



BANKWEST CURTIN ECONOMICS CENTRE

HOUSING AFFORDABILITY IN WESTERN AUSTRALIA 2023

Building for the future



@BankwestCurtin

#housingWA2023



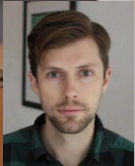
Ryan Brierty

Research Assistant, School of Accounting, Economics and Finance, Curtin University



Alex Buckland

Research Assistant, Bankwest Curtin Economics Centre



Adam Crowe

AHURI Post Doctoral Research Fellow, Curtin University



Alan Duncan

Director, Bankwest Curtin Economics Centre



Steven Rowley

Director, Australian Housing and Urban Research Institute – Curtin Research Centre



HOUSING AFFORDABILITY IN WESTERN AUSTRALIA 2023



Houses in Western Australia are among the most affordable....

Median price-to-income ratios by state/territory & capital city/rest of state: December 2023

States and territories	median household gross annual income in 2022\$		median house sales price in 2022\$		median price-to-income ratio
City	Median income	rank	Median sales price	rank	Median p/i ratio
Sydney	131,526	2	1,650,047	1	12.5
Melbourne	121,495	4	1,115,575	2	9.2
Hobart	103,692	8	783,871	5	7.6
Brisbane	116,271	5	837,868	4	7.2
Canberra	152,640	1	1,069,554	3	7.0
Adelaide	109,838	7	721,880	6	6.6
Perth	115,938	6	666,374	7	5.7
Darwin	124,819	3	607,434	8	4.9
All capital cities	122,356		1,057,916		8.6
Rest of NSW	95,529	3	741,230	1	7.8
Rest of QLD	89,604	6	638,908	2	7.1
Rest of TAS	78,793	8	538,799	5	6.8
Rest of VIC	94,508	4	607,228	4	6.4
Rest of WA	96,234	2	447,392	7	4.6
Rest of SA	85,485	7	378,571	8	4.4
Rest of NT	105,969	1	460,355	6	4.3
All regions	92,247		626,505	#	6.8

- Median price-to-income ratios are **lower in Greater Perth** than anywhere except Darwin
- Rest of WA is one of the more affordable regional markets
- Overall, WA is relatively affordable when compared to the rest of the country

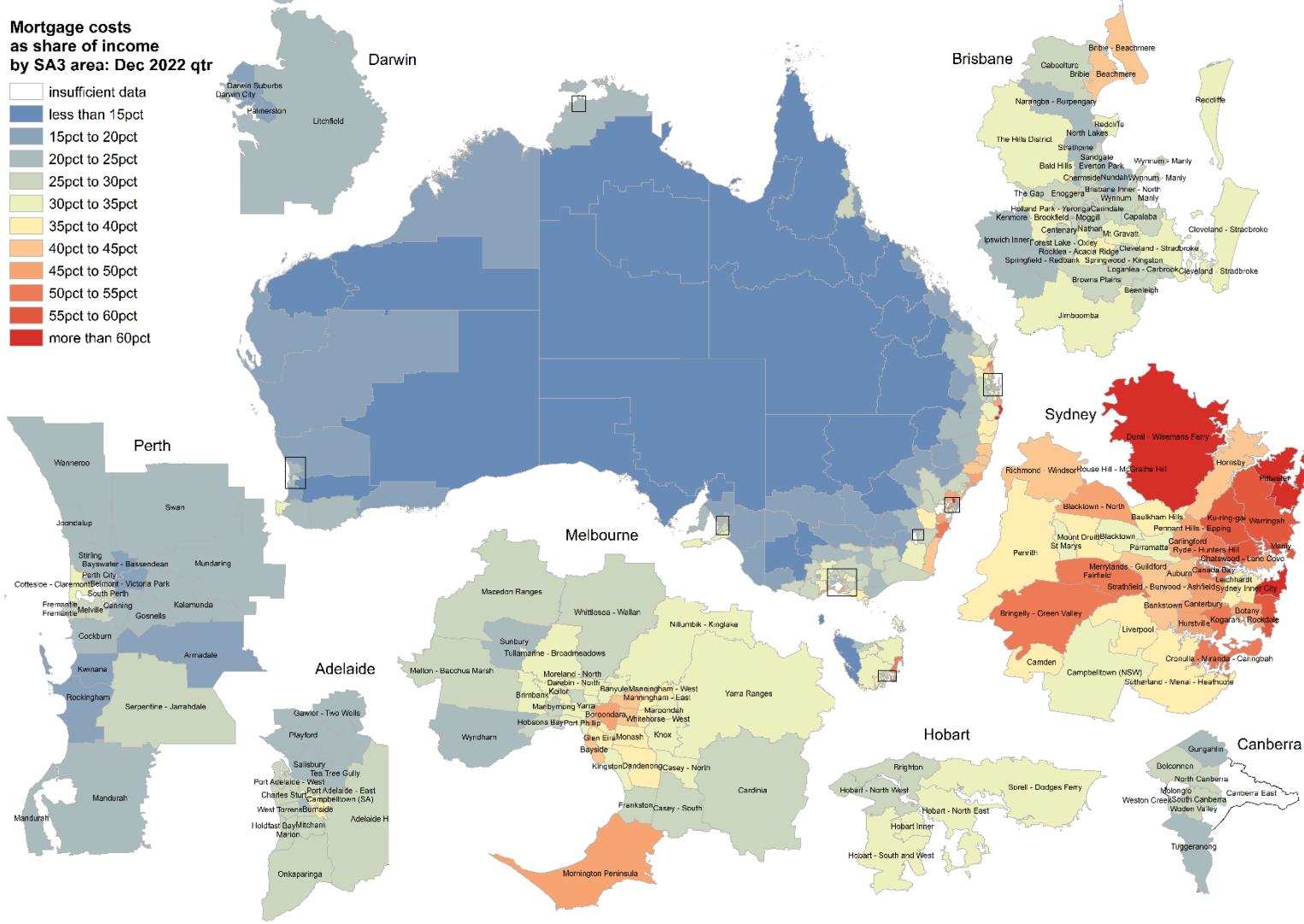
But mortgage affordability is coming under pressure from rising interest rates

Share of median income to service repayments: by median sales price & lending rates/term

States and territories	share of income required to service variable mortgage					
	10% deposit, 30 year term			30% deposit, 25 year term		
	3.5% rate	5.0% rate	6.5% rate	3.5% rate	5.0% rate	6.5% rate
City						
Sydney	60.8	72.7	85.6	52.8	61.6	71.2
Melbourne	44.5	53.2	62.7	38.6	45.1	52.1
Hobart	36.7	43.8	51.6	31.8	37.1	42.9
Brisbane	34.9	41.8	49.2	30.3	35.4	40.9
Canberra	34.0	40.6	47.8	29.5	34.4	39.7
Adelaide	31.9	38.1	44.9	27.6	32.3	37.3
Perth	27.9	33.3	39.2	24.2	28.2	32.6
Darwin	23.6	28.2	33.2	20.5	23.9	27.6
All capital cities	41.9	50.1	59.0	36.4	42.5	49.0
Rest of NSW	37.6	45.0	53.0	32.6	38.1	44.0
Rest of QLD	34.6	41.3	48.7	30.0	35.0	40.4
Rest of TAS	33.2	39.6	46.7	28.8	33.6	38.8
Rest of VIC	31.2	37.3	43.9	27.0	31.6	36.4
Rest of WA	22.5	27.0	31.7	19.6	22.8	26.4
Rest of SA	21.5	25.7	30.2	18.6	21.7	25.1
Rest of NT	21.1	25.2	29.7	18.3	21.3	24.6
All regions	32.9	39.4	46.4	28.6	33.4	38.5

