



# HOUSING AFFORDABILITY SMASHED BY RBA

# Agenda

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- How to value property
- Latest affordability data / macroeconomics
- Effect of rising interest rates
- Buying vs renting
- Property vs shares

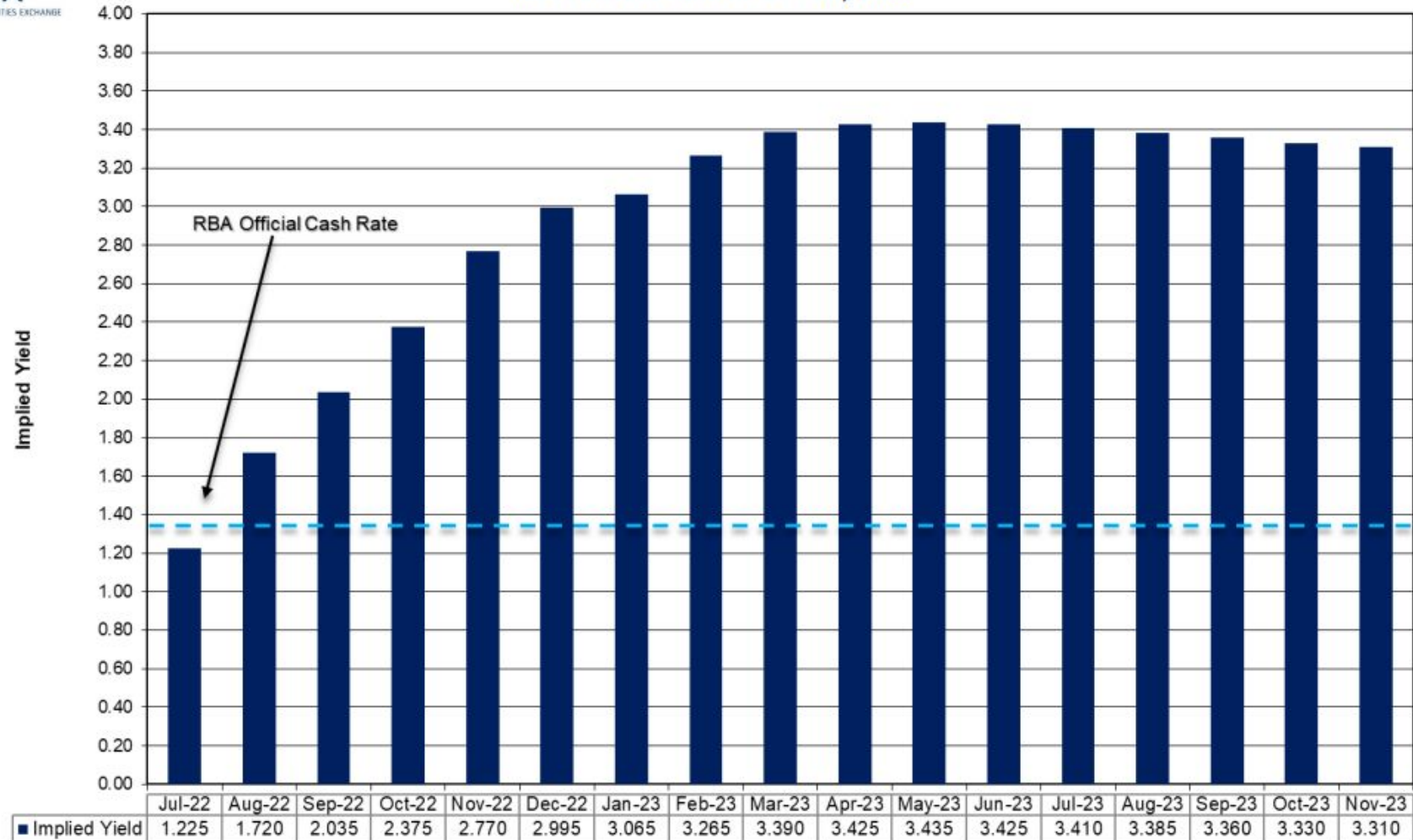


# Housing drivers - short term



## ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve

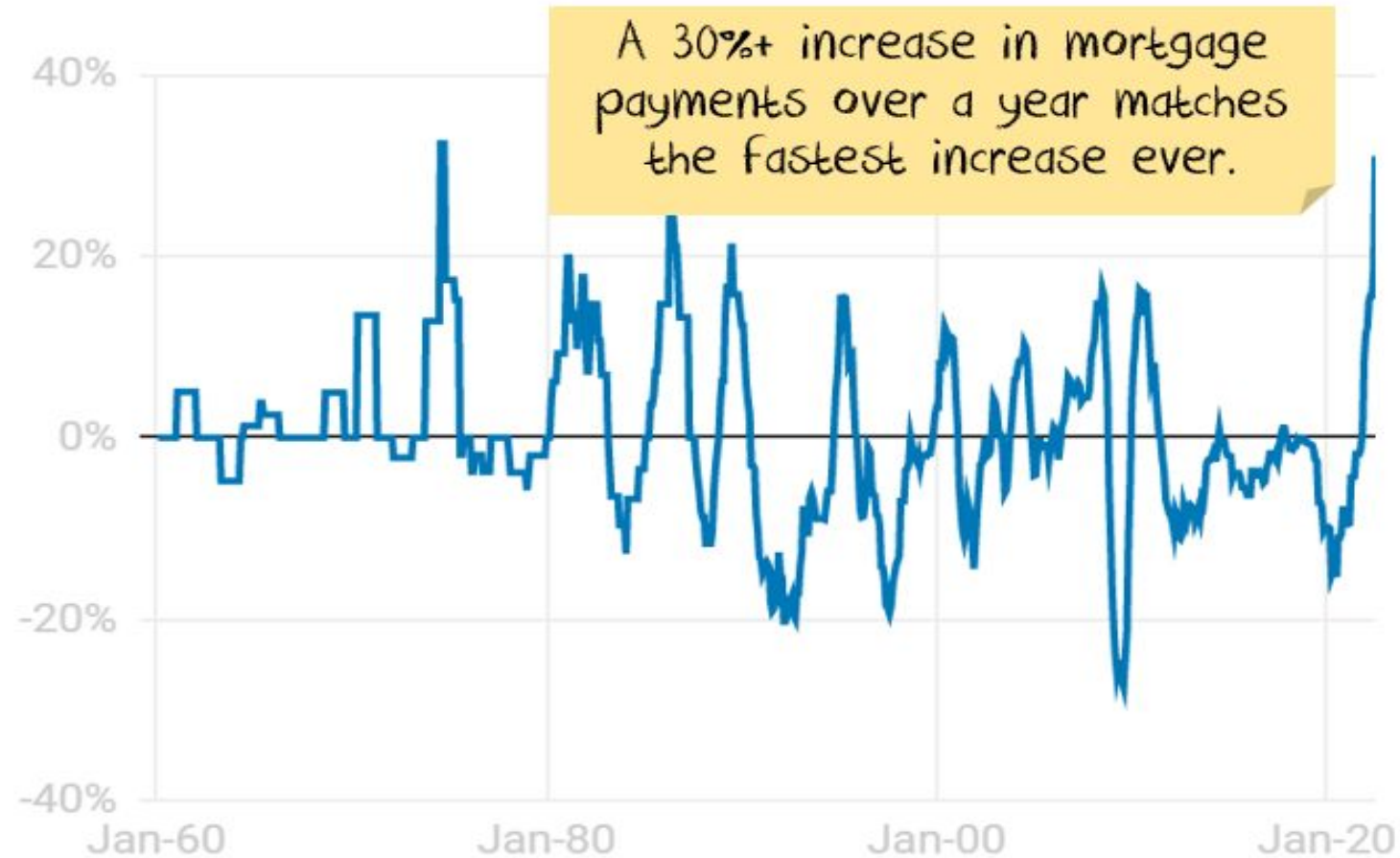
As at market close on 13<sup>th</sup> July 2022



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# Housing drivers - short term

## Change in Mortgage Payments over 1 year



Source: Nucleus Wealth, RBA

# Housing drivers - short term

The bust only needed credit to pull back.

Rising interest rates to trump other factors?

The boom had everything going for it

	Effect on Sydney / Melbourne House Prices					
	The Boom 2012-2017	The Bust 2018	Pre-COVID 2019-2020	COVID 2020-2021	Post-COVID 2022+	
<b>Demand Factors</b>						
Credit Availability	▲▲▲	▼▼▼	▲▼	▲▲▲	▲▼▼	Slowing due to APRA changes, but far from restrictive
Price of Credit	▲▲	-	-	▲▲▲	▼▼▼	RBA raising interest rates at a record speed
Employment	▲	▲	▲	▼	-	Wage growth improving, but from record lows.
