Gauging Demand and Supply Balance in the Australian Housing Market

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The Backdrop for the Research

- It started on a plane …
- There is considerable focus on the undersupply of housing in Australia;
- That term doesn't really mean much, but …
- … we've had a stab over the years ...
  - Housing Towards 2000 (1990)
  - Housing to 2020 (2009)
- We moved on to:-
  - Housing Australia's Future (2014)

The Backdrop for the Research

- So the concept of undersupply (or oversupply) is hardly irrelevant, but …
- … it is overused.
- So, I started thinking about it a different way.

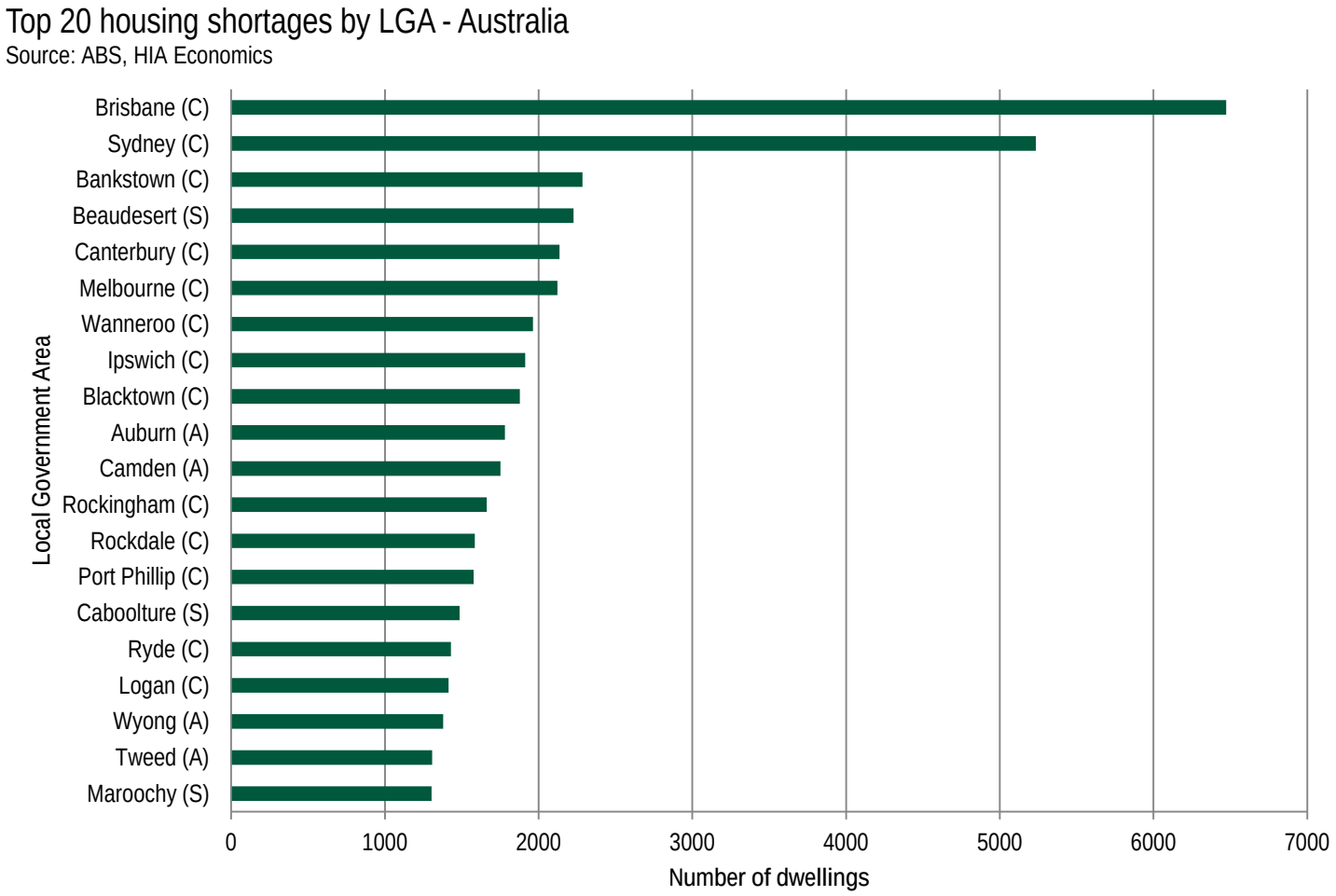
Housing Imbalances 1

- Any cumulative housing oversupply (or undersupply) is dependent upon the point in time at which the ‘count’ begins.
- Households’ consumption of housing services changes in response to market dynamics – there can never be a static oversupply, for example.
- Some might use Docklands in the early 2000’s to dispute that.
- What starting point do we want to use?
