



**HOUSING
AFFORDABILITY
REPORT**

NOVEMBER 2023

INTRODUCTION

This edition of the ANZ CoreLogic housing affordability report provides an overview of how the accessibility and affordability of Australian housing has evolved in 2023 and outlines some likely factors shaping the housing market in 2024.

Looking back over the year, housing affordability was impacted on three fronts, driven by a simultaneous increase in housing values, rent values and interest rates. The number of years to save a 20% deposit at the median income level has ticked back to up to 10 years nationally for the median dwelling value. The portion of income required to service a new home loan has risen to 46.2%, up from a recent low of 29.0% in March 2020. The value of a dwelling with an affordable loan amount for the median household income was estimated to be \$479,000 in September, while the actual median dwelling value in the period was over \$700,000. The portion of income required to service rents on a new lease was 31.0%, up from 29.4% the year prior. These affordability challenges are not isolated, and interact to create less equitable and achievable home ownership.

2023 also saw a further departure in affordability between **house and unit values**. Prior to the pandemic, the decade average difference between house and unit values nationally was 7.3%. As of September, the difference was 28.6%. Median incomes have kept pace with increases in unit values since the onset of the pandemic, while houses have become further out of reach for first home buyers.

The **regional housing market of Australia** is also back in an upswing, and affordability metrics are now more comparable with capital city markets than they were pre-pandemic. The accumulation of a 20% deposit was estimated to take 7.5 years at the start of the pandemic in March 2020, and just 25.4% of income was required to service a mortgage. As of September, years to save a deposit reached 9.7 years, and 44.7% of median income was required to service a new loan.

The Sydney-Melbourne divide also widened through 2023. The more modest movements in Melbourne dwelling values likely comes down to more supply of dwellings over the past 15 years. The difference in median values between Sydney and Melbourne reached a series high of \$343,000 as of October this year. For Sydney more broadly, this may be leading to poorer outcomes for key workers¹, and may be contributing to negative internal migration trends.

Looking ahead to 2024, housing affordability will likely be shaped by the trajectory of interest rates, potential shifts in housing demand and the state of the construction sector. There is unlikely to be much relief in interest rate or home value declines, and improvement in affordability must come from deliberate efforts to increase housing supply.

MEASURING HOUSING AFFORDABILITY

The report utilises gross median household income data modelled by the ANU Centre for Social Research and Methods to September 2023, as well as CoreLogic housing values and rents. There are four aspects of housing affordability referenced throughout the report. These are the median dwelling value to income ratio, the portion of income required to service a new mortgage, the number of years to save a 20% deposit, and the portion of income required to service rents on a new lease. Appendix 1 provides more detailed definitions of these metrics. Appendix 2 provides a summary of affordability metrics to date for various regions.

A LOOK BACK ON HOUSING AFFORDABILITY IN 2023

HOUSING AFFORDABILITY WORSENE ON THREE FRONTS IN 2023

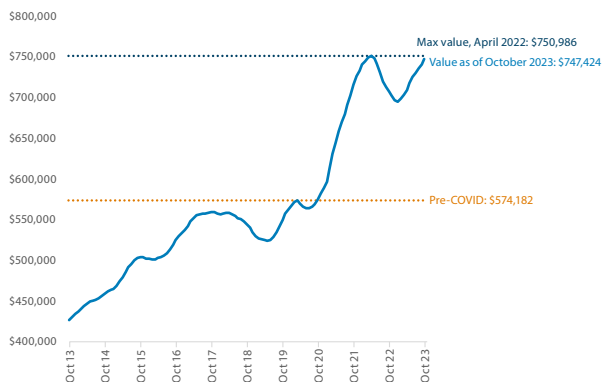
Housing affordability deteriorated on three fronts over 2023. Advertised rent values continued to rise, increasing 6.8% nationally in the year to date. The cost of debt was pushed higher by a further 125-basis point increase in the cash rate since January. Despite increases in the cost of debt, and reduced borrowing capacity, home values have increased 7.2% nationally since January.

Importantly, these multiple affordability challenges are not isolated, but interact to create less equitable access to home ownership. Historically, housing tenure in Australia has been seen as a continuum, where renting households could transition from renting to home ownership. But as savings are depleted by rising rental costs, it becomes harder to accumulate the initial deposit needed to secure a loan. This is compounded by rising deposit requirements as home values rise, and smaller loan amounts as mortgage rates increase. Such conditions help to explain why home ownership has fallen more substantially across lower income households over time, and may result in weaker first home buyer activity going forward.

TIME TO SAVE A DEPOSIT CLIMBS BACK OVER 10 YEARS

The unique challenge for prospective home buyers in 2023 has been the return of housing price growth *despite rising interest rates*. National home values bottomed out in January this year, having declined -7.5% from a peak in April 2022. From January through to the end of October this year, national home values recovered 7.2%, and based on the daily home value index, have now reached new record highs. This is despite a 125 basis-point increase in the cash rate since the start of the year, where a higher cost of debt has historically put downward pressure on home prices.

FIGURE 1. NATIONAL MEDIAN DWELLING VALUE - INDEXED MEDIAN



Source: CoreLogic. The indexed median is the current median value, indexed by growth in the CoreLogic home value index over time.

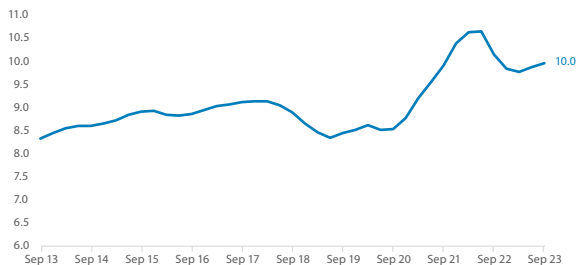
The increase in housing values through the year may be attributed to several factors:

- an unusually high level of net overseas migration, which reached a record 454,000 over the year to March 2023;
- persistently low advertised stock levels, where total listings nationally remained -22.9% below the historic five-year average in October;
- tight rental markets, where nationally advertised rent values have risen 8.1% in the past 12 months, which is driving up investor purchases; and,
- expectations that the cash rate may be at, or near, a peak, meaning they may be more confident to buy a property without being hit with further rate increases.

This has led to the deposit hurdle once again rising for property purchases in 2023 (Figure 2). The time required to save a 20% deposit nationally saw a brief fall from 10.7 years in June 2022, to 9.8 years in March 2023.

As of September, the deposit hurdle was once again in double digits, at 10.0 years. Based on the median home value nationally in September, a 20% deposit was sitting just above \$148,000. This excludes other upfront transaction costs, such as stamp duty.

FIGURE 2. YEARS TO SAVE A 20% DEPOSIT, NATIONAL, DWELLINGS



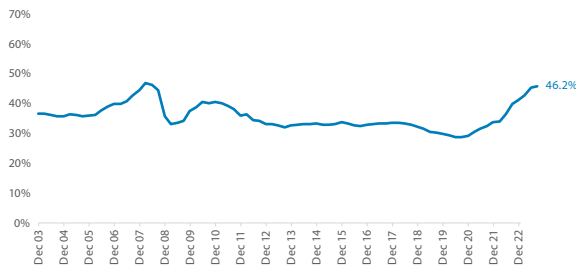
Source: CoreLogic, ANU. Years to save a deposit assumes a 15% annual savings rate on the median gross household income.

