Most new housing is not high-end housing

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Research conducted with Trent Wiltshire, Tony Chen

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Housing affordability is getting worse for low-income Australians

Recent Australian research claims most new housing targets top-end

However that research suffers from a critical flaw

- The authors fail to account for the different sizes of local government areas (LGAs) in Australia. It counts the number of LGAs, not dwellings
- This flaw substantially skews their analysis.

Correcting for this flaw, we find that most new housing is built in median priced suburbs, or below

- Most houses have been built in LGAs with below-average prices
- Most apartments are built in more expensive LGAs: the inner and middle ring suburbs of our major cities

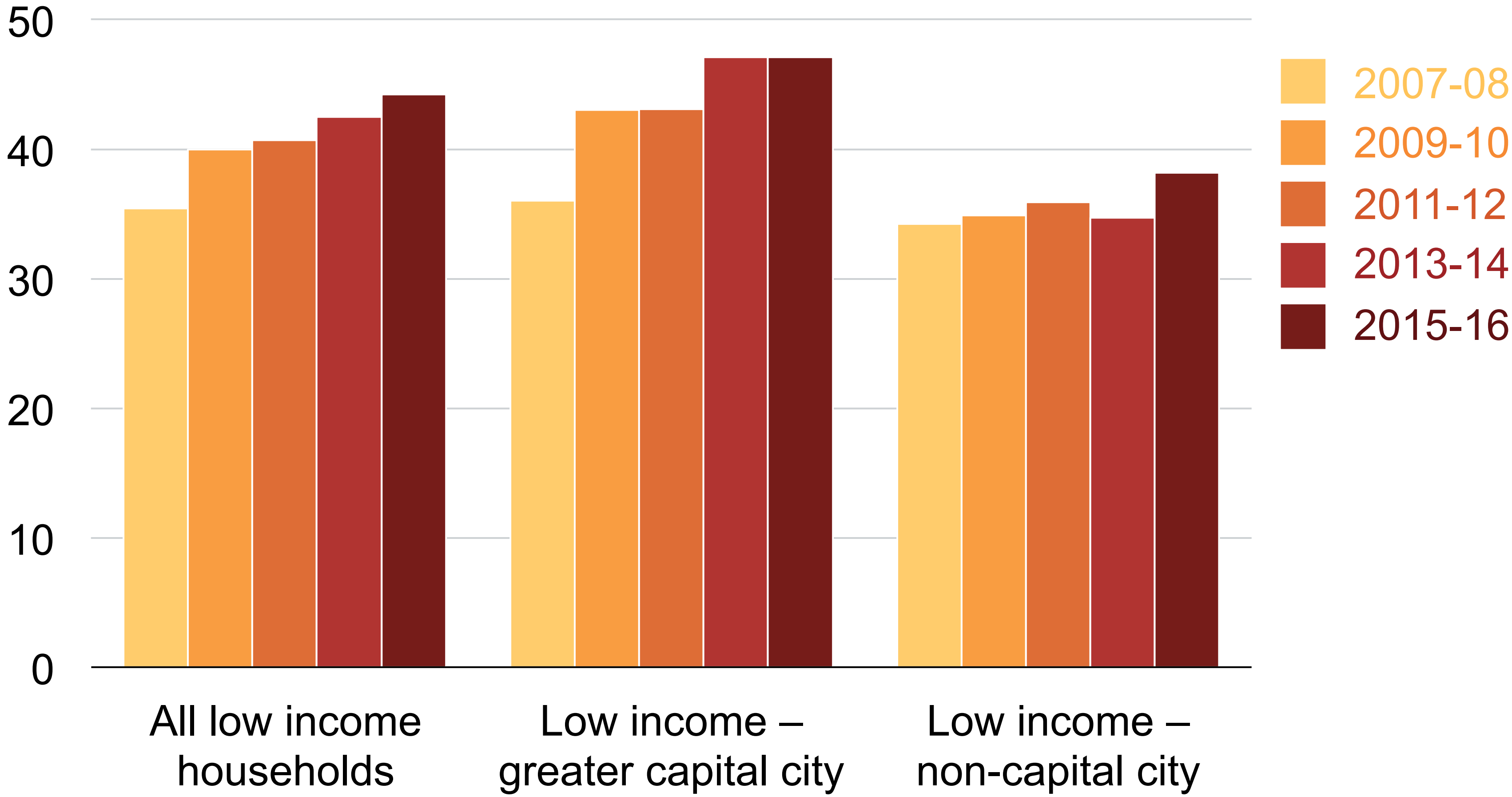
Private housing could be a key source of affordable housing

An alternative explanation: we're *still* not building enough housing

- More social housing would help, but it won't be enough
- Housing tax reforms will help too, but again won't be enough

An increasing number of low-income earners find housing unaffordable

Per cent of low-income renters spending more than 30 per cent of gross household income on rent



Note: 'Low-income' defined as households with equivalised disposable household income (excluding Commonwealth Rent Assistance) at or below the 40th percentile.
Source: ABS 4130.0 - Housing Occupancy and Costs

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Recent research claims most new housing is targeted at the top end – AHURI

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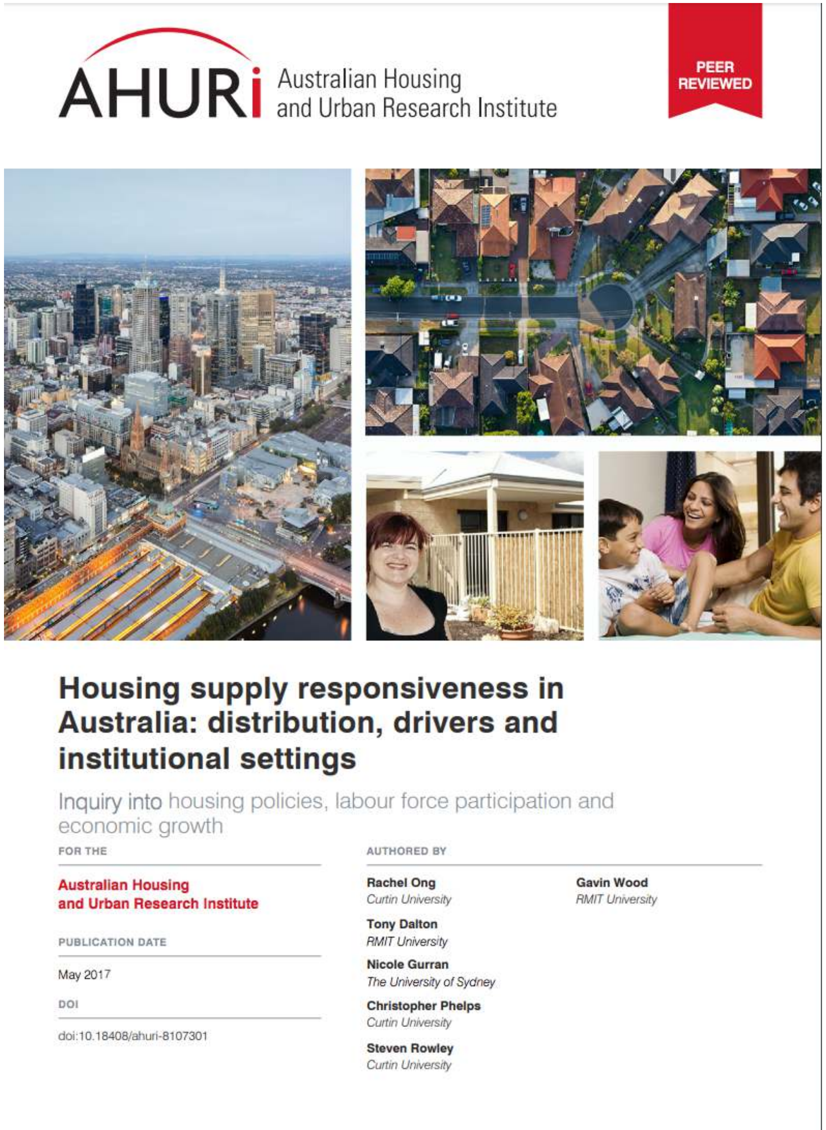
AHURi Australian Housing and Urban Research Institute

PEER REVIEWED

Housing supply responsiveness in Australia: distribution, drivers and institutional settings

Inquiry into housing policies, labour force participation and economic growth

FOR THE

Australian Housing and Urban Research Institute

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"Most of the growth in new housing supply has been taking place in mid-to-high price segments, rather than low price segments. *There seems to be structural impediments to the trickle-down of new housing supply. Targeted government intervention might be needed to ensure an adequate supply of affordable housing"* (p.1)

Recent research claims most new housing is targeted at the top end – Urban Policy and Research

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Urban Policy and Research

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Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis

Rachel Ong, Christopher Phelps, Steven Rowley & Gavin A. Wood

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Published online: 28 Sep 2017.

"New housing opportunities are increasingly tilted toward the more expensive end of the housing market." (p.9)

The concentration of new supply in the more expensive LGAs is another important finding. It would seem that housing supply is doing little to directly expand affordable housing opportunities in those price ranges within the reach of low income households (p.13)

