



Australian Institute for Progress

Housing Affordability Index

September Quarter, 2023

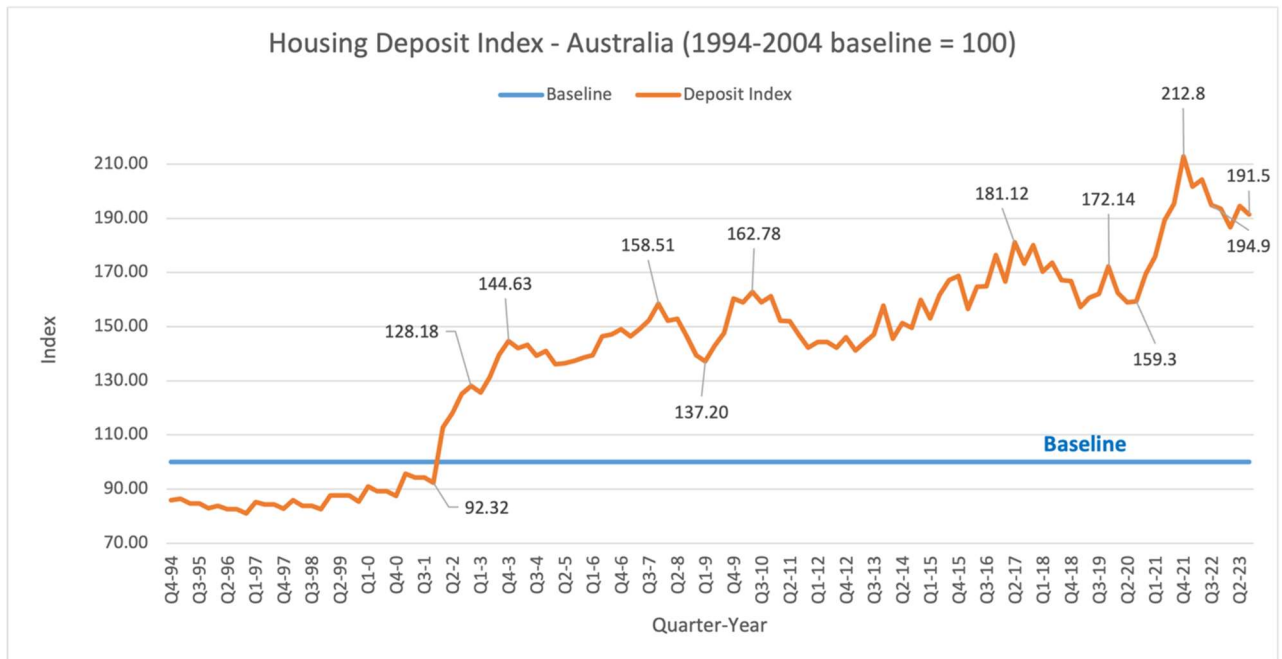
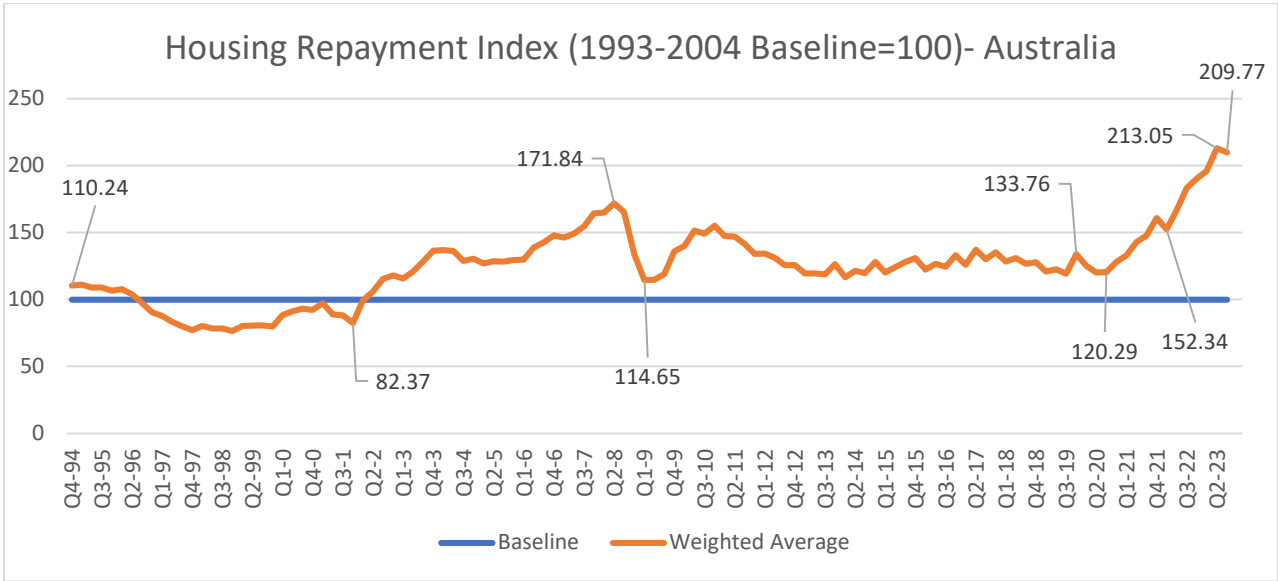
A Quarterly Review of Housing Affordability

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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

- Housing affordability has retreated from extremely unaffordable, to still extremely unaffordable with the estimated repayments index for the December quarter retreating from 213.04 to 209.77, a fall of 1.5%.
- RBA cash rates were steady during the quarter but increased 0.5% from the beginning of the previous quarter. This was slightly offset by house prices which declined by 1.54% from the previous quarter, with the absolute decline from their peak, which occurred in Q4 21, of 5.18% (there is considerable variation between states and this is a national average only).



Summary

The Q3 2023 Australian housing market saw a general decrease in the Repayments Index and a decrease in the Deposit Index. This means it was slightly easier to save for a property deposit and also slightly easier to repay a mortgage.

Aggregating across Australia, national housing repayments decreased by 3.27 index points, whilst deposit costs decreased by 2.99 points. Median house prices have been falling since the fourth quarter 2021 with a drop of 5.18% over that period. Melbourne, Hobart and Canberra fell the most, while Adelaide, Darwin and Perth appear to be still increasing.

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 2023. The decline was most marked in Hobart, Darwin and Canberra.

While higher interest rates have caused a small fall in house prices over most of the last two years, repayment unaffordability has continued to rise in a number of markets. Compared to 30 years ago it is approximately twice as hard to afford to buy a residential property.

Previous analysis has found that interest rates explain around 70% of house price movements. That relationship has broken down to some extent as rates have risen substantially while house prices have merely moderated. Other factors are at play – specifically inflation and immigration.