Increases in the deposit hurdle are a particular barrier for first home buyers and other non-home owners. Those who already own property will often benefit from gains in home equity as dwelling values rise, and those rises historically outpace growth in incomes and savings at the national level. That equity, or profit from resale, can be put towards another home, and makes it far easier for household wealth to keep up with the market. This makes it most challenging to get on the first 'rung of the property ladder'.

SERVICEABILITY COSTS INCREASE

The portion of income required to service a new loan on the median dwelling value in Australia rose from 40.3% in September last year to 46.2% as of September 2023 (Figure 3). This is up from a recent low of 29.0% in March 2020, when the underlying cash rate had been set at a record-low in response to the pandemic. Despite the deterioration in mortgage serviceability, the portion of income required to service a loan remains a little below the series high of 47.3%, which was in March 2008.

FIGURE 3. PORTION OF INCOME REQUIRED TO SERVICE A NEW MORTGAGE - NATIONAL, DWELLINGS



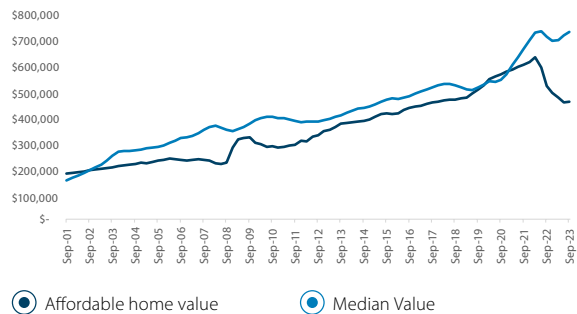
Source: CoreLogic, ANU. Portion of income required to service a new loan assumes a new mortgage at each period, an average variable owner occupier mortgage rate, a 25 year loan term and 20% deposit on the median dwelling value.

REDUCED BORROWING CAPACITY COULD BE EXACERBATING UNEQUAL ACCESS TO HOME OWNERSHIP

The lift in interest rates in the face of rising dwelling values may result in a market where lower income or lower wealth households struggle to compete for housing. This is already evident, with lower-deposit home loans making up a smaller portion of the mortgage market. According to APRA, the portion of new loans secured with a 20% deposit or less was 35.9% in the March quarter of 2022 (prior to the first cash rate increase). As of June 2023, this portion had fallen to 29.3%.

For buyers who are more reliant on housing credit – including the bulk of first home buyers – it is harder to find a home with an affordable mortgage. Figure 4 shows a home value that is affordable for households to service based on average mortgage rates at the time, a 20% deposit and payments at 30% of the median household income. This series is plotted against the actual median value of homes across Australia.

FIGURE 4. MEDIAN AUSTRALIAN HOME VALUE VERSUS AFFORDABLE HOME TO SERVICE MORTGAGE



Source: CoreLogic, RBA. 'Affordable home value' is based on a mortgage that is up to 30% of payments on the median household income, average variable owner-occupier mortgage rates, and a 20% deposit. Median value is the 50th percentile dwelling value across Australia measured by CoreLogic.

The 22-year back series in figure 4 shows how extraordinary the current departure of median home values is from a comfortable level of serviceability for the median income earner. September 2023 saw an unprecedented discrepancy between an affordable home value and the median value, at over \$260,000. With such a gap, prospective buyers could also be looking at lower-value segments of the market to buy into, such as apartments, or areas further from central business districts. In fact, CoreLogic data shows a faster growth rate in the bottom 25% of home values in the capital cities, which was 3.3% in the three months to October, compared to 2.3% in the top 25% of home values. This may have a cascading effect, seeing lower-income households priced out of the market.

The current interest rate and price dynamic may also explain a lacklustre lift in first home buyer loan numbers throughout 2023 compared to other buyers. Comparing the ABS count of first home buyer loans in September to the start of the year, the number of loans secured increased 11.5%. For investors and owner occupiers who were not first home buyers, loan volumes have lifted over 30% in the period.

RENTS RISE FURTHER

A further challenge to housing affordability has been rises in rent values through 2023. Advertised rent values increased 8.1% in the year to October, and have risen 28.4% since the onset of the pandemic.

In our previous affordability report, [Reflections on the Pandemic and the Rental Market](#), we explored the multitude of supply and demand factors that have contributed to the current tightness in the rental market, which ranges from smaller average numbers of people per dwelling, to the re-opening of Australian borders and a lack of social and affordable housing supply over time.

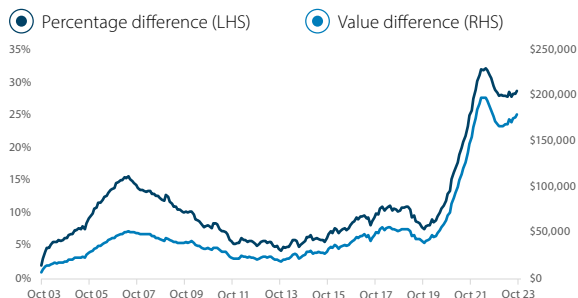
As of September, the portion of income required to service a new lease at the median income level was 31.0%, up from 29.4% the year prior, and 26.7% at the onset of the pandemic. While rents on new leases are still relatively manageable at the median annual income level, the current portion of 25th percentile income required to service an equally low rent lease was over 50% of income in September.

HOUSES FURTHER OUT OF REACH FOR FIRST HOME BUYERS

A defining feature of housing market performance since the pandemic has been a preference for detached homes over units. This has led to an extraordinary divergence in house and unit values, which has not subsided even through worsening affordability constraints, and a downswing in home values through 2022.

Figure 5 shows the difference between median house and unit value over time, both in value and percentage terms. Prior to the pandemic, the decade average difference between house and unit values nationally was 7.3%. This rose to a peak of 32.0% in the June quarter of 2022, and has since eased slightly, but remains at elevated levels of 28.6%.

