AUSTRALIAN AFFORDABLE HOUSING REPORT

Environmental Scan

2020

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Cover Image: Unison – Broadmeadows development

Access Housing – SHAC development

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INTRODUCTION

The *Australian Affordable Housing Report 2020* 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 can include social housing tenants, renters, first homebuyers, key workers and seniors.

As an environmental scan, this report's 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 Australians' need for housing – social, 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.

We also consider 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.

BHC – Jingeri, Enoggera

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EXECUTIVE SUMMARY

The *Australian Affordable Housing Report 2020* provides a national affordable housing and rental environmental scan that features low growth, low inflation, low interest rates and rising underemployment. Each economic indicator provides insights into previous, current and emerging environmental conditions and the challenges faced around the servicing of 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.

The key factors to the rising price has included strong population growth and net overseas migration, which has seen demand for housing increase in the past decade. Fortunately, recent record supply of new housing commencements has taken pressure off pricing – until now.

Building activity in Australia is heading for the largest decline in our country's history with homes approved set to drop from 240,000 dwellings approved in 2016 to around 160-170,000 in 2021, with completions lower still unless the decline is halted. Forecasts reported in this E-Scan suggest that annual housing starts will drop to 152,000 dwellings in around 18 months' time which would be catastrophic for jobs, supply and the overall economy.

Losing 60,000-80,000 homes out of the housing construction pipeline will create a massive ripple through the economy if not halted. Two of the nation's largest builders, Simonds Group and Metricon, estimate that every new standard 3 bedroom house in Australia creates work for around 43 trades and subtrades. The role of housing in the economy goes far beyond just the need for supply to match demand; the loss of this many homes will see the loss of 3 million one-day to months-long contracts for chippies, painters, plasterers, sparkies and para-professionals. Whether it is the retail shop, coffee stop on the way to work or simply less groceries this has a knock-on effect for the retail sector that won't see the circulation of the income into the broader economy. Needless to say if homes are not built then there will also be a drop in the manufacturing sector.

In the absence of monetary and fiscal policy, housing starts will fall back behind population growth and this would see an irrational upward pressure with potential resumption of spiking in pricing.

In October 2019 the Federal Reserve Bank moved the cash rate to 0.75 which, coupled with other recent downward shifts in the rate, will potentially lessen the severity of the trough of housing commencements but foreshadows an economy with some headwinds.

Motivation for the lower cash rate also understands that housing construction provides jobs, taxes and valuable supply which are the lifeblood of the economy.

Sydney and Melbourne dwelling prices appear to have partially corrected, but the median price in Sydney of around $875k is still very unaffordable and median incomes still remain low.

Whilst Perth, Adelaide and Darwin continue to stall, Hobart and Canberra dwelling prices and rents are rising with investment in rentals and steady purchase velocity. The impact of AirBnB is still uncertain and measures which consider the number of these types of short-stay accommodation are not yet introduced despite having some impact on the Tasmanian capital pricing.

Across the indicators Australians are saving rather than spending, household wealth is a record high while liabilities have significantly increased, and mortgages are being paid off for many above the rates being set.

The number of Australians renting to others has tripped over the 2,000,000 mark with the tax structures of negative gearing and capital gains discount remaining in place after the Coalition won the last Federal election.

First homebuyers are getting older before purchasing homes and, while first homebuyer rates are relatively steady, are a lever unlikely to spark a revival in new dwelling construction. The introduction of the Federal Government's First Home Loan Deposit Scheme will support the purchase of 10,000 homes but may not support substantial additional supply.

APRA's recent BASEL III requirements for higher bank holdings will add to the cost of owning and renting a home with costs passed through to renters. In particular the risks being covered by this rudimental and blunt instrument has the potential to impact the provision of affordable housing.

CHPs who have strong governance practices and government-guaranteed revenues and agreements have a lower risk on the curve compared to speculative investment in residential real estate.

The outlook for low income earners – particularly social housing tenants, renters, first homebuyers, key workers and seniors – could remain bleak while rental pricing and entry level housing mortgages rise.

Whilst the supply of new homes has been dropping, there has been a steady increase in the social and affordable housing built by PowerHousing members and this contribution to supply as a relatively new input is also set to grow to underpin housing starts. The introduction of the National Housing Finance and Investment Corporation is expected to support additional supply with CHPs delivering more homes at lower cost.

There is an opportunity to pull the levers to see international and institutional investment in an affordable asset class built in Australia in the coming years, which could build 10,000-25,000 affordable dwellings per year.

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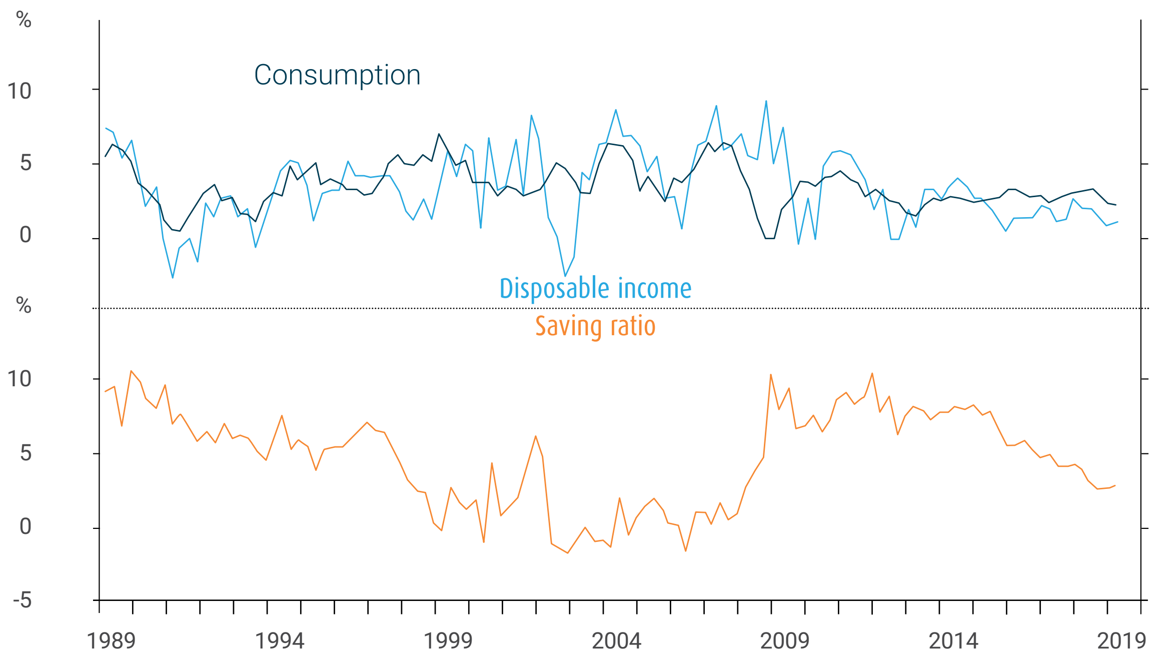
NATIONAL ECONOMIC INDICATORS

Growth

In the June quarter, the Australian economy grew by .5% in seasonally adjusted chain volume terms, with 1.4% growth recorded across the year.[1] This is a distinct drop from the figures recorded in the previous *Environmental Scan* of 1% and 3.1% respectively, 12 months prior. Net exports contributed 0.6 percentage points due to strong mining commodity exports, and domestic demand contributed .3 percentage points due mainly to government spending. The household saving ratio dropped to 2.3 from 3.2 a year prior as growth in household final consumption outpaced household disposable income.

Housing Affordability 2020 – Annual economic growth has not dipped this low since the 12 months ending in September 2009, following the GFC. Dwelling investment fell by 6% in the quarter and 10.9% through the year. Household final consumption expenditure increased 0.4% in the quarter to 1.4% through the year but with notable falls on purchase of vehicles. Household expenditure is half that of 12 months ago and it has not grown so slowly since early-mid 2013, with the only worse figures occurring in early 2009.

Graph 1: Housing income and consumption* – Real, year-ended growth



* Household sector includes unincorporated enterprises; disposable income is after tax and interest paments; saving ratio is net of depreciation.

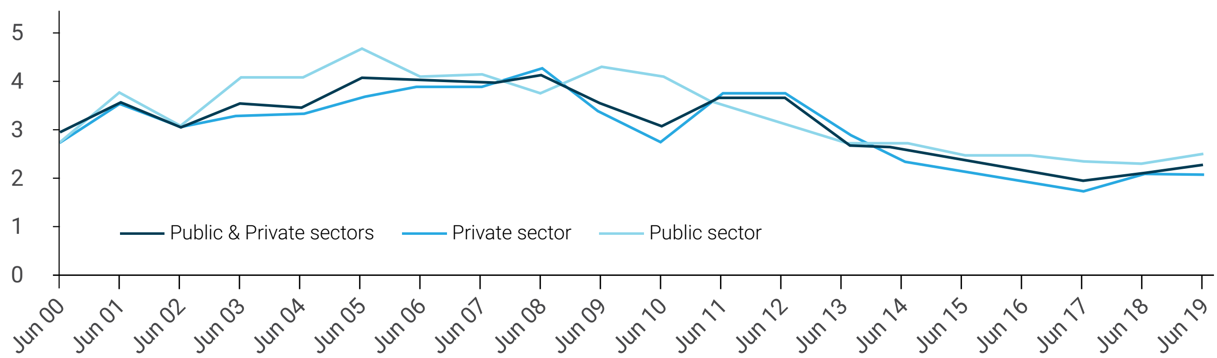
Source: RBA, September 2019[2]

Wages Growth

Wages grew by .6% in seasonally adjusted terms for the June quarter and 2.3% throughout the year,[3] significantly lower than the 20-year average wage growth of 3.2%. The public sector led the rise at 2.6% across the year with the private sector trailing at 2.3%. The RBA expects wage growth to remain low due to spare capacity in the labour market and end of the mining investment boom, with wages now expected to increase more gradually than previously thought.[4]

Housing affordability 2020 – Sluggish wage growth will continue to negatively impact the purchasing capacity of those on low to middle incomes as dwelling prices remain largely out of reach.

Graph 2: Changes in total hourly rates of pay excluding bonuses ABS 6345.0 (Jun 2019)

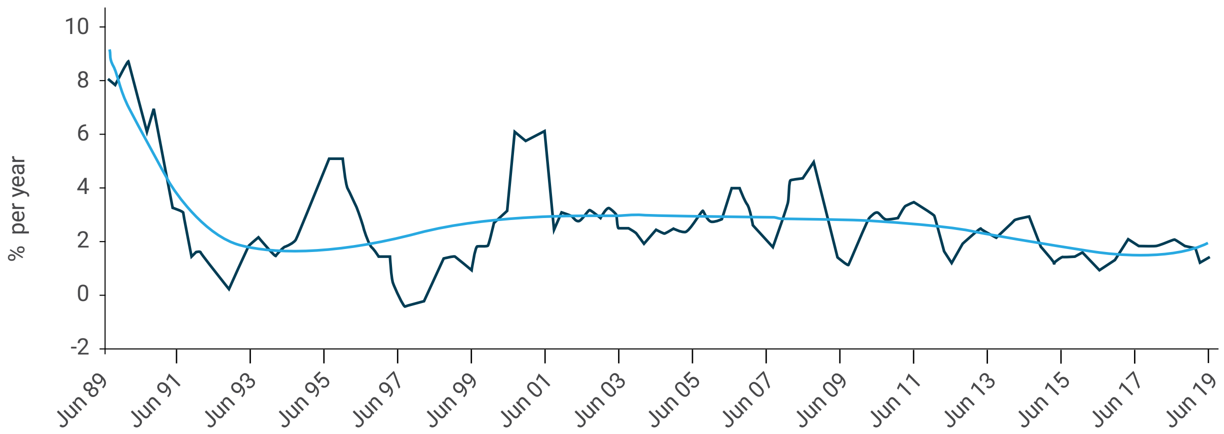


Inflation

With a .6% increase to the Consumer Price Index over the June quarter 2019, inflation rose 1.6% over the previous 12 months.[5] Automotive fuel made up the biggest price increase this quarter, followed by medical and hospital services while fruit prices fell most significantly, followed by electricity and domestic holiday costs.

