Housing demand in the ACT

Findings from family and household projections, 2015-2062

June 2015

Housing and Homelessness Policy Consortium, ACT

ACT Shelter Inc., www.actshelter.net.au

The ACT Council of Social Service, Inc. (ACTCOSS), www.actcoss.org.au

The Women's Centre for Health Matters Inc. (WCHM), www.wchm.org.au

The Youth Coalition of the ACT, www.youthcoalition.net

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Introduction

This research is delivered through a consortium of peak community sector organisations, comprising ACT Shelter, ACTCOSS, Women's Centre for Health Matters and the Youth Coalition of the ACT.

The consortium receives funding from the ACT Government to research housing and homelessness issues in the ACT. This paper forms part of the third of four projects in this research, presenting the findings of projections of future housing demand in the ACT.

Affordable housing is a critical platform for the social and economic development of the ACT. Concurrent consortium research demonstrates that affordable housing is an important stabilising factor, particularly for lower income families, strengthening families, reducing household stress and allowing for social and economic participation in the community. Likewise, housing is a necessary economic input to support a larger and more affordable workforce and economy. A larger and more diverse workforce will entail a wide distribution in household incomes and capacities to pay for housing, which will in turn require housing that is available at multiple price points and in sufficient quantities to meet population demands.

The ACT Government has enacted a number of initiatives to improve housing affordability including through successive Affordable Housing Action Plans. In recent years, the Land Rent Scheme, inclusionary zoning, CHC Affordable Housing, commitments to maintain public housing and grow community housing and increased land release, construction and development activity have all helped to create or maintain affordable housing for rent and purchase. Nevertheless, large numbers of lower and moderate income households continue to face housing stress, particularly in the private rental and mortgage markets, while many struggle to access good quality, affordable homes.

Future population growth will increase housing demand, placing further pressure on the cost and availability of land and housing. Indeed, one of the ACT Government’s stated policy aims to grow and diversify the ACT workforce will have implications for housing demand in the ACT and its existing land release schedule. On current trends, a more diverse workforce with a larger private sector will create greater demand for housing across a wider range of price points. Depending on the industries and occupations in which employment growth occurs, diversification is likely to create greater demand, in particular, for housing at lower and more affordable price points.

Background

Modest population and household growth has contributed to steadily increasing housing demand in the ACT in recent years. The ACT population grew from 321,538 in 2001 to 385,996 in 2014 at an average annual rate of 1.4% per year (ABS, 205a). Over the same period, the number of households in the ACT is estimated to have grown from approximately 120,000 to 148,000 (ABS, 2015b). The average rate of household growth in the ACT is in line with that for Australia (1.6%).

Population and household growth in the ACT has been driven to a large degree by employment in the Australian Public Service. Employment in the Public Administration and Safety industry in the ACT, which includes the Australian and ACT Public Services, grew by an estimated 24,118 people between June 2001 and June 2014 (ABS, 2015c). This equates to 37% of total population growth over the period and 58% of the growth in the working age population (aged 15-64 years).

The ACT labour market is one of the most concentrated urban labour markets in Australia. Public Administration and Safety employs approximately one-third of the ACT workforce (ABS, 2015c), while the three largest industries employ 52% of the workforce. This level of concentration is higher than in any other capital city in Australia and indeed higher than in any town or city in Australia with a population greater than 10,000 people (ACT Shelter, 2015).

The concentration of the ACT labour force in the public service delivers relatively high average incomes for the ACT, but at the cost of the growth and resilience of the ACT economy. Average weekly earnings in the ACT are estimated to be $1,331 after tax, compared with $1,129 across Australia (ABS, 2015d; November 2014). However, average weekly earnings are considerably lower for ACT workers in the private sector, particularly those outside of full-time work. Employment in all industries outside of Public Administration and Safety and Health Care and Social Assistance contracted by an average of 0.4% per year between June 2010 and June 2014 (ABS, 2015c). The recent contraction of the Australian Public Service adds to the existing stagnation in the economy in a significant way.

Labour market concentration is a consequence and contributing factor to housing affordability issues in the ACT. The ratios of median house and attached dwelling prices to average private sector earnings in the ACT are among the highest in Australia (ACT Shelter, 2015). ACT Shelter (2015) research indicates that workers in the private sector, particularly in the Retail Trade and Accommodation and Food Services industries, are significantly more likely to live in households facing housing stress than workers in the Australian Public Service. Housing stress is likely to be a strong disincentive to participation across a number of lower paid private sector occupations, further entrenching the concentration of the ACT labour market and economy.

Future housing demand will depend on the growth and structure of the population. An ageing population will likely drive higher growth in single and couple households. This may translate to greater demand for smaller one, two and three bedroom dwellings, depending on the extent of and opportunities for downsizing. Greater employment growth in future and a more diverse labour market, by contrast, will lead to higher population and household growth in younger age groups and among young families. This will increase demand for smaller dwellings in the first instance, but increase demand for larger family-sized dwellings over time.

Diversification of the ACT economy may drive changes in household wealth that will require structural shifts in the housing market. In the absence of future cuts to the Australian Public Service, diversification will require a larger workforce than is currently projected, driving faster migration and population growth. Through population growth, diversification will add to household growth, thereby expanding housing demand and pressures on housing supply.

Diversification may also shift the distribution in household capacities to pay for housing. Given the relatively high wages of the public sector, relative to the private sector, diversification may shift the composition of ACT households to one with a lower income distribution. This, in turn, would shift what households are able to afford in rent and mortgage payments to a lower distribution, creating greater demand for housing at a wider and more affordable range of price points.

The extent to which this occurs will depend on the types of employment created through diversification. Employment growth among highly paid jobs in knowledge and technology sectors, for example, will mitigate against downward shifts in the income distribution. By contrast, job growth in lower paid industry sectors such as hospitality, retail and others related to tourism and domestic consumption is more likely to grow demand for more affordable housing. The current structure of Canberra’s private sector economy and the lower average wages received by private sector workers indicates that diversification will add to pressures for more affordable housing.

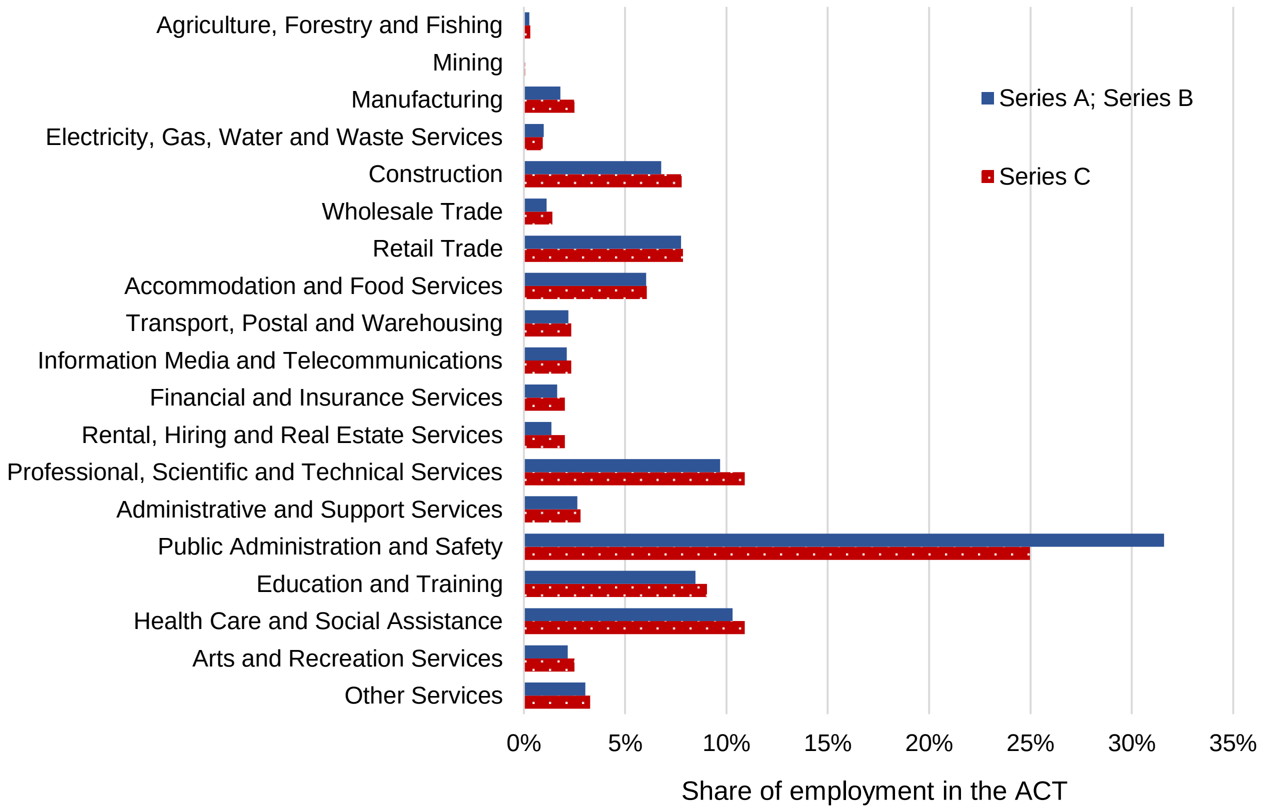
Household demographic and economic projections

This research projects household and housing demand growth in the ACT from 2015 to 2062. The projections include three series which model the effect of different demographic and economic assumptions. The projections estimate the resulting effects on household and housing demand growth by household and dwelling type and size and by household capacities to pay for housing. The assumptions under each series are as follows:

1. **Series A:** the ACT population grows in line with ACT Government (2013) projections. Employment grows in line with growth in the working age population and the share of employment by industry remains as it is at February 2015 (ABS, 2015c).
2. **Series B:** employment grows at the same rate as it did between April 2010 and 2014, at approximately 0.5% per year. Net migration ensures that the working age population grows in line with employment growth. The share of employment by industry remains as it was at February 2015.
3. **Series C:** efforts to diversify the economy are assumed to be successful and the share of employment in the Public Administration and Safety industry is assumed to fall to 25% in 2040 and 22% in 2062. Employment in the Public Administration and Safety is assumed to increase to the same level as it does under Series A, though relatively fast growth across other industries reduces its share of total employment.

For the purposes of comparison, the projections assume that labour market outcomes – namely, employment and unemployment rates – are the same under each series. Chart 1 shows the assumed proportion of employment in each industry in 2040 under each series.

Chart 1: Assumed employment shares by industry, ACT, 2040



The projections are based on three interconnecting population, household and economic models. The population model is a cohort component model based on the ACT Government's (2013) population projections. The population by age and sex in June of each year between 2015 and 2062 is projected by taking the population in the previous year, subtracting the estimated number of deaths in the intervening period and adding or subtracting the number of net migrants. Births and deaths are held at rates assumed by the ACT Government (2013), while net migration to the ACT is allowed to vary to model the impact of the different employment growth assumptions on population and household growth.

The level of net migration to the ACT in a given year is estimated from employment growth. Employment growth is assumed to lead to an equivalent increase in net migration of people migrating to the ACT for work. The age and sex of migrants and the number of non-working migrants (e.g. family members) is estimated from the 2011 Census.

The household model is a sequential household propensity model similar to the one used by the ABS (2015a). The proportion of people living (or the propensity of people to live) in the following family and housing states is estimated from the 2011 Census in five year age groups from 0-4 years to 85 years and over,

- Living in a non-private dwelling;
- Married or co-habiting with a partner;
- Married/co-habiting with dependent child(ren);
- Single with dependent child(ren);
- Dependent child living with parents/guardians;
- Non-dependent child living with parents/guardians;
- Living with other family members;
- Living with a non-related family;
- Living in a group household;
- Living alone.

