

Housing demand in the ACT

Findings from demographic and economic projections



A consortium of peak community sector organisations has been formed to research housing and homelessness issues in the ACT. The consortium is comprised of ACT Shelter, ACTCOSS, Women's Centre for Health Matters and the Youth Coalition of the ACT and receives support from the ACT Government.

This research projects future demand for housing in the ACT. Consideration of likely future demand is important for anticipating and planning future land release and housing a larger, more diverse population and economy. The availability of land in the ACT is seen to be one of the fundamental drivers of housing affordability in the ACT. Housing supply that is unable to meet demand is likely to drive land value inflation, worsen housing affordability and inhibit economic diversification.

The affordability and quality of future housing supply is also critical. Currently, there is a lack of diversity in the affordability of housing, leaving lower and moderate income households at high risk of housing and financial stress. Demand for housing at more affordable price points is likely to grow in future, particularly with a more diverse workforce.

The ABS 2011 Census showed that the propensity of people to live in household types is related to age (Chart 1). The majority of young people up to age 25 live with parents/guardians. People in their 20s are increasingly likely to live in group and couple households and couple and single parent family households in their 30s and 40s. From 50s onwards, people are increasingly likely to live in lone person and couple households.

These propensities are important because they indicate how future population growth might translate to household and housing demand growth. Supplanting these propensities on the estimated ACT population at June 2015 suggests that there are 149,300 households in the ACT, including:

- 47,800 couple parent households with child(ren);
- 15,200 single parent households with child(ren);
- 1,800 other family households;
- 40,300 couple person households;
- 8,500 group households; and
- 35,700 lone person households (see Chart 2).

Chart 1: Household propensities by age, ACT, 2011

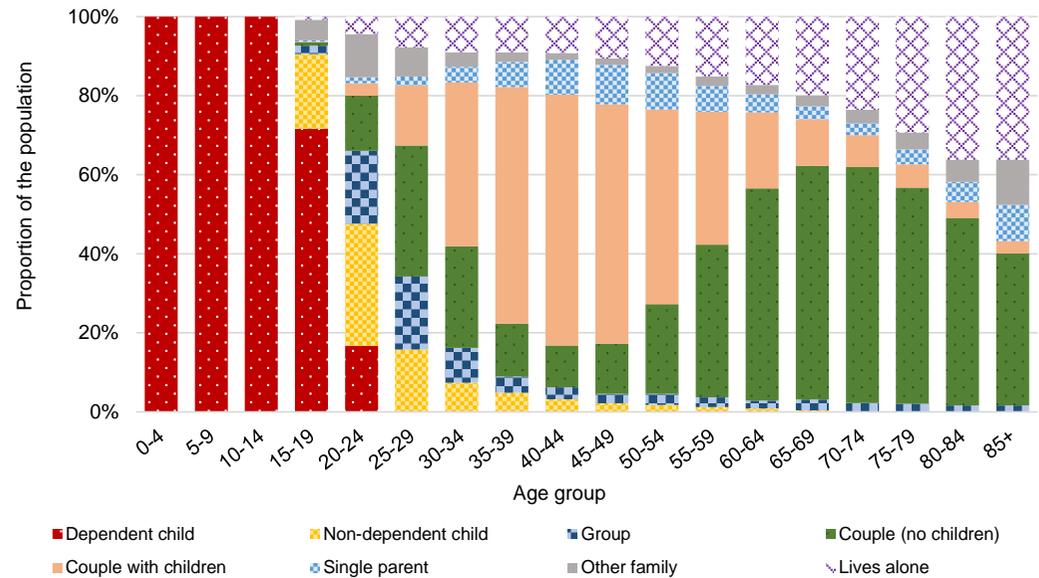
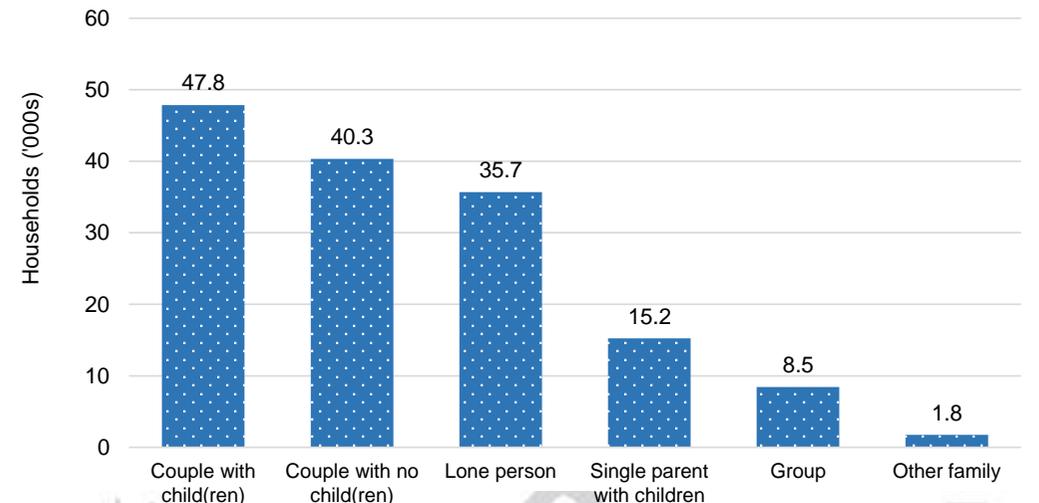


