PropTrack

Housing Affordability Report

2023

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Executive Summary

Housing affordability is now at its **worst level in at least three decades**, according to the PropTrack Housing Affordability Index - a new comprehensive measure of the share of homes that households can afford to purchase across the whole income distribution.

Affordability is toughest in **New South Wales**, **Tasmania** and **Victoria**.

This deterioration in affordability has been driven by a dramatic rise in mortgage rates, combined with rising home prices over recent years.

At the same time, sharply higher price growth throughout the pandemic has meant **housing accessibility** — how long it takes new buyers to save a deposit — remains incredibly challenging.

This report **quantifies the alarming state of housing affordability across the country**, especially for first-home buyers. Looking ahead, expectations that interest rates are close to their peak, and strong prospects for employment and wages may curb the rapid decline in affordability we've witnessed over the past year. However, further home price growth will continue to pose affordability challenges for current generations and those to come.

Owen Wilson
Chief Executive Officer,
REA Group

Home ownership has long been a cornerstone of the great Australian dream, yet over recent decades, affordability has deteriorated to levels not seen before. Amid rising interest rates, escalating construction costs, and increasing house prices, the disparity between those who own homes and those who don't, continues to grow.

The new PropTrack Housing Affordability Index demonstrates how pervasive the problem of affordability and accessibility is, with first-home buyers disproportionately affected by current market conditions.

In August, National Cabinet agreed to build 1.2m well-located homes over the next five years. The focus on increasing housing supply is a welcome step forward, and the announced incentive payments add substance to the ambitious target. However, 1.2m homes will barely cover Australia's growing population over that period.

We need to do more. Residential building approvals have hit their lowest level in a decade, while new low-rise apartment blocks are nearly non-existent and medium-density development has not kept pace with Australia's growth. Further reforms are necessary to encourage investment and support fast and effective development. At a minimum, we need to streamline planning to fast track more medium density housing.

Other levers such as taxation are also important. Stamp duty in particular is an inefficient and unreliable tax and together with many others in the community we have been calling for its removal for some time. It further worsens affordability by discouraging people from moving to homes that better suit their needs, and makes it even harder for first-time buyers to save a deposit.

Momentum for change is growing rapidly and now is the time for all levels of government to act so we can safeguard housing affordability, and our Australian way of life, for current and future generations.

Contents

What is housing affordability and accessibility?

Affordability

The **income** required to comfortably afford mortgage repayments on a given home.

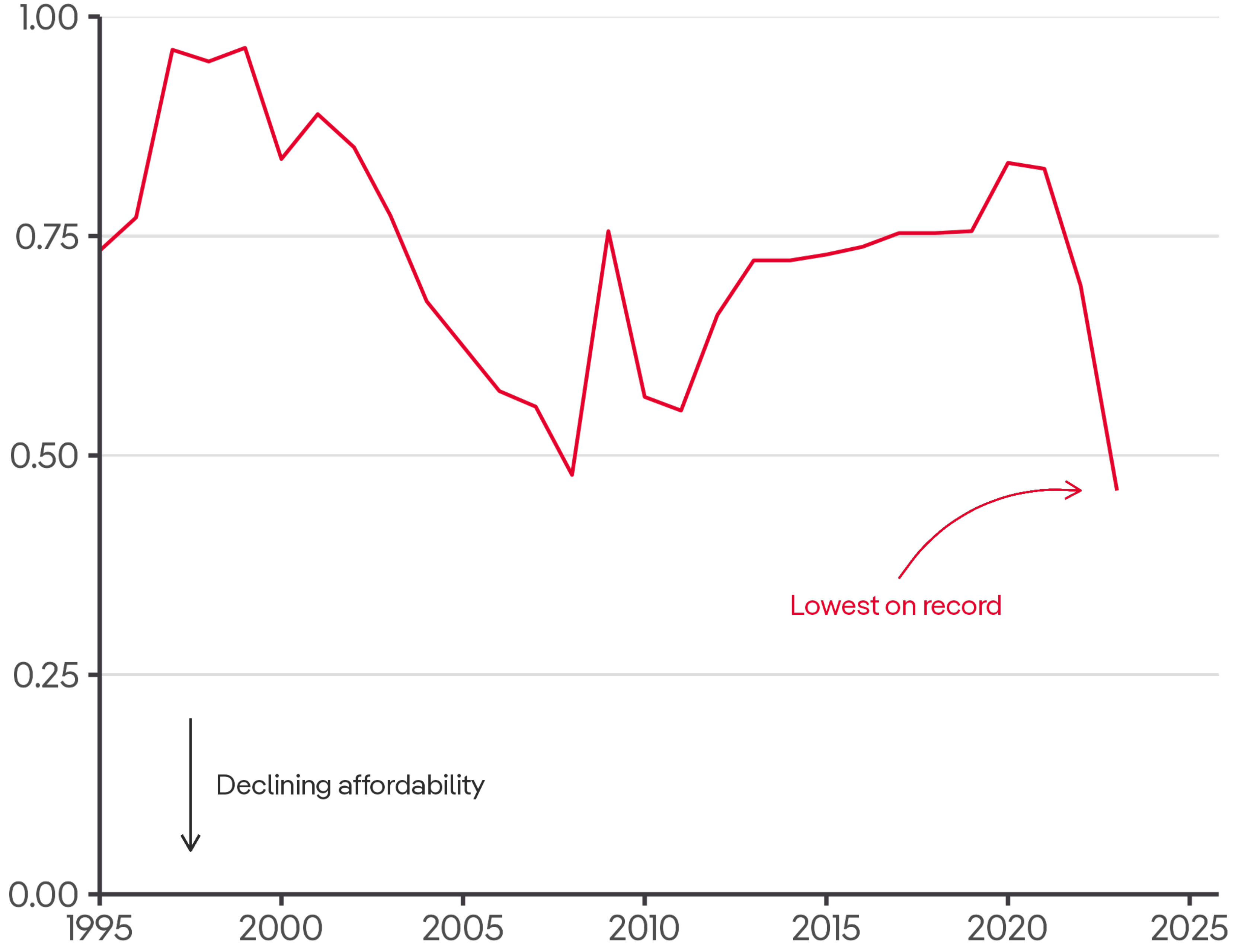
This is assessed on current mortgage rates with a buffer to account for higher rates in the future and assumes the household has already saved a deposit.

Accessibility

The **wealth** required for a deposit and other costs to buy a home – particularly important for first-home buyers.

Lenders usually require a deposit, often 20%. With a smaller deposit, a borrower will typically either face a higher interest rate or will need Lenders Mortgage Insurance.

PropTrack Housing Affordability Index



Sources: PropTrack, ABS, RBA

Housing affordability has hit its worst level in three decades

Surging home prices throughout the pandemic and rapidly rising interest rates over the past year have brought housing affordability to its lowest level in at least three decades.

The PropTrack Housing Affordability Index shows that, by June 2023, households across the income distribution could afford the smallest share of homes since 1995, when our records began.

That is a substantial change compared to the past few years.

Affordability slowly improved in the decade following the Global Financial Crisis, and was markedly higher in 2020 and 2021 as interest rates fell to record lows.

Those low rates kept mortgage burdens low and meant that by mid-2020, and even as late as mid-2021, households could afford a higher share of homes nationally than at any time since 2001.

New South Wales, Tasmania and Victoria face the worst affordability

The PropTrack Housing Affordability Index shows that households in New South Wales, Tasmania and Victoria face the toughest housing affordability across the country.

With a median home price exceeding $1 million in Sydney, New South Wales continues to rank as the least affordable state, as it has for most of the past three decades.

Victorian housing affordability remains below the national average and has recorded a significant deterioration over the past 12-18 months as interest rates have increased.

Similarly, Tasmania has seen sharply lower affordability recently. In 2018 and 2019, the PropTrack Housing Affordability Index ranked Tasmania as one of the most affordable states. But since 2019 prices have surged, rising by more than 50% in Hobart, and 70% in regional Tasmania.

The PropTrack Housing Affordability Index shows that housing affordability is highest in Western Australia. That is a marked change from a decade ago, when Western Australia was the least affordable state from 2007-2010 amid the height of the mining investment boom – the only time any state has displaced New South Wales as the least-affordable state.

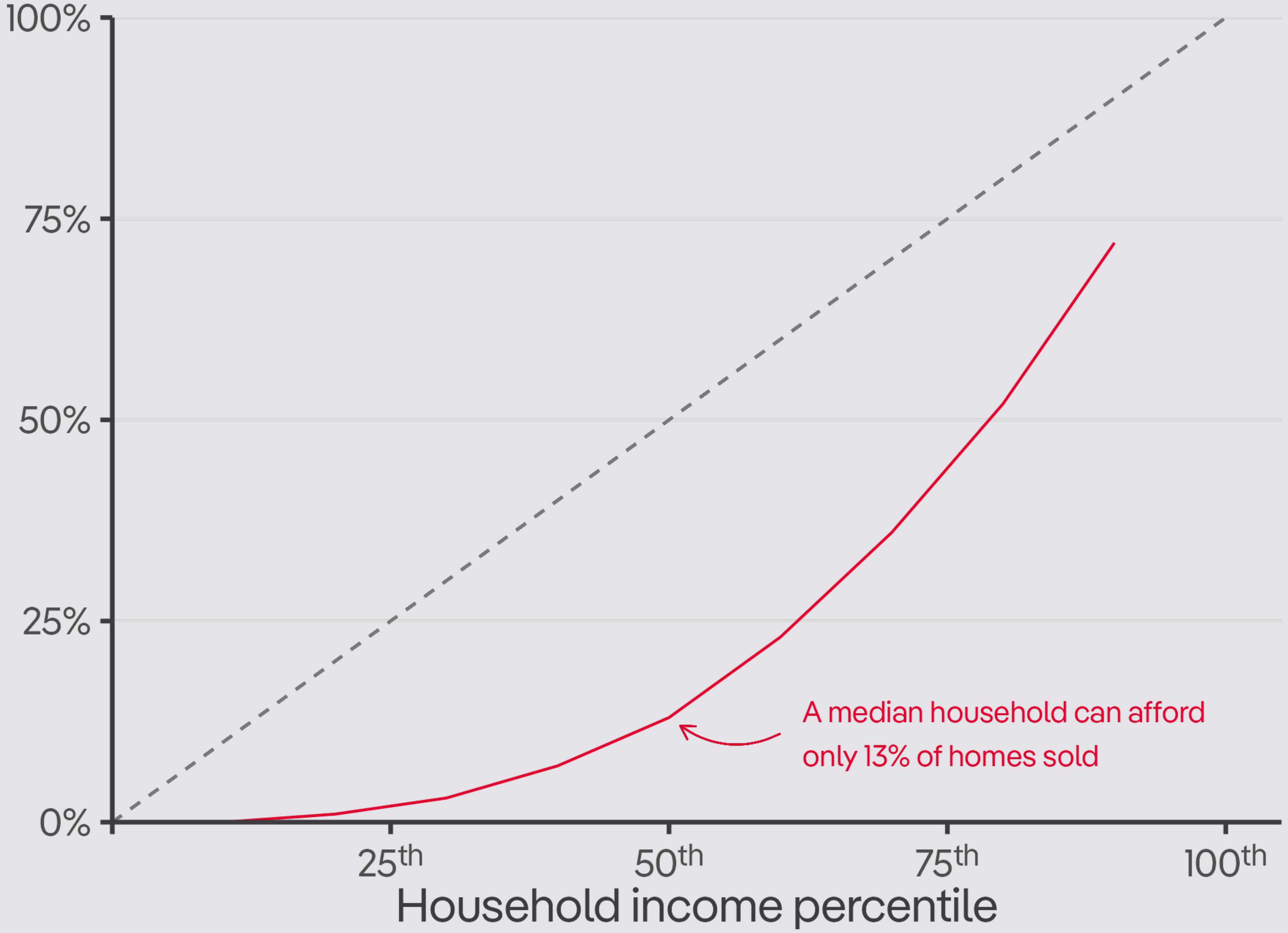
PropTrack Housing Affordability Index

By state, 2022–23

Sources: PropTrack, ABS, RBA

Affordable share of home sales

By household income, 2022–23



Sources: PropTrack, ABS, RBA

What the PropTrack Affordability Index measures

Methodology summary[1]

- Measures **what share of home sales** households across the income distribution can afford
- Based on a household spending 25% of their pre-tax income on mortgage repayments
- Requires them to already have saved a deposit and the costs of purchasing

The PropTrack Affordability Index summarises the capacity for households of different incomes to afford homes across Australia.

It is based on the share of homes households at each decile of the income distribution can afford to buy each year.

As an example, a ‘typical’ or median-income household, earning just over $105,000 a year, could afford to make loan repayments on just 13% of homes sold in the past year.

This is then combined into the single Index measure of affordability. A measure of 1.00 means all households can afford homes in proportion to their income.

1. Full methodological details for all metrics used in the report available on p.33

The share of homes that a median-income household can afford has never been lower

Highlighting the alarming state of housing affordability at current interest rates, a household earning the median (or typical) income in Australia can now afford just 13% of homes sold across the country. This is the lowest share since records began in 1995.