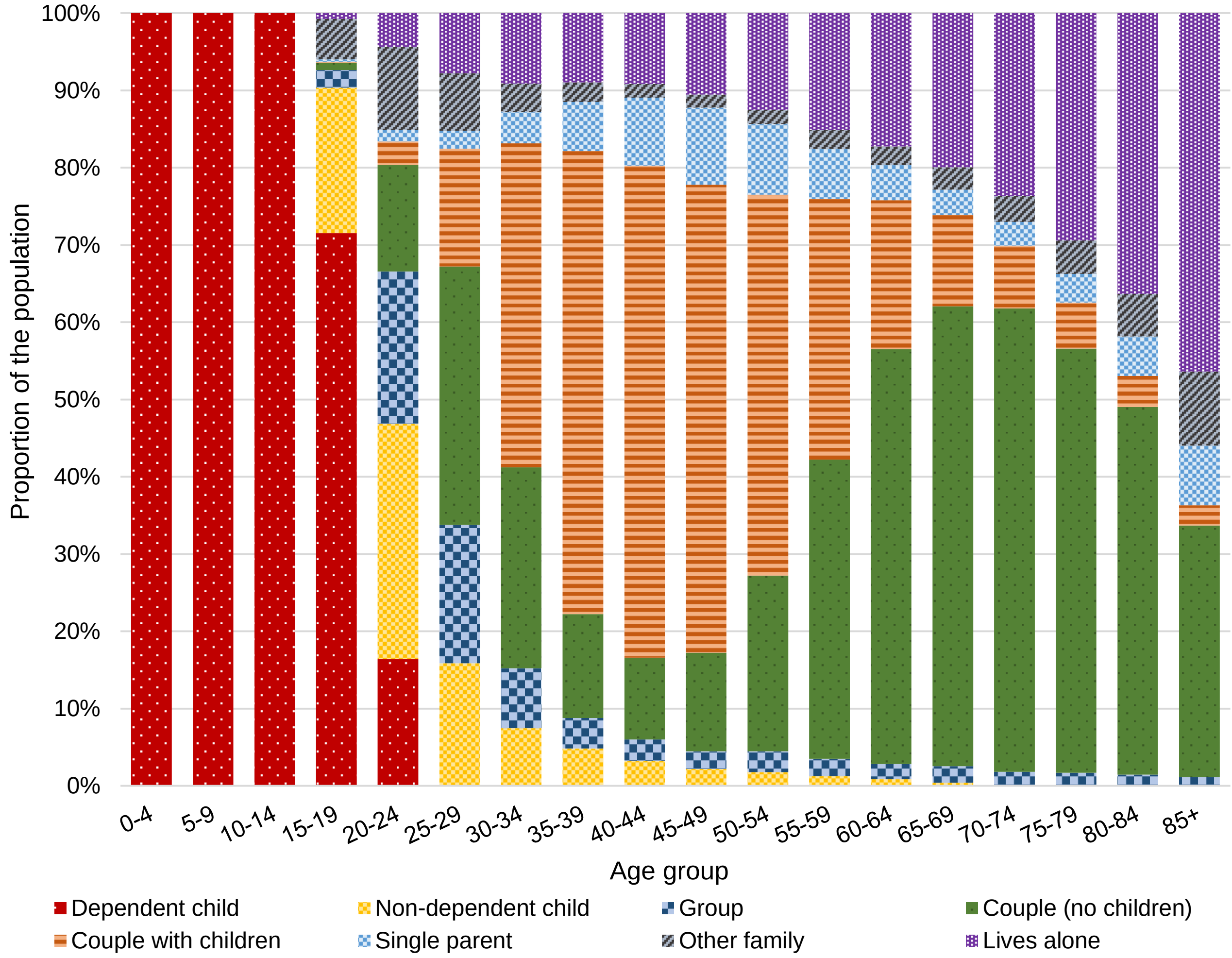
Chart 2 shows the age specific propensities of people to live in different household types. Young people, up to the 20-24 year age group, are most likely to live with their parent/guardian(s) as dependent or non-dependent children. From their late teens, people are increasingly likely to live in group households and as couples. In their thirties and forties, most people live with dependent children in either couple or single parent families. People are increasingly likely to live alone or as couples in their fifties and sixties. In older age groups, people (especially women) are increasingly likely to live alone as their partners pass away.

These propensities are assumed to remain constant over the projection period. They are applied to the projected populations from the population model to estimate the number of people living in the following household types,

- Couple parent families with child(ren);
- Single parent families with child(ren);
- Couples;
- Other families;
- Group households; and
- Lone person households.

Housing demand is projected by assuming the number of families per household is as it was at the 2011 Census. The number of dwellings by dwelling type and number of bedrooms is estimated by assuming that how the projected population in different household types is distributed across different dwelling types and sizes is the same as it was at the 2011 Census (ABS, 2011).

Chart 2: Population propensities for family and household states by age, ACT, June 2015



Source: ABS (2011)

The economic model projects the demand for housing across the income distribution. Employment by occupation is estimated from ABS (2015c) and projected forward by categorising the projected growth in the adult population by industry of employment into occupations. This categorisation is performed using the 2011 Census share of employment by industry and occupation for the ACT (ABS, 2011).

Household income of adults by occupation (or not employed) is predicted using the household survey results (ACT Shelter, 2015). National average weekly wage rates are attached to occupations using Department of Employment (2014) data. These weekly wage rates are also attached to the survey results. Household income is calculated from the survey by weekly wage rate for workers inside and outside the Public Administration and Safety industry and used to predict household incomes for the projected population. The population is organised into households by calculating the average number of people per household by income band and assuming these averages remain constant. Proportional adjustments across income groups are made to ensure the sum of households by income groups equals projected growth in total households.

Population growth

Household and housing demand growth is driven to a large extent by population growth. The estimated resident population of the ACT was estimated to be 387,069 as at September 2014 (ABS 2015d). Over the previous 12 months, the population grew by 1.2%, after having grown by an average of 1.8% per year in the eight years between September 2005 and 2013.

Net interstate migration has been the largest contributor to the recent slowing population growth. In the 12 months to September 2014, there was an estimated net outflow of interstate migrants of approximately 1,100 (ABS, 2015d). Negative net migration is driven by slowing employment growth. In the 12 months to September 2014, total employment is estimated to have contracted by 0.7%, after having increased by an average of 1.6% per year between September 2005 and 2013 (ABS, 2015e). Employment has continued to contract, falling by 0.6% in the year to April 2015. Employment has been contracting or stagnant across a number of industries in the ACT, particularly the large employing Public Administration and Safety industry (ABS, 2015b).

In 2013, the ACT Government (2013) projected the population reaching 681,476 in 2062. This represents average growth of 1.2% per year between 2012 and 2062. The ABS (2013) also produce a range of population projections for the ACT with different demographic growth assumptions. According to the mid-range ABS projection, the ACT population will grow faster than projected by the ACT Government, reaching 740,903 in 2061. The difference is largely driven by different net interstate migration assumptions with the ACT Government assuming positive net interstate migration of 200 people per year from 2019 and the ABS assuming 1,000 extra people per year.

The results of this research indicate that future employment growth will have a substantial effect on population growth in the ACT through migration. Under Series B, assuming employment continues to grow as it did between April 2010 and 2015, the population is projected to only reach 536,883 in 2062. Under Series C though, assuming successful diversification of the ACT economy, the population is projected to reach 844,261. Chart 3 plots the actual and projected population trajectories. Series A is the same as the ACT Government (2013) projection.

Employment growth will also affect the projected age structure of the population. The ACT Government (2013) projects moderate population ageing with the median age growing steadily from 34 years in 2014 to 41 years in 2062. The proportion of the population aged 65 years and over is projected to grow from 12% in 2014 to 23% in 2062. Slow employment growth is likely to accelerate population ageing, with Series B projecting that 24% of the population will be 65 years and over in 2062. Diversification may slow ageing with Series C projecting that 21% of the population will aged 65 years and over. Chart 4 shows population pyramids in 2062 under each series.

Chart 3: Actual and projected population growth, ACT, 2006-2062

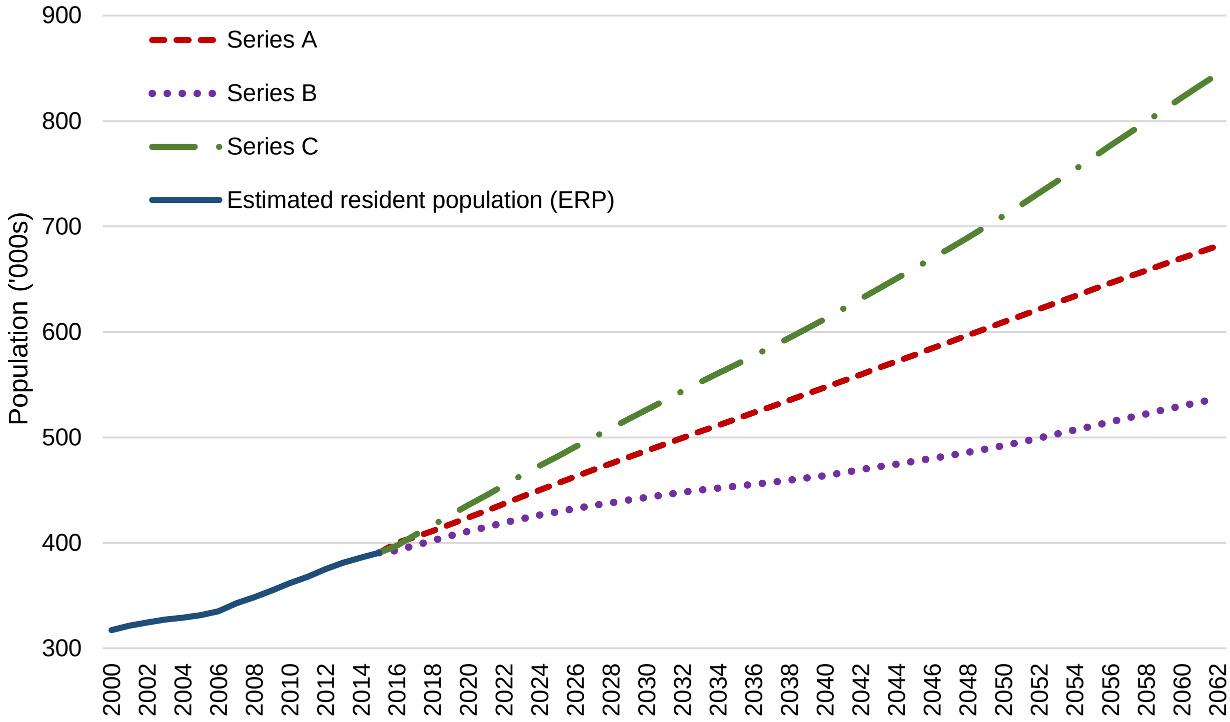
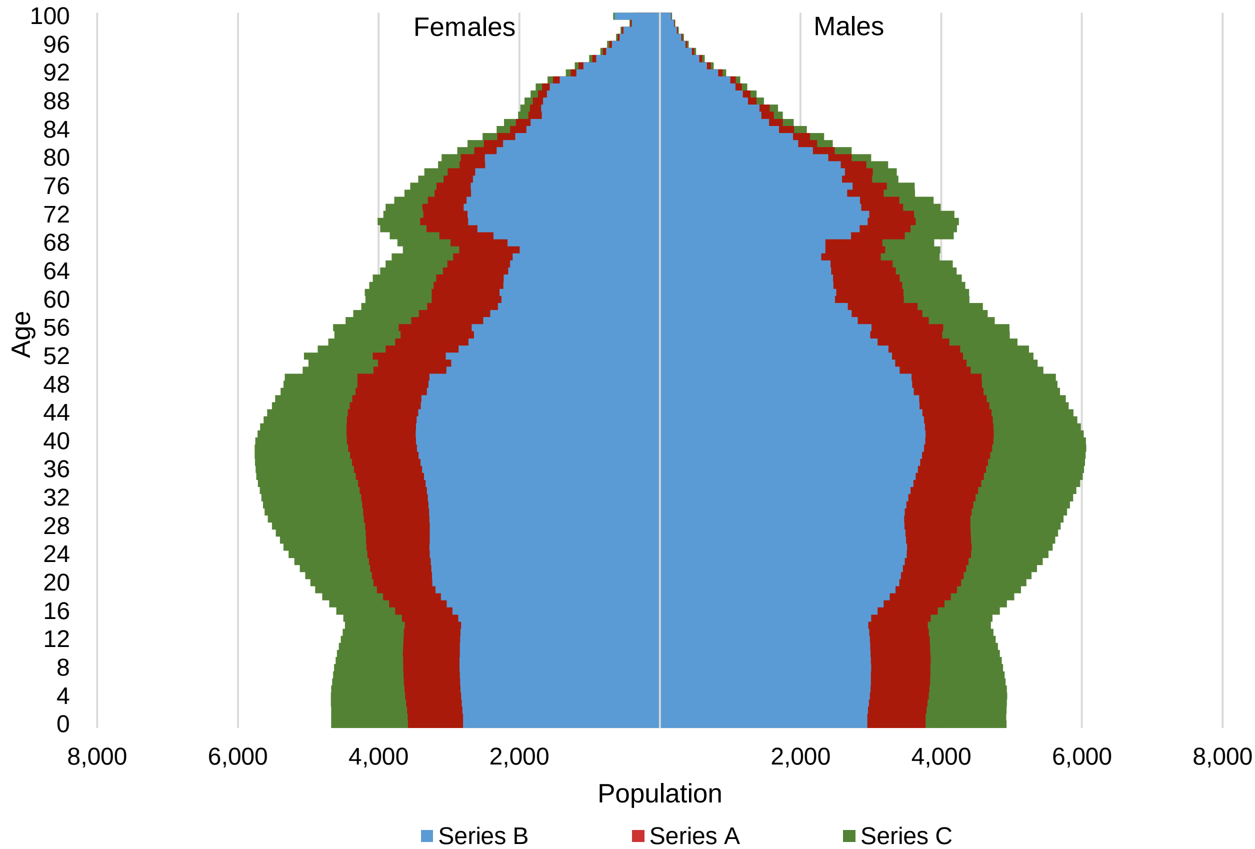


