

Why is the supply side important?

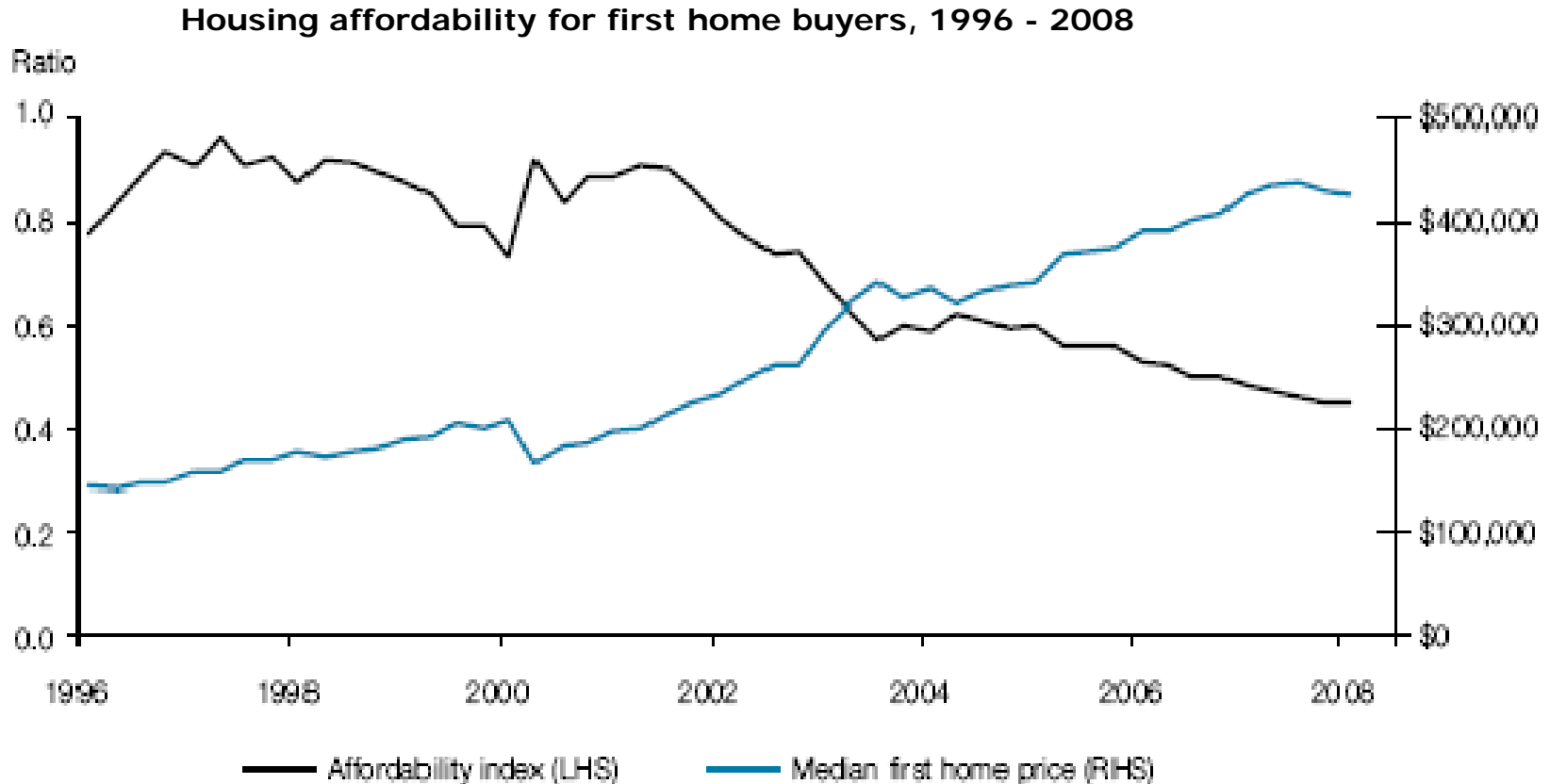
6th National Housing Conference,
Melbourne, 26 November 2000