Chart 2: Projected number of households, ACT, 2015



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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 type and size and by household capacities to pay for housing. The assumptions under each series are as follows:

- 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.
- 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.
- 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 3 shows the assumed proportion of employment in each industry in 2040 under each series.

Employment growth has a large impact on population projections. The ACT Government currently projects the population reaching 681,500 in 2062. However, with continued slow employment growth (Series B), the population is projected to only reach 536,900. There are a number of possible paths to greater economic diversification - under Series C, faster employment growth results in faster population growth, giving a projected population of 844,261.

Employment growth will also impact on the age structure of the population. Employment growth typically induces migration among young working adults. Consequently, Series C projects slower population ageing with 21% of the population aged 65+ in 2062, compared with 23% under Series A and 24% under Series B.

Changes in the size and structure of the population brought on by employment growth will have implications for the size and type of housing demand in future through its effect on the growth and types of households.

Chart 3: Assumed share of employment by industry, 2040

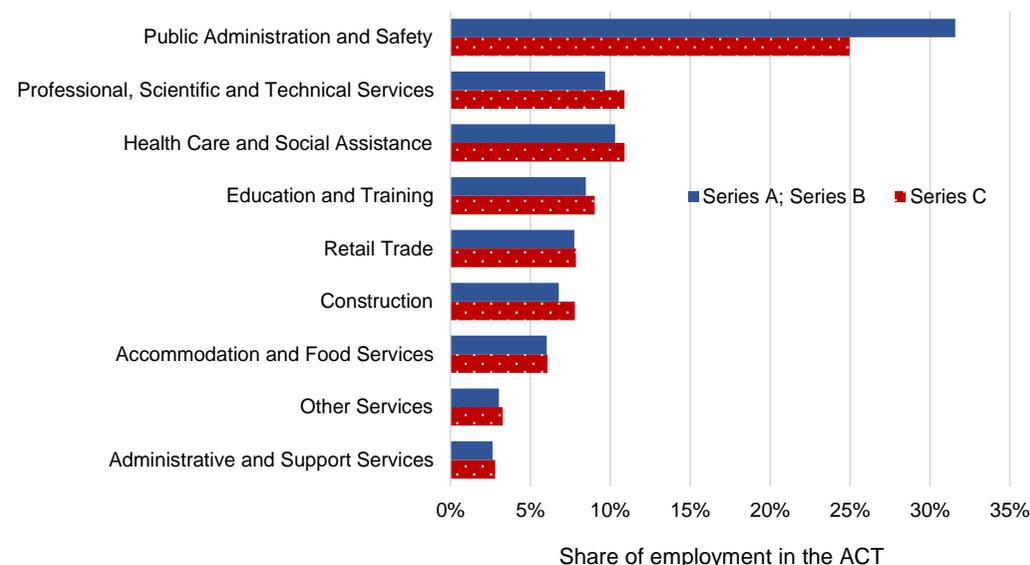
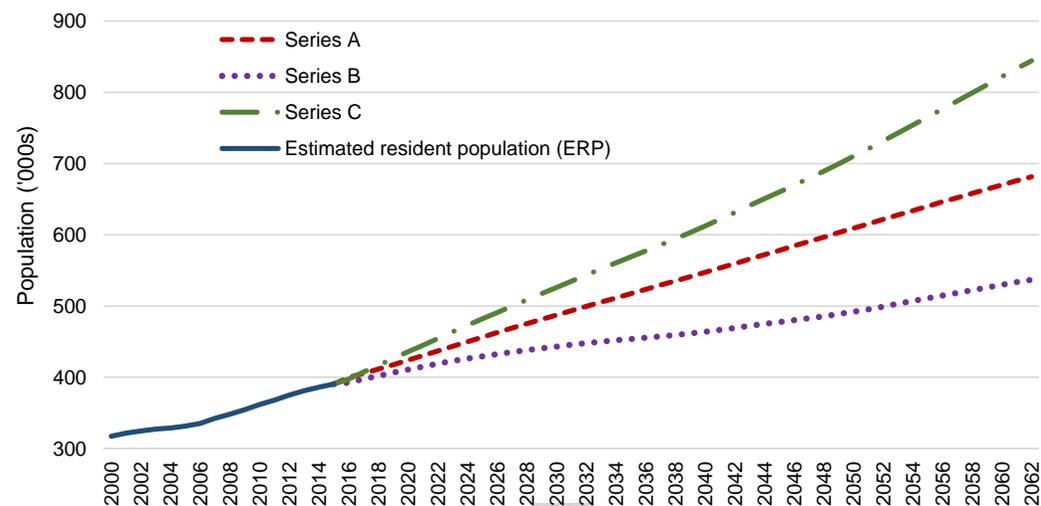


