

## Executive summary

This report marks a change to how the National Housing Supply Council publishes its work. The Council will now look at specific issues and themes in this *Housing Supply and Affordability Issues* publication each year. It will also publish its annual assessment of the balance between housing supply and underlying demand, as well as what is happening to housing affordability, in a shortened State of Supply Report around the middle of the year. The latter will be similar to the *Housing Supply and Affordability — Key Indicators, 2012* report published in June 2012.

There have been recent changes to the Council's terms of reference. Most notably, the Minister for Housing has specifically asked that the Council examine the broader implications for housing supply of urban planning and infrastructure development processes, including transport and telecommunication services. This report was largely completed before the terms of reference were amended. The revised terms of reference can be found in Appendix 1 and on the Council's website.

The housing market remained soft in most areas and market segments over 2012, presenting a difficult operating environment for the industry. As the Council outlined in previous reports, a slow housing market, reflecting sluggish effective demand and fragile confidence, is not necessarily inconsistent with an underlying housing shortage. In fact, a sluggish house purchase market and subsequent low volume of new supply coming onto the market potentially exacerbates the problem of inadequate supply. The shortage is likely to continue to be felt by the more vulnerable in our population, such as would-be buyers with low and insecure incomes, those at the lower end of the rental market and those dependent on government income support payments.

## An update on Australians' housing and living arrangements

The release of 2011 Census data has provided the Council with an opportunity to assess how housing and living arrangements have changed over the last decade. This is discussed in Chapter 2, which outlines some important aspects of change in household formation and housing demand.

## Housing stock and tenure

Since 2001, detached houses have declined as a proportion of all dwellings, while medium and higher density dwellings have increased. While this has been, to date, a relatively small shift for the total housing stock, building activity data show that there has been a notable change in the balance of type of new properties being built,

consistent with the focus of most capital cities' strategic plans on infill rather than greenfield development and with the impact of increased congestion and travel times on the relative attractiveness of smaller, more expensive dwellings in high-amenity locations. Detached housing still accounts for the majority of new supply but to a lesser degree than has been the case historically. The higher rate of growth of apartments vis-a-vis detached houses is confined to capital cities and most pronounced in Victoria and the Australian Capital Territory (ACT). Across Australia as a whole, detached houses will dominate housing supply for the foreseeable future.

From 2001 to 2011, the total housing stock increased by a total of 17 per cent (equivalent to a compound growth rate of 1.6 per cent per annum), the occupied stock increased by 15.1 per cent (1.4 per cent per annum) and number of detached houses grew by 16 per cent (just over 1.5 per cent per annum).

Tenure patterns have changed significantly, with fewer younger and middle-aged people owning their own home and, across all age groups, fewer owning outright. The rate of home ownership in Australia is being sustained at about 70 per cent of households in private dwellings by the high rate of ownership of the present generation of older people. As time progresses, it now seems certain that the aggregate rate of home ownership will drop and the proportion renting will increase significantly.

## Housing occupancy

It is evident that the demographically-driven decline in household size has virtually stopped and that affordability pressures, among other things, are pushing in the opposite direction. There is clear evidence, for instance, of a marked increase in the propensity for Australian-born young adults to live in the parental home.

In 2011, 76 per cent of occupied private dwellings comprised three or four bedrooms. Unsurprisingly, most of these were separate houses, of which 89 per cent had three or four bedrooms. Meanwhile, 82 per cent of flats, units and apartments have one or two bedrooms, while 84 per cent of semi-detached dwellings have two or three bedrooms.

The most significant change in detached housing since 2001 has been the increased proportion with four or more bedrooms: from 32 per cent in 2001 to 36 per cent in 2006 and 39 per cent in 2011. There is anecdotal evidence of a trend in suburban redevelopment that sees larger homes replacing existing smaller houses. Growth in the stock of larger homes may also reflect changes in the purchase price of land — high land prices in and around the larger capital cities lead to changes in who can afford to build in these situations and in the nature of the dwellings they want — and the extension of existing homes to enhance potential capital gains.

