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National Housing Supply and Affordability Council

NATIONAL HOUSING SUPPLY AND AFFORDABILITY COUNCIL

State of the Housing System

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Acknowledgement of Country

The National Housing Supply and Affordability Council acknowledges the Traditional Custodians of Country throughout Australia and their connections to land, sea and community. We pay our respects to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

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Foreword

There is no denying the housing crisis we are in. It is a longstanding crisis, fundamentally driven by the failure to deliver enough housing of all types – from social housing through to market home ownership. At its heart, this crisis is about insufficient supply, but many contributing factors are making it more acute – the resumption of migration at pace, rising interest rates, skills shortages, elevated construction company insolvencies, weak consumer confidence and cost inflation to name just a few. These all combine to create an environment in which prices and rents are growing faster than wages, rental vacancies are near all-time lows, 169,000 households are on public housing waiting lists, 122,000 people are experiencing homelessness and projected housing supply is very low.

Australia’s housing market is far from healthy. An unhealthy market has periods of rampant price growth, is unable to produce enough supply to meet demand, is overly reliant on an unsupported private market to address most of Australia’s shelter needs, creates scarcity and cannot match the rich expanse of demand with a breadth of housing choice.

This is not an abstract and theoretical topic. We’re talking about homes, not assets. Access to shelter is a basic human need and right. The lack of a secure home, whether rented or owned, is a source of significant stress for families.

The problem we are trying to solve is multi-dimensional. The ability to afford a home is clearly important, but so are security of tenure, proximity to jobs, and access to amenities.

Putting our collective effort into developing a healthier housing market matters. This report is a contribution to that effort.

On 27 December 2023, the Australian Government established the National Housing Supply and Affordability Council (the Council).

The Council’s role is to build an evidence base and provide expert advice that will support policy making to improve outcomes across the housing spectrum. This annual report – the Council’s first State of the Housing System report – is part of this task and fulfils the Council’s obligations prescribed by the *National Housing Supply and Affordability Council Act 2023*.

The Council’s vision for Australia’s housing system is one where shelter is affordable, secure and sustainable for households across income and geographic distributions. To achieve this, Australia requires a supply of new, well-located homes that match the needs of its growing population; a sufficient pipeline of social and affordable housing as essential infrastructure for communities; and a system that works towards minimal homelessness across the country and where commitments to housing targets under the *National Agreement on Closing the Gap* are met.

In this report, the Council presents an overview of the state and functioning of Australia’s housing system. It assesses demand and supply conditions and how these factors influence dwelling prices and rents. The report assesses housing affordability in Australia across tenure, age and income groups, and focuses in detail on cohorts of vulnerable people. It describes the Council’s projections for the long-term housing outlook and provides an assessment of the suitability of the Australian Government’s 1.2 million new homes target, which forms part of the National Housing Accord. The report concludes by identifying focus areas for improving the housing system.

I am grateful for the generous input received from stakeholders through roundtable discussions and bilateral meetings. Those consulted included the Australian, state and territory governments and their agencies; planning, residential construction and development peak bodies and entities; the community housing sector; and research institutions.

I extend my thanks to the other members of the interim Council – Mr Michael Lennon (Deputy Chair), Professor Rachel Ong ViforJ, Ms Helen Waters Silvia, Dr Marcus Spiller, Mr David O'Loughlin, Ms Victoria Anderson (ex-officio), and Ms Diane Brown (ex-officio) – who served from 1 January 2023 to 27 December 2023. Thank you for your hard work and dedication in assisting statutory-appointed Council members to transition to their roles.

On behalf of the Council, I am pleased to submit this report to the Minister.

Susan Lloyd-Hurwitz

Ms Susan Lloyd-Hurwitz

Chair, National Housing Supply and Affordability Council

Executive summary

Housing affordability worsened in 2023, from already challenging levels

Housing affordability worsened in 2023. The worsening was widespread, occurring across states and territories, cities and regions, income levels, age groups and tenure types.

Housing affordability deteriorated significantly for mortgage holders. Mortgage interest rates rose by an average of 125 basis points in 2023, and the average mortgage for owner-occupiers reached $624,000. Since the first increase in the Reserve Bank of Australia cash rate in May 2022, minimum scheduled repayments for borrowers have increased by as much as 60 per cent.

Aspiring homeowners experienced a decline in their ability to purchase a home. It takes the average prospective homeowner around 10 years to save a 20 per cent deposit for an average dwelling. Even with a deposit, only 13 per cent of the homes sold in 2022–23 were affordable for a median income household.

Renters in the private market experienced a sharp rise in rents. Advertised rents increased by 8 per cent in 2023 and have increased by around 35 per cent since the start of the decade. Finding a rental property is increasingly difficult. Nationally, the rental vacancy rate is 1.6 per cent – around its lowest level on record and well below the rate considered to reflect a balanced rental market of around 3–4 per cent. In some parts of the country, including some capital cities, it is as low as 0.5 per cent.

Worsening affordability placed additional pressure on demand for non-market housing. The number of 'greatest needs' households on public housing waiting lists rose by 2.4 per cent in the 2022–23 financial year. Waiting lists for First Nations housing rose by 10 per cent. Service providers reported a rise in demand for homelessness services and crisis accommodation.

Many households have made difficult trade-offs in the face of rising housing costs, including reducing spending on other essential household items; living further away from places of employment, education, and social and family networks; or living in overcrowded dwellings or in housing with inadequate or expensive heating or cooling options.

Worsening affordability is particularly problematic for vulnerable groups, including low-income households, single parents, young people, single pensioners, those fleeing domestic or family violence, people with disability, and First Nations Australians. Declining rental affordability correlates with an increase in homelessness.

Worsening affordability is contributing to poorer housing outcomes for First Nations Australians. First Nations households are half as likely to own their home, 6-times more likely to live in social housing, 3-times more likely to live in overcrowded dwellings and almost 9-times more likely to experience homelessness compared to non-Indigenous Australians. These poor housing outcomes impact on health and wellbeing, access to education and employment, and connection to community. Without targeted measures, undertaken in partnership with First Nations people, housing outcomes under the *National Agreement on Closing the Gap* are unlikely to be met.

The housing system's inability to supply sufficient housing that meets the population's needs is the primary reason for worsening affordability

Current market supply of new housing is low. Only 172,000 dwellings were completed in 2023 – the lowest annual number of completions in the past decade. Construction is taking longer to complete. The average time from approval to completion for a new house is around 12 months, up from 9 months in 2019–20. New townhouses currently take around 15 months from approval to completion and new apartments around 29 months.

The current lack of new supply is due to several factors. The cost of construction has risen sharply, reflecting a rise in the price of materials during the COVID-19 pandemic and shortages of skilled labour due to the strong economy and competition for labour. Increasing construction costs have eroded builder profit margins and limited the extent to which higher prices induce new supply. Higher costs have also contributed to higher-than-average rates of insolvencies in the construction sector and eroded equity buffers for some developers and builders, reducing capacity and risk appetite in the sector.

Higher interest rates are constraining supply by adding to the cost of bank debt and other financing options for builders and developers. Higher interest rates also raise the cost of financing for households and investors. This reduces contract-to-build activity for detached and semi-detached dwellings and limits the extent to which developers of apartments can generate pre-sales to future owners, which is a source of funding in its own right and a prerequisite for funding from many financial institutions.

These cyclical factors compound structural barriers that limit the provision of housing in Australia.

Low productivity in the building industry and the low levels of adoption of innovative building techniques limit the sector's ability to increase production in response to elevated demand and to achieve economies of scale that could reduce building costs. Multifactor productivity in the construction industry has fallen by 0.2 per cent per year since 1989–90, while productivity in other industries has increased, including transport (0.9 per cent per year) and manufacturing (0.3 per cent per year). Labour productivity growth in the construction sector has been low (0.3 per cent per year) for more than 20 years, and is a fraction of that of the transport and manufacturing sectors.

Land for housing is limited and costly. The supply of sites becoming available from former industrial, government and other uses has diminished. Available land is sometimes not suitable for development – for example, due to the fragmentation of holdings, or a lack or high cost of enabling infrastructure.

Complex zoning and planning approval requirements further constrain supply. Planning processes vary markedly across states and territories, and the more than 500 local governments that provide the planning consent authority for development. Levels of capacity, capability and coordination vary significantly across local governments.

More holistically, the housing production process is complex and interdependent, meaning a delay in any one part of the process can halt or slow the production of housing.

Market frictions and financial incentives limit the population's optimal usage of the housing stock. On the night of the 2021 Census, there were 6 million 'excess' bedrooms across Australia and 1 million unoccupied dwellings. Much of this unused housing capacity reveals households' housing consumption preferences, such as for home offices or holiday homes, or unavoidable frictions in the housing market such as households transitioning between 2 properties. But it also reflects structural barriers in the housing system that limit the optimal continuous distribution of housing across the population as household preferences and circumstances change.

Investment in social housing contributes to the supply of new housing. However, social housing has been declining as a share of the housing stock for 3 decades – from 5.6 per cent in 1991 to 3.8 per cent in 2021 – reflecting low rates of investment and the sale and demolition of existing public housing units. Growth in community housing has only partly offset the decline in public housing. Demand for social housing continues to outpace supply. Waitlists for public housing increased by 9.1 per cent from 2019 to 2023, while waitlists for State-owned and managed Indigenous housing increased by almost 10 per cent from 2021–22 to 2022–23.

A temporary increase in demand has contributed to a rise in the cost of housing

Australia is experiencing a period of elevated demand for housing. The Council estimates 244,000 households were formed in the 2022–23 financial year and 208,000 are expected to be formed in the 2023–24 financial year.

The current high level of demand largely reflects a period of strong population growth. Population growth was 634,500 in the year to June 2023 and was forecast to be 510,400 in the year to June 2024 – above the average of around 376,000 over the 5 years preceding the pandemic. The effect of high population growth on underlying demand is expected to be partially offset by a small and temporary rise in household size due to a partial reversal of the COVID-19 pandemic-era preferences for smaller households, changes in the composition of households (particularly due to an influx of students forming large, shared households), and a slowing in household formation due to rising housing costs.

From the 2024–25 financial year, the Council expects demand to stabilise, with around 174,000 new households forming per year as population growth rates normalise. Household size is expected to resume a downward trajectory as long-term demographic trends once again begin to outweigh other factors. However, this trajectory is expected to be at a slower pace than over the past decade. In addition, the trend of rising income and wealth will persistently add to demand over the long term beyond that implied by population growth alone.

The Council's projections indicate that affordability could worsen further in the near term

The Council projects that the supply of new housing by the private market, net of demolitions ('net new market supply'), will remain below its long-run average throughout the rest of 2024. This largely reflects the current low level of building approvals, which are the primary determinant of dwelling supply in the near term. Current approvals for high-density dwellings are particularly weak, while low approvals for detached dwellings are partially offset by a pickup in completion rates as a backlog of work started but not completed during the COVID-19 pandemic is finalised.

From 2025, supply is projected to increase as the recent rise in rents and dwelling prices and a slowing in the cost of dwelling construction induce developers to add to the dwelling stock. This supply increase will be further underpinned by a projected decline in mortgage rates, partially offset by projected higher unemployment and a slowing in household income growth. Over time, this additional supply, coupled with slowing new demand due to lower population growth, will bring new supply and new demand into approximate balance.

Over the Council's 6-year projection horizon, which runs from the 2023–24 to the 2028–29 financial years, the net new supply of market housing is expected to average around 173,000 dwellings per year under baseline macroeconomic conditions. Supply is expected to peak at an annual rate of 177,000 dwellings in 2026–27, underpinned by ongoing demand and stable construction costs. Higher interest rates relative to the past decade will be a moderate headwind to supply over the projection horizon. In total, net new market housing supply is expected to be 1.04 million dwellings over the Council's 6-year projection horizon.

Commonwealth-funded policy measures – most importantly the Housing Australia Future Fund – are expected to add an additional 40,000 social and affordable dwellings over the 5 years of the National Housing Accord period. These are in addition to the net new supply projected to be delivered by the private market. An underlying assumption of the Council's projections is that national targets associated with social and affordable housing do not detract from market supply. The baseline projections do not incorporate policy measures expected to be enacted by state and territory governments in response to the National Housing Accord and other commitments, including those aimed at addressing supply constraints. The implementation of these measures has the potential to materially increase overall market supply relative to the Council's projections.

Risks to the Council's supply projections include the path of interest rates, which are a key determinant of housing supply. The Council's scenario analysis indicates that an unexpected decline in interest rates of 50-basis points would boost net housing supply by 54,000 dwellings over the projection horizon; and a rise of 50-basis points would decrease net supply by 45,000 dwellings.

New demand is projected to total 1.08 million households. Significant deviations in population growth rates relative to forecasts and unexpected changes in household size represent risks to the Council's demand projections. Higher-than-forecast population growth or an unexpectedly rapid decline in average household size would increase demand for housing. Conversely, an unexpected slowing in population growth or a rise in average household size would slow the rate of new demand.

The Council's projections indicate that new market supply will fall short of new demand over the next 6 years. There will be a significant shortfall in supply relative to new demand in the 2023–24 financial year and smaller shortfalls in the following 2 financial years. These shortfalls will be partially offset by very small surpluses of new supply relative to new demand in the final 3 years of the projection period. It should be noted that long-term forecasting is inherently uncertain and that estimates that occur later in the projection period are less reliable than those that occur earlier.

The overall shortfall in new supply relative to new demand will add to the already significant undersupply of housing in the system. As a result, housing affordability is expected to deteriorate further over the forecast horizon. There will be no surplus of new housing supply that could address the significant unmet demand for housing that currently exists due to affordability constraints or to accommodate the 122,000 Australians experiencing homelessness at the time of the 2021 Census.

These projected outcomes will have significant implications for many Australians. For those looking to acquire their first home or upgrade to a more expensive dwelling, costs will remain high. For tenants, rental costs will continue to consume a large share of their income and rental housing will remain scarce. For the most vulnerable in the community, who are the least able to manage elevated housing costs and access scarce rental accommodation, Australia's high cost of housing will continue to negatively affect wellbeing. It will also add to overcrowding and homelessness, and limit economic and social inclusion. Implementation of announced housing policy measures to increase the supply of new housing is required to avoid this outcome.

Economic, climatic and demographic trends will add costs and complexities to providing Australia's housing supply. Sustainability challenges, including the need to mitigate risks arising from climate change and the transition to net zero, will increase construction costs. An ageing population and an increasing number of people with disability will require new dwellings and existing stock will need to be modified to meet their needs. More innovation in building techniques and improved productivity in the construction sector could reduce the cost of housing and boost supply. However, innovation and productivity growth in construction have been lacking in the past.

The 5-year supply target agreed to in the National Housing Accord is suitably ambitious

Under the National Housing Accord, the Council is required to regularly advise on the suitability of the Accord's 1.2 million housing target. The Council's projections indicate the gross new market housing supply will total 903,000 dwellings during National Housing Accord period (July 2024 to June 2029), with a further 40,000 social and affordable dwellings funded by Commonwealth initiatives.

The Council recognises the need for an ambitious target as Australia faces a significant unmet demand for housing. The national housing target highlights the magnitude of the task of meeting the needs of the community; helps focus the attention of governments on improving supply; and supports accountability.

New demand for housing is projected to be approximately 871,000 households over the 5-year Housing Accord period, which is less than the national target of 1.2 million. However, more supply than is strictly necessary to meet future new demand is required to address the unmet demand for housing currently in the system, including for people experiencing homelessness, and to offset the effect of demolitions.

Australia needs a better housing system

Australia deserves a better housing system. A better system would promote social and economic inclusion, and improve health and social outcomes and overall community wellbeing. It would yield broad economic benefits, including increased productivity by encouraging labour force participation and mobility. It would improve fiscal outcomes by reducing government spending on services related to homelessness, health, justice, and unemployment, and by underpinning the retirement income system.

Australia needs more well-located housing. More supply requires more efficient planning systems and a more productive home-building industry. Some of this housing must be built in existing suburbs where many of Australia’s employment opportunities, educational institutions and government and private services exist. All Australians have a right to housing that facilitates reasonable access to these amenities.

More than 30 per cent of Australians rent their home. The number of renters is increasing, and those who are renting are doing so for longer. Renting is the only viable tenure option for an increasing share of the population. Australia’s rental system provides only limited tenure security and other rights to renters. Australia needs regulatory frameworks that support tenants’ rights and address the need for better tenure security. More institutional investment in rental housing could provide tenants with more rental options and add to the dwelling supply.

The evidence base indicates that Australia’s tax framework influences the housing system in ways that have implications for supply and affordability. Tax arrangements could potentially be better calibrated to support housing supply and affordability outcomes. Australia’s tax system also favours home ownership over other forms of housing tenure, which can widen inequality between those who can and cannot access homeownership. A gradual transition to a more consistent taxation system across tenure types may contribute to a more equitable housing system.

Non-market housing, such as social housing and affordable housing, is essential infrastructure. It reduces homelessness and the incidence of poverty, supports economic productivity and labour market participation, and fosters more cohesive and sustainable communities. In some remote areas of Australia, social housing is the main form of available rental accommodation. There are federal, state and territory policies that will support the delivery of more non-market housing over the National Housing Accord period. However, levels of non-market housing are forecast to remain low relative to history and in comparison to other advanced economies, and lower than demand.

The Council has identified 9 goals that encapsulate its vision for the housing system and serve as guides to inform its deliberations and advice. These goals span the housing spectrum and reflect the Council's ambition to help the housing system meet the needs of the community and the economy.

1. Housing is affordable, fit for purpose and secure for households across income and geographic distributions.
2. There is fair access to home ownership, or alternative tenures that offer comparable benefits.
3. There is secure and dignified housing for tenants, and a sufficient return for investors.
4. There is a supply of new, well-located housing that matches the needs of Australia's growing population and supports a productive economy.
5. There is efficient distribution and exchange of the existing housing stock.
6. The housing stock is environmentally sustainable and energy efficient.
7. Social and affordable housing is provided in sufficient amounts to fulfil its role as essential infrastructure for sustainable, productive and cohesive communities.
8. Experiences of homelessness are rare, brief and non-recurring.
9. The targets under the National Agreement on Closing the Gap for housing are achieved.

Building a housing system that achieves these outcomes requires the private sector, community housing sector, all levels of government and the broader community to work together to assess, understand and deliver what Australians need. This annual report and the evidence that underpins it are intended to contribute to this effort.

Chapter 1: Australia’s housing system

Chapter description

- This chapter defines and describes Australia’s housing system and its key components. It outlines the benefits of a well-functioning housing system and provides an overview of the Council’s vision for the state and future of Australia’s housing system.

Key points

- The majority of housing in Australia is supplied by and traded in the private market.
- Australia’s housing system comprises 6 components: consumption, production, exchange, regulation, housing policy, and non-housing policy.
- A well-functioning housing system is essential for an inclusive and prosperous society, and brings fiscal, economic, health and social benefits for the community.
- An ambitious housing policy is needed to improve Australia's housing system. The Council has identified 9 goals for the housing system to inform its deliberations and advice.

1.1 Defining Australia’s housing system

Australia has a market-based housing system. The overwhelming majority (around 96 per cent) of housing is supplied by and traded in the private market (Box 1.1), with the remainder supplied by the public and quasi-public sectors. The private market is underpinned by a legal and regulatory system that promotes strong property rights and is largely financed by the private financial sector.

Box 1.1 The private housing market

This report conceptualises the private housing market as 2 distinct but interrelated markets:

1. the ownership (and exchange) of physical housing assets (and accompanying land), to which economic costs and benefits, such as taxation obligations and the gains and losses arising from changes in the value of housing assets, are attached
2. the consumption and provision of rental services, where rights to occupy housing assets are provided for a fee (in the form of rent) on a time-bounded basis.

Under this framework, owner-occupiers own a housing asset, which they ‘consume’ by providing housing (tenancy) services to themselves.

Government intervention in the housing system is limited, consistent with Australia’s broader institutional environment which, for at least 4 decades, has prioritised markets over government allocation of resources and targeted intervention over universal service provision (Beer, et al., 2007; Pawson, et al., 2020). Housing policy development, implementation and funding that does occur is segmented between the Australian Government and state, territory and local governments; and across institutions and agencies within each jurisdiction.

In this report, 'Australia's housing system' is defined holistically. It is considered to encompass:

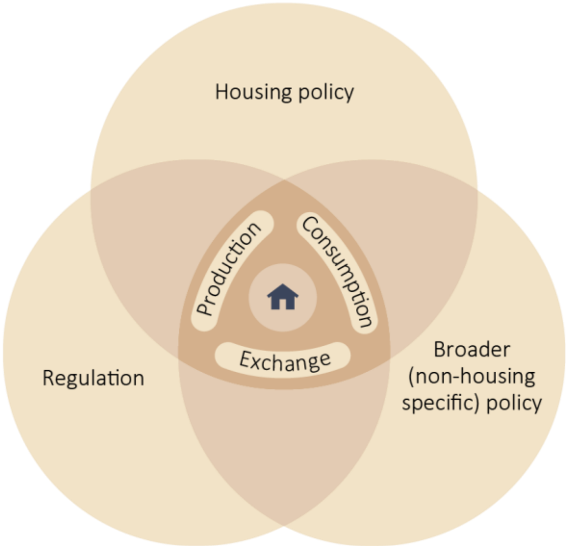
- the private housing market and non-market housing, and all tenure types
- people for whom the system is failing, such as the marginally housed and those experiencing homelessness
- processes that produce and distribute new housing, and the essential infrastructure that enables them
- the mechanisms and actors that facilitate the exchange of housing assets and housing (rental) services, and the financing arrangements that support these transactions
- regulatory and legal frameworks that govern housing and the institutions that apply them
- housing policy at all levels of government that specifically target housing outcomes, and the aspects of other policies that indirectly affect housing outcomes, such as the migration, taxation and transfer systems
- social and cultural values and behaviours that influence housing preferences of individuals and households.

1.1.1 Components of the housing system

The Council draws on and expands the framework proposed by Burke and Hulse to deconstruct Australia's housing system into 6 distinct but interlinked components (Figure 1.1) (Burke & Hulse, 2010):

1. **production** of dwellings (supply), including land assembly and housing construction
2. **consumption** of housing by households (demand)
3. **exchange** of dwellings, including as assets (ownership transfer) and in the provision of housing services (rental agreements)
4. **regulation** of the housing system, including tenancy laws, the relevant aspects of the financial sector, and the land use and planning systems
5. **housing policy**, which aims to directly influence housing consumers' and producers' decision-making, usually through income support or grants and exemptions
6. **broader (non-housing-specific) policy**, such as the taxation and transfer systems and migration policy, which can indirectly affect behaviours and outcomes in the housing system.

Figure 1.1 Components of the housing system



Source: NHSAC 2024.

1.1.2 Production (supply)

Production, or new supply, in the housing system involves the processes and agents that supply dwellings. It includes land assembly and dwelling construction and the financing of these processes. Except for some land assembly undertaken by state government agencies, it is almost entirely provided by private actors (developers and builders), including the construction of public housing. Housing supply is governed by land release, zoning, planning, building and other regulations (see 'Regulation'). These regulations vary markedly across the states and territories, and across the more than 500 local governments providing the planning consent authority for development.

The production process is complex, involving a series of sequential but interdependent processes (Figure 1.2). The sequential nature of the production process means that a delay in any one process flows through to the next process, thereby either halting production or slowing it down significantly. This can present considerable constraints in the production of new supply.

Figure 1.2 The housing production (supply) process

Process	Brief description
Strategic land-use planning	Drafting outline plans that identify preferred areas for different forms of housing at the metropolitan, regional, district and neighbourhood levels.
Setting statutory enablers	Translating the outline plans into statutory instruments, under which development rights for housing may be awarded to the proponent. May include density provisions, performance standards and prescriptive rules regarding height, site coverage, open space, water-sensitive development, heritage, car parking and urban design.
Assembling sites for housing	Acquiring and consolidating parcels of land suitable for housing development that are compliant with statutory planning requirements.
Planning approval process	Securing development rights for housing projects that comply with statutory planning requirements. May involve public notification of development proposals and third-party appeals.
Development assessment review	Development proponents or other interested parties may seek independent review if they are not satisfied with local council planning decisions.
Providing supporting infrastructure	Coordinating and supplying the transport, water-cycle management, open space and community infrastructure required to support planned housing development. Includes local infrastructure provided by local councils and higher-order infrastructure provided by state and territory authorities. Development proponents meet a share of the cost of this infrastructure.
Marketing and pre-sales	For larger multi-unit projects, developers are usually required to achieve a level of pre-sales to secure finance.
Arranging project finance	Beyond pre-sales, proponents must arrange appropriate debt and equity finance for the project.
Civil works	Engineering site works prepare land for housing construction for greenfield land subdivision and larger brownfield and infill projects. It comprises earthworks and installation of onsite road, water, sewer, open space and other infrastructure as per the development approval. Engineering designs usually require independent certification or statutory approval of compliance with national, state and territory or local council standards.
Building approvals for housing	Housing construction must be separately certified for compliance with relevant national codes, which may include state or territory variations.
Housing construction	Larger multi-unit projects typically involve substantial onsite infrastructure (for example, cranes), prefabricated components and extensive work health and safety practices. Detached dwellings and smaller multi-unit projects are generally constructed by small-to-medium builders that extensively use subcontractors.
Title registration	Newly constructed lots and/or dwellings are typically separately titled.
Sales and settlement	Transfers to owner-occupiers or investors occur once they have registered their title. Builders may be subject to a statutory maintenance or fault correction period.

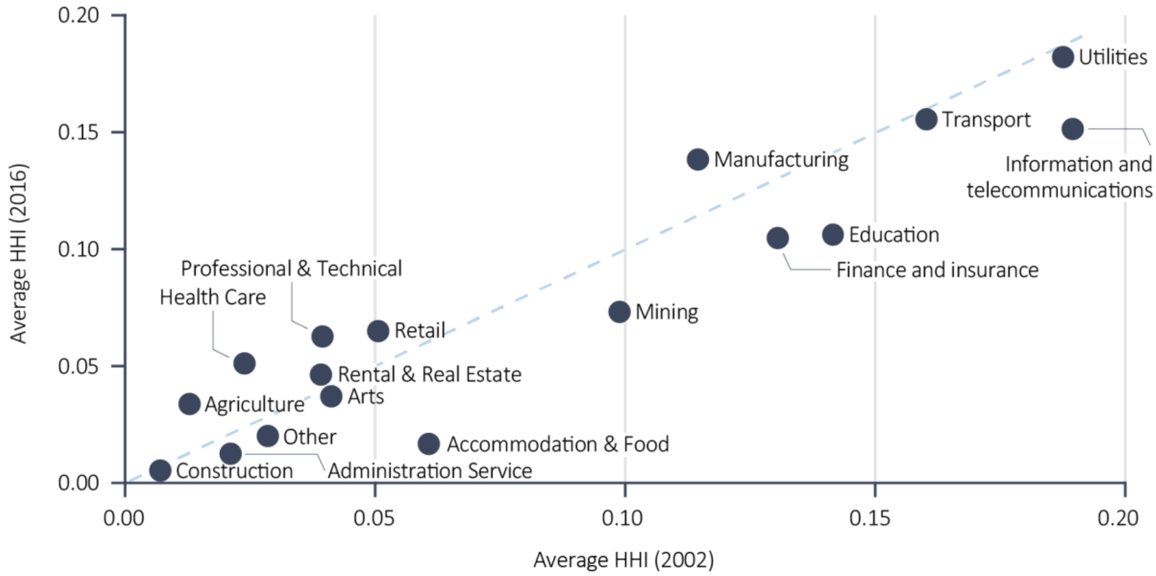
Source: NHSAC 2024.

Most residential development relies on external finance at a price that provides the developer with an adequate profit margin (Rowley, et al., 2014). Discussions with stakeholders indicated that small and medium-sized local developers that borrow on a project-specific basis largely depend on banks to access finance. Larger, national developers have access to a wider range of finance sources, including equity and debt capital markets. External financing often depends on contracting arrangements that transfer sale price risk from builders to households. For large, higher density developments, this is primarily in the form of pre-sales. For detached dwellings, it is usually in the form of contract building, where the household contracts the builder to construct a dwelling to agreed specifications at an agreed price.

While this system limits (but does not eliminate) risk to builders and financiers it also limits the scope for builders to speculate, 'build-to-sell' in anticipation of future demand, and exposes the industry to changes in homebuyer confidence. This feature of the market has often been cited as a source of chronic undersupply in Australia (Burke, 2012).

The Australian building industry is highly fragmented. Construction is the least concentrated industry in the country (Chart 1.1).[1] The 4 largest detached-house construction companies account for less than 8 per cent of market revenue and the 4 largest companies in the multi-unit apartment and townhouse construction industry have around 13 per cent market share (IBISWorld, 2023). While the fragmented industry structure may encourage a competitive market, it also limits the sector's ability to increase production in response to a demand shock (scalability) and limits scope to reduce building costs through economies of scale and by investing in innovative building techniques.

Chart 1.1 Change in concentration of industry type, 2002 to 2016



Notes: Indexes in each division are the averages over all 3-digit Australian and New Zealand Standard Industrial Classifications belonging to the division.

Source: Department of Industry, Innovation and Science, 2019.

1.1.3 Consumption (demand)

Housing is consumed, or demanded, across various types and tenures, including through private home ownership (where owners 'consume' from themselves), through the rental housing system,

1 In 2016, construction had the lowest Herfindahl-Hirschman Index (HHI) – a measure of market concentration based on the market shares of firms in an industry – among Australian industry divisions. Between 2002 and 2016, the industry groups (that is, groups making up an industry division) that experienced the least change in concentration were from the Construction Division – Residential Building Construction, Building Structure Services and Other Construction Services.

and as affordable housing and social housing (Figure 1.3). Household consumption decisions reflect household values, preferences and budget constraints, which can be influenced by housing and non-housing policies. Housing consumption is not necessarily linear and households can move between tenure types. New tenure types can emerge over time. For example, housing cooperatives are emerging as a form of housing tenure in Australia.[2] First Nations people experience the housing system differently to non-Indigenous Australians, as evidenced by the disproportionate representation of those experiencing homelessness or living in social housing. The state of housing for First Nations people is discussed in Chapter 7.

Figure 1.3 Housing tenure types in Australia

Source: NHSAC 2024.

For a variety of historical reasons (Chapter 2), owner-occupied detached dwellings have been (and remain) the dominant form of dwelling tenure type in Australia. However, there has been a decline in homeownership and an increase in the stock of apartments, duplexes and townhouses in recent decades. Approximately 70 per cent of Australia's housing stock is detached dwellings, with higher-density housing making up the remaining 30 per cent. Of the 9.3 million households in Australia at the time of the 2021 Census, 66 per cent are homeowners (with or without a mortgage), 30.6 per cent are renters in the private market (ABS, 2021).

Approximately 354,000 households reside in social housing dwellings (AIHW, 2023c) and around 122,000 people are experiencing homelessness, discussed further in Chapter 6 (ABS, 2023c).

In 2021, 6.8 million dwellings were located in greater capital cities, and 3.9 million in rural and regional areas (id, 2021). In 2001, 4.8 million dwellings were located in greater capital cities and 2.9 million in remote and regional areas (id, 2021). This is a 30 per cent increase in city-based dwellings and a 25 per cent increase in rural- and regional-based dwellings over the past 20 years.

2 A housing cooperative is a business that has shared ownership by its residents, where the goal is affordable housing rather than profit (Housing Europe and ICA Housing, 2012).

Box 1.3 Non-market housing definitions

Social housing

- Typically dwellings rented to households in the first and second quintiles of the income distribution (i.e. the lowest income households), at a rent related to the tenant's income.
- May include dwellings that are:
  - state-owned and managed
  - state-owned but managed by Community Housing Providers (CHPs)
  - CHP-owned and managed.
- May also include dwellings that are:
  - privately owned and CHP-managed under head-leasing schemes.

Affordable housing

- Typically dwellings provided to households in the second and third quintiles of the income distribution at discounted market rents.
- May include dwellings that are:
  - State-owned and managed
  - State-owned and managed by Community Housing Organisation (CHOs)
  - CHO-owned and managed
  - privately owned and CHO-managed
  - privately owned and managed with the help of government subsidies
  - privately owned and managed with rents discounted according to binding planning agreements.

Source: NHSAC 2024.

1.1.4 Exchange

The exchange system is the mechanism through which housing assets and housing (rental) services are traded. Exchange occurs overwhelmingly in the private market, facilitated by an industry of intermediaries such as real estate agents, brokers and (primarily online) platforms.

A small share of the housing stock is allocated based on need by state and territory governments and not-for-profit housing providers at concessional rates. The ownership of one out of every 23 dwellings is exchanged annually. In 2023, 488,898 sales occurred nationally, equivalent to 4.4 per cent of dwelling stock (CoreLogic, 2024). Tenancy of approximately 33 per cent of rental stock changes each year (ABS, 2023g).

1.1.5 Regulation

Regulation of the housing system aims to ensure that the system runs as efficiently and effectively as possible, such as by encouraging competition among private sector agents and limiting rent-seeking behaviour. Regulation can also be used to enhance equity in the housing system, meet environmental and accessibility objectives, and assist in providing a safety net to complement social welfare services and promote economic stability (Pawson, et al., 2020).

All 3 levels of government play a role in regulating the housing system. The Australian Government is broadly responsible for financial regulation, for example, through the Australian Prudential

Regulation Authority (APRA) and the RBA. The Australian Government is also responsible for the mechanisms that restrict ownership rights (in the case of foreign investment rules).

State and territory governments are generally responsible for the regulation of the exchange system itself, including the exchange of assets and property rights and the exchange of rental services (landlord/tenant relations).

Local and state and territory governments share regulation responsibility for land use, including land release, zoning and land use planning (the process of approval to ensure intended land use is consistent with zoning, building, environmental and other codes and regulations).

Australia’s land-use planning system

A central tenet of the housing system’s regulatory framework is the land-use planning system (Box 1.4). This system is the mechanism through which governments guide urban development and investment, and regulate the use of urban space. The functioning of the housing system, including having an adequate dwelling supply pipeline, is highly dependent on a well-governed, and effectively and efficiently applied land-use planning system.

In Australia, the ‘planning system’ under which land is made available for housing development comprises 4 elements:

1. formulation of strategic spatial policy strategies
2. translation of the strategies into statutory plans comprising allowable land use designations (‘zoning’) and accompanying rules and standards for the siting and design of development
3. assessment of development proposals against these statutory plans, which, depending on the scale and impacts of land use and building, is typically performed by local governments. In turn, local governments may delegate this function to officers
4. review of development assessment decisions by dedicated courts or administrative tribunals, where allowable under planning legislation.

Box 1.4 Australia's land use and planning system

Comprehensive planning laws became a feature of Australian urbanism after World War II. Prior to this, housing development was regulated primarily through controls on the subdivision and titling of land, and the application of building construction standards.

The introduction of comprehensive planning legislation in Australia borrowed heavily from British law on town and country planning. The key premise of this law is Crown reservation (or 'nationalisation') of development rights. This means that landowners have no inherent right to use or develop land for purposes other than current use unless they hold a permit (a 'development application') or the use or development in question is explicitly permitted without a permit in the planning scheme.

While British legislative concepts of state ownership of development rights were adopted, practice in the creation of statutory plans and development assessment drew heavily on American models. This included reliance on broad-based zoning of land and accompanying design and siting rules to govern approvals, as distinct from the typical British approach, which required precinct master planning as a precursor to individual development approvals.

Models of urban planning

Planning is inherently a normative process. It is concerned with a collective view of how the urban environment should be and how this outcome might be attained. Planning is therefore dependent on the values of those framing its purpose and governing its operations.

There are at least 3 distinct models of planning, reflecting conservative through to 'activist' perspectives of its role (Wellman & Spiller, 2012):

1. the **public health model** is designed to avoid the negative externalities of land use and the development process or to ensure they are duly compensated for by those giving rise to these costs
2. the **urban efficiency model** seeks to optimise economic (allocative) efficiency within the confines of environmental limits
3. the **social resource model** uses the regulation of land use and development to proactively deliver equity as well as efficiency outcomes.

Planning models in the Australian context

Although not explicitly stated, most planning legislation in Australia reflects the urban efficiency model.

The dominant paradigm in Australian public policy since the mid-1980s has been to clearly separate the allocative and redistributive functions of regulatory systems. In the context of planning systems this implies a strict focus on optimising net welfare in land use and development, while separate systems such as tax and transfer arrangements are applied to compensate adversely affected parties. Accordingly and in contrast to common practice in the United States and Europe, endorsement of the social resource model of planning is rare in Australian legislative frameworks. That said, activist councils sometimes choose to place an expansive interpretation on the legislated role of planning and seek to 'nudge' practice towards the social resource model.

Addressing external influences (externalities)

Regulation of land use and development is necessary because of 'market failure' – specifically, the presence of externalities – and natural monopoly in the provision of urban infrastructure.

If all externalities were reflected in transacted prices through astute market design (such as congestion pricing, carbon pricing, and subsidies for habitat protection) 'planning' would not be necessary; urban development would spontaneously take a welfare optimising form, reflecting the preferences of transactors. In the real world, designed adjustment of prices to fully reflect externalities is almost impossible to achieve. Regulation of land use and development is the next best solution.

Optimisation of net community benefit in the urban development process implies the framing of plans and development regulations that will:

- correct for negative externalities
- protect or create positive externalities
- facilitate delivery of urban infrastructure (which is prone to natural monopoly).

Some externalities of urbanisation are amenable to mitigation through generic development standards covering, for example, site coverage, overlooking, overshadowing and stormwater run-off. In these circumstances, developments can be assessed for compliance without necessary reference to an overarching plan or development vision.

Rent-seeking in planning systems

A by-product of Crown reservation of development rights is the creation of opportunities to generate wealth without creating commensurate value for customers and the community.

When additional development rights are assigned to a particular piece of land through the planning process, its value will typically rise, often substantially. The same uplift in land value will occur when a proponent successfully argues for additional height or intensity of development on their land.

Access to these additional development rights does not come automatically with the ownership of land. The owner of farmland, for example, has no innate right to have it rezoned to higher-value uses, nor does a proponent have the right for approval of additional storeys on their planned apartment or commercial building. Whether access to these additional development rights is granted is a matter of public decision resolved on town planning merits.

Development rights reserved by the State under town planning laws are analogous to other resources that are attached to real estate but are not owned by the land title holder, for example, minerals that may lie below the surface or water that falls onto the land as rain. Like these other publicly reserved resources, the State is, in principle, entitled to charge a fee to access these development rights.

Regulation of development rights in the interests of allocative efficiency raises the prospect of licensing development for a fee commensurate with the uplift in land value associated with the development consent. This would apply over and above contributions for the extension of infrastructure to service development.

However, no jurisdiction currently operates a comprehensive development licensing system similar to that which applies in the Australian Capital Territory (known as the ‘Lease Variation Charge’). Consequently, there is still scope for rent-seeking which can act as a drag on economic performance and may even contribute to corruption.

Planning, by itself, is not sufficient to generate additional housing

Planning systems enable, but do not guarantee, housing development. Many factors not directly related to the statutory planning system can stand in the way of housing production.

One factor is commercial feasibility. Allowable development must be financially viable if it is to proceed. Cyclical conditions have a significant bearing on this. For example, many holders of residential development applications may reserve projects due to adverse financing or construction cost conditions.

Other factors include land fragmentation and land withholding. Precincts designated for higher density housing may be held in a multiplicity of small parcels. The time and risk involved in consolidating these sites often deter consolidation efforts by bona fide developers. Moreover, the owners of land designated for housing development usually have absolute discretion on whether and when they might release their sites to developers.

Development of land designated for housing production, whether greenfield or major infill, can also be stymied by the lack of supporting infrastructure, including water cycle management, higher-order roads and public transport. Plugging these gaps is usually beyond the reach of individual developers, including larger corporations.

Land fragmentation, land withholding and infrastructure gaps represent market failures that need to be addressed by governments. Funding to correct for these adverse factors and create a significant pipeline of development sites for housing development is a perennial challenge. In this context, it is problematic that the value uplift brought about by development licensing through the planning system – as measured by Kendall and Tulip (2018) among others – is privately captured rather than returned for infrastructure investment.

1.1.6 Housing policy

Housing policy refers to measures enacted by governments to affect the allocation of land, the housing market and housing outcomes. While most housing policy is constitutionally a matter for the states and territories (Commonwealth of Australia Constitution Act 1900 (UK)) the Australian Government makes a significant financial contribution to housing policy through its overarching responsibility for social welfare, investment in infrastructure and transfers to the states.

The most significant housing policy measures in Australia are demand-side measures designed to boost income for low-income tenants or the purchasing capacity of first homeowners. Examples of current housing policy measures include Commonwealth Rent Assistance (CRA), First Homeowner Grants and the Regional First Home Buyer Guarantee. The Australian Government also disburses finance to states and territories for social and affordable housing projects and essential infrastructure. Box 2.3 in Chapter 2 describes the evolution of the Australian Government housing policy. Appendix A elaborates on current Australian Government policies.

1.1.7 Non-housing specific policies

Many non-housing policy areas influence Australia's housing market. These include economic, financial, macroprudential, taxation, welfare, employment, industry and migration policy.

The quantum and demographic make-up of Australia’s annual migration intake has significant implications for housing demand. Monetary policy involves influencing interest rates that, in turn, significantly affect households’ ability to service mortgage repayments. The prudential framework for banks can impact the number of households eligible for home loans. In addition, economic, social welfare and employment policy can have implications for income distribution and stability, which, for example, influences borrowing capacity and homeownership.

Taxation system

The taxation system has a significant effect on the housing system. Broadly, the taxation system seeks to raise sufficient revenue to meet societal needs and expectations while interfering as little as possible with choices or incentives in the market. That said, the taxation system can sometimes be used to influence behaviour by incentivising or disincentivising consumption, production and exchange, including in the housing system, or address market failure or externalities.

Taxation arrangements administered by the Australian Government that significantly influence the housing system include the capital gains tax (CGT) and CGT discount, the Main Residence Exemption, income tax on rental income, and negative gearing. Taxes administered by the states and territories also affect the housing system, including transaction taxes on the exchange of assets (stamp duty), land tax and council rates.

The range of tax settings can affect owner-occupiers, investors and renters in different ways. Overall, however, the tax system favours owner-occupied housing, which supports housing demand (Henry, et al., 2009).

1.2 A well-functioning housing system is essential for an inclusive and prosperous society

1.2.1 Housing can improve economic, financial and fiscal outcomes for Australia

A well-functioning housing system yields economic benefits through increased productivity by ensuring that workers can reside near employment, and encourages labour force participation and mobility by reducing commute times and travel costs (Kohler, 2023).

Access to safe, secure and sustainable housing can improve fiscal outcomes for governments through reduced government spending on services related to homelessness, health, and unemployment, enabling greater investment in other critical infrastructure (Zaretzky & Flatau, 2013). Volatility in the supply of housing can have implications for the economic cycle and contribute to periods of excess or inadequate demand, with associated effects on employment, interest rates and government fiscal balances. Housing is also a fundamental aspect of Australia’s financial system – it is the primary transmission channel for monetary and macro-prudential policy and, on occasion, fiscal policy.

Mortgage loans are the largest asset on the balance sheets of Australia’s financial institutions (Richards, 2016). As a result, housing prices and the ability of households to service their mortgages can have significant implications for financial stability. Housing serves as a tradeable asset and as a means of accumulating wealth. Housing is the greatest store of intergenerational wealth for a majority of Australians and is considered by some as an unofficial fourth pillar of the retirement income system (alongside the age pension funded by the Australian Government, compulsory superannuation and voluntary savings) (Treasury, 2020).

1.2.2 Housing can improve health and social outcomes for the community

Access to affordable, secure and sustainable housing carries measurable social benefits. A well-functioning housing system provides individuals with the physical and psychological safety needed to participate fully in civic engagement, education, and finding and maintaining employment (Fowler, et al., 2019). Failings in the housing system have been linked to many adverse health and socio-emotional outcomes. For example, people experiencing homelessness have an increased risk of mortality from all causes (Fowler, et al., 2019), and those experiencing homelessness and mental illness have a significantly worse quality of life compared with housed individuals with mental illness (Lehman, et al., 1999). Living in overcrowded and poor-quality housing also increases the likelihood of developing chronic health conditions, and increases the risk of domestic and family violence (Brackertz, et al., 2019).

Research published by Housing All Australians, a private-sector association concerned with housing inequity in Australia, found that the national average benefit-cost ratio for Australia in providing adequate social and affordable housing infrastructure is 2:1. In other words, for every $1 invested to induce delivery of public, social and affordable housing, the Australian community saves $2 in future costs (Housing All Australians, 2023).

1.3 An ambitious housing policy agenda is needed for Australia's housing system

The Council seeks to improve housing outcomes for Australians by building a strong evidence base to support advice on housing supply and affordability matters, and researching and monitoring conditions in the housing system, including home ownership, rental affordability, homelessness and the number of new social and affordable homes being built annually.

The Council believes Australia deserves a better housing system. The Council has identified 9 goals for the housing system to inform its deliberations and advice. These goals span all housing tenures and types, and reflect the Council's ambition that the housing system functions efficiently and meets the needs of the community, economy and the environment:

1. Housing is affordable, fit for purpose and secure for households across income and geographic distributions.
2. There is fair access to home ownership, or alternative tenures that offer comparable benefits.
3. There is secure and dignified housing for tenants, and a sufficient return for investors.
4. There is a supply of new, well-located housing that matches the needs of Australia's growing population and supports a productive economy.
5. There is efficient distribution and exchange of the existing housing stock.
6. The housing stock is environmentally sustainable and energy efficient.
7. Social and affordable housing is provided in sufficient amounts to fulfil its role as essential infrastructure to enable sustainable, productive and cohesive communities.

8. Experiences of homelessness should be rare, brief and non-recurring.
9. The targets under the *National Agreement on Closing the Gap* for housing are achieved.

Building a housing system that achieves these outcomes requires the private sector, the community housing sector, all levels of governments and the broader community to work together to assess, understand and deliver what communities need. This annual report and the evidence that underpins it are intended to contribute to this effort.

Chapter 2: Long-term trends in the housing system

Chapter description

This chapter describes the long-term demographic, economic and policy trends that have intersected with institutional frameworks and systems to shape Australia's contemporary housing system and outcomes. It concludes with an examination of the emerging trends that will shape the housing system of the future.

Key points

- The contemporary housing system is the culmination of long-term trends in the production (supply), consumption (demand) and exchange of housing. The supply, demand and exchange of housing have been shaped by government interventions at all levels.
- The housing supply system is inflexible and unresponsive to demand. There is a long-term trend of limited availability of skilled labour, materials and finance, and weak productivity growth.
- The supply of non-market housing has not matched demand for several decades. Social housing as a share of the national housing stock has fallen by a third over the past 30 years.
- Strong population growth underpins housing demand. Economic and financial factors have further boosted demand.
- The housing system will need to adapt to emerging trends, including climate change, an ageing population and an increasing numbers of people with disability. Fostering innovation and new sources of financing offer some solutions to supply challenges.

2.1 Australia's housing supply does not respond sufficiently to housing demand

Housing supply is inelastic compared to the provision of most other goods and services. Large increases in demand are met with relatively small increases in market supply (IMF, 2018). As a result, the housing market is often partly cleared via higher prices (Cavalleri, et al., 2019). This is particularly true in the short term; an increase in demand beyond any excess capacity in the system usually manifests in higher prices, as a supply response often takes several years to unfold. In the long run, persistent demand induces an increase in the quantity of new housing supplied by the market.[3]

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3 Research on how housing supply responds to changes in housing prices at the local government level showed housing price elasticity of supply (HES) ranged from 0.17 (at the 25th percentile) to 0.44 (75th percentile) for houses, and from 0.56 (25th) to 1.17 (75th) for units (Melser, et al., 2022). Housing supply was more responsive to price (as indicated by a relatively higher HES) in local government areas on the city fringe – where greenfield sites are available – while unit supply was more responsive in the inner-city – where zoning is more likely to permit higher density.

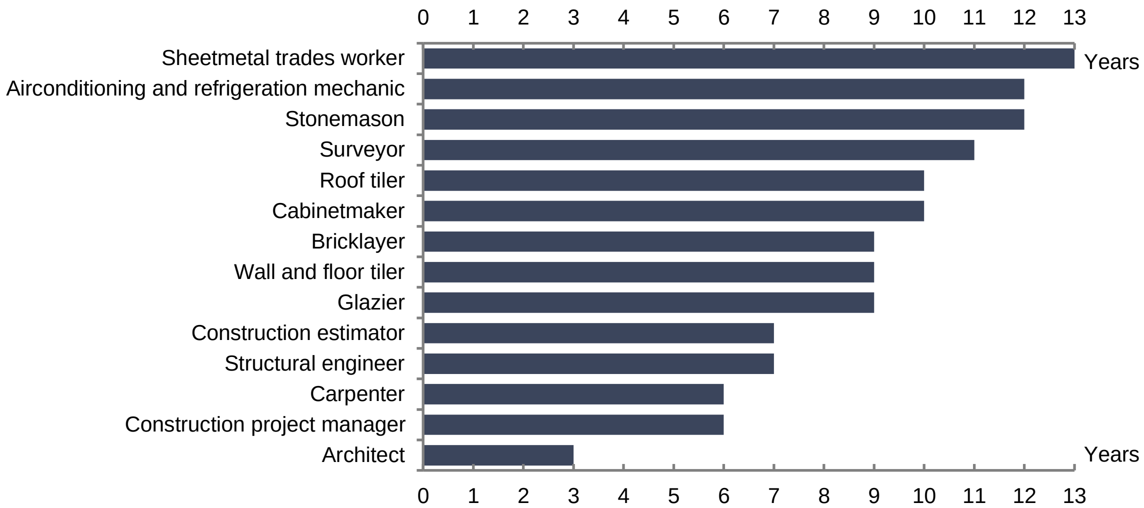
Inelasticity in the supply system reflects a range of factors, including the cost and availability of labour, materials, equipment and finance; productivity; and land supply. More generally, the complex and interconnected nature of the overall housing production process limits the supply response (Figure 1.2, Chapter 1).

2.1.1 The cost and availability of construction inputs

Cost and availability of skilled labour

Skills shortages are a long-running source of cost pressure and supply constraint in the construction sector. In 2023, Master Builders Australia estimated the construction sector needed 486,000 workers to enter the industry by the end of 2026 (Master Builders Australia, 2023). Shortages of skilled workers in some trades have existed for a long time, in some cases for decades. This indicates a structural shortage rather than a temporary response to cyclical peaks in building activity. Roof tilers and cabinetmakers, for example, have been in short supply for 10 of the past 14 years (Chart 2.1) (Jobs and Skills Australia, 2023).

Chart 2.1 Skilled construction labour – number of years in shortage, 2010 to 2023



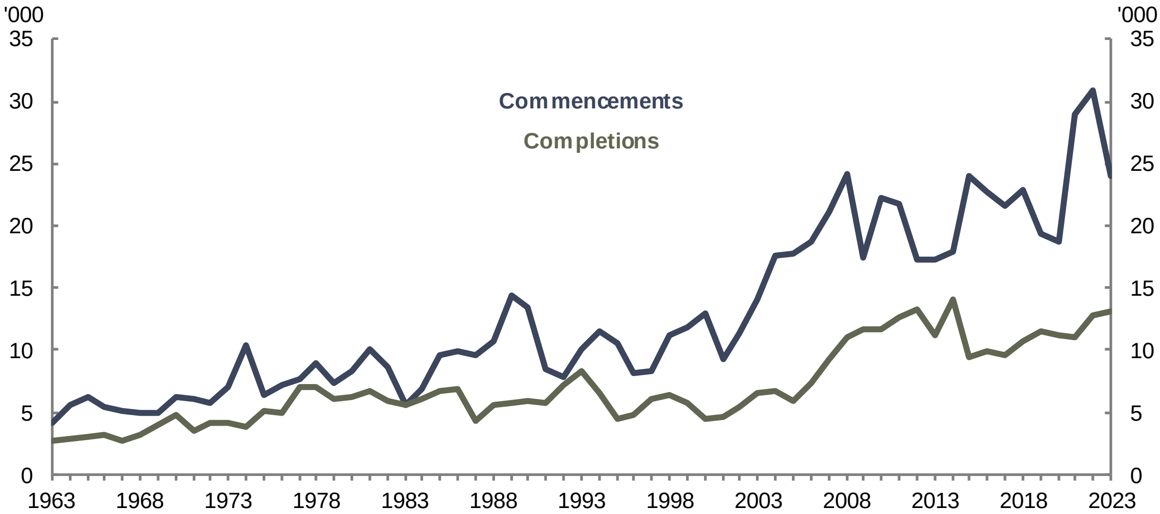
Note: Data was not collected in 2020 due to COVID restrictions. Around 80 occupations are assessed each year, with some rotation of occupations in and out of the series from one year to the next. The absence of an identified shortage for some occupations in some years may have been driven by not being assessed, rather than not being in shortage.
Source: Jobs and Skills Australia (JSA) Skills Priority List, 2023.

Causes of skill shortages include:

- lack of people obtaining relevant qualifications (a training gap)
- lack of applicants with the skills required by the employer (a suitability gap)
- undesirable working conditions or locations (a retention gap).

Stakeholders noted persistent difficulties attracting and retaining apprentices. Although completions of building apprenticeships and traineeships have increased, they remain below the previous peak in 2014 (NCVER, 2023) (Chart 2.2).

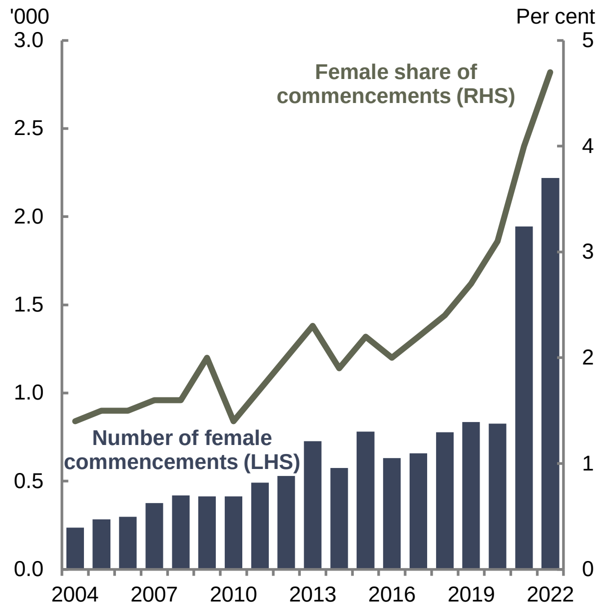
Chart 2.2 Building industry apprenticeships and traineeships



Source: National Centre for Vocational Education Research (NCVER) 2023.

The construction industry could alleviate the shortage of skilled workers by sourcing people from under-utilised labour pools. In addition, the industry has a strong gender imbalance. Females account for just 13 per cent of workers and less than 5 per cent of new trade apprentices, though this has risen from even lower levels in recent years (Chart 2.3) (Master Builders Australia, 2023). Industries with significant gender imbalances are much more likely to report skills shortages (Commonwealth of Australia, 2023a). Skilled migrants are another potential (and partial) solution to skilled worker shortages. Over 4,000 temporary skilled visas were granted for construction workers in 2022–23 – the highest number since 2013–14 (Chart 2.4) (Department of Home Affairs, 2024b) – but this accounts for less than 15 per cent of current job vacancies (ABS, 2024f).

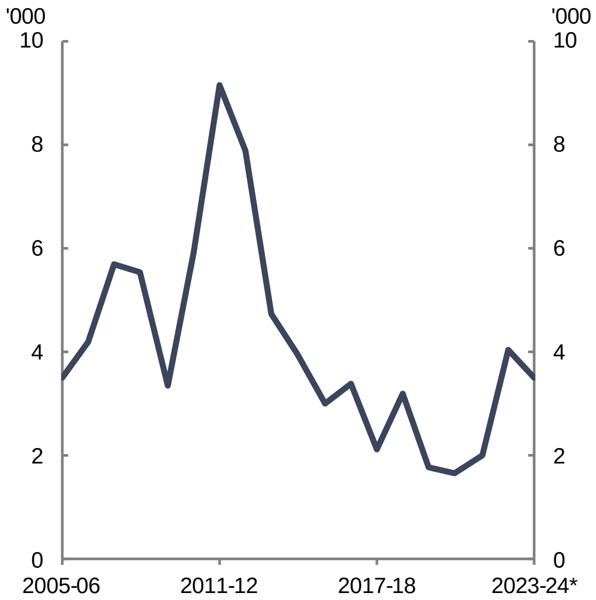
Chart 2.3 Females commencing a construction trade apprenticeship



Note: Data is for the year to September quarter.

Sources: MBA 2023 and NCVER 2023.