Chart 4: Projected population growth, ACT, 2000-2062



Housing demand in the ACT

Findings from demographic and economic projections



The household projection model projects that under the ACT Government's population projections (Series A), the number of households will grow from 149,300 in 2015 to 218,300 in 2040 and 278,500 in 2062. 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.

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, at an average of 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.

The ageing population is projected to drive growth in the number of lone and couple person households. Under Series A, the number of lone person households is projected to increase from 35,700 in 2015 to 76,700 in 2062, growing at an average of 900 household per year. The number of couple person households is projected to increase from 40,300 in 2015 to 79,300 in 2062 at an average of 800 households per year. Projected growth in couple parent family households is slower, though remains as one of the largest households types over the period.

Steady growth in single parent households is also driven by population ageing, though in reality will be driven by rates of family breakdown. This has important policy implications. Single parent families are largely headed by women who often rely on single incomes in lower paid part-time work, putting them at greatest risk of housing and financial stress.

Growth in group households is strongly constrained by housing affordability in the private rental market and weakness in the youth labour market. The projection model estimates there are 23,600 young adults in the ACT living with parents as non-dependents, more than half (51%) of whom are aged 15-24 years. Poor labour market outcomes, including rising official and hidden unemployment and reliance on low wage and irregular casual work makes the private rental market unaffordable for many young adults and forces many to live with parents. Specialist Homelessness Services data show that young people without the option of living with parents face a high risk of homelessness.

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

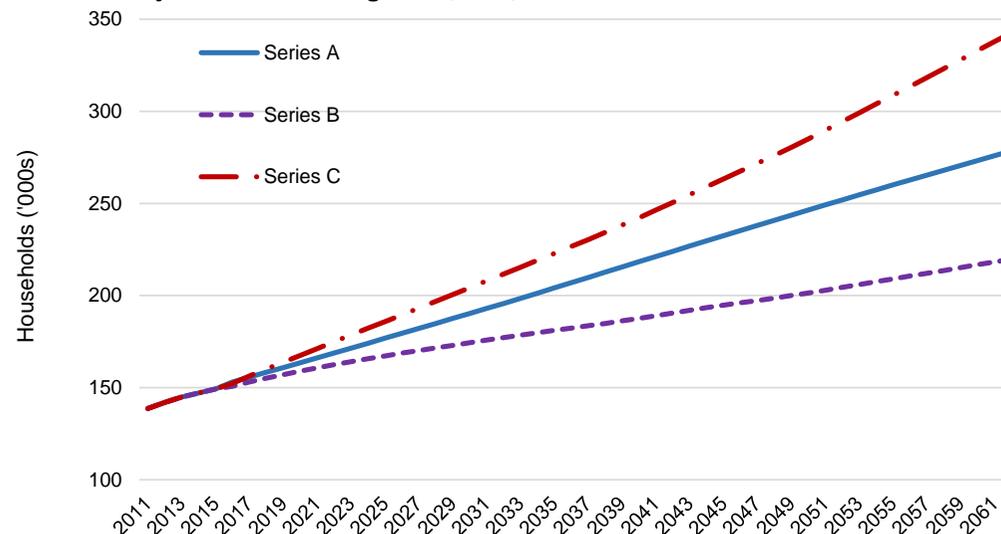
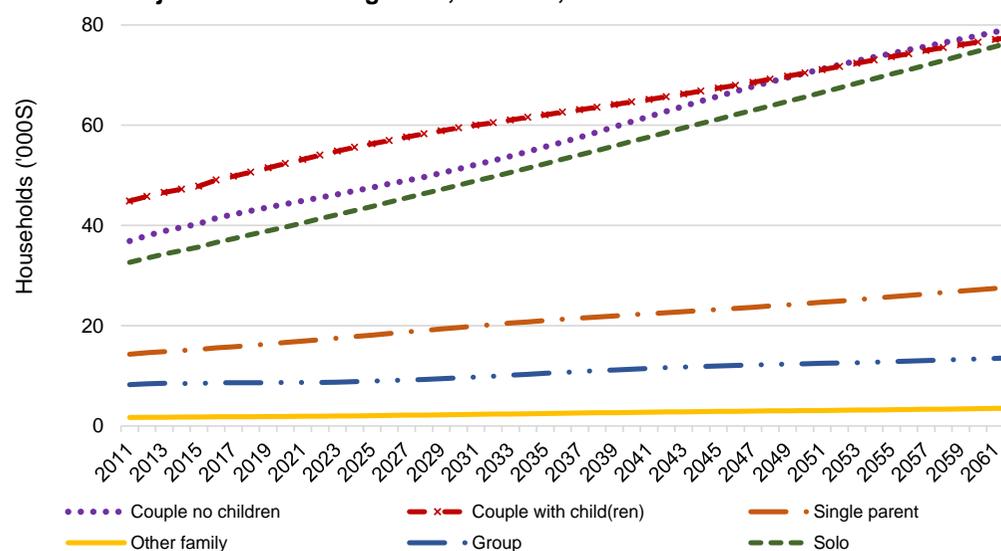