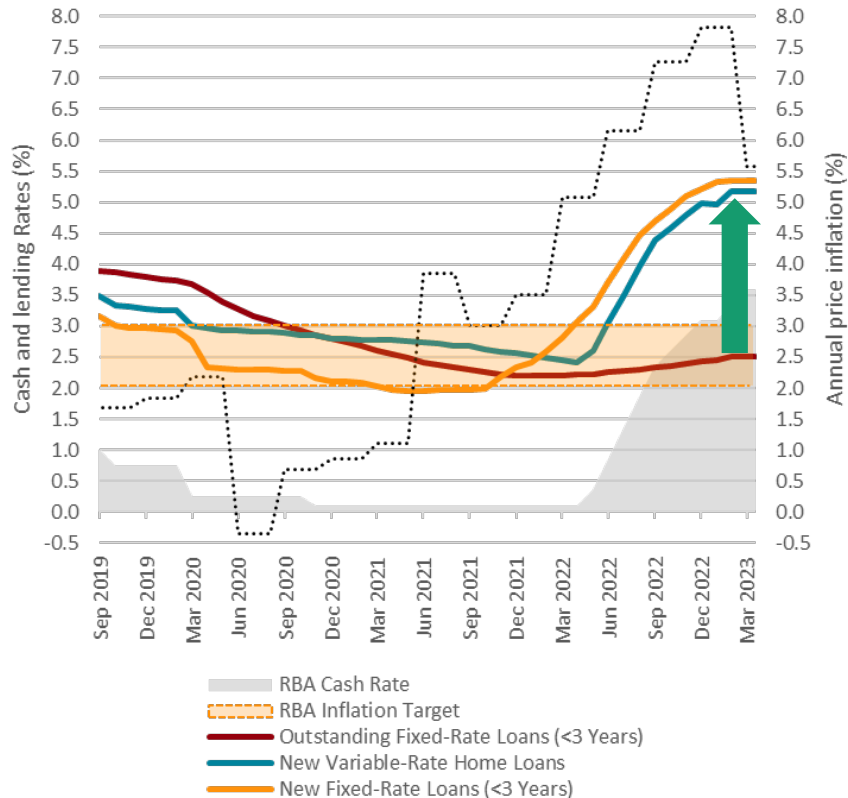
- There are fears of a ‘perfect storm’ of heightened financial vulnerability for new lenders during 2023
- The difference in repayment rates for new loans for borrowers coming to the end of their fixed rate product has widened to 2.8ppt

Mortgage costs as share of income by SA3 area: Dec 2022 qtr



What can fixed-rate borrowers expect when their loan product comes to an end?

RBA cash rates, CPI and fixed and variable mortgage rates for **existing and new** loans

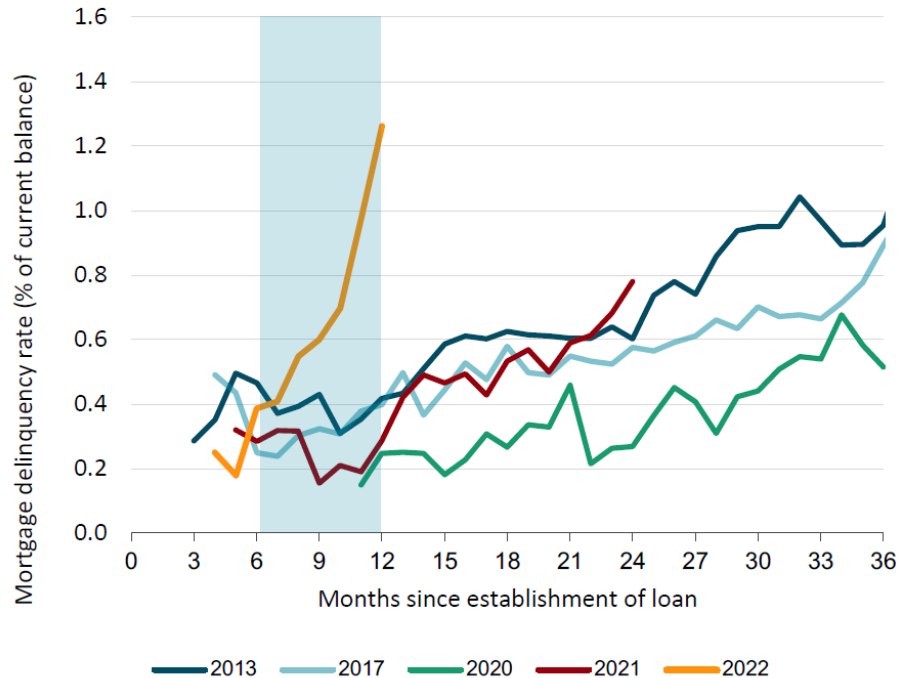


- There are fears of a ‘perfect storm’ of heightened financial vulnerability for new or recent borrowers during 2023
- The difference in repayment rates between **existing** and **new** loans for borrowers coming to the end of their fixed rate product has **widened to 2.8ppt**
- Price inflation looks to be on the turn but there is still some way to go to get back to the 2-3 per cent target

Emerging evidence of heightened mortgage stress....

Mortgage delinquency rates by type of lender and **vintage of loan**

Delinquency rates over time, by vintage of loan

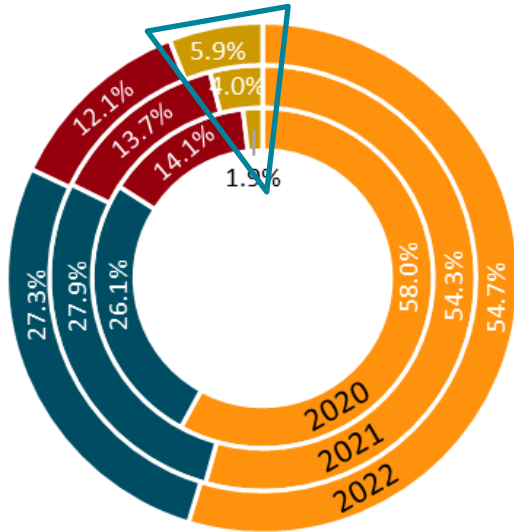


- Moody's RMBS data capture **mortgage delinquency** as a share of the current RMBS balance – split by month since loan establishment and loan vintage
- The data show a **worrying uplift** in mortgage delinquency rates for **2022 vintage loans** compared to earlier loan vintages
- Excess delinquency rates look to be kicking in between **6 and 9 months** after establishment of loan for 2022 vintage
- Keystart found an uptick in loan arrears approximately **5 months** after the rate rise cycle started in May 2022

Emerging evidence of heightened mortgage stress....

Mortgage delinquency rates by type of lender and vintage of loan

Share of RMBS (mortgage-backed) securities by type of loan issuer (%)



Major Banks
Regional ADIs
Other ADIs
Non-ADIs

- There has also been a shift in the balance of RMBS loans by lender type
- The share of loans from Non-Authorised Deposit-Taking Institutions (non-ADIs) has increased over time:
 - 1.9 per cent for **2020 vintage loans**
 - 5.9 per cent for **2022 vintage loans**

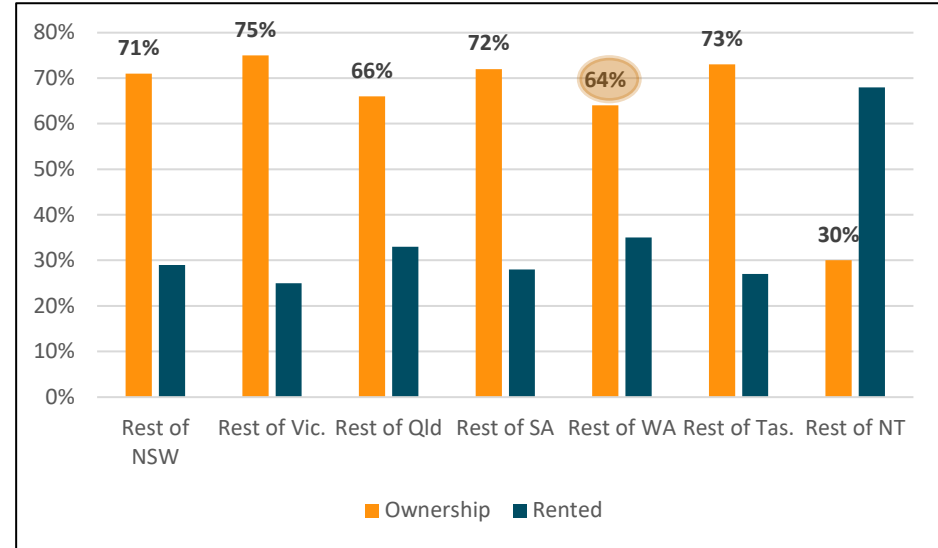
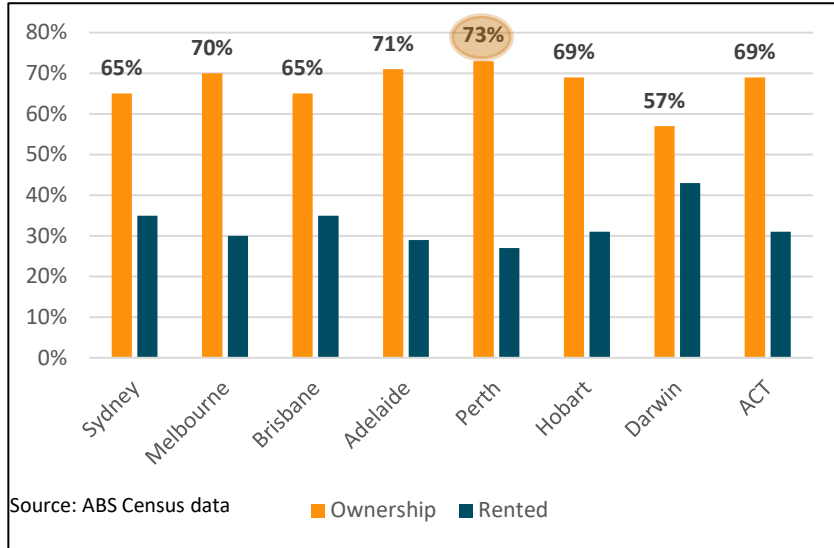