Recent research claims that most new housing is targeted at the top end

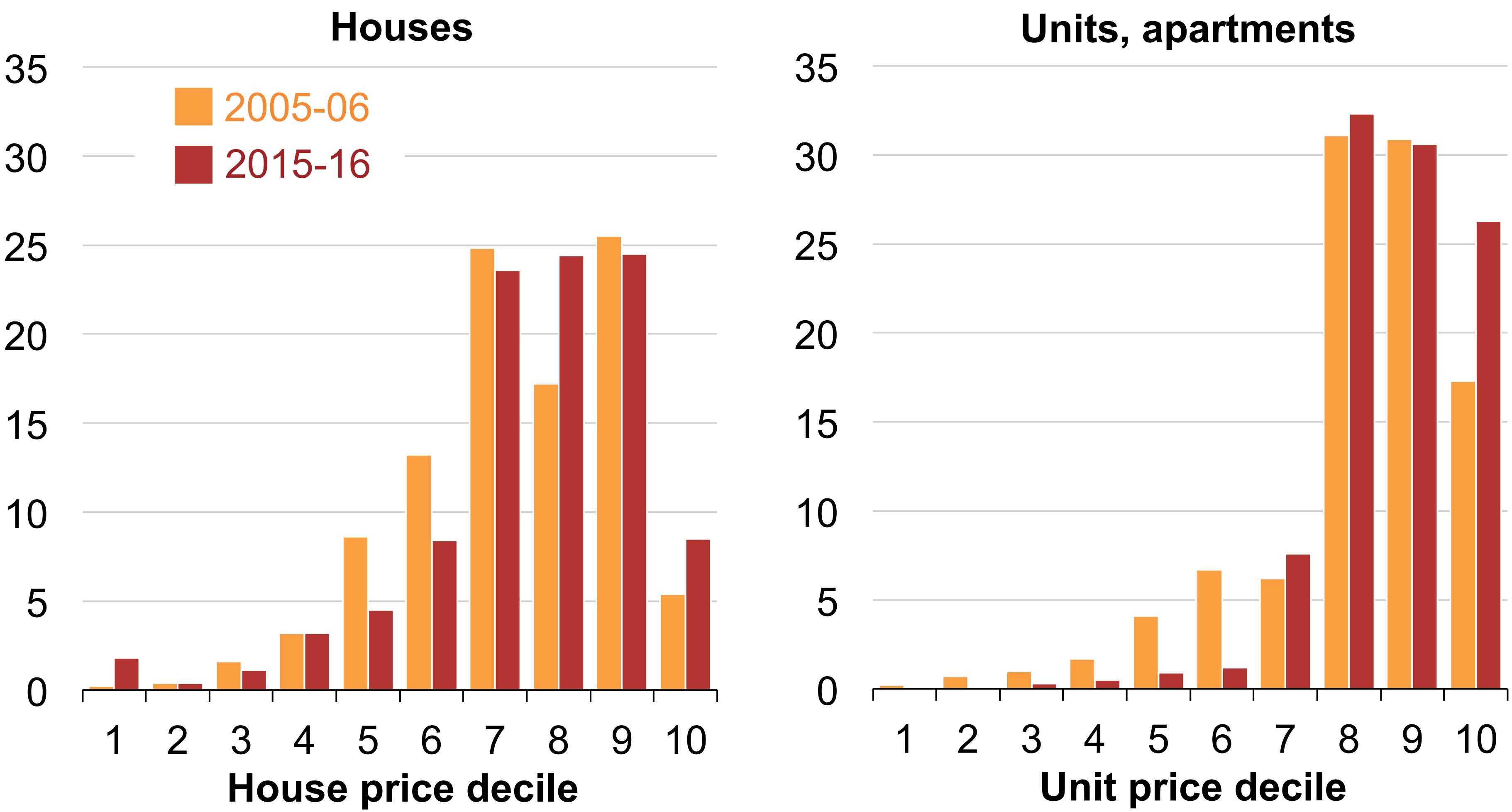
- Rank all LGAs according to median house prices and units, from lowest to highest, for 2005-06 and 2015-16 (Corelogic data)

- Divide the LGAs into deciles, **each containing the same number of LGAs**

- Count the number of new housing approvals in each LGA in each of these deciles (ABS data) for 2005-06 and 2015-16

Ong et al (2017) find that most new homes are targeted at the top end of the market

Share of new housing and unit approvals (per cent) in 2005-06 and 2015-16 in each LGA, ranked by their median house and unit price deciles



Notes: Price deciles are calculated on median house and unit prices in each LGA across Australia, unweighted for population size of LGAs.
Source: Ong et al (2017) Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis, Table 1.

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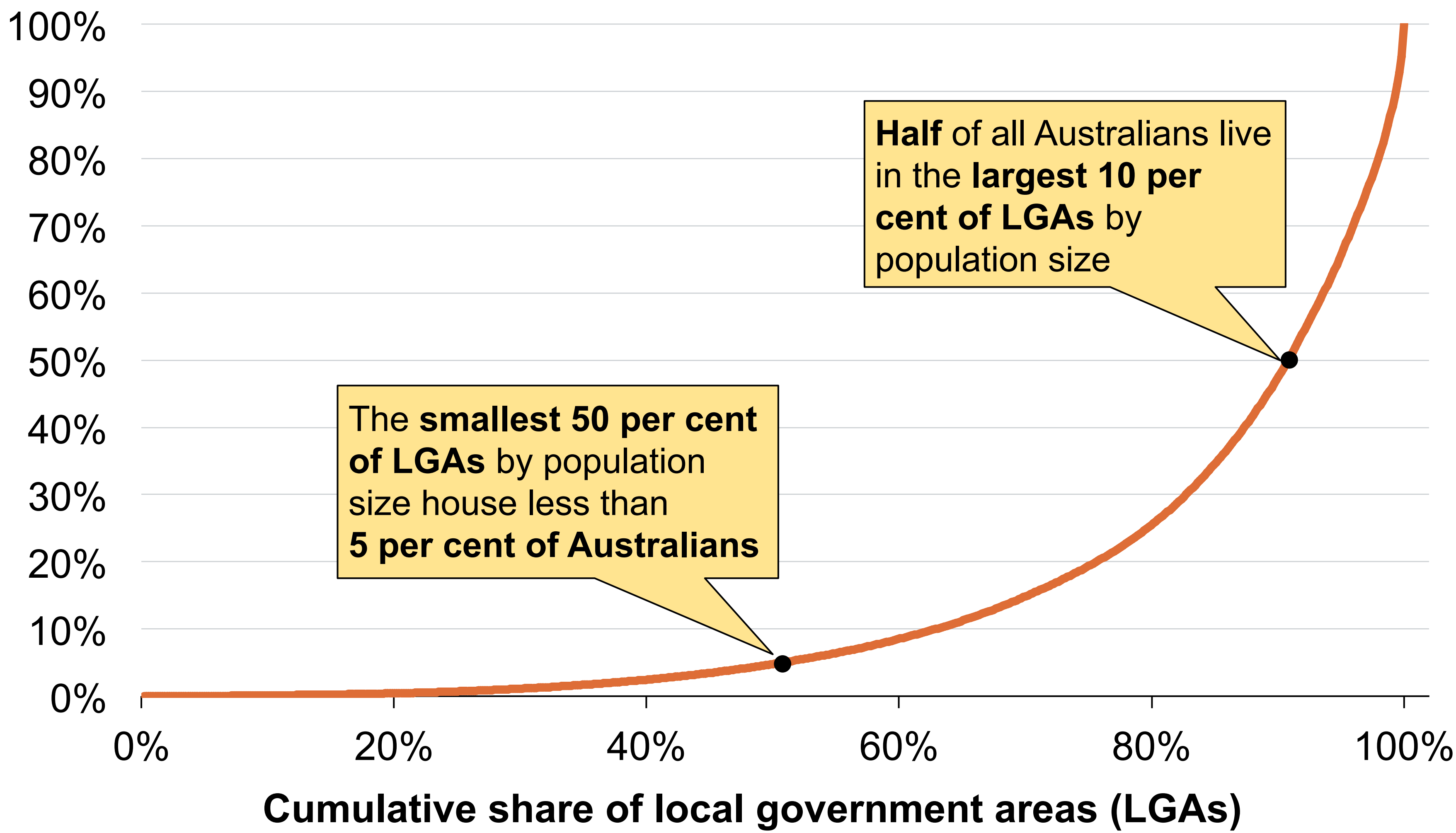
But most Australians live in only a few LGAs, concentrated in our largest cities

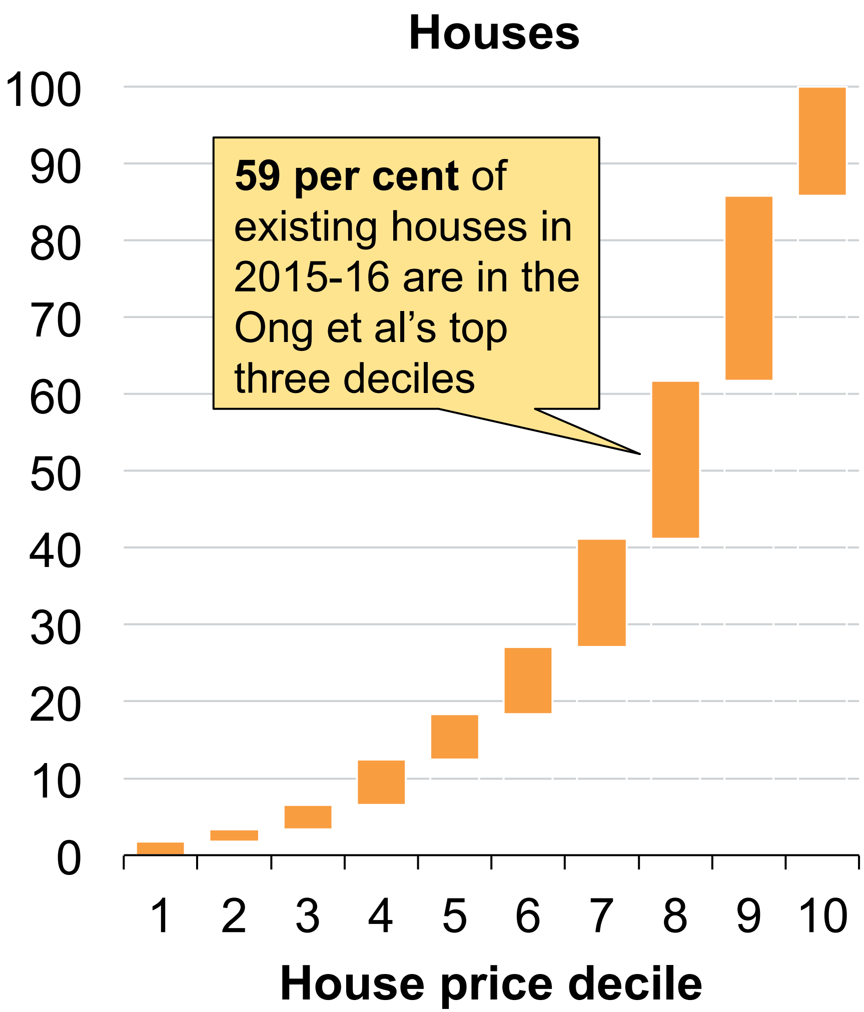
Cumulative share of Australian population by LGAs, 2016

