

Major city and regional area housing affordability

Private rental and potential first home buyers / December 2021

Key findings

The pandemic has impacted affordability for renters and first home buyers in cities and regions in different ways. There has been a modest improvement in rental affordability in some major cities like Sydney and Melbourne (on average), but other cities and regional areas have seen a deterioration in affordability outcomes for both renters and first home buyers.

- Rental affordability remains most challenging for lower income earners across most major cities and regions. Income earners in the bottom two income quintiles can typically afford to rent just 10% (or less) of properties across Australia (on average).
- Sydney and Melbourne have seen a modest improvement to rental affordability in 2021 due to ongoing closed borders driving a decline in net migration, although vacancy rates have been declining. For example, renters in Sydney in the second income quintile can now afford 10% of properties, up from less than 10% in June 2020.
- All other major cities and regional areas have seen a deterioration in affordability outcomes since June 2020, particularly for low to middle-income earners. For example, renters in the third income quintile in regional NSW and Vic can afford 30% of rental properties, down from 50% at June 2020.
- Rents are most unaffordable in Hobart, with the bottom three quintiles of income earners being able to afford just 10% (or less) of rental properties in the market. Perth has also seen a deterioration in rental affordability since June 2020, with renters in the second income quintile being able to afford less than 10% of properties, down from 25%.
- First home buyers have seen affordability deteriorate over the course of 2020–21 for most income levels across Australia (on average) due to strong house price growth, but affordability for prospective first home buyers remains highly dependent on geographical location.
- Hobart experienced the greatest deterioration in first home buyer affordability and is the most unaffordable city for prospective first home buyers. 80% of prospective first home buyers in this market can afford just 10% (or less) of properties, with middle income affordability falling the most over the last year. Income earners in the fourth income quintile can now afford just 10% of properties, down from 40% in June 2020.
- In cities like Perth, prospective first home buyers experience much more favourable opportunities to buy their first home, with income earners in the second income quintiles being able to afford around 30% of properties in the market.
- Prospective first home buyers in regional areas of SA, WA and Qld continue to experience very favourable affordability outcomes compared with those in some major cities, but affordability has deteriorated substantially in regional NSW, Vic and Tas over the course of 2020–21.



Private rental affordability

This analysis shows private rental affordability across Australia's major cities and regional areas (excluding ACT and NT)*.

'Affordable' is deemed to be rental payments equating to, or less than, 30 per cent of household disposable income.

Distribution of affordable rental dwellings by income quintile - Australia, June 2020 to September 2021



The Lorenz curves graph the proportion of rental properties available for different income levels. The horizontal axis in these Lorenz curves track the proportion of renters in the population ranked according to their income (in this case, by income quintile) and the vertical axis shows the corresponding cumulative proportion of rental dwellings that are deemed affordable (in this case, price decile). If the dotted line is close to, or above the straight line, it means rents are more evenly distributed for different income levels (basically, it is good for affordability). If the Lorenz curve is below the straight line, it demonstrates that rents are more unevenly distributed and less of the property stock is affordable for certain income levels (meaning it is bad for affordability).

For example, in the graph above, as at September 2021 across Australia (on average), renters within the bottom income quintile can afford less than 10% of all rental stock. Renters within the third income quintile can afford approximately half of all rental properties and those within the fourth income quintile are considered at perfect equality, being able to afford 80% of the rental stock. The Lorenz curve for September 2021 is lower than June 2020, indicating affordability for renters has deteriorated modestly over the period.

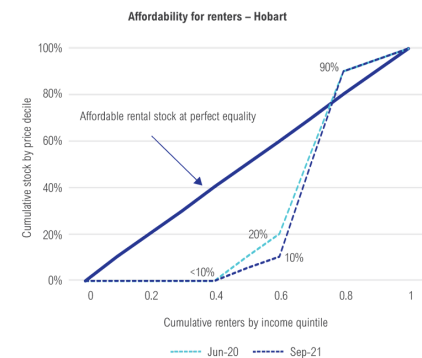
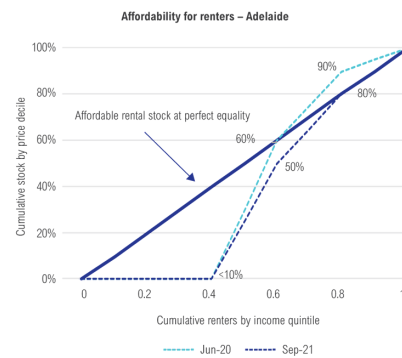
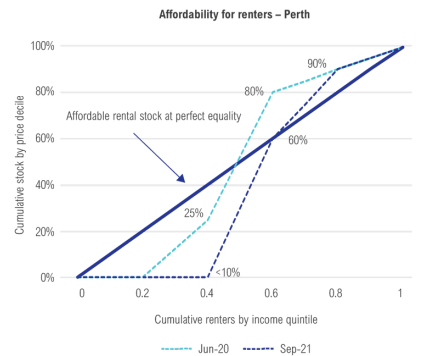
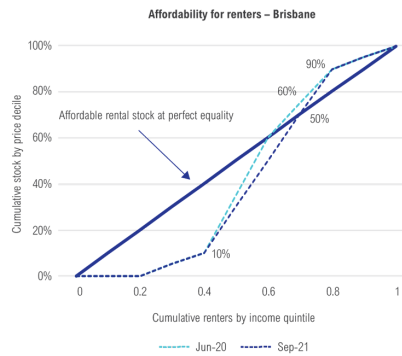
Source: Income data from ANU, ABS; Rent data from CoreLogic

