

The Australian Housing Affordability Crisis and the New Australian Dream

August 2022

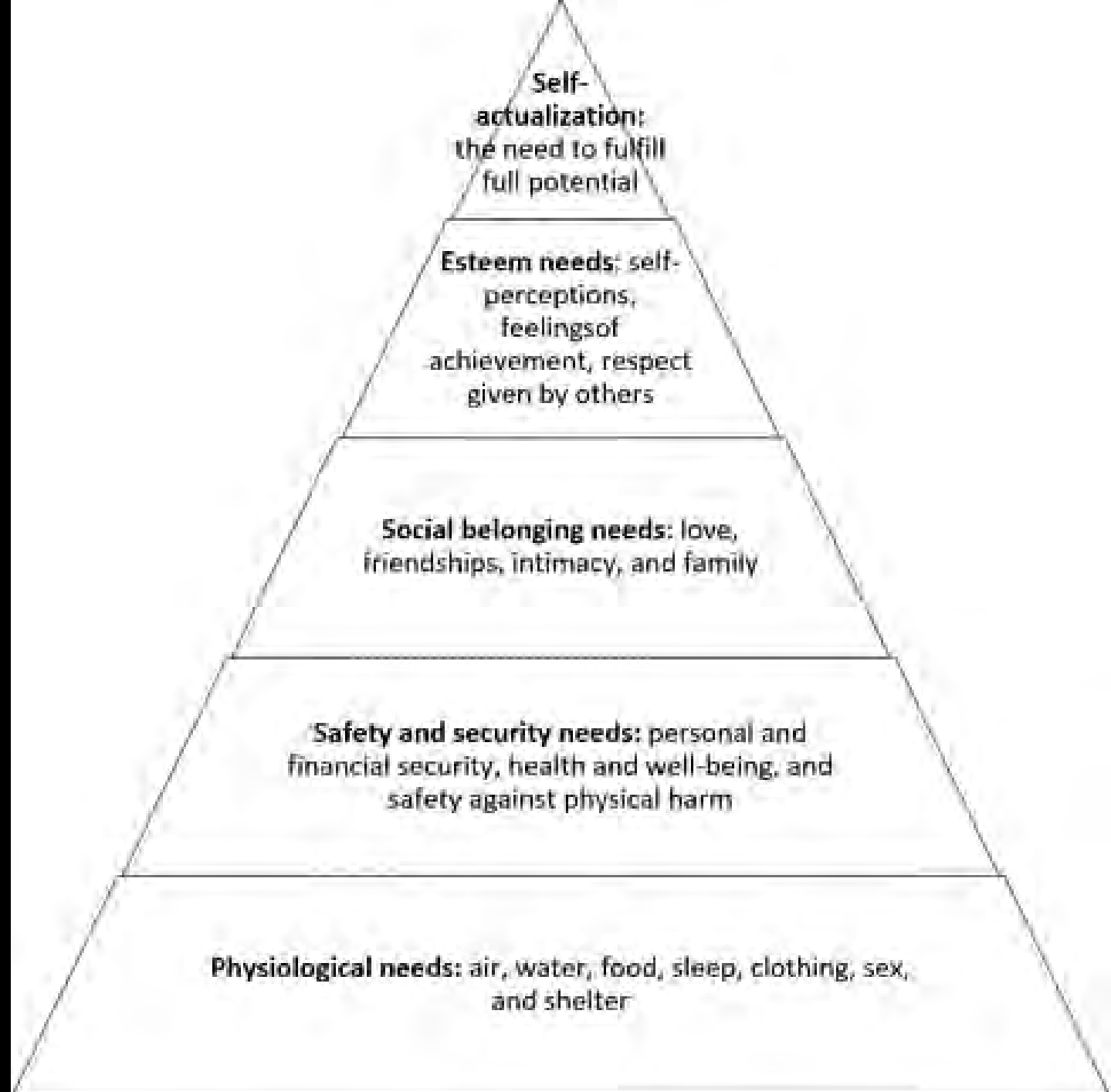
Presented by Sergio Famiano





Maslow's Hierarchy of needs.....

Housing or shelter is a core ingredient of human need.....





The Great Depression and the Second World War

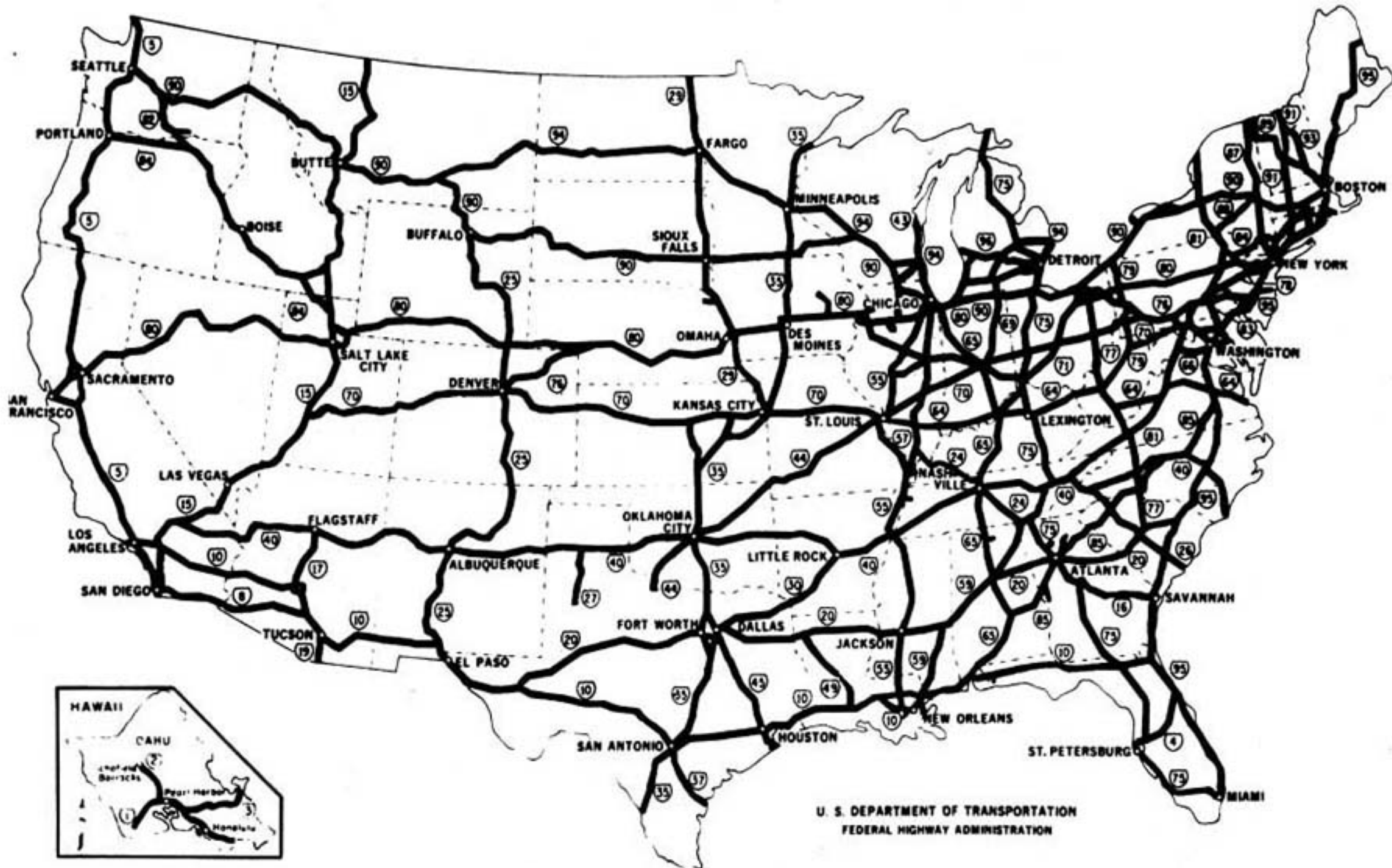
1929 - 1945

- Allied victory in 1945
- War ends 15 year period of depression and conflict
- In Australia 468,700 men and women were returning from service
- By 1945 The Federal Government estimated that there would be a need for 112,000 new houses for veterans and at least 46,000 houses that would need to be demolished following the depression era
- Commonwealth Housing Commission established as well as State Housing Commissions to administer home building
- Low home loans and deferred payment for land offered to returning veterans
- ¼ acre blocks created with 2 Bedroom and sleep out homes
- Post World War 2 – led to Baby Boom





The mechanization of society.....