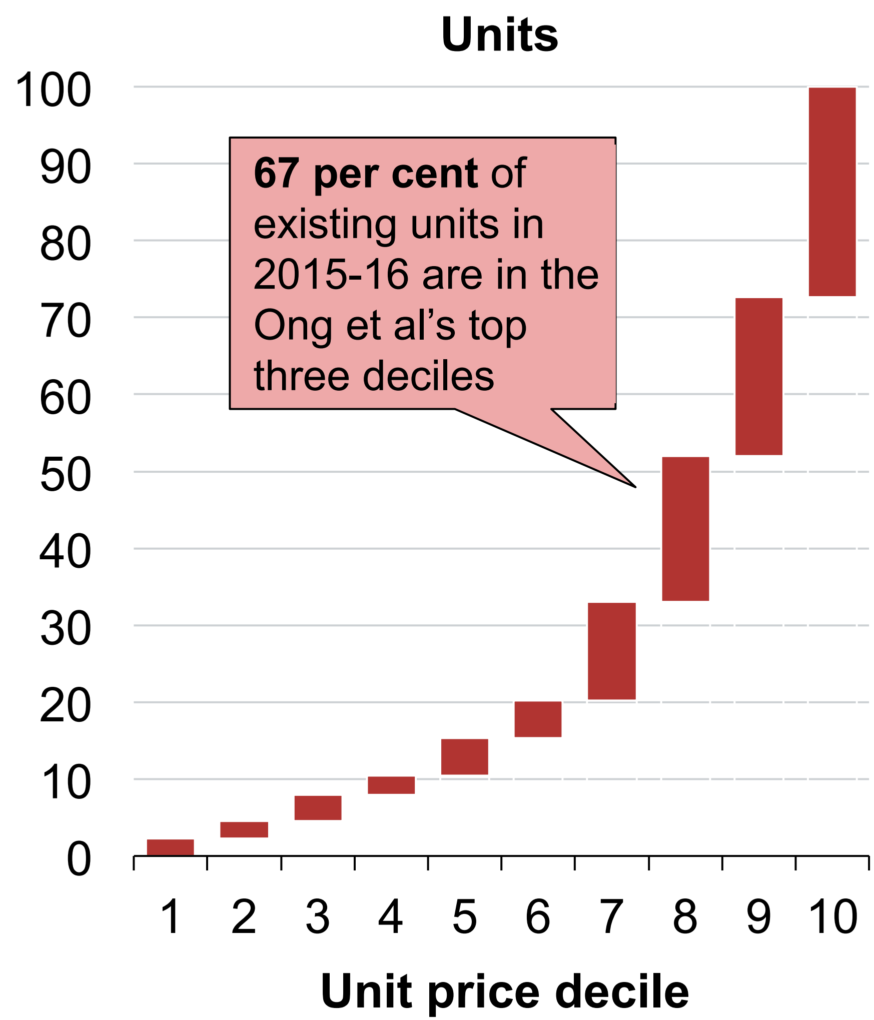


Note: LGAs are ranked by population size from smallest to largest.
Sources: ABS 3218.0 Regional Population Growth, Australia, 2015-16; Grattan analysis.

Ong et al fail to weight their deciles by dwellings (or population) when sorting LGAs by price

Cumulative share of existing homes (per cent) in each LGA, 2015-16, by LGA deciles





Note: House price deciles are calculated on median house and unit prices in each LGA across Australia, unweighted for population size of LGAs.
Source: Ong et al (2017) Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis

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Our approach: replicating Ong et al (2017) with price deciles weighted by share of total dwellings

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- Rank all LGAs according to median house prices and units, from lowest to highest, for 2005-06 and 2016-17 (Corelogic data)
- Divide the LGAs into deciles, **weighting the deciles by the total dwelling stock within each LGA (from Census)**
- Count the number of new housing approvals in each LGA in each of these deciles (ABS data) for 2005-06 and 2015-17

Research question: is new housing supply concentrated in high-price or low-price market segments

Weighting the LGAs means each price decile contains a similar share of Australian housing

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Share of new house stock (Ong et al) and total dwelling stock (Grattan) by price decile

Ong et al analysis		Grattan Analysis	
Price decile	**Share of houses (2015-16)**	**Weighted house price decile**	**Share of dwellings (2016-17)**
1	1.8	1	9.8
2	1.6	2	10.1
3	3.1	3	9.9
4	6.0	4	10.1
5	5.9	5	10.1
6	8.7	6	9.8
7	14.1	7	9.8
8	20.5	8	10.5
9	24.1	9	9.6
10	14.2	10	10.4

Notes: Price deciles are calculated on median house prices in each LGA across Australia.
Sources: Grattan analysis based on CoreLogic data; ABS Census 2006 and 2016; ABS 8731.0 Building Approvals; Ong et al (2017) Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis, Urban Policy and Research, Table 1.

Our analysis: most new houses are actually being built in cheaper LGAs

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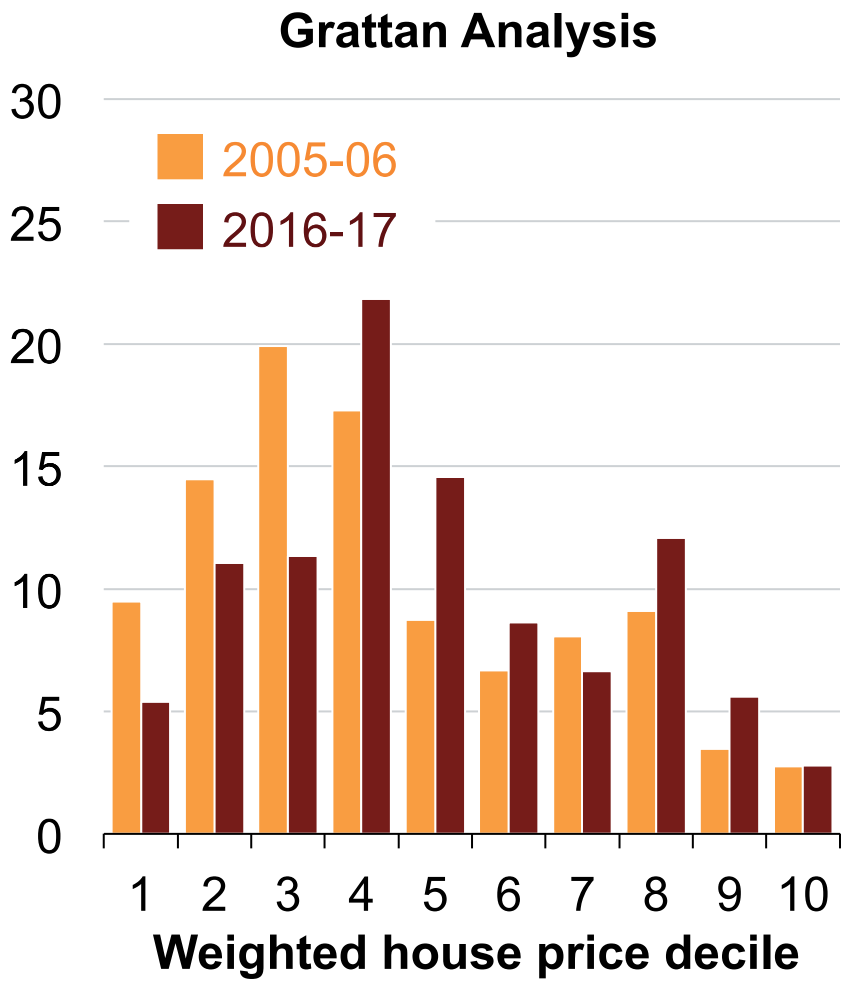
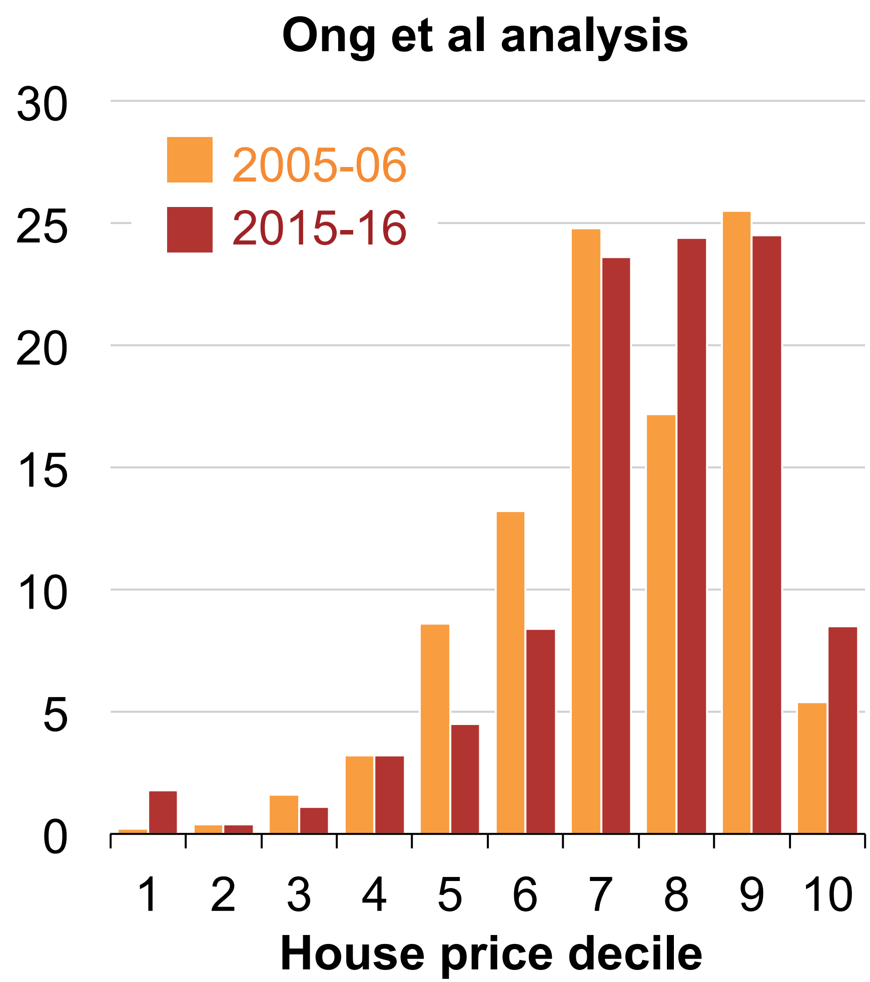
Share of new house approvals (per cent), ranked by median house price deciles