Chart 2.4 Temporary resident (skilled) visas granted – construction industry

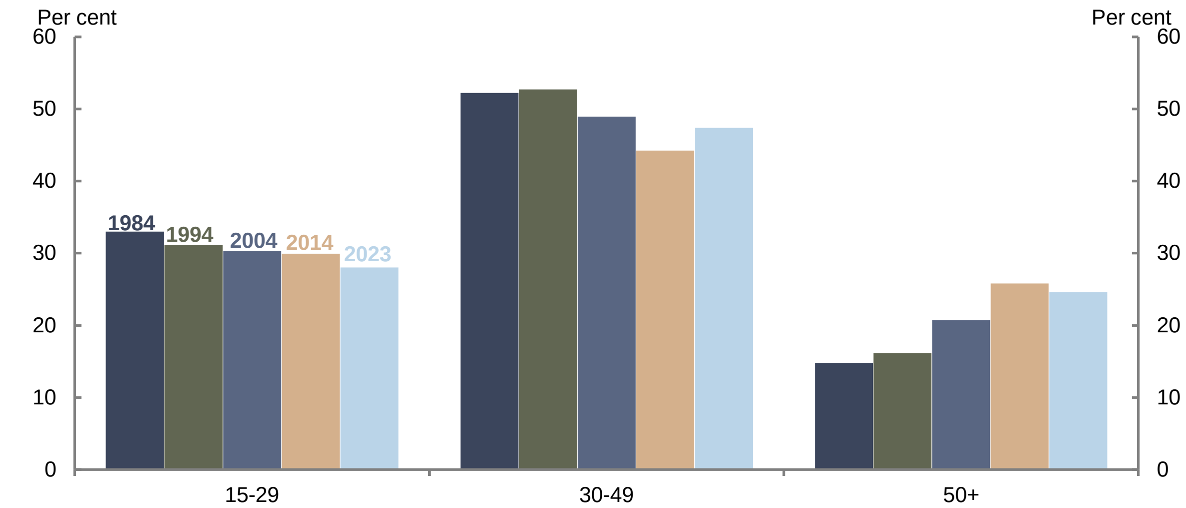


Note: 2023–24*= 6 months to 31 Dec 2023, annualised.

Source: Department of Home Affairs 2024.

Labour shortages are likely to remain a challenge for the industry. The construction workforce is ageing. The share of the workforce aged 50 and older has been growing, while the share of the workforce aged 30 or less has fallen (Chart 2.5) (ABS, 2024g). These challenges are not unique to the construction sector and other industries have demonstrated adaptability in the face of an ageing workforce (Brough, et al., 2021).

Chart 2.5 Share of construction workforce, by age



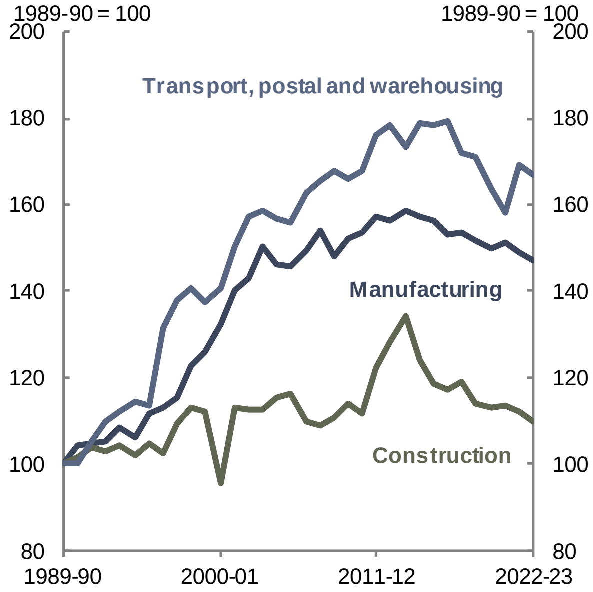
Note: Data is for the month of February, except for 1984 (November).

Source: Australian Bureau of Statistics (ABS), Labour Force, 2024.

Productivity

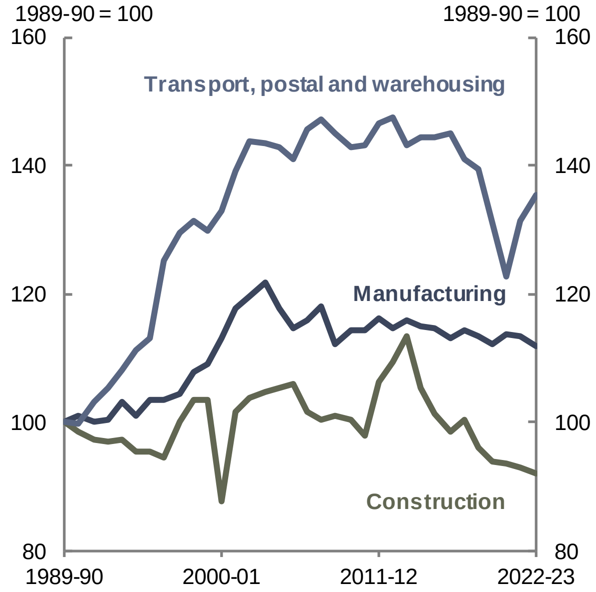
Weak productivity growth in the construction sector, combined with higher demand, puts upward pressure on prices and constrains supply. Labour productivity in construction grew by 0.3 per cent per year on an hours worked basis between 1989–90 and 2022–23, lagging other industries such as manufacturing (1.2 per cent) and transport, postal and warehousing (1.6 per cent) (Chart 2.6).[4] Multifactor productivity in construction contracted by 0.2 per cent per year over the same period, compared to multifactor productivity growth in manufacturing (0.3 per cent) and transport, postal and warehousing (0.9 per cent) (Chart 2.7) (ABS, 2023).

Chart 2.6 Labour productivity



Note: Quality-adjusted hours worked basis.
Source: ABS, Estimates of industry multifactor productivity, 2023.

Chart 2.7 Multifactor productivity



Note: Quality-adjusted hours-worked basis.
Source: ABS, Estimates of industry multifactor productivity, 2023.

The sector's low productivity reflects fragmentation of the industry and constrained access to working capital that limits the scope for investment in new technology and innovation to drive productivity growth (Australian Constructors Association, 2023). These factors combine with the dominant fixed-price contracting model to leave the many small firms in the industry focused on short-term production rather than making significant long-term investments. However, client demand for innovation and regulation introducing new building standards could bolster productivity.

Access and cost of finance

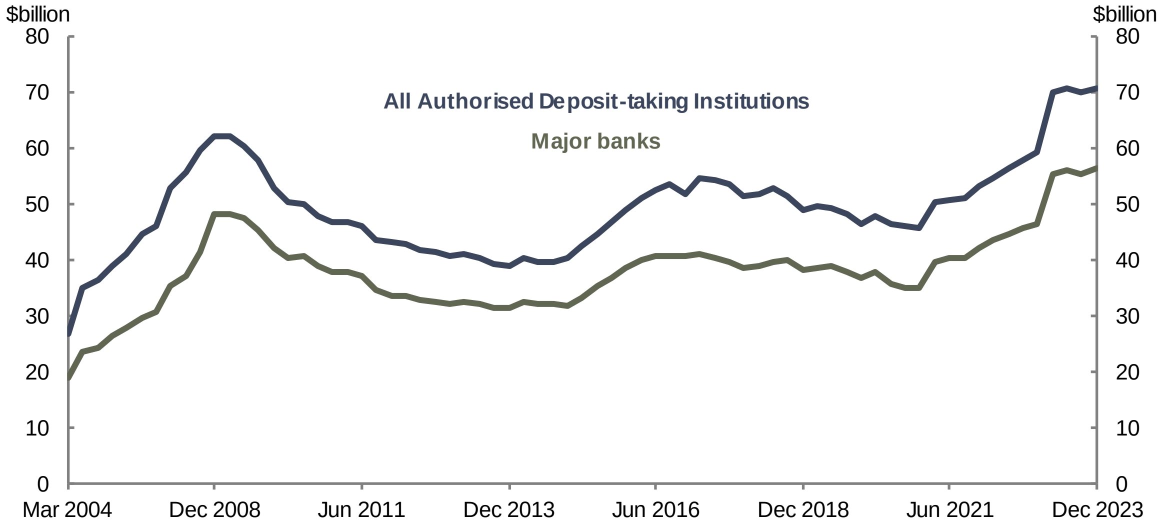
Housing construction requires significant capital investment. As such, access to funds and the cost of finance has a significant impact on overall construction costs and the sector's supply capacity.

4 Labour productivity is measured on a quality-adjusted hours worked basis. Multifactor productivity is defined as a ratio of output to combined labour and capital inputs.

The sector relies heavily on households to finance new supply. Most detached housing is constructed on a contract-to-build basis where future owners pay builders in stages over the duration of the build (Rowley, et al., 2014). This limits the industry's ability to expand because it subjects the availability of finance to the vagaries of household confidence. It reduces the extent to which builders can pre-empt demand through speculative building.

Similarly, higher-density dwellings are usually sold to buyers off the plan, which involves a deposit at purchase and a contractually enforceable payment of the balance at completion (RBA, 2019). These pre-sales are an important source of funding and a prerequisite for access to development capital from the major banks, which provide the bulk of debt funding to developers (APRA, 2023) (Chart 2.8). This allows banks to manage their exposure by requiring developers to sell a share of apartments before finance is provided for construction. The Council's stakeholder consultations indicate that restrictions enacted on foreign investors in recent years have reduced pre-sales, which in turn has contributed to a reduction in the supply of new dwellings.

Chart 2.8 Commercial property exposures



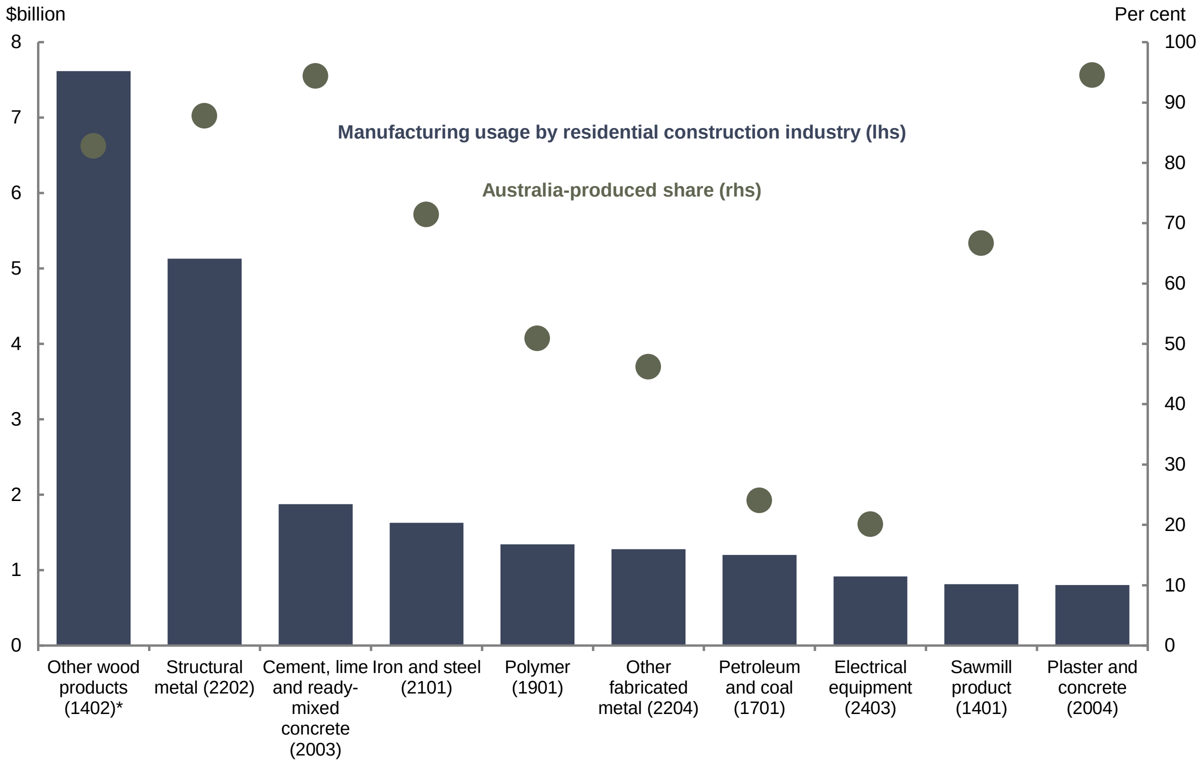
Note: Commercial property exposures are facilities provided for the development, acquisition or improvement of real estate, where the servicing of the facility is dependent on cash flows from the property itself through sale or rental income and/or from cash flows generated from other properties owned by the borrower. It includes the exposures of the global consolidated operations of authorised deposit-taking institutions (ADIs). Major banks comprises the Australia and New Zealand Banking Group Limited, the Commonwealth Bank of Australia, the National Australia Bank Limited, and the Westpac Banking Corporation.

Source: APRA 2024.

Materials and equipment

The cost and availability of building materials and equipment can have a significant impact on housing construction costs and supply, particularly when price escalation arises from supply disruptions (Housing Australia, 2022). A wide range of materials and equipment used in building Australian homes is imported or manufactured from imported inputs (Chart 2.9) (ABS, 2024). For a range of key imports, there is one dominant supplier (Productivity Commission, 2021). For example, China is the main source of primary inputs into building and construction, such as machinery, equipment and polymer/rubber products (Master Builders Australia, 2021; ABS, 2024e).

Chart 2.9 Main material inputs into residential building and domestic share of supply, 2021–22



Note: 'Other wood products' include all wood-manufacturing products excluding sawmill manufacturing products.

Source: ABS Australian National Accounts: Input-Output Tables 2024.

Some housing costs reflect improvements in the quality of housing, to meet consumer demand and changing regulations. These quality improvements go beyond increased floor space and include modern conveniences such as air conditioning and central heating. They also reflect a shift to higher-quality building materials (RBA, 2012). Increased demand for higher quality housing has coincided with environmental, safety and access improvements, which have increased construction costs and housing prices. Some research suggests that quality improvements explain much of the real increase in housing prices (Abelson & Joyeux, 2023).

Regional and remote challenges

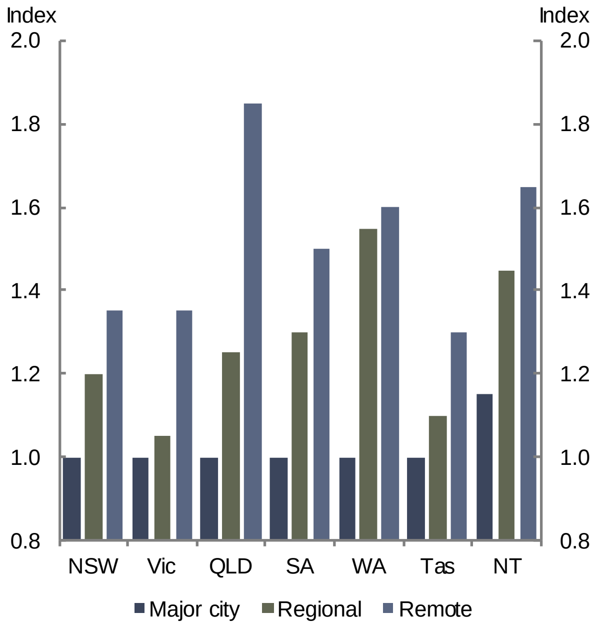
The cost of housing construction and supply constraints in regional and remote areas is generally higher than in major cities. Construction costs can be up to 30 per cent higher in a regional city such as Cairns compared to a house in Sydney. The more dispersed capitals such as Darwin and Hobart can have construction costs up to 35 per cent and 20 per cent higher, respectively (BMT Quantity Surveyors, 2024). Costs are even higher in remote areas. Building costs, as measured by Rawlinson's Construction Index,[5] can be up to 55 per cent higher in inner regional Western Australia, and

5 Rawlinson's building price indices are based on historical data and guide building cost estimates, which include the effects of labour rates and material costs.

85 per cent higher in remote Queensland compared to their respective capital state capital cities (Chart 2.10) (EY, 2023)

Higher costs and supply constraints reflect smaller populations and limited local workforces in regional areas, which drive persistent skills and labour shortages and higher labour costs. Regional areas are more likely to experience chronic vacancies or unfilled vacancies for 6 months or more (National Skills Commission, 2022). Employers in regional and remote areas find it consistently more difficult to recruit compared to employers recruiting in major cities (Chart 2.11) (Jobs and Skills Australia, 2024a).

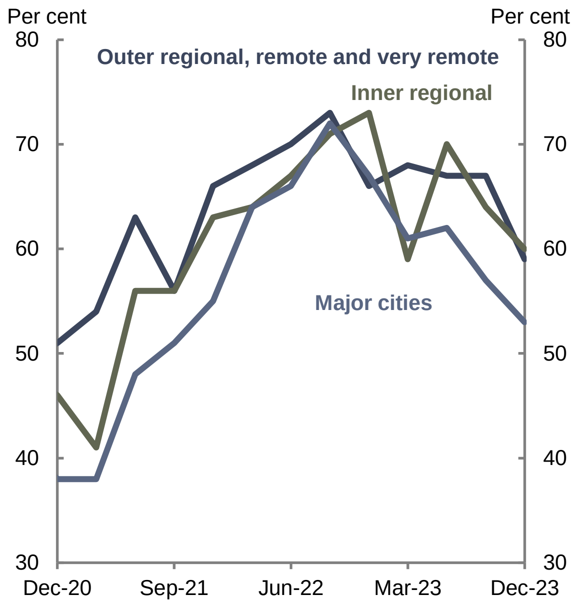
Chart 2.10 Rawlinson Construction Index, 2022



Note: Some indexes were presented as a range. For clarity only the highest point is charted.

Source: Rawlinson's Australian Construction Handbook, 2022; EY, 2023.

Chart 2.11 Proportion of employers who have difficulty recruiting



Source: JSA, 2024

Costs associated with the supporting infrastructure for housing are also higher in regional areas, despite typically lower land values (Independent Pricing and Regulatory Tribunal NSW, 2014). Regional and remote areas have less critical and essential infrastructure, and new builds require connection to power, water, sewerage and internet, adding to overall construction costs (Infrastructure Partnerships Australia, 2022). There are also higher site preparation costs in regional and remote areas compared to urbanised lots as they require additional services such as land clearing and septic system installation. Remote areas prone to extreme weather events also incur higher construction costs, such as cyclone proofing (Beer, et al., 2011).

Box 2.1: Climate-related disasters

The housing system is inflexible when responding to natural disasters. The increased frequency and severity of natural disasters are adding to the demand for new houses to be built and for repairs on existing housing, often in higher-cost locations such as regional and remote areas. Rental markets are also affected when homeowners are forced to rent accommodation while their homes are repaired.

Regional New South Wales was severely affected by its worst recorded flood in February 2022. In Lismore, 89 per cent of housing stock was severely impacted and 3 per cent was destroyed (Lismore City Council, 2022). Over the quarter to March 2022, house rents in Lismore increased 22 per cent to $550 a week. This almost matched the level of Sydney house rents, which were $600 in the same quarter (Domain, 2022).

The supply response following natural disasters is slow due to the time taken to process insurance claims and increases in demand for labour and materials, leaving many residents without appropriate housing, sometimes for years after the event. The rebuilding following the Kimberley floods in Western Australia was significantly delayed due to its remote location and the pre-existing statewide shortage of tradespeople, which left people living in temporary shelters months after the floods (ABC News, 2023b).

The impact of natural disasters has a lasting effect on housing in affected areas; for example, in the form of lower house prices due to a heightened risk of a natural disaster re-occurring. After 2017 floods in Lismore, property values normalised in 6 months. However, by March 2023, a year after the floods in the Northern Rivers, house prices in the most affected suburbs had fallen by 22–30 per cent – more than the regional average of 19 per cent (CoreLogic, 2023). The increasing severity and frequency of natural disasters could produce larger and longer-lasting effects on the housing system.

2.1.2 Policy factors that influence supply

Land availability, land release and the development process

Planning systems have important implications for housing supply. Industry bodies argue that planning regulations significantly impede housing supply, especially for medium- and higher-density housing (Housing Industry Association, 2023). Some stakeholders noted that multiple (often overlapping and sometimes conflicting) systems must be navigated to secure necessary planning approvals. For example, state government initiatives to develop housing near transport hubs have triggered the involvement of multiple agencies, adding more layers to the approval process. Coordination problems between governments and developers tend to be more acute in regional areas.

The relationship between planning regulations and housing supply has been studied empirically. Much of the evidence suggests planning regulations affect housing supply. For example, an empirical study found that upzoning (the relaxation of land use regulations for higher density housing) in Auckland in 2016 led to a 4 per cent increase in its housing stock over the following 5 years (Greenaway-McGrevy, R and Phillips, P. C., 2023). Other studies find smaller effects; for example a study found that following upzoning in Brisbane in the early 1990s, only 22 per cent of sites with zoned capacity were redeveloped over the next 20 years (Murray and Limb, 2023).

Studies have also attempted to measure the relationship between planning regulations and housing prices. In Australia, a study estimated the effect of zoning as a share of the average house price was

42 per cent in Sydney, 41 per cent in Melbourne and 29 per cent in Brisbane (Kendall and Tulip, 2018). However, as the authors noted, these figures do not include benefits associated with zoning, and may also incorporate the effect of location premium in the estimates. Some studies find smaller effects or challenge the methodology (Phibbs and Gurran, 2021).

At least part of this regulatory cost is inescapable: rationing of development rights gives rise to a premium that is necessary to mitigate the negative impacts of urbanisation. The challenge is to set planning controls so that the market can work as freely as possible within these constraints while retaining broader social benefits.

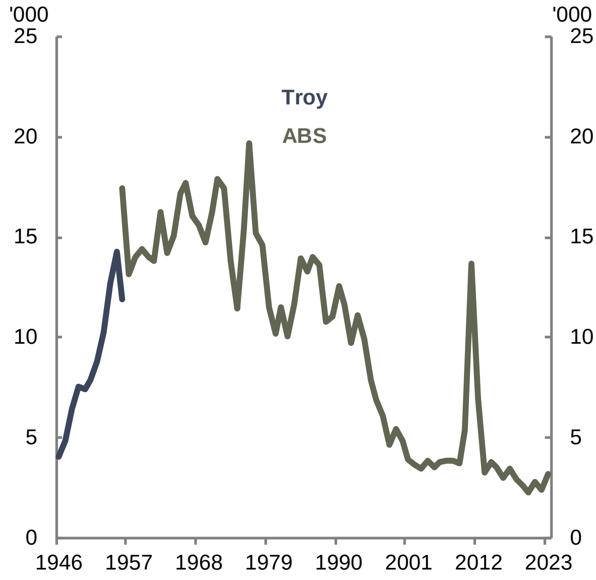
Overall, stakeholders widely agreed that there is scope for improvement in development application processes, especially for the larger and more complex projects needed to address Australia's housing needs. Many stakeholders considered that land release needed enabling infrastructure, including more effective public transport systems, communal spaces (such as parks), and other public amenities. One stakeholder noted that '50–60 per cent of zoned land is not suitable for building due to the absence or inadequacy of enabling infrastructure.'

Supply of social housing

Australia's social housing supply has fallen short of demand (Van den Nouwelant, et al., 2022). From the 1940s to the 1980s, government housing agencies built large volumes of new public housing (Chart 2.12). Instead of focusing mainly on the direct provision of non-market housing, governments have shifted towards a model of providing rent assistance payments to enable more households to rent in the private market. The provision of social housing is now primarily focused on supporting people in greatest need.

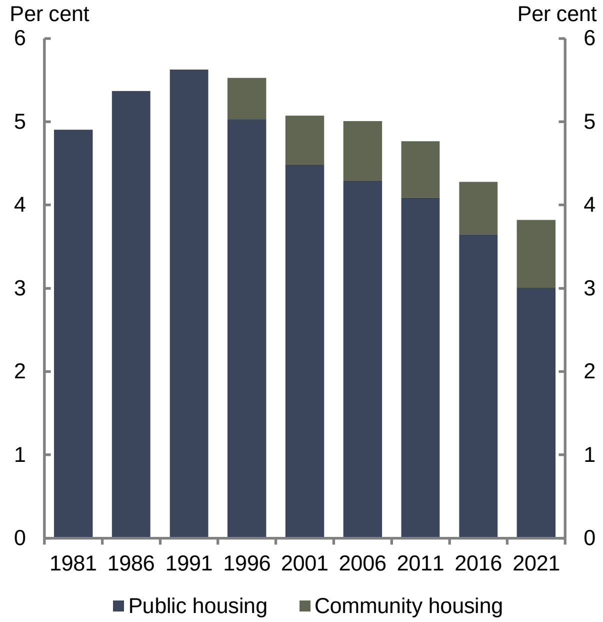
The number of non-market dwellings has stagnated as a result. This has contributed to a one-third decline in social housing as a share of the housing stock, from a peak of 5.6 per cent in 1991 to 3.8 per cent in 2021 (Chart 2.13). This indicates a reduction in the availability of adequate housing for lower-income and disadvantaged households. However, recent policy measures, such as the Housing Australia Future Fund and new public housing commitments by state and territory governments, mean that a rise in the current levels of investment in non-market housing is expected in coming years.

Chart 2.12 Public housing completions



Sources: Troy (2012) for 1946–1955, ABS Building Activity 2023.

Chart 2.13 Social housing as a share of the housing stock



Note: Social housing as a share of occupied private dwellings. Community housing first recorded separately in 1996 Census.
Source: NHSAC analysis of Census data.

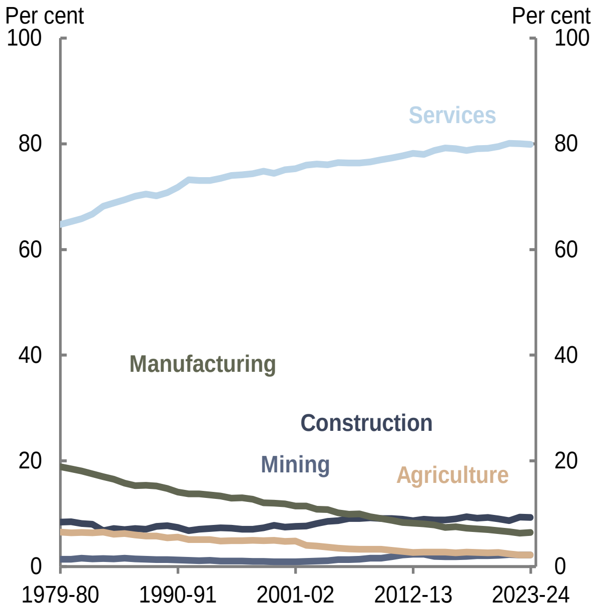
2.1.3 Under-utilisation of the housing stock

Structural change in the spatial economy

The restructuring of the Australian economy and market liberalisation from the mid-1980s has contributed to mismatches between where people live and where they work.

An accelerated shift towards a 'services economy' (Chart 2.14) saw the loss of previously high-wage manufacturing jobs – often in metropolitan suburbs – and rapid growth in highly paid jobs in business services industries like accounting, financial brokerage, marketing, design, legal advice, management advice, human resource management and IT (Adeney, 2018). The central city's historic advantage in access to jobs and opportunities arising from radial public transport and highway networks was supported by an influx of high paying jobs as the metropolitan economy restructured (O'Connor and Healy, 2001). This accentuated the inner-city house price premium over prices in suburban areas (Chart 2.15) (SGS Economics & Planning, 2024). As a result, the supply of land for housing with good access to jobs and opportunities is limited in many Australian cities despite outer suburban expansion.

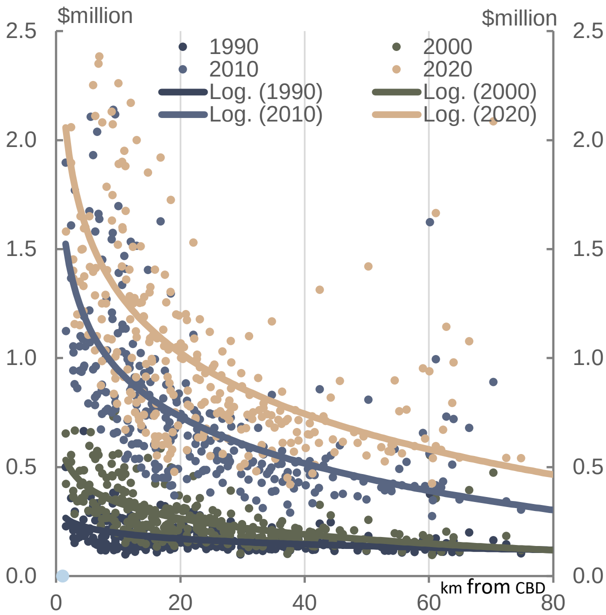
Chart 2.14 Industry share of employment



Note: Quarterly data has been converted to show financial year averages.

Source: ABS Labour Account 2024.

Chart 2.15 Median house price versus distance from CBD – Melbourne

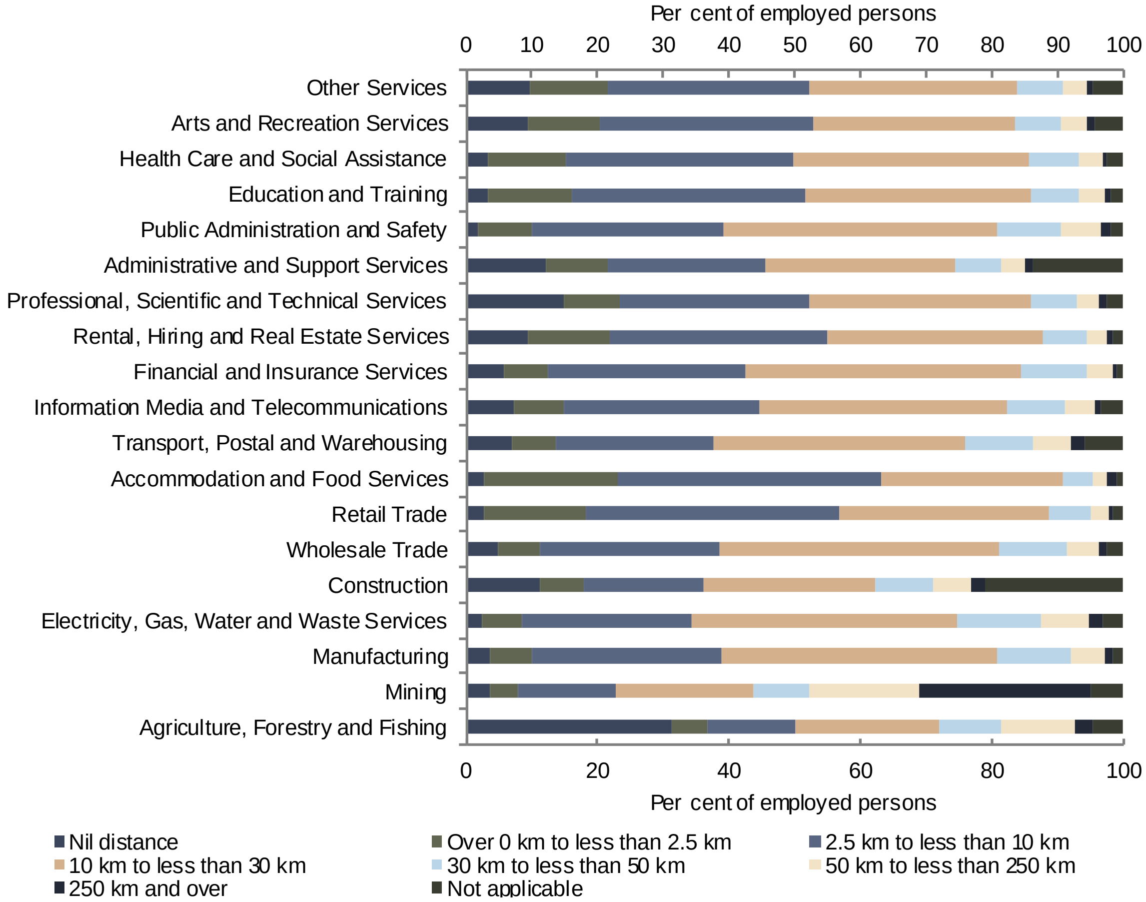


Note: Measured at suburb level.

Source: SGS Economics & Planning Pty Ltd 2024.

This has resulted in many essential workers living in outer suburbs and adjoining regional centres, although their jobs are concentrated in inner-city areas. The share of public administration and safety workers that commute 10 kilometres or more is greater than in many other industries (Chart 2.16). For example, only one in 9 police officers who work in the City of Sydney live there. More than 350 police officers travel to work from regional centres, including the Blue Mountains, Central Coast, Illawarra, Southern Highlands and Newcastle (Gilbert, et al., 2023).

Chart 2.16 Average commuting distance, by industry



Note: 2016 Census data was used due to COVID 19 travel restrictions affecting the 2021 Census.

Source: ABS, 2016 Census.

The lack of affordable housing in cities has limited local labour supply, affecting the ability of businesses (and governments) to hire and retain essential skilled workers. This can lead firms and households to form in less productive locations (Maclennan, et al., 2015). Higher congestion costs related to systemic housing shortages can limit productivity gains associated with innovation and agglomeration economies (benefits from the physical proximity of businesses, workers and consumers) (Maclennan, et al., 2015). The lack of affordable housing also affects labour supply in regional areas, where it undermines the ability of businesses to attract workers and represents lost economic output to the region (Impact Economics and Policy, 2022).

Mismatch and under-utilisation of housing stock are also evident in the number of spare bedrooms, resulting in substantial ‘lost’ dwelling space that is not readily available to those seeking accommodation (Kohler and Merwe, 2015). Almost 4 million dwellings had 2 or more spare bedrooms on the night of the 2021 Census. Conversely, many people would prefer to live in a larger home, with over 300,000 dwellings reportedly needing an extra bedroom (Table 2.1).

Table 2.1 Spare bedrooms and extra bedrooms needed

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
Extra needed									
1 bedroom	103,707	58,328	41,075	14,342	15,461	5,416	4,000	4,280	246,656
2 bedrooms	19,546	11,232	8,107	2,750	2,879	1,057	1,452	682	47,718
3 bedrooms	4,333	2,668	1,985	632	723	214	646	156	11,371
4 or more bedrooms	1,647	973	848	259	308	84	885	54	5,062
Total	129,233	73,201	52,015	17,983	19,371	6,771	6,983	5,172	310,807
Spare									
1 bedroom	915,762	798,279	571,063	230,281	282,346	70,362	21,506	50,924	2,941,001
2 bedrooms	760,027	722,967	582,089	242,382	324,942	72,543	16,592	48,939	2,770,898
3 bedrooms	307,110	229,079	241,145	57,600	149,824	17,797	4,597	19,606	1,026,878
4 or more bedrooms	58,769	30,070	37,522	6,954	16,849	3,018	818	3,002	157,031
Total	204,1668	1,780,395	1,431,819	537,217	77,3961	163,720	43,513	12,2471	6,895,808

Note: 'Total' includes 'other territories' that are not provided in this table.

Source: ABS, 2021 Census.

2.2 Australia experiences high and sustained demand for housing

Three factors determine Australia's housing demand:

1. underlying demand, which reflects demographic and social trends shaping household formation
2. effective demand, which reflects the interaction of economic and financial conditions with household consumption and investment preferences
3. policy choices.

2.2.1 Underlying demand

The primary purpose of housing is to provide shelter. Demand for housing as shelter is largely determined by long-term demographic and social factors that influence household formation, particularly population growth, household structures and consumer preferences. It can be considered as 'core' or 'underlying' demand; it is persistent and relatively insensitive to economic factors.

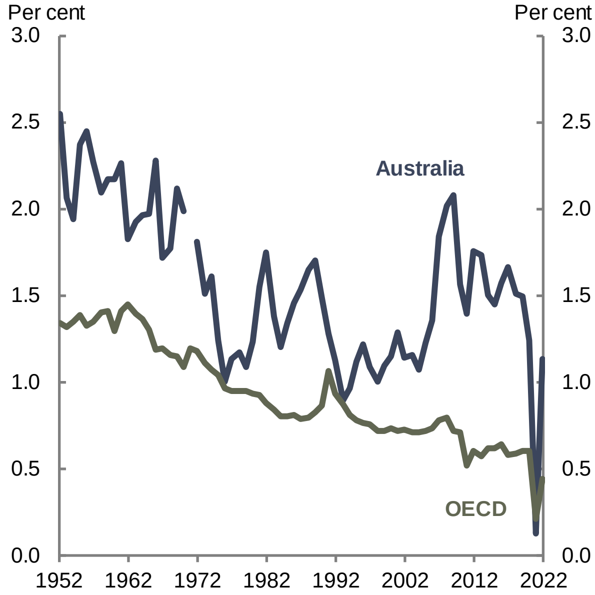
Population growth

Population growth is a major contributor to underlying demand. Australia has consistently had one of the fastest rates of population growth in the Organisation for Economic Co-operation and Development (OECD) (Chart 2.17) (OECD, 2024).

Natural increase (births minus deaths) was the main driver of population growth in Australia until the mid-2000s (Chart 2.18). Since the mid-2000s, the natural increase in the Australian population has been around 150,000 people a year (ABS, 2024). While the level of natural increase has been relatively steady over this period, it has become smaller as a proportion of the population. Over the past 30 years, the total fertility rate has fallen from 1.86 babies per woman in 1992–93 to 1.58 in 2022–23, remaining below the replacement rate of 2.1 since the mid-1970s (ABS, 2019). At the same time, life expectancies at birth have increased and are among the highest in the world (AIHW, 2023e). Despite these improvements in life expectancies, the number of deaths has grown faster than the number of births in recent years, as Australia's population has aged and fertility has declined.

Net overseas migration accounted for around 40 per cent of Australia’s population growth in the last 3 decades of the 20th century (ABS, 2014). However, with lower fertility and rising migration levels, this has increased as a share of growth to almost 60 per cent over the past 20 years (Chart 2.18). The nature of immigration has changed from decade to decade. Immigration in the post-war period was based on resettling refugees and reaching population targets to bolster defence capabilities and maintain labour supply to meet the demands of the post-war reconstruction (Love, 2022).

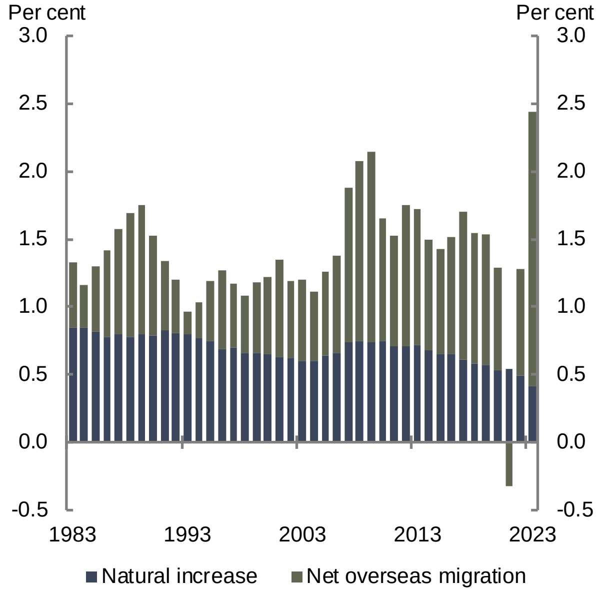
Chart 2.17 Annual population growth – 1952–2022



Note: Series break at 1971 due to a change in survey methodology.

Source: OECD 2023.

Chart 2.18 Annual population growth – components



Note: Financial year data.

Source: ABS National, state and territory population 2024.

Policy shifted towards skilled migration in the 1990s, with significant implications for the nature of migrant demand for housing (Box 2.2). The shift led to sizeable growth in the number of skilled migrants entering and residing in Australia (Chart 2.19) (Phillips, 2017; Department of Home Affairs, 2024b). The number of skilled migrants increased from around 18,000 per year in 1993–94 to more than 71,000 by 2003–04. This coincided with an uninterrupted period of economic growth in Australia. Since the late–2000s, further changes have led to more temporary migration, including by those holding a student or a Temporary Work (skilled) visa (subclass 457). This growth was demand-driven and not determined by or subject to government quotas or caps (Phillips, 2017). In the decade to 2018–19, the average net annual intake of temporary migrants (including students and 457 visa holders) was around 141,000 per year (ABS, 2023h). Temporary migration was interrupted by the pandemic. Temporary migration caught up after borders reopened; the net intake increased to 477,000 in 2022–23 of which 283,000 were international student arrivals (ABS, 2023i).

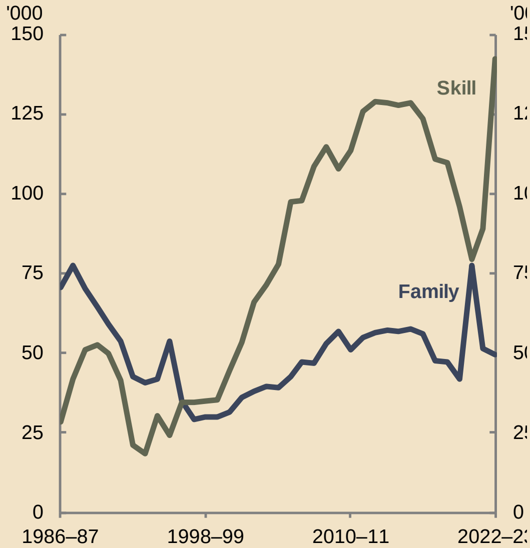
Box 2.2: Migrants and household formation

Different types of immigration generate different responses in underlying demand for housing. In general, skilled migrants tend to form more households relative to population growth originating from natural increase. This reflects the fact that new, skilled migrants are working-age adults, are on average younger than existing Australian residents, and have higher levels of education workforce participation rates (Department of Home Affairs, 2023), all of which are associated with an increased tendency to form households. Permanent skilled migration, in particular, makes an outsized contribution to underlying demand, with around 89 per cent of skilled migrants directly adding to underlying demand within their first year of living in Australia by forming a household, compared to 64 per cent of family arrivals (Deloitte Access Economics, 2011).

Temporary visa holders (who make up the majority of arrivals) are more likely than permanent migrants to form group households, although the percentage may decrease as duration of residence increases (Khoo, et al., 2012). The largest group of temporary arrivals is international students (Chart 2.20). While some international students live alone (12 per cent) or in communal accommodation such as halls of residence or colleges (12 per cent), just over half (51 per cent) live with at least 2 other people and around 10 per cent with 6 or more people (Morris, et al., 2020).[6] Census data shows that nearly half of temporary, skilled migrants live in a family household with at least 3 people, and 43 per cent of working holiday visa migrants live in a group household (Table 2.2).

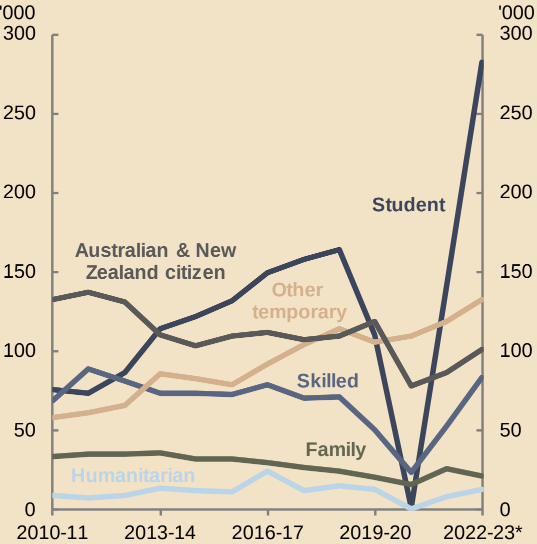
6 This data is based on a survey of around 7,000 international students undertaken in 2019.

Chart 2.19 Migration program, family and skill streams



Sources: DHA 2023; Phillips and Simon-Davies 2017.

Chart 2.20 Migrant arrivals by visa class



Note: *Estimates for 2022–23 are preliminary.

Source: ABS Overseas Migration, 2023.

Table 2.2 Temporary and permanent visa type and family household composition

	Temporary (percentage of total)			Permanent (percentage of total)	
Family household composition	**Student**	**Skilled**	**Working holiday**	**Employer sponsored**	**Skilled independent**
Lone person	9 (8)	9 (8)	9 (10)	6 (5)	6 (5)
Couple family, no children	35 (29)	31 (31)	42 (30)	19 (19)	17 (18)
Couple family, children	20 (20)	48 (49)	6 (11)	71 (70)	73 (73)
Group household	35 (43)	12 (12)	43 (48)	3 (5)	3 (4)

Note: Not all components are shown so column totals may not sum to 100 per cent. The 2021 figures are shown, with 2016 figures in brackets.

Source: ABS Census TableBuilder 2021 and 2016.

Box 2.2 continued

Migration also influences the type of housing demanded. New migrants are more likely to rent before owning their home – 38 per cent of migrants living in Australia for less than 5 years own their home, compared to 71 per cent of migrants who had lived in Australia for more than 10 years (ABS, 2023e). Most international students live in apartments (60 per cent), followed by detached houses (26 per cent), purpose-built student accommodation (8 per cent) and university housing (4 per cent) (Morris, et al., 2020).

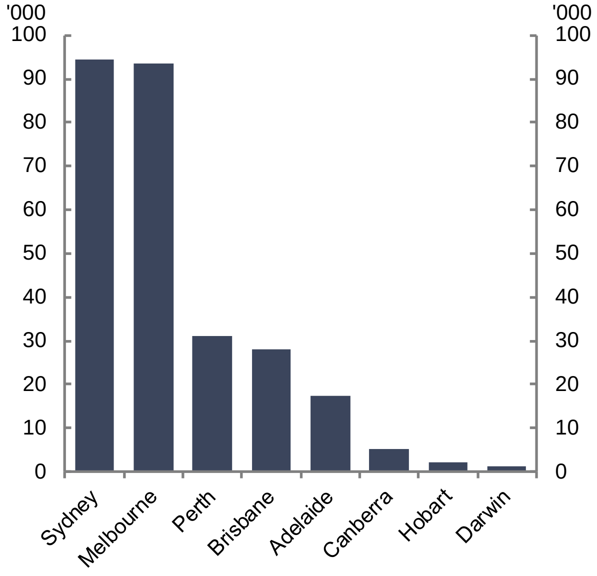
Geographically, migrants are more likely to add to housing demand in capital cities. The majority (87 per cent) of permanent migrants reside in capital cities, compared with 67 per cent of Australia's total population (ABS, 2021a; AIHW, 2021). Overseas students and skilled temporary migrants are concentrated in capital cities, particularly Sydney and Melbourne (Chart 2.21) (Khoo, et al., 2012).

While population growth can add pressure to housing markets, many parts of Australia with limited migration have also experienced housing stress. Other areas experience housing stress as a result of internal population flows, for instance from people moving to satellite cities outside major centres, or due to limitations on housing supply.

Household size

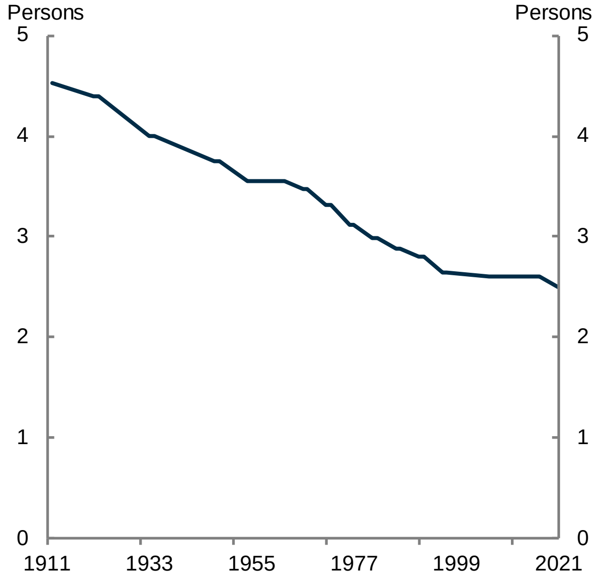
Household size is an important determinant of the number of dwellings required to house Australia's population. Australia's average household size (AHS) has persistently declined over the past century, from around 4.5 people in 1911, to 3.3 in 1971 and around 2.5 in 2021 (Chart 2.22) (ABS, 2001; ABS, 2023d). Smaller household sizes mean more dwellings are required to house a given population, all else being equal. If the AHS was still 3.3 per household, the population would occupy almost 25 per cent fewer dwellings.

Chart 2.21 Net overseas migration by capital city, 2017–18 to 2022–23*



Note: *Average of 2017–18, 2019–20 and 2022–23 survey.
Source: ABS Regional population 2023.

Chart 2.22 Average household size, 1911–2021

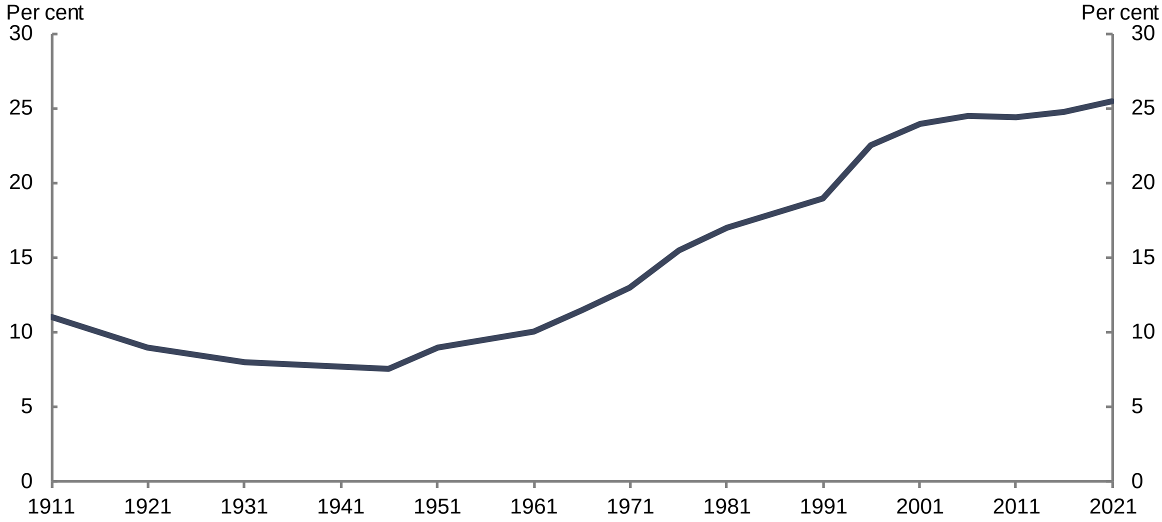


Sources: ABS Year Book Australia 2001, 2011 Census, 2016 Census, 2021 Census and NHSAC.

This century-long decline in household size reflects powerful social trends. Australia's birth rate has decreased over this period (ABS, 2019), so the number of children per household has fallen. The number of single-person and single-parent households has increased. For instance, the share of one-person households increased from less than 10 per cent in 1951 to 26 per cent in 2021 (Chart 2.23).

These outcomes in part reflect population ageing due to declining fertility rates, rising longevity and the propensity for the number of one-person households to rise with age. AHS stabilised in the early 2000s, due partly to slower growth in single households. Estimates of AHS since 2019 have been volatile, reflecting changes in migration, household preferences and other economic factors associated with the pandemic (see Chapter 3).

Chart 2.23 Percentage single-person households in population, 1911–2021



Sources: de Vaus and Qu, 2015, ABS Census various years.

2.2.2 Effective demand

Economic and financial factors can add to, or subtract from, underlying demand for housing. These factors include household income, wealth, interest rates, access to finance, consumer preferences and government policies. They affect households' consumption and investment choices, referred to in this report as 'effective demand'.

Household incomes

A decades-long rise in household incomes has increased demand for housing. Real household disposable incomes have increased by around 3 per cent annually since 1960 (ABS, 2023a). The rise in household incomes has been driven by a long period of economic growth since the mid-1990s, and the associated falling unemployment rate, rise in hours worked, rise in wages and the increase in female labour force participation. Women's workforce participation has increased from around 52 per cent in 1993 to around 63 per cent. The percentage of working-age couples who were dual income couples increased from 55 per cent in 1990 to 71 per cent in 2022 (Baxter, 2023).

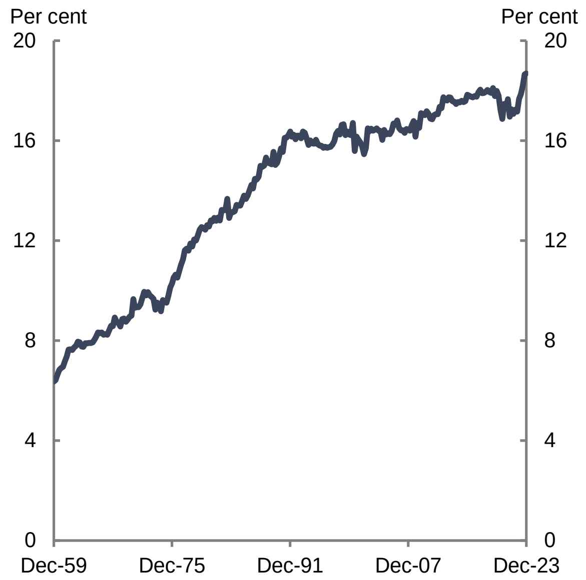
At the same time, households have spent proportionally more of their income on housing as their incomes have risen. Private consumption expenditure on rents and other dwelling services as a proportion of gross household disposable income increased from around 7 per cent in 1960 to around 18 per cent in 2023 (Chart 2.24) (ABS, 2023a).

This income-driven demand for housing is evident in a number of trends: increasing size and quality of housing stock over time, rising land prices, and relatively high-cost inner-city and waterfront dwellings bringing economic and lifestyle benefits such as proximity to work and social status (Fox and Finlay, 2012). Government schemes have also boosted household income for spending on housing.

Household wealth

Rising household wealth has also generated greater demand for housing. Australian households have grown, and continue to grow, wealthier on average. Nominal household net worth grew at an annual rate of 7 per cent between December 1988 and December 2023 (ABS, 2023a). Households have demonstrated a preference for storing some of this additional wealth in housing assets, either for income earning and wealth accumulation or for lifestyle reasons (for example, having larger homes or second 'holiday' homes). Land and dwelling values account for more than half the total value of assets held by Australians (Chart 2.25).

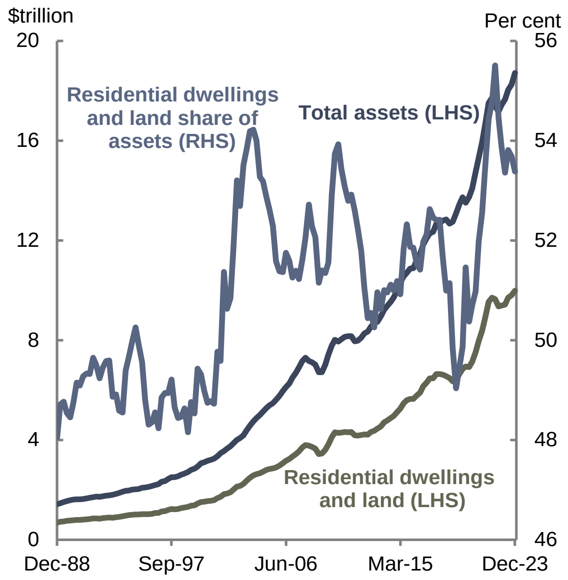
Chart 2.24 Housing expenditure share of household income



Note: Personal consumption expenditure on rents and imputed rents, share of household disposable income.

Source: ABS Australian National Accounts, NHSAC.

Chart 2.25 Value and composition of household assets



Source: ABS Australian National Accounts, NHSAC.

The favourable characteristics of housing as an investment are reflected in investor demand in the housing market. Around 15 per cent of 15.1 million individual Australian tax filers earned rental income in 2020–21 (ATO, 2023a), compared to 6 per cent of 8.2 million tax filers in 1985–86 (ABS, 2016). For investors, total after-tax, volatility-adjusted returns on housing are competitive with returns on other large asset classes, such as corporate bonds and shares in publicly listed companies. For example, investing in housing between 1950 and 2015 would have yielded average annual real returns of 8.29 per cent, compared with 7.57 per cent for Australian shares and 2.45 per cent for bonds (Jordà, et al., 2017).

Housing assets also offer benefits relative to other asset classes, including:

- lower interest rates on loans when housing is provided as collateral
- the ability to borrow a larger amount of the value of the housing asset (a higher leverage ratio)
- limited or no margin calls when the value of the asset declines
- the ability to withdraw equity or utilise offset accounts against outstanding loan amounts (Gurran, et al., 2015).

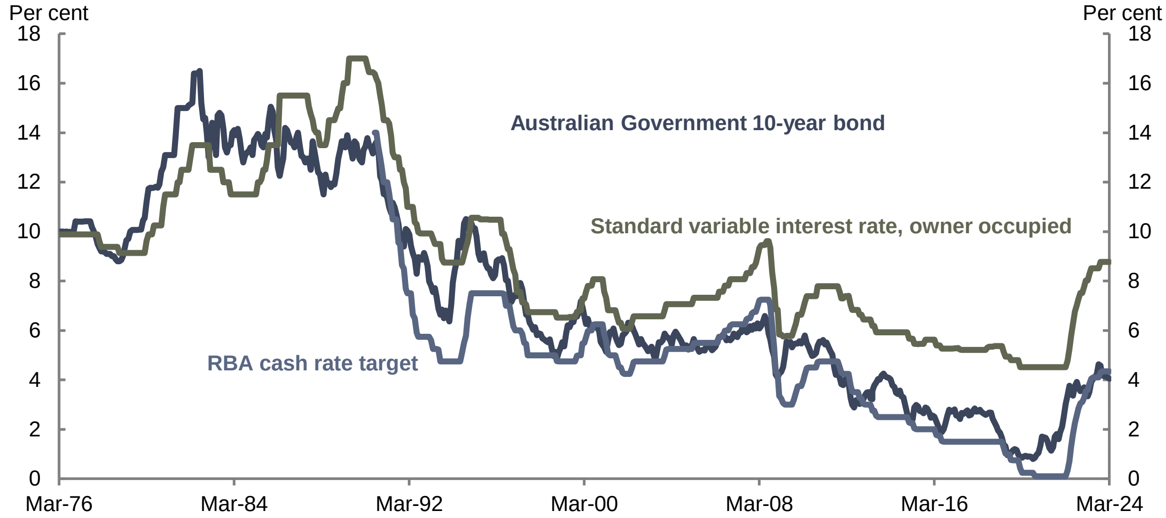
Readily accessible and competitively priced home loans have also been important in supporting demand for housing assets.

