

# Housing Outlook for Australia

Brisbane, 14 December 2009



**Owen Donald**

Chair, National Housing  
Supply Council



# Council members reflect a range of experience in housing issues

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## NHSC members

- Dr **Owen Donald**, ex Dir of Housing Victoria, ex CEO AHURI
- **Brendan Crotty**, Company Director, ex CEO Australand
- **Stuart Wilson**, Proprietor, Wilson Homes Tasmania
- **Warwick Temby**, Executive Director, Housing Industry Association, Qld
- **Marcus Spiller**, Consultant, SGS Economics & Planning
- Prof **Sue Holliday**, Nat Pres PIA, ex Dir-Gen NSW Planning
- **Marion Thompson**, Land Release Coordinator, WA
- **Saul Eslake**, Chief Economist, ANZ
- Dr **Judy Yates**, Housing Economist, Uni of Sydney
- **Mike Waslin**, Treasury (Ex-Officio)
- **Andrew Tongue**, Deputy Secretary, FaHCSIA (Ex-Officio)



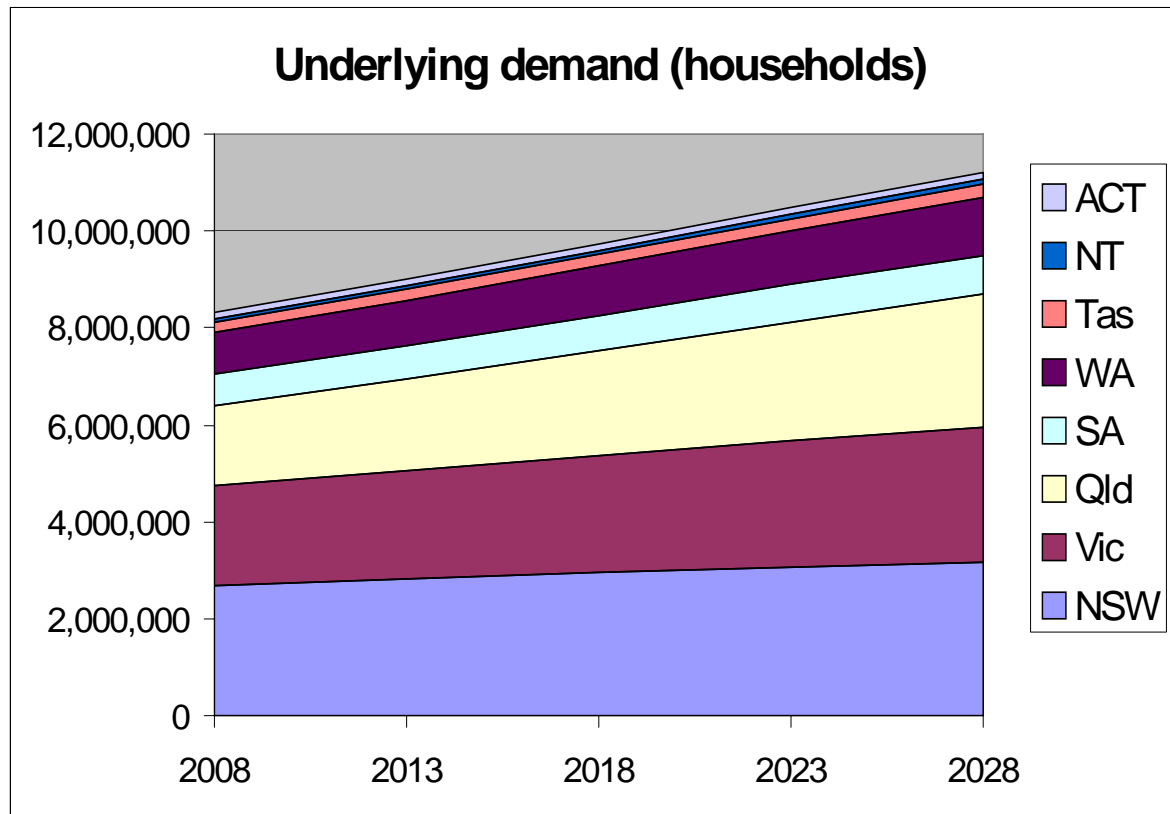
National Housing Supply Council members with the Hon. Tanya Plibersek, Minister for Housing

# Council's Role

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- ❑ Established in May 2008 to advise the Minister for Housing on adequacy of land supply & construction activity
- ❑ Council has expertise in housing economics, finance, building, planning, urban development, research, housing policy and management
- ❑ Briefs the Minister regularly and produces annual State of Supply report
- ❑ Considers a range of drivers of demand, supply & affordability
- ❑ Especially concerned about supply for bottom half of income distribution

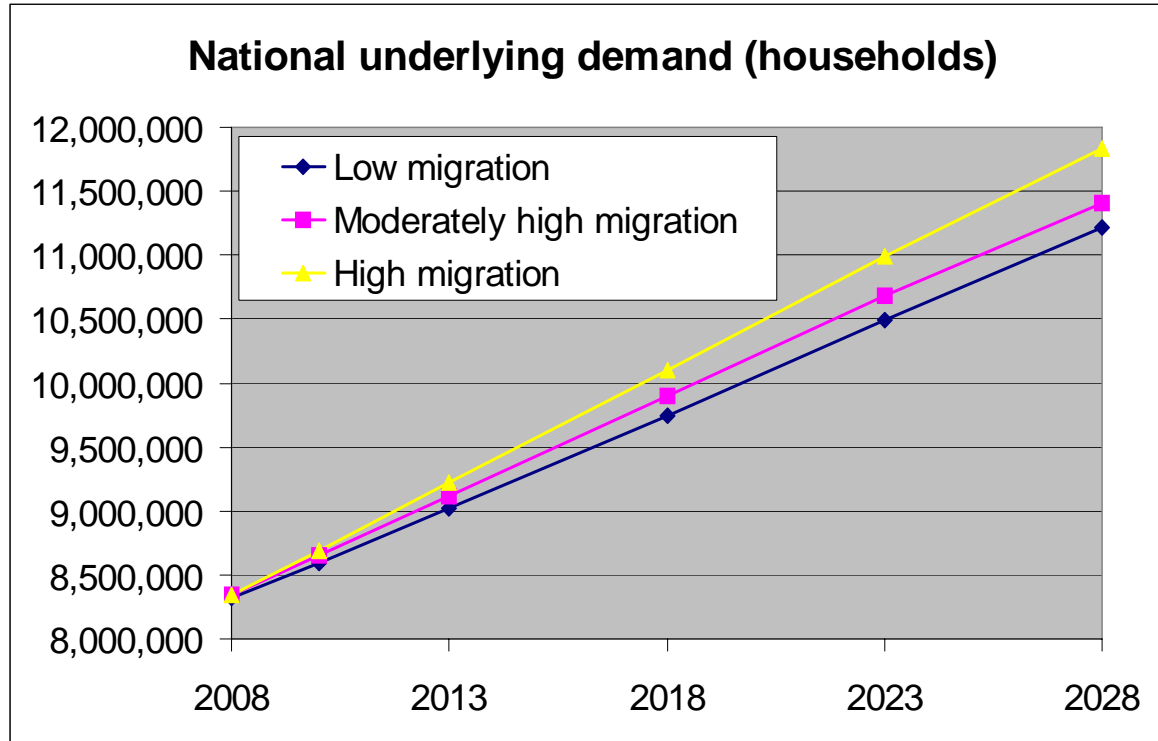
# Demand for housing is expected to increase across all States & Territories to 2028