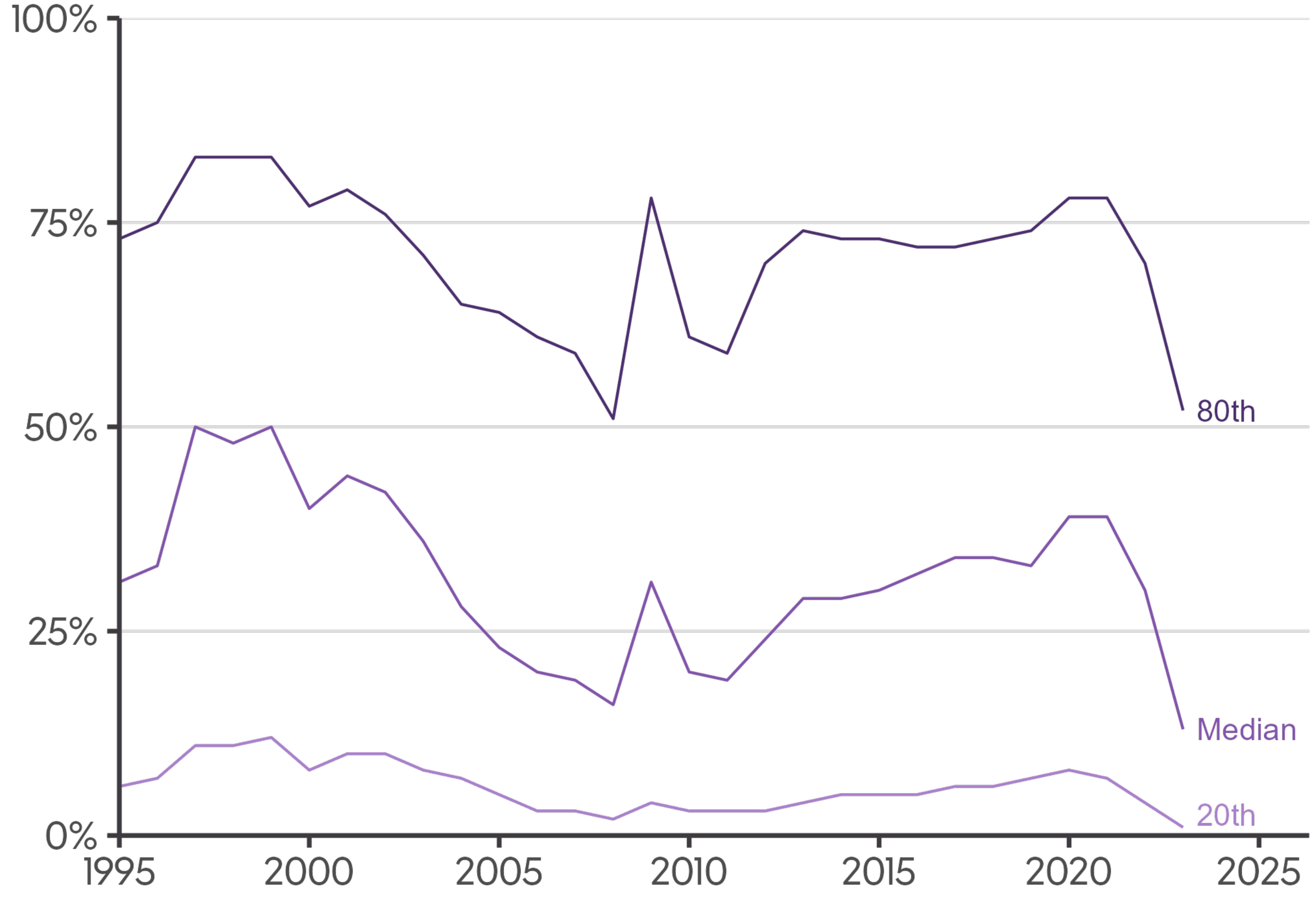
That represents a substantial decline from historically favourable affordability conditions over much of the past decade. These conditions peaked in 2019-20 and 2020-21, when a median-income household could afford just shy of 40% of homes sold across Australia.

Even high-income households, earning $200,000 a year — i.e. earning more than 80% of Australians — are facing strained affordability. These households could afford loan repayments on only about half of homes that were sold over the past year.

Rising household incomes since the pandemic following improved labour market conditions, which has drawn more people into employment and boosted wages growth, has been insufficient to offset higher home prices and, critically, the surge in mortgage rates.

Affordability for households over time

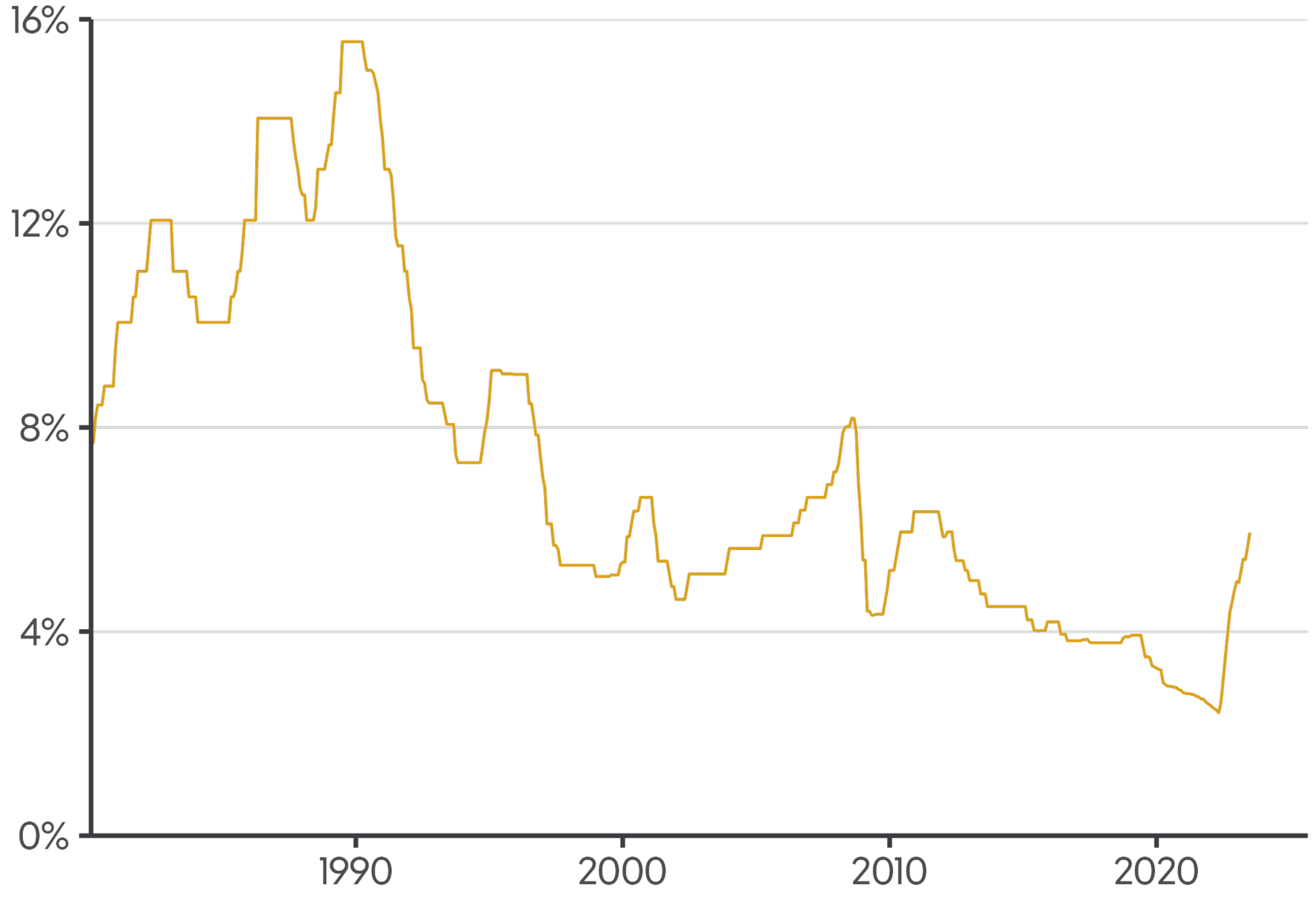
Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Mortgage Interest Rates

New variable owner-occupier rate



Note: backcast before July 2019 using standard variable rates
Source: RBA

Sharply higher mortgage rates are a key driver of deteriorated affordability

Mortgage interest rates have increased extremely rapidly from record lows in 2020 and 2021 following RBA rate hikes that began in May 2022. The hiking phase undertaken by the RBA has pushed the cash rate target from 0.1% to 4.1%.

This has caused the sharpest increase in mortgage rates since the mid-1980s and has reduced borrowing capacities by as much as 30% for new borrowers.

At the same time, existing borrowers, which make up around a third of Australian households, have faced sharp increases in mortgage repayments. A typical recent borrower now faces repayments as much as 50% higher than in early 2022.

At the same time as mortgage repayments have increased rapidly, home prices are down only slightly from their post-pandemic highs. This means that there are now far fewer homes for which mortgage repayments are affordable for a given income than was the case over the past few years. This is a key driver of the deterioration in affordability measured by the PropTrack Housing Affordability Index.

Servicing a mortgage is close to as hard as it has ever been, just below the peak reached in 1989

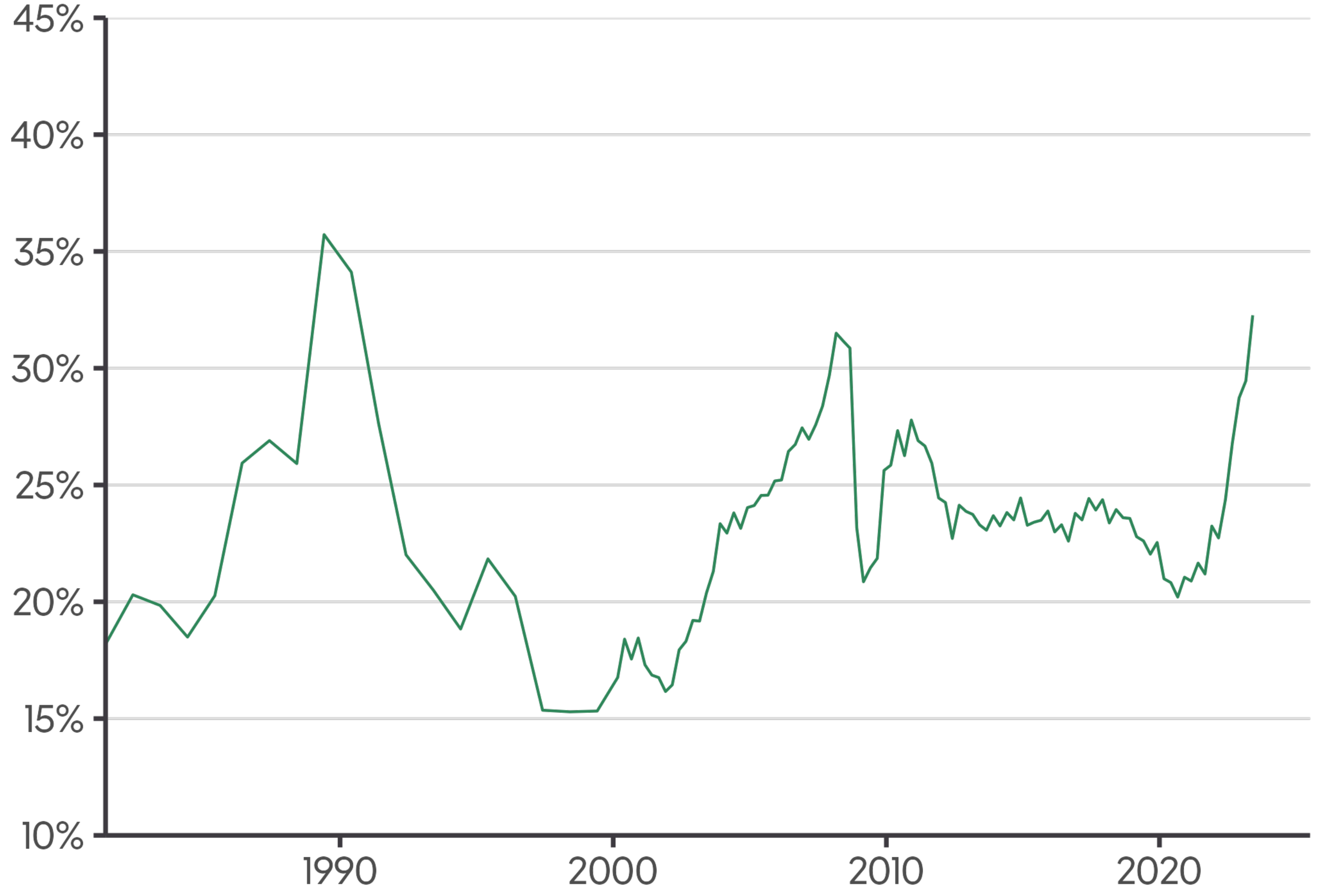
Other measures of housing affordability also show the impact of sharply higher interest rates, and the consequent surge in mortgage repayments.

A household earning the average income would need to spend about a third of their income on mortgage repayments to buy a median-priced home.

That represents the highest level since 1990, exceeding the most recent peak set in 2008.