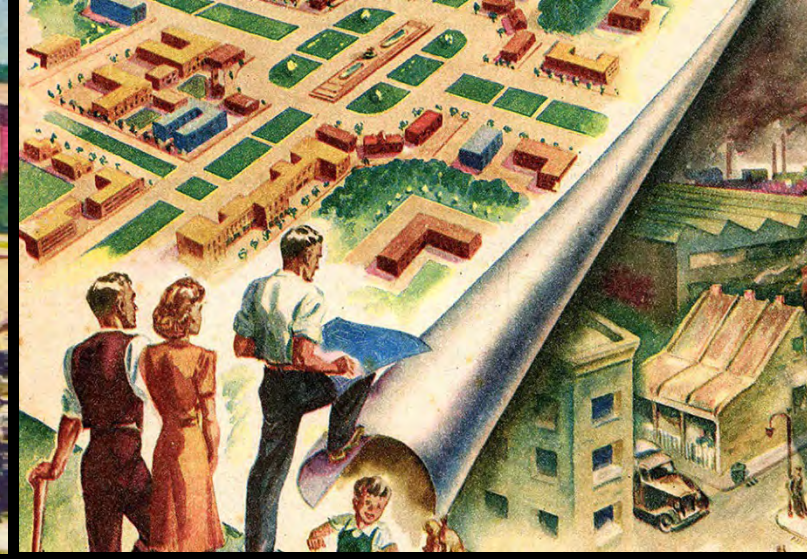
U. S. DEPARTMENT OF TRANSPORTATION
 FEDERAL HIGHWAY ADMINISTRATION



Levittown – Pennsylvania USA



If its good for the American'sits good for us....



- Immediately after the war the suburban dream was packaged up
- Family became the central unit
- House and Land with an Automobile became the 'pay off' for the depression and years of war
- Man resumed responsibility for being the breadwinner
- Mother tended to the house and kids

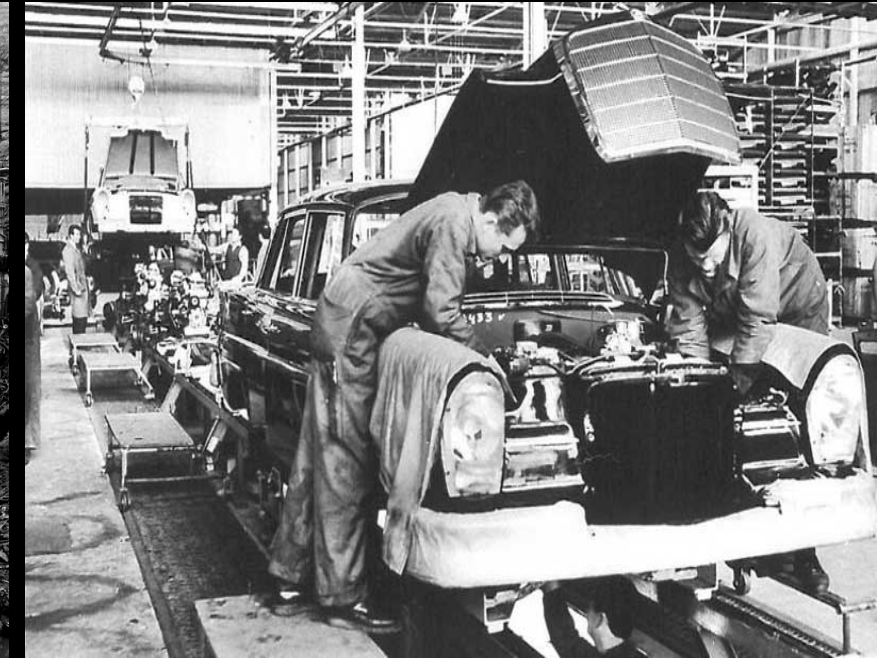
The Australian and American Dream

- The Australian Dream of Home ownership existed pre-WW2 but it was after WW2 it took Centre stage
- Supporting the Australian Dream of Home ownership became Federal and State Policy
- The Dream included a Home and Car with family unit reverting to traditional roles
- The baby Boom which occurred after WW2 cemented the Australian Dream for generations to come.
- Period of unparalleled prosperity followed WW2

Factors affecting the Home Ownership.....



Post war construction, Immigration and industry....



- State Housing Commissions established to construct over 112,000 new Homes after 1945
- Development based on House and land with car
- New suburbs established everywhere in Australian cities

- Prime Minister - Ben Chifley – ‘Populate or Perish’
- Mass immigration open to Australia – Britain, Italy, Yugoslavia, Greece
- Massive infrastructure to be built – i.e. Snowy River Hydro dam
- Fueled a construction boom in industry and housing

- New industries established in Australia – Car manufacturing, ship building etc.
- Industry protected via import tariffs
- Between 1945 to 1975 population grows from 7 ½ million people to 13 million people.



The Cold War was fought on many levels.....



The symbiotic relationship between cheap oil and suburbia.....

The pinnacle of Home Ownership and cost of housing - 1970's

- 1975 Home ownership peaks in Australia at 72% of all properties
- Average price of a house in Australian cities
 - Sydney - \$28,000
 - Canberra - \$26,850
 - Melbourne - \$19,800
 - Perth - \$18,850
 - Brisbane - \$17,500
 - Adelaide - \$16,250
 - Hobart - \$15,200
- Average Yearly wage in Australia - \$7,618
- University free
- Everyday costs
 - Loaf of Bread - 0.24 cents
 - 1 litre of milk – 0.30 cents
 - Newspaper – 0.12 cents
 - Petrol – 0.57 cents per litre



The Housing Crisis – 2022.....

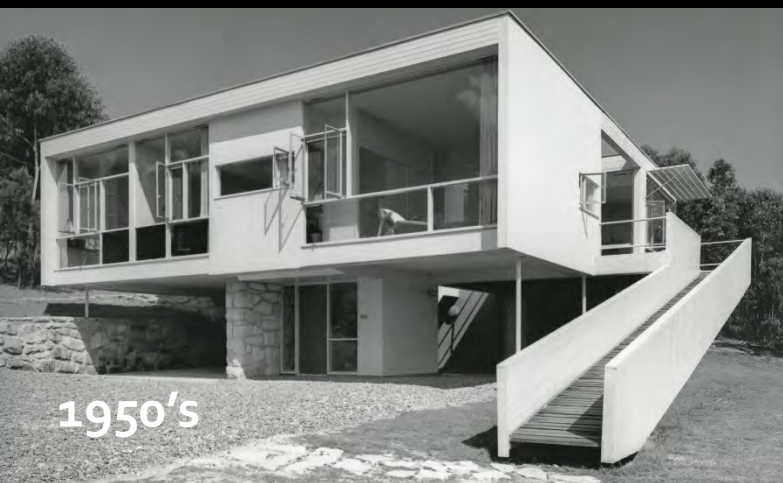
- 2022 Home ownership has dropped to 63% of all properties
- Average price of a house in Australian cities
 - Sydney - \$1,499,000
 - Canberra - \$912,000
 - Melbourne - \$816,000
 - Hobart - \$715,000
 - Brisbane - \$714,000
 - Adelaide - \$595,000
 - Perth - \$562,000
- Average Yearly wage in Australia - \$90,000
- University Costs (Average degree) - \$40,000
- Everyday costs
 - Loaf of Bread - \$3.15
 - 1 litre of milk – \$2.00
 - Newspaper – \$3.00
 - Petrol – \$1.60 per litre



From the Good old days to Household Stress.....