Chart 4: ACT projected population by age and sex, 2015 and 2062



Households

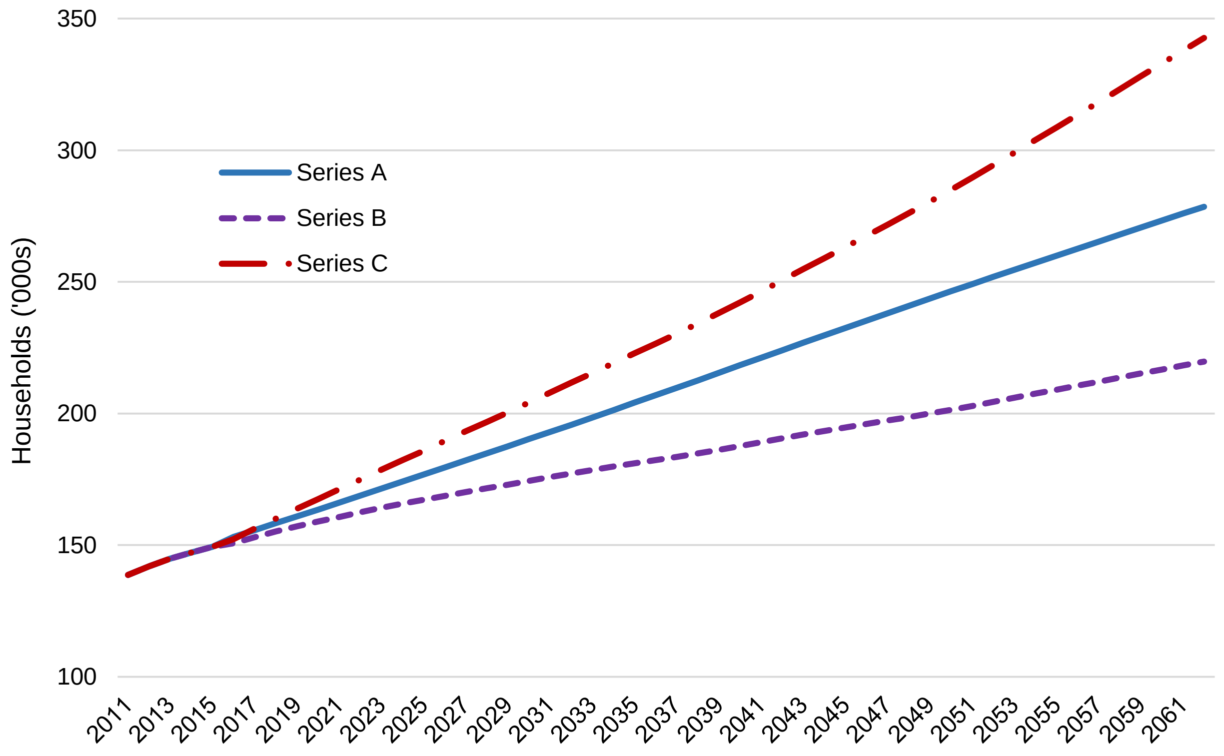
There are an estimated 149,300 households in the ACT as at June 2015. Between June 2011 and June 2015, the number of households is estimated to have grown by an average of 1.9% per cent per year, faster than the projected growth in the population (1.5%). These results are based on the projected age structure at June 2015 and the assumption that the age specific family and household formation propensities at the 2011 Census have remained roughly constant. The projections suggest that the number of households by household type at June 2015 is as follows:

- 47,200 couple family households with dependent child(ren);
- 15,200 single parent families with dependent child(ren);
- 1,800 other family households;
- 40,300 couple households with no dependent children;
- 8,400 group households; and
- 35,700 sole person households.

Household growth

The household projection model is used to project the growth in the number of households in the ACT. Under Series A, the household projection model projects that the number of households in the ACT will grow from 149,300 in 2015 to 218,300 in 2040 and 278,500 in 2062 (Chart 5). Over the period, the number of households grows at a reasonably consistent level of 2,700 per year. The rate of household growth is projected to be slightly faster than population growth, with the number of households growing by an average of 1.3% per year compared with population growth of 1.2% per year.

Chart 5: Projected household growth, ACT, 2011-2062



Employment growth is projected to have a substantial effect on household growth. Series B projects that with continued slow employment growth, the number of households in the ACT will only grow to 187,600 in 2040 and 219,700 in 2062. Under this projection, there will be on average an additional 1,500 households per year. Series C projects that with faster employment growth and economic diversification, the number of households will reach 242,200 in 2040 and 342,700 in 2062, growing at an average of 4,100 households per year. Economic diversification will therefore pose a substantial challenge to increase the net supply of housing in the ACT.

Household types

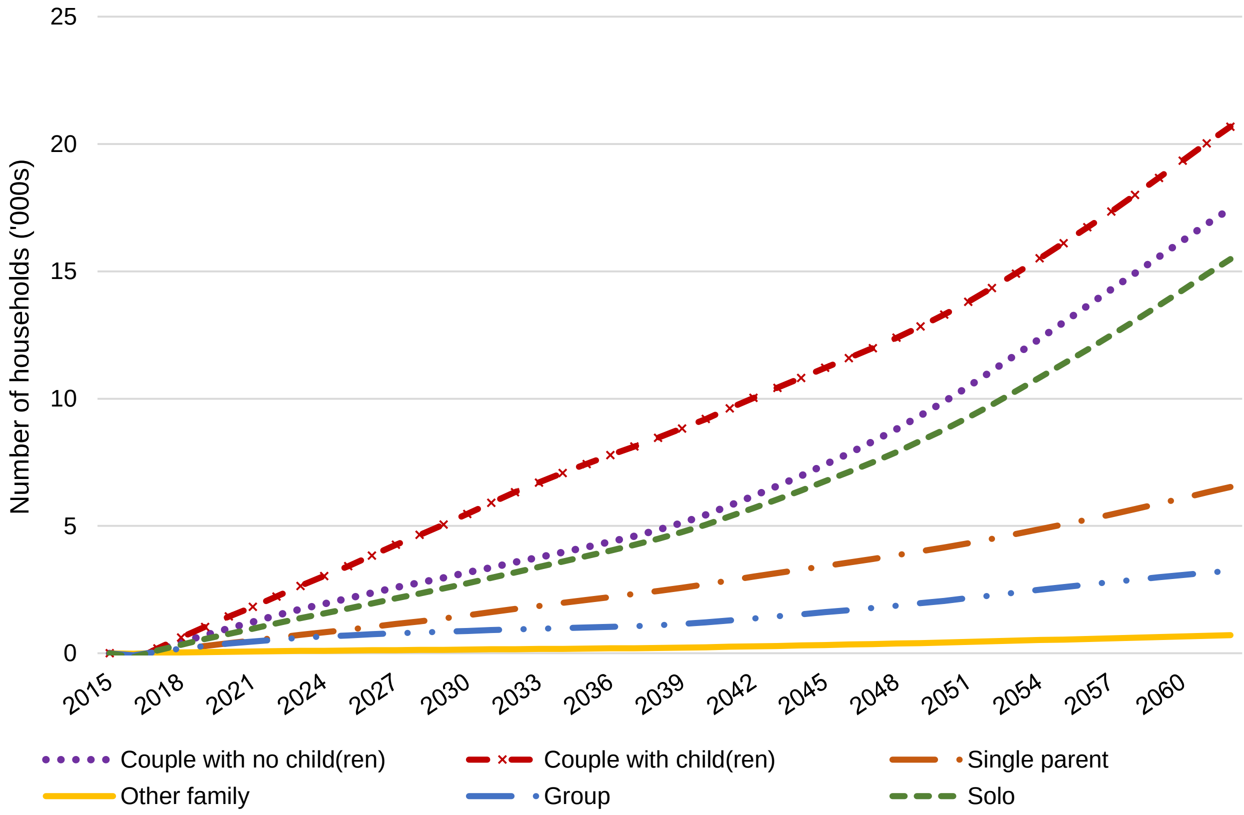
Table 1 shows the projected number of households by type in ten year increments to 2062.Under Series A, the number of single and couple parent family households is projected to account for one-third (33%) of total household growth. Lone person and Couple households are also projected to grow strongly, accounting for 31% and 30% of total household growth respectively. Projected growth in the number of group households is projected to account for 4% of total growth. The number of lone person and couple households as a proportion of all households is projected to grow from 51% in 2015 to 56% in 2062.

Table 1: Projected number of households by type, ACT, 2012-2062

	Projected number of households ('000s)					
	2015	2022	2032	2042	2052	2062
Series A						
Couple with no children	40.3	45.6	53.0	62.8	72.1	79.3
Couple with child(ren)	47.8	54.0	60.5	65.7	71.7	77.7
Single parent	15.2	17.2	20.2	22.6	24.9	27.7
Other family	1.8	1.9	2.3	2.8	3.1	3.5
Group	8.5	8.7	9.9	11.6	12.5	13.6
Lone person	35.7	41.3	49.7	58.6	67.5	76.7
Total households	149.3	168.8	195.7	224.0	251.9	278.5
Series B						
Couple with no children	40.3	44.0	48.7	54.9	59.8	62.5
Couple with child(ren)	47.8	51.6	53.3	53.0	55.6	60.0
Single parent	15.2	16.6	18.2	18.9	19.8	21.8
Other family	1.8	1.9	2.1	2.4	2.6	2.9
Group	8.5	8.2	8.8	9.9	10.2	10.9
Lone person	35.7	40.1	46.0	51.4	56.4	61.6
Total households	149.3	162.4	177.2	190.5	204.4	219.7
Series C						
Couple with no children	40.3	47.1	56.5	69.0	83.2	96.8
Couple with child(ren)	47.8	56.2	66.8	75.7	86.1	98.4
Single parent	15.2	17.8	22.0	25.6	29.4	34.3
Other family	1.8	2.0	2.5	3.0	3.6	4.2
Group	8.5	9.2	10.9	13.0	14.8	16.9
Lone person	35.7	42.5	52.9	64.3	77.3	92.2
Total households	149.3	174.9	211.6	250.6	294.3	342.7

Economic diversification is projected to drive higher growth across all household types. Chart 6 plots the additional number of households by type projected under Series C relative to Series A. Diversification leads to higher net migration of young people in their twenties and thirties who are most likely to bring or have families are arriving in Canberra. The largest effect of diversification therefore is on the number of couple family households. As the early arrivals age over a longer period, the number of couple households with no children and lone person households is projected to grow sharply from the 2040s. Diversification is therefore likely to create pressures on housing supply and land release for larger and detached housing in the immediate term and delayed demand for appropriate housing for older singles and couples over the longer term.

