PEER REVIEWED

EXECUTIVE SUMMARY

FINAL REPORT NO. 399

The new normal: changed patterns of dwelling demand and supply

Authored by

Steven Rowley, Curtin University
Ryan Brierty, Curtin University
Francesca Perugia, Curtin University
Habib Rahman, Curtin University
Ranjodh Singh, Curtin University
Mohammad Swapan, Curtin University
Liz Taylor, Monash University

Publication Date May 2023
DOI 10.18408/ahuri8129401

Title

The new normal: changed patterns of dwelling demand and supply—Executive Summary

Authors

Steven Rowley, Curtin University
Ryan Brierty, Curtin University
Francesca Perugia, Curtin University
Habib Rahman, Curtin University
Ranjodh Singh, Curtin University
Mohammad Swapan, Curtin University
Liz Taylor, Monash University

ISBN

978-1-922498-66-3

Key words

Housing supply, housing affordability, COVID-19, housing markets.

Series

AHURI Final Report

Number

399

ISSN

1834-7223

Publisher

Australian Housing and Urban Research Institute Limited
Melbourne, Australia

DOI

10.18408/ahuri8129401

Format

PDF, online only

URL (full report)

https://www.ahuri.edu.au/research/final-reports/399

Recommended citation

Rowley, S., Brierty, R., Perugia, F., Rahman, H., Singh, R., Swapan, M. and Taylor, L. (2023) *The new normal: changed patterns of dwelling demand and supply,* AHURI Final Report No. 399, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/399, doi: 10.18408/ahuri8129401.

AHURI

AHURI is a national independent research network with an expert not-for-profit research management company, AHURI Limited, at its centre.

AHURI's mission is to deliver high quality research that influences policy development and practice change to improve the housing and urban environments of all Australians.

Using high quality, independent evidence and through active, managed engagement, AHURI works to inform the policies and practices of governments and the housing and urban development industries, and stimulate debate in the broader Australian community.

AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, including housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

AHURI journal

AHURI Final Report journal series is a refereed series presenting the results of original research to a diverse readership of policy makers, researchers and practitioners.

Peer review statement

An objective assessment of reports published in the AHURI journal series by carefully selected experts in the field ensures that material published is of the highest quality. The AHURI journal series employs a double-blind peer review of the full report, where anonymity is strictly observed between authors and referees.

Executive summary

Key points

- The onset of COVID-19 brought about unprecedented changes to the Australian economy, including the housing market.
- Dwelling prices increased significantly during the COVID-19 period (defined as mid-2020 to mid-2022) and were driven by a range of factors, including COVID restrictions, working from home, government stimulus grants, favourable lending conditions, and comparatively little new or established housing supply available.
- The COVID-19 stimulus measures delivered an increase in the supply (approval) of houses between 1 and 47 per cent across the five largest states, while the amount of 'other residential' supply fell. The location of the supply increases was generally in outer urban areas.
- Regional areas experienced the highest rates of dwelling price growth as populations increased due to rising demand. Rental vacancy rates fell Australia-wide, because of population shifts, household restructuring and a surge of landlords selling their investment properties.
- Residential transactional data for Victoria and WA were examined across two time periods to assess the impact of COVID-19. Both Victoria and WA saw similar patterns of price increases, despite very different COVID experiences. The subsequent market response to rising interest rates has been starkly different, with prices falling in Victoria but remaining steady in WA.
- State and local governments need to ensure housing supply is more responsive to avoid affordability pressures from demand shocks. Regional areas are especially vulnerable to demand pressures.

Key findings

This report assessed the impact of the COVID-19 pandemic on patterns of supply and demand and how the Australian housing market has changed over time. Analysis of census data found that around 1.7 million dwellings were added to the total dwelling stock in the last ten years. At development rates equivalent to those of the past decade, it would take around six years to deliver 1 million new dwellings. However, it should be noted that the ten-year period 2011–2021 included development booms in a number of states, including the two biggest—NSW and Victoria. Construction cost increases and rising interest rates will make the delivery of 1 million dwellings by the end of the decade, in line with the National Housing Accord, very challenging.

The COVID-19 period, defined as mid-2020 to mid-2022 for the purposes of this study, saw robust price growth within Australian capital cities and even stronger growth in regional areas. In the rental market, vacancy rates have fallen across the country, and rents have risen sharply. Our case study work across Victoria and WA found that consumer demand for housing led to increased prices across both states, leading to similar outcomes despite lockdown experiences being very different (severe in Victoria and mild in WA). The sudden price increases in local housing markets during COVID can be attributed to a range of factors, including COVID restrictions, working from home, government grants, favourable lending conditions, and comparatively little new housing supply or sale listings. A survey conducted in June 2020 (Crowe, Duncan et al. 2021) found that one in five households had changed what they wanted from their dwelling, broadly wanting more indoor and outdoor space and this contributed to changed patterns of housing demand.

