HOUSING AFFORDABILITY REPORT

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CoreLogic

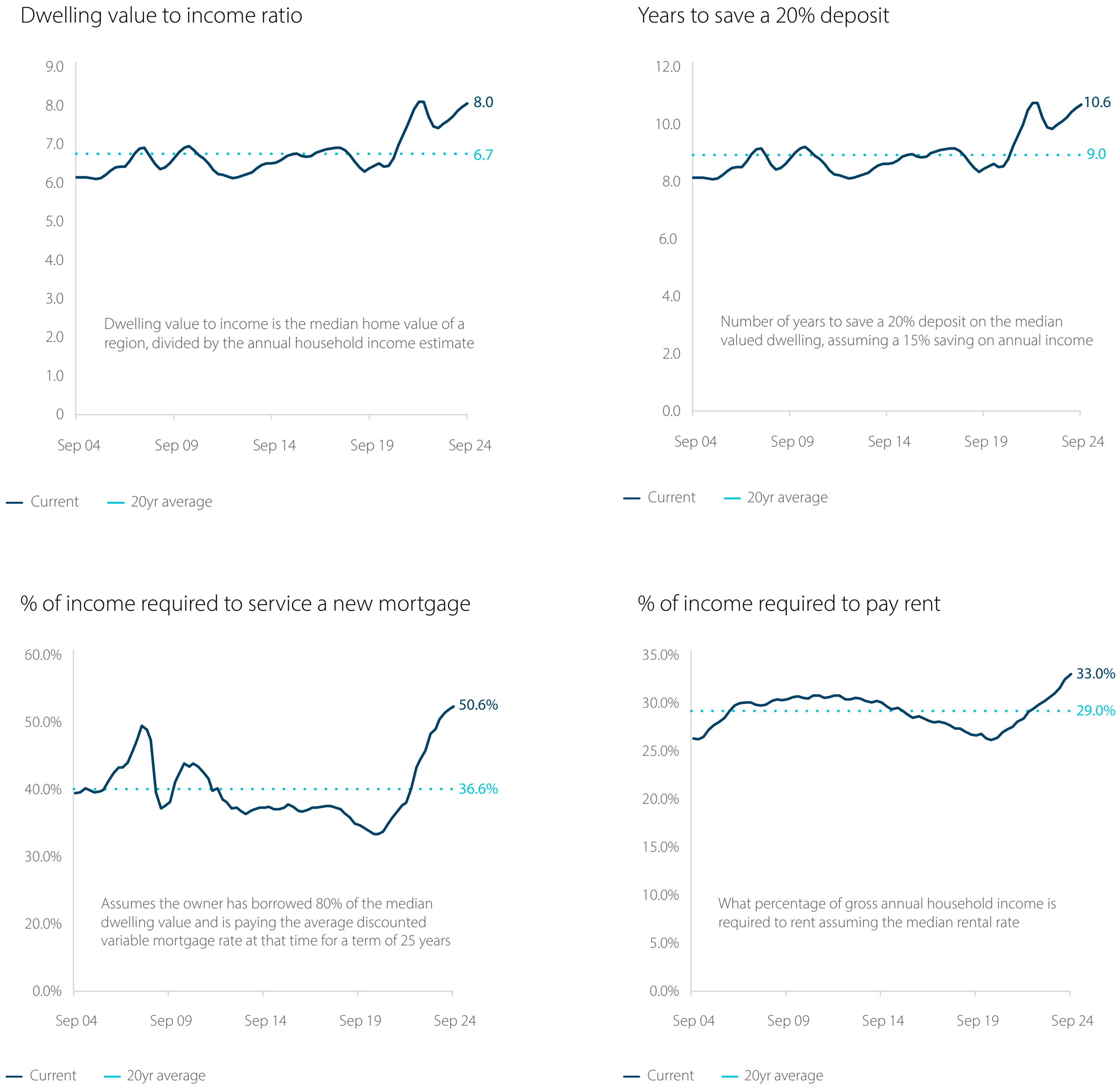
ANZ

HOUSING AFFORDABILITY SLIPS FURTHER IN 2024

Housing affordability metrics deteriorated across most of the country in 2024, due to rising home values. Rents have also continued to rise, though the pace of increases in both housing prices and rents moderated in the latter part of the year.

