



Australian Institute for Progress

Housing Affordability Index

June Quarter, 2022

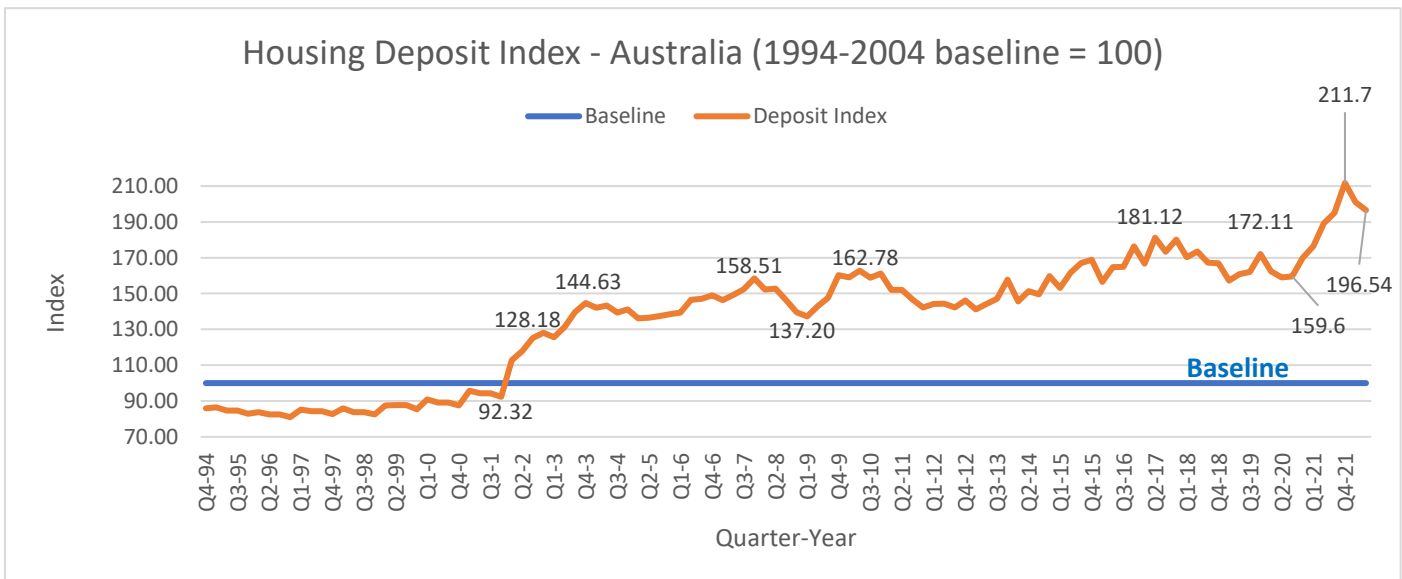
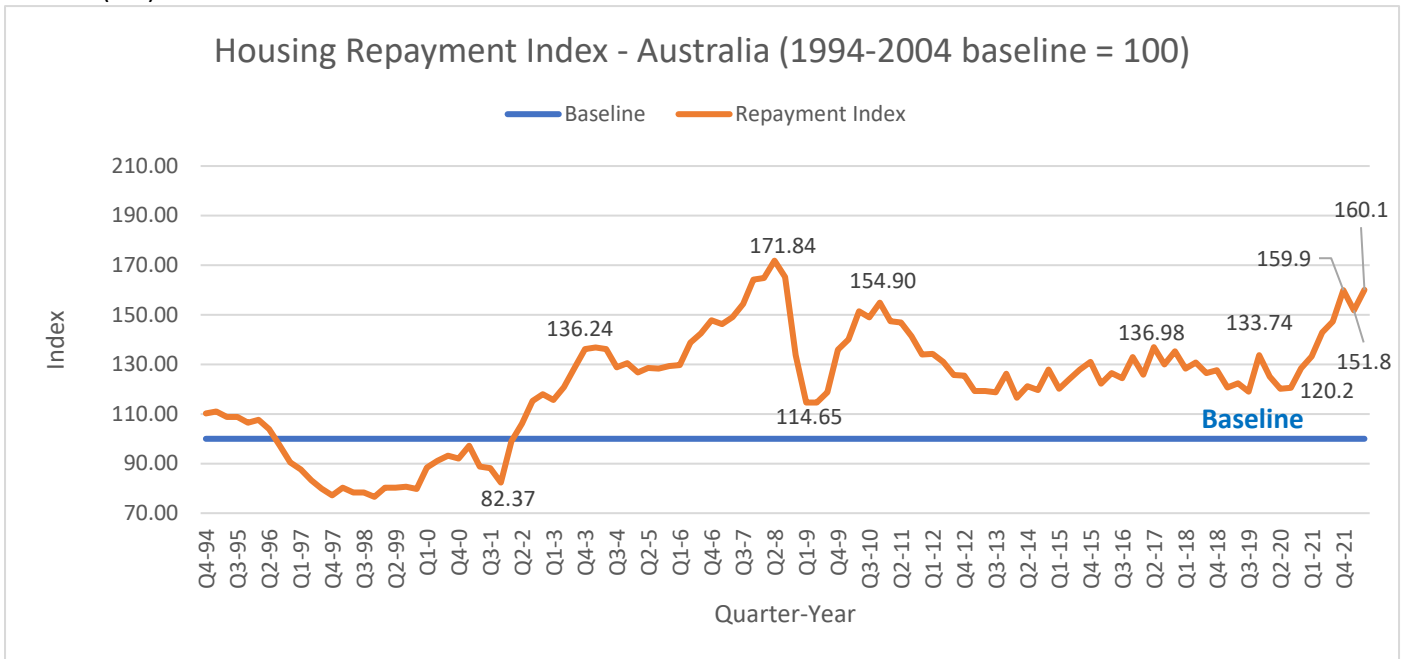
A Quarterly Review of Housing Affordability

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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

- Interest rates have pushed repayment unaffordability levels back to a 13 year high with the index at 160.1, higher than Q4 2021 and the worst since the 3rd quarter of 2008.
- Every capital city experienced an increase in the index (which indicates a decrease in affordability) between Q1 and Q2 this year. The largest increases were Adelaide (12.4) and Canberra (12.1), above the weighted average increase of 8.3.
- Perth was marginally above the weighted average increase at 8.8 and Brisbane (7.8), Melbourne (7.2), Sydney (6.7), Hobart (4.1) and Darwin (3.0) below it.
- Deposit affordability actually increased with that index figure falling by 4.4 points on average around Australia between Q1 and Q2 this year, reflecting a fall in house prices.
- The Deposit Index declined the fastest quarter on quarter in Hobart (-15.4), Melbourne (-7.5), Darwin (-6.9), Sydney (-6.4), Brisbane (-4.3) and Canberra (-1.8). It increased marginally in Perth (0.8) and Adelaide (0.4).



Summary

The Q2 2022 Australian housing market saw a general increase in the Repayments Index, indicating a decrease in affordability, and a decrease in the Deposit Index, indicating a fall in house prices making it easier to save for a deposit. Aggregating across Australia, national housing repayments increased by 8.3 index points, whilst deposit costs decreased by 4.4 points. Median house prices have fallen for the last two quarters, reporting a drop of -1.15% in the Q2, 2022. This was not reflected across the board, however, with both Adelaide and Perth reporting a \$15,000 (2.3%) and \$12,500 (1.4%) median increase for the quarter with Brisbane median price plateauing at \$800,000. Melbourne prices have continued to fall from their high point in the 4th quarter of 2021 and subsequently reported a median decrease of \$39,000 (-4.0%), the largest of any capital city.

Housing transfers data also indicate a decline in relative market activity with all states reporting a drop when compared to figures from the 2nd quarter of 2021. This was strongest in Sydney and Melbourne who now only make up for make up less than 46% of all housing transfers for the quarter, a far cry from pre-covid levels in Q4 2019 where they represented 57% of house transfers. Over the last 12 months there has been a drop of 29% in house transfers across all of Australia.

The relative unaffordability of housing is obviously impacting market activity with fewer potential purchasers being prepared to pay asking prices and few vendors being prepared to drop their expectations.

