HOUSING AFFORDABILITY REPORT

RELEASED SEPTEMBER 2023

IS THIS ONE OF THE BIGGEST HOME BUYING CHALLENGES YET?

The state of play for first home buyers in a market rebound.

SUMMARY

- Australian home values are once again rising, up 4.9% since February this year.
- Home values are rising even as interest rates continued to rise through the start of the year, creating a dual challenge for the next cohort of home buyers.
- As of June 2023, the national estimate of median income required to service a new mortgage increased to a near-record high (45.5%), while the years to save a deposit increased to 9.9 years (up from 9.8 years in March).
- First home buyers who can get into the market now may experience property value gains as real incomes rise in 2024, and there is modest easing in the cash rate towards the end of the year and through 2025.
- Regional affordability metrics highlight pockets of the market where mortgages are still serviceable, with some being even cheaper than rent. However, with regional homes retaining much of the strong value gains from the pandemic, affordability has still deteriorated in the longer term.

Australian home values are once again rising, with August marking a sixth consecutive increase in the CoreLogic Home Value Index (HVI). Values increased 4.9% from the trough in February this year through to the end of August, reversing around half of the recent decline in the national housing market. In the near term, this will only increase metrics around the time needed to save a deposit, and portion of income required to service a mortgage.

Remarkably, the rebound has coincided with three further increases to the RBA cash rate in March, May and June of this year, adding to what has already been the steepest rate-hiking phase on record. Average new owner occupier mortgage rates across all lenders were reported at 5.9% in June. Historically, increases in interest rates have put downward pressure on housing prices, but strong net overseas migration, constraints on housing supply, and the recent fall in the average number of people per dwelling, have all pushed prices higher.

With housing prices on the rise, quarterly income growth for the June quarter (1.0% q/q) is estimated to have slipped behind growth in median home values (2.6% q/q). A 20% deposit on the median home value in Australia currently represents 148% of median household income, compared with a historic five-year average of 136%. Taking inflation into account, real incomes fell through the June quarter, meaning there is less left over for servicing housing costs after other necessary expenditures like energy bills and groceries.

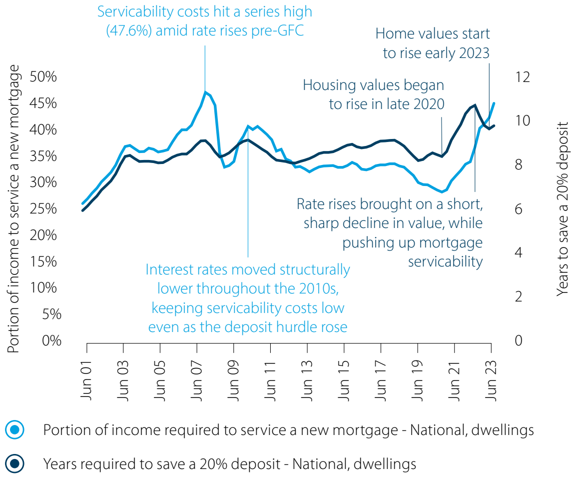
This presents a particular challenge for many first home buyers. Home owners often benefit from gains in home values to put toward their next purchase, while first home buyers must accumulate a deposit in an environment where home price growth is again outpacing growth in income. This 'deposit hurdle' was the biggest affordability challenge throughout the 2010s.

Figure 1 shows how the deposit hurdle challenge has changed relative to mortgage serviceability over time. Throughout the 2010s, interest rates moved lower post-GFC, which kept serviceability costs fairly steady, at an average of 34.5%. The deposit hurdle reached a record 10.8 years to save a 20% deposit in the June quarter of 2022, when housing values hit a record high, but rates had not yet risen to the point where mortgage costs were pushing 40% of median household income.

Now, first home buyers who are able to clear the deposit hurdle and serviceability assessment must dedicate more of their income to housing costs. The national estimate of median income required to service new mortgage costs are at a near-record high in the series (45.5% of income), while the years to save a deposit is estimated to be 9.9 years.

