BUSINESS ENVIRONMENT REPORT D1131

Mortgage affordability

September 2022

Key Statistics

Estimated value in 2022-23: 68.70%

2018-2023 Average Annual Growth: -0.74 percentage points

Forecast value in 2027-28: 64.50%

2023-2028 Average Annual Growth: -0.84 percentage points

Current Performance

IBISWorld forecasts the proportion of household income remaining after making mortgage repayments to fall by 0.60 percentage points in 2022-23, to 68.7%. This indicates that mortgages are expected to become less affordable for households over the current year, as a higher proportion of their income is allocated to repayments. Interest rates are anticipated to continue rising in the current year as the RBA seeks to subdue inflationary pressures. The associated rise in the cost of borrowing is expected to place downward pressure on mortgage affordability as repayment rates rise. In contrast, interest rate rises are expected to subdue residential housing price growth in the year, however this is unlikely to offset the effect of higher rates on mortgage affordability.

Interest rates are typically the primary driver of mortgage affordability and are responsible for much of the change in mortgage repayments. Over the past five years, concerns surrounding global economic growth have driven down the cash rate to historic lows. This has translated into lower mortgage interest rates for households, making it relatively cheaper to borrow money compared with the start of the period. Subdued economic activity caused by the COVID-19 pandemic led the RBA to further lower the cash rate as it sought to stimulate the economy and encourage lending, while competition between lenders has also reduced interest rates. This has helped partially offset the rise in mortgage repayments for households over the period.

Another major component of mortgage affordability is residential property prices. Residential housing prices have grown strongly over most of the past five-year period, but trends in residential property prices can vary by state. Average residential housing prices have grown across all state and territories over the period. Low interest rates and growing demand for residential property from owner-occupiers and first home buyers fuelled strong housing price growth over the period. In addition, negative gearing and capital gains tax discounts provided investors with additional incentive to purchase residential property, fuelling the rise in house prices. However, tighter lending standards and restrictions on high loan-to-value ratios and new interest-only lending led to a decline in housing prices in 2018-19, before growth resumed the following year. Residential housing prices have increased despite the COVID-19 pandemic. Some households ran into financial difficulty with employment conditions deteriorating at the height of the pandemic, which led them to defer home loan repayments. While most housing loans resumed repayments as mortgage deferrals ended in early 2021, deferrals were again offered to affected borrowers following further lockdowns in July 2021.

Strong house price growth has contributed to higher monthly mortgage repayments over the past five years. However, this has been partially curbed by the decline in mortgage interest rates over the period. Household income makes up another part of mortgage affordability. Growth in real household discretionary incomes, due to low unemployment rates and government support packages, has limited the decline in housing affordability over the same period. Overall, IBISWorld forecasts the proportion of household income remaining after making mortgage repayments to fall at an average annual rate of 0.74 percentage points over the five years through 2022-23.

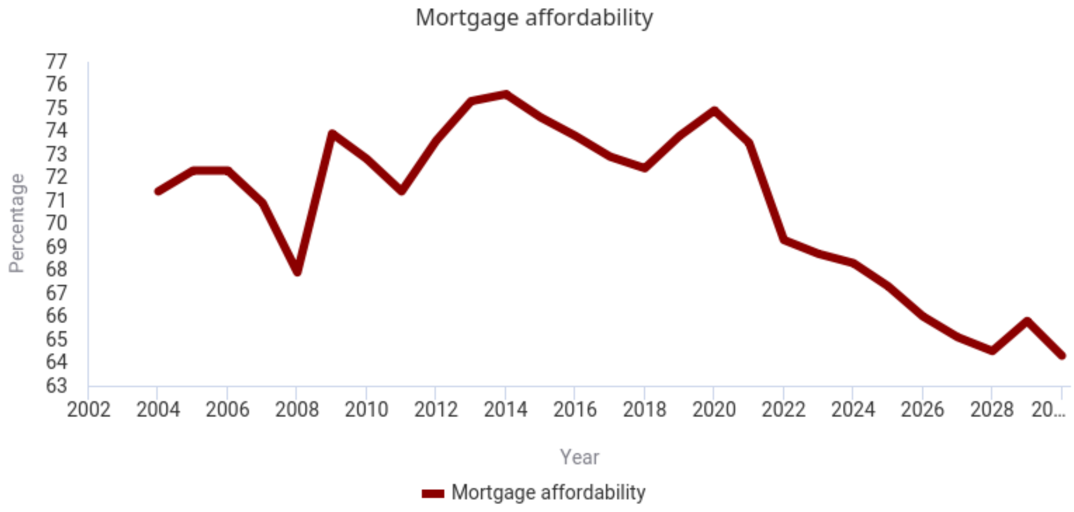
This report analyses mortgage affordability in Australia, which is measured as the proportion of a household's monthly income that remains after making their mortgage repayment. This is calculated based on the average monthly repayments for a standard 25-year mortgage on the mean house price less a 20% deposit in Australia. An increase in the percentage indicates an improvement in the affordability of the average mortgage. The data for this report is sourced from the Australian Bureau of Statistics and is measured as a percentage of average household income.

Outlook

IBISWorld forecasts the proportion of household income remaining after making mortgage repayments to fall by 0.40 percentage points, to 68.3% in 2023-2024. Residential housing loan rates are projected to continue rising in 2023-24, causing mortgage affordability to decline. Strong demand for residential property is also anticipated to support house prices, increasing mortgage repayments for households. As a result, mortgage affordability is expected to decline over the year, with mortgage repayments rising at a faster rate than household earnings.

Overall, mortgages are projected to become less affordable over the next five years as interest rates rise over the period. Residential housing prices are forecast to continue their long-term upward trend. Continued rises in population and a return to growth in net migration as travel to Australia gradually resumes following the COVID-19 pandemic are likely to place pressure on Australia's housing stock and support high prices. With housing loan rates and residential property prices projected to rise at a faster rate than household earnings, mortgages are expected to become less affordable over the next five years. Overall, IBISWorld forecasts the proportion of household income remaining after making mortgage repayments to fall at an average annual rate of 0.84 percentage points over the five years through 2027-28, to 64.5%.

Data Volatility



Year	Percentage	Change	Year	Percentage	Change
2003-04	71.40	N/A	2017-18	72.40	-0.5
2004-05	72.30	0.9	2018-19	73.80	1.4
2005-06	72.30	0.0	2019-20	74.90	1.1
2006-07	70.90	-1.4	2020-21	73.50	-1.4
2007-08	67.90	-3.0	2021-22	69.30	-4.2
2008-09	73.90	6.0	2022-23	68.70	-0.6
2009-10	72.80	-1.1	2023-24	68.30	-0.4
2010-11	71.40	-1.4	2024-25	67.30	-1.0
2011-12	73.60	2.2	2025-26	66.00	-1.3
2012-13	75.30	1.7	2026-27	65.10	-0.9
2013-14	75.60	0.3	2027-28	64.50	-0.6
2014-15	74.60	-1.0	2028-29	65.80	1.3
2015-16	73.80	-0.8	2029-30	64.30	-1.5
2016-17	72.90	-0.9			