	<i>Deposit Index</i>		<i>Repayment Index</i>	
<i>Sydney</i>	195.88	-4.45	215.39	-4.90
<i>Melbourne</i>	181.01	-5.63	198.92	-6.19
<i>Brisbane</i>	176.95	3.36	192.15	3.65
<i>Adelaide</i>	209.49	0.35	228.86	0.38
<i>Hobart</i>	238.73	-1.74	258.93	-1.89
<i>Darwin</i>	145.39	8.65	157.16	9.35
<i>Canberra</i>	202.55	-4.20	221.44	-4.59
<i>Perth</i>	143.14	3.49	156.20	3.81
<i>Weighted Average</i>	191.50	-2.99	209.77	-3.27

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.



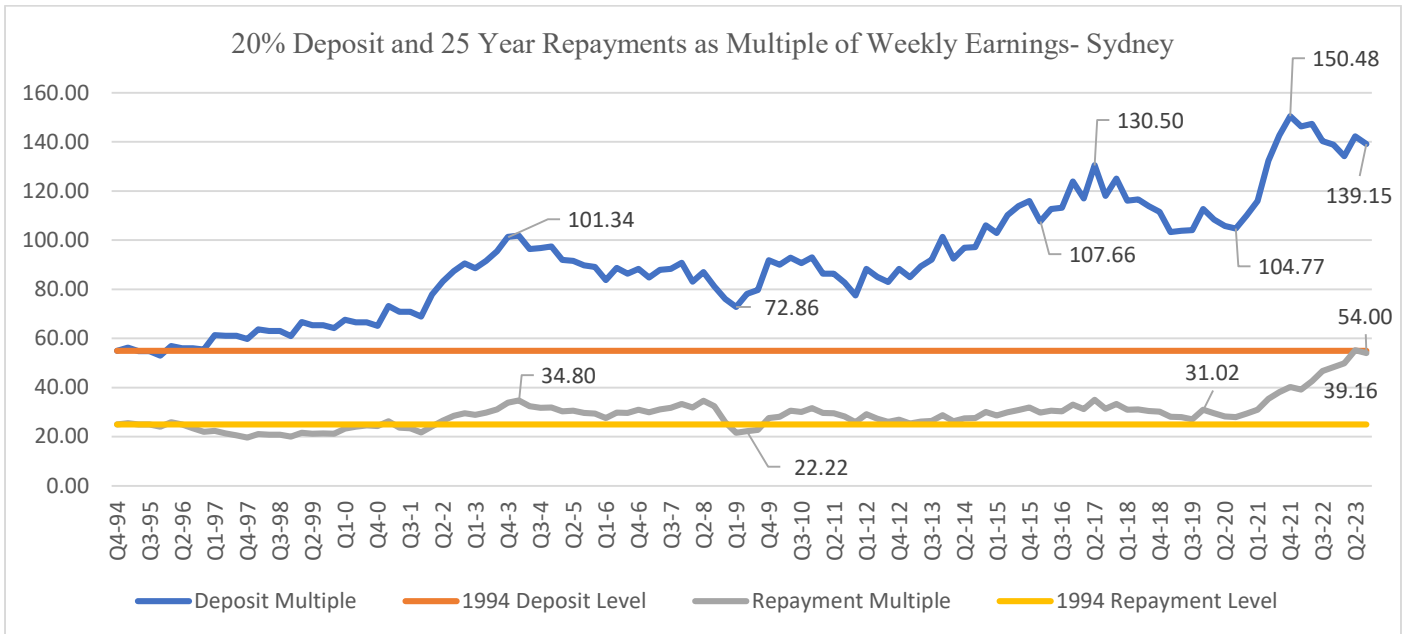
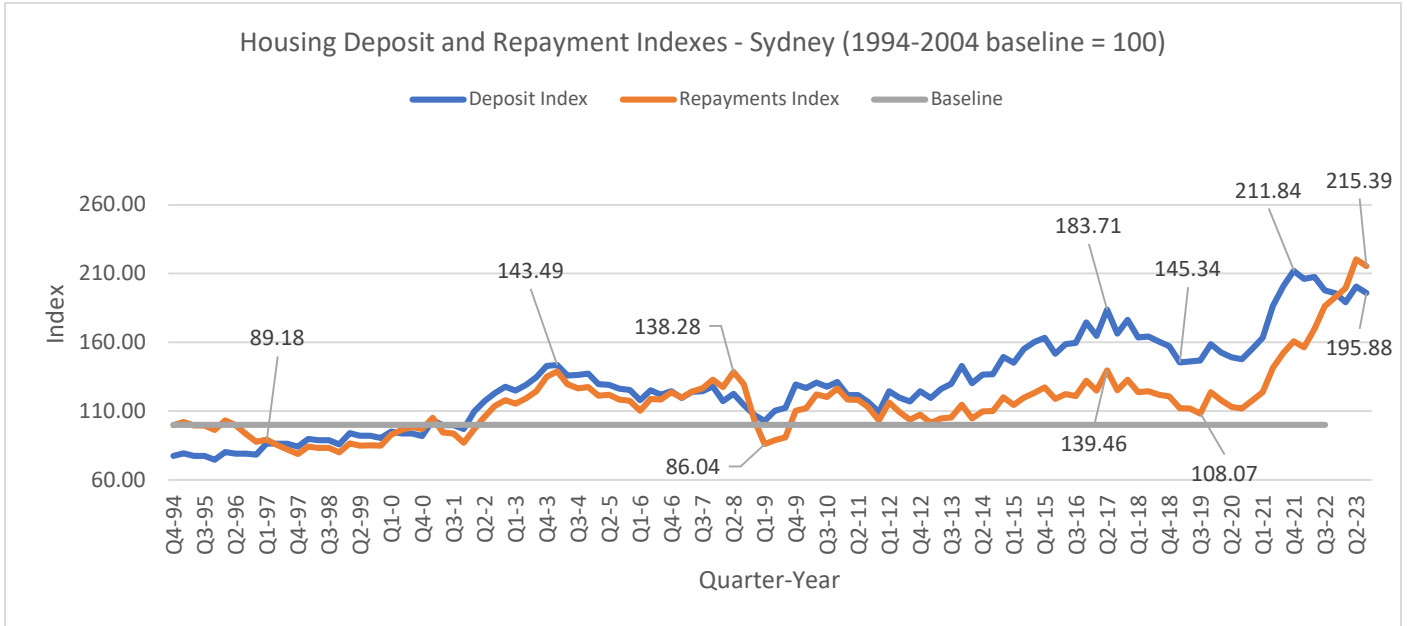
Graham Young
Executive Director
Australian Institute for Progress