	<i>Deposit Index</i>		<i>Repayment Index</i>	
<i>Sydney</i>	194.6	(-6.4)	159.1	(+6.7)
<i>Melbourne</i>	218.5	(-7.5)	177.5	(+7.2)
<i>Brisbane</i>	188.8	(-4.3)	151.6	(+7.8)
<i>Adelaide</i>	206.0	(+0.4)	166.5	(+12.4)
<i>Hobart</i>	267.0	(-15.4)	214.4	(+4.1)
<i>Darwin</i>	140.1	(-6.9)	112.1	(+3.0)
<i>Canberra</i>	229.7	(-1.8)	185.7	(+12.1)
<i>Perth</i>	138.0	(+0.8)	112.0	(+8.8)
<i>Weighted Average</i>	196.5	(-4.4)	160.1	(+8.3)

We measure our repayment affordability index using 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 time series. We measure our deposit affordability index 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 time series. National figures are based on using a weighted average of the 8 most populous cities in Australia, weighted by the number of established housing transfers in each city for each quarter.



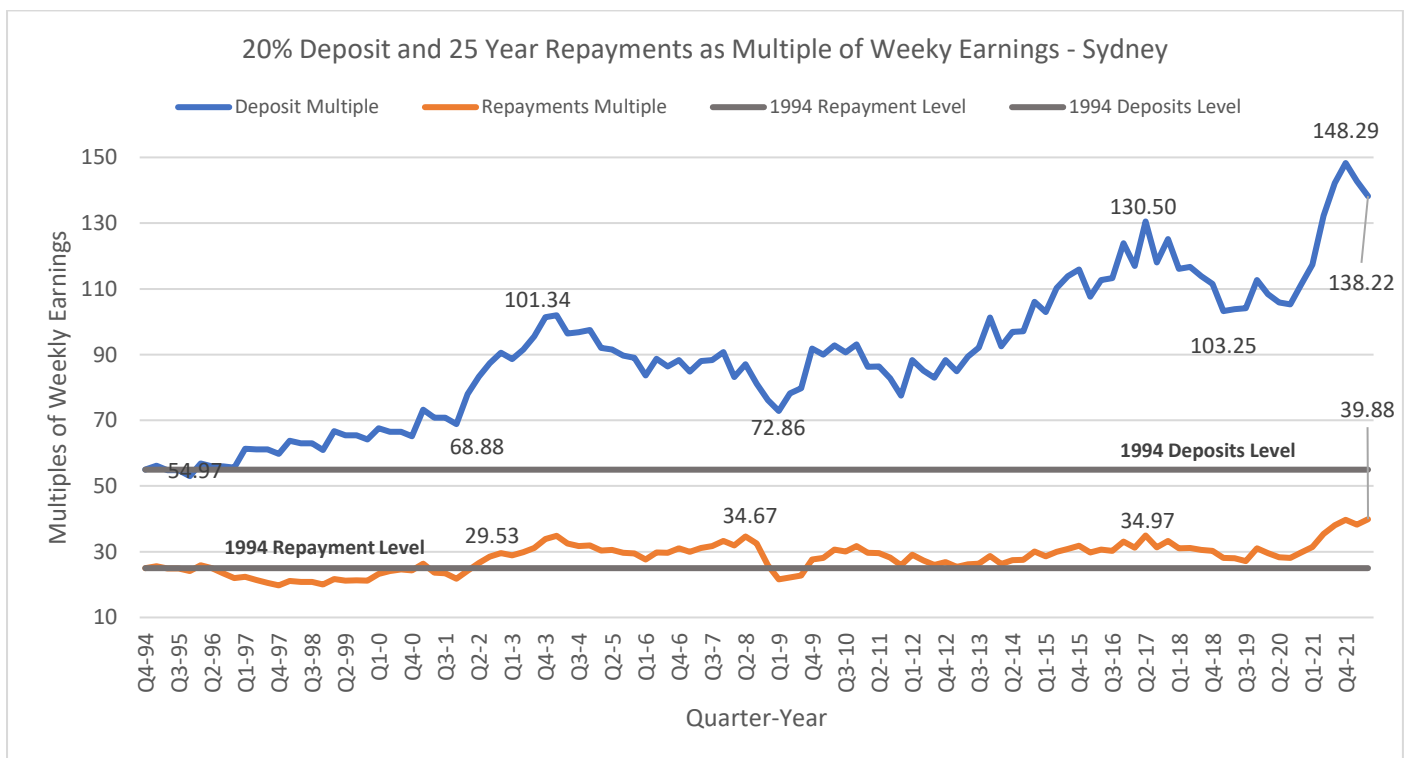
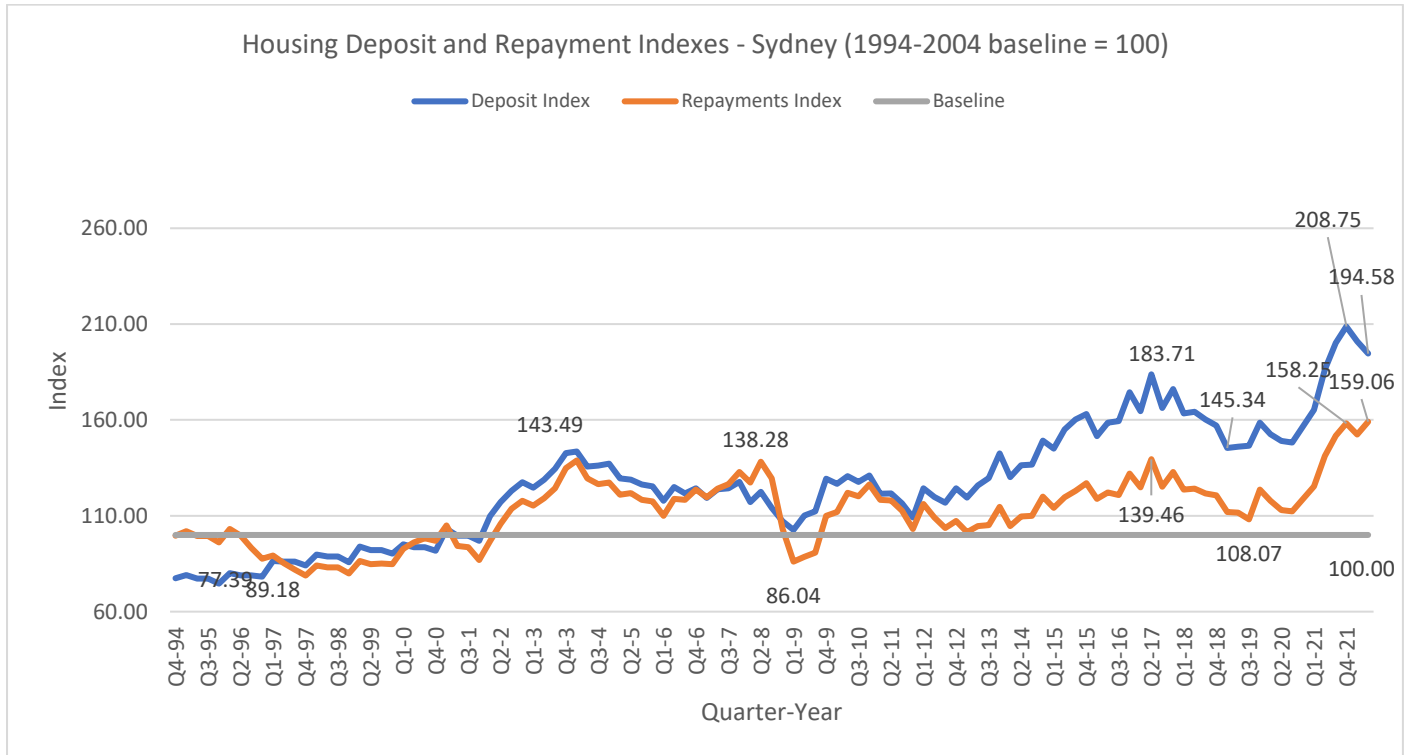
Graham Young
Executive Director
Australian Institute for Progress



