



Affordability Report

A quarterly update on the affordability of housing

DECEMBER QUARTER 2010

Rate Hikes Damage Housing Affordability

The interest rate hikes in November last year ratcheted up the cost of a monthly mortgage repayment, damaging housing affordability in the December quarter.

Following on from a temporary improvement in the September 2010 quarter, the HIA-Commonwealth Bank Housing Affordability Index resumed its downwards trajectory, declining by 1.8 per cent (1 point) over the December 2010 quarter. The impact of the interest rate hikes was exacerbated by a rise in the price of dwellings in capital cities, with the most notable contribution to this growth being made by Sydney.

The median price of a dwelling in Australia rose by 0.5 per cent over the quarter, however there was a difference between the experience in the capital cities and the regions. The median price of a dwelling in capital cities rose by 2.0 per cent whereas the median price of dwellings outside capital cities declined by 2.5 per cent.

The *Affordability Multiple* indicates that the level of income required to service mortgage repayments on a median priced dwelling is equivalent to 1.9 times the earnings of the average person employed on a full time basis.

HIGHLIGHTS

- **Housing affordability declined in the December 2010 quarter** due to interest rate hikes and dwelling price appreciation.
- **Housing affordability across the nation remains 10 per cent lower than in the December 2009 quarter.**
- The **affordability differential between capital cities and regions has widened** owing to improved affordability in regions and worsening affordability in capital cities.
- **Tasmania has the most affordable housing in the country** by a significant margin.
- **Regional NSW has the least affordable housing outside of capital cities.** The affordability level is roughly comparable to that found in Sydney and Melbourne.



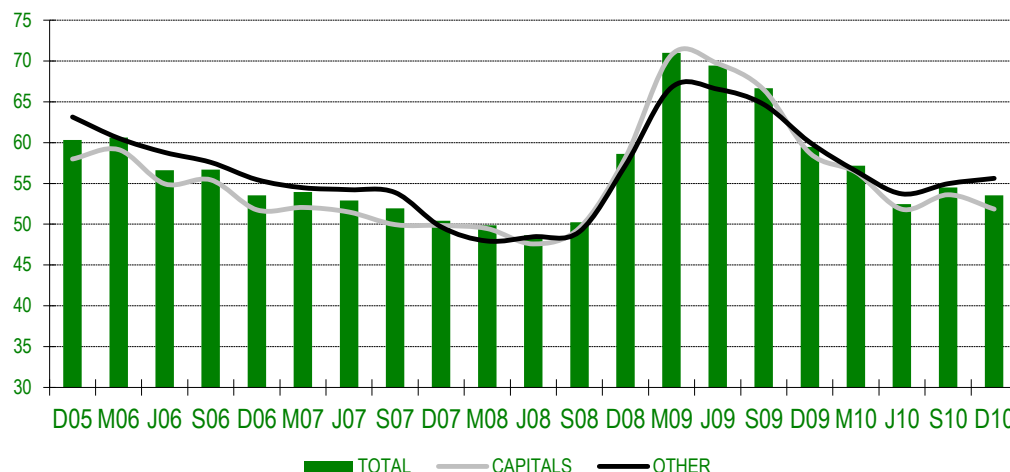
Commonwealth Bank

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HOUSING AFFORDABILITY INDEX, AUSTRALIA

Source: HIA-Commonwealth Bank Affordability Report



Housing Affordability Index, Australia

	Median Dwelling Price	Interest Rate	Monthly Mortgage Repayment	Average Weekly Earnings*	Qualifying Income	Affordability Multiple	Affordability Index
	\$	%pa	\$	\$	\$		
Jun Qtr 09	418,200	5.12%	2,226	61,844	89,038	1.5	69.5
Sep Qtr 09	439,800	5.15%	2,349	62,639	93,946	1.5	66.7
Dec Qtr 09	476,600	5.68%	2,681	63,778	107,249	1.7	59.5
Mar Qtr 10	483,100	6.08%	2,824	64,579	112,942	1.8	57.2
Jun Qtr 10	502,700	6.67%	3,102	65,094	124,085	2.0	52.5
Sep Qtr 10	483,400	6.75%	3,006	65,515	120,235	1.9	54.5
Dec Qtr 10	485,600	7.02%	3,094	66,264	123,779	1.9	53.5