*Due to an insufficient sample size, NHFIC was unable to obtain reliable income data for ACT or NT.

Private rental affordability - major cities

This analysis shows private rental affordability across Australia's major cities.

Distribution of affordable rental dwellings by income quintile - major cities, June 2020 to September 2021



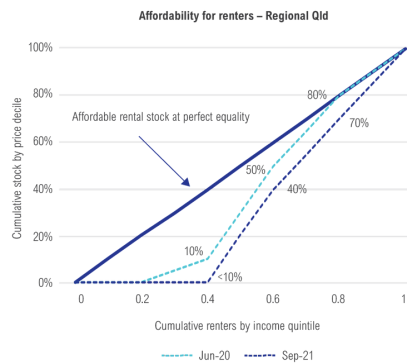
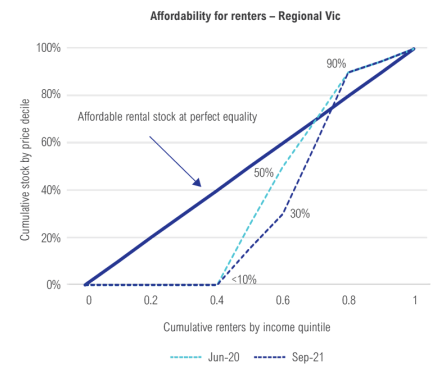
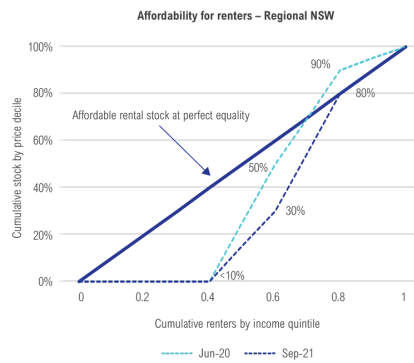
Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC



Private rental affordability - regional areas

This analysis shows private rental affordability across Australia's regional areas.

Distribution of affordable rental dwellings by income quintile - regional (rest of state) areas, June 2020 to September 2021



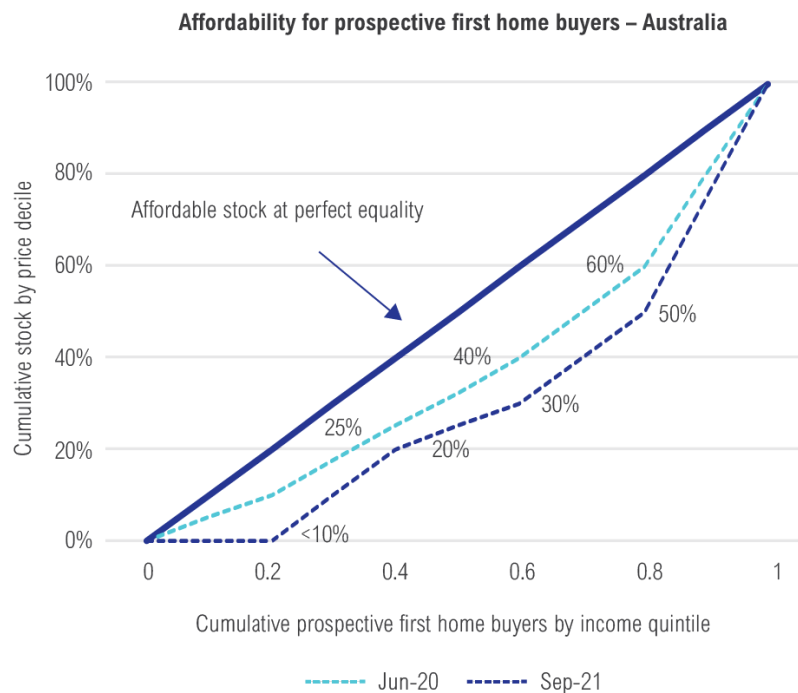
Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

Potential first home buyer affordability

This analysis shows affordability for prospective first home buyers across Australia's major cities and regional areas (excluding ACT and NT)*.