Population Growth	▲▲	▲	▲	▼▼▼	?	Reopening borders, but speed/takeup unknown
Foreign Buyers	▲▲	▼	▼	▼▼	▼▼	Chinese buyers likely to be discouraged
Tax Incentives	▲	-	-	▲▲	▲▲	Government support maintained
Money Laundering	▲▲	▲▲	▲▲	▲	▲▲	No changes. Austrac recently highlighted continued issues
<b>Supply Factors</b>						
Restrictive Planning	▲	▲	▲	▲	▲	No significant change to planning process
Under/over supply	▲	▼	▼	▲▼	▲▼	Large amount of building in progress, developers collapsing
Structural Change	-	-	-	▲▲▼	▲▲▼	More desire for houses vs units, more for regional vs city

Source: Nucleus Wealth

# Housing market valuation - long term

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- Mortgage Payments to Rent
- Mortgage Payments to Wages
- Property Prices to Wages
- Rental Yield

## Housing market - stock vs flow

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- Each year Australia builds 100,000-200,000 dwellings
- There are about 11m houses
- 11% are unoccupied
- 2.6 people per occupied dwelling
- Absorb 350,000 new dwellings? 2.64 to 2.55
- Another 150,000 new dwellings? Change unoccupied from 10.5% to 11.4%.



## Property Valuation Ratios

Syd/Melb expensive, even accounting for higher rents + wages.

