PowerHousing Australia

Collaborating for a better housing future

AUSTRALIAN AFFORDABLE HOUSING **REPORT**

Environmental Scan 2019

CoreLogic

www.powerhousingaustralia.com.au

25 Million
Milestone /
Election Edition

Contents

From the PowerHousing Chair

HOUSING AFFORDABILITY 2019: 25 MILLION MILESTONE / ELECTION EDITION

As the Australian population surpasses the 25 million mark, the country's affordable housing crisis deepens.

Though mortgage and rental prices are stabilising in certain areas, still a concerted effort is needed by all levels of government to help first home buyers, key workers and moderate income earners find housing solutions. Equally, a significant effort is required to ensure low and very low income earners have appropriately located, secure and decent housing.

The figures contained within this *Australian Affordable Housing Report 2018-19* are sobering. Since 2012, Sydney units have risen by 45%- well in excess of any rise in low to middle income wages - and over this time houses selling for under $400,000 have dropped from about 26% of all sales in 2012 to around 2.5% in 2018. In Melbourne only 2.7% of all houses sold for under $400,000 in the past year and with average loan size for first home buyers sitting at $344,600, there are hundreds of thousands of young people giving up on the 'Australian dream' of home ownership.

The inability for moderate income earners to move in to the home ownership market has continued to focus government on the problem at hand, leading to the introduction of new initiatives, policy, legislation and project opportunities. Whilst this renewed focus is very welcome, the community housing sector has for many years been aware of the negative impact on our customer base and the communities within which we work, through the lack of affordable rental, public and social housing available to them.

Many low income Australians still find it tough to afford rent, and aspiring homebuyers, particularly young people, face great difficulty breaking into the housing market. Most Australians understand that affordability is not what it used to be and is a more complex calculation than it once was.

As social housing providers, community housing providers (CHPs) house tenants in the lowest income quintile, and through this lens the issue of housing affordability is magnified. There is growing political recognition of the social and productivity impacts and inequities of our housing affordability decline, and increasing public pressure for the issue to be genuinely tackled by politicians at all levels of government.

In the past year we have seen the development and ratification of the National Housing Finance and Investment Corporation (NHFIC), a major step in addressing some structural barriers to the cost of developing more affordable housing. PowerHousing members worked closely with Treasury on the NHFIC's development and related legislation, which was passed by Federal Parliament at the end of the 2017-18 financial year. The legislation recognises the maturation of the community housing sector, and the vital role it plays in providing stable and secure housing for people across Australia, with CHPs enshrined as eligible entities to apply for funding. This policy lays the foundations for institutional investment into this burgeoning asset class. Policy that recognises community housing as necessary social and economic infrastructure will ease market pressure, derive savings for governments in other social service systems and ultimately provide concrete benefits to those Australians seeking affordable housing.

After years of record housing development, pricing in Sydney and Melbourne's housing markets is tapering off. This will help ease market pressure, but a subsequent drop in new builds could spell the reversal of any gains, and see prices rise again. Maintaining a strong dwelling build rate is the base requirement for stable and sustainable price rises, to ensure housing is accessible to all Australians no matter what their income, which in turn contributes to economic growth.

A shortage of affordable housing is an acute problem that needs more action. The NHFIC is a great start, and presents an opportunity to grow the affordable housing sector.

This report provides significant data on housing supply and demand and the impact on housing affordability. The information herein is critical as the concertina effect of those traditionally owning homes being priced out of the market puts additional pressure on the whole housing continuum. It pushes those homes owners into the private rental market, private renters into the affordable homes market (of which there are few), affordable renters into social housing and ultimately those on social housing waiting lists into homelessness. A viable and accessible housing market and continuum is critical for our country's future.

N. Lemon

Nicola Lemon

PowerHousing Australia, Chair
22 August 2018

City West Housing - Platform Apartments, Eveleigh

Introduction

The *Australian Affordable Housing Report 2019* provides an up-to-date insight into the myriad factors relating to housing supply and demand, and considers the impact of these elements on housing affordability, particularly for low income earners. This report takes into consideration that low income earners include social housing tenants, renters, first home buyers, key workers and seniors.

As an environmental scan, its focus is on housing activity and levers. It considers fiscal, monetary and market factors both domestically and internationally impacting housing availability, rental/mortgage rates, and Australian's need for housing - affordable or otherwise - in the next two years.

Importantly, the report focuses on demand indicators and actual housing activity in an effort to consider housing affordability for average to low income Australians.

The report also considers previous reporting on housing activity produced over the past 10 years by the authors and identifies where housing activity has evolved differently than was projected.

Executive Summary

The *Australian Affordable Housing Report 2019*, provides a national affordable housing and rental environmental scan that features low growth, low inflation, low interest rates, and low unemployment. Each economic indicator provides insights into previous, current and emerging environmental conditions for second, third and fourth quintile wage earners, and the challenges faced around rental and mortgage payments. The report also considers the growing gap between (low) wages growth and (rising) rental and house price pressures over the past decade.

Many factors, including strong population growth and net overseas migration, has created demand for housing in the past five years. However, continued strength in building approvals through to housing commencement and completions has managed to reduce the upward bias on house prices.

Building activity in Australia has remained buoyant, with 228,478 dwellings commenced in the 12 months ending June 2018. Recent estimates of underlying demand of the number of homes that need to be built per year indicate that Australia needs to build between 195,000 and 200,000 homes each year through to 2033.

To put this into perspective, if Australia drops back to around 171,000 dwellings constructed in 2020, as reported in this e-Scan, then the country will be building 30,000 dwellings less than the underlying demand. Considering that Australia's annual construction rate over the past 20 years has averaged at 161,731 completions and this average has been boosted by five years of record building, then the trough could be lower.

New supply, which has been sitting at record levels of delivery for around three years, has been largely driven by foreign investment, which is now receding. However, the pipeline of building approvals, particularly in multi-residential and apartment delivery, suggest a sustained number of new dwellings coming into the market in the short-term.

After sustained periods of record supply, Sydney and Melbourne have seen house price rises come off the boil and Perth and Darwin have seen house prices and rents drops for consecutive periods.

Alternatively, in Hobart and other parts of Tasmania, house prices and rents are rising as mainland buyers enter the market seeking text book per cent returns on their investment with a lower buy in rate. Emerging factors, such as Airbnb, are also impacting on Hobart. In Hobart up to one in eight homes are reported to be listed on the site, creating a scarcity in rental properties and driving up rents.

Australians are still saving money, household wealth has risen, but both have peaked over the past 12 months. Mortgages are being paid off above the rates set by banks. Additional funds and dispensable income is channelled into investment properties over the past two decades, with those declaring an investment property now exceeding 2,000,000 people nationally.

Paper gains in household wealth underpinned by rising residential land and dwelling values are being converted into real estate investments. According to the ATO, 72 per cent of Australian investors have one property and another 18 per cent have two. Despite having more debt than previous generations, low interest rates, low unemployment and low inflation means there is current capacity to meet debts.

Conversely, first home buyer rates are now low, a trend not unique to Australia. This is largely the result of tightened loan conditions, with bank lending remaining static for three years. In other words, these potential buyers do not have capacity to increase their loan size and are limited to where and what they can buy.

The outlook for low income earners - particularly social housing tenants, renters, first home buyers, key workers and seniors - will remain bleak while rental pricing and entry level housing mortgages rise.

Whilst interest rates remain low, the pool of funds Australia's big four banks are accessing to source home loans has become more expensive which would normally place upward pressure on lending rates. The big banks are reluctant to pass this cost on to borrowers because it would add to the growing social and political backlash stemming from the banking royal commission.

In parts of Australia, there has been a slowing in the rise in rental, auction and clearance rates. In Perth and parts of Queensland this can be attributed to economic softening after the mining boom, while nationally it can be attributed in part to constrained lending.

Whilst affordability indicators are not favourable, the 2018-19 Federal Budget includes a number of measures relating to affordable housing provision, including $500,000 for the review of the National Regulatory System for Community Housing, which aims to promote a nationally consistent approach to the regulation of community housing and to provide certainty for community housing providers and confidence to potential investors.

In addition, the Australian Bureau of Statistics (ABS) was allocated $4.8m over four years from 2018–19 to help build better estimates of affordable housing stock and to improve existing survey-based planning and zoning data and dwelling construction cost collections.

PowerHousing CHPs will continue to work towards delivering homes on the scale sought by the National Housing Finance and Investment Corporation, which was established to operate an affordable Bond Aggregator.

There is a general consensus that affordable housing requires many hands to the wheel. This is true across all levels of governments and the breadth of the political spectrum, giving cause for optimism.

Policy measures announced by all sides of politics show there is potential to solve the complex and challenging issue that is the shortage of affordable housing in Australia today.

There is yet more to do and more levers that could be pulled. PowerHousing will partner with governments and sector stakeholders to ensure the settings are right and decision-makers are well-informed to create legislation that will continue to address the yield gap and increase the supply of affordable housing.

HousingFirst – The Box Hill Project – image courtesy of Hayball Architects

1. National Economic Indicators

Growth

The Australian Gross Domestic Product grew by one per cent in seasonally adjusted terms in the March quarter[i], with 3.1 per cent growth recorded across the year. Growth in the March quarter was driven largely by the export of goods and services at 0.5 percentage points, as Terms of Trade rose 3.3 per cent. Compensation of Employees (CoE) grew 1.2 per cent, with private sector CoE increasing 1.2 per cent and public sector 1.4 per cent. Growth of 5.1 per cent was seen throughout the year with the Construction and the Health Care and Social Assistance industries being major contributors to growth.[ii]

Housing affordability 2019 – The Reserve Bank of Australia (RBS) expects housing price growth to be at or above three per cent across 2018 and 2019, predicting it will result in increased wage pressures.[iii]

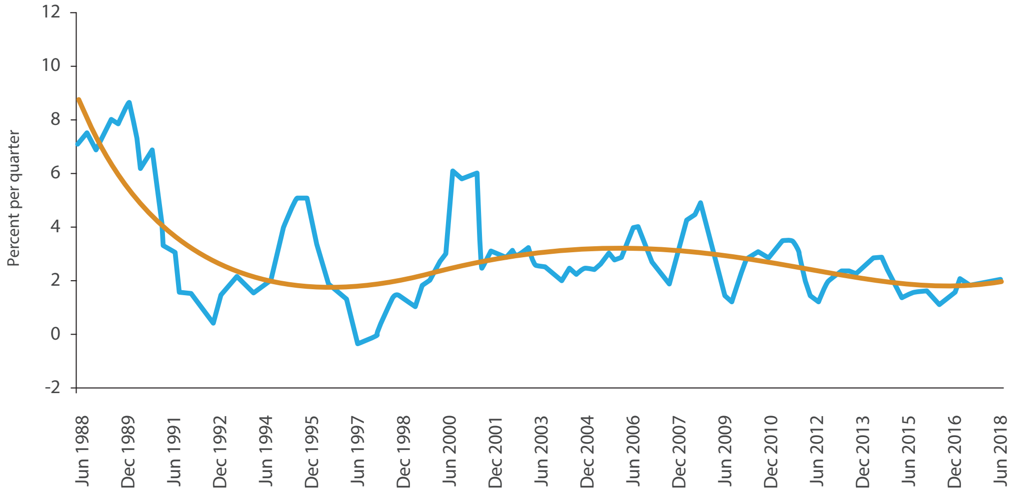
Inflation

Using the Australian Consumer Price Index (CPI), inflation rose 2.1 per cent over the previous twelve months to the quarter ending June 2018.[iv] The average CPI over the past 30 years is 2.9 per cent, and 2.3 per cent over the last 10 years. The RBA Governor and Treasury have agreed on an inflation rate of 2-3 per cent, as a medium-term average, as an appropriate target for Australian monetary policy.[v]

Housing Affordability 2019 – Since the target was introduced in the early 1990s, inflation has been relatively steady and currently sits only 0.1 per cent below the low end of the target.

Graph 1: Consumer Price Index

ABS 6401.0, June 2018 (released July 2018)



Interest Rates

Interest rates remain on hold in July 2018 at the historic low of 1.5 per cent. They have stayed at this level since late 2016, when inflation slowed to just 1.0 per cent. The market has now priced the chance of a full 0.25 percentage point move not before late next year, although economists are increasingly arguing the RBA will not be able to budge until well into 2020.[vi]

Housing affordability 2019 – With the pool of funds Australia's big four banks are increasingly accessing to source home loans becoming more expensive, there is pressure mounting to increase lending rates. The big banks are reluctant to pass this cost on to borrowers at the present moment. A future interest rates hike, however, would see an increase in properties put on the market due to repayment pressures and lead to affordability gains and the shift to a buyer's market.

Unemployment

As of June 2018, unemployment remained steady from the previous month at 5.4 per cent,[vii] with the employment to population ratio remaining at 62 per cent. Over the past year, unemployment trended down by 0.2 per cent and is the lowest it has been since January 2013.

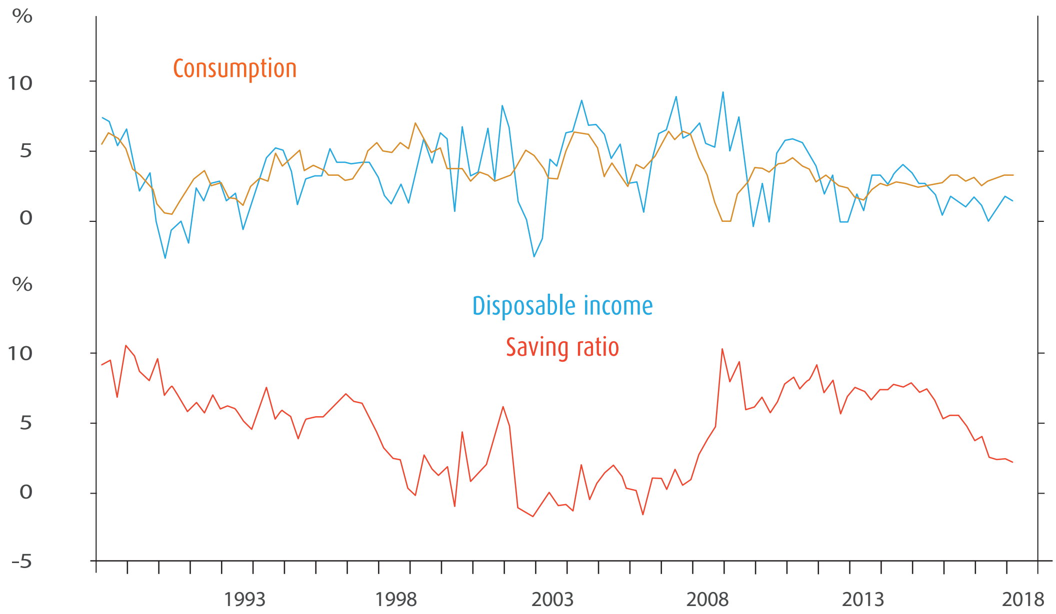
While the proportion of the labour force out of work is declining, the same cannot be said for long-term unemployed whose numbers are rising, especially among those who have been out of work for more than two years. Underemployment is also increasing. The underemployed are defined as those aged over 15 who are currently employed but desire and are available to work more. The underemployment rate currently sits at 9.0 per cent of employed Australians, having risen from 6.3 per cent ten years ago and 3.6 per cent in May 1988.[viii]

Housing affordability 2019 – Unemployment remained stable to the 12 months to April, and has trended down since 2013, supporting the capacity of the general population in making ends meet. The growth of the underemployment rate over the past 30 years, however, means a greater proportion of people are likely to be unable to compete in the property market.