FIGURE 5. DIFFERENCE BETWEEN NATIONAL MEDIAN HOUSE AND UNIT MEDIAN VALUE



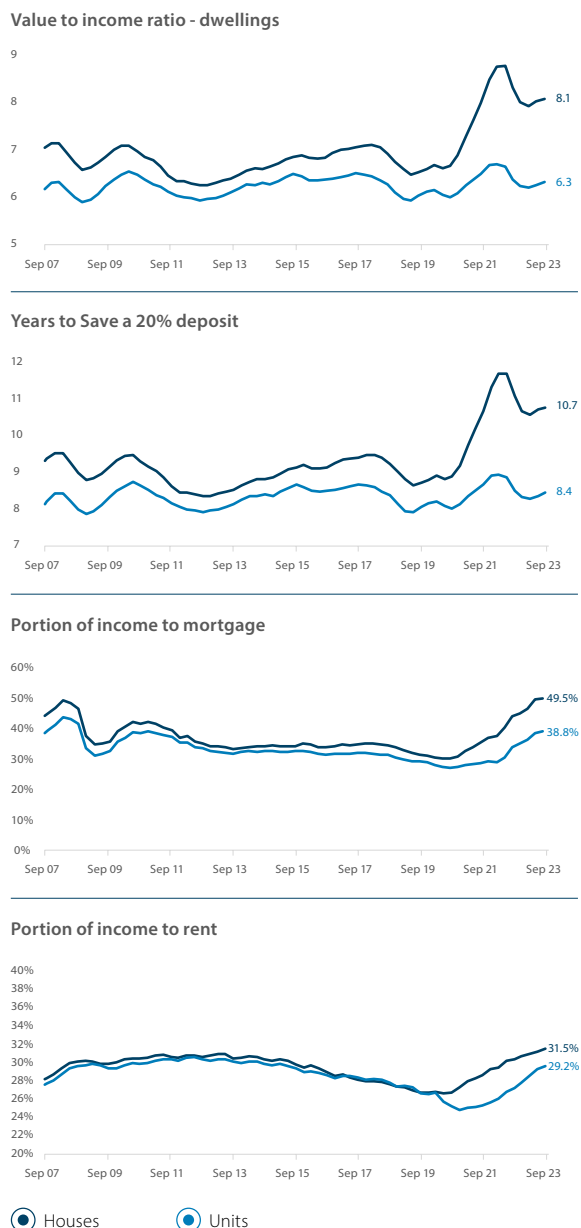
Source: CoreLogic

This preference for houses became heightened as working from home became more commonplace through the pandemic. During this time, regional markets and outer-suburban areas with detached housing stock surged in popularity.

Since March 2020, national home values increased 35.1% through to the end of October, compared to an increase of 15.5% in units. The median household income in Australia rose an estimated 15.6% in the same period, suggesting median incomes have kept pace with increases in units. Houses have become more out of reach. As a result, affordability metrics for units are much more in line with long term averages, while house affordability has worsened considerably (see figure 6).

Although houses have historically been a preference for owner occupiers (including first home buyers), the pandemic period has meant that houses are much less attainable. The increased shift to working from home added to the need for space, and reduced the premium on inner city apartment markets. This trend may start to reverse in 2024 due to ongoing affordability pressures in the detached house segment, diverting more demand back to units.

FIGURE 6. HOUSING AFFORDABILITY METRICS - HOUSES VERSUS UNITS, NATIONAL



Source: CoreLogic

NOTABLY, THE TIME TO SAVE A 20% DEPOSIT HAS ONLY SHIFTED BY AROUND 2 MONTHS NATIONALLY FOR UNITS SINCE THE ONSET OF COVID-19, WHILE FOR HOUSES THE TIME TO SAVE HAS BLOWN OUT BY ALMOST 2 YEARS.

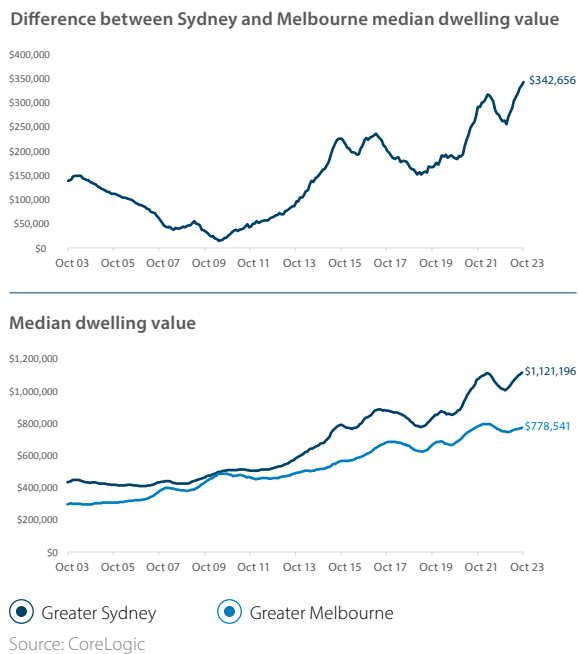


THE SYDNEY-MELBOURNE DIVIDE

Since the early 2010s, there has been an extraordinary divergence in affordability metrics across Sydney and Melbourne.

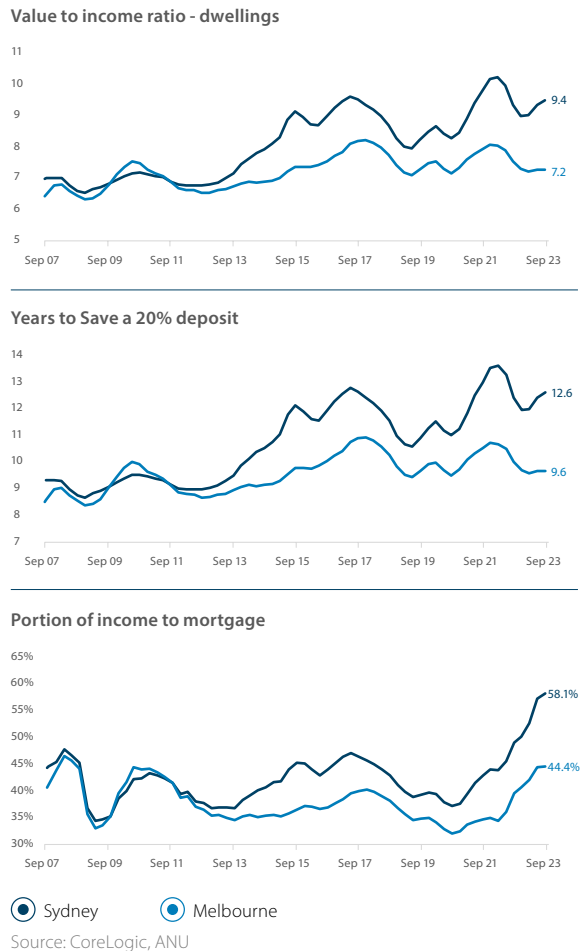
The difference in median values between Sydney and Melbourne exploded from around \$12,000 in May 2010, to a series high of \$343,000 as of October this year (figure 7). While both markets have seen similar *timings* of cyclical growth and decline, the Melbourne market saw a steep decline in home values between 2010 and 2012, and softer upswings through the 2010s and early 2020s.

FIGURE 7. DIFFERENCE BETWEEN MEDIAN DWELLING VALUE OVER TIME - SYDNEY AND MELBOURNE



Affordability trends for the two cities are compared in figure 8. Over the five years to September, Melbourne is the only capital city where affordability for buyers and mortgage holders improved. Meanwhile, Sydney has seen an ongoing deterioration in these metrics.

FIGURE 8. QUARTERLY HOUSING AFFORDABILITY METRICS - DWELLINGS, SYDNEY AND MELBOURNE

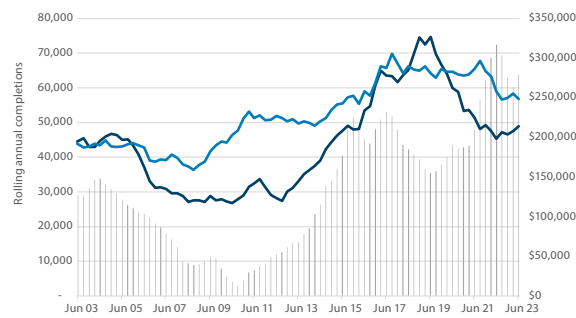


The estimated number of years to save a deposit in Sydney was 12.6 years as of September, three years more than in Melbourne. The portion of income required to service a new mortgage at the median income level was 58.1% across the city in September, up from a recent low of 37.1% three years prior. In Melbourne, the portion of income required to service a new mortgage has also increased with interest rates, but by a lesser extent from 31.9% to 44.4%. The portion of income required to service a new loan in Sydney is at its highest level on record, while mortgage serviceability across Melbourne is now close to where it was in 2010.

