



Victoria's Housing Market: where to build or renovate

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Economics Group

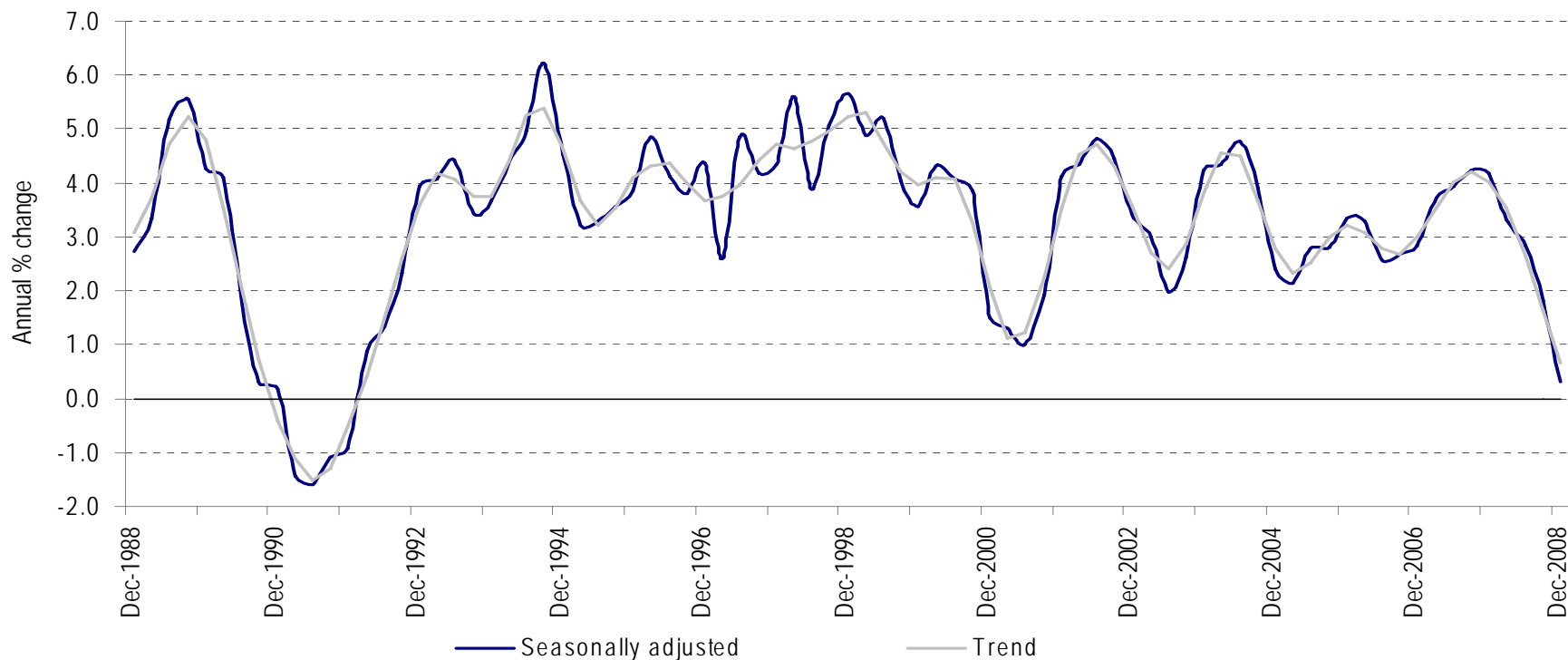




The situation spells bad news for Australia but then ...

Australia's GDP

Source: ABS 5206.2



- **Australia to almost certainly slide into a recession in 2009.**



Australia's 4 big challenges

- Rising unemployment.
- Low consumer and business confidence.
- Stumbling world economy – fewer exports, lower prices received.
- A lack of available finance.

Australia's 3 big responses

- New fiscal (spending) policy.
- Interest rate (monetary) policy.
- Existing fiscal policy.



Response 1 – new Government spending (fiscal) policy

- \$42 billion Federal spending package – a ‘mini-budget’.
- A total of \$6.4bn for the housing industry.
- Funding the construction of approximately 20,000 new public and community housing dwellings.
- This will also unlock private sector projects currently on hold through lack of available finance.
- \$400 million for repairs of existing public housing dwellings.
- \$252 million to Defence Housing Australia (DHA) to construct 802 new dwellings.
- A \$2.7 billion free ceiling insulation and installation program (capped at \$1,600 per household).
- For households that have ceiling insulation, an additional \$507 million is available (for a rebate of up to \$1,600 per household) to replace electric storage hot water systems with solar and heat pump hot water systems.
- Bringing forward of \$110mn of the \$2.5bn ‘Trade Training in Schools’ Program.



Response 2 – Interest Rate (Monetary) Policy

- The Official Cash Rate (OCR) has been lowered by 4.25 whole percentage points to the lowest level since mid 1960.
- Variable mortgage rates are at their lowest since the early 1960's.
- How much further to go – probably not far but we still have room to move.
- Increase in borrowing capacity of between \$7,000 (non FHB) and \$31,000 (FHB).
- This is not enough, but thanks to our reliance on variable mortgage rates it is something.

Mortgage Repayment Savings*

Loan Size	Feb-09 Mthly Repayment	Mthly Saving from February cut	Total Saving since Aug-08
\$200,000	\$1,180	\$131	\$516
\$300,000	\$1,770	\$196	\$775
\$400,000	\$2,360	\$261	\$1,033
\$500,000	\$2,950	\$327	\$1,291

*Assumes 30 year loan and standard variable mortgage rate (RBA)

Source: RBA; HIA



Response 3 – existing Government spending (fiscal) policy

- Tripling of the FHOG to \$21,000 for construction/purchase of new.
- National Rental Affordability Scheme (NRAS) – first round of offers have been made and this includes 696 dwellings in Victoria.
- Housing Affordability Fund (HAF) – round 1 applications have been allocated \$112 million to assist in delivery of 14,000 lots. Round 2 applications being called for 'mid year'.