Wages Growth

Seasonally adjusted wage growth figures for the March 2018 quarter rose 0.5 per cent, with 2.1 per cent growth over the year from March 2017 to March 2018.[ix] Seasonally adjusted, private sector wages grew 1.9 per cent while public sector wages grew 2.3 per cent. This puts wage growth slightly higher than inflation, which was 1.9 per cent. The RBA expects wages to increase, albeit gradually, due in part to the spare capacity in the labour market.[x]

Graph 2: Housing income and consumption* – Real, year-ended growth

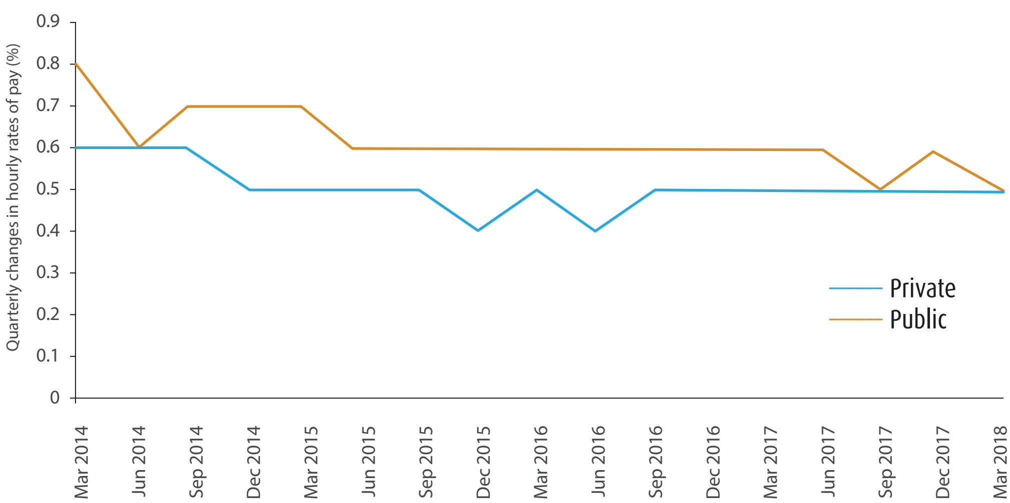


* Household sector includes uninvorporated enterprises; disposable income is after tax and interest paments; income level smoothed with a two-quarter moving average between March quarter 2000 and March quarter 2002; saving ratio is net of depreciation.

Sources: *ABS; RBA*

Graph 3: Quarterly changes in total hourly rates of pay exclusing bonuses

ABS 6345.0, Mar 2018 (released May 2018)



Housing affordability 2018-19 – Slow wage growth will continue to reduce the purchasing capacity of those on low to middle incomes.

Net Overseas Migration and Population Growth

The national population was estimated to hit 25 million around August 8, and at the current rate, there will be 40 million Australians by mid-century.

Combining births, deaths and net overseas migration, Australia is now adding one extra person every 83 seconds. During the second half of the 20th century, it took around 4½ years to add a million people. The latest million will be added in record time – just under 2½ years.

With population rocketing there is a debate brewing around the right level of population growth. Migration to Australia is at its lowest level in over a decade,[xi] with intake dropping by over 10 per cent to 162,417. With the family stream cut by 15 per cent and an increase in visa refusals of 46 per cent,[xii] tighter restrictions and barriers are responsible for this record-low migration rate. Net Overseas Migration (NOM) for 2017 (240,400 people)was 1.4 per cent, or 3,400 people lower than the NOM recorded for 2016 (243,800 people).[xiii] The preliminary estimate of natural increase for 2017 (147,500 people) was 0.9 per cent, or 1,300 people higher than the natural increase recorded for 2016 (146,300 people).[xiv]

Victoria had the strongest population growth over the year (2.3 per cent), closely followed by the Australian Capital Territory (2.2 per cent) and Queensland (1.7 per cent). At present growth rates Melbourne will surpass Sydney as Australia's largest city in 2045. At its current growth rate the ACT will surpass Tasmania in population size around 2035.

The ABS projects both domestic birth rates and NOM to increase in coming years with Australia's population estimated to reach 36.8 to 48.3 million people by 2061,[xv] likely towards the higher end of the estimate. Similarly, the Department of Immigration and Border Protection forecasts annual NOM to be 246,000 people in 2020,[xvi] an increase of 52,800 people (or 27 percent) from September 2016.

Housing affordability 2019 – A growing population will continue to put pressure on an already tight housing market, both for renting and purchasing. There is a risk housing supply will continue to be outstripped both by migration and existing demand.

3101.0 - Australian Demographic Statistics

ABS Dec 2017 (June 2018)

	Population at end Dec qtr 2017	Change over previous year	Change over previous year
PRELIMINARY DATA	'000	'000	%
New South Wales	7915.1	116.8	1.5
Victoria	6385.8	143.4	2.3
Queensland	4965.0	81.5	1.7
South Australia	1728.1	10.7	0.6
Western Australia	2584.8	21.4	0.8
Tasmania	524.7	4.9	0.9
Northern Territory	246.7	0.6	0.2
Australian Capital Territory	415.9	8.8	2.2
Australia (a)	**24770.7**	**388**	**1.6**

(a) Includes Other Territories comprising Jervis Bay Territory, Chtistmas Islane, the Cocos (Keeling) Islands and Norfolk Island

Household Formation

The number of households in Australia is predicted to increase to more than 12.6 million by 2036, around a 50 per cent increase from 2011.[xvii] The average household size - 2.6 people per household in 2016 - is projected to remain about the same during this period. The number of family households is projected to increase to more than 8.7 million by 2031, remaining the most common household type in Australia. Single-person households are projected to experience the highest percentage growth over the next 25 years (60 per cent), mainly attributed to an ageing population. The number of group households are projected to increase by 37-43 per cent by 2036.

Housing affordability 2019 – Future building activity will need to meet the demands of a growing population and the increasing trend of single-person households. These projections highlight the necessity for Australia to maintain high building activity into the future.

Household Net Savings and Household Wealth

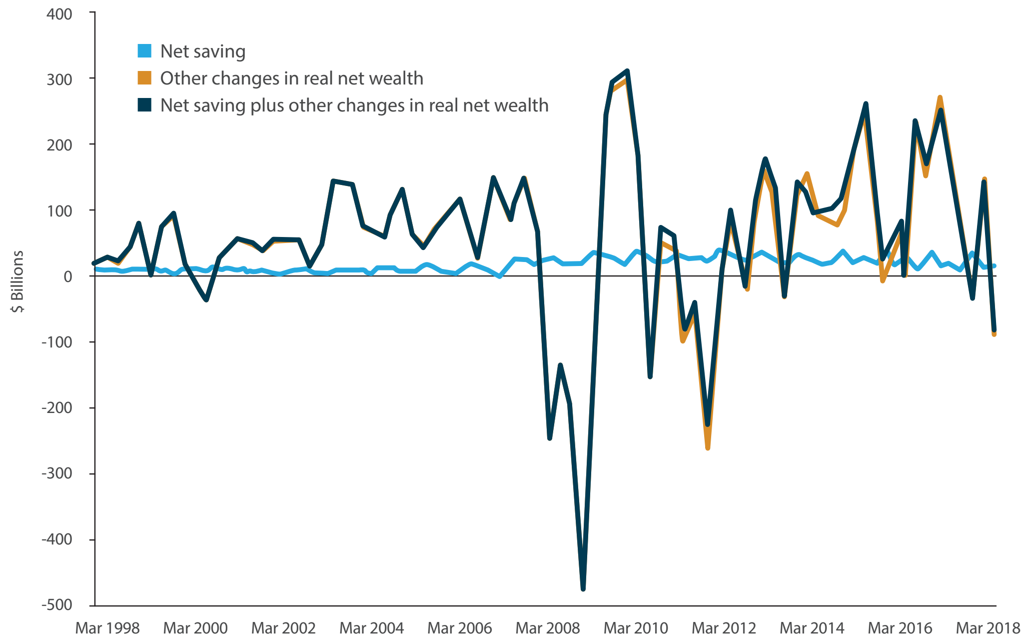
Household net worth grew to $10,222.8 billion in the March 2018 quarter, decreasing by $41.1 billion in the quarter.[xviii] Valuation decreases in insurance technical reserves were the major factor driving holding losses of $42.9 billion on financial assets. Real holding losses on land and dwellings of $45.5 billion were recorded by households, after a gain in the December 2017 quarter. Notably, housing liabilities were greater than assets during the March quarter and were the greatest factor in the decrease in household net worth.

Research by McCrindle,[xix] found financial inequity when analysing net wealth by generation across 2013-2015. They noted Baby Boomers (aged 45-64) make up 25 per cent of the population but own 53% of national wealth. Baby Boomers also have a net wealth almost five times that of Gen Y. In the next few decades, however, a significant intergenerational wealth transfer to Baby Boomer children is expected as the older generation passes on its wealth.

Household net savings grew from $2.3 billion in the December 2017 quarter to $5.7 billion in the March 2018 quarter. When the wealth effect (other changes in real net wealth) is added to net saving, the value actually drops to -$82.9 billion. Real holding losses in both financial assets and land and dwelling assets contributed to this figure.

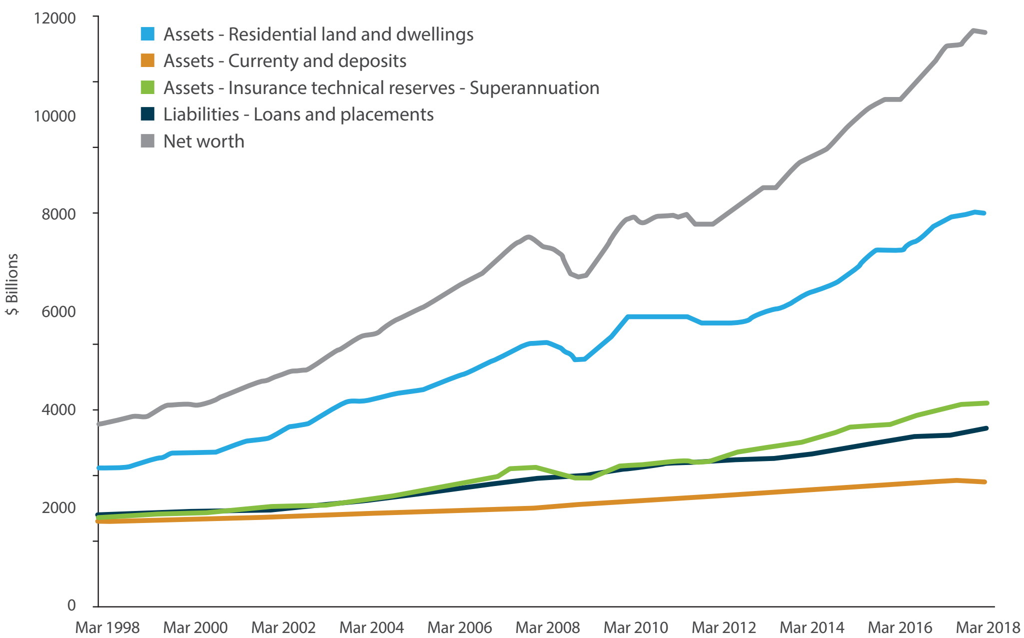
Graph 4: Australian National Accounts: Finance and Wealth

ABS 5232.0, Mar 2018, *Graph 4* released June 2018)



Graph 5: Australian National Accounts: Finance and Wealth

ABS 5232.0, Mar 2018, *Graph 1* (released June 2018)



Housing affordability 2019 – The growing value of household wealth, fuelled by land and dwelling asset growth, will further enable those with property to invest in more property. This means those wishing to enter the property market for the first time, such as first home buyers and those on low incomes, have largely been left behind and even with a tapering off of growth will find it difficult to compete for finance against those with land assets.

2. Housing Activity

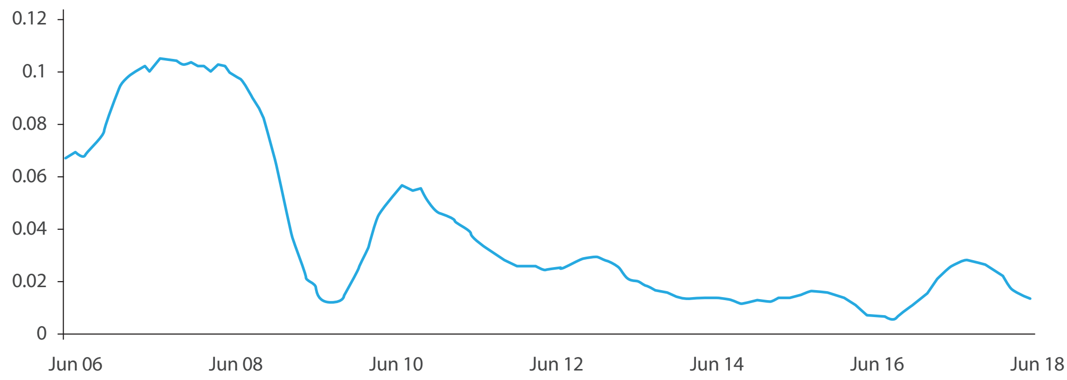
Rental Rates

Rental price growth has tracked at a relatively sustainable pace over the past decade, averaging 2.4% per annum between June 2008 and June 2018 across the combined capital cities. Recently, the pace of rental growth has eased. It peaked in October 2017 when capital city dwelling rents were rising at the annual rate of 2.8%.

Annual rental growth has slowed to 1.4% over the 2017-18 financial year across the combined capital cities, ranging from 10.7% growth in Hobart through to a decline of 1.7% in Darwin.

