more than money

Australian Housing Accessibility Challenge

Latest Insights from NAB & CoreLogic

Australian Housing Accessibility Challenge

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February 2024

Finding solutions to the housing challenge

"Housing is one of Australia's biggest challenges – it will continue to have a disproportionate impact on younger and more vulnerable Australians if we don't get the settings right now," Mr McEwan said.

"I worry that the great Australian dream of owning your own home is at risk.

"Affordability is at a 30-year low, and rental prices are rapidly increasing. That is because we simply don't have enough houses for our growing population, let alone enough affordable and social housing for people who need support. We are hearing this from our customers regularly.

"The gap between supply and demand has increased significantly. We are building around 50,000 homes less than we need each year.

"All levels of government urgently need to collaborate on simpler and faster regulations, while freeing up land suitable for building. There also needs to be more targeted government support for social and affordable housing and more innovative construction methods to meet supply targets, such as modular housing.

Mr McEwan said NAB wants to play its part and lend an extra **$6 billion for affordable and specialist housing by 2029**.

"Last year we invested $67.5 million into a specialist disability accommodation portfolio through **Lighthouse Infrastructure**," he said.

"NAB also supports social and affordable accommodation projects through **Nightingale and Good Shepherd**.

"This issue is not just for governments to solve. Banks, developers, builders and community partners can all move faster."

Ross McEwan
NAB Group CEO &
Managing Director

Issues and Opportunities

The great Australian Dream has historically been about home ownership. This peaked in 1966 when 73% of dwellings were owned in comparison with the current 63%.

Today the Australian Dream is even broader, accessible housing (either ownership or rental), a place to call home. Nationally dwelling prices are 31.6% higher than prior to the onset of COVID, interest rates are higher reducing borrowing capacity, rental vacancy remains at record low levels (below 1% in many locations) and rents have risen rapidly prompting rental price escalations for available listings.

Increasingly apartment living, townhouse and houses with less space are the desirable choice but even with these options the wider shortage of affordable properties remains.

2023 saw the Australian Housing Accessibility Challenge become mainstream and gaining significant awareness and as a result the various tiers of government have started a response. This comes on the back of less focus over decades, a lack of coordinated housing response and a not unexpected rebound in Australian population and growth.

Housing is and will continue to be an area requiring active attention, there is no one single message that if announced will resolve the challenge.

Planning reforms including a focus on sustainability and increase density in particular around transport nodes, the ambitious target of new 1.2 million homes by 2029, the formation of Housing Australia Future Fund Facility (HAFFF) and National Housing Accord Facility (NHAF) and the first round of applications and a series of other announcements and strategies are all welcome.

The increased focus on solutions such as Build to Rent, Student Accommodation and Retirement Communities will also assist to grow the overall housing stock and the niche but growing sectors.

The much published opportunity to convert vacant secondary office space to dwellings remains unviable or uneconomic in the main with only niche conversion possible to date.

Schemes like property owners no longer requiring a planning permit to build a small second home (granny flat) on their property are however more positive and provide new dwellings in a more timely way.

With building approvals remaining low, construction costs remain high (however have returned to longer term average rate of growth), completion of new dwellings remains challenging – topics explored below in the associated CoreLogic data and insights.

The challenge to secure labour for the construction industry, considering the significant infrastructure builds underway across most states remains significant, with both training and targeted immigration on the horizon having potential to assist.

Without larger scale projects that are feasible from a cost, cumulative dwelling sale price and ability to construct, the supply response that is needed to address the challenge is constrained.

As noted, solutions are not simple or singular and will take time to show the benefits. They require a sustained focus on all the key impediments including those outlined above.

NAB's contribution includes establishing a Group-wide forum to coordinate support for customers, and track progress towards our $6 billion lending target. The Affordable Housing Council brings together Executive-level expertise to drive enterprise collaboration on market leading solutions that help more people into homes.