Modelling from ANU POLIS Centre for Social Policy Research and CoreLogic suggests Australia's latest gross median household income level was around $101,000 per year at September 2024, up from $98,500 a year earlier. This equates to a 2.8% rise over the past year, which is well below the 8.5% rise seen in the median dwelling value and the 9.6% increase in rents over the same period. The median weekly rent value in Australia was $642 per week in September 2024, and the median dwelling value was $807,000.

FIGURE 1: NATIONAL - HOUSING AFFORDABILITY MEASURES AS OF SEPTEMBER 2024



Source: CoreLogic, ANU

This takes the median dwelling value to income ratio to 8.0, up from a 20-year average of 6.7 and equal to the record highs set in early 2022. Assuming an annual saving rate of 15% per annum, it now takes the median income household 10.6 years to save a 20% deposit for the median value dwelling. Assuming current average mortgage rates for owner occupiers, a 20% deposit and a 25-year loan term, more than half of the median household income is required to service a new home loan (50.6%).

MEANWHILE, A RECORD HIGH 33% OF INCOME IS NEEDED FOR THE MEDIAN INCOME HOUSEHOLD TO SERVICE THE MEDIAN RENT.

As important as these measures are, they tie housing back to savings and income. In reality, people may access the housing market by different means such as:

- selling a home they already own
- buying a lower-percentile home than their income percentile (ie, the median income household may buy a dwelling below the median value)
- using a lower deposit than 20% to secure a mortgage more quickly
- using a higher deposit than 20% to reduce the debt burden of a home purchase
- or the buyers may be fortunate enough to have some financial support from others, such as the bank of Mum and Dad helping with deposit, or access to government schemes such as the First Home Guarantee.

The problem with assessing access to home ownership through these alternative measures is that they may be a reality for some, but not all. Not all first home buyers have access to the bank of Mum and Dad, or some other means of wealth that can help them overcome the deposit hurdle. Not all income earners can target a more affordable market or qualify for a low-deposit home loan.

As a result, access to home ownership may continue to become more concentrated in high income, high wealth households, a pattern that has been evident in the past[1]. This is one of the reasons it is still important to assess the median value dwelling against the median income to benchmark how affordable the housing market is, especially for those that do not have means other than income and savings to buy a home.

Even high-income households have seen drastically less access to the housing market, putting pressure on cheaper pockets of the market.

Modelling for September 2024 shows only 10% of the housing market would be genuinely affordable (require less than 30% of income to service a loan)[2] for the median income household. This is well down on the 40% of Australian homes that were affordable for the median income household in March 2022.