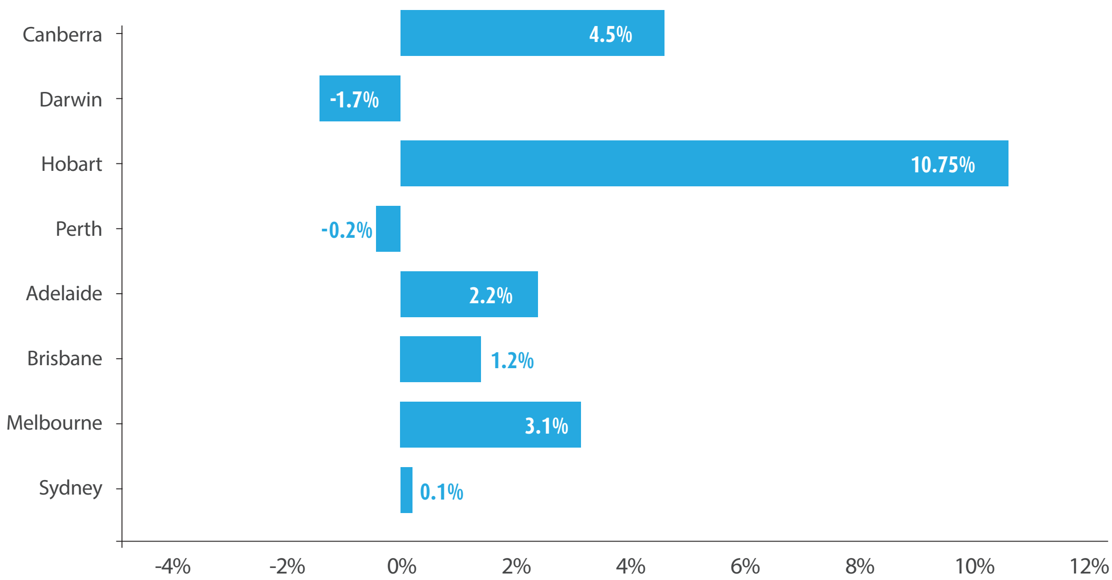
The recent easing in rental growth can be attributed to several factors including: a surge in investment activity over previous years contributing to higher rental supply; and a reduction in rental demand as first home buyers become more active, especially in Sydney and Melbourne where stamp duty concessions have incentivised first home buyer purchases.

Graph 6: Annual change in capital city rental rates



Source: *CoreLogic, June 2018*

Graph 7: Annual change in dwelling rental rates



Source: *CoreLogic, June 2018*

Transaction Volumes

The number of settled dwelling sales peaked in early 2015, following the first round of credit rationing which was announced by APRA in December 2014. Since that time, activity across the Australian housing market has progressively cooled, apart from a brief rebound in between mid-2016 and the first quarter of 2017, as credit policies relaxed and interest rates were cut.

The second round of macroprudential measures, announced in March 2017 aimed at reducing the number of interest-only mortgages, has resulted in housing market activity trending lower once again.

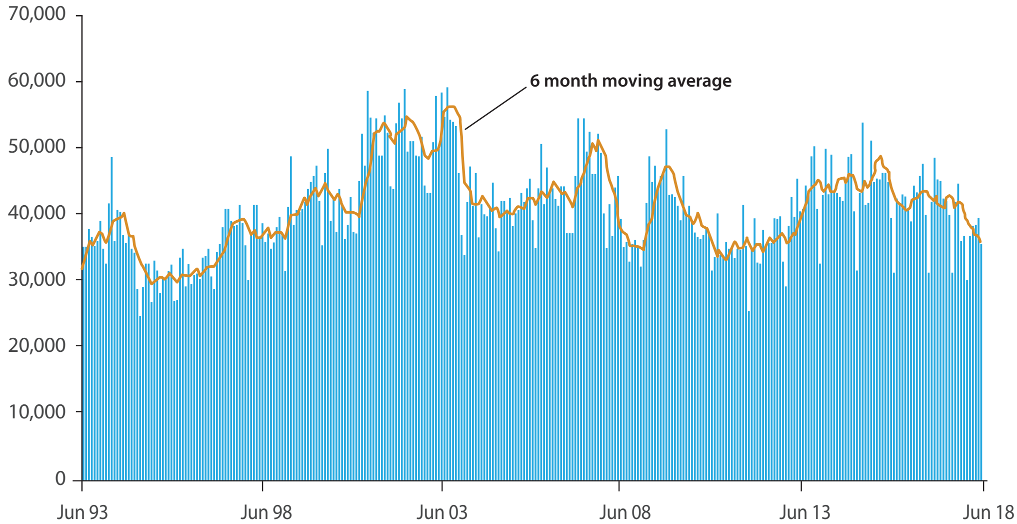
Since 2015 peak, the annual number of dwelling sales has declined by 16.2%, with CoreLogic estimating 460,000 dwellings were settled throughout the 2017-18 financial year.

CoreLogic estimates of settled sales over the 2017-18 financial year have shown the steepest decline across the three largest capital cities: Sydney (-14.3%), Melbourne (-14.0%) and Brisbane (-12.8%).

Importantly, housing market activity reached historical highs 16 years ago. The twelve months to May 2002 saw 632,000 dwellings sold. The fact that settled sales are substantially lower than they were at their 2002 peak yet the overall number of dwellings has increased substantially since this time, points to market inefficiencies, which deter property transactions. In particular, the costs related to buying and selling property has had a bearing on transaction activity. These costs include stamp duty, inspection costs, legal fees and agency commissions.

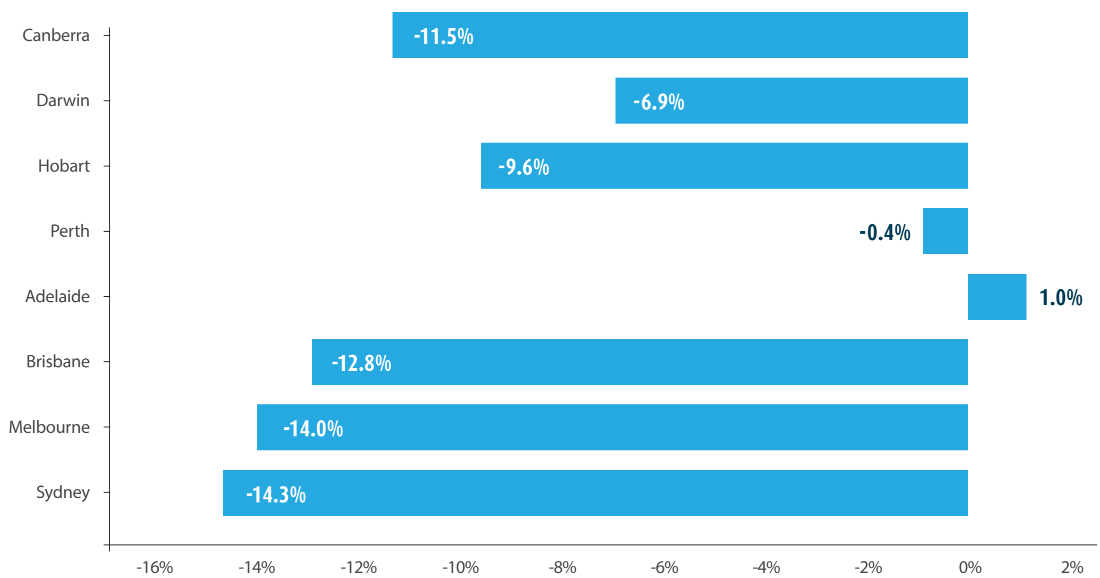
Other factors such as house prices have also dampened housing market activity, particularly in Sydney and Melbourne where housing prices relative to household incomes show the greatest imbalance.

Graph 8: Monthly number of settled sales, National



Source: *CoreLogic, June 2018*

Graph 9: Year on year change in dwelling sales



Source: *CoreLogic, June 2018*

Auction Markets

Auction clearance rates provide a timely measure of the fit between buyer and seller pricing expectations. Homes sold by auction are heavily concentrated in Melbourne and Sydney while most other cities see only a small proportion of properties sold via auction.

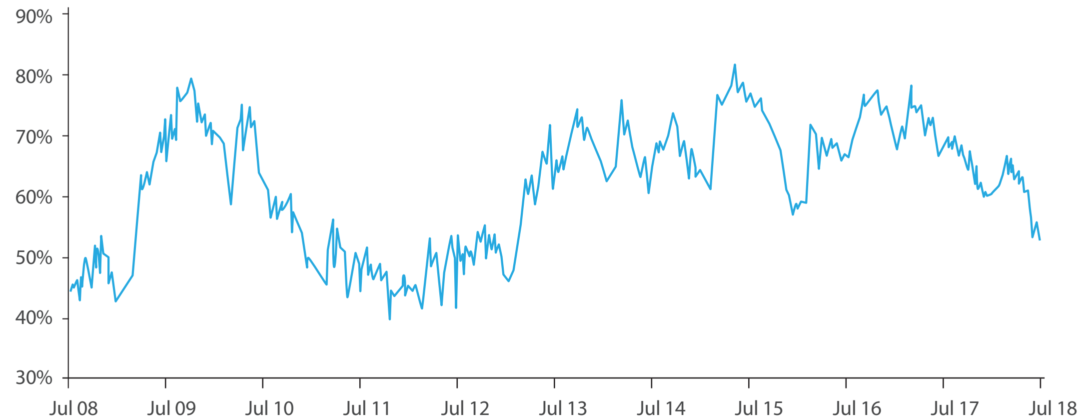
Auction clearance rates has trended clearly downwards, with the combined capitals weighted average falling from a recent high of 78% in February 2017 to 53% over the second week of July 2018.

Melbourne, which is Australia's largest auction market, has seen clearance rates consistently declining since late 2017, in line with a peak in dwelling values. The most recent data from July 2018 shows clearance rates in Melbourne have been consistently holding around the mid-50 per cent range.

Sydney, where housing values have fallen more substantially, has seen auction clearance rates trend lower than Melbourne, with week-to-week clearance rates holding in the high 40 per cent to low 50 per cent range.

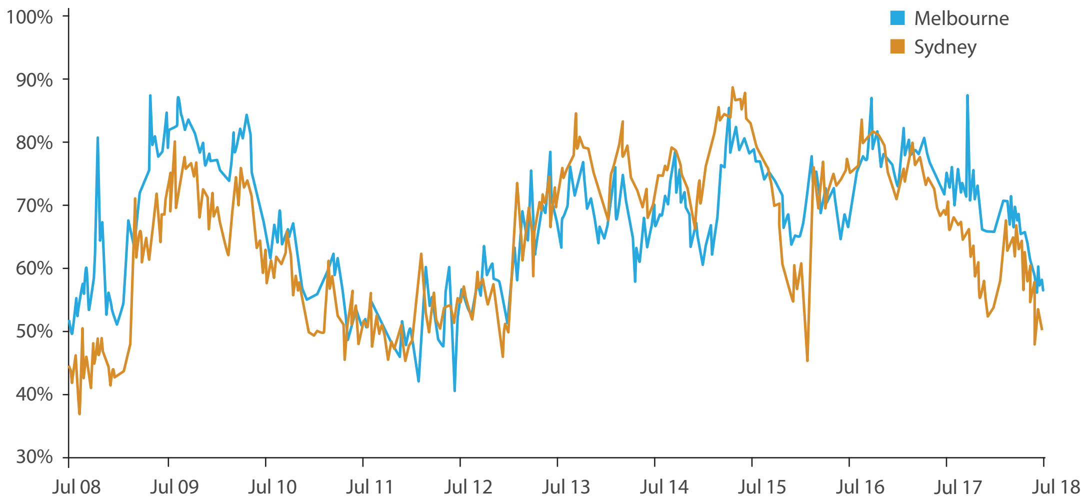
The trend towards lower auction clearance rates implies buyers are gaining more leverage in the housing market and vendors are adjusting prices downwards to sell their property.

Graph 10: Weighted average capital city auction clearance rates



Source: *CoreLogic, July 2018*

Graph 11: Weekly auction clearance rates, Sydney and Melbourne



Source: *CoreLogic, July 2018*

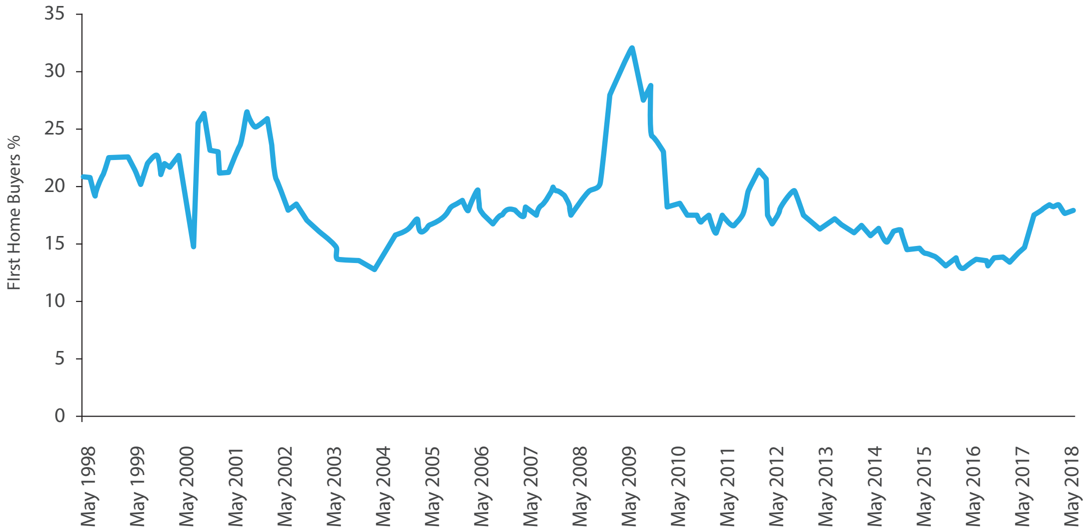
First Home Owner Levels

First home buyers' commitments (dwellings financed) for May 2018 was recorded at 17.6 per cent of all owner-occupied dwellings financed.[xx] There has been an average 2.4 per cent increase in first home buyer commitments over the last five years as a total of all owner-occupied housing financed. In May 2017, 8,439 dwellings for first home buyers were financed as opposed to 10,302 dwellings in May 2018.

Over the past 25 years first home buyers have averaged 9,184 dwellings financed per month or 19 per cent of all owner-occupied housing finance across Australia. As at May 2018, the average loan size for first home buyers was $344,600.