A man and a woman are lying on their backs on a lush green grassy hill. The man is on the left, wearing a blue long-sleeved shirt, grey trousers, and red shoes. The woman is on the right, wearing a pink and white patterned top and light green pants. They are both looking up at the sky. In the sky, there is a large, white, fluffy cloud shaped like a two-story house with a porch and several windows. The sky is a clear, bright blue.

The Housing Affordability Crisis.....



1950's



1960's



1970

- Average House Size – 100sqm
- Average House Price - \$1,550

- Average House Size – 125sqm
- Average House Price - \$6,000

- Average House Size – 155sqm
- Average House Price - 17,500

Perth



1980

1990

2000

2022

- Average House Size – 165sqm
- Average House Price - \$40,350

- Average House Size – 195sqm
- Average House Price - \$101,125

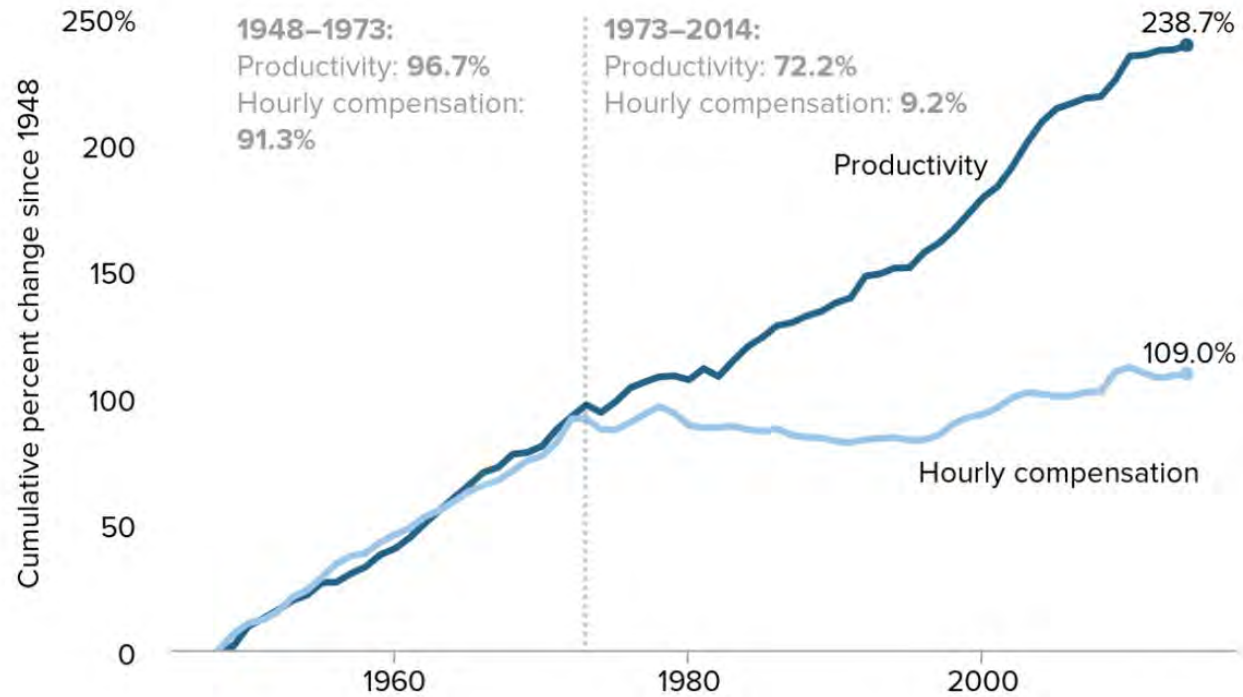
- Average House Size – 235sqm
- Average House Price - \$156,250

- Average House Size – 238sqm
- Average House Price - \$562,000

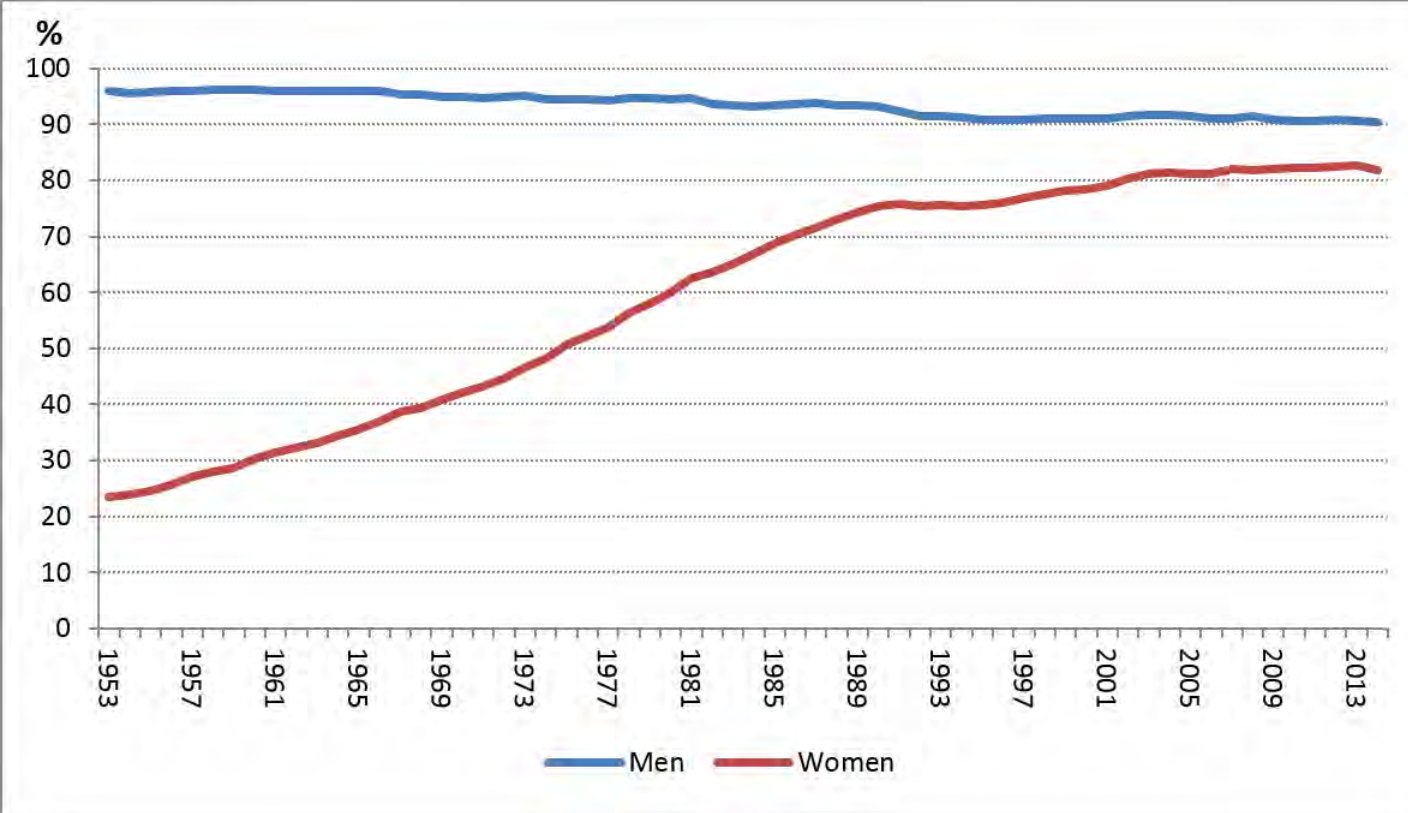
Perth



Generating wealth in Australia.....



What happened to the 'fair go'



How have Australians maintained a standard of living with declining real wages.....women

By the 1980's both parents have to work compared to the 1950's and 1960's where it was optional....



Thanks Paul.....

Deregulation of the Banking Industry

- During the 1980's – Bob Hawke and Paul Keating (Labor) deregulated the Banking Industry

Prior to 1980's

- Prior to the 1980's – Banking was Savings and Loans
- Home lending was geared around 'Owner Occupier' – paid significantly less interest and less deposit needed (deposits were around 20%)
- Property Investors – Needed large deposits and paid significantly higher interest rates
- Property investment only for very wealthy

1980's onwards

- Up until 1980's housing was seen as a 'roof over ones head' rather than an asset – this changed
- Deregulation meant less deposit and lower interest for 'owner occupier' and 'investment properties'
- Greater competition in Banking – i.e. foreign banks allowed to compete with Australian banks
- Middle class can now get in on property investment
- From 1980's housing now seen as an asset / investment to generate wealth....