Chart 6: Additional growth in households due to diversification, ACT, 2015-2062



Lone and couple person households: Growth in the number of households is projected to be fastest for lone and couple person (no children) households. The number of sole person households is projected to increase by 115% under Series A, or by an average of 1.6% per year between 2015 and 2062. The number of couple households without dependent children is projected to grow by 97%, or 1.4% per year. The number of lone person and couple person households grows faster than other household types under each projection series A, B and C.

Population ageing drives the relatively fast growth in the number of lone person and couple households. In 2015, an estimated 32% and 30% of people living in lone person and couple households respectively were aged 65 years and over. Under Series A, these proportions are projected to grow to 50% and 45% respectively.

The majority of people living in sole person households are women. At the 2011 Census, women made up 57% of sole person households in the ACT, with this proportion increasing with age. Among people aged 65 years and over living in sole person households, 72% were women. This proportion increases to 78% for people aged 85 years and over. If these age specific ratios remain constant, Series A projects that 62% of people living in sole person households in 2062 will be women. The number of women living in sole person households is projected to grow from 20,300 in 2015 to 47,300 in 2062 at an average growth rate of 1.8% per year.

An important caveat with the projections for sole person and couple person households without children is that they do not account for the effect of increased life expectancy on the rates of partnering. In the projection model, the rate at which partners pass away by the age of the surviving partner is implicitly assumed to be as it was at the 2011 Census. However, with increasing life expectancy over the projection period, these rates are likely to fall for all but the oldest age group. The effect of this is likely to mean that the number of sole person households is lower than projected, offset by a commensurate increase in the number of couple person households.

Single and couple parent families: Household projections of single and couple parent families assume that rates of family formation and dissolution, such as marriage and divorce, remain constant. Couple parent families are the dominant household type for people aged in their thirties and forties, with 55% of people in this age group projected to be living in a couple parent family in 2015. The proportion of people living as single parents peaks in the forties, with 10% of people aged 45-49 years projected to be single parents in 2015. At the time of the 2011 Census, there were approximately 1.9 dependent children per couple family household and 1.6 children per single parent household (ABS, 2011).

Under Series A, the number of single parent households is projected to increase faster than couple parent households. This is due to the higher projected growth of the population aged 40 to 49 years relative to the population aged 20-39. Between 2015 and 2062, the number of single parent households is projected to grow by an average of 1.3% per year from 15,200 in 2012 to 27,700 in 2062. The number of couple parent households is projected to grow by 1.0% per year from 47,800 in 2012 to 77,700 in 2062. Whether these projections will reflect actual growth in these household types will depend on rates of partnering, divorce and separation and marital fertility. Under Series C, a constant net influx of younger migrants in their twenties and thirties increases the growth in the number of couple parent households relative to single parent households.

The projected growth in single parent families has important policy implications. An ACT household survey conducted in November 2014 found that households with one or more dependent children and a single adult were significantly more likely to face housing and financial stress than other household types (ACT Shelter, 2015). Single parent families also face a higher risk of homelessness. In 2012-13, 889 individuals in single parent families sought assistance from Specialist Homelessness Services in the ACT, representing 17% of all individuals seeking assistance (AIHW, 2014). This burden falls disproportionately on women. At the 2011 Census, 80% of single parents in the ACT were women, a proportion that was highest among those aged 15-29 years (89%). In terms of housing supply implications, the growth of single parent families requires growth in housing stock that is suitable for families while also affordable for single income households that often have to rely on part-time and casual work.

Young adults living with parents and former guardians: A large proportion of young adults in the ACT live with their parents. Non-dependent children are people aged 15 years and over who are not currently students and are living with their parent/former guardian(s). The projection model estimates there are 23,600 non-dependent children in the ACT at June 2015, more than half (51%) of whom are aged 15-24 years. A further 33% are aged 25-34 years. Under Series B, the number of non-dependent people living with their parents is projected to grow to 30,300 in 2040 and 34,100 in 2062.

A lack of affordable housing and weaker labour market outcomes are likely to prevent young people from moving out of their family home. A 2014 household survey of the ACT found that young people aged 18-29 years paying board or living rent free, usually in family homes, are significantly more likely to work in lower paid, casual and temporary part-time occupations than the rest of the population (ACT Shelter, 2015). Some of these young people are currently studying, while most work in the retail and hospitality sectors or are not employed. A lack of employment and the reliance on lower paid and precarious work where available constrains the ability of young people to afford accommodation in the ACT private rental market. As it is, households currently in the rental market face high levels of housing and financial stress, with an estimated 32% of renting households earning in the bottom 40% of household income in the ACT and paying more than 30% of their gross household income in rent. For those able to rely on parents and guardians, remaining at home for longer is likely to be the only affordable option.

These projections are based on the 2011 Census propensities, so importantly do not take into account the effect of current economic conditions. Increasing unemployment, particularly youth unemployment, and falling labour force participation may increase the number and proportion of people living with parent/guardian(s) above the projections. Similarly, improved labour conditions for young people, including greater employment opportunities, higher wages and more secure, permanent employment will lead to greater economic independence for young people and likely greater housing demand, particularly among group households.

Group households: Young people aged in their twenties are the most likely to form group households with unrelated housemates. The propensity of the population to live in group households and the size of group households is also likely to be driven by the growth, dwelling type and affordability of housing supply. Under the assumption that these aspects of housing supply remain constant, Series A projects that the number of people living in group households will grow from 19,700 in 2015 to 26,400 in 2040 and 31,800 in 2062. Assuming the number of people per group household remains relatively constant at 2.3 people per household, the number of group households is projected to increase from 8,500 in 2015 to 11,300 in 2040 and 13,600 in 2062. The rate of growth of group households is relatively low, growing at an average of 1.0% per year.

The relatively slow projected growth in the number of group households is driven by the ageing population. The population aged 15-29 years, in particular, is the major driver of the growth in group households. As a proportion of the total population, the population aged 15-29 years is projected to fall from 23% in 2014 to 19% in 2062 (ACT Government, 2012). Whether this decline will actually drive slow growth in group households will also depend on fertility rates, employment and migration growth, as well as the growth, type and affordability of housing supply in future. As discussed, a large number of young adults in the ACT live with their parents and former guardians, a likely indicator of relatively poor labour market conditions for young people and the lack of affordability for them in the private rental market.

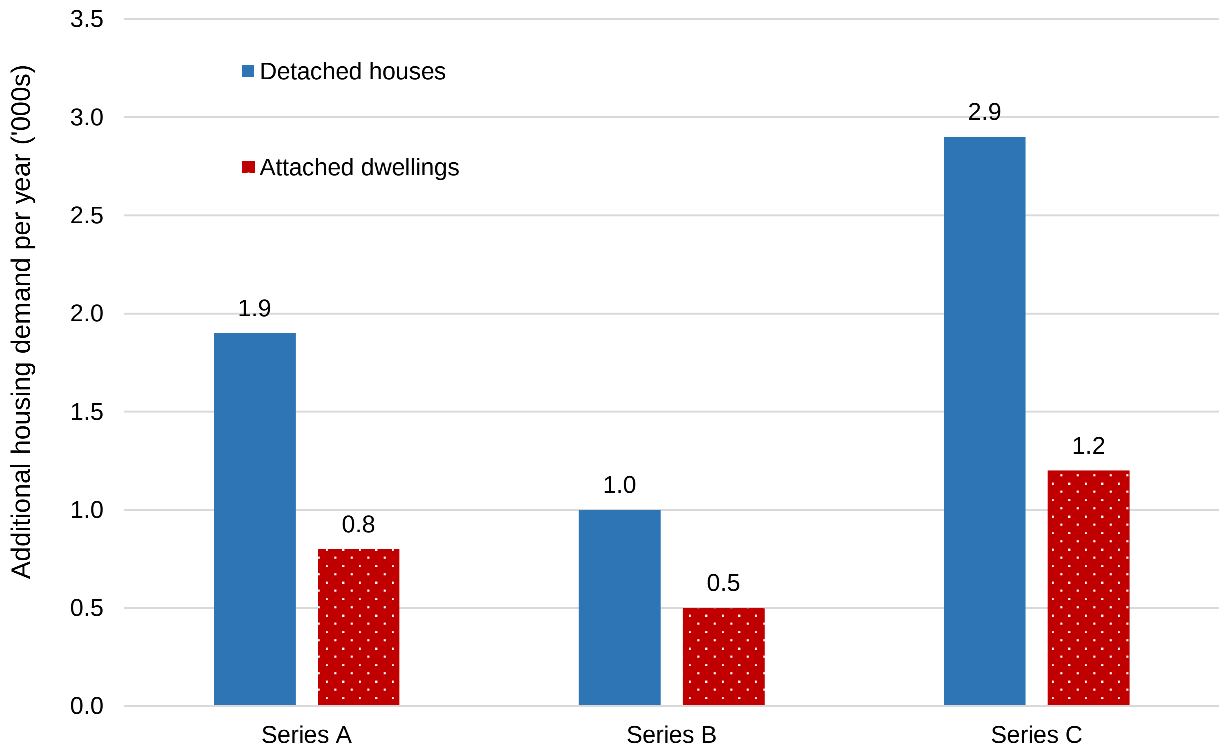
Economic diversification is projected to lead to faster growth in the number of group households. Under Series C, the number of group households increases by an average of 1.5% per year between 2015 and 2062, driven largely by the influx of young interstate migrants joining the ACT workforce. This is projected to lead to higher demand for two and three bedroom apartments, particularly in inner city areas. However, young migrants who remain in the ACT increasingly drive greater demand for larger housing as they increasingly form family households.

Dwelling types

The growth in household types and the size of households will have important implications for the growth and type of housing demand. At the time of the 2011 Census, it is estimated that the proportion of households in the ACT living in detached houses was 85% for family households, 54% for lone person households and 55% for group households. If these rates are held constant, the number of detached houses is projected to have grown from 101,100 in 2011 to 108,800 in 2015, at an average of 1,900 additional houses per year. The number of attached dwellings, including apartments and townhouses, is projected to have grown from 37,500 to 40,500, at an average of 800 additional dwellings per year.

Migration and population growth has a substantial effect on projected demand for detached housing. Under Series A, demand for detached houses is projected to increase to 199,400 in 2062, while projected demand for attached dwellings increases to 79,100. Under Series B, demand is projected to reach 157,000 for detached houses and 62,800 for attached dwellings, while in Series C projected demand reaches 246,100 for separate houses and 96,600 for attached dwellings. Chart 7 shows the average additional demand per year for detached houses and attached dwellings between 2015 and 2062.

