

## Form B

Commonwealth of Australia

*Competition and Consumer Act 2010 — subsections 88 (1A) and (1)*

### AGREEMENTS AFFECTING COMPETITION OR INCORPORATING RELATED CARTEL PROVISIONS: APPLICATION FOR AUTHORISATION

To the Australian Competition and Consumer Commission:

Application is hereby made under subsection(s) 88 (1A)/88 (1) of the *Competition and Consumer Act 2010* for an authorisation:

- to make a contract or arrangement, or arrive at an understanding, a provision of which would be, or might be, a cartel provision within the meaning of Division 1 of Part IV of that Act (other than a provision which would also be, or might also be, an exclusionary provision within the meaning of section 45 of that Act).
- to give effect to a provision of a contract, arrangement or understanding that is, or may be, a cartel provision within the meaning of Division 1 of Part IV of that Act (other than a provision which is also, or may also be, an exclusionary provision within the meaning of section 45 of that Act).
- to make a contract or arrangement, or arrive at an understanding, a provision of which would have the purpose, or would or might have the effect, of substantially lessening competition within the meaning of section 45 of that Act.
- to give effect to a provision of a contract, arrangement or understanding which provision has the purpose, or has or may have the effect, of substantially lessening competition within the meaning of section 45 of that Act.

*(Strike out whichever is not applicable)*

PLEASE FOLLOW DIRECTIONS ON BACK OF THIS FORM

#### 1. Applicant

- (a) Name of Applicant:  
*(Refer to direction 2)*

Urban Renewal Authority trading as Renewal SA (ABN 86 832 349 553)  
**(Renewal SA)**

- (b) Short description of business carried on by applicant:  
*(Refer to direction 3)*

Renewal SA is a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) Act 1995* (SA) and is charged with leading urban renewal activities on behalf of the Government of South Australia. Renewal SA promotes and facilitates an increase in the supply of affordable housing in South Australia, helps to renew existing social housing stock, and

contributes significantly to achieving outcomes sought for urban development through the Government's *30-Year Plan for Greater Adelaide*.

- (c) Address in Australia for service of documents on the applicant:

Attention: Peter Campbell  
 HWL Ebsworth Lawyers  
 Level 21 Westpac House  
 91 King William Street  
 ADELAIDE SA 5000

## **2. Contract, arrangement or understanding**

- (a) Description of the contract, arrangement or understanding, whether proposed or actual, for which authorisation is sought:  
*(Refer to direction 4)*

Please refer to Schedule 1.

- (b) Description of those provisions of the contract, arrangement or understanding described at 2 (a) that are, or would or might be, cartel provisions, or that do, or would or might, have the effect of substantially lessening competition:  
*(Refer to direction 4)*

Please refer to Schedule 1.

- (c) Description of the goods or services to which the contract, arrangement or understanding (whether proposed or actual) relate:

The development, marketing, rental and sale of affordable housing. Please refer to Schedule 1 for further details.

- (d) The term for which authorisation of the contract, arrangement or understanding (whether proposed or actual) is being sought and grounds supporting this period of authorisation:

The authorisation is being sought for a period of 10 years.

## **3. Parties to the proposed arrangement**

- (a) Names, addresses and descriptions of business carried on by other parties or proposed parties to the contract or proposed contract, arrangement or understanding:

Please refer to Schedule 1.

- (b) Names, addresses and descriptions of business carried on by parties and other persons on whose behalf this application is made:  
*(Refer to direction 5)*

Please refer to Schedule 1.

#### 4. **Public benefit claims**

- (a) Arguments in support of authorisation:  
(Refer to direction 6)

Please refer to Schedule 1.

- (b) Facts and evidence relied upon in support of these claims:

Please refer to Schedule 1.

#### 5. **Market definition**

Provide a description of the market(s) in which the goods or services described at 2 (c) are supplied or acquired and other affected markets including: significant suppliers and acquirers; substitutes available for the relevant goods or services; any restriction on the supply or acquisition of the relevant goods or services (for example geographic or legal restrictions):

(Refer to direction 7)

Residential real estate market (including sales and rental) for Greater Adelaide Region.

#### 6. **Public detriments**

- (a) Detriments to the public resulting or likely to result from the authorisation, in particular the likely effect of the contract, arrangement or understanding, on the prices of the goods or services described at 2 (c) and the prices of goods or services in other affected markets:

(Refer to direction 8)

Please refer to Schedule 1.

- (b) Facts and evidence relevant to these detriments:

Please refer to Schedule 1.

#### 7. **Contract, arrangements or understandings in similar terms**

This application for authorisation may also be expressed to be made in relation to other contracts, arrangements or understandings or proposed contracts, arrangements or understandings, that are or will be in similar terms to the abovementioned contract, arrangement or understanding.

- (a) Is this application to be so expressed?

Yes.

- (b) If so, the following information is to be furnished:

- (i) description of any variations between the contract, arrangement or understanding for which authorisation is sought and those contracts, arrangements or understandings that are stated to be in similar terms:

(Refer to direction 9)

Please refer to Schedule 1.

- (ii) Where the parties to the similar term contract(s) are known — names, addresses and descriptions of business carried on by those other parties:

Not applicable.

- (iii) Where the parties to the similar term contract(s) are not known — description of the class of business carried on by those possible parties:

Please refer to Schedule 1.

## 8. Joint Ventures

- (a) Does this application deal with a matter relating to a joint venture (See section 4J of the *Competition and Consumer Act 2010*)?

No.

- (b) If so, are any other applications being made simultaneously with this application in relation to that joint venture?

Not applicable.

- (c) If so, by whom or on whose behalf are those other applications being made?

Not applicable.

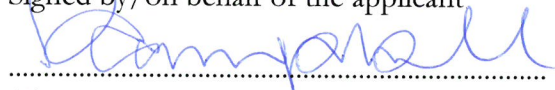
## 9. Further information

- (a) Name and address of person authorised by the applicant to provide additional information in relation to this application:

Peter Campbell  
HWL Ebsworth Lawyers  
Level 21 Westpac House  
91 King William Street  
ADELAIDE SA 5000.

Dated.....12 July 2018.....

Signed by/on behalf of the applicant



(Signature)

PETER CAMPBELL

(Full Name)

PARTNER, HWL EBSWORTH, SOLICITOR FOR APPLICANT

(Position in Organisation)



## DIRECTIONS

1. Use Form A if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision and which is also, or might also be, an exclusionary provision. Use Form B if the contract, arrangement or understanding includes a provision which is, or might be, a cartel provision or a provision which would have the purpose, or would or might have the effect, of substantially lessening competition. It may be necessary to use both forms for the same contract, arrangement or understanding.

In lodging this form, applicants must include all information, including supporting evidence, that they wish the Commission to take into account in assessing the application for authorisation.

Where there is insufficient space on this form to furnish the required information, the information is to be shown on separate sheets, numbered consecutively and signed by or on behalf of the applicant.

2. Where the application is made by or on behalf of a corporation, the name of the corporation is to be inserted in item 1 (a), not the name of the person signing the application and the application is to be signed by a person authorised by the corporation to do so.
3. Describe that part of the applicant's business relating to the subject matter of the contract, arrangement or understanding in respect of which the application is made.
4. Provide details of the contract, arrangement or understanding (whether proposed or actual) in respect of which the authorisation is sought. Provide details of those provisions of the contract, arrangement or understanding that are, or would or might be, cartel provisions. Provide details of those provisions of the contract, arrangement or understanding that do, or would or might, substantially lessen competition.

In providing these details:

- (a) to the extent that any of the details have been reduced to writing, provide a true copy of the writing; and
  - (b) to the extent that any of the details have not been reduced to writing, provide a full and correct description of the particulars that have not been reduced to writing.
5. Where authorisation is sought on behalf of other parties provide details of each of those parties including names, addresses, descriptions of the business activities engaged in relating to the subject matter of the authorisation, and evidence of the party's consent to authorisation being sought on their behalf.
6. Provide details of those public benefits claimed to result or to be likely to result from the proposed contract, arrangement or understanding including quantification of those benefits where possible.
7. Provide details of the market(s) likely to be effected by the contract, arrangement or understanding, in particular having regard to goods or services that may be substitutes for the good or service that is the subject matter of the authorisation.
8. Provide details of the detriments to the public which may result from the proposed contract, arrangement or understanding including quantification of those detriments where possible.

9. Where the application is made also in respect of other contracts, arrangements or understandings, which are or will be in similar terms to the contract, arrangement or understanding referred to in item 2, furnish with the application details of the manner in which those contracts, arrangements or understandings vary in their terms from the contract, arrangements or understanding referred to in item 2.

## SCHEDULE 1

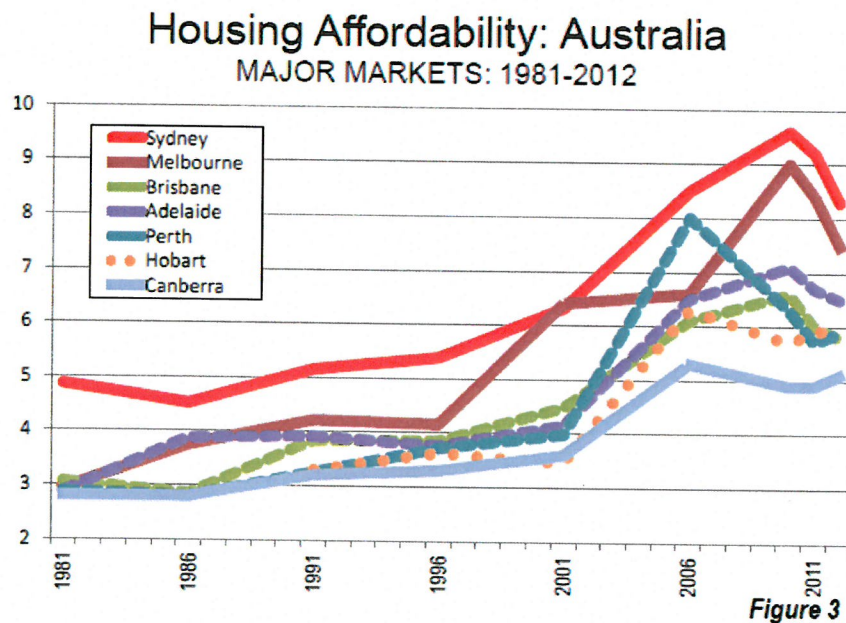
### The Problem of Housing Affordability

Australia is one of the least affordable housing markets in the world.<sup>1</sup>

Based on a “median multiple” (median house price divided by gross annual median household income), the Annual Demographia International Housing Affordability Survey identifies all Australian markets as seriously or severely unaffordable.

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	Median Multiple
Australia	0	0	9	30	39	5.6
Canada	8	17	4	6	35	3.6
China (Hong Kong)	0	0	0	1	1	13.5
Ireland	1	4	0	0	5	3.2
New Zealand	0	0	3	5	8	5.3
United Kingdom	0	2	14	17	33	5.1
United States	100	87	13	16	216	3.1
TOTAL	109	110	43	75	337	

Affordability has declined significantly over the period from 1981 to 2012.<sup>2</sup> In 2013, Australian capital city home values rose by a further 9.8 per cent.<sup>3</sup>



<sup>1</sup> 9th Annual Demographia International Housing Affordability Survey

<sup>2</sup> 9th Annual Demographia International Housing Affordability Survey

<sup>3</sup> RP Data-Rismark Home Value Index for Jan-Dec 2013

Demographia identifies the key reason for this shift in Australia is the market's inability to provide low-priced new housing.

In the coming years, Australia faces a housing shortage. The National Housing Supply Council estimates that 3.3 million new dwellings will be required by 2030<sup>4</sup> but that, at current rates, only 2.98 million new dwellings will be built in that time.<sup>5</sup> This imbalance between projected demand and projected supply suggests that housing prices are likely to rise and this, together with lags in supply inherent in the housing market, means that an increasing number of Australians will be unable to afford to enter, or participate in, that market.<sup>6</sup>

South Australia is not immune from this problem of housing affordability. Indeed, one of the seven “strategic priorities” identified by the Government of South Australia is to ensure that home rental and ownership costs are within the reach of all South Australians.<sup>7</sup>

### **The State Government’s Response**

In 2002/03, only 7% of the homes sold, and one in three rental properties in metropolitan Adelaide, were affordable to low income households (based on a housing cost to income ratio of not more than 25%, which is the nationally agreed measure of housing stress). It is generally accepted that households paying greater than 30% of gross income in rental or mortgage costs are in housing stress.

The Government of South Australia’s “primary policy document”,<sup>8</sup> known as “South Australia’s Strategic Plan”, established in 2004, recognises the problem of decreasing housing affordability.<sup>9</sup> It sets a goal that “*everyone can afford to rent or buy a home*”,<sup>10</sup> and seeks to halve the number of South Australians achieving housing stress within 10 years. The Plan was updated in 2007 and 2011, with these goals and targets being retained and updated.

In an effort to achieve these aims, in March 2005, the Government released a “Housing Plan for South Australia” which, amongst other things, introduced a target of having 15 per cent of all significant new housing developments meeting “affordable housing” criteria which were to be

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<sup>4</sup> National Housing Supply Council, State of Supply Report 2011, p xv.

<sup>5</sup> National Housing Supply Council, State of Supply Report 2011, p xvi.

<sup>6</sup> National Housing Supply Council, State of Supply Report 2011, p 115.

<sup>7</sup> Seven Strategic Priorities.

<sup>8</sup> Davison et al (November 2012) *Affordable housing urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales*, p. 48.

<sup>9</sup> Strategic Plan, p. 28.

<sup>10</sup> Strategic Plan, p. 28.

defined annually in the Government Gazette under the *South Australian Housing Trust Regulations 1995*.<sup>11</sup> The current criteria are attached as Annexure A. Changes were also made to the *Development Act 1993* (SA) (which governs the planning and development decision-making process) to help implement that target.<sup>12</sup>

The affordable housing inclusion policy (**Policy**) introduced by the Housing Plan for South Australia in 2005 is mandatory for all government sales and in all developments by Government agencies, and is otherwise subject to agreement.

In December 2009, the Council of Australian Governments (**COAG**) agreed to National Affordable Housing Agreement (**NAHA**), and three associated National Partnership Agreements. The NAHA commenced on 1 January 2009, based on a broad agenda encompassing housing and urban policy, and opportunities for all sectors of government to work together to improve housing affordability. It provided direction for a range of measures, including:

- social housing;
- assistance to private renters;
- home purchase assistance; and
- support and accommodation for the homeless and persons at risk of becoming homeless.

Signatories to the NAHA, including South Australia, committed to achieving outcomes and introducing reforms to increase the supply of affordable housing. The restriction of affordable property sales to a defined group of eligible buyers, whether directly by Government or indirectly in partnership with the private sector (eg via the proposed arrangements the subject of this application) are fundamental to achieving the policy outcomes embodied in the NAHA and South Australia's Strategic Plan.

