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

Top 20 housing shortages by LGA - Australia
Source: ABS, HIA Economics

- Brisbane (C)
- Sydney (C)
- Bankstown (C)
- Beaudesert (S)
- Canterbury (C)
- Melbourne (C)
- Wanneroo (C)
- Ipswich (C)
- Blacktown (C)
- Auburn (A)
- Camden (A)
- Rockingham (C)
- Rockdale (C)
- Port Phillip (C)
- Caboolture (S)
- Ryde (C)
- Logan (C)
- Wyong (A)
- Tweed (A)
- Maroochy (S)
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.
1. Future Demand for Residential Building

Future Demand for Residential Building - Australia
Source: HIA Economics

- Annual build rate ('000)
- Population growth rate
- Growth in real household income

- Very High
- High
- Medium
- Low
- Very Low

100 - 120
120 - 140
140 - 160
160 - 180
180 - 200
200 - 220
220 - 240
240 - 260

Housing Industry Association
Australian Construction Insights
Research powered by HIA Economics
2. How does the ABS Stack Up?

<table>
<thead>
<tr>
<th></th>
<th>Natural Increase</th>
<th>Net Overseas Migration</th>
<th>Total Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTUAL</td>
<td>156,335</td>
<td>237,204</td>
<td>393,538</td>
</tr>
<tr>
<td>SERIES A</td>
<td>169,704</td>
<td>256,000</td>
<td>425,704</td>
</tr>
<tr>
<td>SERIES B</td>
<td>162,798</td>
<td>242,000</td>
<td>404,798</td>
</tr>
<tr>
<td>SERIES C</td>
<td>155,912</td>
<td>228,000</td>
<td>383,912</td>
</tr>
</tbody>
</table>

*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.

Source: HIA Economics, ABS
3. A Base Case to begin with ...

AUSTRALIA

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

Source: HIA Economics & Australian Construction Insights

- Australia’s current population growth rate is 1.4%.
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!
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

Seasonally Adjusted
Trend

Number


Source: ABS 8752

4,000  5,000  6,000  7,000  8,000  9,000  10,000  11,000  12,000  13,000  14,000  15,000
The composition is changing and ...

• ... that is a consideration.
### How do we currently ‘look’?

**New South Wales**

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

*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?
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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