



State of housing supply



State of the Nation's Housing 2021–22

State of housing supply



550k+

net new dwelling completions

FORECAST BY 2024, EXCEEDING NEW HOUSEHOLD FORMATION



60% upswing

detached dwelling construction

IN THE YEAR TO MAY 2021, AIDED BY HOMEBUILDER

Up to 6 years



between development application and completion

in some areas, constraining the property industry's ability to meet future demand

KEY POINTS

- Record low interest rates combined with state and federal government stimulus continue to drive a strong upswing in construction activity, with net completions across the country expected to average 183,700 over the next 3 years.
- Detached dwellings are leading the cycle, aided by the temporary boost from HomeBuilder and other state support. In 2021–22 and 2022–23, detached net completions are expected to average 118,300. Medium-density dwellings didn't benefit as much from HomeBuilder, but net completions are still expected to average 66,600 during these years.
- At some point, a downswing will take hold likely driven by higher interest rates. The timing is uncertain, but the RBA's guidance at the time of writing is that the cash rate will remain at its current level until 2024. Financial markets expect the cash rate to increase much sooner. RBA forward guidance at the time of writing is used in our modelling, with the downturn in construction beginning in 2024 and net completions falling from 194,100 in 2022–23 to 127,100 in 2026–27.
- Household formation drives the long-term forecasts. After the trough in 2026–27, completions are expected to gradually increase to 186,000 in 2031–32. The COVID-cycle is expected to be over by 2024–25. By 2024–25, household formation and demand for vacant dwellings is expected to slightly exceed construction activity, which looks likely to remain the status quo until 2030–31.
- Industry liaison indicates serviced and development-ready greenfield land supply remains a significant constraint in key markets, such as Sydney and SE Qld. This could limit the development industry's ability to meet future demand. Industry liaison also indicates the development approval process is long and cumbersome. In some instances, it takes 6 years from when a medium-density and apartment development application is first lodged to when construction is completed.
- During the next 3 years, 167,400 net completions are expected in Vic, while 147,400 are expected in NSW and 111,200 in Qld. SA (32,000), WA (67,500), Tas (10,100), NT (2,300) and the ACT (13,000) make up the remainder of the forecast net completions across the country during this period.



Introduction

Economic conditions are favourable for new housing supply to remain at high levels. Interest rates are at all-time lows and housing prices are rising.

The HomeBuilder stimulus program primarily supported detached construction and alterations and additions over medium-density and apartment construction. Consequently, the pipeline of work in detached dwelling construction is strong. Since the end of March, lead indicators such as building approvals have declined in response to the end of the program.

First home buyers have been supported by low interest rates, the Federal Government's HomeBuilder program and First Home Loan Deposit Scheme, and state government stamp duty relief.

Medium-density and apartment construction, while well below the peak levels seen in 2017, is starting to increase. NSW is more advanced in the cycle than the other states. The 'State of the housing market' chapter shows that listings fell substantially in the medium-density and apartment rental markets of both Sydney and Melbourne due to international border closures. Many of the properties withdrawn from the rental market were likely sold to owner-occupiers – particularly first home buyers. This helped to clear these rental markets, creating favourable conditions for construction activity.

The emergence of the Delta variant removed any chance of the RBA withdrawing stimulus before vaccination targets were met, pushing out the timing of the downturn in construction activity. As a result, new housing supply will likely exceed new household formation for a few more years.

The new detached home and alterations and additions part of the construction industry is near full capacity. Although wages growth remains modest, the industry is experiencing bottlenecks in the supply of imported materials, such as framing timber, PVC piping and reinforcing steel, putting upward pressure on construction costs.

At this stage, the aggregate data is not showing delayed commencements or completions, but these are expected in the months ahead. If supply constraints remain persistent over the long term, construction activity will likely remain at high levels for longer than forecast.



The cyclical upswing

Dwelling approvals in the current cycle have been driven by rising prices and low mortgage rates. Fiscal policy has also played a role, with state government transfer duty concessions for first home buyers, NHFIC’s First Home Loan Deposit Scheme and the Federal Government’s HomeBuilder program adding stimulus.

