multiple of median household income. For example, a city where the median dwelling value is \$500,000 and the median household income is \$100,000, the ratio would be 5.0 (dwelling values are 5 times higher than gross annual household incomes).

The number of years it takes to save a 20% deposit

Using the ANU median household income data, we provide a measure of affordability for those households that do not yet own a home. This analysis assumes a household can save 15% of their gross annual household income. Based on these savings, the result measures how many years it would take to save a 20% deposit. For example, based on a 15% savings objective, a household earning \$100,000 gross per annum would save \$15,000 per annum. If the median dwelling value across the city was \$500,000, a 20% deposit would equate to \$100,000. Based on the household savings, it would take 6.7 years to save a 20% deposit.

The proportion of household income required to service a new mortgage

This measure looks at mortgage serviceability for median income households servicing a mortgage if they were to purchase in September 2022. It assumes the owner has borrowed 80% of the median dwelling value and is paying the average discounted variable mortgage rate at that time for a term of 25 years. We measure the proportion of gross annual household income required to service the mortgage. For example, based on a median dwelling value of \$500,000 and a 20% deposit, the loan principal would be \$400,000. If the median household income was \$100,000 and the current average variable mortgage rate was 4.5%, the household would be up for \$26,660 in mortgage repayments each year, or 26.7% of their gross annual household income. The mortgage rate series used for this measure has recently been updated, and is derived from RBA statistical table F6, 'Housing Lending Rates'.

The proportion of household income required to pay rent

Utilising household income data together with the median weekly asking rent to September 2022, we measure what percentage of gross annual household income is required to rent on new leases. For example, a household earning \$100,000 per annum in a city where the median weekly rent is \$500 per week would be dedicating 26% of their gross annual household income towards paying their landlord. Unlike quarterly CPI, which surveys rents paid across public and private housing, CoreLogic's monthly rent valuations are a high frequency indication of how the rental market is shifting based on listings information from the private rental market.

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7. The home value index for Queensland dwellings rose just 4.2% between December 2019 and December 2009.

A review of trends in rental demand and the impact of the COVID-19 pandemic can be found in the 2020 edition of the ANZ CoreLogic Housing Affordability Report. Access online: <https://news.anz.com/posts/2020/07/anz-corelogic-housing-affordability-report-2020>





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