More modest dwelling value increases in Melbourne, which has led to Melbourne being more affordable relative to Sydney over time, comes down to more supply of dwellings over the past 15 years. ABS building activity data shows there were around 850,000 dwelling completions across Victoria in the 15 years to June 2023, which is 21% higher than in NSW over the same period². In a similar time frame (the 15 years to March 2023), ABS demographic data showed an increase in the NSW population of 1.37 million, and in Victoria the increase was 12% higher (at 1.53 million). This suggests a dwelling completion rate of around 0.6 people per person added to the population in NSW, and 0.7 across Victoria.

Figure 9 shows rolling annual dwelling completions in the two states over time, where completions across Victoria outpace NSW for majority of the period. Overlaid with this is the difference between median Sydney and Melbourne dwellings, which has been exacerbated the longer Victoria sees more completions than NSW.

FIGURE 9. ROLLING ANNUAL COMPLETIONS (DWELLINGS) AND THE SYDNEY-MELBOURNE DIVIDE



- Sydney median price premium (RHS)
- NSW dwelling completions (LHS)
- VIC dwelling completions (LHS)

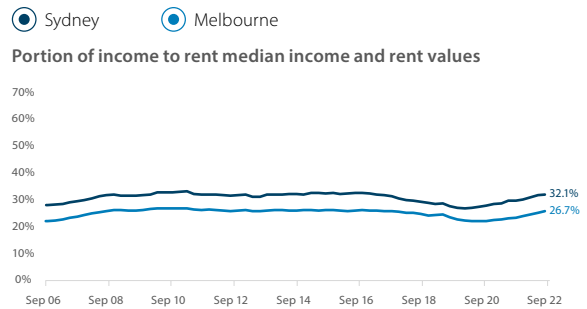
Source: CoreLogic, ABS

In addition to relatively mild growth throughout the 2010s, Melbourne had the smallest 'COVID-boom' of the capital cities. From the onset of COVID-19 in March 2020, to a peak in early 2022, Sydney dwelling values increased 27.2%, compared to a 15.8% upswing in Melbourne. This may be attributed to weaker migration trends through the period. Extended lockdown periods were reported to have contributed to negative net internal migration from Melbourne. Between June 2020 and June 2022, ABS regional population data shows a 0.5% decline in the Greater Melbourne population compared to a mild increase across Greater Sydney (0.1%). For Melbourne this equated to a loss of around 25,400 people over the two-year period, or around 10,000 households.

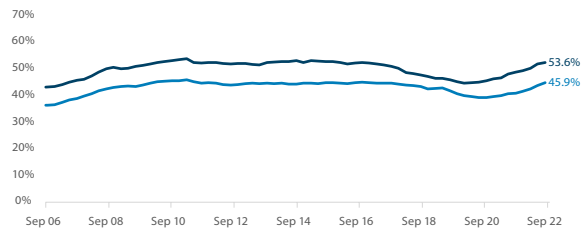
On the rental front, Melbourne has consistently been a more affordable city than Sydney. In September, the portion of income required to service a new rent lease was 26.7% in Melbourne, compared to over 30% of income in Sydney (Figure 10). However, for those on low incomes, both cities fail to provide affordable rental accommodation. It is estimated 53.6% of the 25th

percentile income would be required to service a new lease on the 25th percentile rent value in Sydney, and 45.9% of the 25th percentile rent in Melbourne.

FIGURE 10. PORTION OF INCOME REQUIRED TO SERVICE RENT ON A NEW LEASE, MEDIAN AND 25TH PERCENTILE, SYDNEY AND MELBOURNE



Portion of income to rent 25th percentile income and rent values



Source: CoreLogic, ANU

Sydney house prices are an ongoing barrier to keeping more key workers than Melbourne. A 'key worker' has been defined in recent literature as an employee in an essential service to the functioning of a city, earning low-to-moderate income³. Take the example of an experienced classroom teacher in Sydney, with a salary of \$122,100 per year⁴. Assuming a 20% deposit, an average owner-occupier home loan rate and up to 30% of their salary on a mortgage, a single teacher could only comfortably, affordably make mortgage payments on 8.4% of Sydney homes. The same analysis for Melbourne, on a salary of \$112,333, suggests 14.9% of homes would have a manageable mortgage payment⁵. Worsening affordability in Sydney may have future implications for internal migration trends, with relative affordability of housing drawing Sydney-siders to other cities.

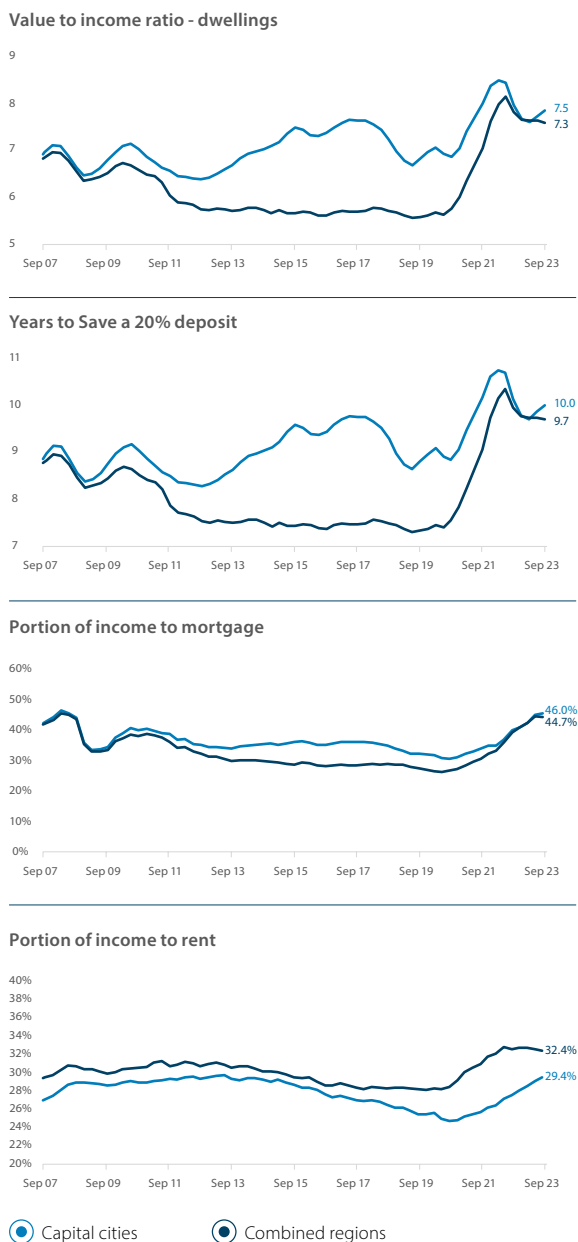
2. Although building activity is state-wide as opposed to the capital cities, small area completion data from the ABS suggests the majority of dwelling completions are across capital cities.
 3. Gilbert, C., Nasreen, Z., & Gurran, N. (2021). Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities. AHURI Final Report.
 4. Based on information from the NSW Department of Education: <https://education.nsw.gov.au/teach-nsw/explore-teaching/salary-of-a-teacher/#%3Cspan0>
 5. Based on information from SchoolsVic: <https://www.education.vic.gov.au/hrweb/Documents/Salary-Teacher.pdf>

REGIONS ARE NO LONGER AN AFFORDABLE ALTERNATIVE

Regional Australia has become far less affordable over the past few years. Figure 11 shows how housing affordability metrics across the median capital city and regional market dwelling have changed over time.