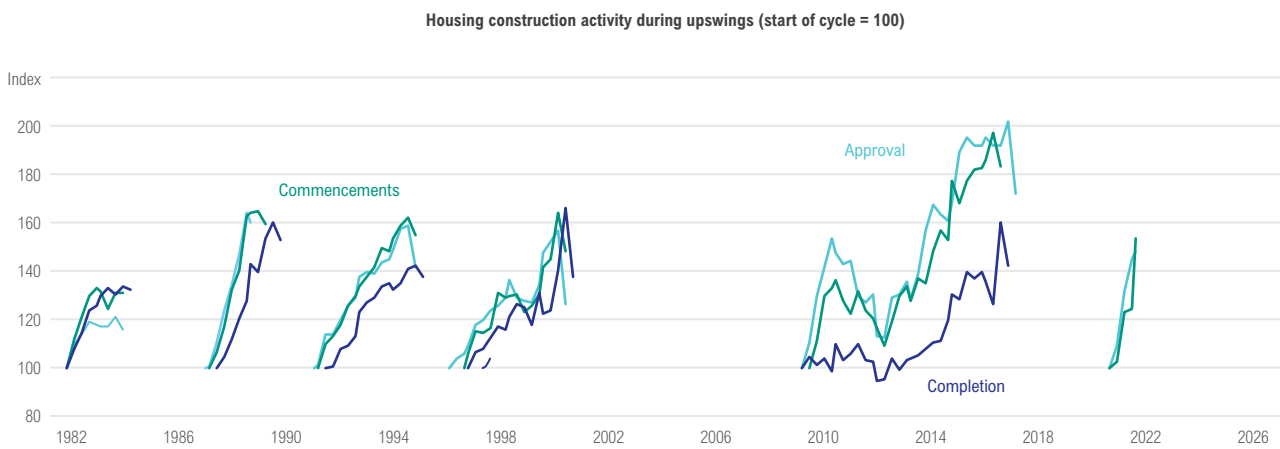
Dwelling approvals have increased rapidly, suggesting commencements and completions have significant upside from current levels (Figure 3.1). Since HomeBuilder ended in March 2021, detached dwelling approvals have begun to slow. However, the other stimulus remains in place leaving near-term upside risk to our forecasts.

Interestingly, the lag between approval and commencement, and commencement to completion seems similar to past cycles. This suggests that, at the macro level, development and construction constraints remain relatively unchanged over the longer-term. That said, constraints may exist at the state, capital city or regional level.

In past cycles, the growth in completions has generally been less than growth in both approvals and commencements. The main exception being the 1982 cycle where the growth in commencements and completions exceeded approvals.

In the cycle that began after the GFC, both approvals and commencements rose strongly, but initially completions were sluggish. This probably reflects the nature of the GFC downturn, which hit the economy quickly, leaving a significant pipeline of projects approved and commenced, but not completed.

Figure 3.1: Housing construction activity (start of cycle = 100)



Source: ABS Cat 87520, NHFIC

Factors affecting supply

At the economy-wide level, a long-run and relatively stable relationship exists between construction activity, and interest rates and dwelling prices. Given most new dwelling construction and purchases are made by borrowing, there is a strong relationship between these factors and the cost of debt in the short run.

Fiscal policy also plays a role. The HomeBuilder program and First Home Loan Deposit Scheme assisted construction activity during the pandemic. State governments provided support, such as first home buyer grants and transfer duty concessions. Some state governments such as WA and Tas provided direct grants for new construction.

Over the long run, movements in household formation anchor the number of dwellings constructed. While changing household preferences and affordability impact the composition of new dwelling construction.

Table 3.2 shows the support now in place from both the Federal Government and the RBA.

State governments have also played a significant role in providing fiscal support to the housing market during the COVID-19 recession. Some of the stimulus has been recently withdrawn, with NSW reducing the size of its first home buyer stamp duty concession in August 2021. The land tax and rent support packages put in place during the early stages of the pandemic have also been removed in most states and territories.

However, the additional \$30,000 pandemic-related concession for first home buyers who purchase or build a new home in Tas has been extended to 30 June 2022.

Table 3.2: Federal Government fiscal and monetary stimulus

RBA	<ul style="list-style-type: none"> Target cash rate was cut to 10 basis points at the November 2020 board meeting, and the RBA has indicated it will not increase the cash rate until late 2023. In a speech on 16 November 2021, Governor Lowe said the RBA was unlikely the cash rate target would rise in 2022. Term funding facility was set up to provide low-cost funding to authorised deposit-taking institutions lending to households and small and medium-sized businesses. The interest rate on the facility is 0.1%. It is now closed to new drawdowns, although the RBA expects the facility will remain in place until mid-2024. Interest on exchange settlement balances were cut to 10 basis points at the 18 March 2020 board meeting and further cut to 0 basis points at the November 2020 board meeting. Purchase government securities at the rate of \$4 billion a week until at least mid-February 2022. As part of its initial response to the pandemic, the RBA purchased \$200 billion of government bonds.
Federal Government	<ul style="list-style-type: none"> The First Home Loan Deposit Scheme was extended to June 2022, with an extra 10,000 places available. The scheme allows first home buyers to borrow up to an LVR of 95%, without needing to pay lenders mortgage insurance.