Negative Gearing Explained

1

John pays \$30,000 per year in interest on an investment property



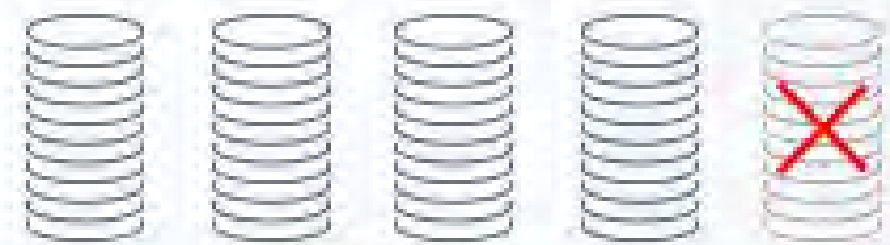
2

But he only earns \$10,000 per year renting it out



3

If John's income is \$95,000, the \$20,000 loss is subtracted from this and he will pay tax on only \$75,000



Sound Property Group - Strategic Investment

- Negative Gearing came from a change in tax law in 1985 and legislation brought in by Bob Hawke and Paul Keating.
- Bob Hawke and Paul Keating tried to reverse Negative Gearing in 1987 but lost their nerve....
- In 2001 Negative Gearing reduced personal income tax by \$600m
- By 2014 Negative Gearing reduced personal income tax by \$13.2 Billion.....By 2022 it is around \$22 Billion
- Federal Government has to find \$22 Billion in the budget to plug the tax hole.....

Banking Deregulation and Negative Gearing led to an explosion in property investment.....

Since 1980's Owner occupiers are now competing with Investors.....

Average mortgage in 1993 is \$100,000....by 2022 it has grown to \$595,000.....



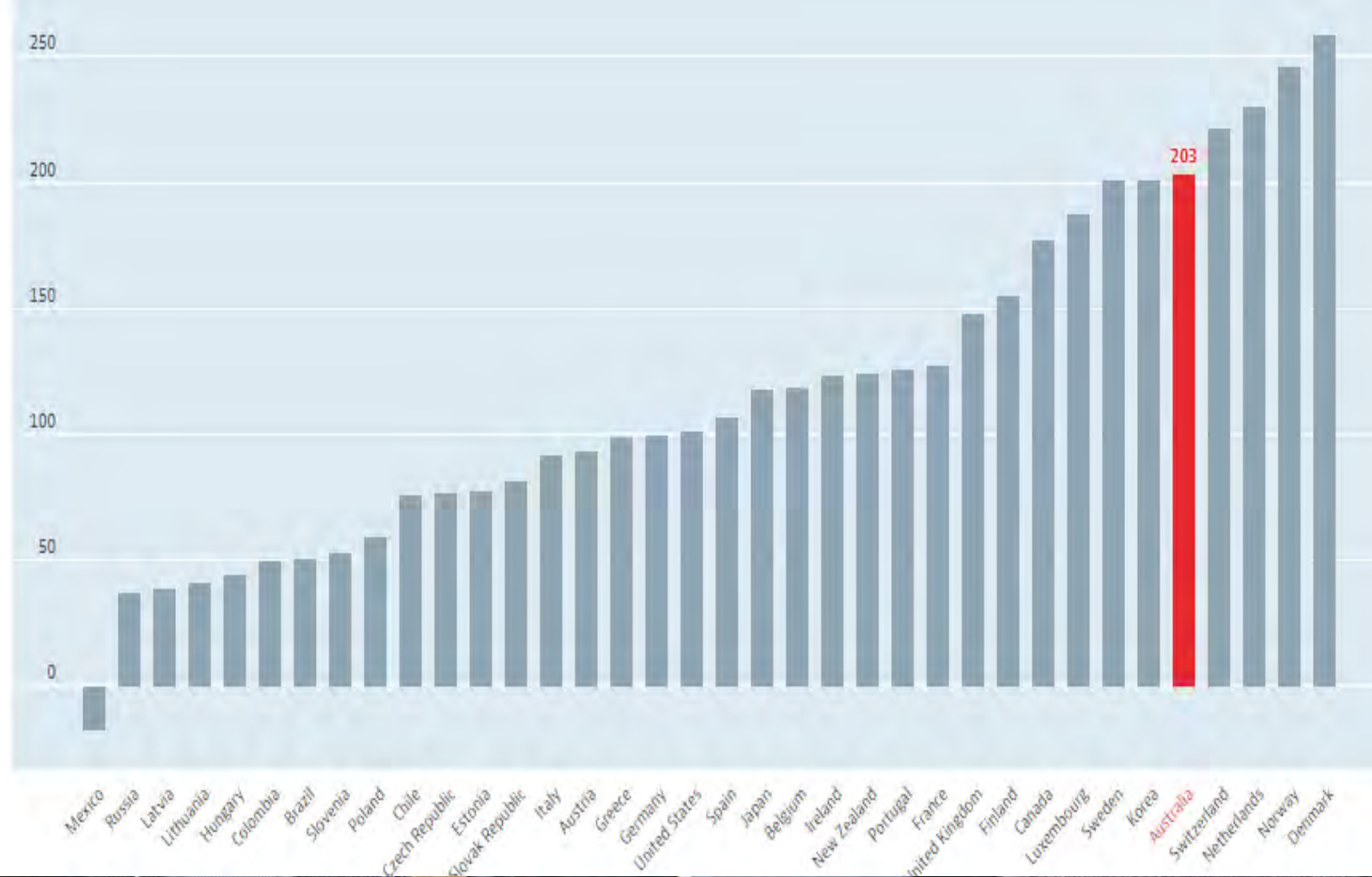
House prices have grown much faster than incomes since the mid-1990s



Household Debt.....to Disposable Income

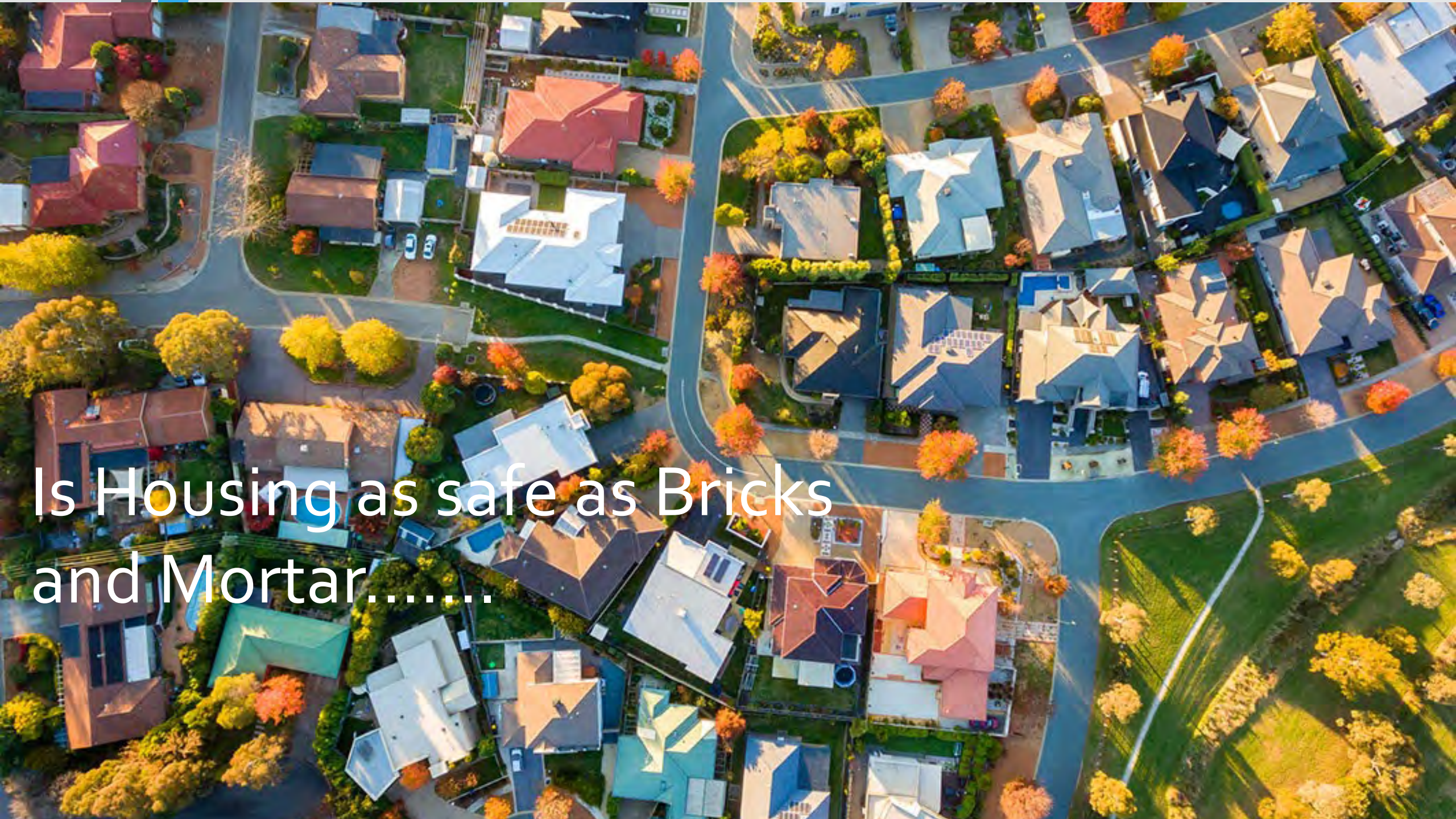
In 1988 household debt was 64% to disposable income...that is if your household income is \$100,000 your debt was \$64,000