Mortgage repayments as a share of income

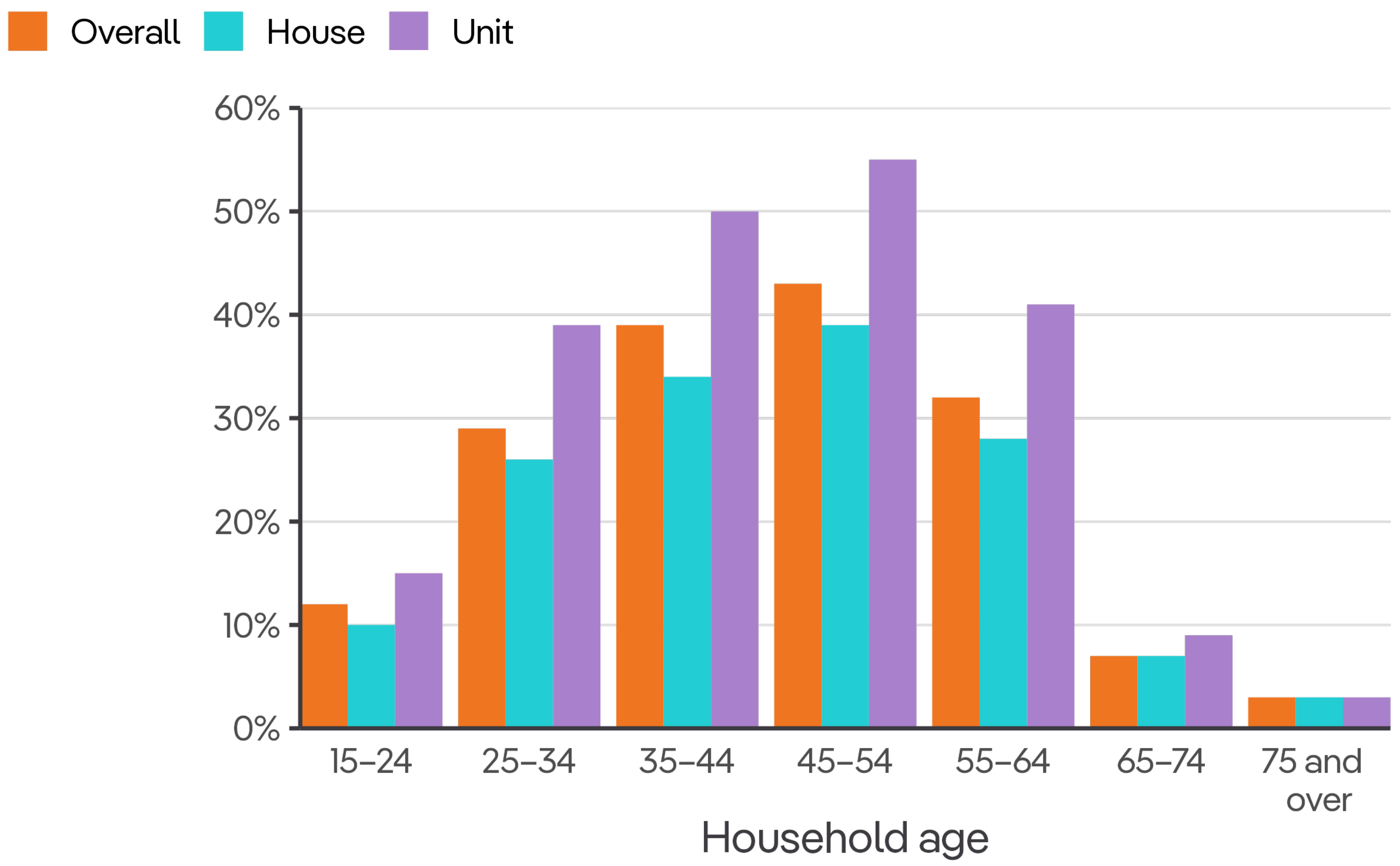
Australia

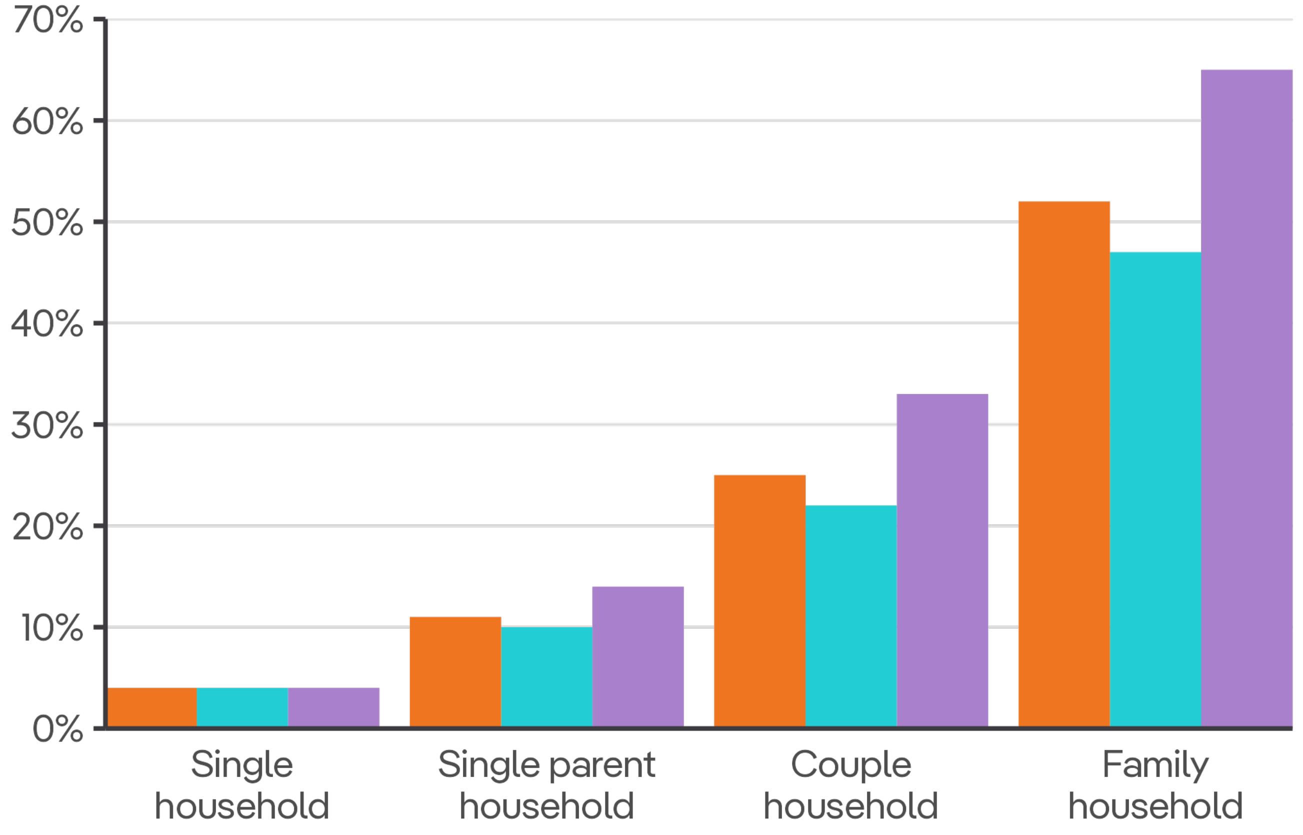


Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Share of affordable home sales

Australia, 2022–23





Sources: PropTrack, ABS, RBA
Note: Spending 25% of average gross household income on repayments

Affordability is highest for households in peak working ages

While affordability has decreased for all households, it remains highest for families in peak working years, aged from 35 to 54.

An average 35-44 year old household can afford just under 40% of homes sold across Australia, while a typical 45-54 year old household can afford just over 40%. Many of these households will be families, which together could afford more than half of homes sold.

Affordability is very stretched for younger households. An average 25-34 year old household could afford fewer than 30% of homes sold in 2022-23.

While measured affordability is very low for older and single households, this largely reflects that the majority are retired with low incomes. Most older households already own their own home so these measures based on mortgage serviceability are less likely to reflect housing challenges for them.

Saving a deposit is a key barrier for first-home buyers

Alongside challenged home affordability, measured by mortgage serviceability, the high level of home prices means saving a deposit remains a key barrier for first-home buyers.

An average-income household would need to save 20% of their income for more than five and a half years to save a 20% deposit on a median priced home.[1]

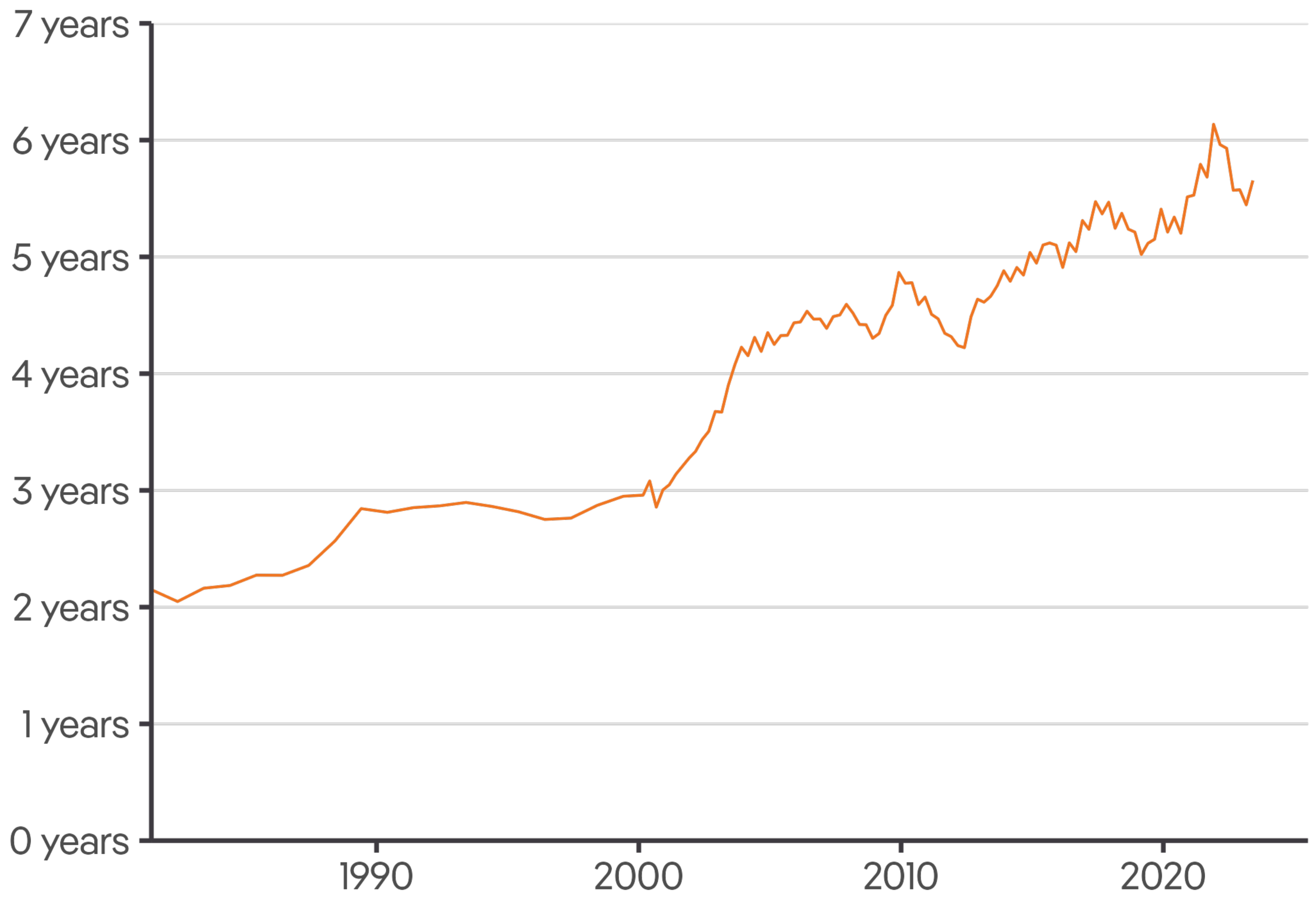
Home price declines throughout 2022 and stronger wages growth have reduced the time it takes to save a home deposit by about half a year from its peak at the end of 2021.

However, the time it takes a typical household to save a home deposit remains higher than it was before the pandemic, continuing the decades-long upward trend. Saving a deposit remains a substantial burden for many first-home buyers.