Mark Browning
Head of Valuations and Property Advisory - NAB

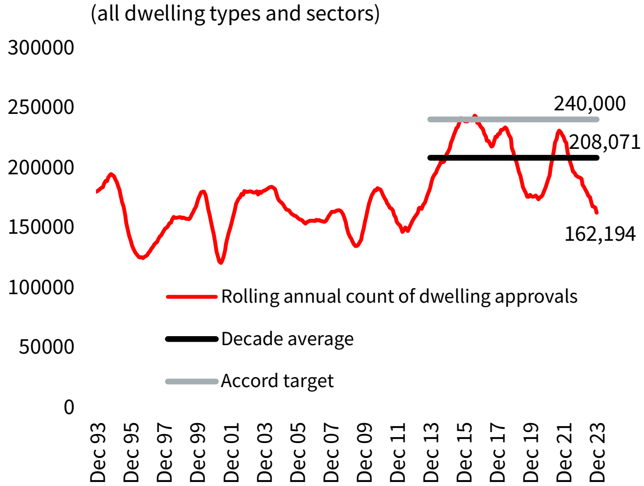
This year will mark a turn in construction, but a shaky start for a target of 1.2 million homes.

As we head into 2024, data to the end of last year showed signs of the construction sector turning a corner. Dwelling approvals were gradually rising from recent lows, the number of dwellings under construction passed a historic peak, and the pace of growth in construction costs unwound sharply. Despite the recent normalisation in construction metrics, the federal government will need a substantial comeback over the five years from July to reach its ambitious target of 1.2 million, well-located homes. Annual dwelling approvals and completions are currently well below the target, which would require an average of 240,000 dwellings completed each year.

Monthly dwelling approvals trend higher, but from a low base.

The number of residential dwellings approved for construction in the year to December 2023 totalled 162,194. This is down 15.4% from the previous 12-month period and is 32.4% below the accord target. Approvals have been trending lower since mid-2021, following the expiry of the HomeBuilder incentive in April 2021, which was a temporary grant provided for the construction or major renovation of owner-occupied homes.

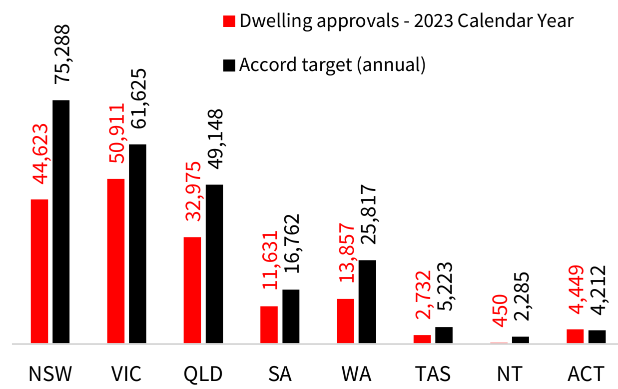
Figure 1. Rolling annual dwelling approvals, national (all dwelling types and sectors)



Source: CoreLogic, ABS

At a state level, approvals over the year to November had the biggest shortfall of the accord target in the Northern Territory (80.3%), TAS (47.7%) and WA (down 46.3%). The ACT was the only area to see dwelling approvals *above* target, due to a spike in unit approvals in the month of November.

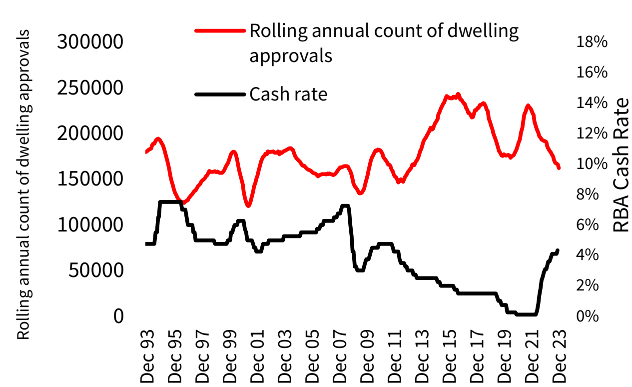
Figure 2. dwelling approvals in the past 12 months vs annual accord target



Source: ABS, accord targets sourced from Urban Taskforce

High interest rates contributed to the sag in dwelling approvals from mid-2022. Higher debt costs slow demand for new homes and make new residential construction projects less feasible for developers. Figure 3 shows that movements in dwelling approvals and the cash rate are mirrored over time, with high interest rates putting downward pressure on the number of approvals. The HomeBuilder incentive likely also brought forward new house purchases, creating a 'vacuum' in demand and compounding the current decline in new dwelling approvals.