Housing affordability 2020 – Inflation has been relatively steady since the early 2000s, hovering below the RBA target rate of 2-3%[6] with low inflationary impact on housing costs.

Graph 3: Consumer Price Index ABS 6401.0 (Jun 2019)



Interest Rates

The Reserve Bank cash rate has dropped by 25 basis points to a new record low of .75% in October, to support employment and income growth and to provide greater confidence that inflation will be consistent with the medium-term target.[7] The previous interest rate change occurred in June, a drop of 25 basis points in order to support employment growth and again provide greater confidence.

In October 2019, the Government announced an ACCC inquiry into the pricing of residential mortgage products to determine why banks are not passing on the interest rate cuts in full.[8]

Housing affordability 2020 – Interest rate cuts are likely to largely benefit those already servicing a mortgage but may help new entrants break into the housing market. With the high cost of housing compared to slow wage growth, any future interest rate hikes would have a considerable impact on mortgage repayment capacity.

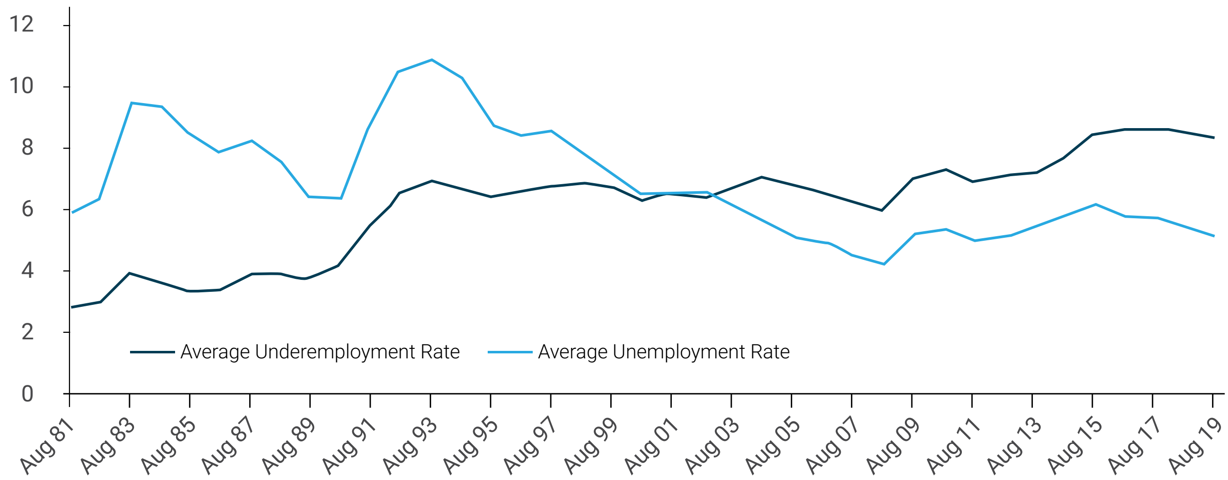
Unemployment and Underemployment

Like many western countries the official Australian unemployment remains at relatively low levels with 62.7% of the population employed as at August 2019.[9] Both the trend and seasonally adjusted unemployment rate sits at 5.3% which is close to the 20-year average of 5.5%, and was marked by a decrease of 15,500 people in fulltime employment while part-time employment figures rose by 50,200.

It is worth noting that a work week of 1 hour is classed as being employed. Fulltime employment is described as when an individual usually works 35 or more hours in the survey reference week, including those who were employed in 2 or more part-time jobs and in total worked more than 35 hours. Part-time workers are those who worked and usually work less than 35 hours in the survey reference week.[10]

For this reason, the employment rate is not necessarily an accurate measure for the adequacy of a person's employment; a key element to consider when looking at these figures is the underemployment rate. Those who are underemployed are defined as those aged over 15 who are currently employed but desire and are available to work more. The underemployment rate remains relatively steady, with the trend estimate at 8.5% and seasonally adjusted figure rising .2% on July's figures to 8.6%. The seasonally adjusted underemployment rate is higher than the 20-year average of 7.2%, and a marked jump from 10 years ago when it was 5.7%.

Graph 4: Unemployment vs Underemployment ABS 6202.0 (Aug 2019, seasonally adjusted)



Housing affordability 2020 – Whilst lower unemployment numbers point to a greater capacity to service rental/mortgage obligations, the increasing percentage of workers who are underemployed will make it challenging for those prospective buyers to obtain a home loan. If the underemployment rate continues to rise, buying a home will remain out of the question for an increasing number of Australians.

More Couples with Children Working Fulltime

ABS figures show that the proportion of families with both parents working fulltime while having children younger than five increased over the last decade.[11i] 21% of families with children aged from 0-4 see both parents working fulltime, while 70%

of couple families with children under 15 have employed mothers. Simultaneously, there has been a fall of 28% in families with children under 15 with just one employed parent, and a fall in jobless families of 11%.

Housing affordability 2020 – With the rise of couples both working fulltime, it appears that the current housing market has adjusted to dual streams of income, further pushing homeownership out of reach for single and lower-income households while negating the financial benefits of dual income.

Net Overseas Migration and Population Growth

Australia's population grew to 25.3 million people as at the end of the March 2019 Quarter, an increase by 1.6%[12] on the previous year, and is currently growing at the rate of one person every 1 minute and 13 seconds. The estimate of net overseas migration (NOM) for the year ending 31 March 2019 (249,700 people) was 4.9% or 11,700 people higher than the NOM recorded for the year ending 31 March 2018 (238,000 people).

Our population is expected to reach 30 million between 2029 and 2033, with the population of over-85s to double in the next 25 years.[13] The dependency ratio, which the number of persons per 100 aged outside 15-64 (working age) is projected to grow from 52% in 2017 to 58% in 2042. The main cause of population growth is natural increase (births minus deaths) at 38.6% with net overseas migration accounting for the residual.

	Population at end Mar Qtr 2019	Change over previous year	Change over previous year
PRELIMINARY DATA	'000	'000	%
New South Wales	8 071.1	114.1	1.4
Victoria	6 566.2	133.5	2.1
Queensland	5 076.5	88.1	1.8
South Australia	1 748.6	14.8	0.9
Western Australia	2 615.8	26.0	1.0
Tasmania	533.3	6.4	1.2
Northern Territory	245.6	-1.1	-0.4
Australian Capital Territory	425.7	6.9	1.7
Australia(a)	25 287.4	404.8	1.6

(a) Includes Other Territories comprising Jervis Bay Territory, Christmas Island, the Cocos (Keeling) Islands and Norfolk Island.
Source: ABS 2019, 3101.0[14]

Housing affordability 2020 – Australia's population continues to grow without the guidance of a national population strategy that is in alignment to cities and housing policy, which threatens to add pressure on the housing market if demand further outstrips supply.

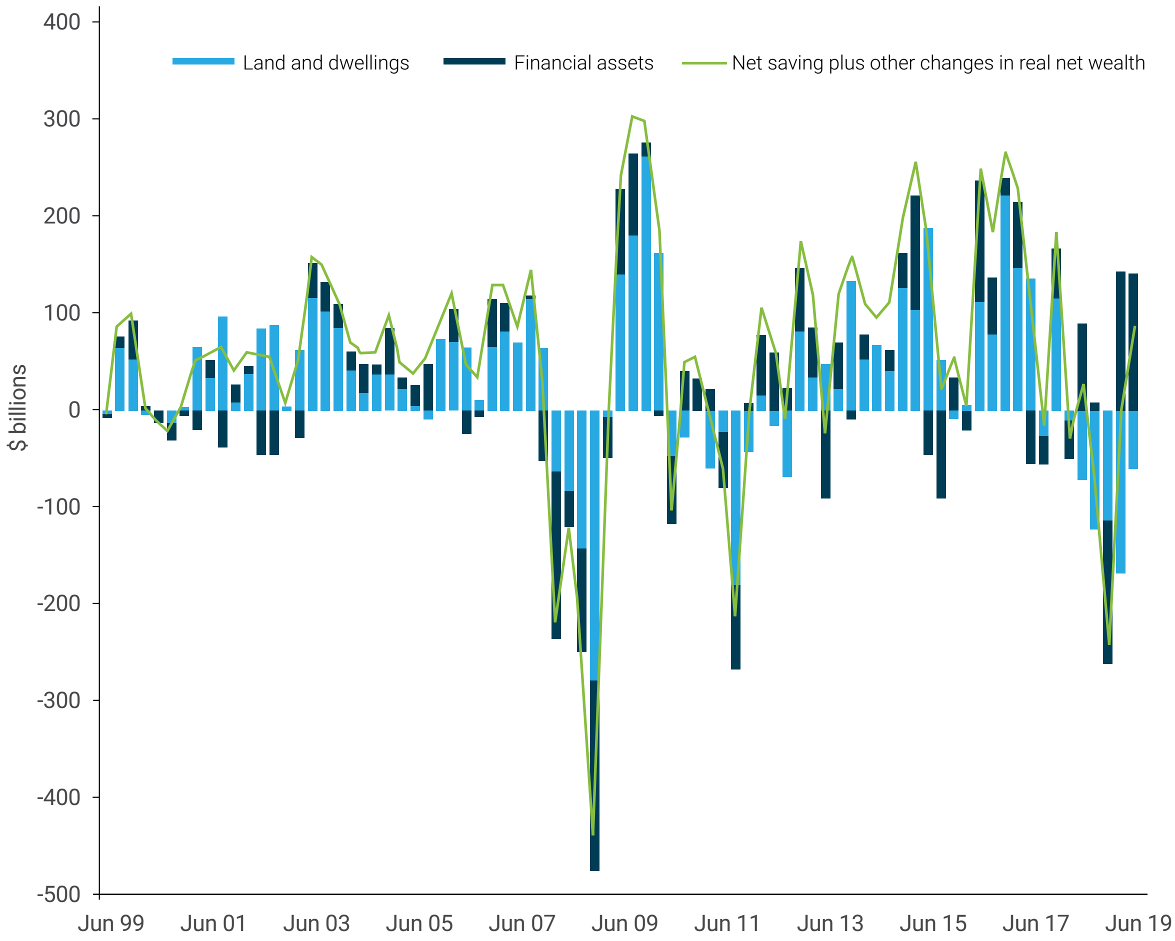
Household Wealth and Household Net Savings

Household net worth was a record high $10,455.3 billion at the end of the June Quarter 2019, up 1.6%.[15] Real (inflation adjusted) holding gains on financial assets, mainly superannuation, drove the increase in household wealth while a $36.7 billion increase in total liabilities partly offset this figure. Household liabilities grew 1.5%, the strongest increase since the June Quarter of 2017.

Household net saving fell to -$9.2 billion in the same period, from $10.7 billion. The nearly $20 billion decrease was due to a decrease in gross disposable income, which was driven by a fall in dividends received and increase in income tax payable, and increases in final consumption expenditure and consumption of fixed capital.

Housing affordability 2020 – With the increase in household wealth due mainly to superannuation investment in the stock market, and with a jump in household liabilities, mortgage-payers may see a challenge in continuing to service mortgages.

Graph 5: Net saving plus other changes in real net wealth, original



Source: ABS 2019, 5232.0[16]

Generational Wealth

Young Australians are in danger of being the first generation in memory to have lower living standards than their parents' generation.[16] A recent report stated the wealth of households for under-35s has largely stagnated in the last 15 years, despite the cohort spending less on non-essentials such as alcohol, clothing and personal care – and more on necessities like housing – than the equivalent group did three decades ago. Meanwhile, the wealth of older households has grown by more than 50% over the same period, which can be attributed to the housing boom and superannuation asset growth.

