

Housing becoming a pipe dream for young Australians

Housing affordability remains one of Australia's clearest — and most frequently cited — examples of intergenerational inequality. Over the past 20 years, home ownership has fallen from 70% to 66%, and for young generations the uphill struggle to break into the housing market has only become steeper. Homeownership among 25-29 year olds has fallen from 43.2% to 36.1%.¹

For Gen Z the situation is looking even more dire with the hope of owning their own home turning into pipe dream.²

What is housing affordability?

Housing affordability refers to the ability of people with an average income to pay for a home.

It does not refer to simply the price of housing in an area; which can be driven up by high incomes but still be affordable relative to those incomes.

But the term 'housing affordability' is often confused with 'affordable housing' which refers to government-subsidised housing for low-income earners.

THE INTERGENERATIONAL STRUGGLE

When Boomers were in their prime home-buying years in the early 1980s, it took a little over 2 years to save for a 20% deposit on a median priced home.

When Gen X entered the market in the 1990s it took just under 3 years. Now for a millennial household it takes over 5.5 years to save for a deposit.

A household earning the median income in Australia can now afford just 13% of homes sold across the country — and that percentage is likely even smaller in our major cities.³

The ratio of median house prices to incomes has roughly doubled from 1989 to 2023. In 1989 it peaked at five times the amount but was less than four for most of the 1980s. By January 2023 it was 7.9 times, having peaked at 9 times during the pandemic housing boom.⁴

So, it's no surprise young people are struggling to purchase their first homes and the largest decline in homeownership is among those aged 25-44.⁵

The wage-price race

Investors tend to assume housing prices always go up, with everyone from Mum and Dad investors to superannuation funds putting a significant proportion of their eggs in the property basket.

But unaffordable housing is not an inevitable result of capitalism. Rather, in a functioning market the idea that housing prices will outpace wages should not be a certainty.

WHY DOES THE HOUSING PROBLEM EXIST?

The failure to allow the private market to operate freely is the key driver of the current housing crisis in Australia.

The regulatory framework has stopped Australia from building enough housing, and the housing we are building isn't located where people want to live.

The tyranny of the minority

Local governments are heavily influenced by the view (or perceived views) of their constituency. Architects demand heritage protections that turn entire neighbourhoods into time capsules, and NIMBYs want to preserve the 'char-

acter' of the neighbourhood they originally bought into, not allowing any changes. Councils believe, rightly or wrongly, that voters don't want density, and are easily swayed by NIMBYs.

Further, councillors represent nearby residents, not the direct beneficiaries of increased housing supply — the newcomers moving into the area.⁶

"Local governments will act like a cartel, restricting supply and driving up the price of housing. That benefits local residents but harms potential residents from outside the area and future generations." ~

Peter Tulip

While it is clear many people are reluctant to see change

in their own neighbourhoods, those very genuine feelings cannot be allowed to outweigh the pressing need for more housing, and increasingly prevent young people from buying homes.⁷

What about tax concessions?

Negative gearing and capital gain discounts for investors can feel like salt in the wound to young people unable to afford even a first home. However, these tax concessions can only be credited with increasing housing prices by 1-4%. Further they help reduce rents for those same young people struggling to save for that first home deposit.⁸

WHAT PEOPLE WANT

What is less clear is the assumption that most people prefer to live in single family suburban homes with rotary clotheslines and space to BBQ in the backyard.

In fact, 59% of Sydneysiders and 52% of Melbournians reported in 2011 they would prefer to live in mid- to high-density housing.

Yet, at the time of the survey only 38% of Sydney's and 28% of Melbourne's housing fell into those categories.⁹

The mid- to high-density supply had improved by 2021 — to 45.9% in Sydney and 34.4% in Melbourne — but still fails to meet the preferences of the population.¹⁰

Further, the values of younger generations often trend towards higher density; making it reasonable to expect the demand for mid- to high-density housing to increase over time.

For example, Gen Z and Millennials tend to be environmentally-focused, so are more likely to prefer walkable neighbourhoods with easy access to public transport (as fewer own cars than previous generations).

However, zoning regulations tend to preference single-family zoning over other housing types. We need diversity of housing across locations so everyone can find housing that matches their needs.

Bureaucratic hurdles

The process is the punishment for many developers; delaying — and outright stopping — their ability to build, and risking the viability of projects.

Rising interest rates and escalating construction costs can quickly transform an initially feasible project into an unviable one.