Graph 12: First Home Buyers

ABS 5609.0, May 2018, *Original Terms* (released July 2018)



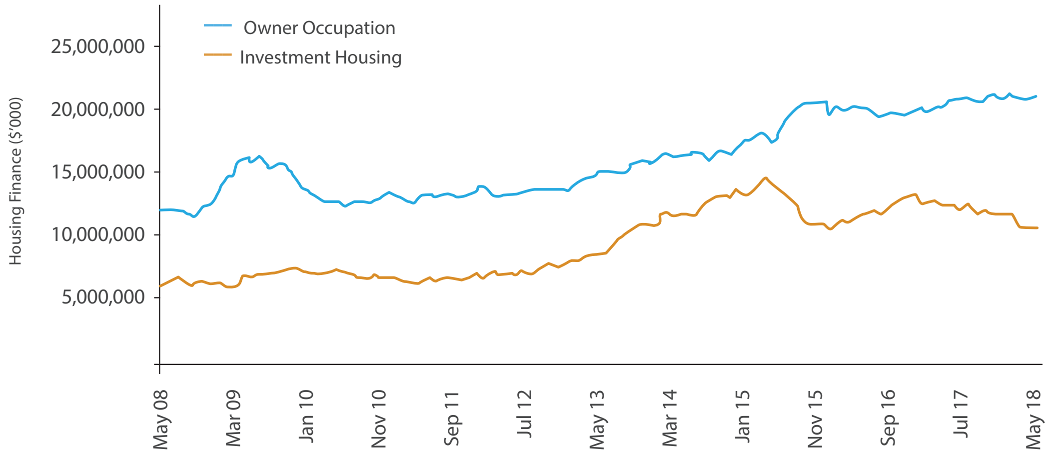
Housing affordability 2019 – Over the longer term, first home buyers have declined as a percentage of all dwellings financed, however, there has been an increase in the amount they are borrowing. In May 2018, the average first home buyer loan was $344,600, up $26,600 from May 2017. This rise in average loan size and a stabilising in average housing price suggest an increasing capacity to purchase in cooling markets. However any gains for first home buyers are eroded in parts of the country that have no stock at this price level (only 2.5% of houses in Sydney sold for under $400,000 in the past year, for example). Other elements such as a bank credit squeeze due to stricter lending standards by the banking regulator APRA will further inhabit first home buyers' ability to enter the market.

Housing Finance/Investor Levels

After the Global Financial Crisis (GFC) of mid-2007 to early 2009, finance for housing grew significantly. Strong price rises partly fuelled the increase in investor finance, as did the significant increase in the volume and number of investor loans. In recent times, however, investor levels have decreased. From April to May 2018, the total value of dwelling finance fell by an estimated 0.7 per cent while investment housing commitments decreased by 1.9 per cent.[xxi] Nationally-introduced macroprudential measures in 2017, which required banks to limit their interest-only lending to investors, as well as stagnant house price growth are largely responsible for the slowdown in housing finance and investor levels.

Graph 13: Housing Finance Australia

ABS 5609.0, May 2018 (released July 2018)



Housing affordability 2019 – Housing finance for investment properties is likely to continue its downward trend throughout 2018-19 as tighter restrictions on Australian home loan lenders from APRA continues to have an impact.[xxii] Banks now need to limit interest-only lending to 30 per cent of total new residential mortgage lending, with the volume of interest-only lending at loan-to-value ratio (LVR) to be limited. This tightening of lending standards will impact the supply of housing generally, while restricting the amount of credit available will at the very least put a handbrake on house price increases. With investor housing levels down, APRA has signalled it could ditch its 10 per cent cap on lending to property investors as the measure is probably reaching the end of its useful life.

Foreign Investment Levels

Foreign investment approvals in residential real estate have plummeted from 40,141 approvals in 2015-16 to 13,198 approvals in 2016-17.[xxiii] This represents a reduction of $47.2 billion in the value of Foreign Investment Review Board approvals. Although it must be noted that not all investment approvals translate into actual purchases of dwellings, these figures suggest a huge decline in demand in residential real estate from foreign buyers. Most of the approvals granted in 2016-17 were for potential purchases in Victoria and New South Wales where population growth remains strong.

China and the United States remain the largest foreign investors in Australia's real estate market. However, the value of approvals from Chinese investors has more than halved between 2015-16 and 2016-17. In 2015-16, the value of approvals from Chinese investors was $31.9b as opposed to $15.2b in 2016-17. Although this steep reduction in Chinese investment may be in part due to reduction in demand for Australian property, China has also put restrictions on the amount of capital flowing out of the country. The Federal Government as well as the banks have also tightened rules around lending to foreign investors.

Foreign Investment Approvals 2016-17

Foreign Investment Review Board, Dept of Treasury

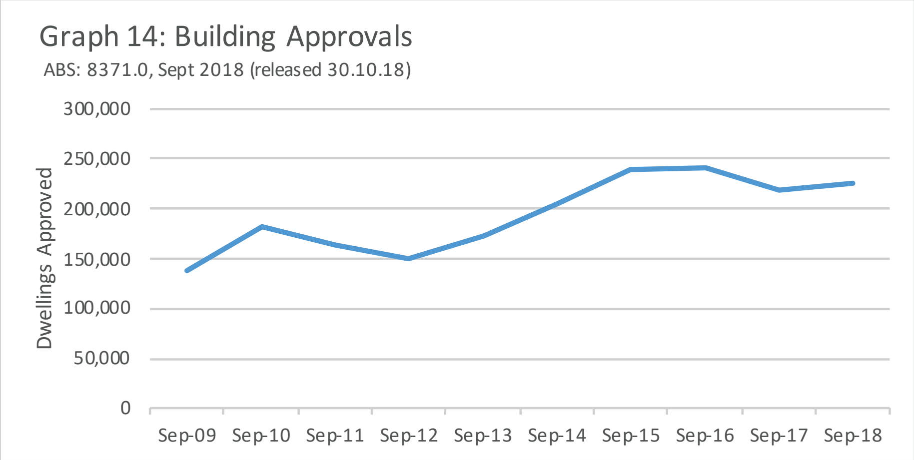
	2013-14		2014-15		2015-16		2016-17	
	No.	$b	No.	$b	No.	$b	No.	$b
Developed	7,920	7.5	9,257	11.5	5,877	7.3	2,008	3.0
For Development	18,284	29.0	27,594	49.2	34,264	65.2	11,190	22.3
	26,2014	**36.5**	**36,851**	**60.7**	**40,141**	**72.5**	**13,198**	**25.3**

State	Number of approvals	Percentage of approvals
Victoria	5,396	40.9%
New South Wales	4,224	32.0%
Queensland	2,378	18.0%
Western Australia	644	4.9%
South Australia	337	2.6%
Australian Capital Territory	124	0.9%
Tasmania	62	0.5%
Northern Territory	8	0.1%
Various (a)	25	0.2%
TOTAL	**13,198**	**100%**

Housing affordability 2019 – Recent record number of new homes under construction in Australia have been underpinned by foreign investment. However, the latest figures from the Foreign Investment Review Board show foreign investment demand is rapidly declining. A continued reduction in foreign investment over the next year should lead to a reduction of investment into new dwellings, with less supply created as a result. Any sustained reduction of foreign investment in new dwellings over the longer term will materially impact new dwelling supply, which may have a negative impact on housing affordability.

Building Approvals

Building approvals indicate a flow-through of dwellings that are approved but yet to be built and in simple terms, the approvals are the pipeline of future housing construction. At March 2018, housing approvals over the year were recorded at 227,383 and have remained stable when compared to the same time last year.[xxiv] Over the last 10 years, building approvals hit a high in March 2016, when 239,648 dwellings were approved. Despite a slight reduction in dwelling approvals since March 2016, they remain well above the 10-year average.



Year to Date	Dwellings Approved
Sep-09	137,895
Sep-10	180,855
Sep-11	164,202
Sep-12	149,779
Sep-13	173,196
Sep-14	204,294
Sep-15	238,600
Sep-16	241,072
Sep-17	217,690
Sep-18	225,479

The graph above demonstrates the strong growth in building approvals over the past decade. In September 2009, 137,895 dwellings were approved for construction compared to 225,479 dwellings approved for construction in September 2018.

Housing affordability 2019 - Assuming strong building numbers flow through to commencements and completions, affordability pressures across Australia may be reduced. However, recent reductions in finance commitments for housing suggest that building approvals may slow over the next year, which may impact future commencements and completions as well as general housing supply.

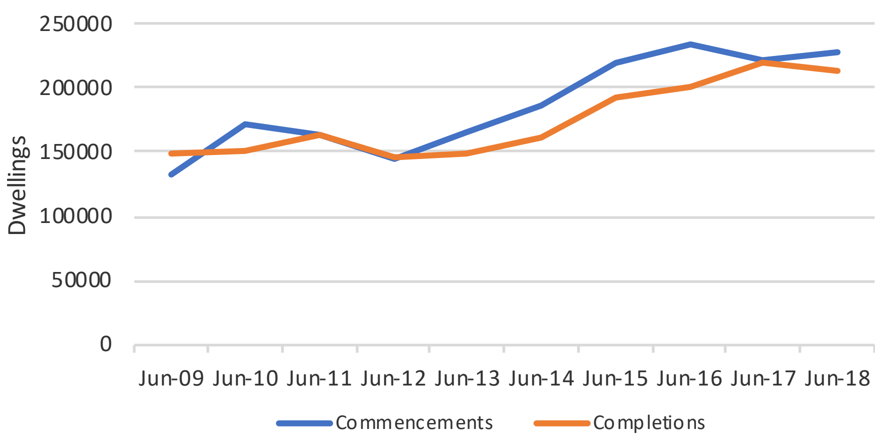
Building Activity

After significant growth in building activity in recent times, Australia has seen a slight downturn in dwelling commencements and completions. There were 228,478 dwellings commenced in the twelve months ending June 2018, with 213,020 dwellings reaching completion.xxv This is a drop from a peak of 233,659 commencements in the year ending June 2016.

Despite the drop, Australia is still surpassing the 20-year national average of 161,731 completions, with the figure to June 2018, 30 per cent above the long-term average.

Graph 15: 10 Year Building Activity

ABS 8752, June 2018 (released 10 Oct 2018)



Housing affordability 2019 – The recent drop in commencements and completions, albeit small, is a response to elevated levels of activity over the past five years. The elevated activity has impacted on housing supply and affordability, with both rental and mortgage growth moderating as a result. Affordability in the coming 24 months will rely on housing commencements moving to completions and supply not returning to 20-year averages which are over 50,000 dwellings built per year below the average build rate over the past 36 months.

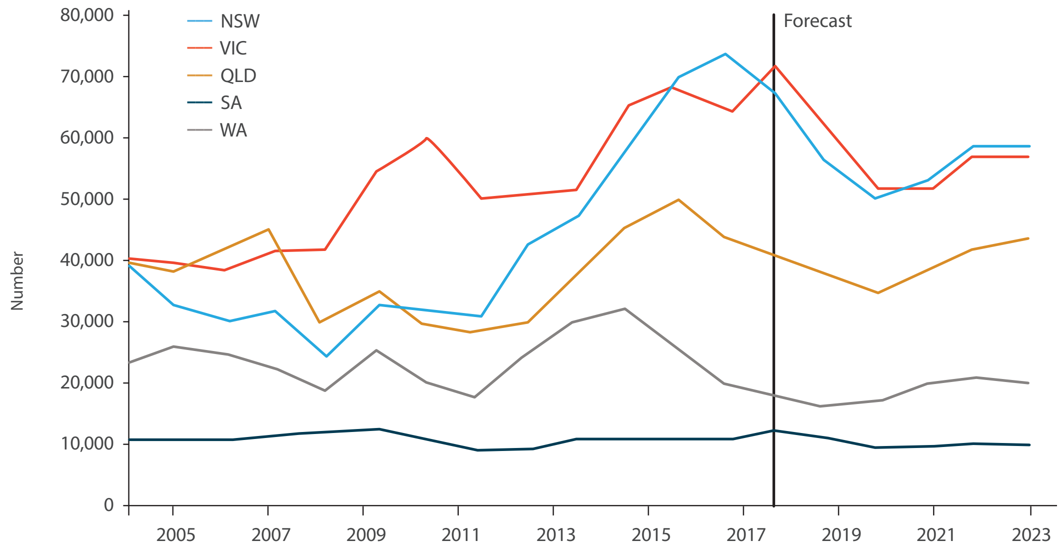
Housing Forecasts

A July 2018 report from BIS Oxford Economics[xxvi] predicts Australian building activity is set for its sharpest decline since the GFC due to high land costs, slowing migration and falling investor demand.

The recent high level of housing delivery has led to a falling demand for housing, driving lower prices. This, along with tougher lending rules and increased foreign buyer charges, has reduced the attractiveness of housing as an investment asset. With high land prices inhibiting new developments, buyers will gravitate towards established dwellings.

The graph overleaf predicts a marked drop in dwelling commencements in almost every state, with a correction of 23 per cent and a cumulative fall of 10 per cent in building commencements over the next two years.[xxvii]

Graph 16: Total Dwelling Commencements by State



***Source:** BIS Oxford Economics, July 2018*[xxviii]

Housing affordability 2019 – Recent data provided by BIS Oxford Economics forecasts an underlying demand for building 195,800 dwellings per annum on average over the next five years. This number is underpinned by population growth and a reduction in the average number of people in a household. If Australia fails to maintain that average build rate into the next five years, there is a risk in reversing affordability gains as housing demand fails to be met.

Underlying Demand

Underlying demand which considers annual household formation, additional unoccupied dwellings, and demolitions provides an indication of the number of homes that need to be built per year. Recent estimates indicate that Australia needs to build between 195,000 to 200,000 homes to meet underlying demand for each year through to 2033.[xxix]

Housing affordability 2019 – To put this into perspective, if Australia drops back to around 171,000 dwellings constructed in 2020 as forecast above, then the country will be building 30,000 dwellings less than the underlying demand. Considering that Australia's annual construction rate over the past 20 years has averaged at 161,731 completions and this average has been boosted by five years of record building, then the actual activity could be far lower than these forecasts. Failing to meet underlying demand will result in upward price pressure.

North Coast Community Housing Company - Solar project - NCCHC & Lisa Madden

3. National Affordability Measures

Rental Affordability Index – Metropolitan Centres and Rest of State Areas

Region	RAI at Dec 2017	Share of household income spent on rent	Relative unaffordability
Greater Sydney	113	27%	Moderately unaffordable rents
Rest of NSW	112	27%	Moderately unaffordable rents
Greater Brisbane	121	25%	Acceptable rents
Rest of QLD	122	25%	Acceptable rents
Greater Adelaide	117	26%	Moderately unaffordable rents
Rest of SA	137	22%	Acceptable rents
Greater Hobart	102	29%	Moderately unaffordable rents
Rest of TAS	121	25%	Acceptable rents
Greater Melbourne	126	24%	Acceptable rents
Rest of VIC	123	24%	Acceptable rents
Greater Perth	145	21%	Acceptable rents
Rest of WA	153	20%	Acceptable rents
ACT	127	23%	Acceptable rents

According to the latest Rental Affordability Index (RAI) from December 2017,[xxx] the Greater Hobart region now has the most unaffordable rents in the country due in part to significantly lower household incomes, taking the mantle from the Greater Sydney region. Both the ACT and Greater Melbourne regions have had a decline in rental affordability compared to the December 2016 figures. Lack of affordability for households with very low incomes is worst in Greater Sydney and Canberra due to above-average median incomes. Positively, Greater Perth continues to show gradual improvements in rental affordability and is the most affordable city in the country. Greater Adelaide has seen no change to rental affordability since mid-2016. While most state capitals tended to be less affordable than the rest of the surrounding states, both Sydney and Melbourne were less expensive than NSW and Victoria regionals respectively.