In 2022 household debt is 203% to disposable income...that is if your household income is \$100,000 your debt is \$203,000





1 in 10 or 850,000 houses in Mortgage Stress



Is Housing as safe as Bricks
and Mortar.....

Housing is getting bigger....But Household sizes are shrinking.....



Composition of housing in Australia.....

71.8%



7,395,456

18.04%



1,857,619

9.16%



943,289

0.96%



99,303

10,295,667 dwellings in Australia.....

Composition of housing in Perth.....

74.7%



640,645

19.6%



168,129

5.15%



44,130

0.47%



4,046

856,950 dwellings in Perth.....

The Demographic Time bomb.....



2021 – 2,821,745 (30.32%)

2041 – 4,086,900 (28.67%)



2,308,478 (24.8%)

3,636,900 (25.5%)



965,089 (10.4%)

1,536,400 (10.78%)



2,124,721 (22.83%)

3,523,800 (24.72%)



2021 - 372,671 (4%)

2041 – 547,200 (3.8%)



107,691 (1.15%)

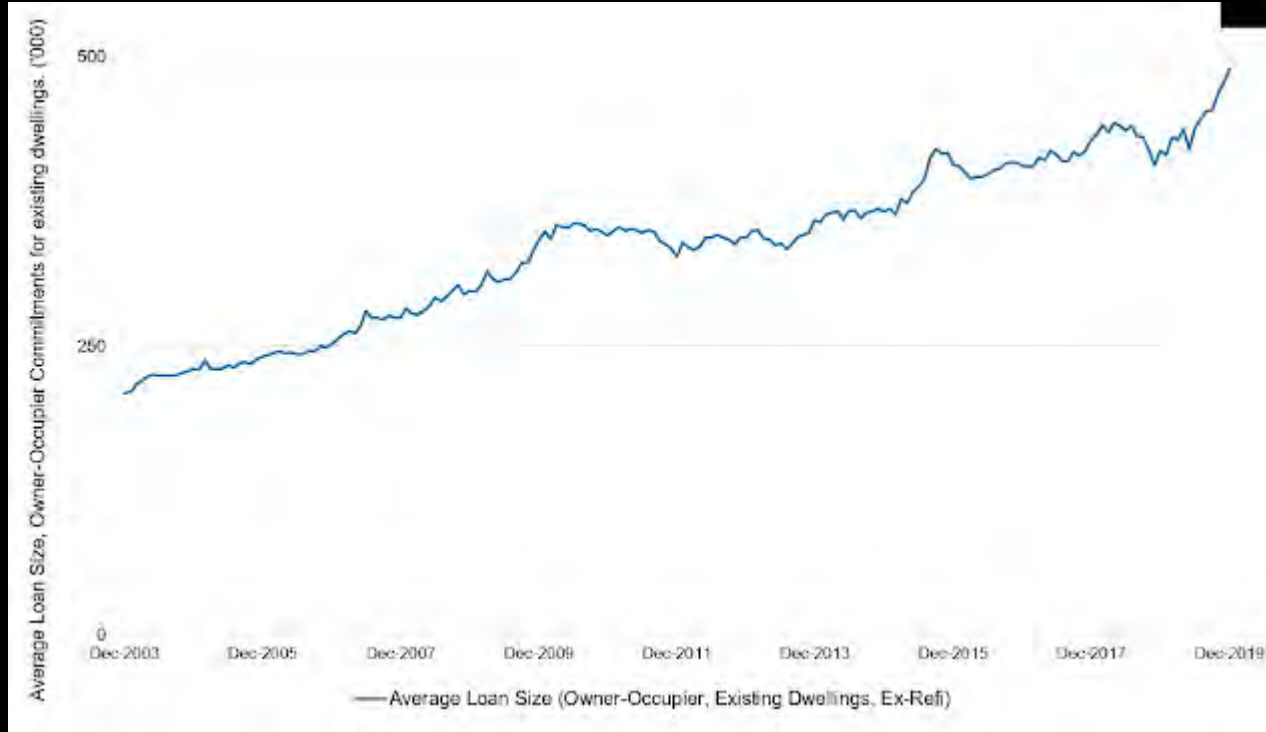
161,900 (1.1%)



604,326 (6.5%)

760,240 (5.3%)