Housing affordability 2020 – Younger people are becoming less able to compete in the housing market against those who are already established.

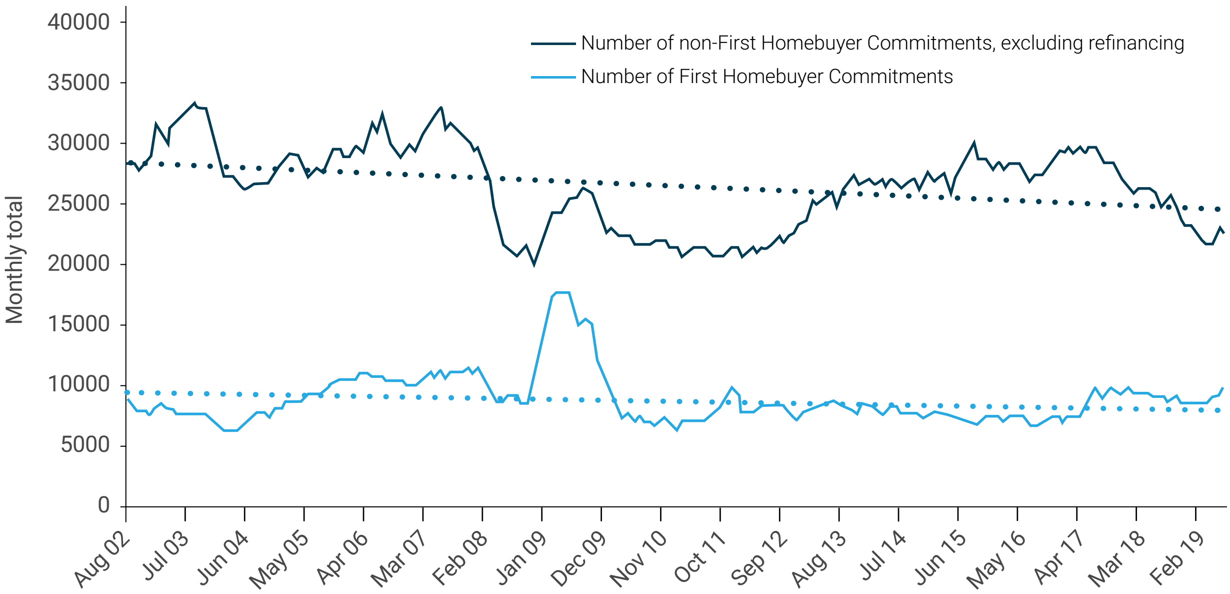
First Homeowner levels

In August 2019, the number of loans to owner-occupier first homebuyers rose 5.2%, seasonally adjusted, and lending commitments to owner occupier non-first homebuyers fell 0.4%.[17] In the 12 months ending in August 2019, first homebuyers made up a total of 27.7% of all housing finance commitments (excluding refinancing) with 108,057 commitments, representing a 1.7% increase on this time last year; non-first homebuyers amounted to 281,830 for the year, which is a 13.6% drop on the 12 months prior.

ABS data shows fewer households under 35 owned their homes in 2015-16 than the previous generation 20 years ago, with first homebuyers are purchasing their first homes at an older age than they did in 1995-96.[18] 57% of households under 35 are renting now compared to 42% in 1995-96. Likewise, fewer households aged 35-54 owned their homes outright in 2015-16 than similarly-aged households 20 years ago.

In total, 43% of households owned their home without a mortgage 20 years ago but in 2015-16 that figure was only 30%.

Graph 6: Lending to Households ABS 5601.0 (Aug 2019)



Housing affordability 2020 – The rate of first homebuyers is likely to rise marginally with the First Home Loan Deposit Scheme which is expected to be administered by NHFIC and operational in January 2020. The scheme will support up to 10,000 first homebuyers,[19] enabling them to get into the market without saving a full 20% deposit and allowing those spending large amounts of money on rent while simultaneously saving for a deposit to instead service a mortgage.

Household Formation

The number of households in Australia is predicted to increase from 9.2 million in 2016 to up to 13.2 million in the year 2041.[20] Family households are projected to make up 69-70% of all households, with lone-person households following at 24-27% and group households at 4-5%. In particular, group households are expected to grow by 34-62%, with the proportion of housemates in their twenties declining by 46-48% and the proportion of those aged 70 years and over projected to increase by 2%. Those over 85 are expected to be mainly living alone.

Housing affordability 2020 – To ensure affordable housing is also appropriate, future building design will need to consider the demands of a growing population as well as the intended residential use; group households require more considered living design, as do those living alone, compared to family households.

Housing Trust – Corrimal, NSW

04

HOUSING ACTIVITY

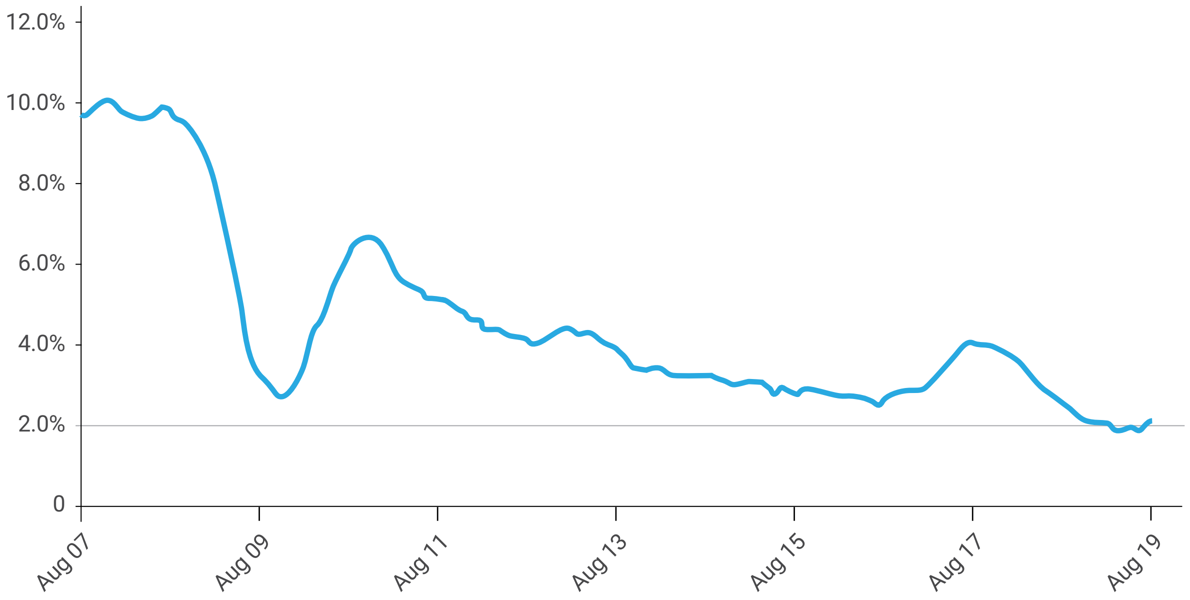
Rental Rates

Rental rates have held reasonably firm over the 12 months ending August 2019, with the rental index across the combined capital cities virtually flat (+0.1%) over the year. The past decade has seen rents rising at the average annual rate of 2.1%, which is broadly in line with inflation over the same period and a lower rate of growth relative to wages growth.

The past 12 months has seen rental growth range from almost 6% in Hobart to a decline of 3.2% in Darwin and a 2.2% decline in Sydney rents.

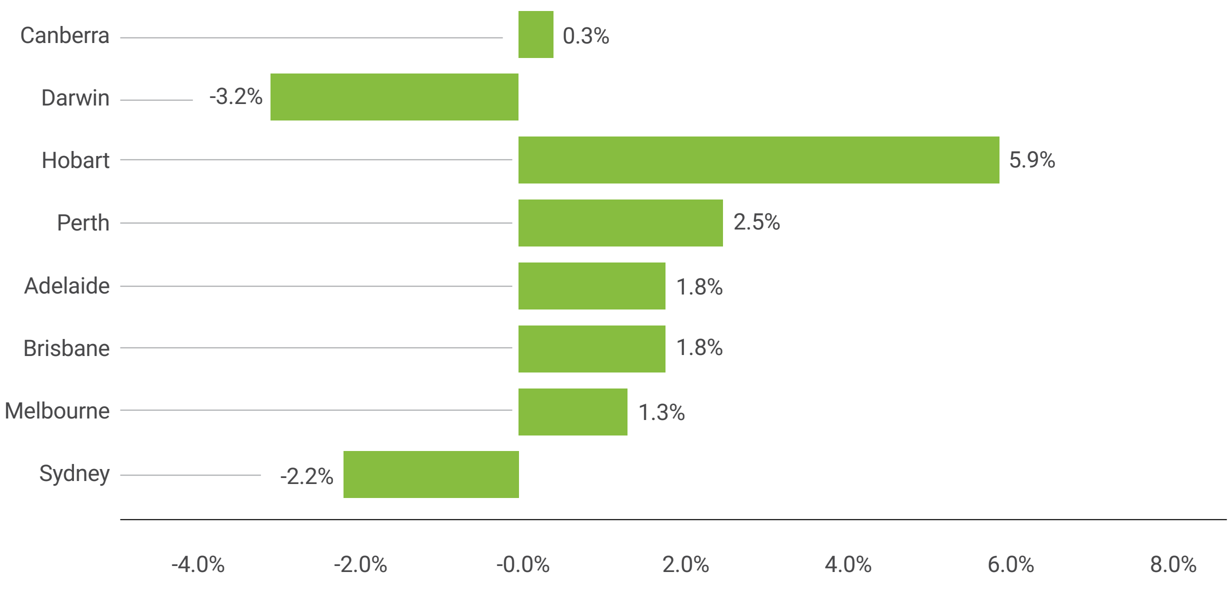
The easing in rental growth can be attributed to several factors including the surge in investment activity over previous years that has contributed to higher rental supply as well as a reduction in rental demand as first homebuyers become more active, especially in Sydney and Melbourne where stamp duty concessions and a positive shift in housing affordability has incentivised first homebuyer participation.

Graph 7: Annual change in capital city rental rates



Source: CoreLogic, September 2019

Graph 8: Annual change in dwelling rental rates



Source: CoreLogic, September 2019

Transaction Volumes

The number of settled dwelling sales has been trending lower since moving through a recent peak in March 2015. The recent high in market activity occurred shortly after the first round of macroprudential policies announced by APRA in late 2014; apart from a brief rebound in activity following a 50 basis point cut to the cash rate in mid-2016, buyer activity has been trending lower since that time.

The twelve months ending August 2019 saw settled sales activity reduce by 16.9% compared with the previous twelve month period, and the annual trend in sales is tracking 20% below the decade average.