1) Average gross household income is estimated to be just over $120,000 per year

Time to save a deposit

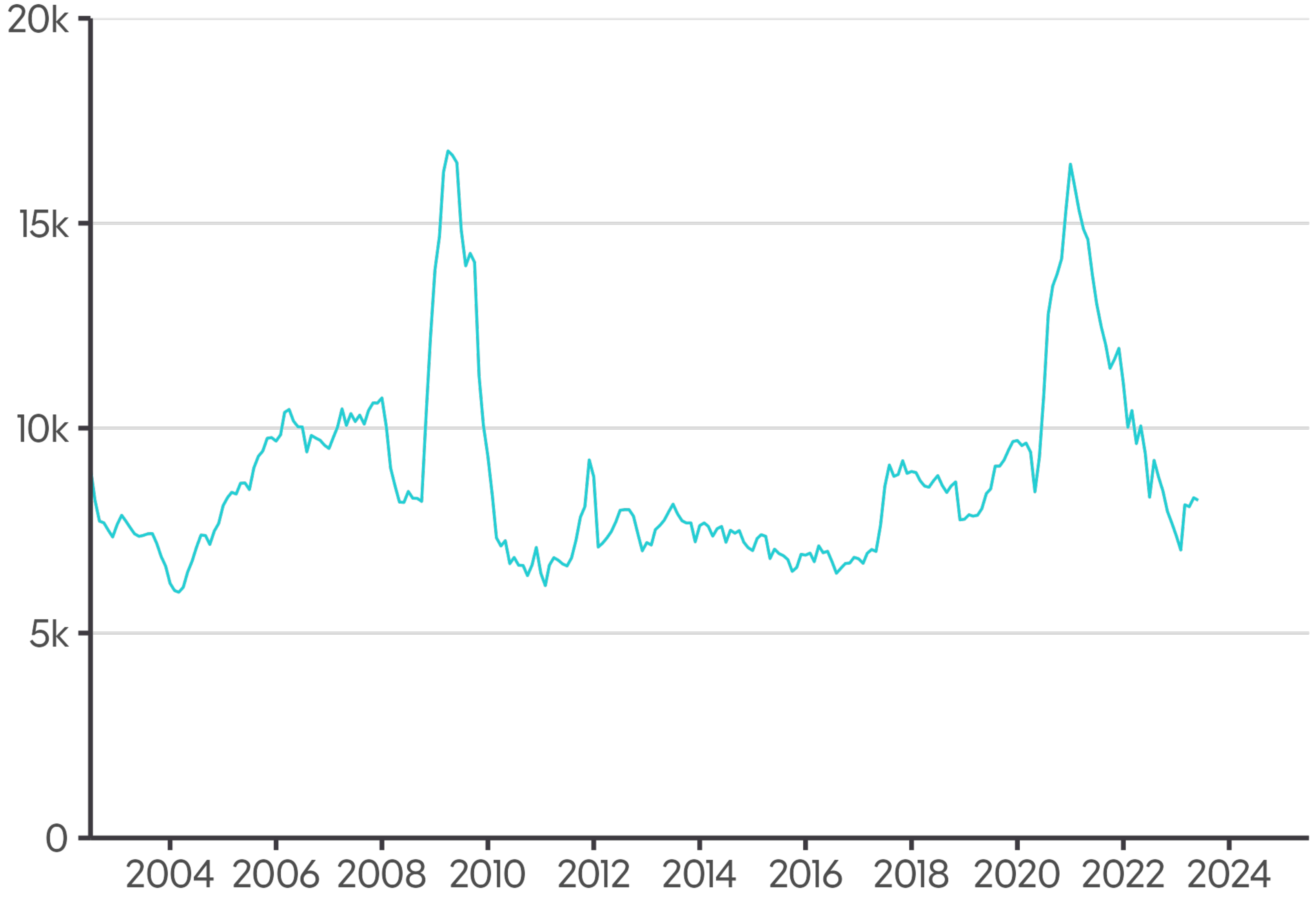
Australia



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

New first-home buyer loans

Monthly count, seasonally adjusted



Note: Owner-occupier first-home buyers
Source: ABS

Worsened affordability has led to a pullback in first-home buyers

Many first-home buyers were able to enter the market in 2020 and 2021, when low interest rates and government incentives as part of pandemic stimulus made purchasing more attractive and more attainable.

As a result, the value of loans to first-home buyers surged, peaking at more than a quarter of all lending at the end of 2020.

Throughout 2021, more than 160,000 first-home buyers took out new mortgages, the highest annual number of first-home buyers in more than a decade, and only just below the number recorded in 2009.

Borrowing by first-home buyers has returned to pre-pandemic levels since then. In the first half of 2023 there were only half as many first-home buyers as two years earlier.

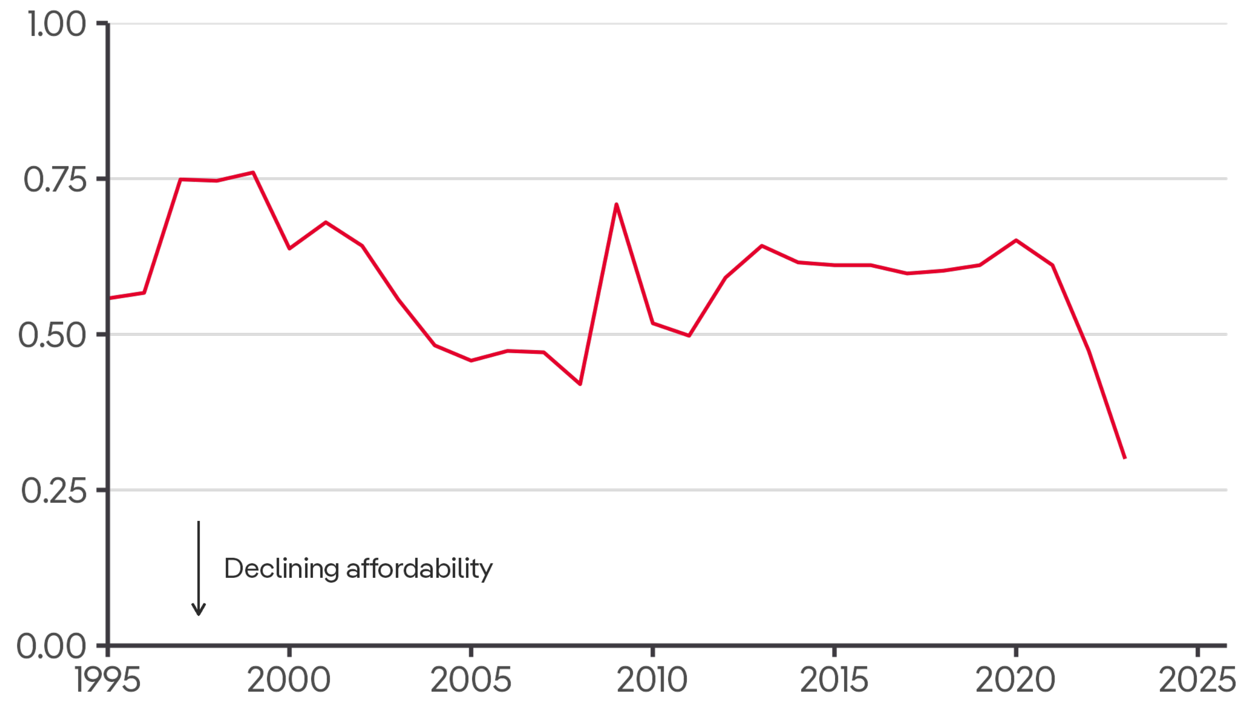
While lending to first-home buyers has increased a little in recent months, strained affordability highlighted by the PropTrack Housing Affordability Index suggests first-home buyers will continue to struggle to break into the market.

New South Wales

- New South Wales has the lowest housing affordability of any state
- The PropTrack Housing Affordability Index shows affordability in New South Wales is materially worse than at any point in the past three decades
- Mortgage repayments for a median-priced home in New South Wales make up just under 40% of an average income – the highest of any state
- The time it takes to save a deposit is longer in New South Wales than in any other state

PropTrack Housing Affordability Index

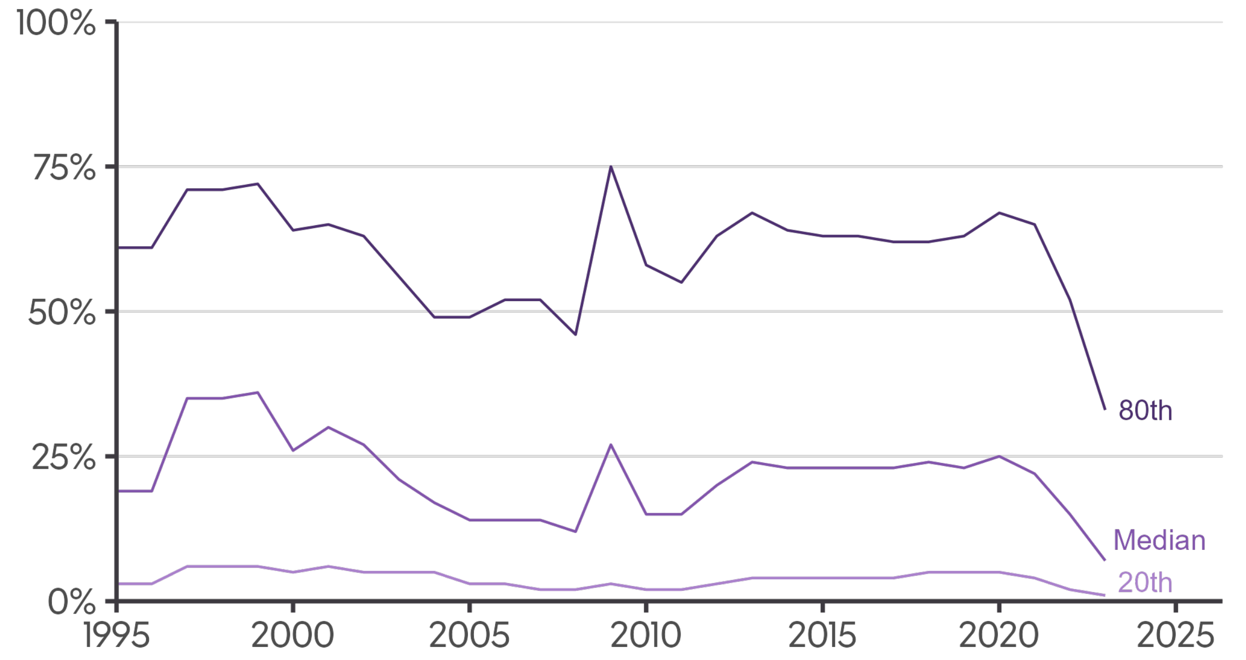
New South Wales



Sources: PropTrack, ABS, RBA

New South Wales affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

New South Wales has the most challenging housing affordability of any state

Housing affordability has worsened markedly in New South Wales over the past couple of years and is now sitting well below its previous low in 2008.

Homebuyers in New South Wales face the toughest housing affordability of any state, according to the PropTrack Housing Affordability Index, a situation that has been true for most of the past three decades.

While buying a home in New South Wales has always been challenging for low-to-middle income households, the rapid increase in interest rates since early 2022 has made it especially so.

A median income household in New South Wales could afford just 7% of home sales in 2022-23. A low-income household with income at the 20th percentile could afford effectively no homes across the state at current interest rates and home prices.

High home prices in New South Wales mean it takes longer to save a deposit than in any other state

The impact of higher interest rates and home prices in New South Wales can be seen in the high costs of servicing a new mortgage.

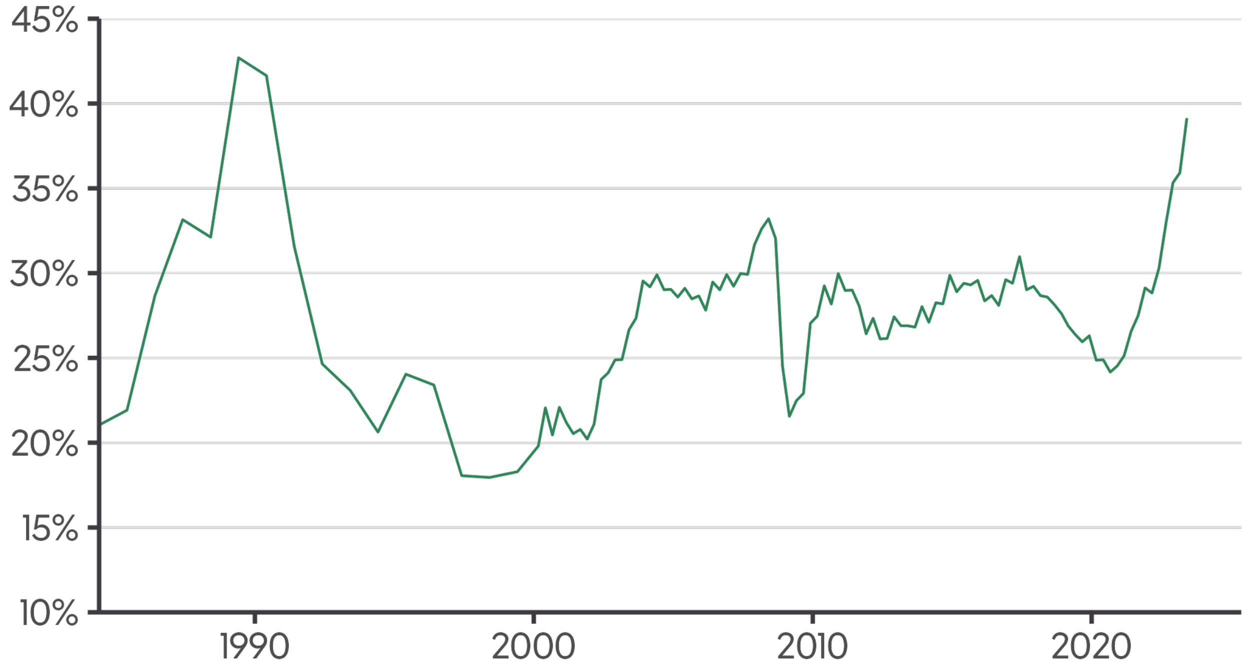
A household with an average income, which in New South Wales is estimated to be just under $130,000 per year, would need to spend 39% of their income to buy a median-priced home. This represents the highest share of any state.

In contrast with many other parts of the country, the time to save a deposit has remained unchanged relative to five years ago. While home prices in Sydney have risen 25% in the five years between June 2017 and June 2023, incomes have largely kept pace with higher prices.

But even following moderations in the time to save a deposit as home prices have fallen over the past year, it would still take almost seven years for an average household to save a 20% deposit for a median priced home. This is the longest of any state.

