

Housing affordability hits record low

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Housing affordability slumped to its lowest level in the December quarter as last year's interest rate rises started to bite.

The Housing Industry Association/Commonwealth Bank Housing report for December 2006 found affordability at the worst level since the index started in 1984.

The HIA also discovered Perth was less affordable than Sydney — for the first time.

A separate report by Macquarie Bank underlined the impact of the three rate rises on the lending market.

cent in that three months and was 15.5 per cent lower than at the end of December 2005.

The deterioration in affordability could be traced to a number of factors, according to the HIA. The interest rate rises, most recent of which was announced in November, were a major influence.

But the median first house price nationally also rose by 4 per cent, further crimping the ability of would-be first-home buyers to secure a property.

In December 2004 the median home price was \$328,7000. That median price fell to \$327,400 in

December 2005, which was when first homes were at their most affordable in the past two years.

The lower house prices and interest rates combined to provide what turned out to be the best environment for first-home buyers at any time in the past two years.

But prices have grown steadily from that point. The December 2006 figure was an increase of \$14,500 on the September number.

The HIA found the typical first home mortgage repayment had increased 6.3 per cent, from \$2194 to \$2332 per month. Repayments now occupy 30.7 per cent of first-home

buyer income, an additional 1.7 per cent above the September result.

The executive director of housing and economics at HIA, Simon Tennent, said the expected improvement in affordability had not eventuated.

Apart from rising prices and interest rates, some households had been faced with rising rent.

He called on an "all of government approach" to deal with the housing problem.

Senior economist at Macquarie Research, Brian Redican, said a recovery in the housing market was now unlikely.

KEY POINTS

- For the first time Perth is less affordable than Sydney.
- Repayments account for more than 30 per cent of first-home buyer income.

Its research division noted a rapid rise in fixed-rate borrowing and a drop in lending to first-home buyers.

The HIA report stated first-home buyer affordability declined for the fourth consecutive quarter in December. The index used in the HIA report showed a drop of 5.5 per