Interest rates

Interest rates are a major driver of effective demand for housing. For example, a sustained 1 per cent decrease in real interest rates has been estimated to increase real house prices by around 30 per cent in the long run (Saunders and Tulip, 2019). Extra borrowing capacity can be spent on consuming housing services or acquiring housing assets.

Interest rates declined significantly following financial deregulation in the 1980s, which reduced government controls over lending activities and increased competition in the mortgage market (Chart 2.26). While interest rates rise and fall as monetary policy has sought to manage the economic cycle, the impact of a structural decline in interest rates has persisted. Low and stable inflation and low global interest rates resulting from high global savings further added to downward pressure on interest rates. Variable mortgage interest rates for owner–occupiers fell from a high of 17 per cent in 1990 before reaching a historic low during the pandemic (RBA, 2024d). Despite recent rises, interest rates remain well below levels seen late last century.

Chart 2.26 Interest rates, 1976–2024



Note: This data shows the indicator lending rate, which is higher than what the average person would actually be paying on their loan. For example, the average variable owner occupier loan reached lows of 2.6 per cent in March 2022.

Source: RBA Interest rates 2024.

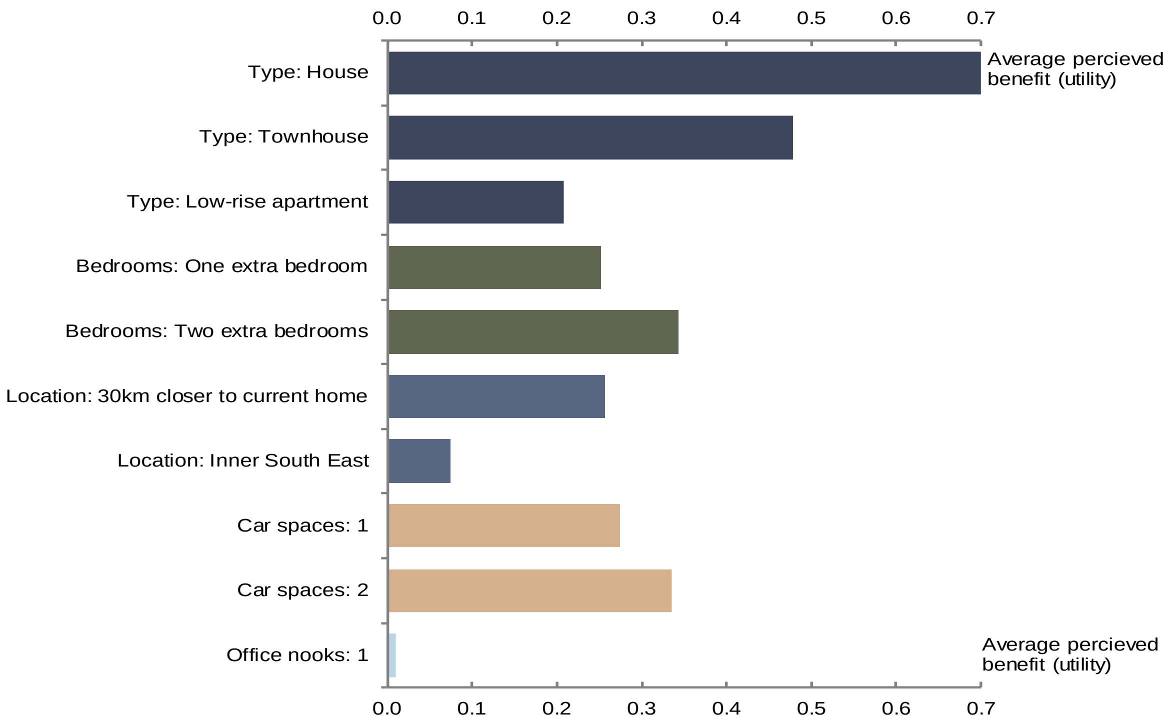
Consumer preferences

Consumer preferences influence demand for housing of certain structure and location. Households have historically preferred to live in houses – particularly as owner-occupiers – although demand for higher-density housing has increased in recent decades (ABS, 2022c; AIHW, 2023b). Due to budget constraints, most households compromise on some housing attributes.

A recent Infrastructure Victoria report found that 'Victorians prefer large, detached homes close to family and friends' (Infrastructure Victoria, 2023). Most homebuyers consider housing type to provide a greater benefit than housing location, and prefer houses to higher-density housing (Chart 2.27). Other households prefer to trade off housing type for a better location, usually within the same geographical corridor as their previous residence. Overall, when deciding between an inner-suburban apartment or a house in a growth suburb, 61 per cent of prospective homeowners favoured houses (The Centre for International Economics, 2022).

Despite preferring houses, households may still opt for higher-density housing if it meets their expectations for comfort, spaciousness, privacy and security (Kleeman, et al., 2022). Increasing density in inner suburbs becomes necessary to meet consumer preferences when the number of greenfield areas in major cities is limited.

Chart 2.27 Perceived benefits of different housing features, Victoria



Note: Relative to a hypothetical high-rise apartment in the western growth area of Melbourne, minimum number of bedrooms respondents would consider, zero car spaces and zero office nooks.

Source: Centre for International Economics 2022, Infrastructure Victoria 2023.

Prices also affect housing preferences. More households are willing to opt for less desirable dwelling structures, like apartments and townhouses, for a lower price (Infrastructure Victoria, 2023). There is a roughly even split among renters who prefer structural features (such as detached housing and a certain number of bedrooms) and location features (The Centre for International Economics, 2022).

2.2.3 Policy choices contribute to demand

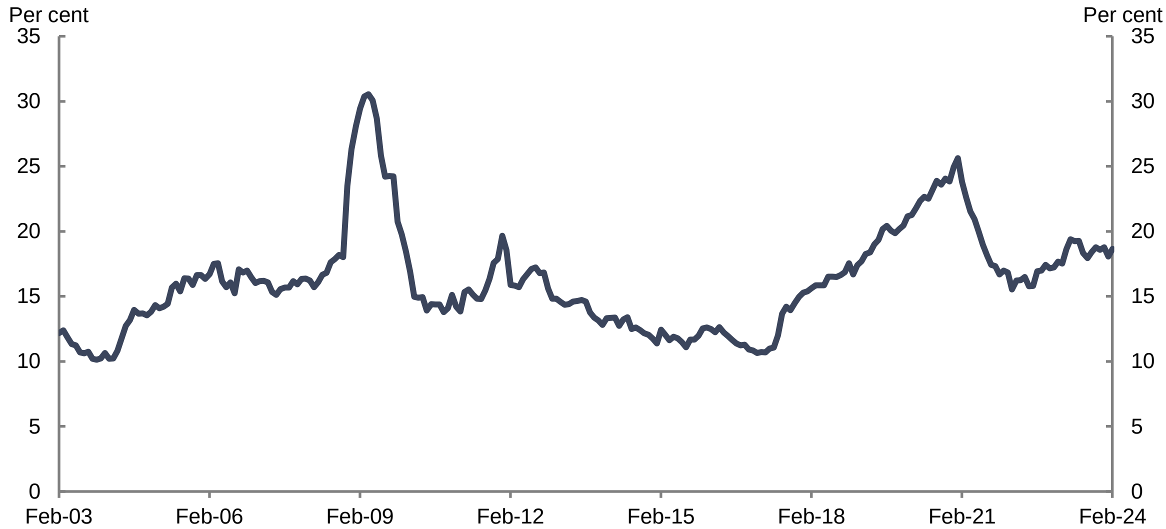
Government policy can contribute to housing demand. Some policies directly target the housing system, usually by boosting household income to spend on housing. Other policies can indirectly effect the housing system, often by altering the return generated from owning a dwelling or by influencing the availability or price of finance.

The national policy vision for Australia's housing system has shifted over the decades (Box 2.3). In the early postwar period, a major role was anticipated for social housing ranging well beyond a safety net. Social housing was seen as a key infrastructure investment to support Australia's industrialisation by providing affordable housing for workers in the car manufacturing, ports and energy sectors (SGS Economics and Planning, 2023b). Rapidly rising incomes brought home ownership within reach for these and many other workers, and policy shifted to support this tenure.

First home buyer grants

Since the 1960s, federal and state government policies have promoted home ownership for first home buyers, most significantly via direct grants (Troy, 2012). While the first grant was introduced over 50 years ago, the $7,000 First Home Owners Grant (FHOG) introduced by the Australian Government in 2000 was the first to have no income test or limit on the price of the purchased property (Pawson, et al., 2020). The FHOG was temporarily doubled to $14,000 in May 2009, with an additional $7,000 available (taking the grant to $21,000) for the purchase of newly constructed homes. As a result, the share of new loan commitments to first home buyers rose sharply to 31 per cent (Chart 2.28). First home buyer activity fell once the temporary boost to the scheme ended. The share of new loan commitments to first home buyers is now around 19 per cent (ABS, 2024h).

Chart 2.28 First home buyer share of new loans



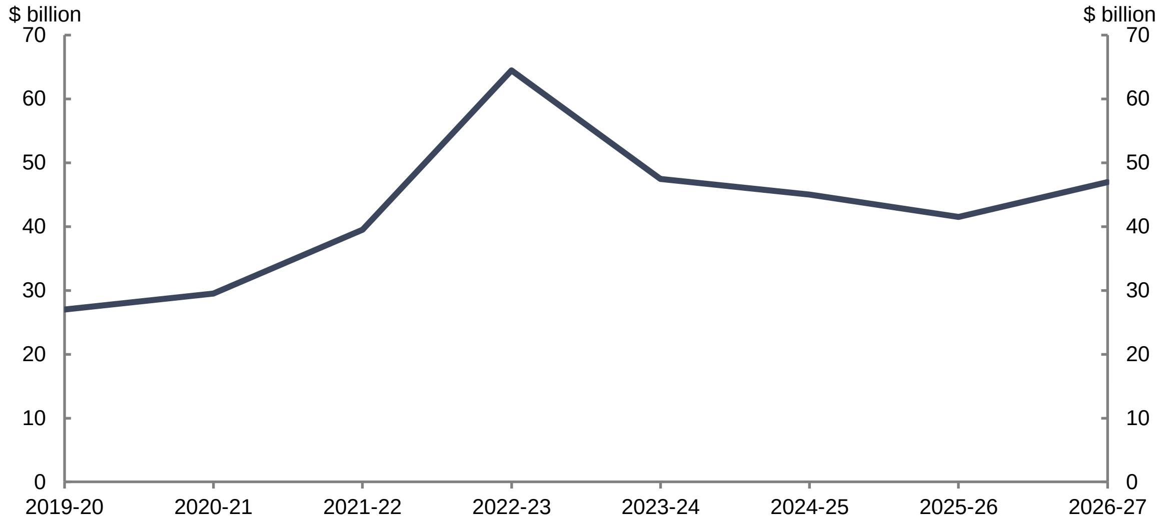
Source: ABS Lending indicators 2024.

Tax and transfer system

The tax and transfer system as administered by all levels of government influences the demand for housing, with more favourable outcomes for owner-occupied houses. Returns on owner-occupied housing are exempt from income tax, including imputed rent and any capital gains, and owner-occupied housing has a concessional treatment under the pension assets test compared to other assets. The tax system may encourage the purchasing of investment property relative to other asset classes through the interaction of tax rules with characteristics of housing investment (high permitted leverage ratios, lower interest rate and no margin calls).

The 2023–24 Tax Expenditures and Insights Statement reported the total foregone revenue from the main residence exemptions from capital gains tax in 2023–24 was $47.5 billion (Chart 2.29) (Treasury, 2024). Treasury estimated the combined tax forgone for the main residence exemption peaked at around $64.5 billion in 2022–23, reflecting capital gains in 2021–22.

Chart 2.29 Estimated value of revenue foregone – main residence exemption



Note: The main residence exemption is the sum of two components, E7 and E8. E8 reflects the tax expenditure for providing a 50 per cent CGT discount on main residences that have been held for more than 12 months - this is similar to the tax treatment available for other types of assets. E7 reflects the further capital gains tax exemption after the CGT discount has already been applied. E7 and E8 reflect the combined 100 per cent exemption that is available for main residences.

Source: 2023–24 Tax Expenditures and Insights Statement.

Treasury estimated that the capital gains tax discount for individuals and trusts (including shares, housing and other assets) was worth $19.1 billion in revenue forgone in 2023–24, while rental deduction arrangements were worth $27.1 billion (Treasury, 2024). Since 2012–13, individuals reported an average annual rental loss of around $1,200, while negatively geared individuals claimed an average loss of $8,700 (ATO, 2023a). Over time, average capital gains have reflected rising house prices.

Other taxes affecting both demand for housing and allocation of housing between owner-occupiers and investors include state and territory stamp duties and land taxes. While specific settings differ among jurisdictions, stamp duties and land taxes generally increase the costs of investing in housing relative to other asset classes.

Box 2.3 The evolution of Commonwealth housing policy

Year	Outcome/event
1945	Introduction of the first Commonwealth-State Housing Agreement (CSHA), which laid the foundation for a large scale, viable public housing system.
1964	Introduction of the first home buyers (FHB) grant – the Home Savings Grant – paid to married couples purchasing a home under a certain value.
1975	Incorporation of housing costs into calculations for the poverty line, following the Henderson Poverty Inquiry.
1976	Reintroduction of FHB grants – the Home Deposit Assistance Grant – with no marriage requirements or home value limits.
1978	Reduction in funding for public housing under the 1978 CSHA, redirected to boost owner occupation.
1983	Replacement of the Home Deposit Assistance Grant with the First Home Owners Scheme (1983–90), which was subject to an income test.
2000	Reintroduction of FHB grants – the First Home Owners Grant – without any income test or upper limit on the purchase price of homes.
2008	Introduction of National Rental Affordability Scheme, incentivising investors to rent properties at a minimum of 20 per cent below market rate (2008–26).
2008	Provision of $5.4 billion over 10 years to states and territories under the National Partnership Agreement on Remote Indigenous Housing.
2009	Introduction of the National Affordable Housing Agreement (NAHA), replacing the CSHA; and the National Partnership Agreement on Homelessness (NPAH).
2009	Provision of $6.4 billion over 3 years to build 20,000 social housing dwellings under the Nation Building Economic Stimulus Plan – Social Housing Initiative.
2018	Replacement of the NAHA and NPAH with the National Housing and Homelessness Agreement.
2019	Introduction of the National Partnership for Remote Housing Northern Territory (2018–23).
2020	Introduction of the HomeBuilder program, providing $2.5 billion in grants to current or potential homeowners to build new homes or substantially renovate existing homes.
2020	Introduction of one housing outcome and 2 targets in the National Agreement on Closing the Gap.
2022	Provision of $100 million for housing and essential infrastructure in Northern Territory homelands.
2023	Provision of $111.7 million, matched by the Northern Territory Government, for the delivery of remote housing in the Northern Territory.
2023	Establishment of the $10 billion Housing Australia Future Fund. Other policies detailed in Appendix A.

Sources: AIHW, 2020; Bury, 1964; Henderson, 1975; Federal Register of Legislation, 1976; Groenhart, 2012; Federal Register of Legislation, 1983; First Home Owner Grant, 2020; Department of Social Services, 2024; National Indigenous Australians Agency, 2019; Thomas, 2017; Knaus, 2017; National Partnership for Remote Housing Northern Territory, 2019; National Agreement on Closing the Gap, 2020; Burney, 2023; Federal Financial Relations, 2023; Department of Finance, 2023.

2.3 Emerging trends will increase the cost and complexity of supplying housing

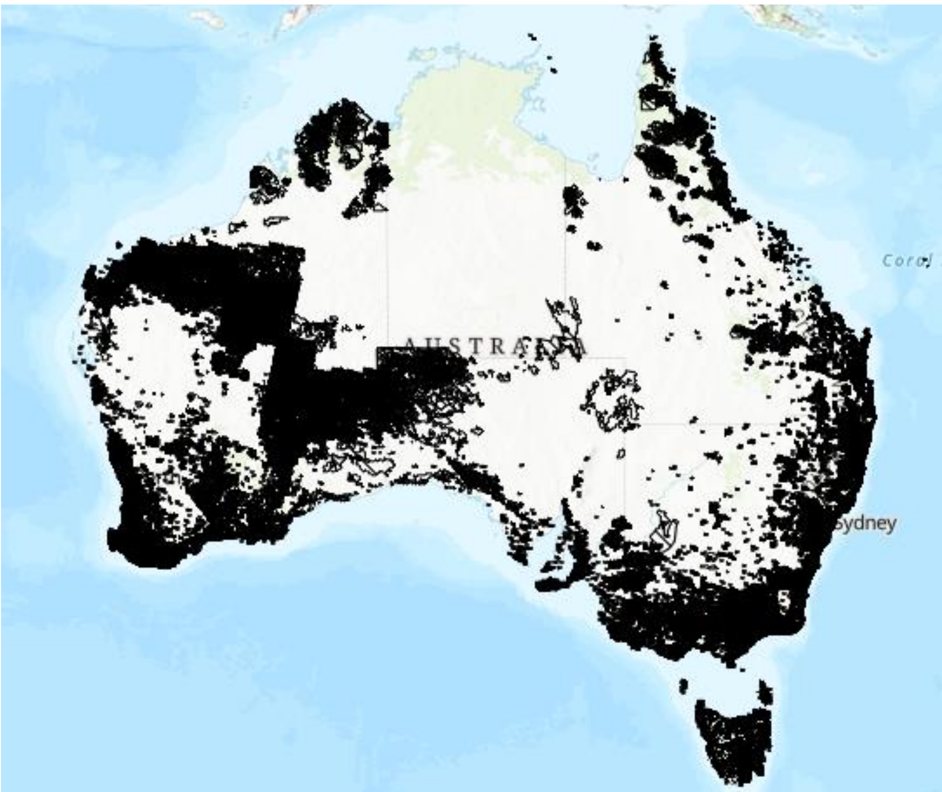
2.3.1 Climate change and sustainability

Climate change has far-reaching consequences for the effective provision of housing. The housing system faces increasing physical risks from extreme weather events and climate-related disasters, and transition risks from changes to climate-related policy and technologies. In response to these challenges, new construction practices are emerging to help reduce the impact of natural disasters and ensure the sustainable consumption of scarce resources.

Physical risks

The increased frequency and severity of extreme weather events such as cyclones, floods and bushfires present risks to housing safety and security. Bushfires damage homes across Australia (Chart 2.30) (Geoscience Australia, 2024). For example, over 3,000 homes were destroyed in the 2019–20 bushfire season (Smith, 2020), causing significant financial hardship for homeowners and incurring $2.3 billion in insurance losses (Insurance Council of Australia, 2022). Coastal erosion and flooding from rising sea levels threaten the 87 per cent of Australians who live along the coast (Department of Climate Change, Energy, the Environment and Water, 2021). The predicted annual direct cost of natural disasters to the Australian economy, including the housing system, is $35.2 billion by 2050 (Insurance Council of Australia, 2022).

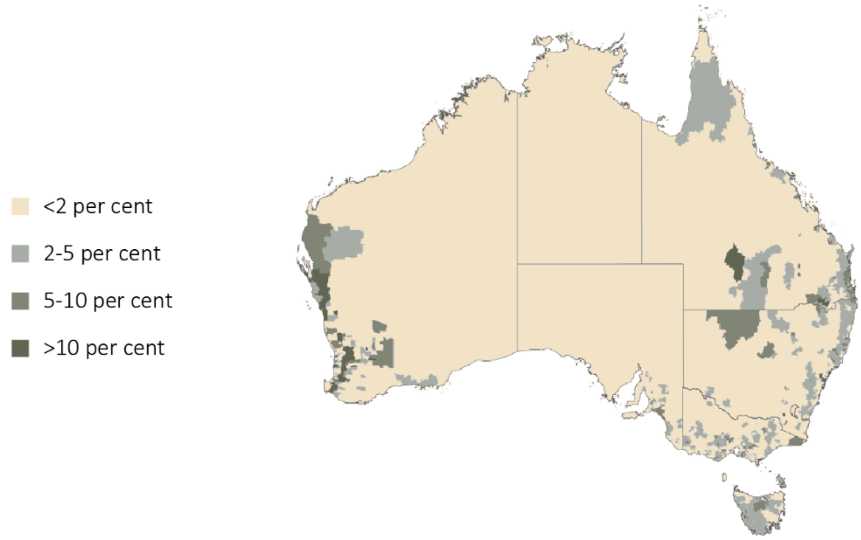
Chart 2.30 Bushfire-affected regions, 1899–2023



Source: Digital Atlas of Australia: National bushfire history viewer 2024.

Climate change is already affecting housing prices. The price differential between flood-affected and non-flood affected homes has been estimated to be up to 35 per cent a year after a flooding event (Eves and Wilkinson, 2014). Furthermore, the RBA estimates around 7.5 per cent of properties are in areas that could experience price falls of at least 5 per cent due to climate change by 2050 (Chart 2.31) (Bullock, 2023). More severe weather events could reduce the value of assets, resulting in unexpected credit losses for financial institutions, increased claims on insurers and write-downs to the value of investments.

Chart 2.31 Housing price effects of physical risk



Note: Estimated effect of increased climate hazard risk on housing values in 2050, by postcode, relative to current climate hazard risk.
Source: ABS, RBA, and XDI-Climate Valuation in Bullock 2023.

Climate change is causing home insurance premiums to rise across Australia, adding to already elevated housing costs. Median home insurance premiums increased 28 per cent over the year to March 2023 (Actuaries Institute Australia, 2023). Homeowners in areas considered at-risk of natural disasters are expected to see insurance premiums rise further or have difficulty obtaining insurance due to heightened risks. The Australian Actuaries Institute estimates that over 1 million households are experiencing extreme home insurance affordability pressures (Actuaries Institute Australia, 2023).[7] The Australian Competition and Consumer Commission (ACCC) also found that rates of non-insurance are increasing due to the cost of premiums. Northern Western Australia and the Northern Territory are particularly affected, with around 40 per cent and 26 per cent of homes, respectively, not insured (ACCC, 2020).

Sustainability and transition to net zero

A shift towards sustainable economies that use resources more effectively and reduce damaging waste has widespread implications for housing. This is exemplified in the changed practices and products required to achieve the transition to net zero by 2050 (Prasad, et al., 2022).

7 Defined as those who spend more than 4 weeks of gross income on home insurance premiums compared to 1.1 weeks for a median household.

Owners of existing housing stock could incur additional costs in pursuit of reducing climate change impacts and meeting emissions targets. Homes may need to be upgraded to incorporate new technologies to reduce emissions, including the switch to full electrification and renewable energy. Upgrading houses to be ‘climate-ready’ includes constructing dwellings with higher levels of insulation, double glazing, heavy-drape curtains and airtightness, plus energy-efficient measures such as rooftop solar panels (Climateworks Centre, 2023). The net zero transformation could raise the cost of constructing dwellings, although this will be mitigated by a decline in the cost of energy over the asset’s lifetime. The Council engaged with many stakeholders who believe government regulation has become a burden on housing supply.

New housing supply could also face higher costs in reducing the impacts of climate change and meeting emissions targets. Regulatory changes to enhance climate resilience will alter building codes and zoning regulations. This could increase development costs and limit new construction opportunities. New home building may involve higher costs, as flood, storm or bushfire-resistant materials are used to mitigate the increased risk of natural disasters affecting them.

New buildings must also adhere to the regularly updated National Construction Code (NCC) which stipulates levels of climate resilience and building performance in extreme weather conditions. Developers facing higher compliance costs may have difficulties meeting updated standards, potentially delaying or reducing housing availability. However, the NCC minimum energy efficiency requirements, updated in 2022, are estimated to deliver a household-level benefit-to-cost ratio of 1.37 after accounting for increased construction costs, reflecting lower ongoing energy costs (Department of Climate Change, Energy, the Environment and Water, 2022).

Climate change may have a more profound impact on low-income households, renters and public housing tenants. These households tend to live in lower-quality housing, and are less able to move or influence landlords to improve housing efficiency or safety (Gabriel, et al., 2010). Areas prone to extreme weather events and climate change impacts tend to attract lower-income earners as housing there is typically more affordable (Cornell, et al., 2020). Rising energy and water costs are also disproportionately affect lower-income households that spend a larger proportion of their income on essential services and are unable to afford energy-efficiency improvements (Liu, et al., 2019). Lower income households are also less likely to be insured due to the rising costs of premiums, increasing housing inequality and associated costs.

Housing construction faces further challenges with the move to a more circular economy.[8] The industry has a largely linear model of high natural resource consumption and low material recovery, making it the largest consumer of raw materials and producer of waste (Steger and Blieischwitz, 2011). Construction and demolition waste totalled 29 million tonnes in 2020–21, making up 38 per cent of the total waste generated in Australia (Department of Climate Change, Energy, the Environment and Water, 2023). The amount of waste is expected to increase alongside population growth. While these figures include all construction, the material, carbon and waste intensity of residential building has increased with urbanisation and the rise in high-density living. The Intergovernmental Panel on Climate Change noted industry has been relatively sheltered from climate and sustainability policy over concerns for industry competitiveness and carbon leakage (Dalton, et al., 2023).

8 A circular economy promotes the continual use, recycling and regeneration of materials and products, with an aim of producing zero waste (Ellen Macarthur Foundation, n.d.)

Housing construction will increasingly adopt more sustainable practices consistent with circular economy principles. This includes making the transition to greener technologies and materials, and better waste management practices that prioritise reuse and repurposing. However, several challenges are impeding this transition, particularly underdeveloped green material and reuse markets and outdated building regulation. Building materials like concrete and steel have established carbon-embedded markets that limit innovation while low-carbon technologies are unviable for large scale asset renewal (Dalton, et al., 2023). Existing building codes also limit innovation, as companies must carry the risk of using emerging materials, such as green concrete alternatives, which may not fully comply with existing building codes.

There is broad industry understanding that while sustainable housing construction poses a higher upfront cost, it can potentially generate signficiant savings over the asset's lifetime (Dobson, et al., 2013). However, regulation reform, government investment, and enhanced supply chain transparency could reduce the upfront costs of transitioning to more sustainable construction practices.

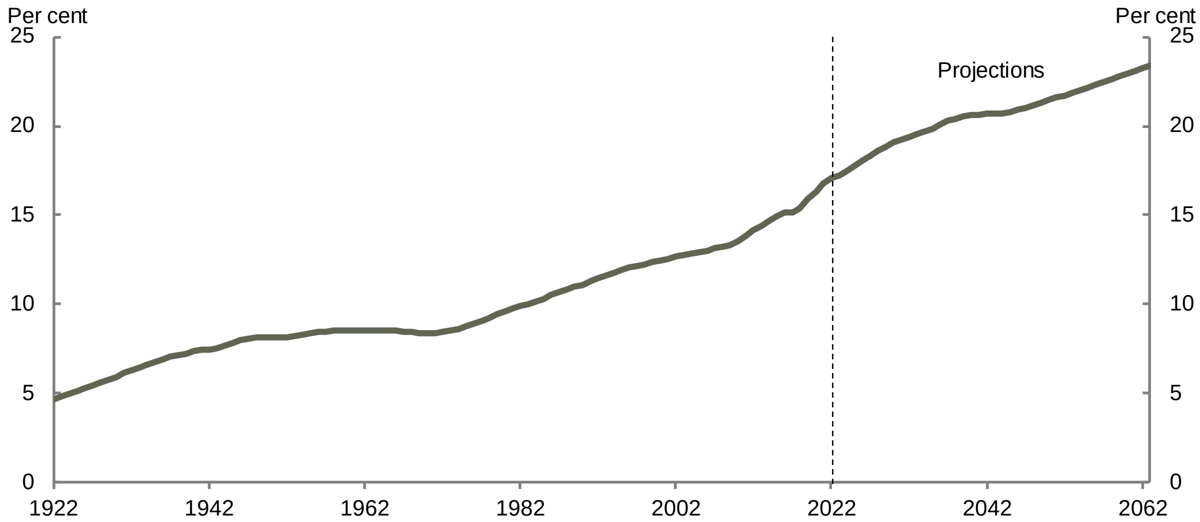
2.3.2 Ageing population

The ageing population will increasingly impact demand for housing. The share of the population aged 65 and over increased from 10 per cent to 17.2 per cent in the 40 years to 2022–23 (Chart 2.32) (Commonwealth of Australia, 2023). The number of Australians 65 and over is set to increase from 4.6 million in 2022–23 to 9.4 million by 2062–63 (Australian Government Centre for Population, 2023). This reflects improved average life expectancy and will be associated with an increase in people living alone or with some form of age-related physical or mental impairment. Building new homes and adapting existing ones to meet the needs of older Australians will increase the cost and complexity of housing supply. This will be mitigated by the availability of larger properties through downsizing.

Downsizing

Downsizing from larger properties to more suitable, smaller properties can be beneficial for people as they age, while also reallocating available housing stock more efficiently. Downsizing can free up larger homes, making them available for younger, growing families. Demand for independent living units is forecast to grow strongly (Knight Frank, 2017). A lack of suitable, affordable housing in the private rental market, especially for those relying on the age pension, could increase the proportion of older Australians still paying off mortgages or renting.

Chart 2.32 Australian population aged 65 and over, share of total



Note: ABS data is calendar year, while projections from 2022 onwards are for financial years

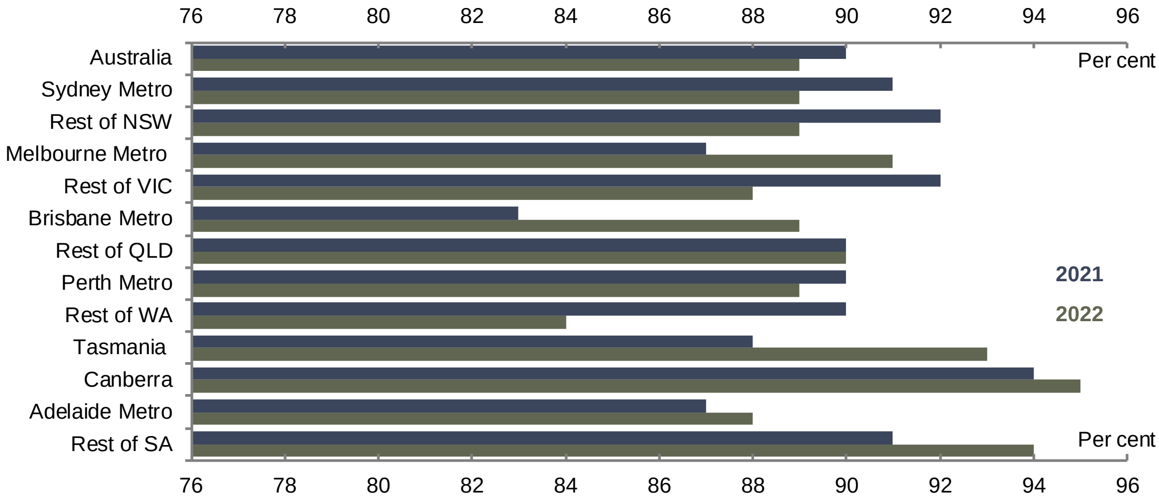
Sources: ABS 2023 and CPOP 2023.

Retirement villages

Retirement villages help to meet the housing needs of an ageing population. Australians strongly favour living in their own homes as long as possible (Judd, et al., 2010). Only one in 4 people aged over 85 years lives in care accommodation (Australian Human Rights Commission, 2014). High occupancy rates (PwC and Property Council, 2023) and an ageing population indicates increasing demand for retirement accommodation (Chart 2.33).

An older population will require more in-home care and support services, typically found in retirement villages. Retirement villages can contribute to increasing densification, reflecting the smaller size of dwellings units. The housing system will facilitate the access and transition to residential aged care facilities for an increasing number of Australians.

Chart 2.33 Retirement village occupancy rates, by region, 2022



Source: PwC/Property Council 2023, NHSAC

2.3.3 Rising number of people with disability

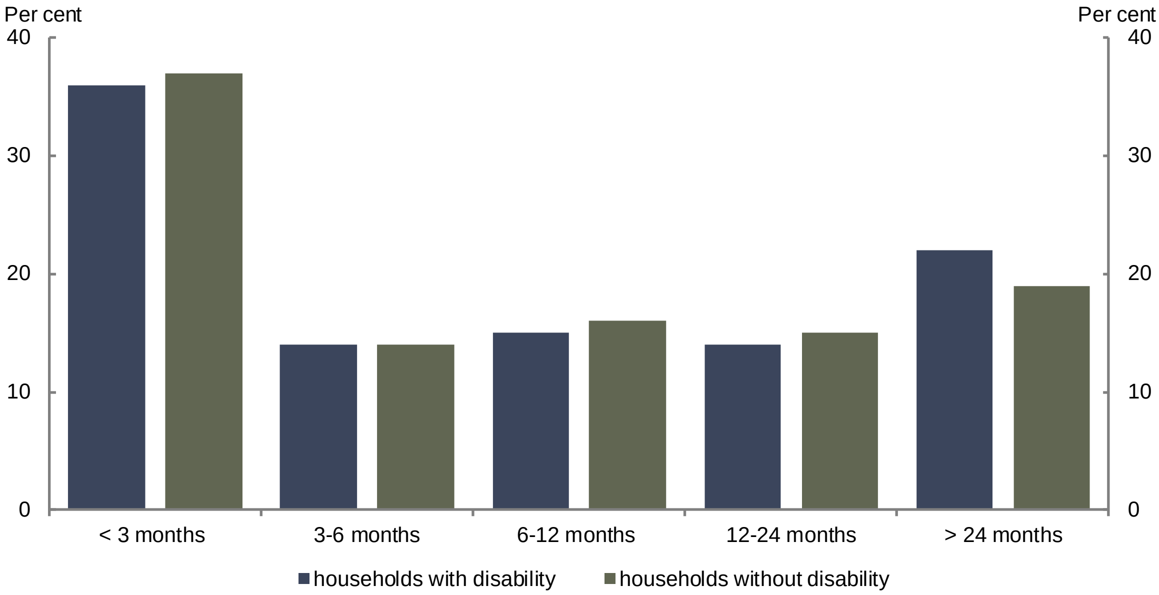
The ageing population combined with an increase in the prevalence of noncommunicable diseases will increase the number of people with disability, which will in turn increase the cost and complexity of housing supply (People with Disability Australia, 2023). For example, demand for the Specialist Disability Accommodation program within the national Disability Insurance Scheme (NDIS) is forecast to increase at an average rate of 2.4 per cent per year to 2042.[9]

Access and modification

Most public housing stock is not fit-for-purpose for people with accessibility needs. For example, it lacks entry ramps and elevators. Suitable social housing has long waitlists (Chart 2.34) (National Disability Data Asset Pilot, 2021). Modification of houses and apartments to make them accessible is available through the NDIS if it is considered value for money, including for renters where modifications can be made at no cost to the landlord. Increasing the accessibility of housing stock can reduce demand for more costly, recurrent labour-related supports. Declining rates of homeownership increase the need for schemes to assist people with disability to modify their accommodation to meet their specific needs.

9 A National Disability Insurance Agency's SDA demand projections report highlights that the population of NDIS participants eligible for SDA, while growing strongly, is still very small relative to overall housing demand.

Chart 2.34 Wait times for public housing



Note: Findings referenced are from the National Disability Data Asset pilot. These findings are not nationally representative and are only applicable to New South Wales, Victoria, South Australia and Queensland residents from 2020.

Source: National Disability Data Asset Pilot 2024.

Accessible housing enables people with disability to live independent lives and enhances their mobility, safety, social participation and wellbeing. Housing plays a pivotal role in people's participation in the economic and social life of the community. People with disability who are aged 15 to 64 experience twice as much social isolation (17 per cent) as those without disability (8.7 per cent) (AIHW, 2022b).

Inclusive housing gives people choice and control over where, how, and with whom they live. It improves the opportunities of people with disability to access appropriate support and participate as equal members of society (NDIS Review, 2023). More inclusive housing makes it easier to do everyday things, such as accessing services, cafes, restaurants and pharmacies; having mail and packages safely delivered; and hosting guests.

Inclusivity

The lack of accessible, inclusive housing also has a disproportionate impact on people with fixed or low incomes, particularly those with high support needs. Higher density housing, usually promoted as one of the solutions to providing significant and affordable housing, is in many cases not practical for people with impaired mobility. This includes older people and people with disability (Easthope and Judd, 2010). Higher-density living is usually smaller and more compact, making it less practical for those who need space to manoeuvre a wheelchair or install accessibility devices.

Supply and affordability solutions need to consider these issues. People with disability who have more choice about where they live are likely to encounter fewer barriers to community participation and have better access to services and support, which has positive effects on wellbeing outcomes (United Nations, n.d.).

2.3.4 Short-term rentals

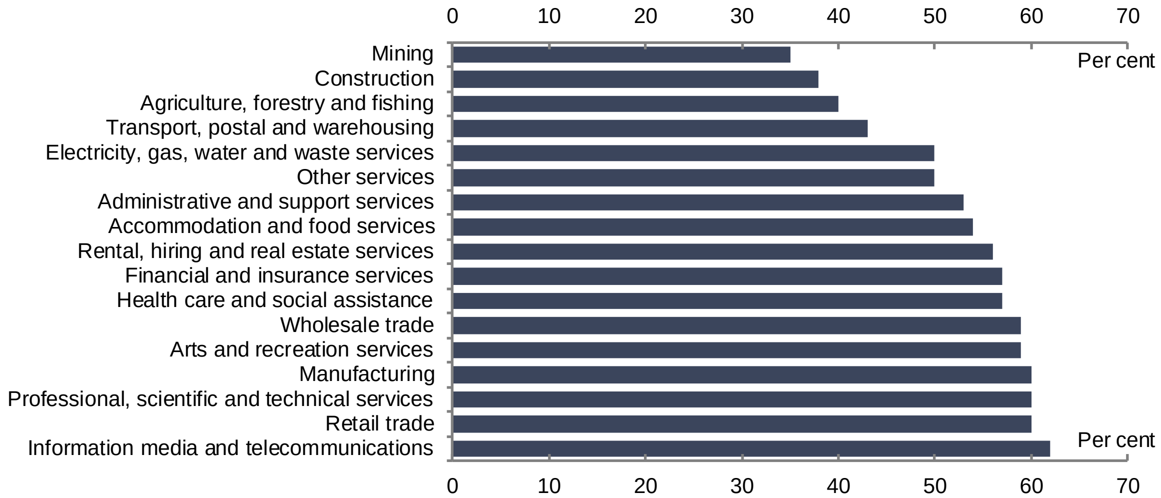
An increase in the use of short-stay rental accommodation (STRA) platforms such as AirBnB and Stayz have reduced the supply of long-term private rental stock in popular tourist destinations, though the impact at a national level is unclear. Within 5 years of launching in Australia in 2012, AirBnB facilitated over 1.3 million short stays (Deloitte Access Economics, 2017). In 2023, estimates of short-term rentals as a share of the total rental stock ranged from 1 and 2 per cent in Melbourne and Sydney, respectively, to 48 per cent in Byron Bay (Senate Community Affairs References Committee, 2023).

The rise of STRA has been linked to rises in rents in some locations (Urbis, 2024). Some governments are imposing conditions on STRA in popular destinations. The New South Wales Government limits non-hosted STRA to 180 days per year in certain areas. Byron Shire is introducing a 60-day limit and the Victorian Government has committed to a levy on revenue collected by accommodation platforms (Senate Community Affairs References Committee, 2023).

2.3.5 Innovation

Innovation will be critical in improving capacity and productivity in the construction industry. Traditional building methods have not been sufficient to overcome the shortfall in housing supply. The construction industry has the second-lowest level of innovation of all industries (ABS, 2022i). Only 38 per cent of construction businesses are innovating, which is significantly lower than the overall average (51 per cent) (Chart 2.35). Some barriers to innovation in the industry include scepticism about the benefits of innovation (Manley, et al., 2005), high industry fragmentation, lower rates of research and development compared to other parts of the economy, difficulty patenting, and lack of government support for construction innovation (Stevens, 2022). Overcoming these barriers could increase innovation and efficiency in the supply of dwellings.

Chart 2.35 Proportion of businesses innovating, by industry



Note: Data is for 2 years ending 30 June 2021.

Source: ABS Innovation in Australian Business 2022.

There is a range of ways to increase innovation in construction, such as increased use of prefabrication, using artificial intelligence (AI) and other technologies to improve efficiencies in end-to-end production, and adopting novel financing models to fund more housing. Innovation diffusion among construction firms can generate competitive and operational benefits, and is strongly influenced by leadership, team climate and organisational culture (Wipulanusat, et al., 2019).

Process

Machine learning and AI may be able to improve housing construction processes. AI can help architects design more houses in less time, thus reducing unit price. It could be used to alert planners and developers to unexpected issues earlier, expediting the construction process. AI has also been used to solve conceptual architectural design problems (Castro Pena, et al., 2021) and to optimise the designs of urban planners and architects for greater sustainability across the built environment (Harrison, 2022). Other technological advancements like Building Information Modelling allow for a more effective design, which can lead to a reduction in change orders, fewer on-site mistakes and a more efficient construction process overall (Gruszka, et al., 2017).

Prefabricated and modular housing construction, in which housing or housing components are built in a factory and assembled on-site, require fewer workers and can significantly increase capacity. Compared to the 12 months it takes to build a house, prefabricated houses can be built in as little as 4 months. This represents a low cost way of speeding up new housing construction. Prefabrication represents under 5 per cent of new residential construction in Australia, compared to over 20 per cent in Sweden (Steinhardt, et al., 2020). Prefabrication also has the potential to increase the construction supply chain workforce through improved gender participation. The share of female employment in the manufacturing industry is more than double that in the construction sector. This is because manufacturing offers a safer work environment with greater flexibility and options for part-time work.

Materials and equipment

Integrating emerging technologies into construction processes enhances efficiency, productivity and safety (Pan and Zhang, 2021). In addition to AI, technologies such as drones, 3D printers, robotics and green building practices have the potential to improve the housing construction process.

Drones can reduce surveying costs, minimise delays, and make design and planning processes more efficient. Drones were essential for some Australian construction companies during the pandemic as they reduced the need for on-site visits (Building Connection, 2022).

3D printers could be used to construct homes at greater speeds and lower costs, while minimising construction material waste. Although 3D printers are already widely used in the industry, there is potential for on-site printing to overcome challenges in remote construction, and to provide faster reconstruction after natural disasters (Bazli, et al., 2023).

Robotics offers enhanced efficiency, productivity and safety on job sites. Increased automation in construction reduces the need for on-site labour which reduces exposure to safety hazards and risks (Wang and Rimmer, 2021). This could alleviate some pressures related to skills shortages. Australian companies are developing robotic bricklayers that can lay at speeds of up to 120m^2 per hour (or 500 bricks per hour) and up to 3 storeys high (FBR, 2023). However, the complex nature of construction tasks and sites have made the implementation of robotics difficult (Xu and García de Soto, 2020).

Green building is the use of advanced building materials and the consideration of construction waste. It is projected to increase as the economy moves towards net zero. Green building practices include constructing buildings with low energy consumption and low environmental impact. This can include using sustainable materials like bamboo and recovered wood. Growing demand for sustainable construction practices alongside energy efficiency and green building certifications have increased the uptake of advanced materials and processes (MarkWide Research, 2024). There was an 80 per cent increase in green star certifications of building across Australia in 2022–23 and the number is set to continue with an increased focus on sustainability (Green Building Council Australia, 2023). There is a role for construction companies to reduce waste through re-using and recycling materials (Shooshtarian, et al., 2019).

Finance

New and alternative housing models are being introduced. Large-scale investment in housing by institutional investors could drive innovation in the financing, provision, access and management of housing. Large-scale investment enables the development of innovative models of housing finance and provision that would not be possible through smaller-scale investment (NHSAC, 2023). Build-to-rent, rent-to-buy, shared equity and co-operative schemes provide new ownership models that address the imbalance of housing supply and demand for renters and buyers.

Chapter 3: Current conditions in the housing system

Chapter description

This chapter discusses current supply and demand conditions in the housing system and their implications for the price of housing. It focuses on the period January 2023 to April 2024.

Key points

- Housing prices and rents have increased sharply over the past year and rental vacancy rates are near a 15-year low.
- Demand for housing is strong, reflecting recent rapid population growth.
- New housing supply is inadequate. Approvals and commencements are at around a 10-year low.
- Low levels of supply reflect cyclical factors such as elevated interest rates, which are compounding the structural supply issues discussed in Chapter 2.
- Demand for social housing continues to outpace supply.

Strong demand for housing and limited supply have seen the cost of housing continue to increase since the beginning of 2023. Nationally, housing prices and rents rose by 8 per cent in 2023 (CoreLogic, 2024). The national vacancy rate fell to 1.6 per cent, near the lowest recorded level and well below what is considered a balanced rental market of around 3 to 4 per cent (Real Estate Institute of Australia, 2023). This implies a shortfall of around 55,000 rental dwellings, based on the 2021 Census estimate of rented dwellings.[10]

The supply of housing is not keeping pace with demand. Population growth in the year to 30 June 2023 implies the need for around 244,000 additional dwellings. Around 173,000 dwellings were completed in that period, around the lowest number of completions in 10 years (ABS, 2024b). Approvals have also declined in the past 12 months, and project abandonments have increased, indicating a limited supply of new dwellings in the pipeline to meet ongoing demand.

These supply outcomes reflect challenges across all inputs into housing production. The pace of increases in the cost of constructing new dwellings was around 4 per cent in 2023 and this comes on top of a 30 per cent rise over the previous 2 years (ABS, 2024i). Labour costs – the largest component of building costs – grew 4.2 per cent in 2023 (ABS, 2024j). There are acute shortages in several key trades and the housing construction industry is competing with infrastructure providers for labour and materials. In 2023, land prices rose by 4.8 per cent for a median residential lot (UDIA, 2024). The cost of capital has also increased, with business lending rates around 125 basis points higher than at the start of 2023, and 425 basis points higher than when the RBA began raising the cash rate in May 2022 (RBA, 2024a).

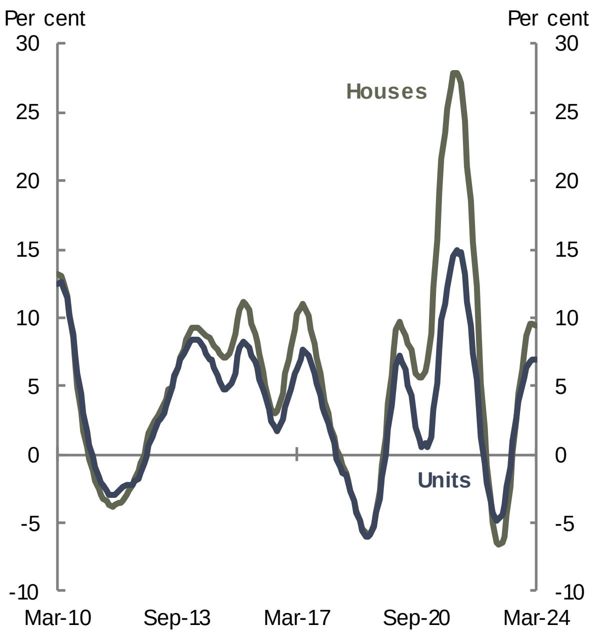
10 Based on the 2021 Census estimate of 2,894,779 rented dwellings (ABS, 2022b).

3.1 Housing prices and rents have risen over the past year and are significantly higher than at the start of the decade

3.1.1 Housing prices

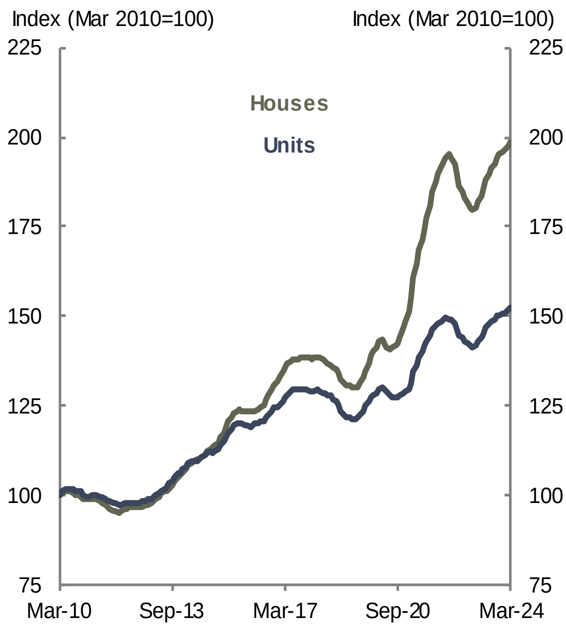
Housing prices have risen persistently since early 2023. This rise has occurred across houses and units (Chart 3.1 and Chart 3.2), with house prices rising by 10.5 per cent and unit prices by 7.8 per cent from the beginning of January 2023 to March 2024. House prices have now risen by 42 per cent since the start of January 2020, more than twice the 19.3 per cent increase in unit prices (CoreLogic, 2024).

Chart 3.1 Housing price growth, by type



Source: CoreLogic 2024.

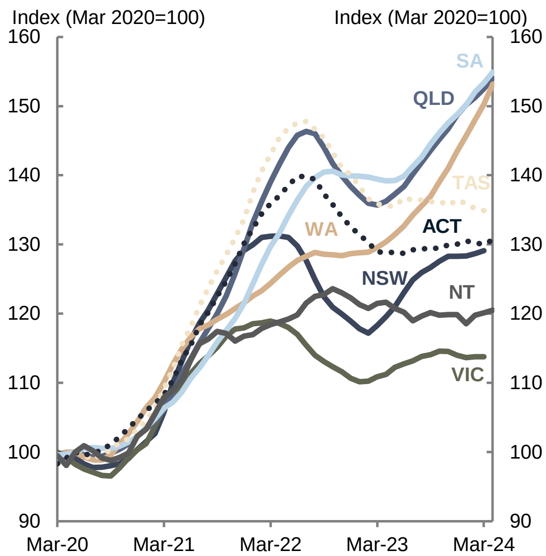
Chart 3.2 Housing prices, by type



Source: CoreLogic 2024.10 in

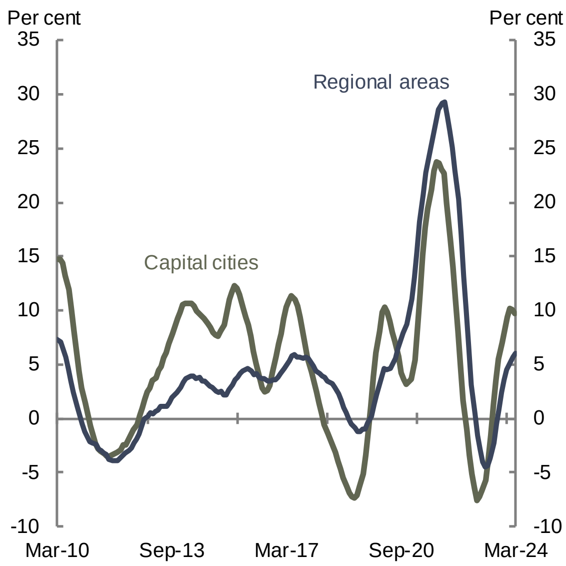
Growth in national housing prices has masked significant variation across jurisdictions. Since the start of this decade, prices have risen by more than 50 per cent in South Australia, Queensland and Western Australia, but only by 16 per cent in Victoria (Chart 3.3). Prices grew at a faster pace in regional areas than in cities between 2020 and 2022. More recently, price growth in capital cities has outpaced that in regional areas, reflecting increased overseas migration and normalisation of population flows between capital cities and regional areas (Chart 3.4).

Chart 3.3 Housing prices, by state



Source: CoreLogic 2024; NHSAC 2024.

Chart 3.4 Housing price growth, by location



Source: CoreLogic 2024; NHSAC 2024.

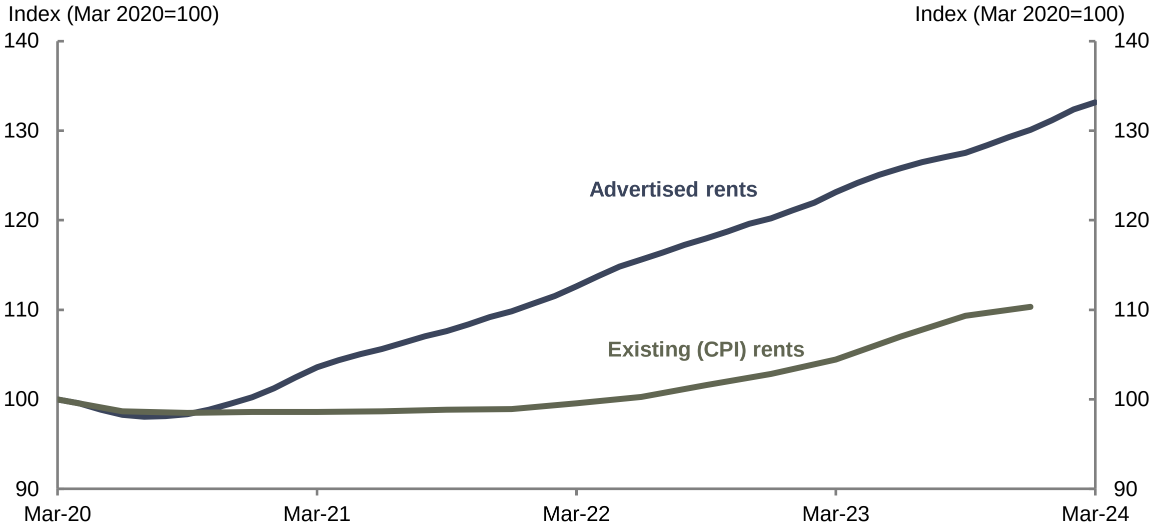
3.1.2 Housing rents

Housing rents for both advertised and existing leases have risen sharply. Rents for newly advertised leases have risen by 10.3 per cent from the beginning of 2023 to March 2024 and have increased by around 35 per cent since the start of the decade (Chart 3.5). Rents for all existing leases – measured by Consumer Price Index (CPI) rents[11] – rose by 7.3 per cent over the year to December 2023. Despite rising less rapidly than advertised rents, the CPI rents index recorded its second fastest annual increase since March 2009.[12]

11 ABS CPI rents refer to rental prices for the existing rental stock. This is a broader measure of rents than *advertised rents*, which refer to rental prices for newly listed rental properties. Only 2 to 3 per cent of rental properties have a change in tenant each month (Hanmer and Marquardt, 2023), meaning that changes in advertised rents can take time to pass through to changes in CPI rents.

12 An additional 15 per cent increase in CRA maximum rates in September 2023 resulted in lower CPI rents growth than otherwise in the December quarter 2023 (ABS, 2024d).

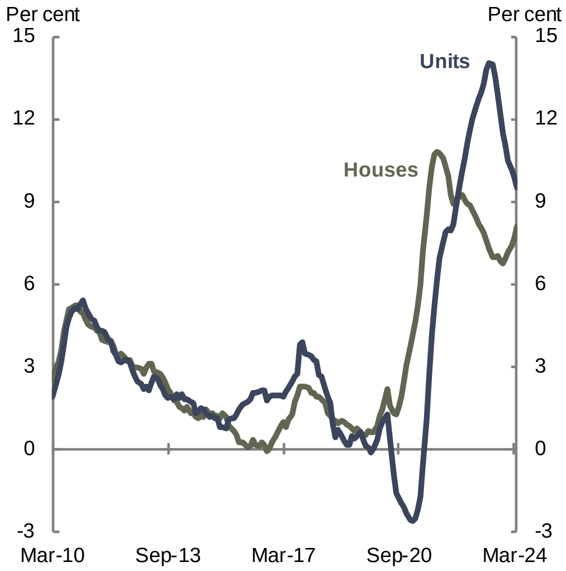
Chart 3.5 Advertised and CPI rents



Source: CoreLogic 2024; ABS Consumer Price Index 2024; NHSAC 2024.

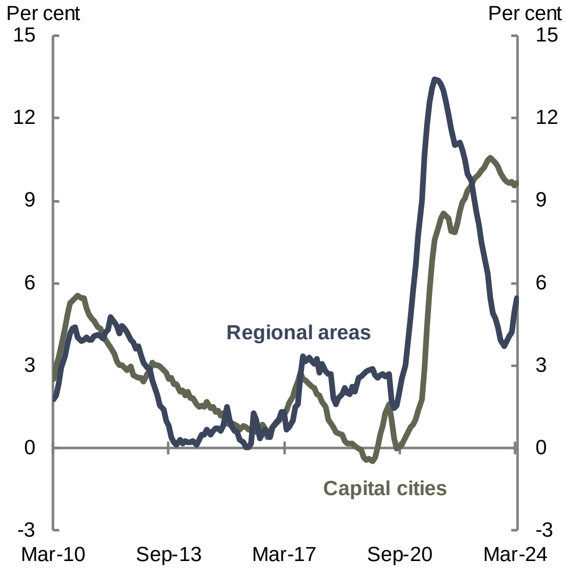
The increase in advertised rents differs across dwelling types and locations. Between the beginning of January 2023 and March 2024 unit rents outpaced detached house rents, which have risen by 13.4 per cent and 10.3 per cent, respectively (Chart 3.6). Advertised rents have also grown more quickly in capital cities than in regional areas, where advertised rents have slowed following the end of pandemic travel restrictions and the associated re-urbanisation of the workforce (Chart 3.7).

Chart 3.6 Rent growth, by type



Source: CoreLogic 2024; NHSAC 2024.

