

STATE OF HOUSING SUPPLY-DEMAND BALANCE

Key points

- An unprecedented demand shock will see new supply run ahead of new demand in many of Australia's housing markets in the shorter term over 2021 and 2022. But this comes on the back of the market being in broad balance over the period 2015 to 2020, with a protracted period of undersupply preceding this in the early 2000s to the mid-2010s.
- We expect new supply to outpace new demand by 127,000 dwellings in 2021 and 68,000 dwellings in 2022, with cumulative new supply to outpace new demand by around 93,000 by the end of the five-year projection period after demand rebounds in 2023.
- Despite record of levels of residential construction over the years prior to COVID-19, supply outpaced demand by only 4,500 dwellings (on average) for the years 2017 to 2019. Previous work suggests prior to the uptick in residential construction in the mid-2010s, there was a cumulative shortfall of around 200,000 dwellings.²¹
- Across the greater capital cities, the impact of NHFIC's supply and demand projections is more nuanced. For Sydney and Melbourne, supply is expected to exceed demand by almost 60,000 dwellings in Sydney and almost 70,000 dwellings in Melbourne across 2021 and 2022, with demand to soak up some of this supply beyond 2023.
- In the Brisbane market, NHFIC also expects supply to exceed demand across 2021 and 2022, but more modestly. Demand and supply are broadly more balanced across the projection period than Sydney and Melbourne.
- In some smaller cities like Perth and Adelaide, demand increases from 2021 but the supply response to this pick-up in demand is expected to be relatively subdued, resulting in a negative supply-demand balance (net undersupply) beyond 2022.
- Compared with detached and medium-density housing, apartments experience a weak recovery in both demand and supply. Demand and supply for apartments are not expected to revert to pre-crisis levels over the projected period. In 2025, demand is expected to be two-thirds of 2019 levels while supply is expected to be almost half of pre-crisis levels, falling back to levels not seen since prior to the apartment boom.

²¹ National Housing Supply Council (2012) [Housing Supply and Affordability—Key Indicators, 2012](#).

Introduction

In this chapter the supply-demand balance implied by projections in State of Housing Demand and State of Housing Supply chapters is assessed.

Assessing the balance of supply and demand can provide important insights into whether future housing supply is expected to meet new demand from additional households forming (and dispersing) over time. When supply is out of balance with demand for protracted periods, it has implications for the affordability of housing.

In order to understand the collective impact of supply and demand on the Australian housing market, a metric has been used to illustrate the imbalance within any given year. The supply-demand balance for each year is calculated by subtracting the annual change in adjusted underlying demand (see Demand chapter for the definition of adjusted underlying demand)²² from the new net annual dwelling supply (see Supply chapter for the definition of new dwelling supply). If the supply-demand balance is positive it implies new additional dwellings supplied to the market have exceeded new demand (that is, the number of new households forming) at that point in time. If the supply-demand balance is negative, the measure indicates new demand for housing has exceeded the number of new additional dwellings supplied to the market.

It's important to note the supply-demand balance concept used here is a static concept, when, in reality, the housing market is more dynamic. In a well functioning housing market a significant shortfall in supply would be expected to stimulate an increase in supply following an increase in prices. This dynamic aspect of the market should be borne in mind when interpreting the following projections. The supply-demand balance metric is still a useful concept as it indicates how many households are expected to form based on anticipated population growth and the state of the economy and provides information on the required pipeline of housing needed to meet future demand.

This chapter assesses the balance of supply and demand at the aggregate national level, but also across Australia's major cities and for rest of state areas for states and territories. It assesses the balance of supply and demand prior to COVID-19, but also how this is likely to change over the period 2020 to 2025.

²² As discussed in the State of Housing Demand chapter, the concept of adjusted underlying demand used to assess the supply-demand balances does not reflect actual observed transactions in the market at any point in time. Rather this concept is useful in that it reflects the amount of households that are expected to form (and disseminate) based on population growth and key economic variables.