Affordability metrics worsened for regions through the pandemic, and are now more comparable to conditions across the capital cities for ownership metrics such as the time to save a deposit, and mortgage serviceability.

FIGURE 11. HOUSING AFFORDABILITY METRICS - COMBINED CAPITAL CITIES VERSUS REGIONS



Source: CoreLogic, ANU

At the onset of the pandemic, affordability metrics across the combined regional market were much better than capital cities for the median income household. The accumulation of a 20% deposit was estimated to take 7.5 years and just 25.4% of income was required to service a mortgage. As of September, years to save a deposit reached 9.7 years, and 44.7% of median income was required to service a new loan.

The portion of income required to service rent across regional Australia has now increased to 32.4%, up from a historic decade average of 29.8%. This follows a 31.0% increase in regional rent values since March 2020, compared to a 27.5% lift in capital city rents over the same period. Changed housing preferences through the pandemic triggered a stronger upswing in regional dwelling values, as organisations were forced to embrace remote work across many sectors.

As of October, the regional Australian dwelling purchase has sustained a 44.4% uplift in dwelling values since the start of COVID, compared with a 26.4% uplift across the capital city dwelling market.

Regional Australia saw a 5.8% decline in home values in response to rising interest rates (compared with a more severe 8.1% fall across the combined capitals). The regional Australian dwelling market has since seen values bounce back 3.5% from the market trough, though the capital cities market has seen a faster recovery trend, rising 8.9% from a trough in January.

Growth conditions across regional Australia are expected to soften in the short term, as internal migration trends normalise post-COVID, but a decline in values is not expected any time soon.

The regional market has moved through a downswing, but values have still settled at a much higher value than before the pandemic. This highlights that regional Australia should not be seen as an 'affordable alternative' to capital city markets. This shift is unlikely to change in the near future, and will have ongoing ramifications for regional Australia. Longer term residents and key workers⁶ may face displacement from regional centres, or housing stress. The rapid nature of the shift is also likely to stretch resources that are available to those in vulnerable housing situations, as regional infrastructure falls behind population growth after the surge in demand.

6. A 'key worker' is an employee that provides essential services to the functioning of a city, earning low-to-moderate income. Source: Gilbert, C., Nasreen, Z., & Gurrán, N. (2021). Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities. AHURI Final Report.

WILL HOUSING AFFORDABILITY EASE IN 2024?

Looking ahead to 2024, housing affordability will likely be shaped by the trajectory of interest rates, housing demand and the state of the construction sector. The expectation is that 2024 may see a slight easing in interest rates toward the end of the year, which would ease serviceability costs, but could also put upward pressure on home values. Renters are expected to react to higher housing costs through moving, and re-forming share houses. On the supply side, listings volumes have started to increase, but the delivery of new housing stock will be hampered by a persistent lack of dwelling approvals this year.

DEPOSIT HURDLE TO REMAIN THE KEY ISSUE IN 2024

The ANZ Research outlook for interest rates is that the 25-basis point November 2023 rate hike may be the last for this tightening cycle, with an extended pause in interest rates to follow in 2024. This means that through 2024, existing owners will be exposed to the peak cash rate through most of the year, while prospective buyers will face the double challenge of higher home prices and higher borrowing costs.

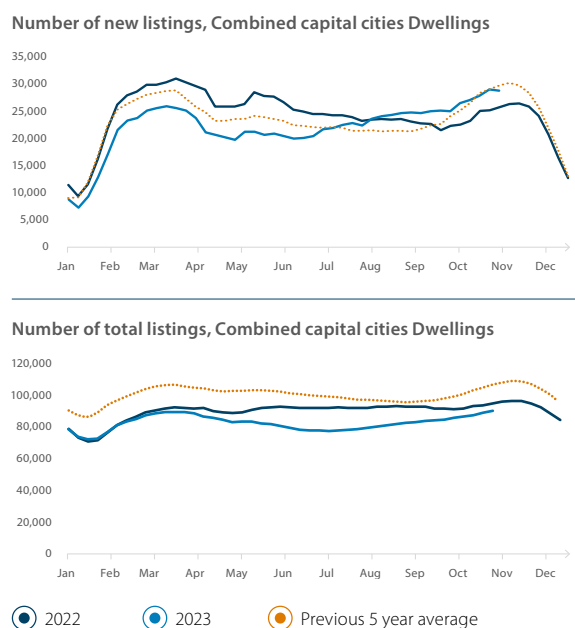
Even a modest decline in interest rates will help to ease mortgage serviceability, but it would take a substantial reduction in mortgage rates to bring the portion of mortgage payments to household income down to comfortable levels. The current level of gross median household income required to service a new mortgage across Australia was 46.2% in September. This was based on median annual household income of just under \$97,000, a median dwelling value of \$740,668, and a mortgage rate of 5.95%. Assuming income and the median dwelling value remain steady, mortgage rates would have to decline 146 basis points to bring serviceability down to 40% of income, and 410 basis points to bring serviceability down to 30% of income.

Even in an environment of *rising* rates, home values have risen. For this reason, the deposit hurdle will likely remain the main pain-point for first home buyers in 2024 and beyond.

NEW LISTINGS HAVE BEEN RISING, BUT THE NUMBER OF NEW HOMES WILL BE MODEST IN 2024

One of the more promising trends for buyers in 2023 was a rise in new listings being added to the market for sale. New listings across the capital cities had been trending below-average for around 10 months between September 2022 and July 2023, before showing an unseasonal lift through winter, and a strong seasonal bump through the start of spring (Figure 12). Sydney, Melbourne, Hobart and Canberra have seen the largest uplifts in new listings, and this is consistent with a more rapid slowdown in monthly housing price growth across these cities over the second half of 2023. Total listings levels across the combined capital cities remain low relative to historic averages, but are now also gradually rising.

FIGURE 12. NEW AND TOTAL LISTINGS COUNTS, COMBINED CAPITAL CITIES MARKET



Source: CoreLogic

However, Australia faces longer-term issues with housing supply, owing to a slowdown in new dwelling approvals and issues across the construction sector that have delayed completions.

Figure 13 shows monthly dwelling approvals nationally. Following the end of the HomeBuilder scheme in 2021, new dwelling approvals have trended consistently lower. This downward trend was compounded by a rising interest rate environment, which made presales more difficult for large, high-density projects. Despite shifting slightly higher since January, dwelling approvals have averaged around 13,900 per month for the past year, against a decade average monthly volume of 17,300. In other words, approved new dwellings are trending extremely low at a time when new housing supply is desperately needed.

APPROVED NEW DWELLINGS ARE TRENDING EXTREMELY LOW AT A TIME WHEN NEW HOUSING SUPPLY IS DESPERATELY NEEDED.

