

ECONOMIC INSIGHTS

A shortfall of 2 million homes

Australia's housing affordability crisis is set to get even worse. This means the 'catch up' required will get even bigger.

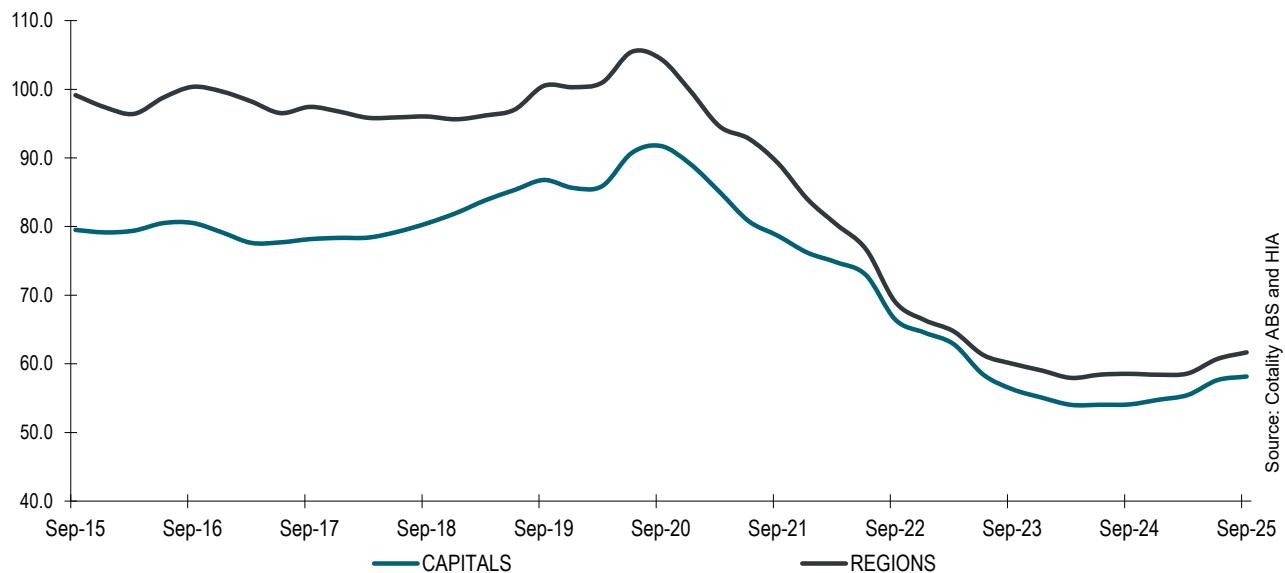
HIA's recent Affordability Report revealed that housing across the country is still around its least affordable in HIA's data back to the mid-1990s.

Even with the boost to borrowing power thanks to recent interest rate cuts, it still takes 1.7 average incomes to comfortably service a mortgage on a median priced dwelling in Australia, when an 'affordable' home should require only one average income¹.

Moreover, dwelling prices have started re-accelerating on the back of these rate cuts, plus ongoing population growth, a well-employed workforce, and increasingly binding land constraints across the country.

This implies affordability is set to worsen even further in 2026 and beyond.

HIA Housing Affordability index, Australia



It also implies the amount of 'catch up' required to address this affordability crisis is set to get even bigger.

How much catch-up? In other words, how many more homes need to be built for the average dwelling price to fall enough so that just one person on an average income could comfortably service a mortgage on that dwelling?

Research by Peter Tulip, Chief Economist at the Centre for Independent Studies and former RBA Researcher, suggests that a 1 per cent increase in dwelling stock results in a 2.5 per cent decline in housing costs.

Let's take some national averages here:

- The national average dwelling price is \$773,803
- Current mortgage rate of 6.13 per cent
- Current average weekly earnings of \$2,032
- A mortgage on such a dwelling would require 1.7 average income earners to comfortably service
- To reduce this to just one average income would require, everything else being equal, approximately a 40 per cent decline in dwelling prices
- Meaning a 16 per cent increase in dwelling stock

¹ Meaning the cost of servicing a mortgage should account for no more than 30 per cent of an average income earner's pre-tax income.

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- With a current national dwelling stock of 11.5 million homes (2021 Census dwelling stock plus subsequent completions minus demolitions) ...
- This implies an extra 1.9 million homes are needed nationwide

These calculations seem reasonable because:

- With a current population of 27.5 million people and 11.5 million homes, that implies an average household size of 2.4 people
- Increasing that dwelling stock by 1.9 million more homes would only reduce the average household size to 2.1 people

What this highlights is that population growth is not the only source of housing demand. Australia's existing population wants more housing because they don't want to have to share it with so many roommates and/or family members.

So just with our current population and income levels, at current build rates, we are around a decade behind our housing needs. And as our population and our incomes grow, so too do those housing needs.

In fact, recent and expected population growth is so strong that the Australian government's 'aspirational' target of 1.2 million new homes over five years – which they're set to fall almost 20 per cent short of anyway – is probably no longer sufficient to keep affordability from getting worse, much less improve it.

This means the 1.9 million homes deficit is set to grow even larger.