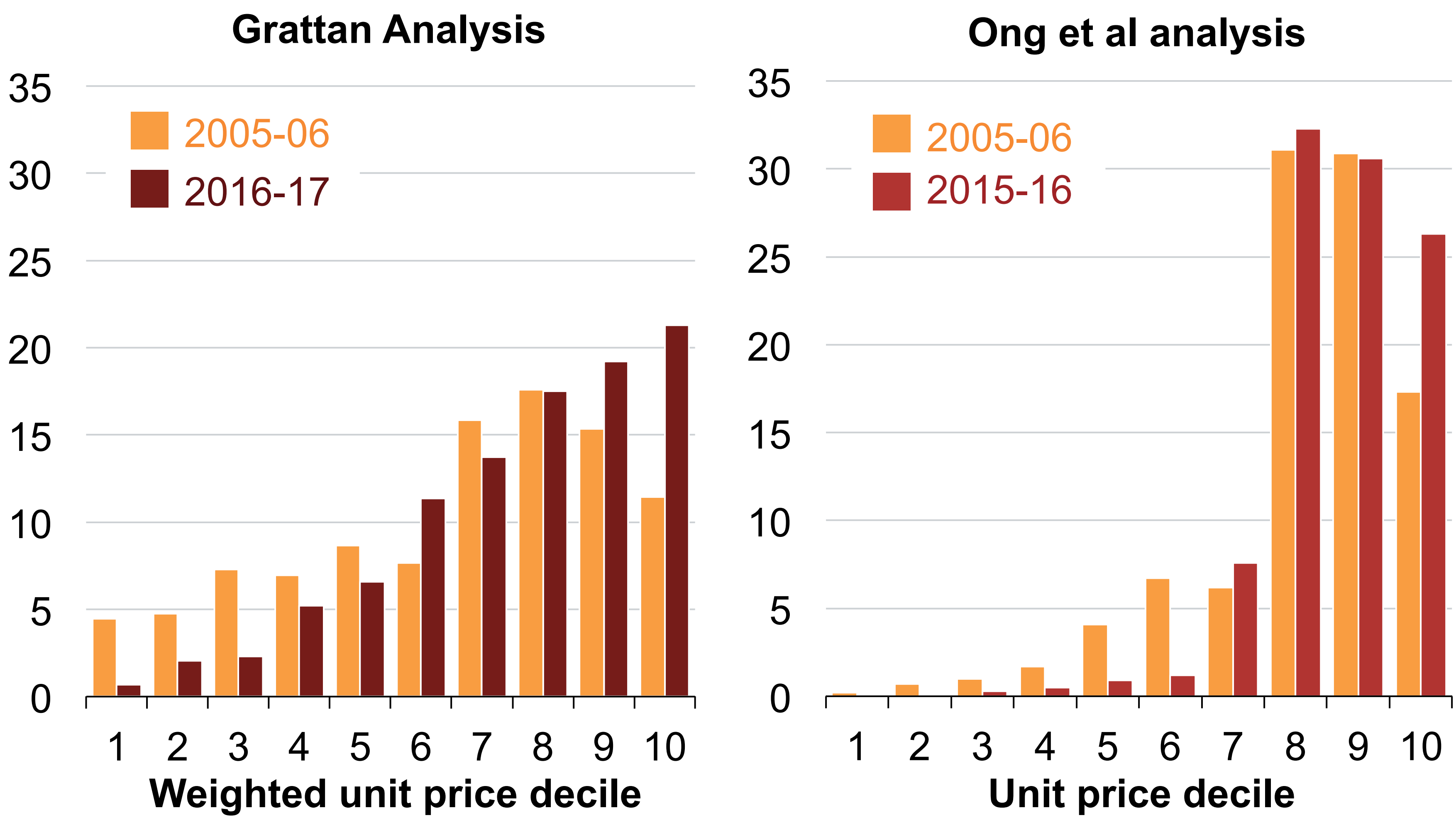


Notes: Price deciles are calculated on median house prices in each LGA across Australia.

Sources: Grattan analysis based on CoreLogic data; ABS Census 2006 and 2016; ABS 8731.0 Building Approvals; Ong et al (2017) Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis

Most new units are being built in more expensive LGAs in Sydney and Melbourne

Share of new unit approvals (per cent), ranked by median unit price deciles



Notes: Price deciles are calculated on median unit prices in each LGA across Australia. Semi-detached, row and terrace houses, and townhouses are included within 'Units' in the Grattan analysis, but not in the Ong et al analysis.

Sources: Grattan analysis based on CoreLogic data; ABS Census 2006 and 2016; ABS 8731.0 Building Approvals; Ong et al (2017) Spatial and Temporal Patterns in Housing Supply: A Descriptive Analysis

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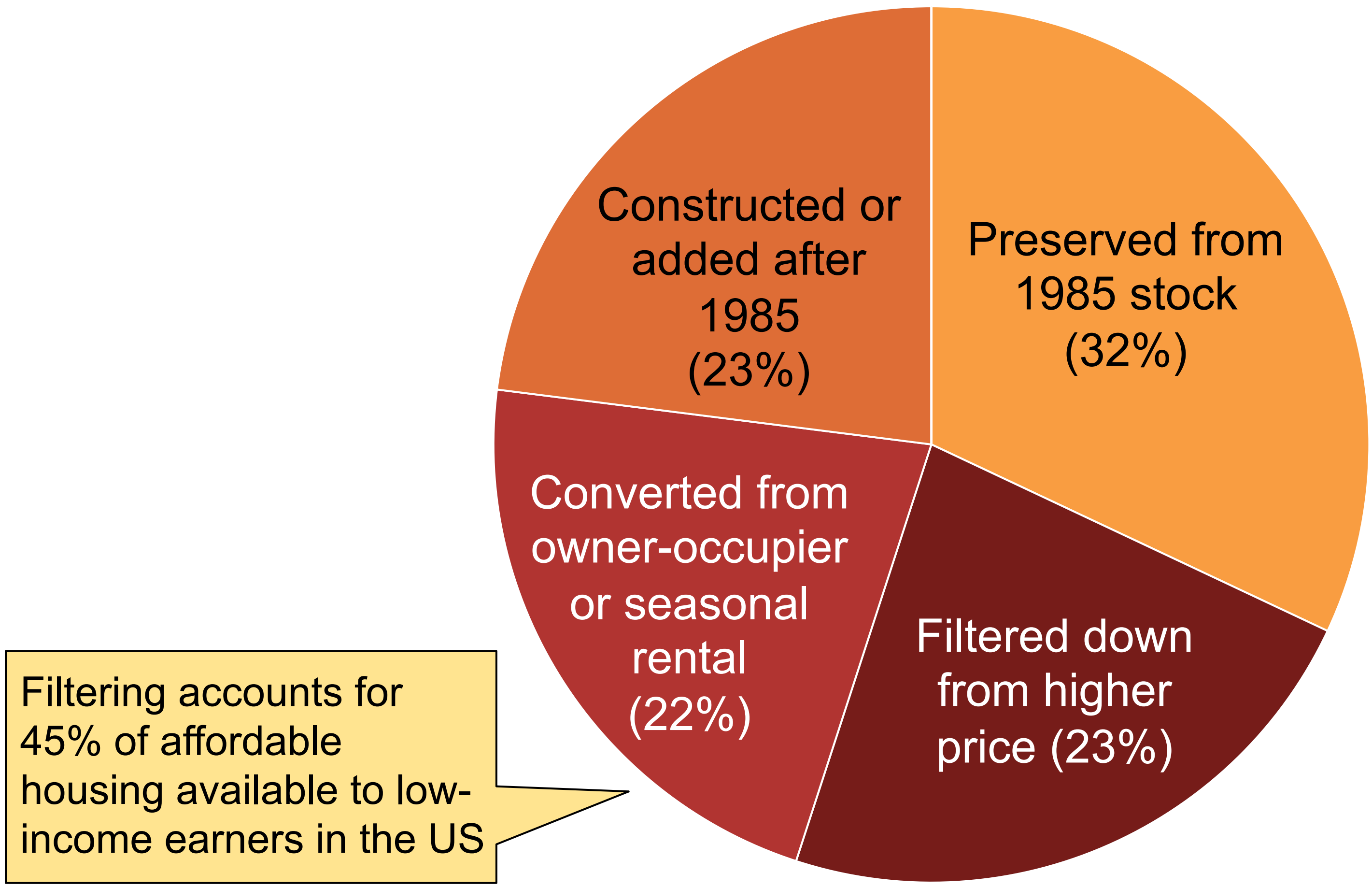
Filtering is an important source of affordable housing for low-income earners

US affordable rental housing stock in 2013 by source



Notes: Affordable housing is defined as costing no more than 30 per cent of income for households with very low incomes (earning less than 50 per cent of area median). Units added include rentals that were temporarily out of the stock in that year.
Source: Weicher, Eggers, Moumen (2016), The Long-Term Dynamics of Affordable Rental Housing.

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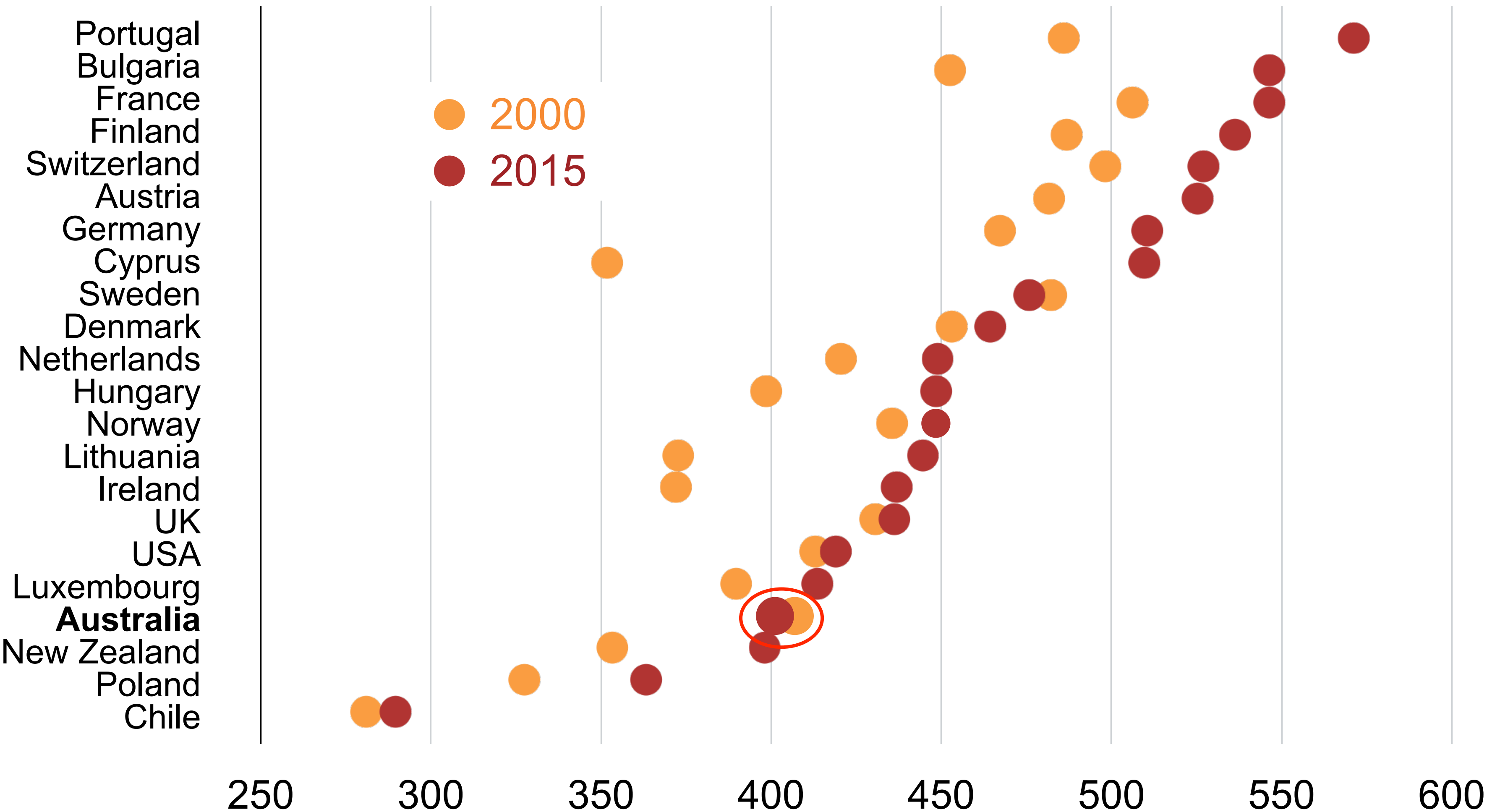
An alternative explanation: Australia hasn't built enough new housing

