State of Supply Report 2010

Owen Donald, Chair

NATIONAL HOUSING SUPPLY COUNCIL

The Council's first report found that supply was lagging demand and would probably continue to do so

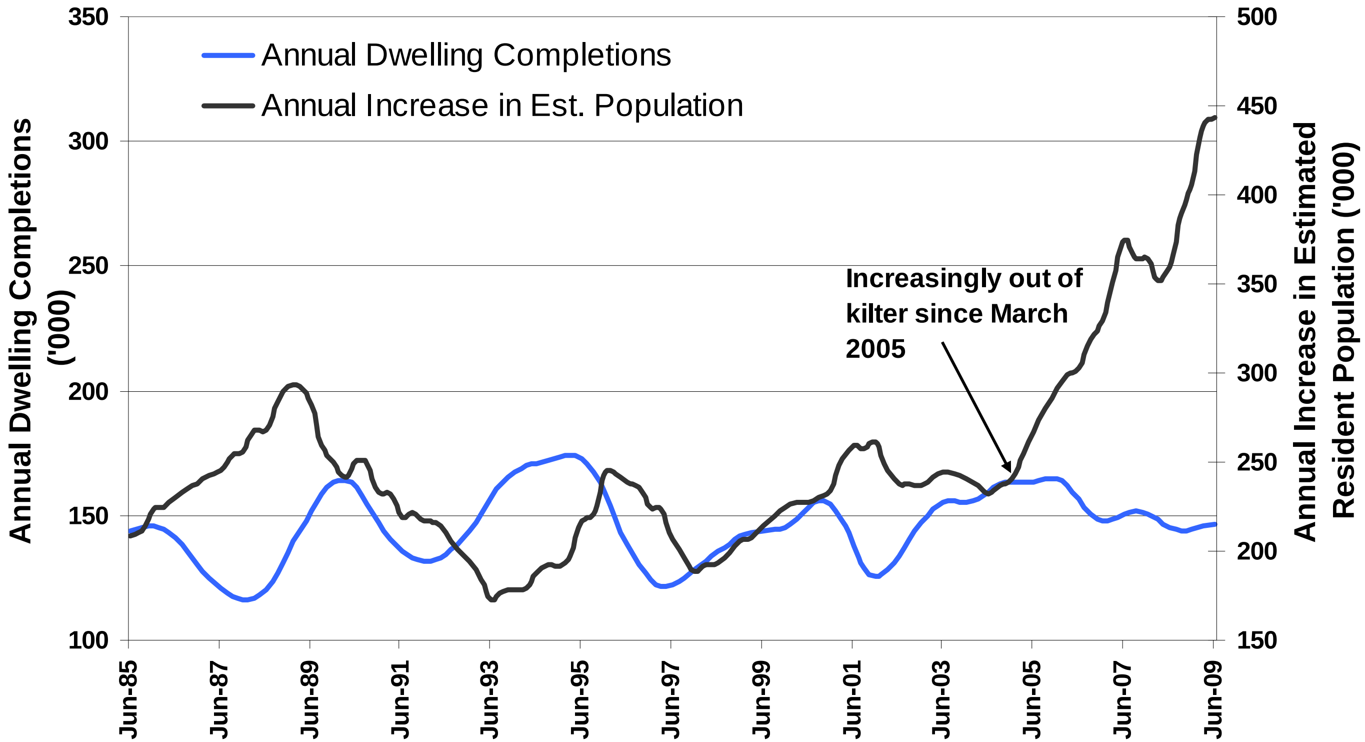
- The Council found:
  - a gap of 85,000 dwellings in 2008 between underlying demand and supply
  - a shortage of 200,000 affordable and available dwellings for households in the bottom 20% of the income distribution.
- The Council projected that:
  - underlying demand would increase by 3.1m households from 8.3m in 2008 to 11.4m households in 2028
  - supply would increase by 2.7m dwellings over that period
    - This would increase the supply gap to about 430,000 by 2028