Chart 6: Projected household growth, Series A, 2011-2062



Housing demand in the ACT

Findings from demographic and economic projections



Economic diversification will drive higher growth in the number of couple family households. Diversification induces higher employment growth and subsequently net migration to the ACT. Economic migration tends to be dominated by young working age adults who shortly settle and form family households. In the short to medium term therefore, diversification drives growth in demand for housing suitable for young families. Over a long enough period, the number of couple and lone person households increase as the children grow up and move out of family homes.

This dynamic is shown in Chart 7, which shows projected additional growth in household types from moving from Series A to Series C. As shown, diversification leads to higher household growth across all household types. Under Series C, couple family households are projected to grow by an average 1,100 households per year, slightly below projected annual growth in couple and lone person households (1,200 each).

The growth in household types and the size of households will have important implications for the growth and type of housing demand. Demand for detached housing is projected to grow, averaging 1,900 additional houses each year between 2015-2062. Demand for detached houses however is restricted by supply now and in future.

Demand for different house sizes will continue to grow though, 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.

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.

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.

Chart 7: Additional growth, diversification, ACT, 2015-2062

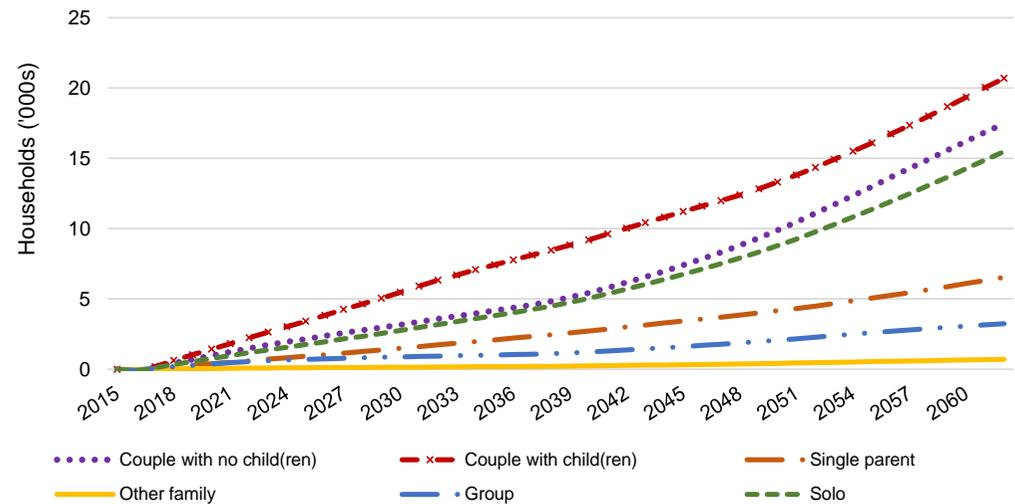
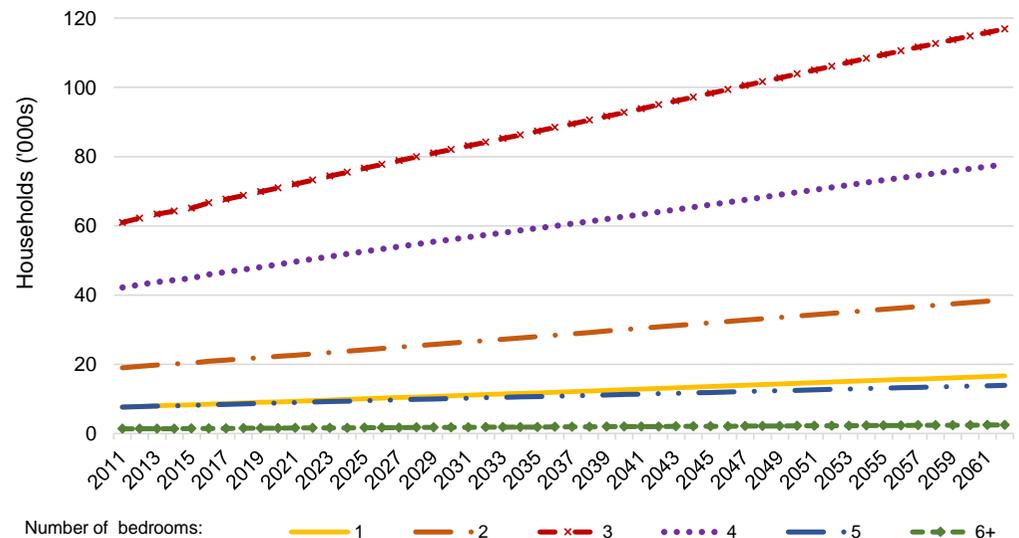


