



ABSTRACT

Paper title: A Critical Examination of Projections of a Housing Shortage in Australia

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Abstract:

The existence of a national housing shortage has seemingly been accepted by the majority of market commentators with minimal scrutiny. The paper will critically examine the accuracy of projections of a current and increasing future national housing shortage in Australia, with primary focus on those contained in the 2008 State of Supply Report released by the National Housing Supply Council in March 2009.

The complexity of the housing market and the role of market forces (i.e. price) in determining market outcomes does not appear to have been satisfactorily captured in current projection methods. Projections of the adequacy of housing supply invariably focus on a comparison of supply against underlying demand (based on population growth and household formation rates) rather than real demand (based on price). For example, the large increase in real house prices over recent years is likely to have had a negative impact on new household formation.

The 2008 State of Supply Report notes that its long term estimates of a significantly higher housing shortage are unlikely to be realised, because “a large cumulative gap would cause compensating adjustments in price, and in levels of production and demand that would fully or partially mitigate that deficit.” However the Report fails to recognise that similar market forces have historically and will continue to bring an approximate balance to demand and supply.

The paper will present and analysis various housing demand and supply data sets, and identify large data discrepancies. This will help inform an examination of the diversity of outcomes in the housing market, from luxury and secondary homes to public housing and homelessness, from unoccupied dwelling and spare bedrooms to overcrowding. The paper will present supporting data that provide alternative measures of the total housing stock and the rental vacancy rate. It will also highlight apparent deficiencies in current projection methods, such as the treatment of temporary residents and hotel accommodation, the need to make significant subjective assumptions and the poor quality of data on demolitions and remote communities.

Cumulatively, this paper will attempt to demonstrate that the complexity of the housing market has not been sufficient captured in current efforts to estimate current and future housing shortages, and thereby bring the accuracy and validity of these exercises into question.