



Composition of Australia's Housing

The Changing Composition of Australia's New Housing Mix

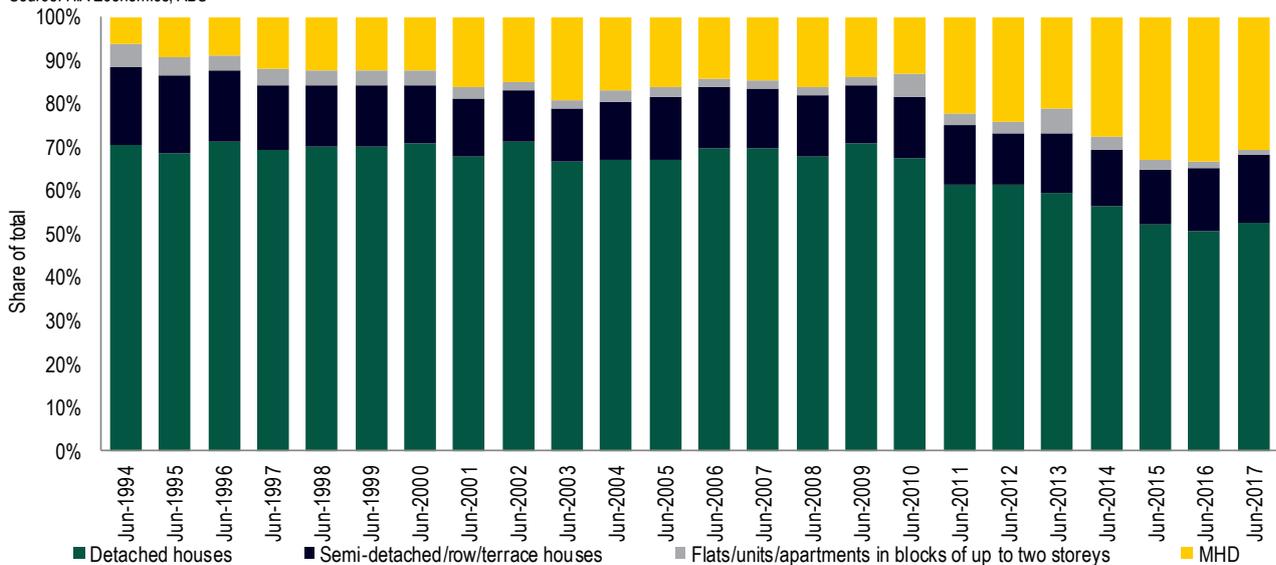
Background

It is well known that the predominant form of residential dwelling in Australia has historically been detached housing. Detached houses still account for around 70 per cent of Australia's total dwelling stock. The profile of Australia's housing mix changes considerably when the flow of new housing supply coming onto the market is considered instead of the housing stock. There has been a discernible decline in the detached house share of total new dwelling commencements (housing starts) over the last 20 years. This trend accelerated considerably over the latest new home building cycle which began in mid-2012.

'Multi-unit' dwellings (i.e. non-detached housing) are now a far more significant part of the new home building market than at any other point in Australia's history. For example, 20 years ago the medium/high density (MHD) component of multi-unit commencements (units of three storeys or more) accounted for around 5 per cent of total housing commencements. There was an incremental increase in the share accounted for by this type of dwelling through to around 2010. The trend accelerated over the course of this six year new home building cycle and in 2017 the MHD share reached around 25 per cent.

Dwelling Approvals by Type - Australia

Source: HIA Economics, ABS



In our view this situation represents something of a 'paradigm shift'. It is a different new housing profile to what we're historically accustomed to. When it comes to housing, the 'Australian Dream' has typically been characterised as a house in the suburbs, on a 'quarter-acre block', a lawn in the back yard with a hills hoist, and an Australian made car (or two) in the driveway. In keeping with the imagery, the house is occupied by a mum and dad who own the home (with a modest mortgage) and live there with their 2.3 kids and were originally of British or some European heritage, but are now becoming representative of a more cosmopolitan background.

It is not new to anybody that this profile is no longer accurate. It has been during the latest new home building cycle when the divergence from this historical housing profile has become really conspicuous.

Australian society is becoming increasingly diverse and we will continue to change. In a few years there won't even be any new Australian made cars to park in our driveways. The nostalgic notion of the 'Australian Dream' alluded to above is under considerable challenge. With a total housing stock of around 10 million homes, it will take many years for these changes in home building to make a material impact on



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the overall composition of Australia's housing stock, but the profile for new housing supply has changed forever – it is a seismic shift.