Owen Donald
Chair, NHSC

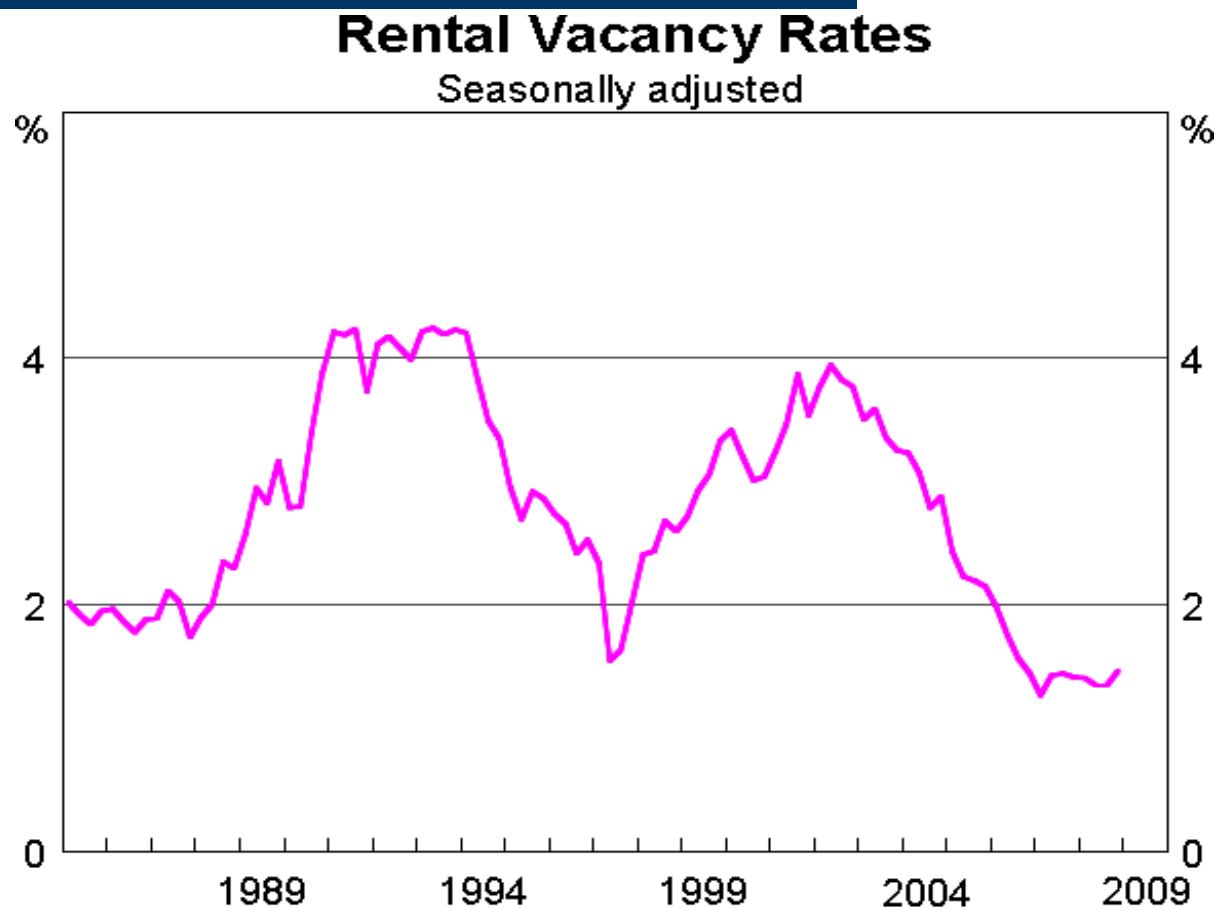


First home ownership has become less affordable in Australia since 1996



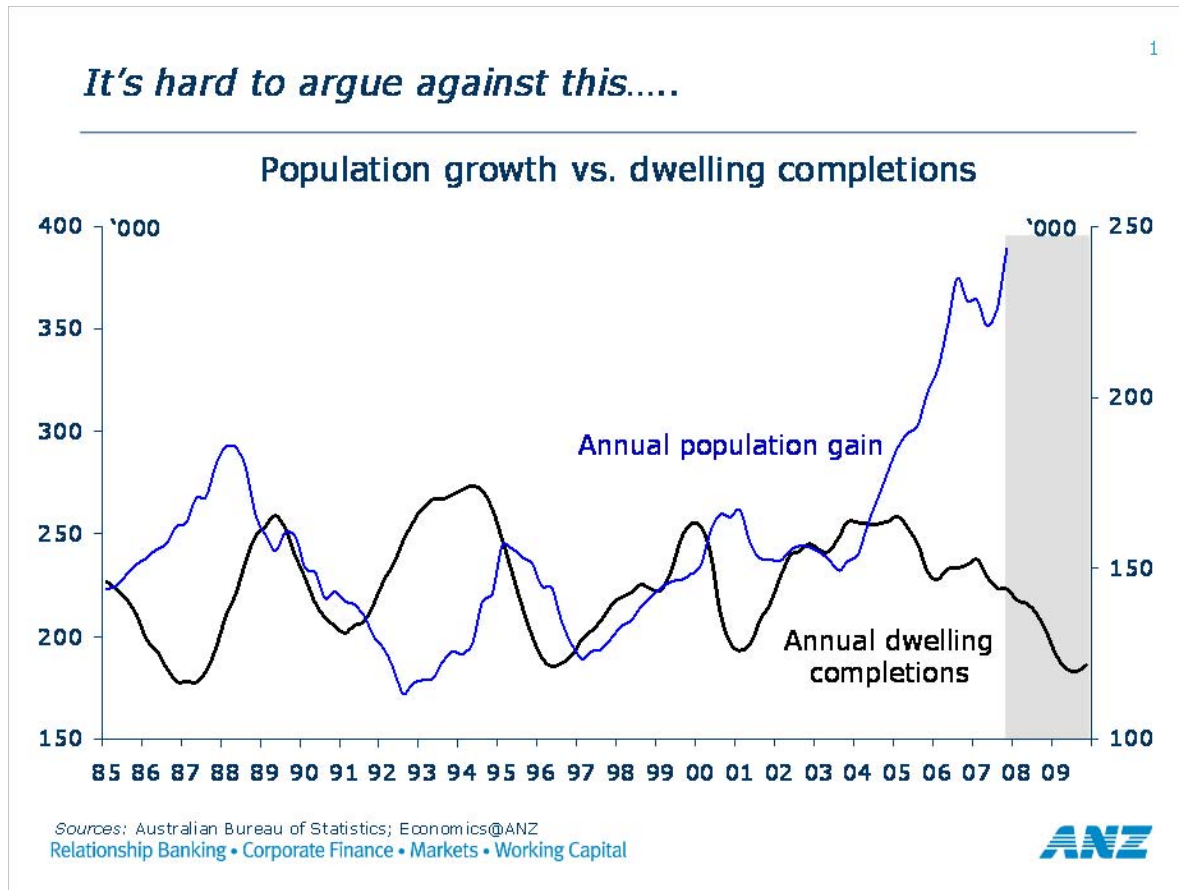
Source: NHSC (2009, p 84)