- Highest projected annual household growth in:
  - Qld (2.1%)
  - WA (2.0%)
  - NT (1.7%)
- Lowest growth in:
  - SA (1.1%)
  - Tas (0.95%)

Source: NHSC (2009, p 118)

# Demand projections differ depending on assumptions about immigration



- Underlying demand also affected by:
- birth rate
  - death rate
  - household size
  - population ageing

# Supply is projected to increase over the next twenty years (but not as fast as demand)

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- We estimated 8.8m dwellings currently
- But difficult to project supply
  - Supply reacts to a host of volatile influences
  - Trend projections based on States' and Territories' planning data not comprehensive or fully comparable

<b>Year</b>	<b>2010</b>	<b>2028</b>	<b>2010-2028</b>
Net projected dwelling completions	129,000	141,000	136,000 p.a.

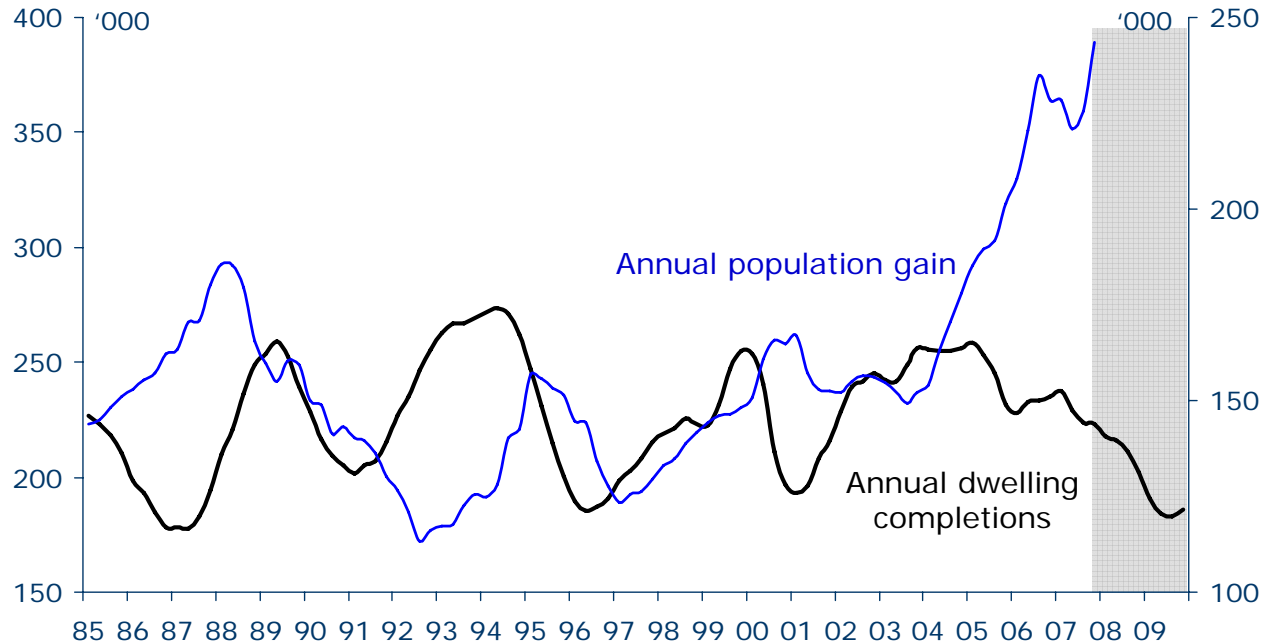
- Compares with projected 153,000 average annual increase in households (medium)

# Demand exceeds supply at the moment

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*It's hard to argue against this.....*

Population growth vs. dwelling completions



Sources: Australian Bureau of Statistics; Economics@ANZ  
Relationship Banking • Corporate Finance • Markets • Working Capital

