

21 June 2021

Mr Nathan Dal Bon
Chief Executive Officer
National Housing Finance and Investment Corporation
C/- nathan.dalbon@nhfic.gov.au

Dear Nathan

Re: Housing Supply & State of the Nation Report 2020

The Urban Development Institute of Australia (UDIA) National writes in relation to the data and assumptions, as well as findings, that underpin the *State of the Nation 2020* Report published in December last year by the National Housing Finance and Investment Corporation (NHFIC).

The UDIA is the leading industry body representing the interests of the urban development sector across Australia, with over 3,000 member companies. UDIA advocates, in part, for better planning, timely and affordable housing, and the building of vibrant communities to create economic prosperity, increase employment, add to housing choice and enhance the nation's social fabric by increasing home ownership.

We greatly appreciate the ongoing dialogue between NHFIC and UDIA on issues as diverse as infrastructure financing and funding, data and analytics needed to improve visibility on the drivers and performance of housing markets, and other issues relevant to housing supply in Australia.

UDIA also appreciates that the *State of the Nation 2020* report (released in December 2020) is a snapshot in time – dependent in part on the data available at the time it was commissioned and produced. We believe, however, that there has been such a dramatic change in land release and housing construction over the past six months that some of the data and findings in *State of the Nation 2020* are already redundant and in need of an update given the severe housing supply and affordability issues gripping the nation.

No doubt, some of this recent outperformance is due to the stellar public policy success of the *HomeBuilder* initiative, as well as other measures such as the First Home Loan Deposit Guarantee scheme – which NHFIC stewards – matched with an era of sustained, record low interest rates.

The end result though, is that particularly in greenfield markets, where *HomeBuilder* worked to stimulate the most activity, acute shortages of land for future residential development is occurring – contrary to the forecasts of potential over-supply contained in *State of the Nation 2020*.

For example, at the time of its announcement in June 2020, the Commonwealth Government estimated that *HomeBuilder* would support the delivery of approximately 27,000 new homes. At the time applications closed, more than 130,000 claims had been made under the scheme – with over 80 percent of those made by purchasers for new housing.

Based on the unprecedented level of activity, UDIA believes there are concerns with some of the key findings of the report, including:

- The expectation that *‘an unprecedented demand shock will see new supply run ahead of new demand in many of Australia’s housing markets in the shorter term’ (p38);*
- The forecast that *‘we expect new supply to outpace demand by 127,000 dwellings in 2021 and 68,000 dwellings in 2022’ (p38);*
- The prediction that *‘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’ (p41); and*
- The expectation that our three largest capital cities – Sydney, Melbourne and Brisbane – are likely to endure sustained periods of over supply (p43).

There are also examples of where the population projections and data have changed significantly since the release of the State of the Nation report. For example, in Queensland, the following table compares the data in the report – drawn from the Centre for Population – with recent updates from the Australian Bureau of Statistics.

POPULATION PROJECTIONS (number of people)	2019-20	2019-20 Actual
Population at start of year	5,093,600	
Natural Increase	28,500	28,329
Net Overseas Migration (NOM)	18,200	28,625
Net Interstate Migration (NIM)	21,700	25,348
Population at end of year	5,162,000	

As outlined above, we appreciate that the landscape changed appreciably between the report being commissioned and the full effects of stimulus measures becoming apparent. Our main concern is the dependence and faith placed in the report’s findings by federal, state and local governments and their agencies – and it is being used as an excuse for inaction on land release and housing supply (as well as associated policy areas such as infrastructure planning).

To assist, UDIA draws upon findings from our annual *State of the Land* report (March 2021), which depends on data and market engagement from Research4, as well as feedback from our state divisions.

National Demand Profile

According to the UDIA [State of the Land 2021 report](#), the demand driven by the combination of record low interest rates, pent up demand and stimulus initiatives like *HomeBuilder* exhausted large amounts of supply.

In greenfield markets, national residential annual lot releases increased by an average of 47% in 2020, with a total of 54,860 lots released across the capital city markets. In fact, by the December 2020 quarter, the national greenfield lot clearance rate was 105%, with sales exceeding releases by 5% (taking into account carry-in unsold stock into the quarter).

The State of the Land report also detailed some key insights from major capital city markets, including:

- In South-East Queensland, unsold stocks levels currently sit at record lows, with just 1.2 months of trading supply available at the end of the December quarter;
- In Greater Sydney, the deep level of pent-up demand is driving brisk inventory movement, and the stockpile of available stock had been reduced to just 0.6 months by the December quarter;
- In Melbourne, higher than usual clearance rates reduced the amount of unsold inventory to 2.1 months work of stock – below the ideal benchmark of 3-5 months;
- In Adelaide, clearance rates of 116 percent across the period from June to December slashed the trading months of unsold stock from 7.6 in March to 2.3 in December; and
- In Perth, all five major sub-markets achieved significant increases in sales volumes across 2020 – resulting in a 128 percent overall annual increase in lot sales.

State and City Analysis

Our State of the Land Report contains data from a 12-month period ending December 2020. In the March quarter, fuelled by the stimulus of HomeBuilder and other measures, record activity continued which further absorbed supply that existed in the marketplace.

Supply is at near historic lows in many regions and new land releases continue to sell out in quick time with upward pressures on pricing. The time frame from sales to delivery of land titles to purchasers is out to approximately 12 months in many jurisdictions.

To illustrate further what we believe is a dire supply situation in our major capital cities, we have sourced from our UDIA State and Territory offices – which consistently monitor the “on the ground” status via member feedback, up to date sales results, new project and stage releases and a strong understanding of future supply pipelines – examples of supply constraints.

For example:

- In Sydney, our estimate is the available supply of unconstrained lots is 20,000 – against an annual average consumption of 11,500 lots. In fact, the UDIA’s NSW Division estimates there are as few as 350 lots for sale;
- In Brisbane, there were just 6,009 approved lots in the pipeline at the end of December 2020, which represents just 3.1 years of average supply – against the industry benchmark of four years being needed to sensibly sustain markets;
- On the Gold Coast, the estimated number of lots (3,351 as at December 2020) represented just 1.7 years of average supply;
- NHFIC’s own report suggests Adelaide is soon to enter a period of under-supply against demand and forecasts ‘supply is likely to remain soft and below demand from 2022’ – which reinforces the need for quick responses by governments and councils;
- In Perth, the heightened activity of 2020 led to a reduction in the stockpile of available stock from 9.8 months in December 2019 to 3.4 months in December 2020; and

- In Melbourne, the availability of stock continues to reduce, with 8,500-9,000 lot sales in the March 2021 quarter across greenfield areas – well above the long-term average and diminishing the capacity of active estates to create reasonable competition that keeps lot prices affordable when demand surges.

Other issues

On another matter, reports are widespread of difficulties in sourcing materials and trades to meet housing construction needs. Further quotations for work are now 30 percent higher in some parts raising serious concerns for other price rises and housing affordability.

In Conclusion

UDIA National is hoping to meet with NHFIC to further expand on the issues raised in this correspondence around the state of the market. If agreed, UDIA National will seek to bring some of the industry's major land developers and builders to the meeting, as well as state-based CEOs of our divisions.

We also believe there is an urgent and compelling case for refreshing State of the Nation – so that it is more reflective of a post-*HomeBuilder* environment and avoids the risk of states seeking to defer action on strategic planning and land use decisions being able to lean on the existing version.

Thank you for considering our letter. If you have any questions relating to the material in this letter, please contact me via udia@udia.com.au or 0411 468 741.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Basheer'.

Simon Basheer
UDIA National President