A lot has happened subsequently regarding demand, supply and affordability… impact of GFC and migration

- Interest rates – RBA lowered cash rate to 3%; now climbing again
  - Average bank variable rate mortgage fell from 9.6% (in August 2008) to 5.75% in May 2009 - Now: 6.90% (March 2010)
- Unemployment peaked at 5.8% in mid 2009 - Now: 5.3% (March 2010)
- High natural increase and net migration - net migration of 285,300 in 2008-09 (c.f. 213,700 in 2007-08)
- Building activity fell to mid-2009; but some improvement in detached dwellings sector in the second half of 2009.
  - FHOB phased out (Oct - Dec 2009) and price caps for the FHOG in some states in 2010
  - Social housing initiative of nearly $6B designed to stimulate the housing sector and add to supply.

Housing supply has not responded to increased underlying demand since March 2005

Annual dwelling completions and population growth, Australia, 1985 to 2009



Source: Australian Bureau of Statistics, *Building Activity*, cat. no. 8752.0, ABS, Canberra, 2010; Australian Bureau of Statistics, *Australian Demographic Statistics*, cat. no. 3101.0, ABS, Canberra, 2010.

The gap between demand and supply has grown since 2008 (and seems set to grow for a while yet)

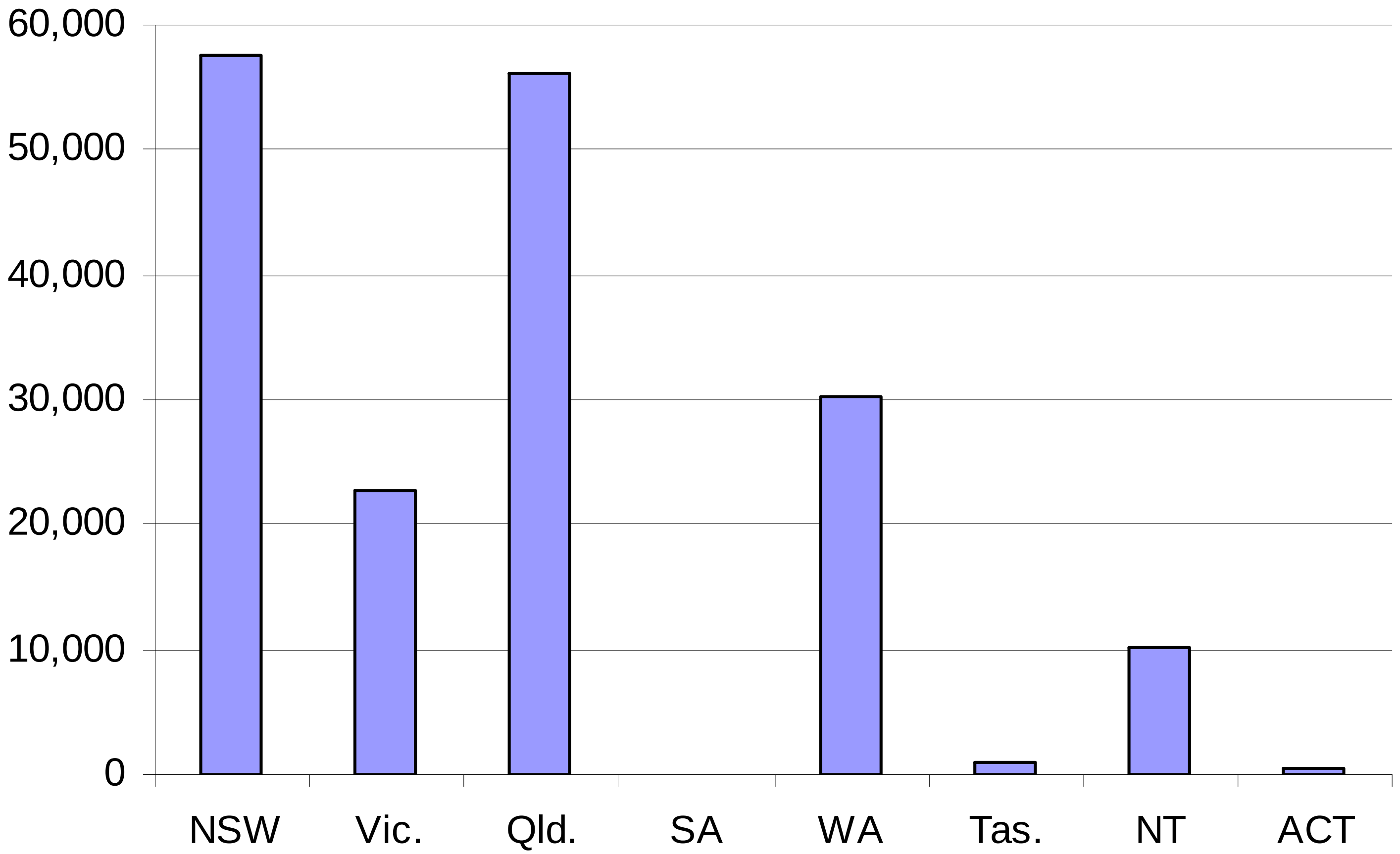
Estimated dwelling gap (number of dwellings), June 2009