- Let’s say we get that right …
- … balance at an aggregate level wouldn’t be the case in each state/territory, much less in each sub-market.

Enter … the HIA Housing to 2020

- We were the first forecaster to predict that new dwelling commencements would plumb close to 130,000 in 2009.
- Intuitively, that wasn't going to be good for meeting underlying housing requirements.
- We estimated a housing shortage of 109,200.
- “If current building trends were to persist, it is projected that Australia’s cumulated housing shortage would reach 466,000 dwellings by 2020”.
- Shortages were evident for NSW, Queensland, and WA …

Housing to 2020



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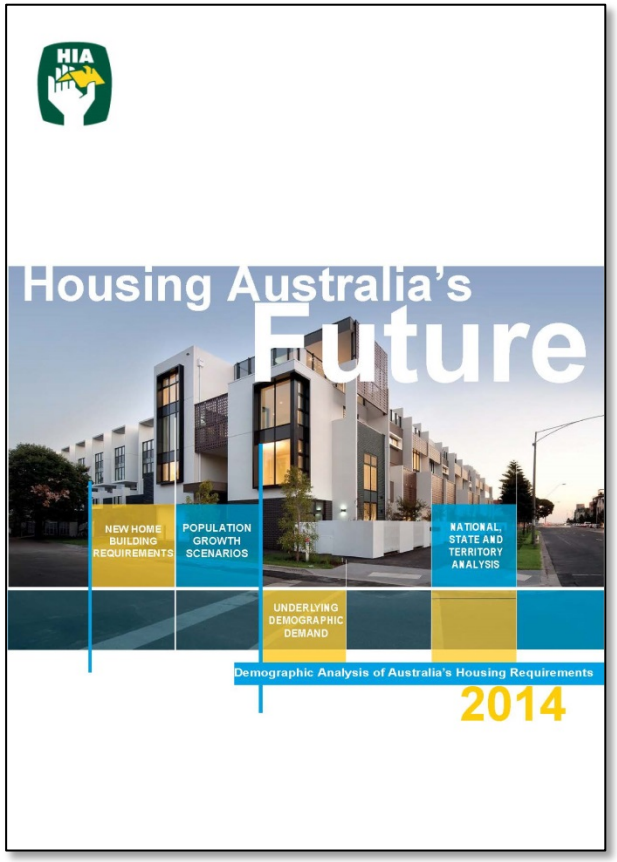
Housing Imbalances II

- Housing Australia's Future
- Demographic Analysis of Australia's Housing Requirements.
- Consideration of population growth and household formation + ...
- … variations in economic conditions e.g. real household incomes.
- Presents a range of scenarios.



