

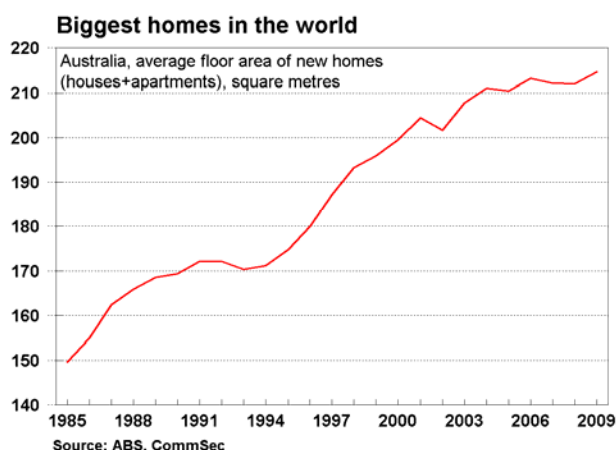
# Australian homes are biggest in the world

## Housing market trends

- Australia can lay claim to having the largest homes in the world. Data commissioned by CommSec from the Australian Bureau of Statistics shows that the average floor area of new homes hit a record high of 214.6 square metres in the last financial year. The average floor area of new free-standing houses was also at a record high of 245.3m<sup>2</sup>.
- The United States has traditionally possessed the largest homes in the world. But for the first time in a decade, new homes in the US are shrinking. In the September quarter, the average size of new homes started in the US stood at 201.5m<sup>2</sup>, with the average new house estimated at 217.8m<sup>2</sup>.
- And other data shows that Australians have recently started to make greater use of their increasingly larger homes. For the first time in at least a century, the number of persons per household rose during the 2007/08 year from 2.51 to 2.56 persons and CommSec estimate that it rose again last financial year.
- The increase in the size of the average family unit may mean that fewer new homes need to be built. Had the number of persons per household remained unchanged, CommSec estimates that 166,000 extra homes would needed to have been built in the 2007/08 year. If the size of the average household continues to rise, there will be reduced demand for new houses and apartments.
- It is questionable whether Aussie homes can, or indeed should, continue to grow. Generation Y is already balking at the cost of housing, choosing to stay at home longer with parents.

### Key findings & implications

- Based on new figures Australia can lay claim to having the largest homes in the world. Australia and the US have traditionally vied for the title of having the largest homes in the world. But new figures show that US home-builders have been building smaller homes during the recession while Australian homes have continued to get larger.
- CommSec commissioned the Bureau of Statistics to calculate the average floor area of new homes built over the 2008/09 year. The



### Average Size of New Homes Across the Globe, m<sup>2</sup>

Australia	214.6
United States	201.5
New Zealand	196.2
Denmark	137.0
Greece	126.4
Belgium	119.0
Netherlands	115.5
France	112.5
Germany	109.2
Luxembourg	104.1
Spain	96.6
Austria	96.0
Ireland	87.7
Finland	87.1
Sweden	83.0
Portugal	82.2
Italy	81.5
United Kingdom	76.0

Source: Unaffordable Housing, Fables & Myths  
Alan W Evans & Oliver Marc Hartwich  
Policy Exchange 2005; US Census Bureau  
ABS, Statistics NZ, CommSec

Craig James – Chief Economist (Author)

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.

The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker.

This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Services Authority (FSA). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for private customers and are not available to them.

Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.

data shows that the average floor area of new Australian homes (houses and apartments) stands at just less than 215 square metres, up 10 per cent over the past decade. By contrast, latest figures show that US new homes have become smaller over the past 18 months, dropping from a peak of around 212 square metres to 201.5 square metres in the September quarter 2009.

