Australian Housing Accessibility Challenge

Latest Insights from NAB & CoreLogic

Australian Housing Accessibility Challenge

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October 2024

Addressing the housing challenge

Comments attributable to Andrew Irvine, NAB Group CEO:

“Simply put, housing is one of Australia’s biggest issues, and one of our biggest opportunities.

Housing availability and affordability continue to be enormous societal and policy challenges. Scalability is crucial for success.

At NAB we are partnering with community housing providers, developers, government and investors to increase the supply and quality of social and affordable housing.

While progress has been made, we need to work together with urgency and innovation in both the type of housing and methods of construction to continue to tackle this crisis. This needs to include action from all parts of the housing delivery ecosystem such as the three tiers of government, construction and building companies, banks and our communities.

We need innovation in terms of design, modularisation, new construction methods. We also need to build the right types of properties.

At NAB we want to be part of the solution and we are eager to work with partners in the ecosystem to make sure we see real change in the near future.

That’s why we’re making good progress on our plan to deliver $6 billion of support to more affordable and specialist housing by 2029.”

Andrew Irvine
NAB Group CEO

Affordable Housing - NAB

"More must be done to help solve our housing challenge in Australia. As NAB CEO Andrew Irvine has stated, housing availability and affordability are enormous societal and policy challenges – and I couldn't agree more.

Many in our community are finding it difficult to secure suitable accommodation, with rising rents, increased property values and slowing construction proving a challenge.

There is no simple fix, but it's pleasing to see the government take positive steps together with industry partners and the community.

More urgent action is needed at all levels to help boost housing supply and ease affordability pressures by streamlining and fast-tracking approvals for land development and residential construction.

Australia must also find more innovative financing solutions so that non-profit housing groups can access more capital.

Greater collaboration between the finance sector, governments and private sector could also increase construction of affordable and social housing, with tailored options needed on debt & equity to support more lending to community housing providers.

As Australia's leading business bank, we need to be part of the solution, too.

That's why we're backing large projects that use innovative solutions, like modular housing and build-to-rent, to support social and community need, and workforce demand.

NAB aims to lend at least $6 billion by 2029 to support access to social, affordable and specialist housing.

Target areas include specialist disability accommodation, development of social and affordable housing projects, and access to finance for low-income earners and essential workers through Government-supported housing schemes.

While some progress is being made, we need to work together with more urgency and be far more innovative in both the type of housing and methods of construction if we are to tackle this crisis effectively.

We know a place to call your own helps drive a safe, secure and prosperous country, one that creates opportunities for all Australians.

Helping Australians buy a home is a significant part of what NAB does and we want to do more to help provide a greater supply of safe and affordable homes for all community members."

Julie Rynski
Chair – NAB Affordable Housing Council

Now is not the time to stop

"During 2024 the rate of housing price growth in much of Australia has moderated, with standouts of Perth, and to a lesser extent Brisbane and Adelaide, remaining the exception. Listings have also returned to long-term levels (and in the case of Melbourne, tracking above) which combined have provided more choice for purchasers.

Likewise, the level of rental price growth has moderated, rental vacancy levels have increased a little from their record lows and investors are returning taking some pressure off the market.

The great Australian dream of buying a home however can still feel extremely challenging. Higher for longer interest rates continue to impact borrowing power and affordability and saving for a deposit can take years (without family help) whilst rents remain high.

Many buyers who are entering the market are increasingly making choices on smaller dwellings like apartments or townhouses and houses with less space or are deciding to move further away from city centres.

Whilst there has been moderate improvement in the overall landscape, now is not the time to stop the reform and progress. The current housing challenge has developed over decades and it will take a sustained multi-year and coordinated focus to address.

Changes to planning processes, activity precincts/zones and stamp duty relief are welcome and assist with certainty and feasibility however continued focus is required.

The ambitious target of new 1.2 million homes by 2029 (which commenced 1st July), the formation of both Housing Australia Future Fund Facility (HAFFF) and National Housing Accord Facility (NHAF) and the focus of planning reforms (including increased density, in particular around transport nodes in many states) are welcome, however, it will take time to deliver new housing stock.

More fundamentally however, many projects are not yet feasible to develop with construction material costs remaining elevated and construction labour in tight supply. Additionally reduced hours at site and expectation of higher wages are also impacting construction timeframes and overall costs.