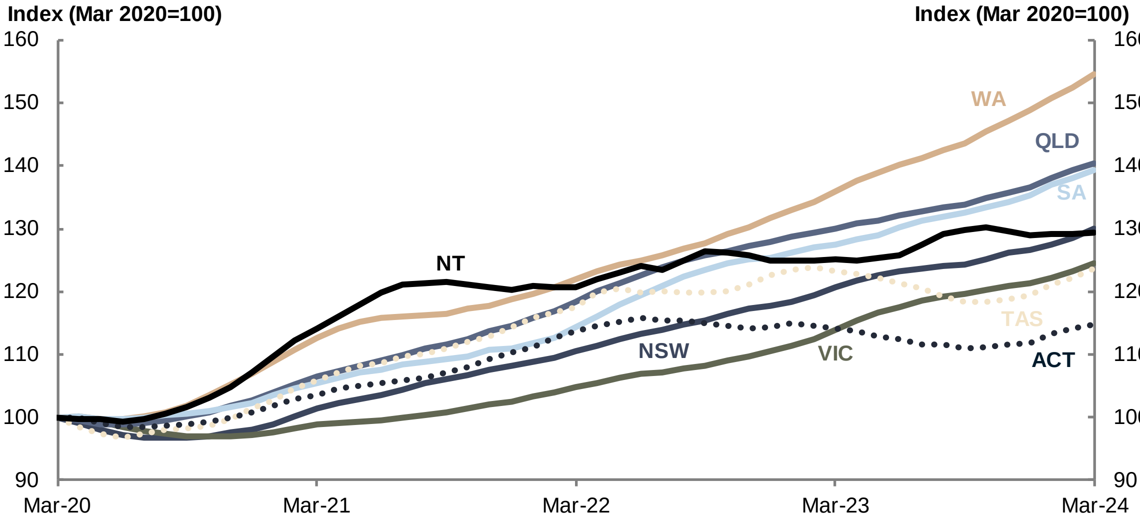
Chart 3.7 Rent growth, by location



Source: CoreLogic 2024; NHSAC 2024.

Growth in advertised rents has varied across jurisdictions. Rent increases have been most pronounced in Western Australia, where rents have increased by 17.4 per cent since the start of 2023. However, rents have risen by just 0.8 per cent in Tasmania and 0.3 per cent in the Australian Capital Territory over the same period (Chart 3.8).

Chart 3.8 Advertised rent growth, by state

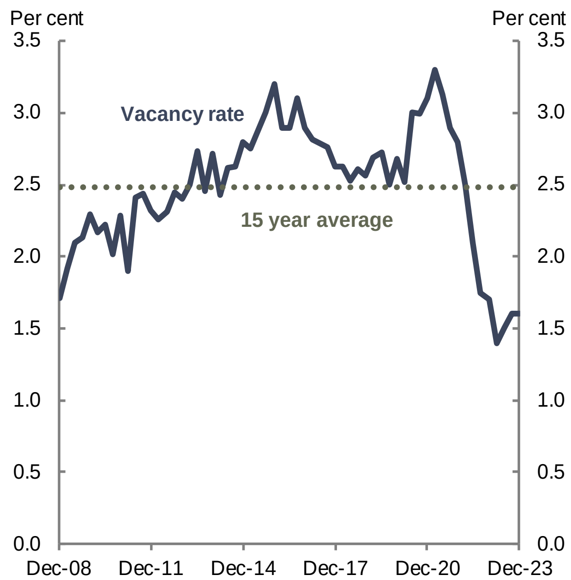


Source: CoreLogic 2024; NHSAC 2024.

Consistent with the rise in rents nationally, finding a rental property has become increasingly difficult. Rental vacancy rates started falling in mid-2021 and reached a low of 1.4 per cent in the March quarter of 2023, compared to the 15-year average of 2.5 per cent (Real Estate Institute of Australia, 2024) (Chart 3.9).[13] Vacancy rates were lowest in South Australia, Western Australia and Queensland in the December quarter of 2023 (Chart 3.10). The average number of enquiries per rental vacancy listing in capital cities has tripled, from 9 in December 2019 to around 27 in December 2023 (PropTrack, 2024). New rental listings fell 4.7 per cent over the 12 months to December 2023, to 30.2 per cent below the December decade average (PropTrack, 2024).

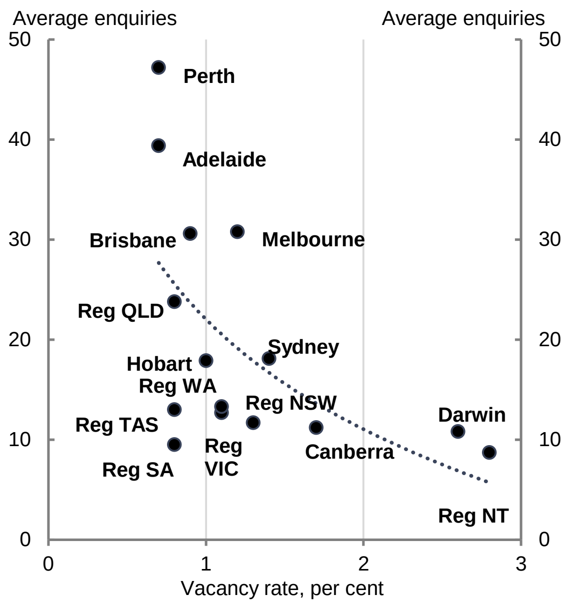
13 The range of vacancy rates reflects the different methodologies of research organisations. REIA surveys its member real estate agents in each state to estimate the proportion of rental properties that are vacant. CoreLogic and PropTrack Australia count the number of advertisements for rental vacancies and divide this by estimates of the stock of rental properties in each region.

Chart 3.9 Rental vacancy rate



Source: REIA Real Estate Market Facts 2024.

Chart 3.10 Rental enquiries and vacancies, December quarter 2023



Source: PropTrack Rental Report 2024; NHSAC 2024.

3.2 Market supply of housing is inadequate

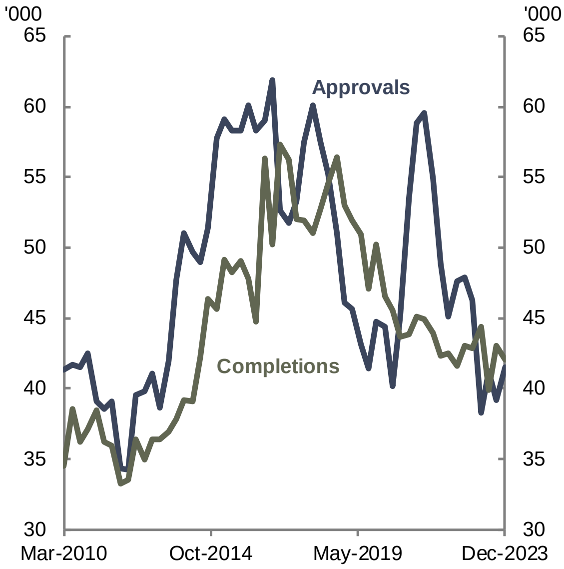
3.2.1 Approvals and completions

The supply of housing is not keeping pace with demand. Low completions and approvals in part reflect the challenges associated with achieving adequate investment returns in respect of projects that deliver new housing. Project income profiles are unable to keep pace with elevated construction costs due to shortages of materials and skilled labour, and elevated interest costs.

Private dwelling completions amounted to 42,081 units in the December quarter 2023, around 11 per cent below the average over the last 10 years (Chart 3.11) (ABS, 2024b). Approvals are running at more than 20 per cent below their 10-year average (ABS, 2024c), and project abandonments have risen (ABS, 2023b), indicating a limited supply of new dwellings in the pipeline.

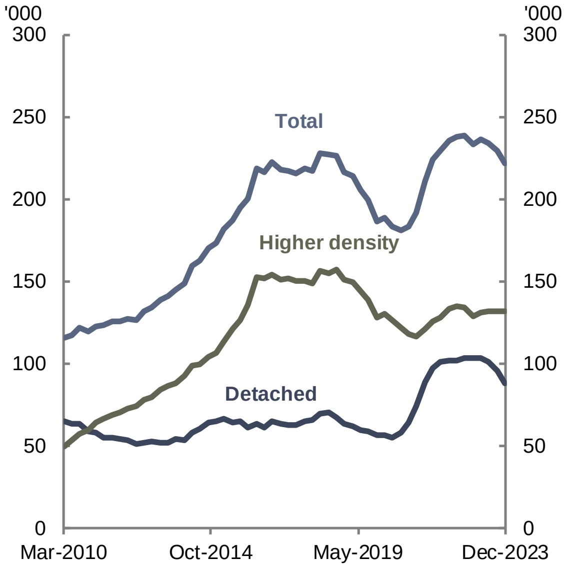
There remains a backlog of new homes under construction, with 222,000 private residential dwelling units incomplete as at the December quarter 2023, around 30 per cent above the pre-2020 average (Chart 3.12) (ABS, 2024b).

Chart 3.11 Housing approvals and completions



Source: ABS Building Approvals 2024; ABS Building Activity 2024; NHSAC 2024.

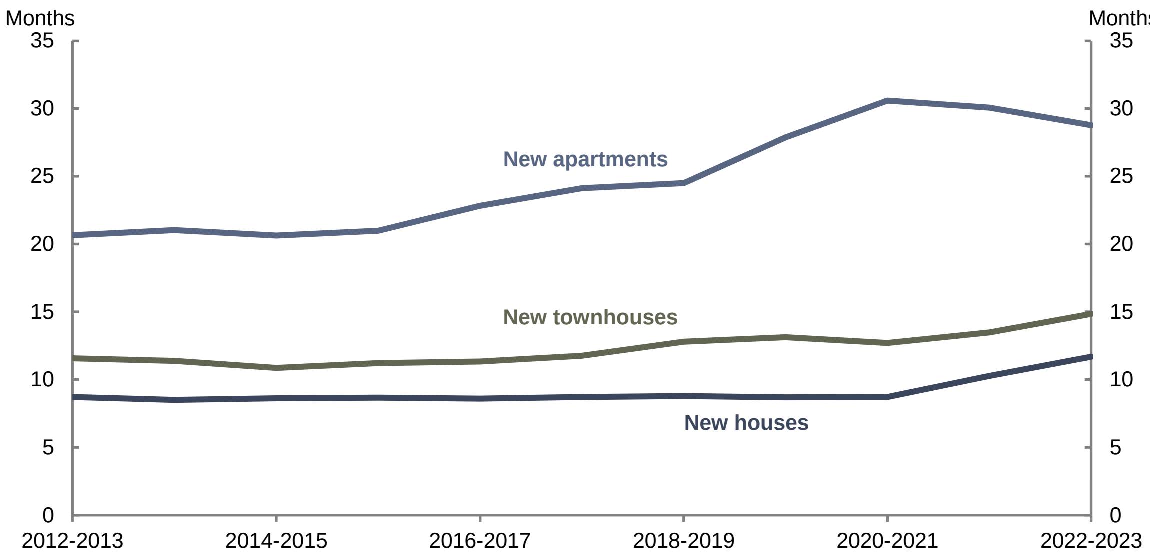
Chart 3.12 Dwellings under construction



Source: ABS Building Activity 2024; NHSAC 2024.

The average time from approval to completion for low density home has started falling but remains elevated (ABS, 2023b). Townhouses currently take around 15 months from approval to completion. Apartments take around 29 months to complete (Chart 3.13). Stakeholders indicated that timeframes associated with obtaining pre-construction approvals have also extended. Industry stakeholders indicated that they expect average completion times to normalise over the next 6 months.

Chart 3.13 Completion times



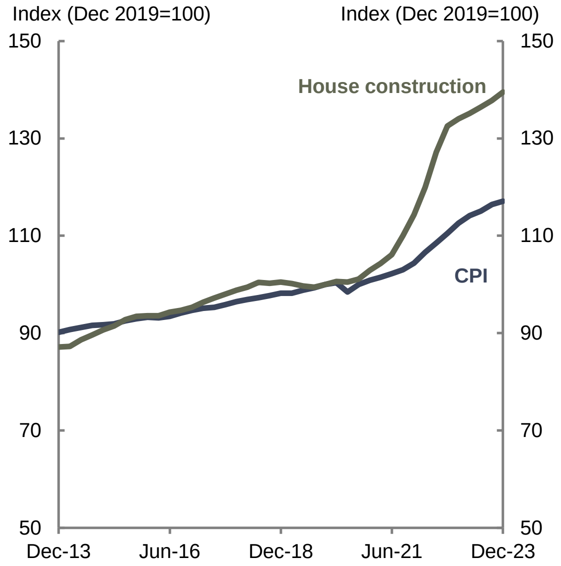
Source: ABS Building Activity 2024; NHSAC 2024.

3.2.2 Costs of construction

Elevated construction costs have been a factor behind the limited supply response to the strong demand over the past year. Higher costs have eroded the potential profit from higher housing prices, which would usually stimulate supply.

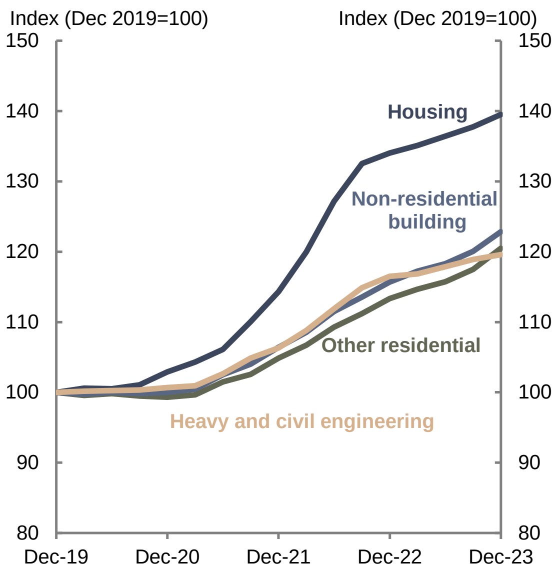
The cost of building a new house is around 40 per cent above pre-2020 levels (ABS, 2024i) and more than 20 per cent above the broader increase in prices (Chart 3.14) (ABS, 2024d). Within the construction sector, cost pressures have been most acute for housing construction relative to other parts of the construction sector (Chart 3.15) (ABS, 2024i).

Chart 3.14 Dwelling construction costs



Source: ABS Consumer Price Index 2024; ABS Producer Price Indexes 2024; NHSAC 2024.

Chart 3.15 Construction output prices

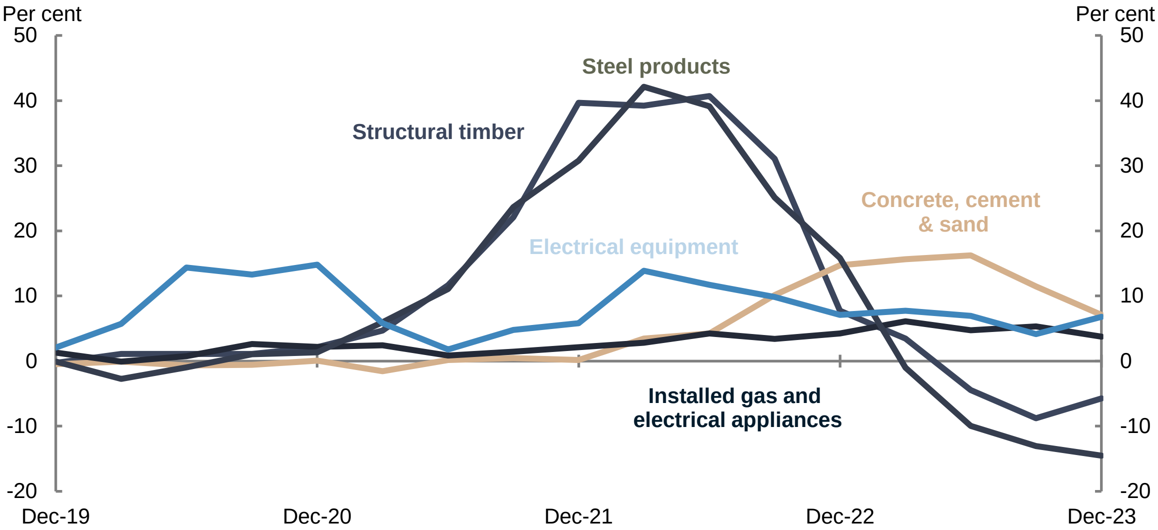


Source: ABS Producer Price Indexes 2024; NHSAC 2024.

Material costs

A rise in the price of building materials was a key component of the rise in construction costs in early 2023. That said, building material price increases largely normalised over the latter part of the last year as supply constraints eased. Input prices for house construction in the December quarter 2023 rose 0.3 per cent on average, after being unchanged in the September quarter (ABS, 2024i). Prices fell for some products used in the early stage of construction, such as structural timber and steel products. Price escalation is expected to continue to normalise as late-stage residential construction activity slows, reducing upward pressure on prices for paints and appliances. A stabilisation in energy prices will slow the rate of increase in manufacturing costs for materials such as bricks and tiles (Chart 3.16).

Chart 3.16 Building materials price growth



Source: ABS Producer Price Indexes 2024; NHSAC 2024.

Labour supply

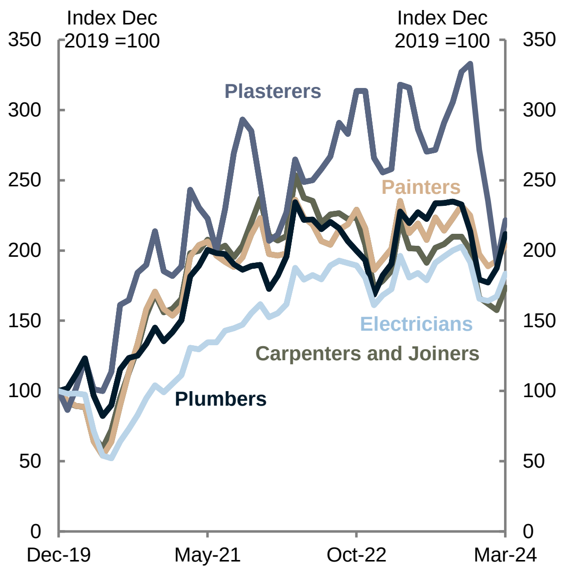
Long-term labour shortages in the residential building sector persist, exacerbated by competition for specific skills from large government infrastructure programs and private industry.[14] Industry stakeholders have routinely reported shortages of skilled labour and increased labour costs over the past year.

Private sector construction wage rates grew 4.2 per cent in the year to December 2023 (ABS, 2024j). The Master Builders Association reported acute shortages of skilled tradespeople in the September 2023 quarter, especially in bricklaying, roofing, carpentry and ceramic tiling (Master Builders Australia, 2023). Job vacancies remain elevated across a range of building trades, although they have fallen from the peaks of early 2023 (Chart 3.17) (Jobs and Skills Australia, 2024).

Skills shortages have contributed to large increases in trade prices in some regions, notably in South Australia, Perth and Regional Queensland (Chart 3.18).

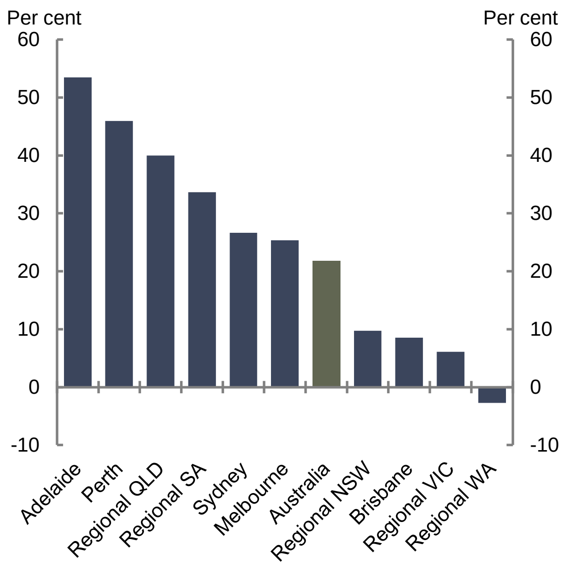
14 Between March 2015 and March 2023, the 5-year forward public infrastructure pipeline more than tripled (Infrastructure Australia, 2023). Acknowledging this, the Australian Government announced it would reprioritise funding of nationally significant infrastructure projects in December 2023, to 'relieve capacity constraints that can drive inflation' (Treasury, 2023).

Chart 3.17 Shortages in skilled labour



Source: Jobs and Skills Australia (JSA) 2024; NHSAC 2024.

Chart 3.18 HIA Trade Price Index, change in index by region since September 2020



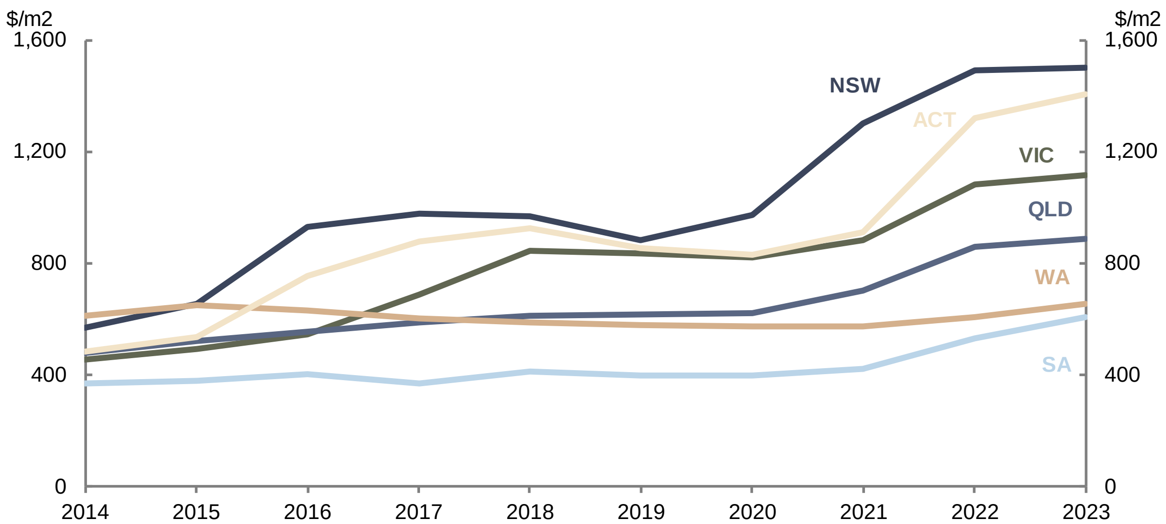
Note: Last data point is Sep-23 quarter.

Source: Housing Industry Association (HIA) 2023; NHSAC 2024.

Land availability

The rate of release of new subdivided land decreased in 2023, potentially reducing the scope for dwelling commencements. The number of residential greenfield lots (new land, which is mainly used to build detached houses) released for development nationally fell 26 per cent in 2023, to 36,500 lots (UDIA, 2024). Current flows of residential lots are 33 per cent below the 10-year average. Consistent with this, the average capital city land price rose above $1,000/m^2, ranging from $1,505/m^2 in Greater Sydney to $608/m^2 in Adelaide (UDIA, 2024) (Chart 3.19).

Chart 3.19 Median land price, by region

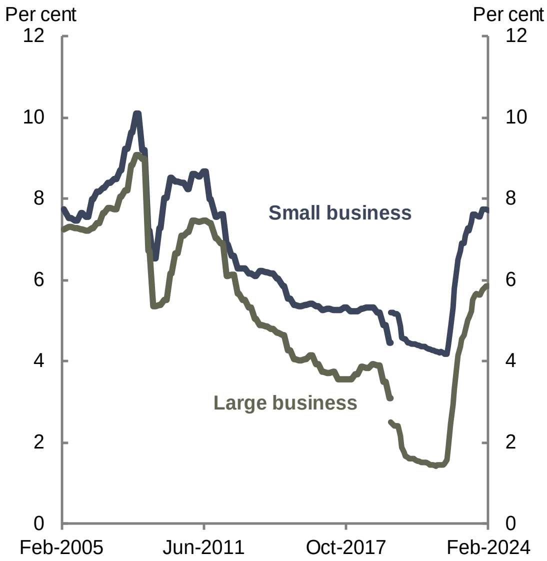


Source: UDIA State of the Land Report 2024.

Financial conditions

Tight financial conditions are constraining the supply of new dwellings by adding to the cost of construction and contributing to uncertainty for large-scale investors and developers (RBA, 2024a) (Chart 3.20). The number of loan commitments for the construction and purchase of new dwellings are near record lows (Chart 3.21).

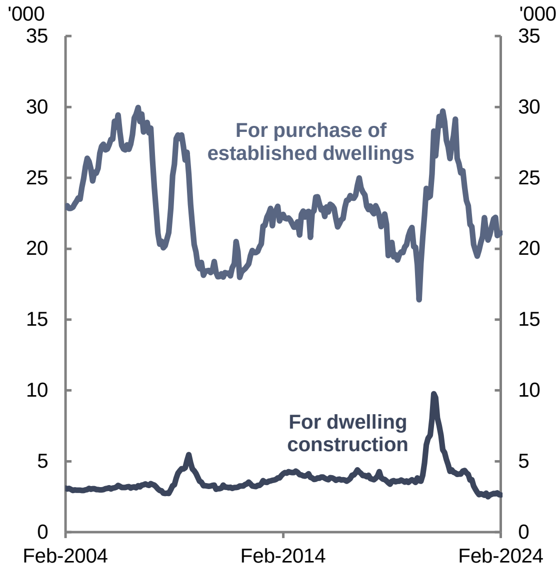
Chart 3.20 Interest rates



Note: Break in series at Sep-19 due to changes in business size definitions. Interest rates prior are weighted-average rate on credit outstanding for large loans and 3-year fixed for small loans. Interest rates post are total outstanding variable loans.

Source: RBA Interest Rates 2024; NHSAC 2024.

Chart 3.21 Lending for housing, owner occupiers



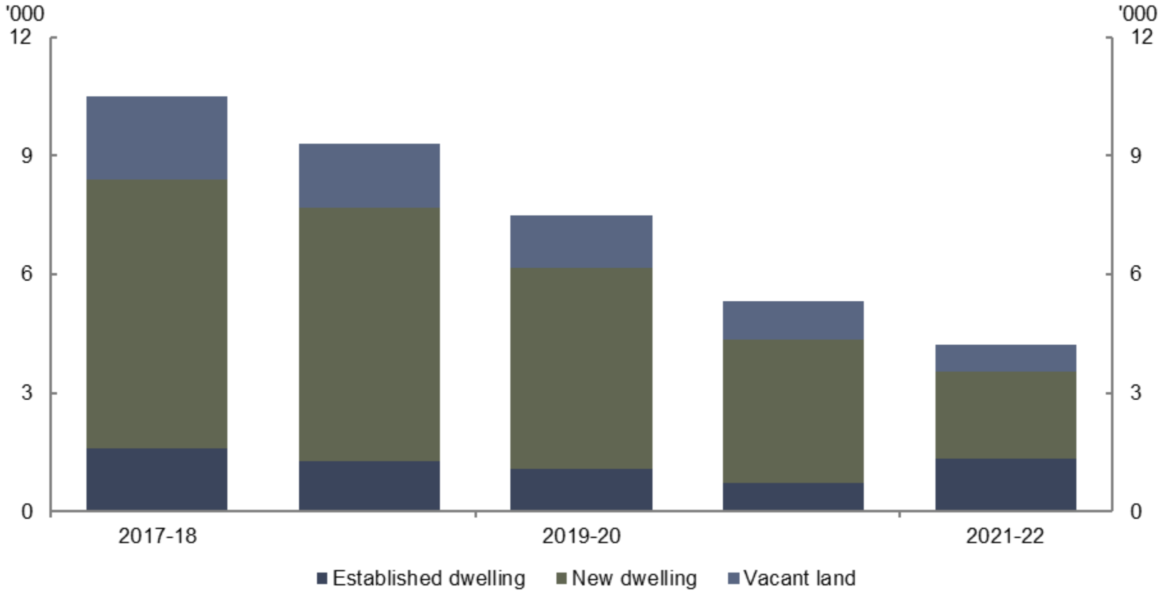
Source: ABS Lending Indicators 2024; NHSAC 2024.

Higher interest rates have also constrained the ability and diminished the appetite of households and investors to obtain finance. This in turn has limited the extent to which developers can make pre-sales to future owners. Just 16 projects nationally, representing 1900 units, were launched for pre-sales in the September quarter 2023, one-third of the quarterly average between 2018 and 2022 (Urbis, 2023). Approvals of private sector dwellings excluding detached houses fell to 60,000 units in 2023, extending the decline from the peak years of 2015 to 2017 when approvals exceeded 100,000 units in each year (ABS, 2024c).

Consistent with this and worsening affordability, buyer sentiment among households is similar to that last seen during the early-1990s recession, with reduced willingness to pre-purchase dwellings. This is reflected, for example, in Westpac's 'time to buy a dwelling' index, which has dropped to levels observed during the 1990s recession (Westpac, 2024).

Foreign investment is a source of financing for dwelling investment. Foreign investment in housing has declined over the past decade, reflecting domestic policy changes such as fees and restrictions on foreign investment, and policy introduced abroad, such as capital controls. In 2021–22, around 6,500 foreign investment approvals were issued for residential land and 2,200 new dwellings were purchased with a level of foreign ownership (Chart 3.22) (ATO, 2023). This compares to approximately 26,000 foreign investment approvals and 6,800 purchases of new dwellings in 2015–16, when construction of medium- and high-density dwellings peaked.

Chart 3.22 Foreign purchases of residential real estate



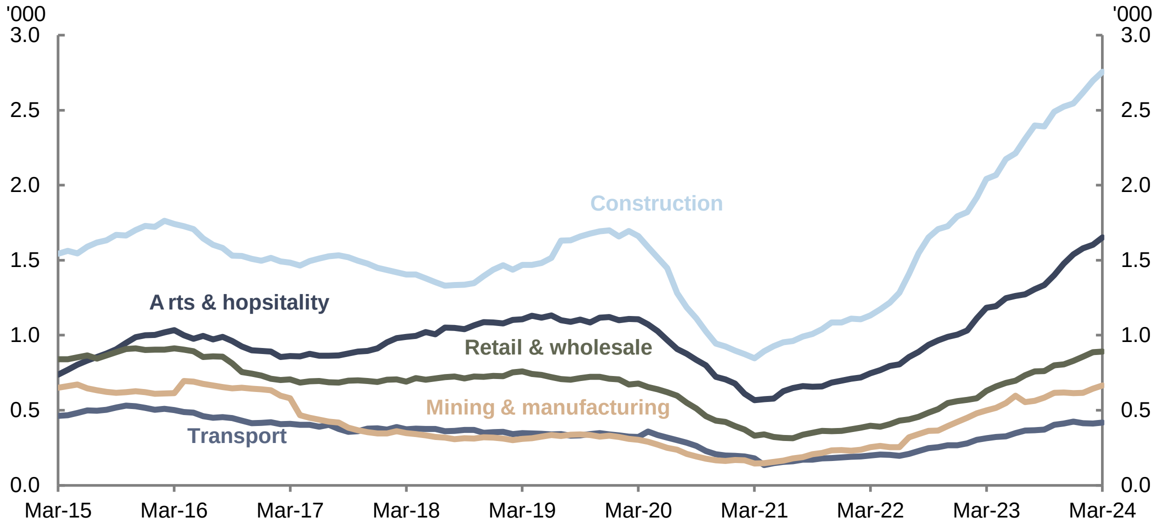
Source: Foreign Investment Review Board 2024; NHSAC 2024.

Profit margins and insolvencies

While the sharp rise in house prices would ordinarily induce supply by boosting potential profits to developers, the combination of fixed-price contracts and rising input costs have squeezed profit margins over the past 2 years. This has increased insolvencies in the construction sector and reduced business equity (Chart 3.23). The share of builders with negative cash flow increased to 30 per cent, up from typical levels of around 20 per cent, and is at the highest level in over a decade (RBA, 2023a).

Conditions are beginning to stabilise (RBA, 2024b). Industry stakeholders have indicated that insolvency rates have started reverting to more typical levels, as material cost rises have normalised. However, industry stakeholders argue that the media focus on insolvencies has eroded consumer confidence and has discouraged potential workers from entering the industry. In addition, some builders have left the industry due to reduced margins or have concentrated on niche markets where they can charge a premium and stepped away from cheaper, more competitive (and more affordable) markets where margins are lower.

Chart 3.23 Insolvencies



Note: Companies entering external administration and controller appointments. Data is a 12-month rolling sum.

Source: Australian Securities and Investments Commission 2024; NHSAC 2024.

3.3 Social housing has not kept pace with demand

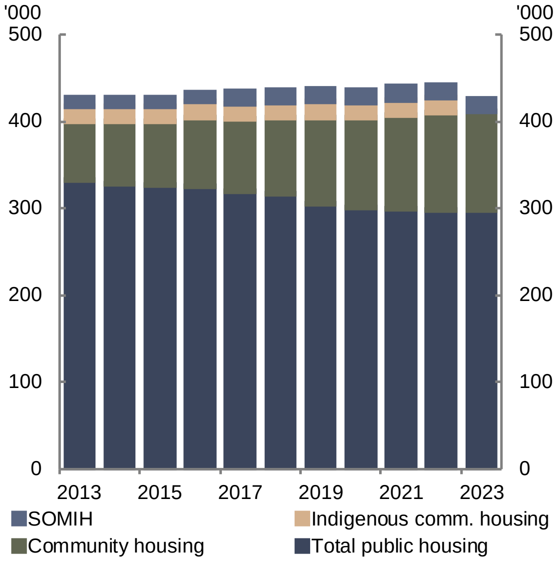
The amount of social housing stock has remained relatively unchanged over the past decade. In June 2022, Australia had around 443,000 social housing dwellings, a slight increase from 428,000 dwellings in 2013 (Chart 3.24). While public housing remains the primary type of social housing, there has been an ongoing shift towards community housing.[15] Public housing has declined from 77 per cent of the social housing stock in 2013 to 67 per cent in 2022, with community housing rising from 16 per cent to 25 per cent over the same period. This shift has been partly driven by the gradual transfer of the ownership and management of public housing units to CHPs (AIHW, 2023c).

Demand for social housing has continued to outpace supply, driven by household formation and rising housing cost pressures. As of June 2022, there were around 418,000 households in the 4 primary social housing programs. Most main tenants were over the age of 50 (65 per cent) and female (62 per cent), while 36 per cent of households included a person with a disability and 16 per cent included an Indigenous Australian (AIHW, 2023c). Waiting lists for public housing are long. Despite falling in 2022–23, the number of households on waiting lists rose at an annual rate of 3.8 per cent over the 5 years to 2022–23, to reach 169,000 (Chart 3.25). The number of greatest need households on waiting lists rose at an even faster annual rate of 8.7 per cent over the same period, to reach 70,000. The number of State Owned and Managed Indigenous Housing (SOMIH) households on waiting lists rose by 10 per cent over the year to 2022–23, from 13,700 to 15,000 (Productivity Commission, 2024) (Chapter 7).[16]

15 Community housing is managed (and often owned) by not-for-profit organisations (AHURI, 2023a).

16 Waiting lists are an imperfect measure of demand for social housing (Productivity Commission, 2022). Waiting lists only measure a fraction of households that might demand social housing and can exclude households discouraged from joining waiting lists due to long wait times, low-income households in rental stress and people sleeping rough.

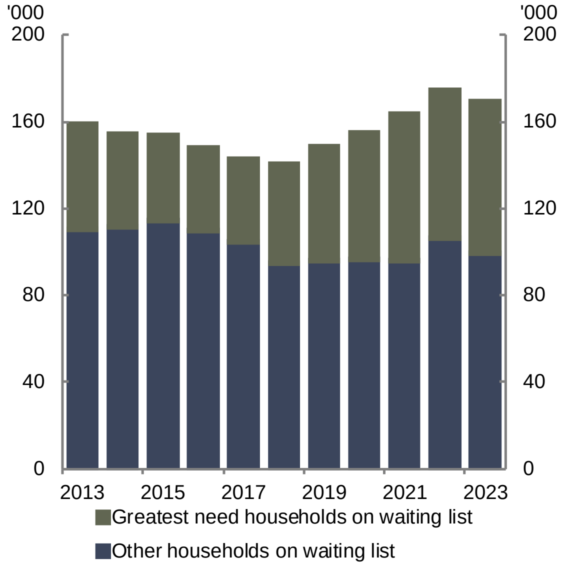
Chart 3.24 Social housing stock



Note: Data for June 2013 to June 2023. SOMIH refers to State Owned and Managed Indigenous Housing. 2023 data for Indigenous community housing not yet available.

Source: Australian Institute of Health and Welfare (AIHW) 2023.

Chart 3.25 Public housing waiting lists



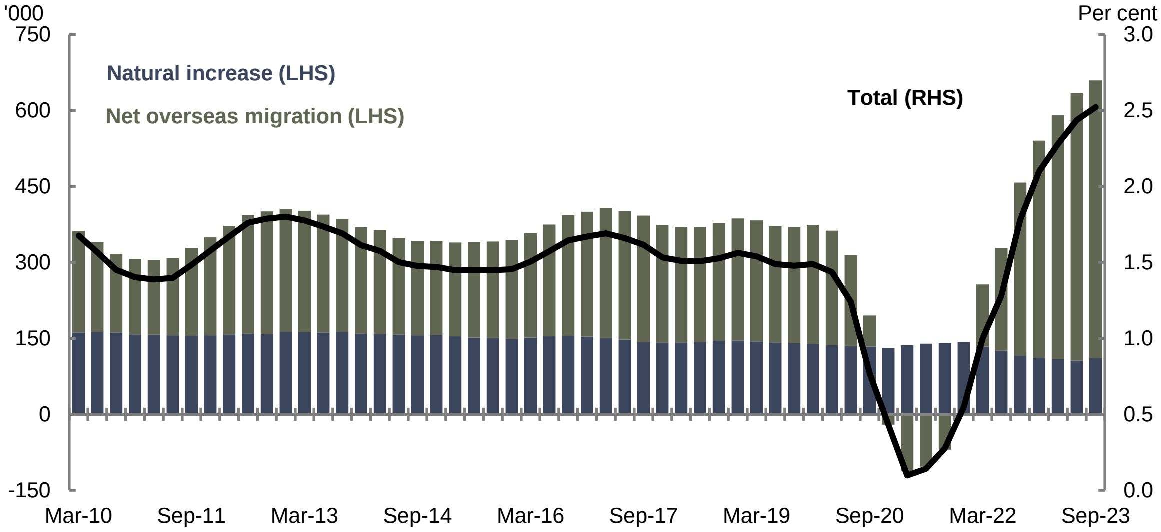
Source: AIHW 2023.

3.4 Demand has been underpinned by a temporary rise in the population growth rate

3.4.1 Population

The re-opening of borders in 2022 after the pandemic resulted in a significant catch-up in Australia's population. This added to demand for housing, particularly in the rental market. Australia's total population increased by 634,500 in 2022–23, or 2.4 per cent, the fastest pace in more than 50 years (Chart 3.26) (ABS, 2024k). Overseas migration accounted for more than 528,000 of that number and is expected to remain elevated at around 375,000 in 2023–24, before returning to around 250,000 in 2024–25 (Treasury, 2023b). This compares to an average of around 235,000 per year from 2015 to 2019.

Chart 3.26 Population growth, rolling 4 quarter sum



Source: ABS National, state and territory population 2024; NHSAC 2024.

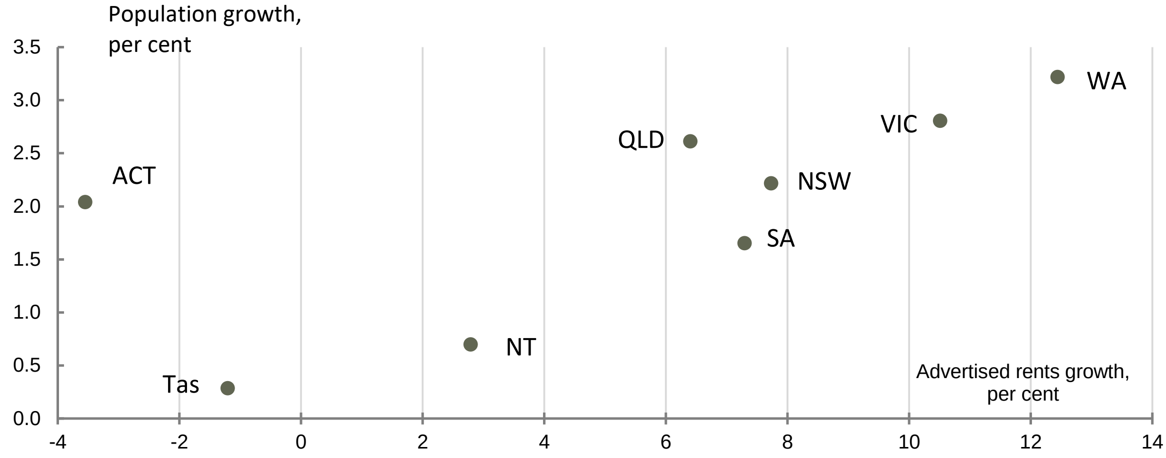
In New South Wales, Victoria and Queensland, population growth was around 1 percentage point higher in the year to June 2023 than in the corresponding period in 2019 (Chart 3.27). In Western Australia population growth was 1.5 percentage points higher (ABS, 2024b). Normalisation of overseas and internal migration flows may ease some demand pressures in the housing markets in these states, but significant latent demand remains in the system.

Chart 3.27 Population growth, year to 30 September

Source: ABS National, state and territory population 2024; NHSAC 2024.

This high rate of population growth has boosted demand for housing and contributed to strong growth in advertised rents. This has been particularly true for the rental markets in Western Australia, New South Wales and Victoria (Chart 3.28).

Chart 3.28 Population growth and advertised rents



Note: Population growth and advertised rents growth, June 2022 to September 2023 quarter.

Source: CoreLogic 2024; ABS National, state and territory population 2024; NHSAC 2024.

3.4.2 Household size

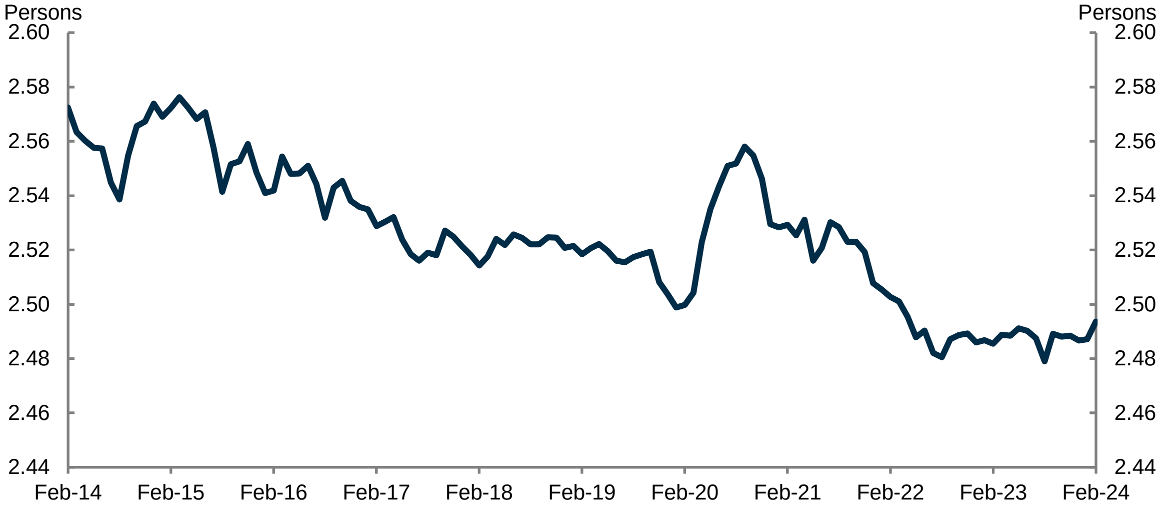
Despite recent volatility, the long-term trend towards smaller households suggests the average household size (AHS) will remain below pre-2020 levels (Chart 3.29).[17] This significantly affects demand pressures within the overall housing system. For example, based on the ABS estimate of number of households in June 2023 of 10.4 million (ABS, 2023g), a 1 per cent decrease in the AHS, all else equal, increases the requirements to house the population by over 100,000 dwellings.[18]

Nonetheless, there is evidence that rising rents and property prices are forcing people to 'economise on housing' such as by moving back into family homes from rental accommodation or by increasing the number of housemates in share homes (Lowe, 2023)**.** Online listings platform Flatmates reported that new shared-property listings increased 9.7 per cent over the month to October 2023 and 38 per cent in the year to that October, with almost half of new property listings from live-in landlords renting out a spare room (Kelly, 2023).This aligns with ABS estimates of group households as a share of total households, which increased from 2.8 per cent in December 2021 to 3.4 per cent in June 2023 (ABS, 2023d). The rate of shared housing is also likely to have rebounded with the return of international students.

17 ABS measures of AHS are published infrequently with a long lag (Agarwal, et al., 2023). More timely alternative measures of AHS can be constructed using monthly ABS Labour Force Survey data.

18 Estimate assumes no change in the number of children per household, as a decrease in the household size due to a fall in the average number of children per household is unlikely to increase demand for houses.

Chart 3.29 Average household size, RBA measure



Source: ABS Labour force status of families 2024; Agarwal, et. al 2023; Treasury; NHSAC 2024.

3.4.3 Household income

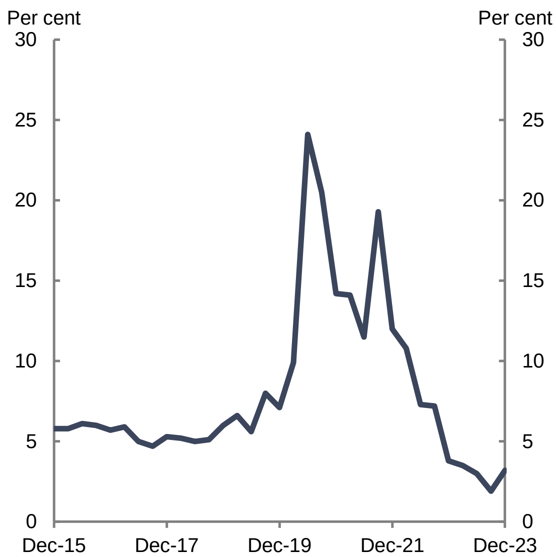
Strong nominal household income growth has supported continued demand for housing, allowing more people to form households. Household income has been boosted by the tight labour market, with wage growth, hours worked and the number of people earning income in the household rising. Between the start of 2023 and March 2024**,** the participation rate reached a record level in November, employment expanded by almost 500,000 (ABS, 2024g). Household disposable income increased by 5 per cent in the year to the December quarter (ABS, 2024b).

Many households accumulated a large pool of savings during COVID, estimated by the RBA at close to $300 billion, or around 20 per cent of annual income (RBA, 2023b). These savings were the result of strong fiscal and monetary stimuli and enforced savings due to social distancing and travel restrictions. These additional savings supported higher household spending through 2022 and 2023, including on housing.

However, nominal income gains and accumulated household savings have been partially offset by higher average tax rates for individuals; increases in the cost of living including significant increases in cost of rent, and increases in mortgage repayments from higher interest rates. The household saving ratio was around 3 per cent in December 2023, below historical norms (Chart 3.30).
Real (inflation-adjusted) household disposable income increased by just 0.3 per cent in the year to December 2023, underpinned by nominal labour income growth (Chart 3.31) (ABS, 2024a).

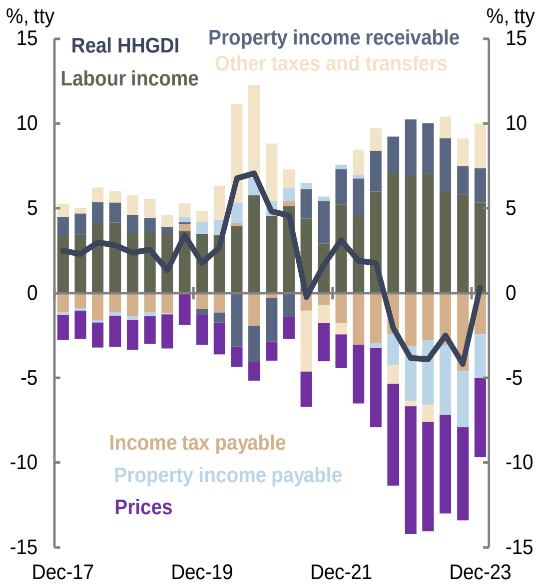
Inflation and high interest rates will continue to erode household savings and incomes in the near term. This is expected to reduce the incentive to form new households, while increasing the demand for affordable housing. Any rise in unemployment would put further pressure on households and reduce effective demand for housing, although a significant increase in unemployment would likely be at least partially offset by lower interest rates.

Chart 3.30 Household saving ratio



Source: ABS National Accounts 2024.

Chart 3.31 Household disposable income



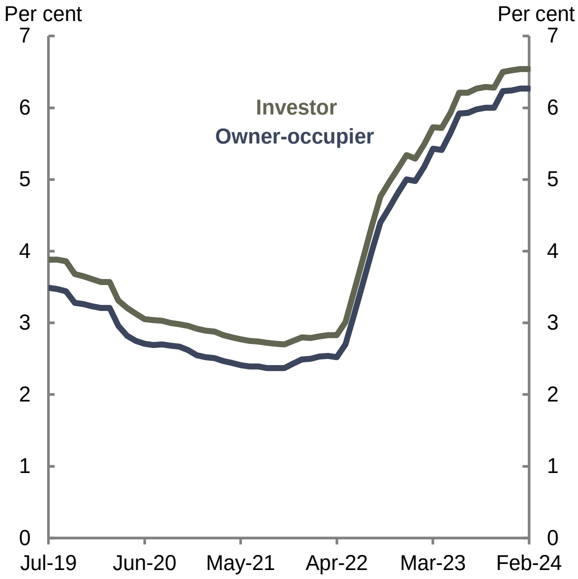
Source: ABS National Accounts 2024; Treasury.

3.4.4 Credit conditions

Credit conditions have tightened significantly for potential home buyers, as banks increased mortgage interest rates and reduced lending amounts for purchasing dwellings. This has had a negative effect on demand and reduced the capacity of households to supply finance to builders and developers.

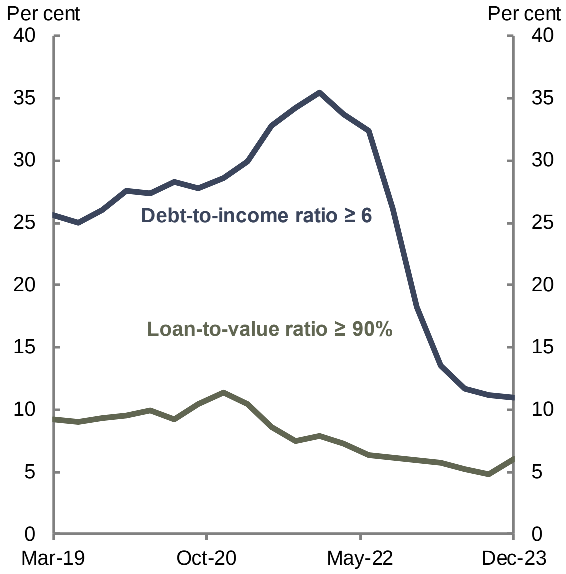
From the beginning of 2023 to March 2024, the average mortgage rate for a new loan has increased by around 125 basis points. This is on top of the increase of 250 basis points in 2022 after the RBA started raising interest rates (Chart 3.32). The RBA 'expects that it will be some time yet before inflation is sustainably in the target range' of 2-3 per cent inflation' (RBA, 2024c). Financial markets pricing implies that the RBA will not start lowering interest rates until 2025 (ASX, 2024). Home lenders have also implemented non-price measures to tighten financial conditions to reflect the increased risk of default as the economy slows under the weight of higher interest rates. For example, banks have reduced the share of loans going to borrowers with a debt-to-income ratio of 6 or more by almost 8 per cent in 2023 for new loans (Chart 3.33) (APRA, 2024a).

Chart 3.32 Housing interest rates



Source: RBA Housing Lending Rates 2024.

Chart 3.33 High debt-income ratio and loan-to-value ratio loans, share of total



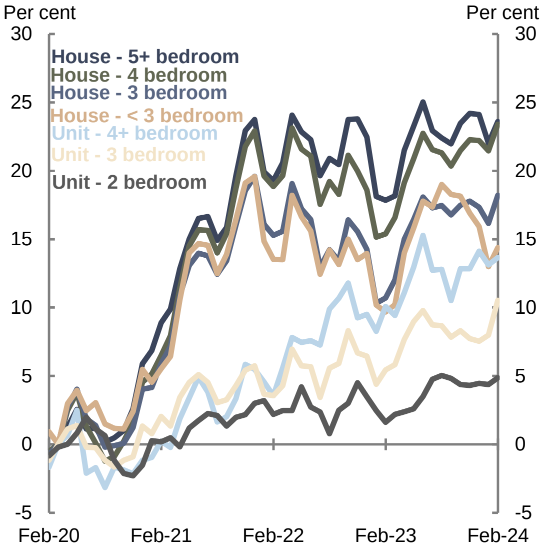
Source: APRA Quarterly ADI statistics 2024; NHSAC 2024.

3.4.5 Consumer preferences

Demand continues to be elevated for larger, higher quality dwellings suited to working from home and that provide amenities such as a backyard and close proximity to nature. Domain reports buyers are more likely to use the search term 'study' than traditionally popular terms such as 'views' when looking for a home online. 'Study' is now the second most popular search term on Domain (Sweeney, 2023).

The preference for larger dwellings is evident in the additional price premium paid for dwellings with 4 or more bedrooms (Chart 3.34). Australians' preference for larger, higher quality homes increases the volume of housing construction required to accommodate each household and reduces the extent to which supply can respond to the need for additional dwellings. There has also been a notable increase in spending on alterations and additions to existing homes relative to spending on new dwellings, coinciding with the HomeBuilder support package (Chart 3.35).

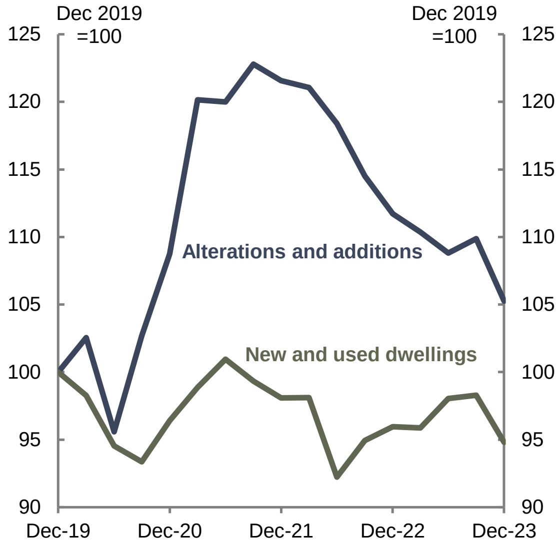
Chart 3.34 Price premium for larger houses



Note: Price premium relative to 1-bedroom units, March 2020 = 100

Source: PropTrack 2024; NHSAC 2024.

Chart 3.35 Strong demand for renovations



Source: ABS National Accounts 2024; NHSAC 2024.

The shift towards working from home has partially reversed over the past 18 months. In August 2023, 37 per cent of Australians worked from home regularly, compared to around 40 per cent in August 2021. However, these figures are still above the August 2019 level of 32 per cent (ABS, 2023j). Employers are requesting that staff members spend more days in the office, and this pressure to return to the office could increase if the labour market softens (ABC News, 2023a).

The net move away from city living has also slowed over the past 18 months. The Commonwealth Bank of Australia's Regional Movers Index indicates capital-to-regional migration hit a 4 year low in the December Quarter 2023 but was still 2.1 per cent higher than the pre-pandemic average (Regional Australia Insitute, 2023).

Chapter 4: Housing system outlook

Chapter description

This chapter explains the Council's national projections for new housing supply and demand over the next 6 years and assesses the implications for housing affordability.

Key points

- The Council's projections indicate there will be a significant shortfall of new supply relative to new demand of around 37,000 dwellings in the 2023–24 financial year.
- Over the Council's 6-year projection horizon, the market is projected to supply 1,040,000 dwellings after deducting demolitions. New demand is projected to total 1,079,000 households. This represents a total shortfall of new market supply relative to new demand of around 39,000 dwellings over the 6-year period.
- These shortfalls in new supply relative to new demand will add to the already significant undersupply of housing in the system. As a result, housing affordability is expected to deteriorate further over the forecast horizon.
- The projections are sensitive to macroeconomic and demographic conditions, particularly interest rates and population growth. However, it is unlikely that unexpectedly favourable conditions alone could address accumulated affordability pressures.

4.1 The Council has prepared modelling to project new supply and demand until 2028–29

This chapter presents the Council's national projections of new housing supply and demand over a 6-year period, between and including the 2023–24 and 2028–29 financial years. The projections estimate the supply of new market housing after deducting demolitions ('net new market supply') and new household formation ('new demand') in the national housing market, under current policy settings and certain demographic and economic scenarios.

The projections are used to assess outcomes for affordability and to inform the Council's view regarding the achievability and suitability of the target of 1.2 million new homes between 2024–25 and 2028–29 under the National Housing Accord (Chapter 8). Alternative projections are presented to explore outcomes under different economic and demographic conditions and to inform discussions about areas where policy and industry measures might improve housing system outcomes.

The projections are based on a forecast model designed to capture the dynamics of housing supply and demand in Australia. When interpreting the projections, care should be taken to keep in mind the assumptions on which the projections are based. Long-term forecasting for housing markets is inherently uncertain. Estimates of supply and demand for the early part of the projection period should be considered more reliable than those for later parts.

The projections deal only with the market for newly constructed housing and new demand arising from the formation of new households. All else equal, more new supply than new demand in a period implies an easing in housing market conditions. This manifests in the model as a higher vacancy rate and a slowing in the rates of increase in rents and dwelling prices. Conversely, more demand relative to supply in a given period implies a lower vacancy rate, and an acceleration in the rates of increase in rents and dwelling prices.