		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	207%	85%	15.6	2.8%	-2.9%
	Melbourne	183%	61%	11.2	3.0%	-2.7%
	Brisbane	131%	51%	9.3	4.2%	-1.9%
	Adelaide	126%	49%	9.0	4.3%	-1.7%
	Perth	105%	33%	6.1	5.2%	-1.2%
Units	Sydney	154%	45%	8.2	3.5%	-2.3%
	Melbourne	130%	33%	6.0	4.2%	-1.8%
	Brisbane	100%	27%	4.9	5.5%	-1.0%
	Adelaide	97%	25%	4.5	5.6%	-0.8%
	Perth	92%	19%	3.5	5.9%	-0.6%

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM



## 3 month Change in Valuation Ratios

Green = becoming cheaper, Red = more expensive

3 affordability measures  
smashed by rising interest  
rates, the other 2 improved

		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	15.3%	4.7%	-1.2	0.3%	-1.2%
	Melbourne	16.6%	6.1%	-0.3	0.1%	-1.2%
	Brisbane	16.3%	6.8%	0.1	0.0%	-1.3%
	Adelaide	14.5%	7.2%	0.3	0.0%	-1.2%
	Perth	13.9%	4.2%	0.0	-0.1%	-1.3%
Units	Sydney	13.4%	4.7%	-0.2	0.1%	-1.2%
	Melbourne	10.4%	3.7%	-0.1	0.2%	-1.1%
	Brisbane	9.1%	3.8%	0.1	0.2%	-1.1%
	Adelaide	10.7%	3.6%	0.1	0.1%	-1.2%
	Perth	10.9%	2.2%	0.0	0.0%	-1.2%

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM

# Latest Stats

## Cheap or Expensive: Current vs Historical Values

Current Value as a Percentile. 1% = Cheap, 100% = Expensive

		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	100%	100%	98%	98%	35%
	Melbourne	98%	96%	99%	98%	41%
	Brisbane	84%	95%	100%	100%	44%
	Adelaide	79%	95%	100%	98%	36%
	Perth	58%	73%	89%	59%	28%
Units	Sydney	94%	68%	89%	96%	28%
	Melbourne	85%	52%	77%	96%	32%
	Brisbane	37%	22%	69%	56%	15%
	Adelaide	52%	49%	88%	63%	28%
	Perth	39%	20%	53%	54%	11%

House affordability expensive everywhere except Perth.

Units affordable vs history outside of Syd/Melb.

Hope of saving a deposit, or paying off the loan, has rarely been lower.

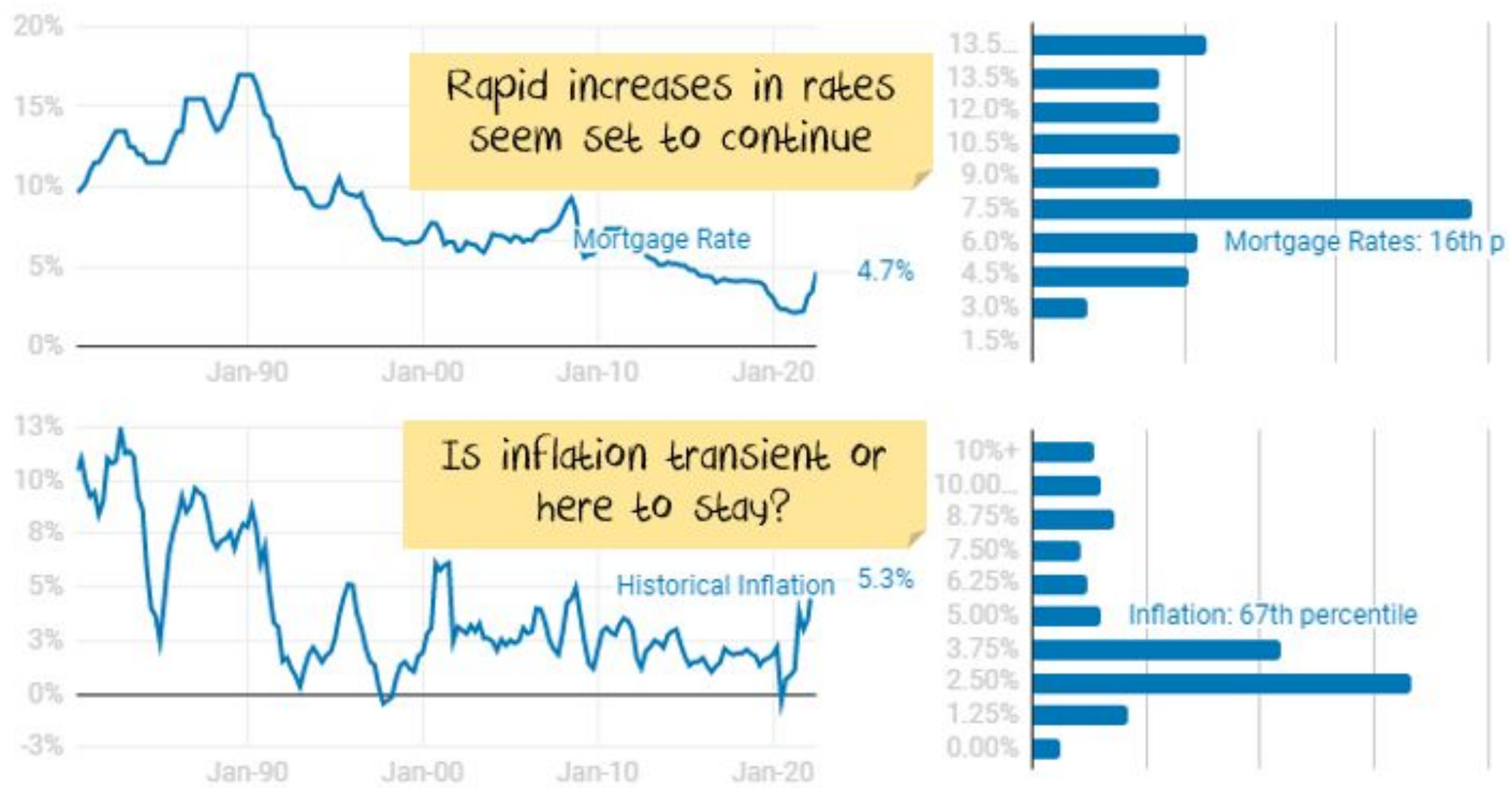
Absolute rental return very poor, relative to mortgage rates they look better. For now...