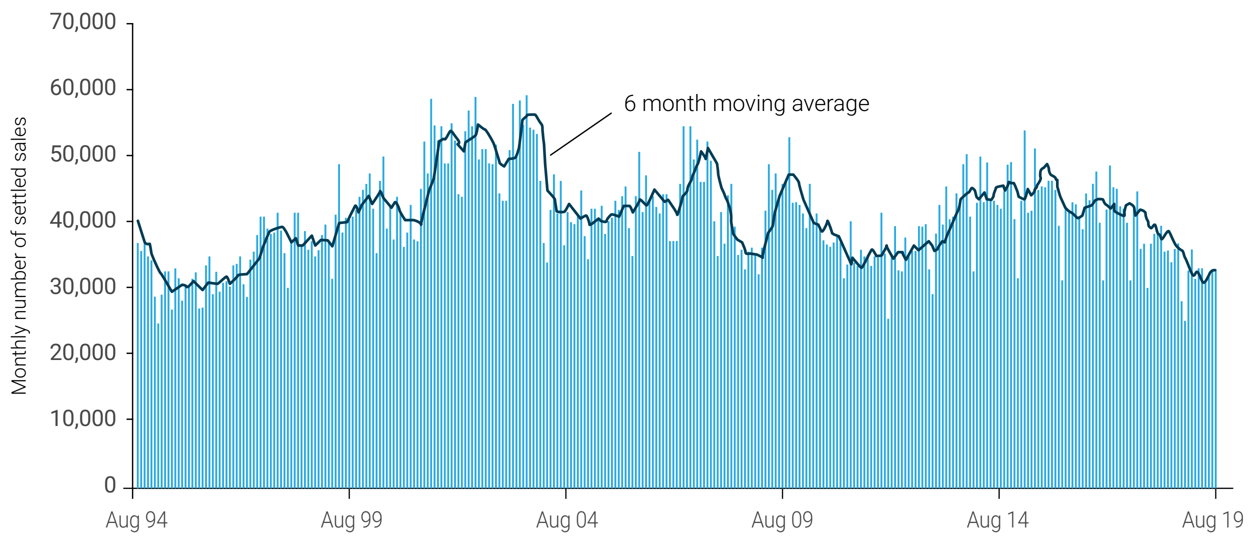
The steepest decline in settled sales over the past twelve months has been recorded in Melbourne, where year on year sales were down 26%, followed by Brisbane with a 19% decline and Sydney where activity was 18% lower year on year. The only capital city to record a rise in settled sales over the twelve months ending August was Darwin, where the volume of sales was up 1.6% from a low base, however annual sales remain 32% below the decade average.

Importantly, housing market activity reached historical highs in late 2003. The twelve months ending October 2003 saw 636,000 dwellings sold. The fact that settled sales are substantially lower than they were sixteen years ago, despite a substantial increase in the total number of dwellings and the total population of the country, points to market inefficiencies which have disincentivised housing turnover. In particular, the high-transactional costs related to buying and selling property has likely discouraged prospective market participants. The largest impost for buyers, as well as upgraders and downsizers, is funding stamp duty, while other costs related to building and pest inspections and legal fees when purchasing, as well as agency commissions and marketing costs when selling.

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

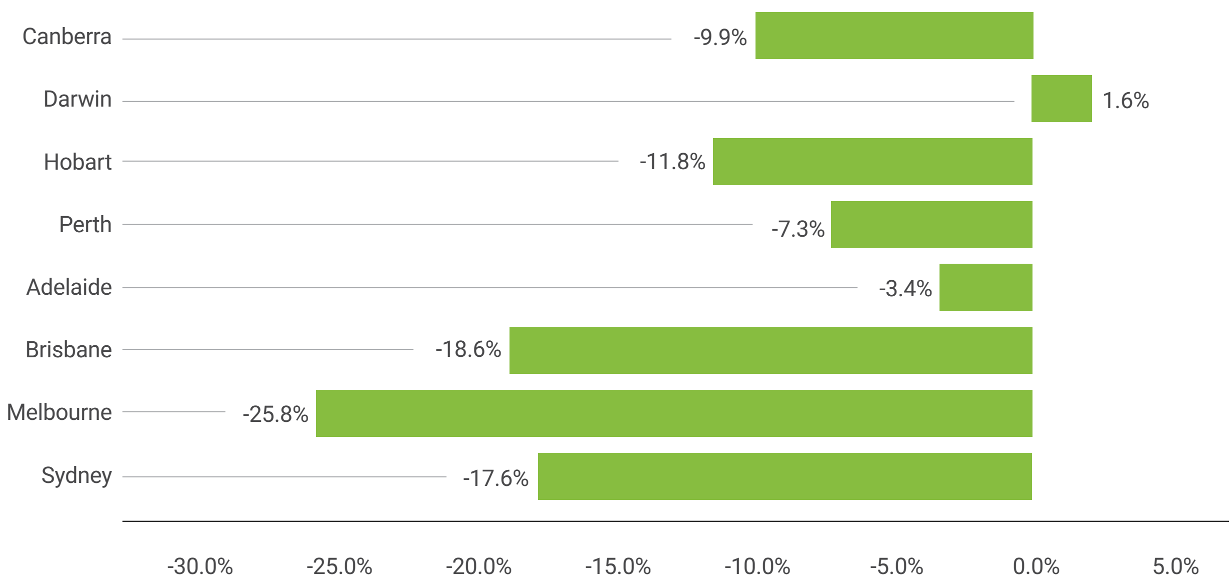
More recently the six month trend in sales activity has started to indicate growth in housing turnover as buyers respond to lower interest rates, better access to credit and improved certainty around taxation policy following the federal election. Additionally, with dwelling values trending lower between mid-2017 and mid-2019, there has been an improvement to housing affordability which has seen a rise in first time buyer activity.

Graph 9: Monthly number of settled sales, National



Source: CoreLogic, September 2019

Graph 10: Year on year change in dwelling sales



Source: CoreLogic, September 2019

Auction Markets

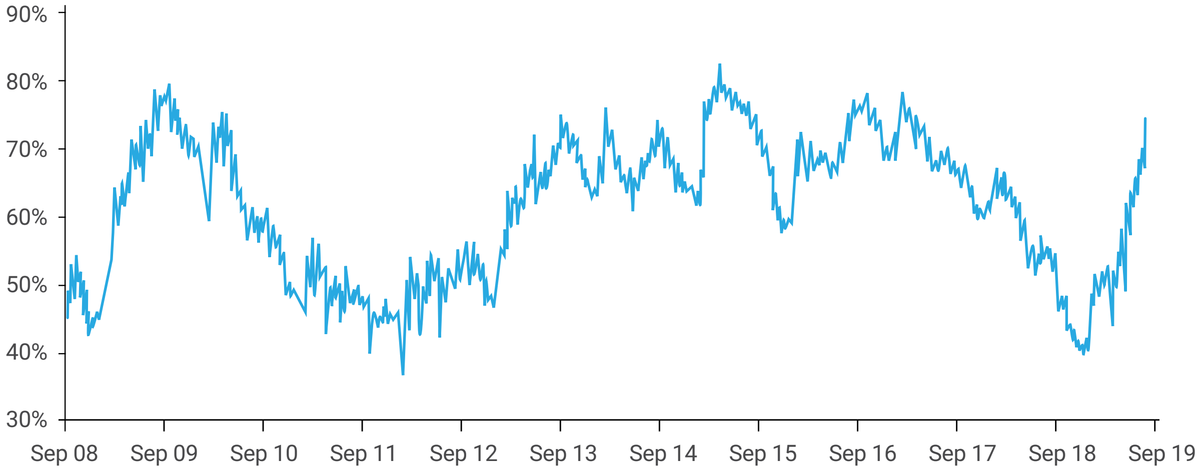
Auction clearance rates provide a timely measure of the fit between buyer and seller pricing expectations. Homes sold by auction are heavily concentrated in Melbourne and Sydney while most other cities see only a small proportion of properties sold via an auction method.

The trend in auction clearance rates has been on a clear upwards trajectory through 2019, with the trend accelerating through the second quarter of the year and into early spring. The recent strength in auction markets comes after a consistent downwards trend which persisted from early 2017, when clearance rates were in the high 70% range, to late 2018 when clearance rates bottomed out at 40%.

Clearance rates across the combined capitals have held above 70% as the market moves into the spring selling season, with Sydney and Melbourne clearance rates consistently around the mid-to-high 70% range.

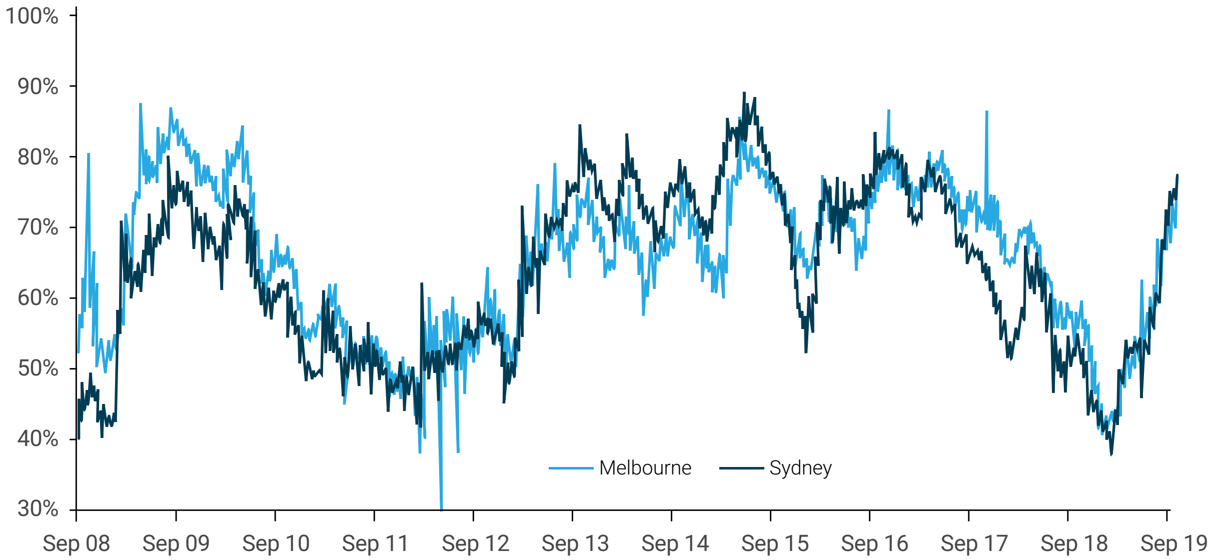
The ongoing trend towards higher auction clearance rates implies the strong negotiation position buyers have enjoyed over the past few years is dissipating as vendors gain back some leverage and buyers face more competition. Advertised stock levels remain low against a rising number of active buyers, which is another factor supporting increased competition and placing some upwards pressure on prices.

Graph 11: Weighted average capital city auction clearance rates



Source: CoreLogic, September 2019

Graph 12: Weekly auction clearance rates, sydney and melbourne

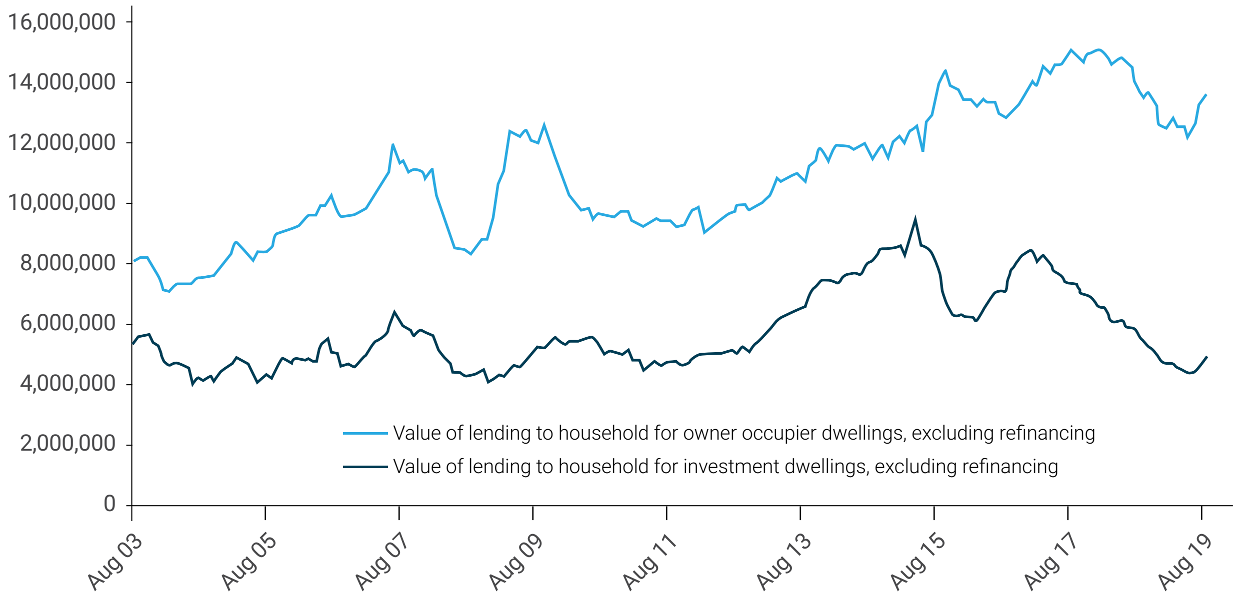


Source: CoreLogic, September 2019

Housing Finance/Investor Levels

Our previous iteration of this report noted that housing finance was slowing down, largely due to nationally-introduced macroprudential measures requiring banks to limit their interest-only lending to investors. For the 12 months ending August 2019, the value of lending to households for investment dwellings (excluding refinancing, alterations and additions) decreased by 25.2%, following an decrease of 19.7% the year previous.[21] The same type of lending to owner-occupier dwellings was a similar story, dropping 12.1% for the period despite a small uptick from June to August. This annual drop was quite significant, with the last drop occurring in the 12 months ending August 2011.