Dwelling stock per 1,000 people



Source: OECD Affordable housing database

Countries that built more housing saw slower growth in house prices

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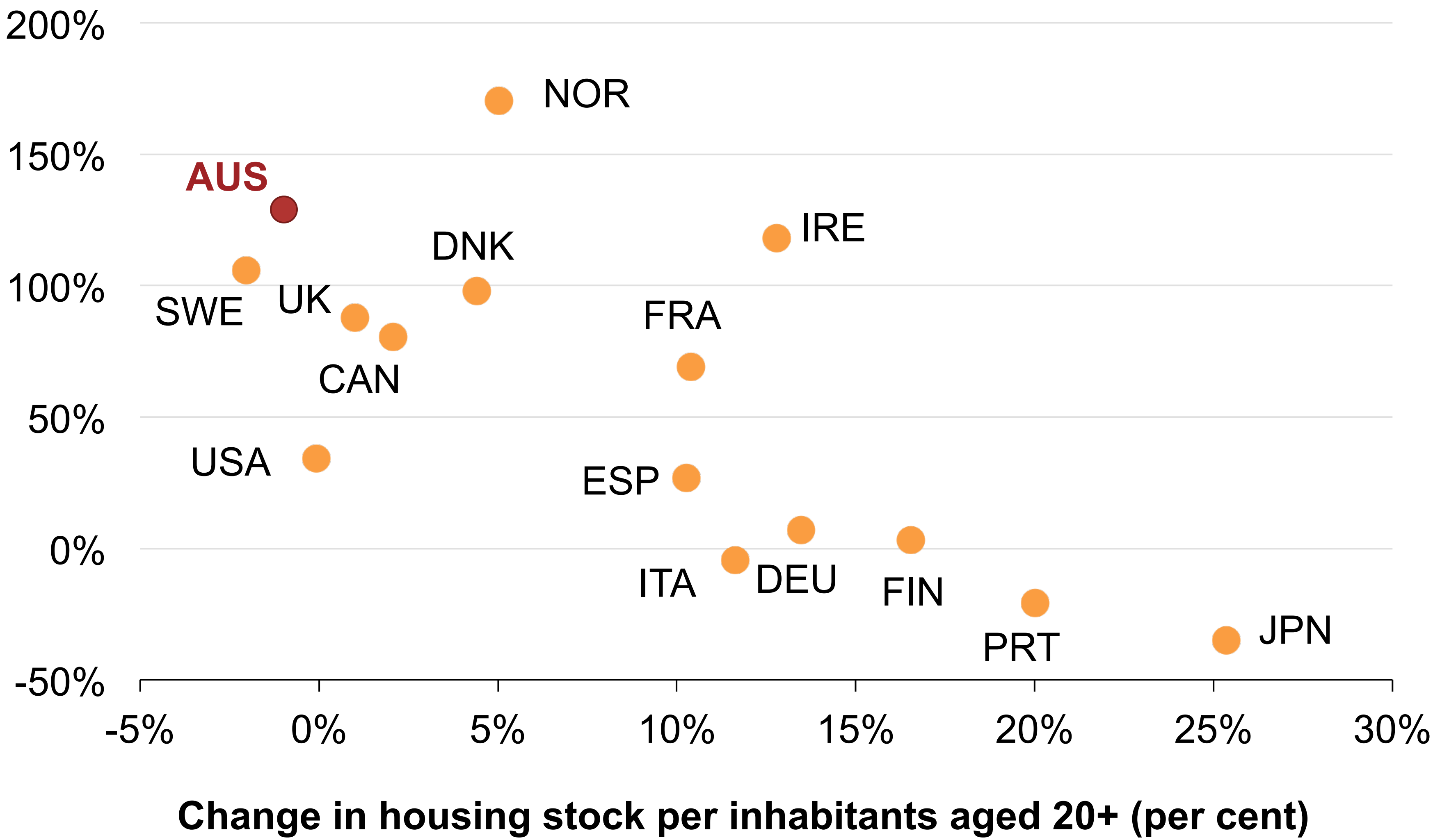
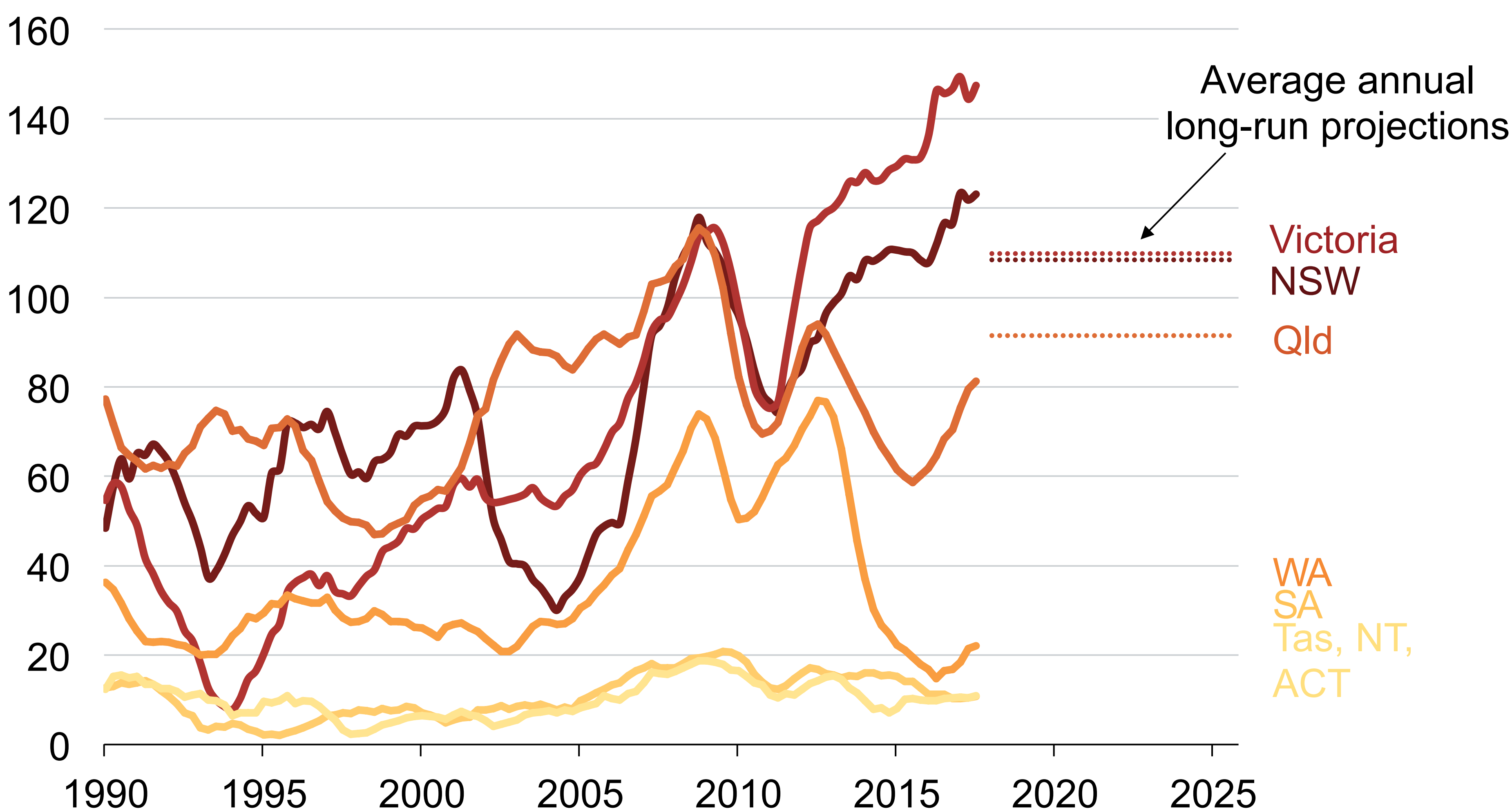
Change in real house prices, 1990-2015,



Source: OECD Social and Affordable Housing Database; Resolution Foundation.

Victoria and NSW populations are growing much faster than in the past or projections …