Chart 7: Average additional demand for housing per year ('000s), ACT, 2015-2062

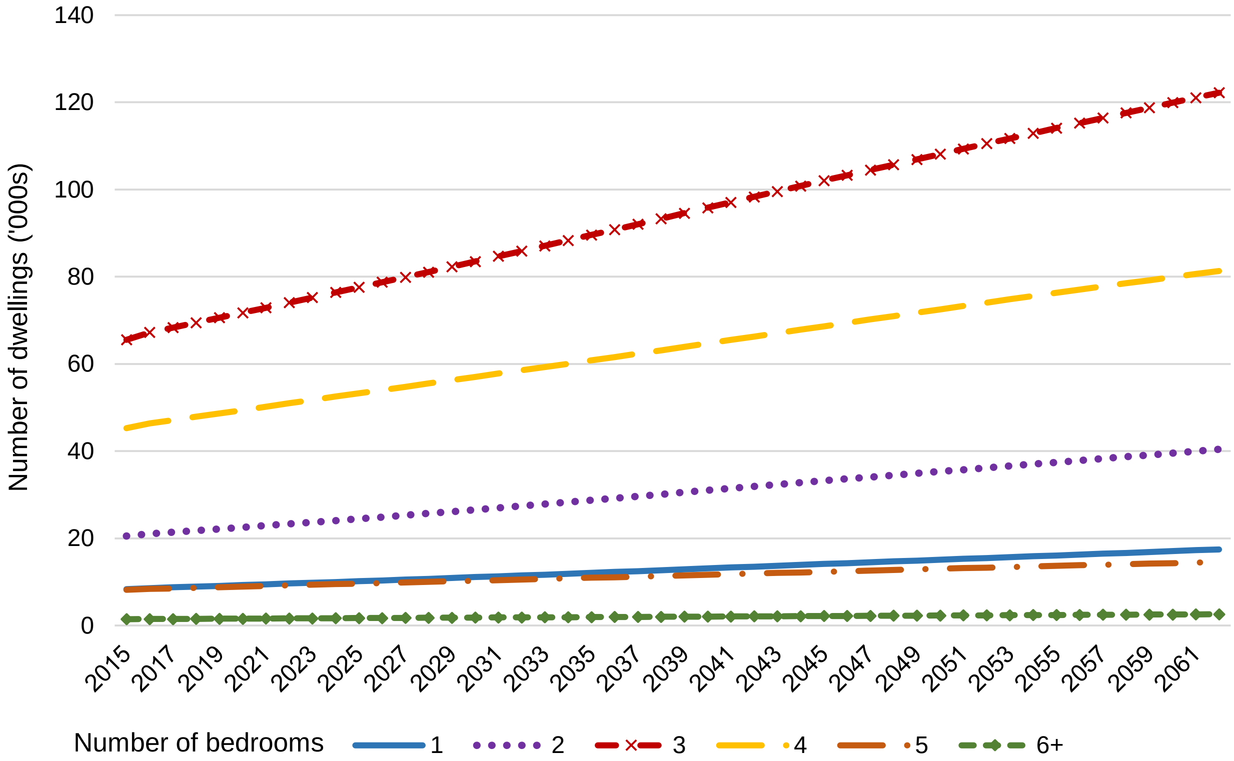


Demand for detached houses however is restricted by supply now and in future. Housing construction data reveal that completed construction of attached dwellings has grown more than detached housing since 2011 (ABS, 2015f). Urban infill, densification and restricted land release may further orient housing supply towards attached dwellings in future. This is likely to be creating different price pressures between detached housing and attached dwellings (ABS, 2015g). Over the longer term, it may drive structural changes in the housing market that will lead to a greater proportion of households living in attached dwellings.

Demand for different house sizes will continue to grow, driven largely by the size of family households. It is estimated that 74% of ACT households in 2011 were living in three or four bedroom dwellings, a further 20% lived in one and two bedroom dwellings and 6% lived in dwellings with five bedrooms or more. These proportions are projected to have remained relatively steady to 2015, indicating demand of 65,600 three bedroom dwellings, 45,200 four bedroom dwellings, 28,900 one and two bedroom dwellings and 9,600 dwellings with five or more bedrooms.

Chart 8 shows projected demand for dwellings by number of bedrooms under Series A. Growth in demand is highest for three and four bedroom dwellings, averaging 1,200 and 800 additional dwellings per year respectively. The projected demand for one and two bedroom dwellings averages 600 additional dwellings per year.

Chart 8: Projected demand for dwellings by number of bedrooms, Series A, ACT, 2015-2062



Economic diversification and greater employment growth is projected to drive higher demand across all dwelling sizes. Under Series C, the level of demand increases most for three and four bedroom dwellings, with projected demand increasing from 110,800 in 2015 to 251,000 in 2062, at an average of 3,000 dwellings per year. Chart 9 shows the average growth in demand for different dwelling sizes between 2015 and 2062.

Downsizing

These projections assume the rates at which older people downsize to smaller housing remains constant. In reality, tax incentives (such as Stamp Duty concessions in the ACT) and the increased supply of attached dwellings are likely to create greater opportunities for downsizing in future. To consider the possible effect of increased downsizing, a scenario was modelled in which households living in dwellings with extra bedrooms moved to smaller dwellings. All lone person households were assumed to move into dwellings with no more than two bedrooms, all two person households were assumed to move into dwellings with no more than three bedrooms and all households with three or more persons were assumed to move into dwellings with the number of bedrooms no greater than the number of household residents.

Downsizing can potentially have a substantial effect on the composition of housing demand in the ACT. Chart 10 shows the possible effect of downsizing on additional demand for dwellings per year. The projected effect of downsizing is to more than double the demand for two bedroom dwellings by 2062. Under Series A, projected demand for two bedroom dwellings increases to 86,300 in 2062 with increased downsizing, up from 40,400 dwellings without increased downsizing. Demand for three bedroom dwellings in 2062 is also projected to be greater with increased downsizing, up 8% under Series A.

There is substantial potential to reduce demand for larger dwellings by creating opportunities for downsizing. Projected demand for four (-55%), five (-66%) and six plus (-75%) bedrooms is substantially lower in 2062 with increased downsizing than under the projections with current levels of downsizing. In fact, demand for dwellings with four or more bedrooms is projected to fall between 2015 and 2062 with increased downsizing (Chart 10). This indicates that part of the growth in demand for larger dwellings in the absence of increased downsizing (Chart 9) is potentially driven by current mismatches between household and dwelling size.

These results are likely to reflect the maximum possible effect of downsizing. The social, familial, economic and sentimental attachments people have with their family homes means that many people will be justifiably reluctant to downsize and this maximum effect will not be realised. Nevertheless, others whose liveability and amenity would benefit from downsizing can substantially affect the composition of housing supply. Irrespective of the level of downsizing, demand for three bedroom dwellings is projected to continue to grow and remain as the dominant dwelling size in the ACT.

Chart 9: Average additional demand for housing by number of bedrooms, ACT, 2015-2062

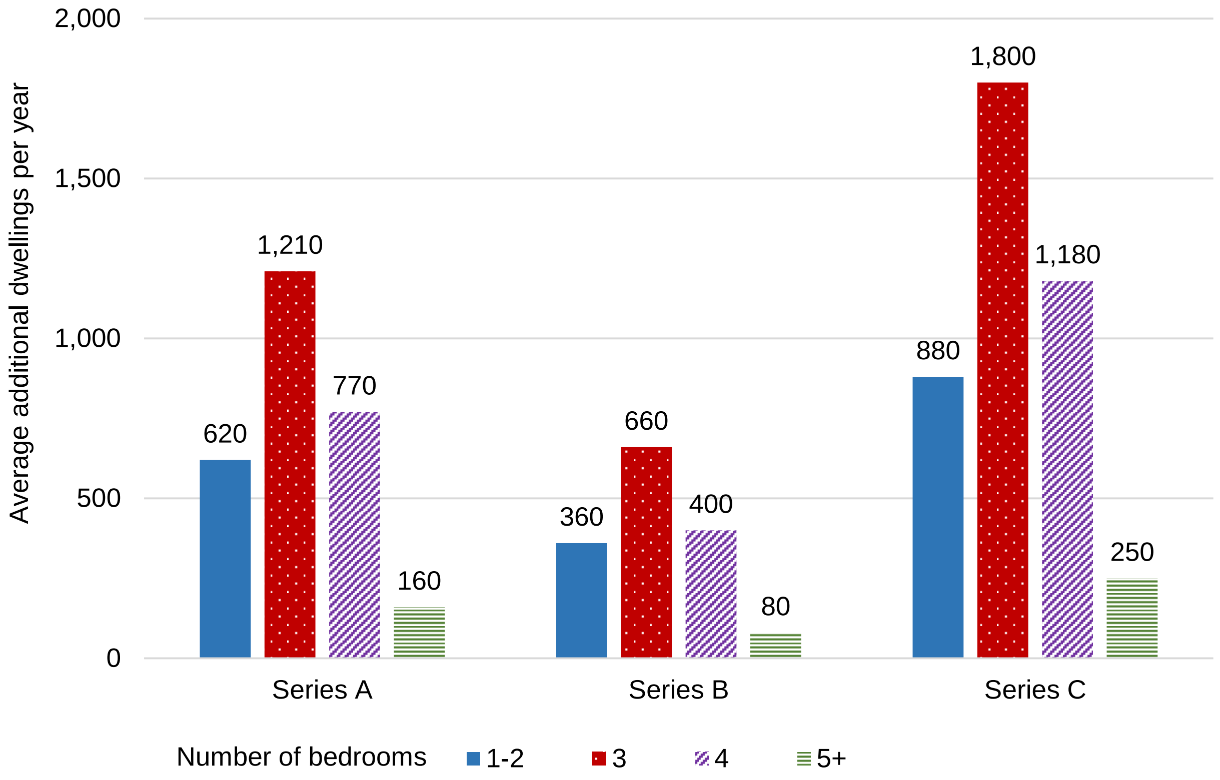
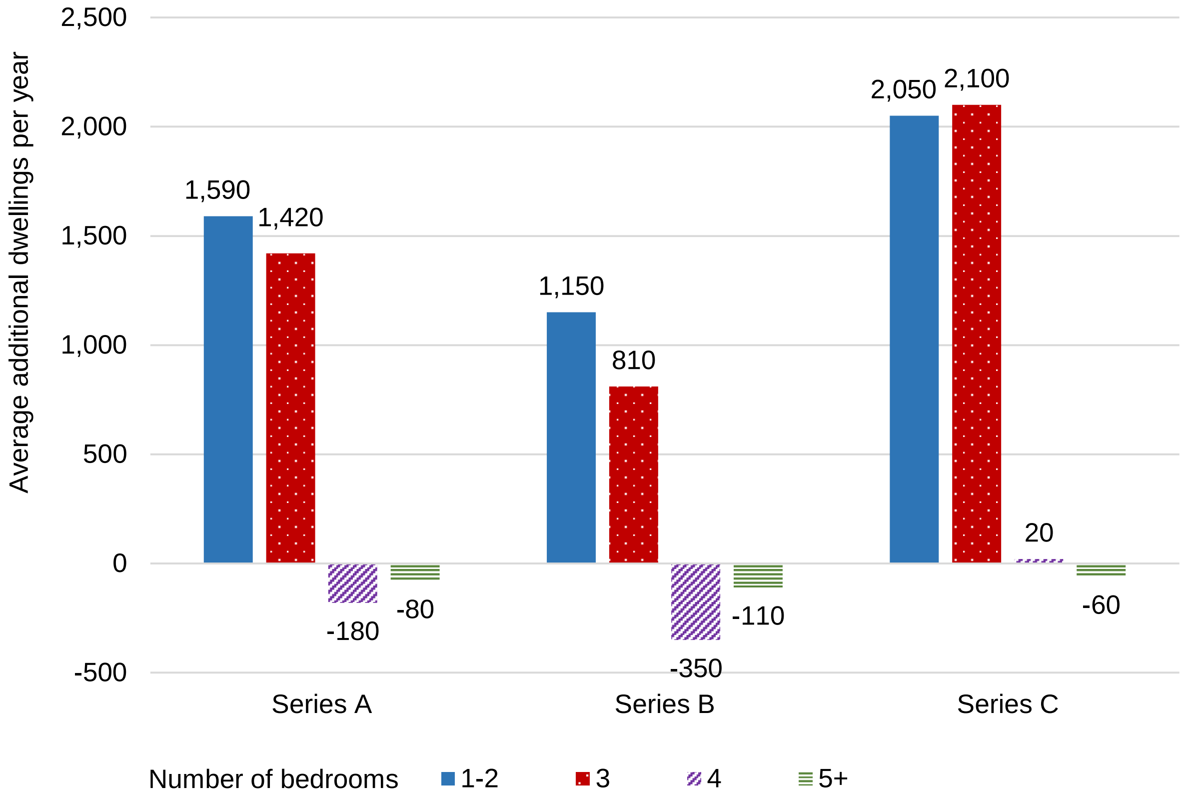