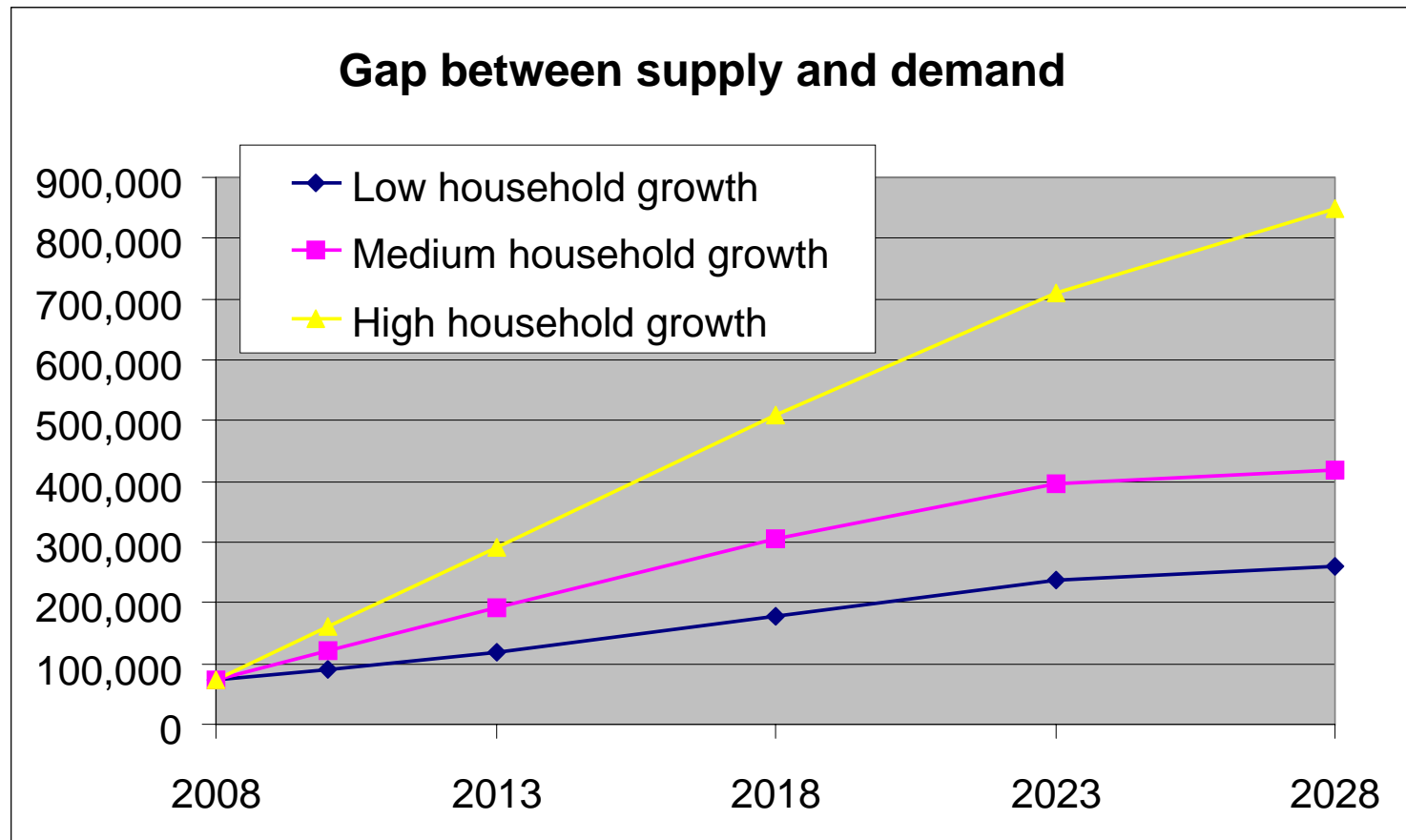


We estimate a 2008 supply shortage of at least 85,000 units – under most projections this gap will widen over the next five years (to 2013) to:

Demand projection: Underlying demand	Supply projection: Production of dwellings		
	Low production	Medium production	High production
	(Number of dwellings)		
Low household growth	194,000	45,000	-83,000
Medium household growth	267,000	118,000	-10,000
High household growth	367,000	218,000	90,000

Source: NHSC (2009, p 74)

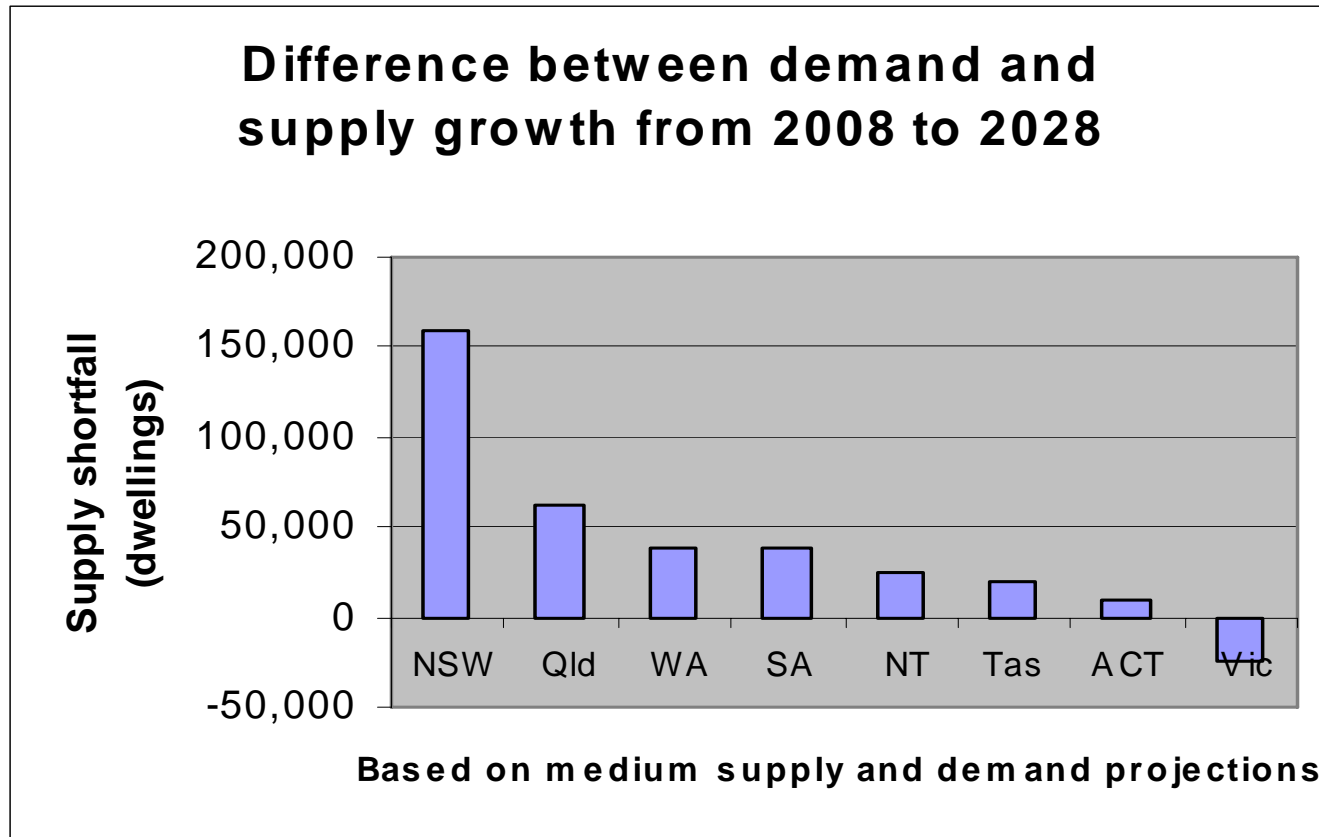
# The gap varies depending on assumptions about the growth in demand