Mortgage repayments as a share of income

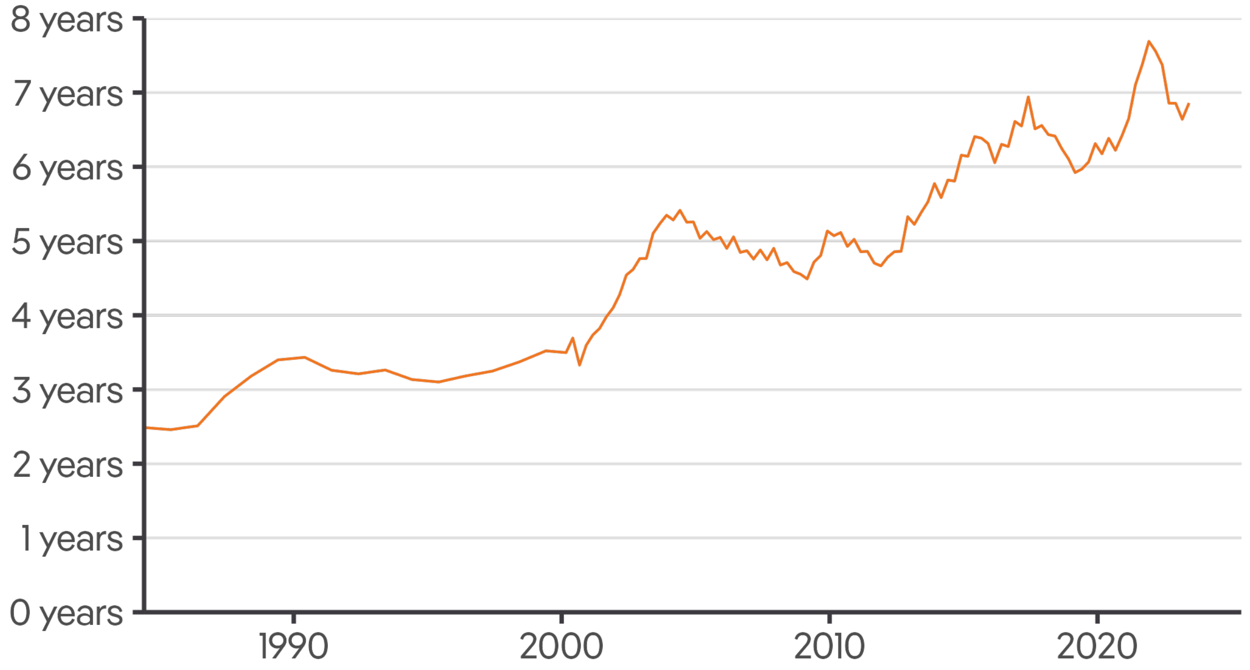
New South Wales



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

New South Wales



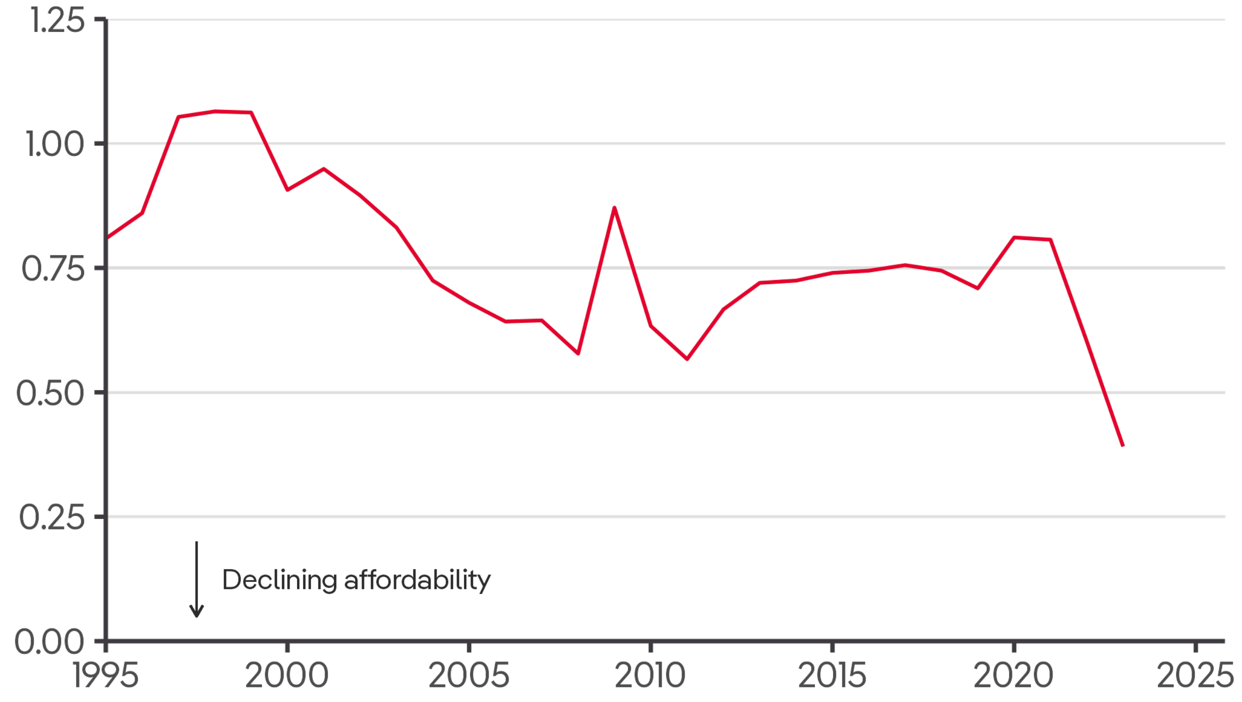
Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

Victoria

- Housing affordability has hit its worst level ever as interest rates have risen, and is sitting well below its previous lows, according to the PropTrack Housing Affordability Index
- Mortgage repayments relative to average incomes are only very slightly below the highest level recorded in 1989
- Saving a deposit has become a little easier as home prices have eased and incomes have increased over the past 12 months

PropTrack Housing Affordability Index

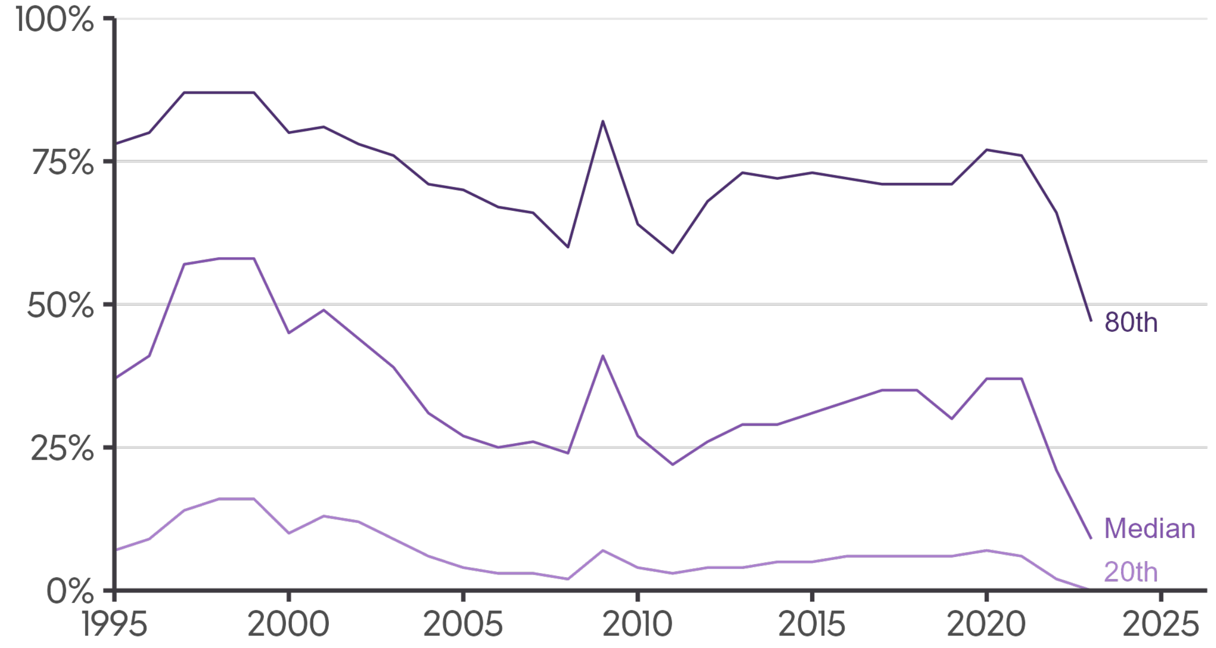
Victoria



Sources: PropTrack, ABS, RBA

Victoria affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Affordability in Victoria has deteriorated to its lowest level in at least three decades

Victorian housing affordability has worsened markedly over the past 12-18 months amid the rapid increases in interest rates.

The PropTrack Housing Affordability Index shows households across the income distribution can afford the smallest share of home sales in Victoria since at least 1994-95, when records began.

The current period of strained affordability comes after a period of historically favourable affordability in Victoria in 2019-20 and 2020-21 amid record low mortgage rates.

More homes were affordable across the income distribution in those years than at any time since 2008-09, when interest rates fell sharply following the GFC. This was also in line with the levels of affordability that were typical in the early 2000s.

The sharp increase in mortgage rates since early 2022 means a household earning a median income can now afford fewer than one in 10 homes if they were to spend 25% of their income on mortgage repayments.

Mortgage repayments as a share of income are almost at a record high

The increase in interest rates has driven mortgage serviceability sharply higher.

A household earning an average income in Victoria (approximately $116,000 per year) would need to spend 35% of their income on mortgage repayments to afford a median priced home. That is considerably higher than has been typical over the past few decades, and only slightly lower than the peak of 36.5% recorded in 1988-89.

The deposit burden for first-time buyers has eased a little in the past year as home prices declined and wages increased. Compared to the peak at the end of 2021, the time to save a deposit has shortened by almost 11 months.

Even so, the time to save a deposit is much longer than in prior decades. It now takes a household earning an average income about 6.2 years to save a 20% deposit (if they save 20% of their income).

That time is largely in line with where it stood in 2017, with the growth in incomes since then offsetting the 24% increase in median prices across Victoria. But it is still much longer than was typical in the 1990s or 1980s.

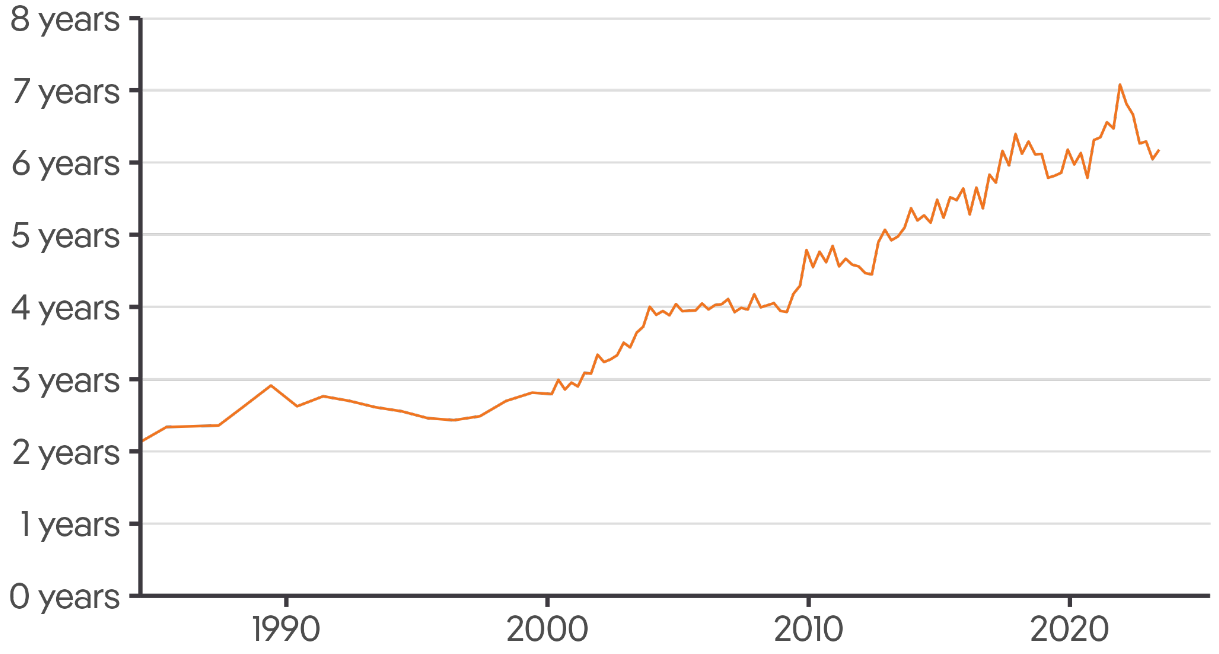
Mortgage repayments as a share of income

Victoria

Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

Victoria



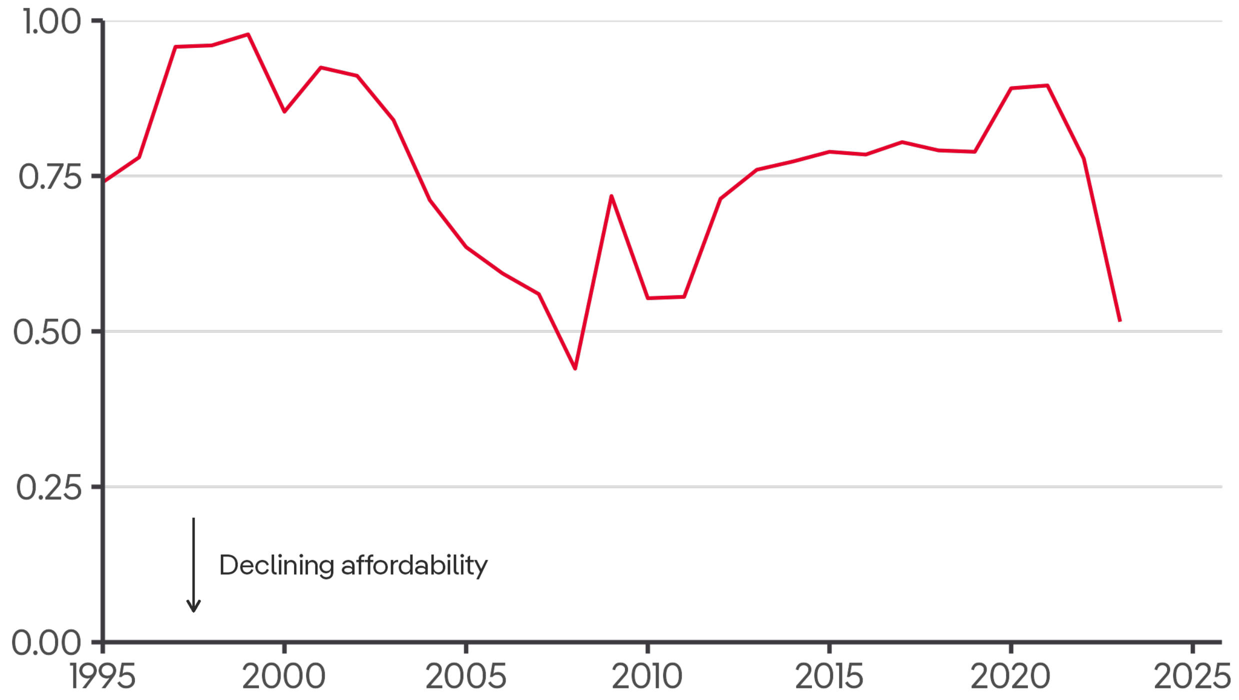
Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