Whilst availability of some trades has improved, the construction sector continues to be challenging. This combined with site values not materially correcting (as would often be the case during this phase of a cycle) and growth of completed apartment prices being insufficient to cover typical developers' risk and profit resulting in otherwise viable projects not proceeding is adding to delays in new supply.

Whilst reforms in some states to permit a 'granny flat' or secondary residence to be constructed are adding to supply, many suburbs across the country are experiencing extensive knock-down rebuild activity which improves the housing stock but does not add to overall levels.

This is why planning timeframes and certainty are critical, the longer a project takes the higher the holding costs and/or additional costs for consultancy and appeals which all need to be factored into a development. Streamlining these aspects can not only increase viability and kickstart otherwise stalled housing supply but can also provide important confidence for the development sector.

Social, affordable housing, purpose-built student accommodation and build to rent projects are all critical as a part of the wider mix of priorities and responses. Through a cycle, it is typically more traditional developments will provide the bulk of the housing supply response. All levels of government can continue to facilitate and support their allocated targeted new housing supply responses.

Now is not the time to pause – the necessary focus is only just starting."

Mark Browning
Head of Valuations and Property Advisory - NAB

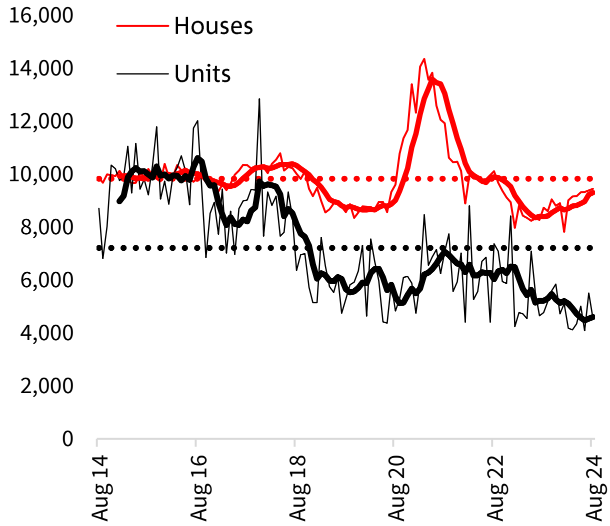
Dwelling approvals continue to show a concerning vacuum in future housing supply

The latest dwelling approvals data from the ABS showed a 6.1% decline in approvals nationally through August. This was comprised of a modest 0.6% rise in detached house approvals, and a 17.5% drop in the more volatile unit sector.

House approvals have increased each month for the past seven months, suggesting they bottomed out at the start of 2024. Despite the turnaround, monthly house approvals have averaged just 9,300 per month, which is 5.3% lower than the decade average.

Unit approvals remain very low. Monthly unit approvals nationally have averaged about 4,600 per month for the past six months, which is 36.2% lower than the decade average.

Monthly dwelling approvals with six-month moving average and decade average, national



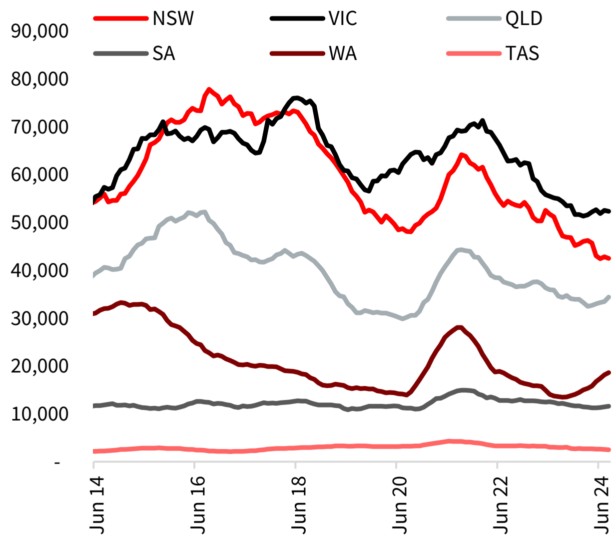
Source: ABS

In total, monthly dwelling approvals averaged 13,900 per month in the past six months. This is 18.4% below the decade average, and around 30% below the 20,000 monthly dwelling approvals required to meet the federal government Housing Accord target of 1.2 million 'well located' homes in the next five years.