For prospective first home buyers in the rental market, the portion of income to service rent at the median level pushed to record highs in the June quarter, at 31.4%. Combined with other increases in the cost of living and limited wage growth, more savers are likely to see a slowdown in how quickly they can build their deposit. This is also reflected in the household savings ratio derived from ABS data, which fell to 3.5% in the June quarter.

FIGURE 1: MORTGAGE SERVICEABILITY COSTS AND THE DEPOSIT HURDLE ARE BOTH ON THE RISE ACROSS AUSTRALIA



Source: ANZ, ANU, CoreLogic. Based on median incomes produced by the ANU Centre for Social Research and Methods and CoreLogic valuations.

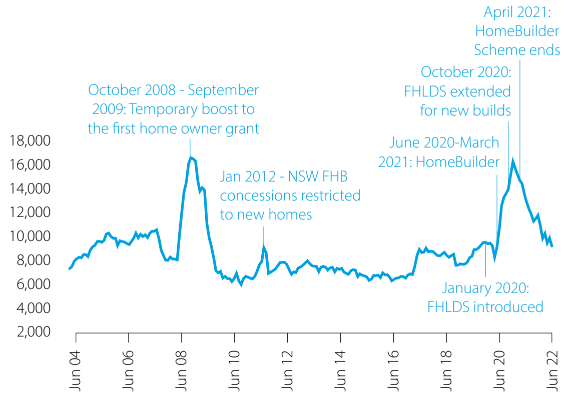
Mortgage assumptions: 25 year loan term, 20% deposit, principal and interest repayments, owner occupier loan. Interest rates are based on an adjusted measure of average new mortgage rates reported by the RBA.

FIRST HOME BUYER ACTIVITY COULD FALL THIS CYCLE AS HOUSING VALUES RISE.

Between record high rent values, a rising deposit hurdle and rising interest costs, the current housing market dynamic presents an unprecedented combination of challenges for the next cohort of first home buyers.

First home buyer activity has been declining fairly consistently since a peak in January 2021. ABS housing finance data (figure 2) shows the number of monthly first home buyer loan commitments over time. First home buyer activity often becomes concentrated under periods of government incentives.

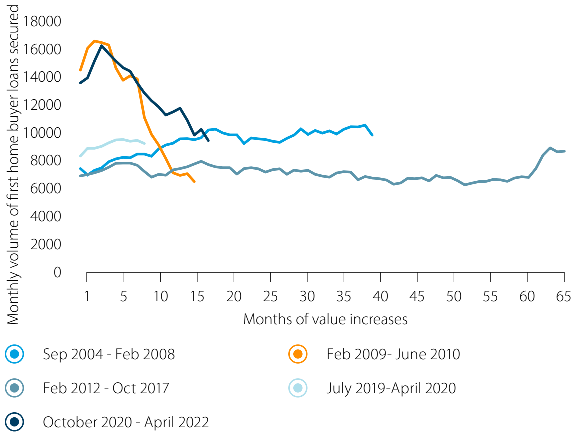
FIGURE 2: VOLUME OF FIRST HOME LOANS SECURED (OWNER OCCUPIER) - MONTHLY, AUSTRALIA



Source: ABS

ABS data also highlights that while first home buyer activity rises when market values bottom out each cycle, growth can be short-lived as housing market upswings progress. For example, in the past housing market upswing between October 2020 and April last year, first home buyer home loans started to fall after just four months into value increases. This coincided with the curtailing of the HomeBuilder incentive, in addition to rising home values. A similar trend was seen around the end of the temporary boost to the first home owner grant in 2009, where declines in first home buyer activity may also have been influenced by a 15.9% rise in home values between February 2009 and June 2010. Figure 3 shows monthly first home buyer home loans secured during various periods of upswing in the Australian housing market. This means that first home buyer activity may also be hampered by recent rises in home values.