* Annualised

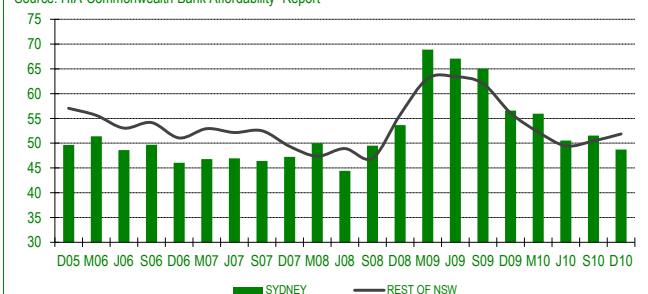
New South Wales

In addition to the interest rate hikes, strong growth in the median dwelling price in Sydney has contributed to a decline in housing affordability, which was down by 5.5 per cent (2.8 points) over the December 2010 quarter. Regional NSW fared better with affordability improving by 2.8 per cent (1.4 points) owing to a moderate decline in the value of a median priced home. Sydney has regained the dubious honour as home to Australia's least affordable housing, relegating Melbourne back to second place.

Following on from seven consecutive quarters of recording lower affordability than Sydney, the affordability situation in regional NSW has reversed. However, regional NSW is far from affordable. With the exception of Sydney, Melbourne and Canberra, regional NSW remains the least affordable market in Australia.

HOUSING AFFORDABILITY INDEX, NSW

Source: HIA-Commonwealth Bank Affordability Report



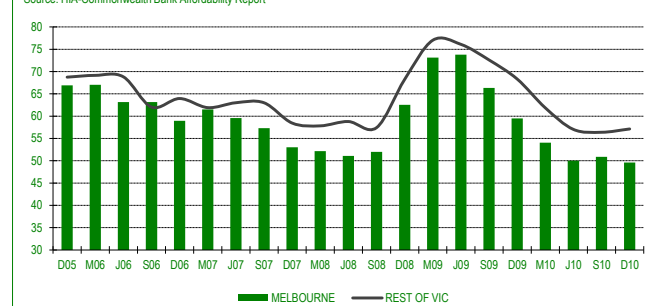
Victoria

After a slight improvement in housing affordability in the September 2010 quarter, affordability in Melbourne has deteriorated over the December 2010 quarter to the lowest level in the index's history. The index declined by 2.6 per cent (1.3 points) over the December quarter and is down by 16.6 per cent (9.9 points) compared with the December 2009 quarter.

The news is better for those looking to buy outside of Victoria's capital city. The median price of a dwelling outside the capital city declined slightly which offset the impact of the rate hikes in November. Affordability improved by 1.3 per cent (0.7 points) in regional Victoria although the affordability index is currently at a level 16.4 per cent (11.2 points) below the level in the December 2009 quarter.

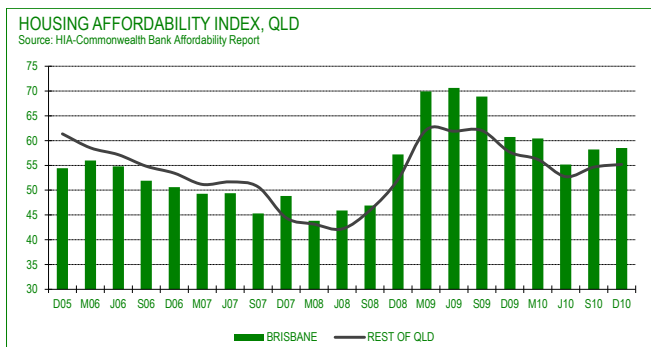
HOUSING AFFORDABILITY INDEX, VIC

Source: HIA-Commonwealth Bank Affordability Report



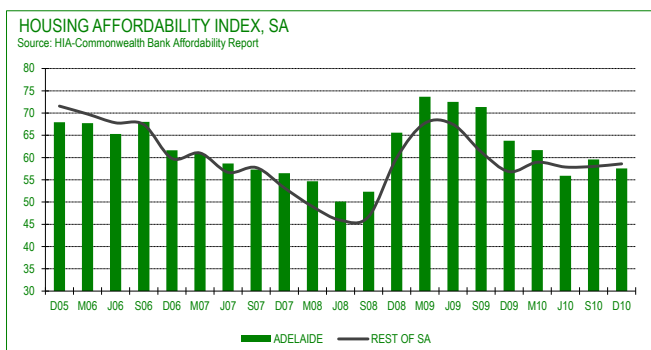
Queensland

Following on from declines in the September 2010 quarter the December quarter saw the median dwelling price decline in both Brisbane (down 4.6 per cent) and the rest of the state (down 4.0 per cent), leaving prices below the level experienced a year earlier. These price declines more than offset the effects of the interest rate rises in November. Affordability improved by 0.5 per cent (0.3 points) in Brisbane and 1 per cent (0.6 points) in the rest of the state.