Dwelling approvals have dwindled since the end of the HomeBuilder grant in 2021. A combination of demand and supply pressures on the construction and property industry have slowed approvals, including high interest rates, slowing housing demand, increased construction material costs and significant labour market shortages. The design of the HomeBuilder program itself, which had a limited window of availability between June 2020 and April 2021, likely also concentrated future new housing demand within that window, reducing demand in the following years.

There is an apparent pick up in annual dwelling approvals across some states. In the year to August, dwelling approvals increased 37.0% in WA, led by a steady uplift in house approvals. Approvals also seem to have bottomed out in Queensland and Victoria. In most states though, dwelling approvals remain below the highs of the HomeBuilder period, and the off-the-plan apartment boom of the mid-to-late 2010s.

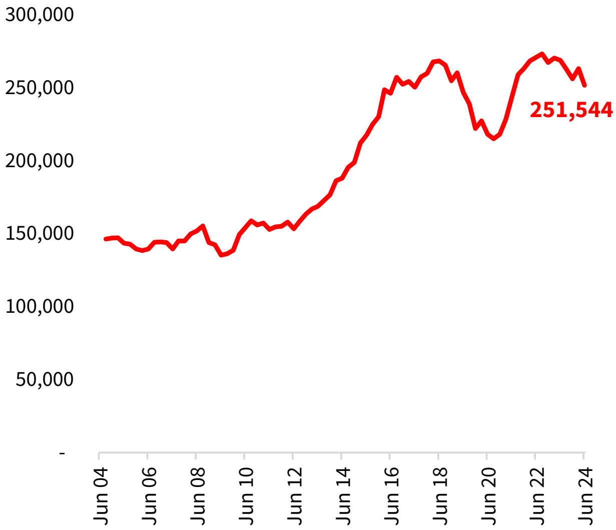
Rolling annual dwelling approvals by state - seasonally adjusted



Source: ABS

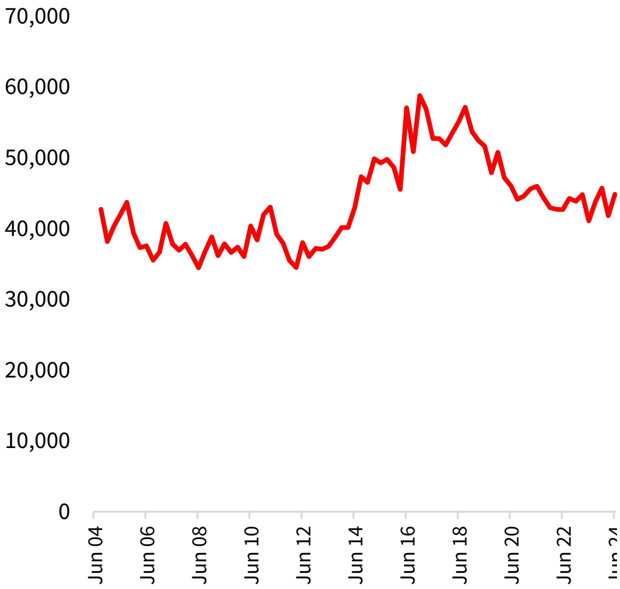
ABS building activity data suggests there is still plenty in the pipeline to keep completions steady. In the June quarter, there were 251,000 dwellings approved for construction but not completed. This large backlog of dwellings in the pipeline has moved lower from a peak in September 2022 (273,000) but is still elevated on the 20-year average of about 200,000 dwellings incomplete each quarter.

Number of dwellings approved but not yet complete



Source: ABS

Quarterly dwelling completions

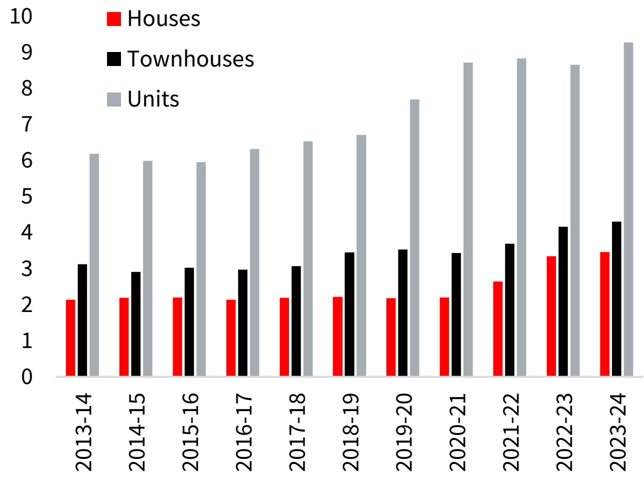


Source: ABS

While dwellings approved (but not complete) inched lower, it follows that completions would move slightly higher in the June quarter. National dwelling completions were up 7.3% in the period.