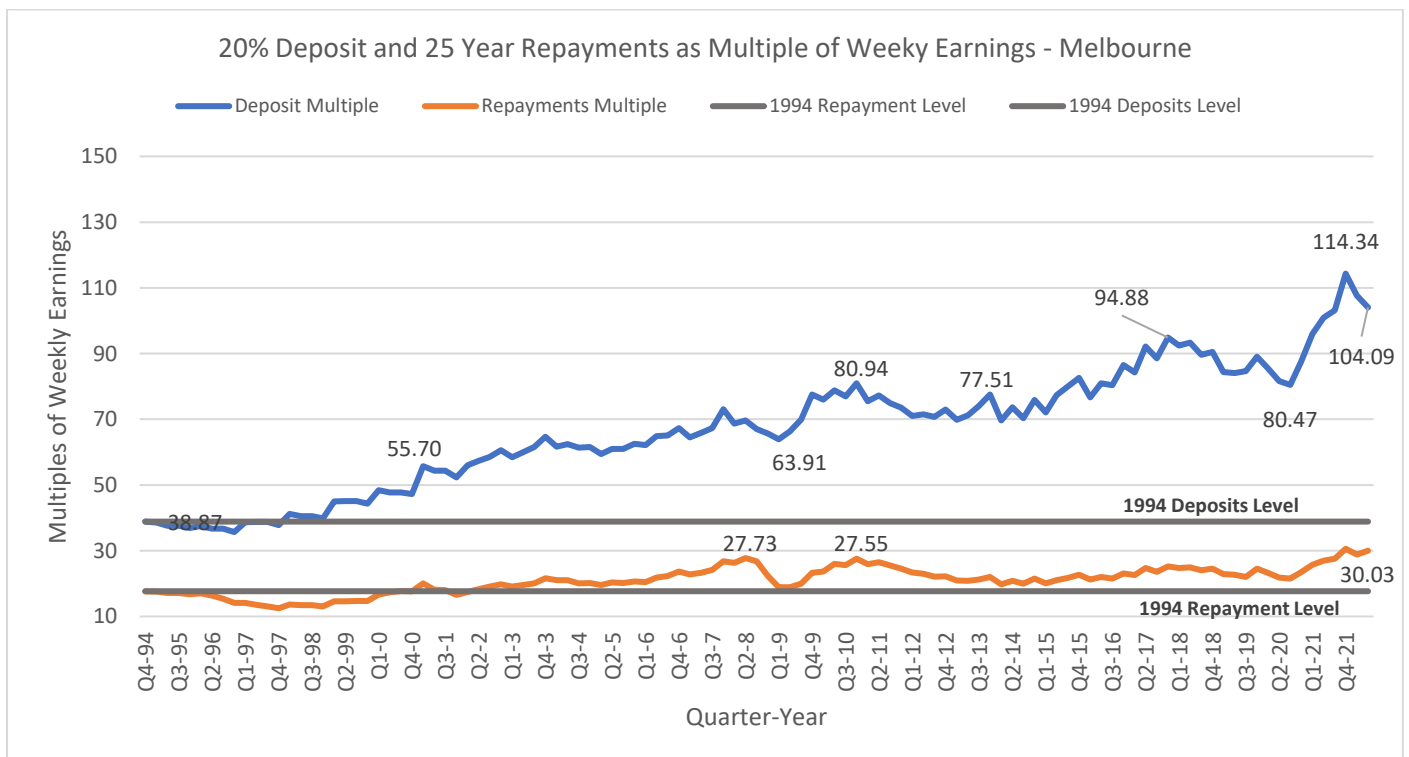
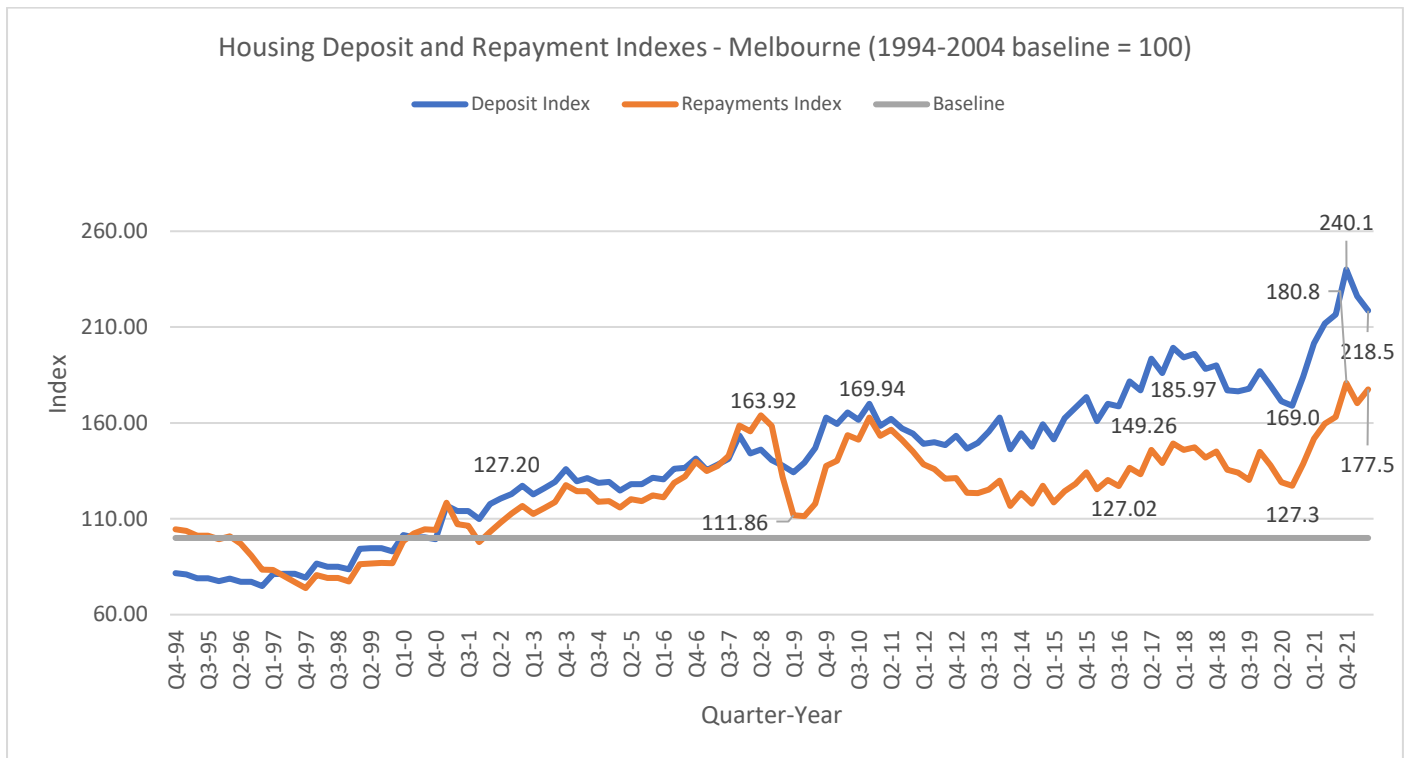
Barclay McGain
Economic Researcher
Australian Institute for Progress