National supply-demand balance

Prior to the COVID-19 shock, supply was broadly in balance with demand. For the years 2017 to 2019, supply outpaced demand by around 4,500 dwellings a year (on average). This suggests that, despite the record levels of construction over the latter part of the 2010s, this was the bare minimum to keep the market broadly in balance. Earlier work undertaken by the Housing Supply Council estimated that, prior to the large uptick in residential construction in the mid-2010s, there was a cumulative supply shortfall of more than 200,000 dwellings.²³

At the national level, NHFIC expects the supply-demand balance to be positive from 2021 through to 2022 before falling into negative territory out to 2025. Recent Budget and Centre for Population estimates have NOM falling sharply (negative over 2021 and 2022) with a more sustained impact on broader housing demand

than previously anticipated. As outlined in the State of Housing Demand chapter, NOM is expected to detract from Australian population growth for quite some time; something not seen since the aftermath of the Second World War. A backlog of residential projects in 2021, and to a lesser extent 2022, will be met with significantly reduced new demand. Supply will exceed the number of new households forming by 127,000 new dwellings in 2021, with an excess of 68,000 dwellings projected in 2022. Once international border restrictions are eased, it is projected that supply will struggle to appropriately respond to a rapid recovery in demand. New demand is expected to outpace net supply over the rest of the projected period. The supply-demand balance is projected to fall to around -50,000 in 2024, before showing signs of recovery.

Figure 4.1: Annual change in demand and supply and supply-demand balance

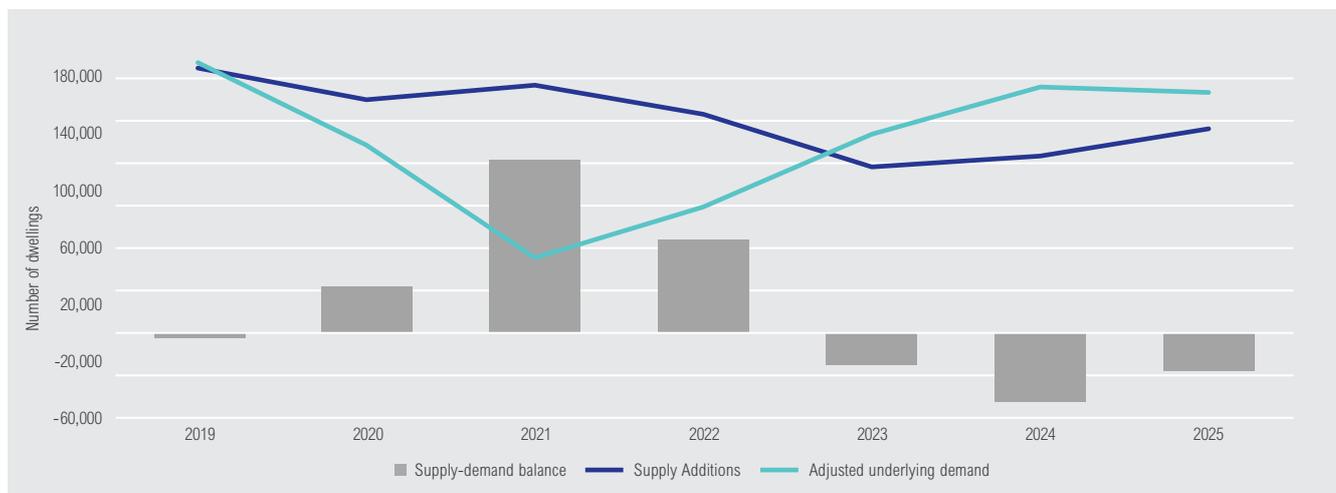
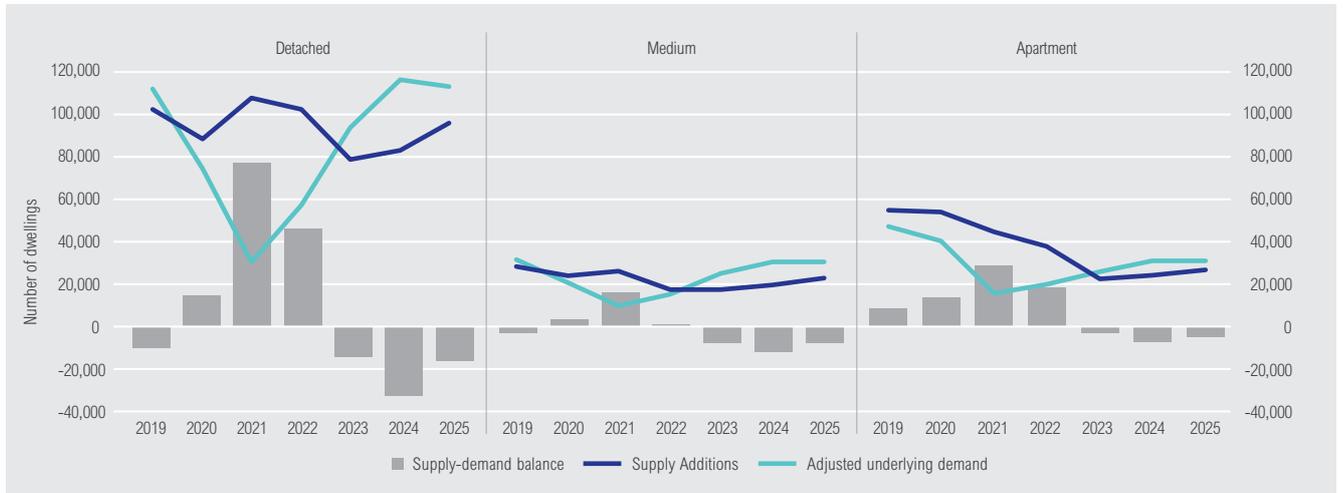