NB. Comparison is with medium supply growth projection

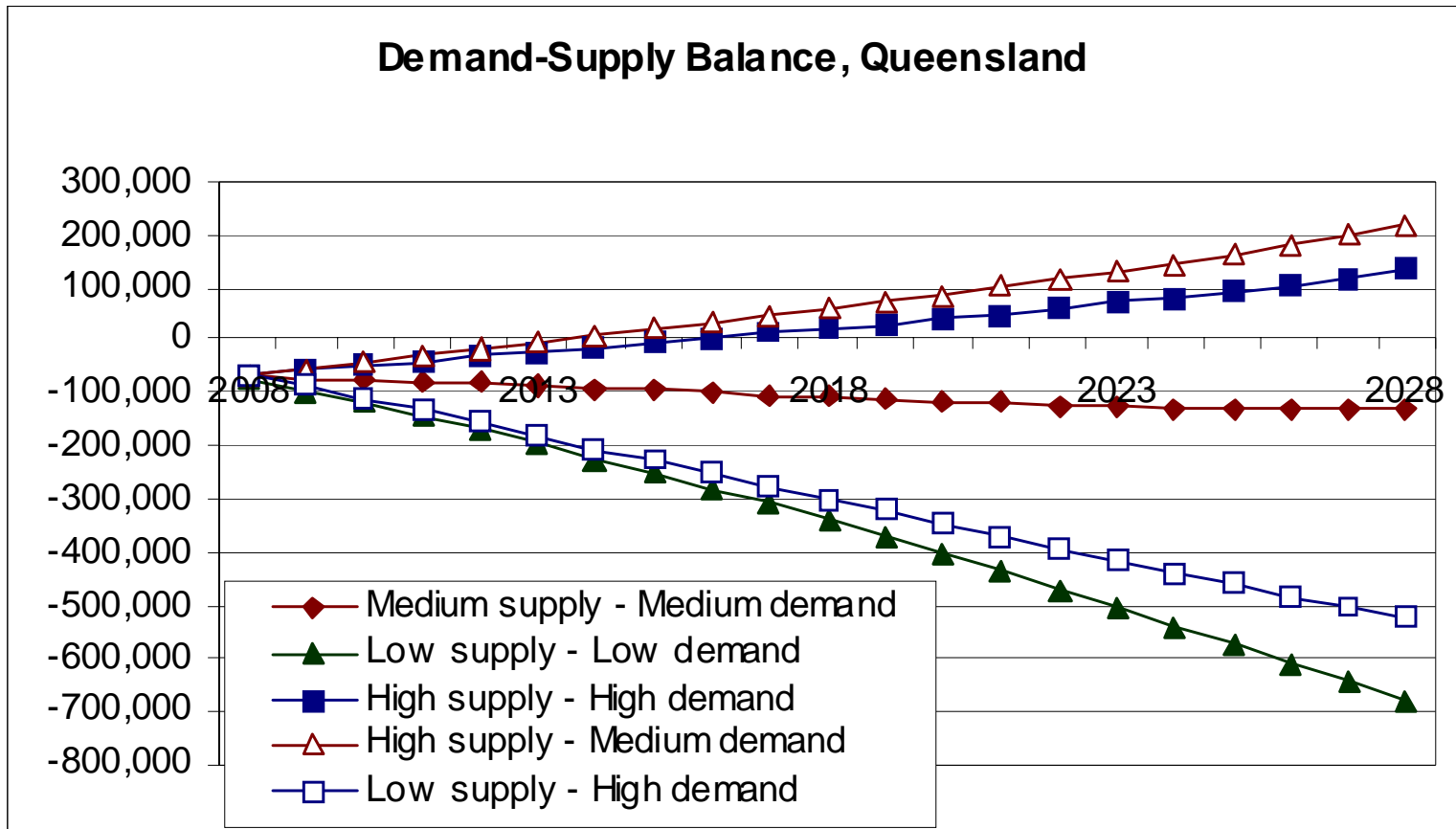
Source: NHSC (2009, p 74)

# Gaps are projected for the next twenty years (except in Victoria) (all things equal)



Source: NHSC (2009)