The prolonged delays can also have a significant impact on a project's eligibility for funding. Councils and community

complaints force projects to downsize or reduce the number of affordable units in a project plan.

Exclusionary zoning practices further compound the issue, with restrictions such as single-family-only zoning, height limitations, parking requirements, minimum lot sizes, and use restrictions.

Particularly problematic is zoning that permits only single-family homes — a constraint on diverse development.

THE 'ZONING TAX'

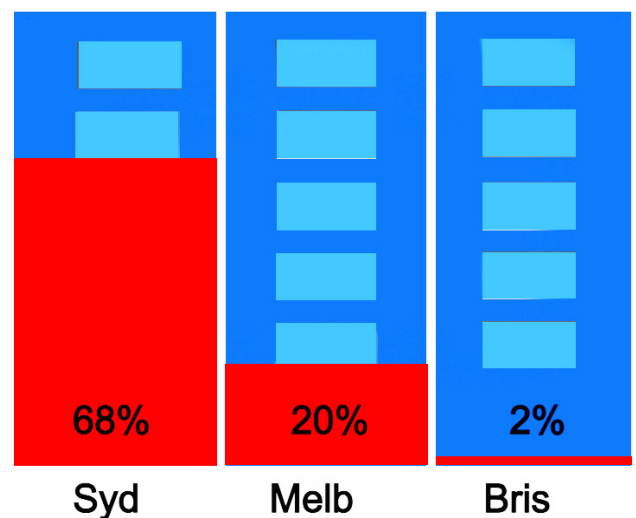
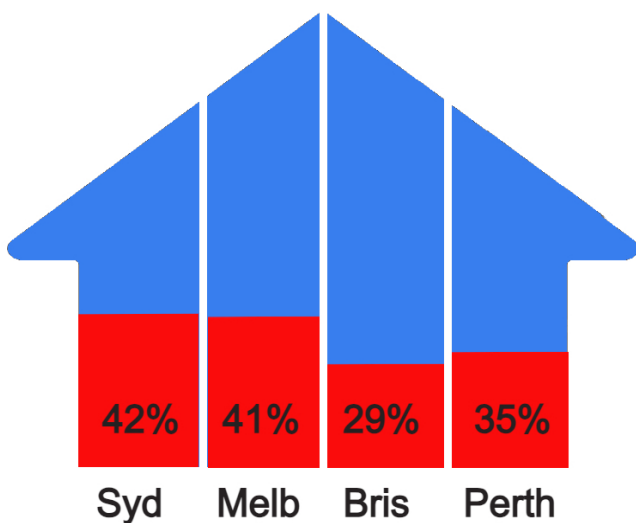
Zoning tax is the price you pay for the legal right to put a dwelling on a piece of land.

That legal permission to build on a site holds a large value (as can be seen when an area is rezoned), and the price of the land immediately increases despite all other factors including location and size remaining the same. Economists estimate average effects of the 'zoning tax' across a city by calculating the difference between the average sale price of a given dwelling and what

it costs to build including what the developer can expect as a normal profit.

Zoning tax = Price - (construction costs and profit margins)

As shown in the figures below, the zoning tax accounts for 42% of the price of a house in Sydney, 41% of in Melbourne, 29% in Brisbane, and 35% in Perth. The zoning tax is 68% of the price of an apartment in Sydney, 20% in Melbourne and 2% in Brisbane.¹¹



THE QUESTION OF DEMAND

The housing affordability issue is often blamed on high demand. More people are choosing to live alone, short-term letting is increasingly popular, and Australia is a high immigration country.

However, demand only becomes a problem when supply is restricted and not allowed to meet the increased need

for housing. For example, Sydney needs about 30,800 extra dwellings a year to match expected population growth. Essentially that means a baseline growth in the dwelling stock in each local government area of at least 1% a year.¹³ This level of growth is well within the range of possibility but is stymied by our current regulatory environment.

SO... HOW CAN WE MAKE HOUSING MORE AFFORDABLE?

State governments could help alleviate the housing crisis.

They could do this by issuing general overrides for certain types of exclusions (for example allowing granny flats), ensuring the areas around public transport is zoned for mid- to high-density and setting mandatory targets for councils.

As a means of enforcement, if councils failed to approve the allocated number

of projects in the timeframe, the state could appoint a planning administrator or automatically relax zoning restrictions.

State governments could also reward councils that beat their targets with incentive payments as well as building more infrastructure.

The only way Australia will make housing affordable for future generations will be by increasing the housing stock.

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