Table 4.1: Annual change in demand and supply and supply-demand balance

Year	2019	2020	2021	2022	2023	2024	2025
Change in adjusted underlying demand	192,400	136,400	54,200	91,600	144,700	178,800	175,300
Change in annual underlying demand	177,600	142,500	58,200	69,900	111,600	150,700	155,100
New net annual dwelling supply	188,900	170,000	180,900	159,600	120,500	128,300	148,300
Supply-demand balance	-3,500	33,600	126,700	68,000	-24,200	-50,500	-27,000

23 National Housing Supply Council (2012) *Housing Supply and Affordability—Key Indicators, 2012*.

Figure 4.2: Supply-demand balance by dwelling type



These supply-demand balance projections are disaggregated by dwelling type in Figure 4.2. Demand for detached housing is expected to fall sharply and bottom out in 2021, but completions of detached housing construction continue to drive supply higher. This results in an excess of almost 78,000 detached dwellings in 2021. Nevertheless, demand bounces back strongly over the following three years while supply declines, leading to a net undersupply of 33,000 detached dwellings in 2024. While demand also bottoms out in 2021 for apartments, demand only modestly exceeds supply from 2023 onwards. Supply remains subdued in response to the pick-up in demand, remaining at around 25,000 apartments annually from 2023 to 2025. Both demand and supply do not reach pre-crisis levels over the projected period, although this comes off a high base. NHFIC expects a relatively low oversupply of around 1,800 medium-density dwellings in 2022.

Table 4.2: Supply-demand balance by dwelling type

Year	2019	2020	2021	2022	2023	2024	2025
Detached							
Change in adjusted underlying demand	113,000	75,300	30,400	57,200	94,100	116,800	113,900
Change in annual underlying demand	102,800	80,600	34,200	42,700	71,300	97,300	100,100
New net annual dwelling supply	103,200	89,500	107,900	102,900	79,100	83,500	96,900
Supply-demand balance	-9,800	14,200	77,500	45,700	-15,000	-33,300	-17,000
Medium							
Change in adjusted underlying demand	33,100	21,800	10,100	16,700	26,100	32,400	31,700
Change in annual underlying demand	30,500	22,900	10,300	12,500	19,900	27,300	28,000
New net annual dwelling supply	30,100	25,700	27,800	18,500	18,200	20,200	24,000
Supply-demand balance	-3,000	3,900	17,700	1,800	-7,900	-12,200	-7,700
Apartment							
Change in adjusted underlying demand	47,600	41,200	16,200	19,900	26,500	31,500	31,700
Change in annual underlying demand	45,800	40,800	16,100	17,100	22,600	28,200	29,200
New net annual dwelling supply	55,600	54,800	45,200	38,200	23,200	24,600	27,400
Supply-demand balance	8,000	13,600	29,000	18,300	-3,300	-6,900	-4,300