Chart 8: Projected housing demand, Series A, 2011-2062



Housing demand in the ACT

Findings from demographic and economic projections



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. Chart 10 shows the possible effect of downsizing on additional demand for dwellings per year.

Downsizing is projected to increase demand for two and three bedroom housing and reduce demand for housing with four or more bedrooms. 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: Projected annual demand, ACT, 2015-2062

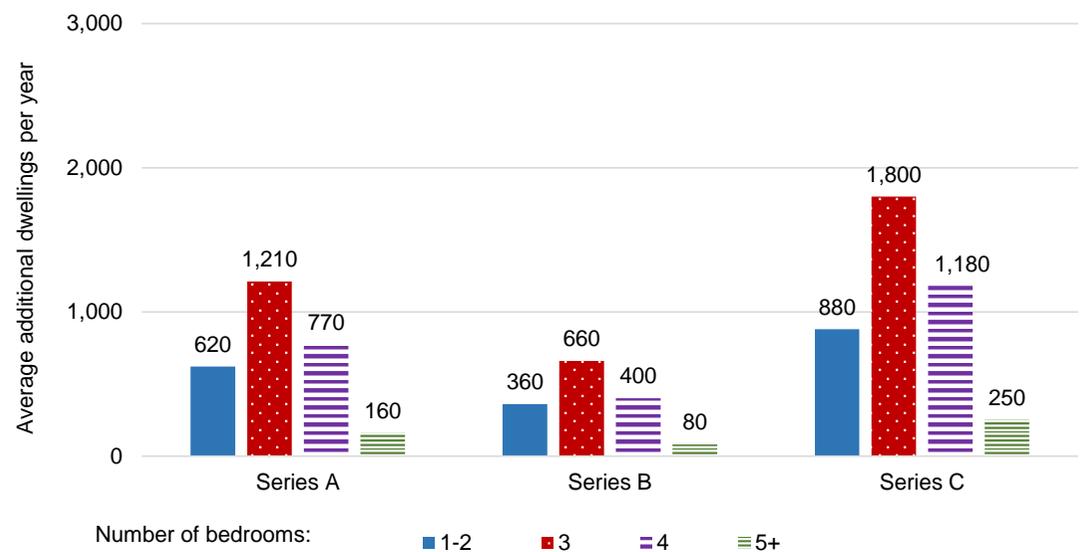
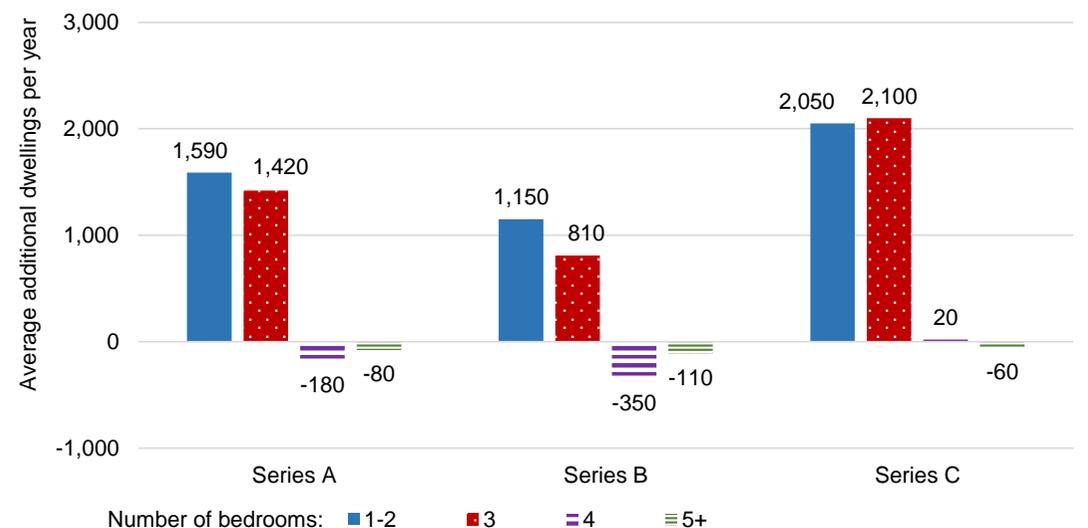