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM

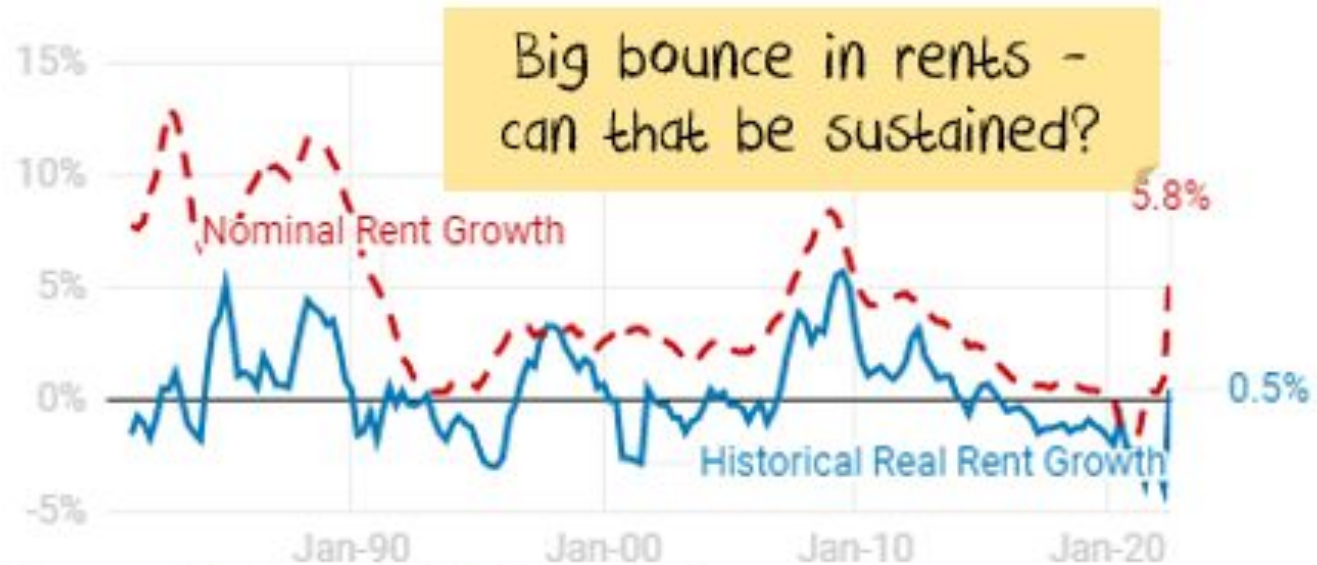


# Macro background

## Macro factors



# Macro background

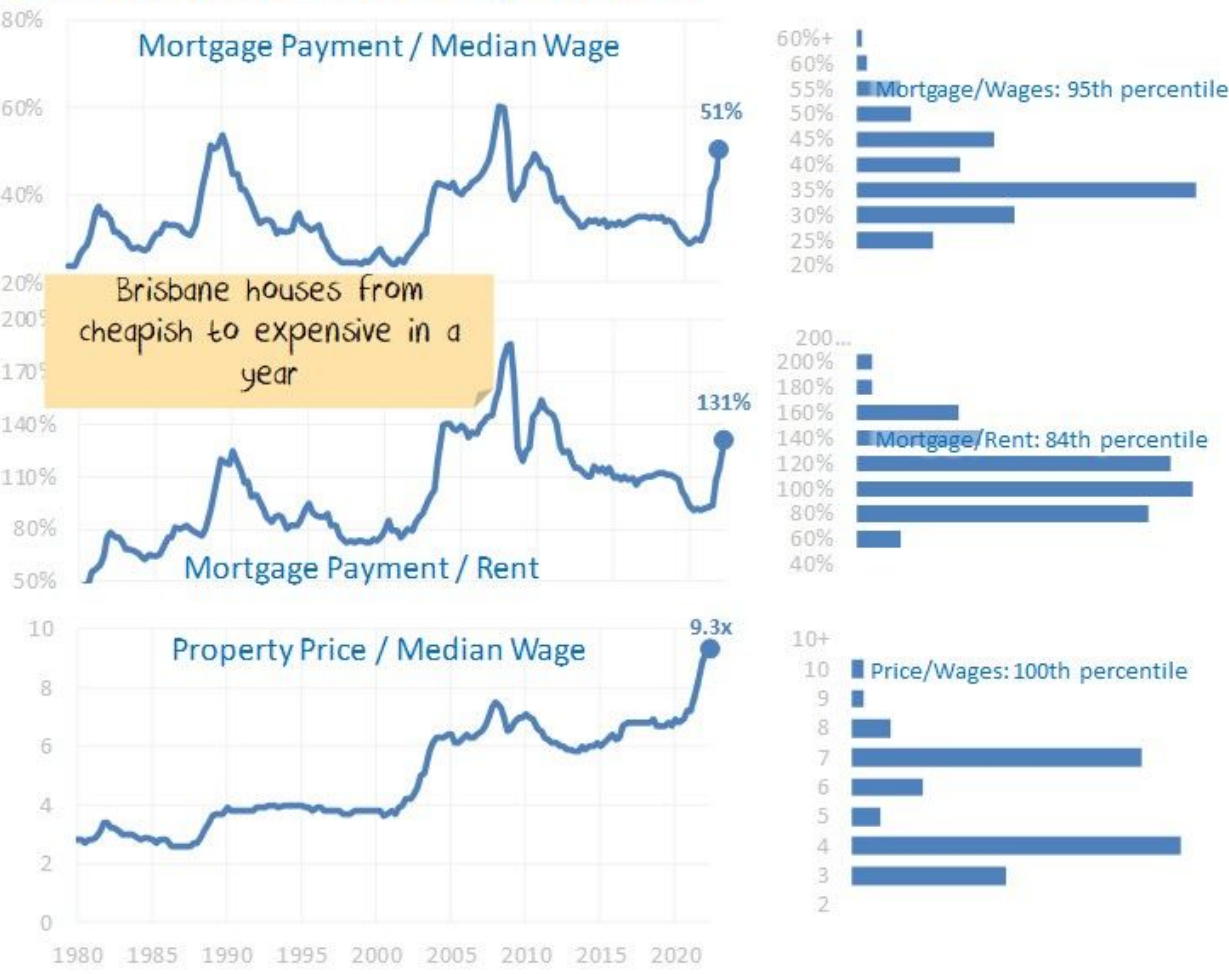


Source: Nucleus Wealth, RBA, ABS