Table 4.3: Sensitivity analysis

	2021	2022	2023	2024	2025	Total
Demand (optimistic)	73,600	121,700	168,200	182,300	184,400	-
Supply (optimistic)	180,900	163,300	130,200	143,300	159,000	-
Supply-Demand balance (optimistic)	107,300	41,600	-38,000	-39,000	-25,400	46,500
Supply-demand balance (base)	126,700	68,000	-24,200	-50,500	-27,000	93,000
Difference	19,400	26,400	13,800	-11,500	-1,600	46,500

NB: Numbers may not add up due to rounding.

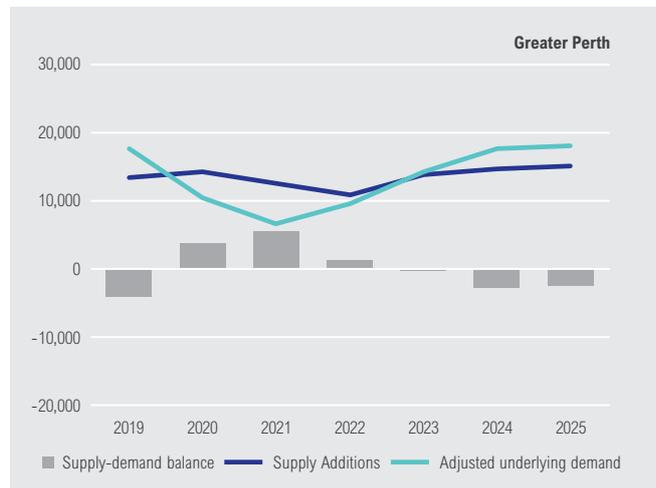
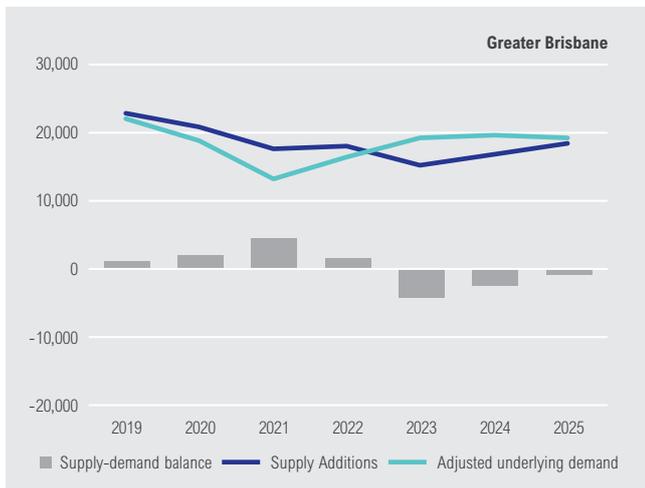
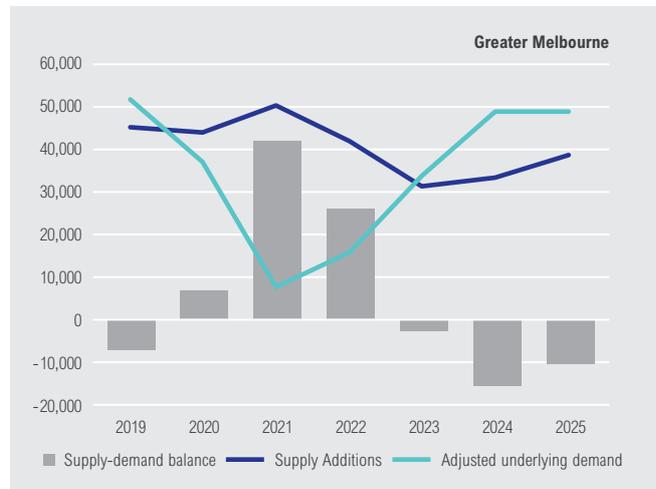
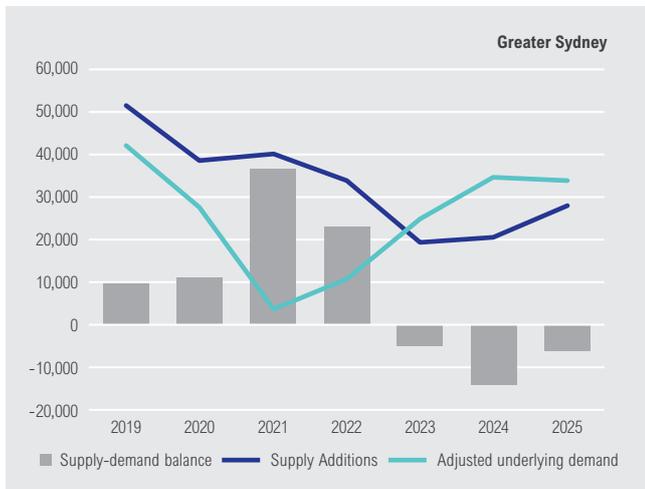