Estimated gap as at June 2008, revised (a)			99,500
Growth in estimated gap between June 2008 and June 2009:			
plus	Increase in underlying demand in year to June 2009	+ 205,900	
minus	Increase in adjusted net supply (b) in year to June 2009	- 127,100	
equals		= 78,800	+ 78,800
Estimated gap as at June 2009			178,400

Source: National Housing Supply Council (2010).

The projected gap for June 2010 is 202,400 dwellings (medium projection) and could well be higher.

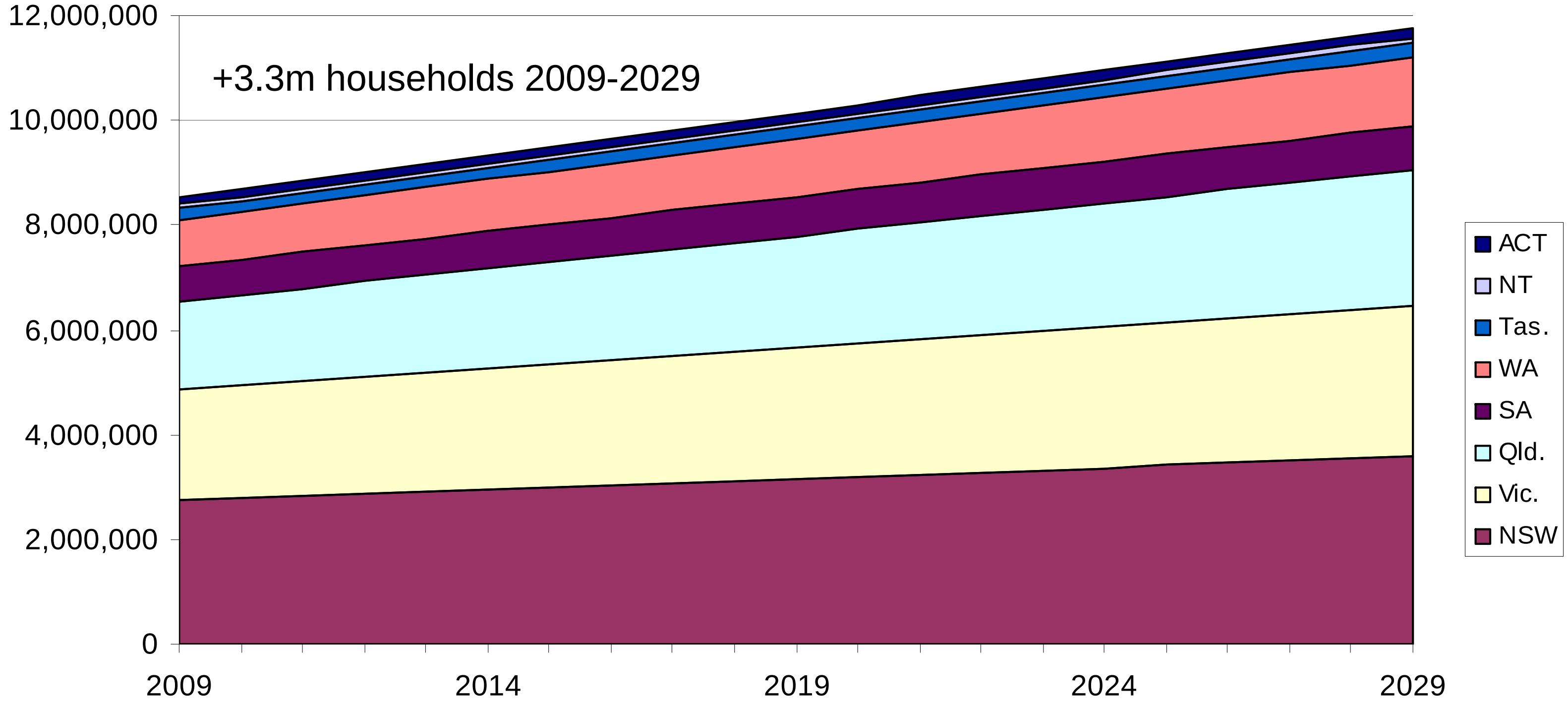
The worst shortages in 2009 are in NSW and Queensland