Chart 10: Potential demand for housing with increased downsizing, ACT, 2015-2062



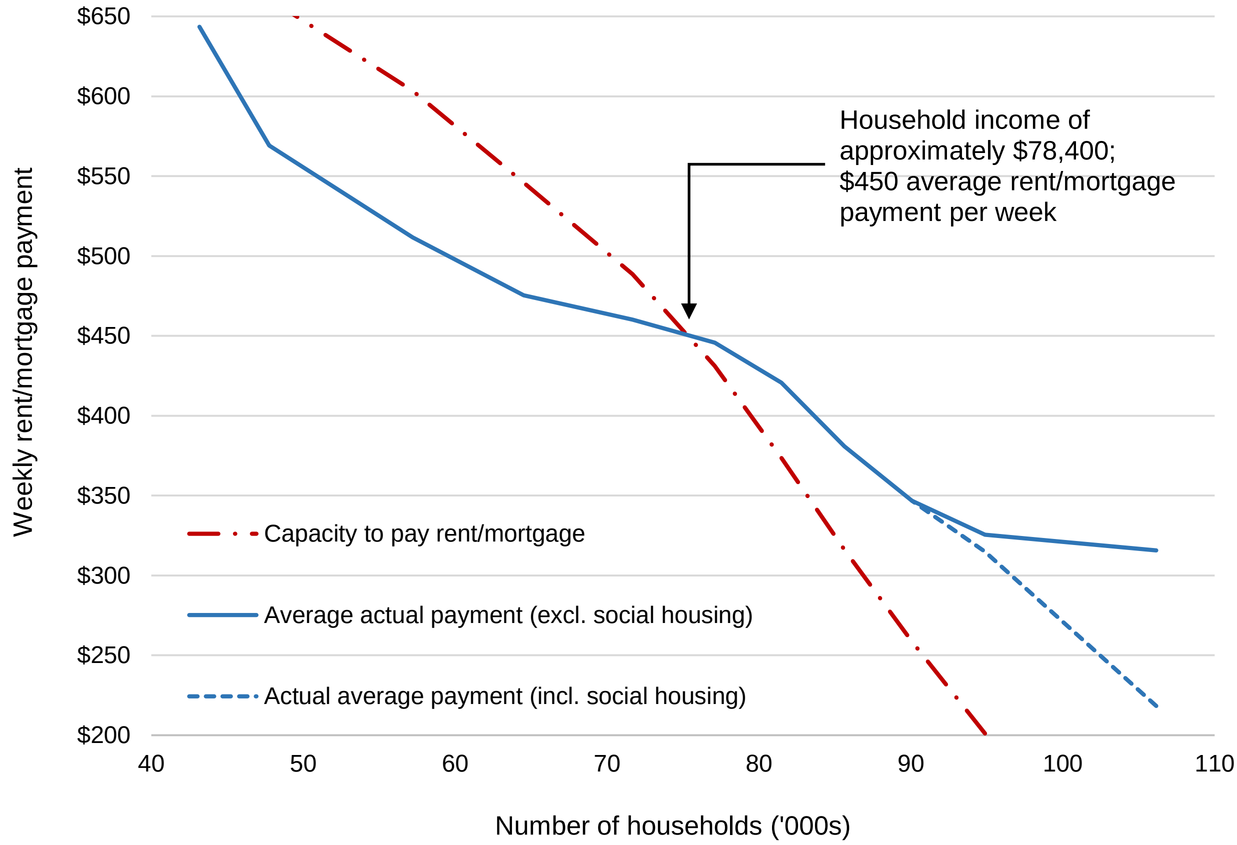
Housing affordability

The results of the November 2014 household survey of the ACT commissioned by the Housing and Homelessness Consortium were used to estimate average weekly rent and mortgage payments for ACT households in different income bands (for more information, see ACT Shelter, 2015). Payments were compared against the financial capacity of households to make those payments. Capacity to pay was measured by whether households pay more than 30% of their gross household income on rent/mortgage payments, whether they had difficulty making payments and whether they were forced to make compromises on household expenditure due to financial pressures.

Households paying more in rent and mortgage payments than their capacity to pay face a high risk of housing and financial stress. Low and moderate income households in the ACT that pay more than 30% of their income in rent or mortgage payments are substantially and significantly more likely to face difficulties making rent or mortgage payments and compromises on food and household groceries, health and medical treatments and family and leisure activities than other low and moderate income households. For this reason, 30% of gross household income is used in this analysis as a rule of thumb for measuring the maximum capacity of households to pay for rent and mortgage payments.

Lower income households in the ACT, on average, pay more in rent and mortgage payments than their capacity to pay. Average weekly rent and mortgage payments are generally lower for lower income households in the ACT, however, average payments represent a greater proportion of income. Chart 11 shows the demand curves for the ACT, according to what households actually pay on average and their capacity to pay.

Chart 11: Demand for housing in the ACT, actual and capacity to pay, November 2014



The slope of the capacity to pay curve in Chart 11 is relatively steep relative to what households actually pay, with the curves intersecting at approximately $450 rent/mortgage per week. Currently, an estimated 121,722 households in the ACT earn over $78,400 per year in gross household income, including 42,100 households that own their home outright and 79,600 households that pay rent or have a mortgage. Rent and mortgage payments, on average, are estimated to be within the capacity of these households to pay. Households with income less than $78,400 are estimated to pay, on average, more than their capacity to pay, which applies to an estimated 27,600 households.

The size of the difference between what households are willing or able to pay and what they do pay is called the consumer surplus in economic theory. For households earning more than $78,400, the size of the consumer surplus is estimated to be $152.6 million per year. In economic theory, individuals and households will no longer pay for goods and services where the price is higher than their willingness or ability to pay. Housing though is essential, forcing households to pay beyond their willingness or ability to pay. This could be referred to as consumer deficit, estimated from these results to be $44.1 million per year.

This consumer deficit indicates a market failure in the supply of affordable housing for lower income households. It specifically indicates the need for a greater of diversity in housing price and rent points that are able to meet the diversity in the capacities of households to pay for housing. ACT Shelter (2015) estimates there are approximately 19,600 households in the bottom 40% of household income in the ACT that pay more than 30% of their gross household income in mortgage and rent payments. These households are significantly more likely to have compromised on household expenditure such as food and household groceries, health and medical treatments and family and leisure activities.

Public and community (social) housing plays an important role in reducing housing stress levels among very low income households. The restricted supply of social and affordable housing though creates inequities among low income households between those inside and outside social housing. Households with gross income less than $40,000 per year are estimated to pay, on average, $318 per week in rent or mortgage payments in the private housing market after deducting Commonwealth Rent Assistance. This is $137 per week higher than their estimated average capacity to pay, which is conservatively estimated to be $181 per week. This gap reduces to $69 per week for households in both private and social housing, however the benefit accrues only to those currently living in social housing and only those with very low household incomes.

Household growth

Housing demand is projected to grow across all price points. As part of the economic modelling for this research, projected growth in households was estimated by household income bands. Under the assumption that rent and mortgage payments grow in line with household income in future, the average capacity to pay rent/mortgage payments (in current 2015 dollars) was calculated as 30% of the midpoint of the income band. Households with gross income of between $30-39,000 per year, for example, were estimated to earn on average $35,000 a year or $670 per week. Household capacity to pay was estimated as $670 * 30% = $201 per week. Households that own their home outright were separated from those paying rent or a mortgage. This was done by assuming the proportion of households owning outright by income group at the 2011 Census remains constant.

Indicative dwelling prices were estimated from household capacity to pay. It was assumed that the weekly capacity to pay covered a weekly mortgage payment of a 25 year loan at a mortgage rate of 6.0%, with a 10% deposit. The prices are before any public or private subsidies are added including Commonwealth Rent Assistance. Negative gearing is considered a private subsidy, but only viable if the cost of the subsidy to investors is more than offset by capital gains (i.e. higher house prices in future). Table 2 shows the projected number of households paying rent or mortgage by their income group.

Table 2: Projected growth in households paying rent/mortgage by gross household income (2015 dollars), ACT, 2015-2060

Gross household income	Ave. weekly capacity to pay	Indicative dwelling price	Households ('000s)					
			2015	2020	2030	2040	2050	2060
2015 dollars			**Series A**					
<$30k	<$172	<$128.6k	11.3	12.4	14.5	16.7	19.0	21.2
$30 to 39k	$201	$150.3k	4.8	5.3	6.2	7.1	8.1	9.0
$40 to 49k	$259	$193.7k	4.4	4.9	5.7	6.6	7.5	8.4
$50 to 59k	$316	$236.3k	4.2	4.6	5.3	6.2	7.0	7.8
$60 to 69k	$374	$279.7k	4.4	4.8	5.6	6.5	7.3	8.2
$70 to 79k	$431	$322.3k	5.4	5.9	6.9	7.9	9.0	9.9
$80 to 89k	$489	$365.7k	7.2	7.9	9.2	10.6	12.0	13.3
$90 to 99k	$546	$408.4k	7.3	8.0	9.3	10.7	12.1	13.4
$100 to 109k	$603	$451.0k	9.4	10.3	11.9	13.7	15.4	17.0
$110 to 119k	$661	$494.4k	4.6	5.0	5.8	6.7	7.5	8.3
$120k+			43.2	47.1	54.6	62.4	70.2	77.3
			Series B					
<$30k	<$172	<$128.6k	11.3	12.1	13.4	14.5	15.6	16.9
$30 to 39k	$201	$150.3k	4.8	5.1	5.7	6.2	6.6	7.2
$40 to 49k	$259	$193.7k	4.4	4.8	5.3	5.7	6.1	6.6
$50 to 59k	$316	$236.3k	4.2	4.4	4.9	5.3	5.7	6.2
$60 to 69k	$374	$279.7k	4.4	4.7	5.2	5.6	6.0	6.5
$70 to 79k	$431	$322.3k	5.4	5.8	6.3	6.8	7.3	7.9
$80 to 89k	$489	$365.7k	7.2	7.6	8.4	9.1	9.8	10.6
$90 to 99k	$546	$408.4k	7.3	7.8	8.5	9.2	9.9	10.6
$100 to 109k	$603	$451.0k	9.4	10.0	10.9	11.7	12.6	13.5
$110 to 119k	$661	$494.4k	4.6	4.9	5.3	5.7	6.2	6.6
$120k+			43.2	45.8	49.8	53.4	57.2	61.2
			Series C					
<$30k	<$172	<$128.6k	11.3	12.8	16.1	19.4	23.1	27.4
$30 to 39k	$201	$150.3k	4.8	5.5	6.8	8.2	9.8	11.6
$40 to 49k	$259	$193.7k	4.4	5.1	6.3	7.6	9.1	10.8
$50 to 59k	$316	$236.3k	4.2	4.7	5.9	7.1	8.4	9.9
$60 to 69k	$374	$279.7k	4.4	5.0	6.2	7.4	8.8	10.4
$70 to 79k	$431	$322.3k	5.4	6.1	7.4	8.8	10.3	12.0
$80 to 89k	$489	$365.7k	7.2	8.1	10.0	12.0	14.3	16.8
$90 to 99k	$546	$408.4k	7.3	8.2	10.0	11.8	13.9	16.3
$100 to 109k	$603	$451.0k	9.4	10.5	12.6	14.9	17.4	20.2
$110 to 119k	$661	$494.4k	4.6	5.1	6.2	7.3	8.6	10.0
$120k+			43.2	47.9	57.2	66.8	77.7	89.8

In the current ACT housing market, home purchase is unlikely to be affordable for households in the lower income groups. Under the ACT Government's affordable housing inclusionary zoning policy, 20% of new homes within Greenfield estates in 2014-15 are required to be priced at no more than $291,000, $341,000 or $374,000 depending on the dwelling size. The cap for a small 2-3 bedroom dwelling ($341,000) is estimated to be affordable for households with household income of $79,300 per year or more, provided they can afford to raise the deposit. This is estimated to be unaffordable though for one third of ACT households, or approximately 34,500 households in 2015 and rising to 51,000 in 2040 and 64,500 in 2060 under Series A.

Renting is the most viable option for lower income households. Currently though, low income households face high levels of rental stress. In the November 2014 household survey, 61% of renting households in the bottom 40% of household income paid more than 30% of their gross household income in rental payments after accounting for public and private subsidies. The size of the gap between rental costs and capacity to pay is estimated at $44.1 million in 2015, indicating the need for higher rental subsidies and/or more affordable rental supply.