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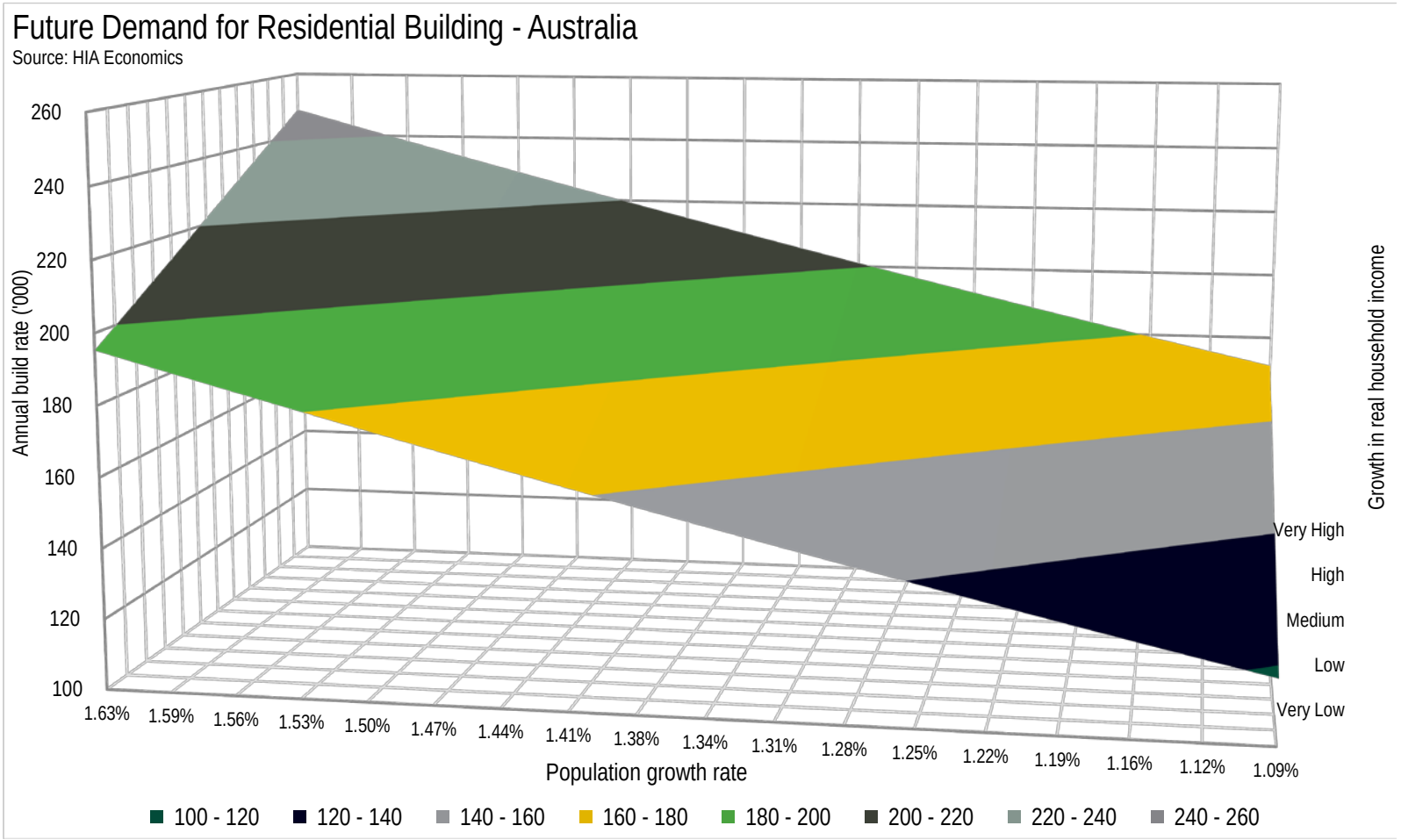
1. Future Demand for Residential Building