Graph 13: Value of Housing Finance ABS 5601.0 (Aug 2019)



Housing affordability 2020 – The decrease in financing for rental market investors is likely to make rental options less competitive for tenants in an already challenging market. Tightening lending for prospective owner-occupiers, however, contributes in part to would-be buyers remaining in the rental market, thus putting a strain on the supply-demand continuum.

Foreign Investment Levels

Foreign investment approvals in residential real estate have plummeted from 40,141 approvals in 2015-16 to 10,036 approvals in 2017-18, down from $72.4 billion in approvals to $12.5 billion over the same period.[22] This represents a reduction of $59.9 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 particularly in the new residential space.

There is a significant drop from two years earlier from $65 billion in approvals for new dwellings down to $10 billion which represents the massive investment in new delivery that pushed the commencement rates of new housing supply to record levels.

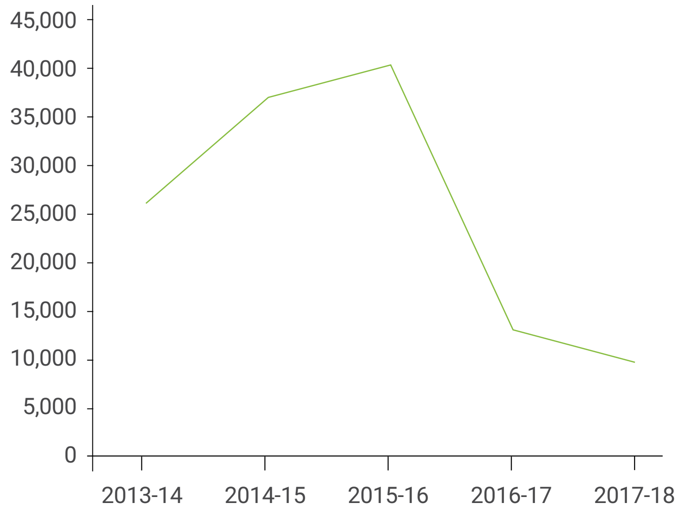
Most of the approvals granted in 2017-18 were for potential purchases in Victoria and New South Wales where population growth remains strong. China and the United States remain the largest foreign investors in Australia's real estate market. Although this steep reduction in Chinese investment may be 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, whilst the Australian Federal Government as well as the banks have also tightened rules around lending to foreign investors.

Foreign Investment Approvals 2017-18

	2013-14		2014-15		2015-16		2016-17		2017-18	
	No.	$b	No.	$b	No.	$b	No.	$b	No.	$b
Developed	7,920	7.5	9,247	11.5	5,877	7.3	2,008	3.0	1,615	2.4
For Development	18,284	29.0	27,594	49.2	34,264	65.2	11,190	27.1	8,421	10.2
Total	**26,204**	**36.5**	**36,841**	**60.7**	**40,141**	**72.4**	**13,198**	**30.1**	**10,036**	**12.5**

State	Number of approvals	Percentage of approvals
VIC	4,631	46.14%
NSW	2,340	23.32%
QLD	1,723	17.17%
WA	696	6.94%
SA	320	3.19%
ACT	189	1.88%
TAS	123	1.23%
NT	6	0.06%
Various (a)	8	0.08%
Total	10,036	100.00%

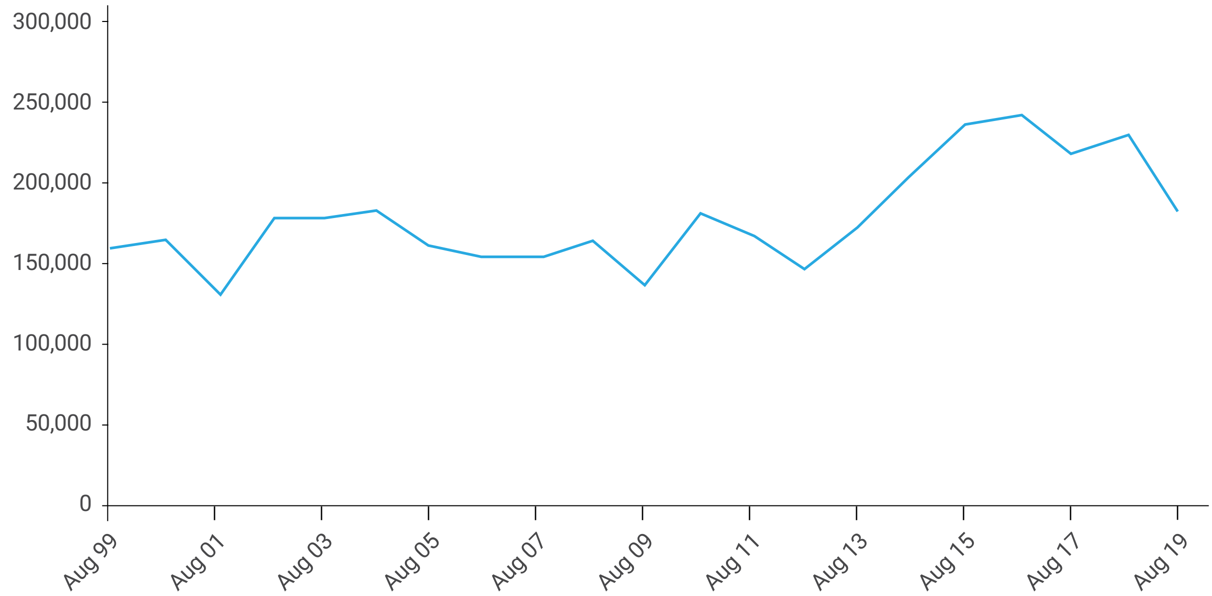
Graph 14: Foreign Residential Real Estate Approvals
FIRB Annual Report



Housing affordability 2020 – The recent growth in new supply represented in this report was underpinned by this surge in foreign investment into new residential real estate. These figures show a significant decline that is partially related to legislation intending that foreign investment be channelled into new residential developments, but regulatory changes in key countries such as China has seen a slow-down impacting the future pipeline of new developments in Australia. Whilst there is strong potential for an investment vehicle to channel foreign interest into equity funds, which are simpler investments, there will be a reduction of supply until these new vehicles come online.

Building Approvals

Graph 15: Building Approvals ABS 8731.0 (Aug 2019)



Building approvals indicate a pipeline of dwellings that are approved but yet to be built. As at the 12 months ending August 2019, around 180,000 homes were approved.[23] This is a stark contrast to the figure from 12 months earlier, which sat at just over 229,000 dwellings approved – a difference of nearly 50,000 dwellings that will not be built.

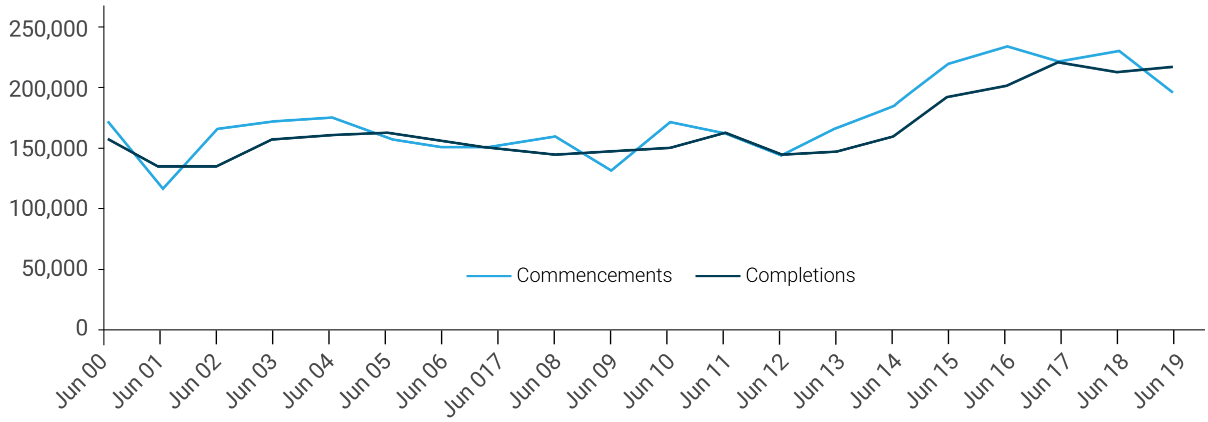
The graph above demonstrates the sharp drop in building approvals, first dipping below 200,000 approvals in the 12 months ending April this year. If approvals for the next 12 months were to reflect the July and August figures, we would see a low of circa 155,000 approvals – a number which hasn't been seen since 2012.

YTD	Dwellings Approved
Aug-09	135,555
Aug-10	181,081
Aug-11	165,617
Aug-12	146,882
Aug-13	170,053
Aug-14	206,021
Aug-15	234,612
Aug-16	242,267
Aug-17	217,459
Aug-18	229,333
Aug-19	179,632

Housing affordability 2020 – Our previous *Australian Affordable Housing Report: Environmental Scan* suggested building approvals may slow over the next year, and the current building approval figures bode poorly for the future building supply. We expect to soon see a corresponding drop in building completions, which will increase buyer competition and potentially reverse recent affordability gains.

Building Activity

Graph 16: Building Activity ABS 8752.0 (Jun 2019)



Figures released by the ABS clearly indicate that the decline in housing activity, which threatens to impact the economy across jobs, tax and demand-equivalent supply, is gathering pace. Dwelling unit commencements dropped by 20% year-on-year from 230,522 commencements a year ago to 196,867 for the year ending 30 June 2019.[24] With around 40 trades and sub-trades receiving work from every new house delivered, we may lose around 1.4 million future trade and paraprofessional engagements as the number of new homes drop by circa 35,000 dwellings on the previous year.

Meanwhile, dwelling completions increased slightly in the order of about 4,000 dwellings, up to 217,448 dwellings, well above the 20-year average of circa 165,000 dwellings completed.

Housing affordability 2020 – Despite a rise in building completions across the last 12 months, with commencements and approvals declining sharply we can expect to see a subsequent drop in dwelling completions going forward, and a resultant tightening of the availability of homes in Australia. The impact to the economy of the loss of related trades and sub-trades will further impact on the ability of those people to enter the housing market or service ongoing mortgages.