There is some evidence of this seismic shift in the results from Census 2016. Between the 2011 and the 2016 Census there was a three percentage point decline in the stock of detached houses which was offset by a three percentage point increase in the stock of semi-detached style dwellings. There was a 1 percentage point increase in 'high-rise' apartment stock, although a change in the methodology between the 2011 and 2016 Census means the two measures of housing stock are not completely comparable. In our view the measure of high rise apartment stock in the 2016 Census is a modest underestimate.

As a consequence of the changing composition of our housing mix the discussion about Australia's future housing is now different to what it was. The crux of this paper is to delve a little deeper into some of the drivers behind this changing composition of Australia's new housing supply.

Residential building activity is notoriously cyclical. The last three decades of dwelling commencements presented in the chart below shows cyclical peaks in: the late 1980s; the mid-1990s; the periods immediately before and after the introduction of the GST at the beginning of the 2000s; then the response to Commonwealth Government's policy stimulus following the GFC; and finally the latest cycle.

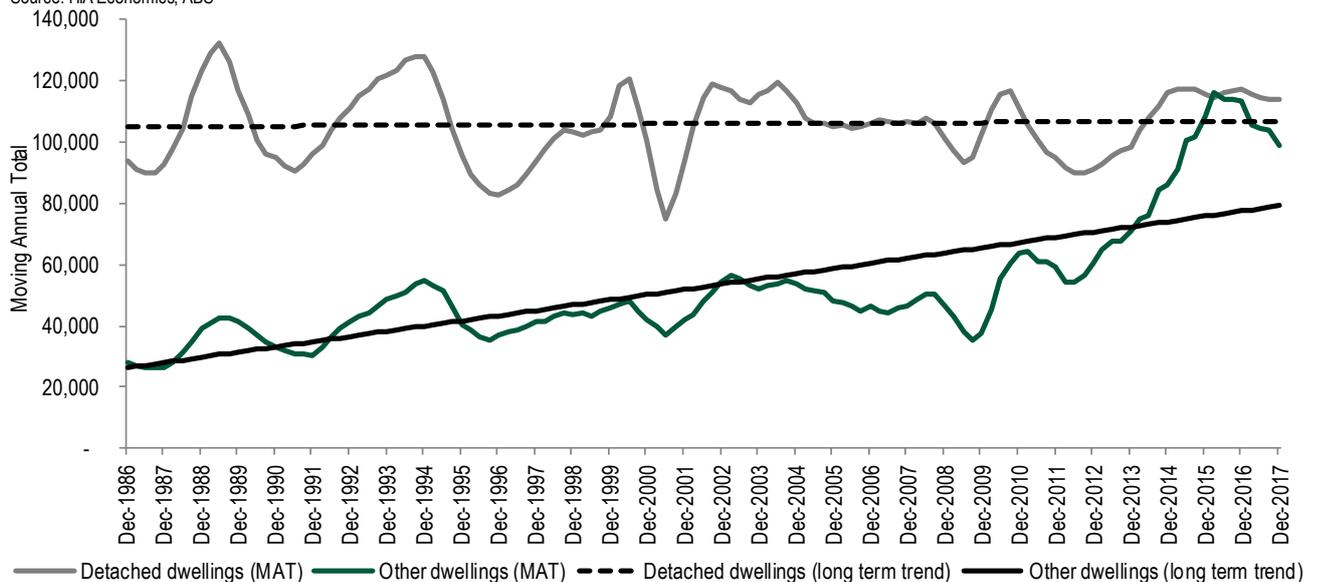
Comparing the cyclical peaks in detached home building with the peaks in multi-unit commencements, it is evident that the height of cyclical peaks in detached house commencements has been gradually declining, while the cyclical peaks in multi-unit commencements have been rising.

In fact multi-unit commencements have risen to reach record levels in recent years and represents a marked exaggeration of the longer term trend. In contrast, detached house commencements are trending up, but only slightly above the longer term trend level. Note that the record high for detached house commencements occurred back in 1989.

There is both a cyclical and structural aspect to Australia's changing housing composition. The latter effect dominates. If a situation emerges over the next decade where knockdown-rebuild activity is relatively healthy and significant reform occurs in relation to the delivery and cost of residential lots then the share of detached housing in total new commencements may mount a modest recovery. If this were to occur we would still face a situation where the share of MHD dwellings would be around 20 per cent at a minimum.