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<sup>11</sup> Davison et al (November 2012) *Affordable housing urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales*, p. 48-9.

<sup>12</sup> Davison et al (November 2012) *Affordable housing urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales*, p. 48-9.

## Renewal SA

In a further attempt to meet the Government's goal of affordable housing for all South Australians, a statutory corporation called the Urban Renewal Authority was formed on 1 March 2012 under regulation 4 of the *Housing and Urban Development (Administrative Arrangements) (Urban Renewal Authority) Regulations 2012* (SA) (**URA Regulations**). That authority incorporated "the functions and resources of the former Land Management Corporation and certain land, buildings and housing stock assets, employees and functions from Defence SA and the South Australian Housing Trust."<sup>13</sup> It began trading as "**Renewal SA**" (ABN 86 832 349 553) on 30 August 2012.<sup>14</sup>

Renewal SA has a broad range of functions, which are set out in regulation 6 of the URA Regulations. One of its key functions is to undertake activities which promote an increase in the supply of "affordable housing" in South Australia.

Renewal SA currently owns land and/or existing housing developments in the Greater Adelaide Region (**Project Sites**).

As part of its functions, Renewal SA upgrades and/or (re-)develops (as appropriate, having regard to the Project Site) and sells Project Sites to developer-purchasers who will upgrade or construct the built-form structures on the land and sell built-form product to the public (**Projects**).

It is intended that, when completed, and consistent with the Policy (which applies to developments of 20 or more dwellings), at least 15 per cent of the dwellings constructed/redeveloped by the purchasers of land from Renewal SA under relevant Projects will meet the "affordable housing" criteria set by the Government of South Australia and defined from time to time in the Government Gazette under the *South Australian Housing Trust Regulations 2010* (SA).<sup>15</sup>

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<sup>13</sup> Auditor-General's report 2012-13 re Urban Renewal Authority, p. 2103.

<sup>14</sup> Annual report 2012/2013.

<sup>15</sup> For current rate:

[http://governmentgazette.sa.gov.au/sites/default/files/documentstore/2016/October/2016\\_067.pdf](http://governmentgazette.sa.gov.au/sites/default/files/documentstore/2016/October/2016_067.pdf), p 4069.

Doc ID 428187193/v1

In 2015, activity under the affordable homes program represented about 2%<sup>16</sup> of the total residential sales market in South Australia.

Over the last 10 years (including the current financial year), total sales from the 15% policy commitment, together with sales of existing and established affordable housing property listings, have amounted to 4,341.

The table below sets out relevant statistics for the sale of dwellings for the financial years 2007/08 to 2015/2016 inclusive together with the 2016/17 financial year (to 1 September 2016) under the affordable homes program operated by Renewal SA. Under the Policy, a commitment has been made to deliver 6,376 new affordable housing outcomes over the next 15 years.

Property Type	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17 (to 1 Sep 2016)	TOTAL
<i>New constructions</i>	19	57	191	145	114	116	93	195	273	26	1229
<i>Established dwellings</i>	294	184	312	304	424	408	398	399	352	37	3112
<b>TOTAL</b>	313	241	503	449	538	524	491	594	625	63	4341

## Demand

The demand for affordable housing in South Australia is evident:

- In 2011, over 28% of low and moderate income households in SA were considered to be in housing stress (paying more than 30% of their income on rent or mortgage). This has increased since that time.
- In 2017 Greater Adelaide dwelling price to income ratio is 6.4.
- In 2017, the percent of gross income required to service an 80% LVR mortgage is 34.5%.
- 2017 Median house price in Adelaide was \$460,000<sup>17</sup>

In the absence of Renewal SA taking steps to insert affordable housing components into new developments and upgrading of existing residential areas, it is unlikely private developers will voluntarily create sufficient levels of affordable housing. The development sites will otherwise be dedicated wholly to development of relatively high-cost housing without affordable housing

<sup>16</sup> South Australian Valuer General sales data for 2015 including all residential dwelling and urban land sales (excluding properties sold for nil consideration and not true value sales) totalling 30,757

<sup>17</sup> CoreLogic Australian Affordable Housing Report 2017-2018



components. In the absence of affordable housing being provided, people who would be eligible for affordable housing will be left renting or will be pushed out to the fringes of the metropolitan area.

## **Target**

The proposed target groups for affordable housing include:

- First home buyers;
- Singles/ Young (including students);
- Key workers;
- Older; and
- Low income workers.

The term "key workers" is an industry term that generally refers to people in the "moderate" income category (ie, with an annual income of between 80 and 120 per cent of the gross annual median income). Such people generally comprise young professionals and single parents, who are often employed in the health care, social services (including teaching), and administrative support industries.

Renewal SA expects that 40 per cent of the affordable housing dwellings constructed on the Project Sites will be made available to key workers who meet the defined criteria.

## **The Arrangements**

As part of the proposed Projects, Renewal SA intends to enter into arrangements with developers of Projects (**Developers**) for the sale, purchase and (re-)development of certain Project Sites, or parts thereof.

Except as already notified to the Commission through Authorisation No. A91416, the arrangements the subject of this application are proposed, and are yet to be reduced to writing and agreed with Developers or otherwise formalised.



However, Renewal SA does have standard legal agreements to secure affordable housing, including two forms of Land Management Agreement under sections 57 and 57A of the *Development Act 1993* (SA) (**Land Management Agreement**). A Land Management Agreement under section 57 is entered into where the Developer is an existing owner of the relevant land. A Land Management Agreement is entered into under 57A where the Developer is at the stage of applying for a development authorisation in relation to the relevant land. Renewal SA proposes that, in the majority of circumstances, these Land Management Agreements will form the basis of its formal agreements with Developers. A copy of each agreement is attached as Annexure B, and their terms are able to be negotiated with Developers to meet the requirements of a particular Project.

In some circumstances, the agreement between Renewal SA and Developers to secure affordable housing may instead be contained within a contract for the sale and purchase of land, a development agreement or some other form of contractual documentation between Renewal SA and the Developer.

Accordingly, to implement the Government's Housing Plan for South Australia and the Policy, and target outcomes to defined or eligible parties, the conduct the subject of this application can be described as the proposal that Renewal SA enters into arrangements with Developers whereby Developers may be asked to agree to some or all of the following conditions:

- to develop and offer for sale or rental as affordable housing properties or allotments not less than 15% of the total number of dwellings to be created in new or upgraded developments;
- not to sell affordable housing properties or allotments at a price greater than the maximum price;
- not sell to any person other than an eligible buyer unless reasonable steps to do so within a specified timeframe have been attempted;
- to incorporate a minimum proportion of affordable housing allotments for sale or properties for rental or sale in new or upgraded developments and Project Sites;
- to fix maximum rental prices in accordance with affordable housing caps;

- to fix maximum sales prices in accordance with affordable housing caps;
- to only rent to eligible tenants (eg "key worker" tenants and low-to-moderate income households) who satisfy criteria for access to affordable housing (to the exclusion of those who do not satisfy those criteria);
- to only sell to eligible buyers within specified timeframes (eg "key worker" purchasers, affordable rental providers and low-to-moderate income households) who satisfy criteria for access to affordable housing (to the exclusion of those who do not satisfy those criteria);
- to cap building costs as part of house and land packages offered in conjunction with Renewal SA;
- to only sell house and land packages offered in conjunction with Renewal SA to eligible owner occupier purchasers (to the exclusion of non-eligible owner-occupiers, and non-owner occupiers); and/or
- to only build houses to standards approved by Renewal SA as part of house and land packages offered in conjunction with Renewal SA and in other Renewal SA developments at other Project Sites.

For specific Projects involving sale of Renewal SA land, Renewal SA may agree:

- to cap land prices as part of house and land packages offered in conjunction with Developers;
- to only sell house and land packages offered in conjunction with Developers to owner occupier purchasers (to the exclusion of non-eligible owner-occupiers, and non-owner occupiers);
- not to actively compete with Developers for the rental of properties for an agreed period (eg 3 months); and/or
- not to actively compete with Developers for the sale of properties for an agreed period (eg 3 months).

The criteria that are intended to be used to determine whether or not someone is able to access the “affordable housing” developed under any of the above arrangements will include quantitative and qualitative components so that the proposed arrangement benefits those key workers or other specified group(s) who may find themselves excluded from both the general housing market and social housing. The quantitative component involves an assessment of the eligible person’s income and assets against defined rates. Different rates may apply to singles, to couples, to those with children and to those aged over 55. If an eligible person’s income and assets exceed the relevant rate, then they will be ineligible to access the “affordable housing” developed under the above arrangement.

The qualitative component of the criteria will essentially involve an ongoing assessment of whether or not the eligible person is complying with their obligations under the arrangement.

### **Parties**

The identity of Developers who may be party to the proposed arrangements with Renewal SA is presently unknown. A number of Developers are prepared to consider entering into arrangements for the incorporation of affordable housing components in developments.

### **Proposed Provisions that may Contravene**

Application for Authorisation is made because certain Developers and Renewal SA may be considered competitors. Renewal SA has a number of functions. While it does not actively seek to position itself as a landlord or vendor of property, it may adopt that role in respect of some developments in which it is involved.

Against that background, the aspects of the proposed arrangements described in "The Arrangements" section above include provisions which may be considered to be anti-competitive or cartel provisions, specifically:

- agreeing to fix maximum rental prices in accordance with affordable housing caps;
- agreeing to fix maximum sales prices in accordance with affordable housing caps;
- agreeing to rent or sell to eligible tenants or purchasers who satisfy criteria for access to affordable housing (to the exclusion of those who do not satisfy those criteria);

- agreeing to sell house and land packages offered by Developers in conjunction with Renewal SA to eligible owner occupier purchasers (to the exclusion of non-eligible owner occupiers, and non-owner occupiers);
- agreeing to cap building costs as part of house and land packages;
- Renewal SA agreeing not to compete with the rental and sale of property for a defined period agreed with Developers.

It is not considered that any of the arrangements will have the effect of substantially lessening competition.

### **Public Benefits**

The authorisation sought by Renewal SA will allow it, in conjunction with engaged Developers, to make affordable housing available for rent or purchase by a section of the public who would otherwise be excluded from the market. The public benefits of the authorisation will outweigh any detriment to the public (ie home buyers and renters generally) as a result of the price cap, restrictive criteria for eligible participants, and Renewal SA's agreement to abstain from entering the market for the period agreed with Developers.

The public benefits of the proposed authorisation include:

- an increase in the supply of affordable housing;
- greater flexibility in the delivery of affordable housing;
- reduced financial commitment and risk for public funds (ie Renewal SA's) through the involvement of private developers;
- redevelopment of disused land and revitalisation of existing housing developments;
- promotion of social diversity;
- revitalisation of the surrounding communities; and
- attraction of workers with key skills to live in and around the metropolitan area.

## Market Definition

The market to which the authorisation sought relates is the market for low cost housing (both rental and sale) in the greater metropolitan region of Adelaide (**Greater Regional Adelaide**).

It is characterised by high demand and increasingly tight supply which, in the absence of the significant redevelopment of Government-owned land within the region, is likely to deteriorate over time. This is particularly so where the population of the region is expected to grow, the supply of land available for development will increasingly be restricted to higher-density, urban in-fill projects, and the proportion of the population over the age of 65 years is likely to increase.



The people looking to enter this market are typically low to moderate income earners, graduates starting out, first home buyers, and other people who, by reason of employment industry, low education levels, health problems, or other forms of social disadvantage, are increasingly precluded from accessing market housing.

The current suppliers in this market consist of a broad range of private sector, government, and not-for-profit organisations. These include property developers and funding groups, such as:

- private developers;
- government agencies, including Renewal SA and the South Australian Housing Trust; and
- not-for-profit organisations, such as Unity Housing, AnglicareSA and Junction Australia.

The available substitutes for low cost housing are all, in comparison, undesirable. For example, acquirers could:

- try to obtain higher cost housing by devoting a greater proportion of their incomes to rental or mortgage payments and thereby potentially decreasing the amount of funds they have available for other essential services such as utility bills, health care, and groceries;
- move into shared accommodation, which may promote over-crowding, a loss of privacy, and health problems; or
- move to cheaper accommodation, which tends to be located at the margins of the greater metropolitan region, which is generally further away from their place of employment education, health care and which may lead to an increase in commuting and living costs, a general lack of enjoyment and decrease in the level of social diversity within the metropolitan region. Some other forms of cheaper accommodation in well serviced areas tend to be smaller, offering less amenity and can often be compromised in terms of safety and enjoyment.

### **No Public Detriment**

Renewal SA submits that there will be no material public detriment arising from the proposed conduct. The only theoretical detriment is the creation of artificial pricing for a small group of

selected properties (consistent with affordable housing criteria) rather than allowing that pricing to be determined by market forces.

The conduct for which this authorisation is sought is specifically intended to remedy deficiencies in the housing market. Renewal SA submits that any detriment will be significantly outweighed by the anticipated benefits of the conduct.

There will be no negative impact on the housing market in Greater Regional Adelaide and no material or detrimental impact on any businesses outside the arrangements in question.

In this regard, it must be noted that the arrangements in question will affect only a very small proportion of dwellings built (which is obviously immaterial in the context of the overall real estate market in the Greater Adelaide Region).

It must also be noted that current market forces have not addressed and will not address the growing need for affordable housing due to inherent supply lags in the industry. Market forces have historically failed to respond to the affordable housing supply issues in inner city and middle ring metropolitan areas. There has been no demonstration that normal commercial factors will drive an increase in affordable housing stocks or create incentives for meaningful affordable housing components to be incorporated in broader developments. That experience is unlikely to change in the future, particularly where underlying land values are high. Accordingly, Government involvement is the only realistic way by which affordable housing will be provided.

As a result, initiatives such as those in the arrangements in question are required if affordable housing is to be made available.

## **Conclusion**

It is submitted that, for the reasons outlined in this Application, the public benefit from the proposed contractual arrangements described in this Application far outweighs any potential public detriment, and authorisation should be granted.



### Declaration by Applicant

The undersigned declare that, to the best of his knowledge and belief, the information given in response to questions in this form is true, correct and complete, that complete copies of documents required by this form have been supplied, that all estimates are identified as such and are their best estimates of the underlying facts, and that all the opinions expressed are sincere.

The undersigned undertakes to advise the ACCC immediately of any material change in circumstances relating to the application.

The undersigned is aware of the provisions of sections 137.1 and 149.1 of the *Criminal Code* (Cth).

A handwritten signature in black ink, appearing to read 'Peter Campbell', written in a cursive style.