1. Unemployment – the key to everything

Victoria's Unemployment Rate

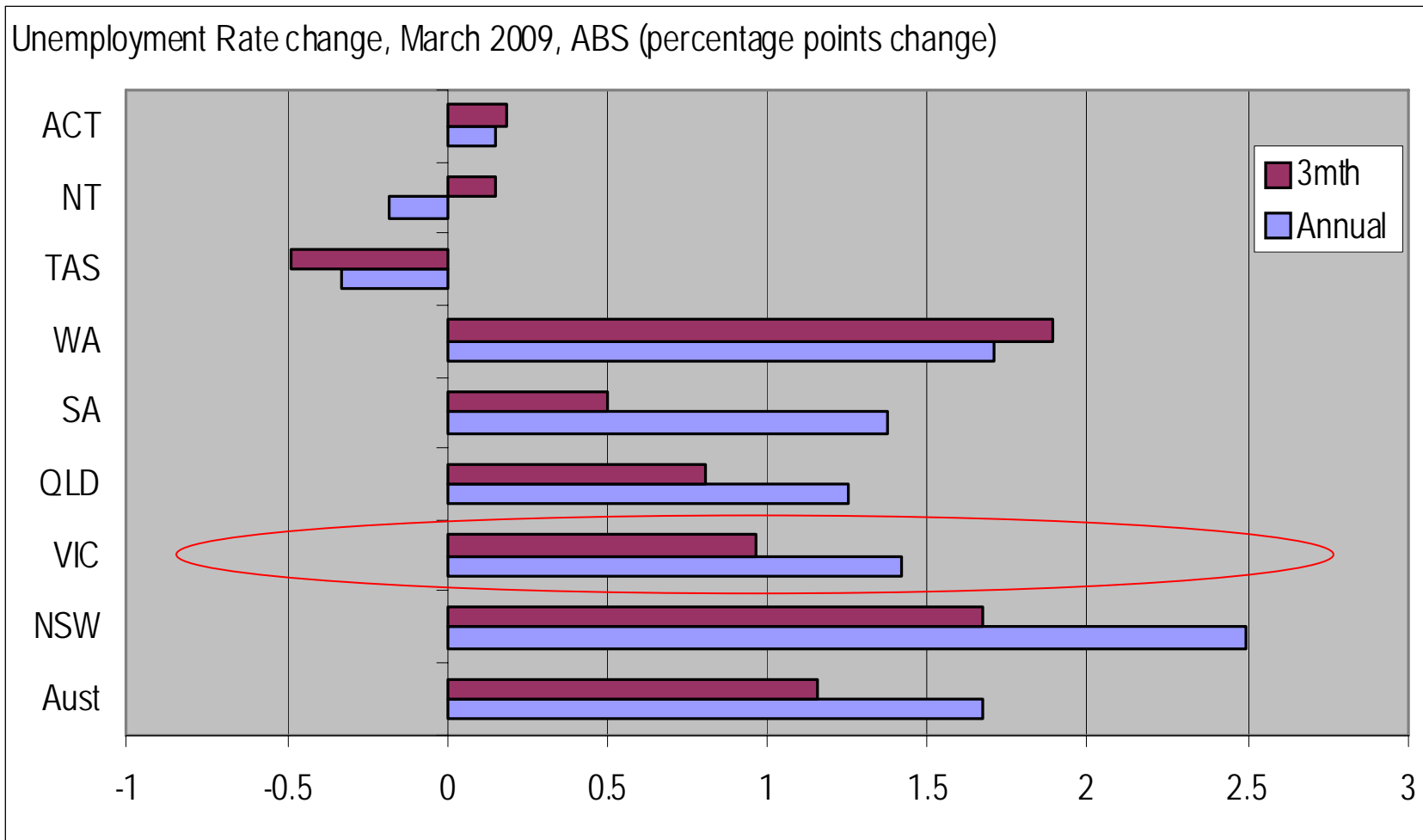
Source: ABS Labour Force



- We have a very similar starting point to the early 1990's recession.