The results of Table 2 are graphed as demand curves in Charts 12-13. This is done in each year by, at each price point, summing the number of households in that price point and all higher price points. This gives the projected number of households in the ACT that can afford that price point. For example, in 2015, 71,700 households paying rent or a mortgage in the ACT are estimated to be able to afford a price point of $460 per week. These results exclude households that are projected to own their home outright. Although these households do not pay rent or a mortgage, they nevertheless, add to housing demand.

Chart 12 shows projected housing demand by estimated capacity to pay from 2015 to 2060 under Series A and under the assumption that rent and mortgage payments grow in line with household income. Under this projection, the distribution of household capacities to pay for housing remains constant, resulting in increased housing demand across all price points. Under Series A, the number of households with price points less than $230 per week in current dollars is projected to grow from 16,100 in 2015 to 23,900 in 2040 and 30,300 in 2060. The number of households with price points between $230 and $460 per week is projected to grow from 18,400 in 2015 to 27,100 in 2040 and 34,300 in 2060.

Chart 13 shows the projected effect of the different employment growth scenarios on housing demand in 2040. The most obvious effect of diversification is a projected increase in housing demand across all price points. Conversely, continued slow growth in employment leads to lower housing demand. The demand curve is flatter under Series C than under either Series A or Series B, indicating that diversification is projected to drive somewhat higher demand for more affordable housing. As a consequence, shifting the ACT economy from its current slow employment trajectory (Series B) to a larger, more diverse economy (Series C) will have important and large consequences for the housing market.

Chart 12: Projected housing demand by weekly capacity to pay, Series A, ACT, 2015-2060

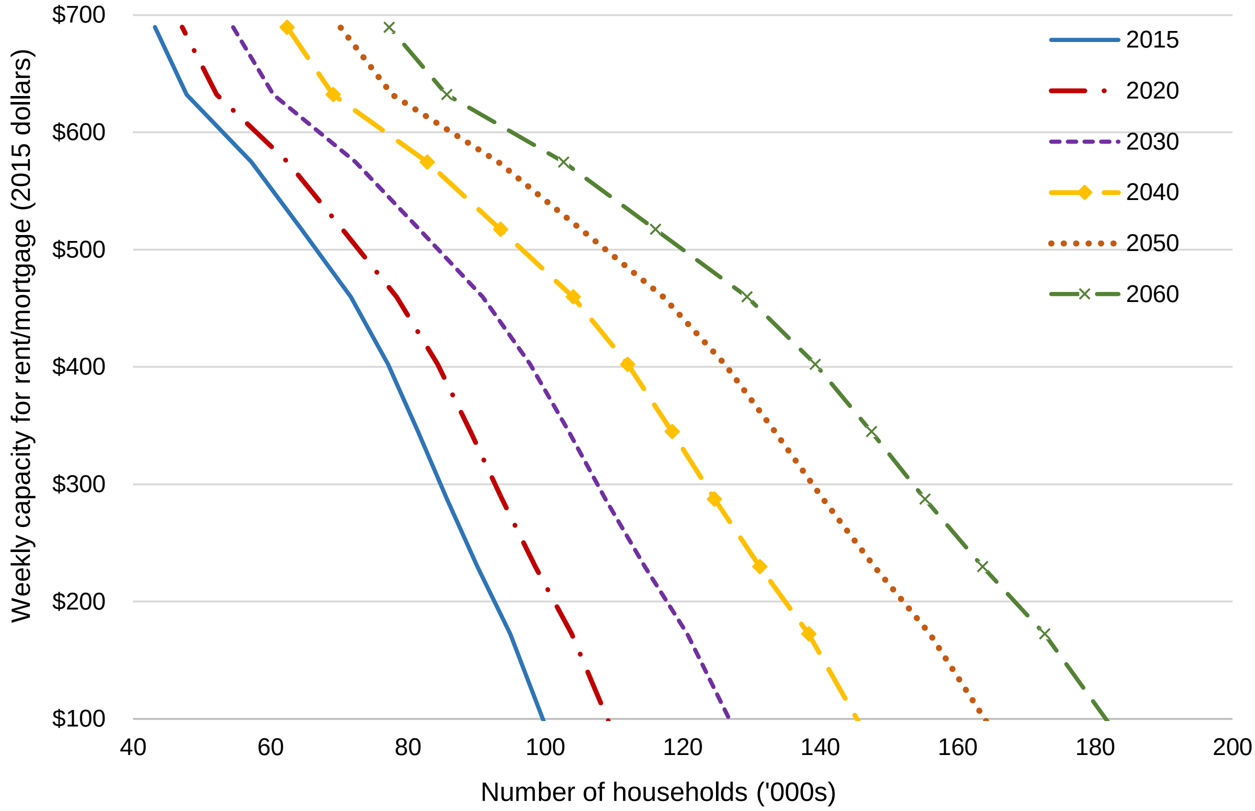
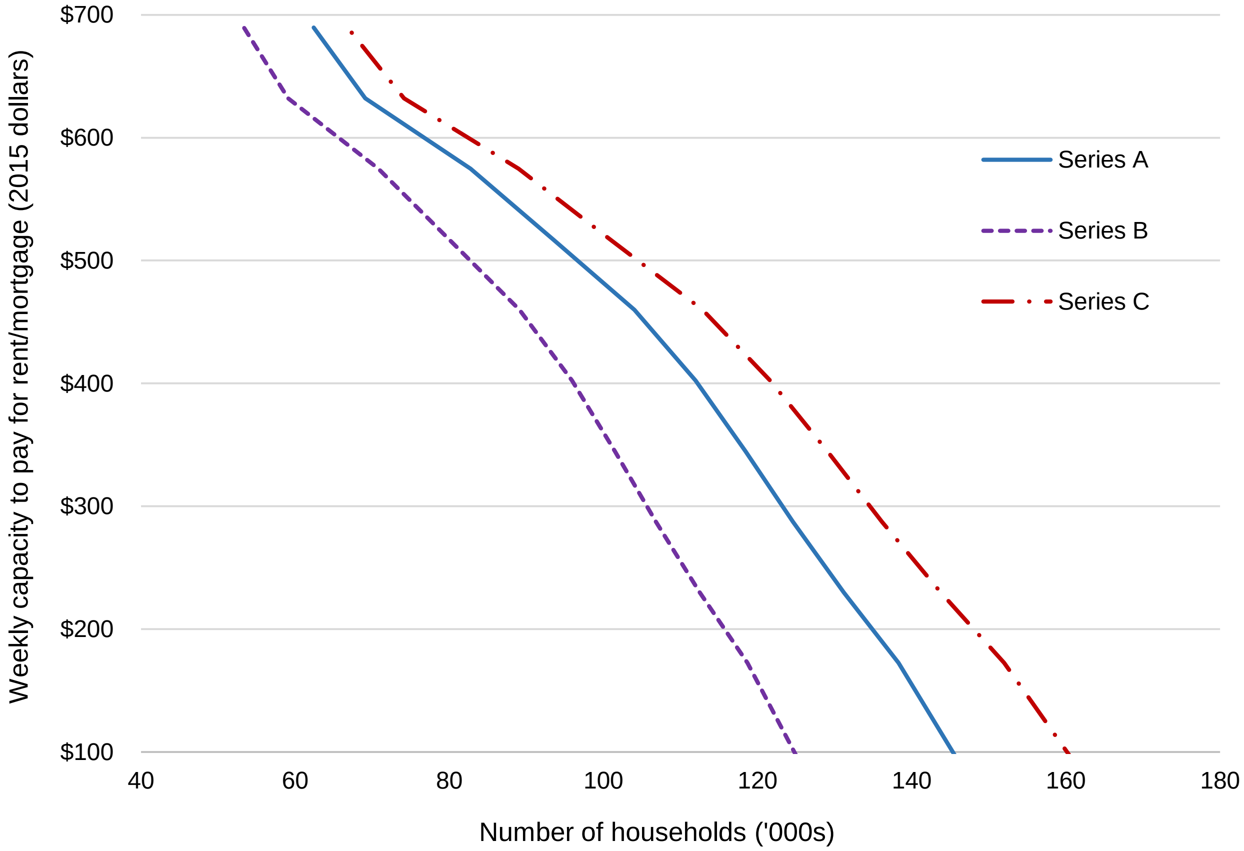


Chart 13: Effect of employment growth on housing demand, ACT, 2040



Discussion

On 11 June 2015, the Housing and Homelessness Policy Consortium hosted a workshop attended by a range of participants representing Government, community and affordable housing, architectural design, the building industry, the community services sector and trade unions. After presenting the findings of the household demographic and economic modelling, roundtable discussion centred around the following questions,

1. Where do see Canberra's housing market now?
2. Where do we think Canberra's housing market should be headed?
3. How do we house a growing and diverse population?
4. How do we design housing that is affordable across multiple price points?
5. How do we ensure land supply and release caters to demand?
6. How do we finance growth in affordable housing?

The following provides an overview of those discussions.

Where do we see Canberra's housing market now?

There was consensus that Canberra's housing market is meeting the needs of the majority of owner-occupiers and tenants. Concerns were expressed though about whether the market can meet the needs of low to moderate income earners or whether additional interventions are needed to correct market failure.

There was general recognition of the positive role of the ACT Government, particularly through successive Affordable Housing Action Plans. Initiatives have been implemented to improve affordability across the housing market including CHC Affordable Housing, greater land release, inclusionary zoning and the Land Rent Scheme. Nevertheless, there is concern that dwelling prices continue to exceed costs, driven principally by rising land values. On the one hand, rising land values creates wealth for existing home owners and higher tax and land sale revenues for the ACT Government. On the other hand, they undermine government efforts to improve affordability by driving higher house prices and distort and reduce the policy effectiveness of initiatives such as inclusionary zoning and the Land Rent Scheme. There is also some frustration with development application and approval processes which in the view of some create uncertainties, delays, costs and ultimately higher prices.

There were differing views on the issue of housing supply. Housing supply in the ACT increased substantially from 2009 which is likely to have helped to stabilise dwelling prices. However, evidence is emerging of mismatches between supply and demand across different parts of the housing market. Evidence suggests that growth in the supply of 1-2 bedroom attached dwellings has been sufficient to meet and in fact exceed housing demand, leading to a perceived over supply of smaller units and apartments. Demand for larger dwellings and detached houses though continues to exceed supply.

Participants from the architectural design sector argue that insufficient attention is paid to housing design in the ACT. These participants also pointed to a lack of choice for people looking to purchase homes in the ACT. Many are forced to 'buy off the plan' and the current products are quite rigid in their design options. This can have an adverse impacts on housing affordability as standard features, for example double garages raise construction costs even where they may not be necessary.

The private rental market is currently the most viable option for lower and moderate income households. However, some participants in the workshop asserted that little policy attention has been directed to creating and ensuring a private rental market that is affordable and secure for the long term tenure of lower income households. Nor has there been adequate attention to the long term implications for wealth inequalities between home owners and renters. Currently, many individuals and households cannot access housing at all and many are forced to rent substandard housing and/or housing that is beyond their capacity to pay. The stock of affordable housing is predominantly older, smaller and lower quality dwellings, some of which are difficult and expensive to maintain (e.g. heating and cooling), are in inaccessible locations and/or have short life spans.

Where do we think Canberra's housing market should be headed?

Many attendees believe there is a need for greater choice in terms of housing products brought to market in the ACT. There is a need to look beyond conventional designs and to loosen regulations to remove fixed provisions like homes needing a carport or to offer people options like renting their car space if they do not use it. Some participants suggested some planning regulations can stifle the capacity of developers to deliver a broader range of housing types. They believe Government needs to work more closely with industry and consumers to get a better sense of demand going forward.

There was discussion and debate about the merits of building up and out. Land in the ACT is a finite resource. With continued population growth, housing development will hit the ACT borders within a few decades. This will place further pressures on house prices in future, requiring careful long term planning in land release and development to ensure Canberra is a diverse and integrated city and not segregated from the surrounding Southern NSW region by wealth inequalities. Indeed, the fact that people are already living in towns in the region and commuting to Canberra perhaps points to the need to think about supply challenges from a regional perspective.

