

Sydney, Melbourne houses in world's top five most unaffordable: Demographia



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Unaffordability in Sydney ranks behind Hong Kong, the report suggests. Photo: domain.com.au

Sydney and Melbourne are among the world's least affordable cities in which to buy a home, requiring households to spend up to 12 times their annual incomes, new data shows.

The least affordable city in the world is Hong Kong, where households can expect to spend 19 times the median annual household income to afford a median home, the latest *Annual Demographia International Housing Affordability Survey* indicates.

Sydney was ranked second, with households spending 12.2 times their income. This was up 2.4 points from the previous year and the largest ever jump recorded by the survey.



Melbourne came in fourth. Photo: Graham Denholm

Melbourne came in at joint fourth place with Auckland and San Jose, at 9.7 times.

Despite Australian cities ranking poorly for affordability globally in the survey, home loan repayments are at “average” levels, Domain Group senior economist Andrew Wilson said.



The NSW coastal town of Tweed Heads also ranked in the world top 10 least affordable cities.

He said the modelling was “misleading” because income was only important when considering the cost of repayments, which are at manageable levels due to low interest rates.

“Home ownership levels are largely stable across Melbourne and Sydney, while mortgage defaults are among the lowest on record,” he said.

In total, of the 367 markets ranked, there were 89 affordable markets. Two of these were in Australia – Karratha and Kalgoorlie in Western Australia.

All housing markets are different, with many of them affected by vastly different tax laws and many at the bottom end of the list are in economic decline, BIS Shrapnel senior manager residential Angie Zigomanis said.

As an example, he pointed to new properties in Australia where the purchase price is loaded up with all the infrastructure costs.

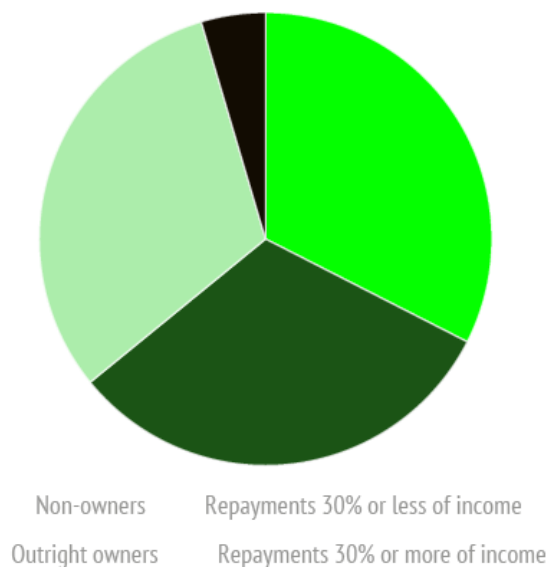
“In the US, they add the costs up and those who buy pay them off over time, so the property price is lower but the [holding cost] is higher,” he said.

Income taxes, the geography of an area, access to employment and land constraints are among other reasons cities vary drastically in price, he said.

Domain data found less than five per cent of mortgage holders vulnerable to interest rate hikes, with most spending less of their disposable income on mortgage repayments than average.

Among the list of the top ten least affordable cities was NSW coastal area Tweed Heads.

Vulnerability to higher interest rates (Sydney homeowners)



Source: Domain Market View

The income-to-median house price measure was “clearly off” with this suburb, Dr Wilson said, given a high retirement population and many who own their own home.

In Tweed Heads, 50 per cent of dwellings are apartments, with close to 40 per cent of all dwellings owned outright, 2011 Census Data shows.

The survey doesn't take into account the apartment market, measuring only median house prices.

It wasn't the only unusual addition to the list – Bowral-Mittagong, the Sunshine Coast, Port Macquarie, the Gold Coast and Wollongong all ranked in the 20 least-affordable cities.

“The nature of housing market dynamics is idiosyncratic to parts and sub-sectors of capital cities, let alone countries,” Dr Wilson said.

Former national president of the Housing Industry Association and South Australian senator Bob Day, writing the introduction to the report, put the blame on the supply and demand imbalance.

“New home owners pay a much higher percentage of their income on house payments than they should,” Senator Day said.

“Similarly, renters are paying increased rental costs reflective of the higher capital and financing costs in turn paid by landlords.”

“The problem is, it is young home buyers, hit with spiralling costs of home ownership who end up paying. They are mostly forced into overpriced units and will never be able to afford their primary ambition – a free-standing family home of their own,” he said.

Perth was ranked the fourth least affordable in Australia, requiring 6.6 times the household income to be spent, followed by Adelaide at 6.4 and Brisbane at 6.1.

Ten Least Affordable Markets

Membership	Nation	Metro market	Median multiple
1	China	Hong Kong	19
2	Australia	Sydney	12.2
3	Canada	Vancouver	10.8
4	Australia	Melbourne	9.7
5	New Zealand	Auckland	9.7
6	United States	San Jose	9.7
7	United Kingdom	Bournemouth, Dorset	9.6
8	United States	Santa Cruz	9.6
9	United States	San Francisco	9.4
10	Australia	Tweed Heads	9.3

Source: 12th Annual Demographia International Housing Affordability Survey (2015: 3rd Quarter)

House Price Boom to Bust author Lindsay David said Australia has the highest household debt to GDP ratio in the world, “so it’s not surprising to see Australian house prices are among the highest in the world both in terms of the sum paid and relative to what people earn to purchase a house”.