It is important to note that the Council's projections of net new supply and demand are 'flow' concepts: they reflect additions to total demand and total supply (i.e. the stock of housing) in the system in any given year. They do not reflect the significant unmet need and affordability pressures that have already accumulated in the housing system, including unmet need for housing to address current levels of homelessness and to provide suitable homes for those who are marginally housed (Chapter 6).

Total housing need is beyond the scope of the Council's current model. In its *State of the Nation's Housing 2022–23* report, the National Housing Finance and Investment Corporation (NHFIC) conservatively estimated that 46,500 dwellings would be required to house the homeless population and that 331,000 households were in rental stress (NHFIC, 2023). NHFIC's report also identifies other estimates of housing need in Australia that range from 208,200 to 577,400 households, depending on the measure of rental stress used. While not a direct estimate of the number of dwellings that need to be supplied to meet all housing need, these estimates support the Council's assertion that the needs of a significant number of households are not being met by the housing system and that additional supply would reduce that number. Moreover, housing affordability has deteriorated further since the NHFIC report, to its worst level on record, placing many additional renters and mortgage holders in housing stress (Chapter 5).

The baseline projections incorporate demand-side housing policy and migration policy measures enacted by the Australian Government. They do not incorporate the effect of policy initiatives aimed at addressing supply constraints in the housing system that are expected to be implemented by Australian, state and territory governments during the projection period (Chapter 8). This is due to the inherent difficulty of forecasting the effect of these potential measures on supply. The implementation of these measures is likely to result in a greater supply of housing than projected by the Council, all else being equal.

4.1.1 Methodology overview

The Council uses models of economic systems to estimate outcomes by drawing on significant features of these systems. As discussed in Chapter 1, the housing system is complex. It comprises a diverse range of participants and interacts strongly with other parts of the economy. The projections identify features of this system that have a significant long-term effect on the total number of dwellings supplied and demanded by housing system participants over the projection period. These features relate primarily to the housing market, rather than the broader housing system which includes non-market features (Chapter 1). The projections are used to provide a view of the likely future performance of the housing market to inform policy discussions on housing supply.

The projections employ the Saunders-Tulip housing supply model and a model of household formation (Wilson, 2013; Saunders and Tulip, 2019). In the projections, demand is determined by demographic trends in population and ageing, along with information on household living arrangements. Increases in demand increase rents and house prices, which incentivises developers to add to housing stock by initiating the development process. The projections account for 3 stages of this process: building approvals, commencement of construction, and completion of dwellings. The final stage results in the addition of new dwellings to the housing stock, which in combination with intervening changes in demand and economic conditions determines a vacancy rate, which then influences rents and house prices. The repetition of this cycle forms the basis of the Council's supply projections.

The responsiveness of supply to demand is influenced by the broader economic environment, including the cash rate, mortgage rates, the cost of building materials and consumer inflation, and levels of disposable income. The projections use forecasts of macroeconomic variables from Treasury where available. Typically, these are available as near-term forecasts. The Council made assumptions about how these forecasts should be extended to cover the full modelling period (see 'Section 4.4.1 Assumptions and Limitations').

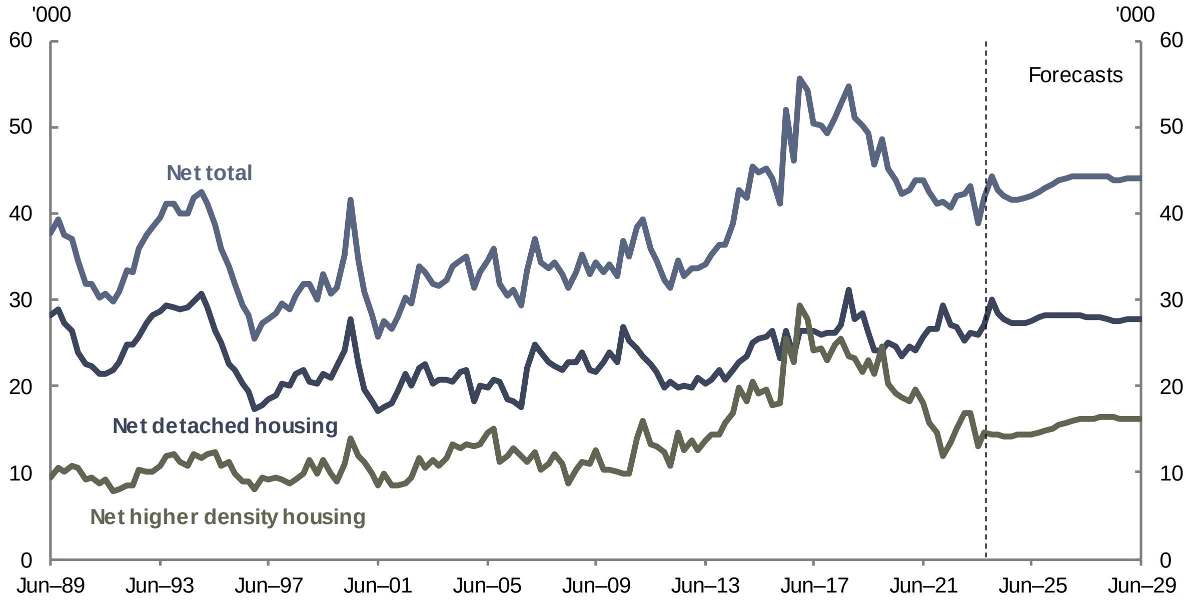
The ability of the market to respond to demand by providing additional stock is also influenced by taxes, lending regulations, land prices, land availability, housing market regulations and grants. These are not modelled explicitly. Instead, the projections capture these by calibration to historical data that includes their aggregated effects.

The projections account for the unique disruptions to the housing market caused by the pandemic. Disruptions include construction delays for detached housing, which resulted in a backlog of detached dwellings under construction. The size of this backlog has been estimated and the projections assume that the backlog of work will be completed during the initial years of the forecast period.

4.1.2 Supply projections

Over the 6-year forecasting period, net new market housing supply is projected to average around 43,300 dwellings per quarter, or 173,000 dwellings per year, under baseline macroeconomic conditions and current policy settings (Chart 4.1). New net market supply is expected to peak at an annual rate of 177,000 dwellings in 2026–27. Total cumulative net supply is forecast to total 1,040,000 over the 6-year forecast period.

Chart 4.1 Quarterly net new market dwelling completions



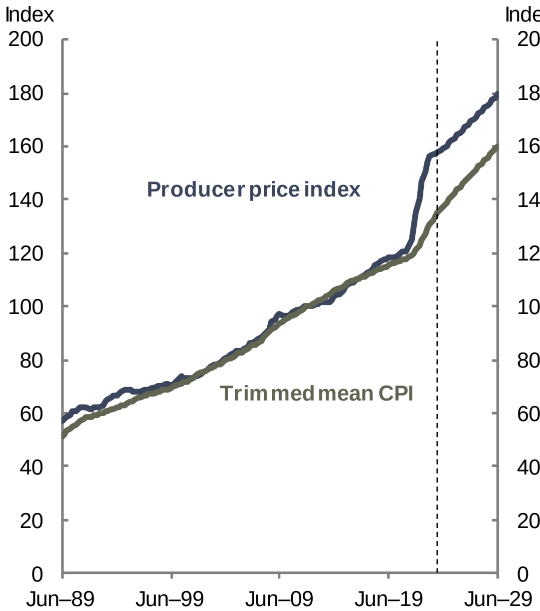
Note: Completions are measured in number of dwellings.

Source: ABS Building Activity September 2023; NHSAC 2024.

For the remainder of 2024, dwelling supply is projected to remain historically low. This largely reflects the current low level of building approvals, which is the primary determinant of dwelling supply in the near term. Current approvals for high density dwellings are particularly weak, while low approvals for detached dwellings are partially offset by a pickup in completion rates as the backlog of work started, but not completed, during the pandemic is finalised.

From 2025, supply is projected to increase as the rises in rents and dwelling prices described in Chapter 3 and a slowing in the growth rate of construction costs (Chart 4.2) induce developers to add to the dwelling stock. This supply increase will be further underpinned by a projected decline in mortgages rates (Chart 4.3), but partially offset by higher unemployment and a slowing in household income growth. Over time, this additional supply, coupled with slowing new demand due to lower population growth (see ‘Section 4.1.3 Demand Projections’) will bring new supply and new demand closer to balance. This will slow the rate of increases in dwelling prices and rents and in turn slow the rate of new supply.

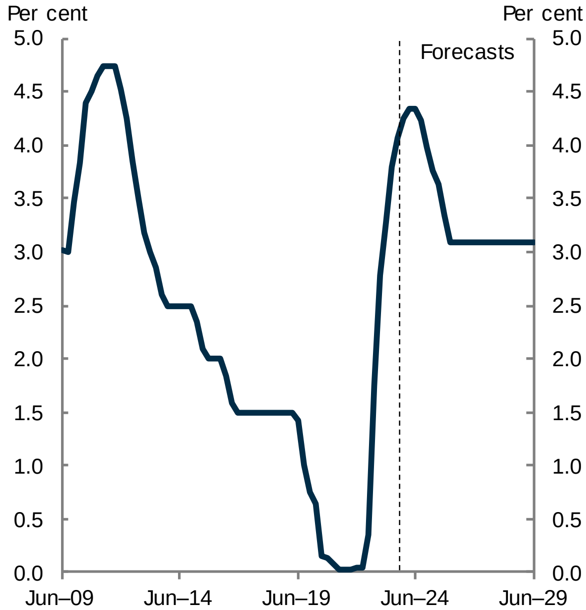
Chart 4.2 Producer price index, construction material cost



Note: Index 100 = December quarter 2011

Source: ABS Producer and Consumer Price Indexes, September 2023; NHSAC 2024.

Chart 4.3 Cash rate

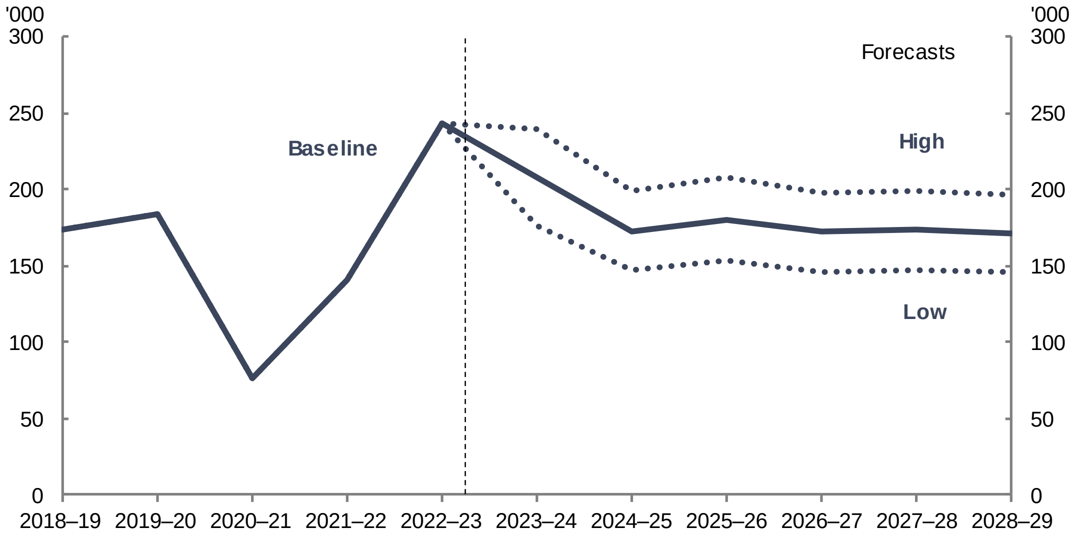


Source: RBA Interest rates 2023; Treasury MYEFO 2023; NHSAC 2024.

4.1.3 Demand projections

Underlying demand for housing is forecast to remain elevated in 2023–24, with 208,000 households projected to form. From 2024–25, underlying demand is forecast to stabilise at around 174,000 new households formed per year (Chart 4.4).

Chart 4.4 New housing demand: low, baseline and high population growth



Note: Demand is measured in number of households.

Source: NHSAC analysis of ABS Census data from TableBuilder 2024; Treasury MYEFO 2023.

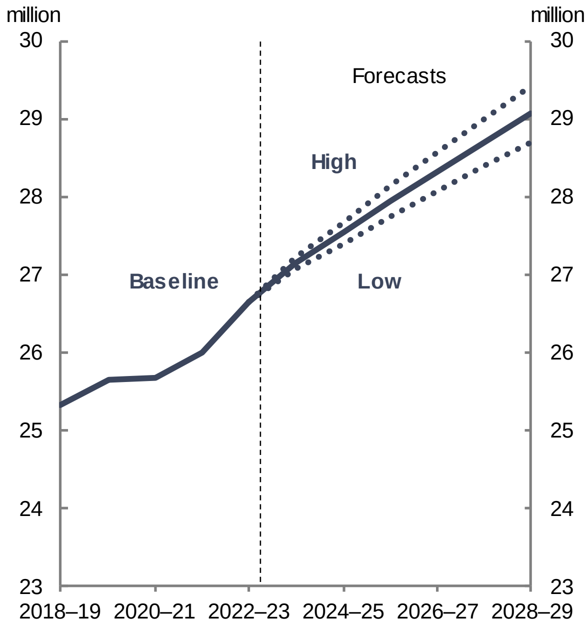
The elevated household formation rate in 2023–24 largely reflects strong population growth. Population growth is forecast to return to pre-pandemic levels from the 2024–25 financial year (Chart 4.5). The baseline projection for population growth is drawn from data released as part of the Centre for Population 2023 Population Statement (Centre for Population, 2023).

In the near term, the effect of high population growth on underlying demand is expected to be partially offset by a small temporary rise in household size. This will be due to a partial reversal of pandemic-era preferences for smaller households. Changes to the composition of households (particularly by an influx of students forming large, shared households), and the effects of rising housing costs on household formation rates, will also contribute to a small increase in household size.

Household size is expected to resume a downward trajectory later in the projection period as long-term demographic trends once again begin to outweigh other factors, though this trajectory is expected to be at a slower pace than over the past decade (Chart 4.6). All else equal, this forecast decline in average household size implies the need for more dwellings to house the population.

Finally, the continued trend of rising household income will persistently add a small amount of additional demand over the long term beyond that implied by population growth and household size alone.

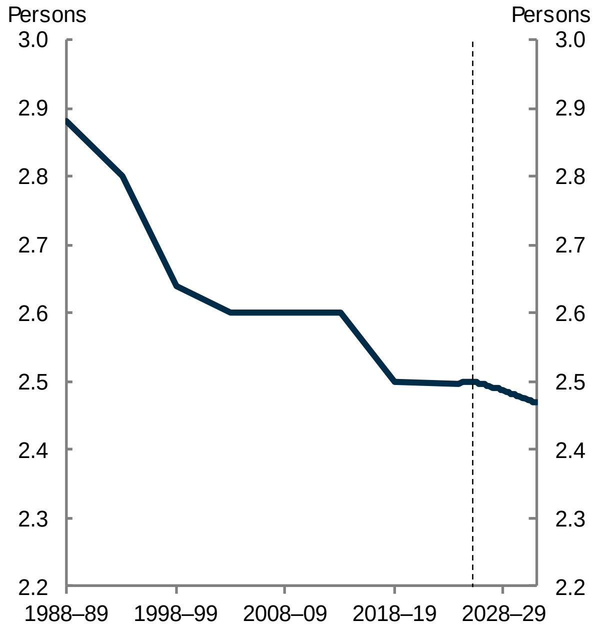
Chart 4.5 Population projections: low, baseline and high population growth



Note: Population is measured in millions of persons.

Source: NHSAC analysis of ABS Census data from TableBuilder 2024; Treasury MYEFO 2023.

Chart 4.6 Average household size



Note: Average household size is measured in number of persons.

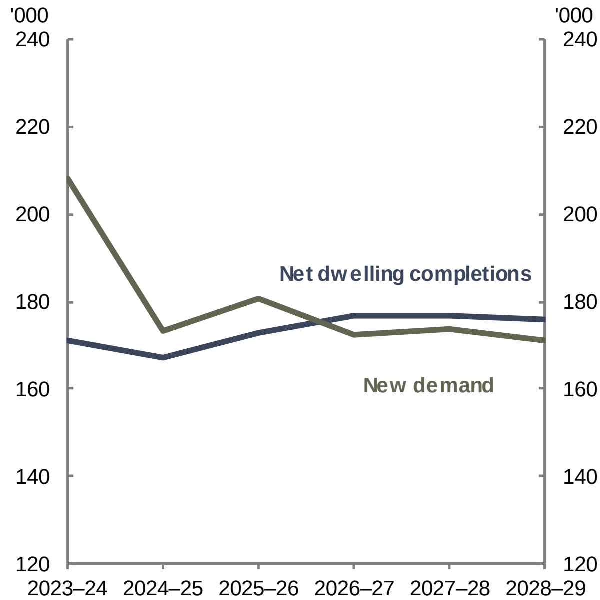
Source: NHSAC analysis of ABS Census data from TableBuilder 2024; Treasury MYEFO 2023.

4.2 Affordability is likely to worsen in the near term

The Council's baseline projections imply that new demand for housing will exceed new market supply in the 2023–24 financial year, as it did in 2022–23 (Chapter 3), but that the maximum extent of this imbalance has passed and is in the process of normalising (Chart 4.7). In the 2024–25 and 2025–26 financial years, new demand for housing will moderately exceed new market supply. New supply and new demand will be roughly in balance from the 2026–27 financial year onwards.

Over the Council's full 6-year projection horizon, net new market housing supply is expected to total 1,040,000 dwellings. New demand is expected to total 1,079,000 households. This represents a deficit of new market supply relative to new demand of around 39,000 dwellings over the 6-year period (Chart 4.8).

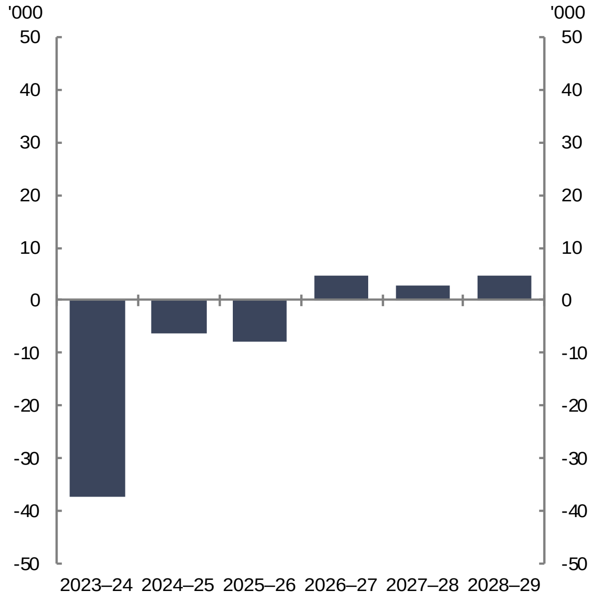
Chart 4.7 Annual net new market housing supply and new housing demand



Note: New demand is measured in number of households. Net dwelling completions are measured in number of dwellings.

Source: NHSAC 2024.

Chart 4.8 Annual balance of net new market housing supply and new housing demand



Note: Net new supply-demand balance is the difference between net dwelling completions and new demand.

Source: NHSAC 2024.

These shortfalls in new supply relative to new demand will add to the already significant undersupply of housing in the system in the absence of a significant change in housing policy or the capacity of the housing sector to supply new dwellings (Table 4.1). As a result, housing affordability is expected to deteriorate further over the forecast horizon. There will be no surplus of new housing supply to address the significant unmet demand for housing that currently exists due to affordability constraints, or to accommodate the 122,000 Australians experiencing homelessness at the time of the 2021 Census.

Table 4.1 Projections of new market supply, demand and net balance

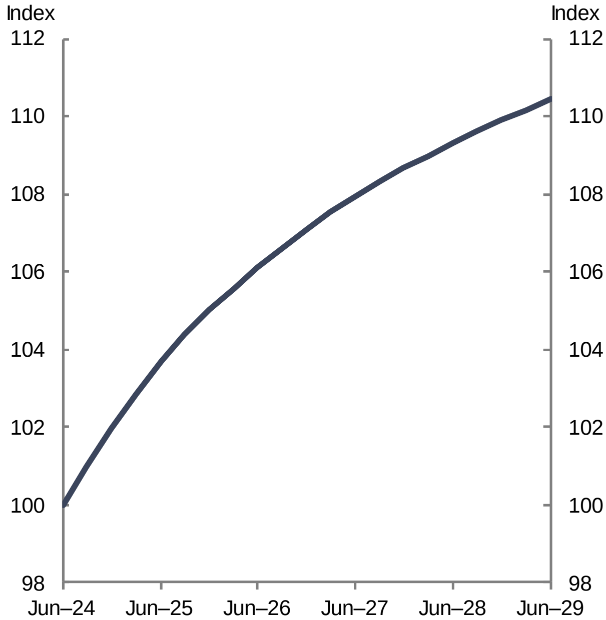
Year	Gross new supply	Net new supply	New demand	Net balance (net new supply less new demand)
2023-24	177,676	171,001	208,280	-37,279
2024-25	173,443	166,926	173,229	-6,303
2025-26	179,507	172,762	180,578	-7,816
2026-27	183,731	176,828	172,290	4,538
2027-28	183,525	176,629	173,705	2,924
2028-29	182,850	175,980	171,220	4,760
Total during forecast period	1,080,733	1,040,126	1,079,302	-39,176
Memo item				
Total during National Housing Accord period	*903,056*	*869,126*	*871,022*	*-1,897*

Source: NHSAC 2024.

These projected outcomes will have significant implications for a wide range of Australians. For those looking to acquire their first home or upgrade to a more expensive dwelling, the cost of doing so will remain high. For tenants, rental costs will continue to exceed rises in the broader cost of living (Chart 4.9). Rental housing will remain scarce, with the vacancy rate projected to remain below that consistent with a stable rental market (Chart 4.10).

Australia's high costs of housing will continue to impact the wellbeing of the most vulnerable in the community, who are the least able to manage elevated housing costs and access scarce rental accommodation. It will add to incidences of overcrowding and homelessness, and limit economic and social inclusion.

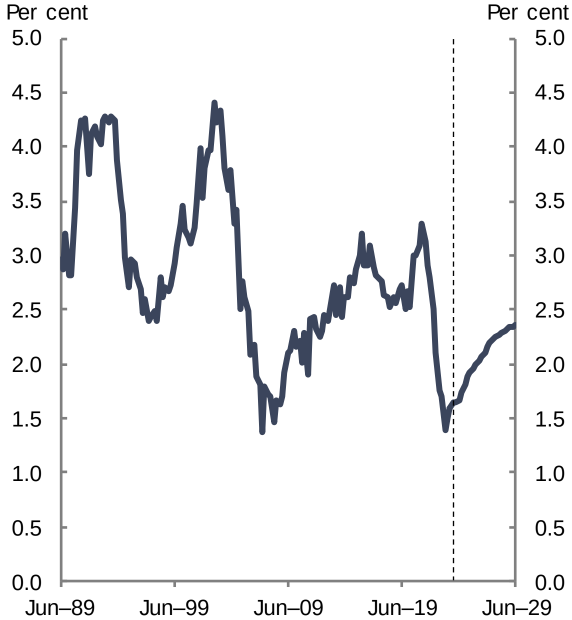
Chart 4.9 Real rents



Note: Index 100 = Jun-24

Source: ABS Consumer Price Index 2023; NHSAC 2024.

Chart 4.10 Vacancy rates, quarterly

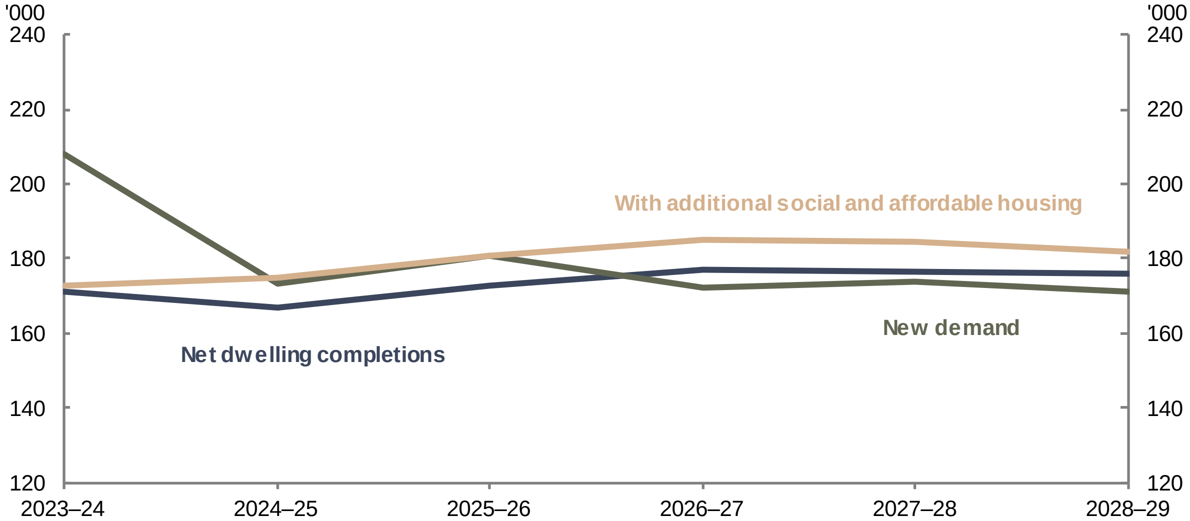


Source: REIA Quarterly Vacancy Rates 2023; NHSAC 2024.

4.2.1 Incorporating social and affordable housing supply

The supply projections only project new supply that will be provided by the private market. They do not include the supply of non-market (social and affordable) housing. Policy measures, most significantly the Housing Australia Future Fund, are expected to add 40,000 social and affordable dwellings over the 5-year National Housing Accord period. Adding this supply to the market supply projections in a linear manner adds 8,000 dwellings per year to supply (Chart 4.11). A key underlying assumption of the Council's forecast is that targets associated with social and affordable housing are met and do not detract from the capacity of the private sector to add to supply.

Chart 4.11 Annual net dwelling completions including new social and affordable housing supply and new housing demand



Note: New demand is measured in number of households. Net dwelling completions are measured in number of dwellings.

Source: NHSAC 2024.

4.3 The outlook for housing demand and supply is sensitive to macroeconomic and demographic factors

The Council has prepared 3 scenarios to assess the sensitivity of the projections to key input variables.

4.3.1 Interest rate scenarios

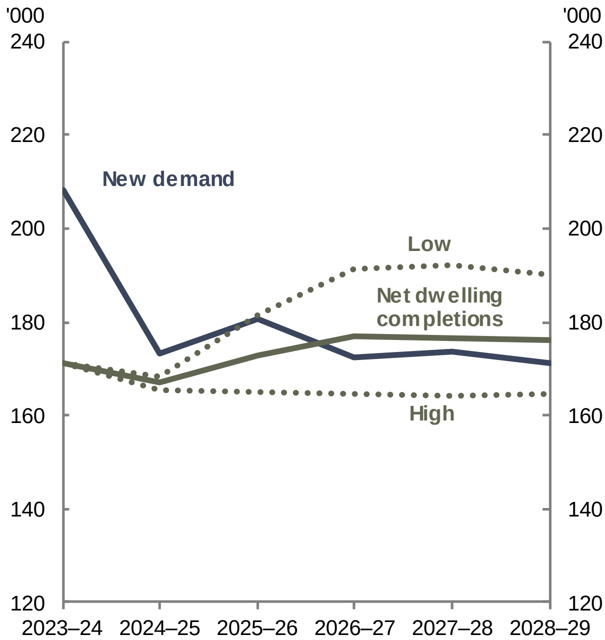
The supply of new dwellings is sensitive to interest rates, which affect the cost of development and the ability of prospective homeowners to borrow to purchase a dwelling (Chapter 2 and 3). Two scenarios are used to assess how the projections respond to a parallel shift of +50 or -50 basis points to the interest rate path assumed in the baseline scenario from the September quarter of 2024 (Chart 4.12).

The scenario analysis demonstrates the significant sensitivity of the housing supply system to interest rates. An unexpected increase in interest rates of 50 basis points would result in supply remaining around its current 10-year low for the entirety of the projection period and cumulative net supply totalling just 995,000 over the 6-year forecast horizon. Conversely, an unexpected decline in interest rates of 50 basis points would support a sharp recovery in dwelling supply and result in 1,094,000 net market supply over the next 6-years.

4.3.2 Cost of construction scenarios

Changes in the cost of construction influence housing supply (Chapter 2 and 3). Two scenarios are used to assess the implications for supply of a +20 per cent or -20 per cent change in the cost of construction per dwelling from the June 2024 quarter relative to the baseline scenario (Chart 4.13). Such a change could arise from a change in material costs, labour costs, or productivity. The scenario demonstrates that a significant change in the cost of construction would have a significant effect on supply. An unexpected 20 per cent increase in the cost of construction would result in net supply declining to 900,000 over the 6-year projection period. Conversely, an unexpected 20 per cent decline in the cost of construction would support an increase in the net new market dwelling supply to 1,247,000 over the next 6-years.

Chart 4.12 Annual net market dwelling completions and market housing demand: low, baseline and high interest rate scenario

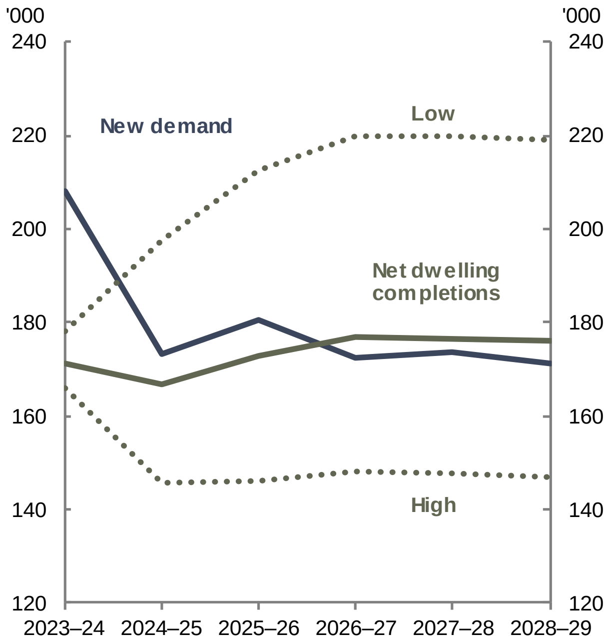


Note: New demand is measured in number of households.

Net dwelling completions are measured in number of dwellings.

Source: NHSAC 2024.

Chart 4.13 Annual net market dwelling completions and market housing demand: low, baseline and high cost of construction



Note: New demand is measured in number of households. Net dwelling completions are measured in number of dwellings.

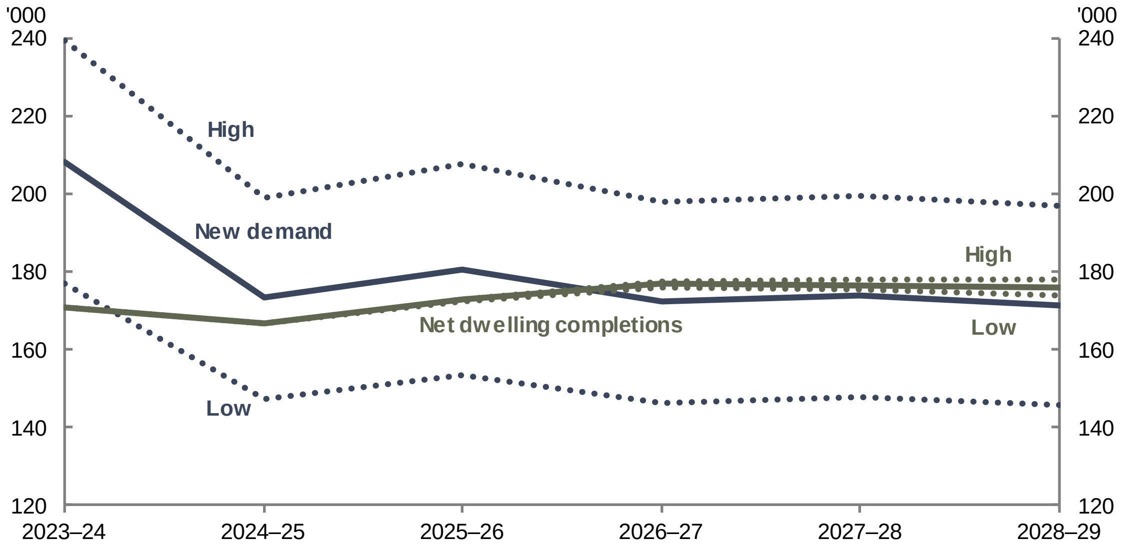
Source: NHSAC 2024.

4.3.3 Demographic scenarios

Population growth can change due to variations in migration levels, fertility rates and life expectancy. Alternative projections of housing supply and demand considering high and low population growth scenarios are shown by dotted lines in Chart 4.14 (see also Chart 4.4), and the alternative population paths are shown in Chart 4.5. These scenarios are constructed from the baseline scenario by raising or lowering year-on-year population increases by 15 per cent, starting in the 2023–24 financial year. This is equivalent to an additional population increase or decrease of 77,000 persons in 2023–24 and around 60,000 in the remaining years of the projection period. The low scenario is consistent with decreased fertility and net overseas migration, while the high scenario is consistent with increased fertility and net overseas migration. Both the low and high scenarios account for the age distribution of migrants, which is a significant determinant of their housing needs.

These scenarios demonstrate the market's limited ability to respond to increased demand (Chapter 2). For example, while new demand in the high growth scenario is around 27,000 dwellings more than the baseline scenario, the corresponding difference between net dwelling completions is never more than 2,100 dwellings per year during the forecast period.

Chart 4.14 Annual net market dwelling completions and housing demand: low, baseline and high population growth



Note: Upper and lower dotted lines represent the high and low population growth scenarios respectively. New demand is measured in number of households. Net dwelling completions are measured in number of dwellings.

Source: NHSAC 2024.

4.4 Understanding the Council's projection methodology

4.4.1 Assumptions and limitations

The framework used to make the projections is suited to answering questions about the rate at which new housing construction will take place in national and state housing markets under specified economic and demographic scenarios. However, features of the framework limit its applicability in other areas.

The projections represent the housing market by calibrating a simplified representation of the market to historical data. This fixes the responsiveness of the projections to forecasts of economic and demographic conditions prior to results being generated. Underlying this approach is the assumption that the housing market will not undergo any major structural changes. In addition, the projections do not explicitly incorporate policy measures, or structural changes, that will fundamentally alter the historical relationship between economic or demographic variables and housing supply. These features limit the scope for counter-factual policy analysis that can be performed within the framework.

The projections are produced for the national housing market. This contains many regional sub-markets. When viewed individually, these sub-markets can display behaviour different from that observed at the national level. Therefore, it is not possible to make rigorous inferences about local housing markets from the projections.

Care has been taken to account for the effects of the pandemic period and the unprecedented housing market conditions that it produced. However, there is still some uncertainty about the persistence of certain effects that began during the pandemic, such as the increase in material and labour costs and preferences for working from home.

The following forecasts of economic and demographic conditions were used in the projections and can influence the results:

- The near-term cash rate forecast has been informed by the Bloomberg survey of market economists and used out to 2028. It is assumed to remain constant thereafter.
- Forecasts of the consumer and producer price indexes have been obtained independently from the model by using timeseries methods.
- The population forecasts in the baseline scenario use data released as part of the Centre for Population's 2023 Population Statement.
- Demolition rates are projected to stay at the level reported in the 2021 Census.

The majority of historical data used during calibration of the projections was obtained from the ABS. It includes data on:

- building approvals and building activity
- levels of dwelling stock from various Censuses,
- living arrangements from the 2021 Census.

The level of dwelling stock is used to calculate a demolition rate which, in turn, is used to determine net dwelling completions. Data on living arrangements is used extensively in the projects of demand. For consistency, both dwelling stock and living arrangements data was obtained through ABS TableBuilder. Data on vacancy rates used in the projections was obtained from the Real Estate Institute of Australia (REIA).

Chapter 5: Housing affordability

Chapter description

This chapter assesses housing affordability for households that rent in the private market or are owner-occupiers with a mortgage. It identifies households experiencing heightened affordability pressures and assesses the broader wellbeing conditions of households across different housing tenures.

Key points

- Housing affordability deteriorated to its worst level on record in 2023, with the share of income that households spent on housing costs rising to a record high.
- Mortgage holders incurred a sharp increase in mortgage repayments, due to rising interest rates, and in the case of new homebuyers, high housing prices, which reduced mortgage affordability.
- Renters incurred a sharp increase in rental payments. The ease with which tenants could find a dwelling declined, with vacancy rates falling to near-record lows.
- Lower-income, government-supported and younger households continued to face poor housing affordability, although government assistance has relieved some rises in housing costs.
- Renters have experienced poorer financial and psychological wellbeing than mortgage holders.

A well-functioning housing system ensures housing is affordable for everyone (Chapter 1). However, Australia's housing system is failing to achieve this objective. Housing affordability is now at its worst level on record, with mortgage and rent payments rising sharply in 2023 (ANZ and CoreLogic, 2024).

The deterioration in housing affordability in Australia has been widespread. It has occurred across cities and regions, income levels and age distributions (PropTrack, 2023). It is especially challenging for vulnerable groups, such as those on low incomes or requiring government assistance (ANU CSPR, 2023). Many households have been forced to make difficult financial adjustments and trade-offs that have adverse implications for their wellbeing.

In this Chapter, housing affordability is primarily measured as the 'housing-cost burden' faced by households, defined as the share of household income (either gross or disposable income) spent on housing (either mortgage costs, rental costs or overall housing costs) (OECD, 2022). An increase in the housing-cost burden can represent a deterioration in housing affordability.

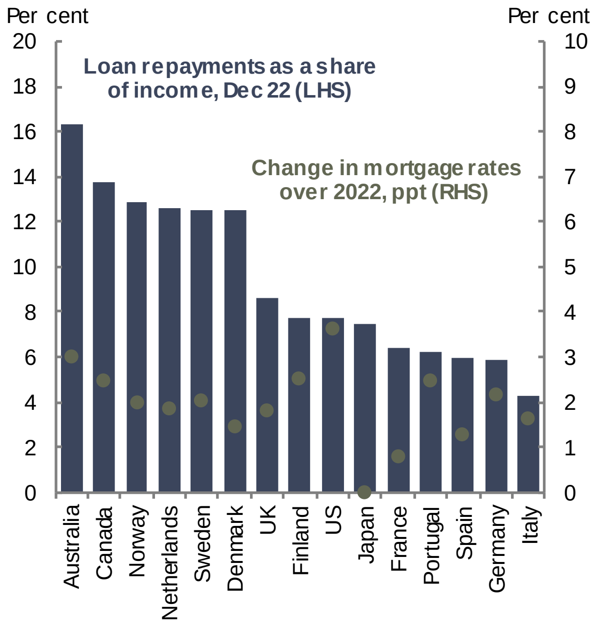
Households with high housing-cost burdens are considered to be in 'housing stress,' and can include homeowners (mortgage stress) and renters (rental stress) (AHURI, 2019). While different measures can be used, housing stress is often defined as the housing-cost burden exceeding 30 per cent, or as the housing-cost burden for the 2 lowest income quintiles exceeding 30 per cent (the 30/40 rule). It should be noted that findings from these measures often depend on whether gross or disposable income is used (Productivity Commission, 2022).

5.1 Australia has some of the least affordable housing among advanced economies

Australian households face some of the most challenging housing affordability pressures among advanced economies. In particular, Australia reported the highest share of household loan repayments to gross household income among advanced economies in 2022. It was around twice the share reported for the United Kingdom and the United States, according to the International Monetary Fund (IMF) (Chart 5.1) (IMF, 2023). While this measure represents total household debt, most household debt in Australia is mortgages (Kearns, et al., 2020). The sharp rise in interest rates and prevalence of variable rate loans in Australia indicate that this share is likely to have risen further in 2023 (RBA, 2023b).

Australians have also faced high rents growth relative to other advanced economies. Growth in CPI rents accelerated from 0.4 per cent over the year to December 2021 to 7.3 per cent over the year to December 2023 (Chart 5.2) (ABS, 2024d). Only Canada, among comparable advanced economies, experienced higher growth in CPI rents over the year to December 2023 (Chart 5.2).

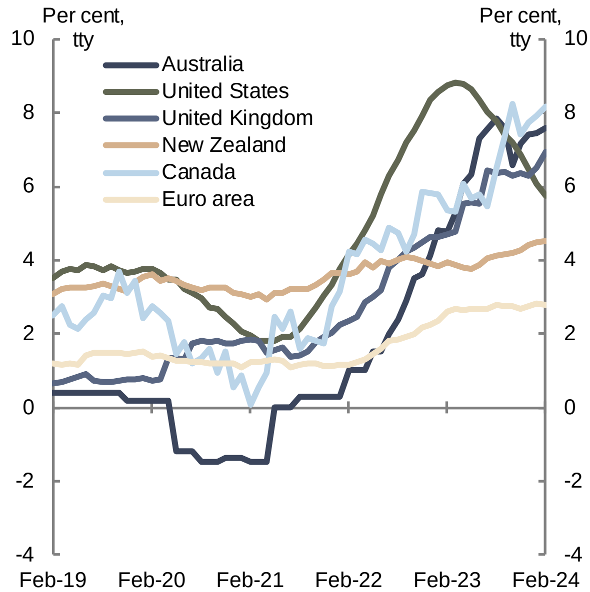
Chart 5.1 Household debt costs among advanced economies



Note: Loan repayments defined as interest payments on aggregate debt stock plus amortisations of income.

Source: IMF 2023.

Chart 5.2 Rent costs among advanced economies



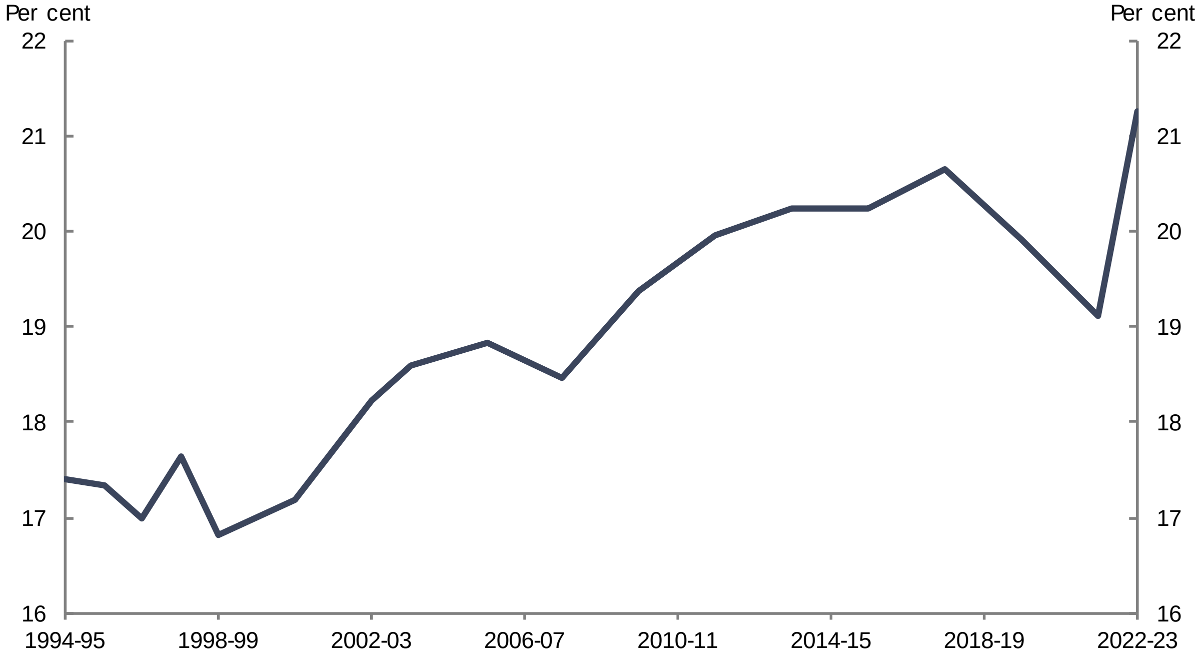
Note: Rent costs derived from consumer price indexes.

Source: National statistical agencies; Refinitiv; NHSAC 2024.

5.2 Housing affordability has deteriorated nationwide

In 2022–23, the share of disposable income that households on average spent on housing costs was estimated to have reached 21 per cent, its highest level on record (Chart 5.3) (ANU CSPR, 2023). This is a continuation of a trend that has persisted for decades, notwithstanding a short period during the pandemic when fiscal and monetary policy supported a temporary improvement in affordability.

Chart 5.3 Housing costs as a share of disposable household income, all households



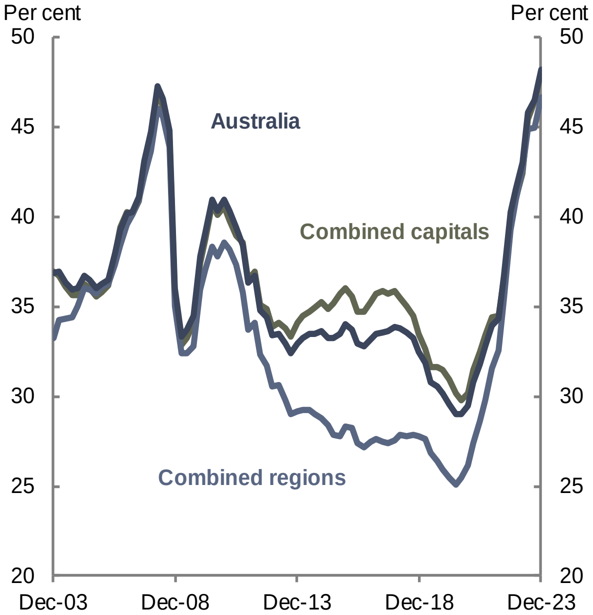
Note: Mean ratio of housing costs to disposable household income. 'All households' includes renters, mortgagors, and outright owners. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS Survey of Income and Housing (SIH) data. PolicyMod is a static microsimulation model of the Australian tax and transfer system. It uses household data from the ABS SIH. Underlying ABS survey data is updated to 2023 to incorporate economic and demographic changes, such as for incomes using ABS average weekly earnings; rents using ABS CPI rents; population growth and labour market changes. PolicyMod also incorporates policy changes, such as those in the Budget. All projections in this chapter using PolicyMod for 2021–22 and 2022–23 years are based on 2019–20 ABS SIH data, although Q4 of 2019–20 is excluded in the projection due to the distorting impact of pandemic payments in that quarter on income projections. Estimates for 2020–21 are not included due to the complexities of the pandemic period.

Source: Australian National University Centre for Social Policy Research (CSPR) PolicyMod 2023.

5.2.1 Mortgage affordability has deteriorated, driven by rising housing prices and interest rates

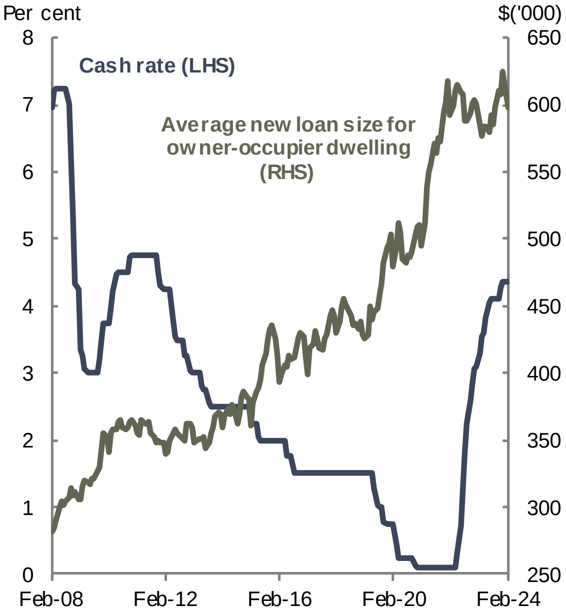
Mortgage holders experienced a deterioration in affordability in 2023 (Chart 5.4) driven by the recent concurrence of rising housing prices and interest rates (Chart 5.5) (ANZ and CoreLogic, 2024). Rising housing prices contributed to an increased average loan size for owner-occupier dwellings, to around $624,000 in December 2023 (ABS, 2024h). The sharp rise in the cash rate from 0.1 per cent in May 2022 to 4.35 per cent in November 2023 has driven a rise of 30–60 per cent in the minimum scheduled payments of most mortgage holders (RBA, 2024b). The share of gross household income spent on new mortgages rose from 30 per cent in March 2020 to a record 48 per cent in December 2023 (ANZ and CoreLogic, 2024). The decline in mortgage affordability since 2020 follows a period of gradual improvement, which was partly driven by the long-run decline in interest rates.

Chart 5.4 New mortgage cost-to-income ratio



Note: Share of gross annual household income needed to service a mortgage that is 80 per cent of the median dwelling value, paying the average discount variable mortgage rate for a term of 25 years.
Source: ANZ and CoreLogic 2024.

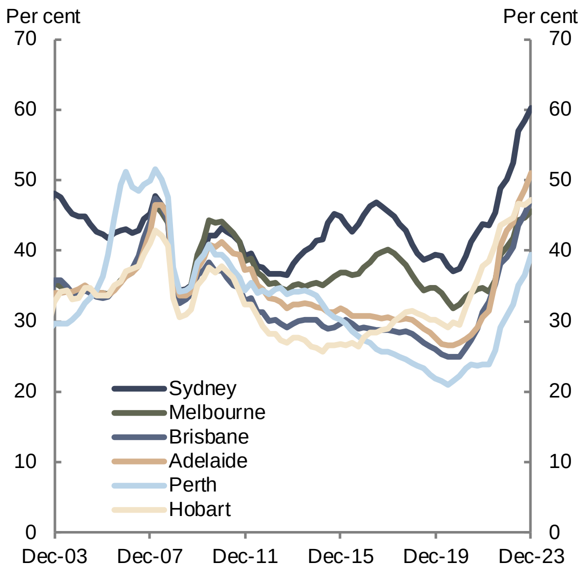
Chart 5.5 Cash rate and mortgage size



Note: Loan size is in original terms, and includes loans for construction, purchase of new dwellings and existing dwellings, while excluding land, alterations and additions.
Source: RBA 2024; ABS Lending Indicators 2024.

Mortgage affordability has deteriorated sharply across all capital cities and regional areas (Chart 5.6 and Chart 5.7) (ANZ and CoreLogic, 2024). The share of gross household income spent on new mortgages tended to be higher in capital cities than in regions in the decade prior to 2020, owing to the relatively higher housing prices in cities. However, this affordability gap has closed since the pandemic, as greater net internal migration out of cities has put upward pressure on housing prices in regions. Mortgage affordability in Sydney remains the worst of any capital city, while mortgage affordability in regional New South Wales remains the worst among the rest-of-state regional areas.

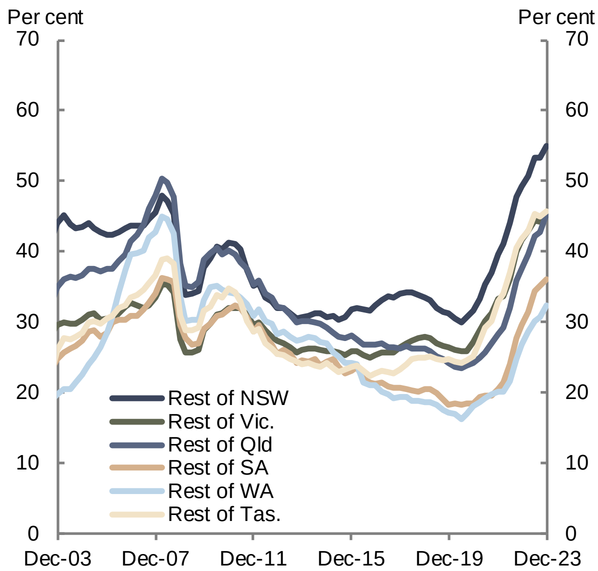
Chart 5.6 New mortgage cost-to-income ratio, capital cities



Note: Share of gross annual household income required to service a mortgage that is 80 per cent of the median dwelling value, paying the average discount variable mortgage rate for a term of 25 years.

Source: ANZ and CoreLogic 2024.

Chart 5.7 New mortgage cost-to-income ratio, regional areas



Note: Share of gross annual household income required to service a mortgage that is 80 per cent of the median dwelling value, paying the average discount variable mortgage rate for a term of 25 years.

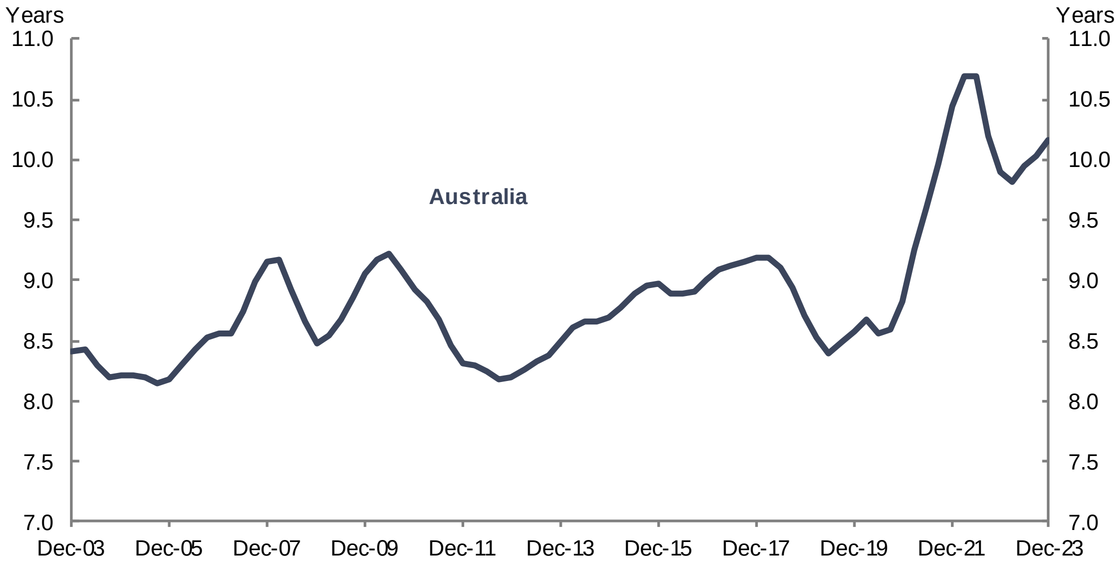
Source: ANZ and CoreLogic 2024.

Mortgage holders are likely to continue experiencing heightened mortgage cost pressures over the near term, given the outlook for interest rates. That said, borrowers have responded to higher housing costs by seeking adjustments to the terms of their mortgage to reduce repayments; for example, by switching to interest-only loans or extending the term of their mortgage (RBA, 2024b). Arrears rates remain low, with many mortgage holders able to cushion the effect of rising interest rates by using savings accumulated during the pandemic (RBA, 2024b). Higher incomes earned in the strong labour market are also helping to moderate mortgage stress. However, this indicates that a deterioration in labour market conditions would be a key risk to the incidence of mortgage stress.

5.2.2 Home purchase affordability has deteriorated as housing price growth outstripped income growth

Aspiring homeowners face a larger deposit hurdle now than prior to 2020. The number of years needed to save for a 20 per cent home deposit rose from 8.7 in March 2020 to a peak of 10.7 in June 2022, due to housing price growth outstripping income growth over the period (Chart 5.8) (ANZ and CoreLogic, 2024).[19] Consistent with a brief decline in housing prices in 2022–23, the number of years needed to save for a 20 per cent deposit dipped, before returning to over 10 years in December 2023.

Chart 5.8 Number of years it takes to save for a 20 per cent deposit



Note: Measured as the years it would take to save for a 20 per cent deposit, assuming 15 per cent gross median household income is saved annually.

Source: ANZ and CoreLogic 2024.

As first home buyers have found it increasingly difficult to save for a deposit, the share of homes sold that a median income household can afford has also fallen considerably (PropTrack, 2024). At a national level, the share of homes sold that a median-income household could afford declined from 39 per cent in 2020–21 to 13 per cent in 2022–23 – its lowest level on record (Chart 5.9).

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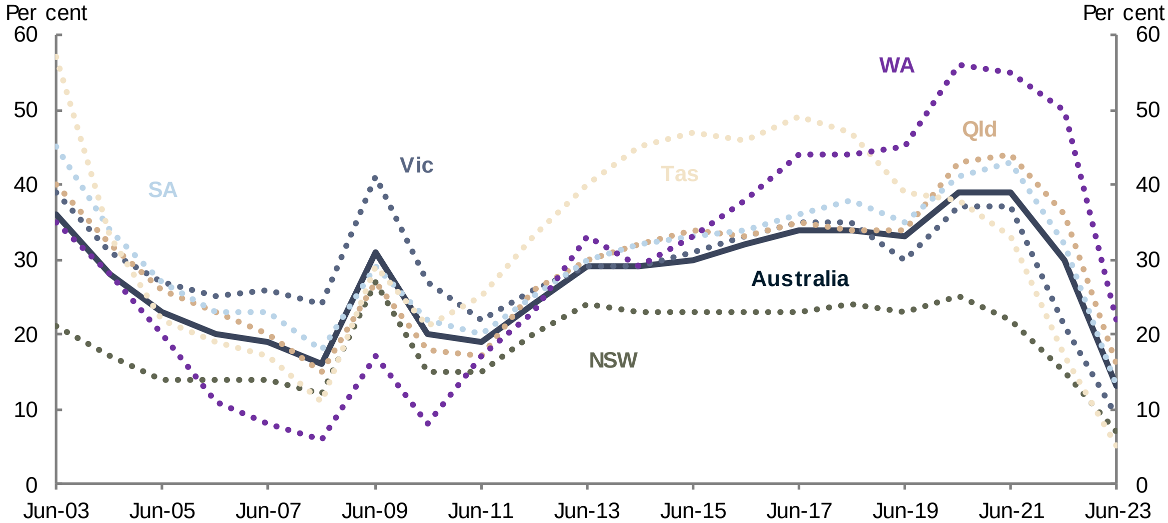
19 While this is a conventional measure of housing accessibility, first home buyers face different housing prices and incomes to the average household, as they are often younger, have lower incomes and are less wealthy (La Cava, et al., 2017). Households may also be able to access a home loan with less than a 20 per cent deposit (which often incurs a fee for Lenders Mortgage Insurance, raising the overall cost).