Source: RBA, the Treasury

Table 3.3: HomeBuilder applications up to June 2021

Jurisdiction	% total*	% new construction	% private detached dwelling approvals
NSW	15.7	67.1	79.1
Vic	29.9	83.5	78.3
Qld	21.8	83.2	92.3
WA	16.6	92.1	84.7
SA	10.5	82.7	111.8
Tas	3.0	83.7	92.2
ACT	2.2	77.4	207.3
NT	0.4	89.1	80.3

Source: the Treasury, ABS Cat No. 8731

*percentage of the total number of applications for the program in Australia

The Federal Government's HomeBuilder program

HomeBuilder was a key initiative designed to support new construction for owner occupiers, including first home buyers, during the early stages of the pandemic.

Demand for the program was particularly strong in both Vic and Qld, which accounted for 51% of all applications received (Table 3.3).

The program was introduced in 2 phases:

1. A grant of \$25,000 for eligible contracts to build or buy a new home or substantially renovate an existing home entered into between 4 June 2020 and 31 December 2020
2. A grant of \$15,000 for eligible contracts to build or buy a new home or substantially renovate an existing home entered into between 1 January 2021 and 31 March 2021.

Around 70% to 90% of all applications were for new construction, with the remainder for major home renovation. NHFIC has also calculated the ratio of HomeBuilder applications to new approvals to illustrate the relative strength of the program in each state. The use of the program in kicking off new construction varied between jurisdictions, with applications of 78.3% of private house approvals in Vic versus 207.3% in ACT.

In WA, not all of the new construction projects approved were started, given the downturn that gripped that state in the years just prior to the pandemic. In NSW, the number of HomeBuilder applications for new construction accounted for 79.1% of total private detached dwelling approvals.

Land availability

The process of creating a pipeline of suitable land for residential development involves state government agencies and private sector developers working together.

State governments determine where and when new greenfield land is rezoned and how this land will be connected to existing infrastructure. They attempt to strike a balance between supporting growth and protecting public interest.

Developers, on the other hand, seek to maximise profit while working within state and local government regulations. They subdivide the zoned land, construct dwellings and services within new subdivisions. Some developers subdivide the zoned land and then sell the land directly to the public. Developers are also the conduit by which infrastructure is funded. They pay infrastructure charges and either back pass these costs onto landowners, if they are just developing land; or property buyers, if their business model includes dwelling construction.

In the urban infill, local government has a larger role to play than it does in greenfield areas and development is done on a relatively ad-hoc basis. State government land rezoning is also important in land supply process in the urban infill.

Cities with topographical constraints that restrict or limit the direction of expansion of the urban fringe, such as Adelaide and Sydney, have policies that favour greater infill development. In Sydney, a clear state government policy restricts development in the rural areas within the Sydney metropolitan area. In contrast, cities such as Brisbane, Melbourne, and Perth, which have less constrained topographies, are continuing to see a higher share of expansion by land release on the urban fringe.

Table 3.4: ABS proposed indicators by primary data source

	Characteristics of urban land	Characteristics of regulation	Supply outcomes
Indicators	Lot characteristics	General regulatory system features	New approvals/completions
	Modelled permitted dwellings	Analysis of instrument content	Price changes/supply elasticities
	Modelled infill potential	Planning system performance metrics	
Data	Cadastral maps	Planning instruments	Building development and demolition approvals
	Urban land datasets	Surveys	Property transaction
		Development application information	

Source: ABS

NHFIC industry liaison

NHFIC liaison indicates that Sydney is the main market where land availability is a significant constraint on housing supply.

Developers report the following issues are limiting their ability to deliver new supply:

- Lack of zoned land serviced with infrastructure. Utility providers in some jurisdictions are unable to deliver services in a timely manner that allows subdivided land to be prepared for dwelling construction. This problem is more apparent in medium-density and apartments rather than the detached dwelling market.
- Many investors are building land banks and not putting land onto the market for development.
- Builders are entering the development market and purchasing land that would normally be purchased by large developers.
- Land supply in Sydney is likely to be exhausted within 12 months.
- In the Green Square development precinct in Sydney only 40% of projects were completed within a 5-year period after development applications were lodged. The remaining 60% of stock was completed more than 5 years after the development application was first lodged.
- In the Canada Bay development precinct, the time from initial site identification to completion is 4.6 years for projects less than 100 dwellings. For projects larger than 100 dwellings, this period extends to around 6.5 years.

Optimistic expectations for supply over the next few years shouldn't create complacency in state or local government planning authorities. They should now be planning to have land available for development in the next cycle. This brings even more urgency as international border reopening will put additional pressure on supply over the next few years.

Data

The publicly available detailed data on land supply is extremely limited. The ABS publishes the value of residential land by state and territory in the Annual National Accounts, but there is little more detailed consistently measured information. Consistently measured publicly available information on the future supply of land by characteristics such as its degree of servicing, whether it is subdivided or not, and what amount of land in greenfield areas has been rezoned residential would be useful for all stakeholders in land supply.

However, new initiatives should improve this situation. The National Housing and Homelessness Agreement (NHHA) (2018) plans to use 14 indicators to help meet its objectives (Table 3.4). In July 2021, the ABS began collecting data to estimate the number of dwellings permitted by zoning in cities or urban areas.