FIGURE 13. MONTHLY DWELLING APPROVALS, TOTAL TYPE OF DWELLING, TOTAL SECTORS

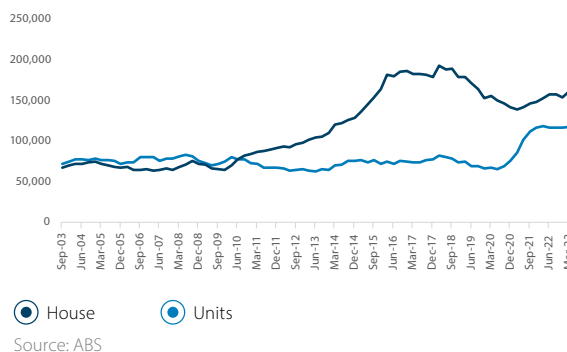


Source: ABS

The decline in dwelling approvals has not yet shown up in a substantial fall in construction starts, or the number of dwellings under construction, because of an elevated backlog of dwelling construction. The increase in the backlog of dwelling construction occurred in part because of the sudden surge in demand for detached houses off the back of HomeBuilder, coinciding with shortages in construction labour and materials through the pandemic.

This is demonstrated in Figure 14, which shows the elevation in dwelling projects approved but not yet complete. As of June, the total number of approved dwellings yet to be completed was around 267,500, up from a pre-COVID decade average of around 209,000.

FIGURE 14. DWELLINGS APPROVED BUT NOT COMPLETE, NATIONAL

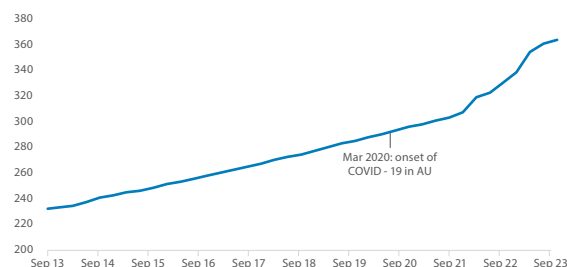


Source: ABS

Figure 15 shows the national Cordell Construction Cost Index, which suggests the cost to build a house has risen 25.6% since March 2020. While the quarterly rate of increase in the index has slowed substantially in the September quarter to just 0.5% q/q, there are few material and labour inputs for residential construction that have declined. The strong infrastructure pipeline across Australia will likely keep construction costs in the residential sector higher for longer.

The backlog of construction projects will ease through 2024 as more dwellings are delivered, but the underlying decline in approvals could see a lower volume of housing starts over the course of the year. The HIA has estimated new detached house starts nationally will slow to 95,370 in 2024 the lowest number since 2012. While unit starts are expected to increase, the commencement of new dwellings will still be well below the highs in 2021⁷. The reduction in starts will be a double-edged sword for housing supply. On the one-hand, it will help to improve capacity in the construction sector, as demand for construction services and materials ease in response to the diminishing pipeline. This could slow the increase in construction costs. On the other hand, this will ultimately exacerbate dwelling shortages, which are putting pressure on housing and rental costs.

FIGURE 15. CCCI INDEX, NATIONAL



Source: CoreLogic. The CCCI is an index that measures changes in the cost of a static residential dwelling over time.

7. Housing Industry Association, 5th August 2023, 'House building activity to slow for another year', <https://hia.com.au/our-industry/newsroom/economic-research-and-forecasting/2023/08/house-building-activity-to-slow-for-another-year>, Date accessed November 20, 2023

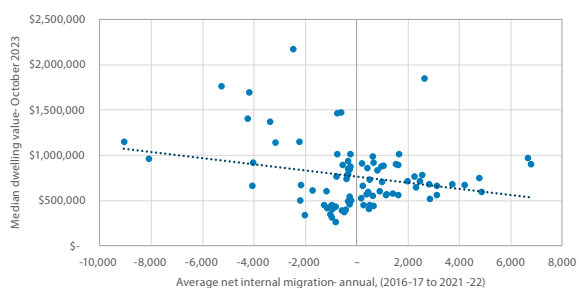


WITHOUT A SHORT-TERM FIX TO THE HOUSING CRISIS, HOUSING PREFERENCES WILL ADAPT

Australia's housing affordability landscape has been further exacerbated by recent increases in migration and interest rates. But it has also been driven by longer-term factors such as the development of social and affordable housing not keeping up with demand. There is no quick and easy supply response to rising rents and home values.

As a result, 2024 may see more internal migration of prospective first home buyers and renters to markets with relatively low price points. Figure 16 shows this trend, plotting the historic annual volume of net internal migration against the current median value of dwellings. Internal migration was higher across areas with relatively low median values at that time.

FIGURE 16. HISTORIC AVERAGE NET INTERNAL MIGRATION VERSUS DWELLING VALUE - SA4 MARKETS



Source: CoreLogic, ABS

In addition to changing location preferences, there could also be some preference shifts around the number of people sharing a household in 2024. The pandemic period saw a notable drop in average household size from 2.55 people per household, to 2.49 as of 2023. This may have reflected greater demand for space as more time was spent at home, a temporary rise in available rentals at the very start of the pandemic, and high levels of fiscal stimulus supporting incomes⁸. However, this trend could reverse as more people take up share housing to alleviate housing costs.

Looking ahead, some influences over housing affordability may improve in 2024, but this could be offset by other factors. As inflation gradually eases, the direction of the cash rate could move lower in late 2024 and into 2025, easing serviceability costs. This would make housing investments more feasible, boosting rental supply and new dwelling approvals. Furthermore, a pivot in demand to more affordable markets, and a move to higher average household sizes, would ease housing costs for buyers with more flexibility over their location.

However, there are some offsetting factors. Steady or falling interest rates put upward pressure on housing prices. Additionally, the current drop-off in new dwelling approvals may hinder housing supply growth for some time. Ultimately, improved housing affordability in the long term is likely to depend on deliberate initiatives to increase housing supply, rather than relying on a temporary downswing in prices or cyclical reduction in interest rates.

APPENDIX 1 - 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 the reference period (ie, September 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. 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 discounted 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 proportion of household income required to pay rent

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

SOURCES

1. A 'key worker' is an employee that provides essential services to the functioning of a city, earning low-to-moderate income. Source: Gilbert, C., Nasreen, Z., & Gurran, N. (2021). Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities. AHURI Final Report.
2. Although building activity is state-wide as opposed to the capital cities, small area completion data from the ABS suggests the majority of dwelling completions are across capital cities.
3. Gilbert, C., Nasreen, Z., & Gurran, N. (2021). Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities. AHURI Final Report.
4. Based on information from the NSW Department of Education: <https://education.nsw.gov.au/teach-nsw/explore-teaching/salary-of-a-teacher#%3Cspan0>
5. Based on information from SchoolsVic: <https://www.education.vic.gov.au/hrweb/Documents/Salary-Teacher.pdf>
6. A 'key worker' is an employee that provides essential services to the functioning of a city, earning low-to-moderate income. Source: Gilbert, C., Nasreen, Z., & Gurran, N. (2021). Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities. AHURI Final Report.
7. Housing Industry Association, 5th August 2023, 'House building activity to slow for another year', <https://hia.com.au/our-industry/newsroom/economic-research-and-forecasting/2023/08/house-building-activity-to-slow-for-another-year>, Date accessed November 20, 2023
8. Agarwal, N., Bishop, J., & Day, I. (2023). A New Measure of Average Household Size. 1. 1 Renters, Rent Inflation and Renter Stress 2. Fixed-rate Housing Loans: Monetary Policy Transmission and Financial 10 Stability Risks 3. 19 A New Measure of Average Household Size 4. 27 Non-bank Lending in Australia and the Implications for Financial Stability, 19.