Queensland

- Unlike many other parts of the country, Queensland's housing affordability remains more favourable than in 2007-08, according to the PropTrack Housing Affordability Index, though it has deteriorated materially over the past two years
- Housing accessibility – the time it takes to save a deposit – is close to its longest ever, as a result of Queensland's milder downturn in home prices, and subsequent recovery

PropTrack Housing Affordability Index

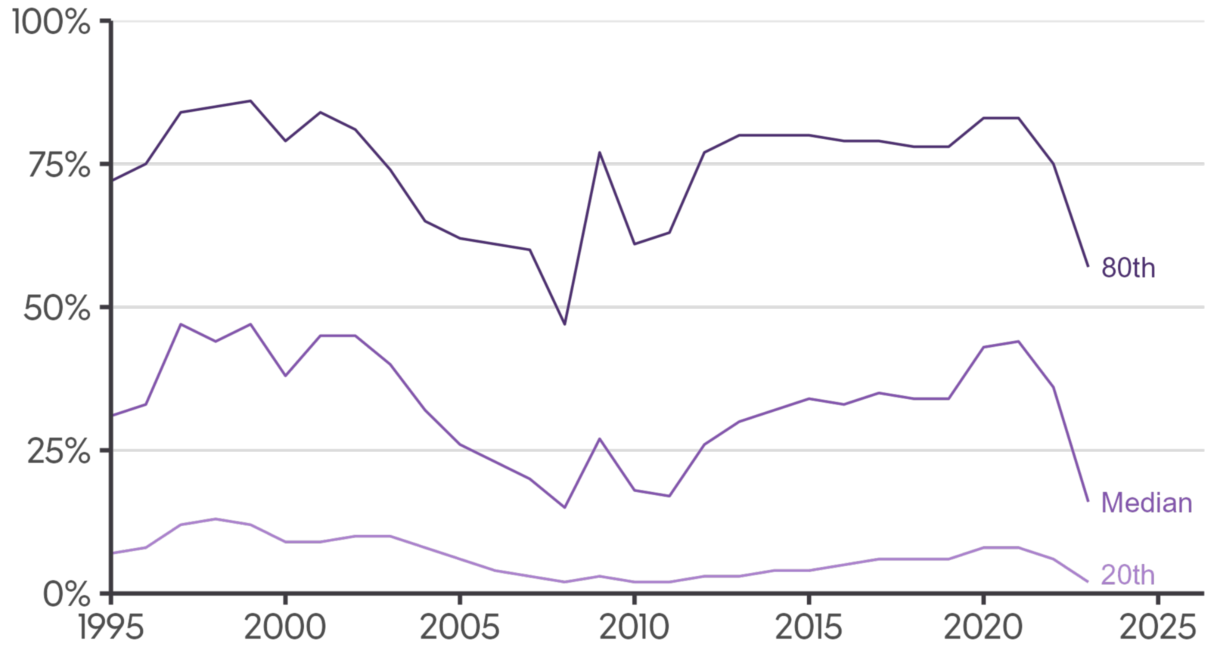
Queensland



Sources: PropTrack, ABS, RBA

Queensland affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Housing affordability has worsened in Queensland, but it remains a little better than in 2008

The PropTrack Housing Affordability Index shows that housing affordability across Queensland has become much tougher in the past two years.

Housing affordability is sitting close to its lowest level on record, remaining only slightly better than in 2008, when the mining boom drove strong demand for housing in Queensland amid higher mortgages rates than today.

This substantial worsening in affordability follows a period of favourable housing affordability, including the best level recorded in two decades in 2019-20 and 2020-21, as low interest rates made housing more affordable for households of all incomes.

While home prices have surged in many parts of Queensland across the past few years, it remains more affordable than all other states, except Western Australia. That relative affordability, especially compared to other eastern capitals, will continue to be an attractive feature for interstate movers.

Queensland buyers' time to save a deposit has not improved

Mortgage serviceability costs have jumped higher, but remain lower than in 2008.

A household earning an average income (approximately $115,000) purchasing a median-priced home in Queensland would need to spend 31% of their income on mortgage repayments.

That is substantially higher than what has been typical over the past decade, but remains below the peaks in 2007-08 (34%) and 1989-90 (38%).

While serviceability remains below its peak, accessibility – the time needed to save a deposit – is close to its longest ever.

The relatively modest downturn and quick recovery in home prices in Queensland means that the time to save a deposit has improved only slightly compared to the peak in 2022, sitting at 5.4 years. While that is long historically for Queensland, it remains shorter than most other states.

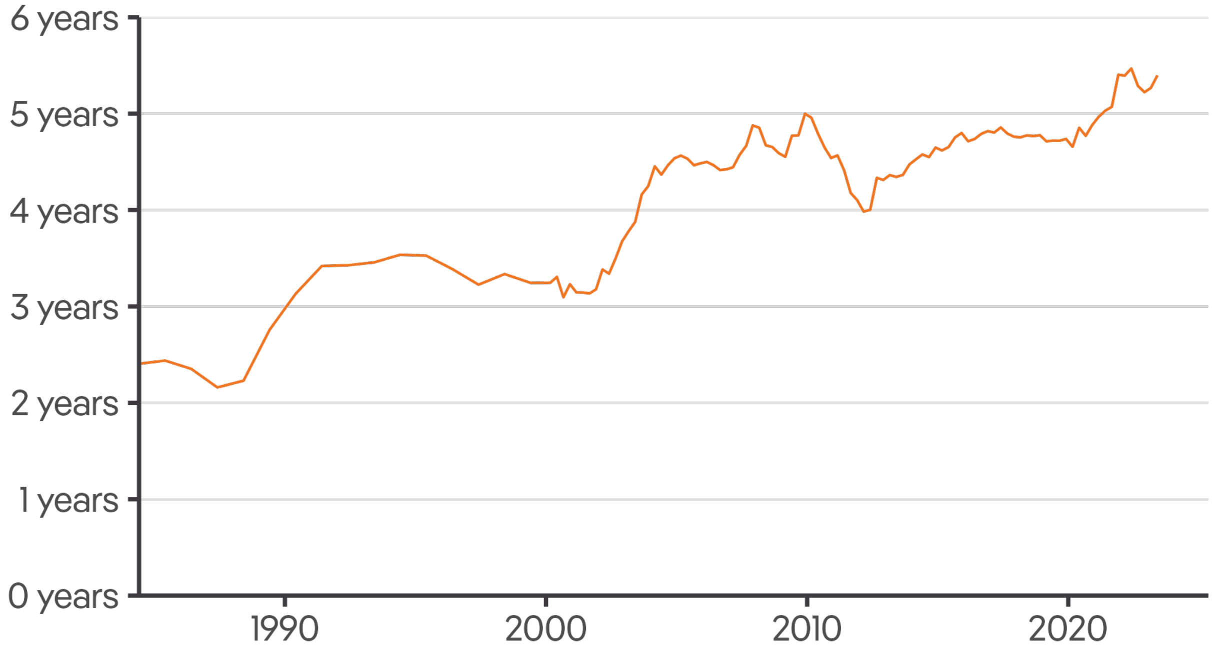
Mortgage repayments as a share of income

Queensland

Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

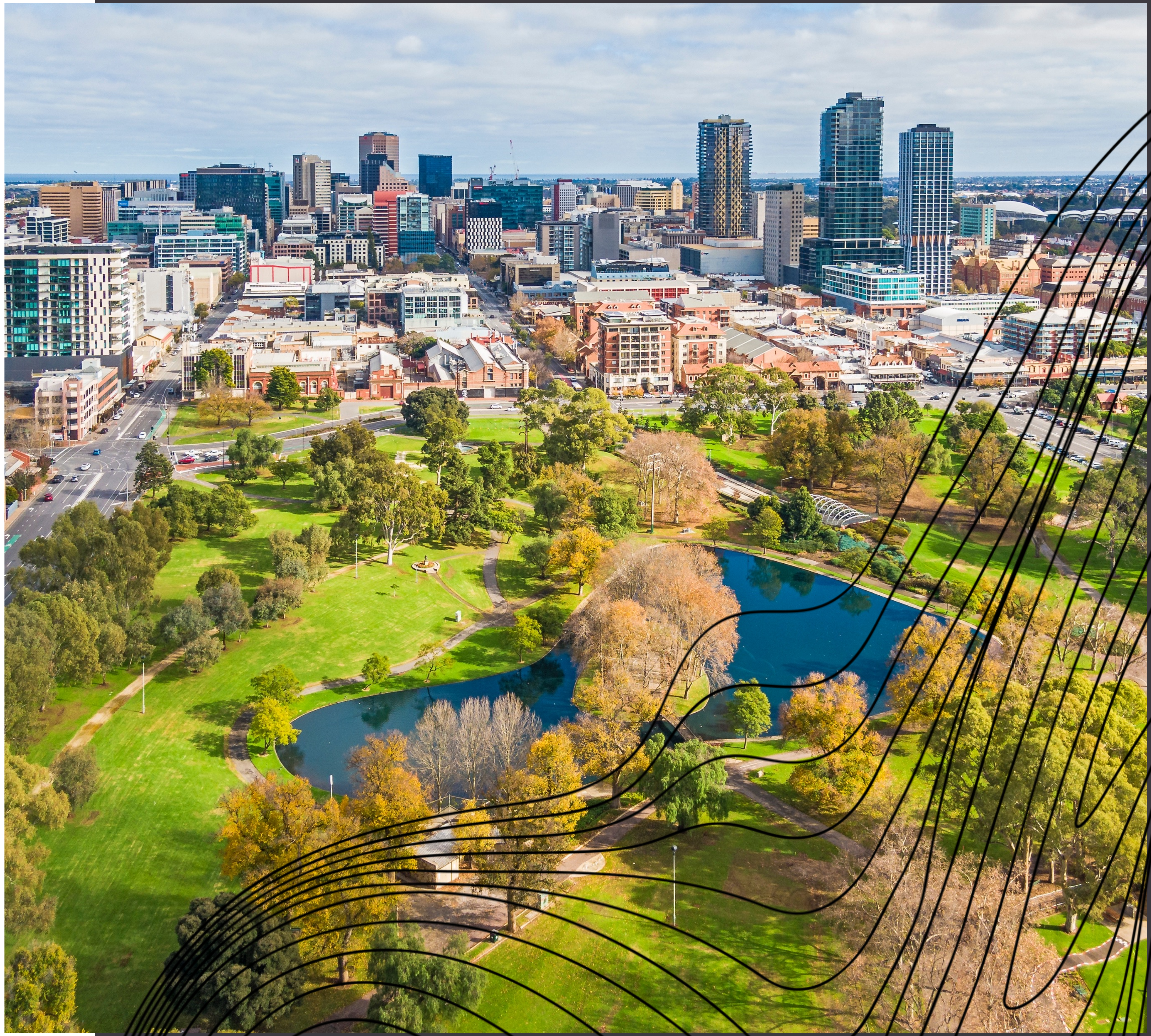
Queensland



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

South Australia

- On any metric, housing affordability in South Australia has never been worse
- The PropTrack Housing Affordability Index shows households across the income distribution can afford the smallest share of homes on record
- Mortgage repayments for a median-priced home as a share of income have surged to a record high, well above levels in 1989 and 1990, and higher than the previous peak in 2008



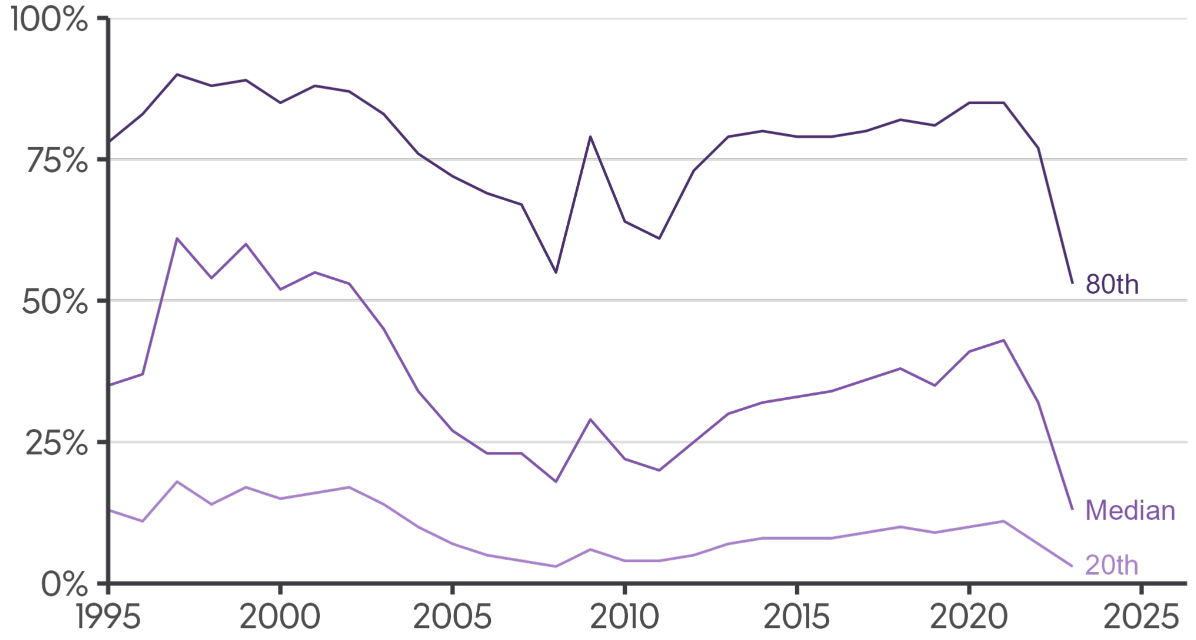
PropTrack Housing Affordability Index

South Australia

Sources: PropTrack, ABS, RBA

South Australia affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Housing affordability in South Australia hits worst level on record on any metric

Three years of brisk house price growth coupled with sharply higher mortgage rates have driven housing affordability in South Australia to its lowest level on record, according to the PropTrack Housing Affordability Index.