Source: National Housing Supply Council (2010).

Demand for housing has grown since 2008 and will grow further driven principally by net migration

Underlying demand, medium growth scenario (households)



Source: National Housing Supply Council (2010).

A high supply scenario would be needed to meet this projected demand

Projected net increase in supply of dwellings, Australia, low, medium and high projections, 2009 to 2029

Time period	Low supply scenario	Medium supply scenario	High supply scenario
		Increase in dwellings	
2009-10 to 2010-11	232,400	282,100	340,900
2009-10 to 2013-14	585,000	710,300	858,400
2009-10 to 2018-19	1,183,600	1,437,100	1,736,700
2009-10 to 2028-29	2,421,200	2,940,100	3,553,200

Source: National Housing Supply Council (2010).

Our first report found that short-term land supply was potentially adequate in most capital cities . . .

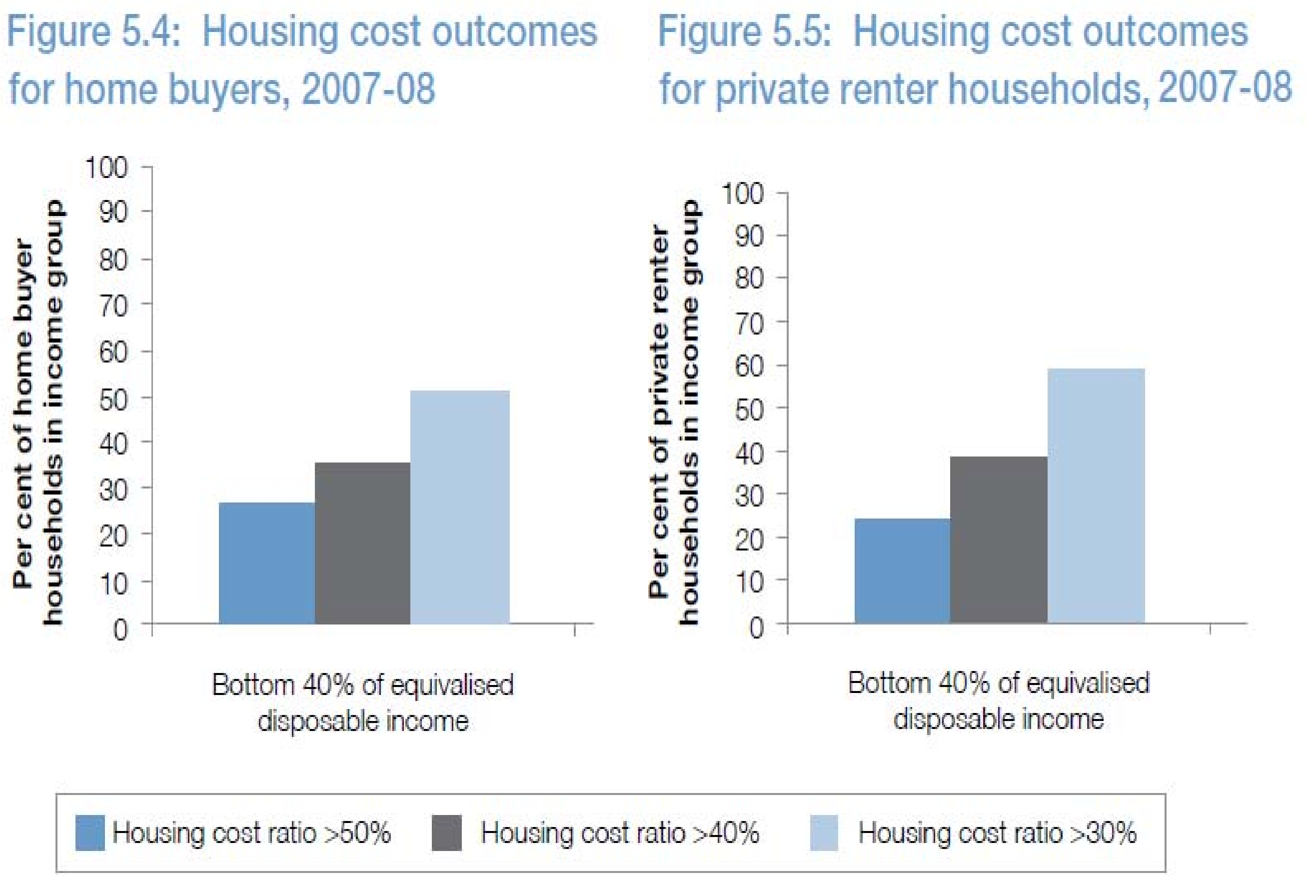
- This was based on states and territories' urban development plans (where they existed) and estimates
