

State of housing supply-household formation balance



State of the Nation's Housing 2021-22

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2022-24

Supply exceeds household formation

Housing supply will outpace household formation by 115,300 dwellings in 2022 and 35,500 dwellings in 2023 before the gap narrows



2025-32

Supply shortfall

Household formation is expected to exceed supply by 163,400 dwellings cumulatively

Affordability beyond 2024

when NOM has recovered, could worsen unless developers are able to get new stock to market in a timely fashion

KEY POINTS

- New household formation is projected to dramatically recover over the next few years with the gap between new supply and new household formation expected to narrow. As the economy strengthens and NOM recovers back to close to pre-pandemic levels, new household formation is expected to run ahead of new supply beyond 2024 for most of the years to 2032.
- NHFIC projections suggest new net supply additions will outpace new household formation by 115,300 in 2022 and 35,500 in 2023 before the recovery in household formation and supply downturn results in a cumulative 163,400 supply shortfall from 2025 to 2032.
- Once NOM has fully recovered, new household formation is expected to exceed new housing supply beyond 2024 by 163,400 dwellings cumulatively, or 20,400 dwellings on average per year.
- By dwelling type, new detached dwelling additions are expected to exceed the number of households forming by around 91,400 in 2022. At the same time, new multi-unit dwellings are expected to exceed the number of households forming by 21,200 dwellings. Household formation projections recover to exceed new detached dwelling supply levels in 2025 and new multi-unit dwelling supply levels in 2026 for much of the period to 2032.
- In Sydney, supply is expected to exceed new household formation by around 12,500 dwellings on average each year from 2022 to 2024, with Sydney's new household formation to exceed supply from 2025 to 2031 by an average of 5,900 dwellings annually.
- In Melbourne, household formation bounces back even more strongly to exceed supply from 2024 to 2030 by an average of 10,100 dwellings annually.
- In Brisbane, supply is expected to exceed new household formation by 4,700 dwellings in 2022. A supply downturn from 2023 results in a peak shortfall of 5,100 dwellings in 2028 before supply recovers.
- In Perth, supply rises strongly to exceed household formation by 6,600 dwellings in 2022. Supply and household formation then follow a similar trajectory to Brisbane, with a peak shortfall of 4,900 dwellings in 2027.
- In Adelaide, supply is expected to exceed new household formation in 2022 by around 4,900 dwellings. The imbalance is reduced over the next couple years, before widening again as supply declines and results in an average annual supply shortfall of 1,300 dwellings from 2025 to 2030.



- In the ACT, supply exceeds household formation by an average of 1,750 dwellings each year from 2022 to 2027, with supply to fall below household formation by an average of 1,100 dwellings from 2028 to the end of the projection period.
- Beyond 2024, new household formation is typically expected to exceed new supply across most jurisdictions. Unless developers are able to get new stock to market in a timely fashion, this could contribute to worsening affordability.

Introduction

Evaluating the future balance of supply and household formation can provide critical evidence on whether future housing supply will be adequate to meet future need.

A prolonged imbalance between the flow of supply and household formation could affect housing affordability, although it is not unusual for one to exceed the other for an extended period.

This chapter assesses the future balance of supply and household formation nationally, by greater capital city regions and rest of state and territory areas, and by dwelling type between 2021 and 2032.

As outlined in the 'State of household formation' chapter, household formation is not a measure of observed market transactions. In a period of low population growth, and therefore low household formation, positive market sentiment could still lead to materially higher levels of actual market demand for housing. Additionally, falling vacancy rates suggest household formation could be stronger than expected over the course of 2021.



National supply-household formation balance

The population growth shock from closing our international borders is driving the projected disconnect between new dwelling supply and household formation. NHFIC expects supply to exceed new household formation by around 54,300 in 2021 and up to a peak of 115,300 in 2022, before the gap narrows.

A sharp recovery in household formation is projected over 2023 and 2024 following the return to pre-COVID NOM. At the same time, dwelling supply enters a cyclical downturn from 2023 to 2027. These changes in household formation and supply results in household formation exceeding supply from 2025 to 2030, with new household formation and supply to be broadly in balance by the end of the projection period.