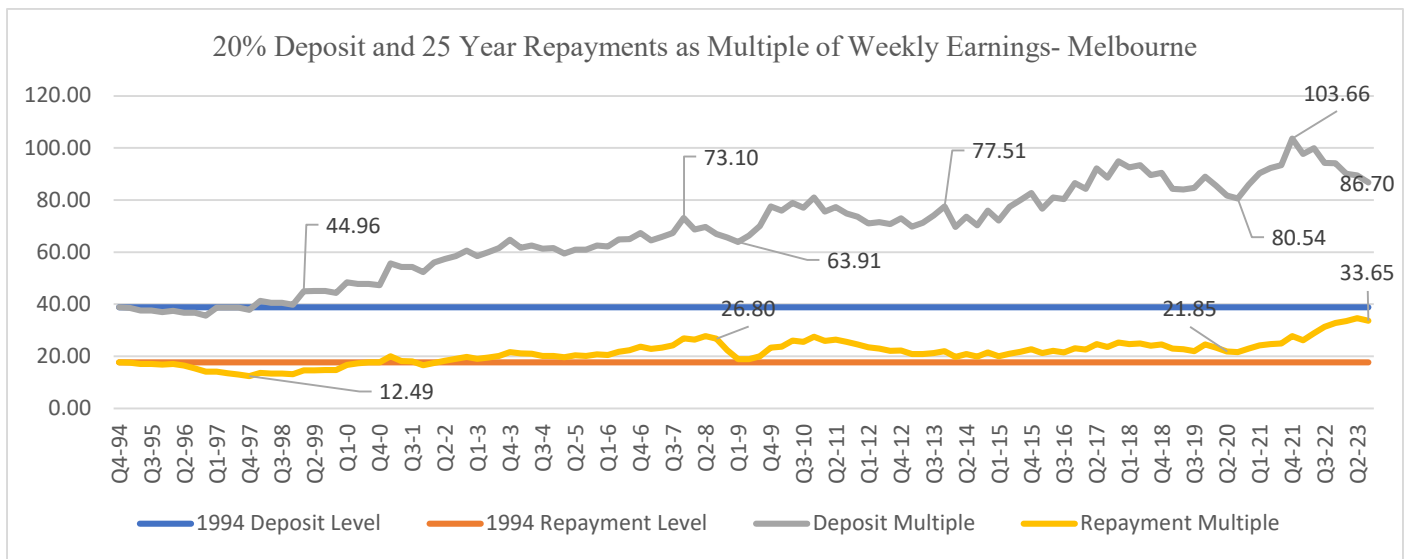
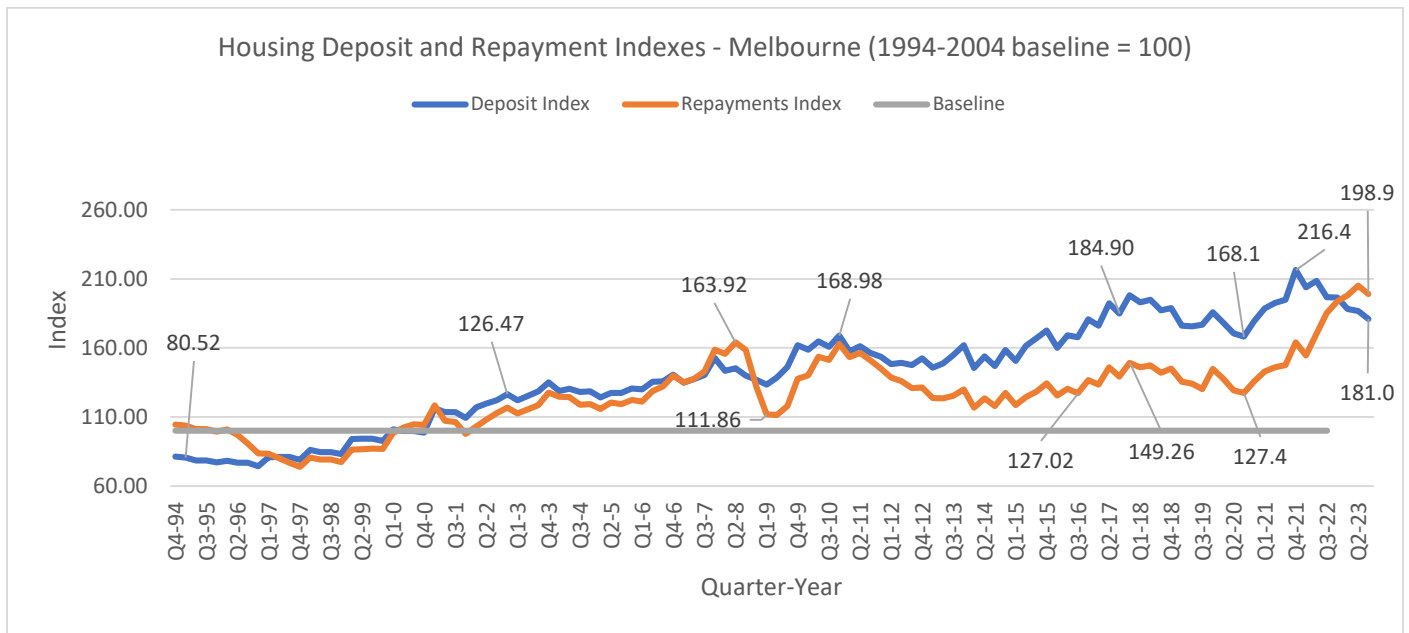
Manasbi Poudel
Economic Researcher
Australian Institute for Progress