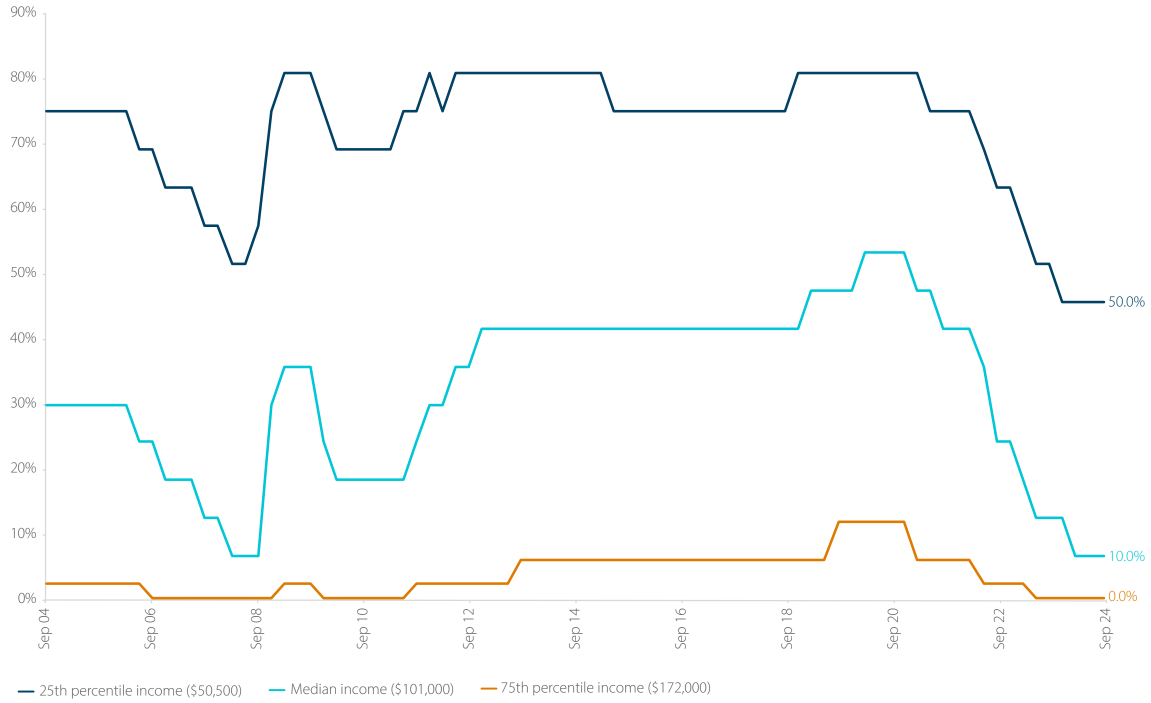
Even for the 75th percentile income household in Australia, with a relatively high gross income estimate of $172,000 per annum, only 50% of the housing market would be affordable to service a loan in September 2024.

Figure 2 shows the portion of home values affordable to the 75th, 50th and 25th percentile income households across Australia for the past two decades. Even at the 'peak' of mortgage serviceability being affordable for low-income households, only 10% of homes were affordable. That has now fallen to 0%.

[1] Standing Committee on Tax and Revenue, Parliament of Australia, Inquiry into housing affordability and supply in Australia, General overview of housing affordability, 2021.

[2] This is based on 30% of gross median income being used to service a home loan with a 20% deposit, an average owner-occupied mortgage rate of 6.27%, and current home values across Australia.

FIGURE 2: PORTION OF AUSTRALIAN HOME VALUES THAT ARE AFFORDABLE (REQUIRE LESS THAN 30% OF INCOME TO SERVICE A LOAN)



Source: CoreLogic, ANU. Based on average owner occupied mortgage rates, gross household income and CoreLogic home valuations. Assumes 30% of income is used to service a home loan with a 20% deposit.

Another notable dynamic is that the fastest-growing housing markets are those which have a relatively low price point, which may increase competition for cheaper properties, eroding affordability for lower income cohorts.

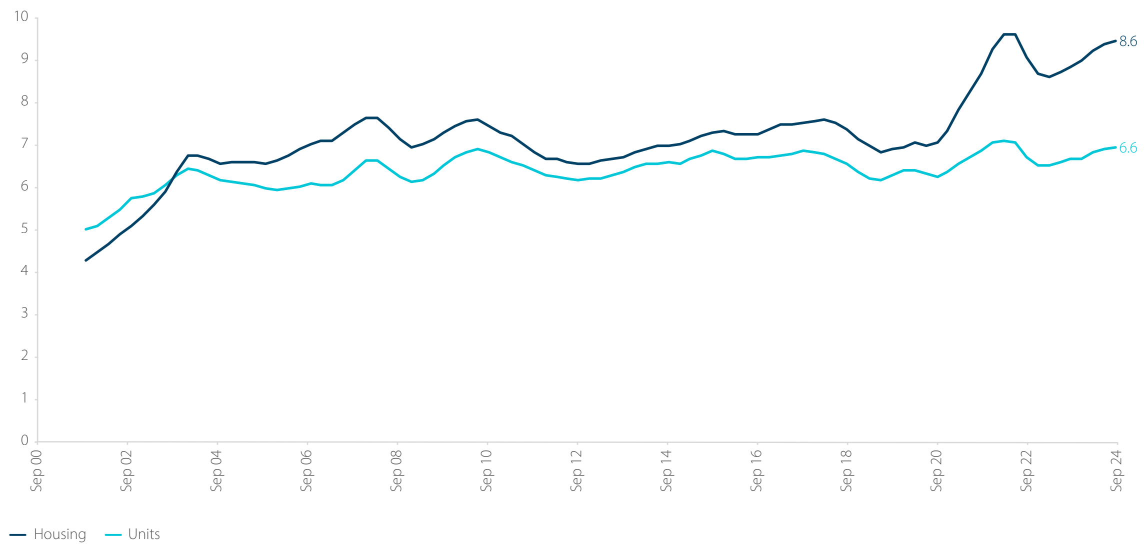
The difference in median house and unit values nationally expanded through the COVID period. Between March 2020 and October 2024, national house values rose 44.5%, more than twice the rate of increase in units (20.7%).