Housing supply



Home ownership is strong in Greater Perth, less so in the regions

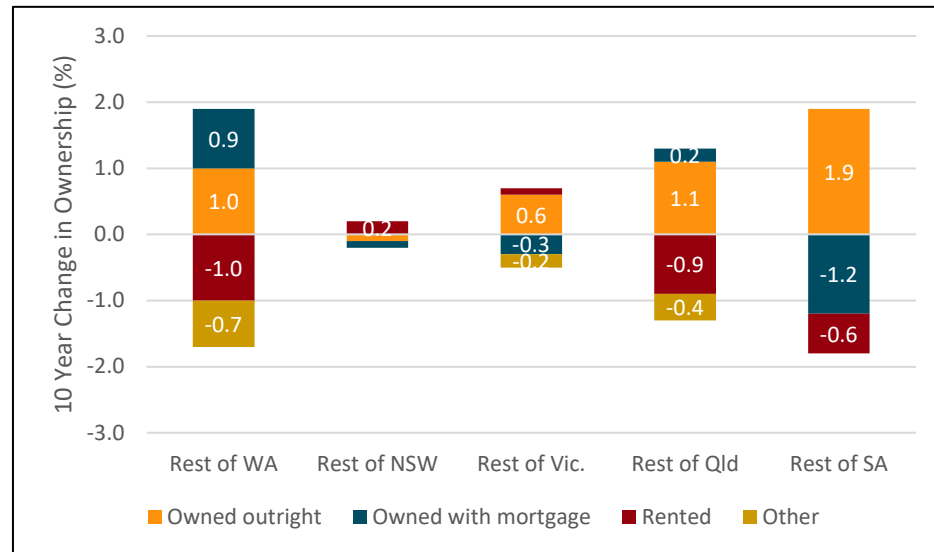
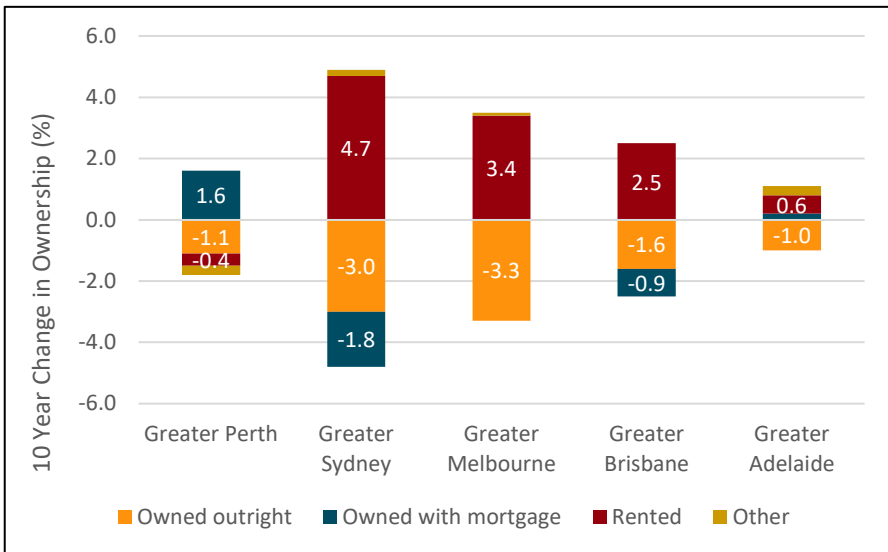
WA regional median house rents: 2017 to 2023



- Home ownership rates are higher in Greater Perth than any other capital city.
- Home ownership rates are lower in the rest of WA everywhere but NT

Renting is growing in other capital cities, ownership is holding steady in Perth

10 year change in dwelling tenure

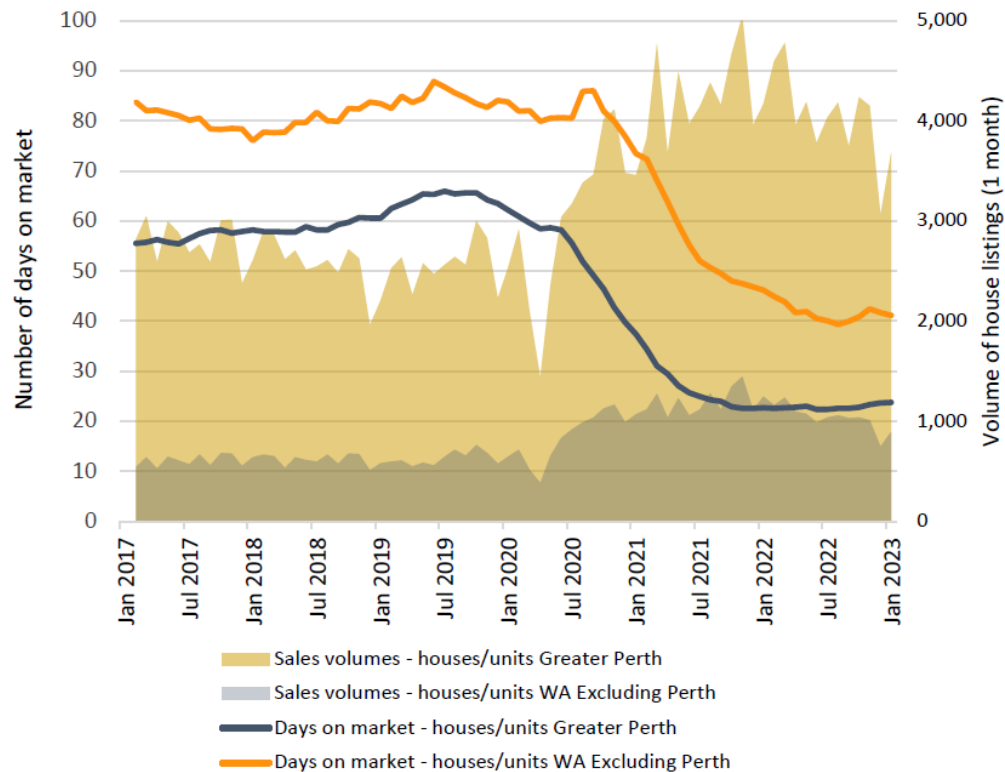


Source: ABS Census data

- Home ownership has increase by 0.5% in Perth. Contrast with a fall of 4.8% in Sydney
- Rates of home ownership have increased in regional WA

Properties flying off the shelves with sales volumes dropping over the past year

Number of days on market and sales volumes: Greater Perth and regional WA: 2017 to 2023

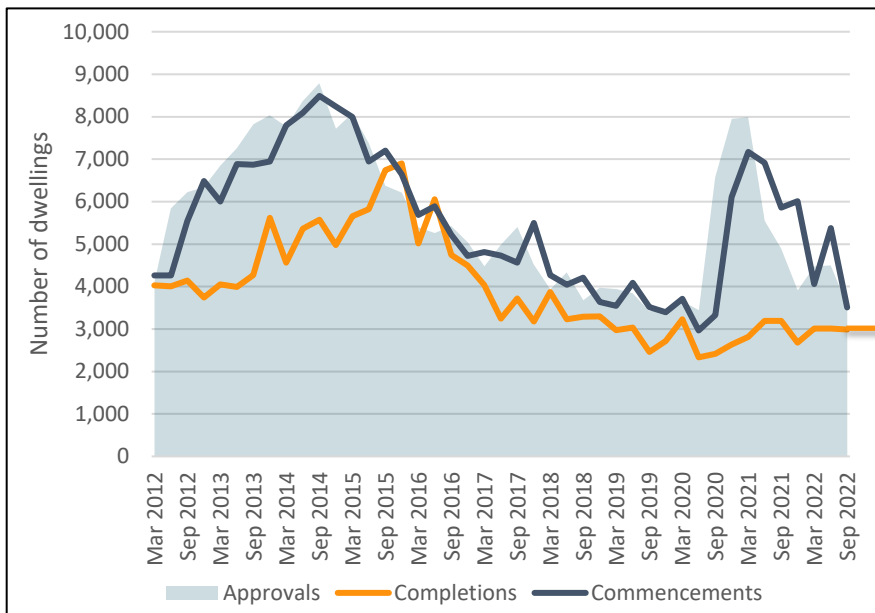


- Sales volumes have dropped in Western Australia over the last year:
 - by around **16 per cent for Perth** and
 - by **30 per cent in regional WA**
- Properties available for purchase now average **22 days on the market** in Perth, down to a **third** of pre-pandemic levels
- Properties remain on the market for longer in **regional WA** but the number of days on the market has still **halved**