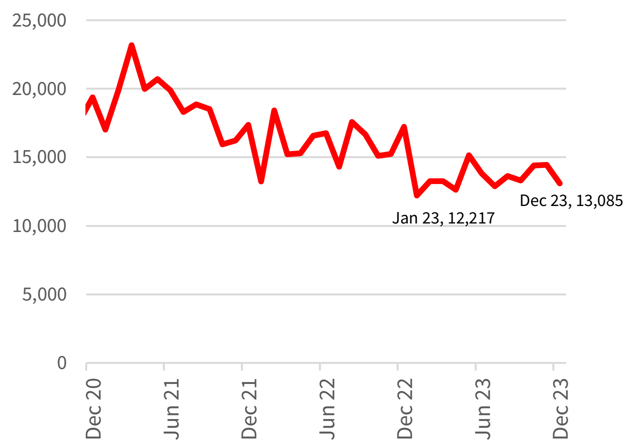
Figure 3. Rolling annual dwelling approvals, national (all dwelling types and sectors) v RBA cash rate target



Source: CoreLogic, ABS, RBA

The good news for government is that the number of dwelling approvals did start to stabilise on a *monthly* basis in 2023 and seemed to have bottomed out in January. Investors have seen a particularly strong recovery through the year, possibly on the expectation that interest rates are at a peak, and rental markets remain very tight.

Figure 4. Monthly dwelling approvals, national (all dwelling types and sectors), seasonally adjusted



Source: ABS

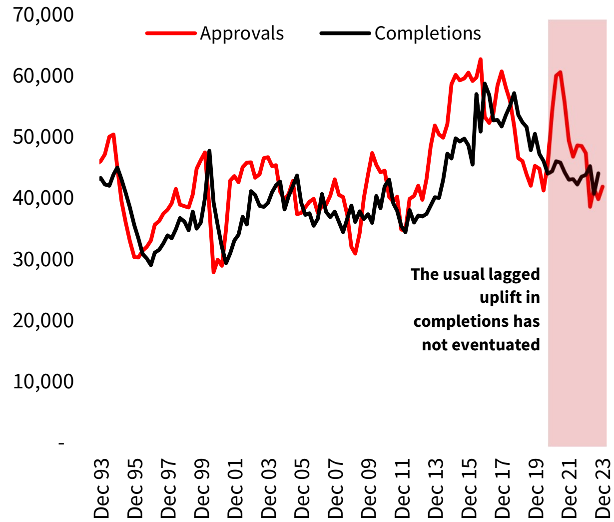
Monthly approvals still fell short of the target however, which is around 20,000 per month.

Stuck in the pipeline: the breakdown between approvals and completions

Dwelling approval numbers are, unsurprisingly, one of the most important indicators of how many dwellings are built. Historically, there is a strong positive correlation between approvals and completions, with a lead-lag time of around 9 months between the two series.

Dwelling completions have been trending lower since the September quarter of 2018 and came in at 173,993 in the year to September. Despite a spike in approvals between June 2020 and June 2021 (ie, the HomeBuilder spike), there has been virtually no corresponding spike in the amount of completions through to the end of 2023. Commencements through the September quarter were also down, falling 10.4% on the previous quarter.

Figure 5. Rolling quarterly dwelling approvals and completions (national, all dwelling types and sectors)

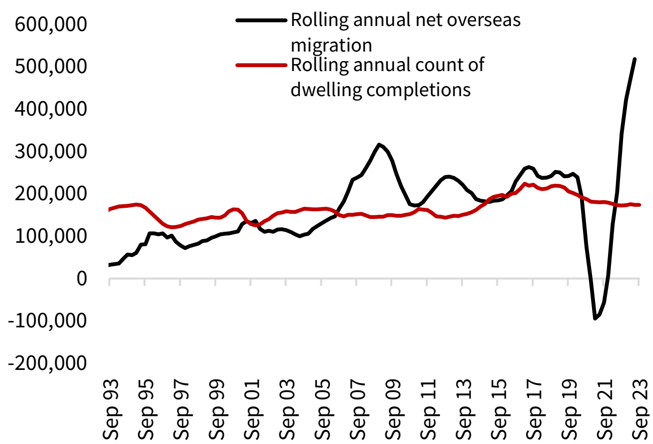


Source: CoreLogic, ABS

The downward trend in completions comes at a bad time. Annual population growth hit a series high of 2.4% in the 2022-23 financial year, which included record net overseas migration of 518,000. Assuming an average household size of 2.5 people per dwelling, this equates to an additional 207,000 new households, not considering the new households being formed domestically – such as young people moving out from their family home, or people forming new family homes altogether. In the 2022-23 financial year, around 173,000 homes were completed. Figure 6 shows the notable mismatch between annual completed dwellings and net overseas migration.