Signature of authorised person

Solicitor for applicant

Office held

Peter Campbell  
Partner, HWL Ebsworth

Name of authorised person

Dated: 12 July 2018

*Note: If the Applicant is a corporation, state the position occupied in the corporation by the person signing. If signed by a solicitor on behalf of the Applicant, this fact must be stated.*





# Australian Affordable Housing Report

ENVIRONMENTAL SCAN 2017-18

AUGUST 2017 – CENSUS EDITION



CoreLogic



**PowerHousing  
Australia**

Collaborating for a better housing future

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# From the PowerHousing Chair



The indicators analysed within the Australian Affordable Housing Report 2017–18 show that the nation is in a unique position - where new housing supply sits at record levels while, at the same time, double digit average increases in house prices in a number of capital cities have been occurring concurrently over the past seven to 10 years.

Climbing prices in places such as Sydney are yet to adjust to this new supply, which impacts particularly for those at the lower income end of the market. That said, in the last 12 months New South Wales has started building 40,000 more homes than the total commencements the state had in 2009, so a catch-up on low housing delivery in previous years has begun but has yet to restrain rising house prices.

Housing affordability as an issue of public debate in the media, by governments and in the community at large is at an all time high.

Housing statistics in their rawest form as presented in this report and reflected in the 2016 Census, paint a challenging picture for low-income Australians hoping to find affordable rental accommodation, or those who aspire to be able to buy their own house. It is fair to say that there is a realisation, particularly for young people, that generations could be left without the prospect of being able to buy their own home.

There is acceptance today that housing affordability is both a national and international issue that must be addressed sooner rather than later, and there has been

both political and popular agreement that something must be done. As such, measures within the May 2017 Federal Budget are seen with some optimism to potentially provide the circuit breaker needed to incentivise the provision of low-cost, affordable housing for Australians.

Money and investment follows policy, and many of the figures from the past 25 years in this report provide some compelling indications of this. As a case-in-point, there has been a marked increase in housing investment since the late 1990s capital gains and negative gearing changes, which correspondingly has increased the amount of rentals provided. First-home buyer rates shot through the roof around 2009 after the First Home Owner Grant was introduced. More broadly, foreign investment into Australian residential real estate has driven new dwelling supply to record levels in the past four years, based on other countries policies such as Canada reducing their appetite for foreign purchases of housing through regulation. Housing policy that focuses on affordable and even low-income earner housing will see investment flow into this part of the market, provided land and planning is incentivised, so that long-term safe returns are underpinned for investors.

What is certain is that decisions made within this next financial year will impact housing affordability for low-income earners and this will change the way Australians live for decades to come. It is an opportunity that Australia needs to grasp.



**Nicola Lemon**

PowerHousing Australia, Chair  
August 2017





Cagayara House





## Introduction

This report provides an environmental scan on housing supply and demand in Australia, and considers the impact of these elements on housing affordability, particularly for low-income earners—including social housing tenants, renters, first home buyers, key workers (low-income public sector workers) and seniors.

This report has a focus on housing activity and levers, such as national and international fiscal (government revenue), monetary and market factors that will impact housing

availability, rental/mortgage rates and the capacity of Australians to access affordable housing over the next two-years.

In particular, this report considers demand indicators and actual housing activity to assess housing affordability for average-to-low income earners in Australia.

The report also considers previous housing activity forecasts and identifies where housing activity has differed from previous projections.



# Executive Summary

Housing affordability as an issue of public debate in the media, by governments and in the community at large is at an all-time high. With the most recent Census data confirming a story being told throughout the country – homeownership is declining, while renting is increasing; first-home buyer levels are at record lows, while those already paying mortgages are finding them more serviceable; and there are growing numbers of renters experiencing housing stress, while public housing stock has fallen and more dwellings remain vacant. With approximately one in five households recording income (including those receiving government benefits) of less than \$650 per week and the number of individuals in their 20s and 30s living at home with parents on the rise, the narrative around housing affordability is unlikely to recede from the public consciousness.<sup>1</sup>

Nationally, we have low economic growth, low inflation levels, low interest rates, and low unemployment levels, which are all factors that are expected to support people buying into the housing market.

These conditions also see those in the second, third and fourth quintiles of wage earners with existing assets as being even better positioned to purchase into the market. This is despite rising house prices that are out of alignment with wages growth, which has been flat for several years.

Population growth, increasing net overseas migration and ongoing strength in household formation has created strong demand for housing. This however, provides a downside risk of continued house price increases into the future.

New housing supply has been sitting at record levels for around two years. This has been driven by foreign and domestic investment activity. In the December quarter of 2016, the number of residential dwellings across Australia rose to 9,802,700. The pipeline of new dwellings, particularly in multi-residential and apartments, is likely to see a sustained number of new dwellings coming into the market to meet such additional demand.

Increased foreign investment in Sydney has seen the city become viewed as being a place for capital investment—this is similar

to how cities such as London and New York are viewed. Across Australia, Sydney and Melbourne are seen as safe places for foreign capital flows and, as such, new developments have risen out of the ground that otherwise may not have reached finance thresholds if this foreign capital had not been present.

Across the country, Australians are saving more, their household wealth is increasing and they are paying off their mortgages above the rates set by banks. Additional funds and dispensable income is increasingly being channelled into investment properties with those declaring an investment property now exceeding 2 million people nationally. Whilst household wealth is underpinned by rising residential land and dwelling values, these paper gains are being converted into investments into residential real estate. As the ATO states, 72 per cent of these investors have one property and another 18 per cent have two. Despite having more debt than previous generations there is a capacity at low interest rates, low unemployment and low inflation to meet these obligations today.

Conversely, first home buyer rates are at record lows and this trend is not unique to Australia. Whilst first home buyers recede, the amount banks are lending to them has remained static for the past three years. In other words, these potential buyers do not have capacity to increase their loan size and, as such, are limited to where and what they can buy.

This outlook for low-income earners—particularly social housing tenants, renters, first-home buyers, key workers and seniors—will remain bleak while property pricing continues its run of double-digit increases and wages growth remains low.

In some regions of the country, such as parts of Perth and Darwin, rental conditions are weak, dwelling values have been trending lower and advertised stock levels remain historically high. This is in part due to reasonable supply and lower demand related to a softening of the economy in those parts post the mining boom.

Policy measures as outlined by all sides of politics, particularly the Government, show potential for Australia to begin to unravel the complex and challenging issue that is affordable housing delivery in Australia today.

# Affordable housing report environmental scan 2017-18

Short of the proverbial—and non-existing—silver bullet to fix Australia's housing issues, the Federal Government put forward a robust commitment to housing in the 2017–18 Federal Budget.

*“Our comprehensive housing package will see more homes built, more first-home savings achieved and a roof put over the head of more Australians, whether they slept rough on the street last night or are saving to buy their first home and everything in between. There are no silver bullets to housing affordability... but when you take a comprehensive approach, working right across the spectrum of housing needs, you can make a difference.”*

**Scott Morrison, Federal Treasurer**  
*(The Australian, 20-21 May 2017)*

The 2017–18 Federal Budget opens up measures to support the homeless, first-home buyers, investors, seniors and impact investing, to begin finally tackling the provision of affordable housing. Community Housing Providers (CHPs) are central to the task.

The Treasurer's 2017 Budget speech provided acknowledgement of the vital role CHPs play in ensuring that all Australians have a roof over their heads. The Government's encouragement of the states and territories to transfer existing stock to the community housing sector holds the promise of having social housing across the country managed with CHP best practice. This can have long-lasting positive effects and provides scale efficiencies.

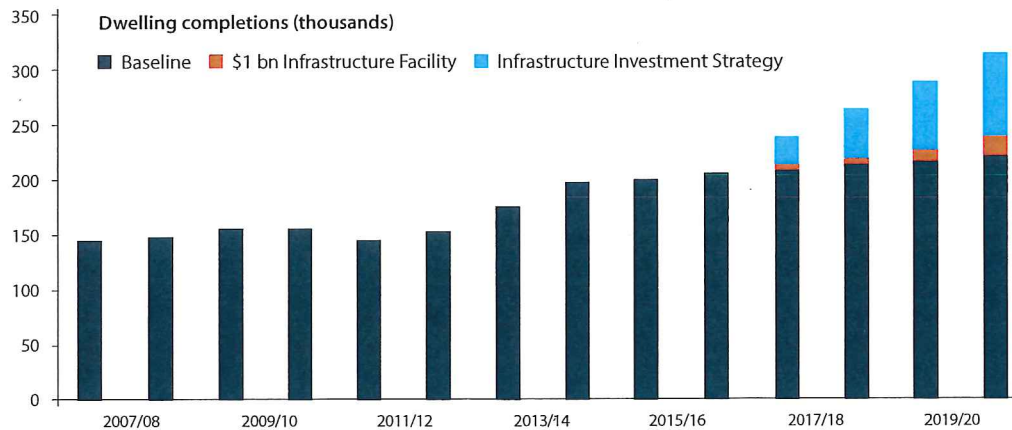
In the affordable housing end of the continuum, PowerHousing's CHP members will deliver homes on the scale sought by the new National Housing Finance and Investment Corporation, which is being established to operate an affordable Bond Aggregator.

Some other substantial Federal Budget measures that aim to support housing affordability include:

- An incentive for investors to purchase and provide housing at or below market rents, which will encourage supply over a sustained period. This incentive is in the form of an increased capital gains tax windfall that offsets the reduced rents.
- The rent - to buy model and shared equity schemes are currently being engineered and the commitment here is to provide a platform Australian's can use to go from renting to fulfilling the dream of home ownership.
- A First Home Super Savers Scheme that incentivises first homebuyers to put some extra money aside to get together a deposit. The model behind this scheme appears sound; however, the introduction of a higher concession cap above the \$30,000 should be considered as it would recognise the higher average capital city house prices, particularly in Sydney.
- A restructure of the National Affordable Housing Agreement (NAHA) to deliver a better return on Federal investment. This measure requires the states to also invest in affordable housing. Although some states have offered some concessions for first-home buyers and elements of affordable housing reform, it will be the year 2018 before the Federal measures start being matched or increased at the State Budget level.
- An online Commonwealth land release database that will assist in the sourcing of land for rezoning to residential. Housing affordability starts to improve when you have the provision of land, streamlined planning systems and reduced costs to see housing delivered. Both Federal and state governments need to better incentivise the delivery of not just more housing, but affordable housing.



**Chart 1: Impact on housing supply**



Source: Federal Budget, Budget Paper No. 3, 2017-18. Master Builders Australia.

Note: includes funding for all major infrastructure projects listed in Budget Paper No. 3 2017.

Master Builders of Australia commissioned a study from Cadence Economics to delve into the 2017-18 Federal Budget housing affordability measures. The group found that the Government's Budget both pumps new money into critical infrastructure areas and also incentivises streamlining of planning procedures and regulatory red-tape which can add up to "30-40 per cent of the cost of a new home." Their projections also show the Budget will "support the construction of up to 93,000 additional new homes by 2021, boosting supply by 41 per cent." According to their models, the Budget is expected to relieve supply pressures on housing prices and will also aid in construction by releasing Commonwealth land for residential development. The Cadence research shows the Budget having a significant positive effect on affordable rental housing with the National Housing Finance and Investment

Corporation, the creation of Managed Investment Trusts, and overall, a budget strategy around housing that will reduce waitlists for social housing across the country<sup>ii</sup>.

The Federal Government has laid out a framework for a potential long-term solution to the challenges posed by housing in Australia's rapidly changing market. The Federal Opposition has also placed a strong emphasis on the need for affordable housing provisions, particularly for low-income earners.

The 'devil will be in the detail' around actual delivery. With affordability metrics pointing to serious issues for those looking to access affordable housing—particularly at the social and low-income levels and with homelessness rates rising—the stakes are higher than ever before.





## 1. National Economic Indicators

## Growth

The Australian economy grew by 0.3 per cent (in seasonally adjusted terms) in the March quarter<sup>iii</sup>. Seventeen out of 20 industries recorded growth over this period. Across the year, the country recorded GDP of 1.7 per cent, which included the most recent September quarter negative growth period that threatened a technical recession across the year. Whilst Australia has the record for the longest run of uninterrupted growth, the annual result is the lowest since the 1.2 per cent annual growth recorded during the global financial crisis in 2009.

**Affordability 2017-18** – The Reserve Bank expects this low growth result to improve. In fact, economic growth is expected to increase gradually over the next couple of years to a little above 3 per cent.<sup>iv</sup> This longer term forecast will support new housing delivery, higher home turnover and improved sentiment, which will support confident decision making.

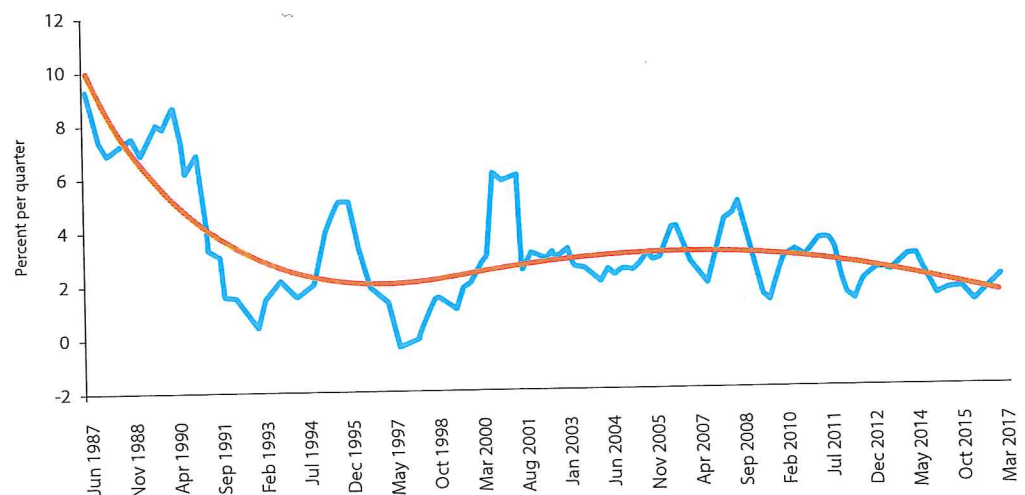
## Inflation

The Australian Consumer Price Index (CPI) (used as a measure of inflation) rose 2.1 percent over the previous twelve months to the quarter ending March 2017<sup>v</sup>. From an historical perspective, the 30-year average CPI is 3.1 percent, and the 10-year average CPI is 2.4 percent<sup>vi</sup> respectively. The Reserve Bank of Australia Governor is aiming to maintain an average growth of CPI at 2–3 per cent overtime<sup>vii</sup>. Over the past 30 years, there has been considerably less volatility in measures of CPI which has led to a lower interest environment.