We assume that prospective first home buyers are the cohort of renters aged 24 to 39. 'Affordable' is deemed to be mortgage repayments equating to, or less than, 30 per cent of household disposable income.

Distribution of affordable dwellings for prospective first home buyers by income quintile - Australia, June 2020 to September 2021



The horizontal axis in these Lorenz curves track the proportion of prospective first home buyers in the population ranked according to their income (in this case, by income quintile) and the vertical axis shows the corresponding cumulative proportion of dwellings that are deemed affordable (in this case, price decile). If the dotted line is close to, or above the straight line, it means mortgage repayments for certain home values are more evenly distributed for different income levels (basically, it is good for affordability). If the Lorenz curve is below the straight line, it demonstrates that mortgage repayments for certain home values are more unevenly distributed and less of the property stock is affordable for certain income levels (meaning it is bad for affordability).

For example, in the graph above, as at September 2021 across Australia (on average), prospective first home buyers within the bottom income quintile can afford less than 10% of all properties. Prospective first home buyers within the third income quintile can afford 30% of all properties and those within the fourth income quintile can afford approximately half of all stock. The Lorenz curve for September 2021 is lower than June 2020, indicating affordability for first home buyers has deteriorated over the period.

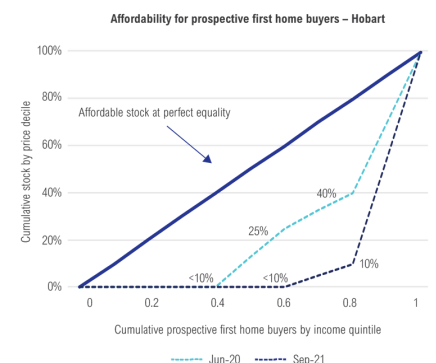
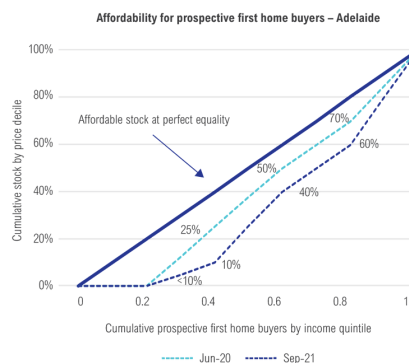
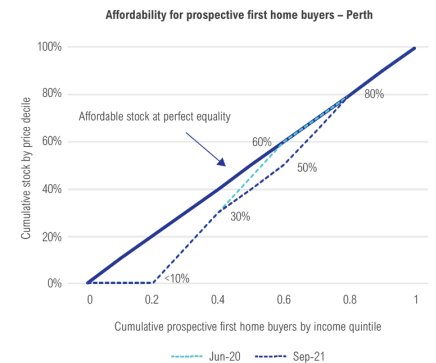
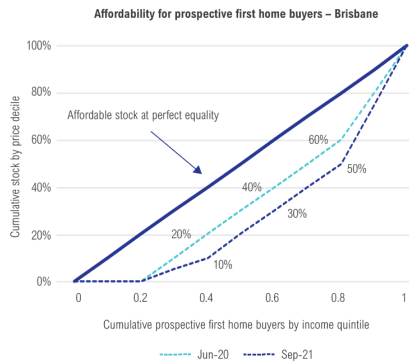
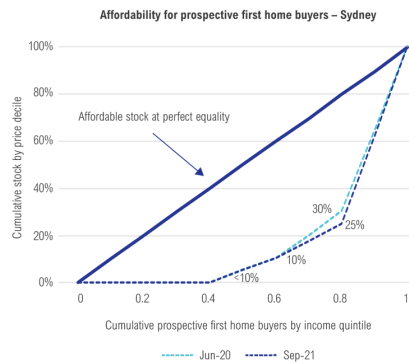
Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

*Due to an insufficient sample size, NHFIC was unable to obtain reliable income data for ACT or NT.

Potential first home buyer affordability - major cities

This analysis shows prospective first home buyer affordability across Australia's major cities.