The rental market is very tight



Source: REIA

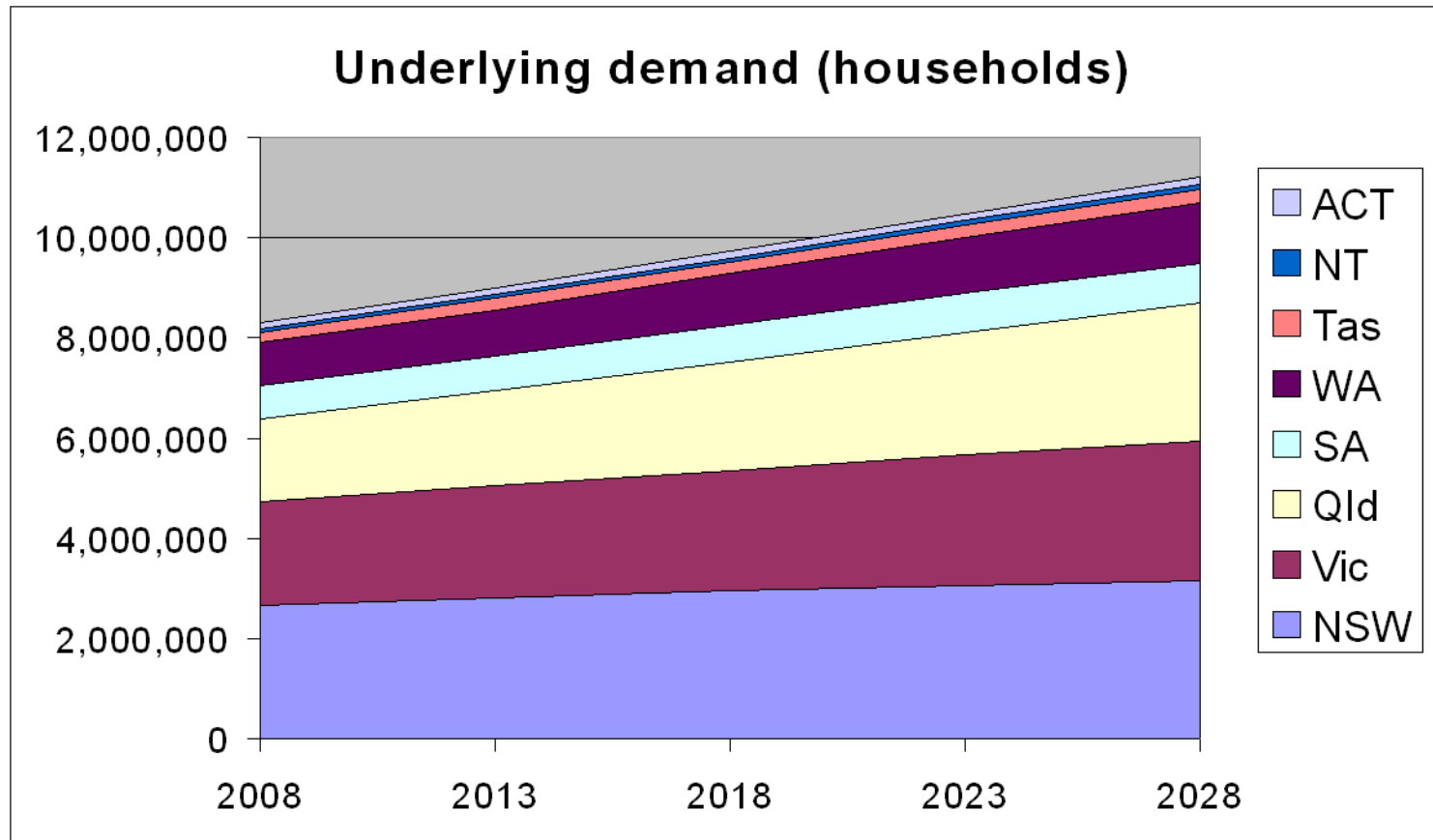
These results are not surprising since demand exceeds supply at the moment