# Supply – Demand: Various projections, Queensland

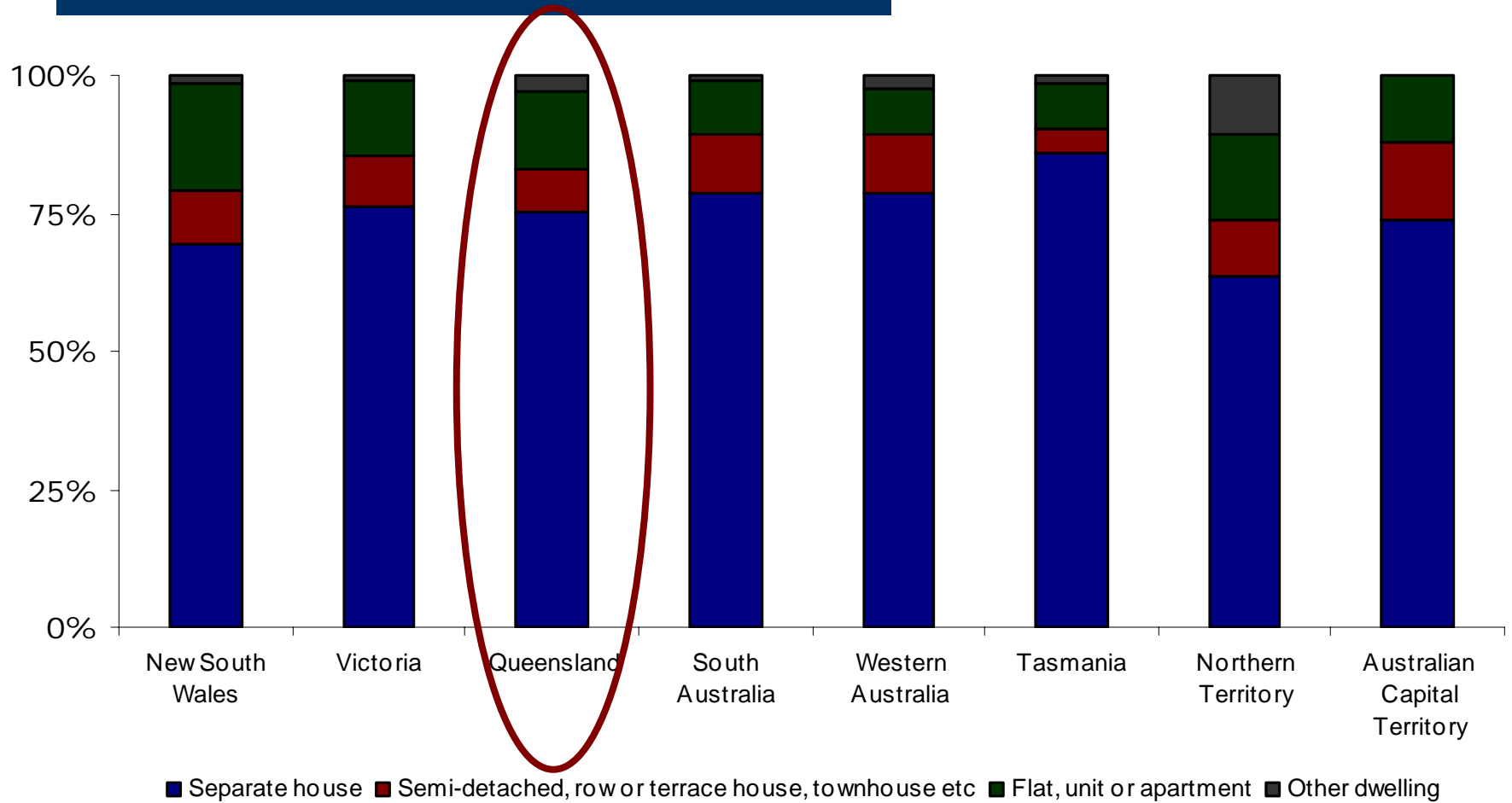


# A national analysis hides submarket issues

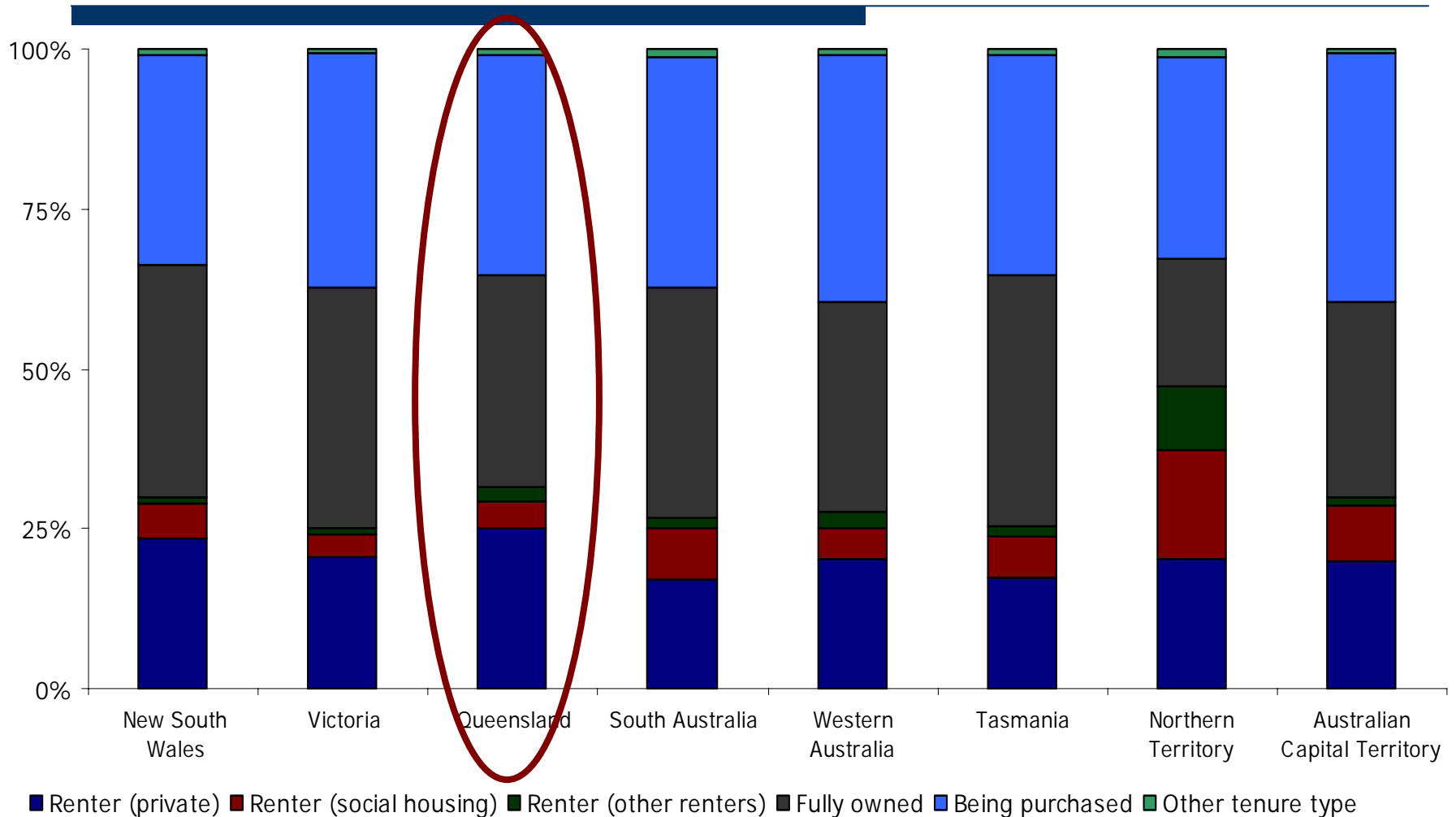
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- ❑ Aggregate gap doesn't indicate the submarkets in which failure occurs
- ❑ Primary failures are in social housing and the bottom end of the rental market
- ❑ Hypothesis – Global Financial Crisis means bleak climate for normal investment in rental housing in short to medium term
- ❑ Little new product for lower income first home buyers in major cities because of land and construction costs and lower yield from affordable product

# Composition of housing stock



# Composition of housing tenure



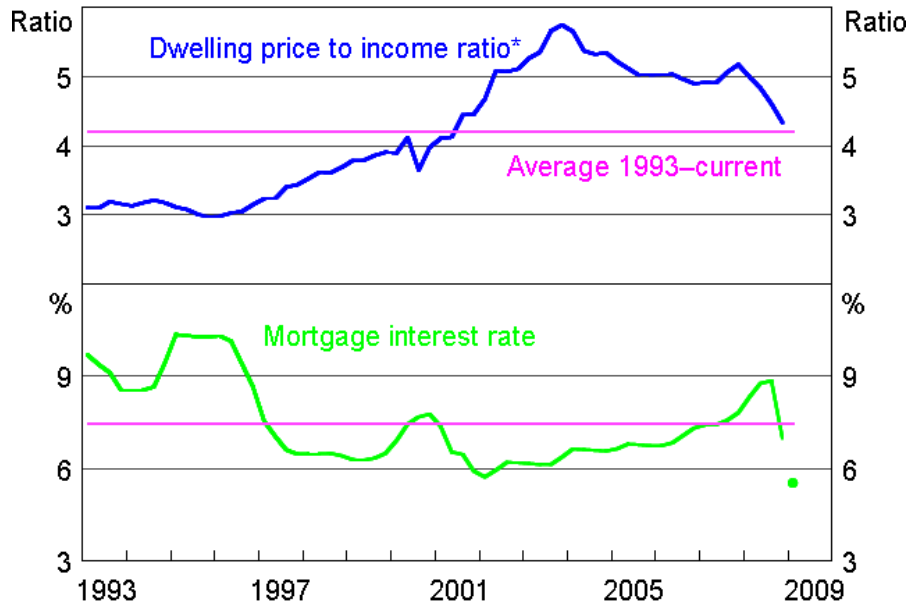
# New land supply in metro areas will come from infill and greenfield development

<b>Total 8 capital cities</b>	<b>&lt;2 years</b>	<b>2–5 years</b>	<b>Total for 5 years</b>	<b><i>Average per year over 5 years</i></b>
<b>Broad-hectare (greenfield) land</b>	136,000	234,000	370,000	74,000
<b>Redevelopment areas (10 or more net additional dwellings)</b>	221,000	220,000	441,000	88,200
<b>Total dwelling yield</b>	357,000	454,000	811,000	162,200

Source: NHSC (2009, p 44; based on data supplied by States and Territories)