Distribution of affordable dwellings for prospective first home buyers by income quintile - major cities, June 2020 to September 2021



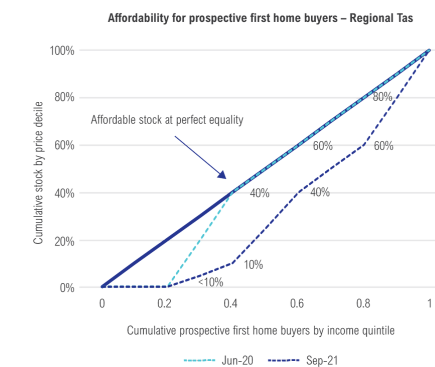
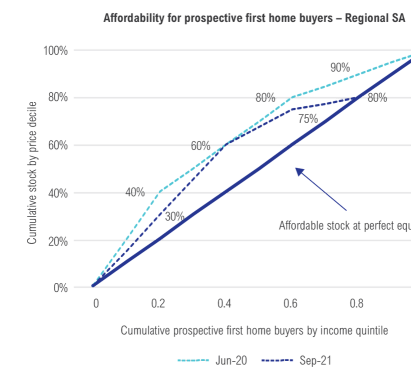
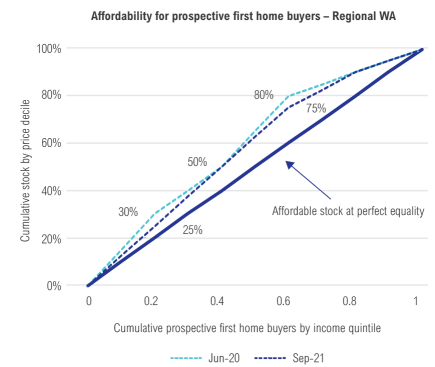
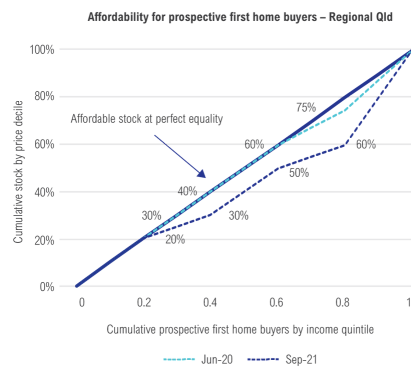
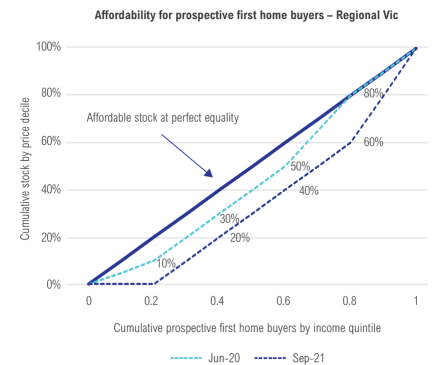
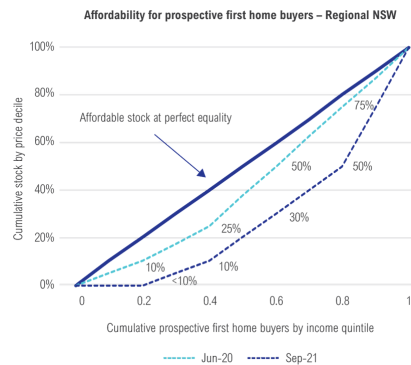
Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC



Potential first home buyer affordability - regional areas

This analysis shows prospective first home buyer affordability across Australia's regional areas.

Distribution of affordable dwellings for prospective first home buyers by income quintile - regional (rest of state) areas, June 2020 to September 2021



Source: Income data from ANU, ABS; Rent data from CoreLogic, NHFIC

About this research

One of NHFIC's core activities is conducting research into housing affordability in Australia.

This analysis will also be included in our second State of the Nation's Housing report, due out in early 2022. This Lorenz curve analysis includes assessments of affordability as at 30 September 2021, and compares this to affordability as at 30 June 2020. It builds on the work in the first [State of the Nation's Housing 2020](#) report, and more recently in the [InSites release](#) (April 2021). Since June 2020, NHFIC has enhanced its methodology for modelling income, which means the June 2020 Lorenz curves presented in this analysis could differ to the June 2020 Lorenz curves released in the InSites release.

How we measured housing affordability

Housing affordability can be measured in different ways, with each metric having advantages and limitations. One of the ways our State of the Nation's Housing report measured housing affordability was using Lorenz curves. In standard economics, a Lorenz curve is used to graph the distribution of income or wealth. But they can also be used to assess the distribution of housing affordability for people and households at different income levels.

Lorenz curves have the benefit of being able to assess the dwellings that are available for people of various income levels at different property price points. It provides a richer insight than relying on simple (average) price-to-income ratios which do not account for important spatial and distributional aspects of affordability.

As with any metric, Lorenz curves come with limitations. They cannot determine whether affordability for the lower income renters has changed at a more granular percentile level (particularly as we are using income quintiles). These curves also do not show whether renters in higher income quintiles are actually renting stock in higher price quintiles (which if they were not, would reduce the amount of stock for lower income renters). Nonetheless, these charts provide important spatial and distributional insights that can't be achieved through typical average measures.