Deposit and Repayment Costs by State

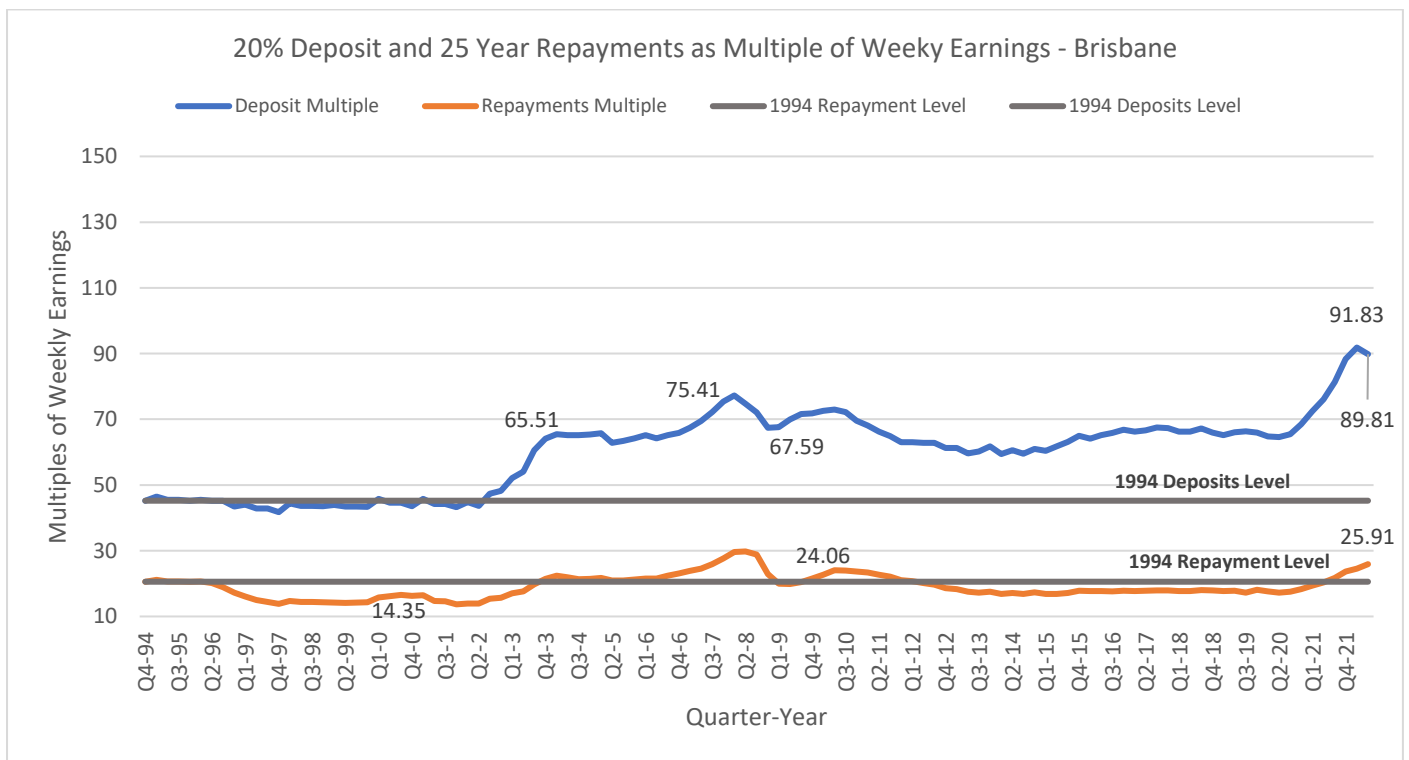
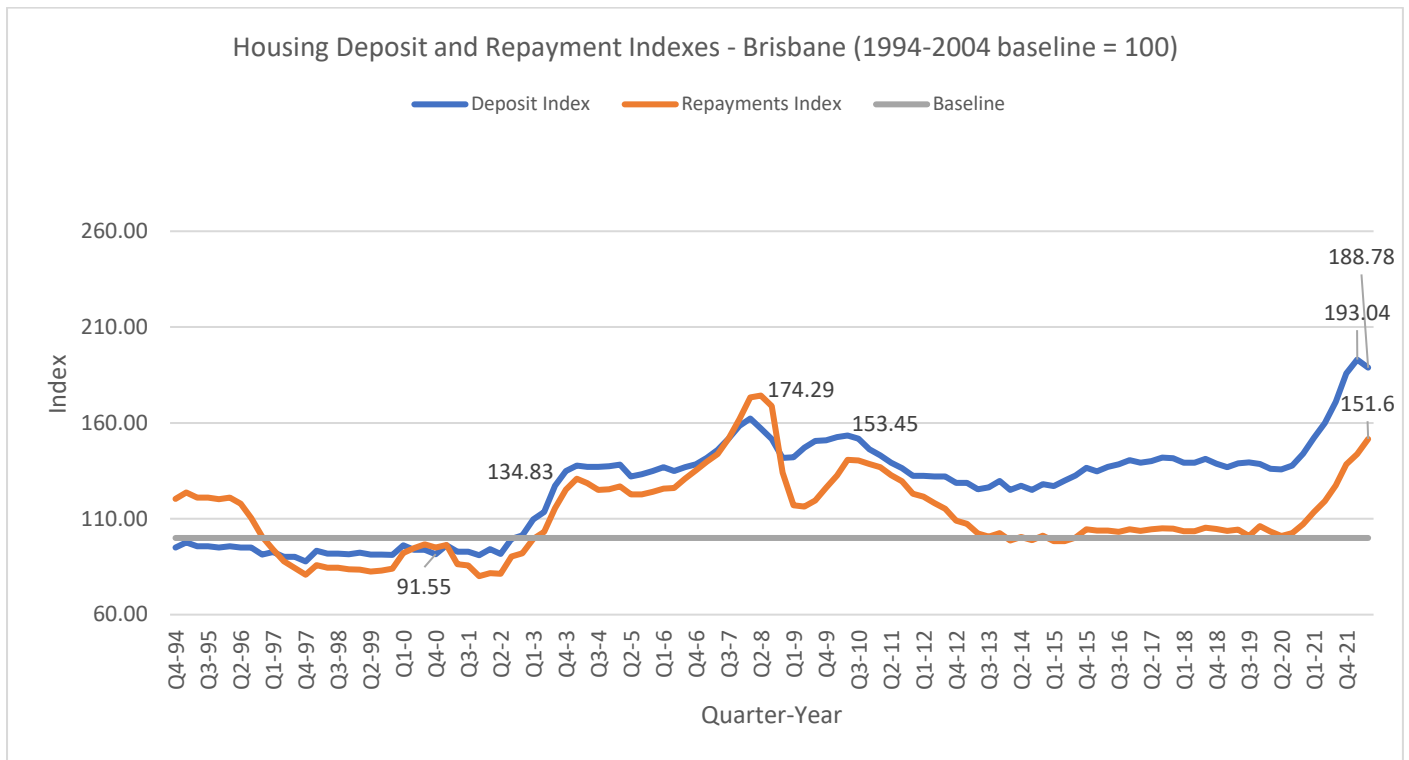
Sydney