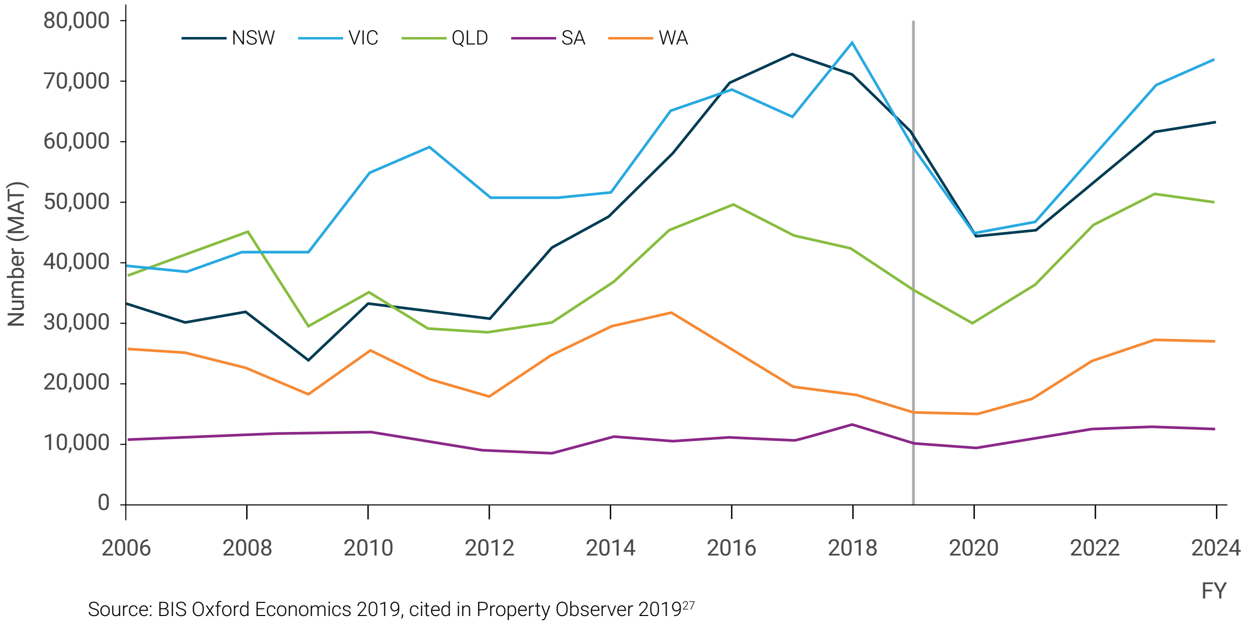
Housing Forecasts

The July 2019 *Building in Australia 2019-2034* report from BIS Oxford Economics[25] 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 report indicates that national residential commencements will trough at 152,900 dwellings which, if correct, would see commencements drop by just under 80,000 dwellings per annum from peak. This is to say that the fourth largest economy in the world, which is equivalent to the state of California's total supply production of 77,000 annual new dwellings, would disappear out of the Australian new housing pipeline.

The graph below predicts a marked drop in dwelling commencements in almost every state, with a correction of 33%.[26]

Graph 17: Total Dwellings Commencements by State (July)



Source: BIS Oxford Economics 2019, cited in Property Observer 2019[27]

Housing affordability 2020 – The BIS Oxford Economics forecast shows Australia slipping between 20-30,000 homes fewer than the national demand rate for housing. BIS Oxford Economics in 2018 calculated the need for an underlying demand for building 195,800 dwellings to be built per annum on average over the next five years to meet requirements of 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.

Artist's Impression – Evolve Housing, Newcastle development

05

NATIONAL AFFORDABILITY MEASURES

Median prices

Nationally, the median value of an Australian dwelling (ie houses and units combined) was $521,160 at the end of August 2019; an increase of $66,640 (14.7%) increase from five years ago. Of course there is a substantial variation in the typical value of a dwelling across the regions of the country. Broadly, the median dwelling values across the combined capital cities was $597,000 at the end of August 2019, compared with the combined regional median of $376,000.

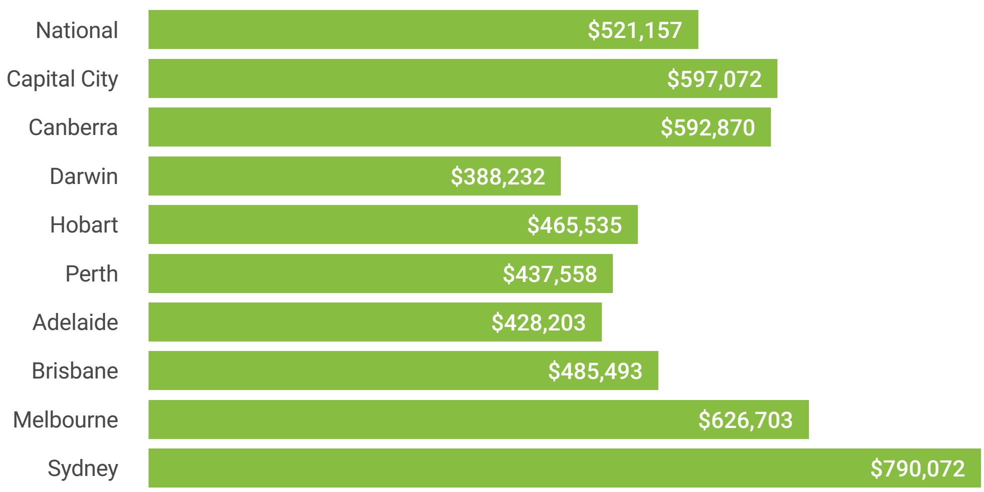
Amongst the capital cities, values are the highest in Sydney and Melbourne at $790,000 and $627,000 respectively, while values are the lowest in Darwin ($388,200) and Adelaide ($428,200). Areas with higher dwelling values generally reflect stronger housing demand and scarcer housing supply relative to demand.

Values also vary materially between the broad product types. Nationally, there is a $43,400 difference between the median house value and median unit value. The difference between product types is the most significant in Canberra where the premium for houses over units, based on the median value, is $239,800, however every capital city shows a difference of at least $100,000 between the median house value and median unit value.

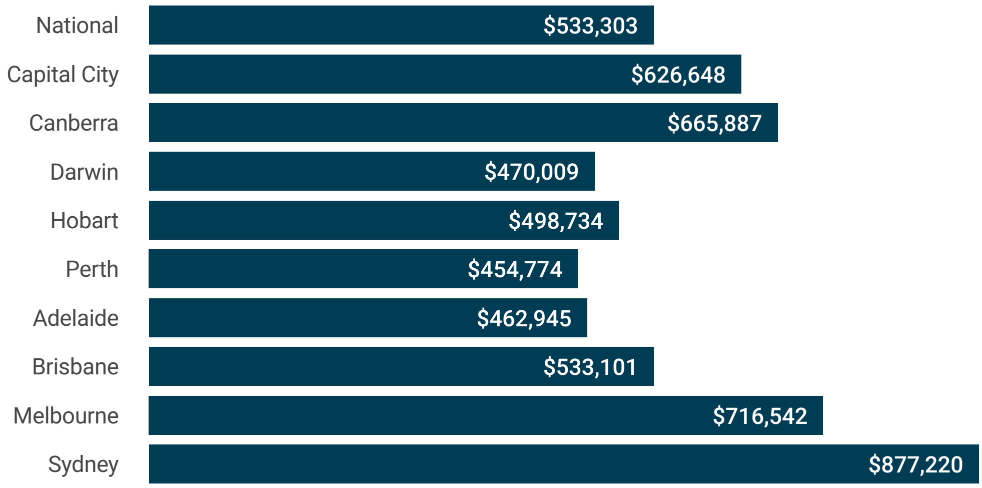
Most cities have seen a larger gain in house values over the past five years than unit values, which reflects the increasing value of land and the lower supply levels relative to units. The one exception is Sydney, where unit values (+17.7%) have shown a slightly higher gain relative to house values (+17.3%) over the past five years.

The stronger performance across the unit sector in Sydney may reflect the growing level of demand for medium to high density housing options as housing affordability pressures push more buyers towards a higher density housing option.

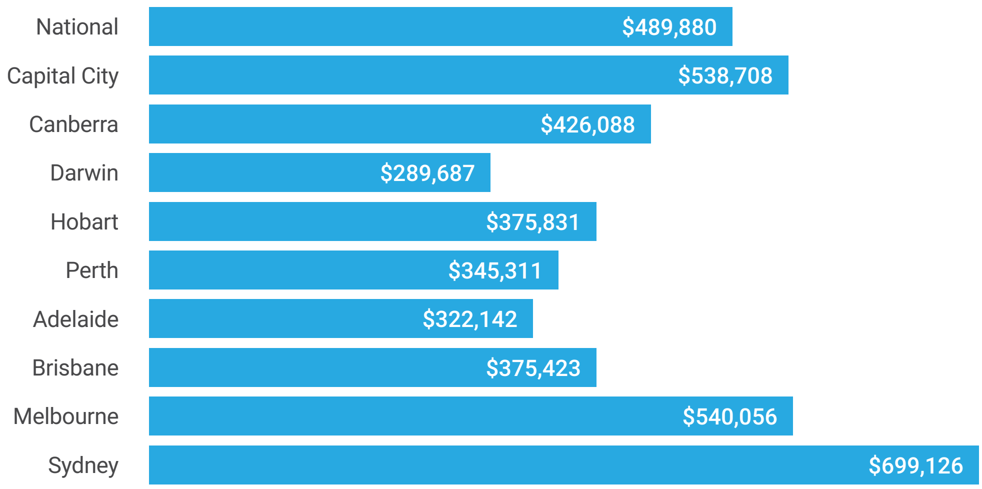
Median dwelling price



Median house price



Median unit price



Source: CoreLogic, September 2019

20-year dwelling house and unit snapshot 1999-2019

Month	Sydney Dwellings	Melbourne Dwellings	Brisbane Dwellings	Adelaide Dwellings	Perth Dwellings	Hobart Dwellings	Darwin Dwellings	Canberra Dwellings	Capital city Dwellings	National Dwellings
Aug-99	$260,361	$171,359	$140,039	$116,973	$141,686	$104,661	$159,278	$139,649	$167,535	$147,643
Aug-04	$440,700	$299,709	$297,495	$248,898	$253,370	$233,865	$204,295	$333,539	$320,567	$295,693
5 yr change	69.3%	74.9%	112.4%	112.8%	78.8%	123.5%	28.3%	138.8%	91.3%	100.3%
Aug-09	$459,474	$420,926	$421,053	$350,217	$445,851	$312,648	$445,535	$449,973	$425,312	$390,583
5 yr change	4.3%	40.4%	41.5%	40.7%	76.0%	33.7%	118.1%	34.9%	32.7%	32.1%
Aug-14	$656,844	$511,846	$452,562	$388,718	$537,666	$315,237	$527,289	$485,030	$532,159	$454,515
5 yr change	43.0%	21.6%	7.5%	11.0%	20.6%	0.8%	18.3%	7.8%	25.1%	16.4%
Aug-19	$790,072	$626,703	$485,493	$428,203	$437,558	$465,535	$388,232	$592,870	$597,072	$521,157
5 yr change	20.3%	22.4%	7.3%	10.2%	-18.6%	47.7%	-26.4%	22.2%	12.2%	14.7%

Month	Sydney Houses	Melbourne Houses	Brisbane Houses	Adelaide Houses	Perth Houses	Hobart Houses	Darwin Houses	Canberra Houses	Capital city Houses	National Houses
Aug-99	$267,005	$178,919	$139,809	$123,640	$145,468	$109,094	$174,436	$146,679	$164,162	$143,588
Aug-04	$498,775	$324,010	$311,355	$263,737	$260,930	$249,711	$239,183	$354,533	$332,464	$300,966
5 yr change	86.8%	81.1%	122.7%	113.3%	79.4%	128.9%	37.1%	141.7%	102.5%	109.6%
Aug-09	$503,660	$451,489	$439,237	$368,532	$460,050	$325,132	$479,306	$482,734	$445,612	$401,793
5 yr change	1.0%	39.3%	41.1%	39.7%	76.3%	30.2%	100.4%	36.2%	34.0%	33.5%
Aug-14	$747,986	$571,571	$479,741	$412,905	$561,825	$328,732	$587,720	$521,778	$557,068	$460,817
5 yr change	48.5%	26.6%	9.2%	12.0%	22.1%	1.1%	22.6%	8.1%	25.0%	14.7%
Aug-19	$877,220	$716,542	$533,101	$462,945	$454,774	$498,734	$470,009	$665,887	$626,648	$533,303
5 yr change	17.3%	25.4%	11.1%	12.1%	-19.1%	51.7%	-20.0%	27.6%	12.5%	15.7%