The Council advises on the adequacy of land supply & construction activity

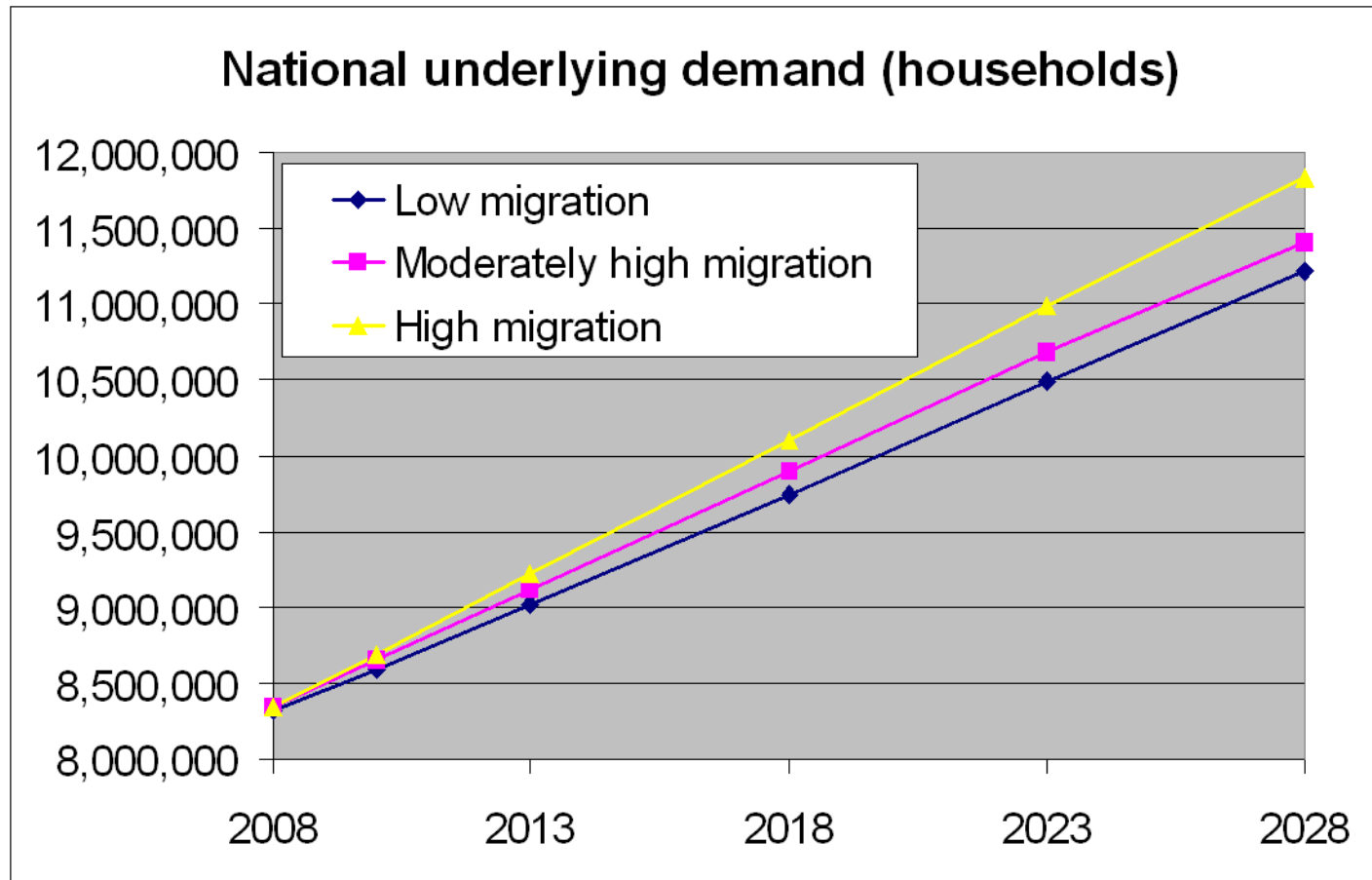
- Minister for Housing appointed the National Housing Supply Council (NHSC) in May 2008
- Expertise across housing economics, urban planning, housing management and building
- First State of Supply Report this year
 - Demand and supply projections for next twenty years
 - Particular focus on supply for bottom half of income distribution

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



Source: NHSC (2009, p 118)

Demand projections differ depending on assumptions about immigration



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

- Estimate of 8.8 million dwellings in 2008
- Difficult to project supply
 - Reacts to a host of volatile influences
 - Trend projections based on States' and Territories' planning data not comprehensive or fully comparable

| Year | 2010 | 2028 | 2010-2028 |
|------------------------------------|---------|---------|--------------|
| Net projected dwelling completions | 129,000 | 141,000 | 136,000 p.a. |

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

We estimated a gap of 85,000 dwellings

- Estimated gap of 85,000 (at June 2008) based on:
 - 9,000 = homelessness (sleeping rough)
 - 35,000 = sharing with friends or relatives
 - 13,000 = marginal residents
 - 26,000 = additional rental dwellings to attain 3% vacancy rate
- Higher gap estimates from the finance and housing industry: 150,000 - 250,000 by 2010

Our gap estimate is smaller than most other estimates

| Source | Estimate |
|--------------|---|
| ANZ | Over 200,000 homes in 2009 and 250,000 properties by 2010 Estimate of 30,000 dwelling shortage per annum |
| Westpac | 190,000 for 2009 |
| BIS Shrapnel | 160,000 by 2010 |
| RBA | 40,000 per annum |