Regional Qld

The Qld Government's statistician publishes quarterly data on land supply. The latest data shows the state has 150,291 hectares of greenfield and brownfield land available for residential development, with most in the Toowoomba and Darling Downs region (Table 3.5). SE Queensland and Wide Bay also have relatively large areas of land for residential development.

However, development data on its own does not indicate the number of dwellings that could be produced. For example, the yield on land in SE Queensland is more than twice that of the second largest high yield region (N Qld) and almost triple that of Toowoomba and the Darling Downs.

Greenfield development goes through several stages after rezoning. Once lots are approved, developers seek approval to connect utilities with existing networks. In SE Queensland, the number of approvals for utility connection is around 80% of lots approved for subdivision, suggesting that connections don't keep up with lot development (Figure 3.2 – LHS).

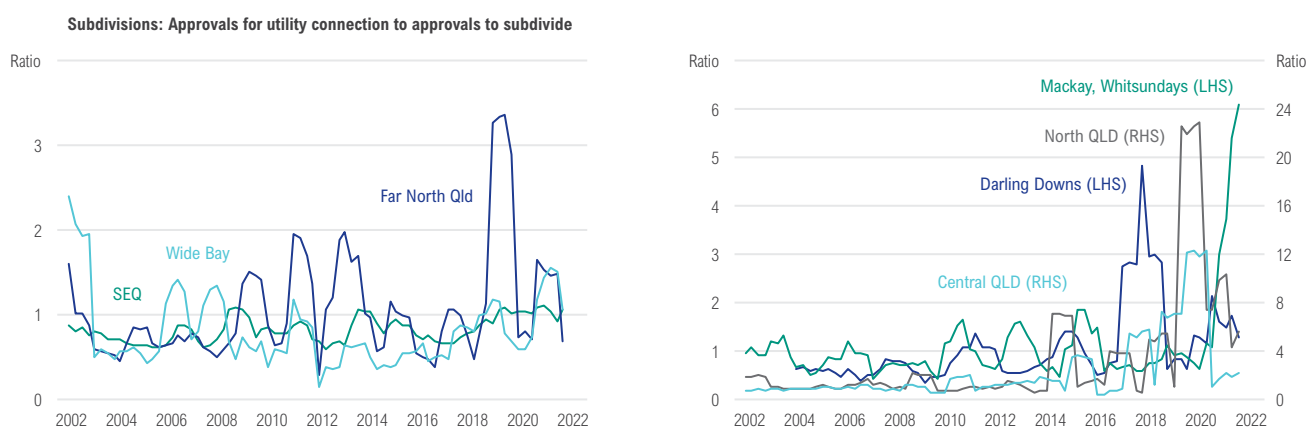
In the smaller regions, the relationship between approval for connection and approval for subdivision is more volatile: the number of approvals for connection can sometimes be 6 times the number of approvals for subdivision (Figure 3.2 – RHS). A large positive ratio could be due to previously approved projects receiving approval for connection. However, it could also simply reflect a fall in the number of projects approved for development.

Table 3.5: Qld regional broadacre land supply and yield (September 2021)

Region	Land area (hectares)	Estimated yield (dwellings)	Yield per hectare (dwellings/ hectare)
SE Qld	30,623	408,504	13.3
Toowoomba & Darling Downs	6,054	28,040	4.6
Wide Bay	31,3486	60,736	1.9
Central Qld	4,057	19,374	4.8
Mackay, Isaac & Whitsunday	5,507	32,063	5.8
Far N Qld	6,345	35,221	5.6
N Qld	7,332	47,887	6.5
Qld	87,887	614,299	7.0

Source: Qld Government statistician

Figure 3.2: Qld lots approved for utility connection as a ratio of total lots approved for development