1. Unemployment – the key to everything

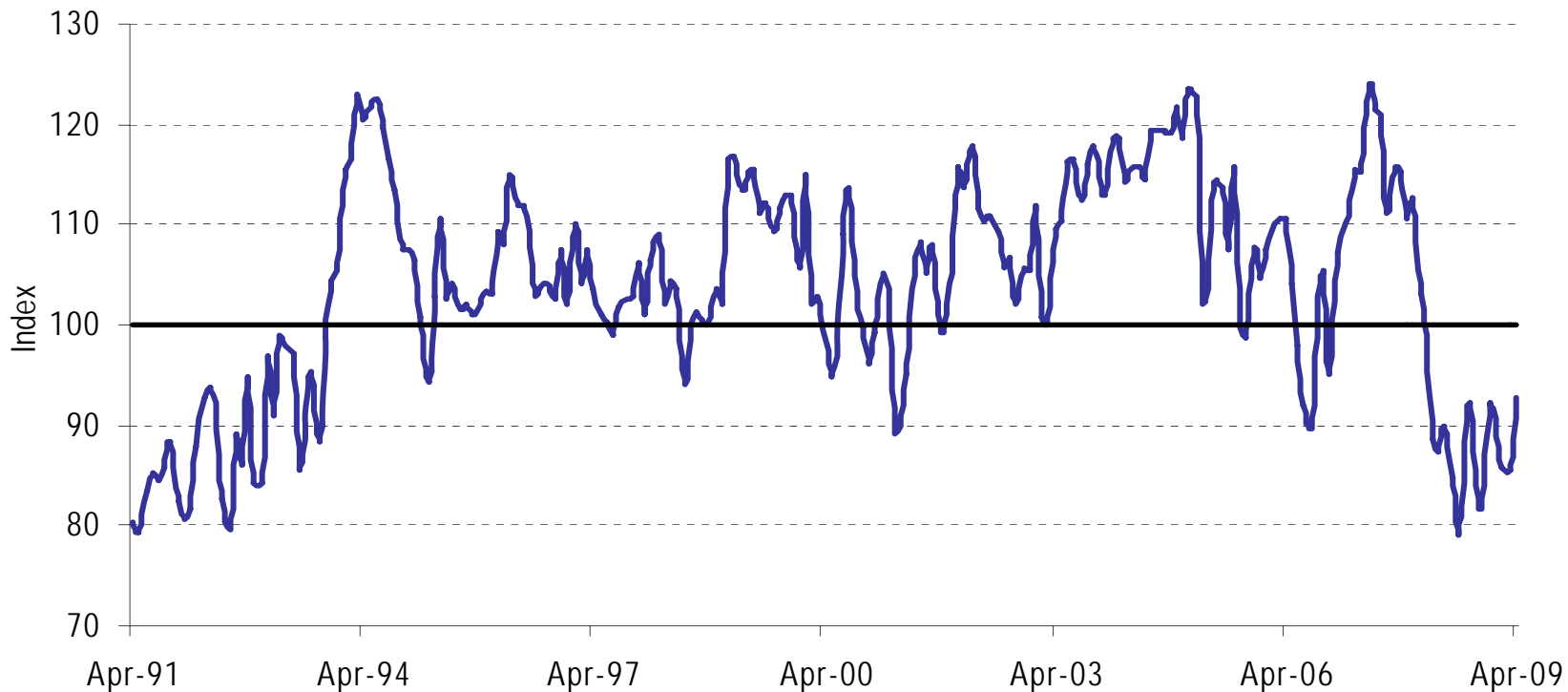




2. Consumer confidence – worried about the future but ...

Consumer Confidence

Source: Westpac-Melbourne Institute



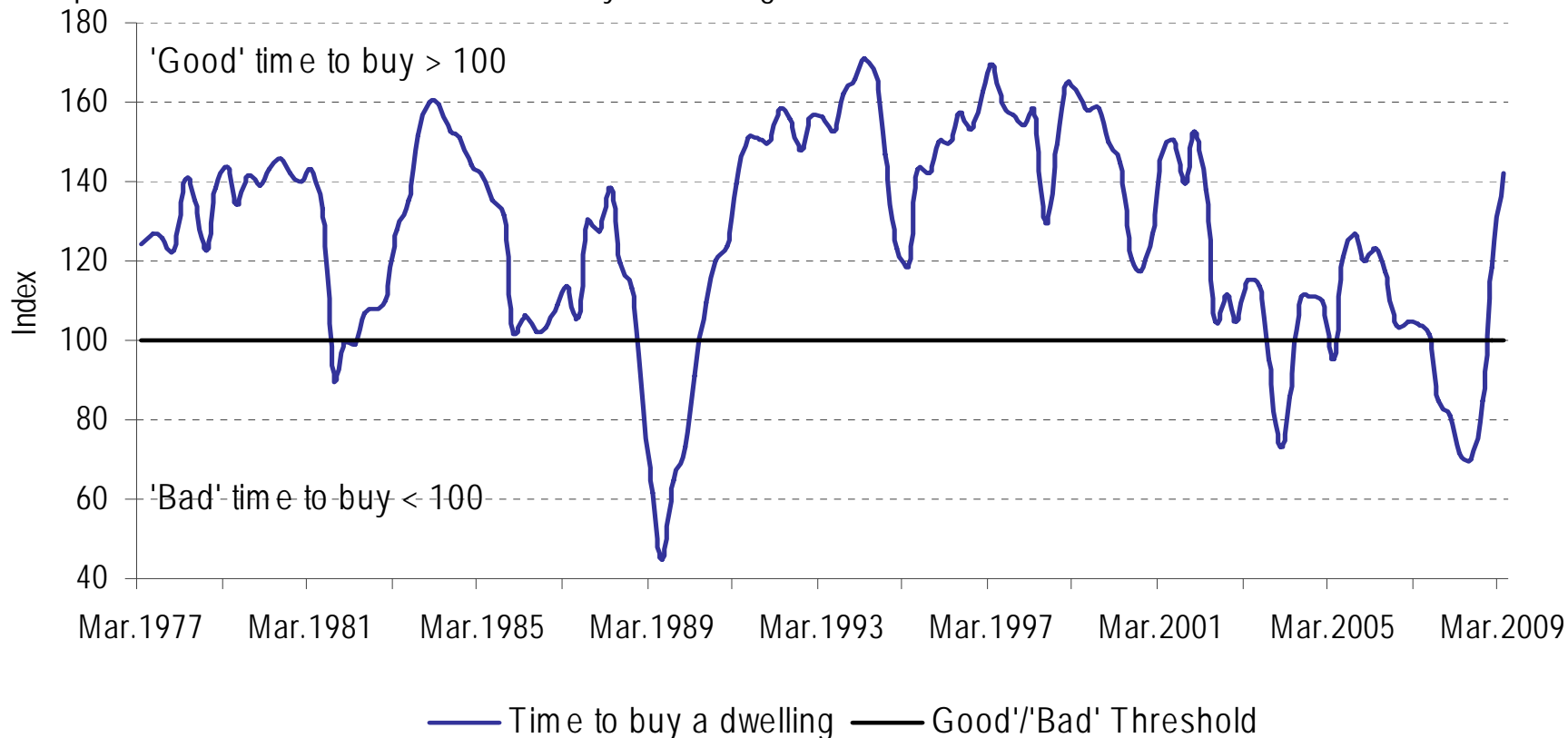
- Plus, business confidence is at or near record lows