Dwelling Commencements and Long Term Trends

Source: HIA Economics, ABS



Very cheap credit and a highly competitive mortgage market within this very low mortgage interest rate environment are the clear drivers of strong demand for new housing in recent years. The period from mid-2012 until now is not one marked by strong household income growth. On the supply side there are three



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main drivers of the new home building cycle, a cycle that is in its sixth year overall incorporating four years of record expansion and a second year of moderate decline. These three drivers are: state government metropolitan plans to increase housing density; the escalating cost of residential land; and an overall increase in the cost of new housing supply related to excessive taxation and regulation.

Structural changes to housing supply policies mean we should expect larger numbers of multi-unit dwellings than in the past as housing supply in and around capital cities meets the needs of faster growing urban populations. At the same time a continuation of the (admittedly modest) trend decline in the number of detached house commencements would suggest we are failing to meet the needs of other parts of the community. Policy failures relating to the supply of new residential land have been a major contributor to the relative underperformance of detached housing and this cannot continue. A large proportion of Australia's population will continue to harbour a strong desire to live in a detached house and housing supply policies must also accommodate this preference.

Indeed what Australia ultimately requires is the construction of above average volumes of all forms of housing across the housing density spectrum: detached housing; semi-detached type dwellings; low density units of one to two storeys; and MHD of three or more storeys. That will require Greenfield, infill, and brownfield development.

HIA's flagship demographic report - *Housing Australia's Future* – demonstrates the need for considerably higher numbers of new homes to be built over the next thirty years compared to what was achieved over the last three decades.¹

The 'Multi-unit' dimension to new housing supply

The increased volume and share of medium/high density (MHD) construction in recent years throws up many questions regarding housing policy and future dwelling requirements, but it is also important to consider some of the factors driving the change.

These drivers are many and varied and the investigation of Australia's changing housing mix forms the subject of on-going research by HIA Economics. In this paper we consider four drivers of a change towards medium/high density dwellings: the policy environment; consumer preferences; demography; and housing affordability.

For the purposes of this analysis, non-detached (i.e. 'multi-unit') dwellings are discussed in the context of the following groupings:

- i. Semi-detached, row or terrace house, townhouse or duplex (low-density);
- ii. Flat, unit or apartment in a building of one or two storeys (low/mid-density);
- iii. Flat, unit or apartment in a building of three or more storeys (medium/high density).

Policy Environment

We consider below a non-exhaustive list of policy elements which have influenced the substantial change in the composition of new housing supply: metropolitan planning strategies; foreign investment framework; residential infrastructure funding; consumer preferences; and demography.

Metropolitan planning strategies

Metropolitan planning strategies developed some years ago now outline targets for the share of new homes to be located within existing metropolitan areas. Once considered rather ambitious targets, the implementation of these policies is relatively well advanced. To the extent such planning strategies have been implemented, and with infill sites predominantly accommodating mid and higher density dwellings,

¹ For further information regarding the HIA Economics publication – Housing Australia's Future – go to: <https://hia.com.au/business-information/economic-information/economic-publications>



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the policy focus has enabled the supply of multi-unit dwellings to become more market responsive and relatively flexible. Similarly, a relative lack of policy focus has acted to constrain supply of new residential land around urban fringes relative to the public demand for residential lots. The latter is required for higher volumes of detached dwelling construction. Greenfield residential developments around urban fringes, which have historically been almost exclusively detached dwelling sites, are also incorporating greater numbers of new residential lots for attached type dwellings, including MHD dwellings.

Foreign investment framework

The current framework in Australia that precludes non-resident investors from purchasing existing dwellings has played a role in boosting demand for new housing this cycle. HIA's research confirmed some years ago anecdotal evidence that foreign buyers are far more active in the high-rise inner-city apartment markets. It should be acknowledged that this is not an exclusive preference. Businesses within the residential building industry also experience demand from foreign buyers for lower-density multi-unit dwellings, and house and land packages in Greenfield sites. The surge in foreign investment in residential property through much of this decade, to a record high, made a significant contribution to the record volume of higher density housing built this cycle and to the large pipeline of work ahead which is still evident.

