

# Appendix B: Housing Affordability for Low-Income Earners

The National Housing Strategy defines affordable housing, in the lower income quintiles, as a situation in which a household spends 30 per cent or less of its income on mortgage repayments or rental. Housing stress is when loan repayments or rental are between 30 per cent and 40 per cent of income, and housing is unaffordable when more than 40 per cent of income is spent on mortgage repayments or rental.

To determine what people in the first three quintiles can afford to pay in order to purchase a house in metropolitan Melbourne, regional Victoria and Victoria, the analysis below:

- uses the ABS income distribution data as a starting point to stratify the population into quintiles. This data is based on the *Survey of Income and Housing 2000-2001* and provides median gross weekly household income by capital city, balance of State, and household composition for each Victorian quintile;
- calculates maximum buying power of each quintile – based on the median income of the quintile;
- is based on a 25-year mortgage, 5 per cent deposit and interest rate of 6.6 per cent; and
- matches this with the median house price data for every suburb from the Valuer-General for 2002.

This provides an indication of affordability, housing stress and unaffordability for each quintile for each suburb.

This information is reflected in the following charts and tables.

- Based on the median price by suburbs, housing in metropolitan Melbourne is largely unaffordable for people in the lower two quintiles. There have been very few sales at prices that are affordable for these quintiles.
- Housing becomes more affordable for people from the third quintile in the fringe areas of Melbourne.
- Almost all localities in regional Victoria, for which there are data, are affordable to the third quintile. In Melbourne less than half of the localities had housing which was affordable for this quintile, and then only (in most cases) under stress.
- This reflects the generally lower house prices in regional Victoria than in Melbourne. Notable exceptions are Mount Macedon and some coastal areas, mainly to the west of Melbourne, such as Lorne, Apollo Bay and Port Fairy, which are generally highly sought after.
- The blank areas on the maps indicate localities for which no data are available.

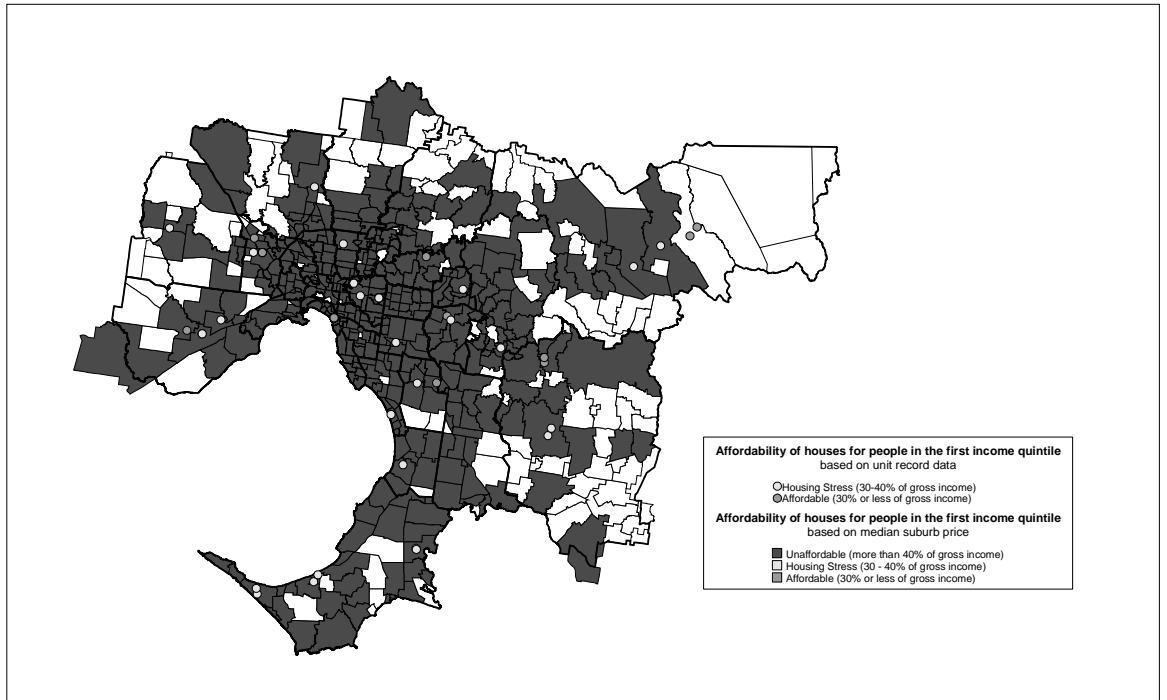
## Appendix B: Housing Affordability for Low-Income Earners