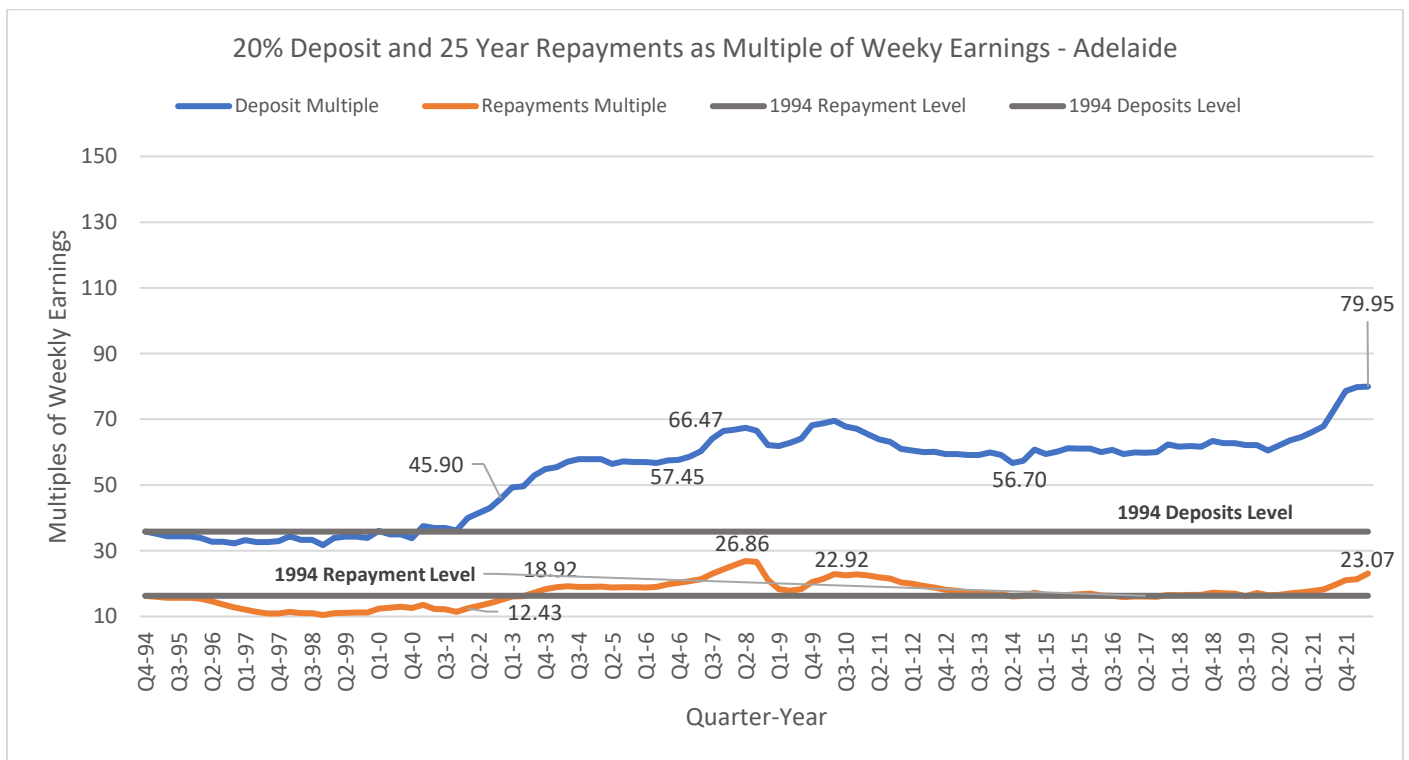
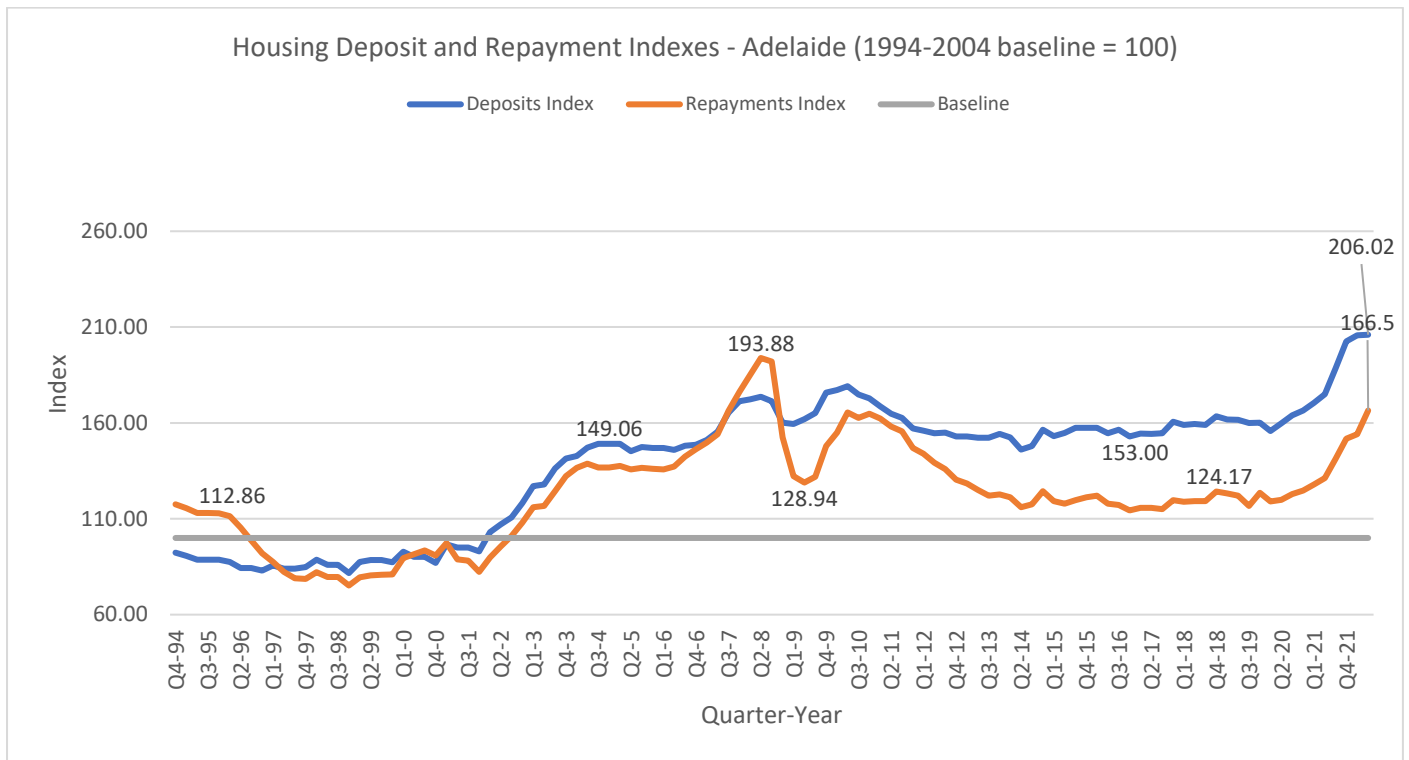
Melbourne



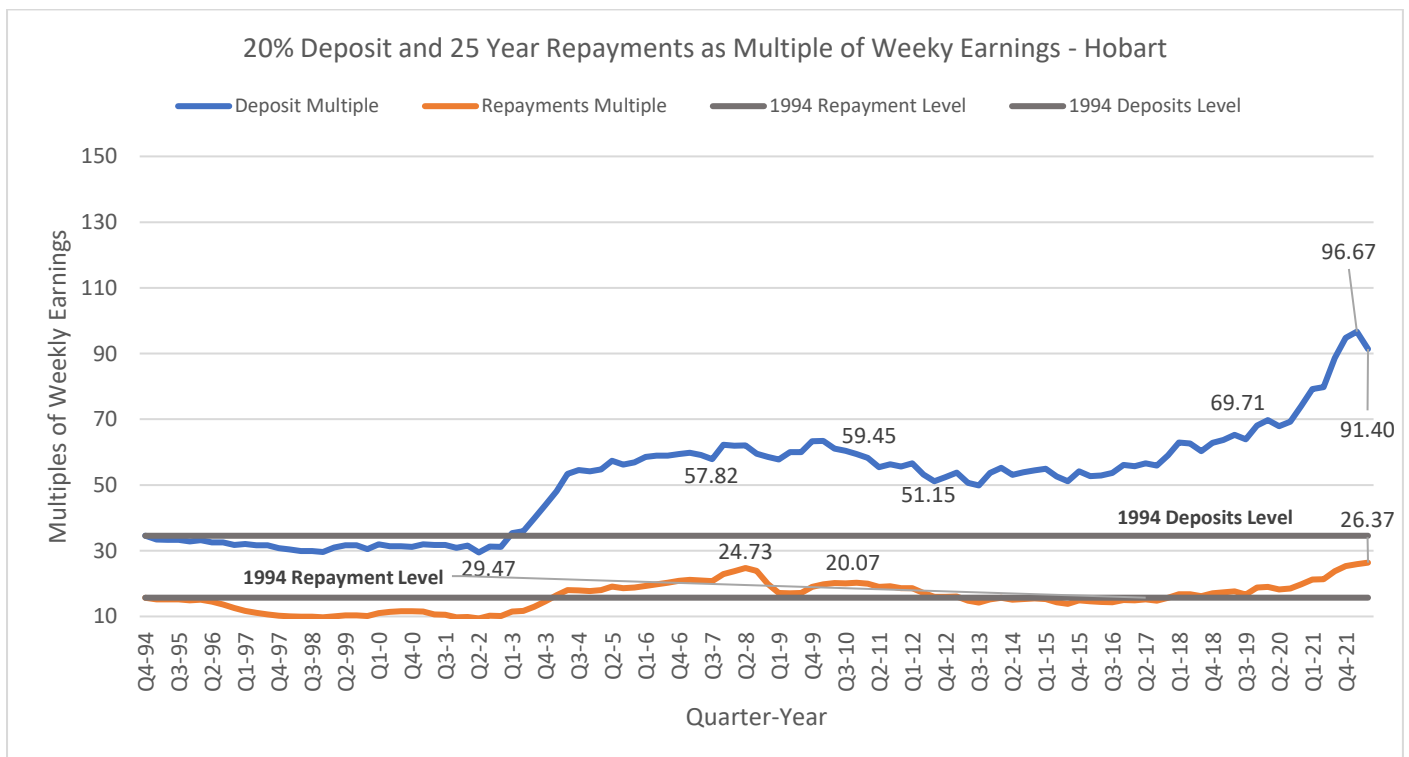
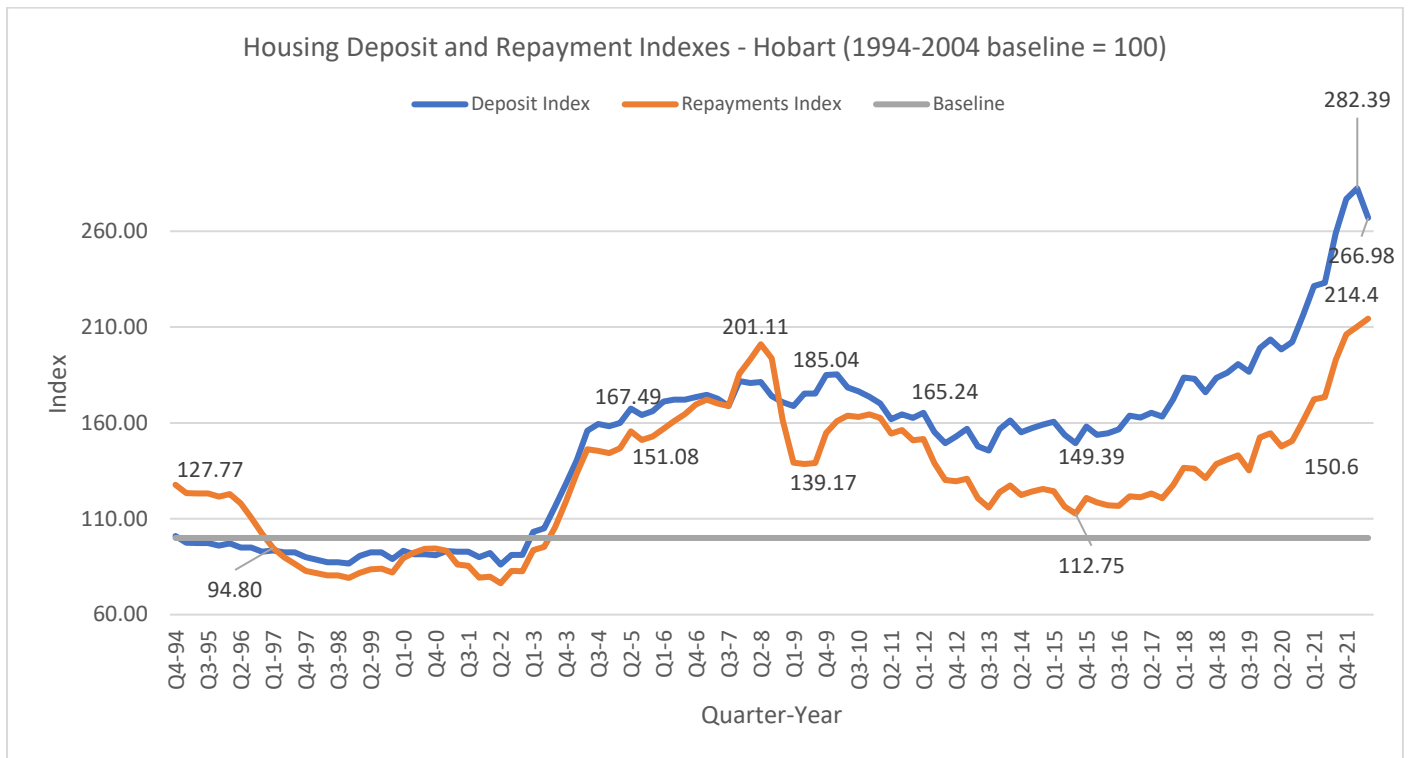
Brisbane