Council members are often told that the supply of spare bedrooms in Australian dwellings could accommodate a substantial increase in population and that the policy

challenge is to encourage people to move on from larger homes and to ‘right-size’ the homes they live in. While having spare bedrooms indicates a capacity to accommodate more people in reasonable comfort, it does not necessarily mean that dwellings are not being fully utilised. Households may put these ‘spare’ rooms to various uses (for example, study, office, gymnasium, craft or hobby room, children’s playroom, guest bedroom or storeroom).

## Homelessness

While the majority of the population is able to access adequate housing, between 2001 and 2011 there was an increase in both the number of people recorded as homeless and the number living in other marginal housing. While a myriad of social issues underlie homelessness and the use of marginal housing, the lack of available suitable low-cost housing contributes to people living in these circumstances.

## Summary

There have been a number of areas of notable change in the housing circumstances of the Australian population over the last decade. At the most extreme end of the spectrum, there has been an increase in the number of people living in ‘severely’ overcrowded conditions and other marginal housing. Tenure patterns have changed, with declines in rates of owner occupancy across the population. Couples, both with and without children, have experienced the largest falls in home ownership. There has also been an increase in the share of those approaching retirement age that still have a mortgage. Many of these changes are likely to have been at least partly driven by the increase in house prices over the decade, making it harder for people to get onto the housing ladder and taking out proportionately larger mortgages when they do.

## Housing research and findings

The Council has developed a program of research to shed light on contemporary and emerging processes and trends that may impact on future housing needs. These are reported in detail in Chapter 3 and the full reports are available on the Council’s website.

## Baby Boomers

The first of the post-WWII ‘Baby Boom’ generation reached the age of 65 in 2011 and will be an important part of the housing market. A number of features are likely to differentiate this age group from previous generations of retirees. A scoping study *Understanding housing and location choices of retiring Australians in the ‘Baby Boom’*

*generation*<sup>1</sup> was undertaken for the Council by the *City Futures Research Centre* at the University of New South Wales.

There will be particular challenges and opportunities presented by the Baby Boomers as this especially large cohort moves up the population's age distribution. Most developed countries are faced with a growing number and proportion of older households and associated issues including higher dependency rates, low retirement incomes, declining health and mobility, increasing health system costs and capacity problems, couples' separation and bereavement, and related housing issues. As the bulk of Australia's Baby Boomer 'bulge' moves out of the full time workforce, live considerably longer than previous generations and progress into 'old age', the magnitude of these challenges will increase rapidly.

It is frequently said that the Baby Boomer generation represents a step change in behaviour and expectations. Looking ahead, Baby Boomers are not simply of added interest due to their size as a group but also because their life experience and expectations might lead them to tread quite different pathways — including housing pathways — from those of their predecessors in their later years.

Most of the housing decisions of older households should be seen as integral to, and operating within, the broader housing market. Older households have been, are and will increasingly become key players in the mainstream housing market. It is important, therefore, to understand the residential decisions and behaviours of this cohort and its impact on housing demand, supply and affordability. It is equally important to understand that there are substantial differences within this group, including in its housing choices and likelihood that housing needs and preferences are likely to change when ill health, frailty and widowhood occur. For much of their later life, however, the Baby Boomers, due to their number and longevity, will be a potent force and the subject of considerable interest in the mainstream housing market.

Metropolitan planning frameworks in Australia assume that Baby Boomers, as their children leave the nest and as they retire, will represent an obvious market for smaller properties in well serviced, highly accessible locations, and at the same time they will release family housing in desirable locations in our metropolitan cities. Countering this, the challenge of creating these new communities and the desire to 'age in place' may well be pervasive.