2. ... home buying confidence is on the rise

Home Buying Sentiment

Westpac - Melbourne Institute Time to Buy a Dwelling Index





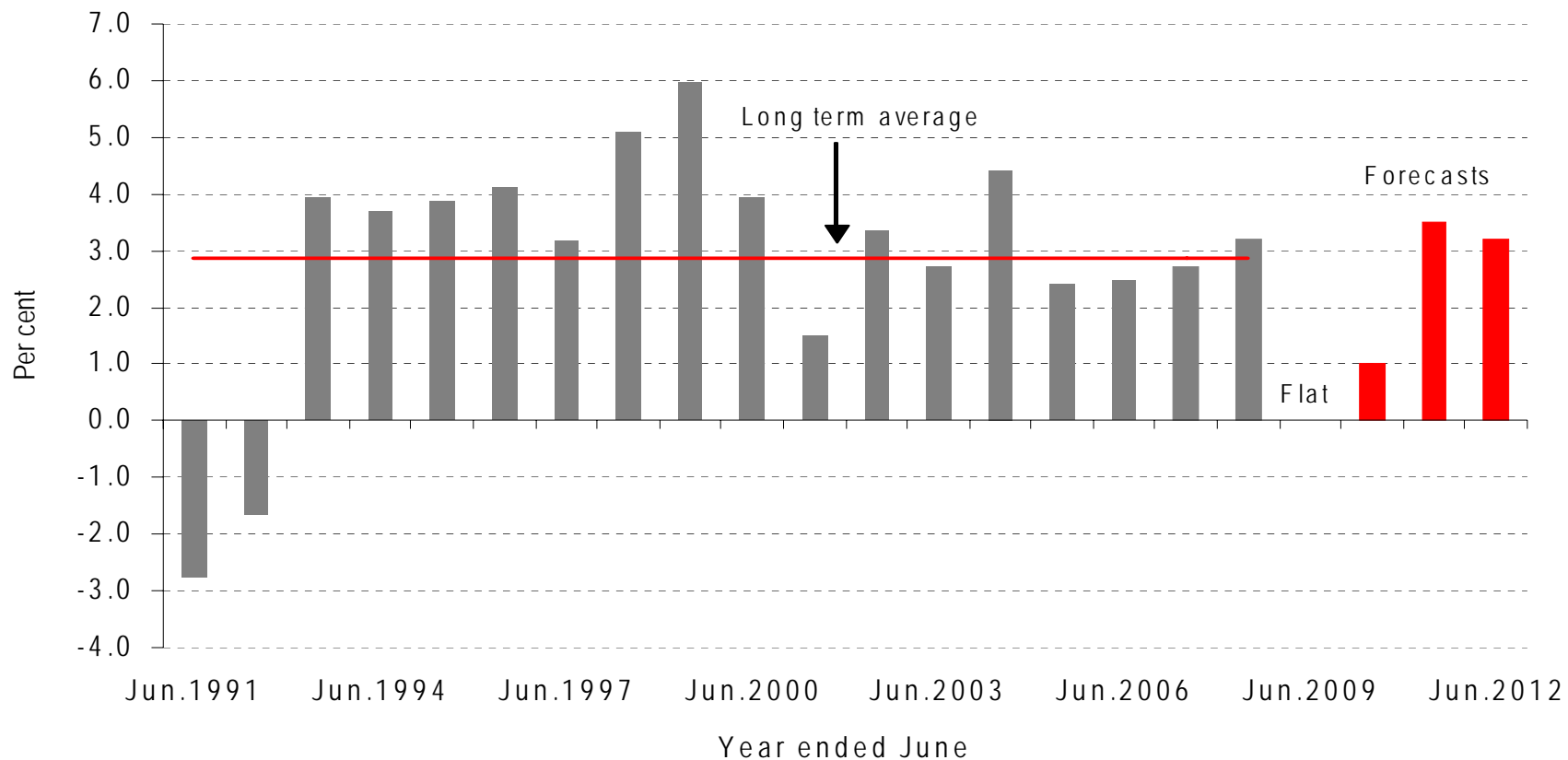
The Victoria State Economy and New Home Building Sector