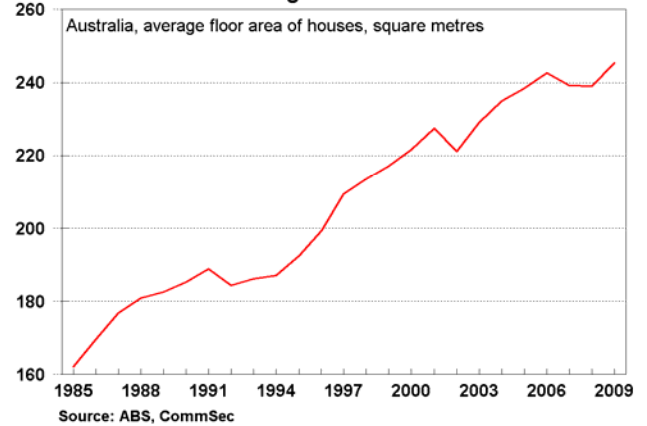
- Homes in other parts of the world are far smaller. The latest European survey shows that Denmark has the biggest homes (houses and flats) with an average floor area of 137 square metres, followed by Greece (126m<sup>2</sup>), and the Netherlands (115.5m<sup>2</sup>). Homes in the UK are the smallest in Europe at 76m<sup>2</sup>.
- The latest figures on the size of new homes help to explain how Australians are dealing with the shortage of housing – that is, we are making greater use of our big homes. The average size of Australian households (a proxy for the number of people in each dwelling) rose in the year to June 2008. At face value the increase in household size from 2.51 to 2.56 people per household may not seem remarkable, but it appears to be the first increase in at least a century – and perhaps the first since European settlement.
- It makes sense – population is rising, as is the cost of housing and the cost of moving house, so we are making greater use of what we've got. Children are living at home longer with parents and more people are opting for shared accommodation.
- The key question is whether the trend to better utilisation of existing homes is a temporary or more permanent development. If household size continues to rise, the requirement to build more homes will be sharply reduced.
- It is commonly believed that there is a housing shortage in Australia – that is, we aren't building enough homes to accommodate our growing population. In fact industry bodies believe that we are under-building by 50,000 homes a year. But the figures on home size and housing utilisation raise doubts about the extent of under-building in Australia.

### Australian houses average floor area, 2008/09, m<sup>2</sup>

NSW	262.9
Victoria	249.5
Queensland	253.0
South Australia	195.2
Western Australia	243.9
Tasmania	190.6
Northern Territory	232.3
ACT	239.4
<b>AUSTRALIA</b>	<b>245.3</b>

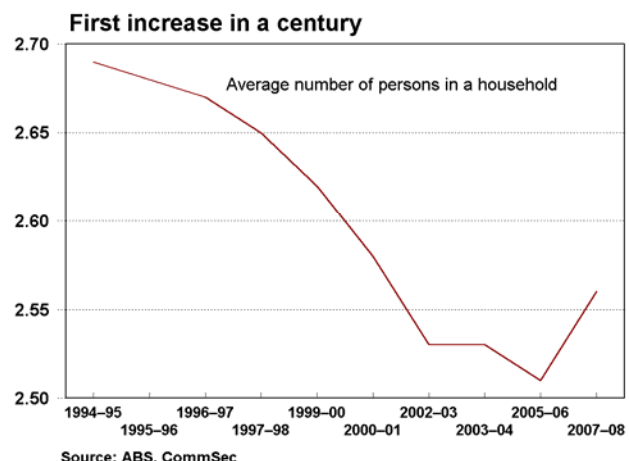
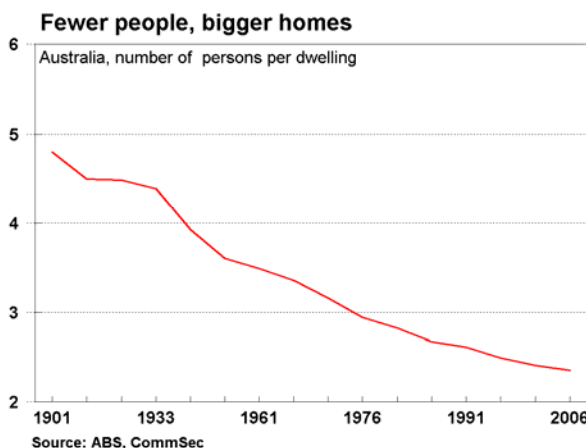
Source: ABS, CommSec

### Houses continue to grow



### Bigger homes: latest data

- The Australian Bureau of Statistics (ABS) has calculated the floor area of new homes completed in the 2008/09 year. For Australia as a whole, the average floor area of new homes (houses, villas, townhouses and apartments) stood at a record 214.6 square metres. While the average floor area has lifted just 2 per cent in the past five years, it is up 10 per cent over the past decade.
- For new free-standing houses alone, the average floor size stood at a record 245.3 square metres in 2008/09, up 4.4 per cent over the past five years and up 13 per cent over the past decade.
- The data on floor area is not provided for every new residential project but the ABS indicates that the estimates are available in 90 per cent of cases.