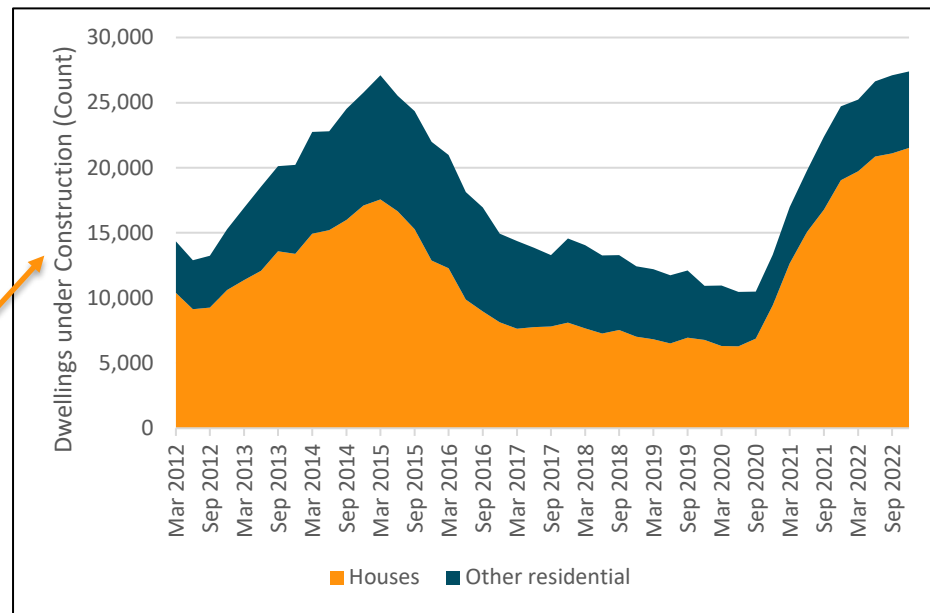
Where are the dwelling completions?

Dwelling approvals, commencements, completions and under construction

Dwelling commencements and completions in WA



Dwellings under construction in WA



- The surge in commencement will eventually become completions
- Over 27,000 dwellings were under construction at the end of 2022

WA's construction sector is facing a shortage of finishing trades

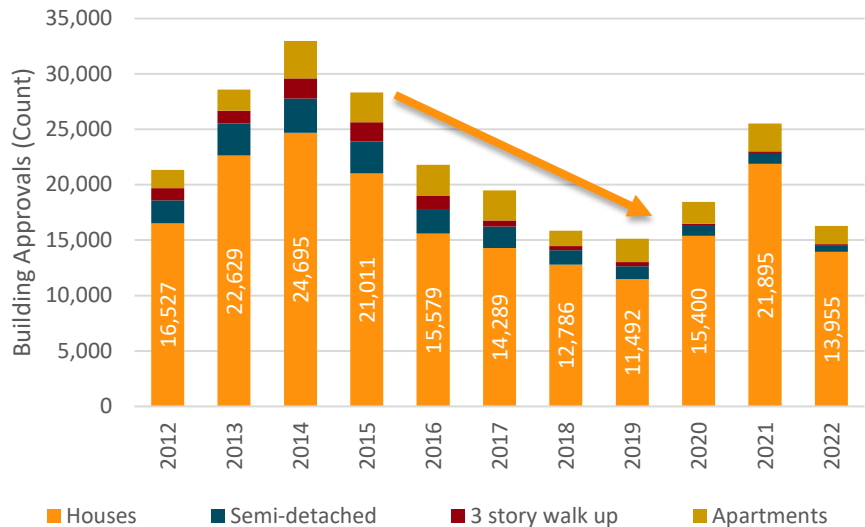
Counts of construction sector occupations (2021) and excess demand for workers

Construction Occupations in Western Australia	Census count 2021	5 year change (%)	Growth in internet vacancies (%)	Employment growth less vacancies (count)	NSC future demand rating	NSC labour market rating
Electricians	9,126	-0.2	+22.7	-140	Strong	S
Carpenters and Joiners	7,219	-2.7	+21.9	-230	Soft	S
Construction Managers	6,352	+2.3	+33.2	+36	Moderate	S
Plumbers	6,243	-3.9	+7.0	-263	Soft	S
Architectural, Building and Surveying Technicians	4,745	+7.6	+7.2	+319	Moderate	NS
Painting Trades Workers	3,692	-6.6	+0.0	-261	Soft	S
Building and Plumbing Labourers	3,529	+9.6	+16.3	+276	Moderate	NS
Bricklayers and Stonemasons	3,334	-17.3	-8.0	-696	Soft	S
Structural Steel Construction Workers	2,600	-2.6	-13.2	-48	Moderate	NS
Earthmoving Plant Operators	2,551	+0.2	-0.8	+8	Moderate	NS
Plasterers	2,522	-31.8	+42.8	-1,179	Moderate	S
Structural Steel and Welding Trades Workers	2,271	-4.3	+2.0	-112	Moderate	NS
Concreters	2,171	-0.5	+17.0	-15	Moderate	NS
Wall and Floor Tilers	1,858	-18.7	+23.4	-429	Moderate	S
Gardeners	1,824	-8.4	+18.6	-188	Moderate	S
Contract, Program and Project Administrators	1,762	+9.4	+37.6	+62	Strong	NS
Truck Drivers	1,663	+12.8	+6.4	+162	Moderate	S
Handypersons	1,539	-5.5	+32.4	-117	-	-
Metal Fitters and Machinists	1,330	-1.9	+22.3	-176	Moderate	NS
Civil Engineering Professionals	1,321	+14.9	+48.0	+1	Moderate	S
Total	111,860	+1.4	+25.6	-5,046		

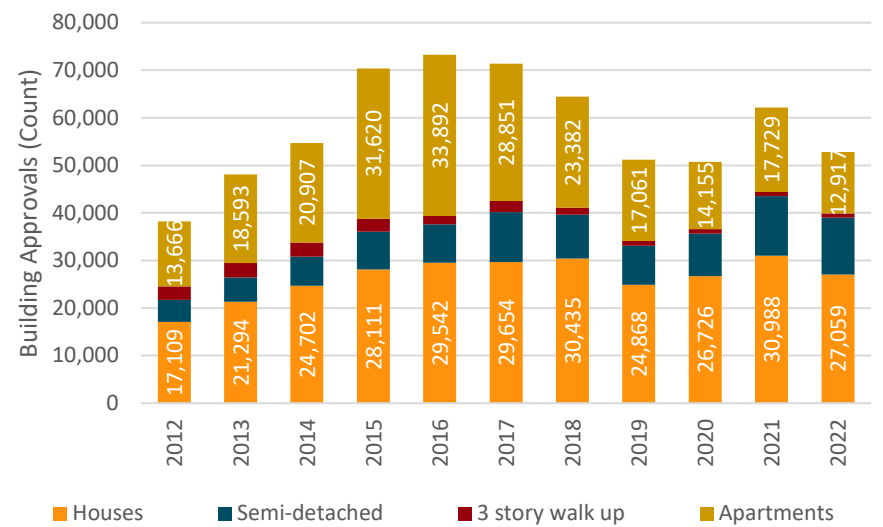
Where is the multi residential supply?

Building approvals compared across WA and NSW

WA



NSW



Source: ABS Building activity, Australia April 2023

- Home ownership has increase by 0.5% in Perth. Contrast with a fall of 4.8% in Sydney
- Rates of home ownership have increased in regional WA

