Housing Affordability

A lot is being written and said about the future of Australia’s house prices.

There seems to be a lot of confusion about the issue.

I have included three tables in this missive in an attempt to outline what I think is the real state of play.

Table 1
Housing affordability #1
Australian Capitals

Capitals	Median house price	Median family income	Current price to income ratio	Affordable price	Difference	
Sydney	**$1,165,000**	**$107,500**	**10.8**	**$753,000**	**$412,000**	**35%**
Melbourne	**$829,000**	**$99,000**	**8.4**	**$593,000**	**$236,000**	**28%**
Brisbane	$524,000	$98,500	5.3	$493,000	$31,000	6%
Adelaide	$465,000	$86,000	5.4	$430,500	$34,500	7%
Perth	$513,000	$106,000	4.8	$529,000	-$16,000	-3%
Darwin	$503,000	$94,750	5.3	$473,750	$29,250	6%
Canberra	$648,000	$135,250	4.8	$676,000	-$28,000	-4%
Hobart	**$473,000**	**$85,000**	**5.6**	**$424,750**	**$48,250**	**10%**
Average*	**$785,000**	**$101,000**	**7.8**	**$597,750**	**$187,250**	**24%**

Table 1 shows that most major capital city markets aren’t that overvalued.

Sydney, Melbourne and to some degree Hobart are, but median house values, for the rest, fall between 4.5x and 5.5x median family household income.

Just two years ago, many could borrow 10x (or more) of their household income to buy a property. Today that has been scaled back to 5x to 6x household income.

My general affordable price benchmark is 5x median household income but I use a higher ratio for Sydney (x7) and Melbourne (x6) because history shows that these two cities command a premium.

Table 1 also shows that there are many housing markets in Australia and not just one.

So if it all goes to shite then maybe the damage is most likely to be contained to a few spots. This, of course, assumes that things economic don't implode or that we don't panic. Greed often turns to fear.

Table 2
Housing affordability #2
Brisbane region

Indicators	**1994**	**2018**
Median house price	$126,000	$524,000
20% deposit	20%	20%
Amount borrowed	$101,000	$419,000
Mortgage rate pa (from major bank)	9.1%	5.2%
Annual payment (P+I loan)	$13,000	$31,000
Loan time frame	30 years	30 years
Median household income	$65,000	$98,500
% income needed to service loan	**20%**	**31%**
Ratio house price to household income	**1.9**	**5.3**

Table 2 – using Brisbane as an example – shows that although many places aren't over cooked (i.e. ratio of house price to household income) there is very little room from house prices

to improve unless either costs decline or incomes rise.

It now takes – on average – 31% of a average Brisbane resident’s household income to buy a house. That translates to 5.3x median family household income.

A generation ago the income needed to service an average loan was 20% (as interest rates were higher) but the median house price was very affordable at 1.9x family household income.

My take on this is that we are likely to experience **‘the big yawn’** for the next 5 years, but most probably 10 years or so, whereby dwelling values don’t rise much across most places in Australia.

It reminds me of the 1990s.

Table 3
Housing affordability #3
Brisbane region

Indicators	1994	2018	Increase $	Increase %
Median house price	$126,000	$524,000	$398,000	**315%**
Median household income	$65,000	$98,500	$33,500	**51%**
Amount borrowed	$101,000	$419,000	$318,000	**315%**

Table 3 brings my last statement home. Much of the past price growth in Brisbane – and everywhere else in Australia too – was due to an increase in loan size rather than growth in household income. That feels like a once off to me. Well it is very unlikely to happen again anytime soon.

In summary, house price growth over the last 25 years was largely manufactured by the reduction of interest rates, whilst at the same time, punters were encouraged to borrow a lot more.

End notes

Unless you bought at the height of the boom, and overpaid plus overextended yourself, then the coming changes over the next 5 to 10 years might not have that much impact on you.

True you might not be in a rush to buy or sell a dwelling. Why haste if prices are flat?

But if you did overpaid and especially overextended yourself then you might be in for a fair bit of pain.

Until next time,

Michael Matusik

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