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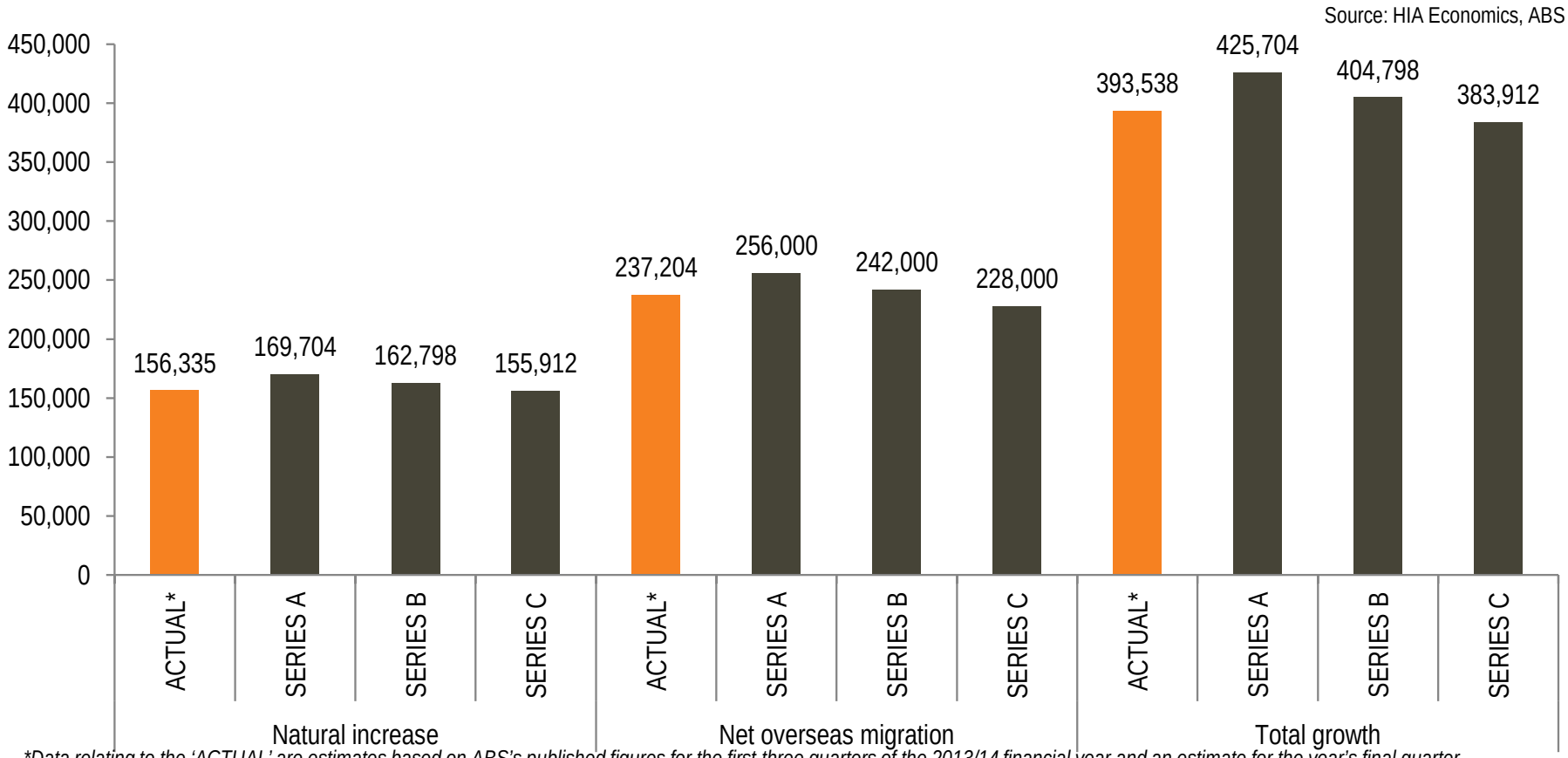
2. How does the ABS Stack Up?



*Data relating to the 'ACTUAL' are estimates based on ABS's published figures for the first three quarters of the 2013/14 financial year and an estimate for the year's final quarter.

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3. A Base Case to begin with …

AUSTRALIA

	Population Growth Scenario		
	Series A	**Series B**	**Series C**
Population in 2012	22,721,995	22,721,995	22,721,995
Population in 2050	41,939,543	37,593,636	34,349,728
Implied annual population growth rate	1.6%	1.3%	1.1%
Additional dwellings required per annum	195,293	151,129	118,164
Required annual build rate			
Low real income growth	212,924	168,760	135,795
Medium real income growth	230,555	186,391	153,425
High real income growth	248,186	204,022	171,056

Source: HIA Economics & Australian Construction Insights

- Australia's current population growth rate is 1.4%.