FIGURE 3: MONTHLY VOLUME OF FIRST HOME BUYER LOANS DURING NATIONAL DWELLING MARKET UPSWINGS



Source: ABS

With interest rates forecast to reduce modestly from late 2024, buyers who can get into the market now, and service high mortgage costs in the short term, may benefit from lower mortgage rates in the medium term, and subsequent price gains. This dynamic will also make it even more difficult for first home buyers who are not able to get into the market over the next year.

Not everyone will access the housing market at a time when deposits, rents and mortgage costs are high. Conditions will favour those who have large savings, receive help from relatives, or are on a relatively high income.

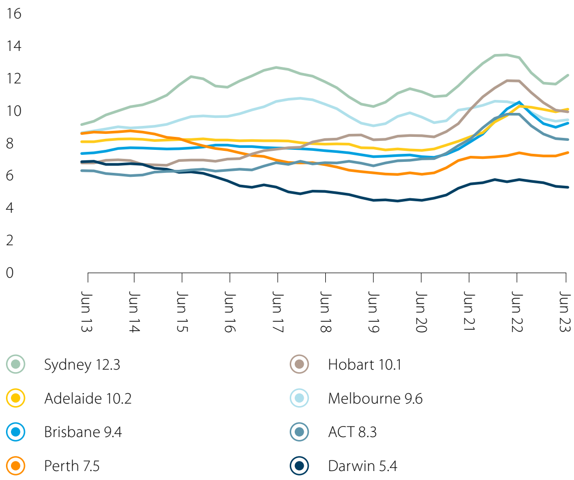
FIRST HOME BUYER OPPORTUNITIES

The housing affordability figures for June show some of the challenges we face nationally in improving access to home ownership. However, even in the current climate, the data also reveals some remaining pockets of opportunity.

Through all the ups and downs of housing market movements over the past three years, the 'time to save a deposit metric' has actually reduced across Melbourne dwellings to 9.6 years, relative to the decade average of 9.8 years. While dwelling market performance has been relatively subdued across the market through the pandemic, the affordability metrics are a reminder that the flip-side of low capital gains over time is an increase in market accessibility. Figure 4 shows a greater range in this metric between the capital city markets than a decade ago.

Darwin's deposit hurdle also remains relatively low, with the time required to save a 20% deposit at 5.4 years, down from a decade average of 5.6. Perth also has a relatively low estimated time to save a deposit, at 7.5 years. The time it takes to save a deposit across Perth has risen from a recent low of 6.2 in June 2020, but remains below the highs seen in mid-2014 (8.9 years).

FIGURE 4: YEARS TO SAVE A 20% DEPOSIT BY GREATER CAPITAL CITY STATISTICAL REGION



Source: ANU, CoreLogic. Based on median incomes produced by the ANU Centre for Social Research and Methods and CoreLogic valuations.

THE SURPRISINGLY AFFORDABLE MARKETS

Looking at a more granular level of SA4 areas, there were 52 house or unit markets across Australia that remained serviceable, at 30% or less of median income required to service a new mortgage. The 52 markets represent around 30% of the 174 markets analysed.

These markets are listed in figure 5, ranked by the average proximity of dwellings to capital city centres. These markets include units in Brisbane's inner city, Canberra units, Mandurah units in Perth, and houses across Darwin. Each of these areas have relatively short deposit savings times of 6.5 years or less, based on a 15% savings rate. Of these more affordable markets, there were 26 where servicing a new mortgage represented less of the median household income than servicing current weekly rent valuations.

There are several reasons these markets are affordable, though not all of them will be appealing to prospective home buyers. The cheapest three markets by median value are in the Australian outback, and income measures in these markets can skew higher because of employment across highly compensated sectors like mining and construction. These areas are often cheaper to service a mortgage in than rent, because the temporary nature of work on mining projects often makes temporary accommodation more desirable.