Home prices have surged 50% since early 2020 in both Adelaide and regional South Australia, meaning both have been among the fastest growing areas. That has brought the value of a median Adelaide home to just below $680,000.

Unlike most other capital cities, Adelaide avoided a downturn in prices as interest rates started rising. Prices in Adelaide have increased 8.6% since April last year. This is the fastest price growth of any capital city over this period.

That strong growth in home prices, coupled with the surge in mortgage rates since May last year, means households across the income distribution can afford the smallest share of homes at any time since 1995, when records began.

South Australia also has lower average incomes than most other states. This, coupled with increasingly high home prices, has stretched affordability.

Mortgage serviceability is worse than at any time in history

Other measures also show the scale of the housing affordability challenges faced by South Australian buyers.

Mortgage repayments for a median-priced home in South Australia have surged to 35% of average household income, the highest level on record.

That share is substantially higher than the 31% share reached in 1988-89 (when mortgage rates exceeded 15%), or the most recent peak of 33% in 2008.

Higher home prices have also lengthened the time needed to save a deposit. Today, it would take a little longer than six years for an average-income household to save a 20% deposit on a median-priced home.

That represents an increase of 12 months on the time it took to save a deposit pre-pandemic. It is also substantially longer than was the case in prior decades.

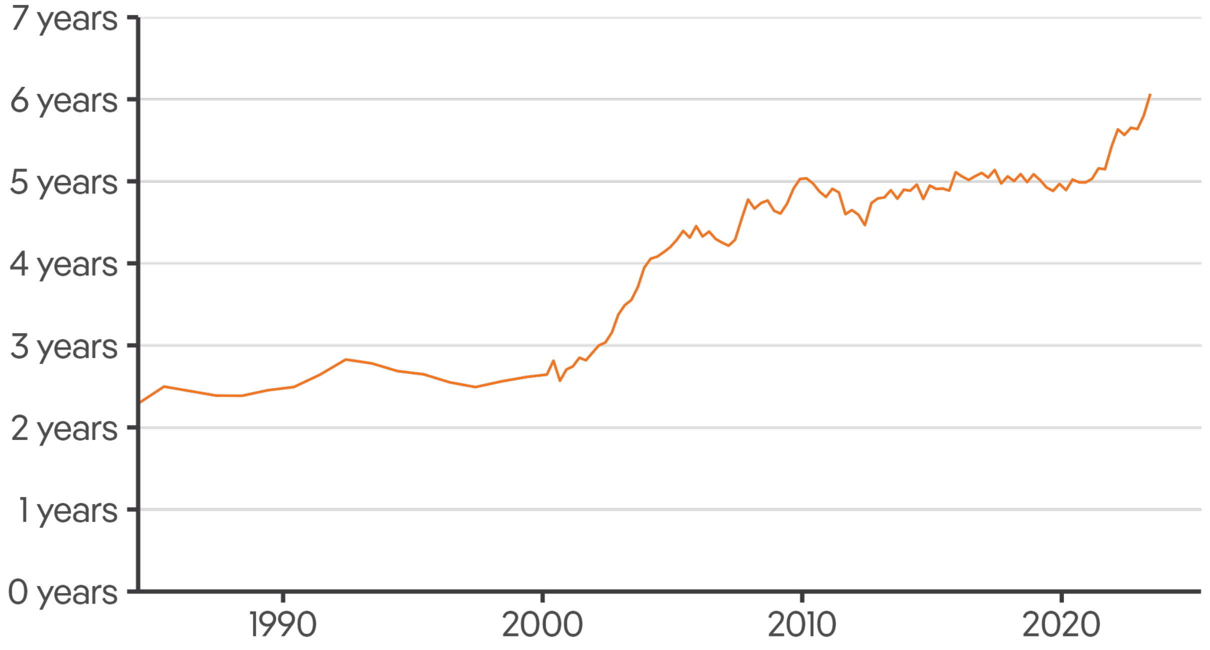
Mortgage repayments as a share of income

South Australia

Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

South Australia



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

Western Australia

- Western Australia is Australia's most affordable state, according to the PropTrack Housing Affordability Index
- Affordability has deteriorated as interest rates have risen
- Housing affordability remains better than in the late 2000s and early 2010s during the height of the mining investment boom

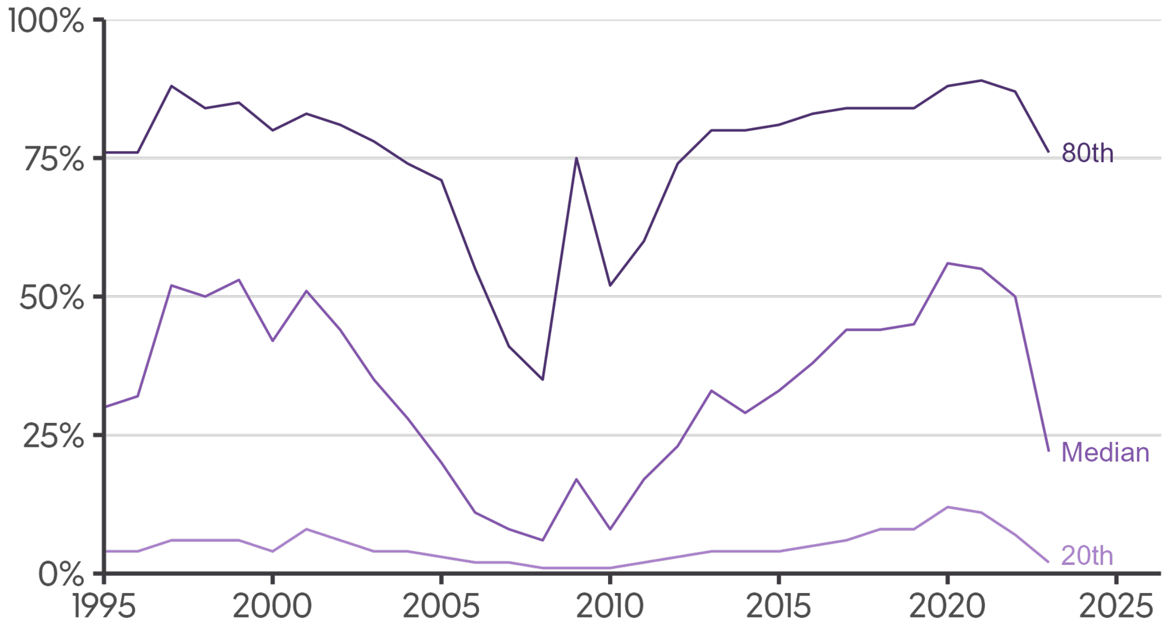
PropTrack Housing Affordability Index

Western Australia

Sources: PropTrack, ABS, RBA

Western Australia affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Affordability has moderated from its best-ever levels in 2020 and 2021, but remains favourable

Western Australia stands out for two reasons. First, it is Australia's most affordable state, according to the PropTrack Housing Affordability Index. Second, unlike nearly every other state, affordability remains favourable compared to history.

This is in part because affordability was strained in Western Australia during the mining investment boom of the late 2000s and early 2010s. During this time, Western Australia eclipsed New South Wales as the most unaffordable state in Australia (from 2006-07 to 2009-10).

Since then, home prices have grown at a slower pace than other states. Home prices in Perth are up just 24% since 2010, and just 8% in regional Western Australia. That compares to 93% nationally.

Slower home price growth means homes in Perth are relatively affordable, particularly as incomes in Western Australia are the highest across Australian states.

Wages growth has outpaced home prices over recent decades, keeping the deposit burden low

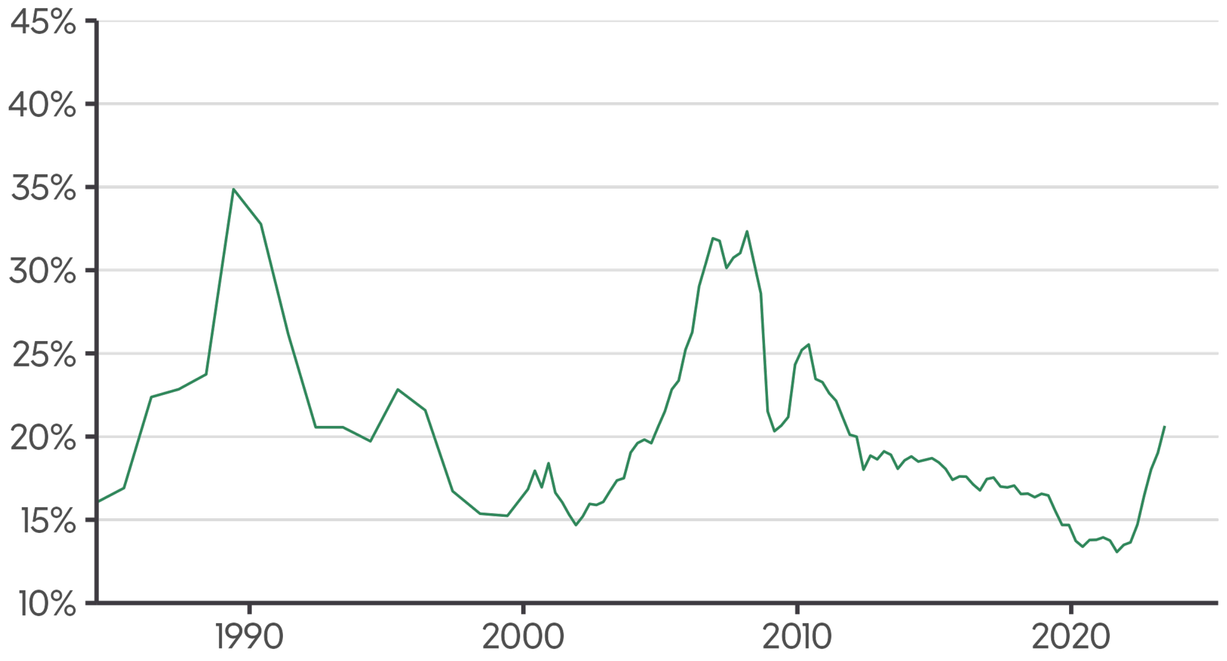
Western Australia is unique across Australia in that the time needed to save a deposit is low compared with the experience over the past 20 years (although it is still well above the level experienced in the 1980s).

After surging during the mining investment boom, the time needed to save a 20% deposit for a median-priced home has fallen to under 4 years – a mark it has stood at for most of the past decade.

This reflects that wages have grown faster in Western Australia than home prices over the past decade and a half, a situation unique among Australian states. Since the time to save a deposit peaked in 2006, average household income in Western Australia has increased a little over 3.6% per year, slightly faster than the national average. By contrast, median home prices have grown, on average, only 1.5% per year over the same period.

