Affordable housing a peak worth climbing for state, federal governments

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Markets are tricky things and picking them is even harder. Just ask economist Steve Keen who took a 235km walk to Mount Kosciuszko after losing a bet on house prices back in 2009.

Perhaps if such a bet was required to be made by all forecasters, then they might get a few insights from standing at the top of the country's highest peak.

Australian housing activity recently reached Kosciuszko proportions with 60,000 more homes starting construction in 2016 than originally expected. A range of forecasts, at their most bullish, made back in 2013 expected building starts to sit somewhere between 164,000 to 173,000. In hindsight, these now seem meek with the Australian Bureau of Statistics recording Australia starting 229,000 new homes in 2016.

The last National Housing Supply Council reports were released in 2013, prior to the council's dissolution, but despite the valuable work it did, it never predicted the massive surges in residential building activity to come. Clearly, something happened in the housing market that our best and most focused forecasting minds did not see.

Interest rates headed towards zero, financial deregulation, dual income and stifled pipelines of housing in places such as NSW saw prices rise. NSW's supply pipeline got as choked up as the M5 on a Friday before a long weekend when only 27,000 new homes were built in 2009. By contrast, last year 70,000 homes were built in NSW.

The congested housing pipeline has now opened up, but housing affordability has been dealt a blow. In 2012, about 26 per cent of Sydney homes sold for under $400,000 whereas in 2016 that percentage plummeted to 3.5 per cent.

What no one expected were the waves of foreign and domestic investors who were about to jump into the housing market. Interest from foreign investors increased from 6500 applications to buy a house in 2012-13 to more than 40,000 applications in 2015-16 with the value of foreign applications increasing from $17bn to $72bn in the last reported year. The number of new landlords jumping into the housing market has increased by 50,000-70,000 every year.

In recent weeks there have been reports of the peak in building activity having now passed and speculation of a new landing point in three years of about 180,000 dwellings to be built per year. This would equate to roughly a 20-25 per cent drop in activity, which should be cause for alarm. As would the loss of jobs that would occur if 40,000 of the new homes being built each year were suddenly withdrawn from the supply pipeline. For the states and territories, it will see a huge pot of property taxes and stamp duties disappear. It also brings to an end the surplus of new dwellings that puts downward pressure on housing prices.

This forecast drop in activity would not be so catastrophic if it wasn’t coming off such a high pinnacle. Landing at 180,000 home starts per year would actually be a sweet spot for housing delivery. It is roughly at this level that we build enough homes to be in front of the demand curve, sustain jobs, arrest worsening affordability and underpin state budgets.

The key question is whether these forecasts turn out to be correct. Had the federal government not started focusing attention on the issue of housing affordability then the bias would be further downward.

This forecast lower build rate and all the woes that come with such a drop back to more historic levels of about 150,000 starts a year need not eventuate (and our forecasters need not be heading out to buy a new pair of Asics).

The previous federal Labor government showed that housing policy can fundamentally influence the housing market and this is true where first-homebuyer rates soared to roughly a third of all people getting a home loan in 2009. Going back further the Howard-era CGT and negative gearing concessions spurred investors into the market, which has driven a significant and sustained delivery of rentals.

Other countries’ policies, such as Canada reducing its appetite for foreign purchases of housing through regulation, opened up Australia as an attractive investment alternative. Housing policy that focuses on affordable and low-income earner housing will see investment flow into this part of the market, provided land and planning is incentivised, and long-term safe returns are underpinned for both domestic and foreign investors.

The rise in housing activity has been a bit like climbing Mount Kosciuszko — exciting on the way up, a great view from the top and somewhat scary on the way down. Again it need not be if state and federal governments work together over the coming months to reach agreements around housing, incentivising supply and developing the right vehicles and models to channel investment into affordable housing delivery.

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