The limits of Affordability



Average Loan in Australia - \$595,869

Perth, WA

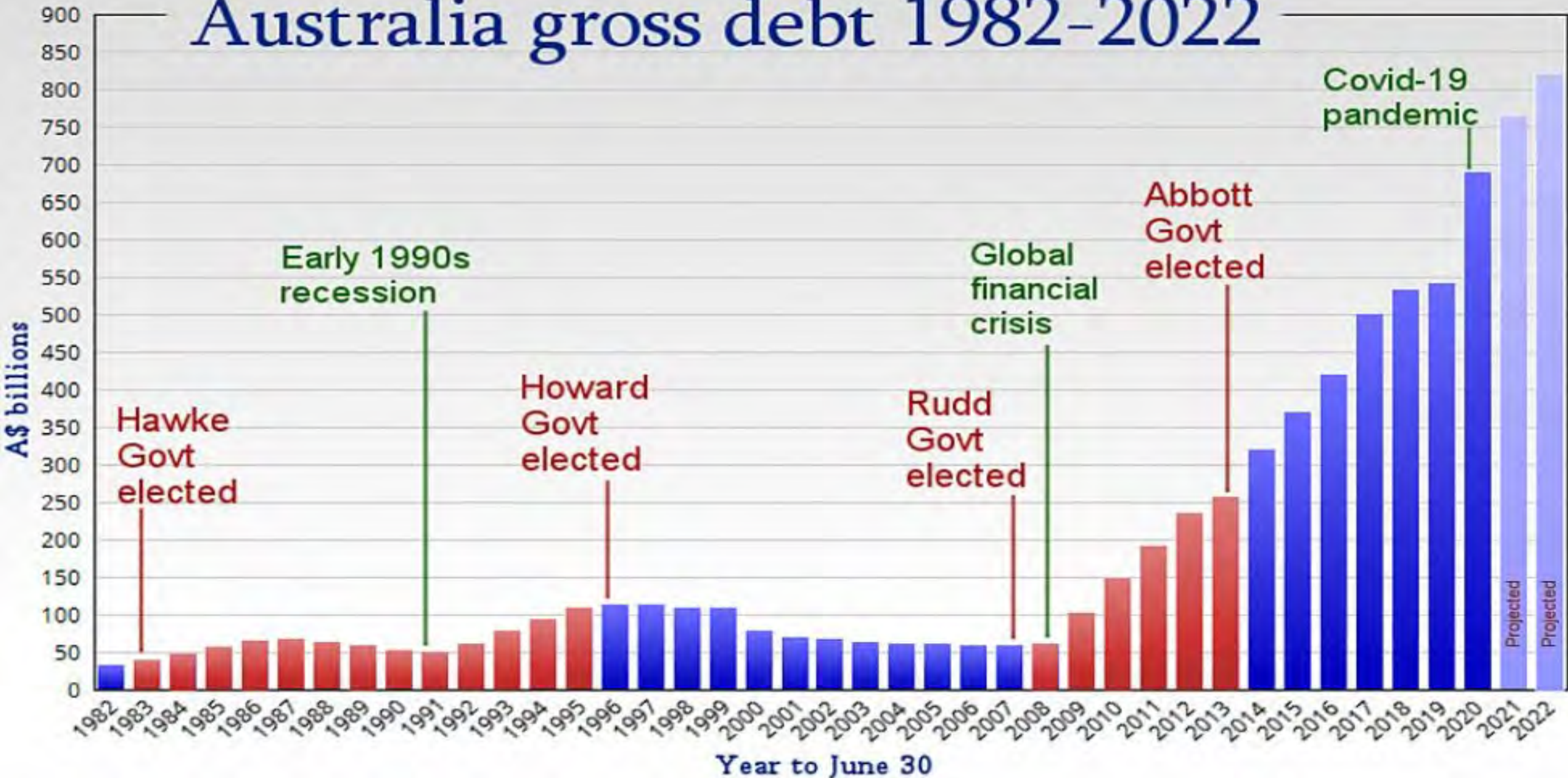
In January 2022 an average loan of **\$481,556**.

The 20 least affordable cities to buy a house

- 1.Hong Kong, China (23.2)
- 2.Sydney, NSW, Australia (15.3)**
- 3.Vancouver, British Columbia, Canada (13.3)
- 4.San Jose, California, US (12.6)
- 5.Melbourne, Australia (12.1)**
- 6.Honolulu, Hawaii, US (12)
7. San Francisco, California, US (11.8)
- 8.Auckland, New Zealand (11.2)
- 9.Los Angeles, California, US (10.7)
- 10.Toronto, Ontario, Canada (10.5)
- 11.San Diego, California, US (10.1)
- 12.Miami, Florida, US (8.1)
- 13.London, UK (8)
- 14.Adelaide, SA, Australia (8)**
- 15.Seattle, Washington, US (7.5)
- 16.Riverside-San Bernadino, California, US (7.4)
- 17.Brisbane, QLD, Australia (7.4)**
- 18.Denver, Colorado, US (7.2)
- 19.New York, New York, US (7.1)
- 20.Perth, WA, Australia (7.1)**

Government Debt

Australia gross debt 1982-2022



The problem with high Housing prices is devaluation.....

Interest Rates at historic lows....RBA 0.1%, average Mortgage Interest rate is 2.71%

Federal government has to get into debt to pump prime the economy to prevent devaluation...debt now over \$1 trillion....

Beware inflation.....rising interest rates

Country	Debt 2000	Debt 2020	Percent increase
Australia	13.72%	44.1%	221.4%
United States	41.38%	119.01%	187.6%
UK	36.36%	103.5%	184.7%
South Korea	15.49%	42.38%	173.6%
Japan	94.18%	221.07%	134.7%
Spain	48.59%	107.55%	121.3%
Mexico	19.07%	42.05%	121.1%
France	48.58%	93.44%	92.3%
Singapore	83.84%	155.41%	85.4%
Brazil	62.65%	92.92%	48.3%
NZ	30.01%	43.64%	45.4%
Italy	105.95%	151.34%	42.8%
Canada	46.19%	59.28%	28.3%
Germany	38.23%	44.93%	17.5%
Turkey	37.18%	35.92%	-3.4%
Switzerland	22.10%	13.32%	-39.7%
Indonesia	87.44%	39.36%	-55.0%

Source: IMF Global Debt Database



What does Perth look like...today

Perth

Suburbia and Suburban Sprawl - and what the Australian Dream looks like.....



Movement is based largely on the private automobile.....

Vast Highways and arterial roads dominate the landscape.....

Public Transport exists but is linear and is supporting the expansion of suburbia.....



Garden City



Suburban Shopping centre



Karrinyup



Canning Vale



Henderson Industrial Estate



Osborne Park

Big Box' shopping centres in the suburbs have replaced 'Main Streets'

Shopping centres like Industrial Estates are car dependent and are 'island buildings' surrounded by car parking.....



Traditional suburbia close to the City have large blocks with backyards and trees....

New Suburbia consists of smaller blocks with large houses and no trees....



High and Medium density is emerging in the Inner City as land values rise.....

Some quality 'middle density' is emerging but majority takes the form of battle-axe subdivision.....

Growing shadows of the Australian Dream...



4
MILLION

Australians
have a
mental health
condition



1 in 2

Australians
have a chronic
disease

**MENTAL
HEALTH
CONDITIONS**
are a leading
cause of illness
and disability in
Australia



More than
2.4
MILLION
Australians

have both
a mental
and physical
health
condition

Mental Health.....



Seven in 10 Australian men are overweight or obese



One in two

Women are overweight or obese



One in four

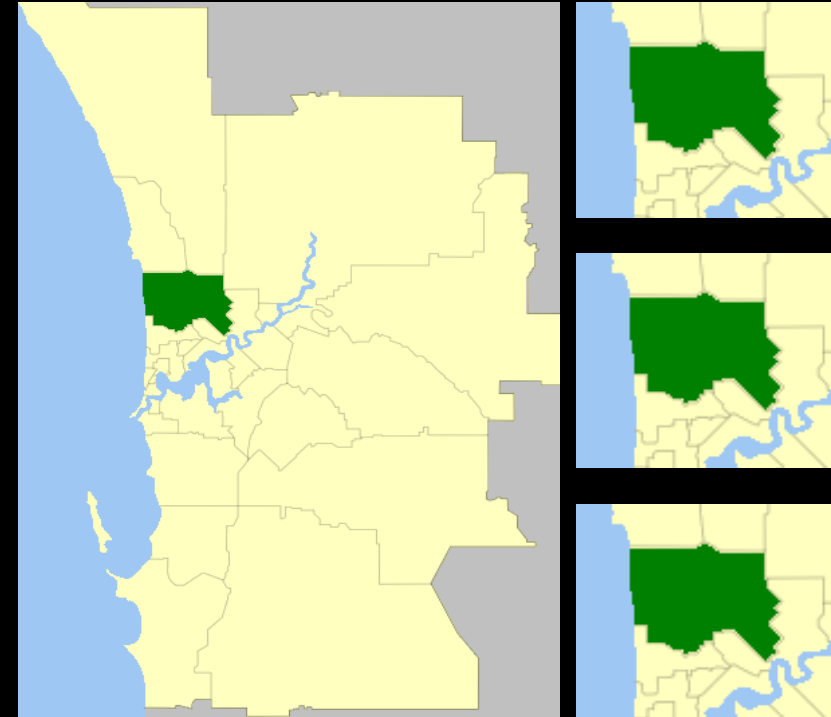
Children are overweight or obese



Physical Health.....



Environmental damage.....



By 2050 Perth's and Peel's population is expected to be 3.5m – 800,000 dwellings required with 420,000 dwellings to be developed in Greenfield areas

This is equivalent to 140,400,000 sqm or 14,400 hectares or 144 square kilometers

Once you add Commercial and Industrial (45sqm km), Roads (56sqm km), POS (15sqm km) - **260sqm km**

Cost of Suburbia



Suburbia is subsidized by the tax payer.....