**Affordability 2017-18** – The current figure is on the lower end of the bounds of acceptable growth, but on an upward tick in the last quarter to support the economy. Headline inflation has only recently slipped back into the RBA's target range of 2–3 per cent; however, the RBA's preferred measures of underlying inflation remain below target, which provides the RBA with further scope to reduce the cash rate if they see a requirement to do so.

**Chart 2: ABS 6401 Consumer Price Index (Mar Qts 2017)**

Released 26.4.2017





## Interest Rates

Interest rates have remained on hold at a historic low of 1.5 per cent, since the last movement in interest rates downward, which was made by the Reserve Bank in August 2016.

However, in its last meeting on 4 July 2017 the Reserve Bank Board signaled a rate rise bias indicating the economy could potentially support a cash rate of 3.5 percent in the near future which translates to a 7.25 percent mortgage rate.

**Affordability 2017-18** – A low interest rate environment over an extended time period has allowed mortgagees to pay down their loans, which has improved affordability and reduced loan repayments, potentially opening the door for first-home buyers and low-income earners to have access to affordable housing. Low interest rates have also supported a greater number of investors who have leveraged assets such as a primary residence, which has increased demand for housing. This in-turn has increased auction rates and lending for non-primary residence purchases to record levels.

Conversely, a future hike in interest rates as signalled by the Reserve Bank in July 2017 would increase mortgage rates and put greater pressure on mortgage repayments which may impact owner occupier and investor demand into FY2018 and FY2019.

## Unemployment

April 2017 labour force figures show unemployment decreasing by 19,100 people or 0.2 percent<sup>viii</sup> bringing the unemployment rate down from 5.9 per cent to 5.7 percent. This represents a positive improvement in the labour market from the previous quarter. The ABS also reports a consistency in labour force participation with the rate remaining at 64.8 percent in April 2017. Both unemployment and participation rates remain generally unchanged from the previous year from April 2016<sup>ix</sup>.

**Affordability 2017-18** – The increased employment rate provides support for housing purchases, but of note is the fact that part-time employment seems to be increasing, while full-time work looks to be decreasing\*. This trend could increase underemployment and impact wages growth, that will eventually impact capacity to purchase a home.

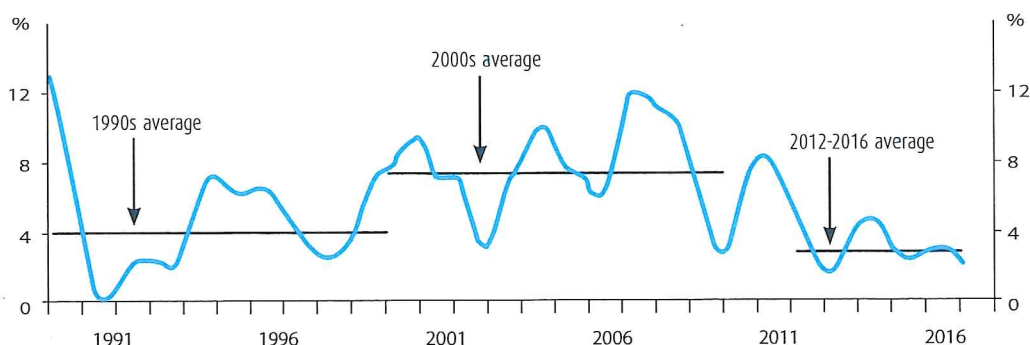
## Wages Growth

Wage growth figures for the March 2017 quarter rose 0.5 percent, which represents a growth rate of 1.9 percent on the year<sup>xi</sup>. This puts wages growth slower than inflation, which was 2.1 percent at the year-end and affects the population's purchasing power.

The rate of 1.9 percent on the year is particularly low, even within the recent

## Household Disposable Income

ABS, Reserve Bank of Australia (May 2017)



post-mining boom period of below-average wage growth. While wage growth has been sluggish over the past several years, RBA data (after the release of the March Quarter 2017) suggests that wage growth will increase over the next several years. The RBA has stated that as the economy continues to adjust from the mining boom, wages will start to rise as the market adjustment finalises<sup>xii</sup>.

**Affordability 2017-18** – The current situation of slow wage growth coupled with increasing rental and purchasing prices will challenge any gains in affordability.

## Net Overseas Migration and Population Growth

The Australian Bureau of Statistics (ABS) reports that population growth for the year ending 30 September 2016 was 1.5 percent<sup>xiii</sup> with a total 24.22 million people living in the country. Net Overseas Migration (NOM) for the same year was estimated to be 182,165 people, which represents an 8.9 percent increase on the previous year.<sup>xiv</sup>

Natural population increase for the year made up 44.6 percent of total population growth, with NOM making up the remaining 55.4 percent.<sup>xv</sup>

Victoria continues to show strong population growth and is the only state to record growth exceeding the national average at 2.1 percent, with the ACT matching national growth at 1.5 percent for the year.<sup>xvi</sup> If present rates were to continue at the same rate, Melbourne would surpass Sydney as Australia's largest city at some point in the early 2030s.

The ABS projects both domestic birth rates and NOM to increase in coming years with Australia's population estimated to be between 36.8 and 48.3 million people by 2061<sup>xvii</sup>, with actual population likely to be towards the higher end of those estimates. This scenario would almost double the country's current population. Similarly, the Department of Immigration and Border Protection forecast annual NOM to be 246,000 people in 2020,<sup>xviii</sup> which is an increase of 52,800 people (or 27 percent) from 2016 September.

Population at end Sep qtr 2016	Population	Change over previous year	
PRELIMINARY DATA	'000	'000	%
New South Wales	7,757.8	109.6	1.4
Victoria	6,100.9	127.5	2.1
Queensland	4,860.4	67.7	1.4
South Australia	1,710.8	9.4	0.6
Western Australia	2,623.2	25.2	1
Tasmania	519.8	2.6	0.5
Northern Territory	245.7	0.8	0.3
Australian Capital Territory	398.3	5.8	1.5
Australia (a)	24,220.2	348.7	1.5

(a) Includes other Territories comprising Jervis Bay Territory, Christmas Island and the Cocos (Keeling) Islands.

MIGRATION SUMMARY, States and Territory - 2015-16 (a)			
PRELIMINARY DATA	Net Overseas Migration (NOM)	Net Interstate Migration (NOM)	Net Migration
State or Territory	No.	No.	No.
New South Wales	71,161	-11,349	59,812
Victoria	65,007	16,699	81,706
Queensland	20,019	11,581	31,600
South Australia	9,163	-6,398	2,765
Western Australia	13,640	-7,703	5,937
Tasmania	1,143	42	1,185
Northern Territory	420	-2,696	-2,276
Australian Capital Territory	1,607	-176	1,431
Australia (a)	<b>182,165</b>	<b>na</b>	<b>182,165</b>

(a) NOM numbers do not include migrants that stay for less than 12 months over a 16 month period, and do not include Australians that leave for less than 12 months over a 16 month period.

**Affordability 2017-18** – Whilst Australia is commencing over 230,000 homes per year, the current population increase through NOM is being met. The risk for affordability is if housing delivery goes below the 160,000 dwelling mark (the longer term average residential build rate), and does not keep up with population growth.

## Household Formation

Australian households are predicted to continue growing during the next 20 years to over 12.6 million households, which is around a 50 percent increase from 2011<sup>xix</sup>. Family households are projected to increase to over 8.7 million families by 2031, while lone-person households will likely grow to over 3.4 million people by 2036. This increase in lone-person households is a growth of over 60 per cent from 2011, and represents the ageing of Australia's population, including a growing prevalence of older women living alone.

**Affordability 2017-18** – The majority of households will continue to be multi-person family households, with the average household size projected to stay consistent at 2.5 people per household (or higher)

through to 2036. This household ratio reflects consistent growth over time and illustrates the need for Australia to maintain current elevated pipelines of new homes to house this future population and improve affordability.

## Household Net Savings and Household Wealth

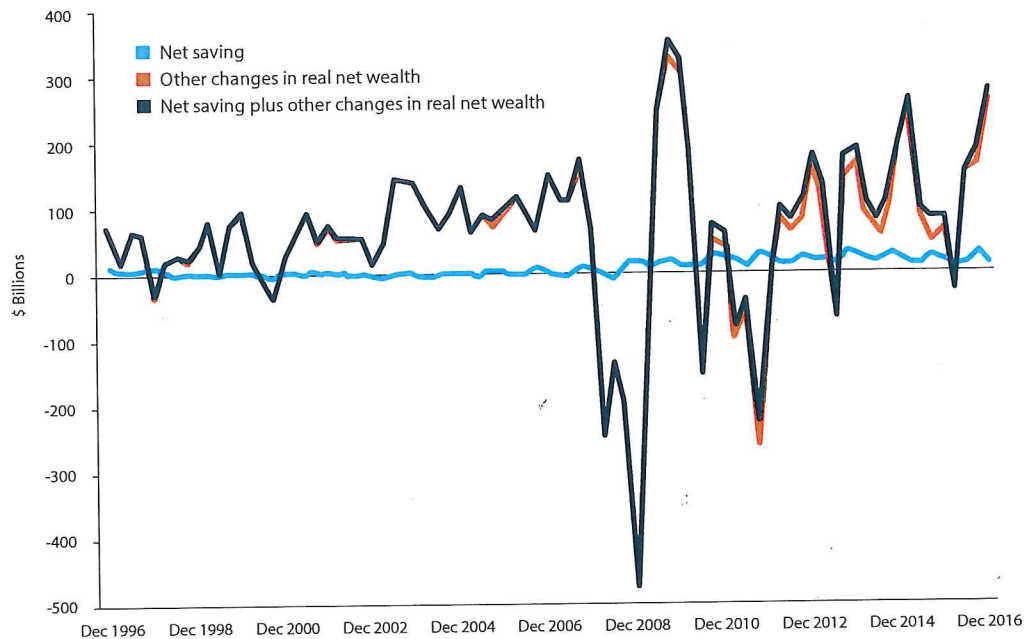
The December quarter 2016 saw household net worth grow to \$9,404.5 billion, which is an increase of \$328.1 billion from the previous quarter<sup>xx</sup>. Over 67 percent of household net worth from the December quarter constituted land and dwelling assets, and real holding gains in the quarter were predominantly driven by increases in this asset class<sup>xxi</sup>.

Similarly, household net savings, including changes in real net worth, grew to \$274.5 billion in the December quarter 2016, up from \$185.2 billion in the September quarter. This increase resulted principally from real holding gains on land and dwellings, and financial assets. Without the addition of such real net worth gains, household net savings decreased from \$28.7 billion in September to \$12.3 billion in December 2016.



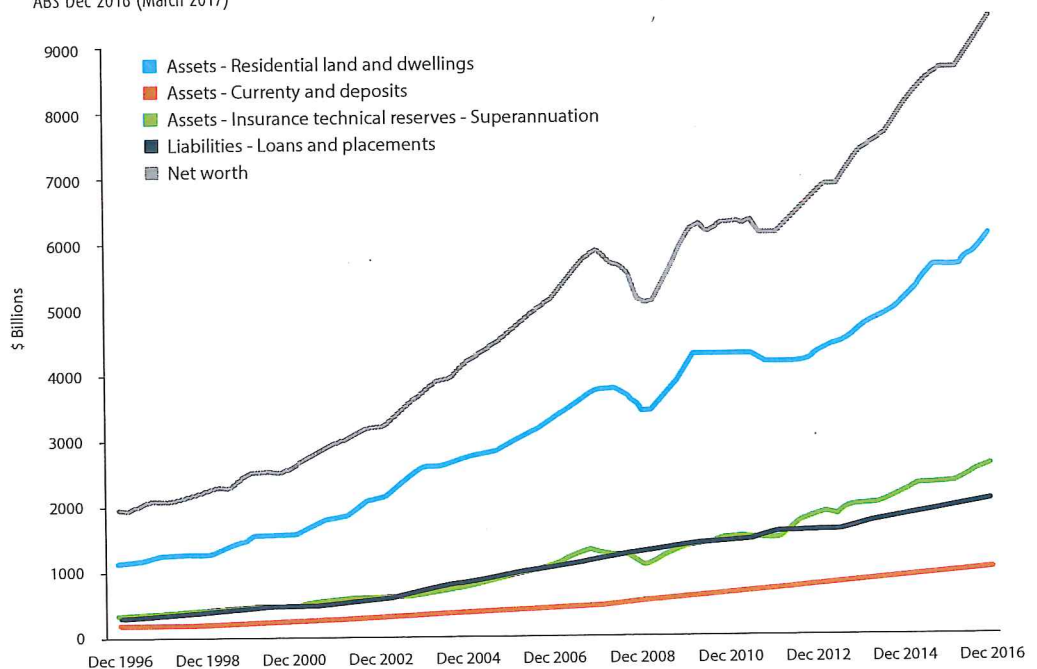
**Chart 3: 5232.0 - Australian National Accounts: Finance and Wealth**

ABS Dec 2016 (March 2017)



**Chart 4: 5232.0 - Australian National Accounts: Finance and Wealth**

ABS Dec 2016 (March 2017)



**Affordability 2017-18 – Australian**  
Household wealth has increased on the back of greater net savings, and growth in land and dwelling values. This increases the

capability for those with property already to invest, but it is unlikely to assist new entrants or low-income earners without property already.



## 2. National Housing Indicators



## Transaction Volumes

Although dwelling values have been rising across the nation, since March 2015 there has been an ongoing decline in the number of settled dwelling sales. There is likely to be some upwards revision to the numbers, given that off-the-plan property sales, which have become more prominent, are yet to settle.

Nevertheless, the number of settled sales reached a record high over the 12 months to May 2002 when 632,680 dwelling sales occurred. Over the 12 months to May 2017 there were 477,101 settled sales of houses and units, which was 24.6 per cent lower than the peak level of sales. The number of sales was also lower year-on-year, down 4.6 per cent compared to settled sales a year earlier.