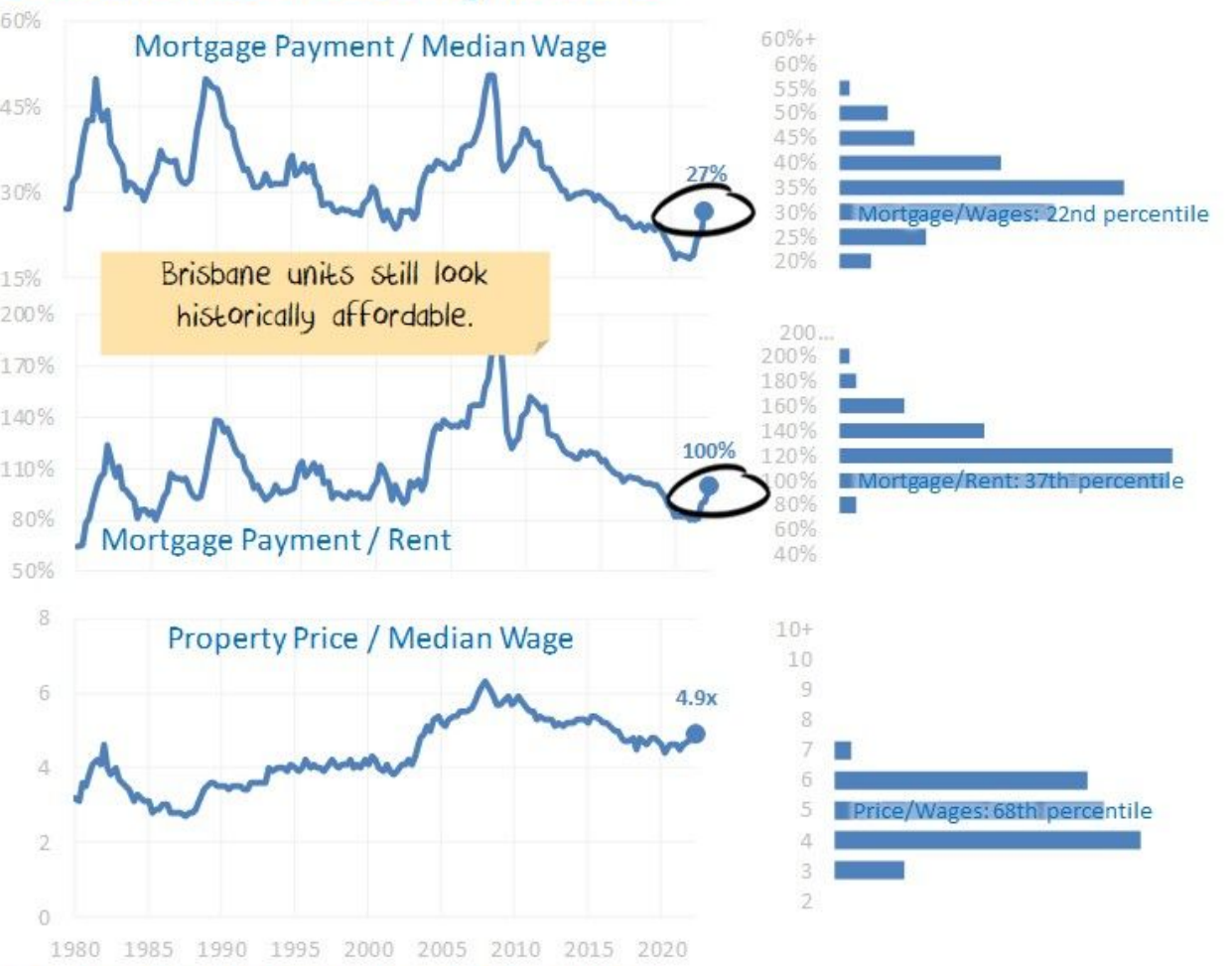


# Specific Markets

## Brisbane House: Affordability Measures

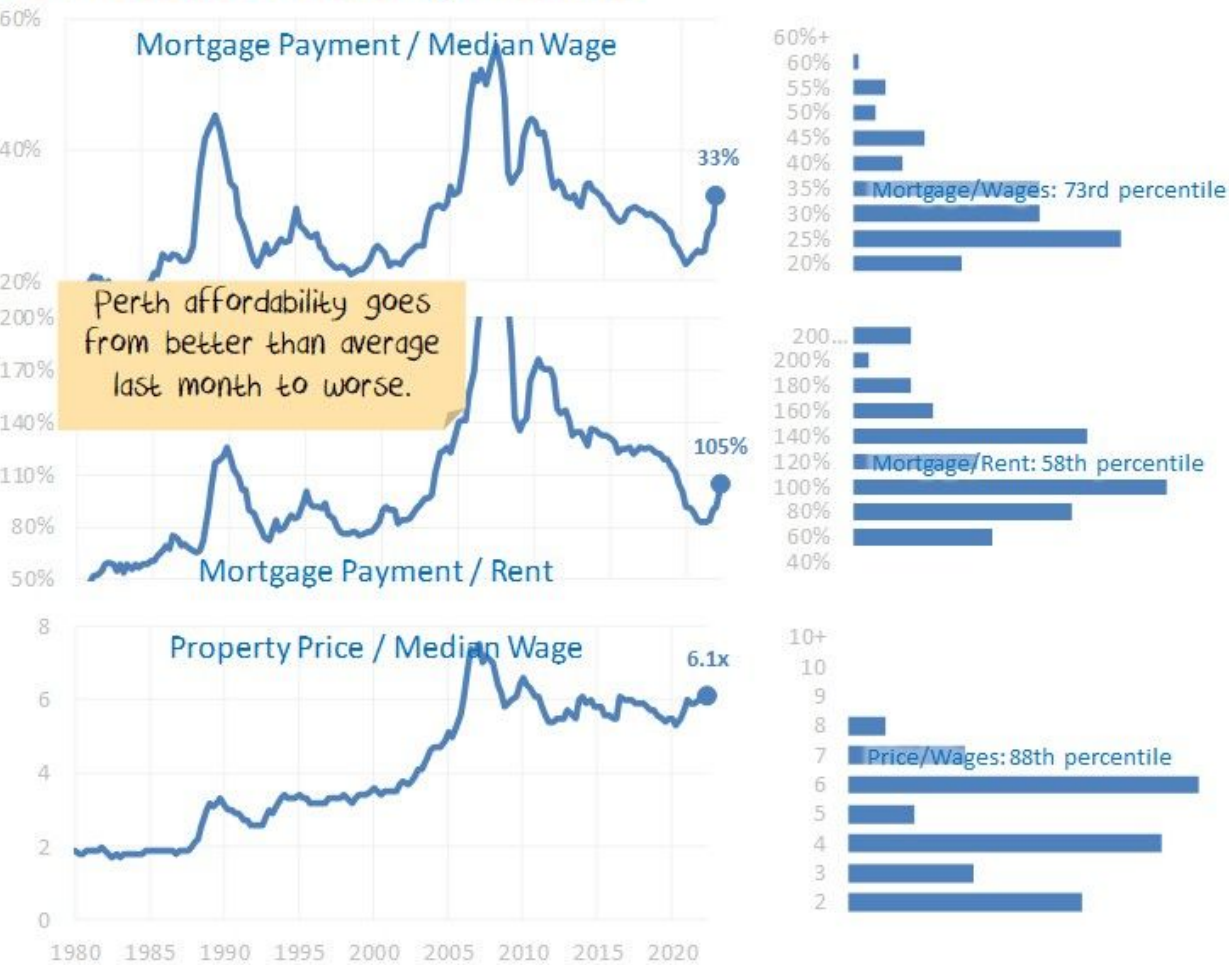


## Brisbane Units: Affordability Measures



# Specific Markets

## Perth House: Affordability