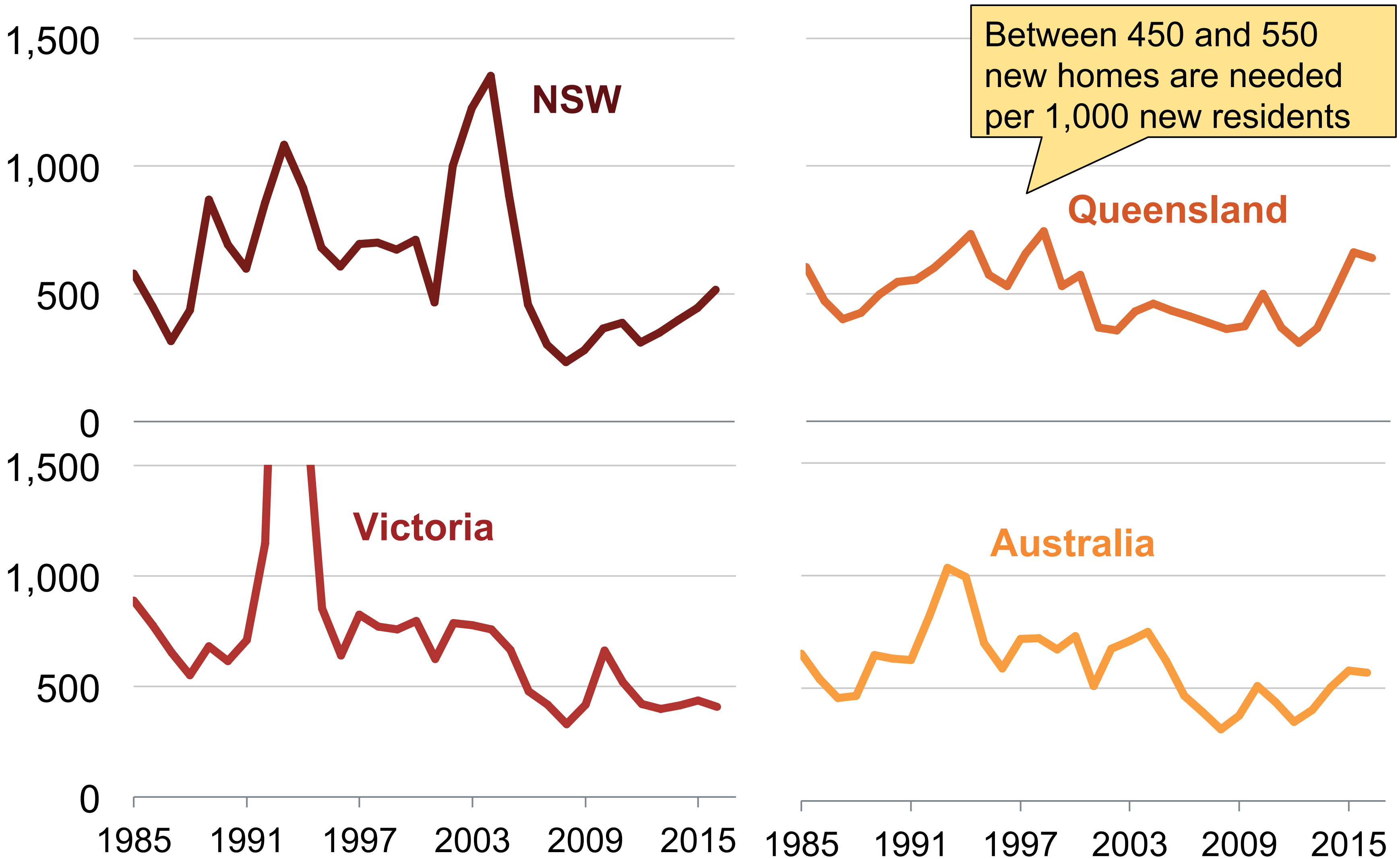
Net population growth, four-quarter rolling sum, thousands



Notes: Annual average population projections from state government departments: NSW (2016) 2011-2031; Vic (2016) 2011-2031; Qld (2015) 2011-2036.
Source: ABS 3101.0 - Australian Demographic Statistics; state government population projections

Housing construction lagged population growth for much of the 2000s, but picked up recently

Dwelling completions per additional thousand people



Notes: Does not take into account demolitions. The Victorian series spikes at 3,500 in 1993 (cut off to improve readability)
Sources: ABS 8752.0 Building Activity, Australia; ABS 3101.0 Australian Demographic Statistics; Grattan analysis

Recent record construction is barely enough to meet city housing targets

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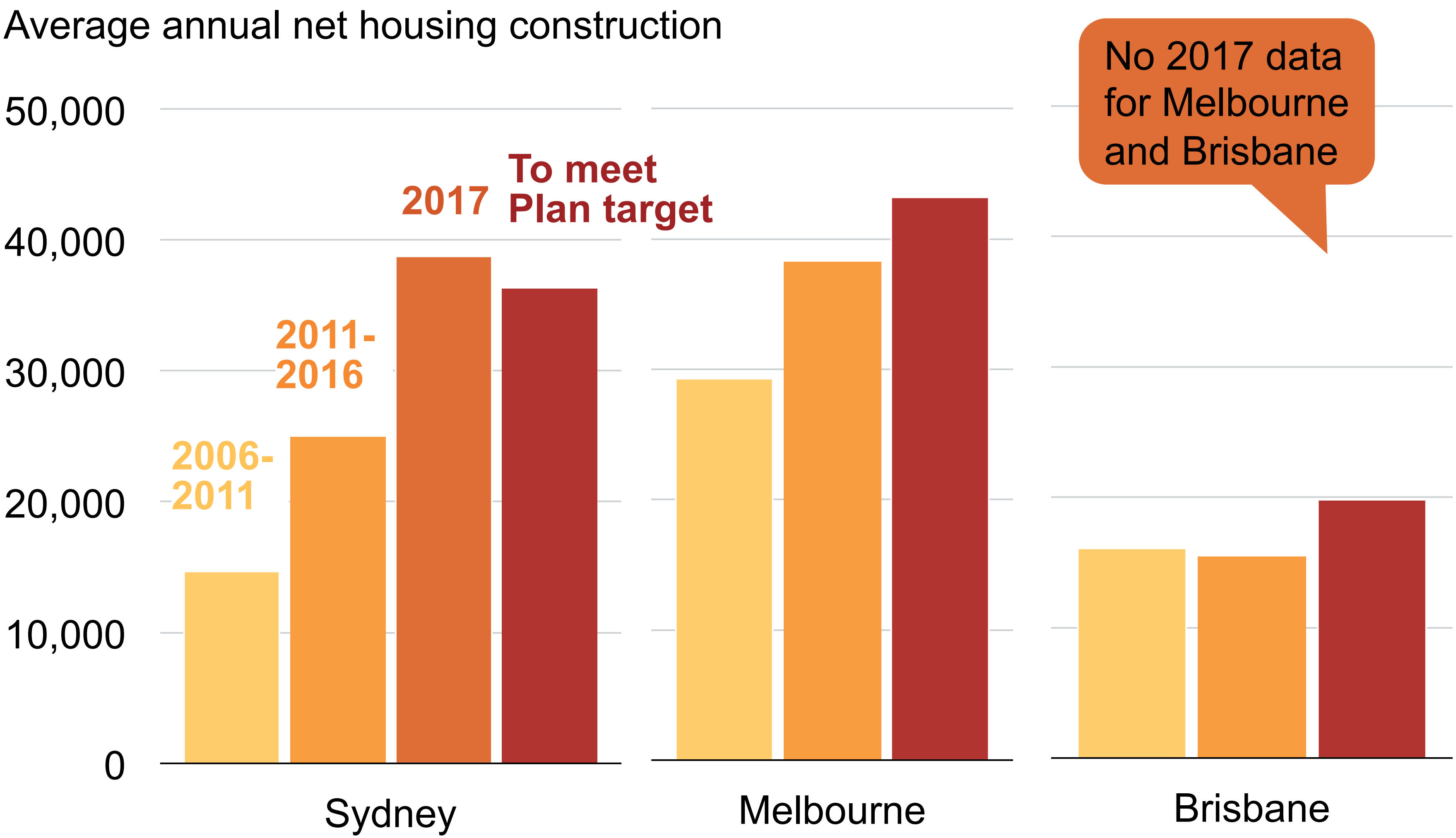

Notes: Draft Greater Sydney Region Plan: 725,000 additional dwellings over 2016-2036 (excludes the Central Coast). Plan Melbourne 2017: 1,550,000 additional dwellings over 2015-2051 (based on Victoria in Future projections). For 2006 to 2016 data, growth in dwelling stock is calculated using 2016 Greater Capital City Statistical Areas. Data for 2017 dwelling completions in Sydney from NSW Department of Planning and Environment (2018). No 2017 completions data available for Melbourne

Sources: Greater Sydney Commission (2016); Victorian Government (2017); NSW DPE; Queensland Government (2017).

Social housing has never housed the majority of low-income Australians

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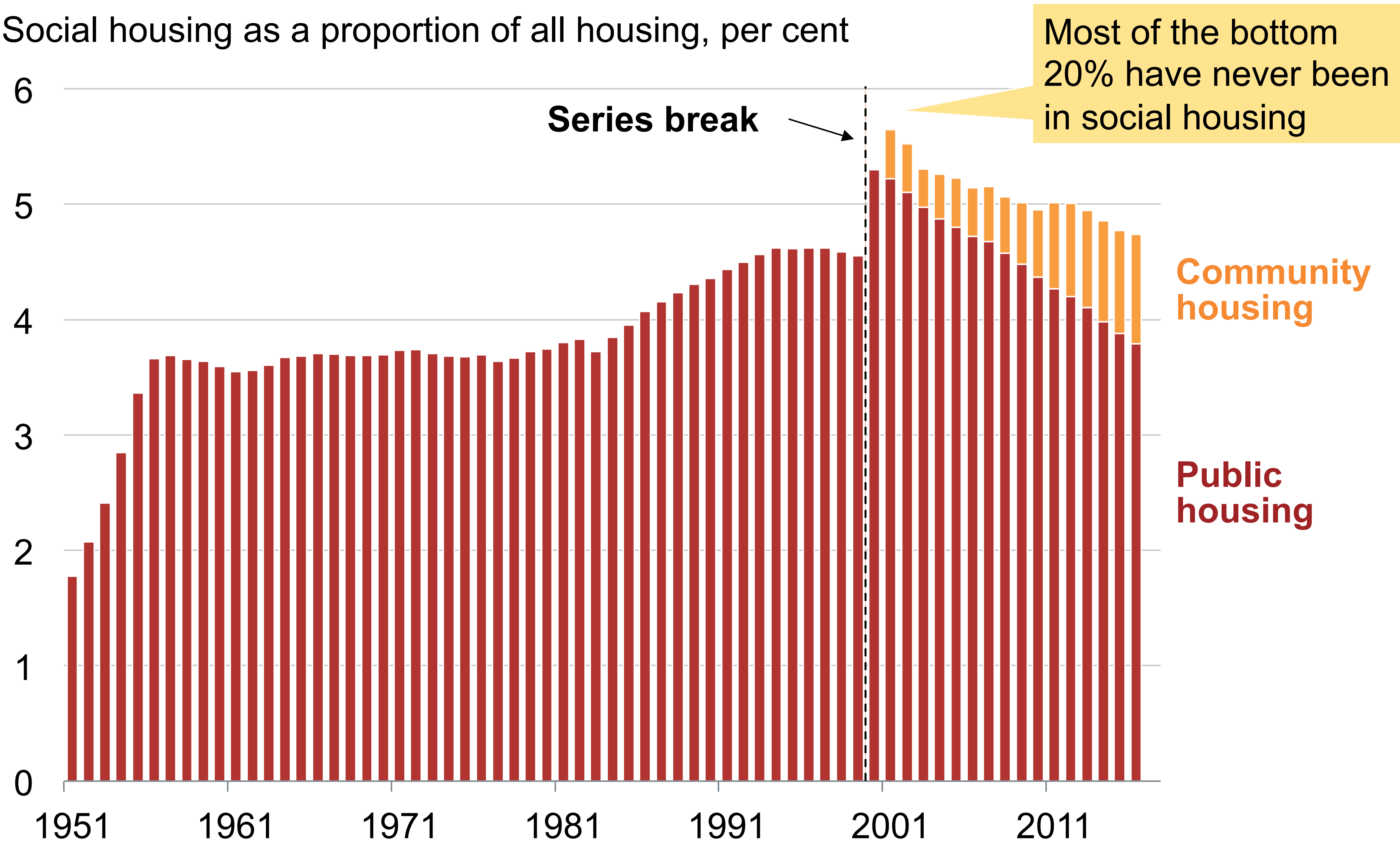
Social housing as a proportion of all housing, per cent