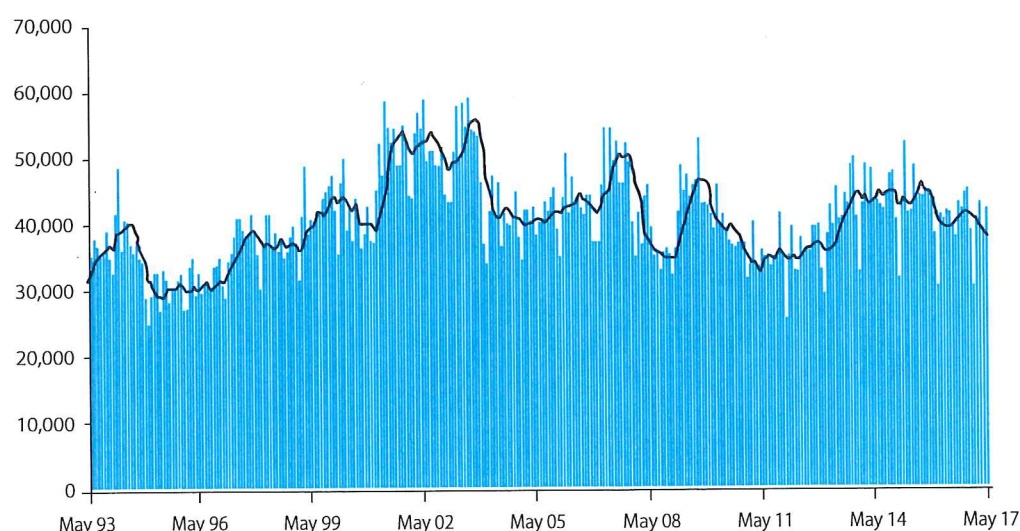
At the capital city level, the trends are somewhat more diverse. However, the three most populated cities have all recorded a year-on-year fall in settled sales. The annual number of sales is lower over the past year

in Sydney (-4.3%), Melbourne (-12.4%), Brisbane (-11.1%) and Canberra (-1.0%). In the remaining capital cities, settled sales are higher over the year with Adelaide sales 0.6% higher, Perth sales 0.3% higher, Hobart sales 1.0% higher and Darwin sales 2.6% higher.

The fact that settled sales are substantially lower than they were at their 2002 peak, yet the overall number of dwellings has increased substantially since this time, points to market inefficiencies, which deter transactions of properties. In particular, the high-transactional costs related to buying and selling property has a bearing on transaction activity. These costs include stamp duty, inspection costs and legal fees when purchasing, as well as agency commissions when selling.

Other factors contributing to a slowdown in settled sales numbers are affordability constraints, low advertised stock levels (in some cities), weaker consumer confidence and tighter credit policies.

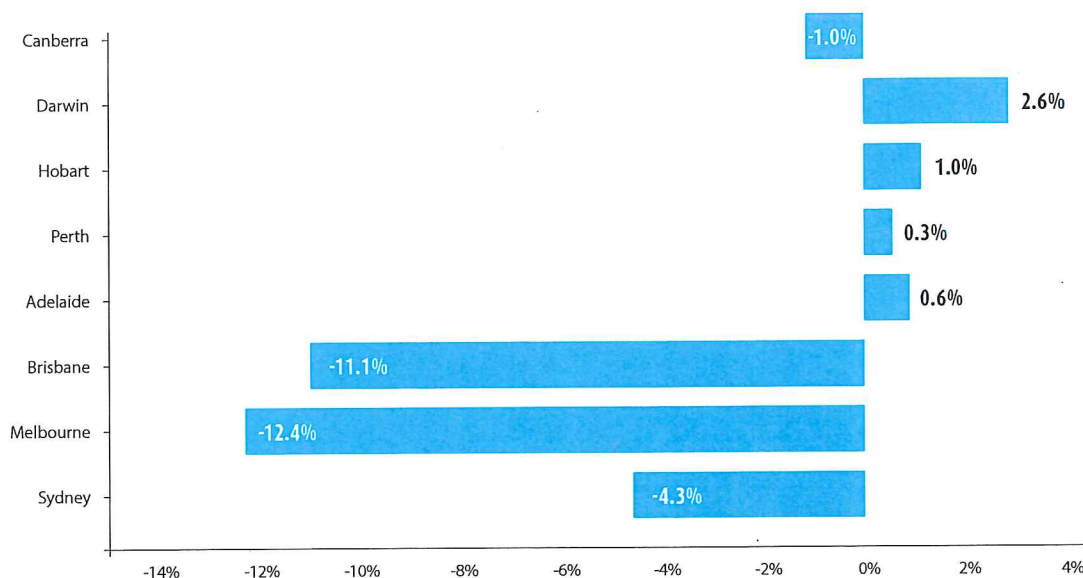
**Chart 5: Monthly number of settled sales, National**



Source: CoreLogic, June 2017



**Chart 6: Year on year change in dwelling sales**



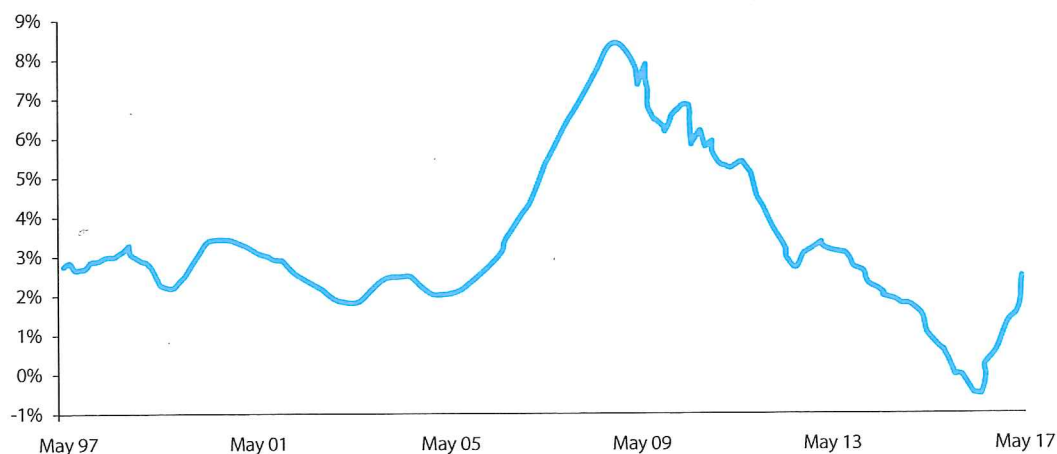
Source: CoreLogic, June 2017

## Rental Rates

Over the 12 months to May 2017, capital city dwelling rents have increased by 2.4 per cent with house rents 3.3 per cent higher and unit rents up 1.5 per cent. Over recent years, the rate of rental growth has slowed quite substantially; however, over the past

nine months, rental growth has rebounded. As at May 2017, the median weekly rent was recorded at \$499 for capital city dwellings, with houses (\$507/week) showing a higher rental cost compared with units (\$474/week).

## Annual change in capital city rental rates



Source: CoreLogic, June 2017

Over the past year, rents have fallen in Brisbane (-1.3%), Perth (-7.6%) and Darwin (-7.3%), while they have increased in all other capital cities. The annual rental increases have been recorded at 4.9 per cent in Sydney, 4.4 per cent in Melbourne, 2.3 per cent in Adelaide, 6.0 per cent in Hobart and 13.3 per cent in Canberra. In Sydney, rents are now growing at their fastest annual pace since January 2012, and in Adelaide they are increasing at their fastest pace since August 2014. Rents in Canberra are growing at their fastest pace on record (extending back to 1996).

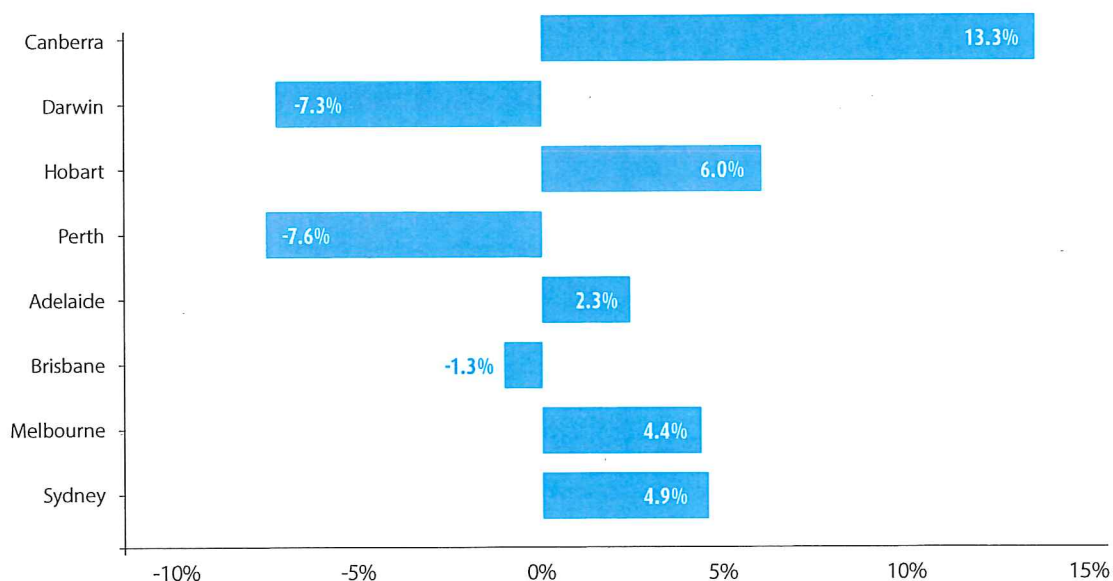
### First Home Owner Levels

First-home buyer numbers were recorded at 13.9 per cent of all dwellings financed for the month of April 2017. This percentage has trended consistently lower and is down from an average monthly first-home

buyer rate of around 24.3 per cent of all loans going to first home buyers between May 2008 and May 2010. The first-home owner grant policy increased the number of first-time buyers over this period.

Over the past 25 years, the number of first-home buyers has averaged around 9232 buyers per month. For April 2017, the rate declined to 6547 buyers picking up their first set of home keys in that month. Over the past five years, first-home buyers have averaged 7878 dwellings financed per month. Effectively, there has been a vacuum of 1353 less home purchases for first home buyers. As an example of where housing policy influenced the market, the average monthly first-home buyer numbers increased to 18,271 in May 2009, which is almost triple the April 2017 first-home buyer rate. In the 18 months to February 2010, 26.5 per cent of all loans went to first-home buyers, which is a response to the first-home owner grant.

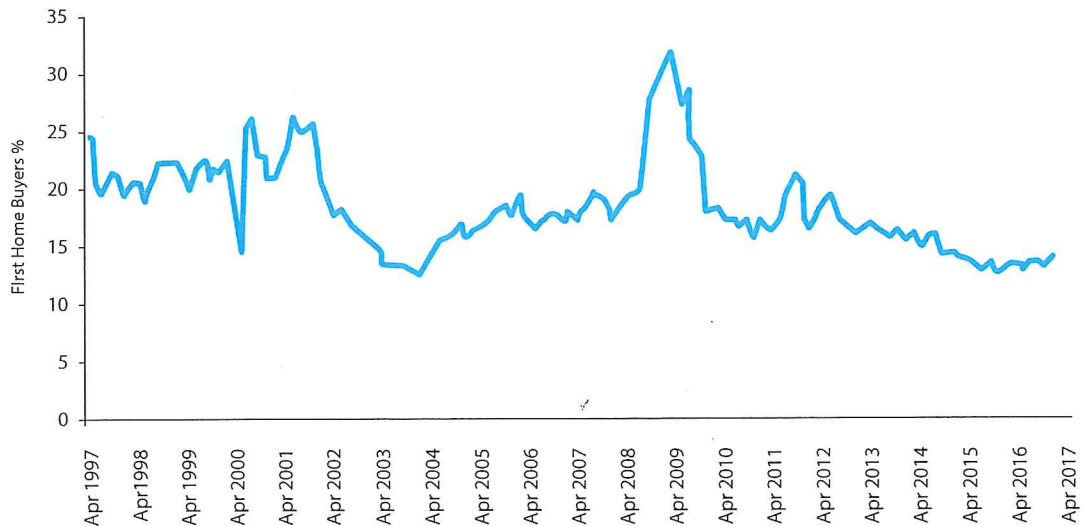
**Chart 7: Annual change in dwelling rental rates**



Source: CoreLogic, June 2017

## Chart 8: First Home Buyers

ABS 5609 Apr 2017 Original Terms



**Affordability 2017-18** – First-home buyers are declining as a percentage of all dwellings financed and the amount they are borrowing has also flat-lined over the past three years. Whilst average dwelling prices have risen across the country, the average first-home buyer loan size has increased by just under \$1,000 to \$317,000 per dwelling, which foretells of the limited capacity of first-home buyers to purchase at the rising average dwelling price.

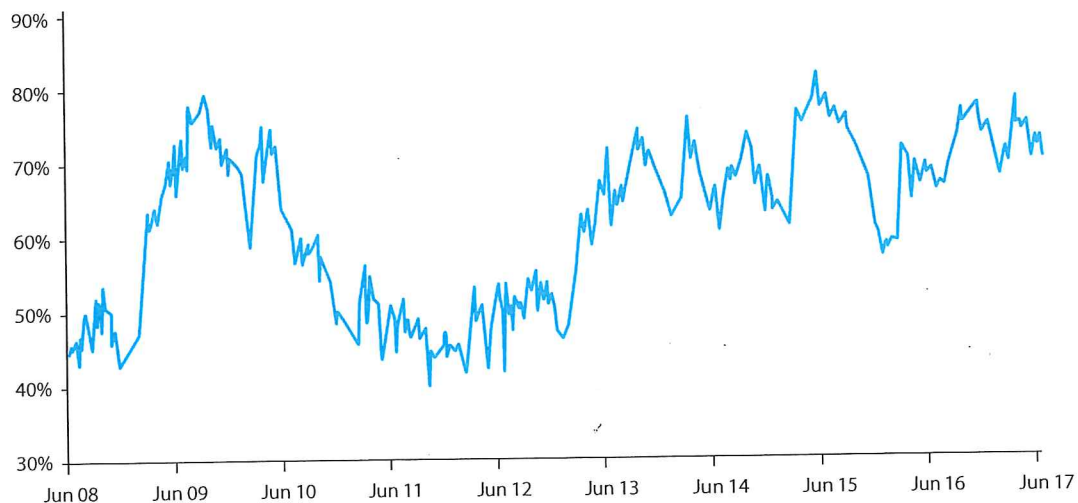
rate of 69.8 per cent, which is equal second lowest of the year. The rate of auction clearance is likely to support further growth in the market; however, the recent slowing indicates that selling conditions are not as robust as they were earlier in the year.