Like anyone else, older people can be expected to grapple with financial as well as non-financial issues when they contemplate a move. While it is appropriate to consider how more 'efficient' use of existing housing stock could be encouraged (to contemplate enablers and incentives to facilitate and promote downsizing), it is also important not to assume that the aged are more inclined than other cohorts to make

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1 Pinnegar, S, van den Nouwelant, R, Judd, B and Randolph, B 2012, *Understanding housing and location choices of retiring Australians in the 'Baby Boom' generation*, scoping report prepared for the National Housing Supply Council by City Futures Research Centre, Sydney.

financially efficient or 'rational' housing choices rather than respond to the non-financial attributes of neighbourhoods and homes. Indeed, freed from the need to live near their workplace, some may be attracted to 'sea change' locations that have few of the services that most older people will need sooner or later, and/or they may be heavily influenced by the security and familiarity of their present neighbourhood; the location of family, friends and familiar service providers; the financial and emotional cost of change; the burdensome logistics of moving; declining resilience and adaptability; or simply inertia.

## Migration and housing needs

Given the substantial contribution of migration to Australia's population growth and, therefore, to underlying demand for additional housing stock, the Council commissioned a study from the Australian Demographic and Social Research Institute at the Australian National University into permanent and temporary migration<sup>2</sup> and the impact on dwelling and tenure types and the preferred housing locations of different groups of migrants. This research was undertaken using data sources that were available prior to the release of 2011 Census data.

It found that there are differences in the household and housing characteristics of different groups of permanent and temporary migrants. There are differences in household size, type of household, type of housing and housing tenure among the different visa groups of permanent migrants. For instance, by comparison with skilled migrants, recently arrived humanitarian migrants have larger household sizes and many more rent rather than own their home. Among temporary migrants, overseas students have different housing characteristics from skilled temporary migrants, although both groups are concentrated in the capital cities and in Sydney and Melbourne in particular.

There were also differences between types of migrants' housing arrangements when analysed by characteristics such as country of origin. For example, overseas students from India have different housing characteristics from students from East and Southeast Asian countries such as China and Malaysia. Skilled temporary migrants' housing arrangements also differed by their demographic and employment characteristics.

Unsurprisingly, migrants' household and housing characteristics tend to change as the time since arrival lengthens. While a high proportion of recent migrants are renters, the proportion renting decreases the longer migrants live in Australia, and more become home owners. This is consistent with the findings of earlier studies of the housing characteristics of permanent migrants, including results published by the Council in 2011. Overseas students show this transition in housing tenure with

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2 Khoo, SE, McDonald, P, Temple, J and Edgar, B 2012, *Scoping Study of Migration and Housing Needs*, report for the National Housing Supply Council.

duration of residence as well. Household size also decreases the longer a person has lived in Australia.

## Household responses to changing housing affordability

The Council commissioned a scoping study on *Household Responses to Declining Affordability*<sup>3</sup> from the Centre for Housing Urban and Regional Planning at the University of Adelaide.

While the scoping study did not undertake extensive analysis of changes in households that may be impacted on by increased housing costs relative to income, it notes that the relationship between housing affordability and household change is uneven and it does not occur in isolation. Non-housing factors (such as a loss of employment) also influence both housing affordability and/or changes to household structures. Any analysis of the relationship between changes to household structures and housing affordability is confounded by these inter-relationships and exogenous factors, making it difficult to establish the degree to which housing affordability actually influences change to household types and sizes (and vice versa).

The study concludes that at the 2006 Census somewhere between 135,000 and 167,000 persons were unable to meet their housing needs via the conventional housing market, although the data has since been superseded by the Australian Bureau of Statistics (ABS) release of 2011 data on homelessness.

The study also highlighted the need for further analysis of the data and for discussion and agreement on definitions to establish the number of individuals living in 'non-market' housing. It gives an example of the potential undercount in estimating unmet housing need depending on the extent to which accommodation in non-private dwellings for the aged or the retired is due to a need for extra care or a lack of other options.