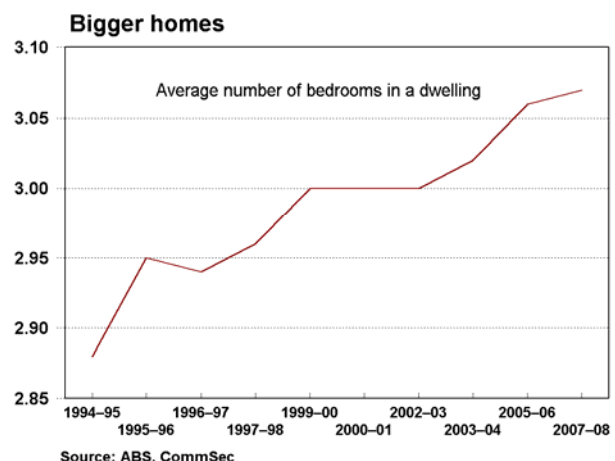
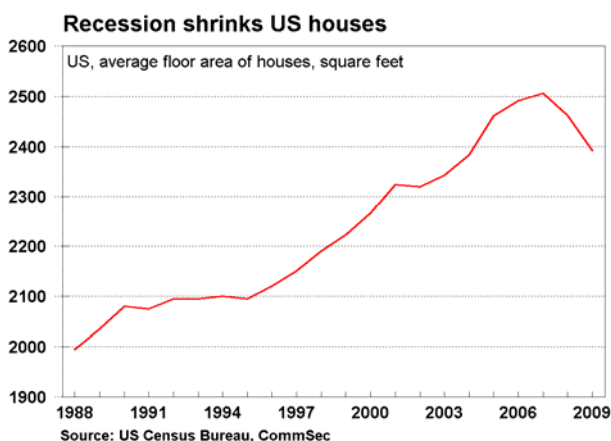
- The biggest homes in Australia (houses and other dwellings) can be found in Victoria (224.5m<sup>2</sup>), followed by Western Australia (222.1m<sup>2</sup>), Queensland (220.5m<sup>2</sup>), Northern Territory (218m<sup>2</sup>), NSW (204.9m<sup>2</sup>), Tasmania (182.6m<sup>2</sup>), South Australia (180.4m<sup>2</sup>), and the ACT (164.9m<sup>2</sup>).
- NSW is in fifth spot for home size, due in large part to the higher proportion of apartments built in the state compared with free-standing houses.
- NSW still has the biggest houses in Australia – and by a large margin. The size of the average new house built in NSW in 2008/09 was 262.9m<sup>2</sup>, followed by Queensland (253.0m<sup>2</sup>), Victoria (249.5m<sup>2</sup>), Western Australia (243.9m<sup>2</sup>), ACT (239.4m<sup>2</sup>), Northern Territory (232.3m<sup>2</sup>), South Australia (195.2m<sup>2</sup>), and Tasmania (190.6m<sup>2</sup>).

### Bigger homes, fewer people in them – but is that changing?

- Since the first Census was conducted in 1911, the number of persons per dwelling has consistently fallen. In 1911 there was an average of 4.5 people in every home. But by 2006 this ratio had almost halved to around 2.4 people in every home. Not only have more homes been built over time but other factors like fewer children and divorces have resulted in smaller families.
- And as noted above, homes have been getting bigger. Apart from floor area, another way of looking at home size is the number of bedrooms. In the 2006 Census around one in every 3.5 homes had four or more bedrooms whereas 20 years ago the ratio was one in every six homes.
- Reserve Bank Deputy Governor Ric Battellino has recently highlighted the large increase in the number of dwellings in relation to the number of households. In fact he noted that there were 8 per cent more dwellings in Australia than households in 2006, putting the surplus down to the building of holiday homes and second homes.
- Unfortunately Census figures are only produced every five years. Demographic estimates are produced each quarter and they provide a guide to current trends in dwelling occupancy.
- And there has been a major change in just the last few years. The Bureau of Statistics estimates that the average number of people in a family (household) rose from 2.51 persons in 2005/06 to 2.56 persons in 2007/08. Based on latest population figures and household projections, CommSec has estimated that household size may have risen further to 2.60 persons in the last financial year.
- At face value, the modest increase in average household size may not seem significant. But it appears to be the first increase in household size – and as a consequence, the average number of people in Australian homes – in at least a century.
- Children are staying home longer with their parents – no doubt the cost of homes and rising rents being key influences. With the ageing population, more generations are probably choosing to stick together in the one dwelling – a trend that is a consequence of the increased size and quality of homes. New migrants may also be choosing to stay with family or friends. And given the increased preference to attending universities and colleges, Generation Y is more cash-poor, forced to share accommodation and save longer to buy a home.
- If Australian homeowners continue to make greater use of their large dwellings, then it is clear that estimates of housing over-supply will need to be substantially revised.
- More homeowners with large dwellings may also seek to knock down their homes, sub-divide their land and build smaller dwellings. Certainly this trend has been prevalent for some time with increased construction of town houses and villas. Interestingly, though, the average floor space of residential building (houses and apartments combined) has continued to rise, although there are some signs that this is topping out.