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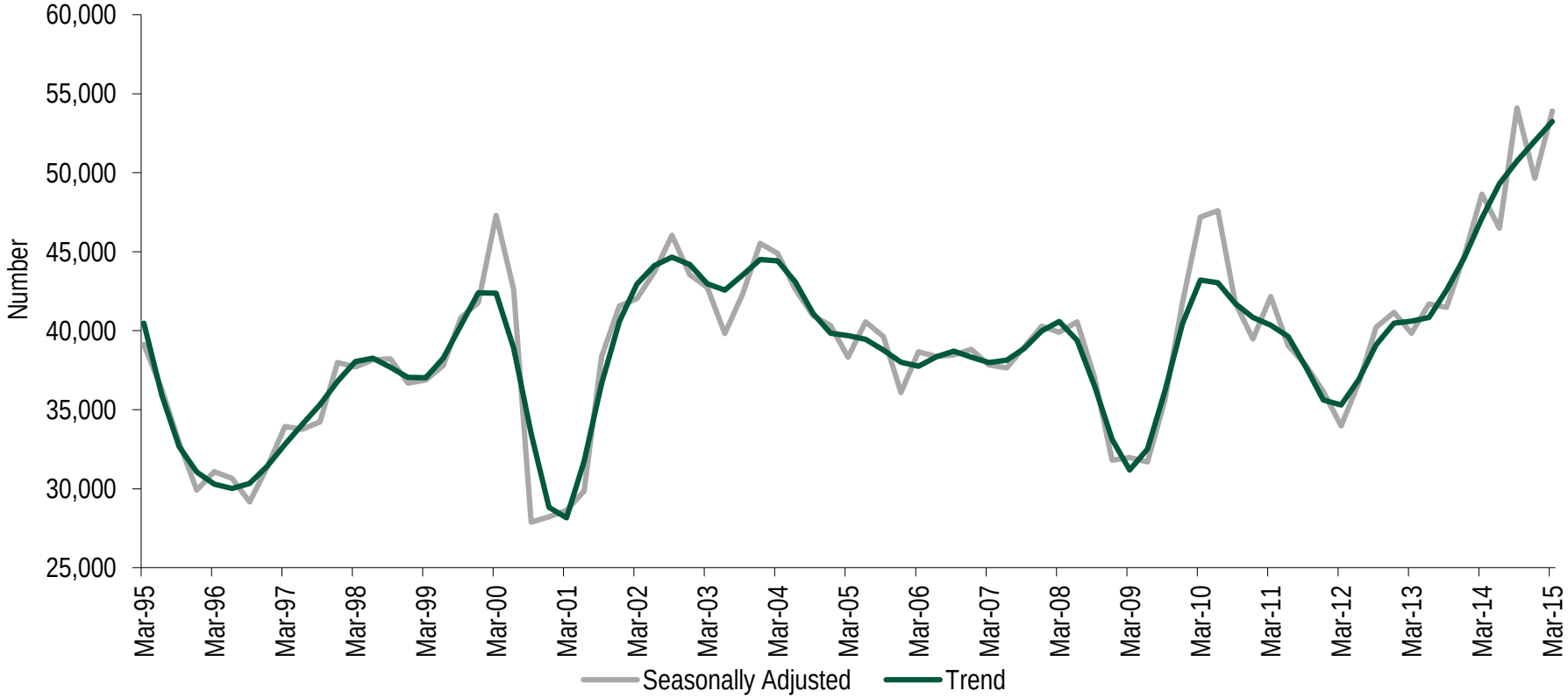
How do we look lately? Really good!

Total Dwelling Starts – Australia

Source: ABS 8752



- HIA's forecast is for a peak of 214,450, with upside risk.
- The previous cyclical high was 187k in 1994!

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What does that mean?