# Housing affordability (buyers)

## Determinants of Housing Affordability

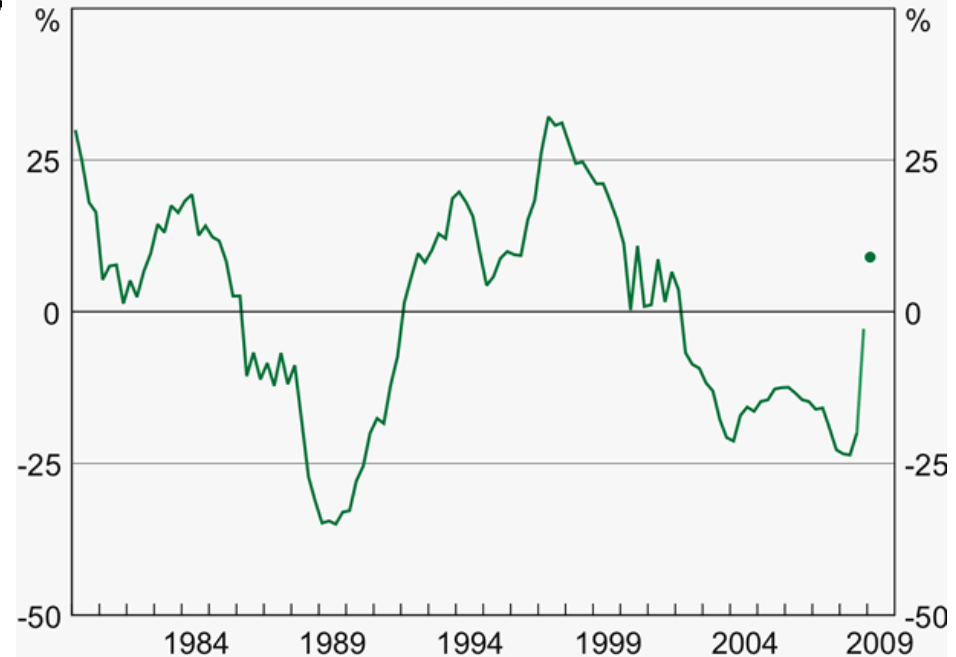


\* Ratio of median dwelling price to average household disposable income; disposable income is after tax and before the deduction of interest payments.  
Sources: ABS; RBA; REIA

Source: Anthony Richards (RBA) 2009 – Address to Annual Housing Congress, 26 March 2009, Sydney ([http://www.rba.gov.au/Speeches/2009/sp\\_so\\_260309.html](http://www.rba.gov.au/Speeches/2009/sp_so_260309.html))

## Housing Affordability\*

Deviation from long-run average\*\*

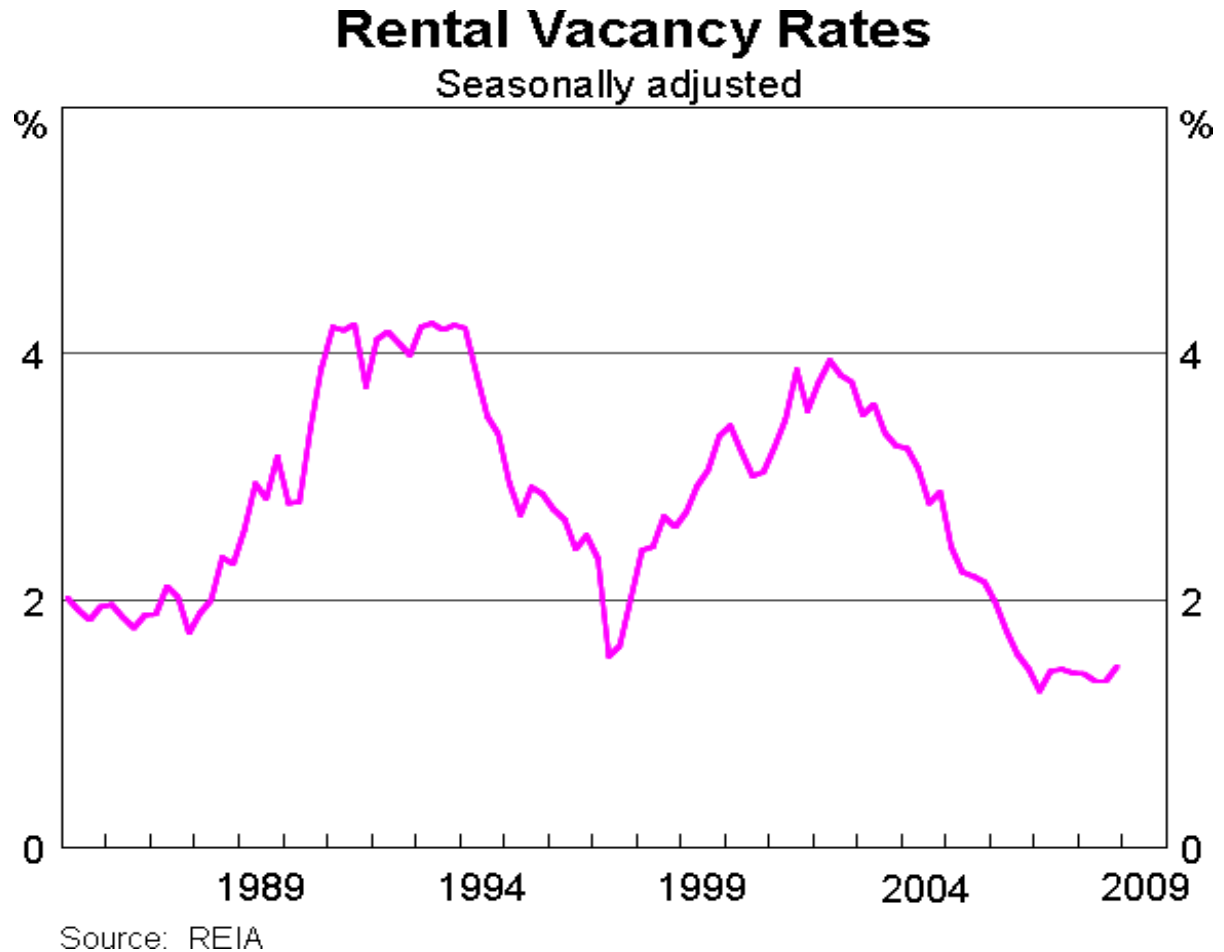


\* Index constructed as the ratio of average household disposable income to the required monthly repayment for the median priced home financed with a 25-year loan assuming an 80 per cent LVR at the full-doc prime mortgage rate

\*\* Average since 1980 to present  
Sources: ABS; REIA; RBA

# State of the Rental Market

- ❑ Rental vacancy rate very tight
- ❑ Prospect of even tighter vacancies in multi-unit sector.