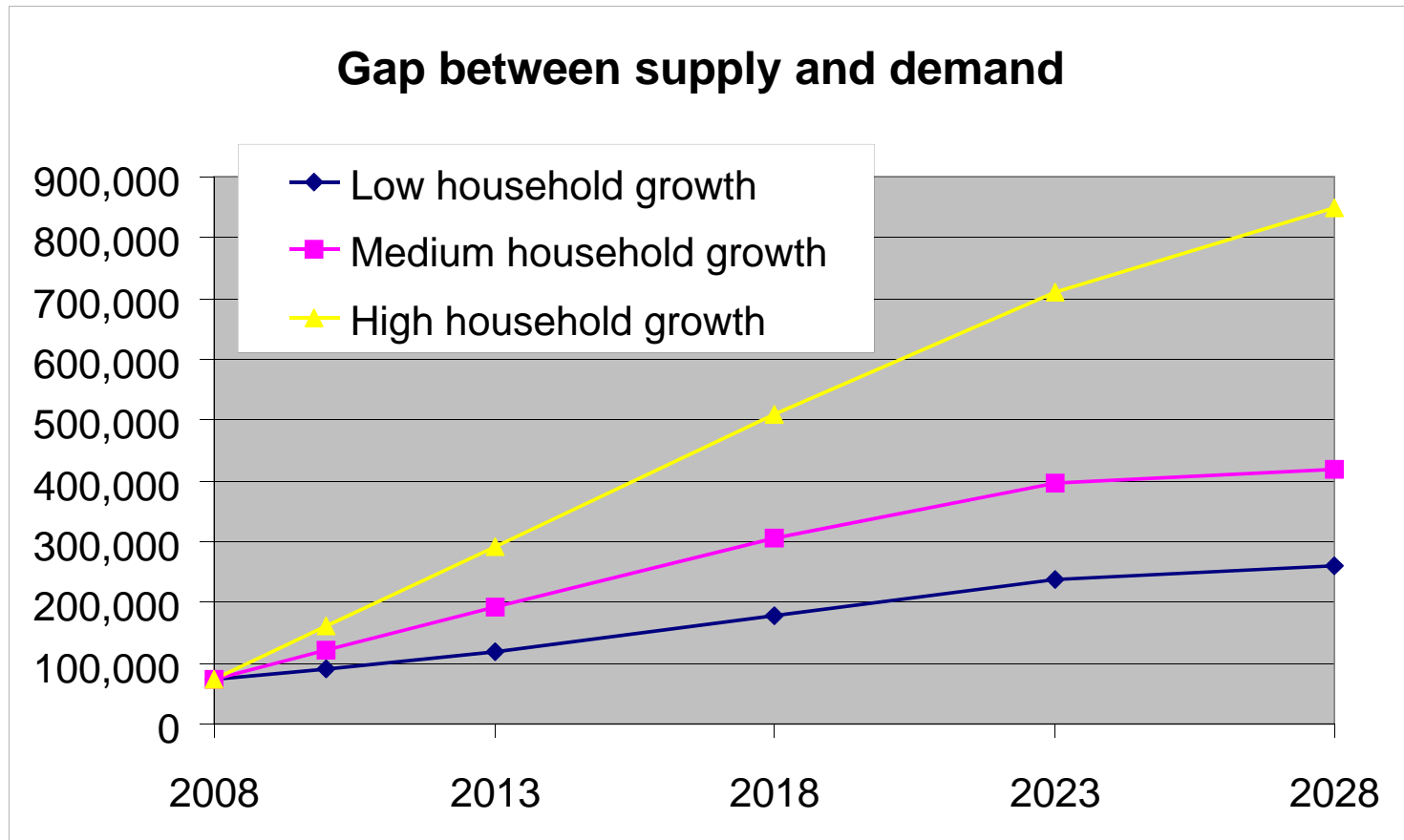
Source: Initial web research and personal conversations

The gap is likely to increase over the next five years (to 2013)

| 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)