The ABS's recently published analysis of homelessness using 2011 Census data shows a substantial increase in overcrowding but similar numbers of persons in other marginal housing in caravan parks and other insecure tenures.

## Housing supply responses to changes in affordability

The Council commissioned the property consultancy Urbis Pty Ltd to conduct research on *Housing supply responses to changes in affordability*<sup>4</sup> to evaluate whether and how the type of housing product being produced has changed in response to affordability concerns and barriers to home ownership.

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3 Baker, E, Lester, L, Beer, A and Bunce, D 2012, *Households Responses to Declining Affordability*, National Housing Supply Council commissioned report.

4 Urbis 2012, *Report to the National Housing Supply Council: Scoping Study into Housing Supply Responses to Change in Affordability*, Australia.

The study documents a number of examples of industry innovation in response to rising land, development and construction costs. However, it was not possible, based on the number of interviews undertaken, to accurately identify the extent to which these innovations have been adopted and spread across the industry as a whole.

Beside a few truly innovative, world-class projects (such as off-site manufacture of apartments in building the Eureka Tower and the use of cross-laminated timber frames in constructing the 10-storey Forte Tower, both in Melbourne), evidence of radical innovation in response to declining housing affordability is somewhat limited. Given the risks, this is hardly surprising.

The research indicates that the predominant response to declining affordability is more evolutionary — reduced dwelling and lot sizes, especially in the new home-buyer market segment, with some related changes to design and the use of cheaper or more efficient materials that reduce time (and therefore costs) on site. The bulk of the limited change that has occurred in building processes has been in modifying or refining traditional construction techniques rather than wholesale process re-engineering.

The Council believes that a shift to downsizing lots and the type of homes being produced is a significant change in its own right, with potential implications for the structure and mode of operation of the residential development and construction industry. In the face of rising land prices and more widespread development contributions, it could be argued that this downsizing of products has been essential to meet many consumers' ability to pay and thus maintain sales. But it could also challenge consumers' expectations and bear on modes of development and construction. It is certainly evident that predominant approaches to greenfield development over recent decades are under stress. The recently observed move away from 'traditional' new homes to smaller attached homes and apartments might fail to satisfy some potential buyers and begs the question of whether the demand for these new products is sufficient to sustain the present mix of large-scale master-planned communities and small land developments. Relatively stronger demand for smaller new dwellings created through 'densification' of inner-city areas and existing suburbs in capital cities also potentially challenges the size and structure of greenfield development.

## Developments in policy and practice

Over the past four years, the Council has witnessed the proliferation and acceleration of policy review processes bearing on the way in which planning arrangements affect housing supply and affordability, with a growing focus on getting the balance right. This has played out in demands for action from industry bodies and government advisers, policy statements at Commonwealth, State and local government level and a variety of relevant concrete actions. The Productivity Commission's (PC's) investigation of planning arrangements, the Council of Australian Governments

(COAG) Reform Council's report on metropolitan planning and the 2012 Housing Supply and Affordability Reform (HSAR) Working Party's report to COAG convey the concerns and priorities for action.

While much of the burgeoning activity is still in formative stages — notably the planning reform consultative processes under way in New South Wales, Queensland and Victoria — other actions have already made an important difference and shine a light on productive changes that could be applied more generally.

The related need for direct action to enable home ownership in the face of rising land and housing costs and to improve the supply of affordable rental housing has also played out in industry and government circles. Acceptance of small allotments and smaller homes has increased widely at government and industry levels based on the success of early experimentation and has had a profound effect on access to affordable home ownership in many greenfield developments. It has also boosted the development and construction industry's access to what could have been a lost market.

State governments' actions to better focus first home owner programs and stamp duty concessions on new supply and their wider expression and application of affordable housing targets are also having an effect. In the latter regard, the pioneering efforts of the ACT and South Australian governments deserve special mention in the Council's view.