Over the same period, the difference between the median house and unit value nationally increased from $46,000 to $207,000. As of September 2024, the portion of income required to service a mortgage on a median value house was 54.7% (41.6% for units).

The national median dwelling value to income ratio for houses has almost doubled, from 4.4 in September 2001, to 8.6 in September 2024. The unit value to income ratio was initially higher in September 2001, but has only increased 32% to 6.6.

Growth in units is now tracking broadly in line with houses. In the three months to October, capital city unit prices rose 0.9% compared to a 0.8% rise in houses. There may be a few reasons for this, for instance while ABS lending data indicates investors currently make up a relatively high portion of new mortgages, and investors tend to favour units. It may also be that less available affordable housing has shifted more demand towards units.

FIGURE 3: VALUE TO INCOME RATIO - HOUSES VS UNITS, NATIONAL

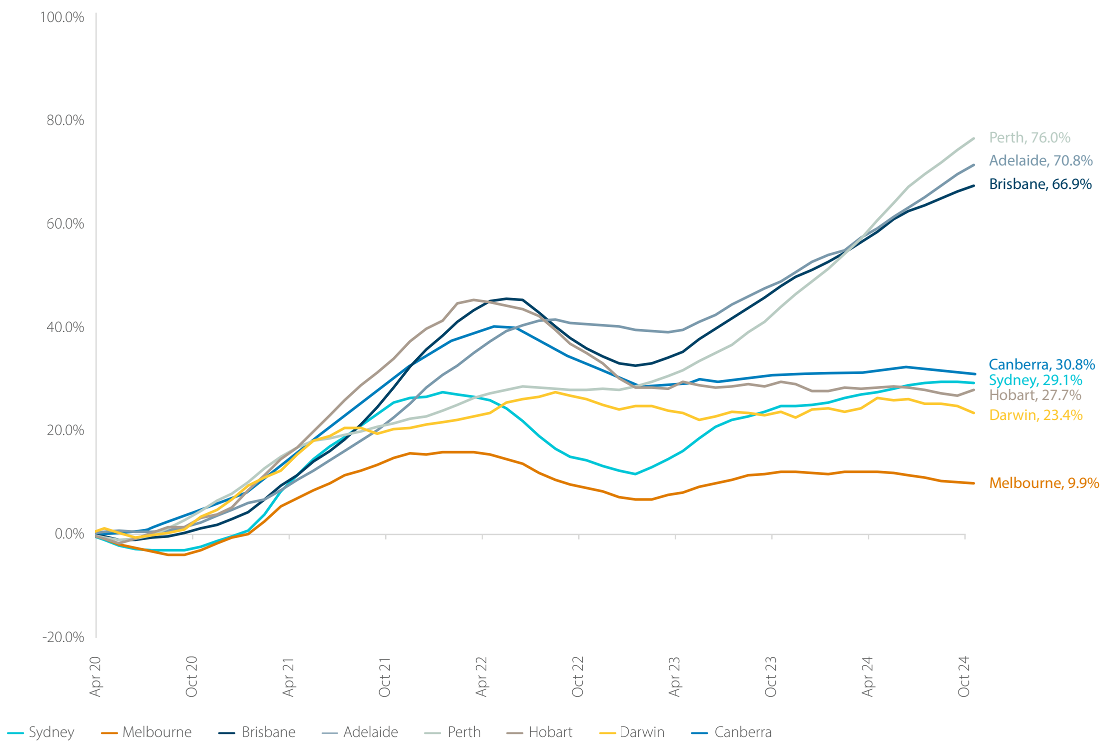


Source: CoreLogic, ANU

HOW DOES HOUSING AFFORDABILITY COMPARE BY REGION?

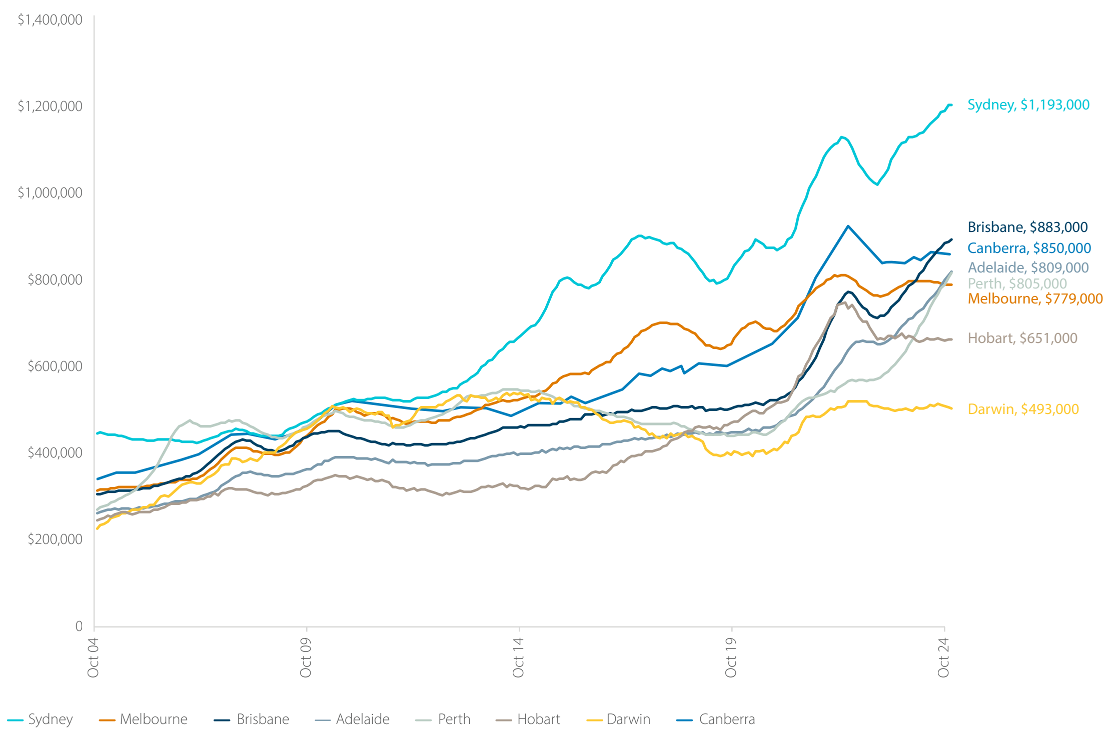
The past few years have seen remarkable shifts in home and rent values across the capital city markets. The pandemic created several structural changes in work and lifestyle, which influenced migration and housing demand. Perth, Adelaide and Brisbane have been beneficiaries of strong interstate migration and jobs growth in the past few years. The WA economy has further benefited from a strong commodity prices through the pandemic period. Dwelling values have increased by more than 65% across Perth, Adelaide and Brisbane between March 2020 and October 2024, far higher than the capital gains seen in Sydney (29.1%), Hobart (27.7%) and Melbourne (9.9%).