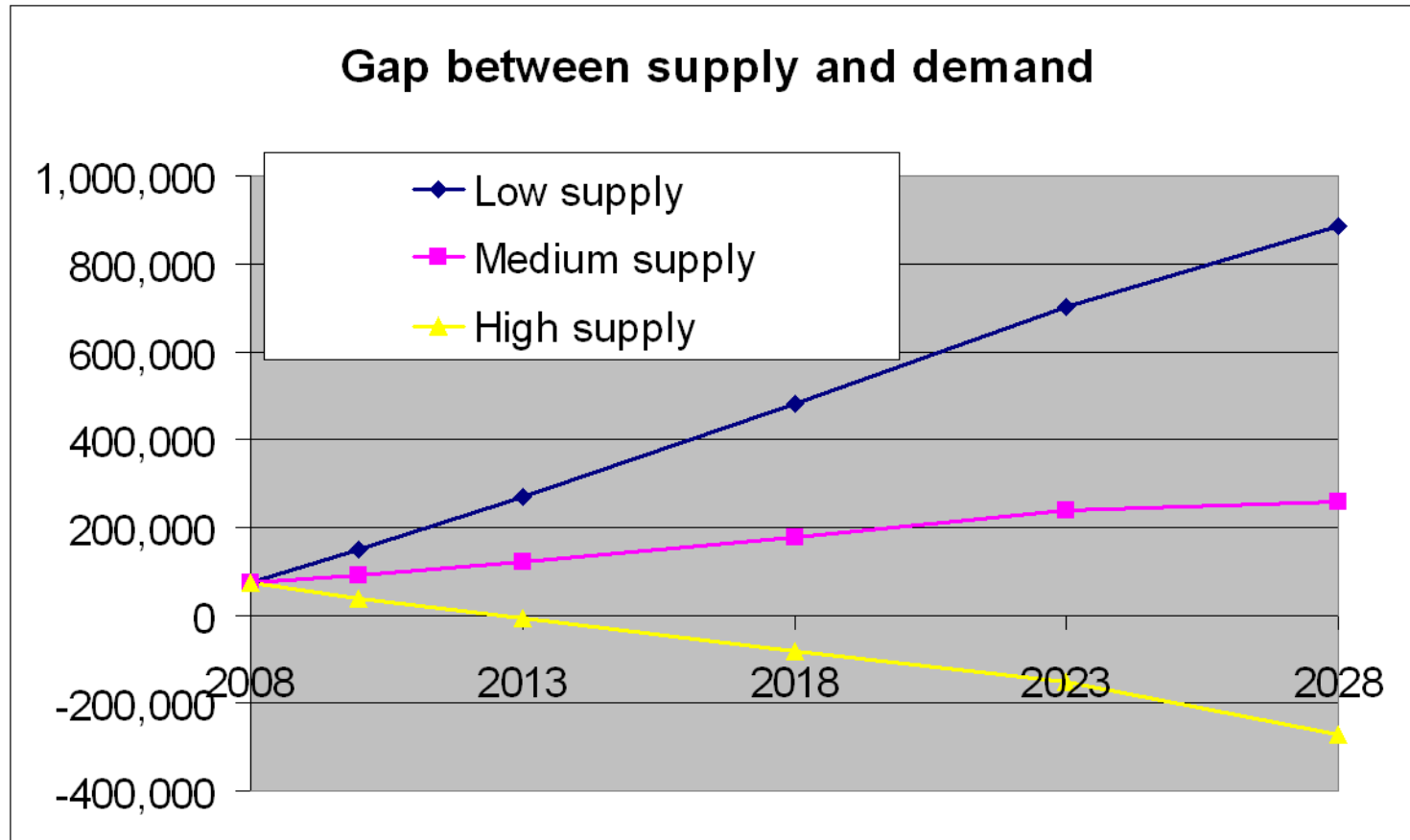
The gap varies depending on assumptions about the growth in demand



NB. Comparison is with medium supply growth projection

Source: NHSC (2009, p 74)

There is potential for supply to meet or exceed underlying demand



NB: Comparison is with low household growth projection

Source: NHSC (2009)

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

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

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

A national analysis hides submarket issues

- Primary failures are in the bottom end of the rental market (including social housing)
 - Likely to deteriorate given current bleak climate for investment in rental housing
- Little new housing for lower income first home buyers in major cities
 - High land and construction costs
 - lower yield from affordable housing
- Emerging gap in appropriate housing for ageing households

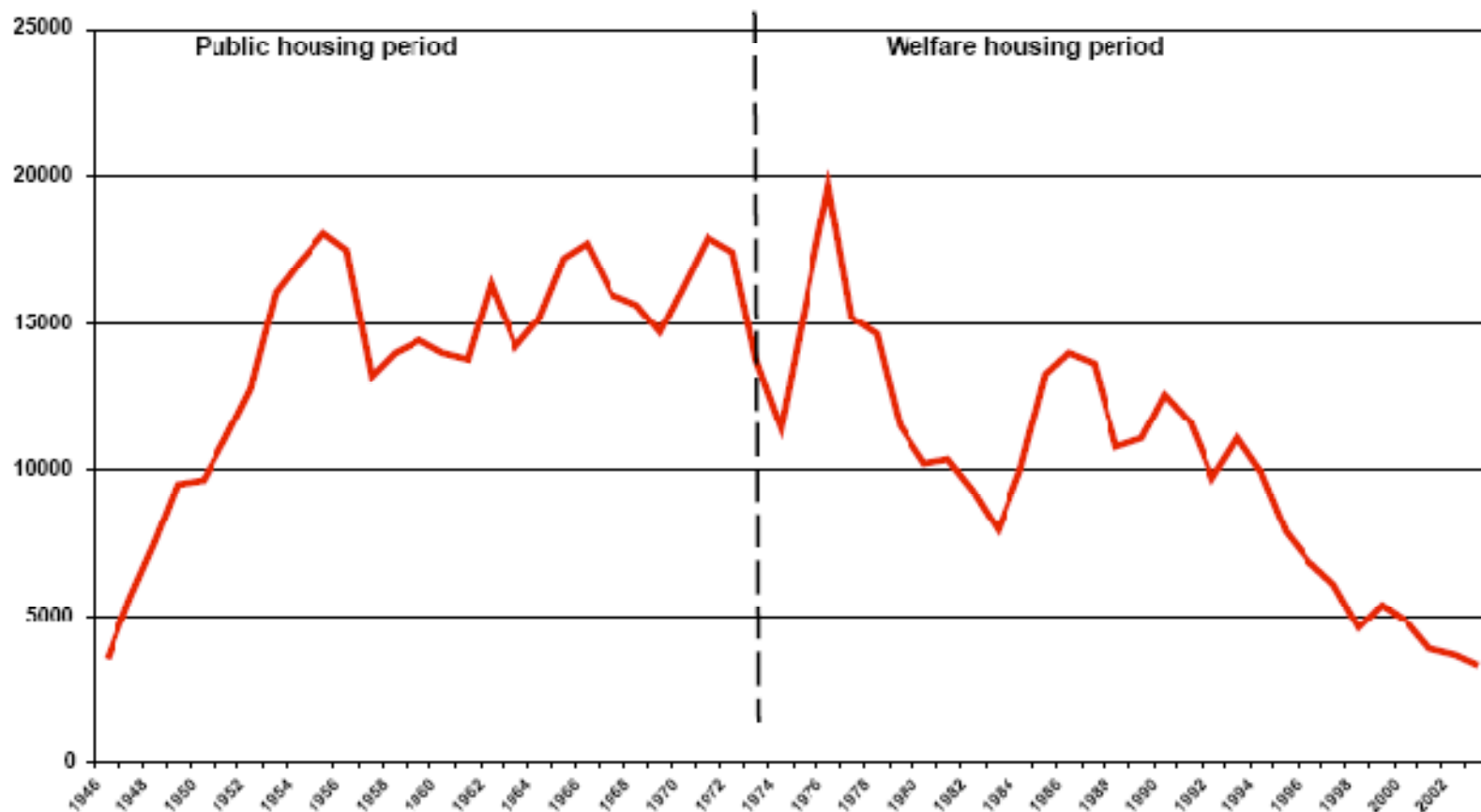
There is a shortage of available housing for lower income earners that is affordable