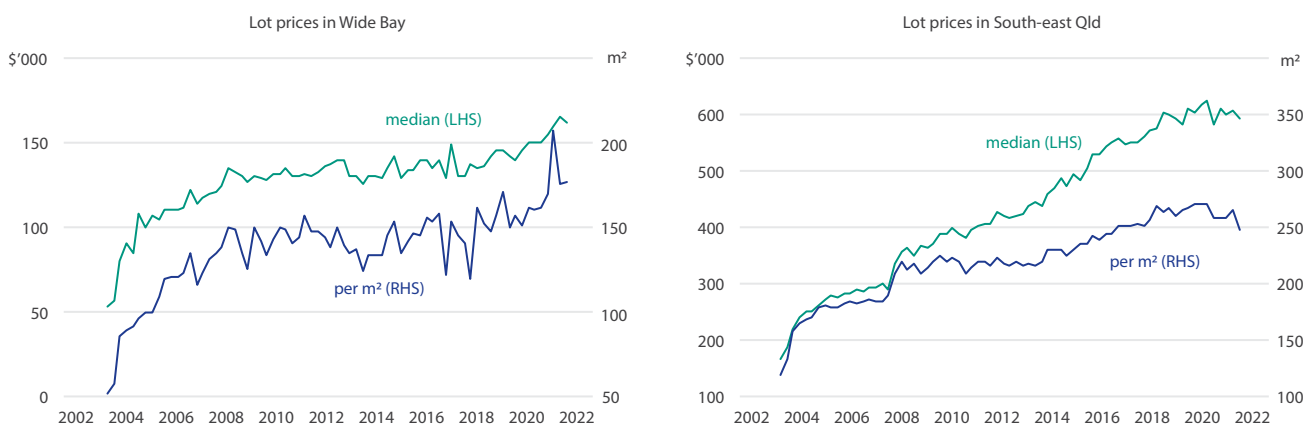
Source: Qld Government statistician

The sluggishness of fully serviced land to respond to stronger demand in the SE Queensland market appears to have added some upward pressure on land prices, with the median price in this market increasing by 50% between 2010 and 2018 (Figure 3.3). However, since then prices have remained around \$600,000, coinciding with approved serviced land increasing at the same pace as development approval. The ratio has slowed a little in the past year, likely putting upward pressure on land prices again.

In SE Queensland, developers have responded to the strong growth in median prices by reducing lot sizes to make home and land packages affordable. Land prices per square metre increased by only 20% between 2010 and 2018.

In other regional areas of Qld, affordability is also an important consideration for developers. The large increase in the median land price during the pandemic has been matched by a large reduction in lot size that has kept the unit lot price around \$150/m².

Figure 3.3: Regional Qld land prices



Source: Qld Government statistician

Metropolitan Sydney

The NSW Department of Planning, Industry and Environment estimates there is enough rezoned land to develop 118,484 dwellings in the north west and south west regions of Greater Sydney (Table 3.6). The Department estimates suggest the amount of land released land is equivalent to 141,990 dwellings.

Land further down the development pipeline is significantly less than the potential land supply, with only 6,410 lots approved and waiting for sale and dwelling construction. However, an estimated 14,968 lots are one step back in the development process at subdivision approval.

Land sales in Sydney, which have accelerated in response to low interest rates and fiscal stimulus, are now back to 2017 levels. However, given the average determination time of both residential and subdivision development applications has been increasing since 2015, this puts a brake on the amount of supply that can be bought to market. It now takes, on average, 130 days for subdivision approval and 65 days for all residential dwelling development approval.

Table 3.6: Greater Sydney potential greenfield lots (March 2021)

Region	Released	Rezoned
North west	84,161	73,461
South west	57,829	45,023
Total	141,990	118,484

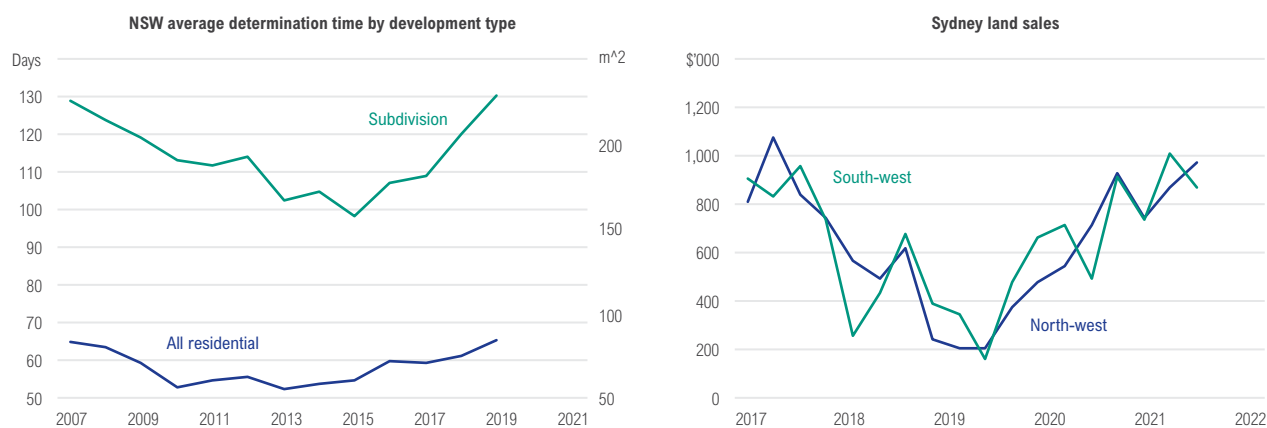
Source: NSW Department of Planning, Industry and Environment

Table 3.7: Greater Sydney greenfield land supply (Lots, June 2021)

Region	Subdivision assessment	Subdivision approved	Lot approved (vacant)
Wilton	292	696	181
South-west	2,820	6,126	2,444
North-west	1,432	7,741	3,785
Macarthur	1,389	405	0
Total	4,943	14,968	6,410

Source: NSW Department of Planning, Industry and Environment

Figure 3.4: Average determination time and land sales, NSW and Greater Sydney



Source: NSW Department of Planning, Industry and Environment

Metropolitan Melbourne

The Vic Department of Environment, Land, Water and Planning reports 352,441 englobo lots are either zoned or unzoned in 2020 – a number that has been steadily declining since 2015.