  - Assumed lower rates of population growth and possibly optimistic dwelling yields
- Longer term estimates even more conjectural:
  - Greenfield development pipeline of 10-15 years
  - Inadequate allowance for no-go areas
- Planned level of dwelling growth through infill (>50% over time):
  - Difficult to deliver & no strategy to achieve it in most places
- Infrastructure:
  - Planning, provision & funding issues
  - Charges on developers add to cost of land conversion & flow to end-users
- Planning & development assessment processes add time & cost

2010 report includes estimates of land in the supply pipeline in capital cities … supply is tight and we're sceptical

Estimated dwelling yield	Greenfield development	Infill development	Total
Next 2 years	91,300 (37%)	155,600 (63%)	247,000
Next 5 years	254,600 (40%)	379,000 (60%)	633,700
Next 10 years	453,200 (39%)	701,900 (61%)	1,155,100

Source: State and Territory NHSC Data subgroup and National Housing Supply Council (2010).

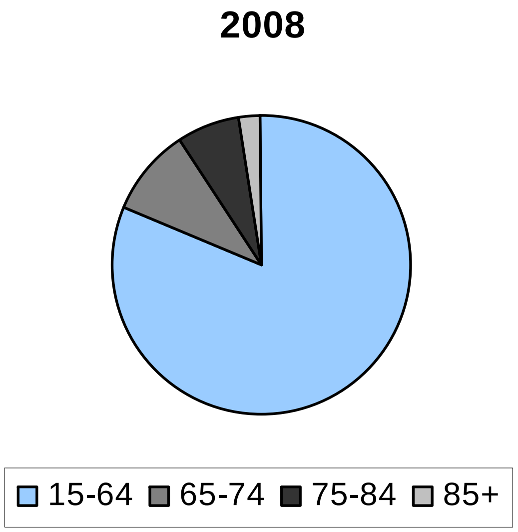
But housing remains unaffordable for many low-income households