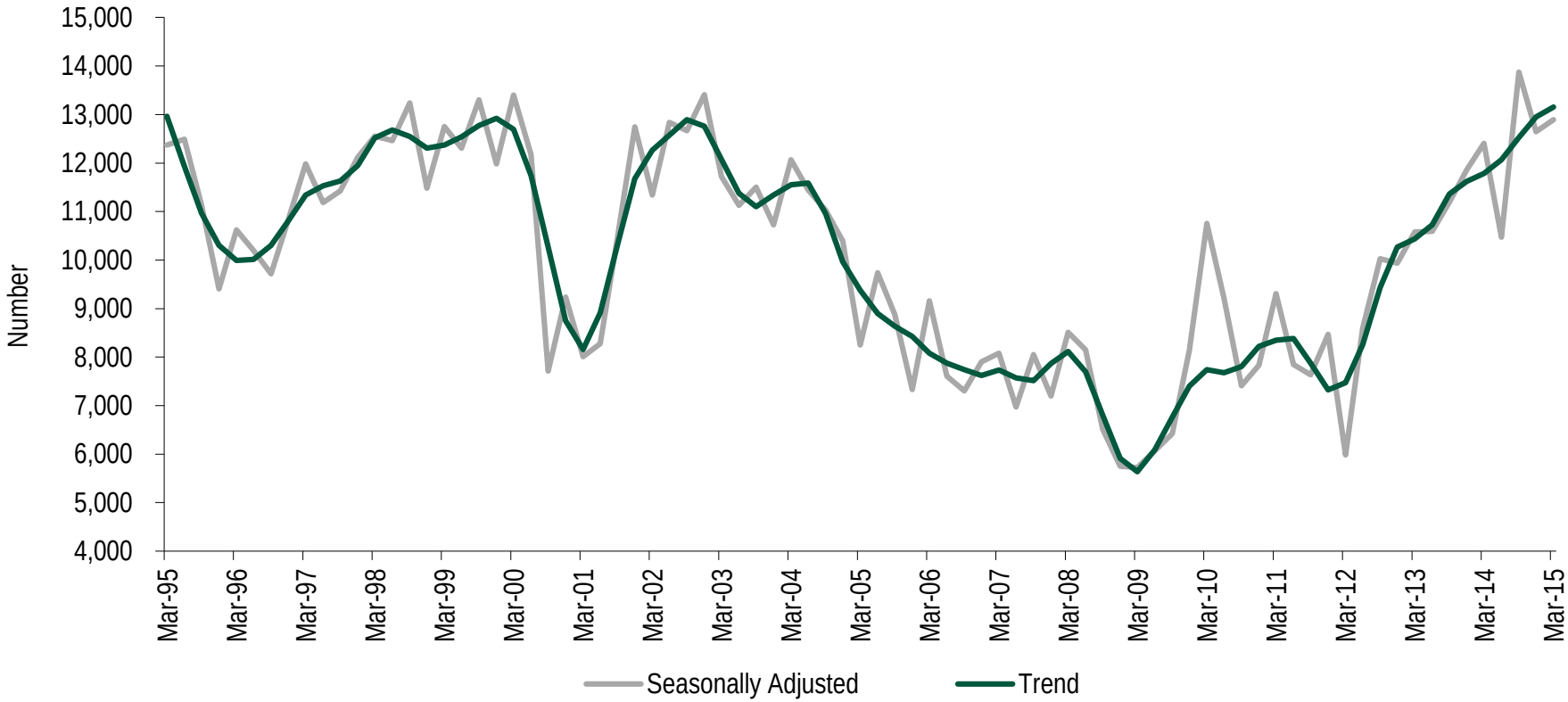
- Over the last 10, 20 and 40 years Australia has averaged between 155,000 and 158,000 new dwellings per annum.
- There is a big change underway in the composition of what Australia builds, which is largely structural and …
- … if you want to be late for dinner I can talk about that the rest of the day …
- Is 200k+ the new norm?
- It's a long way from the 150's …
- What does Australia want to be the new norm?
- **Surely that's the conversation we need to have.**