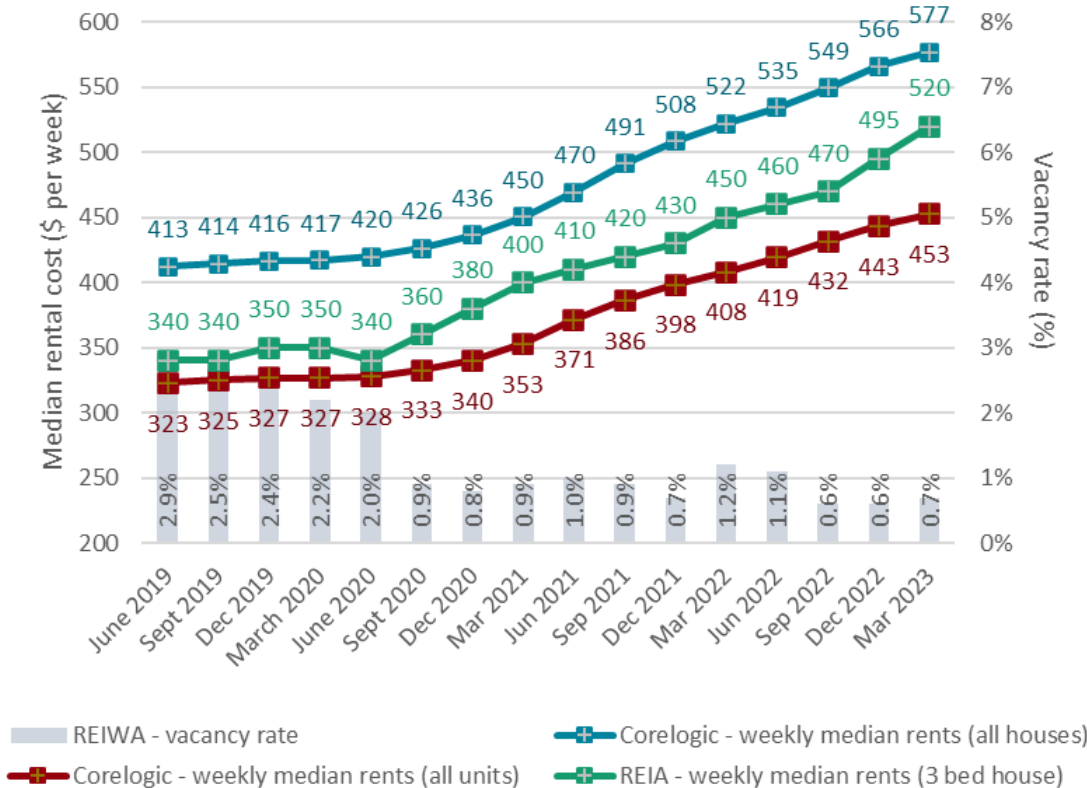


What's driving the growth in rental costs in Western Australia?



Rental cost pressures have escalated across WA....

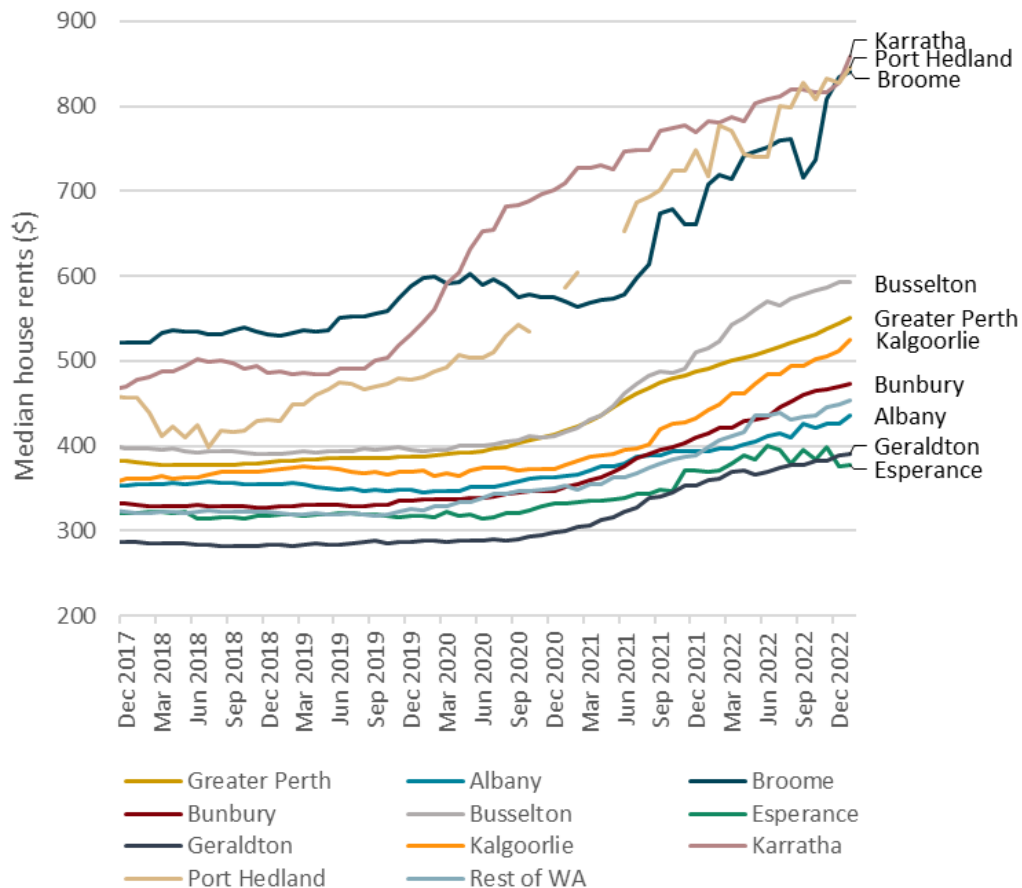
Perth median house/unit rents: 2019 to 2023



- Median weekly rents in Perth have increased by **\$150 per week** since mid 2020
- Rents are now:
 - **\$577 for all houses** and
 - **\$520 for 3-bedroom house**
- Rental vacancy rates across WA remain **punishingly low**
 - **0.7 per cent** currently
 - 1 per cent or under for (more or less) for two and a half years

Rental cost pressures have escalated across WA's regions.....

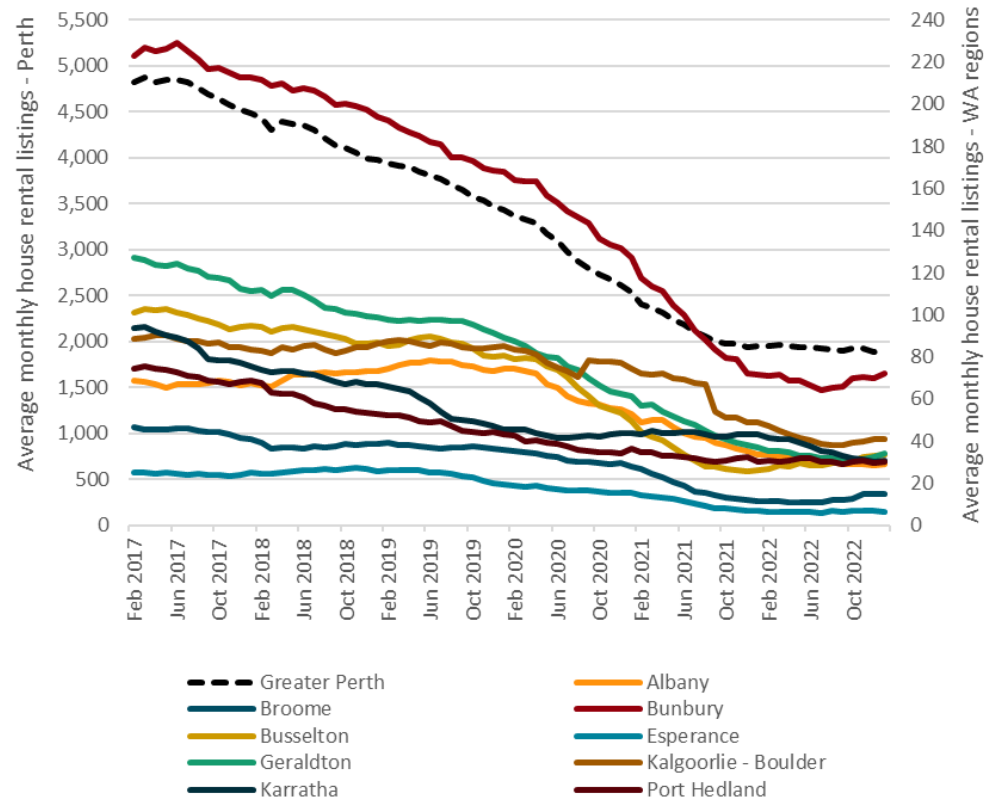
WA regional median house rents: 2017 to 2023



- Rental cost pressures have risen across the board in regional areas, but are **especially acute in certain regional areas** – Busselton, Broome, Karratha, Port Hedland and Kalgoorlie.

Rental cost pressures have escalated across WA's regions.....

Average (12 month) monthly rental listings volume: WA regions, 2017 to 2023

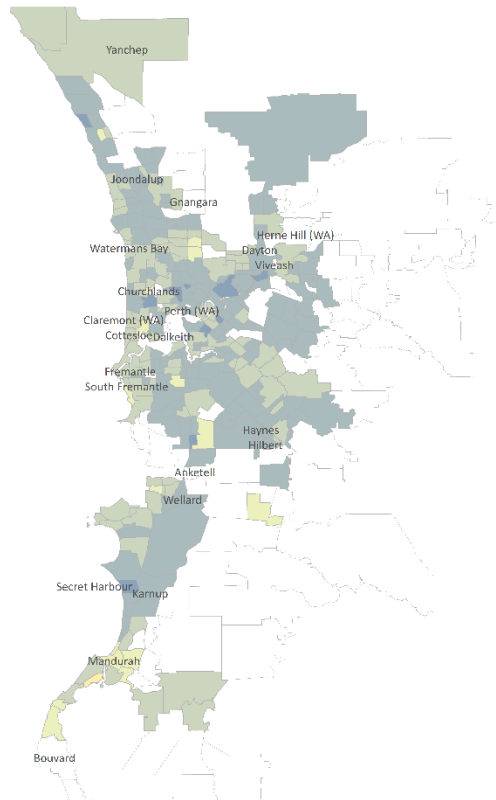


- Rental cost pressures have risen across the board in regional areas, but are **especially acute in certain regional areas** – Busselton, Broome, Karratha, Port Hedland and Kalgoorlie.
- Rental cost increases have been driven to a large extent by the **precipitous drop in available rental stock** – in tourism and mining areas as well as other parts of the state.