Australia was perceived as a safe, open and stable developed country by foreign investors. The relative out-performance of the Australian economy through the first half of this decade, together with Australia's geographical proximity to East Asia saw foreign investment inflows soar. It is unfortunate that the 'open' status of Australia to foreign investment was not maintained. Erroneous conclusions regarding purported adverse consequences of foreign investment along with a dire lack of consultation with industry saw a range of foreign investment restrictions imposed at a federal and state level. These restrictions have had an adverse influence on foreign investment flows.²

Residential infrastructure funding

Funding the provision of essential and non-essential residential infrastructure, and ongoing community services required to support a growing population provides a challenge for policy makers. There are divergent views on whether investment in infrastructure to support residential development in Greenfield developments on the urban fringe or through infill development provide the most beneficial outcomes. There is no hard and fast rule here. Indeed, there are more than enough case studies to execute a case for either greenfield or infill being more cost efficient; and individual circumstances for developments will always be the ultimate determinant.

The key is that policy makers in Australia have a policy focus biased towards infill development. It is often presumed that infrastructure for infill is less costly than Greenfield and this is true in some instances. There are situations where the capacity of infrastructure in existing areas is underutilised and infill development, making use of the excess capacity, provides a cost effective way to increase the supply of housing. There are also situations where infill development has occurred where existing infrastructure capacity was already strained and required significant additional investment to meet the needs of the community. Similarly, there are examples of greenfield developments that represented a very cost efficient supply of new homes, and also examples where the opposite is true, where infrastructure has been provided at a very high cost or is underutilised, or alternatively communities are left with inadequate infrastructure. Optimally aligning investment in new community infrastructure with the community's needs and expectations is a complex challenge, but one that should be faced across Greenfield, brownfield and infill sites.

It is likely that policy makers' apparent aversion to investment in infrastructure for Greenfield housing relates to the timing of expenditure. Greenfield development on the urban fringe is likely to require a more substantial upfront investment to establish infrastructure and community services from scratch, whereas

² Some argue that international evidence suggests that foreign investment 'taxes' do not over the longer term reduce foreign investment inflows into residential property, but that is certainly not Australia's experience to date.



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provision of infill is likely to represent a series of incremental expenditures retrofitting existing infrastructure to increase capacity.

For Greenfield developments especially, much of the upfront costs are transferred to the buyers of new residential lots via infrastructure charges and levies charged to developers. This reduces the affordability of new lots for detached houses. Independent research undertaken for the HIA by the Centre for International Economics confirms that the excessive component of infrastructure charges on new residential development is a significant tax on new housing.

Consumer preferences

As Australia's economy has undergone a transition and adapted to an environment with fewer protections for industry from global competition, the location and nature of employment opportunities has changed. There is much greater concentration of employment in urban areas than there has been in the past. This is having an impact on the way households choose housing in terms of dwelling type and location.

At a given price point, households may be increasingly inclined to reside closer to employment opportunities and the amenities of urbanised areas over the amenity provided by a detached house further away from urban centres³. For the working population this is often a lifestyle decision, balancing the trade-offs between affordability, dwelling size and commute time.

There are many other considerations such as proximity to schools, education institutions, health services, transport etc. Established residential areas are typically serviced by a wider range (but in the short term, fixed number) of community services than are available on urban fringes. Greenfield developments and master-planned communities include provisions for community services and infrastructure. It is often the case that housing is typically at an earlier stage of development than many of the accompanying high value services which are only delivered when the community reaches a critical mass.

Households may be demonstrating a preference for certainty with regard to the infrastructure and amenity of their local community. When building or buying a new home in an established area the nearby amenities are known, whereas building a new home in a Greenfield area has an inherent degree of uncertainty about how quickly the community will grow and when the infrastructure will be established.

Over time it has become more common for the footprint of new dwellings to cover a larger share of the residential lot, whereas in the past there was an expectation that detached homes included a large yard. The significant decline in lot sizes and increase in dwelling sizes that has occurred in new residential developments over the last few decades means that detached houses in Greenfield developments have less outdoor space than they had in the past. As a consequence, the marginal difference in amenity between a detached home and a lower density attached dwelling (eg town house, semi-detached dwelling, unit) has narrowed. This is likely to have been a key factor that has contributed to the relatively fast growth in semi-detached type housing in recent years.

While technically an oxymoron, 'forced preferences' are also an important component of the changing dwelling mix.

It is highly likely that the shift away from detached housing at the same time as the share of semi-detached dwellings has increased partially reflects 'second choice purchasing' on the part of new home buyers. The purchase of a well-appointed townhouse in many instances would provide an adequate living 'choice' for buyers who would have preferred a detached house, but found that the 'townhouse' was the dwelling type they could afford.