Table B.1: Affordability of houses in metropolitan Melbourne

2000-01 Median gross weekly income (\$)	Lowest	Second	Third	Fourth	Highest
Median income	221	448	811	1231	1971
30 per cent of income	66.3	134.4	243.3	369.3	591.3
40 per cent of income	88.4	179.2	324.4	492.4	788.4
Amount able to borrow @ 30 per cent	42 502	85 770	155 267	235 676	377 350
<i>plus 5 per cent deposit</i>					
Total price can afford @ 30 per cent	44 738.95	90 284.21	163 438.95	248 080.00	397 210.53
Amount able to borrow @ 40 per cent	56 414	114 360	207 022	314 235	503 133
<i>plus 5 per cent deposit</i>					
Total price can afford @ 40 per cent	59 383.16	120 378.95	217 917.89	330 773.68	529 613.68
Assumptions: 5 per cent deposit - 25 year term - Interest rate: 6.6 per cent					

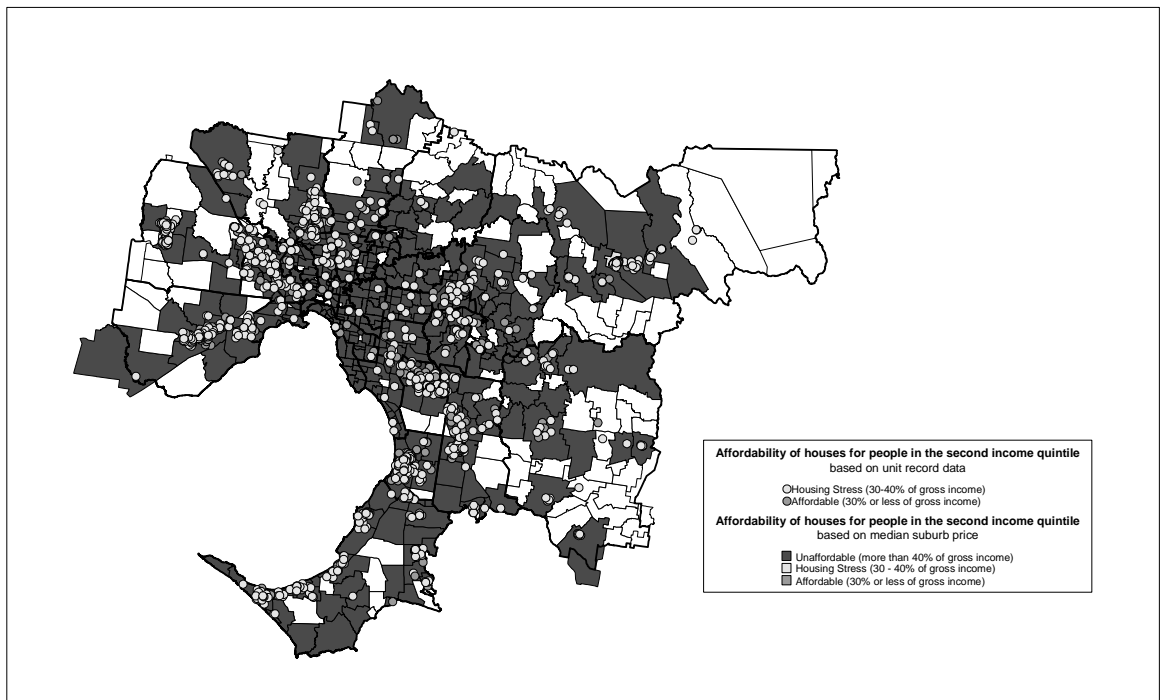
Sources: Valuer-General Victoria, *A Guide to Property Values*, Australian Bureau of Statistics, *Income Distribution* (catalogue number 6523.0)