Roman Trubka, Peter Newman and Darren Bilsborough, 'The Cost of Urban Sprawl – Infrastructure and Transportation', Environment Design Guide, April 2010

Update of existing infill areas versus new suburbs - \$50m versus \$136m



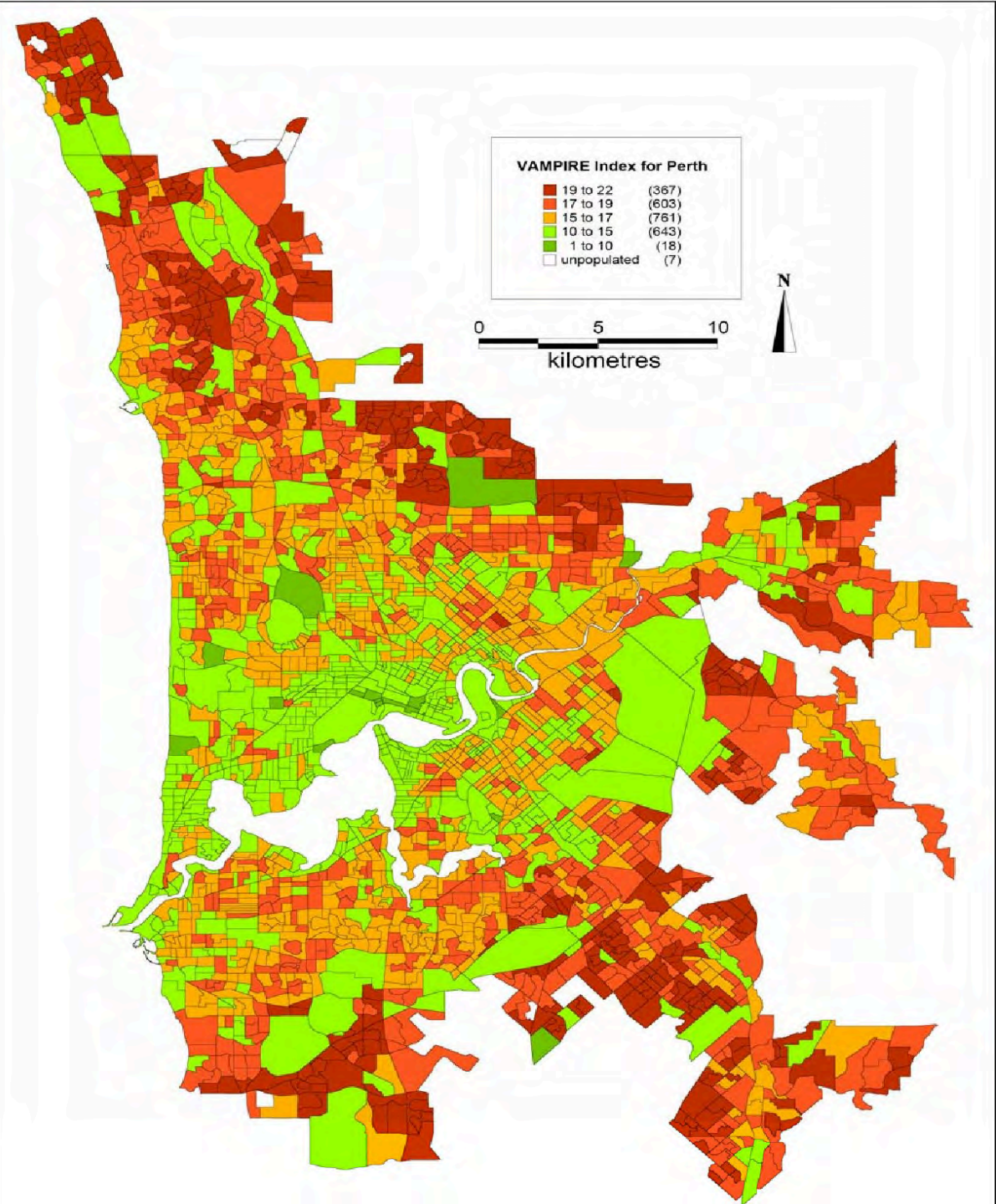


Link between Oil vulnerability and pricing, interest rates and mortgages.....

Study – ‘Shocking the Suburbs: Urban Location, Housing Debt and Oil Vulnerability in the Australian City’, J Dobson and N Sipe, 2008

Links between interest rate changes, oil price changes and housing stress.....

Suburban areas – most vulnerable



Energy Wars....



1973 OPEC Oil Embargo



1991 Kuwait / Iraq War



2003-2021 Iraq War



A large, light blue house with a white porch and a green lawn. The house has a prominent front porch with white railings and a decorative gable over the entrance. The lawn is well-maintained and green. The sky is clear and blue.

**Is the Great
Australian Dream
DEAD?**

Rethinking the Australian Dream

Growth Boundaries.....Infill vs Greenfield.....



Less of this.....



More of this.....

Australian Cities need to limit growth boundaries – targets of 70% infill and 30% Greenfield should apply.....

Sustainable Transport - Greater Investment in Public Transport



Less investment in this.....



More investment in this.....

Roads have a dedicated funding source for yearly expansion whilst Public Transport doesn't

Public Transport expansion is dependent upon the Government of the day.....this needs to change...

Is Metronet enough?

- Metronet is good at providing passenger rail into the suburbs in a North-South configuration
- But we need something better than buses along East-West main roads that link Metronet with Activity Centres and Employment hubs
- Needs to also enable urban regeneration along these roads as that is where people want to live and work
- Buses are clunky, perceived as unreliable and have low ridership (inefficient)

Mid Tier Transport is Missing in Perth.... Needed to support Metronet by connecting Metronet stations to activity centres and employment hubs....



Mid Tier Transport for Perth.....

They have proven mode shift –
getting people out of cars.....

They support housing intensification
and diversity.....





Place Based Approach to Planning.....from this



To this.....

Place Based Approach to Planning.....



Less focus on this.....



More focus on this.....

Rethinking the Australian Dream

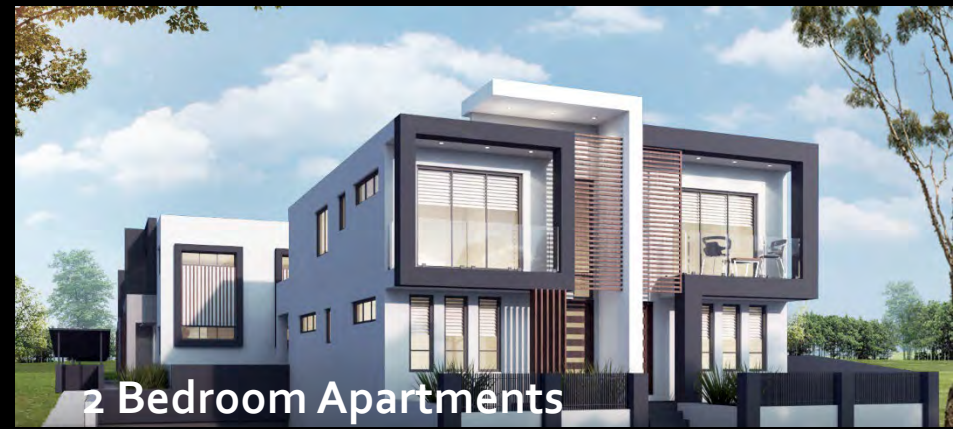
Housing solutions....

Need for housing mix that meets future demographic projections.....

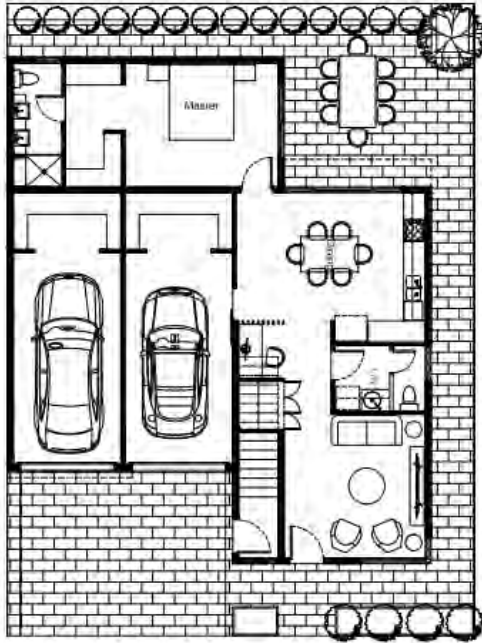


2.55

Average household size



New 'Missing Middle Housing' – 2 Bedroom Housing.....