Similarly, we are of the view that a significant amount of MHD purchases by the domestic population has represented an 'affordable' option even although ideally the preference was for a larger square metre dwelling with, for example, at least a modest amount of outdoor living space. This 'second choice' situation pertains mainly to first time buyers, a sub-group of which have in recent years chosen to purchase a unit or apartment as an investment property as a way of gaining a foothold into the residential property market.

³ Obviously we are not including knock-down/rebuild activity.



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Demography

There are countless demographic dynamics and anticipated demographic developments that have the potential to influence changes in the housing mix.

The most notable demographic issue in the Australian context is the aging of the 'baby-boomer' cohort. Baby boomers were born between 1946 and the early to mid-1960s. Accordingly, this means those born in the early part of this period are now aged in their mid to late 60s, while those born in the latter part are in their 50s. As this cohort ages further, their consumption of healthcare services is likely to increase considerably and residing within close proximity to such services (which are typically more readily available in established areas) is likely to be desirable.

There is an expectation that a larger share of the aging population will reside independently in their own home longer than previous generations. This is for three reasons. Firstly, the baby boomer generations have a longer life expectancy than earlier generations. Secondly, the residential aged care sector is unlikely to have sufficient capacity. Thirdly, this trend is likely to simply reflect different housing preferences of this cohort compared with those that have come before them.

Researchers have found that as people age they generally prefer to remain in their own home and within their own community. Typically, an injury or reduction in their capacity to maintain a larger home is the catalyst for older households to consider downsizing. This implies that if we do indeed see a major wave of downsizing by baby-boomers, it could occur much later than anticipated. Lower/mid-density multi-unit housing in existing areas is likely to provide an accessible low-maintenance dwelling type that will enable older people to live independently in their own homes for longer.

Changes in demographic trends in younger cohorts are also having an impact on housing consumption. There are now far more young people entering post-secondary education, be it technical training or tertiary qualifications, which means this cohort is not fully engaged in the workforce until later in life. With constrained earning capacity during training or while studying, the younger cohort either live in the family home or in share-house type households until later in their housing careers, compared to previous generations. Some parts of the detached house market are increasingly incorporating design features to meet the needs of households with adult children residing in the family home for longer.

The fertility rate in Australia, measuring the average number of children per female, is lower amongst the current cohort than it has been in previous generations. This implies families are, on average, smaller households than they have been in the past and also that there may be more households without children. With family households likely to be smaller than in the past, there is a valid contention that such households are likely to demand smaller dwellings.

Housing Affordability

For some households, multi-unit dwellings represent more affordable substitutes to detached houses. Housing affordability pressures, principally related to the price of serviceable residential land, have forced the market to make more intensive use of available land. This means more dwellings in a given area than there has been in the past. This situation is evident across Greenfield developments where there are predominantly detached houses, and in urban areas where more infill developments are constructed on available sites.

For Greenfield developments especially, much of the upfront costs associated with establishing community infrastructure charged to developers of new residential lots via infrastructure charges and levies are embodied in the sale price of residential lots and is therefore transferred to the buyers. This reduces the affordability of new lots for detached houses. The excessive component of infrastructure charges on new residential development is a significant tax on new housing.

For Greenfield developments, accommodating the additional costs imposed by the taxes and levies while ensuring lots remain affordable for home buyers has typically meant smaller lot sizes than would otherwise be the case. It has also meant increasing the number of sites for low and mid-density dwellings, and incorporating sites for higher density dwellings. In urban infill developments, this equates to maximizing the



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useable space on the site within the allowable parameters related to the site. There are higher costs involved with building higher and also excavations required for basements.

While ever residential land supply remains constrained in most markets by longer than desirable delivery times and inefficient and excessive taxation, affordability pressures will remain a significant factor influencing the composition of new housing supply.

So, where to from here?

As previously noted, the changing mix of Australia's new dwelling composition will form the focus of on-going research by the HIA Economics team. Some of the drivers of this change have been discussed here, as well as some background to how the 'numbers' themselves have evolved.

History and forecasts of new dwelling commencements by the different multi-unit types defined here, as well as for detached houses, are available for Australia and by each state and territory. For further information visit [HIA Forecasts](#) or contact: Kirsten Lewis on 02 6245 1393 or at k.lewis@hia.com.au

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