Other markets are in major cities, and are on the periphery of the greater capital city region. These include Sydney's South West, Adelaide North and Mandurah in Perth, which are among the lowest ranked regions by median household income in each city. There were many locations identified across Perth and Brisbane where 30% or less of median household income was required to service a mortgage, though these were all unit markets. The relatively affordable nature of these markets may also explain the very positive internal migration trends seen across Brisbane and Perth in the past couple of years.

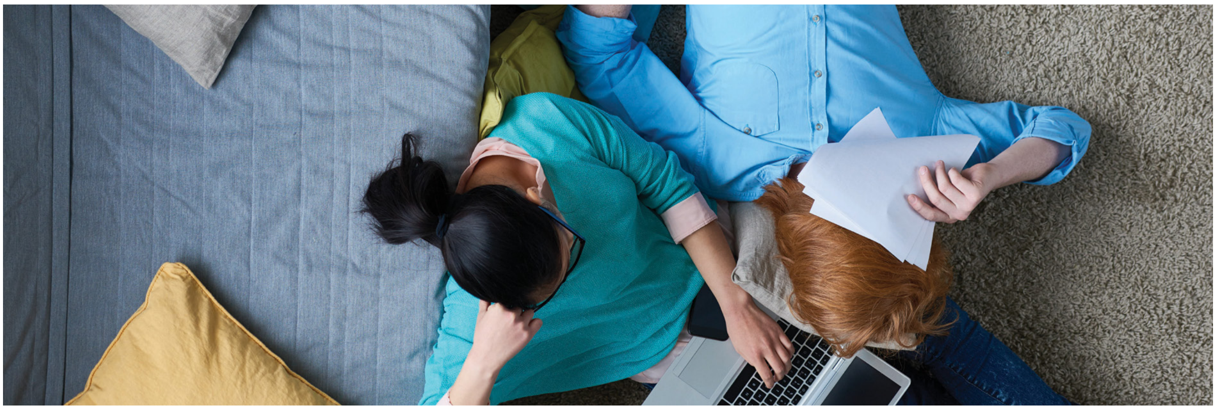


FIGURE 5: FIRST HOME BUYER OPPORTUNITIES (MORTGAGE SERVICEABILITY < =30%)