For single pensioners, rents in all metropolitan areas are categorised as Severely Unaffordable (38-60 per cent of income spent on rent) and Extremely Unaffordable (60+ per cent of income spent on rent), with Greater Sydney the most severe followed by the ACT. For pensioner couple households, rents are generally Unaffordable (30-38 per cent of income spent on rent) to Severely Unaffordable. Unaffordable to Extremely Unaffordable rents face students sharing houses in the inner and middle suburbs of metropolitan areas.

Rental Stress

Rental stress is a worsening problem across Australia. Households are generally considered to be in housing stress if their housing payments equate to 30 per cent or more of their household income, however it is worth noting that this definition does not include the added burden of affordable housing being located far from transport and employment hubs or the rising utilities costs. Rental stress has increased for Australian households across all areas between 2011 to 2016.[xxxi]

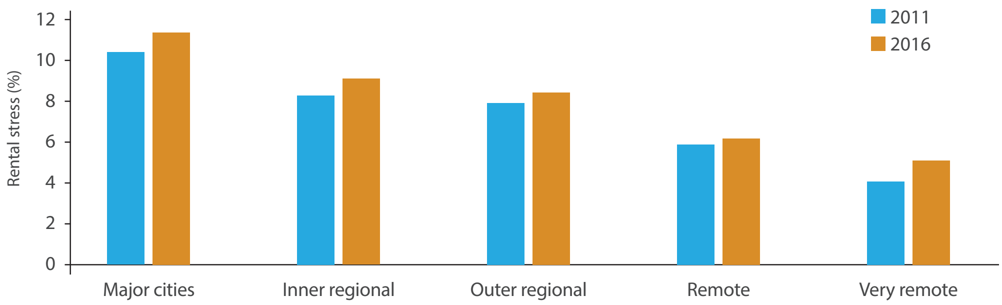
Households in major cities are most likely to experience rental stress (11.4 per cent), increasing 0.9 per cent since 2011. Specifically, major cities in New South Wales are most affected, with 14 per cent of households who rent in rental stress.

Despite very remote areas experiencing the second smallest increase to median rents between 2011 and 2016, households in these areas have experienced the largest increase in rental stress, from 4.1 per cent in 2011 to 5.2 per cent in 2016. This is likely due to worsening employment prospects in these regions, such as the slowdown of the mining boom.

Households in very remote areas of Queensland experienced the biggest increase in rental stress (2.2 per cent) between 2011 and 2016, ahead of major cities in New South Wales (1.6 per cent).

Graph 17: Rental Stress by Remoteness Area

ABS Census 2011/2016 QuickStats



Housing affordability 2019 – Weekly rental rate growth across Australia has remained stable over the last year, at two per cent. Despite this being lower than the recent high of 2.9 per cent in September 2017, every capital city apart from Sydney is seeing rents increase at rates higher than the five-year average.

Increasing rates of rental stress has serious implications for the private rental market, but more importantly on the social housing sector, including the community housing sector. If rental market affordability continues to decline, more households will need housing support.

The social housing sector is already stretched, with around 189,400 applicants on social housing waiting lists (AIHW 2018). Despite comparatively large growth, demand outstrips supply in both the community housing and public housing sectors.

A cooling of house prices across Australia may hit renters the hardest. Diminishing capital growth on housing investments could translate into higher rent prices to pursue greater rental yields. We are already seeing this in response to stagnating house prices, with rental yields now above than the national average for both houses and units in all markets except Melbourne and Sydney (CoreLogic 2018).

Anglicare Australia Rental Affordability Snapshot

The latest Anglicare Australia Rental Affordability Snapshot indicates the rental crisis is worse than ever. More than 67,000 rental properties across Australia were analysed for the Snapshot, which was released on April 30. It found a chronic shortage of affordable rental properties.[xxxii]

Of the houses analysed:

- Only 485 were deemed affordable for a single person on the Disability Support Pension
- Only 180 were deemed affordable for a single parent with one child on Newstart
- Only three were deemed affordable for a single person on Newstart
- Only two were deemed affordable for a single person in a property or share house on Youth Allowance
- None were deemed affordable for a single person on Newstart or Youth Allowance in Sydney, Canberra, Melbourne, Adelaide, Darwin or Perth.

The report indicates that our cities may have the work, but offer little affordable housing.

The Snapshot shows there has been no meaningful relief for people on low incomes looking for affordable and suitable homes in our major cities. For those on minimum wage, options are becoming more limited.

Sydney stands out for the extraordinary affordability crisis revealed in the data. The Snapshot shows there was no affordable and suitable property for any household type (with the exception of a couple both earning the minimum wage, for whom just four per cent of properties were available).

The impact that tourism growth and rapid gentrification has had on northern New South Wales and Hobart is becoming clearer and illustrates their negative impacts on rental affordability.

Hobart has seen a significant decline in the number of affordable and suitable private rental properties. An Airbnb explosion has led to the removal of properties from the long-term rental market and, as property prices in the city rapidly rise, low income earners are finding it harder to compete in the rental market.

Median Prices

Nationally, the median dwelling price (ie combined houses and units) was $535,000 at the end of June 2018; a $100,000 (23%) increase from five years prior. It is clear that detached housing commands a premium in the capital cities, with the combined capitals recording a median dwelling price of $620,000.

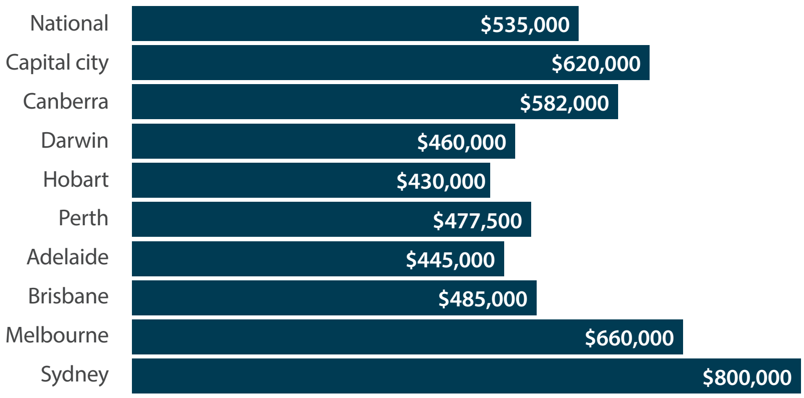
Unsurprisingly, house prices are typically higher than unit prices. The median house price across the combined capital cities was $650,000, almost $100,000 higher than the median unit price, which was $552,000.

Housing prices range significantly between the capital cities, with Sydney prices well above others. At the end of June 2018, Sydney's median dwelling price was recorded at $800,000 - $140,000 higher than Melbourne, where the median dwelling price was recorded at $660,000.

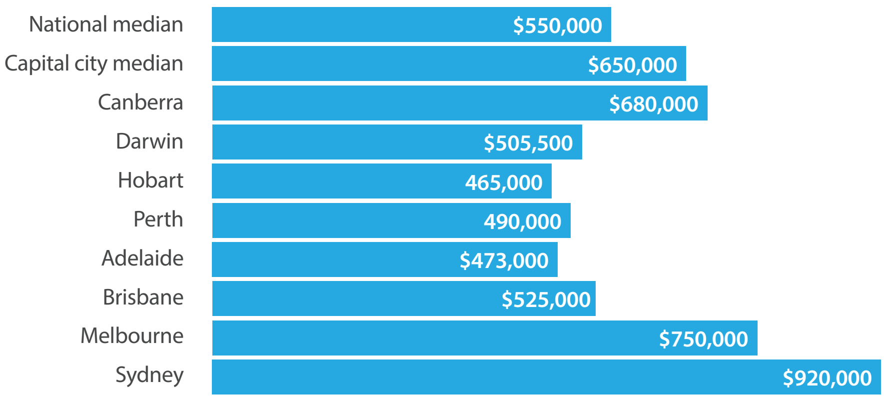
Hobart remains the lowest price capital city, recording a median dwelling price of $430,000, although strong capital gains have seen the city draw closer to other cities such as Adelaide ($445,000) and Darwin ($460,000).

Based on the change in median prices over the past five years, every capital city has seen house prices either rise by a larger amount than unit prices, or fall by a lesser amount (as is the case in Perth and Darwin where prices are lower relative to five years ago). The stronger price growth across the detached housing sector likely reflects the increasing land values as well as lower supply levels relative to units.

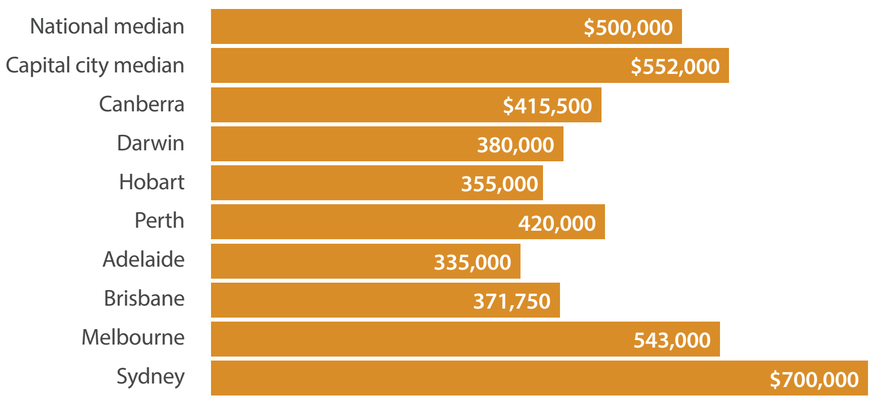
Median dwelling price



Median house price



Median unit price



Source: *CoreLogic, July 2018*

20 year dwelling house and unit snapshot 1998-2018

	Sydney Dwellings	Melbourne Dwellings	Brisbane Dwellings	Adelaide Dwellings	Perth Dwellings	Hobart Dwellings	Darwin Dwellings	Canberra Dwellings	Capital city Dwellings	National Dwellings
Jun 98	$225,000	$143,000	$144,900	$115,000	$128,000	$100,000	N/A	$140,000	$158,500	$141,325
Jun 03	$410,000	$262,000	$226,000	$205,000	$198,358	$146,000	$183,250	$300,000	$270,500	$240,000
5 yr change	82.2%	83.2%	56.0%	78.3%	55.0%	46.0%	N/A	114.3%	70.7%	69.8%
Jun 08	$438,500	$358,000	$410,000	$341,250	$415,000	$295,000	$357,500	$415,000	$390,000	$360,000
5 yr change	7.0%	36.6%	81.4%	66.5%	109.2%	102.1%	95.1%	38.3%	44.2%	50.0%
Jun 13	$576,000	$475,000	$425,000	$380,000	$485,000	$320,000	$492,500	$482,000	$487,950	$435,000
5 yr change	31.4%	32.7%	3.7%	11.4%	16.9%	8.5%	37.8%	16.1%	25.1%	20.8%
Jun 18	$800,000	$660,000	$485,000	$445,000	$477,500	$430,000	$460,000	$582,000	$620,000	$535,000
5 yr change	38.9%	38.9%	14.1%	17.1%	-1.5%	34.4%	-6.6%	20.7%	27.1%	23.0

	Sydney Houses	Melbourne Houses	Brisbane Houses	Adelaide Houses	Perth Houses	Hobart Houses	Darwin Houses	Canberra Houses	Capital city Houses	National Houses
Jun 98	$200,000	$143,000	$140,000	$120,000	$130,000	$100,000	N/A	$145,000	$153,500	$136,000
Jun 03	$450,000	$255,000	$235,000	$220,000	$197,000	$150,000	$192,250	$325,000	$266,000	$233,333
5 yr change	104.5%	78.3%	67.9%	83.3%	51.5%	50.0%	N/A	124.1%	73.3%	71.6%
Jun 08	$502,500	$353,750	$425,000	$360,500	$420,000	$310,000	$389,000	$467,000	$405,000	$362,500
5 yr change	11.7%	38.7%	80.9%	63.9%	113.2%	106.7%	102.3%	43.7%	52.3%	55.4%
Jun 13	$640,000	$490,000	$442,000	$395,000	$495,000	$335,000	$530,000	$536,000	$499,000	$430,000
5 yr change	27.4%	38.5%	4.0%	9.6%	17.9%	8.1%	36.2%	14.8%	23.2%	18.6%
Jun 18	$920,000	$750,000	$525,000	$473,000	$490,000	$465,000	$505,500	$680,000	$650,000	$550,000
5 yr change	43.8%	53.1%	18.8%	19.7%	-1.0%	38.8%	-4.6%	26.9%	30.3%	27.9%

	Sydney Units	Melbourne Units	Brisbane Units	Adelaide Units	Perth Units	Hobart Units	Darwin Units	Canberra Units	Capital city Units	National Units
Jun 98	$226,500	$142,000	$156,000	$93,500	$120,000	$90,000	N/A	$128,950	$170,000	$160,000
Jun 03	$370,000	$276,500	$200,000	$165,000	$200,000	$130,000	$156,000	$265,000	$284,000	$259,000
5 yr change	63.4%	94.7%	28.2%	76.5%	66.7%	44.4%	N/A	105.5%	67.1%	61.9%
Jun 08	$394,500	$365,000	$363,500	$280,000	$398,000	$257,000	$320,000	$350,000	$369,000	$352,500
5 yr change	6.6%	32.0%	81.8%	69.7%	99.0%	97.7%	105.1%	32.1%	29.9%	36.1%
Jun 13	$545,000	$460,000	$395,000	$315,000	$448,000	$281,000	$427,000	$410,000	$475,000	$440,000
5 yr change	38.1%	26.0%	8.7%	12.5%	12.6%	9.3%	33.4%	17.1%	28.7%	24.8%
Jun 18	$700,000	$543,000	$371,750	$335,000	$420,000	$355,000	$380,000	$415,500	$552,000	$500,000
5 yr change	28.4%	18.0%	-5.9%	6.3%	-6.3%	26.3%	-11.0%	1.3%	16.2%	13.6%

Source: *CoreLogic, August 2018*

Pricing Differential Between Highest and Lowest Quartiles

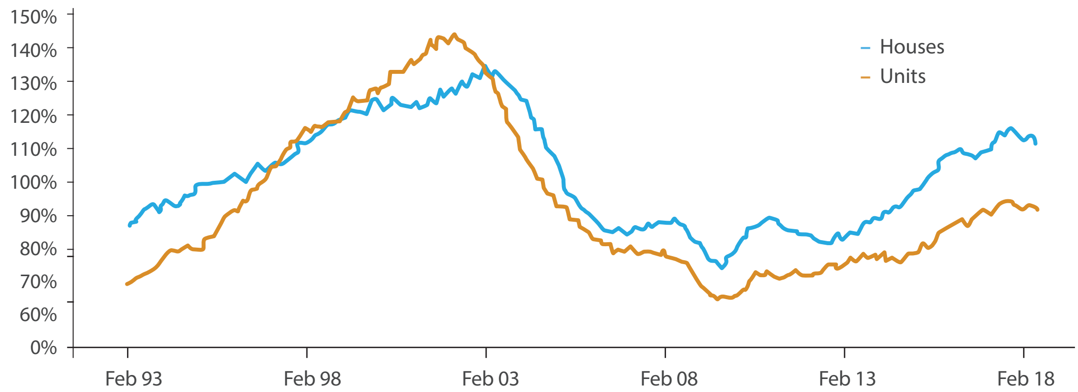
It is useful to examine housing prices more broadly however, beyond the median price. The lower and upper quartile of prices provide some guidance as to the market entry point (lower quartile) and the premium end of the pricing spectrum (upper quartile). The interquartile range (i.e. the difference between the upper and lower quartiles) provides a useful measure of the spread of housing prices across a region.