Deposit and Repayment Costs by State

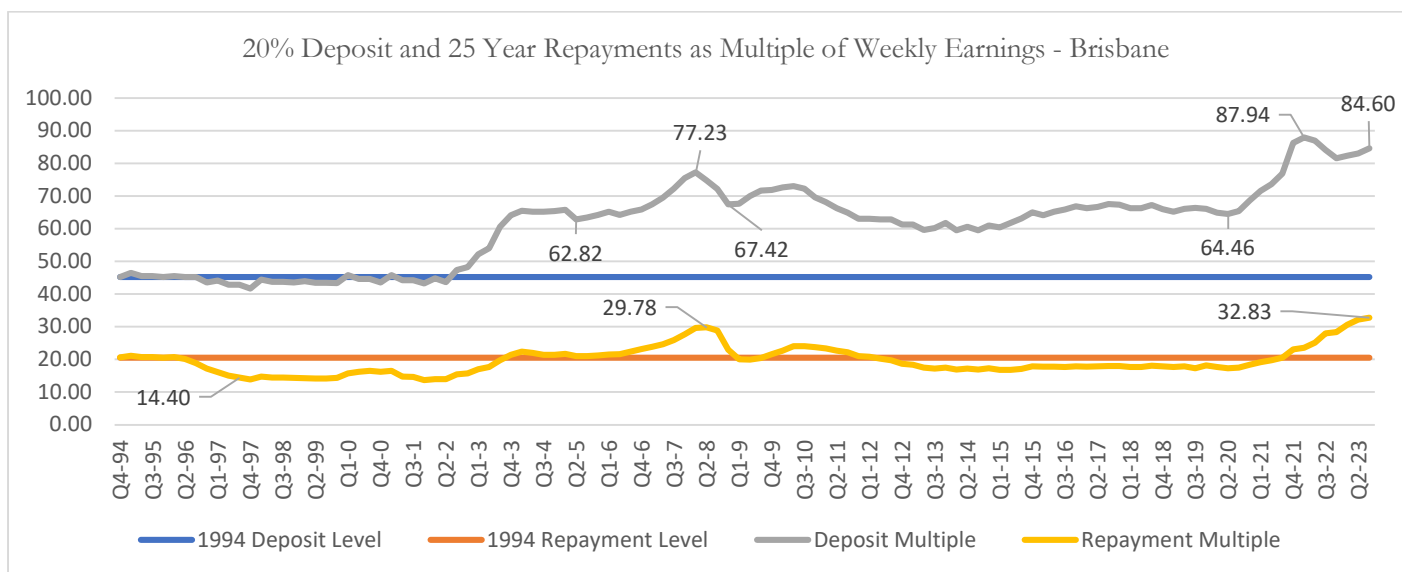
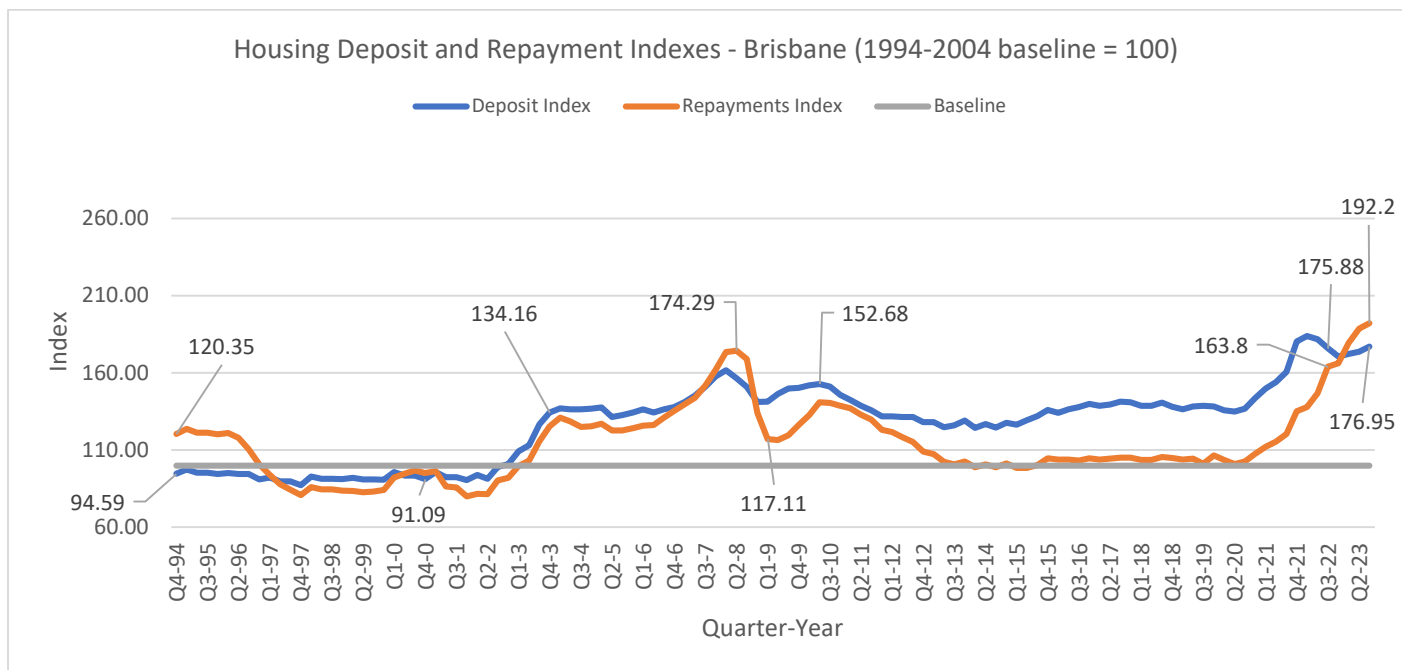
Sydney