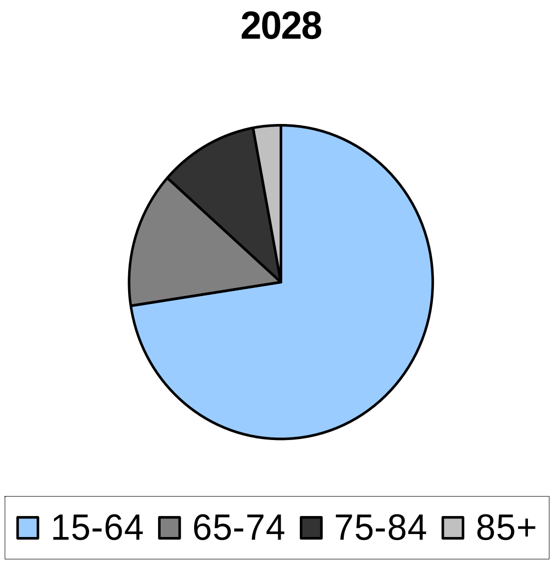


Source: National Housing Supply Council (2010).

Households comprising older persons will increase significantly over the next 20 years

Household ages





Source: National Housing Supply Council (2010).

The challenge is to build more housing stock and adapt to changing housing needs and preferences

A simplified example: underlying demand disaggregated by dwelling type

Dwelling structure	Underlying demand (medium projection) at year:			Increase 2009 to 2029 ('000s)	Increase 2009 to 2029 (%)
	2009	2019	2029		
Separate house	7,146.10	8,445.00	9,761.30	2,615.2	36.6
Semi-detached	577.3	701.8	824.6	247.3	42.8
Flats and apartments	694.2	852.4	1,001.20	307.0	44.2
Other	112.6	141.7	172.8	60.2	53.5
All dwellings	***8,530.20***	***10,140.90***	***11,760.00***	***3,229.8***	***37.9***