Even with the temporary negative net migration position in 2020 and 2021, housing demand did not abate. The RBA estimates that demand for dwelling increased through the early stages of the pandemic by over 100,000 during this time due to a decline in average household size domestically. The result will be a floor under home values, which have already made a full recovery from the short, sharp downswing through 2022 and the start of 2023.

Figure 6. Rolling annual count of dwelling completions versus net overseas migration



Source: CoreLogic, ABS

So where did all the approvals go that have not been completed? The answer can be found in the *pipeline*, where approved projects have seen longer construction timelines, and are still being worked through.

Figure 7 shows the number of dwellings under construction in Australia on a quarterly basis. The series recently hit a record high in mid-2022, when 242,500 dwellings were under construction in the quarter. As of the September quarter of last year, the number of dwellings still being built eased slightly to around 230,000, and the total of projects approved but not yet complete was just over 261,000.

Figure 7. Number of dwellings under construction, quarterly,

Source: CoreLogic, ABS

Residential construction projects got stuck in the pipeline because of material and labour market disruptions through the pandemic, such as shipping delays, lockdowns and bad weather.

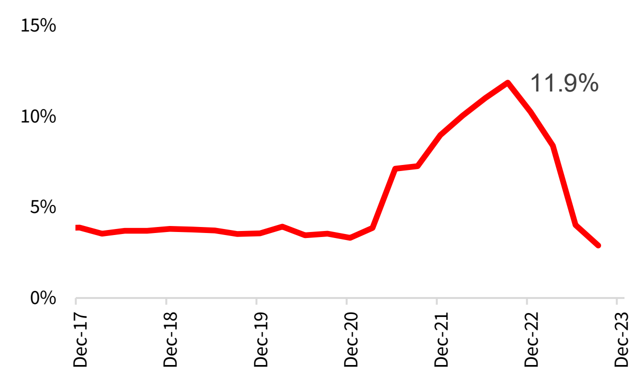
Rising energy prices saw energy intensive resources such as cement, steel and glass rise by extraordinary levels. On top of material and labour costs rising, *demand* increased acutely because of the HomeBuilder incentive, which was introduced at the cusp of price increases.

The capacity to deliver a high volume of approved dwellings has been further hindered by rising insolvencies in the construction sector (albeit from very low levels), and reduced profits for construction firms, many of which were operating on fixed contracts. According to the latest RBA financial stability review, construction firms represented around 30% of company insolvencies in August last year, a rapidly rising share. Around one in three large home builders were operating at a loss in March 2023.

Construction Costs

The Cordell Construction Cost Index (CCCI) demonstrates the extraordinary uplift in residential building costs. The CCCI measures the change in the cost of constructing a detached dwelling over time, considering a combination of labour, material, plant hire and subcontract services. Peak annual growth in the index reached 11.9% in the 2022 calendar year.

Figure 8. Annual Change in CCCI



Source: CoreLogic

Thankfully, growth in construction costs has normalised, with annual growth in construction costs falling to 2.9% in 2023. Thanks to the relatively low number of dwellings that were approved for construction in 2023, the residential construction sector can turn its attention to the elevated pipeline of works to be completed, which had already shown signs of easing at the end of last year.

Construction costs are expected to continue rising at around historic average levels, with inputs like steel even showing a mild *reduction* in price according to producer price indices from the ABS. Capacity more broadly in the construction sector is expected to increase, which will be aided by an expected lift in the unemployment rate.

However, more will need to be done to boost construction to the tune of 1.2 million dwellings in the next five years. Upskilling labour for construction, rezoning parts of our cities for higher density and diverting more resources to working through the existing pipeline could all help make this ambitious goal more realistic, as the construction sector finds some normalcy in 2024.

Eliza Owen
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