# Private Rental (analysis of 2006 Census data)

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- Low income renter households (bottom 20%) needed 237,000 dwellings
  - Only 91,000 dwellings were affordable
  - Of these dwellings, 56,000 were occupied by higher income households
  - This leaves only 35,000 dwellings that were both affordable AND available
  
- Result: shortage of 202,000 dwellings

Source: Wulff and Yates' 2008

## There is also a shortage of available housing for lower income earners that is affordable

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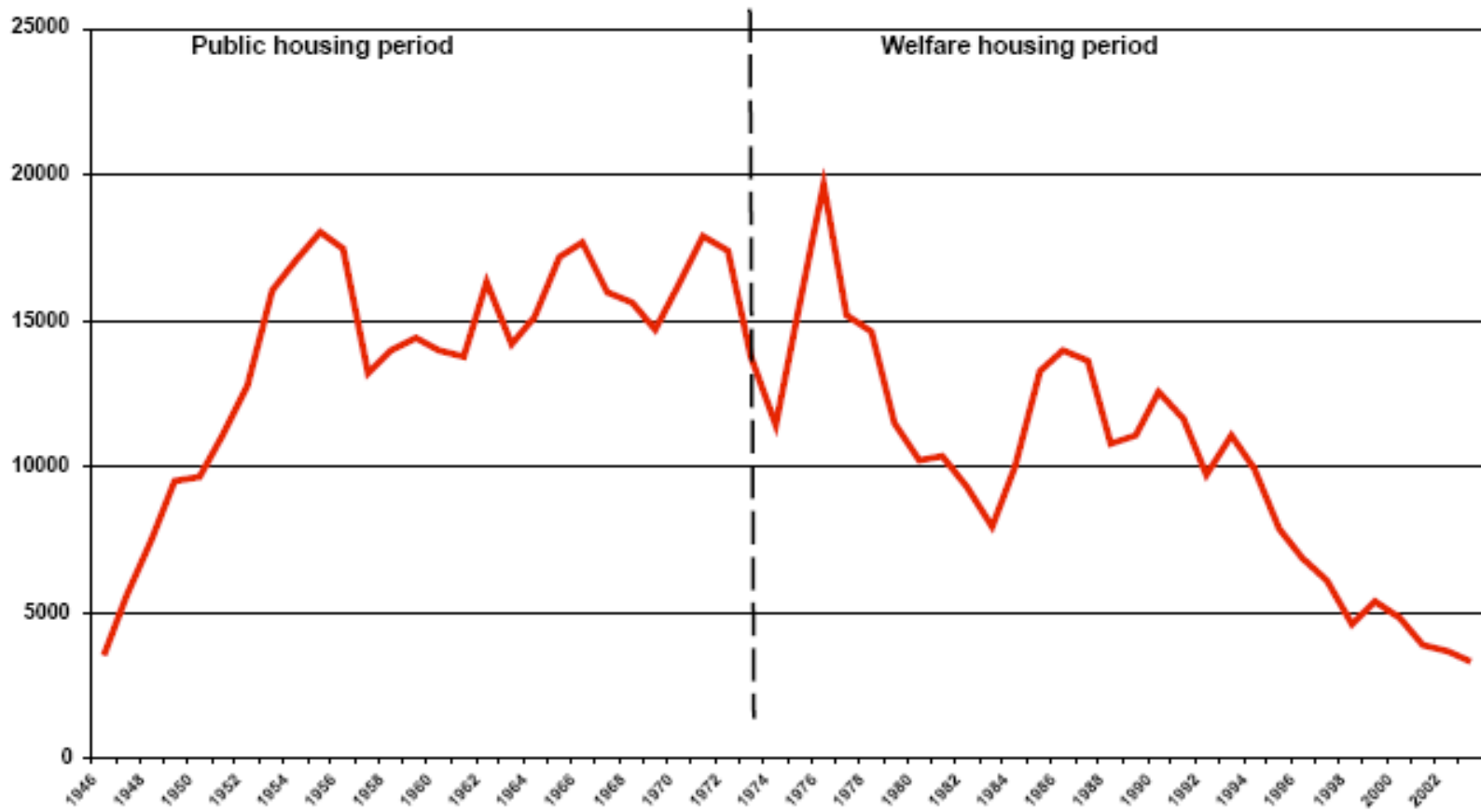
Income	Households	Affordable dwellings	Affordable & available	Shortage
Low (bottom 20%)	237,000	91,000	35,000	<b>202,000</b>
Lower (bottom 40%)	600,000	830,000	349,000	<b>251,000</b>

Source: NHSC (2009, p 98)

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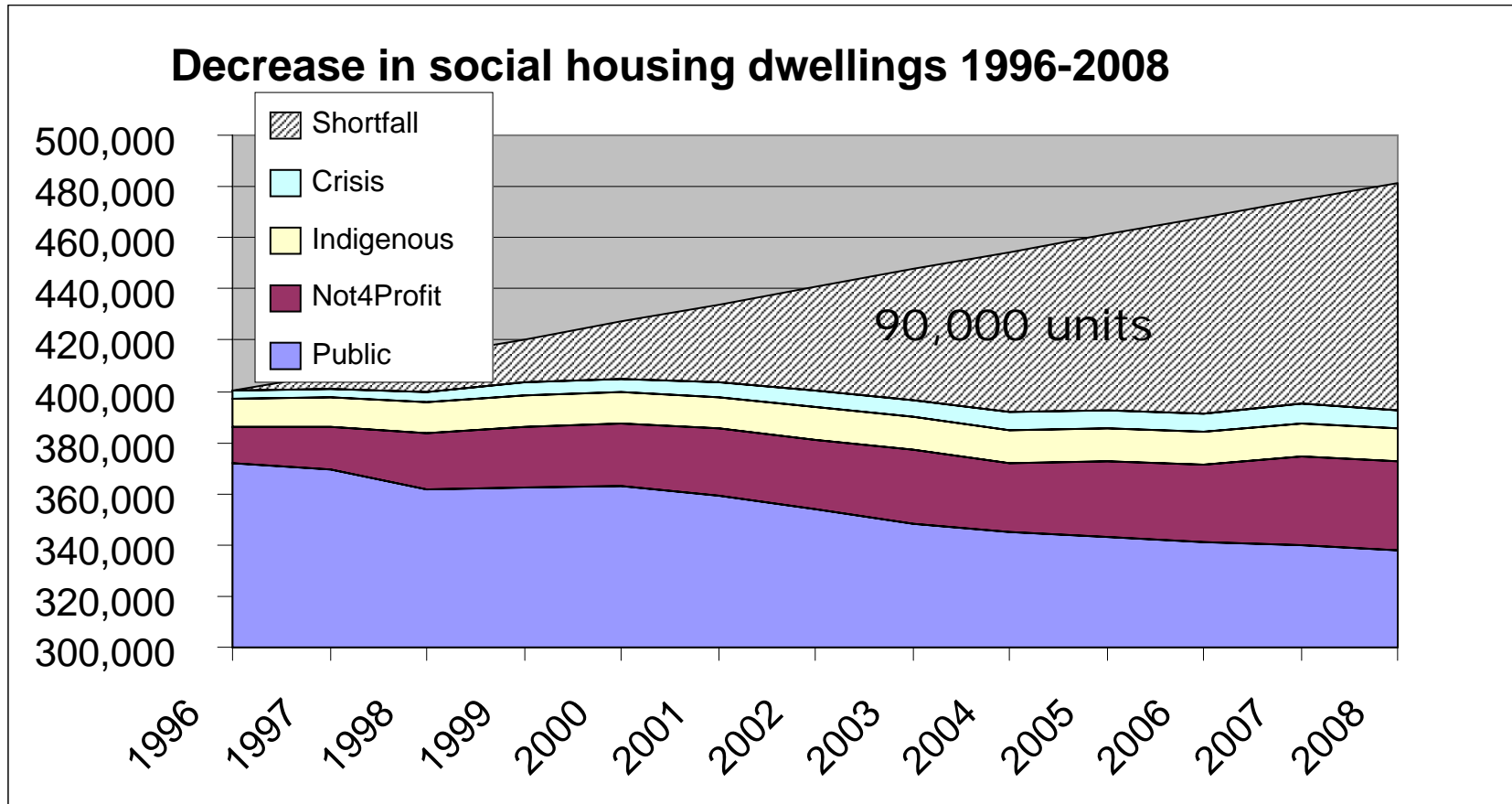
# Social housing production has been falling since the early 1990s