Many of the shifts caused by the pandemic, such as some households seeking more internal and external space, remote working and smaller household sizes, were already taking place; COVID simply accelerated these trends. What COVID did is bring forward the decisions of many households, increasing demand and leading to price and rent rises, especially in supply constrained locations. Such price increases came to an end with interest rate rises. However, for the vast majority of households, particularly those on lower incomes where housing choice is severely limited by affordability, COVID changed nothing other than increasing competition in an already constrained rental market.

In terms of new supply, the uneven patterns identified by Rowley, Gilbert et al. (2020) have continued over the last five years. This uneven supply was exacerbated by increasing construction costs leading to many multi-residential projects becoming financially unviable. Supply growth remains uneven across capital cities, partly due to the availability of sites and partly due to consumer demand.

Policy development options

The pandemic showed just how quickly demand for housing can change and how prices and rents can rise rapidly as a result. There is always a lag between demand shifts and the delivery of new housing because of the time it takes to work through the planning approval process and physically construct dwellings. However, there are a number of options available to government to make housing markets more responsive, and such options have been discussed for many years.

New housing supply

Housing supply does respond to increased market demand, as increasing prices generate increased returns and lower risk to developers, stimulating new supply. However, the responsiveness of supply to demand is inhibited by the availability of sites and the development approval process. Industry lobby groups such as the UDIA and Property Council constantly highlight the need for approval reform to ensure development can occur more quickly. This is not just planning approval but also issues around infrastructure and environmental approvals.

Government needs to ensure that development approvals are as efficient as possible while maintaining the integrity of the process itself. The National Housing Accord discussed the importance of delivering new housing supply, highlighting measures necessary to speed up land release and streamline planning regulations. Establishing supply targets and measuring outcomes can help identify what is working and where intervention is required. The newly established National Housing Supply and Affordability Council will hopefully deliver meaningful advice on how to improve the delivery of new housing.

It should be noted that improved availability of sites and an improved approval process will not automatically result in increased dwelling supply. Given the almost total reliance on the private sector to deliver new supply, policy makers need to understand what drives such supply. As Rowley, Leishman et al. (2022) discussed, the main driver of new supply is profitability, and the main driver of profitability is market conditions.

While access to sites and a shorter development process will certainly be a positive, it will not stop developers from holding land until conditions are favourable for them – it might be straight away, it might take a number of years. If governments want to accelerate land release, they should attach timelines to its development to make sure the land is brought to the market in a timely manner.

Government at all levels need to work with industry to ensure the industry can respond quickly to demand pressures and ramp up supply. Labour shortages and costs have blocked new supply, particularly in WA, where it has been difficult to attract new workers. Supply chain issues across the country resulted in significant construction cost increases, and these increases are preventing new supply because developments, particularly capital intensive multi-residential developments, are no longer financially feasible.

Census data over the last ten years shows little increase in housing diversity. Intervention is required to ensure developers are able to deliver the type of housing stock that meets consumer needs rather than the type of stock that is easiest to deliver.

Regional housing markets

Regional housing markets are volatile, and governments need to ensure an ongoing supply of development-ready land in regional locations. While some states have development agencies that are very active in regional markets, labour shortages, increased costs and general market uncertainty make development in the regions higher risk for the private sector.

Having development-ready land that can quickly be developed in partnership with the private sector is the best solution to rapidly address increasing demand. While this may mean sites sit vacant for a number of years, when demand does pick up, such sites can be brought to the market quickly to avoid the supply vacuums which make regional markets so volatile.

Delivering greater housing diversity in regional areas is also a challenge, given the economics of many markets means higher density development is not financially feasible for the private sector. It will take a partnership between government and the private sector to deliver more diverse housing options, which will help cater for market demand.

Given a long-term policy interest within most states in supporting regional populations and rebalancing population pressures away from major cities, the disruptions caused by COVID—which suddenly increased population and housing demand in many regional areas—illustrate the need for supportive infrastructure and policies to ensure these regional shifts are sustainable. The sudden realisation and impact of a large-scale shift in population toward smaller and medium-sized Australian cities underscores the importance of some version of a national settlement strategy, long argued for.

The private rental market

The contraction in vacancy rates across the country over the last two years has highlighted the volatility of Australia's private rental market. Government has been powerless to address what is termed a rental crisis in many parts of the country, hoping that private sector investment will increase and deliver new supply. Many local markets, particularly in regional areas, have historically low vacancy rates with little change on the horizon.

New supply is required at scale into the private rental market without distorting the rest of the housing system. Incentivising small landlords to purchase established dwellings will only contribute to declining affordability in the ownership market.

