

## Chapter 6

## Conclusions



## Overview

This report has provided the Council with an opportunity to reflect on updated information from the Census, to present research findings and to note some significant changes in residential planning and housing policy.

The evidence provided by the 2011 Census is, in the Council's view, entirely consistent with the existence of a significant housing shortfall. It is important to remember that the shortfall — while being an aggregate measure of housing undersupply — does not affect everyone equally. The aggregate shortfall flags a range of distributional effects across areas (cities, regions and States) and people with different socio-economic and demographic characteristics.

A housing shortfall may also exacerbate differences among people and places. A sustained shortfall in housing production relative to population growth (the main component of additional underlying demand) 'trickles down' through the distribution of income and wealth. It affects most the people who lose in the competition for available properties. These people may end up renting when they expected to become home owners, not forming a separate household because they cannot find anywhere suitable to live, needing government subsidies to obtain housing, pushing others — or being pushed — out of the private rental market and into social housing, living in unsuitable housing or overcrowded conditions, or becoming literally homeless. If the level of underproduction is substantial, it affects progressively more people who are relatively affluent. If underproduction varies across cities or States, then more 'footloose' economic activity, jobs and people will move from areas of deficit to areas where housing and workforce opportunities are in better supply.

## Indications of undersupply

The Council's initial examination of 2011 Census data has neither proved the existence of a major undersupply of housing in Australia nor attempted to explore all of the potential manifestations of such a shortfall. But, along with the research on how households respond to housing affordability, it has demonstrated trends in living arrangements, tenure and household formation that are highly likely to emanate from housing supply and affordability constraints.

It is also important to say that the 2011 Census and the associated downward adjustment of Estimated Resident Population have not overturned the Council's assessment of undersupply or diminished the Council's concerns about levels of housing production.

The increased proportion of people in 'severely overcrowded' conditions, while affecting a relatively small proportion of households, is one of the more extreme trends in housing circumstances indicated by the Census. But it needs further

investigation — it might be a temporary phenomenon, driven perhaps by the straitened circumstances of some recent immigrants. Other trends, like the declining rate of household formation and the decline in home ownership in most age groups, affect the present and future circumstances of much larger numbers of people, but their sources and policy implications also need to be investigated further.

It may be argued that there is no aggregate housing shortfall as such but instead a shortage of suitable and affordable housing for lower-income people. The trends in tenure and housing choices are also consistent with this view. In effect, a household falls into the housing gap when it cannot access a suitable dwelling. The presence of a vacant dwelling that a household cannot access (for example if it cannot afford it, if the dwelling is someone's second home or if it is not in a suitable location) does not change the situation that household faces.

The decline in the home ownership rate is also likely linked to a lack of affordable and available housing for a subset of the population. So too could the slowing rate of decline in average household size when the demographic drivers point to more significant falls. Both of these are marked changes from previous trends and point to a very different pattern of household consumption from the past.

On the other hand, the lengthening period of deficit in housing production relative to both population growth and longer-term trends in household formation suggests that the shortage of affordable housing is not matched by a surplus of more expensive housing and that there is indeed an aggregate shortfall. Australia's experience with housing prices supports this view. While house price movements have moderated, they have not declined markedly by comparison with those in many comparable countries. Moreover, rents have risen and rental vacancy rates are still very tight in many cities and regions.

An aggregate shortage is likely to manifest similarly to a shortage of housing for lower-income people that results from a mismatch of housing prices relative to income, but they are not the same thing and have very different policy implications. Most obviously, an aggregate shortage cannot be resolved simply by redistributing available housing stock. If there is an aggregate shortfall, introducing or increasing demand-side subsidies so that lower-income people can better compete for available dwellings might or might not have an impact on housing production in the long run, but in the short term will flow through to increased prices. This is precisely why the Council is pleased to observe both the recent trend among State governments to restrict first home owner grants to new supply rather than existing dwellings, and the surge in production of social housing arising from the Australian Government's economic stimulus package.

## Industry and policy responses

More than ever, Australia's supply challenge is not simply to add to housing stock but also to achieve substantial growth in the supply of affordable rental stock where it is needed most. With a decline in home ownership rates, likely to be exacerbated as the Baby Boomers (who have high ownership rates) move on, pressure on the private rental market is likely to increase in the years to come. The high cost of apartment construction also contributes to the growing challenge of achieving affordable rental housing close to jobs and amenities.

There are positive signs of innovation in the residential development and construction industries to convert latent demand for new affordable owner-occupied housing into effective demand and successful sales. Smaller lot sizes and attractively designed townhouse developments on greenfield sites have reopened at least part of a market that was disappearing due to rising prices and affordability barriers. Lower interest rates and the existence of State government assistance like Western Australia's KeyStart and shared equity schemes have supported that innovation and quite likely enabled it to extend further down the income distribution.

Similarly, the trend to smaller apartments has also tapped into the demand for well-located dwellings where larger and detached housing is beyond the means of many prospective buyers and renters. Development assessment arrangements and higher costs in the commercial building sector have limited the extent and price competitiveness of these developments in many places. But the former is certainly under review with a view to reducing uncertainty and delay, while urban planning arrangements better define areas in which apartment developments are encouraged and enabled. Given the uncertainties faced by the industry, including the challenging market backdrop and continuing adaptation to the post-GFC financial world, innovation in housing product is increasingly risky but arguably essential to maintain and, hopefully, increase production.

While there has been a significant change in the types of new homes being built, especially in the larger cities, those additions to supply have as yet had a marginal impact on the character of Australia's overall housing stock. But these dwellings are notably different, providing a means of more affordable access to urban jobs and amenities, and there are signs of more to come.

On the policy front, the Council sees positive signs of progress in recognition of, and response to, supply and affordability concerns. As noted above, a number of States and Territories have looked to change planning policies, speed up the development approval process, increase certainty around infrastructure charging and focus first home owner grants and land tax concessions more at new supply. In the main, the Council supports the direction of change as focusing on improving the supply rather than subsidising demand. There have also been welcome signs of a greater understanding of the need to reduce uncertainty, and therefore lessen delays, in the

planning and development assessment systems to help all concerned make better decisions more quickly and consistently. In some jurisdictions there is open acknowledgment of the need to achieve a finer balance between enabling residential redevelopment and respect for the wishes and concerns of the existing residents about the extent and impact of change.

The States and Territories and local government have responsibility for policy and practice in urban planning, development assessment, and arrangements for the provision and financing of infrastructure. Most jurisdictions are exercising strong fiscal restraint and are very keen to reduce rather than increase public debt, especially in the present economic environment, while recognising the desirability of expanded expenditure on infrastructure to support economic activity and population growth. All jurisdictions are now also aware of the impact of high, variable and unpredictable infrastructure charging on the cost of residential development and price of new dwellings. This is a very challenging environment for achieving substantial progress in planning, development assessment and infrastructure delivery.

## Future work

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 regional analysis. Previous estimates of the balance between housing supply and underlying demand for each State and Territory have included assumptions, driven by past trends, about interstate migration rates and the destination of new arrivals. These trends 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 a 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 importance 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.