The economy – ‘nothing’ would be a good result

Gross State Product - Victoria

Source: ABS; HIA Economics Group

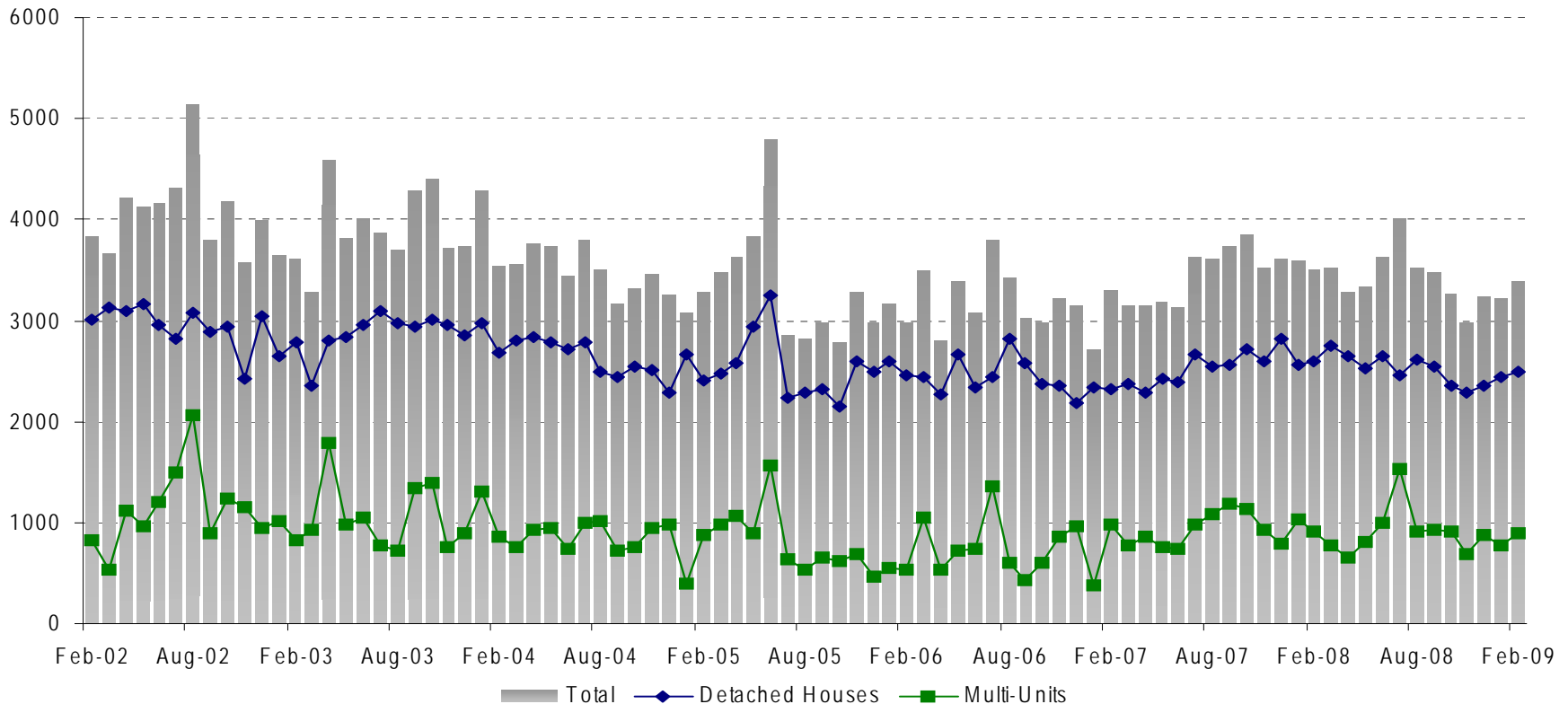




Building approvals – holding up very well

Victoria Monthly Dwelling Approvals

Source: ABS Building Approvals



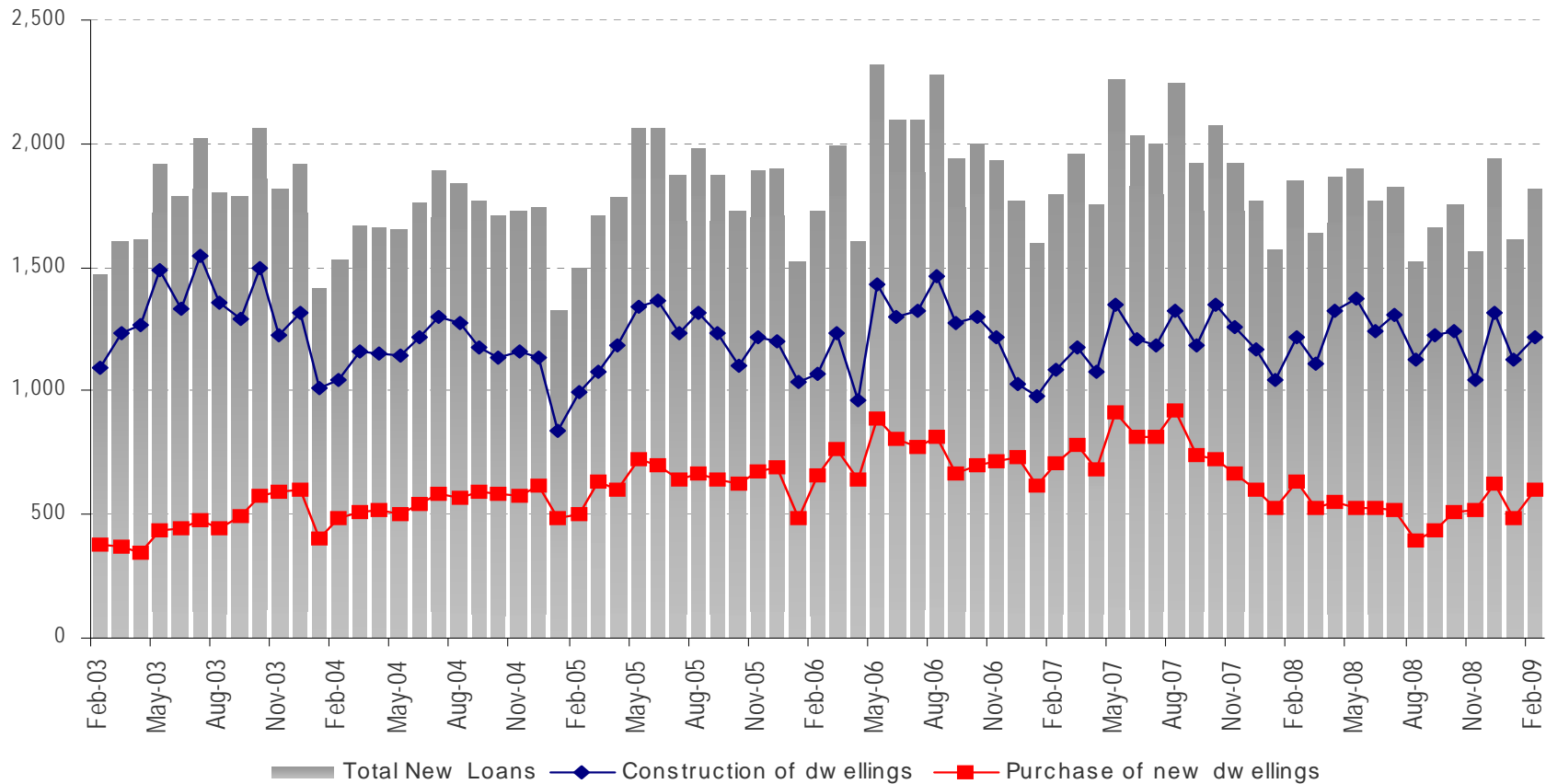
- Building approvals increased by 1.9% in 2008 and
- ... approvals rose by 1.2% over the 3 months to Feb 2009, the only increase in Australia.