As the pipeline moved through a peak, projects with extended timelines are likely now moving to completion. This was reflected in an increase in completion times for the 2023-24 financial year within the building activity data. Each dwelling type nationally has seen the highest average completion time in at least a decade, with unit completions sitting at about two-and-a-half years.

Average completion times, quarters



Source: ABS

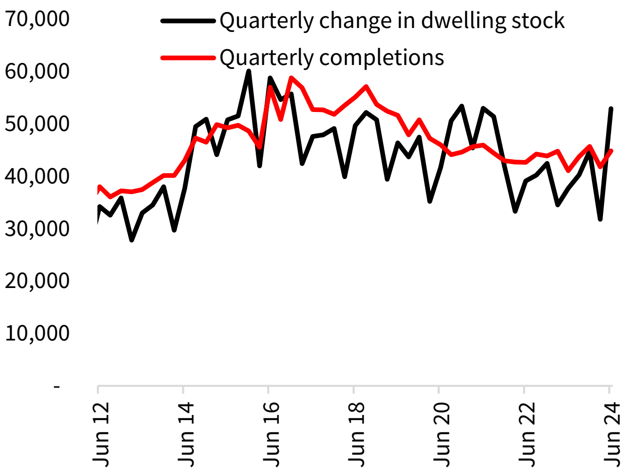
Dwelling completions may soon move through a temporary surge as the build-up of drawn out projects move into completion. However, following that is a vacuum of new projects to start due to the depleted approval numbers seen in the past two years. There is some indication that the reduction in approvals is leading to improved commencement timelines for houses, which could be very early signs of capacity easing in the construction continuum.

Approval and completion figures overstate additions to housing stock

Overall increases in housing stock are presumably lower than dwelling completions data indicates, because some development involves demolition of dwellings, whether for large infill projects or individual knock-down rebuilds.

The chart below compares the overall changes in the ABS estimate of Australian dwelling stock against quarterly completions. For the decade to June 2024, the quarterly change in stock has been 4.7% lower than completions on average, or lower by about 2,700 dwellings.

Quarterly change in dwelling stock versus quarterly completions

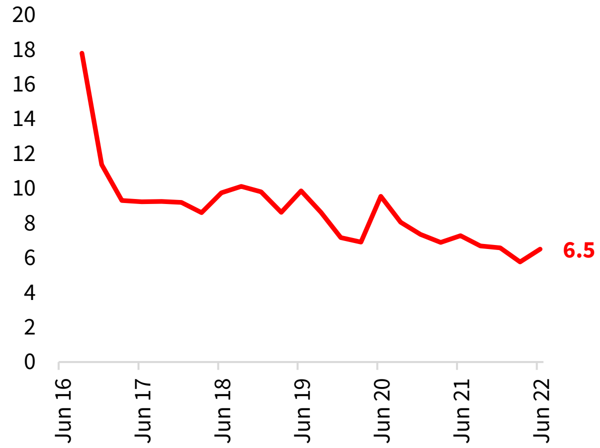


Source: ABS. Note the most recent three quarters of stock changes are subject to revision.

The recent challenges in Australia's construction industry, and greater emphasis on detached house construction over units, has also meant a decline in the rate at which new housing stock is replenishing removed dwellings. The ratio in the chart below is derived from **ABS estimates of removals** and additions to dwelling stock. The latest results to June 2022, while dated, show a dramatic reduction in the ratio of new to removed dwellings since the late 2010s, when high density unit construction dominated the development landscape. In the September quarter of 2016, the ratio suggests there were almost 18 dwellings completed for every dwelling removal in the quarter. As of June 2022, the ratio had reduced to 6.5 new dwellings per removal.

This data reinforces the efficiency of high density dwelling development, but as noted with dwelling approvals data, there is currently less feasibility for these kinds of projects.