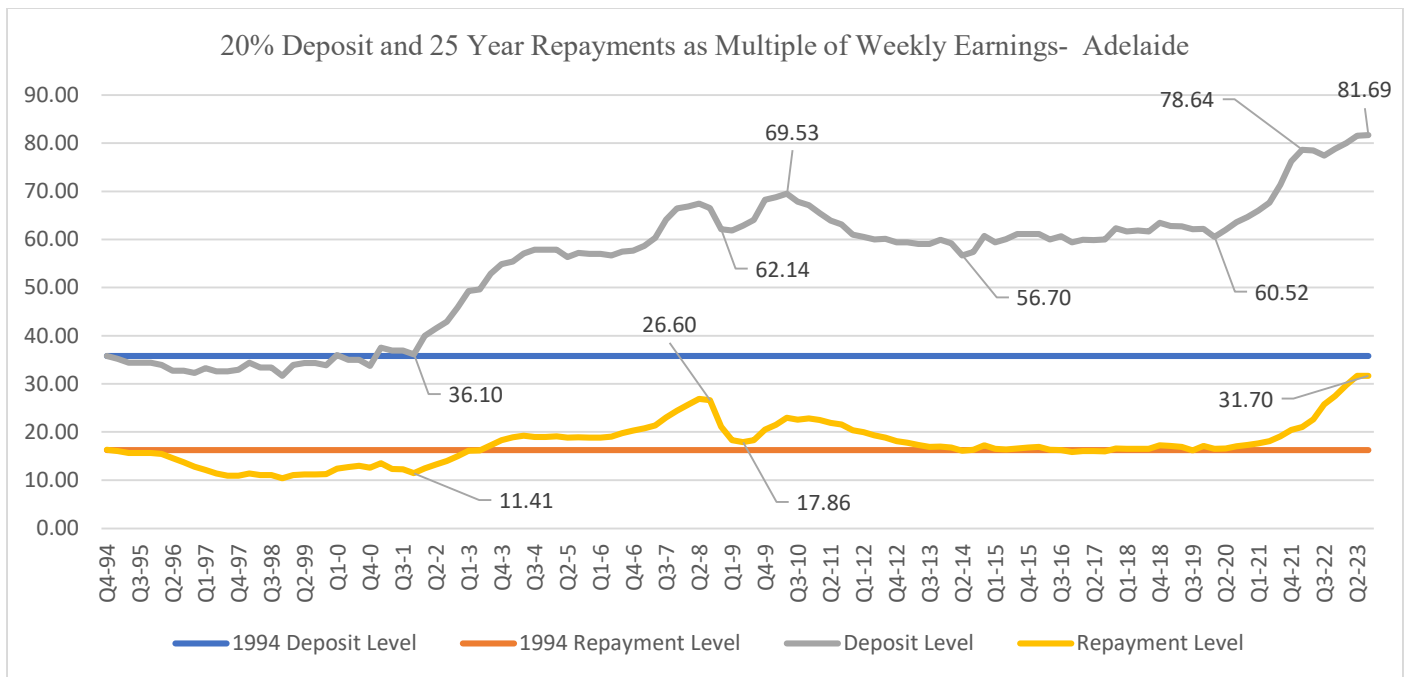
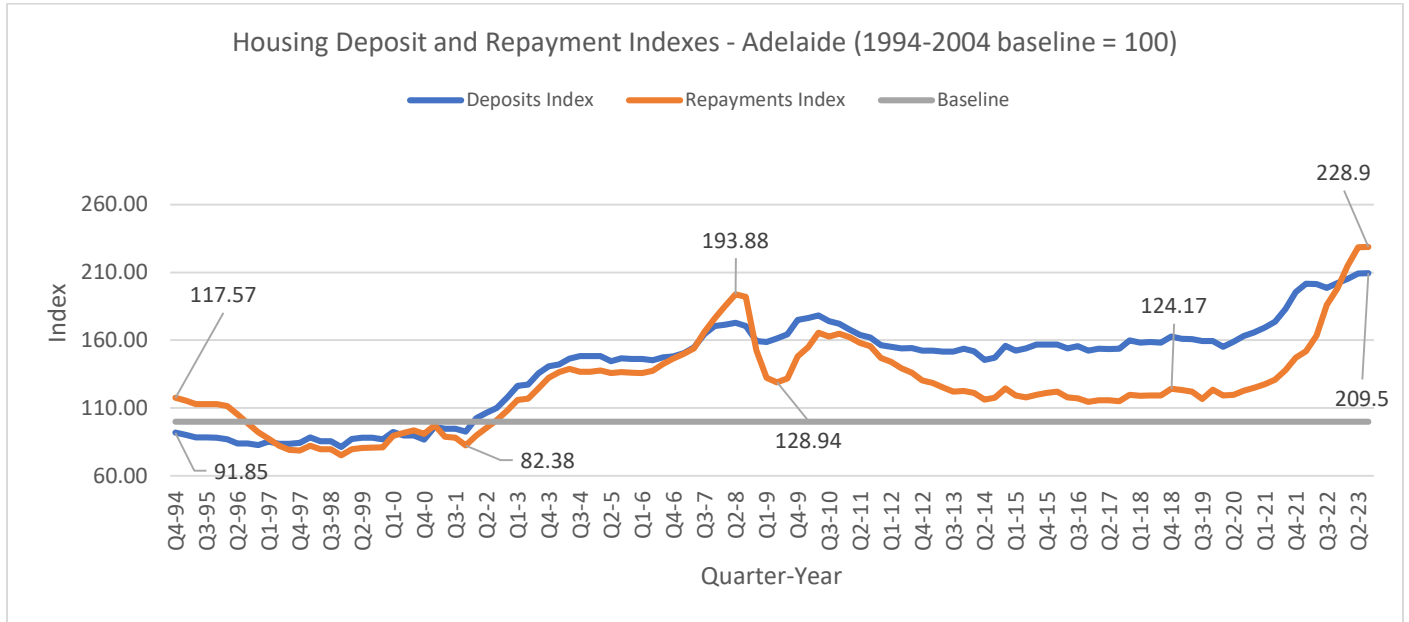
Melbourne



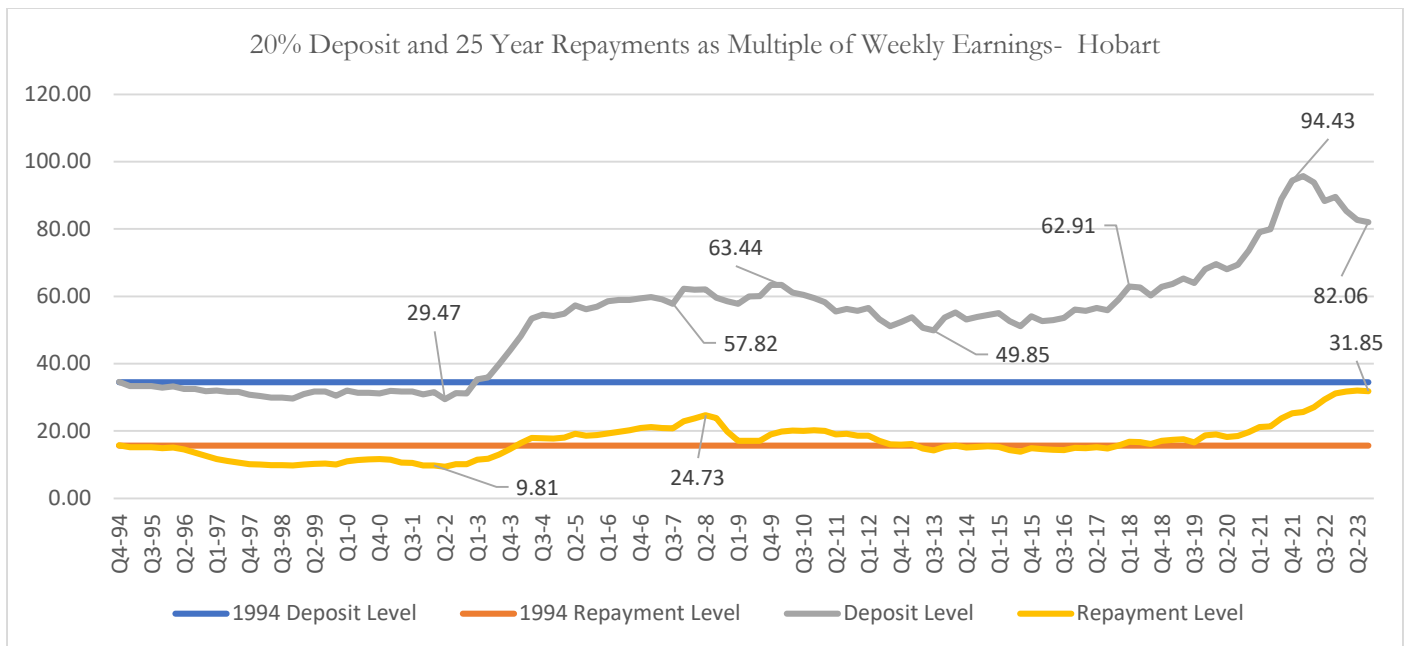
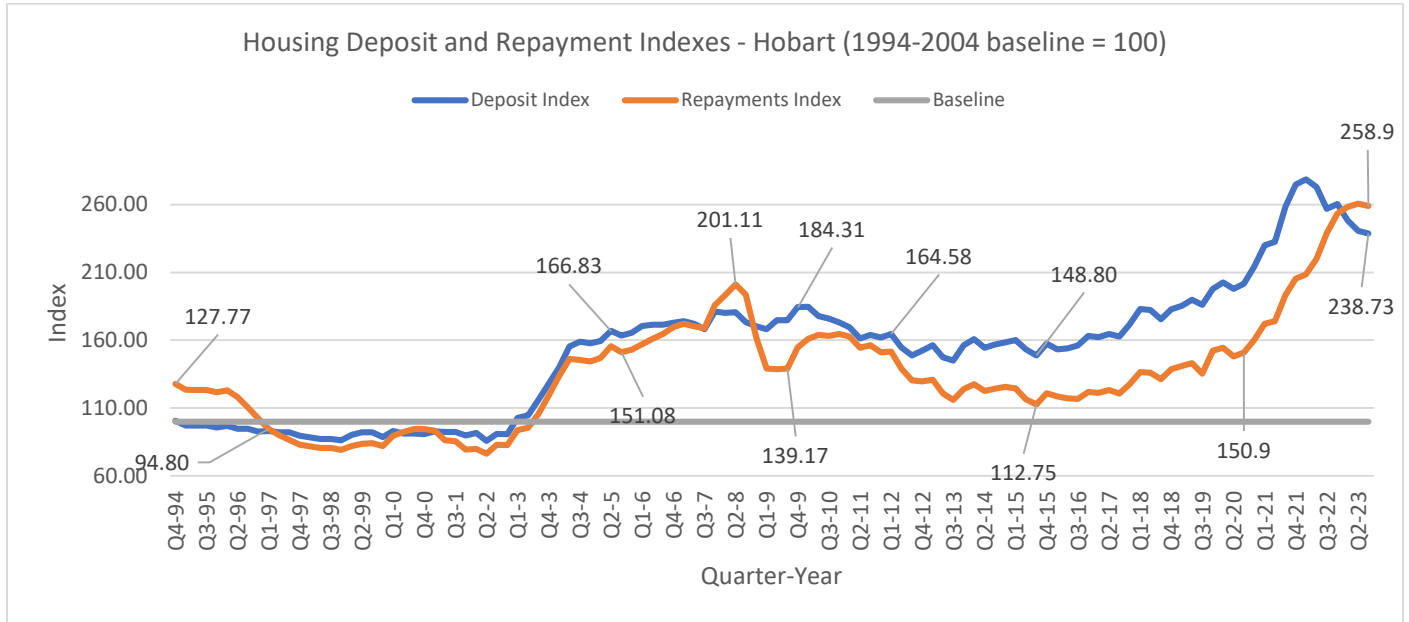
Brisbane