At the end of June 2018, the lower quartile price of a house nationally was $370,000 and the upper quartile price was $795,000, a spread of 115%. For national unit prices, the spread between the upper and lower quartile was lower (97%), with the lower quartile unit price $348,000 compared with an upper quartile price of $685,000.

Sydney's housing market shows the largest interquartile range for houses at 122%, indicating a broad spread of house prices across the metropolitan area. Demonstrating the affordability challenge in Sydney, the lower quartile house price was recorded at $700,000 at the end of June 2018. This was well above any other capital city and in some cases, higher than the upper quartile price for some of the lower-priced cities like Adelaide and Hobart. Canberra had the lowest interquartile range (51%) for houses, implying a narrower spread of prices.

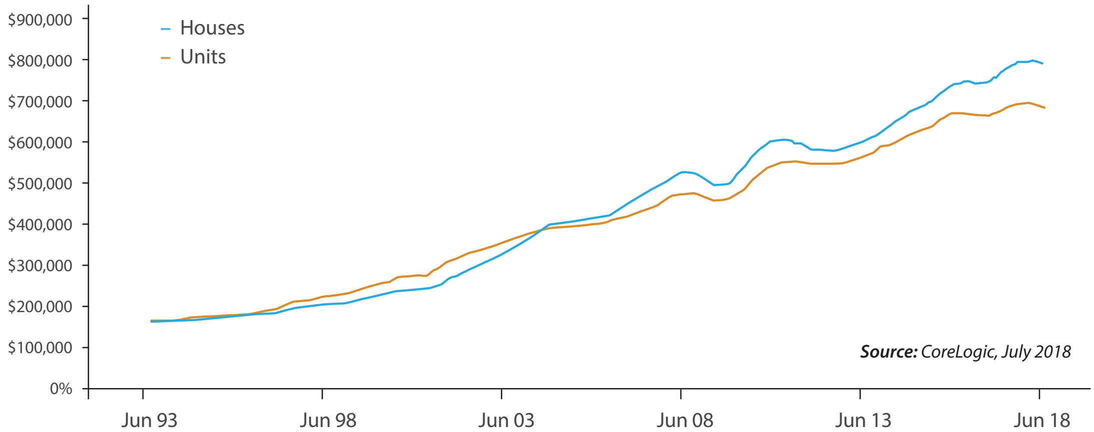
The interquartile range for capital city units was generally narrower relative to houses, suggesting unit markets are more homogenous in their quality and pricing.

Graph 18: Difference between 25th and 75th percentile prices, National



Source: *CoreLogic, July 2018*

Graph 19: 75th percentile prices, National



City	Housing type	Percentile		Differential
Sydney	Houses	25th	$700,000	122.1%
		75th	$1,555,000	
	Units	25th	$570,000	63.2%
		75th	$930,000	
Melbourne	Houses	25th	$580,000	89.7%
		75th	$1,100,000	
	Units	25th	$415,000	67.7%
		75th	$696,000	
Brisbane	Houses	25th	$410,000	74.4%
		75th	$715,000	
	Units	25th	$325,000	58.5%
		75th	$515,000	
Adelaide	Houses	25th	$348,500	77.6%
		75th	$619,000	
	Units	25th	$287,500	72.2%
		75th	$495,000	
Perth	Houses	25th	$390,000	83.3%
		75th	$715,000	
	Units	25th	$299,000	77.3%
		75th	$530,000	
Hobart	Houses	25th	$320,000	84.4%
		75th	$590,000	
	Units	25th	$252,500	70.3%
		75th	$430,000	
Darwin	Houses	25th	$394,000	58.6%
		75th	$625,000	
	Units	25th	$279,000	70.3%
		75th	$475,000	
Canberra	Houses	25th	$561,000	51.3%
		75th	$849,000	
	Units	25th	$370,000	45.9%
		75th	$540,000	

***Source:** CoreLogic, July 2018*

Value Changes

Capital city housing markets have returned a diverse range of value performance over the past five years. Although the headline growth rate across the combined capital city regions has been strong, with dwelling values rising by 5.8 per cent per annum between June 2013 and June 2018, growth has been heavily skewed towards Sydney (+9.0 per cent per annum) and Melbourne (+8.1 per cent per annum), while more recently, Hobart growth rates have accelerated (+6.7 per cent per annum).

Dwelling values across Darwin (-4.7 per cent per annum) and Perth (-1.9 per cent per annum) have drifted lower over the past five years while growth in Brisbane (+5.3 per cent per annum), Adelaide (+3.3 per cent per annum) and Canberra (+2.9 per cent per annum) has been more sustainable.

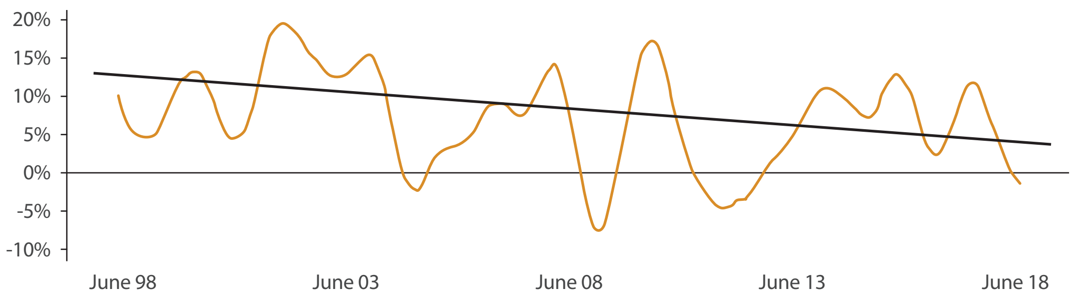
Dwelling values are now broadly trending lower. National dwelling values are down 1.3 per cent since peaking in September last year. The declines have been heavily influenced by the two largest capitals, Sydney and Melbourne, where values were previously surging higher. Sydney's housing market peaked in July 2017 and values have fallen by 4.8 per cent to the end of June

2018. Melbourne values have been falling since November 2017 and declined by two per cent to the end of June 2018.

While most of the focus has been on weaker conditions across Sydney and Melbourne, every capital city, apart from Perth where the rate of decline is easing, has recorded a lower annual change in dwelling values relative to the 12 months ending June 2017.

Historically, changes in monetary policy have been the catalyst for a turning point in the housing cycle, or more rarely an economic shock such as the Global Financial Crisis. The current change in the housing markets performance can be primarily attributed to heighted regulation, which has led to tighter lending conditions, especially for investors and borrowers who are not paying down the principal on their loan. Credit growth for investment purposes is tracking at record lows (two per cent per annum over the 12 months ending May 2018), while the pace of owner occupier lending remains relatively buoyant at 7.9 per cent per annum.

Graph 20: Annual change in combined capital city dwelling values



Sales by Price Point

As values have increased over recent years across most regions of Australia, the supply of housing at lower price points has decreased substantially. The following table highlights the number of settled sales over the twelve months to June 2018, where houses and units sold for less than $400,000 across each capital city. The coresponding figure shows the proportion five years ago.

	30 June 2018	30 June 2013
Sydney		
Houses	2.5%	21.3%
Units	5.8%	26.2%
Melbourne		
Houses	2.7%	31.3%
Units	21.5%	38.2%
Adelaide		
Houses	36.6%	53.2%
Units	55.7%	69.6%
Brisbane		
Houses	22.9%	37.7%
Units	47.1%	53.0%

	30 June 2018	30 June 2013
Canberra		
Houses	2.4%	9.6%
Units	34.4%	44.8%
Darwin		
Houses	25.5%	24.3%
Units	63.2%	43.2%
Greater Hobart		
Houses	43.9%	67.4%
Units	70.0%	83.6%
Perth		
Houses	26.6%	27.0%
Units	51.2%	42.7%

Source: *CoreLogic, June 2018*

Darwin is the only city to see a rise in the number of sales under $400,000 for both houses and units, while Perth has seen a rise in the proportion of units selling under $400,000. In Canberra, only 2.4 per cent of houses sold over the twelve months ending June 2018 transacted at a price under $400,000, down from 9.6 per cent five years ago. Sydney (2.5 per cent) and Melbourne (2.7 per cent) also recorded very small proportions of house sales under $400,000.

Median Price by Postcode

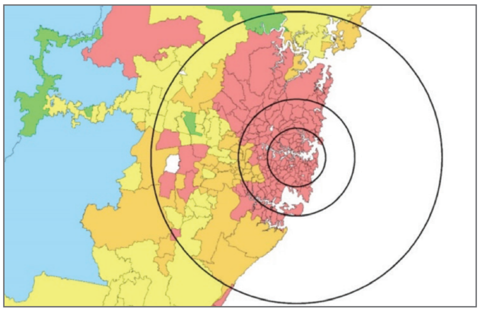
Source: *CoreLogic, June 2018*

White spaces indicate areas where there is not enough data to calculate a median, such as postcodes that are primarily industrial estates parks, airports or mostly rural properties. This is more common on the unit market maps where there are areas with either very small unit markets or no units.

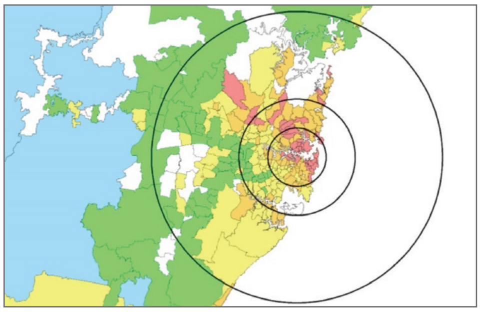
- $1m+
- >=$800k and <$1m
- >=$600k and <$800k
- >=$400k and <$600k
- <$400k

Inner ring: 10km from city centre
Middle ring: 20km from city centre
Outer ring: 50km from city centre