Notes: Series break after 1999.
Sources: Eslake 2017; Productivity Commission 2015

All the important reforms are difficult; all the easy reforms are cosmetic

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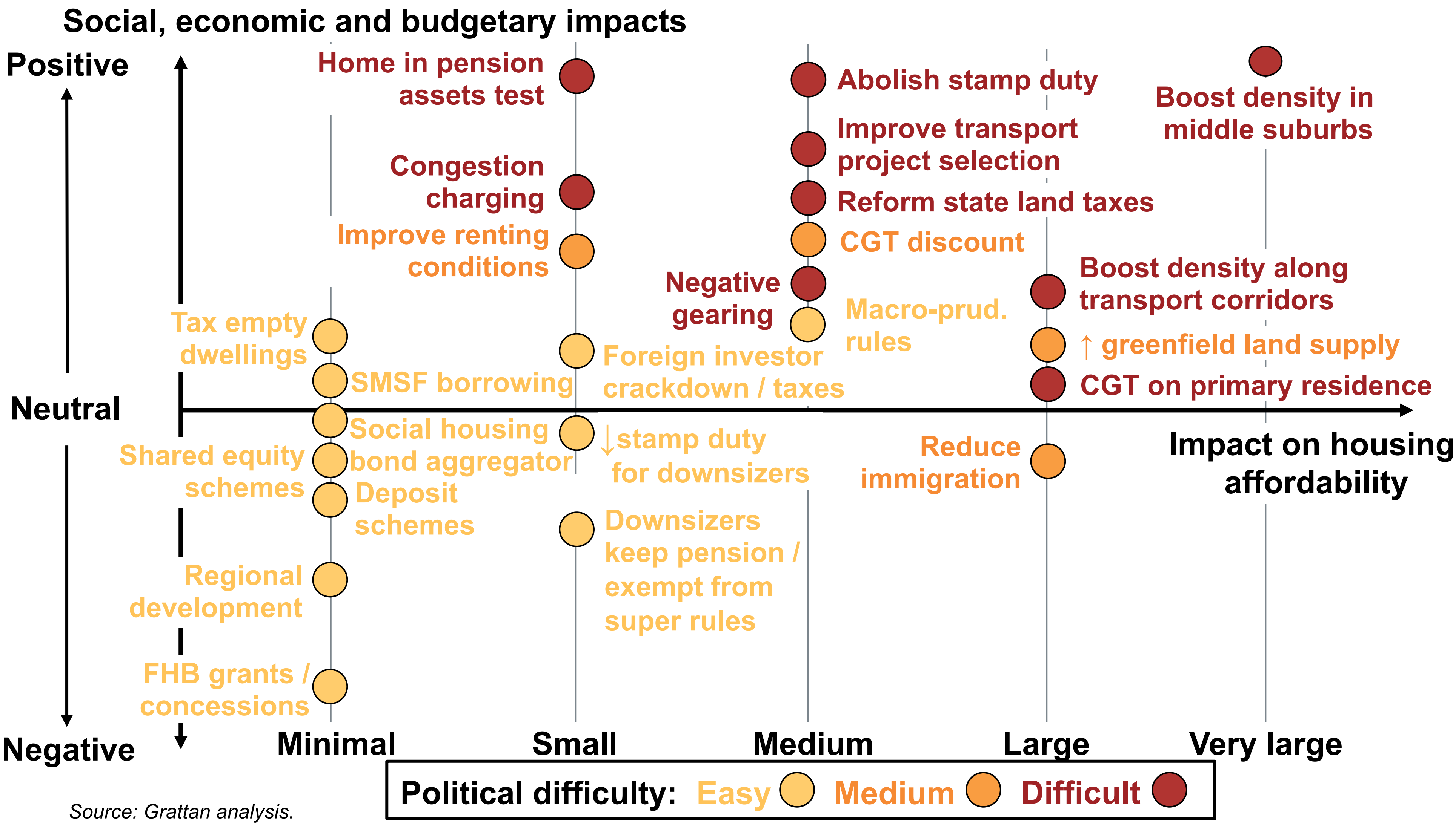


Source: Grattan analysis.

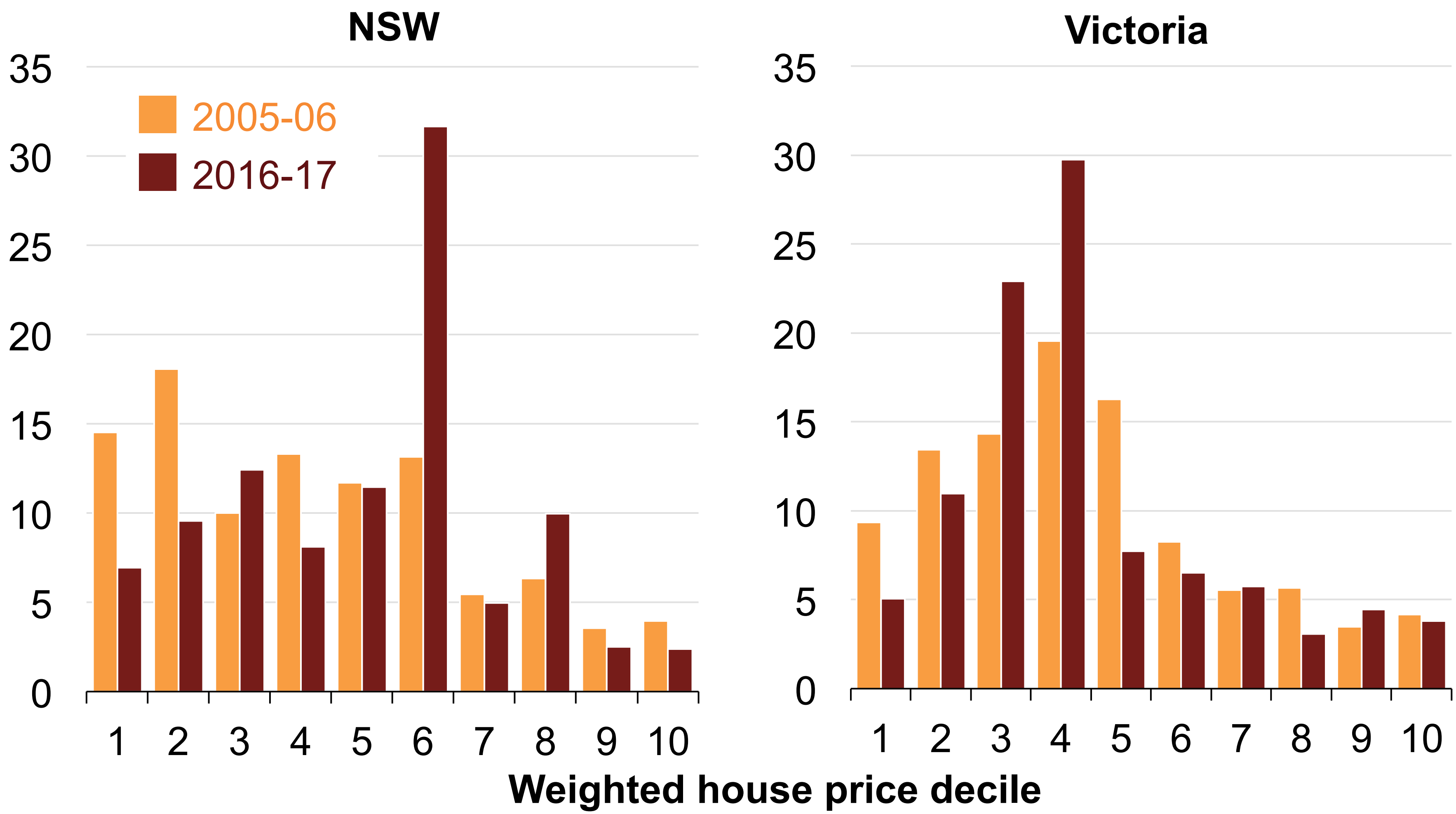
Notes: Prospective policies are evaluated on whether they would improve access to more affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary or social impacts should not be treated with spurious precision. For many of these effects there is no common metric, and their relative importance depends on the weighting of different political values. Consequently our assessments are generally directional and aim to produce an informed discussion.

For more …

March 2018

Most new houses are actually being built in cheap and mid-priced LGAs in Sydney and Melbourne

Share of new house approvals (per cent) in 2005-06 and 2016-17, ranked by median house price deciles within each state