Chart 5.9 Share of home sales that are affordable, by state



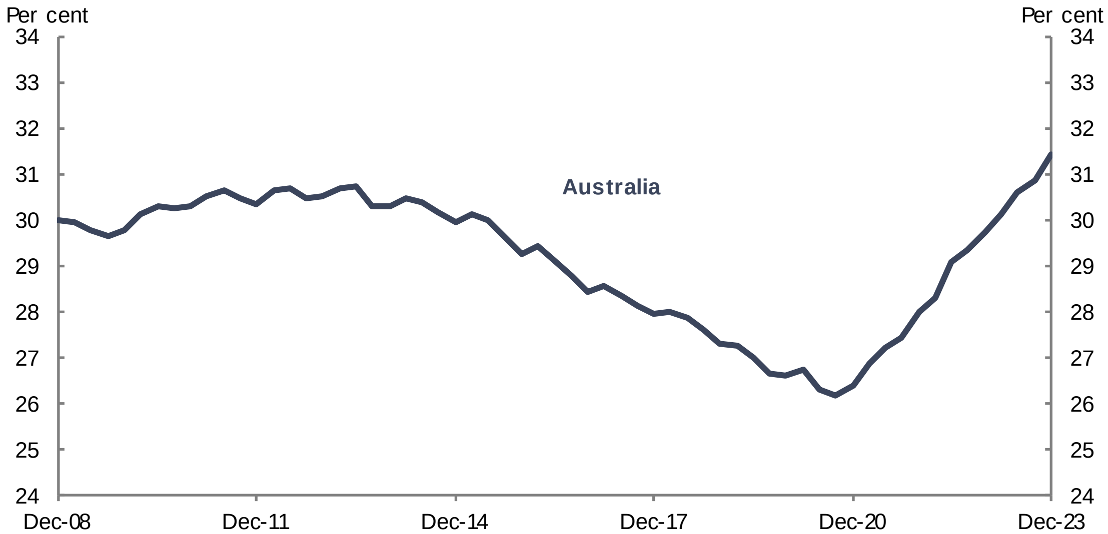
Note: Share of home sales that fall below the price that a household would spend 25 per cent of gross income on mortgage repayments, assumes 80 per cent loan-to-value ratio, 30-year loan term and 2.5 percentage point buffer rate.

Source: PropTrack 2023.

5.2.3 Households seeking new leases faced a jump in rental cost burdens

Many renters have faced a sharp rise in the cost of housing due to a rise in rents relative to income. This is felt particularly by households seeking new leases. The rental-cost burden climbed rapidly from 26 per cent of gross household income in September 2020 to 31 per cent in December 2023 (Chart 5.10) (ANZ and CoreLogic, 2024).

Chart 5.10 Rent-to-income ratio for new leases

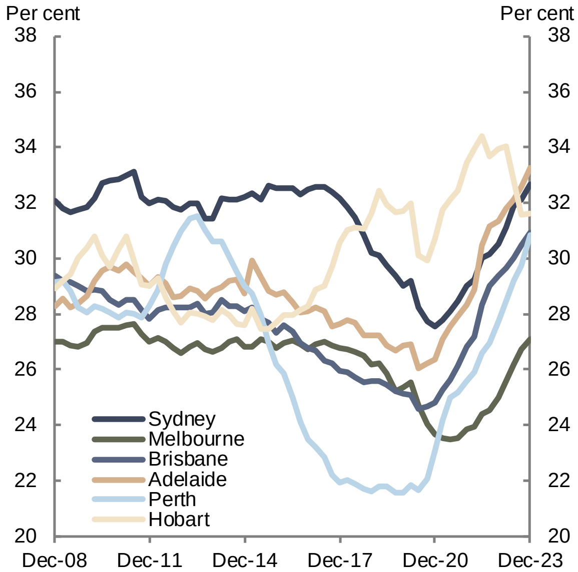


Note: Share of gross annual household income required to pay for rent on new leases.

Source: ANZ and CoreLogic 2024.

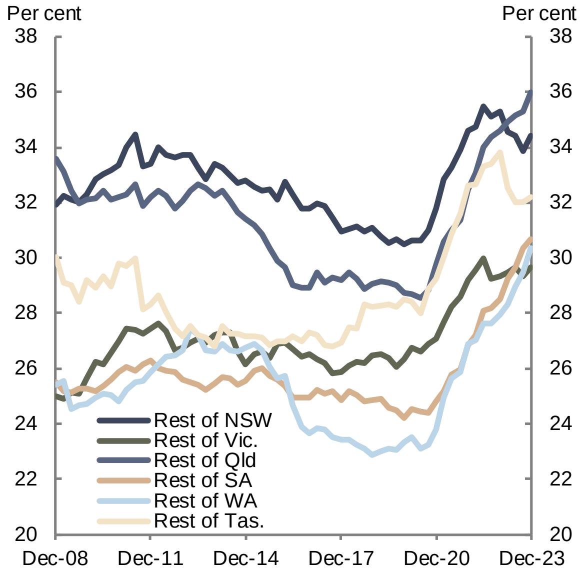
Affordability pressures have risen across capital cities and regions (Chart 5.11 and Chart 5.12) (ANZ and CoreLogic, 2024). All state capital cities, except Hobart, experienced increases in the rental cost burden for new leases in 2023. While the rent-to-income ratio for new leases appears to have stabilised across some regions since 2022, rental affordability pressures have continued to worsen in regional Queensland, South Australia and Western Australia.

Chart 5.11 Rent-to-income ratio for new leases, capital cities



Note: Share of gross annual household income required to pay for rent on new leases.
Source: ANZ and CoreLogic 2024.

Chart 5.12 Rent-to-income ratio for new leases, regional areas



Note: Share of gross annual household income required to pay for rent on new leases.
Source: ANZ and CoreLogic 2024.

Although rental cost pressures have risen for households entering into new leases, affordability for some renter households remained relatively stable in 2022–23 (ANU CSPR, 2023). This reflects the fact that advertised rents take time to pass through to increases in rents for the total rental stock. In addition, the strong jobs market – which has contributed to strong wages growth, a near record low unemployment rate, and a record high participation rate – has supported a rise in household income.

While affordability for renters and mortgage holders has declined, the large number of households that own the home outright have been relatively unaffected by recent rises in housing costs (ANU CSPR, 2023). Nevertheless, these households are still likely to be concerned about the deterioration in housing affordability, to the extent that it affects the housing prospects of family and friends.

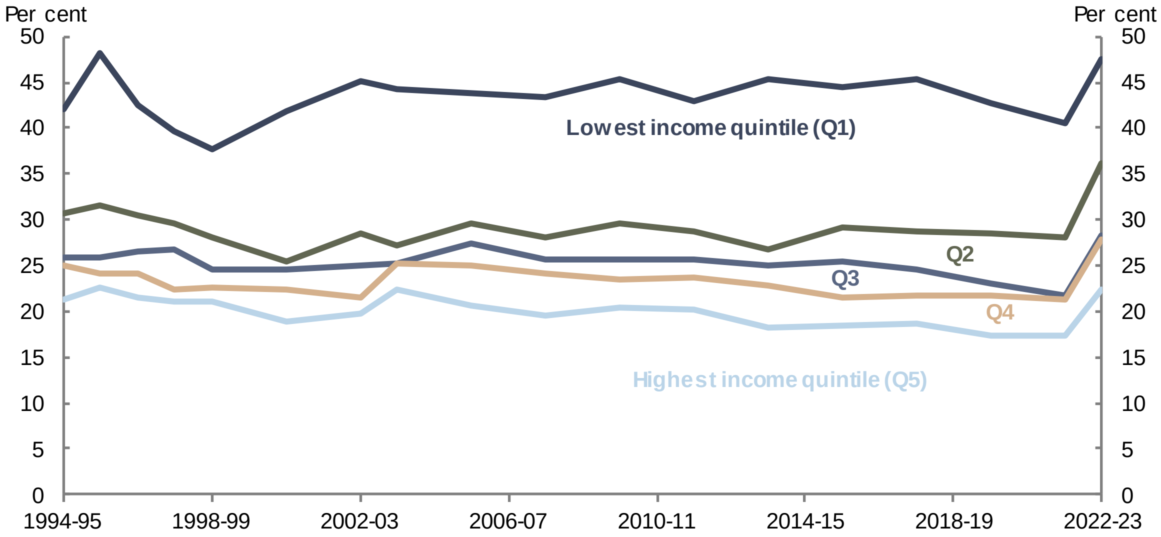
5.3 Some cohorts face acute affordability pressures

Average affordability outcomes do not reflect the experiences of all households, and there are some cohorts and individual households experiencing either better or worse affordability conditions. Housing-cost burdens depicted using ANU PolicyMod estimates in the following sections are for existing (rather than new) households and are calculated using disposable (rather than gross) household income. This means they are not directly comparable with measures that use new housing costs and gross household income.

5.3.1 Affordability pressures in lower-income households

Housing costs consume a larger share of income in low-income households than those higher up the income distribution (ANU CSPR, 2023). The average mortgage-cost burden in the lowest income quintile hovered around 43 per cent in the 2 decades to 2019–20, then climbed to a near-record 47 per cent in 2022–23 (Chart 5.13). For households in the second-lowest income quintile, the average mortgage-cost burden also rose from 29 per cent in 2019–20 to 36 per cent in 2022–23. While average mortgage-cost burdens for higher-income households also rose in 2022–23, they remain below 30 per cent of disposable household income.

Chart 5.13 Mortgage cost-to-income ratio, by income quintile

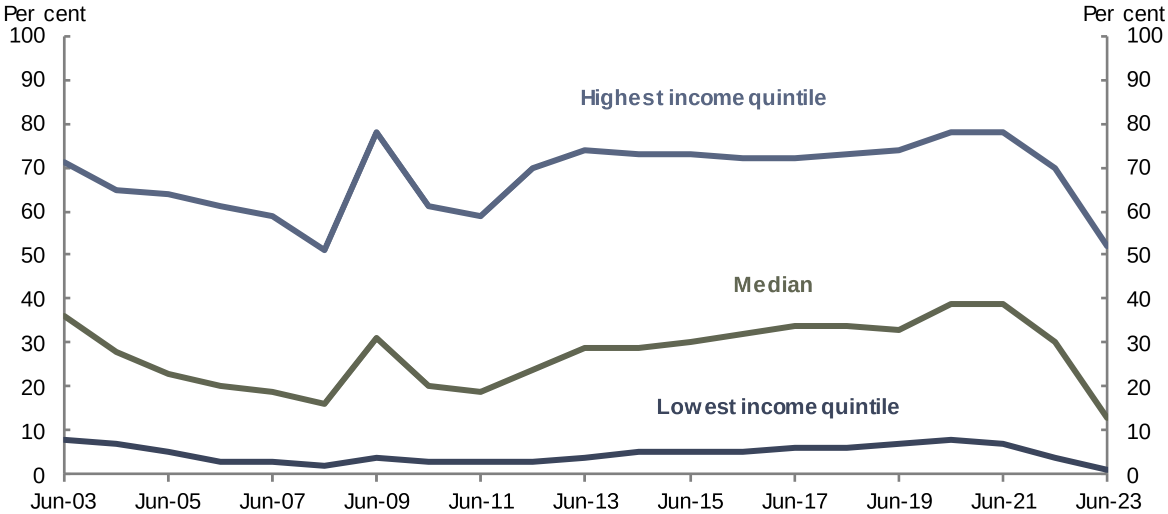


Note: Mean ratio of mortgage costs to disposable household income, by income quintile. Income quintiles derived separately for each tenure group. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

The share of homes that low-income households can afford to purchase has fallen to a much lower level than that of higher-income households. At a national level, households in the lowest income quintile could only afford a record-low of 1 per cent of homes sold in 2022–23, down from 7 per cent in 2020–21 (Chart 5.14) (PropTrack, 2023). In contrast, households in the highest income quintile could still afford over 50 per cent of homes sold in 2022–23.

Chart 5.14 Share of home sales that are affordable

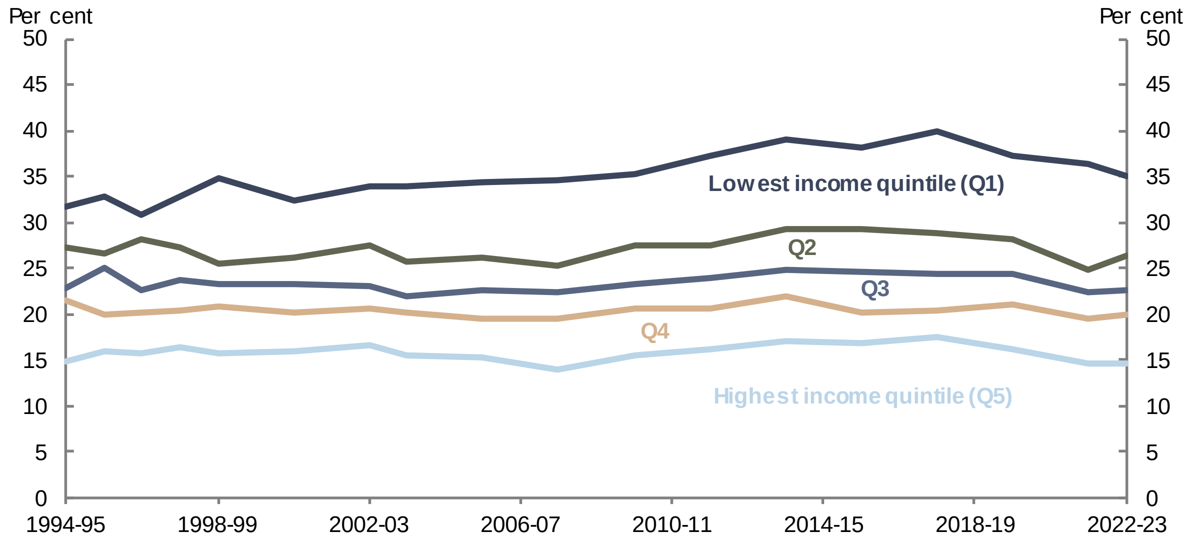


Note: Share of home sales that fall below the price that a household would spend 25 per cent of gross income on mortgage repayments, assuming 80 per cent loan-to-value ratio, 30-year loan term and 2.5 percent buffer rate.

Source: PropTrack 2023.

For renter households, the rental-cost burden rose for all but the lowest-income quintile in 2022–23 (Chart 5.15) (ANU CSPR, 2023). Incomes for the lowest income renters are estimated to have risen faster than rental costs in 2022–23, leading to a decline in the rent-to-income ratio for this group. This may have been driven by temporary and ongoing income support measures since 2019, as well as a strong labour market generating higher labour income growth for earners in lower income households (Bullock, 2023a).

Chart 5.15 Rent-to-income ratio, by income quintile



Note: Mean ratio of rental costs to disposable household income. Income quintiles derived separately for each tenure group. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

Over the past 25 years, the gap between the rent-to-income ratios for the lowest and highest income quintiles has increased from around 16 percentage points to around 20 percentage points (Chart 5.15) (ANU CSPR, 2023). Lower-income renters are lagging behind higher-income renters in terms of their ability to meet their housing costs. This indicates a relative worsening in rental affordability pressures for those in the lowest-income quintile over time.

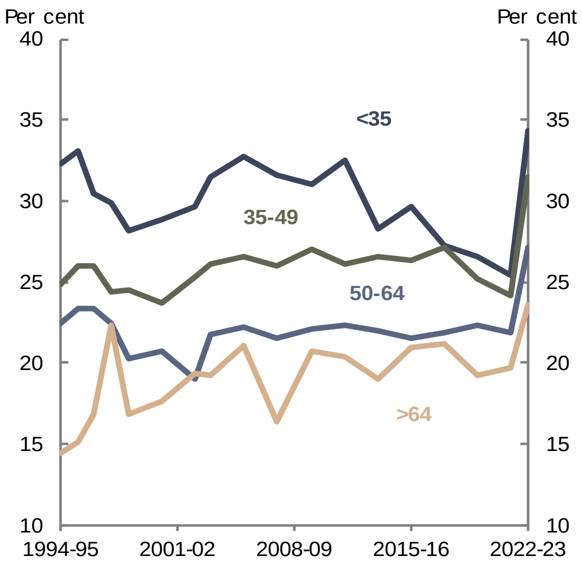
5.3.2 Young people's ability to meet mortgage repayments has worsened compared to older age groups since the pandemic

Younger households (headed by an individual aged under 35) have seen the sharpest deterioration in mortgage affordability since 2021–22. The share of income these households spent on mortgage costs rose from 27 per cent in 2019–20 to 34 per cent in 2022–23. This is the highest of share of any age group (Chart 5.16) (ANU CSPR, 2023).

Differences in rental affordability across age groups are not as prevalent among renter households (Chart 5.17) (ANU CSPR, 2023). Rental affordability for each age group has remained relatively stable for 3 decades, with a slight improvement in all age groups in recent years. This apparent stability reflects similar growth rates in rental payments and household income across age groups.

It remains more affordable for younger households to rent than to hold a mortgage, due to rising housing prices and interest rates. However, these factors make it harder for renters to enter the home ownership market. These households are much less likely to have sufficient savings to meet deposit requirements for home ownership (Finlay and Price, 2014).

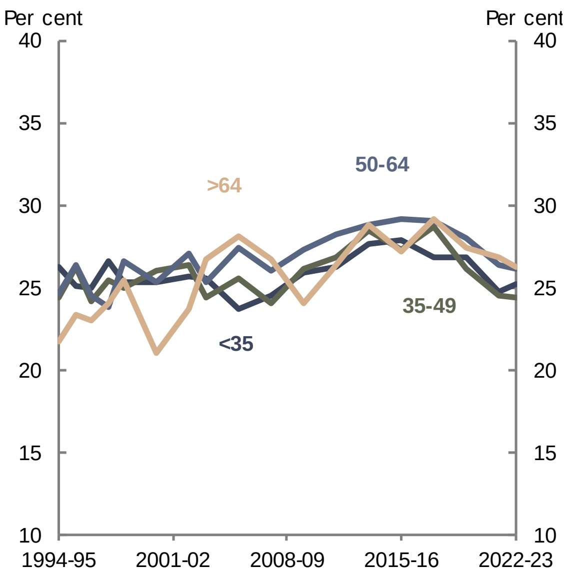
Chart 5.16 Mortgage cost-to-income ratio, by age



Note: Mean ratio of housing costs to disposable household income, by age. Projections for 2021–22 and 2022–23 years are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

Chart 5.17 Rent-to-income ratio, by age

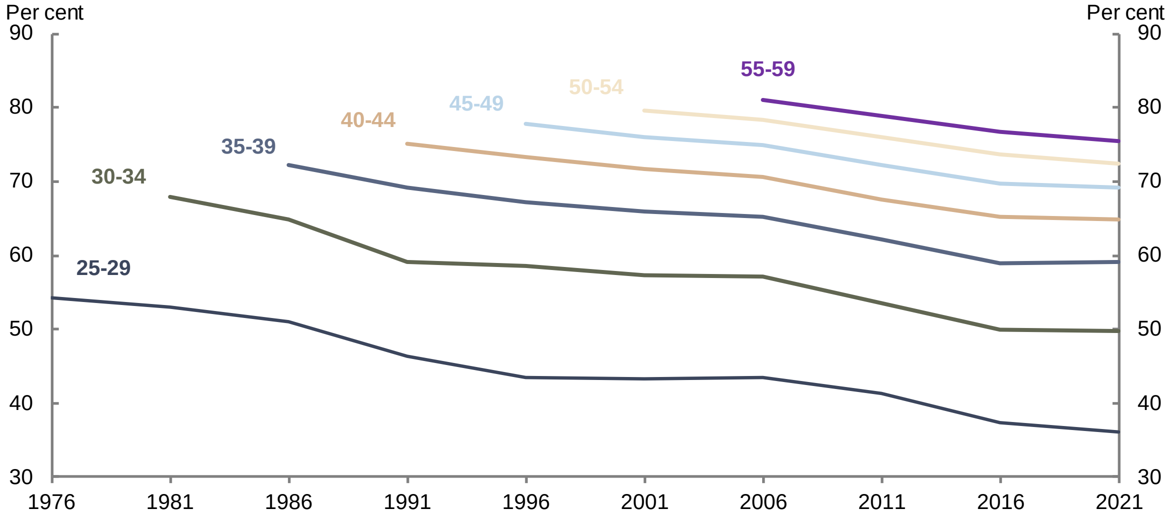


Note: Mean ratio of housing costs to disposable household income, by age. Projections for 2021–22 and 2022–23 years are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

The relatively high mortgage-cost burdens faced by younger households are associated with lower home ownership rates compared to older households (Chart 5.18) (AHURI, 2023; AIHW, 2023a). Home ownership rates for most age groups have been declining for decades, although this downward trend is most apparent for households aged between 25–29 years and 30–34 years. These age groups had home ownership rates of 36 per cent and 50 per cent respectively in 2021.

Chart 5.18 Home ownership rate, by age

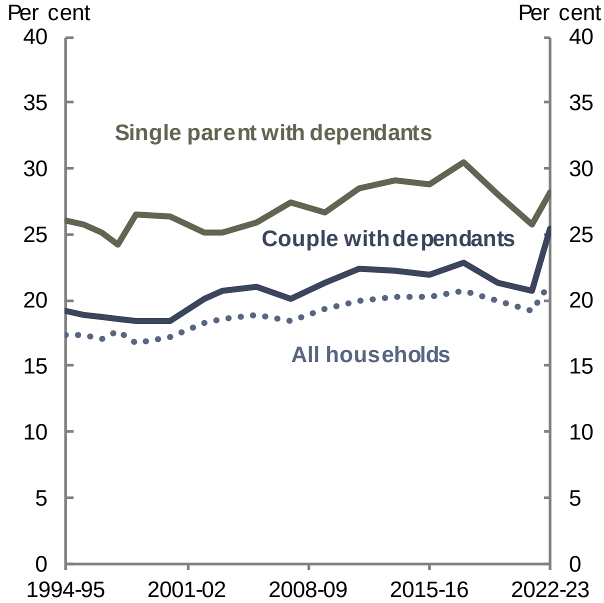


Source: AIHW 2023; ABS 2021 Census; NHSAC 2024.

5.3.3 Government assistance during the pandemic temporarily relieved affordability pressures for vulnerable households

Affordability pressures are typically most acute among more vulnerable households. For instance, housing affordability for single parents with dependants remains worse than housing affordability for couples with dependents (Chart 5.19) (ANU CSPR, 2023). Renters with disability also have a higher-than-average likelihood of experiencing unaffordability (Chart 5.20) (ANU CSPR, 2023).

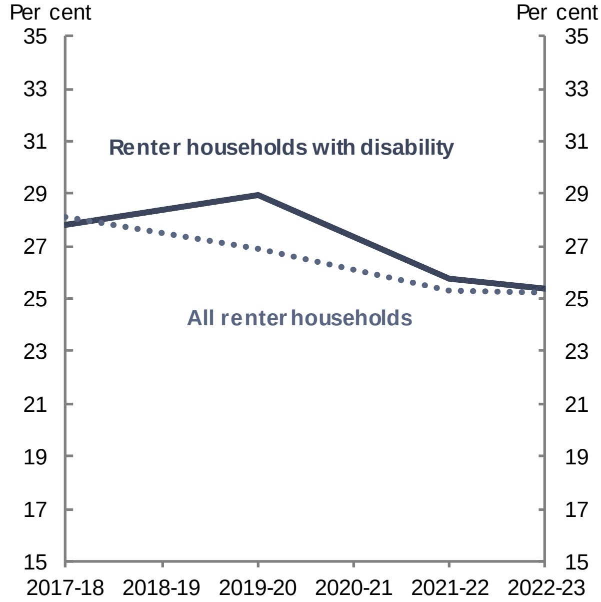
Chart 5.19 Housing cost-to-income ratio, by family type



Note: Mean ratio of housing costs to disposable household income. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

Chart 5.20 Housing cost-to-income ratio for renters with disability



Note: Mean ratio of housing costs to disposable household income. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

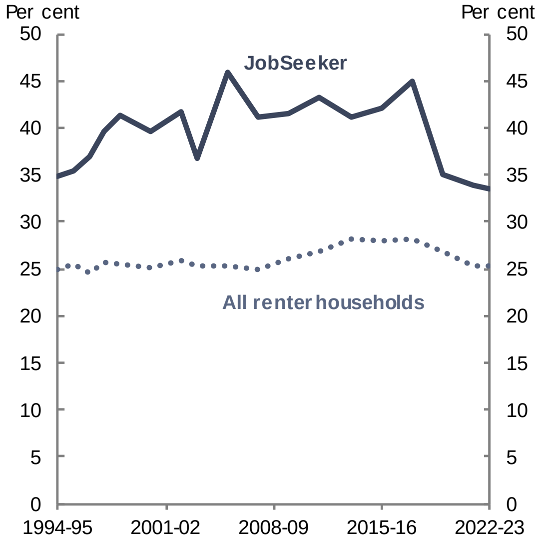
Source: ANU CSPR PolicyMod 2023.

While single parents face higher housing cost burdens than couples with dependants and the average household, this affordability gap has narrowed since 2021–22. The affordability gap between renters with disability and the average renter household has also closed (Chart 5.20) (ANU CSPR, 2023). This is likely due to temporary and ongoing government income support for lower-income households.

Renter households with JobSeeker as their primary income experienced an improvement in housing affordability since the pandemic (Chart 5.21) (ANU CSPR, 2023). Renter households that receive CRA have also seen improved affordability in recent years (Chart 5.22) (ANU CSPR, 2023).[20] However, the average rental-cost burden for this group remains high relative to the national average. This suggests a need to better target CRA to groups in housing stress (Ong ViforJ, et al., 2024).

20 JobSeeker and CRA recipients depicted in Charts 5.21 and 5.22 are not mutually exclusive. To qualify for CRA, a person or family must also qualify for an eligible social security payment, such as JobSeeker.

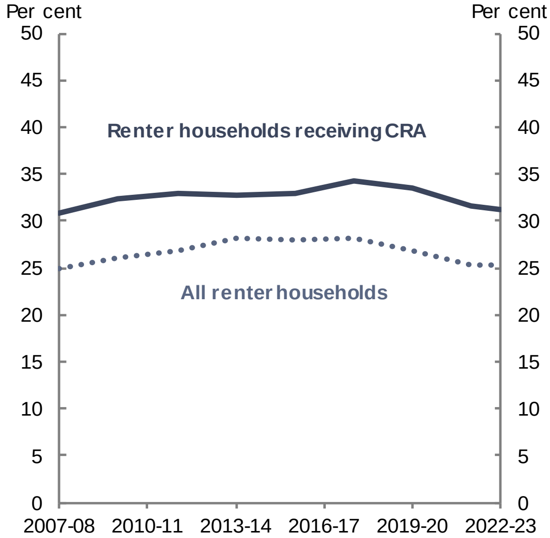
Chart 5.21 Housing cost-to-income ratio for renters with JobSeeker as their main income



Note: Mean ratio of housing costs to disposable household income. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

Chart 5.22 Housing cost-to-income ratio for renters receiving CRA



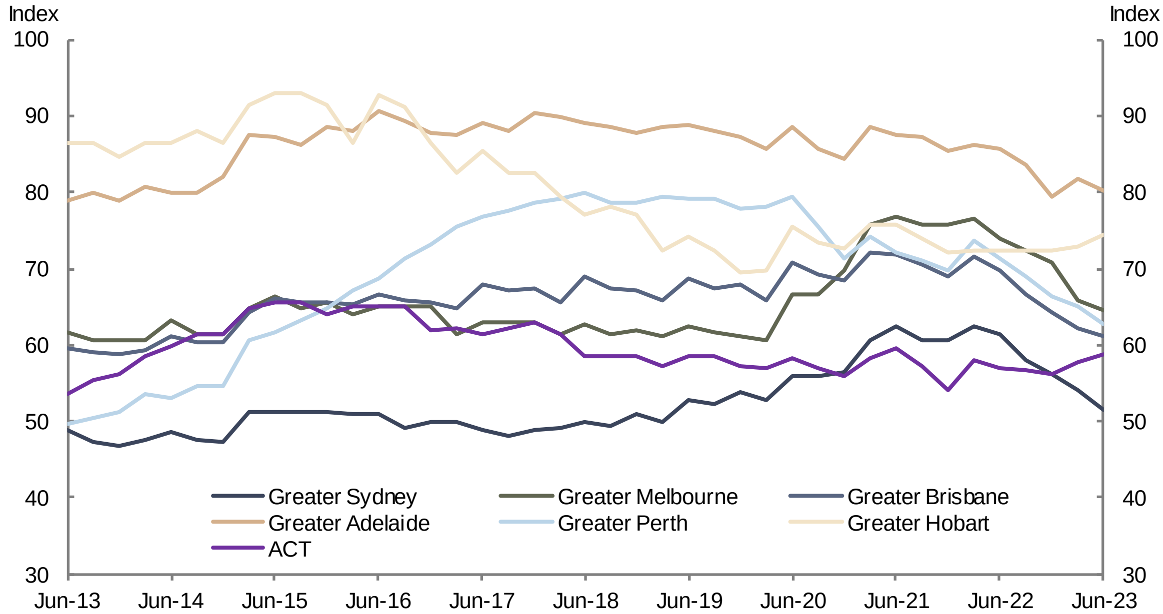
Note: Mean ratio of housing costs to disposable household income. Projections for 2021–22 and 2022–23 are based on 2019–20 ABS SIH data.

Source: ANU CSPR PolicyMod 2023.

Rental affordability has also deteriorated for vulnerable households seeking to take up new leases. The Rental Affordability Index (RAI), developed by SGS Economics & Planning, is an index that tracks changes in rents, as notified by rental bond lodgements, against the incomes of different household types (SGS Economics & Plannning, 2023c). This includes pensioners, single persons on JobSeeker, single parents working full time, single-income couples with children, minimum wage couples and hospitality workers, among other groups of people.

The RAI indicates major affordability challenges are prevalent across Australia. For example, the RAI for pensioner couples ranges from 52 (Sydney) to 80 (Adelaide), signifying households would need to pay 38 per cent and 58 per cent of their incomes respectively in rent were they to take a new lease in the market at June 2023 (Chart 5.23) (SGS Economics & Plannning, 2023c). Almost half of all retirees who rent live in poverty (Treasury, 2020). With less capacity to increase income, or relocate to cheaper housing, older Australians who live in private rental housing may be more vulnerable to rising rents (AIHW, 2023a).

Chart 5.23 Rental Affordability Index, pensioner couple



Note: An index score of 51–80 represents 38–60 per cent of income spent on rents, representing severe unaffordability.
Source: SGS Economics & Planning Rental Affordability Index 2023.

5.4 The experience of housing stress can affect a range of wellbeing measures

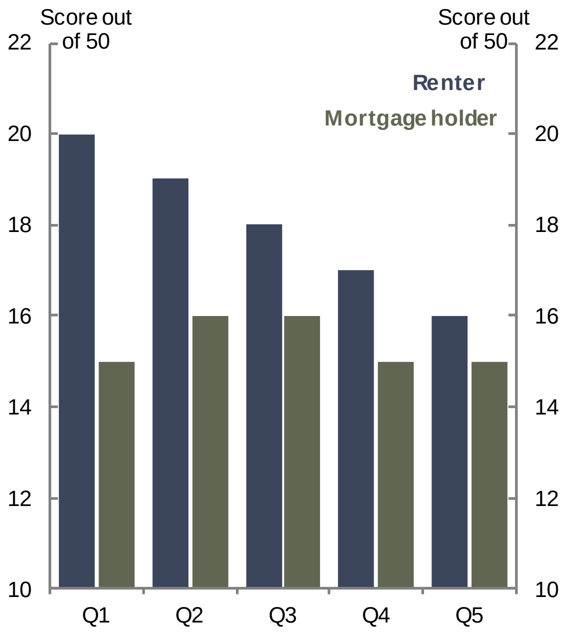
While measures based on the ratio of housing costs to household income provide a broad indication of housing affordability, they do not fully capture the experience of housing stress, including financial and psychological wellbeing, as well as other trade-offs that people may need to make (Rowley and Ong, 2012). To evaluate the wellbeing of households across different tenures, this section analyses data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey (Watson and Wooden, 2012).

5.4.1 Renters, particularly those on lower incomes, have lower psychological and financial wellbeing than mortgagors

Many people who have experienced poor levels of housing affordability are also likely to report lower financial and psychological wellbeing – especially renters (Botha, et al., 2024).

Renters reported higher levels of psychological stress than mortgage holders across the income distribution in 2021 (the latest available data) as determined by the Kessler Psychological Distress Scale (Chart 5.24).[21] The median score for renters was higher than for mortgage holders in the lowest income quintiles. This indicates a median low-income renter may have experienced moderate psychological distress in 2021, while the median low-income mortgage holder was likely to have experienced low psychological distress. The pandemic had a negative impact on the wellbeing of renters across Australia, with most renters experiencing reduced mental wellbeing during that period (Oswald, et al., 2022).

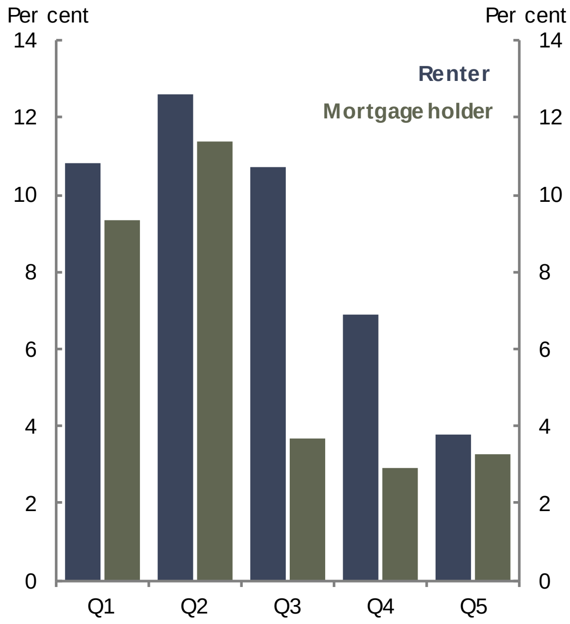
Chart 5.24 Psychological distress



Note: Median score using Kessler Psychological Distress Scale for responding persons, by equivalised disposable household income quintile,[22] in 2021. Income quintile derived separately for each tenure group. Excludes not stated responses. Data is population-weighted.

Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

Chart 5.25 Could not pay mortgage/rent on time due to a shortage of money



Note: Share of responding persons, by equivalised disposable household income quintile, in 2022. Data is population-weighted. Income quintile derived separately for each tenure group. Excludes not stated responses.
Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

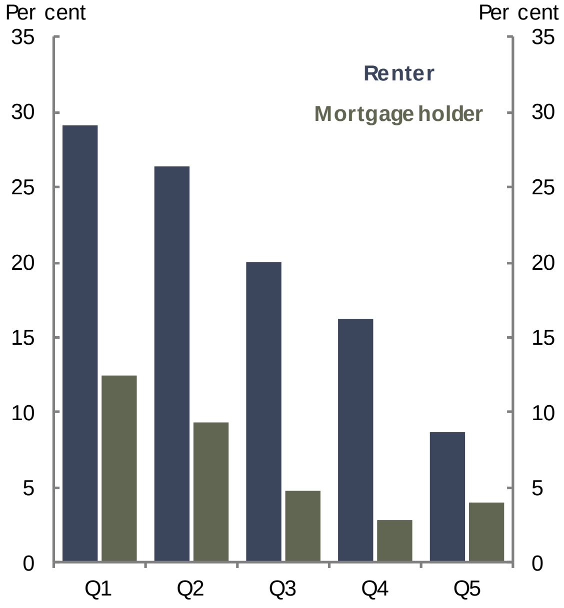
21 A higher Kessler score represents a higher level of stress, with a score of 20 typically indicating the respondent is likely to have a moderate level of psychological distress.

22 Equivalised disposable household income adjusts for differences in household size and composition, allowing economic wellbeing of households to be compared. The modified OECD equivalence scale is used.

Lower-income households (those in the bottom 2 income quintiles) have faced high levels of broader financial stress. Around one in 10 households in the bottom 2 income quintiles reported that they were unable to pay mortgage or rent on time on at least one occasion in 2022 (Chart 5.25). Despite rental payments typically being lower than mortgage payments, the share of renters behind on rent payments was larger than the share of mortgagees in every income quintile. This may reflect mortgage holders typically having higher incomes and larger savings buffers than renters.

A much larger share of renters than mortgage holders also asked for financial assistance from family or friends at least once in 2022 (Chart 5.26). The share of renters who asked for financial help was greater than the share of mortgage holders in every income quintile in 2022. More than one in 4 renters in the lowest 2 income quintiles asked for financial help, compared to around one in 10 mortgage holders, reflecting greater financial stress among renters.

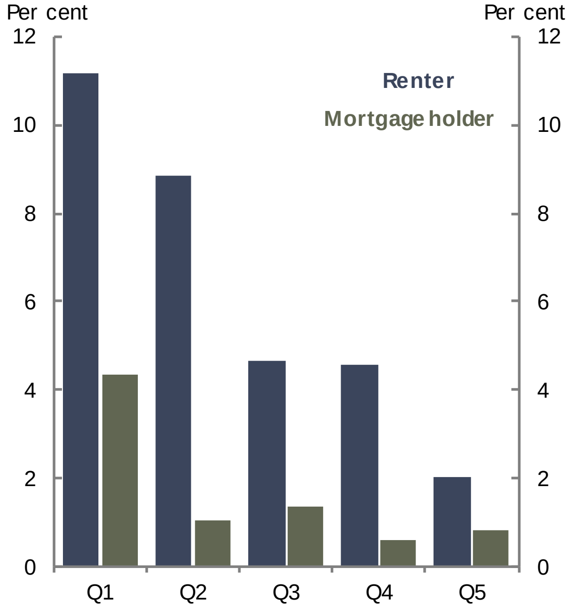
Chart 5.26 Asked financial help from family/friends due to a shortage of money



Note: Share of responding persons, by equivalised disposable household income quintile, in 2022. Excludes not stated responses. Data is population-weighted. Income quintiles derived separately for each tenure group. Excludes not stated responses.

Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

Chart 5.27 Unable to heat home due to a shortage of money



Note: Share of responding persons, by equivalised disposable household income quintile, in 2022. Excludes not stated responses. Data is population-weighted. Income quintiles derived separately for each tenure group. Excludes not stated responses.

Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

Renters – particularly low-income renters – report a lower capacity to heat their homes. In 2022, over one in 10 renters in the lowest income quintile were unable to heat their homes, compared to one in 25 mortgagors in the same quintile (Chart 5.27).

The same pattern is reflected across the income distribution, with higher income renters reporting higher rates of inability to heat their home than higher-income mortgagors. Rental housing tends to be less energy efficient and therefore generates higher energy costs than owner-occupied housing. The large share of renters unable to heat their home in 2022 is consistent with recent findings that rental homes in New South Wales, Victoria, Tasmania and the Australian Capital Territory are typically colder than 18 degrees for more than 80 per cent of the time (Convery, 2022). Although the World Health Organization considers 18-22 degrees to be a 'safe indoor temperature,' these rental properties are below this range for long periods. Similarly, renters can experience difficulties cooling their homes in hot weather. According to a recent study, temperatures for rental properties were excessive (over 25 degrees) for more than 45 per cent of the time in the summer of 2022–23 (Barrett, et al., 2023).

5.4.2 Many people are forced to make trade-offs amid affordability pressures

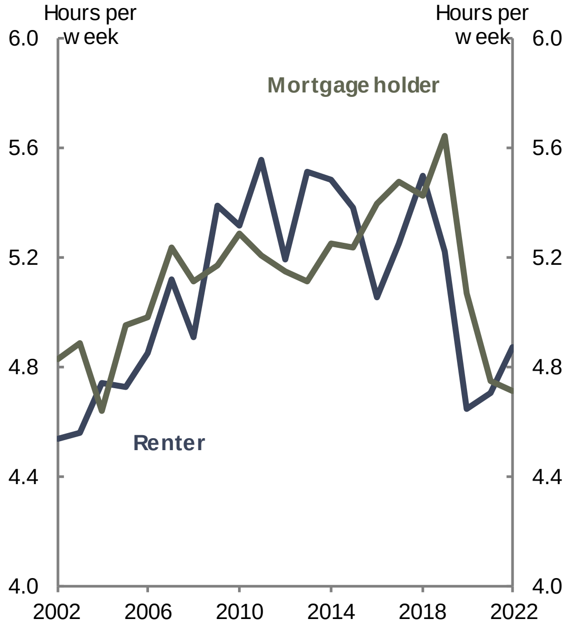
As housing affordability pressures have risen for many Australians, some have made trade-offs, such as living further away from employment or in locations that do not match their preferences. As discussed in Chapter 2, living further away from workplaces and amenities can incur higher commuting costs, with adverse impacts on wellbeing and productivity for the economy (Maclennan, et al., 2021).

Between 2002 and 2019 the average number of hours people spent traveling to work each week, increased for mortgage-holders and renters (Chart 5.28).[23] While this can be attributable to a number of factors, including the gradual expansion of cities over time, a key driver is likely the long-running affordability pressures that have forced people to live further away from places with work opportunities (Maclennan, et al., 2015). Changes to working arrangements since the pandemic, including increased working from home, have largely offset this increase with a sharp drop in hours spent travelling to work over 2020 and 2021 (Chart 5.28).

The distance between work and home increased for many workers between 2021 and 2022 – particularly for renters. Renters tend to live closer to their workplaces than mortgage holders. A much larger share of renters live within 0 to 9 kilometres of their workplace compared to mortgage holders (Chart 5.29). In 2022, a notable share of workers moved out of the suburb where they work (zero-kilometre distance) into a 1 to 9 kilometre distance range from their workplace. This increase in the average distance between home and work for renters is consistent with rising rental pressures for some in 2022. It may also partly reflect a reversion to pre-pandemic trends.

23 The long-run increase in the number of hours spent travelling to work may also reflect infrastructure failing to keep up with population growth, leading to traffic congestion.

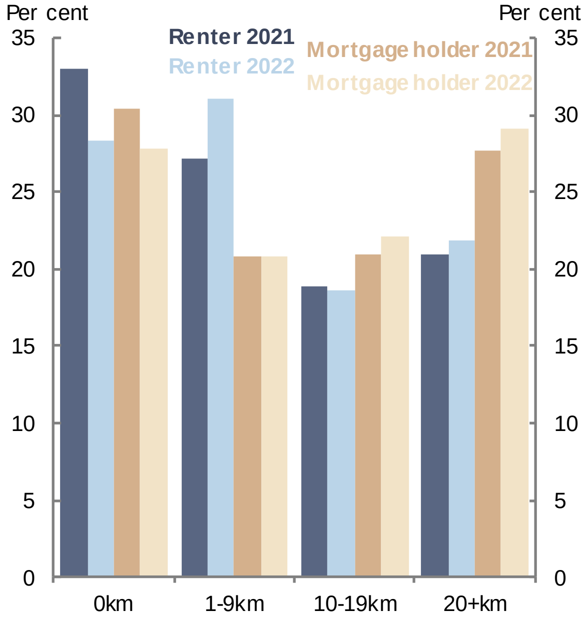
Chart 5.28 Hours spent travelling to and from work



Note: Mean number of hours for share of responding persons, 2022. Excludes zero hours travelled and refused/not stated responses. Data is population-weighted.

Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

Chart 5.29 Distance between work and home (share of workers in each distance range)



Note: Proportion of people in each tenure and year categorised by different travel distances to work, defined as main job location distance between work and home ASGS postal area centroids. 0km indicates that the home address postcode is the same as the workplace postcode. Data is population-weighted.

Source: HILDA Survey, Restricted Release 22 2024; NHSAC 2024.

Chapter 6: Homelessness and marginal housing

Chapter description

This chapter considers the complex and multifaceted problem of homelessness. Homelessness is the most extreme form of housing stress in Australia's housing system and is correlated with a decline in housing affordability, particularly for low-income individuals. Due to its complexity, the issue of homelessness is considered independently of the other aspects of the Australian housing system in this report. This chapter examines the current incidence, risk factors and impacts of homelessness. It highlights that there are households that may be at risk of homelessness, or in marginal housing, but they are not captured within current data collection.

Key points

- The number of people experiencing homelessness has increased, correlating with a decline in housing affordability. There are also increasing numbers of those who are marginally housed or at risk of homelessness.
- The homelessness rate in Australia remains among the highest in OECD countries.
- Australia's homelessness service system is under pressure to keep pace with demand.
- The causes of homelessness are diverse but can be broadly divided into structural and individual risk factors. The experience of homelessness is diverse across different cohorts and geographic regions.
- Homelessness significantly impacts individuals' physical and mental health and wellbeing.

6.1 More Australians are facing homelessness and housing insecurity

A range of complex issues contribute to individuals experiencing homelessness. In acknowledgement of this complexity, the issue of homelessness is considered separately to other aspects of tenure discussed in this report.

Declining housing affordability, correlates with an increase in the numbers of people experiencing homelessness. At the 2021 Census, 122,494 people were estimated to be experiencing homelessness across Australia – a rise from 116,427 people in 2016 (ABS, 2023c). More up-to-date data is not available. However, stakeholders agreed that the decrease in housing affordability since the 2021 Census has further increased the incidence of homelessness and marginal housing. The homelessness rate in Australia remains among the highest in OECD countries as at 2021 (OECD - Social Policy Division, 2021).

Homelessness is a significant societal problem and is not an inevitable part of the housing system. Rather, homelessness is a complex issue that reflects one of the most extreme forms of housing stress in Australia's housing system. Those experiencing or at risk of homelessness are often among Australia's most socially and economically disadvantaged (AIHW, 2024a). Homelessness may be a result of personal vulnerabilities such as poor mental health. But at a population level, changes in the level of homelessness can 'substantially be attributed to changing housing market conditions and/or the (in)adequacy of policy responses to these' (Pawson, et al., 2018; Pawson, et al., 2020).

There is no single definition of homelessness in OECD countries (OECD - Social Policy Division, 2021). In Australia, commonly used definitions are developed by the ABS and AIHW. The ABS defines homelessness as applying to those: whose living arrangements are in an inadequate dwelling; have no, or a lack of, security of tenure; or have a lack of privacy, safety or ability to control one's living space (ABS, 2012). The AIHW, who are responsible for specialist homelessness services data collection, defines homelessness as those living in non-conventional accommodation or sleeping rough, in short-term or emergency accommodation, due to a lack of other options (AIHW, 2024a).

The causes of homelessness are complex and are often cumulative. Structural drivers such as diminished access to affordable housing, poverty, intergenerational social disadvantage, systemic racism and lack of adequate income or income support intersect with individual drivers such as domestic and family violence, unemployment, disability, mental health and trauma (Johnson, et al., 2015). Individuals in vulnerable and disadvantaged cohorts often lack protective factors to help counter 'life shocks', such as job loss, sudden changes in health status or relationship breakdown, increasing the risk of experiencing homelessness.

6.2 Australia's housing and homelessness support system is under pressure

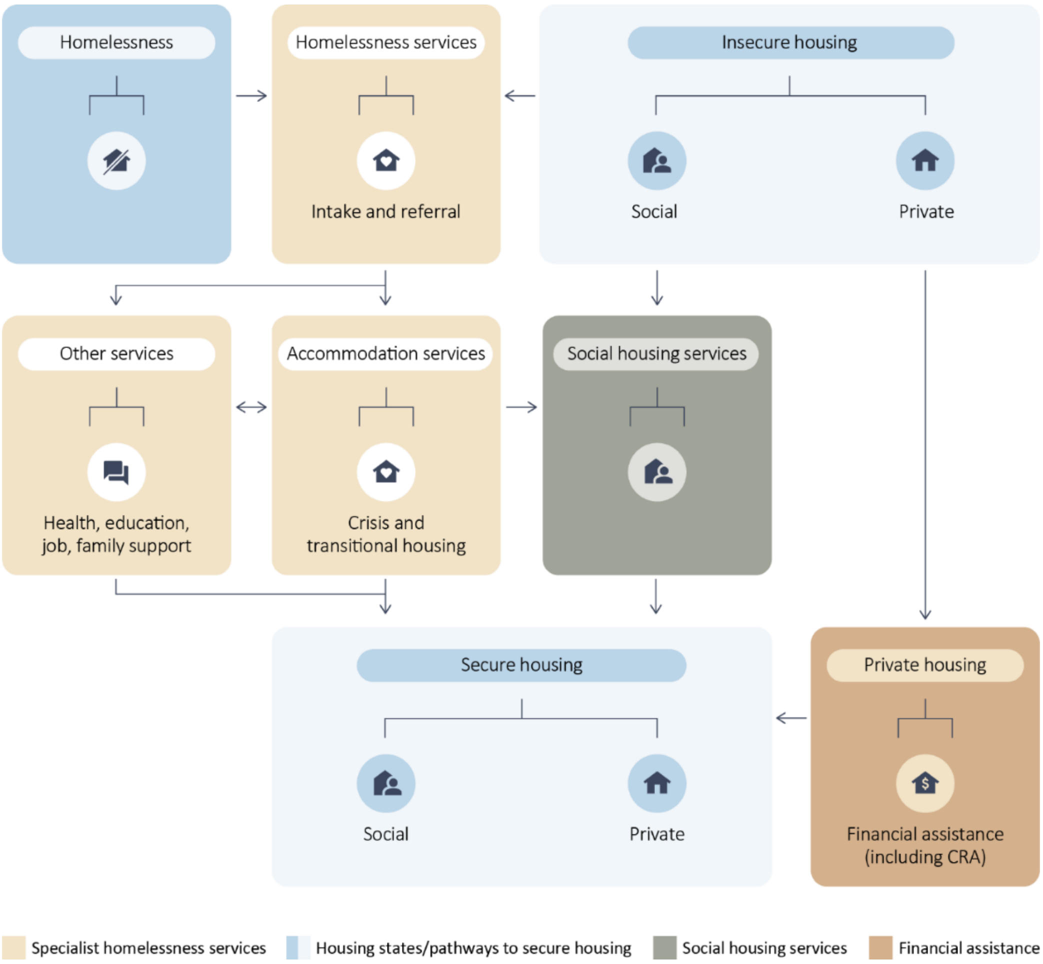
In the Australian housing system, each state and territory is responsible for delivering homelessness services within their jurisdiction. They are assisted by the National Housing and Homelessness Agreement (NHHA), an agreement between the Australian Government and each state and territory. In addition, a range of non-government and not-for-profit organisations provide services, including specialised services for specific cohorts. This social safety net is increasingly under pressure, as housing affordability continues to decline. The increase in individuals and households experiencing difficulties with affordability is also reflected in a 23 per cent increase, from 35,147 in July 2017 to 43,194 in December 2023, in those seeking assistance from specialist homelessness services due to financial reasons (AIHW, 2024c).

Record-low vacancy rates and increasing rents in private rental markets across much of Australia mean limited private rental accommodation is available, pushing more people into marginal or insecure tenure arrangements. Affordability across the private market is challenging for many individuals and single-parent families on income support (SGS Economics & Planning, 2023a). In 2021, the shortage of affordable housing for households in the lowest income quintile increased to 255,000 from 212,000 in 2016 (Reynolds, et al., 2024). When factoring in the use of some of this affordable stock by higher income households, the shortage of homes deteriorated further to 348,000 dwellings – an increase from 305,000 dwellings in 2016 (Reynolds, et al., 2024). This can be further exacerbated by discrimination experienced throughout the private rental system. Discrimination may occur during property procurement and investment prior to the search for a rental property, through to eviction from the property (Maalsen, et al., 2021).

Stakeholders raised concerns regarding specialist homelessness services being under increasing pressure and the system's capacity to offer affordable and secure long-term housing. For example, the lack of long-term housing options undermines the effectiveness of targeted programs (Habibis, et al., 2011; Phillips and Parsell, 2012; Spinney, 2011; Brackertz, et al., 2020). Increasing access to affordable, secure housing has been shown to substantially reduce homelessness as it is a strong protective factor (Brackertz, et al., 2018; Johnson, et al., 2015). Access to housing prevents homelessness and supports recovery for people who have experienced a range of difficulties such as family and domestic violence or poor mental health. This aligns with the Housing First model, which has been used in an international context as an effective means of addressing homelessness (Box 6.1).

Additionally, the system of support for those at risk of, or experiencing, homelessness is convoluted and complex. It often relies on individuals having the capacity to engage with specialist homelessness services or other supports (Figure 6.1).

Figure 6.1 Supports for those experiencing, or at risk of, homelessness



Source: Productivity Commission, Report on Government Services, Housing and Homelessness (Part G), 2024.

Australia's broad definition of homelessness (OECD - Social Policy Division, 2021) and the complexity of the support systems, results in issues with the adequacy of data collection. Estimates of homelessness rely on Census data, which is only collected every 5 years, and AIHW Specialist Homelessness Services data collection, which counts the number of presentations to services, not individuals. As a result, many Australians who face stresses in the housing market that put them at risk of homelessness are not captured in current data. Different individuals engage with specialist homelessness services, compared to who is counted through the Census, making it difficult to quantify the exact number of people who require assistance.

Box 6.1 Housing First model

Housing First is a service model developed in the United States, which emphasises rapid placement of chronically homeless people in long-term affordable housing. This rapid placement is used to stabilise people's housing situation, and includes the provision of wrap around services including health, and drug and alcohol services. The model separates the provision of housing and support systems and provides choice for the individual as to where and how they live (AHURI, 2020). This model has been important in informing homelessness responses overseas and has been raised by stakeholders as a framework to be considered in the Australian context. One of the most successful implementations of the Housing First model is in Finland, where underpinning the policy is the notion that having a place to live is a basic human right. The policy began in 2008, and by 2015, all crisis and temporary accommodation shelters had closed (Y-Foundation, 2017).

A review of evidence in Australia and overseas found that the Housing First model:

- has been highly effective in providing housing stability
- enables access to services and improves some (though not all) non-housing outcomes
- cost-effectively supports people experiencing chronic homelessness with complex and high needs (Roggenbuck, 2022).

Australian researchers have pointed out that elements of the Housing First model have been apparent in Australia's specialist homelessness programs for some time, as most providers do not make obtaining long-term housing contingent on receiving treatment or making behavioural changes (Johnson, et al., 2012). However, many programs still follow a 'stepped' housing model, with people notionally moving along linear pathways (from crisis to transitional accommodation to long-term housing), when in reality they are likely to cycle in and out of crisis accommodation (Brackertz, et al., 2020). The issue is the shortage of affordable housing and lack of long-term viable housing pathways, rather than issues with programs (AHURI, 2020).

6.2.1 Expenditure on homelessness services

The total real spending by states and territories on homelessness services increased by 21.9 per cent from 2018–19 to 2020–21 (Productivity Commission, 2024). This increase was tied to a broader increase in government spending on social services during the COVID period. Funding increases slowed post-pandemic, growing by only 0.6 per cent from 2021–22 to 2022–23 (Chart 6.1) (Productivity Commission, 2024). Per person, real expenditure on homelessness services has fallen from $53.86 per person in 2021–22 to $53.15 in 2022–23 (Productivity Commission, 2024).

Estimates of the spending per person experiencing homelessness are difficult to undertake due to under reporting of those experiencing homelessness. However, a comparison of 2020–21 spending on homelessness services by states and territories, against the 2021 Census estimates of homelessness, demonstrates that higher spending on homelessness services is not necessarily due to higher numbers of people experiencing homelessness (Chart 6.1).

Victoria has the highest aggregate spending on homelessness services, and the highest spending per person experiencing homelessness in 2021. In terms of spending per capita, Victoria is higher than most states and territories, except for the Northern Territory (Chart 6.1).

The Northern Territory faces the unique position of having lower spending per person experiencing homelessness, but a real per person level of spending far higher than the national level. This increased to $250.92 per person in 2022–23 (Productivity Commission, 2024). This reflects a higher proportion of those experiencing homelessness in the Northern Territory and the unique challenges faced in addressing homelessness, including providing services and housing in very remote regions (ABS, 2023c).

Chart 6.1 State and territory expenditure on homelessness services per person experiencing homelessness and per person in 2021

Source: Productivity Commission, Report on Government Services, Housing and Homelessness 2024 (Part G); ABS, 2021 Census; NHSAC.

6.3 The number of individuals experiencing homelessness continues to rise

The decrease in housing which is affordable to those on lower incomes has impacted the number of individuals who have experienced homelessness. This has become particularly acute for those receiving income support, where only 6 properties (all rooms in share houses) of the 45,000 surveyed in the 2023 Anglicare Rental Affordability Snapshot were affordable for a single parent on the JobSeeker payment (Anglicare Australia, 2023).