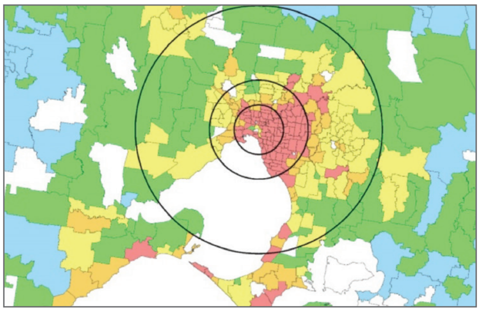
Sydney Houses



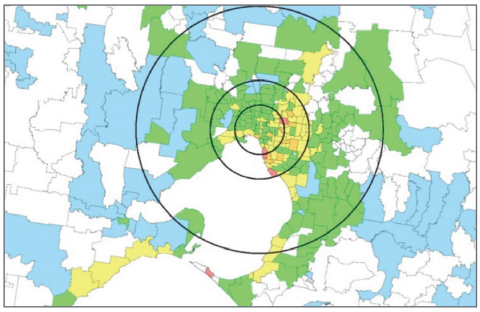
Sydney Units



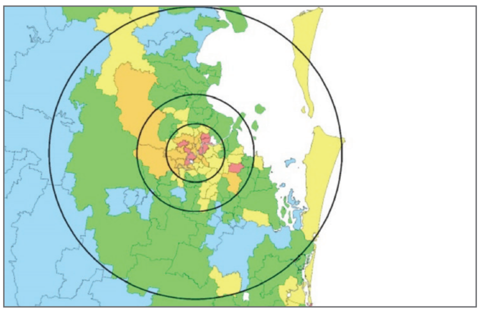
Melbourne Houses



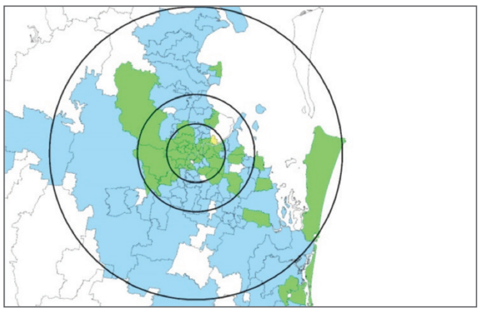
Melbourne Units



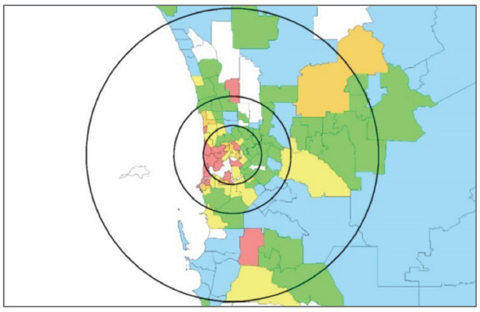
Brisbane Houses



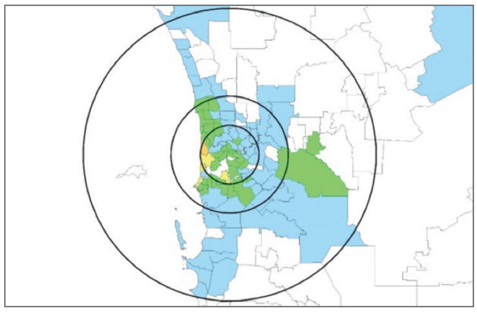
Brisbane Units



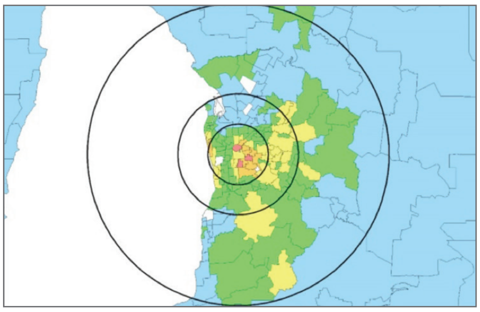
Perth Houses



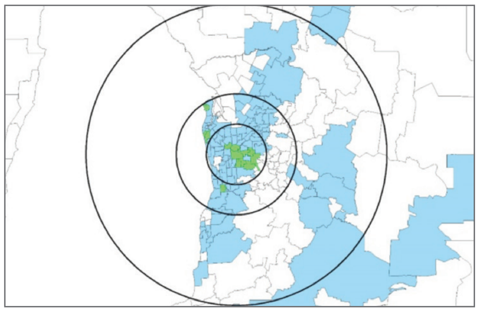
Perth Units



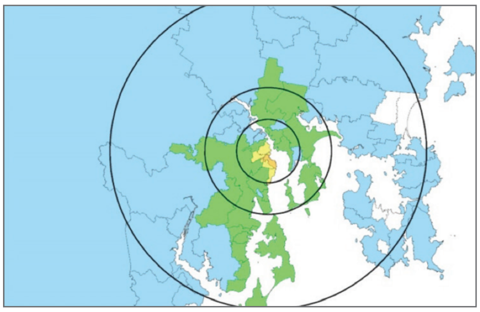
Adelaide Houses



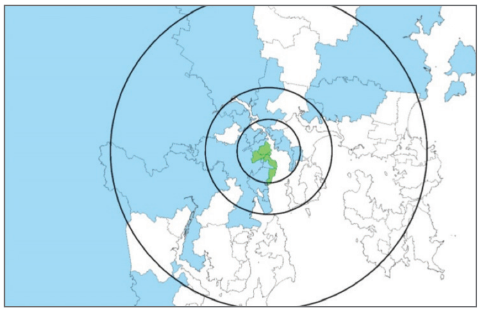
Adelaide Units



Hobart Houses



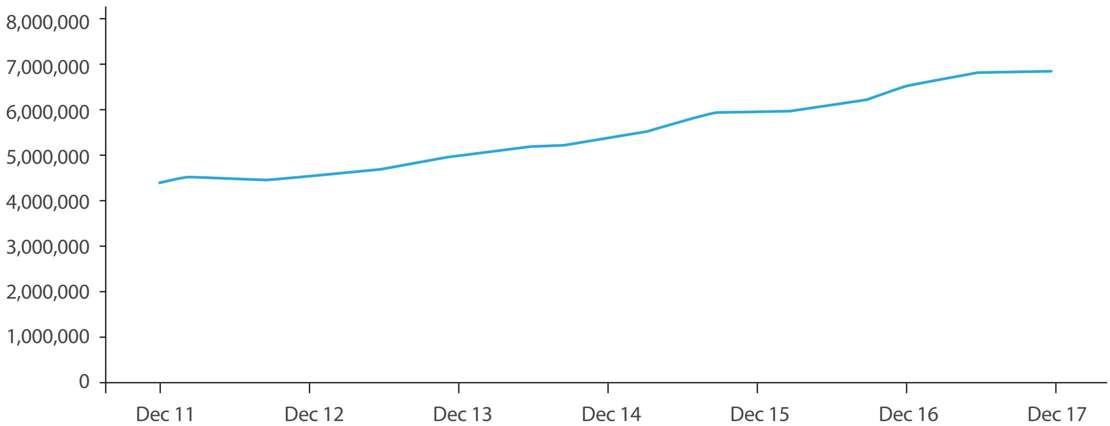
Hobart Units



Value of dwelling stock

Graph 21: Value of Dwelling Stock in Australia

ABS 6416.0, Dec 2017 (Released Mar 2018)



Australia's housing market was valued at nearly $7 trillion at the end of the December quarter 2017, with New South Wales and Victoria accounting for more than half of the sector's total value. The value of dwelling stock in Australia has steadily risen since 2011 and illustrates the strength of the sector. The value of dwelling stock owned by non-households, including dwellings owned by a real estate agent, person not in the same household, and a housing co-operative/community/church group, is around $342 million.

Housing affordability 2019 – The size of Australia's housing market illustrates the difficulty for the Federal Government's current level of housing expenditure (approximately $10b per annum) to have a meaningful impact on housing affordability. The strong growth in the value of the market over the longer term only works to strengthen investor demand and confidence in the market, which ultimately has the biggest negative impact on low to middle income earners trying to purchase or rent a home. Given the long-sustained period of growth in the value of Australia's dwelling stock, it is expected this will continue over the long term

Interest to Income Ratio

The proportion of household gross disposable income required to meet interest payments increased to 10.7 per cent in March 2018 up from the December quarter ratio of 10.2 per cent.[xxiii] Following a peak of 16.5 per cent in the June quarter of 2008, the last four years have seen a relatively stable ratio, however, the ration is trending upward.

Housing affordability 2019 – The stable interest payable to income ratio has made mortgage repayments more affordable for those already in the property market. Sluggish wage growth and the increase in interest to income in the March 2018 quarter are worth watching. With interest rates already low, the RBA can do little to offset any difficulties in repaying mortgages, and interest rate hikes will have significant negative consequences on the ability of some Australians to meet mortgage repayments.

Housing Affordability International Comparison

The *International Housing Affordability Survey* rates and compares middle-income housing affordability across a number of developed nations. The survey calculates housing market affordability by using the 'median multiple', which is derived by dividing the median house price by median household income. Housing markets are rated as either affordable (3.0 & under), moderately unaffordable (3.1 to 4.0), seriously unaffordable (4.1 to 5.0) or severely unaffordable (5.1 & over).

The *14th Annual Demographia International Housing Affordability Survey*: *2018*, using data from the third quarter of 2017, ranked Australia as the second most unaffordable country. Australia had a median multiple of 5.9 (severely unaffordable), which is only second to Hong Kong which has a medium multiple of 19.4. This means Australia is more unaffordable than comparable countries like New Zealand, Singapore, the United Kingdom, and the United States.

Nation	Metropolitan market	Median multiple
China	Hong Kong	19.4
Australia	Sydney, NSW	12.9
Canada	Vancouver, BC	12.6
United States	San Jose, CA	10.3
Australia	Melbourne, VIC	9.9
United States	Los Angeles, CA	9.4
United States	Honolulu, HI	9.2
United States	San Francisco, CA	9.1
New Zealand	Auckland	8.8
United Kingdom	London	8.5

A number of Australian cities are listed among the most unaffordable in the world. Sydney was ranked as the second most unaffordable city in the world (12.9), while Melbourne was ranked fifth on the list of unaffordable housing markets (9.9). Adelaide (6.6), Brisbane (6.3) and Perth (5.9) were among the top 20 most unaffordable major housing markets in the world.

Mortgage Stress

Whereas rental stress has increased across all of Australia, mortgage stress has decreased between 2011 and 2016. Households are in mortgage stress if their repayments are greater than or equal to 30% of household income (ABS 2016).

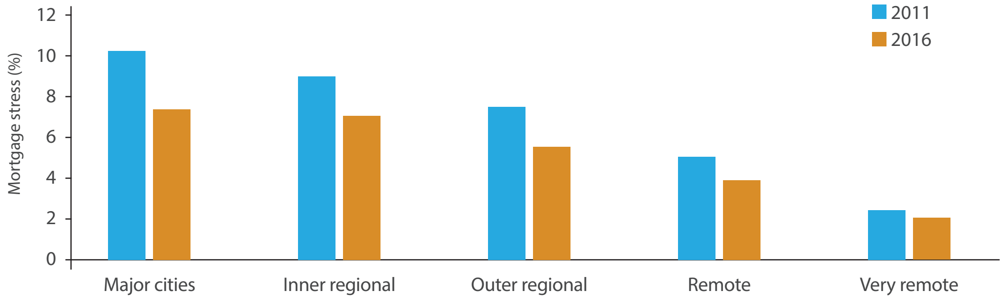
Households in major cities have experienced the greatest reduction in mortgage stress, with 7.4 per cent of households in mortgage stress in 2016 compared to 10.1 per cent of households in 2011.[xxxi]

Major New South Wales cities experienced the largest reduction in mortgage stress, with a 3.4 per cent reduction in 2016 compared to 2011.

Households in very remote areas of Western Australia were the only households to experience increasing mortgage stress between 2011 and 2016; an increase of 0.7 per cent.

Graph 22: Mortgage Stress by Remoteness Area

ABS Census 2011/2016 QuickStats



Housing affordability 2019 – Low rates of mortgage stress is likely to put upward pressure on house prices. Low rates of mortgage stress signal households can service their mortgage, so financial institutions will be more willing to lend greater amounts. However, if interest rates rise or wage growth does not mirror Treasury projections, mortgage stress will increase and this will reduce house prices. If households default on their loans, the supply of dwellings on the market will increase, putting downward pressure on house prices.

Affordability Measures

Housing affordability is often confused with mortgage serviceability. One of the best ways to measure housing affordability is to examine the ratio of household income to dwelling price.

Comparing the median gross annual household income with the median dwelling price for regions around Australia highlights the affordability challenge in markets like Sydney and Melbourne, which were 9:3 and 8:0 respectively at the end of 2017. At the other end of the affordability spectrum is Darwin (4:2) and Canberra (5:2) where the gap between the median dwelling price and median household income is much narrower.

Despite surge in housing values, low wages growth and the highest levels of household debt on record, mortgage serviceability is generally healthier than it was ten years ago. The improvement in mortgage serviceability is attributable to mortgage rates tracking at their lowest level since the 1960s.

Although serviceability has improved relative to 2008, a Sydney home buyer with a 20 per cent deposit purchasing a median-priced dwelling would still spend an average of 49 per cent of their gross household income on servicing their mortgage. When interest rates eventually rise, it stands to reason that serviceability will be tested.

For renters, the proportion of household income dedicated to paying rent each week is substantially lower relative to repaying a mortgage. In the most expensive city, Sydney, the typical household would be dedicating 30 per cent of their gross annual household income towards paying rent.

Capital City Affordability Ratios

Region	Price to income ratio	% of household income required to service an 80% LVR mortgage	% of household income required to rent a home
Sydney	9.3	49.3%	30.0%
Melbourne	8.0	42.6%	26.4%
Brisbane	6.0	31.9%	25.6%
Adelaide	6.4	34.2%	26.6%
Perth	5.8	31.2%	22.2%
Hobart	5.7	30.6%	28.8%
Darwin	4.2	22.1%	20.5%
Canberra	5.2	27.7%	21.2%
Regional NSW	7.2	38.6%	31.3%
Regional Vic	5.5	29.2%	25.4%
Regional Qld	6.4	34.0%	27.6%
Regional SA	4.8	25.4%	23.9%
Regional WA	4.8	25.5%	24.5%
Regional Tas	5.1	27.0%	27.1%
Regional NT	5.3	28.2%	30.2%
Combined capital cities	7.3	39.0%	26.3%
Combined regional areas	6.2	33.3%	28.4%

As at Dec 2017 ***Source:*** *CoreLogic, June 2018*


Argyle Housing – CommonGround Canberra

4. Changing Sentiment Around Affordable Housing and Election Priorities

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry may have a material effect on housing affordability in 2019.

Late last year the Government called a Royal Commission into Australia's banking sector following mounting public pressure to review the banks behaviour. The Royal Commission, which is still ongoing, has already uncovered misconduct by Australia's banks and financial institutions. The interim report is due no later than 30 September 2018 and the final report must be submitted no later than 1 February 2019.

The Reserve Bank of Australia (RBA) recently warned that the banking Royal Commission may reduce house prices through a reduction of credit available for people to borrow. Deputy Governor of the RBA, Guy Debelle, said that house prices across Australia are at risk of falling if banks restrict credit through tighter lending standards. Debelle noted that restrictions on credit may not necessarily impact the amount of people who can access credit, but will reduce the size of the loan that households can access. Further, RBA in its May minutes also warned that restrictions on credit may adversely impact house prices.

RBA's sentiments have also been echoed by a number of prominent economists, such as UBS economists George Tharenou and Carlos Cacho (Domain 2018). The pair said that if higher lending standards result from the Royal Commission then this could lead to either credit tightening or a credit crunch.

With the tightening of credit potentially on the horizon, the Federal Government and regulators could look to mechanisms overseas, to ensure low income households have access to credit. The Community Reinvestment Act (CRA) which operates in the US is intended to encourage financial institutions to help meet the credit needs of low and moderate income neighbourhoods. CRA, enacted in 1977, requires financial institutions to meet the credit need of the entire community and this is evaluated by a Federal financial supervisory agency periodically. A similar CRA obligation in Australia could connect banks with communities in the wake of the mistrust borne out of the Royal Commission.

A mechanism such as CRA in Australia would require a strong financial advisory body to ensure financial institutions are meeting their requirements. Australia's corporate, markets and financial services regulator, Australia Securities & Investments Commission (ASIC), would be the logical body to perform this oversight role.

Australians Understand Affordable Housing Issues

Australians in 2019 are acutely aware of the housing choices that are no longer available to those around them, compared with previous generations. Purchasing property, and living the Australian dream, is just that for many – a dream. Limited options around affordable rentals in proximity to employment for key workers is forcing long commutes, poor work/life balance and reduced productivity.

Whilst there has been sufficient new supply to place downward pressure on prices, the median prices in our capital cities for purchase and rental is still simply beyond the reach of low and some middle income earners.

CHPs charge tenants rent below the market rate, at generally 75 per cent of the market rate. This is necessary as the market rate is unaffordable to those lowest on low incomes, and so rent has to be below market rate to be considered 'affordable'. This means, however, that the delivery of new affordable housing is difficult as construction and development costs remain the same for CHPs as for private developers. The ongoing cost of asset maintenance is the same as that of a private asset owner yet the rental return is significantly lower than market rate due to the very nature of a CHP's role in providing affordable housing. This yield gap continues to be the greatest challenge for CHPs across the country and can potentially be addressed with new financing methods including institutional investment.

It has been estimated that a $13,000 per dwelling subsidy for affordable housing would make these types of more developments viable and boost the stock of affordable housing across Australia. This of course varies from location to, location and project to project. Although this figure might be considered to be at the upper end of what is needed to bridge the funding gap, it is clear that a significant gap exists between operating costs and revenue and it must be addressed for the community housing sector to grow and expand as is desired by government.