Table 3.8: Zoned and unzoned residential land, Greater Melbourne

Year	Broadacre lots unzoned englobo*	Broadacre lots zoned englobo	Total
2013	154,031	266,777	420,808
2014	na	na	na
2015	154,438	202,589	357,027
2016	145,764	207,834	353,598
2017	129,845	206,530	336,375
2018	128,086	249,606	377,692
2019	133,244	234,993	368,237
2020	125,450	226,991	352,441

Source: Vic Department of Environment, Land, Water and Planning. Land is either zoned or unzoned undeveloped, unserviced and zoned to be subdivided.
*Englobo land is a large parcel of land that can be subdivided into at several (at least 6) lots.

Supply forecasts

Definitions

This report uses the ABS definitions of dwelling type as the basis for its analysis, as detailed in Table 3.9.

Estimates for each housing type are then prepared at the national and state/territory level. Capital city forecasts are also produced, but Canberra and ACT are grouped together. Rest of state forecasts are the state forecasts minus the capital city forecasts.

Table 3.9: Dwelling supply categories

Dwelling category	ABS structure dwelling types
Detached	Separate house
Medium	Semi-detached, row or terrace house, townhouse etc. with one storey
	Semi-detached, row or terrace house, townhouse etc. with 2 or more storeys
	Flat or apartment in a 1– or 2–storey block
	Flat or apartment attached to a house
Apartment	Flat or apartment in a 3–storey block
	Flat or apartment in a 4 or more storey block

Source: SGS Economics, ABS. Non-private dwellings and other residential buildings have been excluded from the analysis. Non-private dwelling types include hotels, staff quarters, hospitals, hostels, nursing homes, certain types of welfare accommodation (i.e. group homes) and prisons. Other residential dwellings include caravans, houseboats and dwellings attached to commercial buildings.

Top-down forecasts

2021–22 to 2024–25

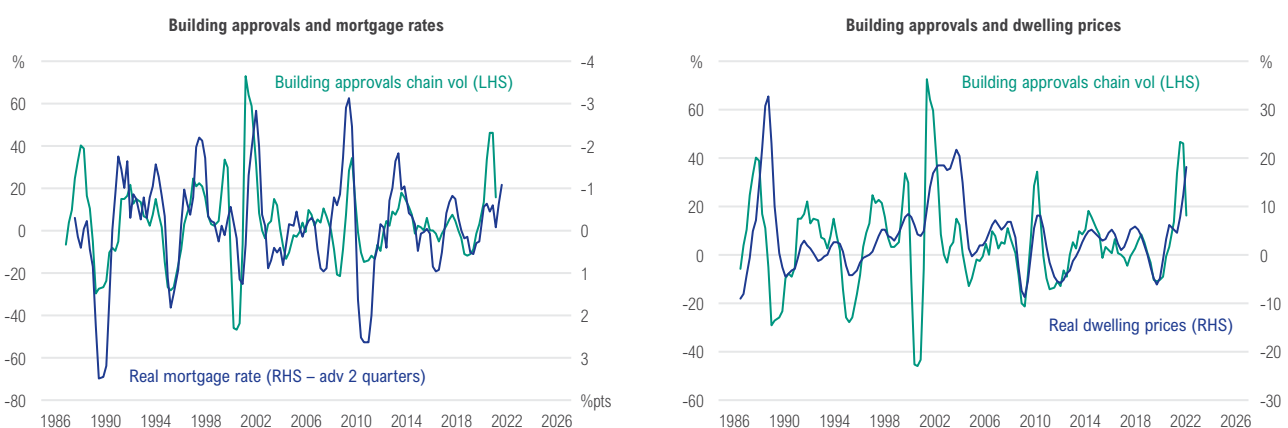
We use a top-down approach to forecast dwelling completions for both detached dwellings and medium-density and apartments at the national level over the next 4 years. Over the remaining years of the forecast period from 2026 to 2032, we assume new supply slowly adjusts back to the levels implied by household formation.

Our model uses the well-recognised relationship between macroeconomic variables, such as house prices, interest rates, household disposable income and construction activity. This approach reflects more certainty about the near-term macroeconomic backdrop and the long-term relationship between household formation and dwelling supply.

Figure 3.5 shows the well-established relationship between building approvals and both dwelling prices and interest rates.