Measures



## Perth Units: Affordability Measures



# Specific Markets

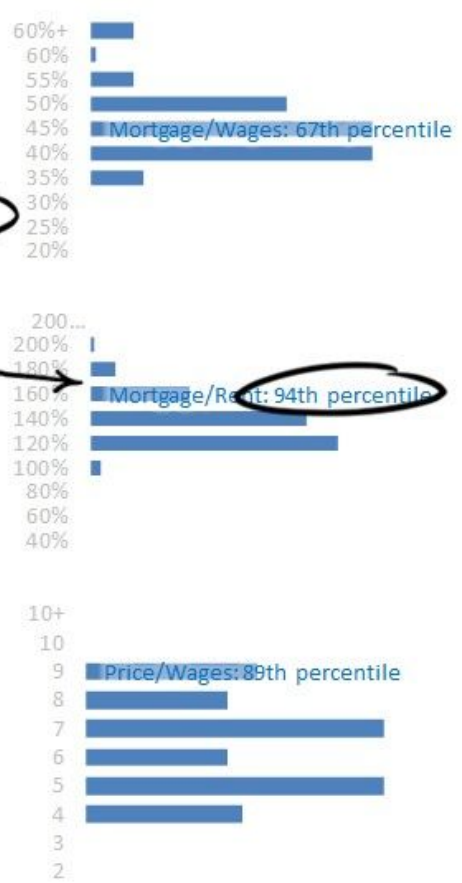
## Sydney House: Affordability Measures



The cost of a mortgage vs the median wage or rent is higher than ever.