Promisingly, there has been increased attention on CHPs funding models in recent times with a number of reports investigating ways to support the continued growth of the sector. An AHURI report, *Paying for affordable housing in different market contexts* (2018), identified the funding gap as a chief impediment to the expansion of the affordable housing sector. The report outlines that government help with access to land, equity investment in projects, mixed use developments, planning bonuses, and increased public subsidies to affordable housing providers, are all measures to improve long term sector viability.

Further, the Affordable Housing Working Group in its paper *Supporting the implementation of an affordable housing bond aggregator* (2017) came to similar conclusions. The Group recommended that Commonwealth and State and Territory Governments 'progress initiatives that close the funding gap', such as investing the level of direct subsidy needed for affordable housing, use of affordable housing targets, planning mechanisms, tax settings, value adding contributions and innovative development models.

It is important that Australian governments continue to partner with the sector to develop methods of reducing the cost of debt and recognising the value of additional investment in the sector; this would result in savings for both state and federal governments in the cost of welfare benefits, health and justice systems as well as improving economic productivity. With the growing awareness of the need for housing policy, there is an optimism that recent announcements will start to improve options for affordable housing providers.

The suite of housing affordability measures set out in the 2017-18 Federal Budget, including the affordable housing bond aggregator as part of the National Housing Finance and Investment Corporation (NHFIC) and the National Housing Infrastructure Facility (NHIF) that began operation on 1 July 2018, will strengthen the sector and support its growth in 2018-19.

NHFIC will be a game changer for the sector and the community, particularly key workers and those on lower incomes. CHPs are ready to bring forward projects to make more affordable housing a reality for more Australians as soon as possible. Institutional and international investment into Australian affordable housing will become commonplace and in years to come, the NHFIC will be seen as the foundation stone of an affordable housing market.

Can Affordable Housing and Build-to-Rent Underpin Future Supply?

It is vital that the settings for new supply have an affordable housing focus.

An affordable housing 'Build to Rent' program could be engineered to this effect. Build to Rent has been raised as a potential solution, along with the withholding tax advantages of an Managed Investment Trust. Setting up a trust to make a stable capital gain over the next 10-20 year investment horizon in a stable rental price rise environment is a must, and the major players in Build to Rent in the US that PowerHousing recently met in New York, Washington and San Francisco see Australia as being primed for this move.

The Federal Treasurer has taken the first steps to stimulate the creation of an affordable Build to Rent model here in Australia.

There is a simplicity to the Build to Rent model which exists in the US and UK which could be replicated. It is surprising it hasn't taken off here, but in places like the US there has been a Low Income Housing Tax Credit for affordable housing providers for 30 years, underpinning delivery of up to 10 per cent of all new homes. Developers therefore can bank on a steady affordable housing component to their developments and investors can get a government backed return that is almost shock proof.

From PowerHousing's recent US field visits it's clear that affordable housing Build to Rent was a safe haven for residential investors during the GFC. The investment environment for low to middle income housing is trusted and has been nurtured there over a long period of time.

The comparison is with Australia, where our institutional investors, and super funds, are sending their capital overseas to invest in affordable and/or Build to Rent developments, rather than here domestically despite a manifest affordable housing shortage.

If coupled with tax credits, planning reforms, infrastructure and a community reinvestment focus from lending institutions as in the US, Build to Rent could underpin 10-30 per cent of the pre-commitment of a proposed new development. This new 10-30 per cent affordable housing pre-commitment component could support a development in much the same way foreign investment went from near nothing in 2012 to a 10-40 per cent component of many developments today, boosting new dwelling delivery to record levels in 2016. Much like foreign investment, a new unique affordable housing component of 10-30 per cent in developments could boost annual supply levels, tackle underlying demand, offset the projected declines in building activity, support treasury receipts and maintain strong jobs in one of Australia's largest employers - the property industry.

Foreign investment in Australian residential real estate has been based on investment diversity, not necessarily yield. Growing census vacancy data and vacant property taxes in response, show properties remaining vacant rather than collecting a rental yield from domestic residents as is commercially prudent is going against normal investment logic and occurring in Australia today. Outside of the badly needed injection to housing delivery, recent foreign investment trends show massive investment interest in the Australian residential market, and a residential investment MIT needs to consider this ongoing expected demand.

The Build to Rent market can create another housing option and a new asset class for long term stable diversified investment for both domestic and foreign investors. Housing for key workers, on low or average weekly earnings, who would have the opportunity to live close to where they work, makes good sense to most Australians.

After the Federal Banking Inquiry hands down its report, banks will be compelled to reconnect with their communities and the Community Reinvestment Act (CRA) may be the best model. The roll out of a CRA in Australia would encourage deposit institutions to help meet the credit needs of the communities in which they operate, including low and moderate income neighbourhoods as it does in the US.

Broadly speaking, Australian Governments can incentivise institutional investment into affordable residential Build to Rent through some of the following measures:

- Planning, zoning and development uplift with fast track affordable housing stock development particularly alongside projects listed within the Federal Government $75b, 10 year infrastructure plan;
- Land use incentives to permit multi residential development that include a proportion of affordable rental dwellings through National Housing and Homelessness Agreements.
- Taxation incentives similar to the US Low Income Housing Tax Credit, supported by a Community Reinvestment requirement;
- Capital formation vehicles such as MITs that see long term investment beyond 10 years.

As a final note, Build to Rent developers in the US partner with the affordable housing sector. One lesson of the GFC is that Build to Rent could be the critical lever of new diversified and government supported investment that counteracts a softening residential construction market. This will be vital if construction development in 2020 contracts back to 20 year average build rates, which are 40-60,000 fewer homes than are being built in 2018.

Foundation Housing - Broome North Development

Summary

The key indicators of housing affordability in Australia considered within this report show that the gap for those on low incomes to meet rental and mortgage obligations is still wide, but sheer supply volume has taken the heat off housing prices across most capitals.

Whilst first home buyers have shown they are able to service higher mortgages than historically, this reverses when the percentage of houses and units in cities such as Sydney for sale at the average price point declines.

New housing supply remains strong, but forecasts show that Australia is heading to a supply trough which will see at least 30,000 to 50,000 dwellings less being built per year after 2020 than has been built over the past three years. Under this scenario, the recent gains in additional housing supply will dry up and the stabilisation of pricing of rentals and loans in most capitals will be arrested.

At current population growth levels, a stable supply of new dwellings is required to meet an underlying demand of 200,000 dwellings per year.

Innovative finance measures to support the development of affordable housing - particularly rentals - are required not just to provide proportions of adequately priced properties, but to also make pre-commitment levels for new developments viable.

As each detached single family dwelling supports 40 trades, sub-trades and paraprofessionals, policy geared to ensure supply above at least 180,000 is vital not just to jobs and taxes, but to provide adequate supply for the 25 million people that today call Australia home.

All levels of government need to pay close attention to the housing delivery pipeline and to incentivise affordable and innovative housing delivery.

About the Authors

TIM LAWLESS

Tim Lawless is CoreLogic's National Research Director. He joined the company in 2007 and has embarked on developing a renewed focus for CoreLogic's internal property data research division. Along with his team, Tim has expanded the CoreLogic research division to now report on the property market daily through visual and personal presentations and has become a successful keynote speaker for industry-related conferences and seminars. Tim has become a regular voice in the Australian media, where he regularly reports on trends and current market conditions.

About CoreLogic

Regionally, CoreLogic is part of CoreLogic Asia, which is a leading property information, analytics and services provider in Australia and New Zealand with growing partnerships throughout Asia. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes more than 500 million decision points spanning more than three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information. With more than 11,000 customers and 120,000 end users, CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, insurance, developers, wealth management and government. CoreLogic RP Data delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. Clients rely on CoreLogic RP Data to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic Asia employs over 500 people at ten locations across Australia and in New Zealand.

NICHOLAS PROUD

Nicholas Proud is the CEO of PowerHousing Australia. He joined the organisation in 2016 and has supported the Federal Budget establishment of a bond aggregator and the National Housing Finance and Investment Corporation. Nicholas previously has worked in senior Executive Director capacity with the Property Council of Australia, Housing Industry Association and the Construction & Property Services Industry Skills Council, to undertake housing outlooks and environmental scans over the current decade.

About PowerHousing Australia

PowerHousing Australia is a unique forum for peer-to-peer exchange collaboration amongst housing professionals who are dedicated to improving lives through the provision of affordable housing. The organisation was established in 2005 by a group of CEOs who recognised the scale of emerging housing affordability issues and the enhanced capacity of organisations to make a difference if they collaborated to share knowledge and resources. It was incorporated in 2008 and today has 32 Members who collectively manage more than $12 billion in housing stock, owning or managing over 50,000 homes housing about 80,000 people.

Sources

i ABS 5206.0 – Australian National Accounts: National Income, Expenditure and Product, Mar 2018 (Released 6 June 2018)

ii ABS 5206.0 – Australian National Accounts: National Income, Expenditure and Product, Mar 2018 (Released 6 June 2018)

iii RBA Statement by Alexandra Heath, Head of Economic Analysis Department (5 July 2018), <https://www.rba.gov.au/speeches/2018/sp-so-2018-07-05.html>

iv ABS. 6401.0 Consumer Price Index, Australia, June 2018 (Released 25 July 2018)

v RBA 2018, Inflation Target, accessed 19 July, <http://www.rba.gov.au/monetary-policy/inflation-target.html>

vi RBA 2018, Statement by Philip Lowe, Governor: Monetary Policy Decision, 3 July <http://www.rba.gov.au/media-releases/2018/mr-18-16.html>

vii ABS. 6202.0 Labour Force, Australia, Jun 2018 (Released 19 July 2018)

viii ABS. 6202.0 Labour Force, Australia, Jun 2018 (Released 19 July 2018)

ix ABS. 6345.0. Wage Price Index, Australia, Mar 2018 (Released 16 May 2018). http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0

x Lowe, P 2018, speech: 'Productivity, Wages and Prosperity', RBA, 13 June <https://www.rba.gov.au/speeches/2018/sp-gov-2018-06-13.html >

xi Coughlan, M 2018, The Australian, 'Migration numbers slashed after crackdown', July 13, <https://www.theaustralian.com.au/news/latest-news/aust-migrant-intake-drops-to-ten-year-low/news-story/96a87784575dd34c386939e6822d6c01>

xii Coughlan, M 2018, The Australian, 'Migration numbers slashed after crackdown', July 13, <https://www.theaustralian.com.au/news/latest-news/aust-migrant-intake-drops-to-ten-year-low/news-story/96a87784575dd34c386939e6822d6c01>

xiii ABS. 3101.0. Australian Demographic Statistics, Dec 2017 (Released 21 June 2018)

xiv ABS. 3101.0. Australian Demographic Statistics, Dec 2017 (Released 21 June 2018)

xv ABS. 3222.0. Population Projections, Australia, 2012 (Released 26 November 2013).

xvi The Outlook for Net Overseas Migration. As at September 2016. Australian Government: Department of Immigration and Border Protection.

xvii ABS. 3236.0. Household and Family Projections, Australia, 2011 to 2036 (Released 19 March 2015).

xviii ABS. 5232.0. Australian National Accounts: Finance and Wealth, Mar 2018 (Release 28 June 2018)

xix McCrindle 2016, 'Australia's Generations by Wealth and Income', <https://mccrindle.com.au/insights/blog/australias-generations-wealth-income/>

xx ABS. 5609.0 Housing Finance, Australia, May 2018 (Released 11 July 2018)

xxi ABS. 5609.0. Housing Finance, Australia, Mar 2018 (Released 11 May 2018)

xxii Eyers, J 2017, 'APRA strengthens macroprudential rules for banks', Financial Review, 31 March <https://www.afr.com/business/banking-and-finance/financial-services/apra-strengthens-macroprudential-rules-for-banks-20170330-gvaibn>

xxiii Foreign Investment Review Board 2018, '2016-17 Annual Report', <https://cdn.tspace.gov.au/uploads/sites/79/2018/05/FIRB-16-17-Annual-Report.pdf >

xxiv ABS. 8731.0 Building Approvals, Australia, June 2018 (Released 30 Oct 2018)

xxv ABS. 8752.0 Building Activity, Australia, June 2018 (Released 10 Oct 2018)

xxvi BIS Oxford Economics 2018, 'Building in Australia 2018 – 2022: Australian building activity set for sharpest decline since GFC, presenting risks to the industry and broader economy', 23 July, <https://www2.bis.com.au/news/bia_2018_mr.html/section/42>

xxvii BIS Oxford Economics 2018, 'Building in Australia 2018 – 2022: Australian building activity set for sharpest decline since GFC, presenting risks to the industry and broader economy', 23 July, <https://www2.bis.com.au/news/bia_2018_mr.html/section/42>

xxviii BIS Oxford Economics 2018, 'Building in Australia 2018 – 2022: Australian building activity set for sharpest decline since GFC, presenting risks to the industry and broader economy', 23 July, <https://www2.bis.com.au/news/bia_2018_mr.html/section/42>

xxvix ABS, BIS Oxford Economics, July 2018

xxx SGS Economics & Planning 2018, 'Rental Affordability Index: Key Findings', <https://www.sgsep.com.au/maps/thirdspace/australia-rental-affordability-index/>

xxxi ABS. 2016 & 2011 Census QuickStats

xxxii Anglicare Australia, 2018 Rental Affordability Snapshot, April 30, 2018

xxxiii ABS. 5232.0 Australian National Accounts: Finance and Wealth, Mar 2018 (Released 28 June 2018)

About PowerHousing Australia and its Members

PowerHousing Australia is a membership organisation that provides a unique forum for high-level collaboration between housing professionals from some of the biggest and most accomplished Community Housing Providers and private-sector brands across the country. PowerHousing Australia was established in 2005 when a group of housing executives recognised the scale of the emerging housing crisis. PowerHousing Australia comprises 32 large-scale Community Housing Provider Members who collectively manage over $12 billion in housing stock, owning over 50,000 homes housing around 80,000 people.

Report Research and Coordination

The Australian Affordable Housing Report 2019 was coordinated, researched and finalised by PowerHousing Australia Research and Project Manager Scarlett Mitchell.

For further queries contact PowerHousing Australia on (02) 6210 5040

CoreLogic Research

For more information, contact Mitch Koper, Head of Media & Corporate Communications Australia and New Zealand on 1300 472 767 or visit www.corelogic.com.au

Designed by Streamline Creative, Canberra
www.streamlinecreative.com.au

CoreLogic

PowerHousing Australia
Collaborating for a better housing future

FJ PARTNERS Strategic Communications
AON Empower Results®
AVJennings
B|FIN
community sector banking
CASTLETON
CoreLogic
core management solutions
JLL
Jobs Australia
Karndean Designflooring
KPMG
northgate public services An NEC Company
Lander & Rogers Lawyers
Hudson Great people. Great performance.
Capital United
global-mark