New home lending is looking quite good

Victoria New Home Lending - Number of Loans

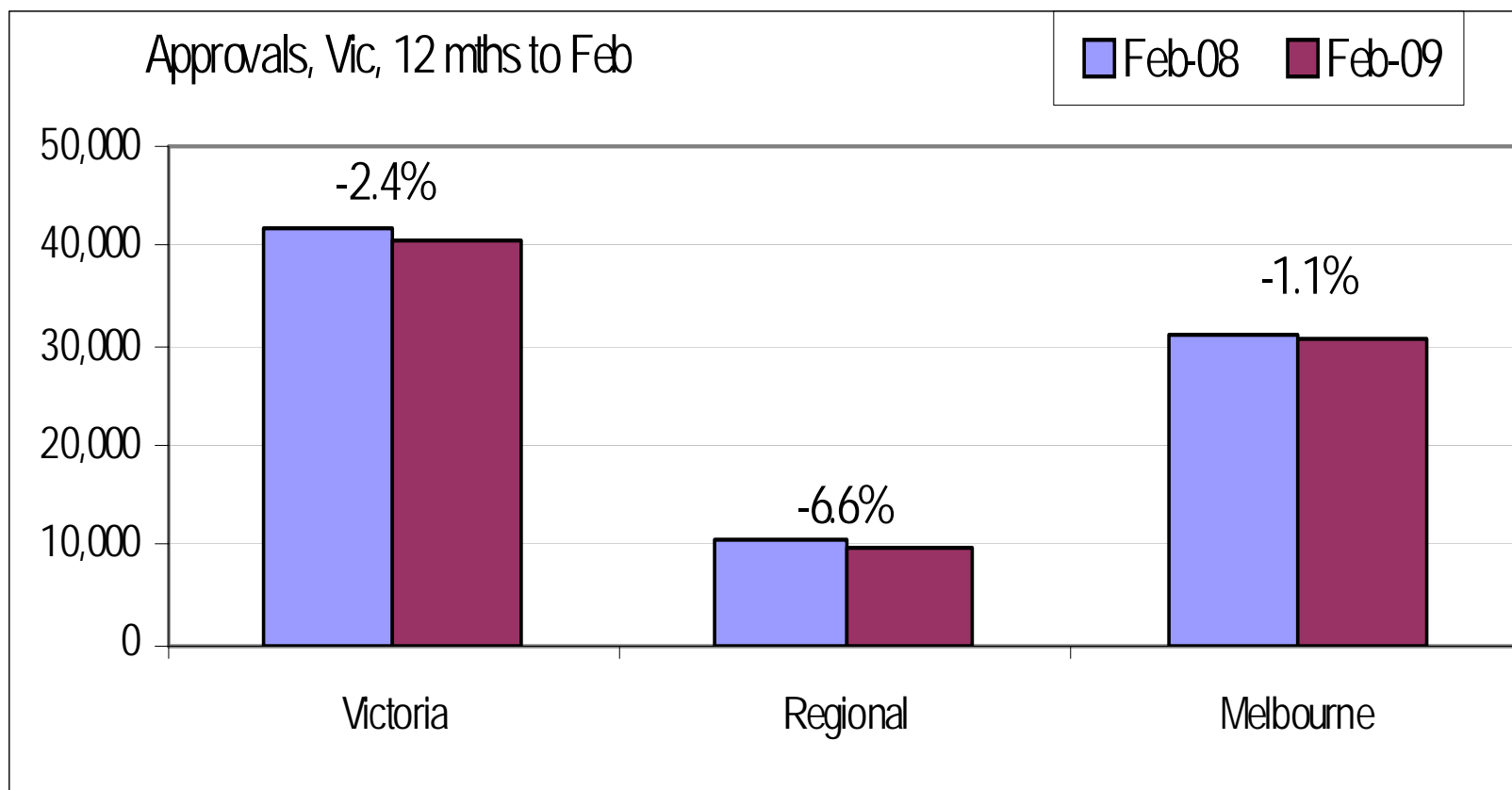
Source: ABS Housing Finance



- New home lending was up 16% over the 3 months to Feb 2009.

