Housing Affordability in the ACT

(Note: this is a summary of the seminar *Tell’em they are dreamin’: Housing Affordability in the ACT* delivered under the IGPA Canberra Conversations Public Lecture Series on 28 May 2015)

“I thought the prospect of being able to buy a modest size house sufficient to raise a family, within a reasonable distance of a job that pays an average salary should be part of an Australian’s birthright.” This comment in an online forum on a story in The Canberra Times (Nicole Gurran and Peter Phibbs, 6 May 2015) sums the expectations of generations of young Australian families.

Housing affordability is a social construct. It reflects what we, as a community, expect as a minimum level of consumption, and the cost associated with that consumption. Overcrowding is not acceptable. We expect some minimum building standards and safety, which are ensured through the regulatory system. A moderate income household spending more than 30 percent of its gross income will be considered to be in housing stress.

There can be many measures of housing affordability, but ultimately they reflect the expectations and values we hold as a community. However, the great Australian dream reflected in the above comment has been getting beyond the reach of an increasing number of households across the nation.

Aggregate measures of affordability paint a relatively rosy picture for Canberra. Average incomes are around 30 percent higher than the national average. The median house price to median income ratio in Canberra is around 5, and has hovered at this level for the past decade. While by the internationally used standards this puts Canberra in the ‘seriously unaffordable’ category, compared to Sydney or Melbourne, it would appear much better.

Aggregate measures, however, present an incorrect picture. The income distribution in the ACT has two peaks, both away from the median or average. Randomly chosen, it is more likely to encounter a household with income at around 85 percent of the median income. It is also more likely to encounter a household with above median or average income. Households with median or average incomes are relatively less common.

The bi-modal income distribution presents quite significant policy challenges. For housing affordability in particular, analyses based on median or average incomes will be flawed, and unable to capture the circumstances of the majority of households. The income point around which the maximum number of households is concentrated (the mode) in the ACT is close to the national average income. Reference to the higher than national average income in the ACT, whether in the context of housing affordability or other social policy considerations, will lead to wrong conclusions.

For a majority of households in the ACT, house price as a multiple of income is much higher than the aggregate figure of around 5. The distribution of house prices has also been changing over time, with relatively fewer properties available for moderate income households.

From time to time, negative gearing or more broadly the influence of investors (both local and overseas) are identified as the main drivers of deteriorating affordability. Other factors mentioned are low interest rates, population growth, lax lending criteria, and government subsidies to stimulate demand.

The thinking that affordability problems would vanish if only demand could be managed may only be wishful, and leads to inertia and inaction. There are broader macroeconomic policy considerations
which may prevent action on curtailing demand. On occasions, economic policy considerations may indeed lead to stimulatory measures. For example, during economic downturns, housing market is seen as the most effective vehicle to sustain employment and economic activity. What is often ignored is the inability of the supply systems to respond to surges (or even small changes) in demand. Yet, considerable body of research highlights the impact of artificial restrictions on land supply by state and territory governments as the single most influential factor.

It is not uncommon to refer to affordability and the supply restrictions as a national problem, and the ACT not being alone in such circumstances. Once again, the ACT is in quite a unique position. The government owns all the land in the Territory. With both state and local government functions and its own land development entity, it has full control over planning and supply of land in the Territory.

With a monopoly over supply, one would expect relatively much better affordability outcomes in the ACT compared to the other jurisdictions. The government is in a much better position to pursue its social and economic objectives from maintaining access to affordable housing. It would of course need to regulate the usual disposition of a monopoly supplier to extract monopoly rents. Indeed, these were the goals of the Affordable Housing Action Plan adopted in 2007. The Plan aimed to develop, among a range of other measures, a four-year supply pipeline with land on the shelf and over the counter sales. Such measures to implement a responsive land supply system have, however, not been achieved. The Land Development Agency has no stand-alone dwelling sites on offer.

The outcomes of supply constraints are readily observable in above normal price growth. They can also be assessed in new estate releases in Gungahlin, Belconnen and Molonglo. For example, land production costs for a greenfield development are estimated to be in the order of between $250 and $300 per square meter, while stand-alone dwelling sites in Gungahlin have been priced at between $450 and $500 per square meter. For both Molonglo and Lawson, characteristics and area based valuations would suggest prices in excess in the order of $200 and $300 per square meter respectively. Arguably, these were highly anticipated releases which delivered a premium for government. Arguably also, the pace and method of release created unnecessary heat in the market, delivering price outcomes that would not have occurred in a competitive market.

Such prices and housing affordability outcomes raise a number of questions. Principal among those relate to the policy objectives of government’s land supply and development arm, and need for instruments to regulate the monopoly supplier. The status of the Affordable Housing Action Plan also remains unclear. Without addressing these questions, an increasing number of households will be priced out of the market, and the dream of owning a home will remain just that – a dream.