Mortgage repayments as a share of income

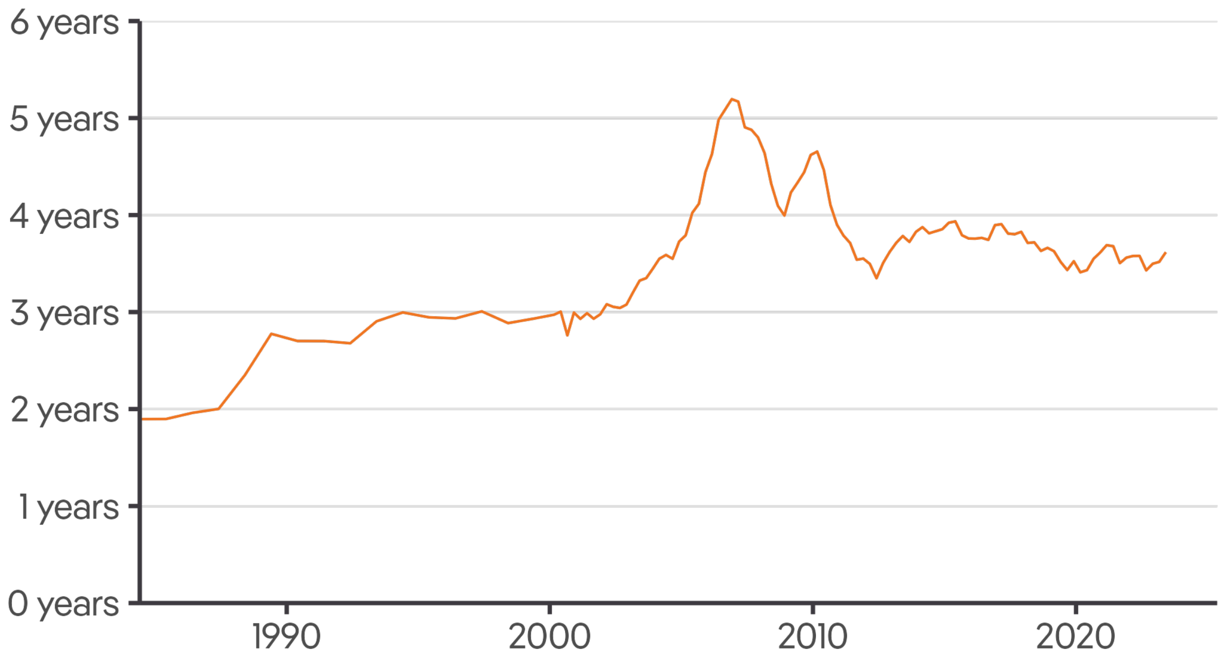
Western Australia



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

Western Australia



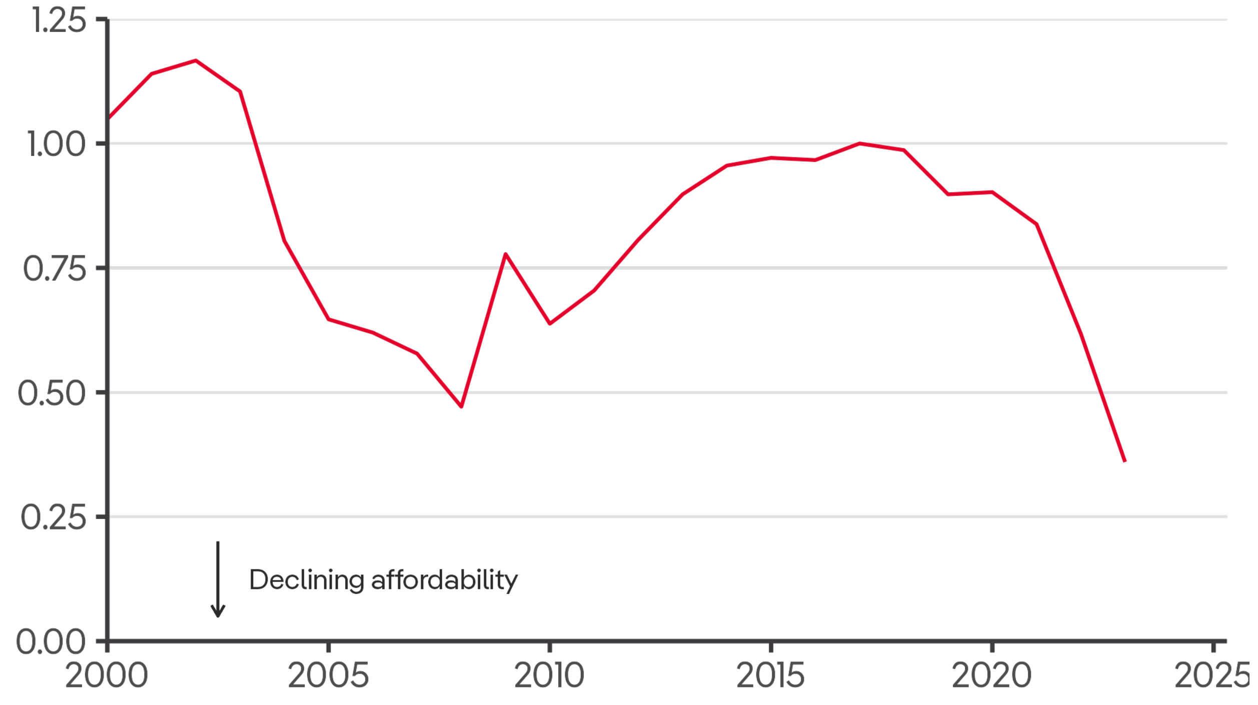
Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

Tasmania

- Tasmania has moved from being one of Australia's most affordable states through most of the 2010s, to now the second-least affordable state in Australia, according to the PropTrack Housing Affordability Index
- Households across the income distribution can afford the smallest share of homes on record
- Mortgage repayments for a median-priced home as a share of income have surged to a record high, well above levels in the early 1990s

PropTrack Housing Affordability Index

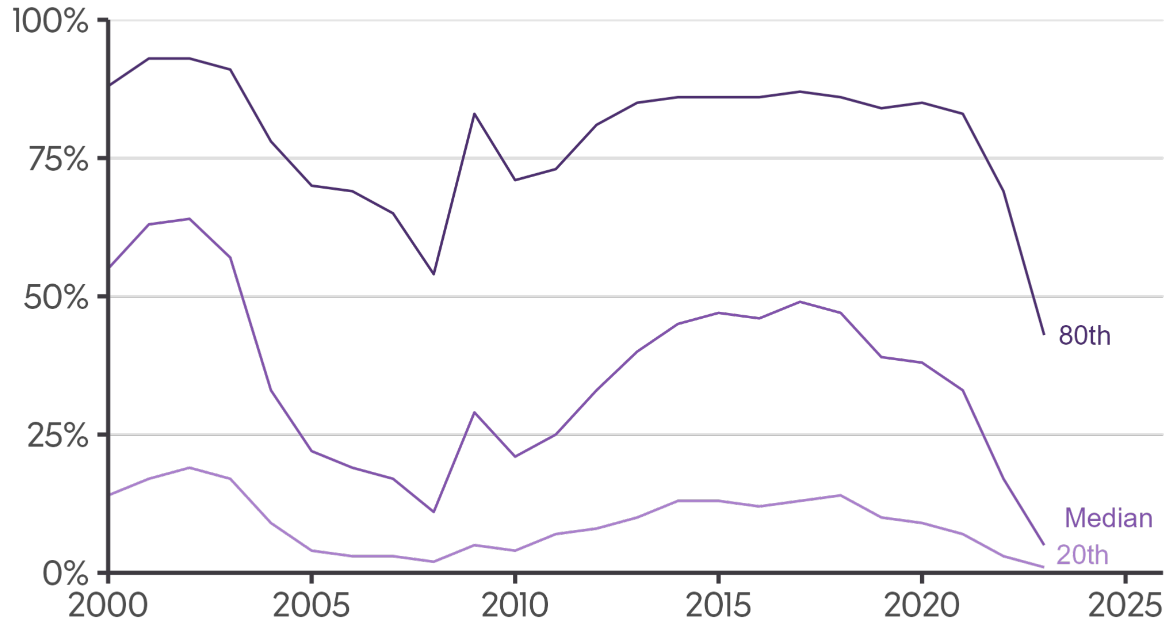
Tasmania



Sources: PropTrack, ABS, RBA

Tasmania affordability over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA
Note: Spending 25% of gross household income on repayments

Tasmania was once the most affordable state – it is now the second-least affordable

Tasmanian housing affordability has collapsed as mortgage rates increased and home prices have surged since the pandemic, and over the years prior.

Tasmania has gone from the most affordable state through most of the 2010s, to the second-least today, behind New South Wales.

As recently as 2016-17, a median-income household could afford almost half of all homes sold across Tasmania. Today they can afford just 5%.

A big part of declining affordability in Tasmania has been the surge in home prices over recent years. Prices in Hobart and regional Tasmania have more than doubled since the start of 2015 – a much faster rate of growth than in any other capital.

The difficulty of affordability is compounded by the fact that Tasmania has the lowest average income across states.

Mortgage repayments in Tasmania are the least affordable on record

Mortgage repayments are at the highest ever level relative to incomes in Tasmania, driven by the run up in home prices over the past few years, coupled with the rapid increase in mortgage rates since early 2022.

Mortgage repayments on a median-priced home are equivalent to 35% of the average household income in Tasmania, exceeding the peaks of 34% in 2007-08 and 30% in 1988-89. That is the second-highest level among all states.

In part, this reflects that Tasmania has the lowest average incomes in Australia, making the burden of given mortgage repayments much higher.

The time needed to save a deposit has eased since early 2022, as home prices have decreased. Since March 2022, home prices in Hobart have fallen 6.6%.

Even so, the sharp run up in prices throughout the pandemic has greatly outstripped income growth. As a result, the time to save a deposit for a median-priced home has blown out from about 4-4.5 years, where it sat from 2004 until early 2019, to as long to 6.2 years today.

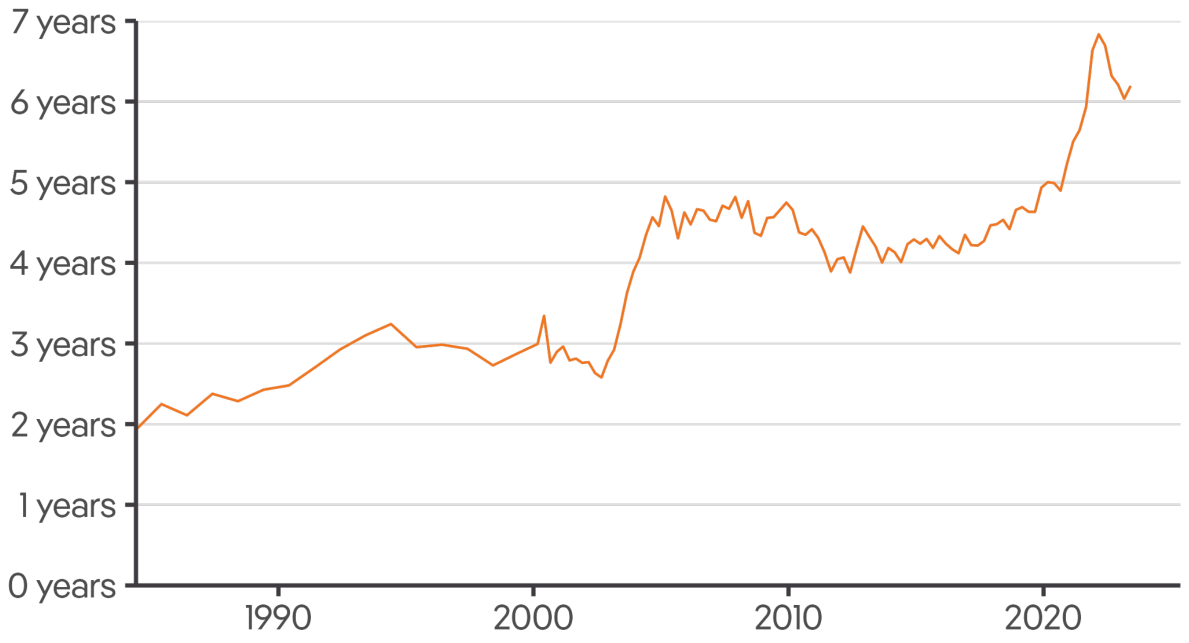
Mortgage repayments as a share of income

Tasmania

Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home, relative to average household income

Time to save a deposit

Tasmania



Sources: PropTrack, ABS, RBA, Abelson and Chung (2004)
Note: For a median-priced home and an average-income household

Methodology

PropTrack Housing Affordability Index

The PropTrack Housing Affordability Index summarises the share of home sales households across the income distribution can afford at prevailing mortgage assessment rates.

- **Share of homes that are affordable**: the share of home sales across each financial year that fall below the price at which the household spending 25% of their gross income on mortgage repayments, with a 80% loan-to-valuation ratio.
- **Assessment mortgage rate**: the average new mortgage rate for owner occupiers on variable rate loans prevailing at the end of the financial year, published by the Reserve Bank of Australia (RBA). Prior to 2019, this rate is backcast using the RBA's indicator lending rate for owner-occupier variable rate loans. A constant buffer of 2.5ppt is added to this mortgage rate to estimate borrowing capacities for households across the income distribution.
- **Household income**: uses gross household income at the top of each income decile, published by the Australian Bureau of Statistics (ABS) in its *'Household Income and Wealth, Australia'* release, collected as part of the *Survey of Income and Housing*. Incomes are linearly interpolated between survey years and extrapolated using changes in gross household income from the annual ABS Australian National Accounts and the ABS Wage Price Index.

To calculate the PropTrack Housing Affordability index, we take the share of home sales in each financial year that are affordable for each household income decile. The shares at each decile are then aggregated into the summary index measure for each financial year using the formula: $index = 1 - \frac{\sum X_i - Y_i}{\sum X_i}$ where X_i is the income decile (e.g. 10) and Y_i is the share of home sales that are affordable for that income decile.

Mortgage repayments relative to average household income

Mortgage repayments relative to income is calculated as: mortgage repayments for a 30-year mortgage at 80% loan-to-valuation ratio for a median-priced home, relative to average household compensation of employees for the relevant geographical region.

- **Median prices** are quarterly sales median prices from PropTrack from 2000; prior to 2000, prices are backcast using capital city house prices from Abelson and Chung (2004); for Australia, median price is calculated as weighted average of 8 capital city house prices with sales shares in 2000 as weights.
- **Mean household income** is calculated as compensation of employees divided by number of households from the Census (interpolated and extrapolated using Chow-Lin and quarterly estimated resident population data); mean household income includes employer superannuation payments.
- Income measures are grown forward from their last observation to most recent quarter using the Wage Price Index.
- **Mortgage repayments** are calculated using the same mortgage interest rate series as the PropTrack Housing Affordability Index, but do not add a buffer rate.

Time to save a deposit

The time needed to save a deposit is calculated as the number of years a household earning average household income would need to save 20% of their gross household income in order to accumulate a 20% deposit on a median-priced home. It does not account for other fees, such as stamp duty and conveyancing fees. Average gross household income and median prices are calculated identically to the approach taken in mortgage repayments relative to average income.

PropTrack

Housing Affordability Report

2023

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