South Australia

After improved conditions in the September 2010 quarter, affordability in Adelaide has once again begun to deteriorate. Feeling the impact of the interest rate hikes, the affordability index for Adelaide dropped by 3.4 per cent (2 points) over the December 2010 quarter and is down 9.7 per cent (6.2 points) compared with the December 2009 quarter. However, the median price of dwellings outside of the state's capital declined by 10.9 per cent which boosted affordability in defiance of the rate hikes. Affordability in regional SA improved by 1 per cent (0.6 points).

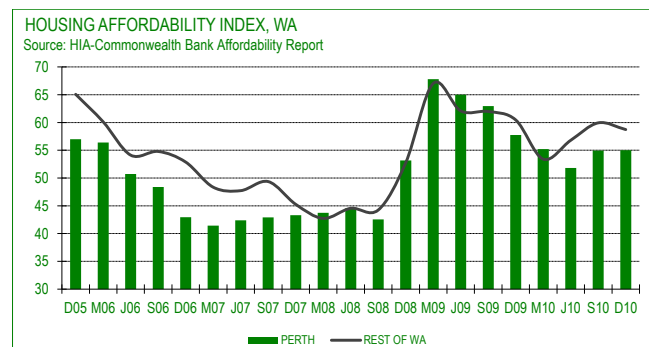


Western Australia

Housing affordability in Perth improved for the second consecutive quarter, although by only 0.1 per cent. The median priced dwelling in Perth experienced a moderate decline of 0.8 per cent over the quarter and when combined with relatively strong growth in average earnings (up 1.8 per cent), the detrimental effect of the

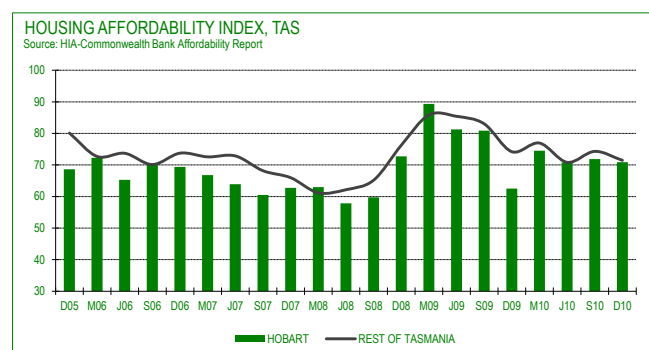
interest rate hikes was nullified.

Similar conditions influenced affordability in the remainder of Western Australia although a 1.3 per cent appreciation in the median dwelling price tipped the scales and resulted in a decline in affordability. Outside of Perth housing affordability deteriorated by 2 per cent (1.2 points).



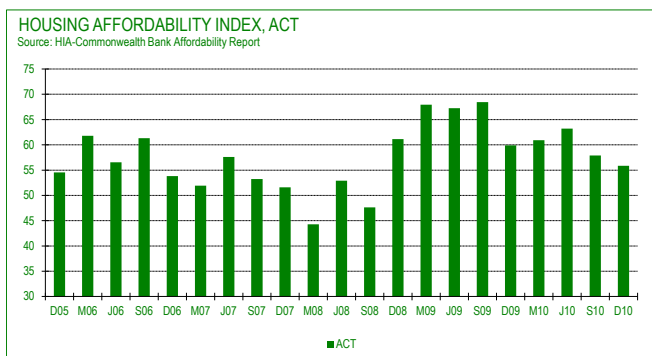
Tasmania

Despite a decline in the index, Tasmania's housing remains the most affordable in Australia. After a brief boost to affordability in the September 2010 quarter, affordability levels have reverted to the levels of the June quarter 2010. The affordability index declined by 1.4 per cent (1 point) in Hobart and 3.8 per cent (2.8 points) in the rest of the state. The declining affordability is primarily the result of an increase to the median dwelling price in both Hobart and the remainder of the state.



Australian Capital Territory

Housing affordability in the ACT experienced a marked decline of 3.5 per cent (2 points) owing to interest rate hikes, appreciation in the median dwelling price, and weak growth in average earnings over the quarter. Given the relatively low population density of Canberra compared with other capital cities, it is concerning that the market has been unable to deliver more affordable housing.



