

Australian housing still least affordable in the world despite recent improvements: Fitch

By Larry Schlesinger
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Australian housing affordability has improved markedly over the last few years, but it still remains the least affordable housing market in the world, according to credit rating agency Fitch.

Fitch measures housing affordability using two measures: percentage of disposable household income required to make mortgage repayments and house prices relative to average income per person.

On the first measure, "market debt-to-income ratio" (which measures mortgage payment on average-priced dwellings as a proportion of an average-sized household's average gross disposable income), Australia ranks as the least affordable of 12 global markets

This is despite a great improvement in this ratio, with Australians home owners now spending about 32% of their household income on mortgage payments, compared with around 38% of income in 2011 and around 44% of income in 2008, just before the GFC.

In comparison, American households spend only around 16% of their income on mortgage repayments and those in the UK about 17%.

"This ratio aggregates various key drivers of mortgage performance in a single figure and can therefore be used as a high-level indicator to assess, forecast, and stress borrowers' ability to make payments on a new loan," says Fitch.

On the second measure of affordability, house price to GDP per capita ratio, Australia ranks second only to Greece with a ratio of 8, compared with a ratio of 5 in the US and under 7 in the UK. Greece's ratio is 8.5.

In 2010 the Australian house price to GDP per capita ratio was nearly 9.

"Outside Europe, the HP-to-GDP ratio for Australia remains on high levels despite having corrected downwards over the past two years.

"In contrast, the average ratio in the US now is among the lowest in a cross-country comparison," says Fitch.

<http://www.propertyobserver.com.au/news/australian-housing-still-least-affordable-in-the-world-despite-recent-improvements-fitch/2013010958698>