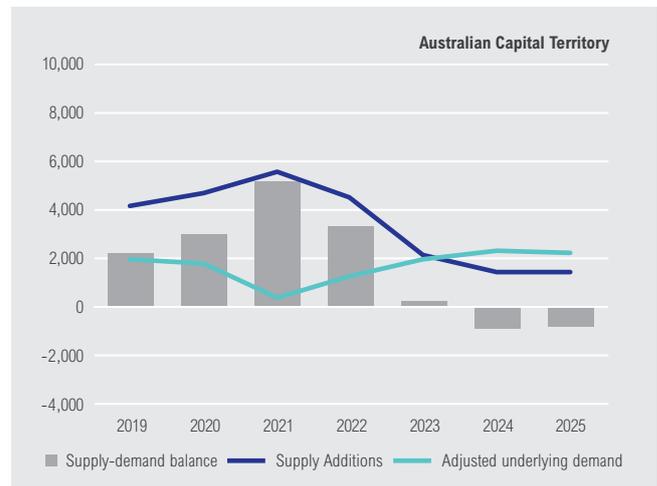
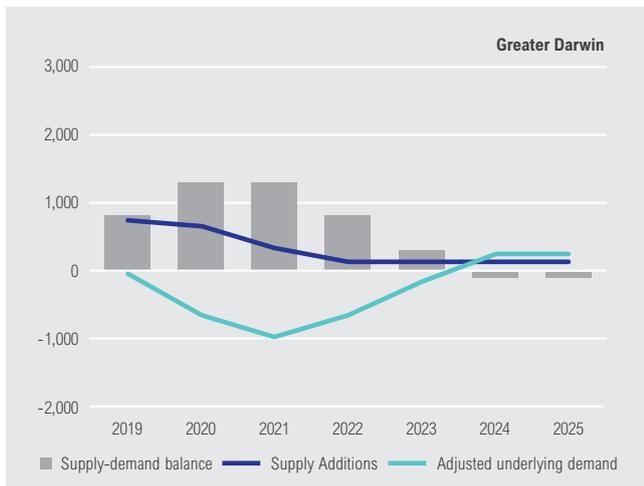
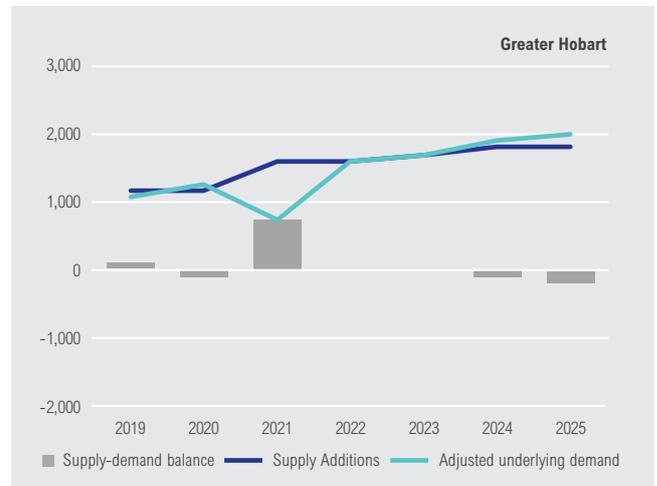
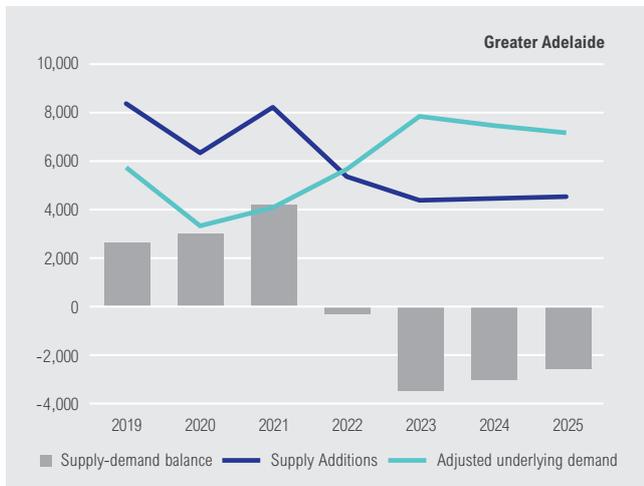
Given the high degree of uncertainty of the recovery of demand and the reopening of international borders, NHFIC has undertaken some sensitivity analysis which has been referred to in the Demand and Supply chapters. This analysis shows that if NOM were to recover more strongly than anticipated, then demand would be stronger, and there would be less impact on construction over the projection period. Under this scenario, the cumulative supply-demand balance would halve to be around 46,500 dwellings (instead of 93,000 projected in the central scenario).