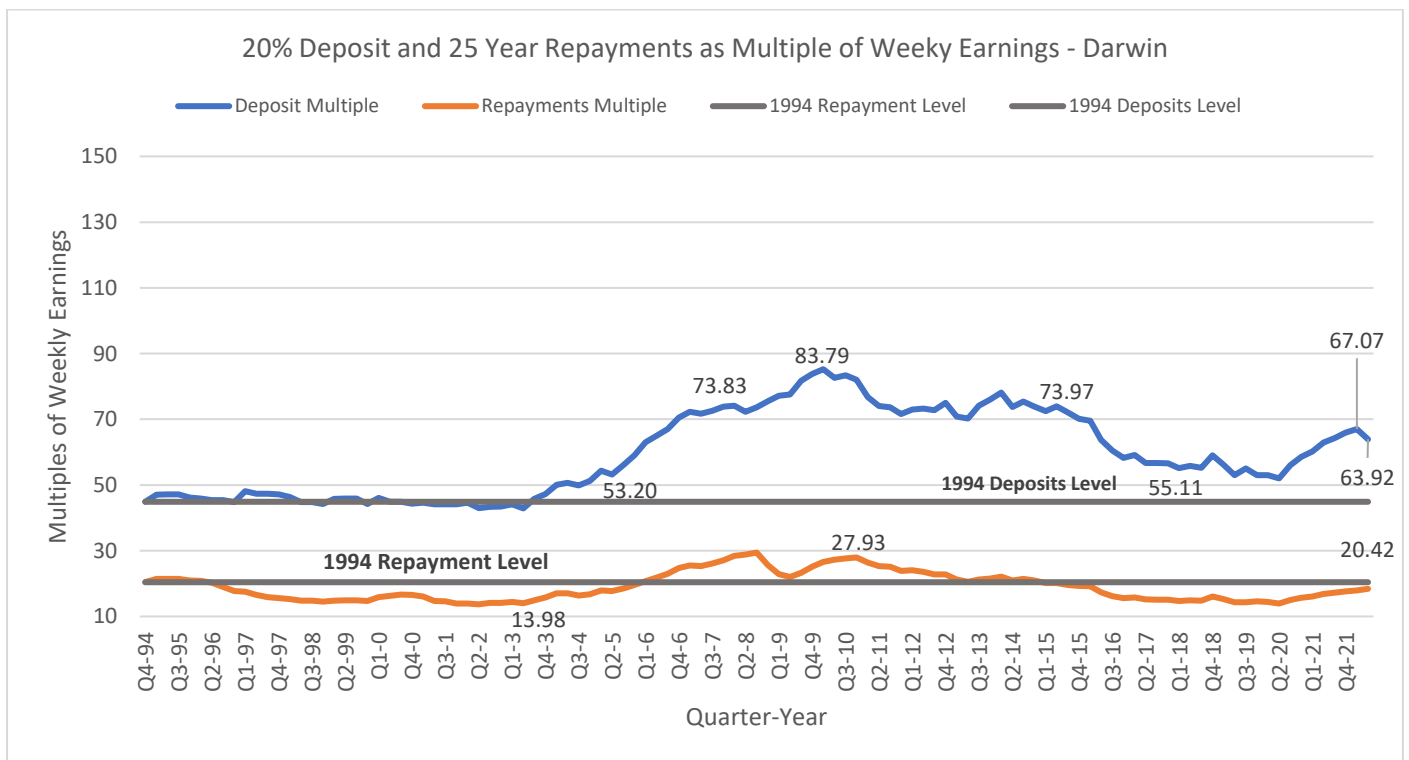
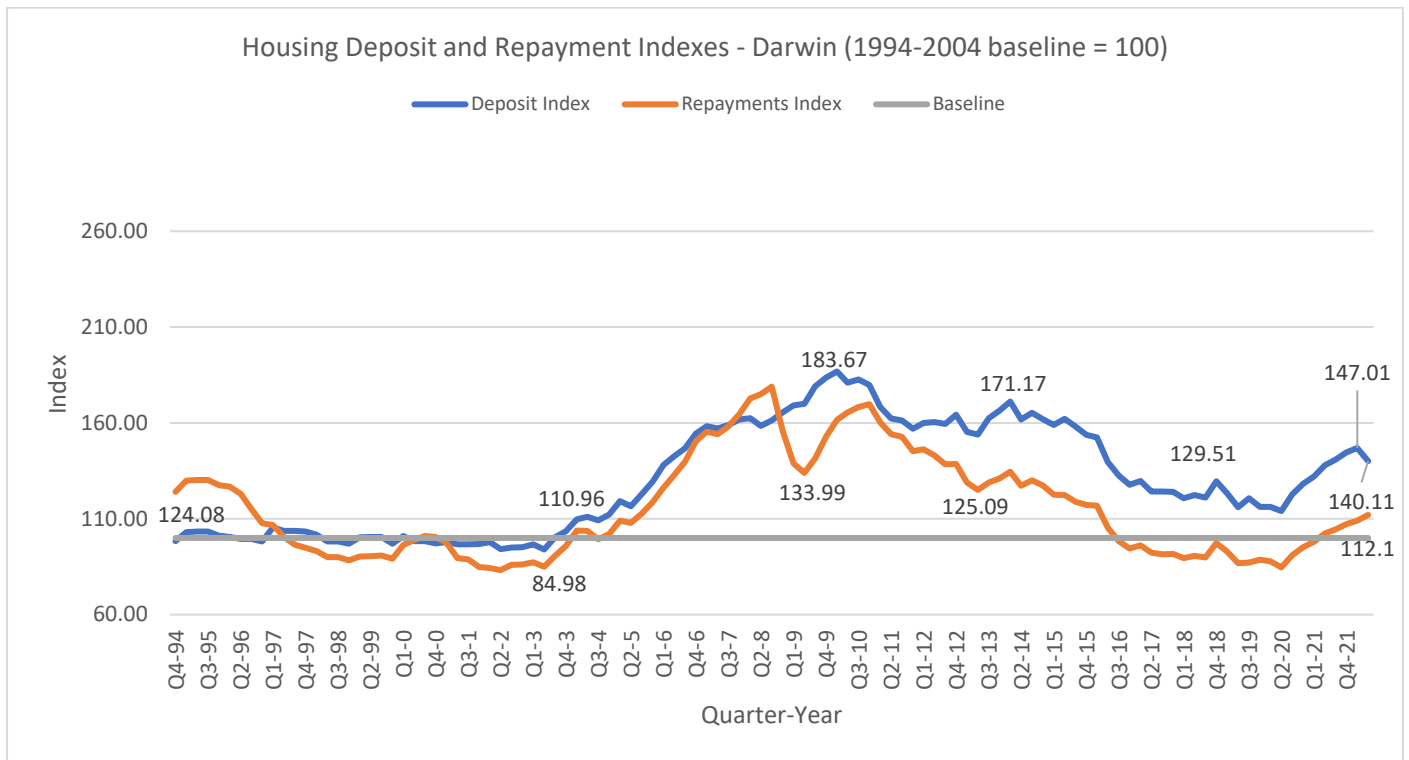
Adelaide