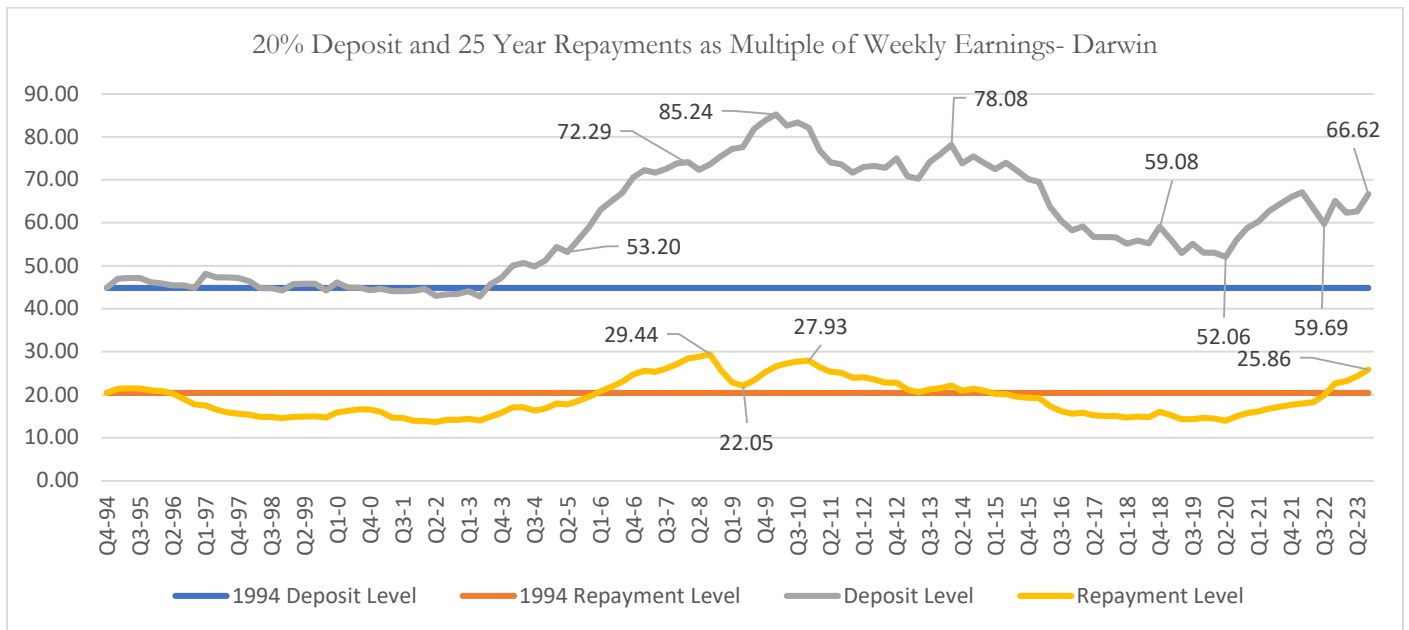
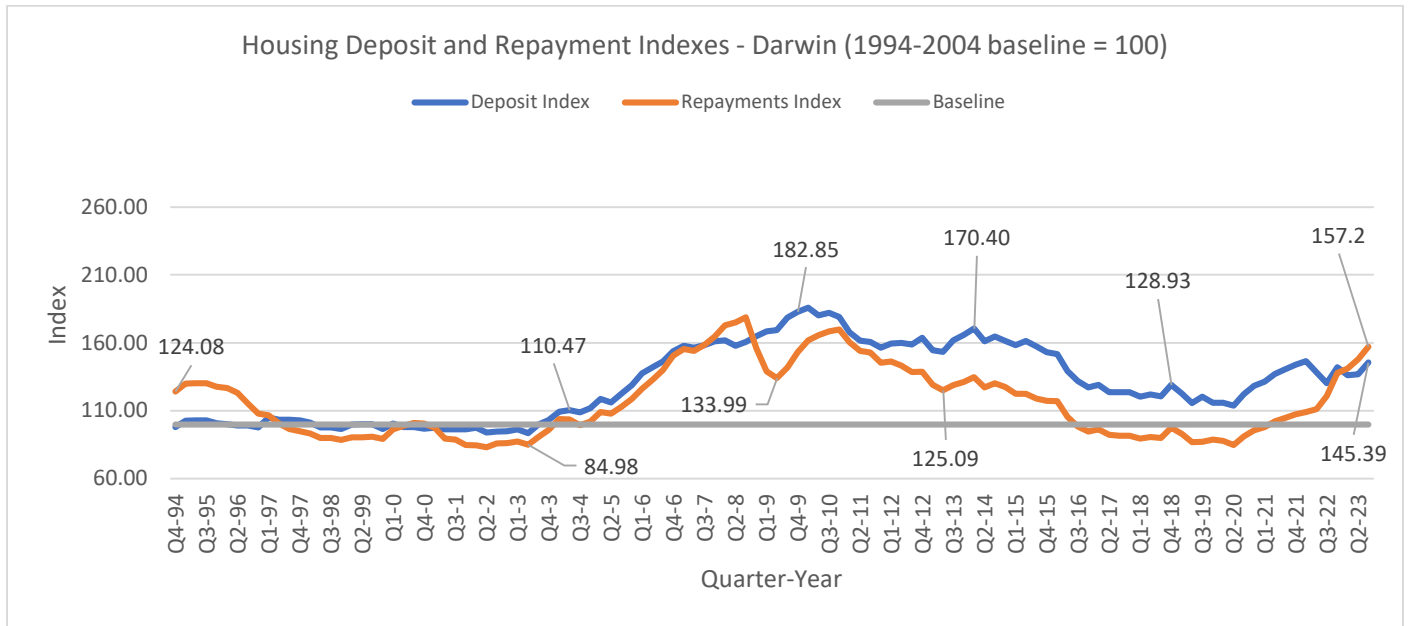
Adelaide