We then estimate the relevant equations in the model of the Australian housing market developed at the RBA by Peter Tulip and Trent Saunders for both detached dwellings and medium-density and apartments.⁹

Figure 3.5: Dwelling completions, house prices and interest rates



Source: ABS, RBA, NHFIC. House prices are the ABS established median house price. The mortgage rate is the average banks' standard variable mortgage rate.

9 Trent Saunders and Peter Tulip, "A Model of the Australian Housing Market", RDP 2019-01, Reserve Bank of Australia, March 2019.

The steps are outlined below and shown in more detail in the Appendix of this chapter.

- Estimate the equation for chain volume building approvals for each dwelling type.
- Convert the chain volume estimate of building approvals into a building approvals number by estimating dwelling quality.
- Estimate the equation for dwelling commencements by each dwelling type.
- Estimate the equation for dwelling completions for each dwelling type.

Estimates for demolitions by dwelling type over the 4-year forecast period were made using the ABS data on approval for demolitions. During the forecast period, a rolling 2-year average was used with 70% weight on the previous year and a 30% weight on the year prior to that. This approach puts less weight on the demolitions approved during the 2014 to 2017 apartment boom.

The estimates for net completions were calculated as gross completions less demolitions.

NHFIC then provided Macroplan with an estimate for net dwelling completions by dwelling type at the national level and these forecasts were then distributed around capital city and rest of state markets.

In forecasting dwelling completions, we make the following macroeconomic assumptions:

- Nominal household disposable income is 4.25% at the end of 2021–22, reflecting a rebound from Australia's second wave of COVID-19, and more moderate growth of 3.5% at the end of 2022–23 and throughout 2023–24 and 2024–25.
- In forecasting interest rates, we use implicit RBA guidance and build in a model increase in mortgage rates. The mortgage rate remains unchanged in 2021–22 and 2022–23. In 2023–24 the mortgage increases by 50bp then a further 100bp in 2024–25.
- We assume dwelling price growth is relatively consistent with the projections of interest rates. We assume dwelling price growth is 15% at the end of 2021–22. At the end of 2022–23, price growth moderates to 7% and by the end of 2023–24 price growth is -5%. At the end of 2024–25 price growth is -10%.

Near-term projections for completions produced by the model are adjusted for the latest building approvals data.

Saunders and Tulip found that 83% of detached dwellings and 61% of medium-density and apartments are completed one year after approval (Table 3.10). A further 12% of detached dwellings and 24% of other dwellings are completed over the longer term. Overall, on average, 95% of detached dwellings that have building approval are completed. By comparison, 85% of medium-density and apartments are completed.

Table 3.10: Building approvals: Percentage completed

	Detached	Medium-density and apartments
1 year after approval	83	61
Longer term	95	85

Source: RBA

2021–22 to 2024–25

The ABS building approvals data provides a reliable estimate for completions over the year following approval (2021–22) and we apply the approval: completion rate outlined in Table 3.10. We also assume those dwellings approved and not yet built in the year after approval are built in the second year after approval (2022–23).

Between 2022–23 and 2024–25 we use the top-down forecasts for each dwelling type and consider a range of factors to distribute the net number of completions.

- The historical proportion of construction activity by building type in each state and capital city. The ABS provides data on gross completions and demolitions by building type at the state level.
- At the capital city level, liaison with industry provides a good guide on the capacity of the industry to provide new supply, particularly in the capital city markets. We consider industry body projections and information provided during our liaison with developers as inputs into the capital city forecasts.
- The household formation projections from the 'State of household formation' chapter are then used to anchor the long-term outlook. This approach is consistent with the methodology used to develop the top-down forecasts.
- Estimates of the gross vacant stock to total stock (gross vacancy ratio) use the estimates in the 'State of household formation' chapter, which are also considered when finetuning our forecasts. In particular, the long-term outlook for the gross vacancy rate is considered relative to its history.

Estimates of the gross vacancy rate show a higher rate in the regions relative to the capital cities. The ratio is significantly more cyclical in the capital cities due to the stronger link to NOM.

2025–26 to 2031–32

The projections between 2025–26 and 2031–32 begin at the forecast at the end of 2024–25, aiming to gradually bring new supply back to the forecast rate of household formation for each dwelling type by the end of the forecast period. This adjustment is made to recognise the fact that supply should be consistent with household formation over the long term. The level of vacant stock is also an important consideration in forecasting new long-term supply.

The starting point for forecasting over this period is the:

- Estimates for household formation and net new stock in 2024–25
- Ratio of gross vacant stock to total stock (gross vacancy ratio) in 2024–25 relative to its historical trend

Generally, the high projected growth in new supply between 2021–22 and 2024–25 means the gross vacancy ratio for most markets in Australia in 2025 will be well above average.

The increase in net additions is calculated as a percentage of projected household growth (including vacant stock). The vacancy factor is the vacant housing stock, including rental and owner-occupier housing, divided by the estimated total housing stock.