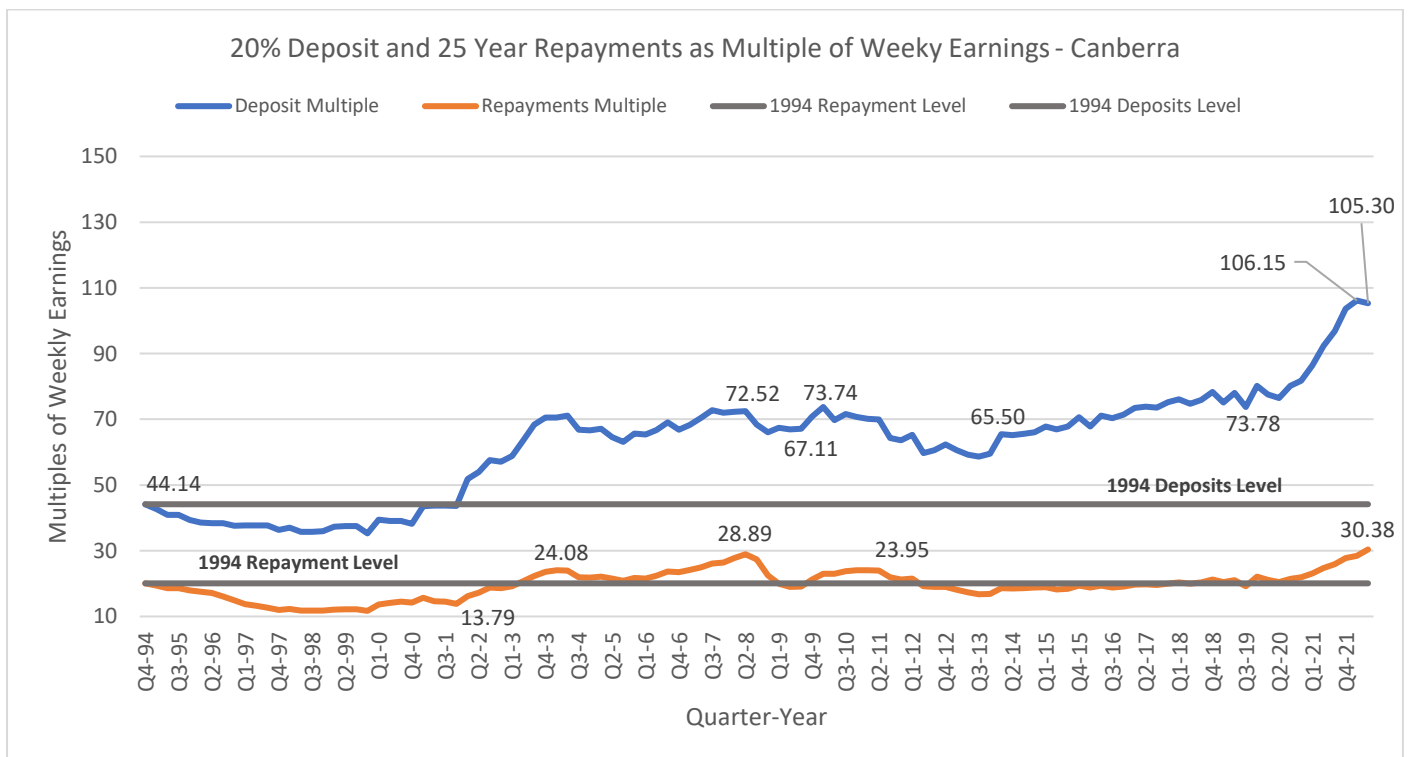
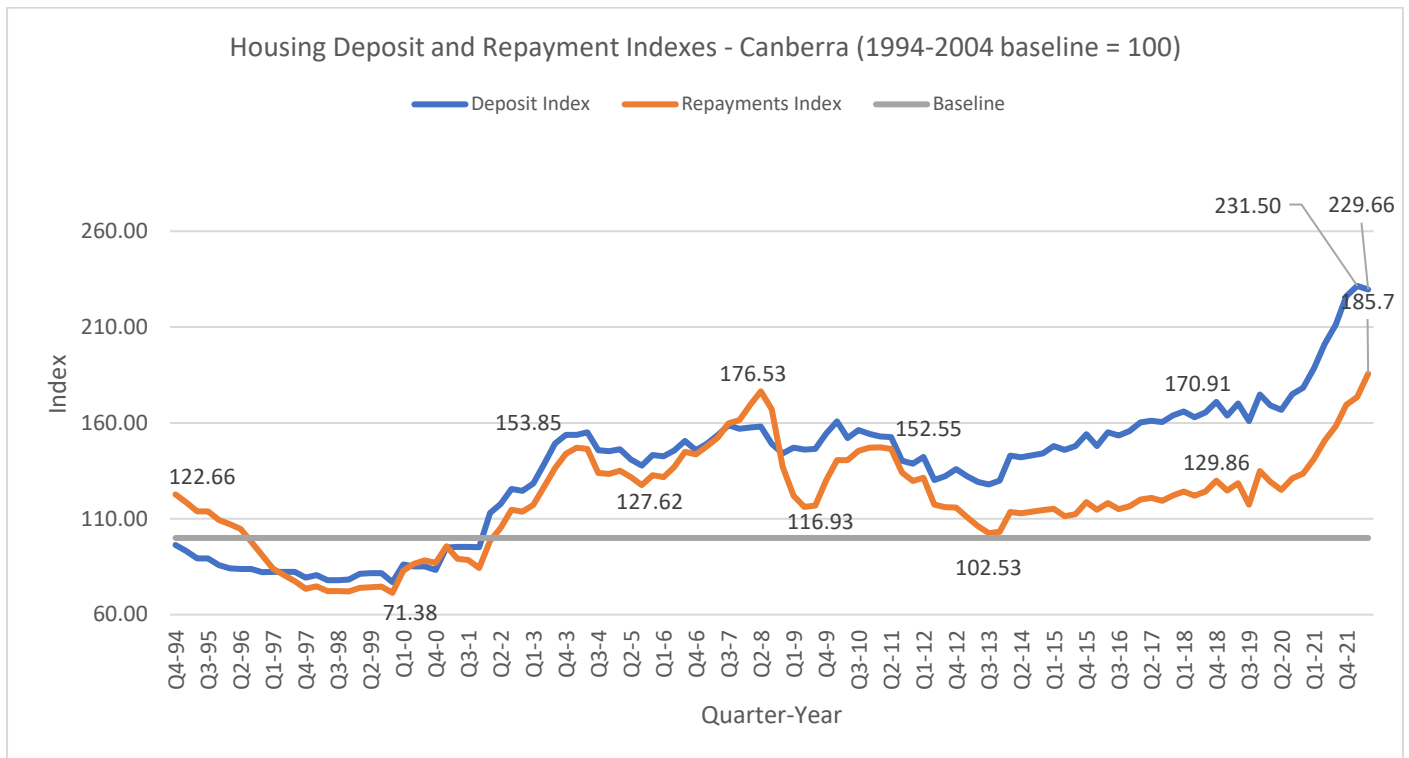
Hobart