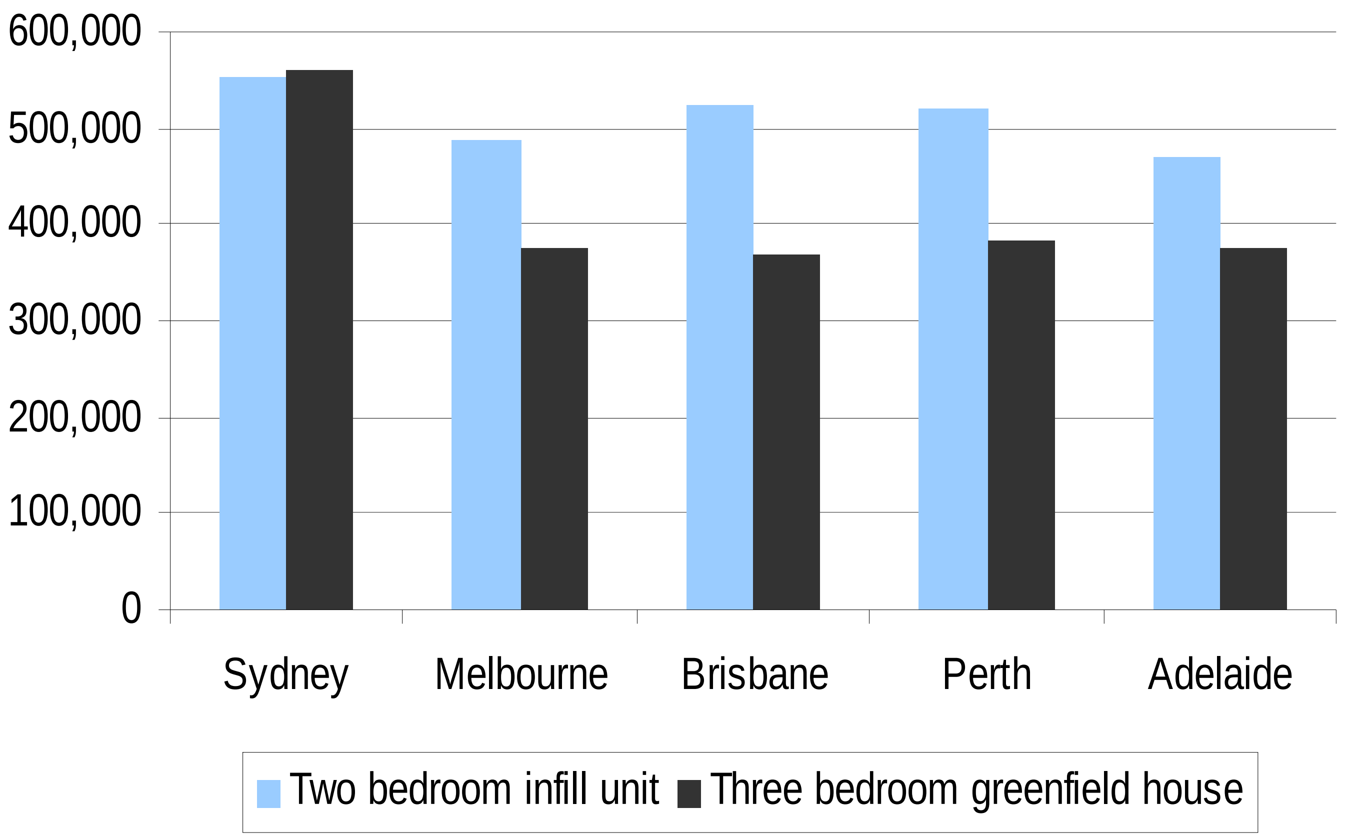
Source: National Housing Supply Council (2010).

To meet demand, we also need to build within the existing urban boundary

Region	Strategic planning document	Time-frame	Target dwellings (number)	Percentage from infill (%)
Sydney	Sydney City of Cities: A Plan for Sydney's Future	2005–2031	640,000	60 to 70
Melbourne	Melbourne 2030: A Planning Update – Melbourne @ 5 million	2009–2030	600,000	53
South-east Queensland	South East Queensland (SEQ) Regional Plan	2009–2031	754,000	50
Perth	Directions 2031 Spatial Framework for Perth and Peel	2009–2031	328,000	55
Adelaide	The 30-Year Plan for Greater Adelaide	2010–2040	258,000	Moving from 50 to 70

Source: State and Territory planning agencies, cited in National Housing Supply Council (2010).

But it is often more expensive and more difficult to build infill housing than greenfield housing



Source: Urbis analysis for National Housing Supply Council (2010).

The supply side needs to become more responsive to changes in demand

- Better strategic & structure planning with active public engagement & determined implementation
- More efficient development assessment arrangements:
  - Increased as-of-right development subject to code-compliance
  - Increased time-limited assessment by professional assessment panels re compliance with metro strategic plan & design guidelines for major developments
- Infrastructure provision:
  - To be included in strategic planning
  - Implementation plans assuring timely provision
  - Clarity & uniformity in responsibility for financing
- Innovation and skills of developers
  - Adapting to changing needs and preferences (eg innovative product for ageing baby boomers at all income levels, 85+ households)
  - Affordable housing products and delivery models (including joint ventures with social housing agencies)
  - Redressing skills shortages - attracting and retaining apprentices

Significant challenges remain for the Council in its future work

- Exploring the challenges of increasing supply that is sustainable and affordable
  - Greenfield or infill?
- Understanding drivers of demand
  - including settlement patterns of migrants, changing preferences, changing household sizes, how demand responds to supply
- Understanding demand and supply in submarkets
  - E.g.: moderate income households' emerging tenure pattern – home owners or renters?

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