Chart 10: Effect of downsizing, ACT, 2015-2062



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Findings from demographic and economic projections



Lower income households in the ACT, on average, pay more in rent and mortgage payments than their capacity to pay. Chart 11 shows the demand curves for the ACT, according to what households actually pay on average and their capacity to pay, which is assumed to be 30% of gross household income. These were calculated from survey data commissioned by the consortium in November 2014.

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, 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. Currently, an estimated 27,600 households in the ACT earn less than \$78,400 per year in gross household income and pay rent or a mortgage. Rent and mortgage payments for these households, on average, are higher than the households' capacity 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.

Housing demand curves are projected to 2062. Chart 12 shows the projected demand curves under Series A and assuming the current distribution of housing affordability remains constant. Over the projection period, demand for housing increases across all price points. Demand for housing at price points of \$460 a week or less in today's dollars increases from 34,500 in 2015 to 64,500 in 2060.

Table 1 gives the projected number of households under each Series in each income bracket. In each income bracket, an average weekly capacity to pay rent or mortgage has been calculated that represents 30% of average gross weekly income. The indicative dwelling price indicates the total dwelling price affordable for that weekly capacity before public (e.g. CRA) and private (e.g. negative gearing) subsidies are taken into account, assuming a 25 year loan at an annual interest rate of 6% and a 10% deposit.

Chart 13 and Chart 14 show the projected demand curves under each series in 2040 and 2060 respectively. Employment growth and economic diversification lead to higher projected demand for housing across all price points, while diversification in particular leads to a flattening of the demand curve, indicating relatively higher demand for housing at more affordable price points. The degree to which this flattening will actually occur will depend on the types of jobs created.