## Auction Clearance Rates

So far in 2017, the weighted average capital city auction clearance rate has been recorded at 73.3 per cent compared to an average of 71 per cent over 2016. Although auction clearance rates remain quite strong, there has been a softening trend since the middle of April 2017. Auction clearance rates reached a 2017 peak at 78.4 per cent in late February with the latest data for the first week of June showing a clearance

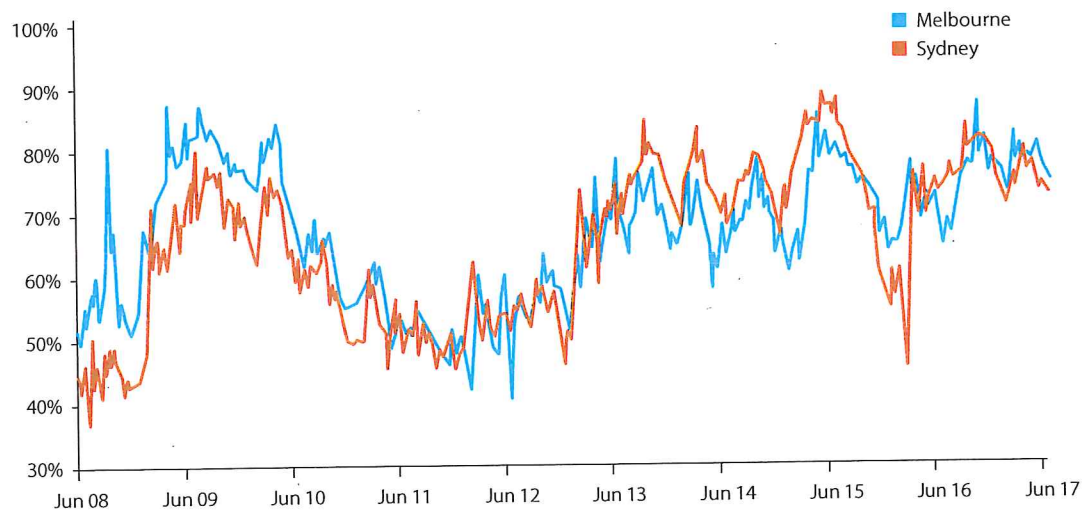
Melbourne's auction clearance rate was recorded at 73.1 per cent over the first week of June 2017, which was the city's lowest clearance rate of the year. Auction clearance rates still indicate strong market conditions; however, they are well down from the high 70 per cent to low 80 per cent readings achieved earlier this year. In Sydney, the auction clearance rate for the first week of June 2017 was recorded at 71.9 per cent which was also the city's lowest of the year. Again, clearance rates at this level are likely to continue to support growth in dwelling values; however, if auction results continue to trend lower it will be another sign of momentum leaving the housing market as buyers regain some leverage over sellers.

**Chart 9: Weighted average capital city auction clearance rates**



Source: CoreLogic, June 2017

**Chart 10: Weekly auction clearance rates, Sydney and Melbourne**



Source: CoreLogic, June 2017

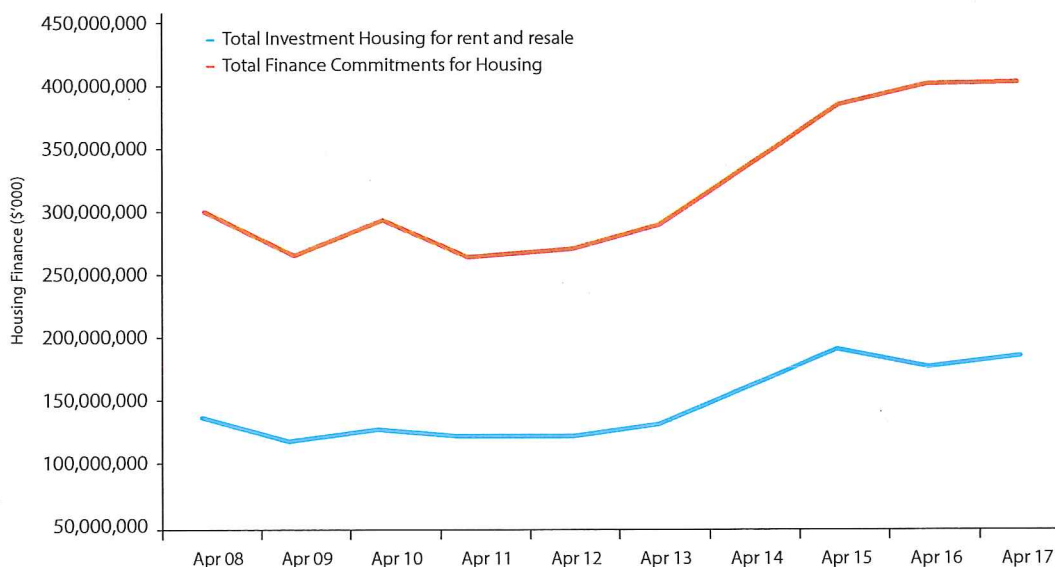
## Housing Finance/Investor Levels

Finance for housing has grown significantly since the global financial crisis. This is in part explained by the rising prices of existing dwellings, but underpinned by the increase in the volume of investor loans and the significant increase in the number of loans for new housing. As clearly indicated, investor loans have flattened out over the past two years, largely in response to the macroprudential measures introduced nationally, requiring banks to limit their loan books to investors.

**Affordability 2017-18** – Housing finance is likely to continue to remain moderate for investors and the significant growth in lending volumes for housing (and particularly new dwellings) is likely to moderate throughout 2017-18. Investment trends will moderate, rather than flatten (already seeing evidence of this), owing to a changed regulatory environment, higher mortgage rates and tighter credit policies for investment. The additional new housing supply, as financed for owner occupation and rental, is likely to weaken, which will reduce the number of dwellings coming into the market to aid affordability.

**Chart 11: Finance commitments for housing**

ABS 5671 Apr 2017 Seasonally Adjusted





## Building Approvals

Year to date	Dwellings approved
April 2008	163,771
April 2009	138,642
April 2010	170,322
April 2011	172,251
April 2012	146,078
April 2013	166,048
April 2014	195,110
April 2015	224,294
April 2016	239,852
April 2017	222,667

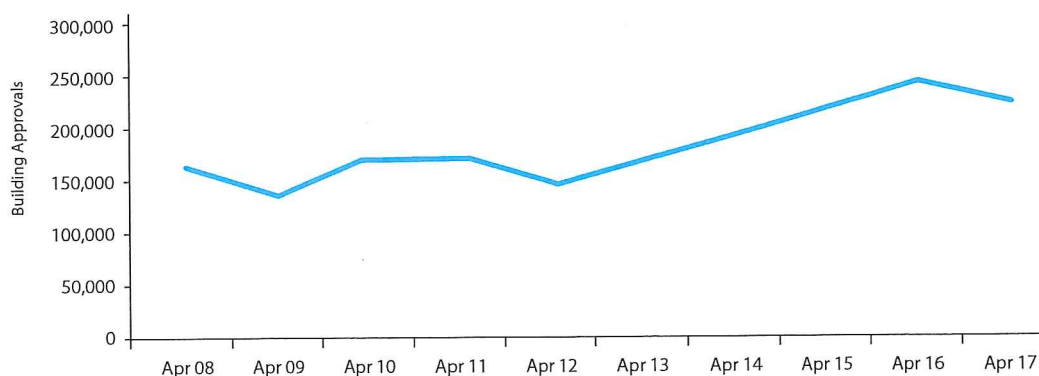
Building approval levels indicate a flow through of potential dwellings that are approved for building, but yet to be built. In simple terms, the approvals are the pipeline of future housing construction. As indicated, housing approvals for the 12 months as of April 2017 are at 222,667, which is down from the 12 months leading up to April 2016 where 239,852 dwellings were approved for construction. As shown in the table, the 12 months of building approvals up to

April 2016 saw over 100,000 more homes approved than for the equivalent period in April 2009, where only 138,642 dwellings were approved.

**Affordability 2017-18** – As long as these building approvals are constructed, this massive increase in the pipeline will flow through to commencements, completions and new homes going to buyers to improve affordability throughout 2017-18.

**Chart 12: Building Approvals**

ABS 8731 Apr 2017 Seasonally Adjusted



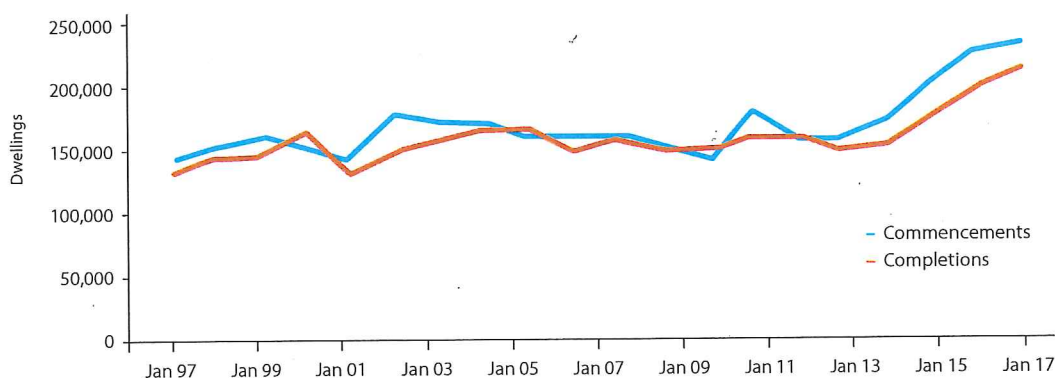
## Building Activity

Building activity has increased significantly over the past four years. Australia has gone from building an average of 152,000 dwellings per year, to completing over 211,000 dwellings per year. The rise in commencement and completion activity follows and tracks the rise in building

approvals. With nearly 60,000 dwellings built in the past calendar year, above the yearly average, this yearly surge in additional housing alone is enough to house the entire population of Cairns or Darwin. With commencement activity eventually leading to additional homes, there will be several years of inflated activity expected to provide much needed housing.

### Chart 13: 20 Year Building Activity

ABS 8752 Dec 2016 (Apr 2017)



**Affordability 2017-18** – Commencement and completion activity is expected to decline as finance and building approvals for new dwellings dissipate. This will start to reverse some of the affordability gains

that may have been achieved, unless elevated building activity at the 180,000-completion mark is sustained and incentivised into the 2020–2025 period.

## Housing Stock and Vacancy Rates

The 2016 Census indicates that 17 percent of new housing stock built since 2011 was recorded as vacant, which equates to almost one in six properties. The census recorded that 11.2 percent of all dwellings nationally were vacant. These homes are estimated to be vacant based on delivery of census forms and follow up home visits by Census staff to properties that failed to file forms.<sup>1</sup>

Whilst these high vacancy levels are largely assumed to stem from temporarily vacant properties where occupants are travelling, or dwellings used as holiday homes or potentially Airbnb stays – there remains uncertainty as to whether significant numbers of foreign investors are leaving homes vacant. Such information around housing stock and vacancy rates require better understanding to optimise dwelling usage to meet high demand.



## Foreign Investment Levels

Foreign investment approvals in residential real estate rose in the 2015-16 year by 16 per cent or \$11.6 billion which represents \$72.4 billion in potential sales to foreign persons. It is to be noted that not all investment approvals translate into actual purchases of dwellings and so this number is higher than real purchases. However, these figures do imply significant purchasing capacity by foreign persons within the residential housing market, including those purchasing off-the-plan dwellings across the country. Most of these approvals were in New South Wales and Victoria where demand for

housing in Sydney and Melbourne continues to grow.

**Affordability 2017-18** – Australia's record number of new homes under construction are supported by foreign investment. Foreign investment into Australian residential real estate is expected to continue to support new housing delivery throughout 2017-18, aiding record supply. With additional taxes to be placed on vacant dwellings, it is expected that new housing stock will be provided for occupation (rather than sit idle) to increase rentals, albeit at the middle-to-upper rental levels.

	2012-13		2013-14		2014-15		2015-16	
	No.	\$b	No.	\$b	No.	\$b	No.	\$b
<b>Developed</b>	5,101	6.4	7,920	7.5	9,347	11.5	5,877	7.3
<b>For Development</b>	6,567	10.8	15,134	27.2	27,594	49.2	34,264	65.2
	<b>11,668</b>	<b>17.2</b>	<b>23,054</b>	<b>34.7</b>	<b>36,941</b>	<b>60.7</b>	<b>40,149</b>	<b>72.5</b>

State	Percentage of approvals	Number of approvals
Victoria	43.6	17,525
New South Wales	32.2	12,931
Queensland	16.8	6,728
Western Australia	4.1	1,646
South Australia	2.2	893
Australian Capital Territory	0.7	283
Tasmania	0.2	91
Northern Territory	0.1	24
<b>TOTAL</b>	<b>100.0</b>	<b>40,149</b>

Source: Foreign Investment Review Board Annual Report 2015-2016 (May 2017)



### 3. National Affordability Measures



## Younger Generations Renting and Living at Home

According to the 2016 Census, younger Australians specifically those under 55 years of age, are renting at higher levels and owning homes at lower levels than ever before. This is particularly true for Millennials (born between 1982 and 2004) who are living at home with parents in greater numbers than previous generations, with the number of Millennials living at home rising 20 percent since the last census in 2011.<sup>1</sup> These trends may be indicative of younger generations having a harder time entering the property market than previous generations in part due to high dwelling costs and low wages growth.

## Rental Affordability Index – Metropolitan centres and Rest of State Areas

As indicated by the Rental Affordability Index<sup>xxii</sup>, Greater Sydney remains the least affordable rental city amongst all metropolitan areas. Like metropolitan Sydney, regional New South Wales remains the least affordable of the rest of state areas considered by the index. Greater Perth continues to see substantial improvements in rental affordability and the index has increased by 25 since the December quarter of 2014, to 140 in quarter four of 2016. Regional Western Australia continues to improve in affordability at a significant rate. It is the only metropolitan or rest-of-state area that is considered to have affordable rents. Victoria remains the only state to have a lower index in its rest-of-state area than in its greater metropolitan area. All other metropolitan areas studied have experienced a decline in rental affordability since the last Rental Affordability Index release, though to varying degrees. Greater Hobart has seen the largest decline in affordability in the last quarter (March 2017), falling from 114 to 108. As the index states, the situation remains dire for low-income households in metropolitan areas across Australia.

## Housing Stress

The 2016 Census shows the number of renters spending more than 30 percent of their income on rent has risen to 11.5 percent (up from 10.4 percent). While at the same time, those paying more than 30 percent of income on a mortgage has decreased to 7.2 percent (down from 9.9 percent) and is reflective of lower interest rates. While interest rates remain low, housing stress levels amongst homeowners is expected to remain low. However, rental stress for those renting may continue to rise if rental rates continue to out-pace growth in wages.<sup>1</sup>

## Median prices

The median dwelling price across the country was recorded at \$540,000 in May 2017 with median house prices recorded at \$560,000 and median unit prices at \$493,000. Looking only at the capital cities, the median price is \$630,000 with houses recorded at \$670,000 and units at \$550,000.