Chapter 4 provides a snapshot of these recent changes in terms of both policy development and what has already been, or will soon be, implemented. It covers a number of reports which each present important analysis and evidence as well as recommendations and findings relevant to governments at all levels. Finally, the Council highlights some of the positive reforms being undertaken at the State, Territory and local government levels to address planning issues and improve affordability. The Council also notes the importance of tracking and evaluating the reforms as they occur so that the efficacy of the reforms can be assessed.

## Methodological Issues

The release of 2011 Census data has provided the Council with an opportunity to reassess and evaluate its basis for estimating housing supply and latent or underlying demand as well as the housing shortfall. These are analysed in detail in Chapter 5.

While the Census has provided an up-to-date source of information to assess Australia's housing situation, it has also thrown up a wide range of technical questions to consider.

As a result of the Census, the ABS made a sizeable downward revision to the estimated number of people living in Australia as at August 2011, compared with



what had previously been implied from estimates of population growth since the previous Census in 2006. On the methodology currently employed by the Council to estimate underlying (or latent) housing demand, this would automatically lead to a reduction in the number of households and, consequently, to a downward revision in Council's estimate of housing shortage. However, questions arise as to whether the revised population estimate can be automatically translated into a revised household estimate.

When ABS population estimates are published in mid-2013, they will be revised back to 1991 and the impact of this adjustment will be spread unevenly across the period 1991–2011. As population estimates and changes feed into the Council's methodology for calculating housing demand at several stages in the process, there are clear challenges in producing consistent historic data. Meanwhile, some of the estimates on which the Council's methodology is based — for example, actual and projected household numbers — are unlikely to be updated.

As a consequence, for its next State of Supply Report, the Council will evaluate whether, and if so how, recent estimates of the shortfall need to be revised or whether a new methodology should be adopted.

The release of the preliminary results from the 2011 Census raised a range of issues. Some commentators and analysts suggested that the Census showed there is no housing shortfall. The Council does not agree with this assertion for a variety of reasons. From the Council's perspective, the shortfall is based on how many more homes a given population would require if observed past rates of household formation were unchanged. The Census, on the other hand, simply shows how the population occupies the existing stock.

Household formation rates have changed in each five-year age group since 2001. These changes have an impact on household size over and above the impact that arises from demographic change. Several commentators have missed this point. They have failed to recognise that demographic change alone would have meant that, other things being equal, average household size would have continued to fall. The fact that it has been relatively stable over the past decade means that there have been changes in the rate of household formation. People of the same age are less likely to form households than a decade ago.

Household growth had run above and beyond population and age-related drivers up to 2001. But this turned decisively in the early part of the last decade. In other words, for some reason the rate of household formation slowed from around 2001 to below that which the purely demographic drivers suggested would be the case given the experience of previous decades. The Council believes this is at least partly due to housing availability and affordability.

## Conclusions

Looking ahead, the Council aims to refine its assessment of the adequacy of housing supply, including looking to overcome some of the challenges thrown up by the revisions to, and current uncertainty about, population estimates. It will also need to look more closely at its regional analysis. Previous estimates of the balance between housing supply and underlying demand for each State and Territory have included assumptions about interstate migration rates and the destination of new arrivals, driven by past trends. These have changed significantly in many parts of Australia. For instance, between 2006 and 2011 Western Australia overtook Queensland as the State with the fastest rate of population growth.

In addition to addressing data challenges, future work will see the Council taking a stronger interest in urban development patterns and infrastructure. Following the change to its terms of reference, the Council will look in more detail at linkages between housing and infrastructure, including roads and public transport, telecommunications, freight movement and major facilities like schools and public hospitals. This is an important area of work given the role of infrastructure provision and financing to many elements of success in new and expanding communities, as well as to those communities that act as conduits or destinations for an expanding population in a growing city. The Council also recognises the challenge of infrastructure maintenance and renewal in all communities, including those with static or declining populations. The interaction between infrastructure provision, housing supply, amenity and affordability will be the primary focus of the Council's work in this area.