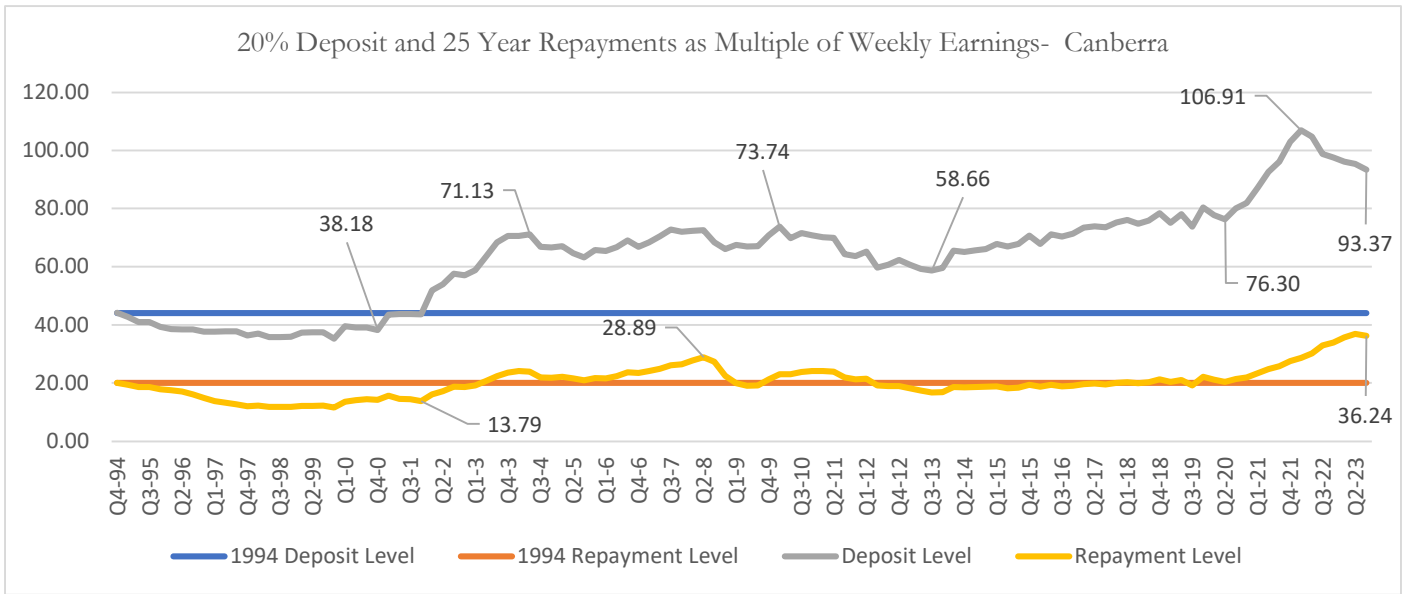
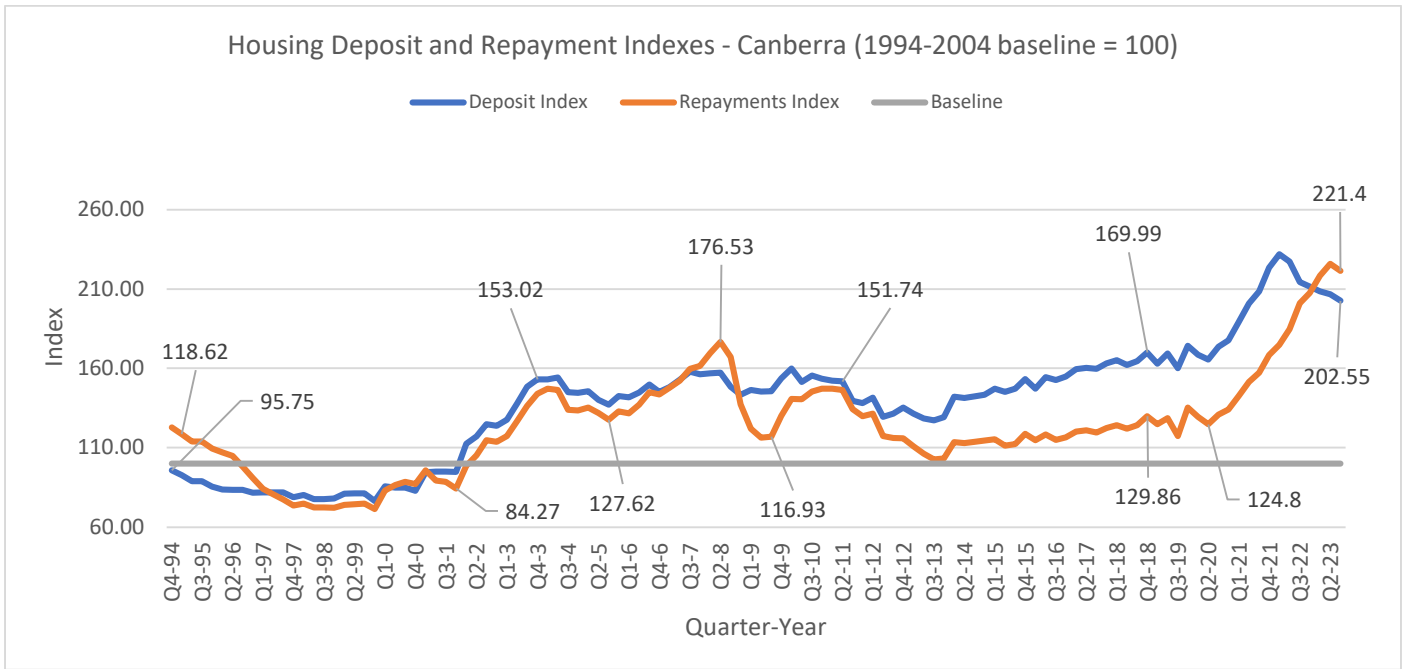
Hobart