Chart 11: Housing demand curve, ACT, November 2014

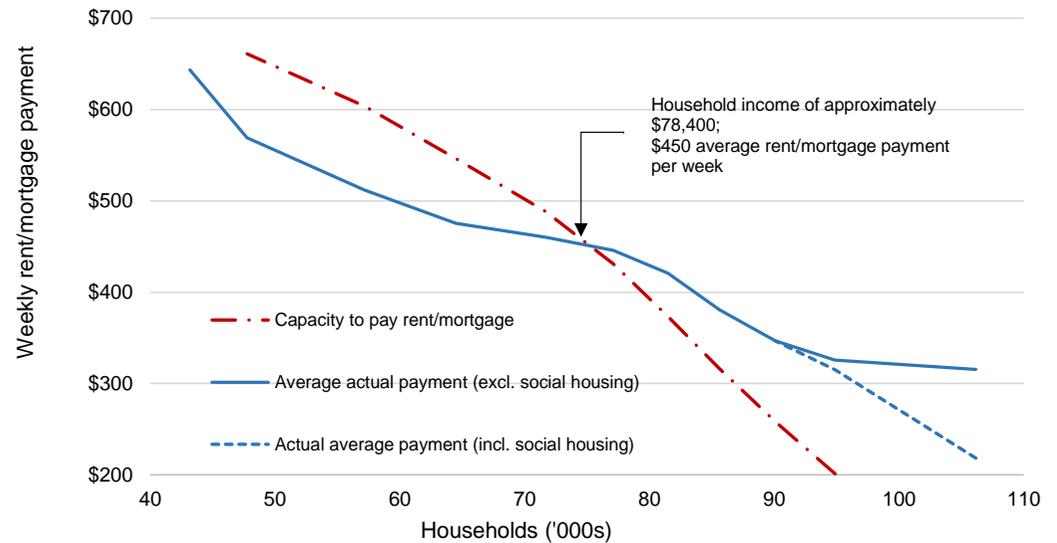
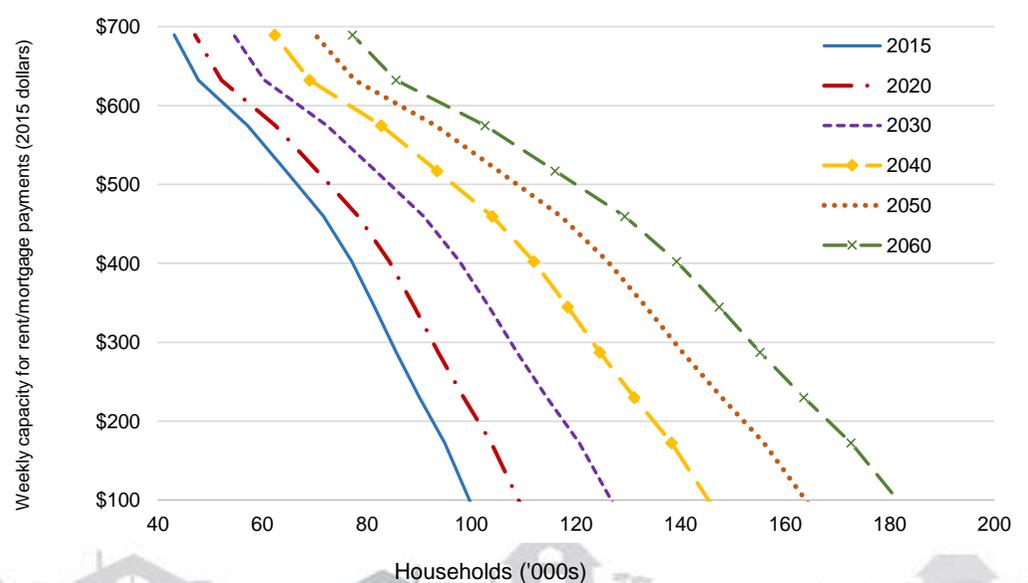


Chart 12: Projected housing demand curve, ACT



Housing demand in the ACT

Findings from demographic and economic projections



Table 1: Projected housing demand by income, ACT

Gross household income	Ave. weekly capacity to pay	Indicative dwelling price	Households ('000s)					
			2015	2020	2030	2040	2050	2060
<i>2015 dollars</i>			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