### And people are moving house less often

- The other interesting figures released recently relate to housing mobility. The Bureau of Statistics report for the 2007/08 year show that less than half of all households had moved in the past five years to (43.4 per cent). Those



that were more likely to have moved in the past five years were private renters (85 per cent) while only 15 per cent of homeowners without a mortgage had shifted premises and 42 per cent of those with a mortgage.

- When the same question was asked a decade ago, 73 per cent of people had moved house in the past five years. All groups had moved more often, including homeowners (56 per cent) and mortgagees (67 per cent).
- One reason that people are moving less is that the population is ageing – old people, especially home owners, are less likely to move than Gen Y renters. But for three out of every four people, it is the cost of a new home or the associated moving costs that are keeping them in their existing homes for longer.
- The other reason why people aren't moving is far more positive – people are happy with where they are living. In fact more than 90 per cent of homebuyers & homeowners are more than satisfied with where they are currently living.
- If people are happy about where they are living and concerned about the high costs of moving, they are more likely to add extra rooms and features to their homes rather than moving house. And certainly that has been happening.
- As Reserve Bank Deputy Governor Ric Battellino recently observed, alterations & additions have steadily grown in real terms over recent years and now account for around half of all investment (spending) on dwellings.

### Implications for the housing industry

- To get an idea what the lift in household size means, we can work backwards from the population figures. Using the latest estimate of household size (2007/08) of 2.56 people per household and the population at that time of 21,431,781, this would equate to around 8.37 million households. If the household size had remained at 2.51 persons, it would have equated to around 8.54 million households. So in simple terms, figures suggest that an extra 166,000 homes would have been needed had not Australians opted to better utilise their bigger homes over the year. Given that dwellings have outpaced households over time, those estimates may actually prove conservative.
- These estimates merely take into account changes in utilisation of homes. Demand for homes is affected by a myriad of factors such population growth, household formation (marriages, divorces), destruction of property (fires, natural disasters) as well as replacement activity (knock-down and rebuild).
- Economists generally work on the belief that household size falls over time, or at worse remains unchanged. And given that population has been growing at the fastest rate in 40 years and construction hasn't been keeping pace, economists have generally concluded that there is a shortage of housing in Australia.
- But as we have noted there have been numerous changes in factors affecting housing demand and supply, affecting estimates of the extent of under-building in Australia. Certainly the Reserve Bank has made some observations, referring to our larger dwellings, investment in existing housing stock and even replacement building. The Reserve Bank noted that between 2001 and 2006 around 15 per cent of new homes built were replacement stock where a decade earlier that figure was less than 10 per cent.
- Clearly, if Australia had been consistently under-building by around 50,000 homes per annum, then presumably rental stock would have become exhausted and more people would be on the streets. That hasn't happened. While the rental vacancy rate remains low, it hasn't markedly tightened over the past year despite less homes being built.
- If Australians opt to better utilise their big homes, or opt not to move and instead add to and enhance their existing homes, then this has implications for new construction.
- While the fast pace of population growth points to the need for more and more homes, Australians are living in the biggest homes in the world and the simple fact is that these homes could be better utilised. It is clear that home construction will rise over the coming year, underpinned by first home buyer activity. However over the medium-term there are no guarantees that construction will, or will need to, grow sharply simply because population is growing. There are a host of issues affecting housing supply and demand, and they certainly aren't static.
- But while new home construction may be constrained if utilisation continues to rise, renovation activity may actually rise – especially if governments fail to address the high costs associated with purchasing a home or moving house.

Craig James, Chief Economist, CommSec