The merest hint of respite.

## Sydney Units: Affordability Measures



Units are slightly expensive vs wages.

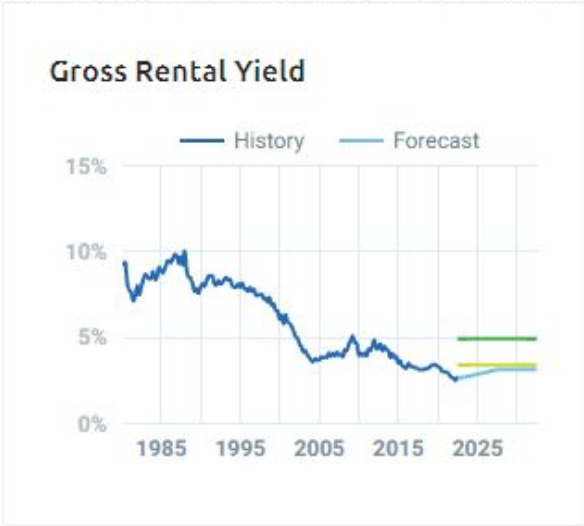
But very expensive relative to rents.



# Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 4% interest rates

You have forecast a **Mortgage Payment / Rent** of **170%**. The charts below show how your forecast will affect the other ways that investors value property



The main economic assumptions that have been used in the model are shown below:

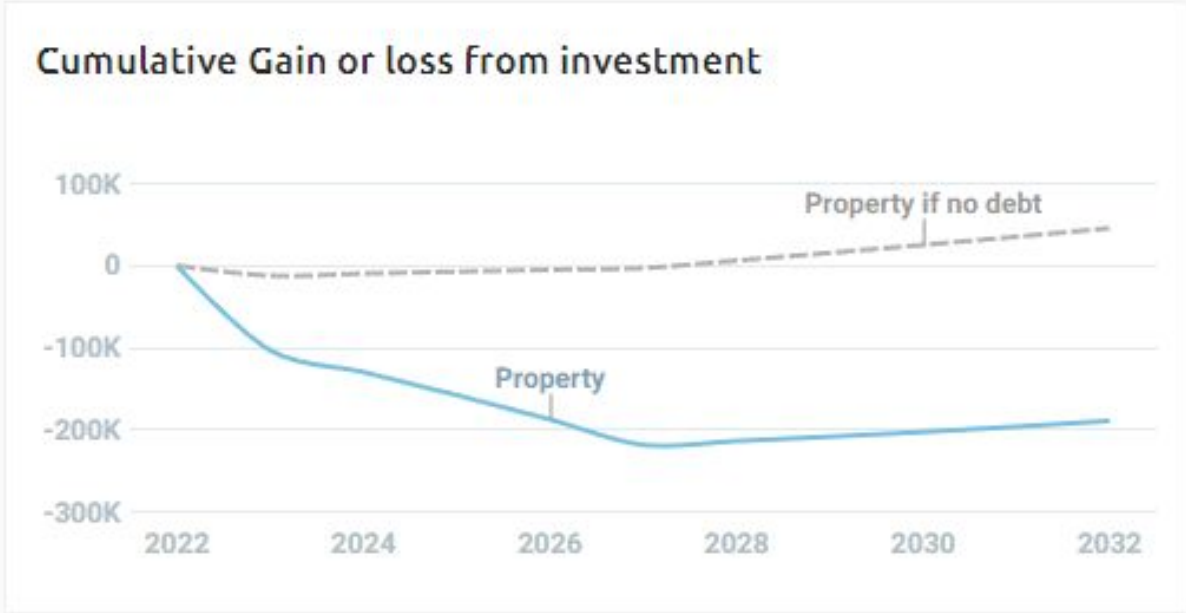




# Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit. 4.5% interest rates

Sydney House | \$1,000,000 Value | \$200,000 Deposit

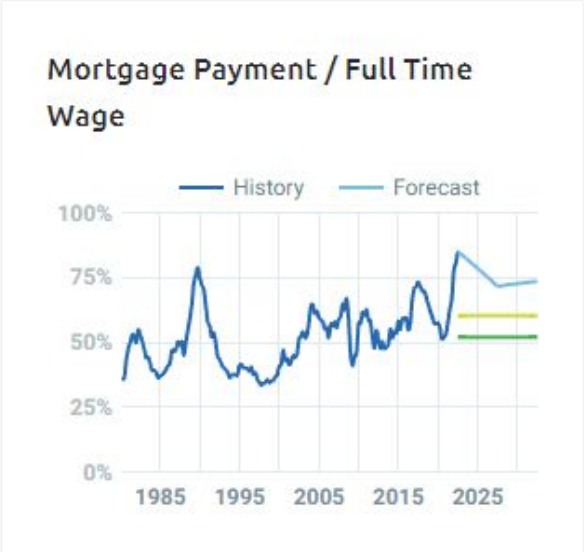


AFTER 5 YEARS	AFTER 10 YEARS	DEBT CONTRIBUTION
Property will return -\$218,601 ⓘ	Property will return -\$189,236 ⓘ	By having debt you would be \$234,731 worse off ⓘ

# Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 7% interest rates

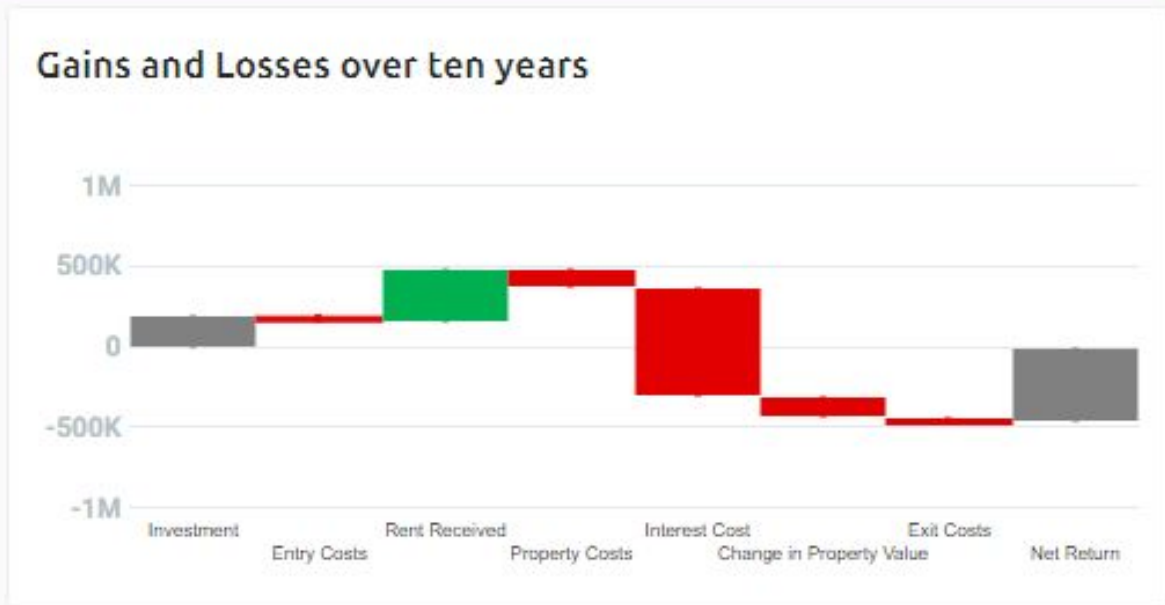
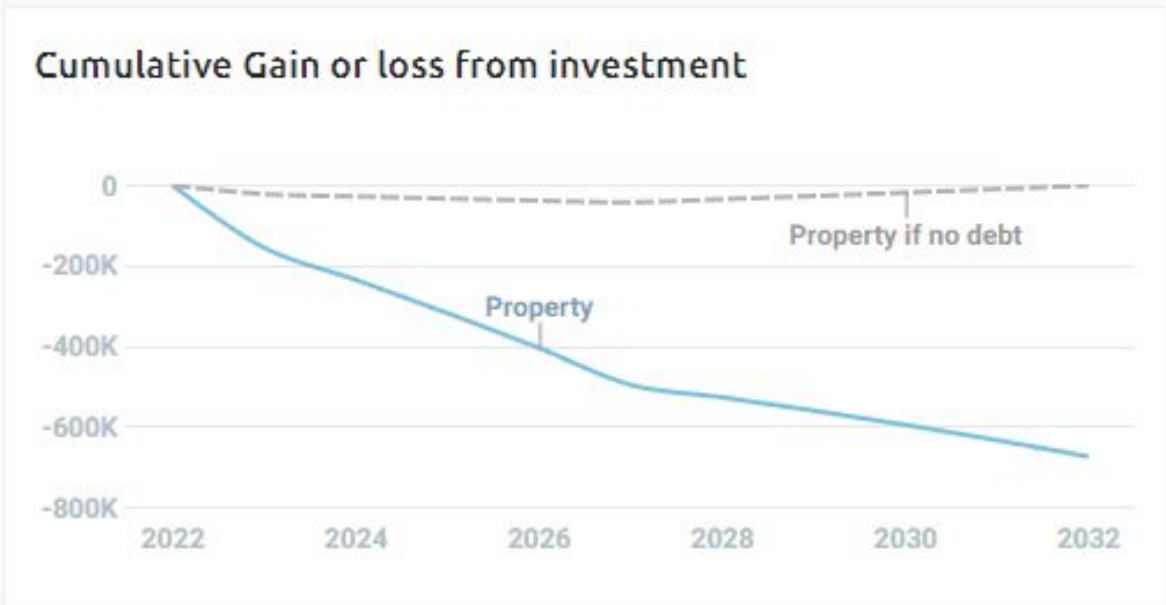
You have forecast a **Mortgage Payment / Rent** of **170%**. The charts below show how your forecast will affect the other ways that investors value property



# Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 7% interest rates

Sydney House | \$1,000,000 Value | \$200,000 Deposit



## AFTER 5 YEARS

Property will return -\$495,509 ⓘ

## AFTER 10 YEARS

Property will return -\$673,525 ⓘ

## DEBT CONTRIBUTION

By having debt you would be \$673,265 worse off ⓘ

## Viewer question of the week:

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**Which will give - interest rates or house prices?**

**Drop your answers in the comments**



# Investment Implications

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- Rent growth vs interest rates vs house prices
- Disbelieve interest rates? Buy bonds, buy international
- Believe interest rates? Sell anything to do with housing.  
Hedge your international holdings

- To see the full monthly property report go to <https://nucleuswealth.com/articles/australian-property-market-update/>
- To use the property calculator please go to <https://nucleuswealth.com/property-calculator>

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