| Income | House-holds | Affordable dwellings | Affordable & available | Shortage |
|-----------------------|-------------|----------------------|------------------------|----------------|
| Low (bottom 20%) | 237,000 | 91,000 | 35,000 | 202,000 |
| Lower (bottom 40%) | 600,000 | 830,000 | 349,000 | 251,000 |

Source: NHSC (2009, p 98)

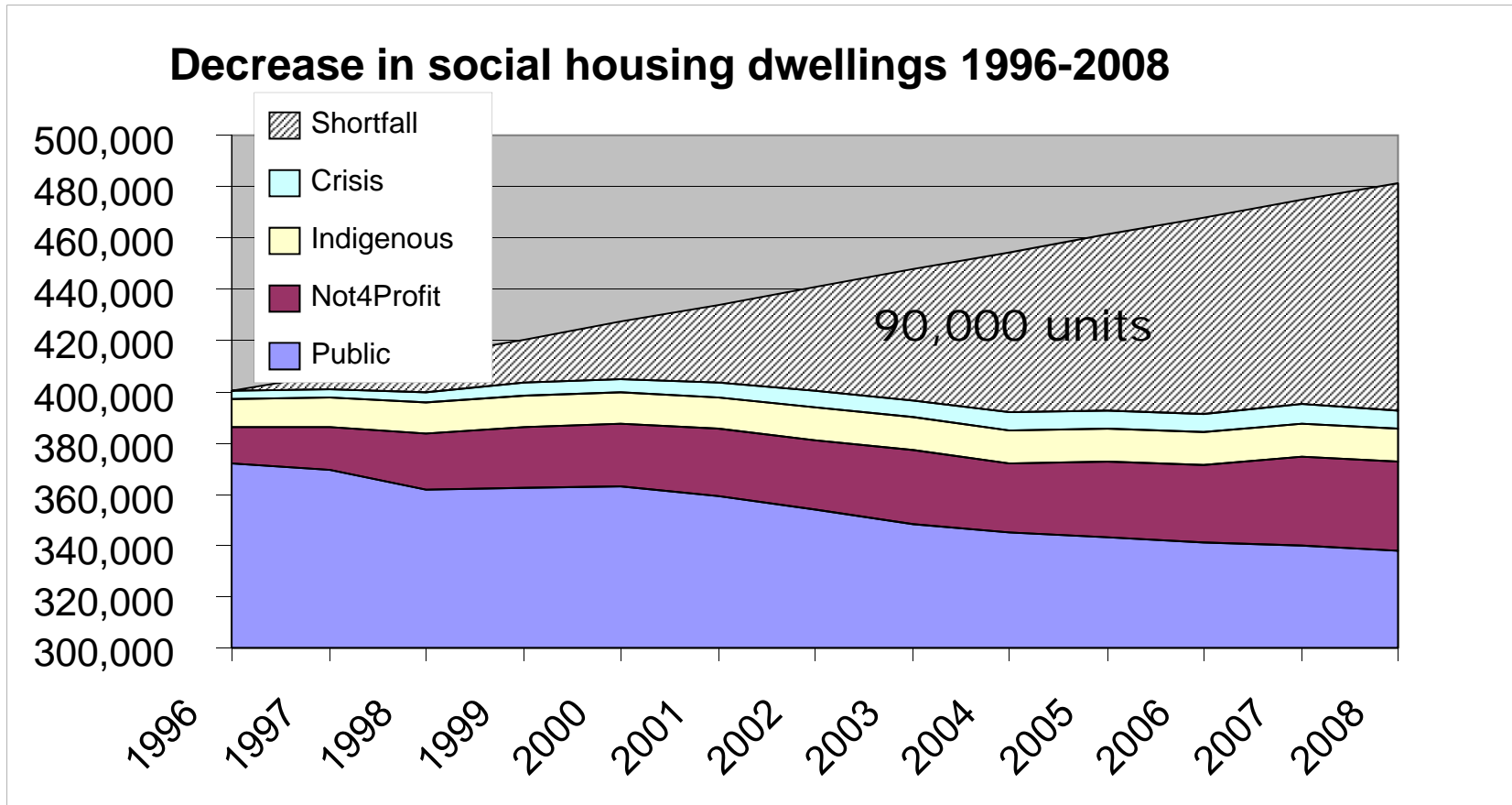
Social housing production has been falling since the early 1990s