Month	Sydney Units	Melbourne Units	Brisbane Units	Adelaide Units	Perth Units	Hobart Units	Darwin Units	Canberra Units	Capital city Units	National Units
Aug-99	$254,951	$161,506	$140,827	$92,681	$121,248	$85,650	$134,620	$128,860	$177,329	$161,480
Aug-04	$378,702	$273,867	$250,173	$197,223	$210,965	$188,170	$167,330	$281,026	$294,749	$283,390
5 yr change	48.5%	69.6%	77.6%	112.8%	74.0%	119.7%	24.3%	118.1%	66.2%	75.5%
Aug-09	$417,964	$387,603	$367,477	$289,000	$374,156	$261,125	$362,607	$390,152	$384,644	$364,591
5 yr change	10.4%	41.5%	46.9%	46.5%	77.4%	38.8%	116.7%	38.8%	30.5%	28.7%
Aug-14	$593,768	$466,094	$388,421	$314,455	$452,673	$276,304	$436,901	$393,697	$490,119	$438,865
5 yr change	42.1%	20.3%	5.7%	8.8%	21.0%	5.8%	20.5%	0.9%	27.4%	20.4%
Aug-19	$699,126	$540,056	$375,423	$322,142	$345,311	$375,831	$289,687	$426,088	$538,708	$489,880
5 yr change	17.7%	15.9%	-3.3%	2.4%	-23.7%	36.0%	-33.7%	8.2%	9.9%	11.6%

Source: CoreLogic, September 2019

Value changes

Australia's housing market has moved through a broad-based downturn, with dwelling values nationally falling 8.4% between October 2017 and what appears to be the market trough in June 2019. The most recent data to the end of August shows housing values have started to recover, however the trends remain diverse around the country.

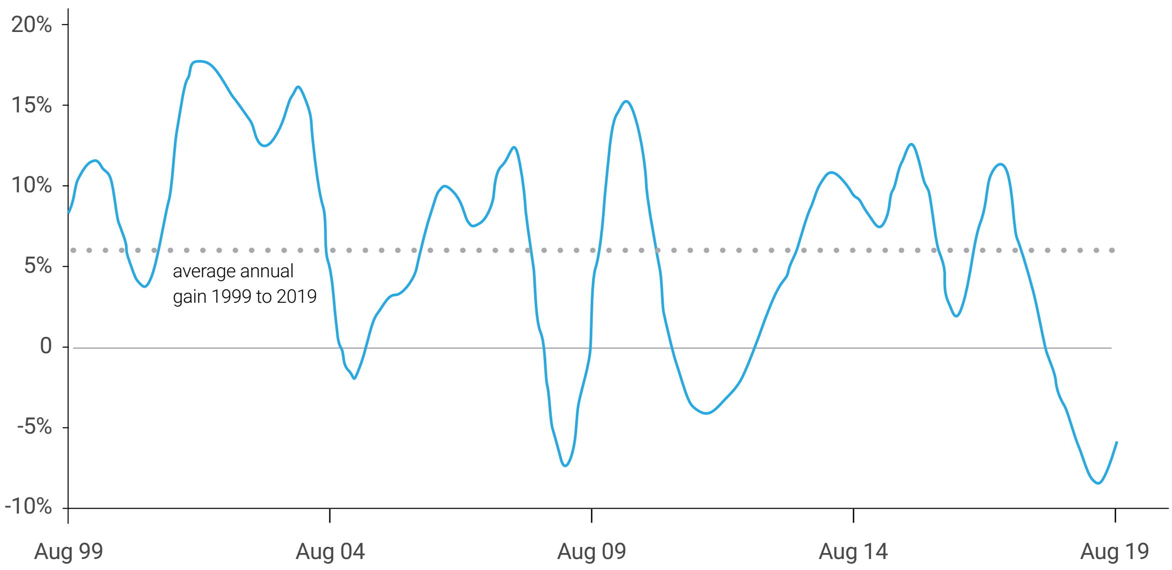
The sharpest downturn in housing values has been evident in Sydney and Melbourne, where previously conditions were the strongest. Sydney dwelling values fell by 14.9% before finding a floor in May 2019, and Melbourne values were down 11.1%. Since bottoming out, Sydney and Melbourne have been leading the market recovery, with housing values bouncing back more rapidly than other cities.

The only other capital city markets to record more substantial falls in values than those in Sydney are Perth and Darwin, where the housing markets are in an entrenched downturn that has been running since early-to-mid-2014. Darwin values have plummeted by 31% since peaking and Perth values are down 21%. Both regions are suffering from weak economic conditions following the peak in resource sector related infrastructure investment.

While the ongoing decline in Perth and Darwin home values can be explained by the soft economic conditions and weak demographic trends, the weakness in other housing markets can generally be explained by tougher credit policies leading to a tightening in credit availability.

With mortgage rates tracking at the lowest level since the 1950s and a recent loosening in credit policies, there is early evidence that housing markets are responding with buyer activity picking up and housing values starting to rise again. To date, the recovery trend is being led by Sydney and Melbourne, however most capital cities and regional markets are recording an easing in the rate of decline, or showing signs of subtle growth.

Graph 18: Annual change in combined capital city dwelling values



Source: CoreLogic, September 2019

Sales by price point

Although values have generally declined over the past few years, most regions of Australia are still seeing a much lower proportion of dwellings sell for less than $400,000 relative to five years ago. Only 16% of capital city houses sold for less than $400,000 over the 12 months ending August, while 27% of units sold for less than $400,000.

Sydney and Melbourne are the only capital cities where less than 5% of houses sold for under $400,000 last year.

Darwin and Perth, where dwelling values have been trending lower since 2014, are the only cities where the proportion of both house and unit sales less than $400,000 is higher than five years ago. Brisbane's unit market, where an oversupply of apartments has weighed on values, is also recording more sales under $400,000 now than five years ago.

Every other capital city region has seen a reduction in property sales under $400,000, with the most significant decline in Hobart. Hobart housing values have surged higher over the past few years which has resulted in more significant deterioration in housing affordability relative to other cities.

% sold under $400K

City	Housing type	2014	2019
Australian Capital Territory	Houses	24.0%	5.7%
	Units	43.8%	37.7%
Greater Adelaide	Houses	47.1%	37.4%
	Units	78.6%	68.0%
Greater Brisbane	Houses	34.1%	23.6%
	Units	47.1%	54.6%
Greater Darwin	Houses	20.5%	28.6%
	Units	32.9%	72.2%
Greater Hobart	Houses	62.9%	33.7%
	Units	81.2%	60.3%
Greater Melbourne	Houses	26.4%	3.0%
	Units	31.0%	22.3%
Greater Perth	Houses	19.4%	31.5%
	Units	37.9%	55.4%
Greater Sydney	Houses	13.5%	3.5%
	Units	18.7%	7.1%
Combined Capitals	Houses	25.1%	15.7%
	Units	30.6%	27.3%

Source: CoreLogic, September 2019

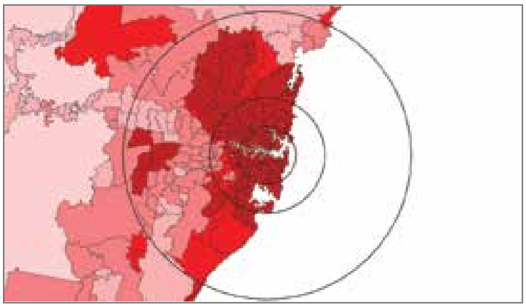
Median Price by Postcode

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.

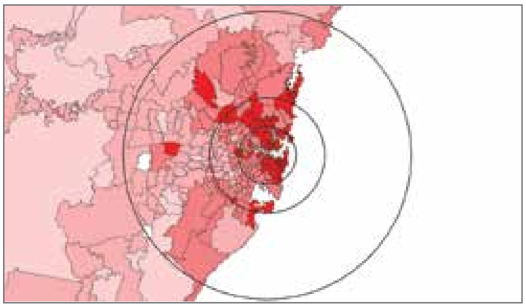
$1m+
>=$800k and <$1m
>=$600k and <$800k
>=$400k and <$600k
<$400k