**Chart B.1: Affordability of houses for people in the first income quintile – metropolitan Melbourne**



Sources: Valuer-General Victoria, *A Guide to Property Values*, Australian Bureau of Statistics, *Income Distribution* (catalogue number 6523.0)

**Chart B.2: Affordability of houses for people in second income quintile – metropolitan Melbourne**

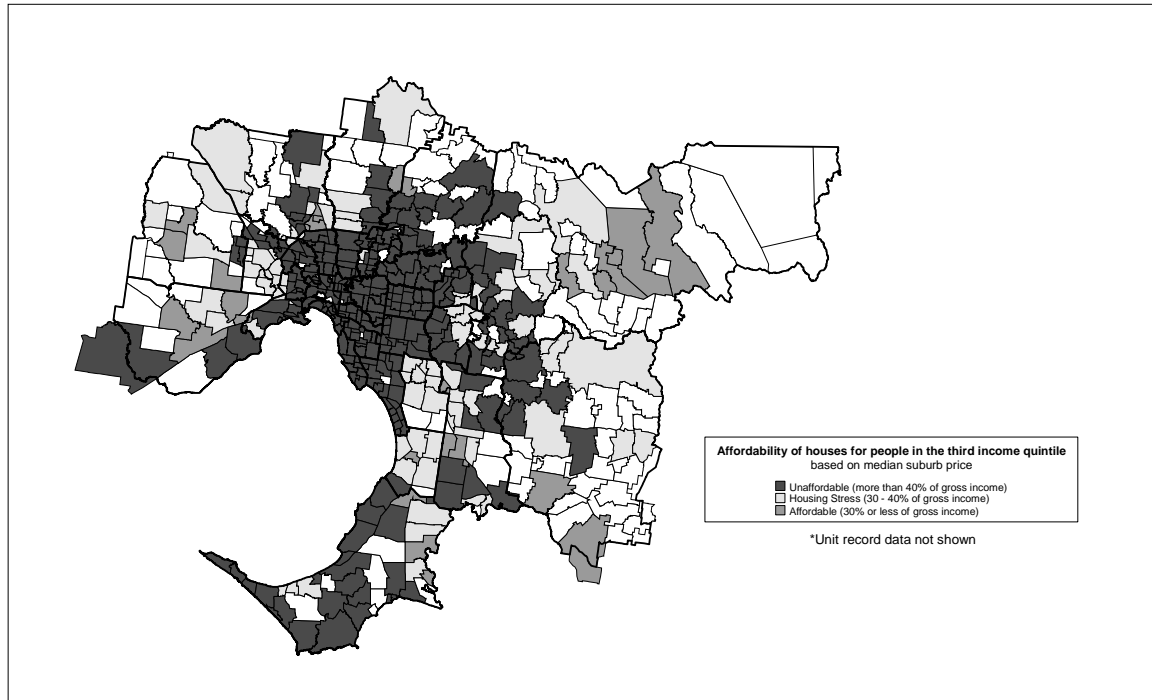


Sources: Valuer-General Victoria, *A Guide to Property Values*, Australian Bureau of Statistics, *Income Distribution* (catalogue number 6523.0)

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**Chart B.3: Affordability of houses for people in third income quintile – metropolitan Melbourne**