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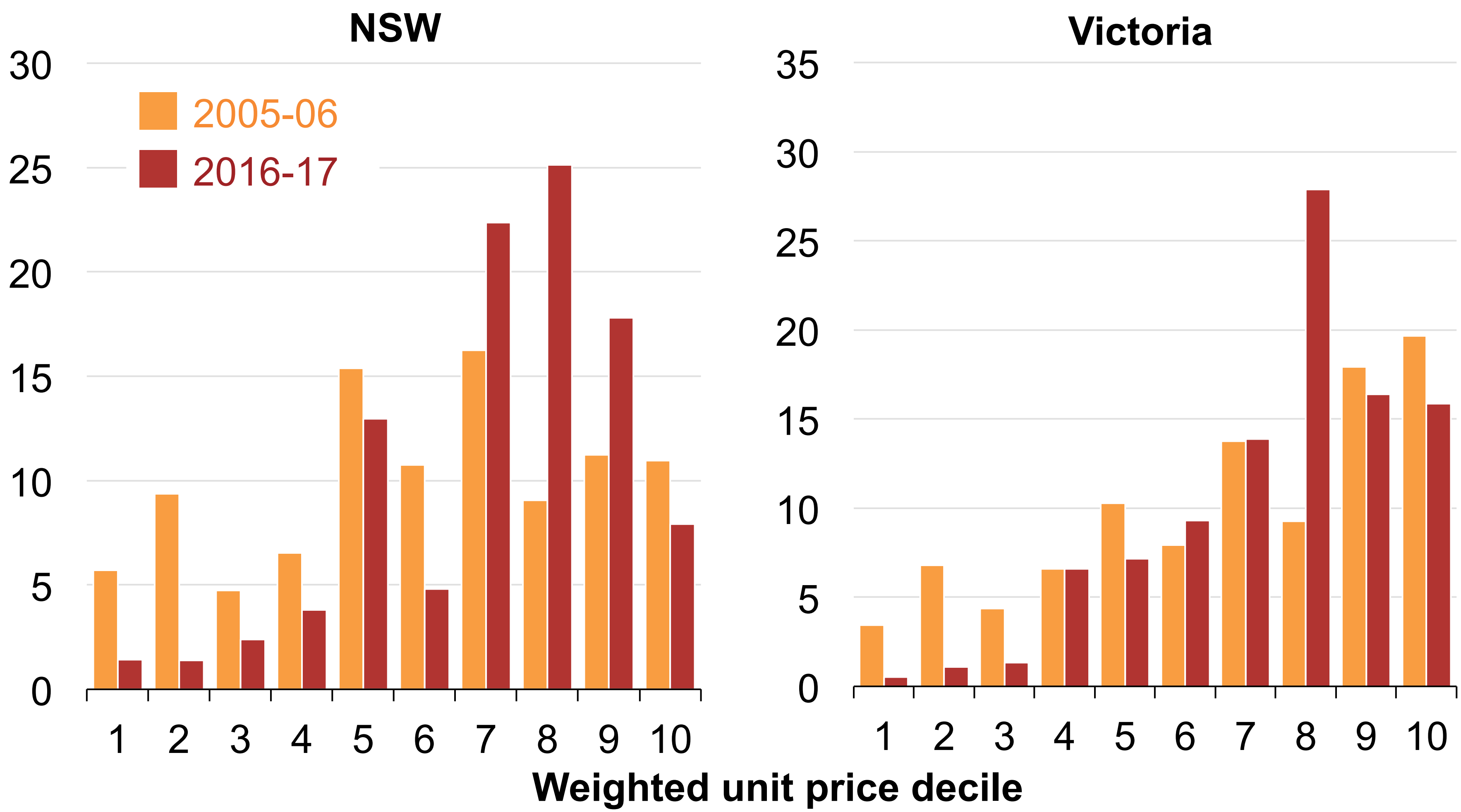
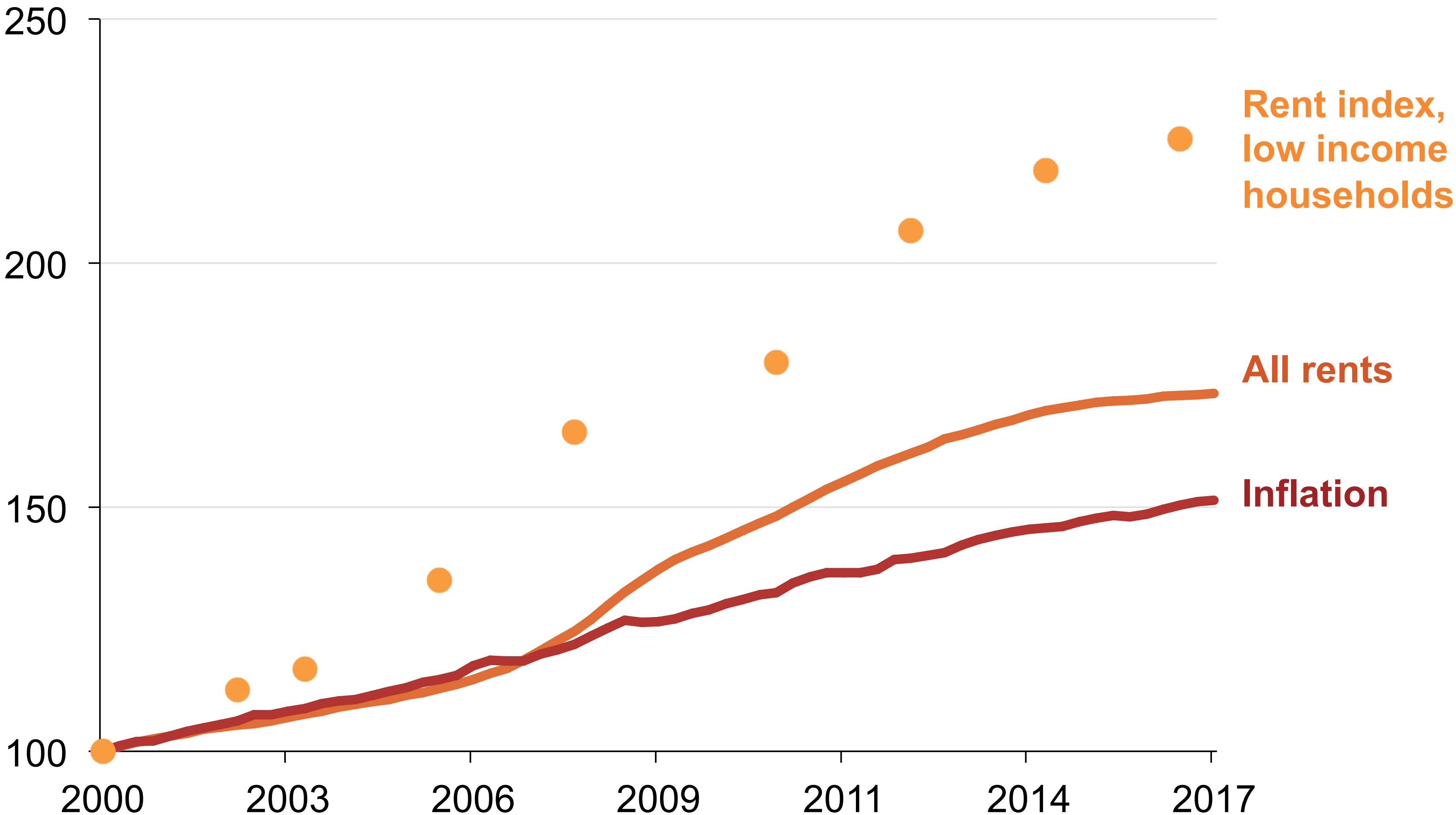


Notes: Price deciles are calculated on median unit prices in each LGA within each state
Sources: Grattan analysis based on CoreLogic data; ABS Census 2006 and 2016; ABS 8731.0 Building Approvals

Rents have risen fastest for low-income households, well above inflation

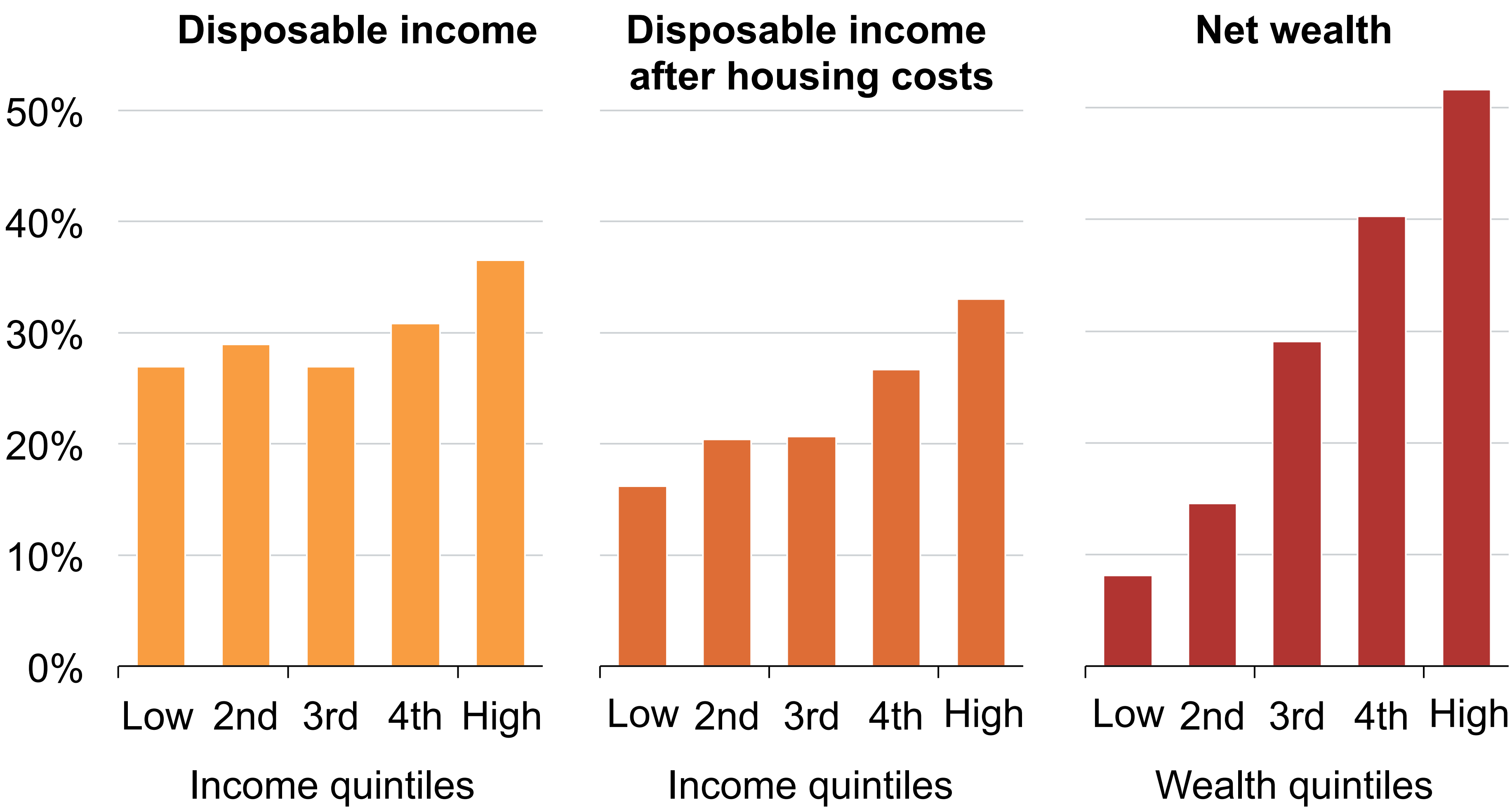
Rent prices and CPI, indexed to December 2000



Source: Productivity Commission (2018), *Reforms to Human Services: Social Housing in Australia*, Figure 6.1

Incomes have risen across the board; but less so after housing costs

Real growth from 2003-04 to 2015-16 per equivalised household



Notes: Income estimates for 2003–04 onwards are not perfectly comparable with estimates for 2015-16 due to improvements in measuring income introduced in the 2007–08 cycle.
Source: Source: for income, ABS SIH 2003-04 and SIH 2015-16; for wealth, ABS 6523.0 Household Income and Wealth