Ideally the market would deliver a range of products across a range of price points. There was consensus of the importance of meeting the needs of low income renters with a continued need for social housing to comprise a significant proportion of overall housing stock. Ideally the housing market would function much better for people just above the threshold for social housing and there would be more affordable rental options for this group that were not only located in sprawling outer suburban developments or very small units in large multi-unit complexes.

How do we house a growing and diverse population?

In the view of some participants, housing unaffordability can act as a constraint to economic growth and diversification. The relatively highly concentrated workforce in Canberra is largely a historical legacy of the city's development. The parallel development of the housing market now caters to a relatively high wage economy, which can inhibit the growth of employment in lower wage occupations and the development of new industry sectors. Housing inequalities can also constrain economic growth, while continued sprawl within and across the ACT border potentially constrains labour force participation, productivity and work-life balance.

Diversification will have implications for affordability across the housing market. The composition of household income and wealth in the ACT may or may not be affected depending on which of many pathways the economy takes to growth and diversification. Currently, earnings in the public sector are higher in the private sector, indicating that diversification and a large private sector may necessitate the need for a more affordable housing stock. The ACT Government though aims to diversify the economy through growth in high wage and highly skilled occupations associated with the knowledge economy. The achievement of this goal would contribute towards continued high household incomes and capacities to pay for housing costs.

On the other hand, growth of the consumer economy, including through the stated Government aim of increasing tourism will require growth of affordable housing options. Currently, the housing needs of hospitality and retail workers are inadequately served with a large proportion of mostly younger workers in these sectors relying on family support. The importance of transport and proximity to work for many of these workers requires consideration of different rent setting or other models to ensure people in these industries are not priced out of the inner ring around Civic or the town centres.

Irrespective of the implications for affordability, growth and diversification will expand future housing demand. Without further cuts to the Australian Public Service, diversification will require employment growth with greater workforce participation and net migration. As migration tends to be dominated by young working age adults, the effect of higher migration on housing demand is likely to change over time with progressively higher demand for housing appropriate for share households, family households and ageing singles and couples.

Three and four bedroom dwellings were the most common dwelling type at the time of the 2011 Census with continued growth projected without changes in the composition of housing demand. Relatively low fertility results in demand for smaller dwellings than otherwise and relatively low demand for dwellings with five bedrooms or more. Indeed, a large part of the demand for four bedroom dwellings is driven by one and two person households. Increased downsizing among older singles and couples has considerable potential to reduce demand for four bedroom dwellings.

There was further debate and discussion about the merits of building up and/or out. Participants considered the need for both urban densification and infill and land release and development. Progressive development of greenfields sites is anticipated to proceed in accordance with the current ACT Government land release schedule. Infill development, for example, the redevelopment of public housing along Northbourne Avenue and Glebe Park could accommodate workers in service and other key industries through the development of affordable rental options and the involvement of not-for-profit housing providers.

The further expansion of infill development is thought to require creative solutions in planning, design and approvals processes. Close attention to urban design and community engagement in the design process in particular will help to ease community and political concerns, while processes ought to be implemented to ensure appropriate and well-designed developments are not unduly delayed in the approvals process.

How do we design housing that is affordable across multiple price points?

This discussion continued some of the earlier themes from where the market should be headed. Participants thought there was a need to think more broadly than we generally are at present about design features and the orientation of dwellings to ensure they are energy efficient and nice homes to live in. Design features like north facing courtyards can provide attractive small outdoor spaces that can add to the liveability of a home.

Design should also look beyond bricks and mortar to the integration of community within design principles Housing design, particularly in multi-unit complexes can either lend itself to encouraging social interaction or stifling it. This has a large impact on the social liveability of affordable housing.

Architects pointed to the four most important things for their clients:

- Light
- Warmth
- Connection to the outside

- Social space

There is no ‘one size fits all’ approach to affordable housing design. Affordability does not necessarily mean tiny flats and maximising the number of units in a complex. Rather, there is great scope to think creatively in tailoring design features to the needs of individuals. This requires talking to people and getting a sense of actual demand for different design types. Not everyone needs a garage and not everyone needs large homes on small blocks or conversely large backyards that are underutilised. Small houses on large blocks can enable people to use the yard for food growing or to ensure kids have sufficient outdoor space to play in. Other people may not need a yard if their home is located in a planned community with dedicated open spaces.

Land prices and planning regulations can obstruct affordable housing design. Land is the most significant cost involved in housing, so the ability of innovative design to deliver affordable housing will always be constrained by the cost and availability of land, irrespective of building and design costs. Innovative design features can also be curtailed by development approval processes and excessively proscriptive regulations. Minimum size and bedroom quotas, for example, constrain matching dwellings to individual needs in multi-unit complexes.

Consideration was given to a number of innovative housing types, for example,

- Co-housing
- Common Ground type models with large communal spaces
- Abbeyfield type models with self-contained bathrooms but communal kitchens
- Walkability in multi-unit complexes
- Mixed residential and retail developments
- Shared equity models

Participants warn against reliance on ‘boutique’ housing products as a solution to affordable housing. The number of options available to improve affordability is never lacking – what is typically lacking is the ability to scale existing products to an appropriate size that they can have mainstream, broad-based effects on the housing market. Social housing, CHC Affordable Housing, the Land Rent Scheme and inclusionary zoning, for example, all currently operate with the stated aim of improving housing affordability but are constrained by a lack of real (e.g. land) and financial resources.

How do we ensure land supply and release caters to demand?

In 2009, the ACT Government accelerated land release as part of its strategy to improve housing affordability. Land release intentionally exceeded demand to ease upward pressures on dwelling prices, with data suggesting this may have been achieved from 2010 (ABS, 2015g). The effect on prices is anticipated to continue in future. However, there are no current land releases and there is limited availability of social housing or affordable housing through not-for-profit housing providers, such as CHC Affordable Housing.

This causes a level of frustration, particularly within the building and property sectors. With relatively centralised control over land supply in the ACT, it was felt that there should be greater capacity to ensure land supply works in relative equilibrium with demand. On the other hand, centralised control creates for some the potential for artificial restrictions on supply.

For building industry participants, fixed costs on industry continue to be a problem. Some consider these to be exacerbated by Government policy and regulation. Relaxing regulations while having regard for the need for consistent rules could drive innovation and new types of housing. Inclusionary zoning when done well can ensure products that meet the needs of a broader range of income earners and housing types are met in new developments. Equally, it was posited that setting mandated quotas for affordable housing produces smaller, poorer quality homes at the affordable end, particularly when rising land values create pressure points on supply.

There is an ongoing need to serve the interests of people for whom the market fails or will never cater. The market needs to better meet the unique needs of single parents. There is also a need for the private sector and community housing providers to deliver more accessible housing and housing meeting universal design principles to accommodate people with disabilities.

How do we finance growth in affordable housing?

Public investment in housing has been declining in recent years across Australia. Aside from a temporary spike in investment through the 2009 stimulus package and an ongoing commitment to Commonwealth Rent Assistance, successive commonwealth governments have looked or are currently looking to withdraw from direct housing provision. A number of state and territory governments, aside from the ACT Government, have been actively divesting from public housing in particular, in pursuit of other policy goals.

Evidently, the social and economic returns from public investment in housing have been overlooked in favour of alternative policy and political objectives. This is a view that the community needs to change. Governments have the financial capacity to deliver large scale housing for people in need, they are not doing so primarily for ideological reasons rather than a lack of fiscal capacity. In view of the substantial social and economic returns from affordable housing and the structural deficiencies in the housing market, housing is clearly a social good that is more than just a matter of individual choice and responsibility.

The ACT Government stands apart in its commitment to retaining its current stock of public housing. The Government also stands apart through its implementation of a range of innovative initiatives through the Affordable Housing Action Plans. The revolving low interest loan facility that the ACT Government provided for CHC Affordable Housing to invest in housing stock is a particularly innovative example of housing finance policy and one that acknowledges that housing investment can deliver positive economic returns. Nevertheless, nationally, there is little public investment available for expanding affordable housing, whether public, community or private. The cost and availability of land is a considerable impediment in the ACT, one that impedes public and private efforts to improve affordability.

In the absence of direct public investment, there is substantial potential to unlock private finance. The interest rate on 10 year Commonwealth bonds is currently less than 3%, barely ahead of inflation. This indicates that the potential supply of private finance for investments with safe, low real returns far exceeds existing demand. The major domestic source of this finance comes from institutional investors, including the multi-trillion dollar superannuation industry. The Australian Housing and Urban Research Institute (AHURI) propose the creation of a market for Affordable Housing Supply Bonds to channel this finance into the community housing sector. AHURI's recommended approach is for the creation of an Affordable Housing Finance Corporation to organise the bond market and a Commonwealth government guarantee on bonds to ensure stable, low risk returns.

There was discussion as to whether such an initiative requires federal intervention or could be delivered at the territory level. AHURI research indicates that institutional investors require political certainty, stable investment returns and a developed financial market with sufficient scale and constant investment opportunities.

The existing size of the mortgage market demonstrates the willingness of the banking sector to finance small scale housing products. At the lower priced end of the housing market, low returns often do not justify investment risk, warranting consideration for a mix of rental subsidies, government guarantees, housing developments with mixed market and affordable tenures and/or the creation of collateral for community housing providers. In terms of the latter, collateral such as land titles would allow growth providers to leverage off their asset base in raising debt finance for affordable housing investment. For providers, the challenge of attracting mainstream finance involves demonstrating ability to deliver and maintain sound financial results over an extended period. The new regulatory system for community housing providers offers opportunities for them to demonstrate this ability.

Conclusion

The trajectories of the ACT population and economy will have substantial implications for housing supply. Economic and employment growth will drive population growth which will in turn create greater housing demand. Population ageing will likely shift the composition of demand more towards smaller dwellings appropriate for ageing in place, though this will depend on the opportunities for downsizing. Growth in housing demand due to ageing is inevitable, though the effect of ageing on the overall composition of demand will be slowed by faster employment growth.

Currently, a market failure exists in the ACT housing market where primarily low income households are paying more in housing costs than their capacity to pay. This market failure manifests as housing and financial stress, as well as a range of housing and household compromises and constraints, particularly for young people living with parents, single parent families and group households. Population growth will ensure that the size of the market failure grows – at least in terms of the number of households affected – without growth in the stock of affordable housing that is at least as fast as household growth.

The capacity of housing supply to meet the future growth and type of housing demand will influence future housing affordability in the ACT. Future employment and population growth will drive housing demand across all housing types, but particularly for moderate and larger sized family dwellings. This will increase pressure on the availability and supply of land and housing in the ACT. Demand management strategies, such as through creating opportunities for downsizing, and renewed commitment to creating diverse housing products across the spectrum of price points and dwelling types will prevent future price spikes.

The dispersion and distribution of household incomes and capacities to pay for housing suggests the need for a systemic approach to housing supply. Public housing in the ACT is increasingly rationalised in the ACT to a small number of highly disadvantaged households, which along with a small community housing sector creates a perceived dichotomy between ‘poor’ and ‘mainstream’ households. The ‘mainstream’ households are those that are seen to be able to afford housing costs set by the ‘market’, while the ‘poor’ households are those left to government support. This dichotomy though is false, evidenced by the fact that personal and household incomes (and family and community supports) exist at multiple points along a wide distribution. Indeed, much of the housing stress experienced in the ACT is among lower income households in the private rental market, ineligible for public housing.

This places the onus on the ACT housing system as a whole to deliver housing at multiple price points. This will help to eliminate the market failure in the housing market as far as possible, rather than merely fill a small part of the gap with public housing. Community and private rental providers have an important role to play, though in the case of the former, substantial expansion of stock is required. In the case of the latter, reorientation is required to provide long-term affordable housing for lower and moderate income households. Partnership between government, industry and the community will provide the platform to deliver sufficient and affordable housing for a larger population and a more diverse economy and workforce.

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