Property type	Greater capital city or region	SA4 Region	Portion of income to service a new mortgage	Years to save a 20% deposit	Portion of income to service rent	Median value
Units	Brisbane	Brisbane Inner City	29.2%	6.3	27.1%	$573,192
Units	Perth	Perth - Inner	22.1%	4.8	24.9%	$450,570
Units	Adelaide	Adelaide - Central and Hills	29.0%	6.3	25.2%	$480,143
Units	Canberra	Canberra	27.6%	6.0	22.8%	$597,580
Units	Brisbane	Brisbane - West	27.0%	5.9	23.1%	$570,562
Units	Brisbane	Brisbane - South	28.8%	6.3	25.3%	$530,502
Units	Brisbane	Brisbane - North	27.6%	6.0	24.3%	$490,711
Units	Darwin	Darwin	18.5%	4.0	21.8%	$367,651
Houses	Darwin	Darwin	29.5%	6.4	28.2%	$585,782
Units	Perth	Perth - South East	24.5%	5.3	27.0%	$400,976
Units	Perth	Perth - North East	20.4%	4.4	23.3%	$337,266
Units	Adelaide	Adelaide - North	29.5%	6.4	26.5%	$384,248
Units	Perth	Perth - North West	24.9%	5.4	25.6%	$436,684
Units	Melbourne	Melbourne - West	29.6%	6.4	21.4%	$504,368
Units	Brisbane	Moreton Bay - South	23.9%	5.2	22.0%	$440,372
Units	Perth	Perth - South West	25.0%	5.5	25.4%	$432,462
Units	Brisbane	Logan - Beaudesert	24.4%	5.3	24.5%	$353,848
Units	Brisbane	Ipswich	27.4%	6.0	24.3%	$402,670
Units	Sydney	Sydney - South West	29.0%	6.3	23.7%	$452,738
Units	Perth	Mandurah	29.7%	6.5	32.5%	$348,201
Units	Regional Vic.	Ballarat	29.8%	6.5	23.4%	$373,762
Units	Regional Qld	Toowoomba	26.7%	5.8	23.3%	$365,113
Units	Regional SA	Barossa - Yorke - Mid North	22.7%	4.9	20.7%	$245,890
Units	Regional SA	South Australia - South East	29.7%	6.5	25.9%	$315,969
Units	Regional Vic.	Shepparton	28.1%	6.1	23.5%	$336,875
Units	Regional WA	Bunbury	27.3%	5.9	31.7%	$369,370
Units	Regional Vic.	Hume	29.7%	6.5	23.3%	$374,083
Units	Regional NSW	Central West	29.8%	6.5	24.3%	$391,715
Units	Regional Qld	Darling Downs - Maranoa	24.5%	5.3	20.7%	$287,687
Houses	Regional Qld	Darling Downs - Maranoa	29.7%	6.5	29.6%	$349,476
Units	Regional WA	Western Australia - Wheat Belt	21.1%	4.6	24.0%	$258,723
Units	Regional SA	South Australia - Outback	18.2%	4.0	19.8%	$216,940
Houses	Regional SA	South Australia - Outback	22.5%	4.9	26.8%	$267,447
Units	Regional Vic.	North West	27.1%	5.9	22.9%	$315,710
Units	Regional NSW	New England and North West	25.6%	5.6	22.0%	$310,808
Units	Regional NSW	Riverina	24.1%	5.2	21.8%	$325,494
Houses	Regional NSW	Far West and Orana	23.8%	5.2	28.2%	$300,164
Units	Regional WA	Western Australia - Outback (South)	14.7%	3.2	22.3%	$223,992
Houses	Regional WA	Western Australia - Outback (South)	22.3%	4.9	26.8%	$339,722
Units	Regional Qld	Central Queensland	18.2%	4.0	20.0%	$267,489
Houses	Regional Qld	Central Queensland	27.7%	6.0	28.4%	$407,577
Units	Regional NSW	Murray	26.3%	5.7	23.2%	$321,345
Units	Regional Qld	Mackay - Isaac - Whitsunday	17.9%	3.9	21.1%	$297,163
Houses	Regional Qld	Mackay - Isaac - Whitsunday	25.7%	5.6	28.2%	$426,543
Units	Regional NT	Northern Territory - Outback	19.0%	4.1	23.7%	$291,294
Units	Regional Qld	Townsville	18.3%	4.0	21.4%	$267,451
Houses	Regional Qld	Townsville	26.8%	5.8	28.0%	$392,540
Houses	Regional Qld	Queensland - Outback	17.7%	3.8	27.6%	$244,303
Units	Regional Qld	Queensland - Outback	21.9%	4.8	19.0%	$302,874
Units	Regional Qld	Cairns	25.0%	5.4	28.6%	$327,682
Units	Regional WA	Western Australia - Outback (North)	15.6%	3.4	27.0%	$315,441
Houses	Regional WA	Western Australia - Outback (North)	24.7%	5.4	38.6%	$498,777

Looking ahead, the multiple challenges faced by prospective first home buyers may start to ease from mid 2024 onwards. ANZ forecasts the official cash rate will move lower from late 2024, and though the fall in rates will be modest over the medium term, this could help relieve ongoing housing costs for home owners. In the meantime, regional analysis of affordability metrics suggests there are markets where deposit hurdles are relatively low, and serviceability is manageable, though this may come at a compromise on the size and location of homes relative to some first home buyer's expectations.

DEFINITION OF AFFORDABILITY METRICS:

Value to Income Ratio

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.

Years to save 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.

Serviceability

This measure looks at mortgage serviceability for median income households servicing a mortgage if they were to purchase in June 2023. 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.

Rent to income

Utilising household income data together with the median weekly asking rent to June 2023, we measure what percentage of gross annual household income is required to rent on new leases.

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