Chart 3: Public housing completions



Source: Tony Dalton 2009, personal communication

# 90,000 more units would lead to the same share of social housing as 1996 levels



Source: NHSC (2009, p 94)

# Initiatives addressing supply-demand imbalance & affordability

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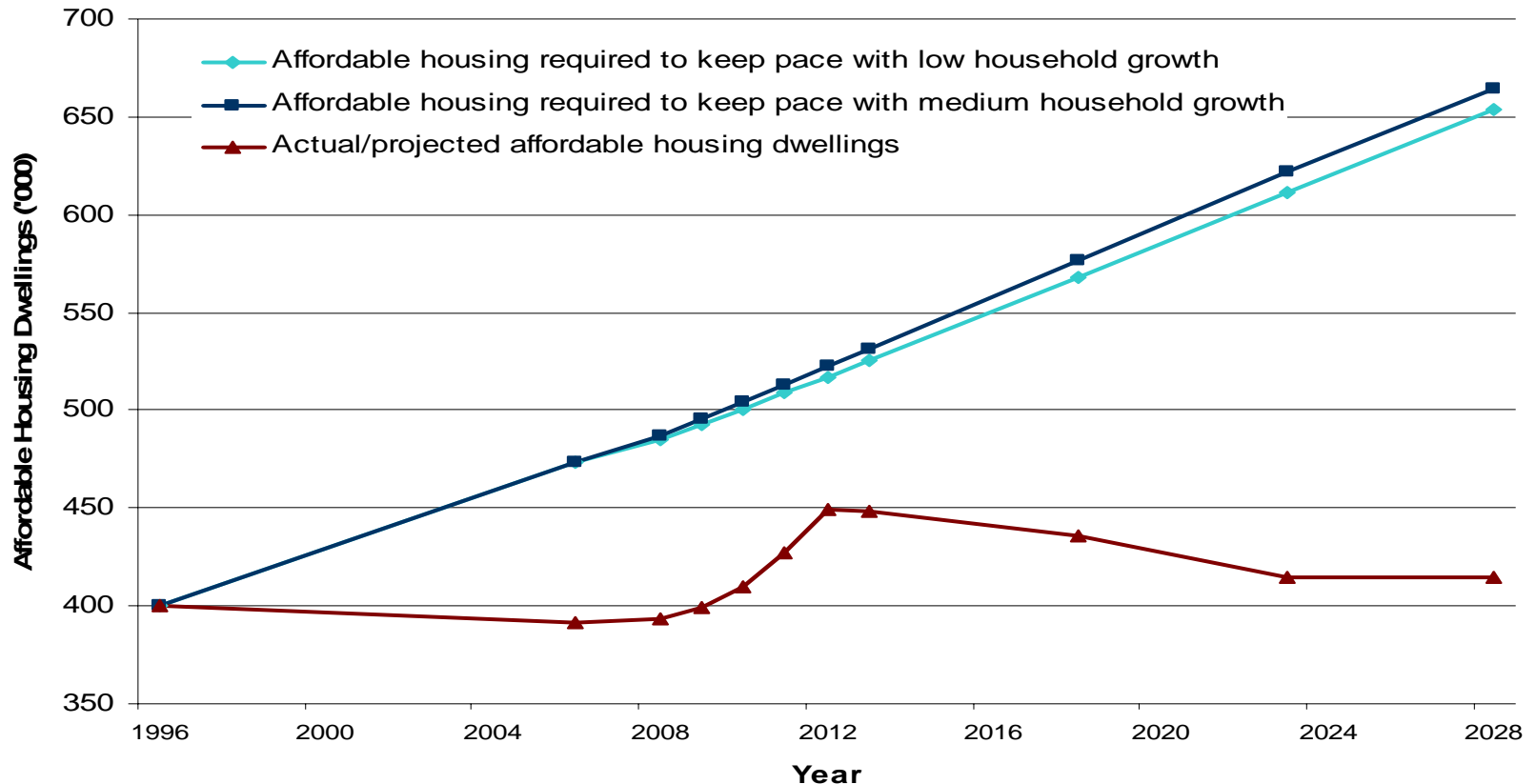
## □ Commonwealth

- Nation Building and Economic Stimulus Plan
  - 20,000 additional units
- National Rental Affordability Scheme
  - 50,000 additional units
- Housing Affordability Fund
- First Home Saver accounts
- Review of taxation/Review of social security
- National Affordable Housing Agreement

## □ States & Territories

- social housing reforms and investment in growth
- relatively minor tax changes in most States
- planning and development approvals improvements

# Government investment will boost social & 'affordable rental' housing supply



Source: NHSC (unpublished)

- But with no further investment the share of social housing will fall again after 2018

# Other government actions

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- Henry Review of Australia's tax system.
  - review will make recommendations to better position the tax system to help meet demographic, social, economic and environmental challenges.
  - encompasses Commonwealth & State taxes, except the GST, and interactions with the transfer system.
  
- Major infrastructure investment in rail, roads, ports
  - could ultimately impact on aggregate population growth and its distribution.
  
- Review of income security arrangements (eg entitlements, benefit rates and tapers)
  - impact on demand for, access to, and affordability of housing for poorest households

# Impact of GFC

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## □ Issues

- access to credit (owner occupiers and investors)
- impact on interest rates
- impact on house prices
- impact on construction activity
- impact on 'velocity' of market
- impact of government interventions (e.g. FHO Boost)

## □ Significant preoccupation of NHSC in 2009

# Shortages suggest a number of areas of focus for policy and research

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- Supply shortages at bottom end of market:
    - Need for extensive investment/innovation in social housing – measures already announced; more will be needed going ahead.
    - Need to stimulate supply/innovation in affordable rental – measures announced, more likely to be needed.
  
  - Need to look at ways of significantly lowering barriers to home ownership for moderate income first home buyers.
    - Incidence and impact of taxation on land & housing
    - Infrastructure provision & charging regime ripe for review
    - Ensuring adequate supply of genuinely developable land
  
  - Need to consider means of lifting efficiency of housing market:
    - Workforce planning, training & organisation
    - Infill land aggregation, rezoning and development approvals
    - Innovation in product for FHB's and lower income households.
  
  - Need for better data, modelling & research for evidence-based policy and practice (NHSC, AHURI, industry).
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