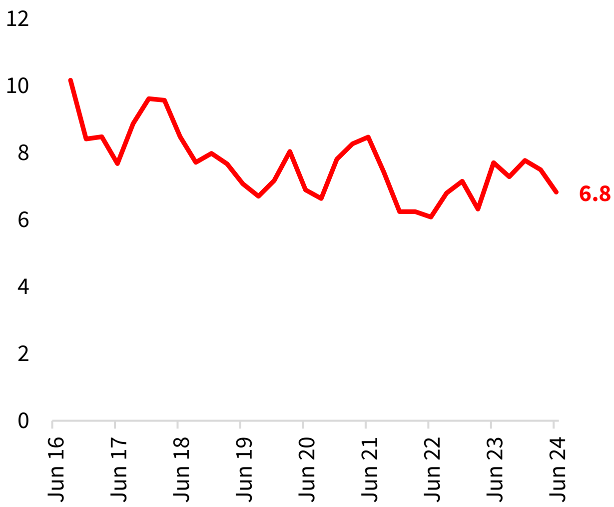
Ratio of added to removed dwellings



Source: ABS

A more up-to-date view can be gleaned using approvals data, though not all approvals lead to actual completions of demolitions. Nonetheless, the ratio of dwellings approved for construction has remained subdued to dwellings approved for demolition, with a ratio of 6.8 new dwelling for each demolition in the June quarter of 2024.

Ratio of approved dwellings to approved demolitions



Source: ABS

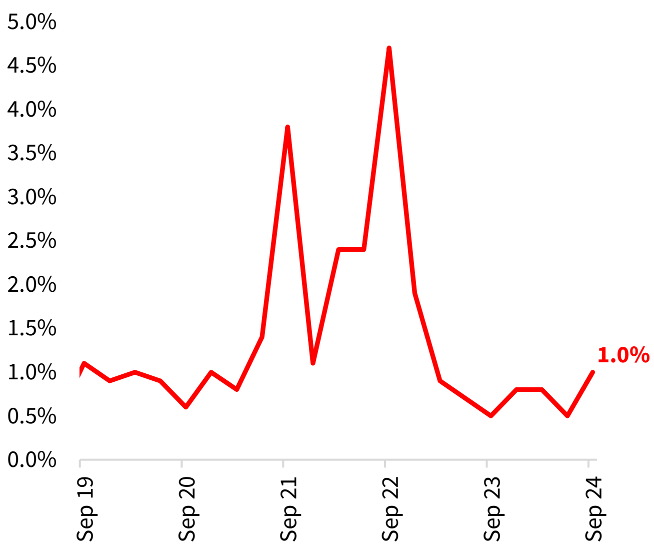
Construction constraints still in play, even as the pipeline moderates

As the construction cycle has progressed, new challenges are emerging for the construction industry.

In the August Statement of Monetary Policy, the RBA reported an increase in the cost of finishing trades for high density unit projects were adding to the cost, and adding to the timeline, of new dwelling completions. However, weak new home sales have begun to increase capacity for labour in the earlier stages of residential construction. A recent increase in shipping costs since May also poses some risk to a reacceleration in material costs.

CoreLogic's latest reporting of the Cordell Construction Cost Index saw a slight reacceleration in growth through the September quarter to 1.0%. The measure tracks a combination of change in the cost of labour and materials to construct a lowset detached house over time. The growth rate is up from 0.5% in the June quarter but remains well below peak price increases of 4.7% in the September quarter of 2022.

Quarterly change in CCCI



Source: CoreLogic

ABS producer price index data has also seen some stickiness in residential construction cost inputs, led by a stabilising in steel prices and a pick up in installed appliances and electrical equipment.

Labour costs are also a lingering challenge for residential construction, as wages adjust to the high inflationary environment alongside tight supply of labour. ABS data on wages and salaries in building construction showed a 13.4% increase in the 2022-23 financial year, the highest annual increase in at least a decade.

Despite inflation easing and the number of properties under construction passing a peak, challenges remain for new housing supply.

The stickiness in construction costs without an offset in increased productivity is likely to lead to less project feasibility and low approvals. The particularly low levels of apartment development will also mean a higher ratio of demolitions to dwellings completed, and lower net completions than in the 2010s. There are some signs of capacity easing at the early stages of construction, such as in commencement times for detached houses, but more must be done to increase the capacity and productivity of the sector.

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