Figure 4.1: Annual change in household formation and supply and supply-household formation balance

Source: Macropian, NHFIC

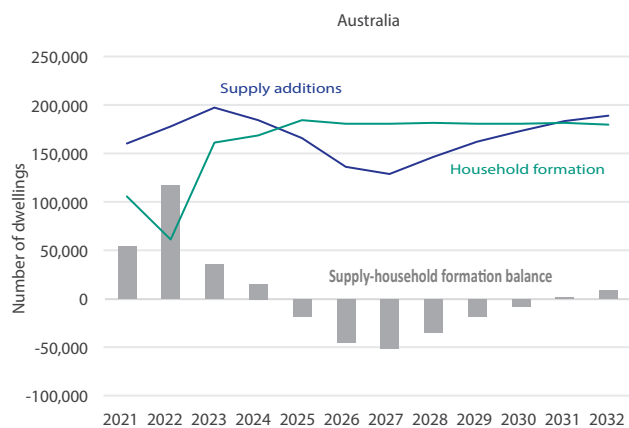


Table 4.1: Annual change in household formation and supply and supply-household formation balance

Year	Australia		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	157,600	103,300	54,300
2022	175,700	60,400	115,300
2023	194,100	158,600	35,500
2024	181,300	166,600	14,700
2025	163,200	181,500	-18,300
2026	134,100	177,800	-43,700
2027	127,100	178,200	-51,100
2028	144,500	179,000	-34,500
2029	159,700	177,900	-18,200
2030	170,600	178,200	-7,600
2031	180,600	179,100	1,500
2032	185,900	177,400	8,500

Source: Macropian, NHFIC

Detached housing supply-household formation balance

In Figure 4.2, supply-household formation balance numbers are disaggregated between detached housing and multi-unit dwellings. New household formation in detached housing is expected to be weak in 2022, but strong levels of stimulus-driven demand for detached housing completions will continue to drive supply higher. This results in supply exceeding household formation by around 91,400 detached dwellings in 2022. However, household formation bounces back strongly and gets back close to pre-pandemic levels in 2024, largely driven by the return of NOM. In the meantime, detached housing supply is expected to decline from its peak in 2023 and fall under household formation levels in 2025. Household formation exceeds supply over the following 5 years to 2031.

Multi-unit dwelling supply-household formation balance

Household formation also bottoms out in 2022 for multi-unit dwellings, but supply also declines from the previous year, resulting in supply exceeding household formation by 21,200 dwellings. Household formation rises the following year but does not reach pre-pandemic levels until 2025. Supply also rises in 2023 and modestly exceeds household formation until 2026 before dropping below household formation levels, leading to a supply shortfall of 26,300 dwellings in 2027. Supply then recovers and but remains below household formation each year out to 2031.

Figure 4.2: Supply-household formation balance by dwelling type¹⁰



Source: Macroplan, NHFIC

Table 4.2: Supply-household formation balance by dwelling type¹⁰

Year	Detached dwellings			Multi-unit dwellings		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	80,600	56,100	24,500	77,100	49,400	27,700
2022	117,300	25,900	91,400	58,400	37,200	21,200
2023	119,300	92,100	27,200	74,800	68,600	6,200
2024	101,700	95,100	6,600	79,500	73,900	5,600
2025	79,200	105,200	-26,000	84,000	78,500	5,500
2026	69,500	100,900	-31,400	64,600	79,100	-14,500
2027	73,200	100,200	-27,000	54,000	80,300	-26,300
2028	84,000	99,900	-15,900	60,600	81,400	-20,800
2029	91,100	98,600	-7,500	68,500	81,600	-13,100
2030	95,700	98,400	-2,700	74,900	82,300	-7,400
2031	99,400	98,000	1,400	81,200	83,700	-2,500
2032	99,900	96,000	3,900	86,100	84,200	1,900

Source: Macroplan, NHFIC

¹⁰ Multi-unit dwellings include apartments, townhouses, and duplexes. This does not include other dwellings as defined in the 'state of household formation' and 'state of housing supply' chapters (i.e. other residential dwellings including caravans, houseboats and dwellings attached to commercial buildings).

Capital city supply-household formation balances

NHFIC also estimates supply and household formation balances across the greater capital city regions. Sydney and Melbourne are most reliant on international students in the long-term rental market, so household formation in these cities is expected to increase more strongly relative to other capital cities from 2022 to 2023 as international borders reopen. But despite this strong rebound in household formation, supply is still expected to be higher by an average of 18,600 dwellings each year in Sydney and 24,900 in Melbourne over that period.

In Sydney, Melbourne, Brisbane and Perth, supply trends downwards from 2023 to 2027 while household formation returns to pre-pandemic levels and remains relatively consistent each year.

The downturn in supply, along with the recovery in household formation, results in household formation exceeding supply in each of these capital cities from around 2025 to the later years of the projection period.

In Sydney, the supply shortfall reaches 10,600 dwellings in 2027, while in Melbourne the shortfall peaks at 18,800 dwellings in 2026.