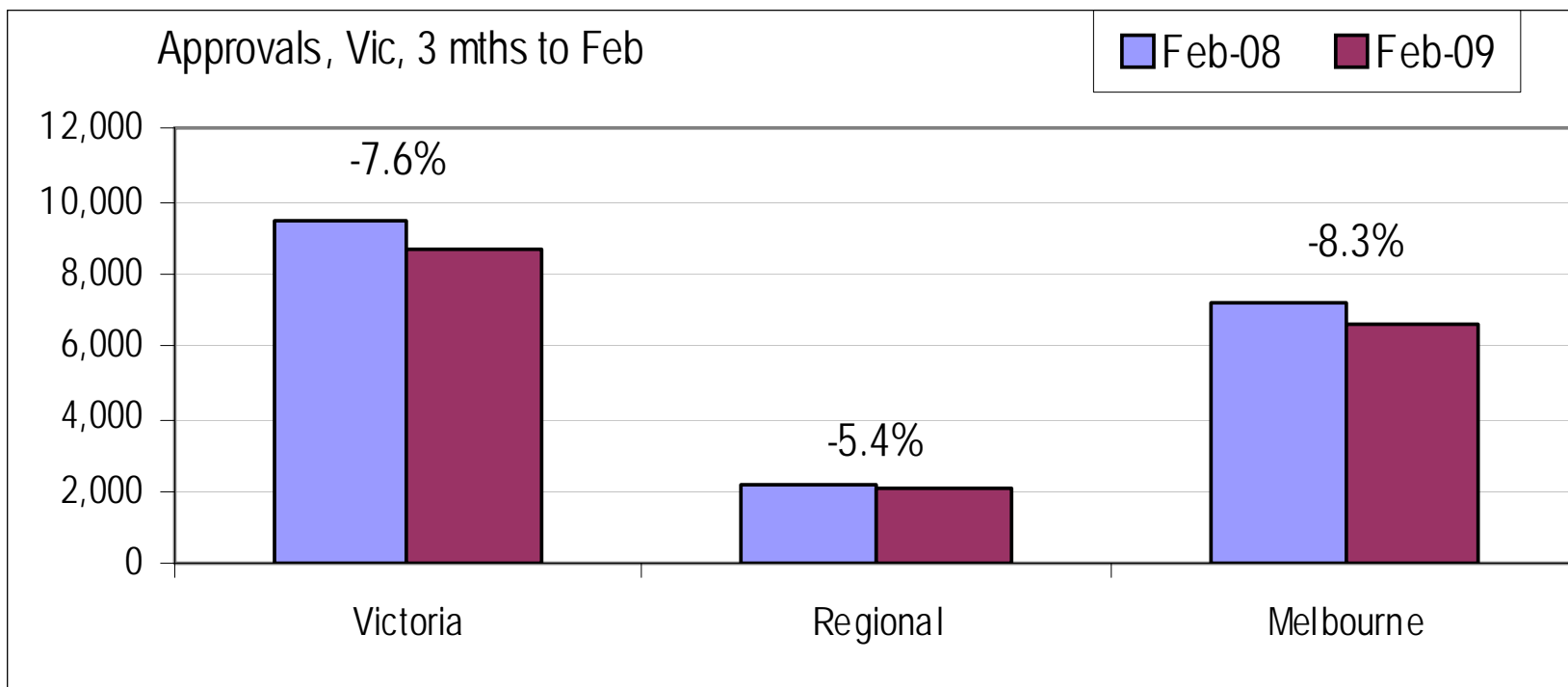


Regional Approvals Picture



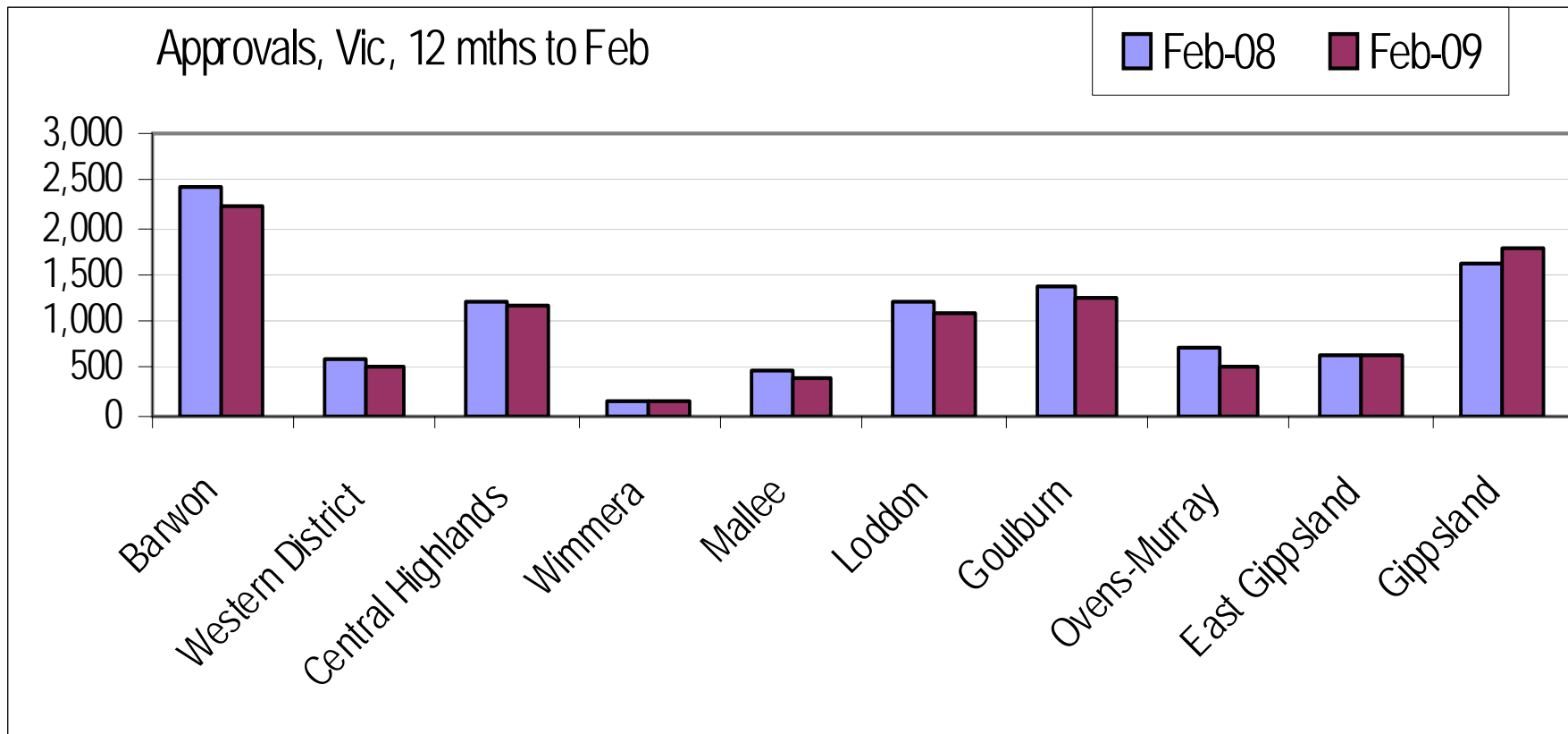


3 Months to Feb 2009



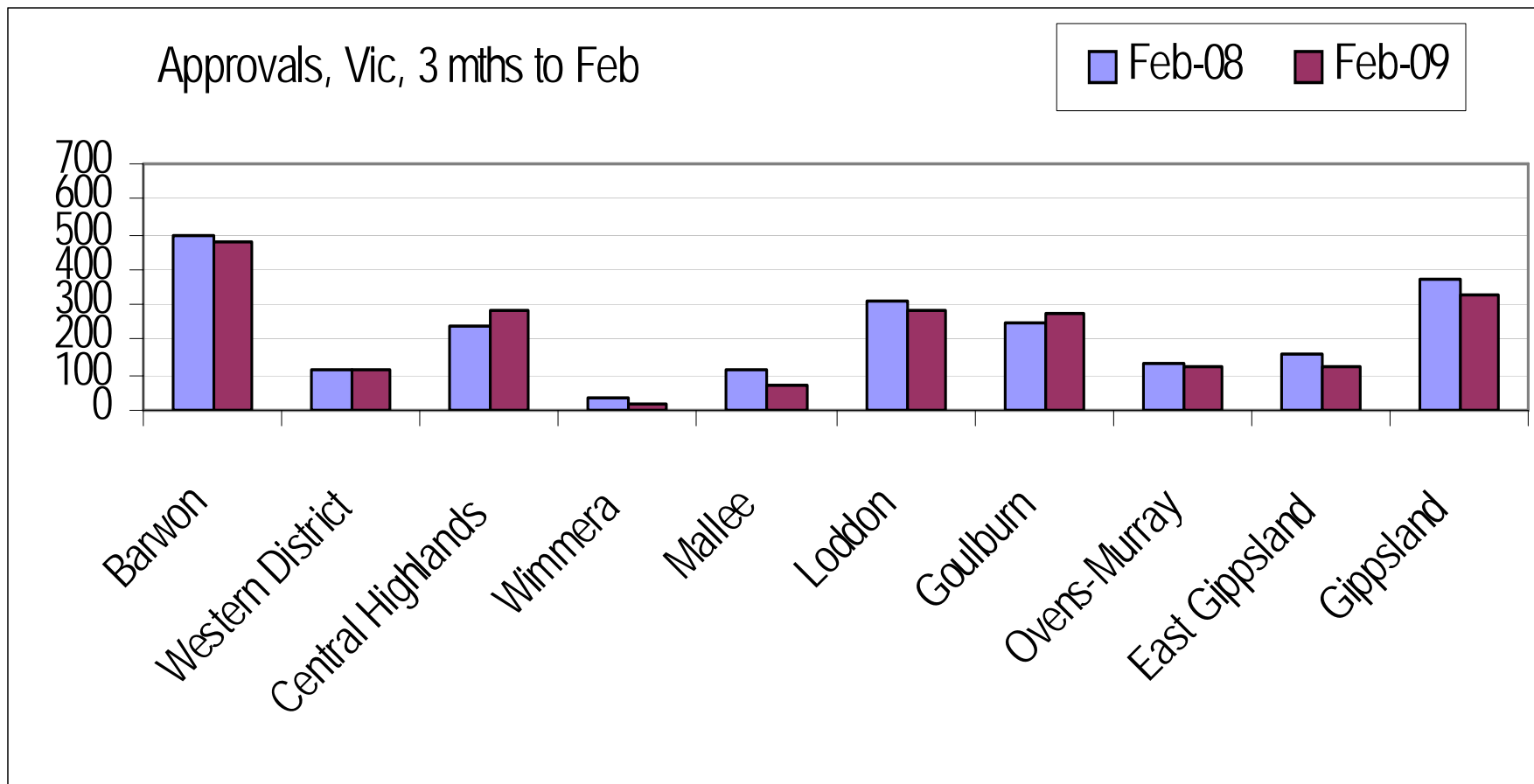


The Regions – Last 12 months



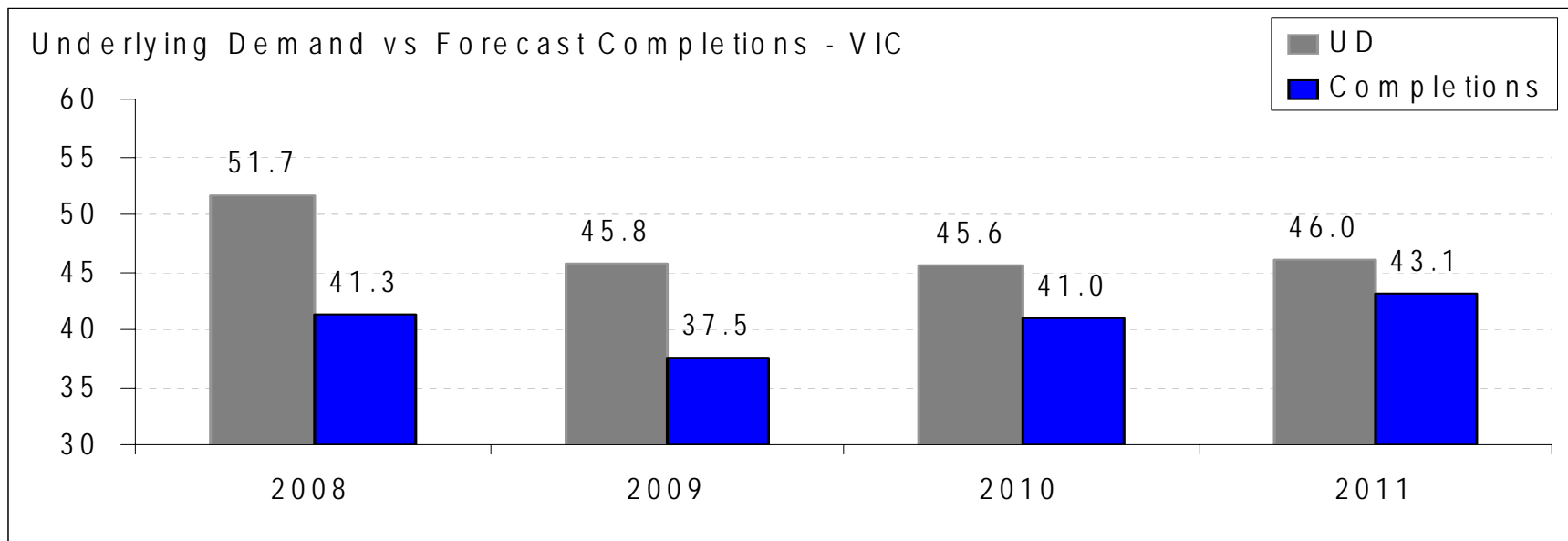


The Regions – last 3 months





Underlying Demand



Population Growth Implications			
<i>Population (Millions)</i>	Melbourne	RVIC	Victoria
2006	3.75	1.39	5.13
2016	4.39	1.52	5.90
2026	5.04	1.62	6.66
<i>Growth Rate</i>	1.49%	0.79%	1.31%
<i>Total Growth</i>	34.5%	17.0%	29.8%



Where is the demand greatest?

Top 10 LGA's - Victoria						
	<i>Dwellings</i>	<i>10 Year Projected</i>	<i>2007/08</i>	<i>10 year Annual</i>	<i>2007/08</i>	<i>10 year land</i>
	<i>2009 Est.</i>	<i>Population Growth</i>	<i>Approvals</i>	<i>Dwelling</i>	<i>Shortage</i>	<i>requirement</i>
				<i>Requirement</i>		
Top Building requirement LGA (10 yr)						
Yarra Ranges (S)	51,870	58.7%	2,029	27,268	-936	19,614
Swan Hill (RC)	84,811	25.6%	2,415	24,073	-97	19,405