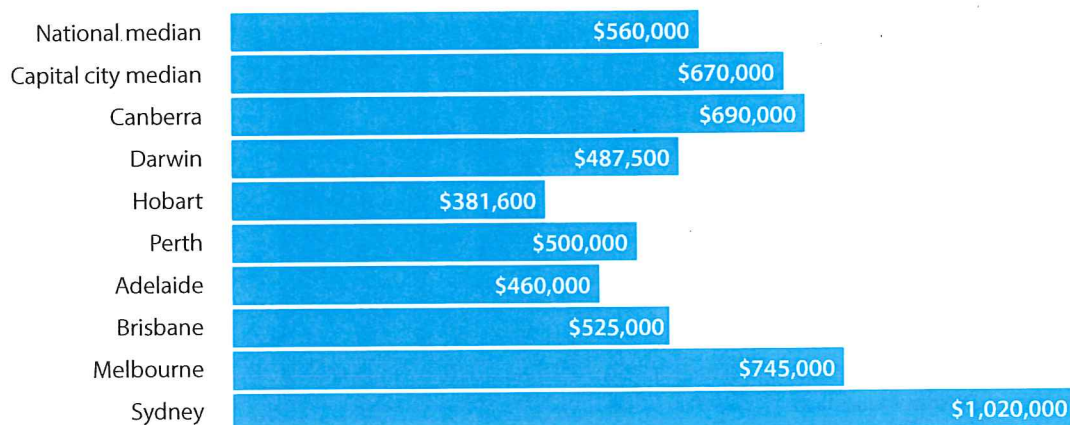
Median house prices across the capital cities are recorded at \$1.02 million in Sydney, \$745,000 in Melbourne, \$525,000 in Brisbane, \$460,000 in Adelaide, \$500,000 in Perth, \$381,600 in Hobart, \$487,500 in Darwin and \$690,000 in Canberra. Based on this data, houses in Sydney are substantially more expensive than in all other capital cities, while there is also a significant premium for Melbourne and Canberra houses compared to the other capital cities. Houses in Hobart remain much cheaper than those in any of the mainland capital cities.

Sydney has the highest median unit price of all capital cities at \$742,900. In fact, it is higher than the median house price in all other capital cities except Melbourne. Median unit prices elsewhere are recorded at \$525,000 in Melbourne, \$390,000 in Brisbane, \$365,000 in Adelaide, \$405,000 in Perth, \$311,500 in Hobart, \$420,000 in Darwin and \$426,000 in Canberra. Sydney and Melbourne experience sizeable premiums relative to the other capital cities, whereas units are much more affordable in Hobart.

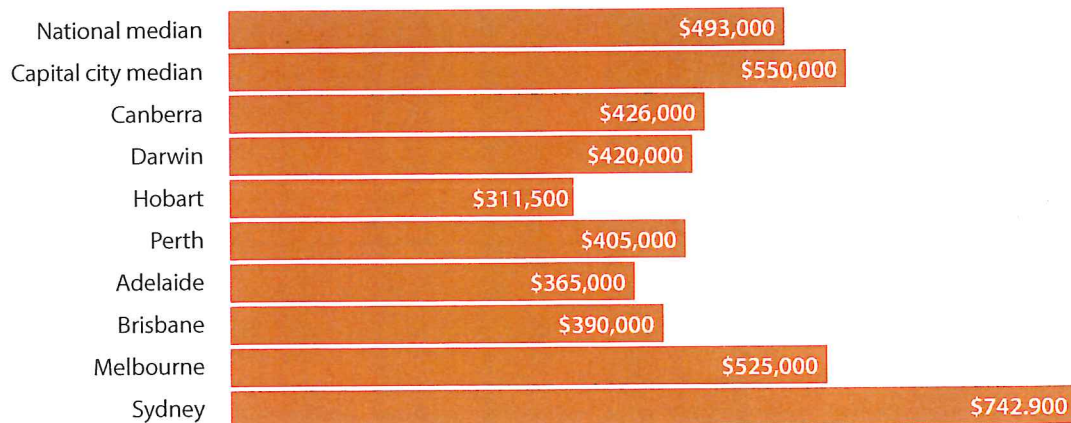
### Median dwelling price



### Median house price



### Median unit price



Source: CoreLogic, June 2017



## 20 year dwelling house and unit snapshot 1997-2017

	Sydney Dwellings	Melbourne Dwellings	Brisbane Dwellings	Adelaide Dwellings	Perth Dwellings	Hobart Dwellings	Darwin Dwellings	Canberra Dwellings	Capital city Dwellings	National Dwellings
May 97	\$200,000	\$134,200	\$138,600	\$108,000	\$121,000	\$98,800	N/A	\$136,500	\$150,000	\$135,000
May 02	\$360,000	\$259,500	\$182,500	\$157,000	\$169,000	\$117,500	\$166,500	\$232,500	\$250,000	\$210,000
5 yr change	80.0%	93.4%	31.7%	45.4%	39.7%	18.9%	N/A	70.3%	66.7%	55.6%
May 07	\$445,000	\$350,000	\$356,000	\$287,000	\$425,000	\$275,000	\$310,000	\$395,000	\$375,000	\$348,000
5 yr change	23.6%	34.9%	95.1%	82.8%	151.5%	134.0%	86.2%	69.9%	50.0%	65.7%
May 12	\$555,000	\$467,500	\$416,000	\$365,000	\$463,000	\$336,500	\$466,000	\$470,000	\$470,000	\$420,000
5 yr change	24.7%	33.6%	16.9%	27.2%	8.9%	22.4%	50.3%	19.0%	25.3%	20.7%
May 17	\$872,300	\$665,000	\$490,000	\$432,000	\$481,500	\$350,000	\$460,000	\$600,000	\$630,000	\$540,000
5 yr change	57.2%	42.2%	17.8%	18.4%	4.0%	4.0%	-1.3%	27.7%	34.0%	28.6

	Sydney Houses	Melbourne Houses	Brisbane Houses	Adelaide Houses	Perth Houses	Hobart Houses	Darwin Houses	Canberra Houses	Capital city Houses	National Houses
May 97	\$200,000	\$139,000	\$137,000	\$111,500	\$125,000	\$103,500	N/A	\$140,000	\$148,000	\$132,000
May 02	\$381,500	\$255,000	\$184,000	\$167,000	\$170,000	\$125,000	\$185,000	\$255,000	\$245,000	\$201,000
5 yr change	90.8%	83.5%	34.3%	49.8%	36.0%	20.8%	N/A	82.1%	65.5%	52.3%
May 07	\$502,000	\$365,000	\$370,000	\$302,800	\$439,000	\$290,000	\$350,000	\$442,000	\$395,000	\$355,000
5 yr change	31.6%	43.1%	101.1%	81.3%	158.2%	132.0%	89.2%	73.3%	61.2%	76.6%
May 12	\$620,000	\$489,000	\$439,000	\$380,000	\$475,000	\$355,000	\$510,000	\$525,000	\$485,000	\$420,000
5 yr change	23.5%	34.0%	18.6%	25.5%	8.2%	22.4%	45.7%	18.8%	22.8%	18.3%
May 17	\$1,020,000	\$745,000	\$525,000	\$460,000	\$500,000	\$381,600	\$487,500	\$690,000	\$670,000	\$560,000
5 yr change	64.5%	52.4%	19.6%	21.1%	5.3%	7.5%	-4.4%	31.4%	38.1%	33.3%

	Sydney Units	Melbourne Units	Brisbane Units	Adelaide Units	Perth Units	Hobart Units	Darwin Units	Canberra Units	Capital city Units	National Units
May 97	\$200,000	\$121,000	\$145,000	\$95,000	\$105,000	\$84,000	N/A	\$127,000	\$155,000	\$147,500
May 02	\$340,000	\$265,000	\$179,900	\$126,000	\$165,000	\$93,800	\$130,000	\$195,000	\$262,900	\$230,000
5 yr change	70.0%	119.0%	24.1%	32.6%	57.1%	11.7	N/A	53.5%	69.6%	55.9%
May 07	\$390,000	\$330,000	\$315,000	\$241,000	\$375,000	\$240,000	\$265,000	\$345,000	\$342,000	\$327,500
5 yr change	14.7 %	24.5 %	75.1 %	91.3 %	127.3 %	155.9 %	103.8 %	76.9 %	30.1 %	42.4 %
May 12	\$515,000	\$440,000	\$385,000	\$317,500	\$420,000	\$285,000	\$420,000	\$420,000	\$446,000	\$415,000
5 yr change	32.1%	33.3%	22.2%	31.7%	12.0%	18.8%	58.5%	21.7%	30.4%	26.7%
May 17	\$742,900	\$525,000	\$390,000	\$365,000	\$405,000	\$311,500	\$420,000	\$426,000	\$550,000	\$493,000
5 yr change	44.3%	19.3%	1.3%	15.0%	-3.6%	9.3%	0.0%	1.4%	23.3%	18.8%

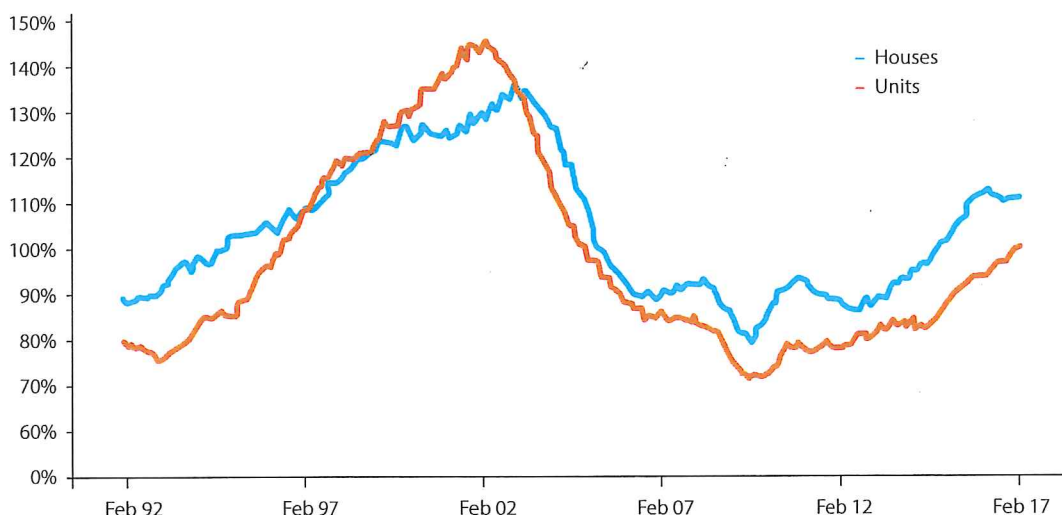
Source: CoreLogic, June 2017

## Pricing differential between highest and lowest quartiles

Over the 12 months to February 2017, the 25th percentile price of a house nationally was \$355,000, while the 75th percentile price was \$750,000. This represents a differential of 111 per cent between the more affordable quartile and the most expensive quartile. While this may seem

like a significant difference, it is only slightly higher than the long-run average of 104 per cent. The differential has been increasing over recent months, which implies that the premium sector of the market has been outperforming the more affordable sector.

### Difference between 25th and 75th percentile prices, National



Source: CoreLogic, June 2017

The 25th percentile unit price nationally was \$332,000 over the year to February 2017, compared to \$665,000 for the 75th percentile price. This is a differential of 100 per cent between the two, with the gap having widened a little recently, again indicating moderately stronger conditions in the premium unit market. Over the long-term, the average differential has been 97 per cent, which is similar to the current gap. Shown in the following table, across the individual capital cities, the differential between the 25th and 75th percentile prices

and their long-term averages were 128% (118%) in Sydney, 108% (88%) in Melbourne, 76% (66%) in Brisbane, 78% (76%) in Adelaide, 75% (87%) in Perth, 80% (84%) in Hobart, 63% (61%) in Darwin and 54% (51%) in Canberra. The differentials and long-term averages for units were recorded at: 69% (75%) in Sydney, 77% (80%) in Melbourne, 56% (65%) in Brisbane, 72% (81%) in Adelaide, 65% (87%) in Perth, 60% (64%) in Hobart, 54% (56%) in Darwin and 50% (44%) in Canberra.

### Difference between 25th and 75th percentile prices, cities

City	Housing type	Percentile		Differential
Sydney	Houses	25th	\$ 655,000	127.8%
		75th	\$1,491,800	
	Units	25th	\$540,000	68.5%
		75th	\$910,000	
Melbourne	Houses	25th	\$ 465,000	107.5%
		75th	\$965,000	
	Units	25th	\$370,000	77.2%
		75th	\$655,800	
Brisbane	Houses	25th	\$ 390,000	75.6%
		75th	\$685,000	
	Units	25th	\$330,000	56.1%
		75th	\$515,000	
Adelaide	Houses	25th	\$ 335,000	77.6%
		75th	\$595,000	
	Units	25th	\$271,000	71.6%
		75th	\$465,000	
Perth	Houses	25th	\$406,000	74.9%
		75th	\$710,000	
	Units	25th	\$330,000	65.2%
		75th	\$545,000	
Hobart	Houses	25th	\$ 280,000	80.4%
		75th	\$505,000	
	Units	25th	\$225,000	60.0%
		75th	\$360,000	
Darwin	Houses	25th	\$ 390,000	62.8%
		75th	\$635,000	
	Units	25th	\$340,000	54.4%
		75th	\$525,000	
Canberra	Houses	25th	\$514,000	53.7%
		75th	\$790,000	
	Units	25th	\$360,000	50.0%
		75th	\$540,000	

Source: CoreLogic, June 2017

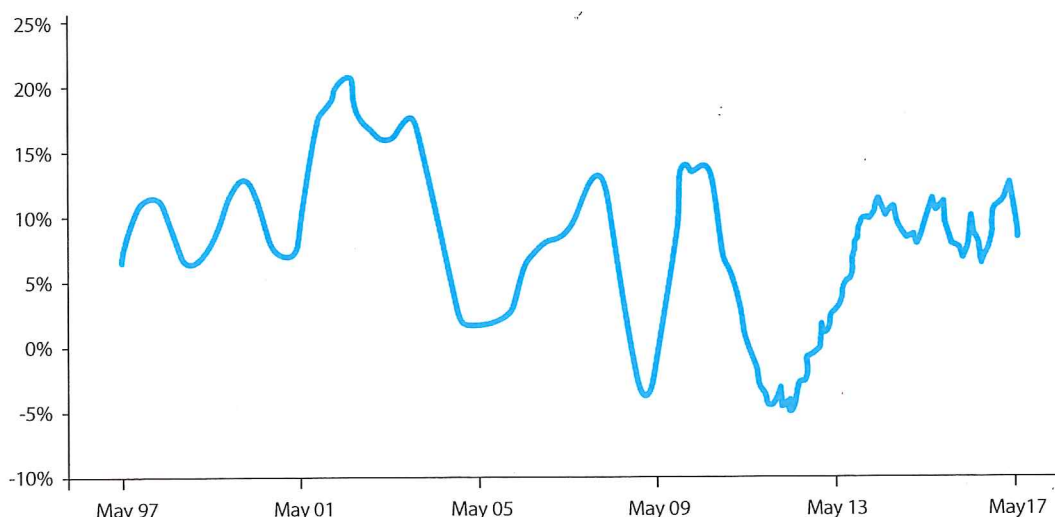


## Value changes

Capital city dwelling values have increased by 8.3 per cent over the 12 months to May 2017, with house values increasing by 9 per cent and unit values only rising by 3.4 per cent. Capital city dwelling values had previously recorded declines between October 2010 and May 2012, and have now been increasing for five years. Over the longer term, the chart shows that

values have—over the past 20 years—typically increased much more regularly than they have fallen. Keep in mind that over this period there has not been a recession in Australia and this has also been accompanied by lower interest rates, more stringent inflation targeting by the Reserve Bank and ongoing financial deregulation.