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

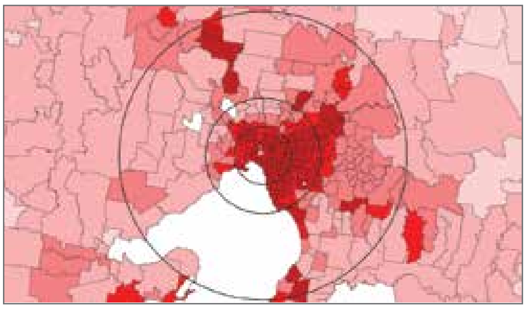
Sydney Houses



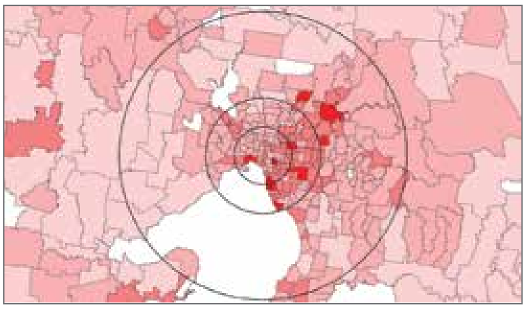
Sydney Units



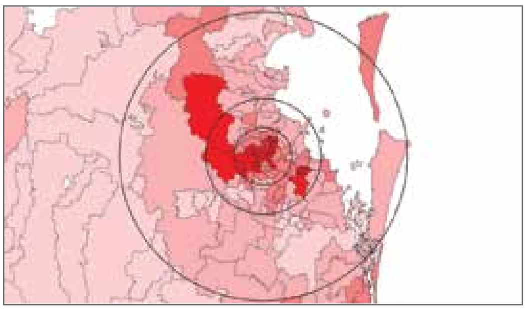
Melbourne Houses



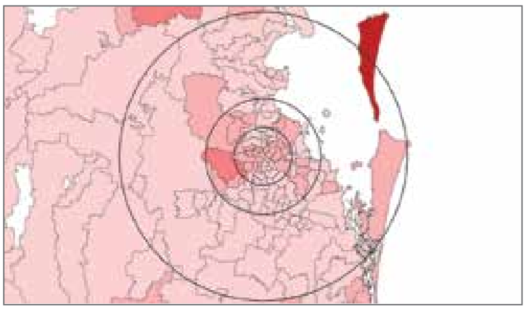
Melbourne Units



Brisbane Houses



Brisbane Units



$1m+

>=$800k and <$1m

>=$600k and <$800k

>=$400k and <$600k

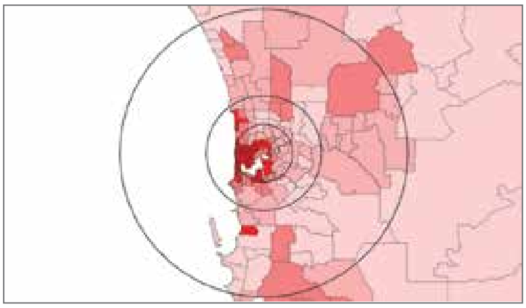
<$400k

Inner ring: 10km from city centre

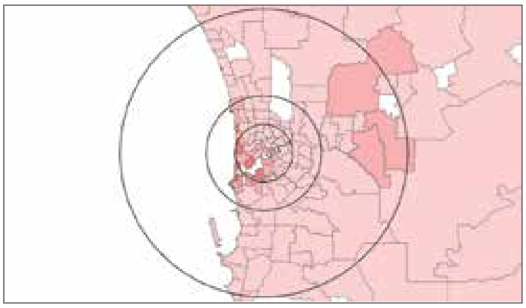
Middle ring: 20km from city centre

Outer ring: 50km from city centre

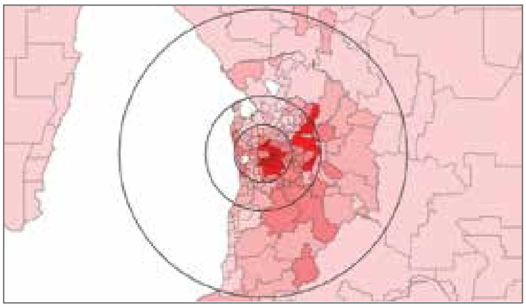
Perth Houses



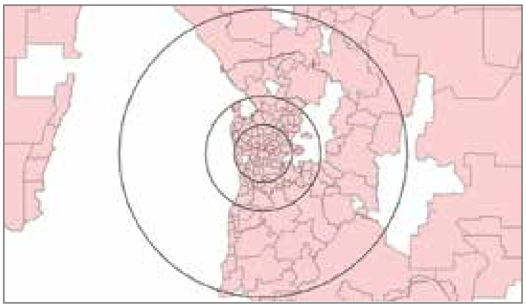
Perth Units



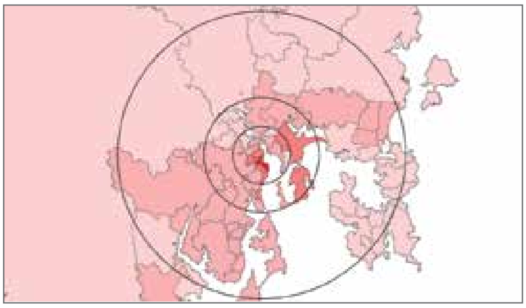
Adelaide Houses



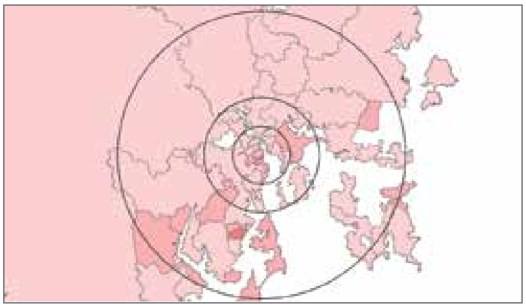
Adelaide Units



Hobart Houses



Hobart Units



Source: CoreLogic, September 2019

Affordability measures

One of the best ways to measure housing affordability is to examine the ratio of household incomes to dwelling values. Comparing the median gross annual household income with the median dwelling value for regions around Australia highlights the affordability challenge in markets like Sydney and Melbourne. Sydney dwelling values were 8.4 times higher relative to gross annual household incomes at the end of March 2019 and Melbourne values are 7.6 times higher.

Despite the high ratios, housing affordability has actually improved over the last few years as dwelling values have trended lower and incomes have edged higher. Sydney's dwelling value to income ratio peaked at 9.8 times income over the September quarter of 2017 and Melbourne's ratio peaked at 8.5 times during the December quarter of 2017.

At the other end of the housing affordability spectrum is Darwin, Canberra and Perth where dwelling values are only 3.4, 5.1 and 5.2 times higher than gross household incomes.

Region	Price to income ratio	% of household income required to service an 80% LVR mortgage	% of household income required to rent a home
Sydney	8.4	45.7%	32.6%
Melbourne	7.6	41.2%	28.7%
Brisbane	5.8	31.6%	26.9%
Adelaide	6.3	34.1%	29.5%
Perth	5.2	28.2%	23.5%
Hobart	6.7	36.6%	34.2%
Darwin	3.4	18.5%	20.3%
Australian Capital Territory	5.1	27.8%	24.7%
Rest of NSW	7.2	39.0%	33.6%
Rest of Vic.	5.9	32.0%	28.8%
Rest of Qld	5.4	29.3%	30.9%
Rest of SA	4.2	22.9%	25.9%
Rest of WA	4.1	22.4%	24.8%
Rest of Tas.	5.2	28.5%	30.0%
Rest of NT	5.0	27.0%	33.1%
Combined Capital Regions	6.7	36.6%	27.1%
Combined Regional	5.2	28.0%	31.6%
National	**6.5**	**35.4%**	**28.2%**
As at March 2019			

Source: CoreLogic, September 2019

With mortgage rates at the lowest level since the 1950s, mortgage serviceability is actually healthier now that it has been over several years. In fact, a homebuyer with a 20% deposit purchasing the median prices capital city dwelling is dedicating, on average, 36.6% of their gross annual household income towards servicing a mortgage which is similar the level fifteen years ago.

Despite such low interest rates and drop in housing values, households in Sydney and Melbourne still need to dedicate more than 40% of their income towards servicing a mortgage.

For renters, the proportion of household income required to pay rent each week is substantially lower than relative to paying a mortgage. Rents have generally risen at a slower pace than incomes, providing some improvement to rental affordability. Nationally, households are dedicating 28.2% of their gross household income towards rental payments, with this ratio highest in Hobart (34.2%) where rental conditions have been much tighter.

Rental Affordability Index

The biannually-published *Rental Affordability Index*[28] aims to illustrate the state of rental affordability for vulnerable groups by considering the cost of rent against income. The report shows that 44% of low income households are currently in housing stress, an increase from 35% in 2008.

For lower income households throughout the country, including single male households, single mothers, single and coupled pensioners and student sharehouses, rents are considered largely untenable.

The least affordable capital city in Australia continues to be Hobart, with an RAI dropping to 101, just 1 unit away from the 'Unaffordable Rents' category. With an RAI of 113, Sydney is the second-least affordable city.

The report notes 'Investors have pushed out would-be home owners, so more households with middle to higher incomes are renting for longer. This impacts lower income renters by keeping rents higher'.[29]

Region	RAI at Q2 2018	Share of household income spent on rent	Relative unaffordability
Greater Sydney	113	27%	Moderately unaffordable rents
Rest of NSW	122	25%	Unaffordable rents
Greater Brisbane	123	24%	Acceptable rents
Rest of QLD	123	24%	Acceptable rents
Greater Adelaide	114	26%	Moderately unaffordable rents
Rest of SA	133	23%	Acceptable rents
Greater Hobart	101	30%	Moderately unaffordable rents
Rest of TAS	121	25%	Acceptable rents
Greater Melbourne	127	24%	Acceptable rents
Rest of VIC	124	24%	Acceptable rents
Greater Perth	144	21%	Acceptable rents
Rest of WA	157	19%	Acceptable rents
ACT	128	24%	Acceptable rents

Anglicare Australia Rental Affordability Snapshot

The latest *Anglicare Australia Rental Affordability Snapshot* describes the rental crisis as 'a nightmare for many renters'.[30] The survey of over 69,000 private rental listings in Australia measures affordability using the widely-accepted 30% of income benchmark.

Of the properties surveyed:

- Only two properties were affordable for a single person on Youth Allowance or Newstart.
- Only 3% of rentals were affordable for a couple on the aged pension, and 1% for single pensioners.
- Around 2% of rentals were affordable to a single person working fulltime on the minimum wage.

The report calls on government to recommit to social housing, noting that older people on low incomes – particularly older women – retire into rental uncertainty. It notes that for people earning minimum wage struggling to find housing, the minimum wage has not kept pace with the rising cost of living. With the high housing prices, people on lower incomes looking for rentals are also competing with people on higher incomes who are locked out of the homeownership.

Southern Cross Housing – construction providing job opportunities in Nowra


City West Housing - Lisa Ervasti, Zetland Resident

06 SUMMARY

Affordability indicators show that the housing affordability challenge is not dissipating despite the average mortgage coming down, with little flow-through to renters and less impact on those seeking a rental that is proportionately affordable to income.

One of the key indicators of this report is the building approval, commencement and completion pipeline which, over the next 24 months, will contract to impact the balance between supply actually finally meeting annual demand as it has done over the past three years.

As supply contracts, the ability of the market to supply enough dwellings each year to have a sustained impact on pricing also falls away. This means that any meaningful impact will be lost if the trough is not a shallow one.

Whilst there have been forecasts made in the previous version of the *Australian Affordable Housing Report* of around 180,000 dwellings being the bottom of the cycle, the latest building approvals, if forecast forward, show that Australia will approve less than this amount in F2021. Not all approvals are built so there is an expectation that completions around this time will bottom out at around 170,000 dwellings – that is, if there is not a further drop in commencements beyond this as indicated, or unless there some of the markets of housing are activated to develop more housing.

With first homebuyers, investors and particularly foreign investors having participated in seeing Australian housing commencements skyrocket to record levels, their participation in a rally to see numbers of dwellings bottom out at 170,000 remains uncertain. What would motivate their re-entry into the Australian housing market is uncertain.

International investment into safe, long-term, government-backed housing has been favourable as shown for over 30 years in the US where tax credit structures and community reinvestment legislation motivates the largest investment bankers such as Morgan Stanley to work with intermediaries such as the Local Initiatives Support Corporation (LISC) and foundations of organisations such as the Chan Zuckerberg Initiative to support social impact outcomes.

Engaging the wave of capital that is looking for those long-term safe harbours is critical as shown with the US experience since 1986, in which the Low Income Housing Tax Credit is seeing up to 8% of all their national housing delivery being affordable housing, underpinning housing delivery in the periods of slow demand.

The other lever impacting housing demand is that of seniors' housing and the baby boomers transitioning from current housing into suitable accommodation, which will see a shift in housing in the new decade.

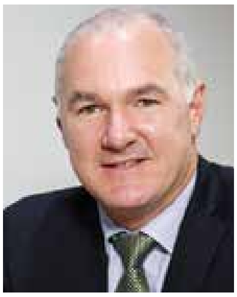
One thing for certain is that what drives and underpins the housing market in Australia at the start of this next decade will be different to what it started out as.

Affordable housing and the emergence of the global investors who seek to invest in social impact will have more options. Whilst there has been normalisation of investment into affordable housing for some time, the three remaining International Housing Partnership countries of UK, Canada and Australia all opened up new investment issues for debt. The next step will be equity.

Government engagement in housing has become a national focus with four federal ministers now having some responsibility for the needs of this critical component of the economic and social fabric of the country.

07

ABOUT THE AUTHORS



Tim Lawless

Tim is widely regarded as one of Australia's leading property market analysts and commentators by business and the media. Tim's expertise across property markets has positioned him as one of the country's most experienced and popular property market analysts and commentators. His knowledge and expertise is sought after by myriad government entities and regulators as well as national and international corporate entities operating across property, banking and financial sectors.

About CoreLogic – CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), the largest property data and analytics company in the world. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources spanning more than three decades of collection, providing detailed coverage of property information such as tenancy, location, hazard risk and related performance data. 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 delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. CoreLogic RP Data helps identify and manage growth opportunities, improve performance and mitigate risk.

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 last decade.

About PowerHousing Australia – PowerHousing Australia is a unique forum for peer-to-peer exchange and collaboration amongst housing professionals who are dedicated to improving lives through the provision of social and 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. Today the organisation has 34 of the largest scale community housing provider members who collectively manage over $20 billion in housing, and own or manage over 60,000 homes for over 100,000 people on low to moderate incomes.

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Women's Housing – Newport Development

Report Coordination and Writing

The Affordable Housing Environmental Scan 2020 was coordinated, researched and finalised by Scarlett Mitchell, Project and Research Manager at PowerHousing Australia. Joining the organisation in 2017 with a Ba. Philosophy Hons, Scarlett managed and co-wrote the Australian Affordable Housing Report: Environmental Scan 2019 and later the Scale Sector Capacity Prospectus 2020.

HousingFirst – Chapel Street Apartments

CoreLogic Research

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