With the build to rent sector growing in Australia, government should encourage new private sector investment into larger scale, professionally managed private rental accommodation offering flexible tenancies and potentially greater security. National and state governments should continue to monitor the policy settings necessary to encourage such investment. While governments have committed significant spending to social housing, more is needed to help address the rental crisis and direct investment in the delivery of private rental dwellings must also be considered.

Final remarks

The rapid rise of interest rates has left us unable to answer the question of whether the COVID-19 pandemic has permanently altered patterns of demand and supply. Supply shifted during 2020 and 2021 with a surge in detached dwellings and a collapse of apartment development. Building approval data for the end of 2022 show the level of detached housing development returning to pre-COVID levels while apartment development remains low due to cost issues. An eventual return to pre-pandemic patterns of development seems likely.

COVID-19 drove an increase in demand for established houses and a preference for regional areas and the outer suburbs. The subsequent decline in demand across most of the country, mainly due to interest rate rises and a fall in consumer confidence, means it is difficult to establish what demand patterns will look like once the market stabilises. Will regional areas continue to prove popular as households permanently change working patterns, or will demand ease over time? Will demand for detached dwellings increase, or will affordability pressures result in a return to cheaper, higher-density products? These are questions that will be answered over the coming years, and future research should be conducted to determine whether COVID-19 has driven permanent changes to our housing market five years on from the first case.

For now, what lessons can policy makers learn from the COVID-19 pandemic?

- Demand can change very quickly, so Australia needs a much more responsive housing supply system.
- The current housing supply system can deliver detached housing in the outer suburbs on development ready land within 18 months but cannot respond within an effective timeline on land that requires re-zoning.
- The building stimulus measures had their desired effect but also delivered unintended consequences. These consequences arose for a number of reasons including the structure of the HomeBuilder program, unanticipated demand for stimulus payments, COVID driven supply chain and cost issues and workforce capacity constraints.
- The new dwelling supply pipeline, particularly for higher density products, can be turned off very quickly by rising construction costs. It is far slower to turn back on.
- Supply chains are extremely vulnerable and can quickly cause major delays and dramatically increase project costs.
- Regional housing markets require different policies when compared to capital city markets, as supply is even less responsive to demand shocks. A stock of readily developable land is essential if supply is to respond in such areas.
- The private rental market is broken. Government is powerless to intervene and deliver more supply. Government is almost totally reliant on market conditions improving and attracting new investors to ease the rental crisis.
- The direct provision of social housing is more important than ever, and additional spending is now popular policy.

The study

The research project is designed to address the following four research questions:

- **RQ1:** How have housing markets changed in 5 years since the 2016 census, what are the key components and drivers of change, and what are the implications for low-income households?
- **RQ2:** How have patterns of dwelling supply (spatial pattern, density, structure, tenure) changed since 2016 and to what extent has COVID-19 driven recent supply outcomes?
- **RQ3:** Have households changed what they want from their dwelling as a result of COVID-19, and if so, what are the implications for the economy and housing and urban policy?
- **RQ4:** Have the characteristics of dwelling transactions changed as a result of COVID-19?

We used a mixed methods approach consisting of secondary data analysis and interviews with key industry stakeholders. The release of 2021 census data provided the opportunity to analyse the five-year change in housing markets building on previous work by Rowley, Gilbert et al. (2020). Using the ABS table builder pro, we analysed census data at the state and capital city/rest of state levels to examine changes in housing stock and housing diversity. Again, building on Rowley, Gilbert et al. (2020), we examined changes to dwelling supply using ABS data on dwelling commencements, completions and building approvals. We calculated the change in dwelling supply across two periods; the first pre-COVID-19 (2017-2019) and the second during the pandemic (2020-2022), to identify the extent to which dwelling supply patterns had shifted across these periods. We mapped the outcomes to identify patterns of supply.

To assess housing market changes attributable to COVID-19, we analysed housing market outcomes using data from the ABS and CoreLogic and then conducted interviews with real estate agents and new home builders to unpick whether housing market outcomes have been driven by changes in consumer preferences. Seventeen Interviews were conducted in two case study states; Victoria and WA, two states that went through very different experiences during the pandemic. The location of the housing markets within which our industry experts operated was determined by our market analysis which identified locations subject to the greatest disruption.

Finally, for our two case study states, we used data on individual transactions to calculate whether the characteristics of dwellings, such as dwelling type, size and location, had changed due to COVID-19. To do this, we again used a variety of statistical techniques to test whether COVID-19 had affected actual patterns of transactions.

Australian Housing and Urban Research Institute
Level 12, 460 Bourke Street
Melbourne VIC 3000
Australia
+61 3 9660 2300
information@ahuri.edu.au
ahuri.edu.au
twitter.com/AHURI_Research
facebook.com/AHURI.AUS
Australian Housing and Urban Research Institute