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APPENDIX - SUMMARY OF HOUSING AFFORDABILITY METRICS, SEPTEMBER QUARTER 2023

Value to Income Ratio																		
	National	Combined Capitals	Combined Regions	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Rest of NSW	Rest of Vic.	Rest of Qld	Rest of SA	Rest of WA	Rest of Tas.	Rest of NT
Dwellings																		
30/9/2023	7.5	7.5	7.3	9.4	7.2	7.3	7.9	5.9	7.5	4.0	6.2	8.7	7.1	6.9	5.7	4.9	7.3	4.6
30/6/2023	7.5	7.4	7.3	9.3	7.2	7.1	7.6	5.7	7.5	4.0	6.3	8.7	7.2	6.8	5.6	4.9	7.3	4.4
30/9/2022	7.7	7.6	7.5	9.3	7.5	7.3	7.7	5.5	8.3	4.3	6.8	9.1	7.6	6.8	5.3	4.7	7.7	4.5
31/3/2020	6.5	6.8	5.6	8.6	7.5	5.5	5.9	4.7	6.5	3.5	5.3	6.7	5.7	5.2	4.1	3.7	5.4	4.5
10-year average	6.9	7.1	6.0	8.8	7.4	6.1	6.4	5.5	6.4	4.2	5.4	7.1	5.9	5.7	4.5	4.4	5.5	4.6
Houses																		
30/9/2023	8.1	8.4	7.5	11.7	8.7	8.1	8.5	6.1	8.0	4.7	7.1	9.0	7.5	6.9	5.8	5.0	7.6	5.0
30/6/2023	8.0	8.3	7.5	11.4	8.6	7.9	8.2	6.0	8.1	4.8	7.2	9.0	7.7	6.9	5.7	5.0	7.6	5.0
30/9/2022	8.3	8.5	7.7	11.3	9.1	8.2	8.4	5.8	9.0	5.0	7.7	9.5	8.1	6.9	5.4	4.9	8.0	5.0
31/3/2020	6.7	7.2	5.8	10.0	8.8	6.1	6.3	4.9	6.9	4.2	5.9	6.9	6.1	5.3	4.2	3.9	5.6	4.8
10-year average	7.1	7.6	6.2	10.3	8.8	6.7	7.0	5.8	6.9	4.8	6.0	7.3	6.3	5.9	4.6	4.6	5.7	5.0
Units																		
30/9/2023	6.3	5.9	6.5	7.0	5.7	5.2	5.3	4.2	6.0	3.1	4.4	7.1	5.1	6.9	4.4	3.4	5.6	3.2
30/6/2023	6.2	5.9	6.3	7.0	5.7	5.0	5.2	4.1	6.0	3.0	4.5	7.1	5.2	6.7	4.2	3.4	5.6	3.1
30/9/2022	6.4	6.0	6.5	7.0	5.8	4.9	5.1	4.1	6.6	3.2	4.7	7.5	5.4	6.7	3.8	3.1	5.8	3.5
31/3/2020	6.1	6.1	5.0	7.5	6.3	4.3	4.5	3.7	5.4	2.5	3.7	5.8	4.3	4.9	3.1	2.5	4.4	3.4
10-year average	6.3	6.2	5.4	7.5	6.2	4.7	4.8	4.5	5.3	3.2	4.0	6.1	4.5	5.5	3.7	3.3	4.5	3.5

APPENDIX - SUMMARY OF HOUSING AFFORDABILITY METRICS, SEPTEMBER QUARTER 2023

Years to Save a deposit																		
	National	Combined Capitals	Combined Regions	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Rest of NSW	Rest of Vic.	Rest of Qld	Rest of SA	Rest of WA	Rest of Tas.	Rest of NT
Dwellings																		
30/9/2023	10.0	10.0	9.7	12.6	9.6	9.7	10.5	7.8	10.1	5.3	8.3	11.6	9.5	9.2	7.6	6.5	9.7	6.1
30/6/2023	9.9	9.9	9.7	12.4	9.6	9.5	10.1	7.6	10.1	5.4	8.3	11.6	9.7	9.1	7.5	6.5	9.8	5.9
30/9/2022	10.2	10.1	9.9	12.4	10.0	9.7	10.3	7.4	11.1	5.8	9.1	12.1	10.1	9.1	7.0	6.3	10.3	6.1
31/3/2020	8.7	9.1	7.5	11.5	10.0	7.4	7.8	6.3	8.7	4.7	7.1	8.9	7.6	6.9	5.4	5.0	7.2	5.9
10-year average	9.2	9.5	8.0	11.7	9.9	8.1	8.6	7.4	8.6	5.6	7.3	9.5	7.9	7.7	6.1	5.9	7.4	6.1
Houses																		
30/9/2023	10.7	11.2	10.0	15.7	11.6	10.8	11.3	8.2	10.7	6.3	9.5	12.0	10.0	9.2	7.7	6.7	10.1	6.6
30/6/2023	10.7	11.0	10.1	15.3	11.5	10.6	10.9	7.9	10.7	6.4	9.6	12.0	10.2	9.3	7.6	6.7	10.2	6.7
30/9/2022	11.0	11.4	10.3	15.1	12.1	10.9	11.2	7.7	11.9	6.7	10.3	12.6	10.8	9.2	7.2	6.5	10.7	6.7
31/3/2020	8.9	9.6	7.7	13.3	11.7	8.1	8.4	6.5	9.2	5.6	7.9	9.2	8.1	7.1	5.6	5.2	7.4	6.4
10-year average	9.5	10.1	8.3	13.7	11.7	8.9	9.3	7.7	9.2	6.4	8.1	9.8	8.4	7.8	6.2	6.1	7.7	6.7
Units																		
30/9/2023	8.4	7.9	8.6	9.4	7.6	6.9	7.1	5.5	7.9	4.1	5.9	9.5	6.8	9.2	5.9	4.6	7.5	4.3
30/6/2023	8.3	7.8	8.5	9.3	7.6	6.7	6.9	5.4	8.0	4.1	6.0	9.5	6.9	8.9	5.5	4.5	7.5	4.2
30/9/2022	8.5	8.0	8.7	9.4	7.8	6.6	6.8	5.4	8.8	4.3	6.2	9.9	7.2	8.9	5.1	4.1	7.8	4.7
31/3/2020	8.2	8.2	6.6	10.0	8.4	5.8	5.9	4.9	7.2	3.3	5.0	7.8	5.8	6.6	4.1	3.4	5.9	4.5
10-year average	8.4	8.2	7.2	9.9	8.3	6.3	6.4	6.0	7.0	4.3	5.3	8.2	6.0	7.3	4.9	4.4	6.0	4.7