In Brisbane and Perth, the peak shortfall is around 5,000 dwellings. The supply shortfall is then reduced as supply increases from around 2027 and marginally exceeds household formation by the end of the projection period.

Figure 4.3: Annual change in household formation and supply and supply-household formation balances by city – Sydney, Melbourne, Brisbane and Perth



Source: Macropian, NHFIC

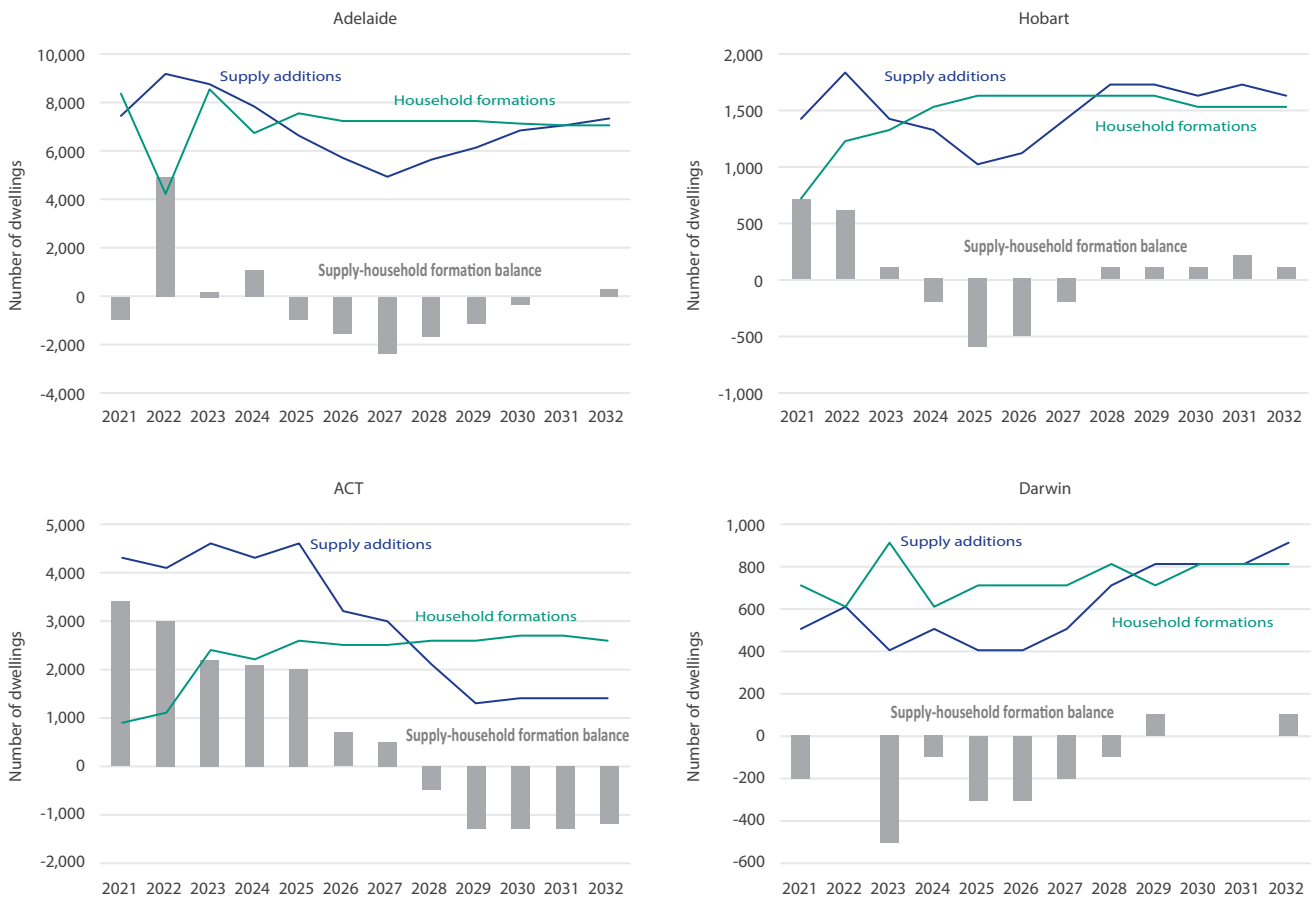
Similar to the above cities, Adelaide's household formation falls to a trough in 2022 before rising again the following year and remaining consistent each year through to the end of the projection period. Meanwhile, supply declines from 2023 to 2027, before recovering to meet household formation levels again in 2031.