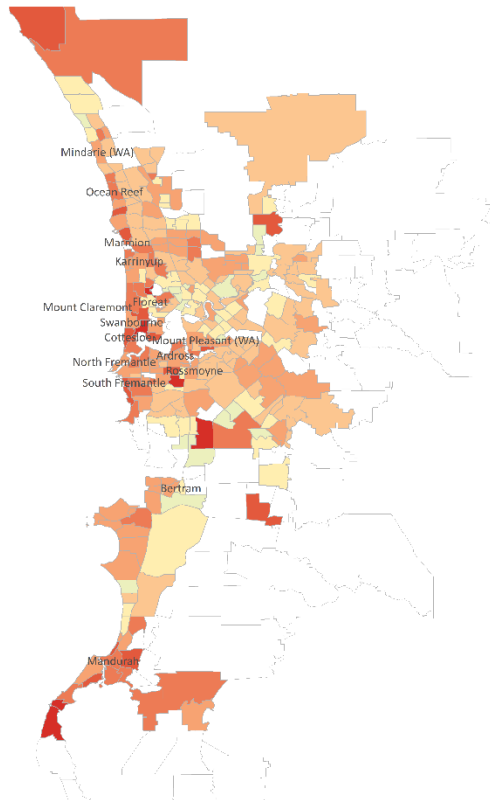
...but rental cost pressures are far more serious for lower income families

Share of income paid in house rent for median and lower income families: December 2022

(a) median rental cost burden



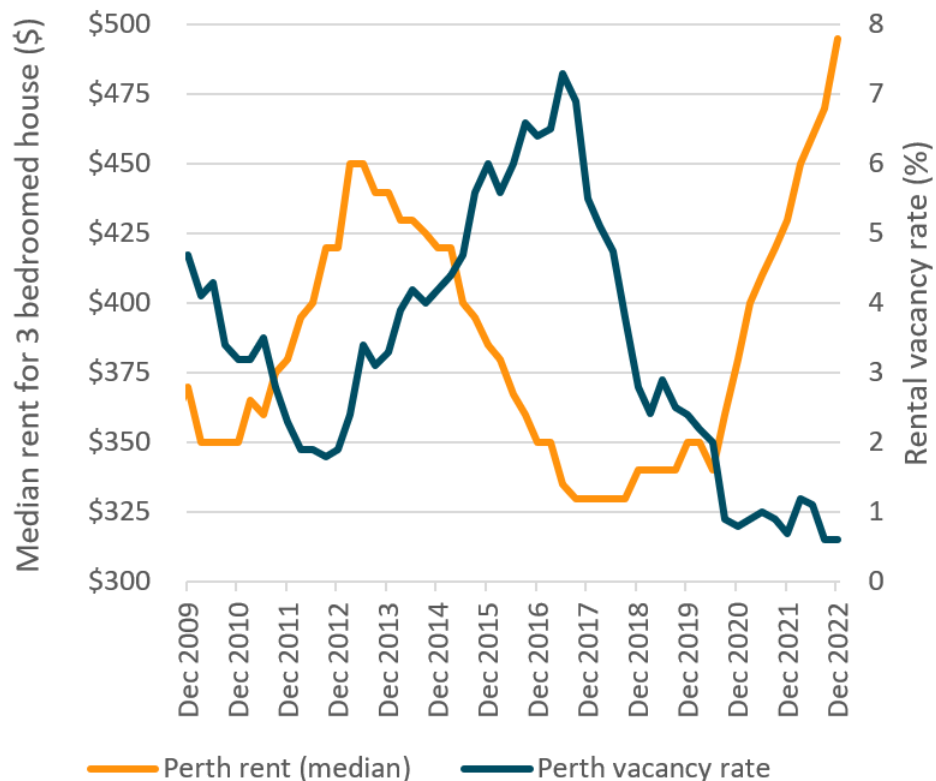
(b) LQ rental cost burden



- Median private rental costs are largely affordable for most of Greater Perth
- But lower income families in Perth pay a **far larger share** of income towards **even lower-priced** rental properties in their localities

Rents take at least 9 months to respond to higher vacancy rates....

Median rental costs and vacancy rates: 2009 to 2022



- There is a **clear and leading** relationship between vacancy rates and rental costs
- It takes between **6 and 9 months** for rental costs to fall once rental vacancy rates start to increase
- Even if rental vacancy rates increased tomorrow, we wouldn't see rental costs come down for at least 9 months
- **We're unlikely to see much relief for private renters for at least the remainder of 2023**