Capital city supply-demand balances

Across the greater capital cities, the impact of NHFIC's supply and demand projections is more nuanced. In Sydney and Melbourne, NHFIC expects supply to exceed adjusted underlying demand until 2023. The supply-demand balance peaks in 2021 with an excess of over 42,000 dwellings in Melbourne and an excess of almost 37,000 dwellings in Sydney. Beyond 2023, demand is projected to modestly exceed supply as the construction industry begins to respond to the uptick in demand. This will result in Melbourne's supply-demand balance becoming negative, that is, there will be an undersupply of almost 16,000 dwellings in 2024, and an undersupply of almost 14,000 dwellings in Sydney for that same year. In the Brisbane market, NHFIC also expects supply to exceed demand between 2020 and 2022, however, to a lesser extent. It is anticipated demand will modestly exceed supply between 2023 and 2025. The Brisbane market seems relatively resilient compared to Sydney and Melbourne in response to the demand shock, mainly because it is less reliant upon international students in the longer term rental market.

Figure 4.3: Annual change in demand and supply and supply-demand balance by city





In Perth, demand is expected to increase strongly over the forecast period from 2021. The supply response to this pick-up in demand is expected to be relatively subdued, with net new housing additions remaining at less than 15,000 annually from 2023 to 2025. Demand for housing stock in Adelaide is expected to outpace supply from 2022 onwards. Demand is expected to increase from just over 4,000 dwellings in 2021 to around 8,000 dwellings in 2023 and remain at these levels until 2025, but supply is likely to remain soft and below demand from 2022. In Hobart, NHFIC projections indicate supply will slightly exceed demand in 2021.

Demand is expected to be similar to supply from 2022 to 2025. In the ACT, supply consistently exceeds demand until 2023. Supply additions fall from 2022 to 2023 and remains subdued despite a slight pick-up in demand. In Darwin, negative net demand is expected for most of the projected period. Annual supply additions hover around 100 from 2021 onwards.