Chart 13: Projected housing demand curve, ACT, 2040

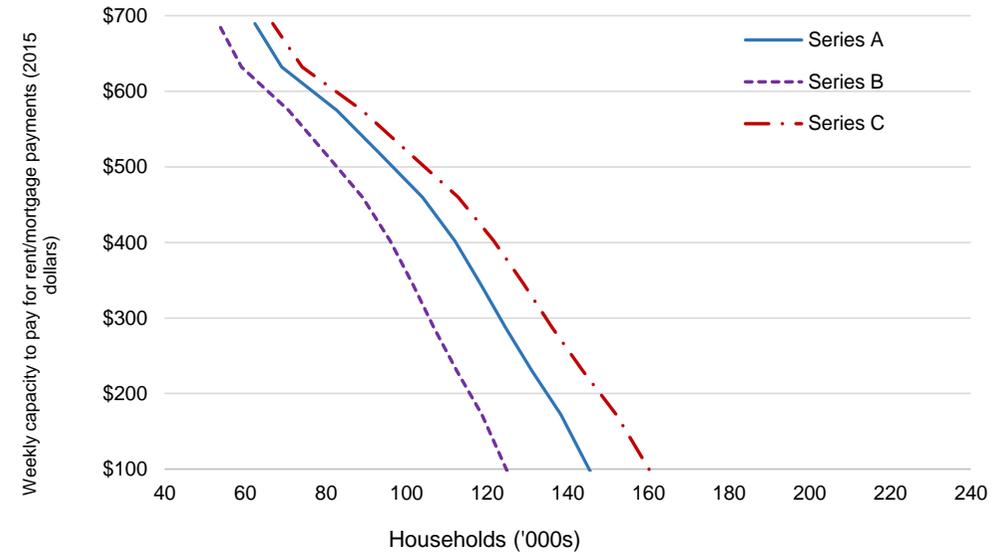
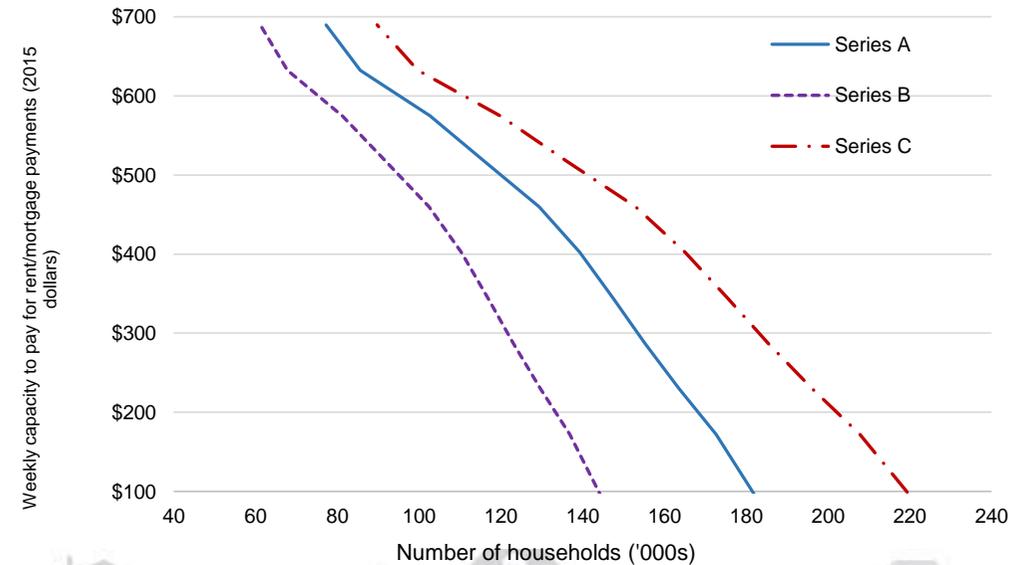


Chart 14: Projected housing demand curve, ACT, 2060



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Findings from demographic and economic projections



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 current and future drivers of housing affordability.

Where do we see Canberra's housing market now?

Canberra's housing market is meeting the needs of the majority of owner-occupiers and tenants, though low to moderate income earners struggle. The ACT Government plays a positive role, particularly through successive Affordable Housing Action Plans and land release strategies. Nevertheless, there is concern that dwelling prices continue to exceed costs, driven principally by rising land values. There are also concerns with development application and approval processes, supply mismatches with an oversupply of apartments and an undersupply of 3+ bedroom dwellings and inadequate attention paid to housing design and consumer preferences. The private rental market is currently the most viable option for lower and moderate income households.

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

The housing system needs to provide greater choice, flexibility and affordability for lower and moderate income households. Government, consumers and industry need to work together to ensure policy, planning, regulation and development deliver customised and affordable housing products. 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 and a regional approach. Greater policy attention ought to be directed towards creating and ensuring a private rental market that is affordable and secure for the long term tenure of lower income households.

How do we house a growing and diverse population?

The housing market 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. 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 and living in housing stress. Diversification will drive housing demand, particularly for 3 bedroom family housing. Solutions involve progressive land release, urban infill, support for downsizing, town and suburb planning, innovative housing design and community housing growth.

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

There is a need to think more about design features and the orientation of dwellings to ensure they are energy efficient and nice homes to live in. 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. Light, warmth, connection to the outside and social space are among the most important features. Models, such as co-housing and Common Ground demonstrate affordability and good design. The challenge is bringing such models to a large enough scale.

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. 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 CHC Affordable Housing. Land price inflation also makes it much harder for the building industry to deliver affordable housing, while reducing the effectiveness of existing initiatives such as the Land Rent Scheme and inclusionary zoning. Supply needs to better meet the needs of lower income households, particularly single income households. There is also a need for the private sector and community housing providers to deliver more accessible housing and housing that meets 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. Evidently, the social and economic returns from public investment in housing have been overlooked in favour of alternative policy and political objectives. The ACT Government stands apart through a range of innovative initiatives, though there is little new public investment available. In the absence of direct public investment, there is substantial potential to unlock private finance. The Commonwealth Government has policy responsibility for facilitating access to institutional finance, for example, though the creation of an affordable housing bond market. At the territory level, partnerships between Government and housing providers could facilitate access to mainstream bank finance.