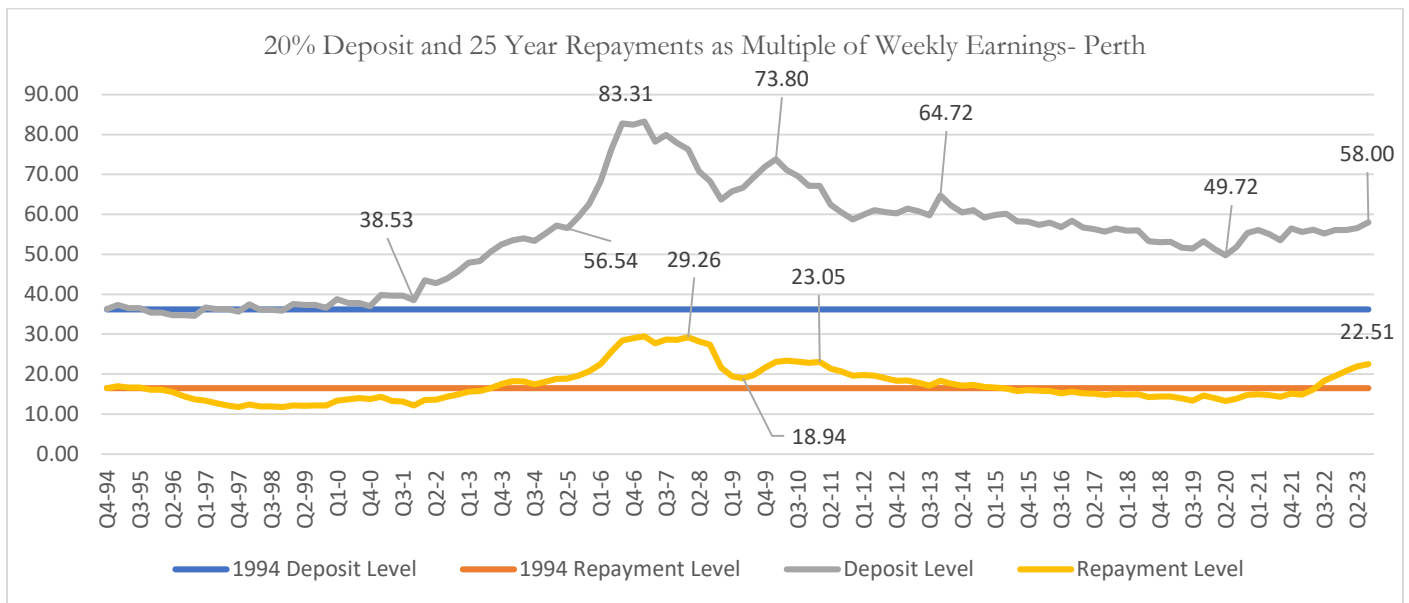
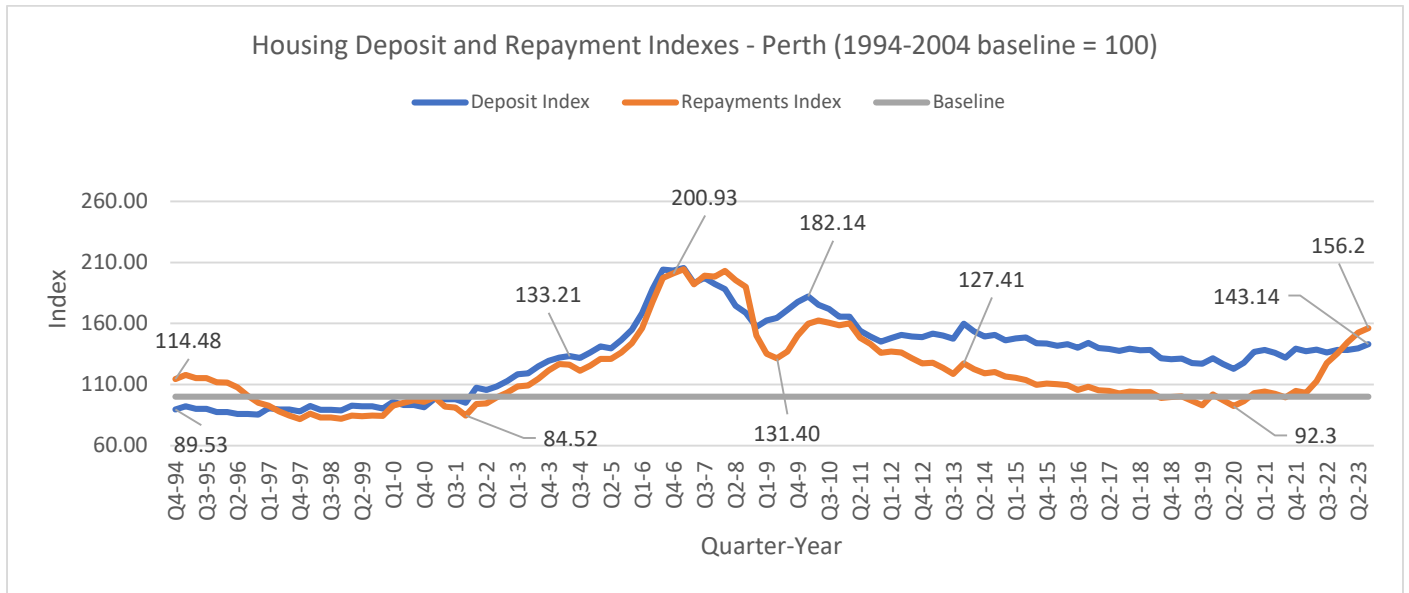
Darwin



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 Q3:2023 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 2023 series). *Total Value of Dwellings*. Obtained via: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release>
3. ABS 6302. (November 2023 series). *Average Weekly Earnings: Australia*. Obtained via: <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>
4. RBA F05. (April 2023 series). *Indicator Lending Rates*. Obtained via: <https://www.rba.gov.au/statistics/tables/xls/f05hist.xls>