APPENDIX - SUMMARY OF HOUSING AFFORDABILITY METRICS, SEPTEMBER QUARTER 2023

Portion of income required to service a new mortgage																		
	National	Combined Capitals	Combined Regions	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Rest of NSW	Rest of Vic.	Rest of Qld	Rest of SA	Rest of WA	Rest of Tas.	Rest of NT
Dwellings																		
30/9/2023	46.2%	46.0%	44.7%	58.1%	44.4%	44.8%	48.5%	36.1%	46.4%	24.6%	38.3%	53.3%	43.8%	42.3%	34.9%	30.1%	44.6%	28.3%
30/6/2023	45.8%	45.4%	44.8%	57.1%	44.3%	43.7%	46.7%	35.0%	46.3%	24.7%	38.5%	53.4%	44.5%	42.1%	34.4%	29.9%	45.0%	27.1%
30/9/2022	40.3%	40.0%	39.3%	48.9%	39.4%	38.2%	40.8%	29.1%	43.7%	22.8%	35.8%	47.8%	40.0%	35.9%	27.7%	24.8%	40.5%	23.9%
31/3/2020	29.6%	31.0%	25.4%	39.2%	34.0%	25.2%	26.7%	21.4%	29.6%	15.9%	24.1%	30.5%	26.1%	23.7%	18.4%	17.1%	24.4%	20.3%
10-year average	34.0%	35.1%	29.9%	43.5%	36.6%	30.2%	32.0%	27.4%	31.8%	20.7%	26.9%							
Houses																		
30/9/2023	49.5%	51.6%	45.9%	72.2%	53.3%	49.9%	52.2%	37.7%	49.5%	28.9%	43.8%	55.3%	46.3%	42.3%	35.7%	31.0%	46.5%	30.6%
30/6/2023	49.2%	50.8%	46.4%	70.3%	53.1%	48.7%	50.4%	36.6%	49.5%	29.5%	44.0%	55.5%	47.2%	42.7%	35.2%	30.8%	46.9%	30.8%
30/9/2022	43.6%	44.9%	40.7%	59.5%	47.9%	43.0%	44.3%	30.5%	47.2%	26.3%	40.5%	49.9%	42.7%	36.3%	28.5%	25.7%	42.4%	26.6%
31/3/2020	30.3%	32.6%	26.2%	45.3%	39.8%	27.7%	28.8%	22.3%	31.4%	19.0%	27.0%	31.3%	27.6%	24.2%	19.0%	17.8%	25.3%	21.7%
10-year average	35.3%	37.6%	30.8%	50.7%	43.2%	33.0%	34.5%	28.7%	34.0%	23.9%	29.9%	36.4%	31.0%	29.1%	23.1%	22.7%	28.5%	24.9%
Units																		
30/9/2023	38.8%	36.5%	39.7%	43.3%	35.0%	31.7%	32.6%	25.5%	36.7%	19.1%	27.1%	43.9%	31.3%	42.3%	27.0%	21.1%	34.4%	19.8%
30/6/2023	38.3%	36.1%	39.0%	42.9%	34.8%	30.8%	31.8%	24.9%	36.9%	18.7%	27.6%	43.7%	31.9%	40.9%	25.5%	20.8%	34.7%	19.2%
30/9/2022	33.4%	31.5%	34.3%	37.0%	30.7%	26.1%	27.0%	21.4%	34.6%	17.0%	24.6%	39.3%	28.3%	35.1%	20.0%	16.4%	30.7%	18.5%
31/3/2020	27.9%	27.9%	22.6%	34.1%	28.7%	19.6%	20.2%	16.8%	24.6%	11.3%	17.0%	26.5%	19.7%	22.4%	14.0%	11.5%	20.1%	15.4%
10-year average	31.1%	30.6%	26.8%	36.8%	30.7%	23.3%	23.8%	22.2%	26.1%	15.9%	19.8%	30.3%	22.2%	27.2%	18.4%	16.6%	22.4%	17.4%

APPENDIX - SUMMARY OF HOUSING AFFORDABILITY METRICS, SEPTEMBER QUARTER 2023

Portion of income required to service rent on a new lease																		
	National	Combined Capitals	Combined Regions	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Rest of NSW	Rest of Vic.	Rest of Qld	Rest of SA	Rest of WA	Rest of Tas.	Rest of NT
Dwellings																		
30/9/2023	31.0%	29.4%	32.4%	32.1%	26.7%	30.5%	32.5%	29.8%	31.5%	26.0%	25.1%	34.0%	29.4%	35.5%	30.3%	29.5%	32.1%	29.5%
30/6/2023	30.6%	29.1%	32.5%	31.9%	26.2%	30.0%	32.2%	29.1%	32.8%	25.6%	25.7%	34.4%	29.6%	35.1%	29.5%	29.0%	32.2%	27.6%
30/9/2022	29.4%	27.5%	32.5%	30.1%	24.5%	29.0%	31.2%	27.0%	33.6%	26.0%	27.2%	35.1%	29.2%	34.4%	28.2%	27.6%	33.4%	29.5%
31/3/2020	26.7%	25.6%	28.3%	29.2%	25.5%	25.1%	26.9%	21.8%	32.0%	20.4%	24.4%	30.6%	26.8%	28.7%	24.5%	23.5%	28.4%	29.8%
10-year average	28.5%	27.2%	29.8%	30.8%	25.9%	26.9%	28.5%	25.1%	30.5%	24.5%	24.0%	32.5%	27.2%	30.8%	25.8%	25.3%	28.9%	30.4%
Houses																		
30/9/2023	31.5%	30.4%	32.6%	34.3%	27.8%	31.7%	33.7%	30.2%	32.2%	28.5%	26.6%	34.8%	30.1%	35.5%	30.9%	29.6%	32.8%	32.4%
30/6/2023	31.1%	30.0%	32.7%	33.9%	27.1%	31.3%	33.5%	29.6%	33.6%	28.0%	27.0%	35.2%	30.4%	35.0%	30.0%	29.1%	33.0%	30.3%
30/9/2022	30.3%	28.8%	32.9%	32.9%	25.8%	30.8%	32.6%	27.4%	34.5%	29.0%	28.7%	36.2%	30.2%	34.5%	28.7%	27.8%	34.4%	32.6%
31/3/2020	26.8%	25.8%	28.7%	31.0%	25.8%	26.3%	27.8%	22.2%	32.7%	22.4%	25.7%	31.6%	27.6%	29.0%	25.0%	23.8%	29.3%	33.4%
10-year average	28.9%	27.9%	30.1%	32.7%	26.8%	28.0%	29.5%	25.7%	31.6%	26.6%	25.3%	33.4%	28.2%	30.9%	26.3%	25.5%	29.6%	33.3%
Units																		
30/9/2023	29.6%	27.5%	31.1%	30.1%	25.5%	27.5%	27.5%	26.5%	27.6%	21.9%	22.0%	30.9%	24.1%	35.5%	22.4%	28.0%	27.5%	23.7%
30/6/2023	29.2%	27.1%	31.3%	29.9%	25.2%	26.9%	27.0%	26.0%	28.4%	21.8%	22.4%	31.2%	24.2%	35.5%	23.3%	28.8%	27.8%	24.3%
30/9/2022	27.2%	24.9%	30.7%	27.0%	23.0%	24.7%	25.7%	23.3%	29.1%	21.7%	23.2%	31.1%	23.6%	34.1%	21.9%	25.5%	27.5%	25.2%
31/3/2020	26.7%	25.2%	26.0%	27.7%	25.3%	22.6%	23.2%	19.4%	28.1%	17.1%	21.3%	26.6%	21.4%	27.8%	19.5%	20.0%	22.7%	24.1%
10-year average	27.8%	26.0%	28.3%	29.0%	24.9%	24.4%	24.2%	22.6%	25.9%	20.6%	21.1%	28.5%	22.1%	30.5%	20.5%	22.9%	24.1%	24.8%