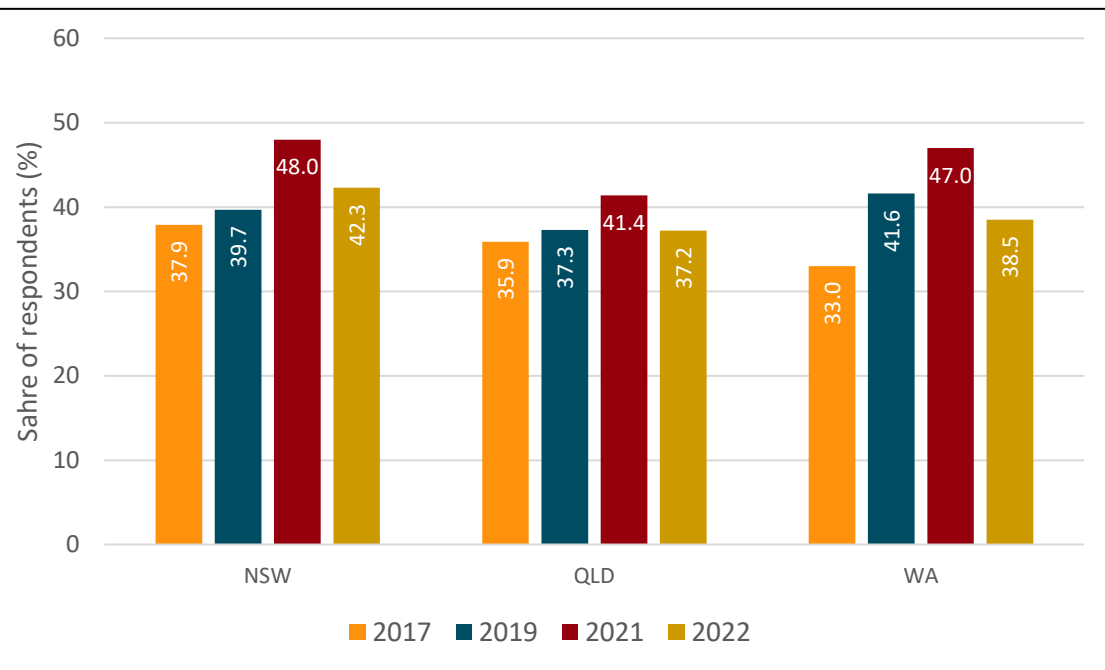


Dwelling conditions



Private renters are struggling to save

Proportion of renters able to save/invest after paying rent

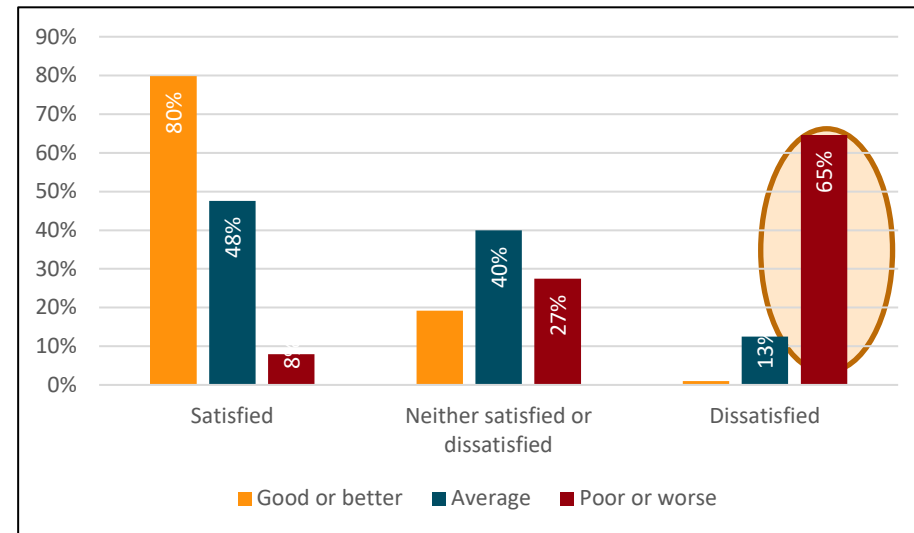
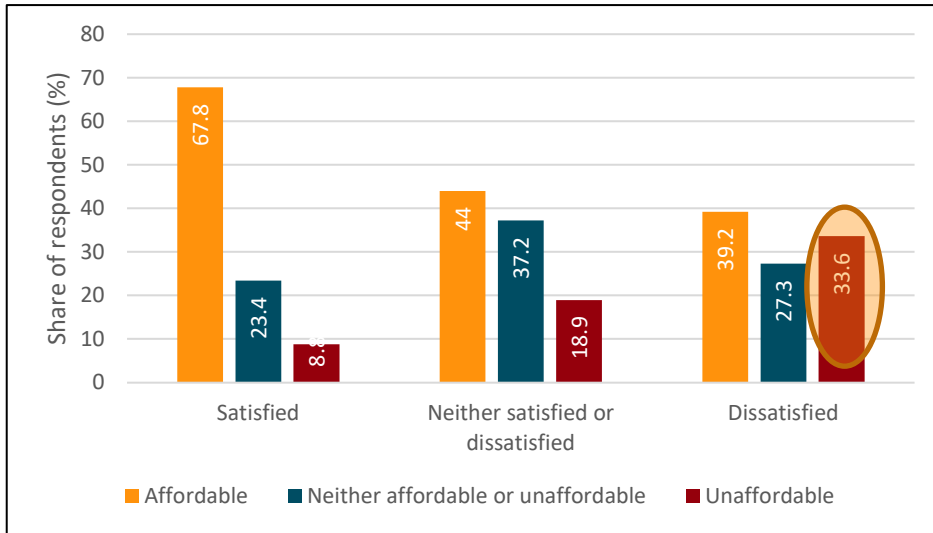


Source: Australian Housing Conditions Data Infrastructure survey. ARC, University of Adelaide.

- Chart compares outcomes across 3 BCEC surveys and the AHCDI survey
- Ability to save in WA peaked in 2021. Covid-19 support payments helped
- Big drop in households ability to save in 2022. Increasing rents are to blame.
- Proportion likely to have declined further following additional rent increases

Dwelling satisfaction is affected by affordability and housing conditions

Dwelling satisfaction, affordability and housing conditions ratings

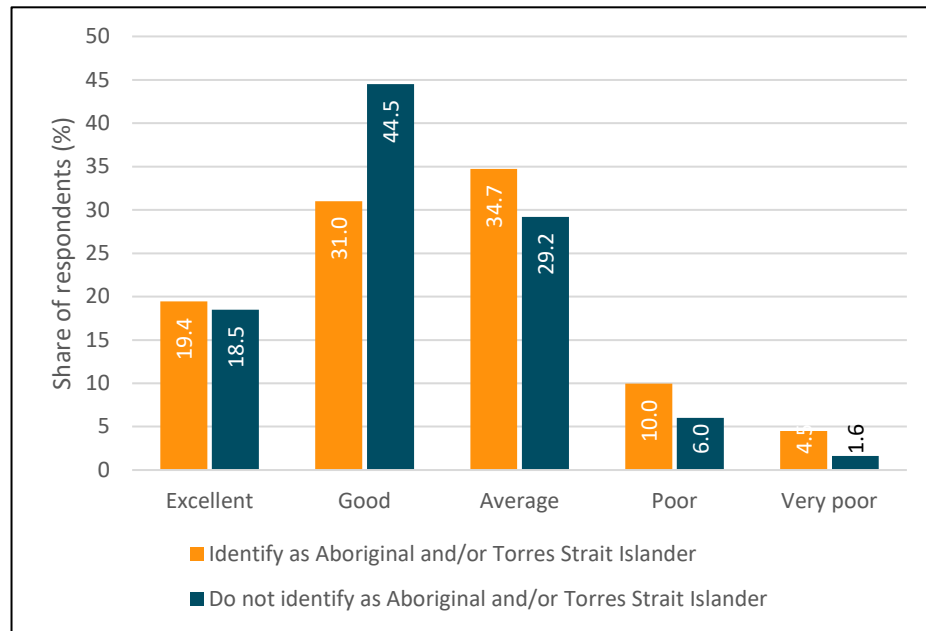


Source: Australian Housing Conditions Data Infrastructure survey. ARC, University of Adelaide

- Over a third of households in unaffordable housing are dissatisfied with their dwelling.
- 65% in poor quality housing are dissatisfied with their dwelling.
- Is dwelling quality more important than affordability?

Dwelling condition affects health outcomes. Conditions worse for indigenous HH

Dwelling conditions and mental health ratings.



Source: Australian Housing Conditions Data Infrastructure survey. ARC, University of Adelaide.

- Poor mental health outcomes are strongly related to dwelling conditions
- 17.5% in poor quality housing rate their mental health as poor. Just 4.4% in excellent condition housing
- Ratings of housing condition are lower for indigenous households.

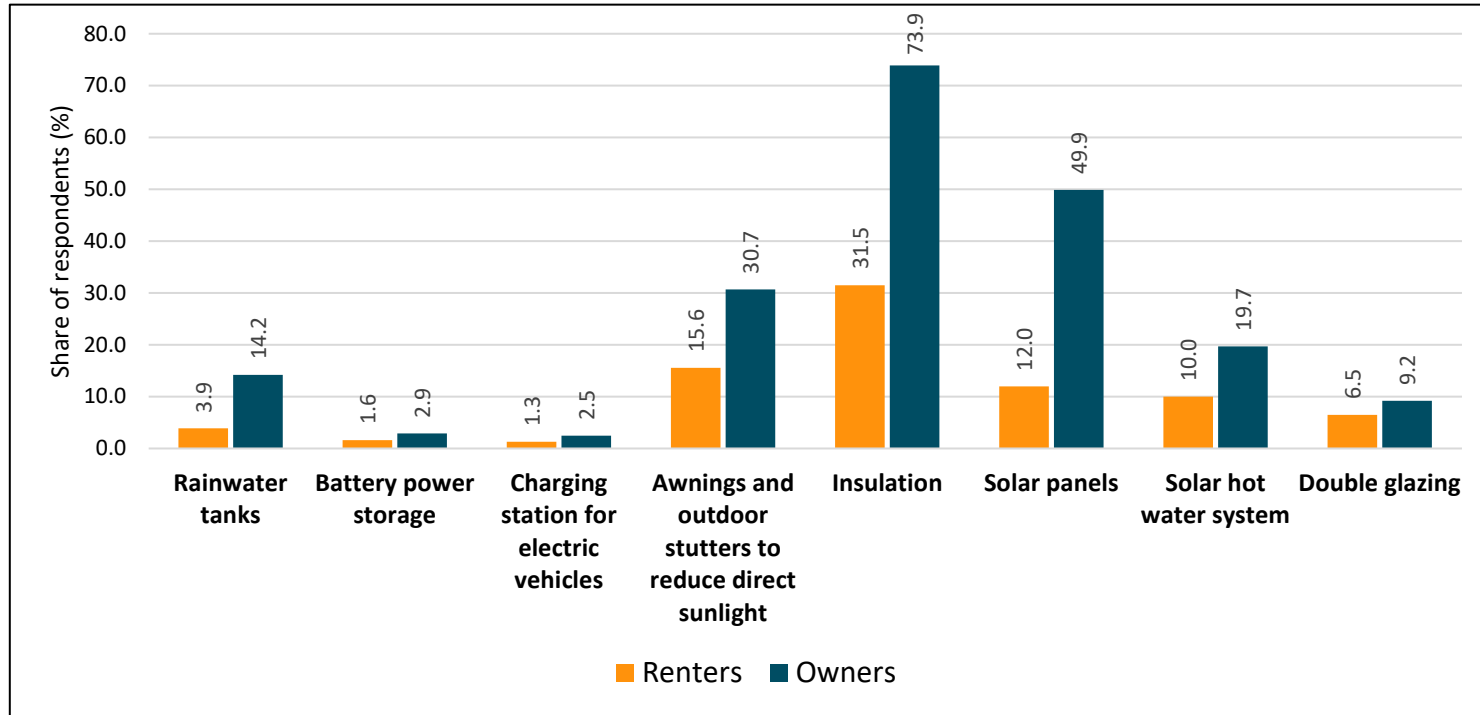
Renters face a wealth of issues – poor quality housing among them