**Chart 14: Annual change in combined capital city dwelling values**



Source: CoreLogic, June 2017

Although the combined capital city figures point to sustained capital growth over the past five years, at an individual capital city level the trends are markedly different, with Sydney and Melbourne providing the majority of the recent growth. Over the past year, dwelling values across all capital cities except Perth and Darwin have increased. These increases are 11.1 per cent in Sydney, 11.5 per cent in Melbourne, 2.3 per cent in Brisbane, 2.9 per cent in Adelaide, 5.8 per cent in Hobart and 5.7 per cent in Canberra. Perth dwelling values decreased by 3.8 per

cent and Darwin dwelling values decreased by 6.4 per cent.

Another emerging trend is the underperformance of unit value growth compared to houses. Perth, Darwin and Canberra are the only capital cities in which unit value growth has outpaced that of houses over the past twelve months. In Melbourne and Brisbane unit values have fallen over the past year, while house values have risen. In Adelaide and Hobart, unit values have increased at less than half the pace of house values, over the past year.



## Sales by price point

As values have increased over recent years, the supply of housing at lower price points has decreased substantially. The following table highlights the number of settled sales over the 12 months to February 2017, where house and units sold for less than \$400,000 across each capital city. The bracketed figure shows the proportion five years ago.

### Sydney

- > Houses – 3.5% (25.8%)
- > Units – 8.4% (32.8%)

### Melbourne

- > Houses – 13.1% (30.2%)
- > Units – 31.4% (38.3%)

### Brisbane

- > Houses – 26.7% (38.7%)
- > Units – 47.2% (57.6%)

### Adelaide

- > Houses – 40.5% (53.4%)
- > Units – 61.8% (71.5%)

### Perth

- > Houses – 23.1% (33.2%)
- > Units – 45.3% (47.9%)

### Hobart

- > Houses – 55.5% (65.4%)
- > Units – 81.3% (84.7%)

### Darwin

- > Houses – 25.9% (26.8%)
- > Units – 39.9% (48.6%)

### Canberra

- > Houses – 4.8% (13.0%)
- > Units – 38.3% (42.9%)

Source: CoreLogic, June 2017

In Sydney, it is now almost 13 times more likely for a house to sell for more than \$1 million, than it is to sell under \$400,000. It is also 2.3 times more likely for a unit to sell for more than \$1 million, than to sell for less than \$400,000. For houses, there were more sales over the past year above \$1 million than below \$400,000 in Melbourne and Canberra. Sydney was the only city to have more units selling above \$1 million than those below \$400,000.



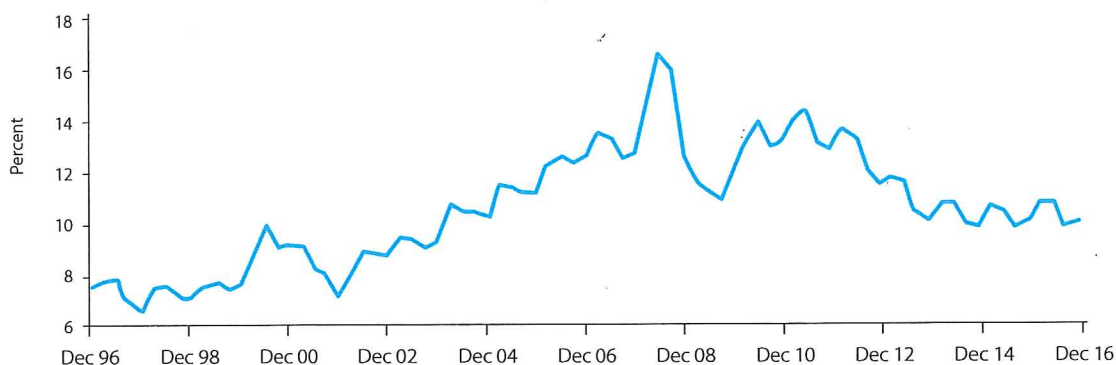
## Interest to Income Ratio

The interest-to-income ratio for the December quarter 2016 rose to 10.1 per cent from 9.9 per cent in the September quarter. This is down from a high of 16.5 per cent in the June quarter 2008, and represents relative stability in the period from the September quarter 2013. This period of stability is a marked change from the early

1990s and mid-2000s, and has seen the amount of household disposable income required to service payments lessen<sup>xxiii</sup>. Those looking to purchase a new home still face the prospect of low interest rates on a large loan, with a potential for interest rates to increase, which will impact this ratio.

**Chart 15: 5232.0 - Australian National Accounts: Finance and Wealth**

ABS Dec 2016 (March 2017)



## Dwelling prices and rental rates relative to income

The dwelling price-to-income ratio has increased, rising to record levels with no indications of any likely drop in the coming year. Sydney and Melbourne have the highest servicing requirement for both mortgages and rental payments. Increased servicing requirements for those purchasing a dwelling is impacting other parts of the economy, which in turn is reducing the capacity of those working in other sectors to purchase housing.

**Affordability 2017-18** – The relative stability in the interest payable to income ratio since 2013 which represents the proportion of household gross disposable income that is required to meet interest payments is supportive of affordability. With interest rates having potentially finished their zero bound run the ratio is likely to increase if interest rates rise unless wages growth improves<sup>xxiii</sup>.

## Home Ownership Levels

The 2016 Census also shows the proportion of Australians who own their homes has decreased over the past five years. With 31 percent of Australians owning their homes outright (down from 32.1 percent), 34.5 percent of Australians paying a mortgage on their home (down from 34.9 percent), and almost 31 percent of Australians renting (up from 29.6 percent). While these shifts do not

represent sweeping changes from the 2011 Census, they represent an overall trend that presents a starkly different housing picture to the one captured 20 years ago.<sup>i</sup>

In today's Australia, younger cohorts own their dwellings later and rent in larger numbers than their parents did, and this trend is likely to continue.



## Capital City Affordability Ratios

CoreLogic, ANU March 2017 (June 2017)

Mar 17	Dwelling price to income ratio	% of gross household income required to service an 80% LVR mortgage	% of gross household income required to pay rent
Greater Sydney	8.4	45.00%	28.20%
Greater Melbourne	7.3	39.40%	25.90%
Greater Brisbane	5.9	31.80%	26.00%
Greater Adelaide	6.4	34.50%	26.70%
Greater Perth	6	32.00%	22.80%
Greater Hobart	5.8	31.10%	29.00%
Greater Darwin	4.4	23.70%	21.80%
Australian Capital Territory	5.4	29.20%	22.90%
Rest of NSW	6.7	36.10%	30.00%
Rest of VIC	5.6	30.10%	26.70%
Rest of QLD	7.1	38.00%	30.60%
Rest of SA	5	26.80%	25.00%
Rest of WA	5.5	29.30%	27.60%
Rest of TAS	5.1	27.30%	27.60%
Rest of NT	5.1	27.20%	29.10%



## 4. Innovations in Affordable Housing





## New concepts in affordable and livable housing in 2017-18

With affordability now a problem looking for solutions, there are a range of options that are coming into play to reduce the cost of housing. Rent to buy, shared equity and fragmented financing are just some of the options being considered.

Modular housing continues to hold promise to reduce construction costs; however, the number of homes built using these techniques is not expected to have increased above moderate forecasts made in 2013 by the Centre for International Economics (CIE) for the Construction and Property Services Industry Skills Council. At that time CIE estimated that “the demand for offsite manufacturing of houses is believed to be less than 5 per cent of the total new housing market.”<sup>xxiv</sup>

Whilst the problem persists, there are many smart minds considering options such as ‘naked’ homes, which are an experimental housing project that offers a radical solution to London’s housing affordability crisis that could be introduced in Australia. As developed by not-for-profit company Naked House, the homes are built without interior fittings on land leased from the council, in order to drive down costs. The new model provides sparsely appointed homes available to moderate-income buyers by delivering the minimalist new-builds at up to 40 per cent lower than market prices, when constructed as a trial in London in 2018.

Although ‘tiny homes’ are not being built at volume, there is a movement to have 20–30sqm homes made available for the market

and also particularly for social housing needs. This is in stark contrast to Australian houses that are some of the largest in the world, with an average of 243 square metres, according to the Australian Bureau of Statistics and CommSec. Conversions of shipping containers can provide short-to-medium housing options. As a cheap option, a tiny home can cost as low as \$15,000 to \$75,000 to build, with options for going ‘off the grid’. The flexibility of planning systems to approve this type of dwellings is not quite there at the moment.

Livable housing concepts are also growing with LHA design principles now well ingrained into the offer of architects and builder designers that provide homes designed for cradle-to-grave living within the one accessible house. Scale developer Grocon has built the Gold Coast Commonwealth Games ‘Parkland Village’ to these principles. This is a development that will house thousands of athletes during the games and then thousands of mixed-income families thereafter. All 1170 apartments have been designed to the Gold Standard, and all 82 townhouses to the Silver Standard.

State and Federal governments are mandating or incentivising affordable housing through access to land or providing reduced costs for developments, with affordable housing through improved planning arrangements.

Impact investing into affordable housing projects that generate a measurable social impact is gaining momentum.

# Affordable Housing Conclusions

For average-to-low-income Australians, the current housing landscape is challenging for both renters and those looking to enter the housing market. While there have been improvements in some areas of housing affordability as of late, average-to-low-income individuals will have difficulty finding properties to rent or purchase that will not put them into financial stress, especially in capital cities like Sydney and Melbourne. Over the past 20 years, average dwelling prices have increased by 420 per cent in capital cities, with places like Sydney having periods where detached houses have almost doubled in price over five years—with median-priced detached dwellings in Sydney now selling for over \$1 million. With wages growth being sluggish and likely to remain flat in the coming year—and the current record level dwelling price-to-income ratios for both rental and mortgage payments predicted to continue rising—housing affordability will likely not improve over the next year, and may in fact become more compounded. It is a moment of great opportunity for both Federal and state governments to help ensure people of all ages and household makeup have access to affordable housing that meets their needs now and in the future.

Indicators of affordability in Australia and as reflected in the 2016 Census, which are considered throughout this report, show that there is an increasing gap between average incomes—particularly those in the lowest two quintiles—and the price of an average house.

The national new housing supply pipeline remains strong. This will provide downward pressure on prices.

As values have increased over recent years, the supply of housing at lower price points has decreased substantially. The numbers of

dwellings constructed at the lowest end of the pricing bracket may not be constructed, whilst average prices at sales sit between the \$600,000 to \$1 million range.

Rental rates have slowed and the growth in investment properties has seen average rents charged slow up to aid affordability. In Western Australia rental prices have come back so far that social housing tenants are re-entering the private rental market.

Whilst dwelling and house price growth has increased in the order of 40-60 per cent over a 5 year period in Melbourne and Sydney, this is not the case for the rest of the country where change over this period is below 28 per cent and in cases negative.

In relation to unit prices, growth over this period is sitting much lower, which is indicative of increased multi-residential supply, taking the heat out of prices to aid affordability.

Irrespective affordable rentals for low income earners is still a challenge, particularly in Sydney and Melbourne. Provision of housing for purchase under \$400K in Sydney has plummeted to less than 4 per cent of sales which also provides bleak prospects for affordability.

Innovative arrangements to bring the cost down for homes are coming into play and there is interest from all levels of Government to give dispensation and incentivisation for affordable innovative housing delivery.

The arrival in May of Federal Budget measures for housing promise to provide some respite for those in rental stress or struggling at the higher percentage end of the mortgage to income ratio scale. These measures are welcome but will take time and multi-lateral cooperation.



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# Behind the Australian Affordable Housing Environmental Scan

## TIM LAWLESS

Tim is widely regarded as one of Australia's leading property market analysts and commentators by business and the media. As the founder of the CoreLogic Australian research division (formerly RP Data), Tim's expertise across property markets has positioned him as one of the country's most experienced and popular property market analysts and commentators. His knowledge and expertise is sought after by myriad government entities and regulators as well as national and international corporate entities operating across the property, banking and financial sectors. As group Research Director, Tim heads up a team of analysts across Australia and New Zealand, and is responsible for reporting on property market conditions and the interplay with economic and demographic factors. Tim has more than 15 years' experience in similar roles and holds a Bachelor of Business degree, specialising in information management, from the Queensland University of Technology.

### About CoreLogic:

Regionally, CoreLogic is part of CoreLogic Asia which is a leading property information, analytics and services provider in Australia and New Zealand with growing partnerships throughout Asia. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information. With over 11,000 customers and 120,000 end users, CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance,

banking, insurance, developers, wealth management and government. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and geo-spatial services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic Asia employs over 500 people at ten locations across Australia and New Zealand.

## NICHOLAS PROUD

Nicholas Proud is the CEO of PowerHousing Australia. He joined the organisation in 2016 and has worked on the Aggregated Finance Project with PwC, which has supported the Federal Budget establishment of a bond aggregator and the National Housing Finance and Investment Corporation. He is currently working with AHURI on a research project into Property Transfer which will support the Federal Government's agenda to see transfer of public housing to Community Housing Providers. Nicholas has previously worked in senior Executive Director capacity with the Property Council of Australia, Housing Industry Association and the Construction & Property Services Industry Skills Council to undertake housing outlooks and environmental scans over the current decade.

### About PowerHousing Australia:

PowerHousing Australia is a unique forum for peer-to-peer exchange collaboration amongst housing professionals who are dedicated to improving lives through the provision of affordable housing. The organisation being in 2005 with recognition amongst a group of Chief Executives of the scale of the emerging housing affordability issues and the enhanced capacity of organisations to make a difference if they collaborated to share knowledge and resources. It was incorporated in 2008 and today has 30 members, who collectively manage over \$12 billion in housing stock and own or manage over 50,000 homes for some 80,000 people.





## About PowerHousing Australia and its Members

PowerHousing Australia is a unique forum for peer-to-peer exchange collaboration amongst housing professionals who are dedicated to improving lives through the provision of affordable housing. As per the PowerHousing Australia capacity survey, undertaken by Chief Financial Officers, the organisation today has 30 of the largest scale Community Housing Provider Members who collectively manage over \$12 billion in housing stock, and own or manage over 50,000 homes for some 80,000 people.

### Report coordination

The Australian Affordable Housing Report 2017-18 has been coordinated by PowerHousing Australia Manager of Projects and Research Kelsey Boivin. For further queries contact PowerHousing Australia at (02) 6210 5040.

### CoreLogic Research

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