The Case of New South Wales

Looking back to look forward

Total Dwelling Starts – New South Wales

Source: ABS 8752



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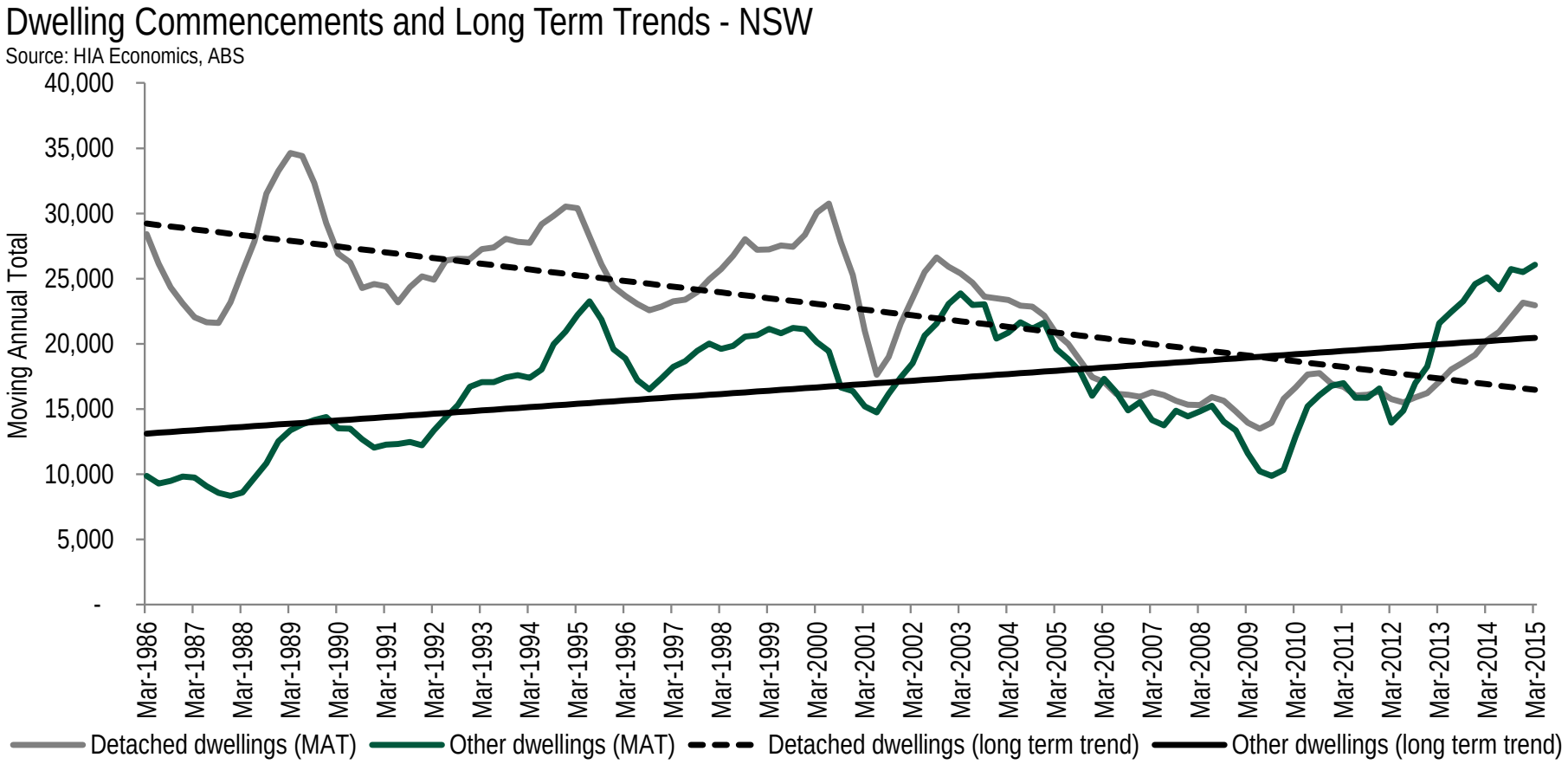
The composition is changing and …



- … that is a consideration.

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How do we currently 'look'?

New South Wales

	Population Growth Scenario		
	Series A	**Series B**	**Series C**
Population in 2012	7,301,134	7,301,134	7,301,134
Population in 2050	11,359,104	10,665,010	10,268,959
Implied annual population growth rate	1.2%	1.0%	0.9%
Additional dwellings required per annum	41,238	34,185	30,160
Required annual build rate			
Low real income growth	46,788	39,734	35,709
Medium real income growth	52,337	45,284	41,259
High real income growth	57,887	50,834	46,809

Source: HIA Economics & Australian Construction Insights

- Note the population growth rate scenarios in this base case.
- The current population growth rate is a (decelerating) 1.4%.
- Real income growth is relatively soft, so …
- … we're about right?

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In conclusion

- That was then, … this is now.
- It is less about where we have been or where we are, although ...
- ... that is important.
- It is more about where we are going.
- If we don’t narrow down where we want to go, then ...
- … how do we know where we need to go?

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THANK YOU FOR YOUR TIME

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