At the 2021 Census, homelessness had increased by 36 per cent (89,733 people in 2006 compared to 122,494 in 2021) (ABS, 2023c). Severely overcrowded dwellings, the most common and one of the fastest growing type of homelessness, rose by 52 per cent, from 31,527 people in 2006 to 47,895 people in 2021, though this peaked in the 2016 Census (Chart 6.2) (ABS, 2023). This increase is also reflected in the share of specialist homelessness services clients whose accommodation needs were not met, which rose from 32.3 per cent in 2020–21 to 33.9 per cent in 2021–22 (Productivity Commission, 2024). The overall rate of homelessness has stayed relatively steady, ranging between 45 and 50 people per 10,000 between 2006 and 2021, with 48.2 per 10,000 in the 2021 Census (AIHW, 2024a).

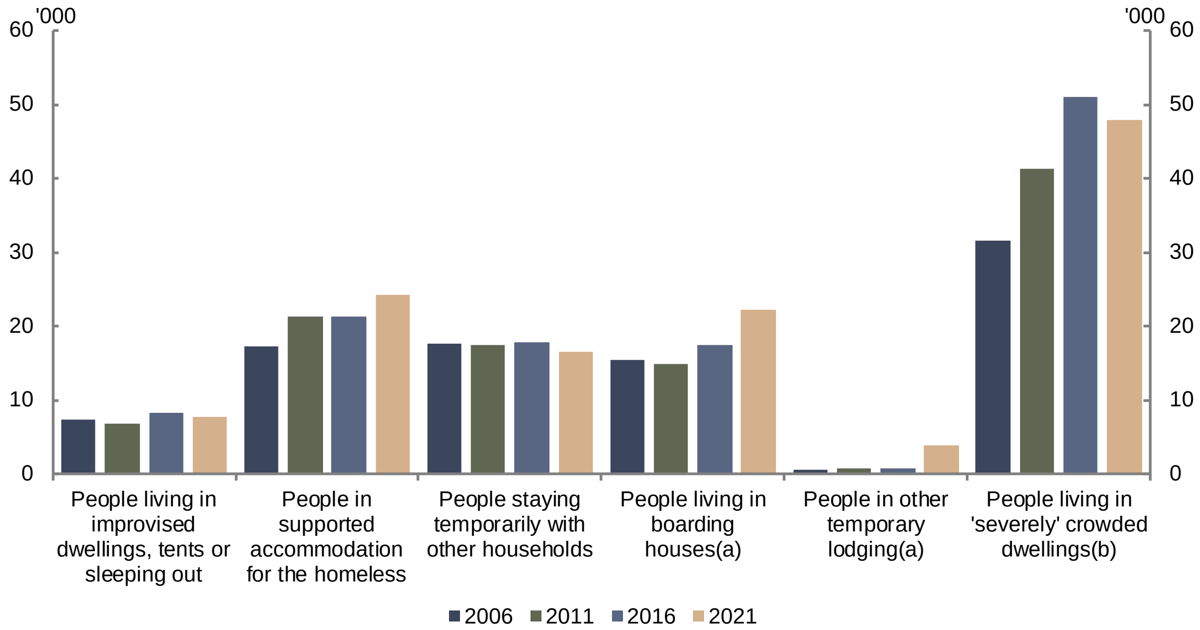
The ABS Census is generally used to establish a baseline of those experiencing homelessness. The ABS uses 6 operational groups for presenting estimates:

1. people living in improvised dwellings, tents or sleeping out
2. people living in supported accommodation for the homeless

3. people staying temporarily with other households
4. people living in boarding houses
5. people in other temporary lodgings
6. people living in ‘severely’ crowded dwellings (ABS, 2023c).

Chart 6.2 illustrates the changes across these operational groups from 2006 to 2021.

Chart 6.2 Counts of people experiencing homelessness by operational group



Note: (a) Data for 2021 is not directly comparable with previous censuses due to improvements in data quality.
(b) Usual residents in dwellings needing 4 or more extra bedrooms under the Canadian National Occupancy Standard.
Source: ABS, 2023.

Severe overcrowding is classified as a form of homelessness in Australia. The measure of crowding is based on the Canadian National Occupancy Standard (Box 6.2). Australia is an exception among OECD countries in including severe overcrowding in its homelessness definitions (Standing Committee on Social Policy and Legal Affairs, 2021). Two in 5 Australians (39.1 per cent) who are experiencing homelessness live in ‘severely’ crowded dwellings.

Box 6.2 Overcrowding and homelessness

Households are considered overcrowded if they are estimated to require 3 extra bedrooms, according to the Canadian National Occupancy Standard. Persons living in overcrowded dwellings are considered a marginal housing group and may be at risk of homelessness. Persons living in severely overcrowded situations (households requiring 4 or more extra bedrooms) are considered homeless and are included in homelessness estimates.

Canadian National Occupancy Standard

The Canadian National Occupancy Standard assesses the bedroom requirements of a household based on these criteria:

- There should be no more than 2 persons per bedroom.
- Children less than 5 years of age of different sexes may reasonably share a bedroom.
- Children 5 years of age or older of opposite sex should have separate bedrooms.
- Children less than 18 years of age and of the same sex may reasonably share a bedroom.
- Single household members 18 years or older should have a separate bedroom, as should parents or couples.

(AIHW, 2017)

6.3.1 Marginal housing

Through consultations, stakeholders raised concerns about increasing numbers of households that were marginally housed or at risk of homelessness.

The ABS compiles estimates from Census data for the following groups of people who are considered to be 'marginally housed':

- people living in other crowded dwellings (3 additional bedrooms required)
- people in other improvised dwellings
- people housed in caravan parks (ABS, 2023c).

In particular, the number of people living in other crowded dwellings has increased significantly since the 2006 Census, from approximately 43,000 to 81,000 in 2021 (ABS, 2023c). As with the estimates for those experiencing homelessness, stakeholders indicated that the incidence of those in marginal housing has also increased since the 2021 Census. There is no other data collected for those who may be in marginal housing, or at risk of homelessness, so it is difficult to estimate how many households or individuals may be at risk.

6.3.2 Natural disasters and the impact on homelessness

Natural disasters, including events such as the 2019–20 Black Summer bushfires and flooding across Australia in 2021, 2022 and 2023, have impacted housing availability and affordability (Chapter 2), and subsequently homelessness, particularly in regional and remote areas. The impacts of the 2022 New South Wales floods resulted in over 7,000 displaced people, 14,637 damaged homes and 5,303 uninhabitable homes (NSW Department of Premier and Cabinet, 2022). In July 2022, there were still 8,000 people in emergency accommodation as a direct result of these flooding events (NSW Department of Premier and Cabinet, 2022). While these people were experiencing homelessness, it is unlikely they would be included in official counts, as the services provided are unlikely to be included within the AIHW Specialist Homelessness Services data collection.

6.3.3 Intersectionality of those experiencing homelessness

Groups of people who are overrepresented in those experiencing homelessness and housing insecurity include First Nations Australians, young people and those who are unemployed (Table 6.1).

Table 6.1 Characteristics of those experiencing homelessness at the 2021 Census and accessing specialist homelessness services in 2022–23

Characteristic		General homeless population (2021 Census)	Marginally housed (2021 Census)	Specialist homelessness services 2022–23 (RoGS)	Australian population (2021 Census)
Sex	Male	56	52	41	49
	Female	44	48	59	51
Indigeneity	Indigenous	20	15	27	3
	Non-Indigenous	67	84	67	92
	Not stated	13	1	5	5
Age	0-14 years	18	23	22	18
	15-24 years	20	22	19	12
	25-54 years	47	39	49	41
	55+ years	16	15	10	29
Employment status	Employed	23	32	17	47
	Unemployed	6	6	52	3
	Not in the labour force	33	36	31	27
	Not stated or applicable	37	26	N.A.	23
Location	Major cities	64	67	60	72
	Inner regional	14	15	22	18
	Outer regional	9	9	12	8
	Remote and very remote	14	10	6	2

Note: The Indigeneity data point reflects the proportion of the total population who identified as Aboriginal and Torres Strait Islander in the 2021 Census. The ABS estimate of the Aboriginal and Torres Strait Islander population, adjusted for net undercount as measured by Post Enumeration Survey, is 3.8 per cent (ABS, 2022d).

Source: ABS, 2024; NHSAC, 2024; Productivity Commission, 2024.

First Nations Australians made up 20.4 per cent of people experiencing homelessness on the night of the 2021 Census, despite making up 3.9 per cent of the general population. First Nations people experience homelessness at almost 10-times the rate of other Australians. Of the First Nations people experiencing homelessness, 60 per cent were living in severely crowded dwellings (Chapter 7) (ABS, 2023k).

In 2021, 20 per cent of the homeless population was aged 15-24 years old, but made up 12 per cent of the general population (ABS, NHSAC, 2024). More than a third (34 per cent) of young people presenting alone for homelessness services across Australia have experienced domestic and family violence (AIHW, 2024b).

People who are unemployed and those not in the labour force make up 6 per cent and 33 per cent of the homeless population respectively, compared to 3 per cent and 27 per cent of the general population (ABS, 2023c).

The demographic characteristics of client data for those accessing specialist homelessness services often does not correspond with the groups with the highest prevalence reported through the 2021 Census (Table 6.1) (Productivity Commission, 2024; ABS, 2023c). In 2022–23, around 273,000 clients were assisted by specialist homelessness services, with more than half (60 per cent) being women, while a third (34 per cent) were living in single-parent families (Productivity Commission, 2024). Nearly 44 per cent of clients were children or youth and 52 per cent were unemployed (Productivity Commission, 2024). By comparison, at the 2021 Census, more males were experiencing homelessness (56 per cent), with only 6 per cent indicating they were unemployed (ABS, 2023c).

6.3.4 Factors that increase the risk of homelessness

Causes of homelessness are diverse but can be broadly divided into structural and individual risk factors (Table 6.2) (Johnson, et al., 2015; Batterham, 2019). Individuals can face multiple risks, but protective factors can provide a buffer (Martin, 2014).

Table 6.2 Factors that increase or reduce the risk of homelessness

Type	Domain	Factors associated with increased risk of homelessness	Factors associated with reduced risk of homelessness (protective)
Structural	Housing market	High median rents Declines in home ownership Relative declines in the amount of social housing Discrimination	Availability of affordable housing in local area Availability and access to services
	Economic	Areas with high levels of poverty	
	Labour market	Areas with weak labour markets	Areas with high employment
Individual	General demographic	Gender Age	
	Family and social relationships	Recent violence Family and domestic violence	Marriage Dependent children Social and cultural networks
	Previous housing history	Previous episodes of primary homelessness Recent incarceration Previous engagement with state care	
	Health and use of drugs	Long-term health condition	Access to support for mental health condition
	Human capital	Low educational attainment Unemployment or not being in labour force	History of employment

Source: Adapted from Johnson, 2015.

Individual factors that contribute to homelessness often extend beyond the housing system. These can include demographic characteristics, such as gender and age (Martin, 2014), with certain cohorts at higher risk.

Cultural and social networks can influence individuals' protections against homelessness. However certain cultural practices, such as the higher rates of temporal mobility in remote First Nations communities, may pose risks for overcrowding and homelessness (Chapter 7). First Nations individuals and people from ethnically and culturally diverse backgrounds may also face problems in sustaining tenancies due to discrimination in the private rental market (Short, et al., 2008).

Family and social relationships

Strong relationships are an important protective factor against homelessness, however certain relationship factors increase the risk of homelessness.

Family and domestic violence primarily affects women, children and young people and is the main reason women present for assistance from homelessness agencies. Often insecure or unsuitable accommodation is the only alternative to escape violence. This creates further negative impacts on a person's financial position and social connections (Scutella, et al., 2013).

Sexual, physical and/or emotional abuse or neglect, particularly during childhood, increases the risk of homelessness, with 67 per cent of homeless and at risk households having experienced some form of childhood abuse or neglect (Scutella, et al., 2013).

Losing a partner through relationship breakdown or death can have significant financial implications. These may place an individual at greater risk of homelessness, and women are especially vulnerable because of historically low savings and employment security (Sharam, 2011).

Health factors

Certain health factors, such as mental health, can increase the risk of entry into homelessness. Problematic drug and/or alcohol abuse is more likely to occur following entry into homelessness (Chigavazira, et al., 2014).

Individuals with mental health disorders are significantly more likely to be at risk of homelessness, as the psychosocial and financial difficulties often associated with mental illness can lead to homelessness, or homelessness may trigger heightened mental health issues (Chamberlain and Johnson, 2011). An Australian survey of men and women experiencing homelessness found that 73 per cent of men and 81 per cent of women met criteria for at least one mental disorder in the previous year (12-month prevalence) and 40 per cent of men and 50 per cent of women had at least 2 mental disorders (Teesson, et al., 2004).

Traumatic stress or injury increases risks, with nearly all (91-100 per cent) people experiencing homelessness having experienced at least one major trauma in their lives (Robinson, 2014; Stubbs, et al., 2020). In comparison, 57 per cent of the general Australian population reported one major traumatic event in their life (O'Donnell, et al., 2014).

Previous engagement with institutions

A significant risk for homelessness is the transition out of institutional settings, which can result in people being discharged into homelessness.

Homelessness is a significant risk immediately following discharge from incarceration in Victoria and New South Wales (Baldry, et al., 2006). This risk is not linked with the amount of time spent incarcerated (Johnson, et al., 2015), but lack of housing support post-incarceration, which may create a cycle of recidivism (Mitchell, et al., 2023).

People leaving hospital, a psychiatric hospital or unit, disability support, rehabilitation, an aged care facility, foster care, child safety residential care or who are transitioning from other care arrangements are also at risk of homelessness without support. Young people in particular are at elevated risk of homelessness after leaving out-of-home care (Johnson, et al., 2010).

Military veterans have a higher rate of homelessness over a 12-month period (5.3 per cent), compared to the general population (1.9 per cent) (Hilferty, et al., 2021). Veterans are likely to have similar risk factors to the broader homeless population, but also deal with increased levels of post-traumatic stress disorder and psychological stress.

Previous experience of homelessness raises the likelihood of entering homelessness again (Johnson, et al., 2015). This is especially so for those who experienced homelessness as children, as they are more likely to have lower educational attainment and experience greater difficulties in gaining employment later in life (Cobb-Clark and Zhu, 2015).

Climate change

Beyond structural and individual factors, it is worth highlighting climate change as an increasing factor which may increase the risk of homelessness, especially through the increased prevalence of natural disasters (Chapter 2). A report by the Internal Displacement Monitoring Centre, found that the number of displacements in Australia between 1 January and 31 December 2019 due to disasters was 25,000 people, more than double the number reported in 2018 (Walden, 2020). The majority of those were during the 2019–20 Black Summer bushfire season (Walden, 2020). Without the appropriate emergency housing services for those affected by severe weather events and other natural disasters, these internally displaced people are at increased risk of homelessness, especially women (Hassan, et al., 2023). In April 2022, over two years after the 2019–20 Black Summer bushfires, only 15 of the 120 homes which burnt down in the town of Mallacoota, Victoria, had been rebuilt. This impacted the affordability of remaining accommodation and people’s ability to live in areas where there is employment (Lucas, 2022).

6.3.5 Impacts of homelessness

Homelessness is an extreme expression of housing disadvantage. It creates significant impacts on the physical and mental health and wellbeing outcomes of individuals. Those experiencing homelessness are often heavy users of government services, including justice, health and welfare services (Zaretzky and Flatau, 2013; Zaretzky, et al., 2013a).

Mental health and homelessness are often concurrent issues for individuals. Mental illness is a key risk factor in those experiencing homelessness, and homelessness exacerbates existing mental health issues (Costello, et al., 2013; Phillips and Parsell, 2012). People with mental health issues are at greater risk of homelessness due to:

- uncoordinated service systems
- poor support networks
- social isolation
- high levels of stigmatisation within the service system and society more generally (Costello, et al., 2013).

Homelessness is often traumatic and people experiencing it may be escaping traumatic situations or experiencing intergenerational trauma and are not receiving adequate treatment (AIHW, 2022a).

Poor mental health is also a concern for people who are living in marginal housing. This can include housing that is unaffordable, unsuitable and/or insecure. Insecure housing and overcrowded housing can indirectly affect mental health and wellbeing through increased stress, impacting on a person's sense of stability and control in their lives (Foster, et al., 2011). Meanwhile, secure tenure lessens mental stress and allows for consistent access to healthcare.

For children and young people, homelessness presents a barrier to education outcomes. Children are likely to be less engaged in the classroom, and frequent school moves are often associated with poor academic achievement (Fantuzzo, et al., 2012). Additionally, the severe stress of experiencing homelessness can cause significant psychological distress for children, and children experiencing homelessness are at great risk of hunger and ill health (Dockery, et al., 2010).

There are broader societal impacts and costs of homelessness. Stakeholders observed that assisting people after they have entered into homelessness is likely a greater cost than preventing homelessness in the first place. According to an actuarial study undertaken as part of the New South Wales Government's 2021 *Pathways to Homelessness* report, people who use homelessness services cost governments nearly 4-times more than the general New South Wales population (NSW Department of Communities and Justice, 2021).

People accessing specialist homelessness services also had a markedly higher use of other government services, mostly health and justice services, compared to the broader population, often greater than 10-times higher (NSW Department of Communities and Justice, 2021). A 2017 analysis in Victoria produced similar findings where providing homeless people with emergency accommodation significantly reduced health and justice costs (Witte, et al., 2017).

Chapter 7: First Nations housing

Chapter description

This chapter provides information on the experiences of First Nations people in Australia's housing system. It includes an outline of previous housing policies and programs that impacted First Nations people. First Nations people constitute 3.8 per cent of the Australian population, but are disproportionately represented in more tenuous or marginal areas of the housing system, leading to significant impacts on a range of socio-economic outcomes.

Key points

- First Nations households are half as likely to own their own home (with or without a mortgage), 6 times more likely to live in social housing and 3 times more likely to live in overcrowded dwellings than non-Indigenous Australians.
- First Nations people are 8.8 times more likely to be experiencing homelessness than non-Indigenous Australians.
- Underlying factors have contributed to how First Nations people experience the housing system, including access, supply and a fragmented policy and delivery landscape, resulting in issues such as overcrowding and poor dwelling conditions.
- Poor housing has further impacts on a range of life outcomes for health and wellbeing, employment opportunities, access to education and connection to community, affecting other socio-economic targets under the *National Agreement on Closing the Gap*.
- While current trends for housing for First Nations people are positive, without targeted action, housing targets under the *National Agreement on Closing the Gap* will not be met.

First Nations people want access to quality, accessible, affordable and culturally appropriate housing. Access to housing is critical to empowering First Nations individuals, families, and communities to optimise health and wellbeing; improve employment opportunities; gain an education; and provide connection to community and a sense of home.

First Nations people experience the housing system in different ways than non-Indigenous Australians. This includes disproportionate representation among those experiencing homelessness or living in social housing (Productivity Commission, 2022). Wherever possible, this chapter seeks to highlight where these differences are particularly stark or align with the *National Agreement on Closing the Gap*, noting this is intended as a review and not an exhaustive summary.

The *National Agreement on Closing the Gap* is a commitment by all Australian governments and Aboriginal and Torres Strait Islander representatives to address 19 national socio-economic targets across areas that have an impact on life outcomes for First Nations people. Targets 9a and 9b are housing related (Box 7.1) and are not currently on track to be met (Chart 7.1), with particular disparity in remote and very remote areas (Chart 7.2).

Box 7.1: *National Agreement on Closing the Gap* housing outcomes

The *National Agreement on Closing the Gap* is an agreement between all levels of government in Australia and Aboriginal and Torres Strait Islander representatives to undertake a fundamentally new way of developing and implementing policies and programs that have an impact on the lives of Aboriginal and Torres Strait Islander people (National Agreement on Closing the Gap, 2020).

The *National Agreement on Closing the Gap* includes 4 Priority Reform areas for change and 19 socio-economic targets where outcomes for Aboriginal and Torres Strait Islander people are behind those of non-Indigenous Australians. For housing outcomes, there is significant disparity in remote and very remote areas (Chart 7.2).

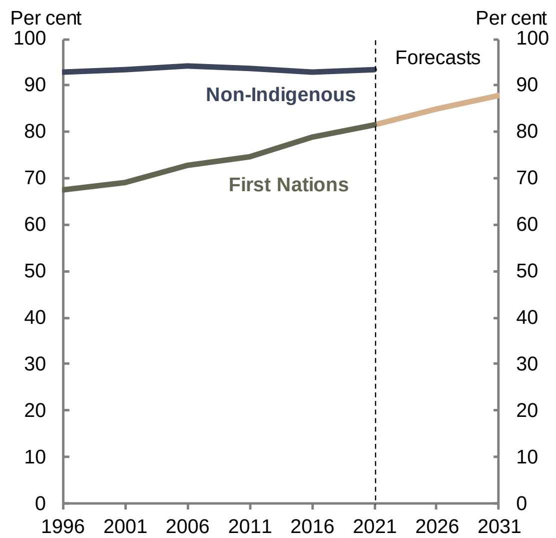
Outcome 9: Aboriginal and Torres Strait Islander people secure appropriate, affordable housing that is aligned with their priorities and needs.

Target 9a: By 2031, increase the proportion of Aboriginal and Torres Strait Islander people living in appropriately sized (not overcrowded) housing to 88 per cent.

Target 9b: By 2031, all Aboriginal and Torres Strait Islander households:

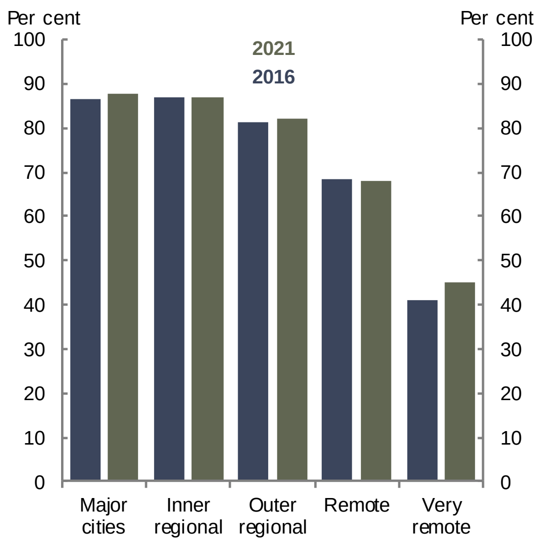
- within discrete Aboriginal and Torres Strait Islander communities receive essential services that meet or exceed the relevant jurisdictional standard
- in or near a town receive essential services that meet or exceed the same standard as applies generally within the town (including if the household might be classified for other purposes as a part of a discrete settlement such as a 'town camp' or 'town-based reserve') (National Agreement on Closing the Gap, 2020).

Chart 7.1 Closing the Gap Target 9a



Source: Productivity Commission, 2023.

Chart 7.2 First Nations people living in appropriately sized housing, by remoteness



Source: Productivity Commission, 2023.

7.1 The history of housing for First Nations people in Australia

The historical and cultural implications from colonisation in 1788 and subsequent government policies and programs has profoundly impacted the current state of housing for First Nations Australians (Pawson, et al., 2020). Government policies, including no-wage or subsistence employment, forced removal from Country and the forced removal of children from families created intergenerational disadvantages for First Nations people.

Government housing policies have often exacerbated ‘marginalisation, racism, disempowerment and disadvantage’ (Pawson, et al., 2020, p. 220). Throughout the late 1800s and early 1900s, policies involved the removal and segregation of First Nations people on missions, reserves or institutions, underpinned by ‘protectionist’ and assimilation legislation and excluding First Nations people from mainstream housing options (Human Rights and Equal Opportunity Commission, 1997). Prior to the 1967 Referendum, First Nations people could not freely own property across all states and territories (Reconciliation Australia, 2020).

From the 1990s to the present (Table 7.1), there have been a series of targeted housing programs for First Nations people, focused primarily on remote areas where overcrowding rates are highest (Chart 7.2). These programs sat within broader government policy responses, including Closing the Gap and the Northern Territory Emergency Response. Australian governments, through the Council of Australian Governments (COAG), jointly committed in 2008 to overcoming major gaps in the quality of life, health and education for First Nations people, through the *National Indigenous Reform Agreement for Closing the Gap*. These targets were decided upon and agreed by governments without First Nations people at the table.

From 2008 to 2018, the Australian Government provided significant funding to states and territories through the National Partnership on Remote Indigenous Housing. The funding was for new housing supply and the repair and refurbishment of existing houses in remote First Nations communities. Since the National Partnership on Remote Indigenous Housing, states and territories have been responsible for improving First Nations housing opportunities in line with other Australians.

Land Tenure, including the Mabo Native Title decision in 1992 and the subsequent *Native Title Act 1993*, underpins significant parts of housing policy for First Nations people. (Arabena, et al., 2020). First Nations people make up a significant proportion of the population in remote and very remote Australia where many communities maintain strong connections to Country (AIHW, 2024). Native title is a necessary step towards recognising First Nations people’s rights and interests over the land they have inhabited for thousands of years prior to colonisation. However, First Nations’ land is yet to be fully harnessed as an economic asset, as well as a cultural and spiritual asset. Stakeholder consultations highlighted that these asset-rich communities are also often cash poor, with limited capacity to develop land to provide housing for the community.

Table 7.1: Commonwealth measures and programs for First Nations housing

Program	Commonwealth delivery body	Years	Funding / investment
Ad hoc investment		1968–72	$10.4 million
Direct community grants (1972–80) and jurisdiction grants (1980–90), including the Town Camps Assistance Program	Delivered by Department of Aboriginal Affairs	1972–90	$219.1 million
Community Housing and Infrastructure Program/Rental Accommodation Program	Delivered by Aboriginal Development Commission	1980–90	$350.9 million
Community Housing and Infrastructure Program/National Aboriginal Health Strategy since 1992–93	Aboriginal and Torres Strait Islander Commission (1990–2003) Aboriginal and Torres Strait Islander Services (2003–05) The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) (and predecessor departments) (2005–07)	1990–07	$2.210 billion
Australian Remote Indigenous Accommodation Program (ARIA)/Strategic Indigenous Housing and Infrastructure Program	FaHCSIA	2007–09	$780.1 million
National Indigenous Reform Agreement (NIRA)/Closing the Gap Agreement	**COAG**	**2008–18**	
National Partnership for Remote Indigenous Housing (2008–16) National Partnership for Remote Housing (2016–18)	FaHCSIA (2008–13) Department of the Prime Minister and Cabinet (2013–19)	2008–19	$5.4 billion
Stronger Futures in the Northern Territory and National Partnership on Northern Territory Remote Aboriginal Investment (2012–15)	FaHCSIA (2008–13) Department of the Prime Minister and Cabinet (2013–19)	2008– present (Housing component ended 2018)	Housing component: $141.6 million
National Partnership for Remote Housing in the Northern Territory	National Indigenous Australians Agency	2018–23	$550 million
National Agreement on Closing the Gap	**All Australian Governments** **Coalition of Peaks**	**2020–31**	
Restoring Funding to Northern Territory Homelands	National Indigenous Australians Agency	2022–24	$100 million
Remote Housing in the Northern Territory	National Indigenous Australians Agency	2023–24	$117.7 million
New Remote Housing in the Northern Territory Agreement	National Indigenous Australians Agency	2024–34	$4 billion (joint investment with Northern Territory Government)

Note: This does not include measures for capacity building or providing policy advice, including the Housing Policy Partnership.

Sources: Towart, et al., 2017; National Partnership for Remote Housing Northern Territory, 2019; Australian Government, 2022; Northern Territory Remote Housing, 2023; Albanese, 2024.

7.2 Australia's housing system is not working for First Nations people

The housing needs of Aboriginal and Torres Strait Islander people are diverse, reflecting socio-economic, geographical and cultural diversity and personal preferences. For many, housing needs are influenced by connection to Country, cultures, kinship and the goal of self-determination (Productivity Commission, 2022).

First Nations Australians engage with, and experience, the housing system differently, often with poorer housing outcomes than non-Indigenous Australians. First Nations households are:

- half as likely to own their own home (with or without a mortgage)
- 6 times more likely to live in social housing
- 3 times more likely to live in overcrowded dwellings (Productivity Commission, 2022, p. 33).

Aboriginal and Torres Strait Islander people are also 8.8 times more likely to be experiencing homelessness than non-Indigenous Australians (AIHW, 2024).

7.2.1 Differing tenure types

First Nations people engage with tenure types outside the mainstream tenures of private ownership, private rental and social housing (Figure 7.1). In some instances, these are First Nations specific housing and include:

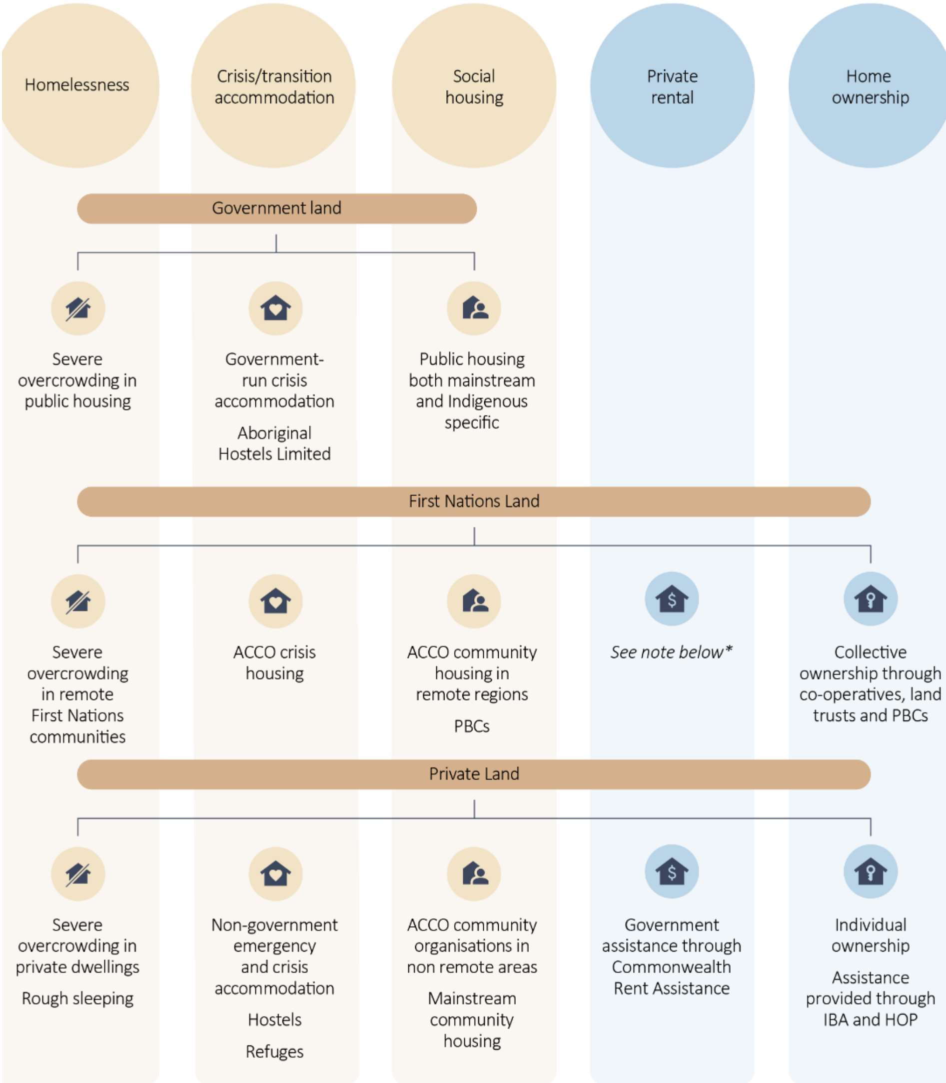
- dwellings on Aboriginal or Torres Strait Islander communal title land
- dwellings held in trusts, including by Indigenous Community Housing Organisations (ICHOs)
- dwellings in state-owned and managed dedicated Indigenous housing (Arabena, et al., 2020)
- home ownership programs targeted towards First Nations households.

Arrangements for Native Title and other Aboriginal land trusts are often complex and can vary between states and territories. Entities that operate under these legislative instruments include:

- Prescribed Body Corporates (PBC), established and operated under the *Native Title Act 1993*
- Land Councils in different jurisdictions
- Aboriginal Land Trusts and Land Councils under the *Aboriginal Land Rights (Northern Territory) Act 1976*.

Beyond these groups, Community Land Trusts have been proposed as an alternative model of communal ownership. These trusts are 'private, not-for-profit entities that steward property for the dual purposes of perpetually affordable housing and community benefit' (Crabtree, et al., 2015). They include a mixture of tenure options 'in response to the identification of gaps in the local housing market' (Crabtree, et al., 2015). The activities of these trusts may extend beyond affordable housing operations, to other community and commercial activities, and provide a potential avenue for integrated community planning and development (Crabtree, et al., 2015).

Figure 7.1 Interactions between the mainstream housing system and First Nations systems



Note: Private rental may occur on First Nations land, but as this would be a matter between the Traditional Owners and the tenant, there is no data available to examine this further.

Source: NHSAC 2024.

Homelands (or outstations) are often small and remote Aboriginal living areas that are defined by the residents' cultural or traditional relationship to the land. Typically, they are located on Aboriginal land held by Aboriginal Land Trusts (Northern Territory Government, 2024). These were first established in the Northern Territory in the 1970s, and now extend to other states with significant First Nations populations in remote communities (Northern Territory Government, 2024). Homelands often have permanent populations of fewer than 50 people (Altman, 2017). Numbers can fluctuate as other members of a community may join, depending on the season or occasion. In the Northern Territory, there are around 600 homelands, with an estimated population of 6,000 to 8,000 residents. An additional 40,000 people are linked to homelands but live in larger communities (Northern Territory Government, 2024).

ICHOs are similar to mainstream community housing organisations but are run by Aboriginal or Torres Strait Islander community organisations. These organisations provide subsidised rental accommodation for community residents and may exist on private land (in urban and regional areas) or on Aboriginal communal land. ICHOs are often small organisations and may not be registered CHPs under the National Regulatory Scheme for Community Housing. Since the abolition of the Community Housing and Infrastructure Program in 2007, there has not been a consistent avenue for ICHOs to access grant funding to maintain, repair or grow their stock, with ad-hoc funding largely from state and territory governments (Moskos, et al., 2022). Their operations now depend on rental income from a small number of houses, which is insufficient in the short- or long-term to grow their housing portfolios to house more First Nations people.

Specific short-stay accommodation, such as that offered by Aboriginal Hostels Limited or in regional areas of Western Australia (Broome, Derby and Kalgoorlie), is also available for First Nations people. These are generally facilities for First Nations people from remote communities attending appointments in regional centres or capital cities but may also provide transitional or crisis accommodation (Aboriginal Hostels Limited (AHL), 2023; WA Department of Communities, 2024).

Certain home ownership schemes are targeted specifically to First Nations people. Indigenous Business Australia and state-specific government organisations, such as the Aboriginal Housing Office in New South Wales, provide First Nations people with grants to assist in owning a home (Pawson, et al., 2020).

Acknowledging these different forms of tenure, there are limitations regarding the availability of data. As a result, housing for First Nations people is discussed using the standard terms of tenure in Australia’s housing system.

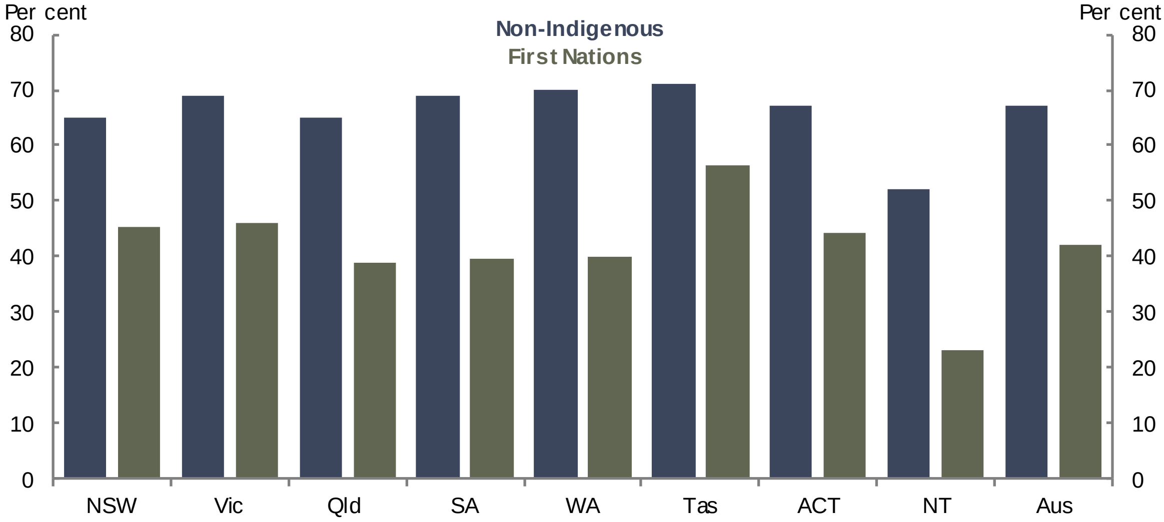
7.2.2 Home ownership

Home ownership in the Australian housing system is an essential part of economic independence and the building of intergenerational wealth. Nationally, First Nations people are half as likely to own their own home (with or without a mortgage) than non-Indigenous Australians (Productivity Commission, 2022). There is also a significant difference depending on where people live.

Nationally, 42 per cent of First Nations people owned their own home at the 2021 Census. The proportion of First Nations people who own their home has been increasing at every Census, from 33 per cent and 37 per cent in the 2001 and 2011 Census respectively. However, this compares with a home ownership rate of 68 per cent for non-Indigenous people (Chart 7.3).

At the 2021 Census, only 21 per cent of First Nations households in remote and very remote areas owned their home (with or without a mortgage) (AIHW, 2024). Of First Nations households, 48.3 per cent in inner regional areas, 45.1 per cent in outer regional areas and 42 per cent in major cities owned their own home (with or without a mortgage) (ABS, 2022f). The increase in home ownership has been greatest in inner regional and outer regional areas, where home ownership in 2001 was at 37.9 per cent and 33.8 per cent respectively, and increased from 36.9 percent in major cities in 2001 (ABS, 2022f).

Chart 7.3 Percentage of the population who own a home (with or without a mortgage), First Nations and non-Indigenous Australians, 2021



Source: Australian Bureau of Statistics, 2022.

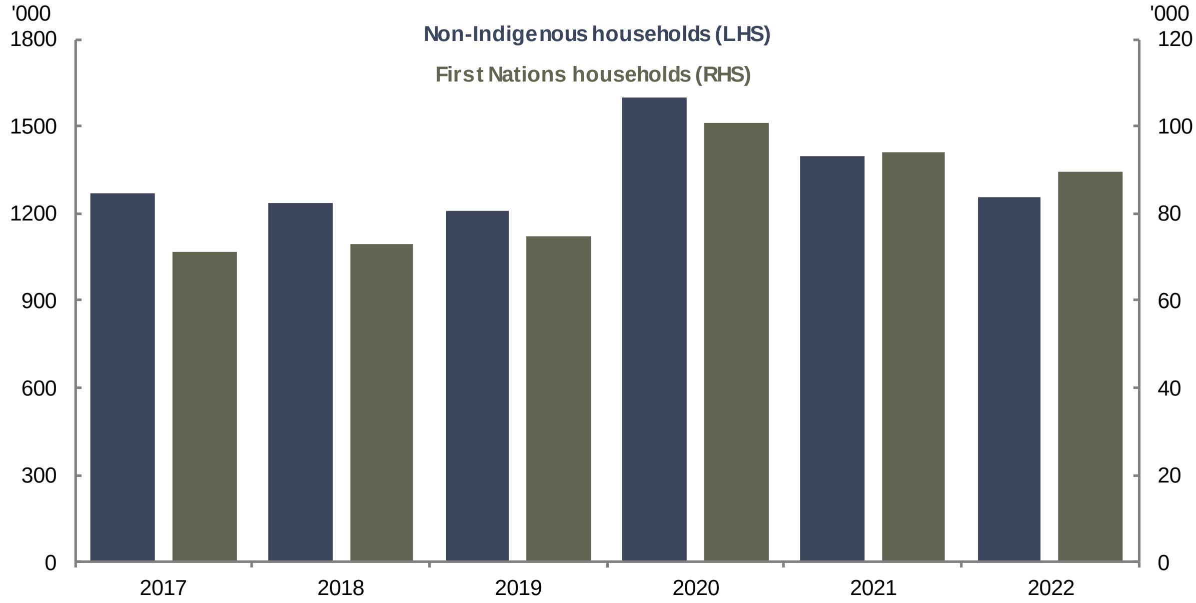
7.2.3 Private rental

At the 2021 Census, 35.2 per cent of First Nations people were private renters (AIHW, 2023d). As with home ownership, this has been steadily increasing over time, from 28 per cent in the 2001 Census (AIHW, 2023d). This trend is similar to non-Indigenous populations, though the proportion of non-Indigenous renters is lower at around 26 per cent (AIHW, 2024). The proportion of First Nations private renters is much higher in major cities (42 per cent) and inner and outer regional areas (37 per cent and 36 per cent respectively) compared to remote and very remote areas (28 per cent and 13 per cent, respectively) where rental properties are more commonly provided by state housing authorities (ABS, 2022f).

A significant number of First Nations households rely on Commonwealth Rent Assistance. The 89,500 Commonwealth Rent Assistance recipients with a First Nations household member represent 6.6 per cent of all recipients, which compares to First Nations people making up 3.8 per cent of the general population (AIHW, 2023d). Despite falls in the number of First Nations people receiving rental assistance in the past 2 years, it is still significantly above the number prior to the pandemic (Chart 7.4).

Further, compared to 5 years ago, the number of First Nations households receiving Commonwealth Rent Assistance has risen by 25.9 per cent, compared to a fall of 1.1 per cent among non-Indigenous households (AIHW, 2022).

Chart 7.4 Households receiving Commonwealth Rent Assistance



Source: AIHW, 2023; NHSAC, 2024.

Rental stress is a significant and increasing problem among First Nations households. Rental stress can be defined as a household that spends more than 30 per cent of gross income on rent. In 2021, among First Nations households that were privately renting, 38 per cent in major cities and inner regional areas were under rental stress, compared to 32 per cent in outer regional areas, 24 per cent in remote areas, and 13 per cent in very remote areas (ABS, NHSAC, 2024).

Commonwealth Rent Assistance helps to reduce the level of rental stress. At June 2022, 68 per cent of First Nations Commonwealth Rent Assistance recipients would have been in rental stress without rental assistance, decreasing to 36 per cent after receiving rental assistance (AIHW, 2023d). However, the number of recipients in rental stress after receiving Commonwealth Rent Assistance has been increasing. In 2013, 30 per cent of recipients were in rental stress after receiving assistance (AIHW, 2022).

7.2.4 Social (public and community) housing

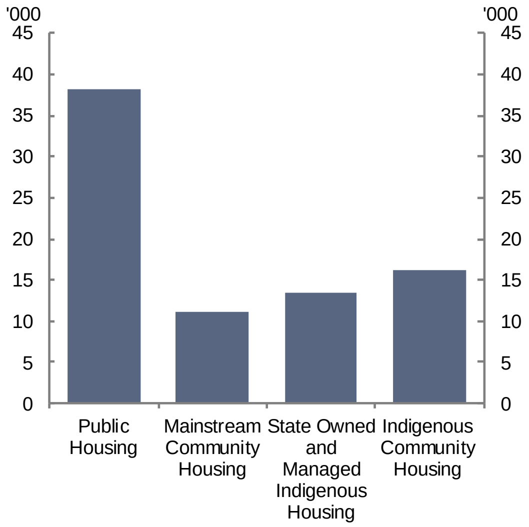
A significant proportion (18 per cent) of First Nations households live in social housing, which includes both public and community housing (AIHW, 2023d). This has decreased substantially from 32 per cent of First Nations households in 2001 (AIHW, 2023d). First Nations people are still significantly more likely to live in social housing, with social housing households only making up 4.1 per cent of the total proportion of households in Australia in 2022 (AIHW, 2023c).

Two social housing programs are targeted at First Nations people:

- state owned and managed Indigenous housing (SOMIH) is accessed by people on low incomes and/or with special needs.
- Indigenous community housing is owned and managed by First Nations organisations to provide housing services to First Nations people (Chart 7.5) (AIHW, 2023d).

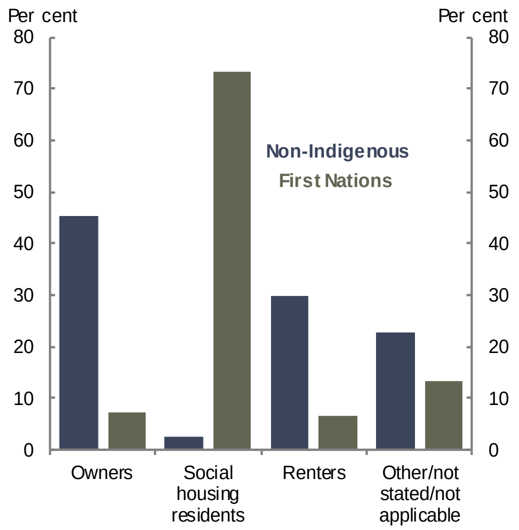
Social housing can also be owned by state housing authorities but managed by an Aboriginal Community Controlled Housing Organisation.

Chart 7.5 Number of First Nations people in different types of social housing, 2022



Source: Productivity Commission, 2024.

Chart 7.6 Housing tenure type in remote and very remote Northern Territory, 2021



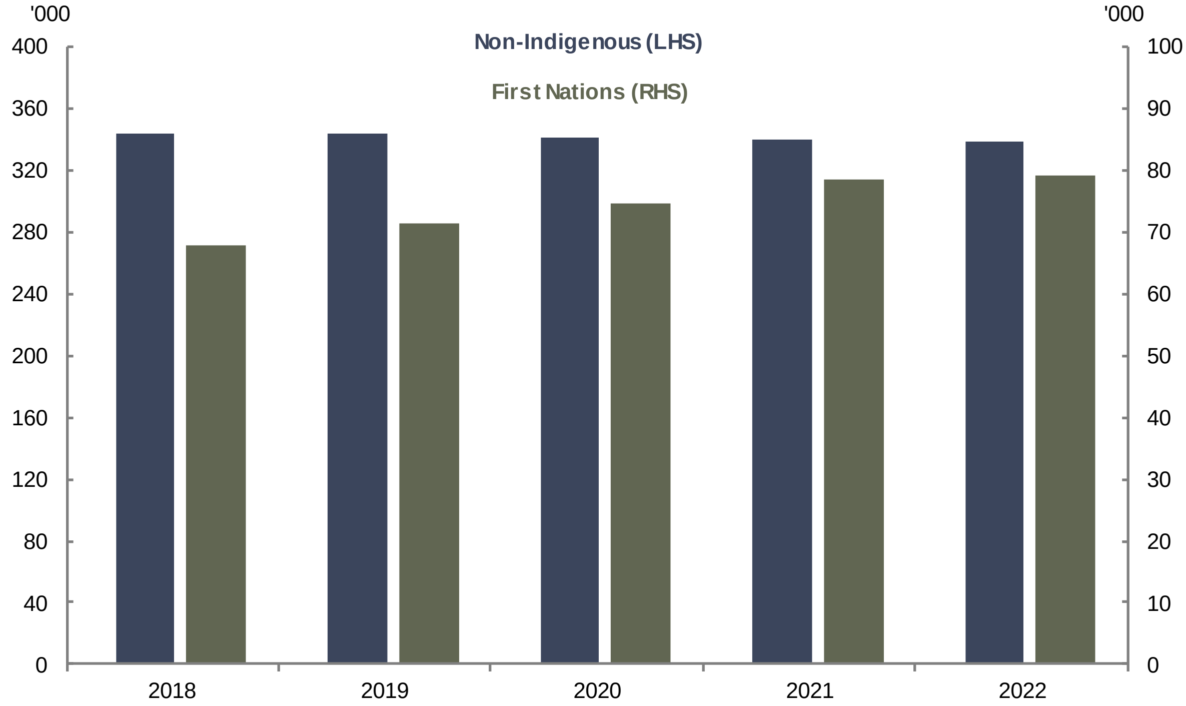
Source: AIHW, 2022; NHSAC 2024.

At the 2021 Census, there were particular regional disparities in social housing. In most states and territories, between 10 and 20 per cent of First Nations households rented from a state or territory housing authority. This ranges from 10.3 per cent and 12.1 per cent in Victoria and New South Wales respectively, to 19.6 per cent in South Australia (ABS, 2022f).

The Northern Territory is the outlier, with 36.5 per cent of First Nations households renting from the territory housing authority and 13.5 per cent renting from a housing co-operative, community or church group. This disparity is even more apparent when considering remote and very remote areas, with 73.2 per cent of First Nations people in remote Northern Territory being social housing residents (Chart 7.6) (AIHW, 2022).

Though the proportion of First Nations households in social housing has fallen, the total number of First Nations households in social housing has been increasing, contrasting to a flattening in numbers for non-Indigenous households (Chart 7.7). Reflecting these trends, the proportion of public housing dwellings made up of First Nations households increased from 11 per cent to 13 per cent from 2018 to 2022 (Productivity Commission, 2024). Over the same period, the proportion of First Nations households in mainstream community housing increased from 8 per cent to 11 per cent (Productivity Commission, 2024).

Chart 7.7 Social housing by Indigeneity, from 2018 to 2022



Source: Productivity Commission, Report on Government Services, G Housing and Homelessness, 2024.

The higher representation of First Nations people in social housing has been attributed to difficulties in accessing private rental accommodation (Department of Human Services, 2006; Flatau, et al., 2008; Habibis, et al., 2015) due to factors that include:

- racial discrimination in the private rental market
- challenges meeting criteria for properties
- lack of appropriate and good quality housing in areas with high First Nations populations (Cooper and Morris, 2003; Cooper and Morris, 2005; Focus, 2000).

7.2.5 Homelessness

At the 2021 Census, 24,930 Aboriginal and/or Torres Strait Islander people were estimated to be experiencing homelessness – up 6.4 per cent from 23,437 in 2016 (AIHW, 2024b). This represented one fifth (20.4 per cent) of people experiencing homelessness in Australia (ABS, 2023k). Homelessness more broadly is discussed in Chapter 6.

Of the Aboriginal and Torres Strait Islander people experiencing homelessness at the time of the 2021 Census:

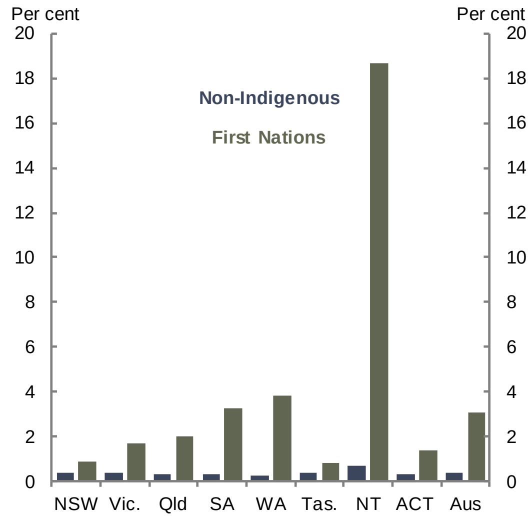
- 3 in 5 (60 per cent) were living in 'severely' crowded dwellings
- almost 1 in 5 (19.1 per cent) were in supported accommodation for the homeless
- nearly 1 in 10 (9.3 per cent) were living in improvised dwellings, tents or sleeping out (ABS, 2023).

The percentage of First Nations people experiencing homelessness, compared to non-Indigenous Australians, is higher in every state and territory (Chart 7.8), with the highest proportion of First Nations people experiencing homelessness in the Northern Territory (ABS, NHSAC, 2024). The Northern Territory has the highest per capita population of Australians who identify as Aboriginal and/or Torres Strait Islander, at 26.3 per cent (ABS, 2022a).

While the Northern Territory has the highest proportion of First Nations people experiencing homelessness, it was the only state or territory to see a decrease in the number of First Nations people experiencing homelessness in 2021, from 12,131 people in 2016 to 11,394 people in 2021 (ABS, 2023).

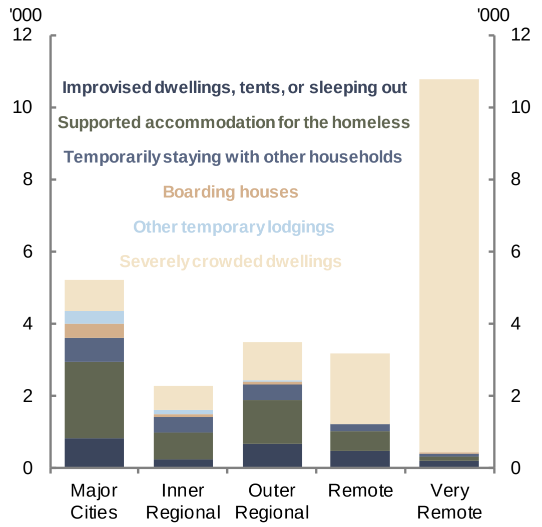
The number of Aboriginal and Torres Strait Islander people experiencing homelessness has decreased over time (from 26,718 individuals in 2011 to 24,930 in 2021) (ABS, 2023), however, over-representation persists. According to the most recent National Aboriginal and Torres Strait Islander Social Survey (NATSISS) in 2014–15, 40.9 per cent of Aboriginal and Torres Strait Islander persons aged between 35 and 44 had experienced homelessness in their lifetime (ABS, 2016).

Chart 7.8 Percentage of the population experiencing homelessness by Indigeneity, 2021



Source: ABS, 2023a.

Chart 7.9 First Nations people experiencing homelessness by homeless operational group and remoteness, 2021



Source: ABS, 2023a.

7.2.6 Land tenure

First Nations peoples' rights and interests in land have been formally recognised for approximately 50 per cent of Australia's land mass (National Indigenous Australians Agency, 2023). However, the arrangement for land tenure varies across Australia, with much of this land not able to be built on or used for housing.

The *Native Title Act 1993* was developed in response to the Mabo decision in 1992, where the High Court of Australia ruled that the lands of the Australian continent were not terra nullius or 'land belonging to no-one' when European settlement occurred (AIATSIS, 2024a).

While Commonwealth law recognises that native title may exist, the requirements for proof are significant. Generally, claimants must provide evidence of a continuous system of law and custom that gives rights to the land, and that this has been handed down from generation to generation since before colonisation (AIATSIS, 2024a).

Once a claim has been successfully filed and registered with the National Native Title Tribunal, Aboriginal and Torres Strait Islander applicants can claim the right to negotiate against development of the land. However, this does not mean exclusive land rights are given. If the rights of pastoralists, mining companies, the Australian Government, or private owners come into conflict with native title rights, they supersede the native title rights (AIATSIS, 2024b). Additionally, states and territories have their own, differing legislative arrangements and requirements regarding land, native title and tenure, which makes a consistent approach across jurisdictions challenging.

7.3 External factors impact First Nations experiences with the housing system

Various underlying factors contribute to how Aboriginal and Torres Strait Islander people experience the housing system. These include access, supply and a fragmented policy and delivery landscape. Issues such as overcrowding and poor dwelling conditions are also considered.

7.3.1 Access to housing and services

Lack of access for Aboriginal and Torres Strait Islander people to quality, accessible, affordable and culturally appropriate housing has been a long-term problem across Australia. Issues around access include those related to racism, allocation and tenancy management bias, affordability and geographical considerations.

Racism and discrimination

Systemic racism continues to shape the lived experience of First Nations people in all areas, including housing. Though inequality in the housing sector is more often tied to broader factors such as markets and the availability of affordable housing, First Nations people also face significant barriers in the private rental market and social housing due to racial discrimination. Higher rates of homelessness in the First Nations population in countries like Australia and Canada can be traced backed to the historic and ongoing impacts of colonisation that have 'displaced and dispossessed these populations from their traditional governance systems and laws, territories, histories, worldviews, ancestors and stores' (Thistle, 2017).

International and Australian research shows significant rental discrimination on the basis of ethnicity (Stone, et al., 2021). Despite limited research on the impacts on First Nations populations, anecdotal evidence suggests ethnic discrimination extends to First Nations populations (Australian Human Rights Commission, 2020). This discrimination is often structural but can also be interpersonal in the form of racist attitudes and persists despite the implementation of anti-discrimination laws. This may occur in markets for private rental accommodations where there is high demand for and low supply of rentals, meaning 'screening' and 'ranking' of applicants becomes more common place (Stone, et al., 2021).

Discrimination in the private rental market pushes First Nations people into alternative housing tenures, such as social housing, increasing demand in part of the system that is already at capacity. The Australian Human Rights Commission found that First Nations women, especially those with large families, single mothers or women on social welfare, experienced direct and systemic discrimination in both private and social housing, with the sector preferencing 'a Western-centric idea of a household and disregards Aboriginal and Torres Strait Islander cultural norms' (Australian Human Rights Commission, 2020).

Allocation and tenancy management

Despite some improvements around the allocation of public housing for First Nations people by state and territory housing departments, a knowledge gap persists over the housing circumstances and needs of First Nations people (Moran, et al., 2016; Pawson, et al., 2020).

A 2022 study of the 2014–15 NATSISS dataset found that there are concerns related to the inappropriate allocation of housing (Moskos, et al., 2022). In particular, respondents felt they were being allocated public housing in locations with high incidence of social dysfunction, including antisocial behaviour and drug misuse. In recent years, fewer people have left social housing programs, due to a combination of the impacts of the pandemic, a tighter private rental market and increased living costs (Buckle, et al., 2020; NHFIC, 2023). Due to the increased pressure on already limited housing supply, tenants stated they were being allocated public housing properties that were too small to meet their family and cultural needs (Moskos, et al., 2022).