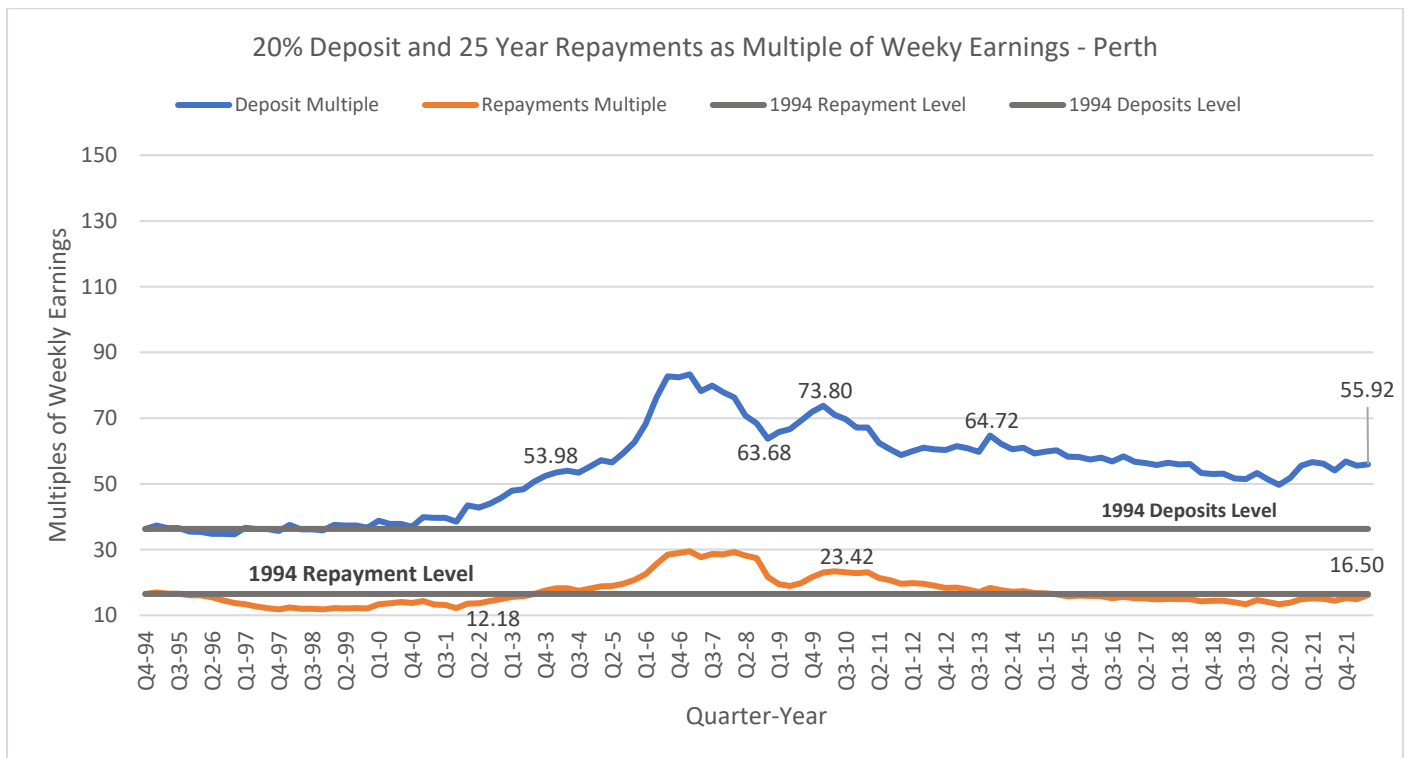
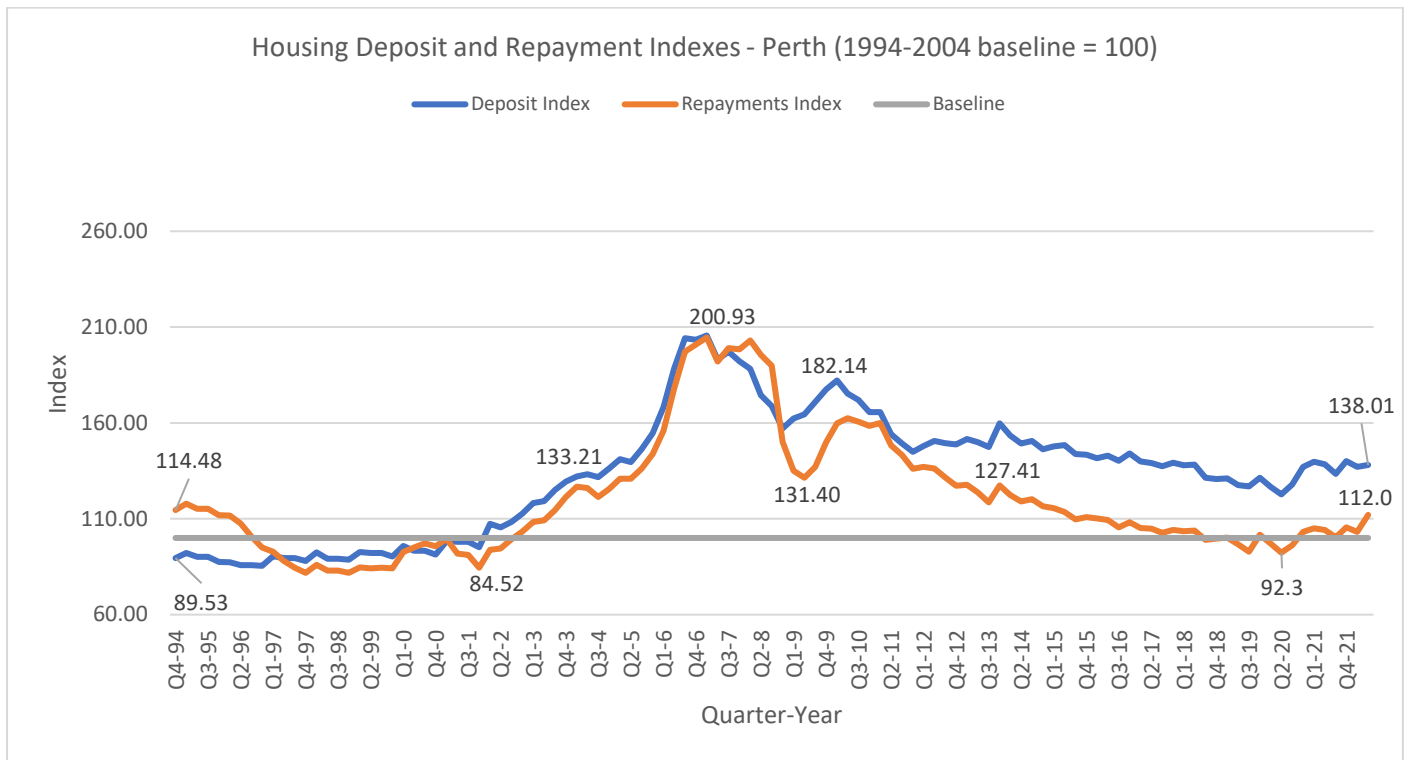
Darwin



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 Q1:2022 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. Using the deposit/repayment weekly multiplier values, we use a city's average deposit/repayment weekly multiplier over the period Q4:1994 to Q4:2004 as the baseline for that city's index (with the baseline indexed to 100). Using the deposit/repayment weekly multiplier values, we use a city's average deposit/repayment weekly multiplier over the period Q4:1994 to Q4:2004 as the baseline for that city's index (with the baseline indexed to 100).

We use the number of housing transfers for Australia's 8 most populous cities in order to create a weighted national average for the relevant statistics (i.e. average weekly wage, median house prices) included in this paper. Note that due to the limited housing data available, we take the national average to be the simple average of the for the years prior to Q1:2002.

The datasets used within this model include: ABS 6302 Average Weekly Earnings, ABS 6412 Residential Property Prices Indexes for post-2002 median capital city 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 – taking the average rate over the months in a given quarter.

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. (March 2022 series). *Total Value of Dwellings*. Obtained via: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release>
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4. RBA F05. (April 2022 series). *Indicator Lending Rates*. Obtained via: <https://www.rba.gov.au/statistics/tables/xls/f05hist.xls>