Hobart's household formation does not decline but steadily increases until 2025 where it remains stable each year, while supply bottoms out in 2025 and recovers by 2028.

In the ACT, supply remains consistent up to 2025 before falling rapidly to 2029, minimising the supply-household formation gap from a peak of 3,400 dwellings in 2021. Household formation recovers by 2023 and remains steady each year onwards. It exceeds supply from 2028 onwards. In the last 4 years of the projection period, there is an annual shortfall of 1,300 dwellings.

In Darwin, household formation exceeds supply until 2029. The rise in supply combined with the stability in household formation then results in supply and household formation moving largely in tandem.

Figure 4.4: Annual change in household formation and supply and supply-household formation balances by city – Adelaide, Hobart, Darwin and Australian Capital Territory and Darwin



Source: Macroplan, NHFIC

Table 4.3: Supply-household formation balances

Year	Sydney		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	33,100	11,500	21,600
2022	30,800	3,200	27,600
2023	35,700	26,100	9,600
2024	33,100	32,700	400
2025	31,500	34,100	-2,600
2026	25,800	33,300	-7,500
2027	22,600	33,200	-10,600
2028	24,700	33,400	-8,700
2029	26,300	32,900	-6,600
2030	29,000	33,000	-4,000
2031	32,100	33,100	-1,000
2032	35,000	32,900	2,100

Year	Melbourne		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	52,900	3,600	49,300
2022	40,600	-1,700	42,300
2023	43,000	35,600	7,400
2024	38,600	45,300	-6,700
2025	35,500	49,600	-14,100
2026	30,000	48,800	-18,800
2027	32,500	48,800	-16,300
2028	38,400	49,000	-10,600
2029	45,100	48,700	-3,600
2030	48,000	48,700	-700
2031	49,800	48,800	1,000
2032	50,700	48,600	2,100

Year	Brisbane		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	15,900	16,600	-700
2022	17,200	12,500	4,700
2023	22,200	19,900	2,300
2024	21,500	18,100	3,400
2025	19,700	19,500	200
2026	16,900	19,300	-2,400
2027	14,200	19,100	-4,900
2028	14,000	19,100	-5,100
2029	15,700	19,000	-3,300
2030	17,600	19,000	-1,400
2031	19,500	19,000	500
2032	20,100	18,700	1,400

Year	Perth		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	8,200	13,700	-5,500
2022	16,900	10,300	6,600
2023	20,600	15,200	5,400
2024	20,100	14,700	5,400
2025	17,200	15,700	1,500
2026	12,600	15,700	-3,100
2027	10,800	15,700	-4,900
2028	12,700	15,900	-3,200
2029	13,600	15,700	-2,100
2030	14,800	15,900	-1,100
2031	15,700	16,000	-300
2032	16,500	15,900	600

Source: Macroplan, NHFIC

Year	Adelaide		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	7,400	8,300	-900
2022	9,100	4,200	4,900
2023	8,700	8,500	200
2024	7,800	6,700	1,100
2025	6,600	7,500	-900
2026	5,700	7,200	-1,500
2027	4,900	7,200	-2,300
2028	5,600	7,200	-1,600
2029	6,100	7,200	-1,100
2030	6,800	7,100	-300
2031	7,000	7,000	0
2032	7,300	7,000	300

Year	Hobart		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	1,400	700	700
2022	1,800	1,200	600
2023	1,400	1,300	100
2024	1,300	1,500	-200
2025	1,000	1,600	-600
2026	1,100	1,600	-500
2027	1,400	1,600	-200
2028	1,700	1,600	100
2029	1,700	1,600	100
2030	1,600	1,500	100
2031	1,700	1,500	200
2032	1,600	1,500	100

Year	ACT		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	4,300	900	3,400
2022	4,100	1,100	3,000
2023	4,600	2,400	2,200
2024	4,300	2,200	2,100
2025	4,600	2,600	2,000
2026	3,200	2,500	700
2027	3,000	2,500	500
2028	2,100	2,600	-500
2029	1,300	2,600	-1,300
2030	1,400	2,700	-1,300
2031	1,400	2,700	-1,300
2032	1,400	2,600	-1,200

Year	Darwin		
	New net annual dwelling supply	New net annual household formation	Supply-household formation balance
2021	500	700	-200
2022	600	600	0
2023	400	900	-500
2024	500	600	-100
2025	400	700	-300
2026	400	700	-300
2027	500	700	-200
2028	700	800	-100
2029	800	700	100
2030	800	800	0
2031	800	800	0
2032	900	800	100

Source: Macropian, NHFC