

Executive Summary

This report, *2013 State of Supply Report: changes in how we live*, looks at market conditions affecting additions to housing supply, changes in housing tenure across dwelling types, the changing pattern of household formation in Australia and the impact of that changing pattern on the assessed balance between housing supply and underlying demand.

Around Australia, most housing markets exhibit dampened demand and construction rates, reflecting an investment environment of relative uncertainty and risk aversion. While prices have edged upward in many places (significantly in Darwin), relatively low levels of demand continue despite historically low interest rates. Nationally, residential development and building activity have increased from their GFC lows but remain slightly down on the subsequent stimulus-induced level, and are still slow by historical comparison.

In the owner occupier sector, overall mortgage commitment data for new dwellings, including those for first home buyers, continue to show subdued market demand. Building approval data indicate a substantial increase in apartments relative to detached houses, and this is reflected in increased mortgage lending to investment buyers. Even assuming they continue, these marked changes in apparent demand will result in quite gradual change across the total stock of new and established dwellings, because typical levels of construction add less than 2 per cent to supply each year.

Owner occupancy has long been the predominant form of housing tenure in Australia. Over the decade 2001 to 2011, Census data confirm a small aggregate reduction in owner occupation from 70 to 69 per cent, with a corresponding increase in rental. A mix of affordability and lifestyle factors is likely to be influencing the rate of home ownership over the decade. Owner occupation is changing inter-generationally, driven by a mix of factors. It declined by between two and four percentage points in all adult age groups except 65 years and over, where it remained high at 82 per cent. This suggests that the overall decline will continue as the present generation of older owners pass on, unless relevant circumstances change significantly.

The data also show that over the decade there has been a significant drop in the proportion of dwellings owned outright and an increase in dwellings owned with a mortgage. This could be due to a range of factors, such as home owners borrowing against their equity to invest in assets including shares, investment property, holiday homes and home renovations.

While rental has increased to over 29 per cent of households, the number and proportion renting social housing almost halved, despite burgeoning waiting lists, from 5.8 per cent of households in 1998 to 3.9 per cent in 2010. The Council has

NHSC 2013 State of Supply Report: Changes in how we live – Executive Summary

previously noted that despite the addition of over 20,000 units from the Commonwealth's stimulatory response to the global financial crisis, social housing's share of housing stock increased little and will decline quickly without continued investment. A lack of affordable housing obviously has the greatest impact on the more vulnerable in our society who are likely to be long-term renters and least able to compete in the private market.

Housing consumption patterns and the demand for new dwellings have shifted significantly over the past decade, driven by a range of demographic, cultural and economic factors. Since 2001, a reversal of the decades-long decline in household size has taken place despite demographic trends such as the ageing of the population pushing in the opposite direction. After adjusting for a changing age and geographic mix, Australians now occupy fewer dwellings per head of population than they used to do. The Council believes that this change has been at least partly driven by lags in the recognition of, and response to, changes in the level and locations of population growth exacerbated by rigidities in planning and development approval arrangements in many places. The resulting deficiency in supply has contributed to rising house prices, mortgage commitments and rents relative to income that have reduced market demand relative to the underlying propensity of the population to form households.

If Australians in 2011 had the housing consumption patterns they had in 2001, they would occupy an additional 284,000 dwellings (3 per cent more than existing supply). However, 2001 seems to have been a high point in Australians' housing consumption and using different comparison base years generates significantly different calculations. Based on 2006 housing consumption patterns, the gap in 2011 is estimated at 76,000 dwellings. If 1991 housing consumption patterns are the basis for comparison, the gap is 133,000 dwellings.

In short, Australians' rate of housing consumption has declined since 2001, as evidenced by the turn-around in household size. This means there are larger households, despite a decline in the number of families with children and the average number of children per family, as well as fewer dwellings and households per head of population. There are several possible explanations for this.

One explanation lies in the fact that the supply and price of housing constrain current demand. Increases in demand take time to be perceived, evaluated as viable business opportunities, and met by the development and construction industries. Their response to changes in demand may be assisted or limited by access to investment finance, by planning and development approval arrangements as well as by the type, extent and method of financing additional infrastructure.

Migration also affects the nature of household formation through changes in settlement patterns and financial capacity arising from shifts in the balance between restricted and permanent categories, and in migrants' education, skills and financial position.

NHSC 2013 State of Supply Report: Changes in how we live – Executive Summary

Another possible explanation is the phenomenon of younger adults being less likely than in the past to form independent households. This, in turn, probably derives from a mix of generational change in lifestyle preferences and financial constraint.

For the National Housing Supply Council, and for producers, consumers and governments, the most important question arising from changes in household formation and tenure is the extent to which they result from free choice and an efficient housing market supplemented by effective housing assistance programs, or from remediable deficiencies in policies and processes that diminish the supply and increase the price of the housing that Australians want and need.