FIGURE 4: CUMULATIVE CHANGE IN DWELLING VALUES SINCE MARCH 2020, CAPITAL CITY MARKETS



Source: CoreLogic

FIGURE 5: MEDIAN DWELLING VALUES

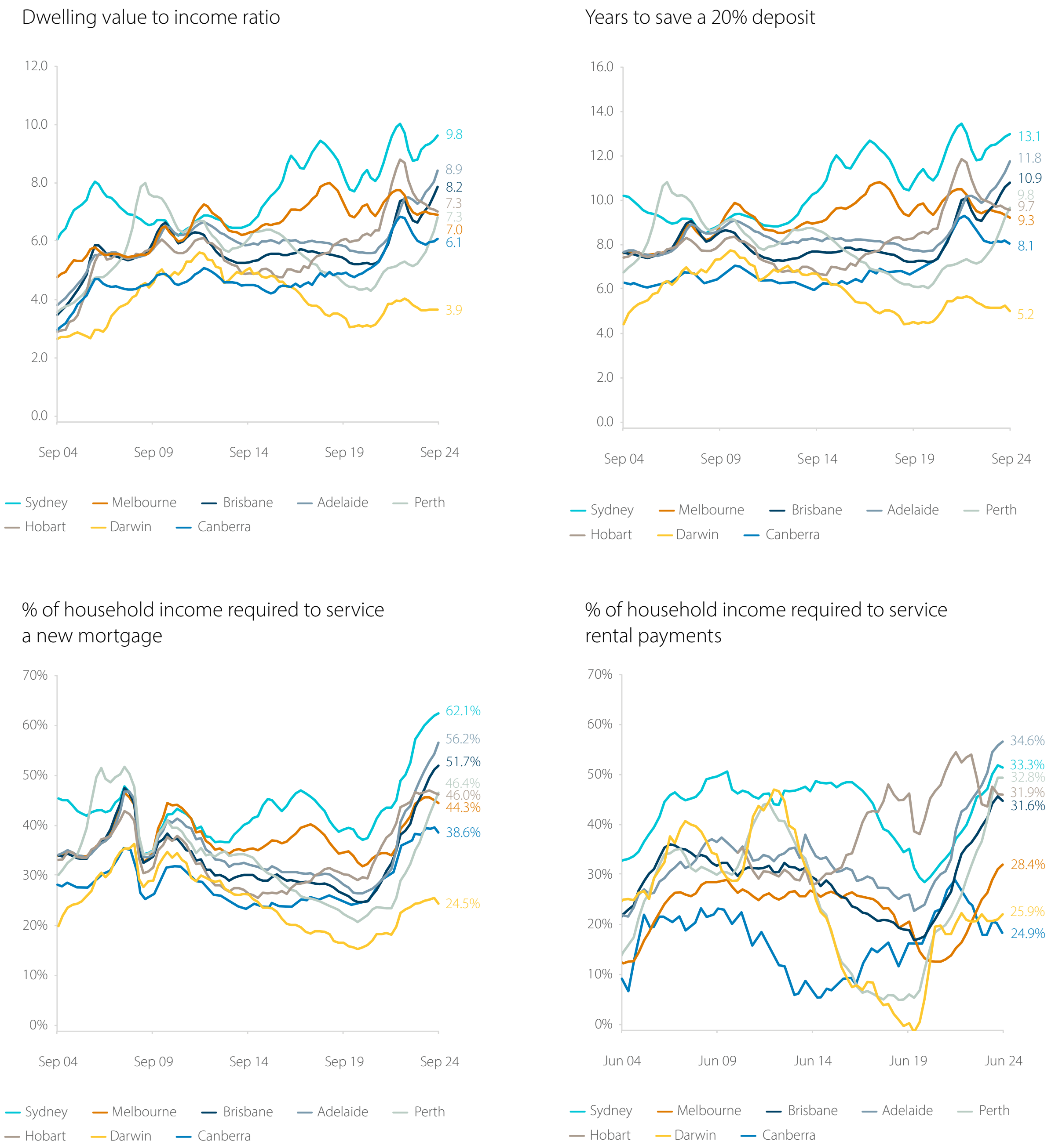


Source: CoreLogic

The biggest deterioration in housing affordability since March 2020 has been in Adelaide, where the median dwelling value to income ratio rose from 5.9 to 8.9. Adelaide is now the second-least affordable capital city by each of the purchasing metrics, with 56.2% of income required to service a new mortgage, and almost 12 years to save a 20% deposit. Adelaide is now also the least affordable market to rent in, with 34.6% of income required to service median rent.