Block dimension – 12.5m wide by 17m depth

Dwelling – 1 x 1 Bedroom Dwellings and 1 x 2 Bedroom dwelling

Land – 214sqm

Building – Unit 1 - 98sqm, Unit 2 – 109sqm

Case Scenario 1 – Construction in Inner suburb (i.e. North Perth)

- Land value – \$1,600 / sqm
- Construction cost - \$2,000/sqm

Unit 1 - \$370-375,000

Unit 2 – \$390-395,000

Case Scenario 2 – Construction in Outer suburb (i.e. Baldivis)

- Land value – \$460 / sqm
- Construction cost - \$2,000/sqm

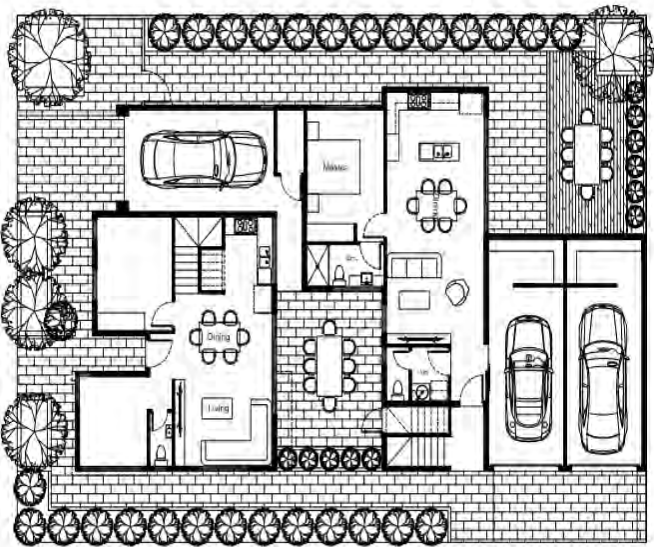
Unit 1 - \$245-250,000

Unit 2 – \$270-275,000

Perth Example



New 'Missing Middle Housing' – 2 Bedroom Housing.....



Perth Example

Block dimension – 24.2m wide by 17m depth

Dwelling – 1 x 1 Bedroom Dwellings and 1 x 2 Bedroom dwelling and 1 x 3 Bedroom dwelling

Land – 411sqm

Building – Unit 1 - 91sqm (1 Bedroom), Unit 2 (3 Bedroom) – 120sqm, Unit 3 – 116sqm

Case Scenario 1 – Construction in Inner suburb (i.e. North Perth)

- Land value – \$1,600 / sqm
- Construction cost - \$2,000/sqm

Unit 1 - \$400-405,000

Unit 2 – \$460-465,000

Unit 3 - \$450-455,000

Case Scenario 2 – Construction in Outer suburb (i.e. Baldivis)

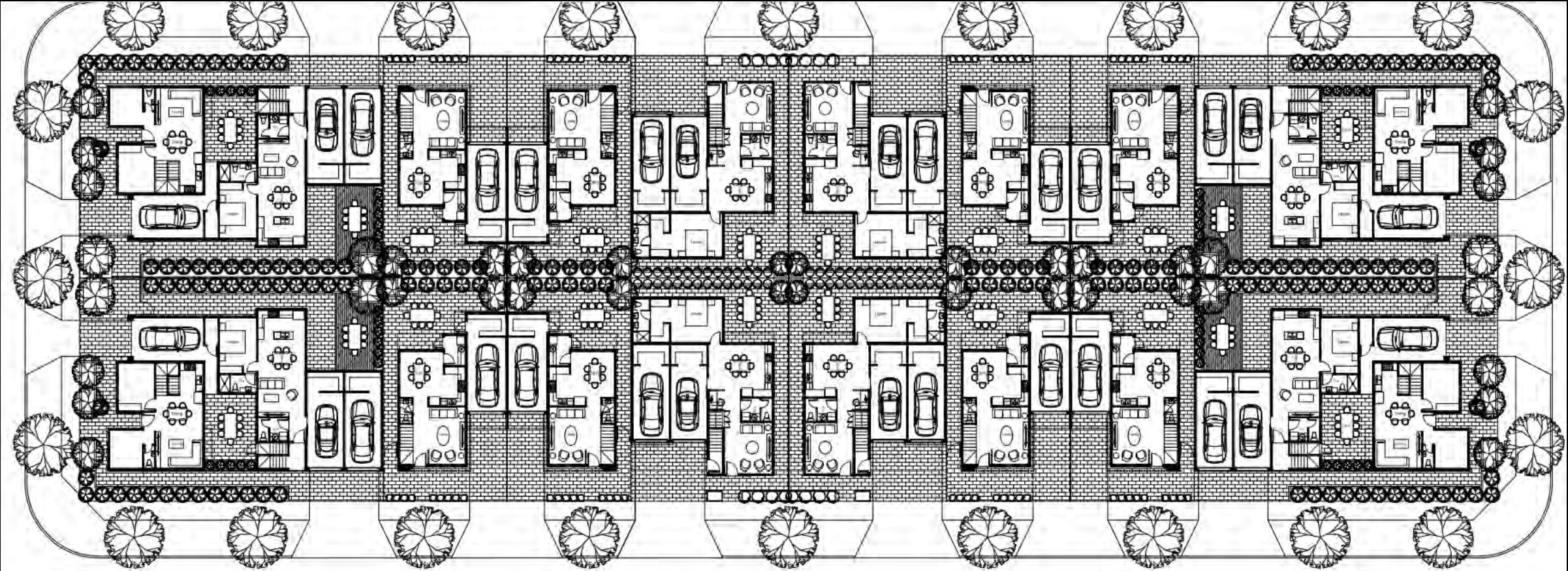
- Land value – \$460 / sqm
- Construction cost - \$2,000/sqm

Unit 1 - \$245-250,000

Unit 2 – \$300-305,000

Unit 3 - \$295-300,000

New 'Missing Middle Housing' – 2 Bedroom Housing.....



Rethinking the Australian Dream

Policy solutions....

First Home Buyer Grant

First Home Owner Grant (2022)

- Western Australia - \$10,000
- New South Wales - \$10,000
- Victoria - \$10,000
- Queensland - \$15,000
- South Australia - \$15,000
- Tasmania - \$30,000 (limited period)

First Home Owner Grant (2023 onwards)

- \$60,000 for new and existing housing in areas within 20 kilometers of the CBD
- \$40,000 for new house in new suburb (greater than 20 kilometers from CBD)

How do we pay for grant?

- Annual fee – Investment properties
- \$600 fee for House / Grouped Dwelling
- \$500 fee for Apartment
- Fee tax deductible

According to the ATO there is approximately 3,300,000 investment properties in Australia

\$1.8 Billion raised to fund First Home Owner Grant

Pays for 36,000 grants per year

Questions?

Negative Gearing

- Negative Gearing has created wealth for over 2.2m Australians
- Negative Gearing has created competition between investors and Home owners pushing prices up
- Baby Boomers and Generation X are the biggest holders of investment properties
- 67% Property – owner occupier (down from 75% in 1975)
- 5.4 million homes – owner occupier
- 3.3 million – investments
- Need to rebalance and encourage greater owner occupier
- **Negative Gearing laws need to change**
- Only 1 investment property eligible for negative gearing.

Number of Investment Properties	Percentage	Percentage increase since 2021
1	71% (1.57 million)	2.3%
2	19% (418,000)	2.7%
3	6% (129,784)	3%
4	2% (47,469)	2.2%
5	1% (19,861)	1.8%
6 or more	1% (20,756)	2%

Investor age	Percentage
60 or more	27.83%
Between 50 and 59	31.67%
Between 40 and 49	24.65%
Between 30 and 39	14.22%
Younger than 30	1.63%