DWELLING PRICES

The dwelling prices used in this publication are medians of those financed by the Commonwealth Bank. As such they cannot and do not take account of changes in the mix of size, location and quality of dwellings financed. Quarter-to-quarter variations therefore reflect any changes in the composition of housing financed, as well as changes in the price of a dwelling of a given size, location, and quality.

Dwelling Price Movement

(% change in median price)

Dec Qtr '09 to Dec Qtr '10

	Capital City	Rest of State
NSW	5.3%	-1.9%
VIC	10.7%	10.3%
QLD	-4.6%	-4.0%
WA	-2.3%	-4.2%
SA	1.7%	-10.9%
TAS	-17.9%	-3.3%
ACT*	-1.3%	N/A

Sept Qtr '10 to Dec Qtr '10

NSW	3.7%	-4.7%
VIC	1.3%	-2.6%
QLD	-1.3%	-1.8%
WA	-0.8%	1.3%
SA	2.2%	-2.2%
TAS	0.0%	2.5%
ACT*	1.6%	N/A

* The dwelling price for ACT was corrected for an outlying value in original data.

Housing Affordability Index by Region

	NSW		VIC		QLD		WA		SA		TAS		ACT
	Sydney	Rest of State	Melb	Rest of State	Bris	Rest of State	Perth	Rest of State	Adel	Rest of State	Hobart	Rest of State	All
Dec Qtr 09	56.6	56.1	59.5	68.3	60.7	57.7	57.8	60.5	63.8	56.8	62.5	74.2	59.9
Mar Qtr 10	56.0	52.3	54.0	61.9	60.4	56.2	55.2	53.4	61.7	58.9	74.5	76.9	60.9
Jun Qtr 10	50.5	49.5	50.0	57.0	55.2	52.7	51.8	56.8	55.9	57.9	70.8	70.8	63.2
Sep Qtr 10	51.5	50.4	50.9	56.4	58.2	54.6	54.9	59.9	59.6	58.0	71.9	74.3	57.9
Dec Qtr 10	48.7	51.9	49.6	57.1	58.5	55.2	55.0	58.7	57.6	58.6	70.9	71.5	55.9

Affordability Multiple*

	NSW		VIC		QLD		WA		SA		TAS		ACT
	Sydney	Rest of State	Melb	Rest of State	Bris	Rest of State	Perth	Rest of State	Adel	Rest of State	Hobart	Rest of State	All
Dec Qtr 09	1.8	1.8	1.7	1.5	1.7	1.8	1.8	1.7	1.6	1.8	1.6	1.4	1.7
Mar Qtr 10	1.8	2.0	1.9	1.7	1.7	1.8	1.9	1.9	1.7	1.7	1.4	1.3	1.7
Jun Qtr 10	2.0	2.1	2.0	1.8	1.9	1.9	2.0	1.8	1.8	1.8	1.5	1.5	1.6
Sep Qtr 10	2.0	2.0	2.0	1.8	1.8	1.9	1.9	1.7	1.7	1.8	1.4	1.4	1.8
Dec Qtr 10	2.1	2.0	2.1	1.8	1.8	1.9	1.9	1.8	1.8	1.8	1.5	1.4	1.8

Required Loan Repayments by Region (\$ per month)

	NSW		VIC		QLD		WA		SA		TAS		ACT
	Sydney	Rest of State	Melb	Rest of State	Bris	Rest of State	Perth	Rest of State	Adel	Rest of State	Hobart	Rest of State	All
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Dec Qtr 09	3,357	2,127	2,762	1,894	3,026	2,368	3,121	2,520	2,405	2,146	2,417	1,709	3,056
Mar Qtr 10	3,442	2,315	3,087	2,123	3,076	2,459	3,306	2,888	2,537	2,110	2,046	1,663	3,093
Jun Qtr 10	3,831	2,458	3,376	2,331	3,377	2,627	3,558	2,742	2,797	2,149	2,209	1,854	3,002
Sep Qtr 10	3,769	2,419	3,334	2,370	3,232	2,560	3,398	2,633	2,645	2,160	2,194	1,782	3,282
Dec Qtr 10	4,006	2,363	3,462	2,366	3,270	2,576	3,453	2,734	2,771	2,165	2,249	1,872	3,417

* Number of average full time adult wages required to affordably service a mortgage on median priced dwelling.

NOTE: HIA Economics have implemented a number of modifications to the HIA-Commonwealth Bank Housing Affordability Index to enable more accurate evaluation of housing affordability in Australia. As a result of the amended methods the Index has been rebased, therefore values in this report are not directly comparable with earlier editions. Further information about the index methodology can be obtained from the HIA Economics website at economics.hia.com.au.