For example, in NSW, in 2025–26 and 2026–27, net additions are 85% of the household increase including vacant households.

This adjustment brings the vacancy factor back towards, but not completely back to, the long-term average over several years. In the case of NSW, for example, we adjust it back to about 7.7% which is still above the 7.1% long-term average.

We have 2 reasons for not sharply adjusting lower the supply pipeline to force down the vacancy rate:

1. The supply response to household formation can take many years. In the 2010s, supply was generally playing catch-up in a period when NOM drove strong growth in household formation. During this period, the vacancy factor was under downward pressure.
2. In less supply-responsive markets, such as Sydney, vacancy rates face underlying downward pressure.

More recently, other factors may have changed household formation. COVID-19 may have encouraged a change in preference to smaller households – a phenomenon that may be temporary. If so, our estimates of household formation may be understated and the rise in the vacancy rate may be overstated. Furthermore, more households may have decided to invest in a second home, increasing the stock of vacant dwellings.

State, capital city and rest of state forecasts

A model using macroeconomic variables for short to medium-term forecasting works well at the aggregate level, but it is less reliable at the state, capital city and rest of state levels. We therefore use the forecasts for each building type at the macro level and attempt to distribute the supply around the states, capital cities and regions.

The data shows that construction activity in the regions is less cyclical than in the capital cities, apart from Qld where the major markets of the Gold Coast and Sunshine Coast are comparable to capital city markets. This implies that regional Qld and Brisbane growth rates might both experience similar magnitudes of cycles. In Tas, Launceston and the other northern towns are similar in size to Hobart, so the markets might also be expected to respond similarly to the factors driving supply.

The major regional markets of NSW, such as Newcastle and Wollongong, see a larger cycle that is similar to Sydney, but other regions in NSW see less cyclical activity.

The regions also have a larger share of detached dwellings – a dwelling type that tends to be less cyclical than medium-density and apartments. Medium-density and apartments typically have a larger share of investors, which means construction activity for this dwelling type depends on a larger number of factors, such as conditions in the rental market, price expectations and developer credit availability.

Another issue is the large increase in construction activity in the regions close to capital cities during the pandemic. This may reverse as the pandemic ends and people migrate back to the cities, resulting in less household formation in the regions and relatively less construction activity.

Supply projections

Our top-down forecasts show a rise in completions, reflecting the interest rate cycle and fiscal stimulus. As the economy recovers and stimulus is withdrawn, we expect construction activity to begin a cyclical decline in 2023–24 (Table 3.11). Net completions are expected to fall by 8% in 2020–21 before rising by 11% in 2021–22.

Table 3.11: Net additions to the Australian housing market

Forecast	2019–20 (e)	2020–21 (e)	2021–22	2022–23	2023–24	2024–25	2025–26
2020	170,000	180,900	159,800	120,700	128,300	148,400	na
2021	172,100	157,600	175,700	194,100	181,300	163,200	134,100

Source: Macroplan, NHFIC. (e) net estimate using actual completions less estimated demolitions. ABS demolition approvals are used in 2018–19 to 2020–21.

Our forecast indicates the recovery will be led by detached dwellings, with net completions in this building type increasing from 80,600 in 2020–21 to 119,300, in 2022–23 (Table 3.12). We also expect 2023–24 to be a solid year with 101,700 detached dwellings added to the housing stock. Medium-density and apartment net additions are expected to fall by approximately 18,700 in 2021–22 and then rebound by 16,400 in 2022–23.

The medium-density and apartment markets are more exposed to the closure of international borders to NOM and particularly international students. Whereas the detached dwelling market is more likely to benefit from stimulus programs, such as HomeBuilder or state government building grants.

The permanently lower rate of population growth that underpins the demand forecasts feed into the long-term outlook and has severe consequences for the medium-density and apartment market. In 2025–26, we expect net additions to the medium-density and apartment market to be a third lower than pre-pandemic recession levels, before a very modest recovery that still leaves them 15% below this benchmark in 2030–31.

The outlook over the next 5 years should also be put into a long-term context. We estimate that, at the peak of the apartment boom in 2017, a net 106,100 medium-density and apartment dwellings were added to the housing stock compared to 88,300 in 2019–20, just after the beginning of the COVID-19 recession. In other words, net additions to the medium-density and apartment market were already 17% below their peak as the recession began.

Table 3.12: Net additions to the Australian housing market by dwelling type

Dwelling type	2019–20 (e)	2020–21 (e)	2021–22	2022–23	2023–24	2024–25	2025–26
Detached	83,700	80,600	117,300	119,300	101,700	79,200	69,500
Medium density and apartments	88,300	77,100	58,400	74,800	79,500	84,000	64,600
Total	172,100	157,600	175,700	194,100	181,300	163,200	134,100

Source: Macroplan, NHFIC. (e) net estimate using actual completions less estimated demolitions. Totals may not add up as other dwellings are excluded from this table.