Affordability

As discussed in Chapter 5, housing affordability is a significant problem within the current Australian housing system. The trends on rental affordability in Chapter 5 are especially pertinent to the First Nations population, of whom 35.2 per cent are private renters, compared with 26 per cent of all Australians (AIHW, 2023d; AIHW, 2024).

Decreases in affordability are likely to affect First Nations people differently to the non-Indigenous population, due to lower median incomes compared to the general population. Previous studies have noted that 'for almost every demographic, geographic, education and employment combination, First Nations Australians have a lower average income than their non-Indigenous counterparts' (Biddle, 2013). This is reflected in 2021 Census data, which shows First Nations median equivalised household income is significantly less ($825) than for non-Indigenous Australians ($1,141) (AIHW, 2024). The First Nations population is disproportionately represented in the lower income bands, with 35 per cent of First Nations adults in the bottom quintile of the household income distribution (AIHW, 2024). The gap in incomes has shown some signs of improvement, but on current trends, it will take many decades to overcome (Markham and Biddle, 2018).

Experiences differ according to geographic location, with First Nations people experiencing rental stress at higher levels in major cities (38 per cent) compared to remote (24 per cent) and very remote (13 per cent) areas. Stakeholders expressed concern that First Nations households are priced out of certain regions of Australia, especially inner metropolitan regions. Around 75 per cent of non-Indigenous households with a mortgage are located in major cities, compared to around 49 per cent for First Nations households. First Nations households with a mortgage are more likely than non-Indigenous households to be in inner regional areas (30 per cent to 17 per cent respectively) and outer regional areas (18 per cent to 7 per cent respectively) (ABS, NHSAC, 2024).

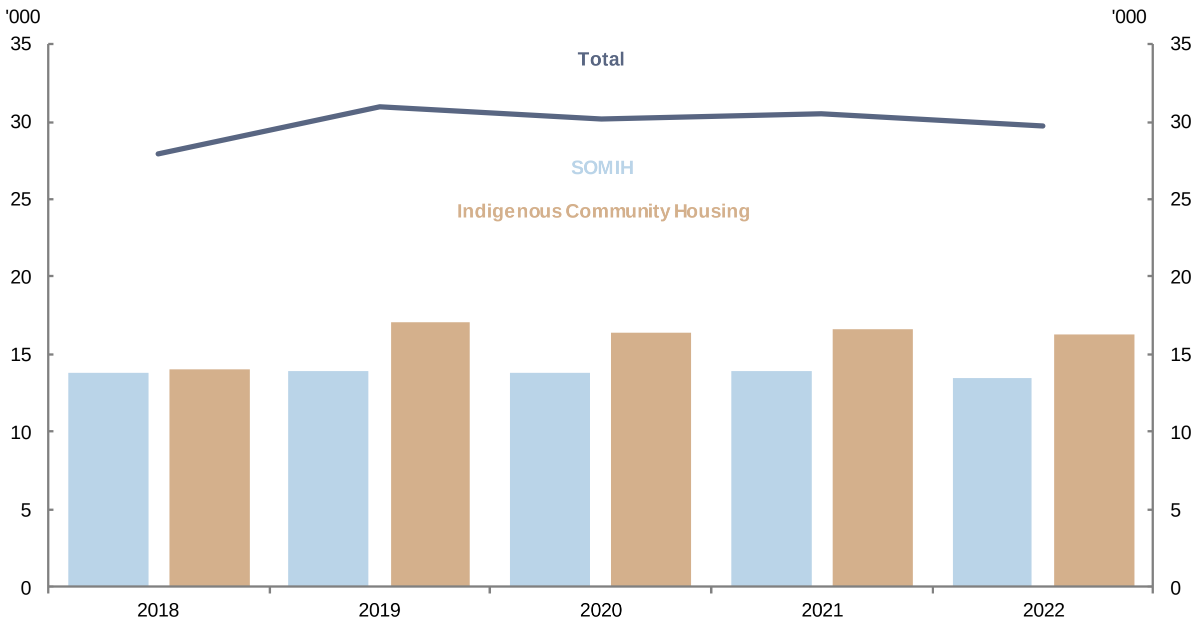
Fragmented policy and program responsibilities

All levels of government have roles and responsibilities for housing for First Nations people, and all governments are signatories to the *National Agreement on Closing the Gap* (Box 7.1). As with mainstream housing programs, the Commonwealth provides funding to state and territory governments and directly to portfolio agencies, as well as overarching leadership in policy matters. State and territory governments have primary responsibility for delivering housing and homelessness services, including to First Nations people. Some states and territories have specific plans or strategies for First Nations housing and/or homelessness; however, there is no specific funding from any level of government for First Nations homelessness programs.

7.3.2 Supply

Government funding for First Nations housing is generally only for social housing (public and community housing). The supply of social housing specifically for First Nations people has increased slightly, with the number of SOMIH dwellings increasing from 10,113 in 2014 to 13,803 in 2022 and ICH, increasing from 15,394 to 16,302 in the same period (Chart 7.10) (Productivity Commission, 2024).

Chart 7.10 First Nations specific social housing



Source: Productivity Commission, Report on Government Services, G Housing and Homelessness, 2024.

These small increases in supply are not reflected in decreasing numbers on waitlists for SOMIH housing. More than 15,000 households were on waitlists in New South Wales, Queensland, South Australia and the Northern Territory at 30 June 2023 (Productivity Commission, 2024). Other jurisdictions did not make this information publicly available. This compares to 169,209 households on the public housing waitlist, across all jurisdictions, at 30 June 2023 (Productivity Commission, 2024).

As discussed in chapters 2 and 3, the cost of construction, including materials and labour, has increased over recent years. Although the costs, and challenges with finding labour, are starting to ease, they have been particularly acute in remote and very remote areas. In December 2022, vacancies for construction trades workers in regional Australia were up 40 per cent from 5 years prior, with more than 1,000 roles advertised (Houghton and Barwick, 2023).

7.3.3 Data and information

Access to appropriate data and information underpins the ability to address issues across the housing system, as a cultural, strategic and economic asset for First Nations peoples (Maiam nayri Wingara, 2018). The isolation and exclusion of First Nations people from the language, control and production of data at community, state and national levels has resulted in data that is overly focused on First Nations peoples as the problem (Maiam nayri Wingara, 2018).

Data collection for housing is fragmented, with varying information available on First Nations housing tenure at national and state levels. Further, data collection and management practices may differ across jurisdictions, making it difficult to compare datasets. Many of the data assets collected are not specific to First Nations people, so they are not comprehensive indicators for First Nation households. But they provide a preliminary snapshot or baseline at the national level. There are issues with data collection, availability and access, particularly at jurisdictional or regional levels. This is acutely apparent by the lack of existing datasets to establish a baseline for one of the 2 housing targets in the *National Agreement on Closing the Gap* (Target 9b). However, without any baseline data or ongoing data collection, there is no way to measure progress or accountability for achieving the target.

7.3.4 Climate change

Climate change is affecting housing throughout Australia for both First Nations and non-Indigenous communities. However, First Nations communities are over-represented in a number of vulnerable cohorts (Standen, et al., 2022). People in lower socio-economic cohorts, renters, public housing tenants and those in remote areas are often in areas at greater risk from natural hazards and are less able to afford insurance to protect their homes (Chapter 2) (Standen, et al., 2022). Further, rates of non-insurance in areas with large First Nations populations, such as northern Western Australia and the Northern Territory are already very high and increasing (ACCC, 2020). Some communities, such as those in the Torres Strait, are already experiencing the impacts of sea level rise and increased frequency of flooding events as a result of storm surges. The low-lying nature of several islands means that many of these communities will become increasingly uninhabitable as these trends worsen (Doherty and Slezak, 2017).

In remote and regional First Nations communities, housing is not built to withstand extreme temperatures and is likely to be unsuitable for future living as climate change worsens already difficult conditions in many parts of central Australia (Allam, 2021). In some remote First Nations communities, none of the properties currently have fit-for-purpose thermal performance under current conditions, and these conditions will only worsen as temperatures rise (Lea, et al., 2021).

7.3.5 Housing quality

One housing issue that significantly differentiates First Nations housing circumstances from non-Indigenous Australians is housing quality. The National Aboriginal and Torres Strait Islander Health Survey 2018–19 found the following:

- 31 per cent of First Nations households in non-remote areas lived in dwellings with at least one major structural problem, rising to 46 per cent in remote areas. These problems include major cracks in walls or floors, wood rot or termite damage, or major plumbing problems.
- 1 in 5 First Nations households lived in dwellings that did not meet an acceptable standard, defined in the survey as having at least 1 basic household facility that was unavailable or having more than 2 major structural problems. This rises to about 35 per cent in remote areas.
- 9.1 per cent of First Nations households had no access to working facilities for food preparation, 4.5 per cent had no access to working facilities to wash clothes and bedding and 2.8 per cent had no access to working facilities to wash residents (ABS, 2019a).

This compares to 89 per cent of all Australian households reporting no major structural problems in 2019–20 (ABS, 2022e). Almost 40 per cent of First Nation's rental households report at least one major structural problem, compared to around 27 per cent for First Nation's homeowners (ABS, 2019a).

7.3.6 Overcrowding

In 2021, 81.4 per cent of First Nations people lived in appropriately sized housing, an increase from 74.6 per cent in 2011. This compares to 94 per cent for non-Indigenous Australians, with First Nations people 2.9 times as likely to live in overcrowded dwellings. This varies between jurisdictions, from 1.5 times greater in New South Wales, to 6.1 times greater in the Northern Territory (AIHW, 2024). The proportion of appropriate (not overcrowded) dwellings sit at 88 per cent in major cities, decreasing to 45 per cent in very remote areas (Chart 7.2) (Productivity Commission, 2023).

Severe overcrowding refers to dwellings that require 4 or more additional bedrooms to accommodate the people who usually live there and is considered a form of homelessness (Chapter 6). Homelessness in remote and very remote areas is largely due to severe overcrowding. At the 2021 Census, nearly 15,000 First Nations Australians were experiencing homelessness due to living in severely crowded dwellings (ABS, 2023k). The proportion of First Nations households living in severely overcrowded dwellings was highest in very remote and remote areas at 5.6 per cent and 1.5 per cent respectively, compared to only 0.1 per cent in non-remote areas (ABS, 2022g).

The drivers of large household formation in First Nations communities are both structural and cultural. Structural factors include the shortage of appropriate, affordable housing. Housing design also contributes to overcrowding, with most First Nations specific housing designed without cultural understanding of First Nations housing requirements. In particular, temporary and semi-permanent visitors are common in First Nations communities, with people visiting relatives to maintain kinship ties, to be closer to Country, to access services or for sorry business. Culturally, compared to western norms, First Nations communities have a different view around sharing of resources and money, particularly among kinship groups. This extends to the mutual care of extended family with these cultural rules adhered to regardless of the housing constraints (Memmott, et al., 2014).

7.4 Housing impacts socio-economic outcomes for First Nations people

7.4.1 Health

Poor housing availability and poor housing circumstances can negatively affect physical and mental health and overall wellbeing outcomes. The directionality of housing on health is not always clear, as poor housing may contribute to poor health, or poor health may contribute to households being accommodated in poor housing. Research indicates housing quality is associated with physical health outcomes and housing affordability, tenure and location are associated with mental health and wellbeing outcomes (Braubach, et al., 2008; Breysse, et al., 2011; Chapman, et al., 2009; Howden-Chapman, et al., 2007; Jacobs, et al., 2010; Thomson, et al., 2013; AIHW, 2014). First Nations people have higher rates of illness due to poor housing conditions and overcrowding than non-Indigenous Australians (Dockery, et al., 2010). The impact of housing on First Nations health and wellbeing is primarily focused on the effects of poor building quality, inappropriate housing design and overcrowding. These issues are more pronounced in remote and very remote areas (ABS, 2022f).

A healthy living environment may include improved washing facilities, safe waste-removal facilities and enabling the safe storage and cooking of food. The 2014–15 NATSISS found that 15 per cent of Aboriginal and Torres Strait Islander people aged 15 years and over were living in a dwelling in which 1 or more of these facilities were not available or did not work (ABS, 2016).

Individuals were more likely to have experienced problems with household facilities in remote areas (28 per cent) compared to non-remote areas (11 per cent) (ABS, 2016). Poorly designed or maintained hardware has been linked with a greater number of accidents, such as electrocution, burns and falls (Box 7.2) (Bridge, et al., 2003; Mullins and Western, 2001; Rowley, et al., 2008; WHO, 2006) and contributes to the spread of communicable diseases, such as gastroenteritis, skin conditions and eye and ear conditions (Bailie, 2007; Phibbs and Thompson, 2011).

Box 7.2 Housing impacts on health – case studies

In 2021, the Northern Territory Coroner found the death of an 11-year-old Aboriginal boy was due to the Northern Territory’s Power and Water Corporation failure to maintaining the regime of houses in the boy’s small community of Gunbalanya, 300 kilometres east of Darwin. The boy died from electrocution in a home with a faulty connection and no earthing. The Northern Territory Coroner found that the Power and Water Corporation has ‘no systems to check that the connection was completed to Australian standards or for the inspection and maintenance of the cables and connections to properties in remote communities’ (Allam, 2021a).

In 2023, Queensland’s Northern Coroner found the lack of access to sufficient housing, showers, clean mattresses and laundries in the remote First Nations community of Doomadgee contributed to the deaths of 3 women from complications with rheumatic heart disease in 2019 and 2020 (Richardson, et al., 2023).

Other risks to the health outcomes of First Nations people arise from overcrowding, which can negatively affect the hygienic conditions of houses, and is shown to be associated with adverse child health outcomes (Stevens and Bailie, 2012). These conditions exacerbate the spread of preventable infectious diseases such as respiratory illnesses, and infections that can lead to acute rheumatic fever (Clifford, et al., 2015; AIHW, 2023; Foster and Hall, 2021) and subsequently rheumatic heart disease as well as acute post-streptococcal glomerulonephritis (kidney disease) (Marshall, et al., 2011; Cannon and Bowen, 2021). These diseases have largely disappeared in non-Indigenous populations in Australia, and in populations of First Nations people living in Australian capital cities (AIHW, 2023). The incidence of these preventable infectious diseases is further exacerbated by lack of access to water infrastructure in homes and in communities, preventing the washing of people, clothes, towels and bedding (SCRGSP, 2020).

Mental health is also a concern for people who experience high levels of precarious housing. This may include housing that is unaffordable, unsuitable and/or insecure (Chapter 6). For First Nations people, culturally appropriate management of First Nations housing is crucial to ensure tenants are provided with housing that meets the accommodation needs of individual households (Milligan, et al., 2011). This may include self-management through Aboriginal housing associations or improving the cultural awareness of non-Indigenous staff (Milligan, et al., 2011).

7.4.2 Education

Housing fundamentally underpins educational and economic engagement. Housing has significant impacts on the development and wellbeing of children, including education outcomes, and is a mediating factor in the transmission of intergenerational and neighbourhood disadvantage (Dockery, et al., 2013). One of the clearest barriers to children's education outcomes is homelessness. The First Nations population has a high proportion of young people who are experiencing homelessness. In 2021, 26.2 per cent of First Nations people experiencing homelessness were youth aged 12 to 24 years, and 23.6 per cent were below the age of 12 (Fantuzzo, et al., 2012).

Footprints in Time: The Longitudinal Study of Indigenous Children provides empirical evidence about early childhood wellbeing and development in Australia (Dockery, et al., 2013). The housing experiences of First Nations children are significantly worse than those of other Australian children (Brackertz, 2016). While the effect of these experiences on children's learning outcomes is unclear, the study found that First Nations children's social and emotional wellbeing indexes were far lower than their non-Indigenous counterparts. One of the primary drivers for this was inferior housing conditions. Further, overcrowding was found to have the largest negative impact on learning outcomes across all children. The impact of overcrowding on First Nations children compared to non-Indigenous children may differ because of different cultural norms and expectations in respect of housing extended family and the household size (Dockery, et al., 2013).

A distinction between First Nations housing patterns compared to non-Indigenous Australians is the mobility of the First Nations population. This mobility largely takes the form of short-term geographical moves. Geographical mobility is fundamental to First Nations self-identity and is associated with kinship patterns, cultural practices and autonomy (Habibis, et al., 2010; Memmot, et al., 2004; Peterson, 2004). For First Nations people in remote areas, this mobility may also be a result of needing to access employment, health or education services. However, international research has shown that high mobility and frequent residential moves may negatively affect education outcomes and behaviour and reduce social connectedness (Dockery, et al., 2010). Unfortunately, there is very little research on the impact of high residential mobility on the educational performance of First Nations children in Australia.

Higher educational outcomes have been linked to improved economic outcomes for First Nations people (Biddle and Cameron, 2012; Hart, et al., 2017). Improvements to housing in First Nations communities may also directly impact the economic outcomes of First Nations people, including through their involvement in the construction and ongoing maintenance of housing (Gronda, 2008).

7.5 Self-determination is central to policies for First Nations communities

Self-determination is acknowledged as fundamental to successful First Nations policy, best reflected in the focus of the Priority Reforms in the *National Agreement on Closing the Gap*. The principle of self-determination requires that 'Indigenous people be involved in decisions that affect them, including the design, delivery and evaluation of government policies and programs' (AIATSIS, 2019).

Priority Reform 1, under the *National Agreement on Closing the Gap*, is for shared decision-making as a significant step on the journey towards the ultimate goal of self-determination (Productivity Commission, 2024a). The benefits of shared decision-making are extensively evidenced in both research and government reports, and are fundamental to building First Nations people's trust in government agencies, overcoming past injustices and achieving cultural proficiency in policy and service delivery (Pawson, et al., 2020; Milligan, et al., 2011; Moran, et al., 2016; Habibis, et al., 2016; Royal Commission into Family Violence, 2016).

7.5.1 Increasing First Nations household incomes and wealth through home ownership

Housing in Australia is an asset that builds individual and intergenerational wealth. First Nations home ownership has risen from 37 per cent in 2011 to 42 per cent in 2021. Unlike for non-Indigenous Australians, the rate of home ownership for First Nations Australians has generally increased for each successive birth cohort. However, the rates of home ownership are around 20 percentage points below those for non-Indigenous Australians for all birth cohorts and age groups (AIHW, 2023b).

Targeted schemes to increase home ownership among First Nations people include the Indigenous Home Ownership Program through Indigenous Business Australia. This Indigenous specific commercial organisation was established by the Australian Government in 1990 to assist and enhance First Nations presence in mainstream economic activities (Indigenous Business Australia, 2023). This includes the Indigenous Home Ownership Program, originally established in 1975. From the inception of the home lending program to April 2023, around 21,000 First Nations households had received financial assistance and support to either buy or build their own homes (Indigenous Business Australia, 2023). Other state-specific government organisations, such as the Aboriginal Housing Office in New South Wales, also assist First Nations people with owning a home.

7.5.2 Increasing the supply of social and affordable housing for First Nations people including a transition to community control

Government housing is still the greatest provider of social housing for First Nations people across jurisdictions (Chart 7.5). Most of the remaining social housing for First Nations people is run by community housing organisations. Stakeholders raised the importance of building the community housing sector, specifically First Nations community-controlled housing organisations and, wherever possible, transitioning public housing supply to the First Nations community housing sector or First Nations specific state housing organisations. This has occurred in New South Wales, through the statutory NSW Aboriginal Housing Office, and in Victoria with Aboriginal Housing Victoria.

First Nations community housing organisations are often small-scale, with the sector frequently suffering from a maintenance backlog, low rental income, high operating costs and small size, precluding economies of scale (Hall and Berry, 2006). This has hampered opportunities for training and development in many locations and prevented the development of organisational governance and management capacity (Eringa, et al., 2008).

These issues are even greater in remote areas, where there are labour shortages and higher wages, and the costs of transport, materials and power are also higher (Habibis, et al., 2016). This is compounded by seasonal weather patterns and increasingly extreme weather events. Additionally, annual rental revenues only cover a small proportion of the actual cost of maintaining remote housing and much of the extra cost is because of remoteness. (Towart, et al., 2017).

7.5.3 Increasing land availability, land release and the development processes for First Nations housing projects

Through stakeholder consultations, the view was expressed that more government intervention was necessary around land availability, release and development to improve First Nations housing outcomes. In particular, there was a widespread view that government funding needs to be 'ring-fenced' or quarantined for First Nations housing in order to make projects viable. Stakeholders also raised inclusionary zoning as a key requirement, especially in inner urban areas, to ensure First Nations people have choice over where they live. Stakeholders felt that a certain percentage of housing built on state-owned land should be available for First Nations people.

In regional and remote communities, stakeholders emphasised that land was available, but the ability for First Nations communities to develop this land was difficult. Often organisations or land councils responsible for land are asset rich but income poor. Stakeholders specified that organisations in these communities want it to be easier to improve housing supply and quality.

7.5.4 First Nations people having a say in the design and delivery of First Nations housing services

Through the *National Agreement on Closing the Gap*, governments have acknowledged the vital roles that First Nations organisations play at the strategic and operational level for First Nations housing provision. For example, the Aboriginal Housing Office in New South Wales provides an internal source of advice to governments and engages with local First Nations networks and services to provide strategic housing policy solutions. In Victoria, Aboriginal Housing Victoria, as an Aboriginal-led housing organisation operates alongside mainstream social housing services.

In consultations, stakeholders reiterated that 'the housing problem in Aboriginal communities is an Aboriginal issue, so there should be an Aboriginal-led solution'. In particular, governments should respect what Aboriginal communities know about themselves and how this is reflected in data. This aligns with the *National Agreement on Closing the Gap*, specifically Priority Reforms 1 and 4, which call for greater shared decision-making and for shared access to data and information at a regional level.

Current arrangements in Australia contrast with countries with similar Indigenous populations, such as New Zealand, the United States and Canada, where development in public policy is underpinned by stronger legislative and constitutional frameworks that promote formal engagement (Habibis, et al., 2016).

However, some progress is being made. With respect to improving First Nations access to data, the Homelessness New South Wales interactive dashboards provide public access to housing and homelessness data. The dashboard includes Aboriginal and Torres Strait Islander specific housing data at local government and regional levels on issues such as level of homelessness, housing stress, social housing access, inequalities and risk of homelessness in local contexts.

7.6 Without targeted measures, First Nations Australians will continue to be over-represented in poor housing outcomes

The *National Agreement on Closing the Gap* and other documents, such as the United Nations Declaration on the Rights of Indigenous Peoples, provide frameworks for better life outcomes, including housing outcomes, for First Nations people. However, without targeted and coordinated measures, First Nations people will continue to be over-represented in poor housing outcomes.

The *National Agreement on Closing the Gap* is built on the belief that, when Aboriginal and Torres Strait Islander people have a genuine say in the design and delivery of services that affect them, better life outcomes are achieved (National Agreement on Closing the Gap, 2020). However, the 2024 Productivity Commission review of the *National Agreement on Closing the Gap* found that:

> 'Despite some pockets of good practice, progress in implementing the Agreement's Priority Reforms has, for the most part, been weak and reflects tweaks to, or actions overlayed onto, business-as-usual approaches. The disparate actions and ad hoc changes have not led to improvements that are noticeable and meaningful for Aboriginal and Torres Strait Islander people.' (Productivity Commission, 2024a, p. 79)

The Productivity Commission’s review found it was difficult to hold governments accountable for progress due a range of factors, such as the lack of sufficient data to report on progress. This includes for Target 9b regarding essential service provision for Aboriginal and Torres Strait Islander communities, where there is currently no existing data. The *National Agreement on Closing the Gap* also does not describe how jurisdictions will be held accountable for their contributions to targets, which are only designed to be met at a national level. Currently, there is no agreed approach to determining whether individual jurisdictions have made acceptable progress (Productivity Commission, 2024a).

On the 19 socio-economic targets of the *National Agreement on Closing the Gap*, the Productivity Commission’s review indicated that governments did not simply need to do more, but to work radically differently. One lesson learnt was that when presented in isolation, socio-economic targets can problematise First Nations people, rather than the structures and systems driving outcomes. These structures and systems need to change to achieve improvements in life outcomes (Productivity Commission, 2024a).

Chapter 8: Towards a better housing system

Chapter description

This chapter outlines 10 areas that could improve the state of the housing system. These require collective effort and coordination across all levels of government, the private sector, the community housing sector and the broader Australian community.

8.1 The Council has identified 10 areas of focus for improving housing system outcomes

8.1.1 Investing in social housing

Non-market housing, such as social housing and affordable housing, is essential infrastructure. It reduces homelessness and the incidence of poverty (Chapters 5, 6 and 7), supports economic productivity and labour market participation, and fosters more cohesive, diverse and sustainable communities (Chapter 1).

A range of Australian Government and state and territory initiatives (Appendix A) will support the delivery of more non-market housing over the next 5 years. However, levels of non-market housing are – and are forecast to remain – very low relative to history and compared to other advanced economies (chapters 2, 3 and 4), and significantly lower than demand (chapters 4, 6 and 7).

More institutional investment in affordable housing would provide more options for tenants and add to affordable dwelling supply (Interim National Housing Supply and Affordability Council, 2023).

Establishing a national target for non-market housing would foster a stronger pipeline of new non-market housing.

8.1.2 Reducing homelessness

Homelessness is a complex problem, representative of the most extreme form of housing stress (Chapter 6) and correlating with the decline in housing affordability (Chapter 5).

A Housing First approach, where safe housing is the first priority for people experiencing homelessness and includes increasing the availability of non-market housing, would support efforts to minimise homelessness in Australia (Chapter 6).

8.1.3 Improving rental market outcomes for tenants

More than 30 per cent of Australians rent their home (chapters 1 and 5). The number of renters is increasing, and those who are renting are doing so for longer (Chapter 2). Renting is the only viable tenure option for an increasing share of the population (Chapter 5). Australia's rental system provides only limited tenure security and other rights to renters (chapters 1 and 5).

There is a need for regulatory frameworks that better support rights for tenants and address the need for better tenure security. Cross-government collaboration through the Better Deal for Renters initiative will support this (Appendix A).

Most rental housing is provided by individual investors. More institutional investment in rental housing could provide more rental options for tenants and add to dwelling supply (Interim National Housing Supply and Affordability Council, 2023).

8.1.4 Improving efficiency in the land use and planning systems

Planning systems are essential for delivering dwellings. Planning systems work best when they are consistent with the needs of the whole community. More housing can be delivered by good planning systems. In good systems:

- performance-based frameworks with specified and measurable outcomes and deemed-to-comply provisions are used
- lower risk developments are quickly assessed, and responsibility for development approval reflects the economic and social significance of the project, and
- development approval and policy making are separated (chapters 1 and 2).

Reforms that address lot fragmentation, land withholding and lack of enabling infrastructure would increase housing supply.

Close collaboration across governments is required to support improvements in land use and planning systems. Large-scale build-to-rent projects that are a separately defined development type and subject to expedited planning and development assessment would support housing supply (Interim National Housing Supply and Affordability Council, 2023).

A nationally consistent approach to inclusionary zoning would support the supply of affordable housing. The work of National Cabinet to implement the National Planning Reform Blueprint is an essential aspect of this (Appendix A).

8.1.5 Boosting capacity in the construction sector

There is insufficient capacity in the housing supply system to meet demand (Chapter 2). Australia's supply capacity can be expanded by improving the availability of skilled labour, enhancing the flexibility in supply chains, increasing the availability of financing, and bolstering sector productivity, including through adopting innovative homebuilding methods (chapters 1, 2 and 3). Reducing the complexity of the housing supply process would further support housing supply (chapters 1 and 2).

8.1.6 Improving data availability

High quality and widely available data supports good housing outcomes, including by facilitating industry and policy planning, and improving market efficiency, productivity and accountability. Better data outcomes require improvements to the definition, identification, collection, pooling and management of strategic data assets. Under the National Housing Accord, all parties have agreed to increase collaboration on data management.

8.1.7 Addressing regional-specific housing challenges

Housing needs and challenges vary widely across Australia. Some rural and remote regions experience dwelling construction costs that prohibit entry into the market without government intervention.

8.1.8 Enhancing First Nations housing outcomes

Australia's First Nations people are disproportionately represented in poor housing outcomes and under-represented as homeowners (Chapter 7). A key part of the *National Agreement on Closing the Gap* is the principle of self-determination for First Nations people. Without targeted measures undertaken in partnership with First Nations people, housing outcomes under the *National Agreement for Closing the Gap* are unlikely to be met (Chapter 7).

8.1.9 Reviewing the suitability of the national housing target

Australia needs an ambitious target given it faces a significant undersupply of housing (Chapters 2, 3, 4, 5, 6 and 7). The national housing target highlights the magnitude of the task necessary to meet the needs of the community, focuses attention on improving supply, and supports accountability of governments.

The target is above the Council's forecast of new demand over the next 5 years. However, more supply than necessary to meet future new demand is required to address the significant unmet demand for housing currently in the system, and to support those the system is failing, such as people experiencing homelessness (chapters 4 and 5).

The Council will assess the effect of new policy measures on supply over the first 12 months of the 5-year target period and reassess the suitability of the target.

8.1.10 Ensuring Australia’s taxation system supports supply and affordability

The evidence indicates that Australia’s tax framework affects the housing system in ways that have implications for supply and affordability (chapters 1 and 2). There is scope to reform current tax settings, which may improve housing supply and affordability outcomes. Any tax reforms should consider the potential for market destabilisation.

Australia’s tax system favours home ownership over other forms of housing tenure (chapters 1 and 2). This can widen inequality between homeowners and renters. Historically, most Australians could access home ownership and the associated tax benefits that come with it. However, home ownership is becoming less available for a growing segment of the population. While the Council supports the goal of home ownership, it also supports the development of alternative tenures that assist lower-income households to access some of the tax benefits of home ownership.

Appendix A: Housing policy landscape

As a national body, the Council is particularly interested in policies that affect housing outcomes across the nation. The following is a list of national policy initiatives.

Existing national housing policies

A national framework to tackle housing supply and affordability challenges

National Housing and Homelessness Plan

The National Housing and Homelessness Plan will set out a shared national vision to address Australia's housing challenges across the responsibilities of all levels of government (Collins, 2023d). The National Housing and Homelessness Plan will be a 10-year strategy, developed in collaboration with states and territories, that sets national goals, outlines key reforms and identifies how governments can work better together with the private and community sectors. It is expected to be delivered in 2024.

National Housing and Homelessness Agreement

In 2018, the Australian Government entered into the 5-year National Housing and Homelessness Agreement (NHHA) with all state and territory governments. Through the NHHA, the Australian Government has provided around $1.6 billion each year to states and territories to improve housing outcomes across the spectrum, including access to secure and affordable housing. The NHHA has been extended for a further 12 months, with an additional $65.7 million in Australian Government funding and will cease on 30 June 2024. A new NHHA is currently being negotiated.

National Housing Accord

The National Housing Accord brings together all levels of government, investors, and representatives from the residential development, building and construction sector to increase the supply of housing across the country.

In August 2023, the Australian Government and state and territory governments agreed to a new national target of building 1.2 million new well-located homes over 5 years from mid-2024. This is an additional 200,000 new homes above the target originally agreed under the National Housing Accord in 2022. To help achieve the target, the Australian Government has committed $3 billion through the New Homes Bonus to incentivise the states and territories to achieve more than their share of the original 1 million well-located homes target.

National Housing Supply and Affordability Council

The Australian Government's national housing supply and affordability agenda is informed by independent, expert advice through the establishment of the Council. The Council has been established as a statutory body under the *National Housing Supply and Affordability Council Act 2023* (Collins, 2023c).

National Planning Reform Blueprint

The National Planning Reform Blueprint, agreed to by the states and territories, sets out measures to improve housing supply and affordability across planning, zoning and land release. It includes updating state, regional and local strategic plans to reflect housing supply targets, promoting medium and high-density housing in well-located areas close to existing public transport connections, amenities and employment, and streamlining approval pathways (Albanese, 2023b).

Funding to deliver social and affordable homes and respond to acute housing needs

Housing Australia Future Fund

The Housing Australia Future Fund (HAFF) is a $10 billion fund to help build 30,000 new social and affordable homes in its first 5 years (Collins, 2023). The HAFF will also be used to support acute housing needs for at-risk cohorts, including women and children impacted by domestic violence, and older women and veterans at risk of homelessness. It will also fund repairs, maintenance and improvements for housing in remote Aboriginal and Torres Strait Islander communities.

National Housing Infrastructure Facility

The National Housing Infrastructure Facility (NHIF) is a $1 billion facility administered by Housing Australia that provides concessional loans and grants for social and affordable housing and housing enabling infrastructure such as electricity, gas, water, sewerage, stormwater, telecommunications, and roads infrastructure (Collins, 2023e). Since November 2022, support has been available to directly assist development of new social or affordable housing projects. On 11 September 2023, the Australian Government committed an additional $1 billion in Australian Government funding to the NHIF to support more social housing.

Housing Australia’s Investment Mandate Direction

The Australian Government has implemented changes to Housing Australia’s Investment Mandate Direction that requires Housing Australia to deliver a minimum of 1,200 social and affordable homes in each state and territory within 5 years of the HAFF commencing (Treasury, 2023a). This will apply to any housing delivered by Housing Australia through its financing function, including through the Affordable Housing Bond Aggregator, NHIF, the HAFF and the Australian Government’s commitments under the National Housing Accord.

Social Housing Accelerator

The $2 billion Social Housing Accelerator was paid by the Australian Government to the states and territories in June 2023 to deliver thousands of new and refurbished social homes for Australians on social housing waiting lists (Albanese, 2023). States and territories are required to meet strong reporting and assurance requirements to demonstrate that projects will permanently increase the supply of social housing. The implementation plans provided by states and territories indicate this investment will deliver around 4,000 new and refurbished social dwellings by 2028.

Safe Places Emergency Accommodation Program

The Safe Places Emergency Accommodation Program (Safe Places) provides capital grants to fund the building, renovation or purchase of new emergency accommodation for women and children experiencing violence. The Australian Government has committed $172.6 million towards Safe Places over 2 funding rounds. This includes $72.6 million over 2020–21 to 2024–25, and $100 million over 2022–23 to 2026–27 for the Safe Places Inclusion Round (Department of Social Services, 2022).

Reconnect Program

The Australian Government is providing $91.7 million over 3 years (2023–2026) for youth homelessness services through the Reconnect Program. The Reconnect Program is a community-based early intervention and prevention program for young people (aged 12 to 18 years, or 12 to 21 years for newly arrived youth) who are homeless or at risk of homelessness, and their families (Department of Social Services, 2023a).

Remote Housing in the Northern Territory

The Australian Government is providing $117.7 million in 2023–24, matched by the Northern Territory Government, for the delivery of remote housing in the Northern Territory, to improve housing conditions and reduce overcrowding in communities with significant levels of need.

The Australian Government announced a new remote housing agreement, which will provide $4 billion over 10 years from 2024 to 2034, for long term funding of remote housing in the Northern Territory. The funding will be administered through a Partnership Agreement between the Australian and Northern Territory governments, Aboriginal Housing Northern Territory and the 4 Northern Territory Aboriginal Land Councils (Albanese, 2024).

Restoring funding to Northern Territory Homelands

The Australian Government is providing $100 million in 2022–24 to improve housing and essential infrastructure on Northern Territory homelands. This includes improvements to water, power and community facilities, as well as housing upgrades, extensions and new builds.

Aboriginal Hostels Limited

Aboriginal Hostels Limited is an Australian Government company, established in 1973, to provide accommodation across Australia for First Nations people who are travelling or relocating, or who need to be away from home to access services and economic opportunities. Aboriginal Hostels Limited receives approximately $43 million in annual appropriations and an additional $10 million over 2 years from 2023–24 (Department of the Prime Minister and Cabinet, 2023).

Support for renters and home ownership

Commonwealth Rent Assistance

In the 2023–24 Budget, the government announced it would invest $2.7 billion over 5 years from 2022–23 (around $0.7 billion per year ongoing) to increase Commonwealth Rent Assistance (CRA) maximum rates by 15 per cent. This increase came into effect on 20 September 2023, and adds to the roughly $5 billion the government spends on CRA each year to support around 1.3 million households on income support (Rishworth, 2023). In 2023–24, the government expects to spend around $5.5 billion on CRA (Department of Social Services, 2023).

A Better Deal for Renters

The Australian Government and state and territory governments agreed to ‘A Better Deal for Renters’, which aims to harmonise and strengthen renters' rights across Australia. This includes developing a nationally consistent policy to implement a requirement for reasonable grounds for eviction; moving towards limiting rent increases to once a year; and phasing in minimum rental standards (Albanese, 2023b).

Build-to-Rent accommodation

The Australian Government has announced 2 new measures to support institutional investment in build-to-rent accommodation developments. This includes a reduction in the Managed Investment Trust withholding tax rate for newly constructed build-to-rent projects from 30 per cent to 15 per cent and increasing the capital works tax depreciation rate from 2.5 per cent to 4 per cent per year for eligible new build-to-rent projects. Industry estimates that these measures could unlock up to 150,000 apartments over the next decade (Albanese, 2023c).

Help to Buy

Help to Buy is a shared equity scheme designed to cut the up-front cost of purchasing a home, by providing eligible homebuyers with an equity contribution of up to 40 per cent for new homes and 30 per cent for existing homes (Collins, 2023a). The scheme is expected to run nationally from 2024.

Home Guarantee Scheme

The Home Guarantee Scheme helps Australians achieve home ownership across Australia through the First Home Guarantee, the Regional First Home Buyer Guarantee, and the Family Home Guarantee. Under the Scheme, part of an eligible home-buyer’s home loan from a participating lender is guaranteed by the Australian Government (Collins, 2023b; Sukkar, 2021). This enables an eligible home buyer to buy a home with a 5 per cent deposit (or 2 per cent deposit for the Family Home Guarantee) without paying Lenders Mortgage Insurance.

Indigenous Home Ownership Program

Indigenous Business Australia, a statutory Australian Government body, delivers the Indigenous Home Ownership Program. The Indigenous Home Ownership Program offers concessional loans to Indigenous Australians who are unable to access home financing through mainstream financial institutions (Indigenous Business Australia, 2023). It is available for the purchase, construction or renovation of homes, and has lower deposit requirements, longer loan terms and lower interest rates than mainstream loans.

National Rental Affordability Scheme

The National Rental Affordability Scheme commenced in 2008 and provides an annual financial incentive for up to 10 years to housing providers (known as approved participants), to rent dwellings to eligible people on low to moderate incomes at a rate of at least 20 per cent below market rent. The National Rental Affordability Scheme will continue to operate until June 2026, with properties progressively exiting the Scheme as their 10-year period ends. As at 31 December 2023, there are 17,558 active dwellings in the scheme (Department of Social Services, 2024).

Support for labour in the building and construction sectors

Australian Skills Guarantee

The Australian Skills Guarantee is a commitment under the Secure Australian Jobs Plan that aims to ensure one in 10 workers on major Australian Government-funded projects is an apprentice, trainee or paid cadet. The Australian Skills Guarantee also proposes to establish targets for female participation in construction, with the goal of achieving 12 per cent of women in apprenticeships and traineeships and 10 percent for women in trade apprenticeships and traineeships in 2030 (Department of Employment and Workplace Relations, 2024).

Immigration policy

The Australian Government's immigration policy includes a Skilled Occupation List, which summarises in-demand occupations required to fill skill shortages in Australia. The Skilled Occupation List specifies that individuals who are qualified to work, or have been trained as construction managers, or architectural, building or surveying technicians, may be eligible to gain employment in Australia, either through a standard temporary or permanent visa program, or via employer sponsorship through a labour agreement (Department of Home Affairs, 2023a).

Other measures

Housing Support Program

The Housing Support Program is a $500 million competitive funding program for local and state governments to promote housing supply, and connect essential services and amenities to support new housing development or planning capability (Albanese, 2023a).

Urban Precincts and Partnerships Program

The Australian Government committed $150 million over 3 years commencing in 2024–25 on the Urban Precincts and Partnerships Program to support a coordinated funding approach to urban and suburban community infrastructure (King, 2023). Applicants (such as local councils) will be encouraged to identify how their precinct proposals will enhance housing affordability and increase housing supply.

Appendix B: Glossary

Term	Definition
Affordable housing	Housing provided at discounted market rents, typically to households in the second and third income quintiles.
Average household size	The average number of people living in a dwelling.
Community housing	Housing provided at below-market rents that are owned or managed by community housing organisations.
COVID-19 pandemic	Refers to COVID-19, which was declared a worldwide pandemic by the World Health Organisation on 11 March 2020. Australia's Chief Medical Officer declared COVID-19 to no longer be a Communicable Disease Incident of National Significance in October 2023.
Dwelling	A building primarily used for long-term residential purposes. Used interchangeably with 'housing'.
First Nations people	People who have identified themselves, or have been identified by a representative (for example, their parent or guardian), as being of Aboriginal and/or Torres Strait Islander origin. First Nations people is the consistent term used in this report to refer to Indigenous Australians and Aboriginal and Torres Strait Islander people. However, where particular datasets, reports or organisations have referred specifically to these terms instead, these have been adopted in the report.
Home ownership	The partial (subject to a mortgage) or outright ownership of a dwelling.
Homelessness	There is no singular definition of homelessness in OECD countries. The Australian Bureau of Statistics defines homelessness as those: whose living arrangements are in an inadequate dwelling; have no, or a lack of, security of tenure; or have a lack of privacy, safety or ability to control one's living space. The Australian Institute of Health and Welfare defines homelessness as those living in non-conventional accommodation or sleeping rough, in short-term or emergency accommodation, due to a lack of other options.
House	A detached dwelling.
Household formation	The change in the number of households from one year to the next.
Housing affordability	The relationship between housing costs and household income.
Housing-cost burden	The proportion of household income (either disposable or gross income) relative to housing costs (either mortgage costs, rental costs or overall housing costs).
Housing First	A service model that emphasises rapid placement of those who chronically experience homelessness in long-term, affordable housing.
Housing outcomes	The impacts of the housing system on households and individuals.
Housing stress	Housing stress can include mortgage stress (for homeowners) and rental stress (for renters). Common measures of housing stress include the housing-cost burden exceeding 30 per cent, and the housing cost burden for lower-income households (those in the 2 lowest income quintiles) exceeding 30 per cent (the 30/40 rule).
Housing system	Includes the production, consumption, exchange and regulation of housing, as well as government policy, for private housing, non-market housing, marginal housing and those experiencing homelessness.
Indigenous community housing	Housing that Indigenous community organisations own and/or manage. These organisations may either directly manage the dwellings they own or sublease tenancy management services to the relevant state/territory housing authority or another organisation. This type of housing is made available to households with at least one Indigenous member (NIAA 2022).

Term	Definition
Marginal housing	Households at risk of homelessness, including those living in overcrowded housing, improvised dwellings or caravan parks.
Market housing	Housing provided in the private market.
Medium-to-high density dwelling	A non-detached dwelling, including townhouses and apartments.
National Housing and Homelessness Agreement	An agreement between the Australian, state and territory governments to improve access to affordable, safe and sustainable housing across the housing spectrum, including to prevent and address homelessness, and to support social and economic participation.
Non-Indigenous Australians	Australians who do not identify as First Nations people.
Non-market housing	Housing not provided by the market, which includes social and affordable housing.
Overcrowding	Households that are estimated to require 3 extra bedrooms, calculated by the Australian Bureau of Statistics, according to the Canadian National Occupancy Standard.
Planning system	The system under which land is made available for housing development.
Public housing	State owned and managed housing.
Severe overcrowding	Households that are estimated to require 4 or more extra bedrooms, calculated by the Australian Bureau of Statistics, according to the Canadian National Occupancy Standard. In Australia this is also classed as a form of homelessness.
Social housing	Low cost or subsidised rental housing provided by government or non-government (including not-for-profit) organisations. Social housing includes community housing, public housing and state-owned and managed Indigenous housing.
State-owned and managed Indigenous housing	Housing administered by state and territory governments that is specifically targeted to Indigenous households.
Unit	A non-detached dwelling, including townhouses and apartments.
Vacancy rate	The number of vacant rental listings divided by the estimated stock of rental properties.

Appendix C: The Council's work over the year

Advice provided by the Council in 2023–24

Under the *National Housing Supply and Affordability Council Act 2023,* the Council is required to report to the Minister for Housing and Homelessness (the Minister) each financial year on the research into housing supply and affordability undertaken by the Council in that year, and any findings, conclusions or recommendations resulting from that research.

Barriers to Institutional Investment, Finance and Innovation in Housing report

On 9 May 2023, the Minister commissioned the interim Council to review barriers to institutional investment, finance and innovation in housing, in addition to its own analysis. The Council held 8 roundtable discussions with 40 participating organisations.

On 28 July 2023, the interim Council presented its report, Barriers to Institutional Investment, Finance and Innovation in Housing to the Minister. The report makes 11 recommendations focused on building a stable and reliable institutional investor market in rental housing (Box AC.1).

Box AC.1 Barriers to Institutional Investment, Finance and Innovation in Housing Report recommendations

Recommendation 1: Build-to-rent as a separately defined development type

Recommendation 2: Reviewing planning systems

Recommendation 3: Improving land availability

Recommendation 4: Establishing housing targets

Recommendation 5: Improving data availability

Recommendation 6: Appropriate superannuation regulations

Recommendation 7: Gaps in financing

Recommendation 8: A national regulatory framework for the community housing sector

Recommendation 9: Supporting the community housing sector to partner with institutional investors

Recommendation 10: Standardising definitions in the social and affordable housing sector

Recommendation 11: Establishing a social and affordable housing asset aggregator

Senate Inquiry into Australia's worsening rental crisis

On 9 October 2023, the interim Council provided a submission to the Senate Inquiry into Australia's worsening rental crisis, which focused on the recommendations set out in the Barriers to Institutional Investment, Finance and Innovation in Housing report. The interim Council noted its support for the recommendations made by the Senate Committee in its interim report; that the Australian Government take a coordinating role to implement stronger rental rights and continue to invest in public, social, community and affordable housing.

Amendments to the Housing Australia Investment Mandate Direction

On 8 November 2023, the interim Council provided a submission to the Australian Government's public consultation on the exposure draft amendments to the Housing Australia Investment Mandate Direction (previously the National Housing Finance and Investment Corporation Investment Mandate Direction 2018) and accompanying explanatory statement. The submission focused on factors Housing Australia should consider when executing its Investment Mandate; and proposed an approach to the legislated review of the *Housing Australia Future Fund Act 2023*, due by 31 December 2026.

National Housing and Homelessness Plan

The National Housing and Homelessness Plan is being developed by the Department of Social Services. The Council has provided advice to the Department of Social Services on the overarching vision, strategic direction and policy parameters for the National Housing and Homelessness Plan.

Advice to the Minister for Housing on planning reforms

On 15 February 2024, the Council provided advice on priority planning reforms to inform the Meeting of Australian Government, State and Territory Planning Ministers on 22 February 2024. The meeting focused on state and territory progress against the National Planning Reform Blueprint. The Council's views aided in informing key planning reform priorities for states and territories over the next 6 months.

Data and modelling

Housing Supply and Demand model

The Council has developed a housing system model to support the Council's responsibilities as an independent body providing advice and the evidence base for housing policy making. The model provides projections of housing supply and demand at national and state levels, and the capacity to predict short-run impacts of shocks to the housing market (Chapter 4).

Suitability of the national 1.2 million housing target

Under the National Housing Accord, the Council is required to regularly advise on the suitability of the national target in consultation with the states and territories, and in response to ongoing monitoring of the capacity of the residential building industry. The Council's Housing Supply and Demand model, developed to fulfil the Council's legislative obligations, was also used to advise on the suitability of the national housing target and fulfils this commitment under the Accord. This report provides the Council's analysis of the suitability of the national housing target (Chapter 4).

Significant meeting dates – interim Council

Meeting	Location	Date
Council meeting	Sydney	28 February 2023
Council meeting	Sydney	28 March 2023
Council meeting	Virtual	11 April 2023
Council meeting	Canberra	18 April 2023
Council meeting	Adelaide	28 June 2023
Council meeting	Melbourne	15 August 2023
Council meeting	Virtual	29 September 2023
Council meeting	Brisbane	13 October 2023
Council meeting	Virtual	3 November 2023
Council meeting	Sydney	5 December 2023

Significant meeting dates – statutory Council

Meeting	Location	Date
Council meeting	Virtual	5 January 2024
Council meeting	Canberra	9 February 2024
Council meeting	Virtual	22 March 2024
Council meeting	Virtual	3 April 2024
Council meeting	Brisbane	12 April 2024

Managing declarations of interest

Council members are statutory officials and are bound by legislation related to conflicts of interest. To manage potential or perceived conflicts of interest, the Council has established processes to declare and manage these interests, including maintaining an annual disclosure register and updates at each Council meeting.

Annual disclosure register

To uphold best practice in managing conflicts of interest, the Council provides an annual letter to the Minister, noting how the Council manages its conflict of interests and an annual disclosure register that lists relevant private interests declared by members. If members have a material declaration that occurs in between these annual updates, the Minister will be notified, as per requirements under the *Public Governance, Performance and Accountability Act 2013*. Declarations are revised and resubmitted whenever there is a change in personal circumstances and/or a change in work responsibilities that could involve a new real or apparent conflict of interest.

Disclosure at each Council meeting

At the beginning of each Council meeting, the Chair asks members to declare any conflicts of interest relating to items on the agenda and to advise of any necessary changes in circumstances. Should a member be conflicted with an item on the agenda, they may be recused from the discussion. If this was to occur, it would be recorded in the meeting minutes and appropriate steps would be taken to manage the risk. Any additional declarations made at the meeting are recorded in the meeting minutes and updated in the Disclosure Register, which would then be provided to the Minister as an update to the annual record.

Appendix D: Report methodology

The Council's inaugural State of the Housing System Report (the Report) provides an overview of the state of the housing system in 2023–24, including the demand for, supply of and affordability of housing.

Process and timeline

The development of the Report was led initially by the interim Council, which served from January 2023 to December 2023, and was continued by the Statutory Council from January 2024 (Table AD.1).

The Council was assisted by the Office of the National Housing Supply and Affordability Council (the Office), which is staffed by Australian Public Service employees who are made available to the Council by the Australian Government Department of the Treasury. The Office works under the direction of the Council.

Table AD.1: National Housing Supply and Affordability Council members

National Housing Supply and Affordability Council members	
Interim Council	**Statutory Council**
Ms Susan Lloyd-Hurwitz (Chair)	Ms Susan Lloyd-Hurwitz (Chair)
Mr Michael Lennon (Deputy Chair)	Dr Marcus Spiller (Deputy Chair)
Dr Marcus Spiller	Mr Michael Lennon
Professor Rachel Ong ViforJ	Professor Rachel Ong ViforJ
Ms Helen Waters Silvia	Ms Helen Waters Silvia
Mr David O'Loughlin	Ms Gail McGowan PSM
Ms Diane Brown (ex-officio) (from 1 January 2023 to 30 June 2023)	Ms Carolyn Viney
Ms Victoria Anderson (ex-officio) (from 1 July 2023)	Mr Neil Willmett
	Ms Victoria Anderson (ex-officio)

Under the *National Housing Supply and Affordability Council Act 2023*, the Council is required to submit this report to the Minister for Housing and Homelessness no later than 10 months after the end of the financial year.

Information sources

The Council gathered a range of inputs to inform its research and analysis. These included:

- a literature review (see references at Appendix E)
- government and non-government data, cited throughout the Report
- focus group discussions and stakeholder interviews.

Focus group discussions and stakeholder interviews

The Council convened a series of formal interviews and focus group discussions with representatives from 50 stakeholder organisations in February and March 2024. This included policy makers, advocacy groups, research organisations, think tanks, peak bodies and universities. The format of these consultations consisted of:

- 4 focus group discussions involving representatives of 23 organisations, on the themes of community housing, First Nations housing, and econometric and housing market modelling
- stakeholder interviews with representatives of
  - 18 government agencies, from all state and territories
  - 9 general stakeholder organisations.

In addition to this formal stakeholder engagement, the Office engaged with and solicited the views of stakeholders on an informal basis.

The Council is grateful to all stakeholders who contributed their time and insights to aid the development of the Report (Table AD.2)

8.1.1.1 Table AD.2: Stakeholder consultations

State and territory government agencies
Australian Capital Territory • Environment, Planning and Sustainable Development Directorate • ACT Treasury
New South Wales • Department of Communities and Justice • Department of Planning and Environment • NSW Treasury
Northern Territory • Department of Infrastructure, Planning and Logistics • Department of Territory Families, Housing and Communities • Department of Treasury and Finance
Queensland • Department of Housing, Local Government, Planning and Public Works • Department of State Development, Infrastructure, Local Government and Planning • Queensland Treasury
South Australia • SA Housing Authority
Tasmania • Homes Tasmania • Department of Premier and Cabinet • Department of Treasury and Finance

State and territory government agencies
Victoria • Department of Environment, Land, Water and Planning • Homes Victoria • Department of Treasury and Finance Victoria
Western Australia • Department of Communities • Department of Treasury • Department of the Premier and Cabinet
General stakeholder organisations
Housing Industry Association
Property Council of Australia
Australian Local Government Association
Housing Australia
Grattan Institute
Urban Development Institute of Australia
e61 Institute
Planning Institute of Australia
Master Builders Australia
Focus group discussions
Australian Youth Affairs Coalition Women’s and Girls’ Emergency Centre Housing for the Aged Action Group Australian Foundation for Disability
Homelessness Australia National Shelter Community Housing Industry Association PowerHousing Australia
Aboriginal and Torres Strait Islander Housing Queensland Australian Community Housing Industry Association NSW Aboriginal Housing Northern Territory Aboriginal Housing Victoria Coalition of Peaks National Aboriginal and Torres Strait Islander Housing Association
Australian Housing and Urban Research Institute Australian National University Curtin University RMIT University Swinburne University of Technology University of Melbourne University of Queensland University of South Australia University of Sydney

Disclaimers

Hilda Survey disclaimer

This paper uses unit record data from Household, Income and Labour Dynamics in Australia (HILDA) Survey conducted by the Australian Government Department of Social Services (DSS). The findings and views reported in this paper, however, are those of the authors and should not be attributed to the Australian Government, DSS or any DSS contractors or partners. (DOI:10.26193/SJEPRM).

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Appendix F: Selected housing data, financial year, 2017–18 to 2022–23

	Year-on-year change	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Dwelling completions, total[1]	0.1%	173,002	172,788	180,134	192,163	215,239	213,215
Dwelling completions, houses[1]	-4.3%	110,671	115,635	104,663	105,067	121,509	113,356
Dwelling completions, other residential[1]	9.7%	61,688	56,236	74,464	85,853	92,041	98,009
Dwelling completions, public[1]	31.8%	3,182	2,415	2,783	2,255	2,575	2,957
Net new dwelling[2]	0.5%	166,230	165,437	172,601	183,333	205,146	203,347
Housing prices, national index (2009 = 100)[3]	-2.3%	178.0	182.2	151.5	139.7	134.2	139.8
Housing prices, capital cities index (2009 = 100)[3]	-3.6%	179.5	186.2	157.0	146.1	139.7	147.5
Housing prices, regional areas index (2009 = 100)[3]	2.0%	172.5	169.0	134.1	119.4	116.8	115.8
Advertised rents, national index (2009 = 100)[4]	9.3%	149.9	137.1	125.5	121.9	120.9	120.0
Advertised rents, capital cities index (2009 = 100)[4]	10.0%	146.8	133.5	123.4	121.4	121.0	120.8
Advertised rents, regional areas index (2009 = 100)[4]	7.6%	158.6	147.4	131.4	123.2	120.3	117.8
Rental vacancy rate (%)[5]	-1.0pp	1.6	2.6	3.1	2.7	2.7	2.6
Mortgage cost-to-income ratio, new mortgage (%)[6]	8.2pp	42.7	34.5	30.3	29.8	32.1	33.7
Rent-to-income ratio, new lease (%)[7]	1.8pp	30.0	28.2	26.7	26.6	27.3	28.0
Years to save for a 20 per cent home deposit[8]	-0.4	10.0	10.4	9.1	8.6	8.6	9.2
Homelessness[9]				122,494			

	Year-on-year change	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
House construction material costs (index)[10]	12.1%	154.7	138.0	121.9	119.0	117.7	114.7
Construction sector wages (index)[11]	3.8%	142.8	137.6	134.0	132.3	130.2	127.9
RBA cash rate target (%)[12]	325 bps	4.10	0.85	0.10	0.25	1.25	1.50
Population ('000)[13]	2.4%	26,649	26,014	25,685	25,649	25,335	24,963
Average household size[14]	-0.8%	2.49	2.51	2.54	2.52	2.53	2.53

Sources:

1 Source: ABS Building Activity.

2 Note: Net new dwellings is new market housing minus housing demolitions. Source: ABS Building Activity; NHSAC.

3 Note: Financial year-average. Source: CoreLogic Home Value Index.

4 Note: Financial year-average. Source: CoreLogic Hedonic Rental Value Index

5 Note: Financial year-average. Source: Real Estate Institute of Australia.

6 Note: Percentage of gross household income needed for new mortgage, financial year-average. Source: ANZ and CoreLogic.

7 Note: Percentage of gross household income needed for rent on new lease, financial year-average. Source: ANZ and CoreLogic.

8 Note: Financial year average. Source: ANZ and CoreLogic.

9 Note: Homelessness figures released on a five-year basis at Census. Source: ABS 2021 Census.

10 Note: Input costs to house construction index, financial year-average. Source: ABS Producer Price Indexes.

11 Note: Private sector construction wage index, financial year-average. Source: ABS Wage Price Index.

12 Note: Cash rate target as at 30 June each year. Source: RBA.

13 Note: Estimated Resident Population. Source: ABS National, state and territory population.

14 Source: ABS Labour force status of families, RBA, Treasury.