Chart 3: Public housing completions



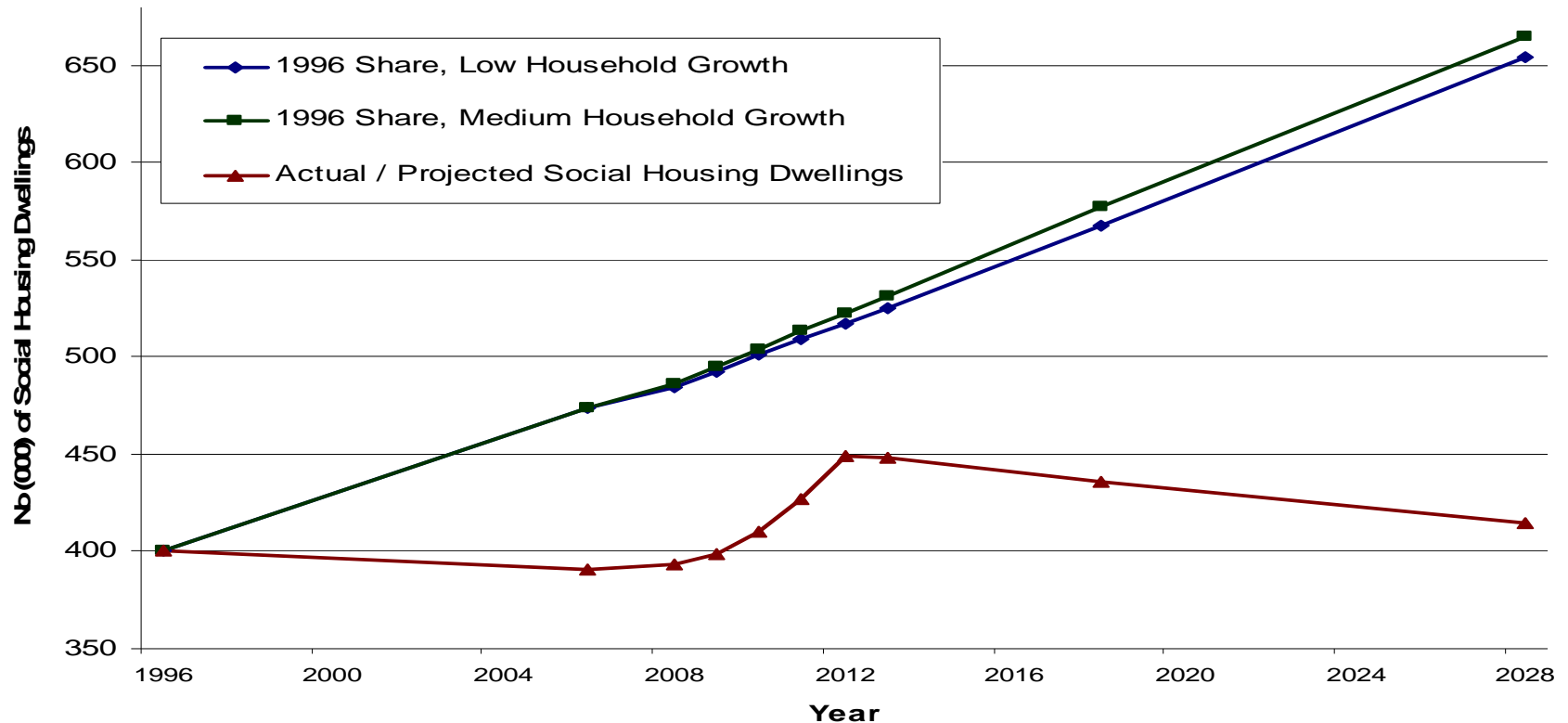
Source: Tony Dalton 2009, personal communication

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



Source: NHSC (2009, p 94)

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

The effects of the global financial crisis are likely to be far-reaching

- Some positive elements:
 - House prices & interest rates
 - Social housing & infrastructure investment

- But supply and affordability problems remain
 - Positive effects may be short-lived
 - Interest rates & fiscal settings to tighten
 - Supply still below demand
 - Structural obstacles remain to prevent efficient supply-demand relationship

- Significant preoccupation of NHSC in 2009

Present opportunities for change include:

- ❑ Increasing appreciation of importance of housing supply to economic performance
- ❑ National Affordable Housing Agreement
- ❑ Henry Review considering impact of tax on housing sector
- ❑ Reform of development assessment and planning (COAG focus)
- ❑ COAG taskforce on strategic urban issues and National Urban Policy

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

- 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).