The Sydney Morning Herald

Domain

Property News Home loans

Young families hit hardest as mortgage affordability the worst since 1990

Melissa Heagney-Bayliss and Tawar Razaghi

November 9, 2023 — 5.00am

KEY POINTS

- Sydney home buyers face paying 76.1 per cent of the average household income on mortgage repayments when buying a home, the new Home Affordability Index shows.
- Melburnians will pay 50.5 per cent of their take home pay.
- Economists say home buyers are feeling the pain of a more expensive market they can't afford.

Listen to this article
5 min

Mortgage affordability is the worst since 1990 in Sydney and Melbourne following this week's interest rate rise.

An average household buying a typical house today would face sky-high monthly mortgage repayments eating up more than three quarters of their income in Sydney and more than half their income in Melbourne.

09/11/2023, 10:44 Australia house prices: Young families hit hardest as mortgage affordability the worst since 1990

Mortgage affordability is at its worst for three decades. OSCAR COLMAN

It's the most home buyers have had to pay since June 1990 when house price records began, the Housing Affordability Index from funds management company Betashares revealed. It does not take in the peak of interest rates earlier that year.

Betashares chief economist David Bassanese said the index showed how difficult it was for people to get into the housing market in Australia. Banks would not lend sums this high. "Average income earners are struggling to afford even a median priced home at the moment," Bassanese said. "The reality is that they have to buy a unit where they once dreamed of a house, or they're living further from the city, instead of closer."

Existing owners were facing the reality that they couldn't afford to upgrade, he said. "The banks will lend you money, but the question is, can you afford the repayments?"

The largest share of household income chewed up by mortgage repayments is in Sydney, where home buyers would have to spend 76.1 per cent of their household income on repayments for a median valued house of $1,390,000 calculated using CoreLogic data.

Repayments are based on a 7.3 per cent interest rate, while the average household income is calculated on a man and woman both working full-time, totalling $150,000. The figures assume a 10 per cent deposit.

Melburnian house buyers would face paying out 50.5 per cent of incomes, based on a median value of $937,000.

Brisbane, by contrast, is not quite at its record and just below its GFC-era peak at 47.5 per cent of incomes for a house valued at $860,465, while Perth is well below 1990 levels at a more modest 32.3 per cent.

On Tuesday, the Reserve Bank raised the cash rate by another 0.25 per cent, to 4.35 per cent.

Impact Economics and Policy economist Dr Angela Jackson said the worst mortgage affordability since the 1990s hit young families hardest.
"It means we're seeing, and will continue to see, increasing rates of household stress," Jackson said. "That's a particular concern for economists because it impacts their health, productivity and childhood development."

Jackson said the level of stress was much higher on current generations, than Baby Boomers who were facing higher interest rates in the 1990s.

"Even though interest rates are nominally lower than the 1990s, the impact on families is even greater," she said. "The Boomer generation remembers very well what it was like facing interest rates and mortgage repayments back in the early 1990s. We should all be very concerned the current generation is facing even higher levels of stress."

Sydney-based Open Home Loans principal broker Samuel Philipos said households who had been stretched were already tightening their belts by cutting down on discretionary spending and other essential costs.

While banks were in a position to provide more competitive rates, he said, they were reluctant to offer it quickly enough to have an impact.

Philipos urged banks and governments to do more to support vulnerable households, including first home buyers and young families.

Auction

136 Murriverie Road, North Bondi NSW 2026

4 4 2

View property

"The most vulnerable are the first home buyers who purchased in the past three years," Philipos said. "There isn't enough being done from a bank's perspective to support borrowers to

help go through this phase."

He said the same pandemic-era supports are needed again for those struggling to survive in the current market.
Melbourne-based mortgage broker Chris Foster-Ramsay, of Foster Ramsay Finance, said those who had upgraded their homes, and did not have money to fall back on, were finding interest rate rises tough and were also cutting back on discretionary spending.

He said the number of buyers wanting to get into the market were falling, though there were still those wanting to get in and buy while there was less competition, and were hoping interest rates would soon fall.

"For first home buyers and single applicants, I understand things are challenging for these groups, and they continue to be at the mercy of cashed-up investors or those who have been heavily assisted by the bank of mum and dad," Foster Ramsay said. "For some, it's a long and demoralising search until they find what they want."

The best property news and advice delivered straight to your inbox

Your email

Sign up

By signing up, you agree to Domain's Privacy Policy and Conditions of Use.

Domain

Melissa Heagney-Bayliss is a property reporter at The Age Connect via Twitter or email.

Tawar Razaghi is a journalist working for the Sydney Morning Herald Connect via Twitter.