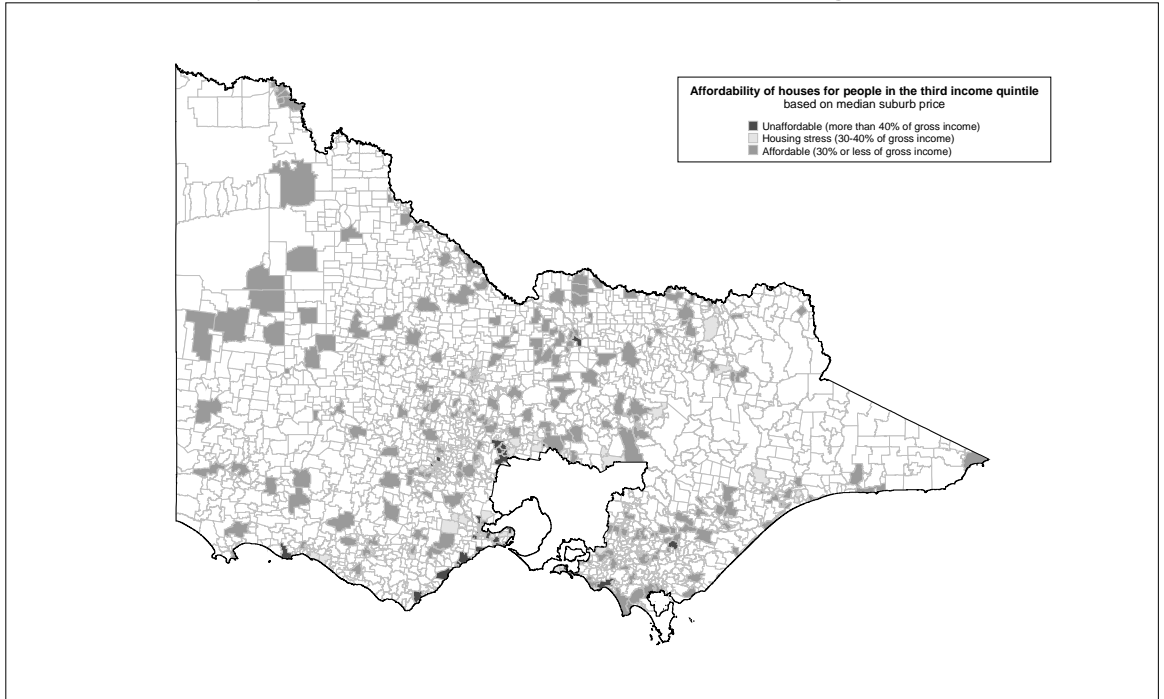
Sources: Valuer-General Victoria, *A Guide to Property Values*, Australian Bureau of Statistics, *Income Distribution* (catalogue number 6523.0)

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**Table B.2: Affordability of houses in regional Victoria**

<b>2000-01 Median gross weekly income (\$)</b>	<b>Lowest</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Highest</b>
Median income	232	460	791	1250	1800
30 per cent of income	69.6	138	237.3	375	540
40 per cent of income	92.8	184	316.4	500	720
Amount able to borrow @ 30 per cent	44 417	88 067	151 438	239 314	344 612
<i>plus 5 per cent deposit</i>					
Total price can afford @ 30 per cent	46 754.74	92 702.11	159 408.42	251 909.47	362 749.47
Amount able to borrow @ 40 per cent	59 222	117 423	201 917	319 085	459 482
<i>plus 5 per cent deposit</i>					
Total price can afford @ 40 per cent	62 338.95	123 603.16	212 544.21	335 878.95	483 665.26
Assumptions: 5 per cent deposit - 25 year term - Interest rate: 6.6 per cent					

Chart B.6: Affordability of houses for people in third income quintile – regional Victoria



Sources: Valuer-General Victoria, *A Guide to Property Values*, Australian Bureau of Statistics, *Income Distribution* (catalogue number 6523.0)

Below are a number of caveats to the analysis.

- This analysis is only applicable to the first, second and third quintiles. This is because using spending of 30 per cent and 40 per cent of gross income on housing as measures of housing stress and unaffordability, respectively, only makes sense for the lower income quintiles. This is because higher quintiles can apply a higher proportion of income to housing and still be able to afford other necessities.
- Moreover, the analysis does not take into account the level of savings held by each quintile. This means that the analysis will overstate housing affordability difficulties, although this is more likely to be a relevant factor for the higher quintiles.
- It is important to note that this analysis is based on the median price for each suburb. Obviously, there are opportunities to purchase dwellings at a price lower than the median, as indicated by the unit record data shown in the above charts.
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