Brisbane and Perth have also seen rapid declines in housing affordability since the onset of COVID. The time required to save a 20% deposit in Perth has climbed to almost 10 years and is at the highest level since the height of the mining boom in March 2008. In Brisbane, over half of the median household income is required to service a new mortgage on the median dwelling value (51.7%), and the city is the third-least affordable by purchasing metrics, and the fifth-least affordable to rent in.

FIGURE 6: HOUSING AFFORDABILITY METRICS BY CAPITAL CITY



Source: CoreLogic, ANU

Sydney remains the least affordable market to buy in. Sydney already had inherently high values before the pandemic and dwelling values have increased 29.1% since March 2020. The median income to dwelling value ratio was 9.8 in the September quarter, with it taking 13 years to save a deposit. Households require 33.3% of their income to service rent in Sydney (which is slightly down from a record high of 33.4% earlier in the year). The portion of income required to service a new loan is very high at 62.1%.

Housing affordability is improving in some markets. This is most notable in Hobart, where dwelling values are currently 11.9% lower than the record high in March 2022, and the market has had a substantial correction in value since the start of rate rises. Housing demand has also been inhibited by weak migration trends over the past few years.

Between March 2022 and September this year, the dwelling value to income ratio across Hobart fell from 9.0 to 7.3, and the city has gone from the second-least affordable city to purchase in, to the fifth-least affordable. Between September 2018 and March 2023, Hobart was the least affordable city to rent in. Since March 2023, the portion of income required to service rent has fallen to from 34.0% to 31.9% for the median income household, and it is now the fourth-least affordable rental market.

Melbourne went from being the second-most expensive capital city by median dwelling value in December 2019, to the sixth-least expensive in October 2024. The median dwelling value across Melbourne is now just under $780,000, below Sydney, Brisbane, Canberra, Perth and Adelaide.

Melbourne prices have fallen for seven consecutive months, and are down 5.1% from a peak in March 2022. Between March 2022 and September this year, the median dwelling value to income ratio was 7.0, down from a high of 8.2 in 2017. While the purchasing market is tipping in favour of buyers, rental affordability remains a challenge.

Despite being one of the higher-value dwelling markets of the capital cities, Canberra has seen improved housing affordability in recent years, and it is the second-most affordable housing market to purchase in behind Darwin. The portion of income required to service a new loan across Canberra is 38.6%, and the number of years required to save a deposit has declined from a recent high of 9.4 years in March 2022 to 8.1 years in September 2024. Canberra is the most affordable rental market, with 24.9% in median income required to service rent.

WILL HOUSING AFFORDABILITY IMPROVE NEXT YEAR?

Demand for housing has softened in recent months, with high interest rates, cost of living pressures and elevated home values deterring buyer competition. In some markets, this has contributed to value falls. Cyclical downturns often do not lead to long-term improvements in housing affordability, because the declines eventually attract new buyers to the market. In the absence of a material increase to housing supply, this pushes values higher. Over the longer term, housing market 'recoveries' are likely for markets such as Melbourne.

Housing affordability may improve slightly from a mortgage payment perspective in 2025, as the cash rate moves lower. ANZ Research expect the first cut in February 2025, with 75bp of easing in total. This would take the cash rate to 3.6%, well above the pre-COVID decade average of 2.6%.

Assuming no change in incomes, and no upward pressure on housing values, this would reduce the national metric of income required for a new loan from 50.6% to 47.1%. However, historic analysis of cash rate movements and home values suggests the reduction in serviceability on a home loan may be partly offset by higher demand for credit, and the potential for renewed upwards pressure on home values.

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