Issues faced by renters in Australia

	Rented	A real estate agent	State or Territory housing authority	A community housing provider	Someone not in the same household
Restrictions on how you want to use your premise (such as hanging pictures, not allowing pets)	24.7	30.5	10.5	21.3	14.2
Leaks, flooding or plumbing problems	34.5	35.3	34.6	31.4	33.7
Electrical problems (such as fuse blown, faulty wiring)	19.3	19.4	20.6	18.9	19.7
Difficulties keeping the house cool or warm	37.0	37.0	41.4	39.7	35.5
Delays from the landlord or property manager taking actions on issues raised	32.5	37.4	31.6	29.7	19.1
Unjustified rent increases	13.8	16.9	8.7	12.5	7.6
Noise from adjoining flats/neighbours	28.0	27.8	36.0	32.2	23.3
Noise from outside (such as traffic or construction)	27.9	28.9	27.8	28.3	24.7
Issues with pests (such as termites, rodents, cockroaches, ants)	28.7	26.7	39.0	32.5	29.2
No/limited visitor car parking space	22.4	34.6	19.0	22.8	17.1

Lack of sustainability features add to rental cost pressures

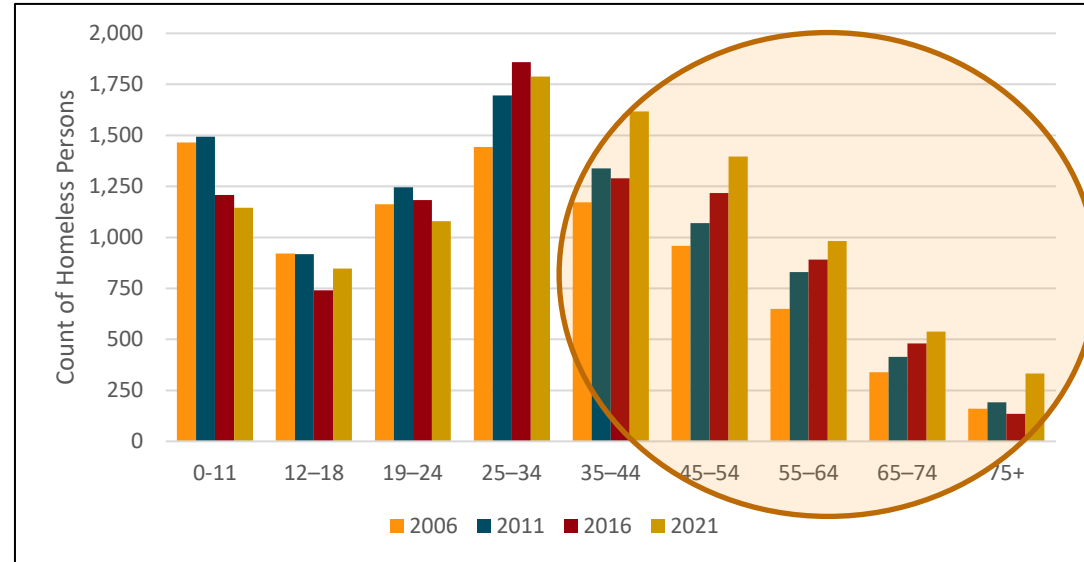
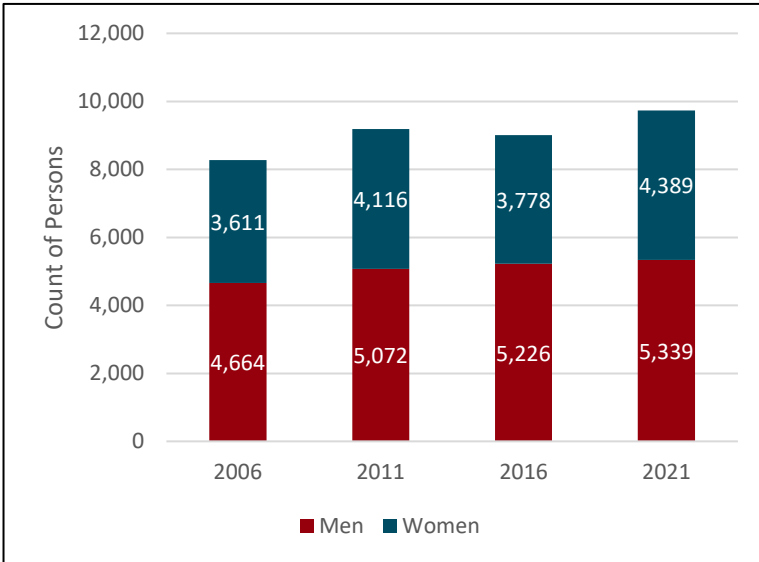
Difference between sustainability features for owners and renters



- Owners are far more likely to enjoy cost savings from insulation, solar panels and solar hot water systems as well as reduced dwelling temperatures.

Homelessness is on the rise in WA

Homelessness numbers by gender and age

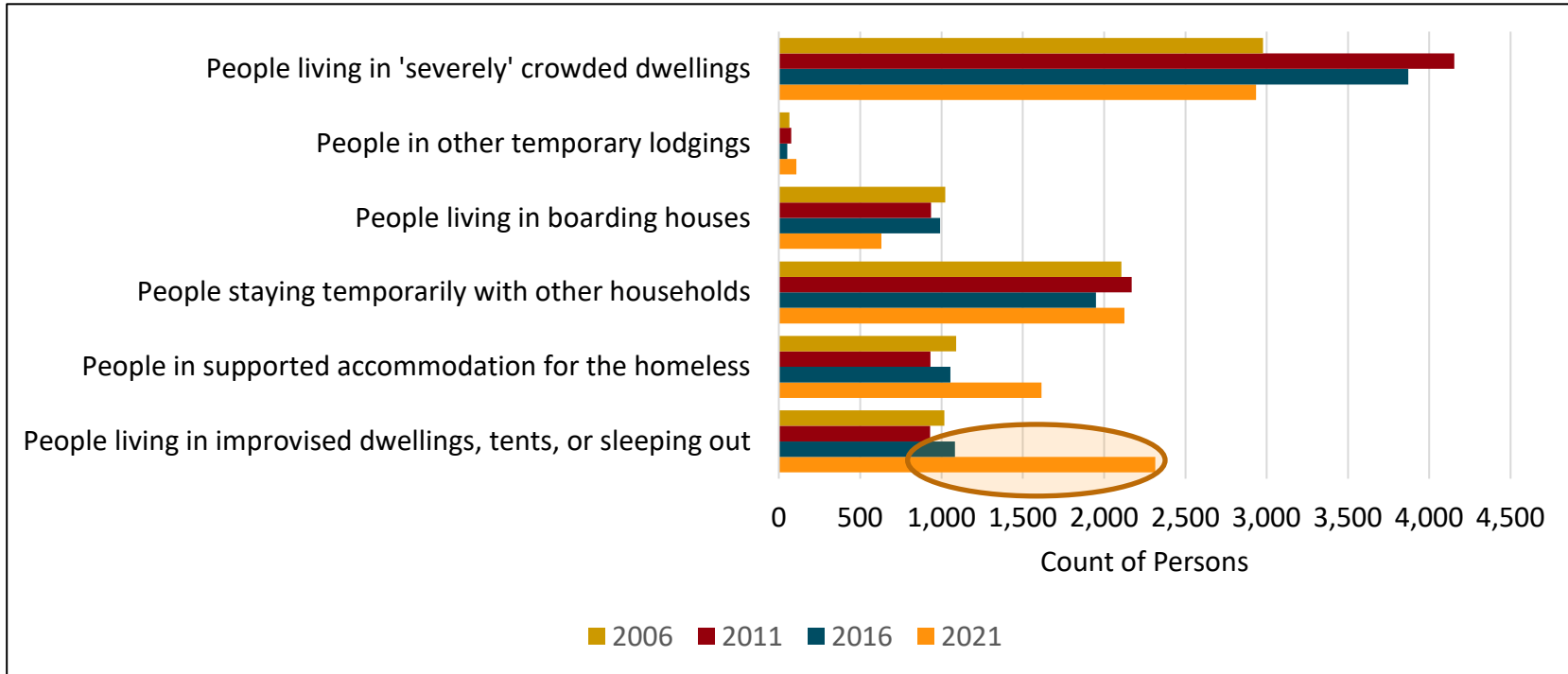


Source: ABS Census data 2021

- Number of homeless has risen by 8% since 2016
- Most of the growth has been women
- Proportion of older Western Australians experiencing homelessness has increased 24%

Rental crisis has forced people into improvised dwellings

Homelessness by type 2006-2021





Discussion and policy recommendations



- Increased funding for homelessness support services and housing first initiatives
- Accelerate social house building program on the back of declining commencements. Annual funding of at least 900 social housing units.
- Stimulating housing supply – supply not demand side
- Residential tenancy act reform – essential, but is it the right time?
- Financial support for vulnerable renters
- Further incentives to stimulate build to rent, with an element of affordable housing.
- Affordable housing (below market) products on market sites.



BANKWEST CURTIN ECONOMICS CENTRE

HOUSING AFFORDABILITY IN WESTERN AUSTRALIA 2023

Building for the future



@BankwestCurtin #housingWA2023