Baw Baw (S)	49,936	51.2%	2,835	23,723	294	22,719
Bayside (C)	34,062	62.0%	2,319	18,640	278	11,471
Wyndham (C)	83,813	16.2%	1,437	17,137	-328	15,188
Alpine (S)	48,175	29.6%	2,104	15,194	523	14,010
Moonee Valley (C)	95,024	9.6%	1,395	13,750	-17	6,092
Monash (C)	56,304	20.8%	1,410	13,710	-7	8,855
Yarriambiack (S)	55,170	20.2%	263	13,156	-1,081	13,156
Moyne (S)	24,445	59.9%	1,366	13,040	-27	12,811
Victoria	2,273,774	10.0%	42,799	410,653	145	331,795



Economics Group





The outlook – new housing

Housing Starts, by type

thousand starts

(a) = actual

% change:

Vic	Houses	Multi-units	Total				
2002/03 (a)	32.61	13.19	45.80				0.71
2003/04 (a)	34.62	10.71	45.33	6	-19	-1	0.76
2004/05 (a)	30.36	10.60	40.96	-12	-1	-10	0.74
2005/06 (a)	29.61	9.68	39.29	-2	-9	-4	0.75
2006/07 (a)	29.49	9.12	38.61	0	-6	-2	0.76
2007/08 (a)	30.82	10.87	41.68	5	19	8	0.74
2008/09	28.63	9.64	38.26	-7	-11	-8	0.75
2009/10	31.67	10.20	41.86	11	6	9	0.76
2010/11	33.41	10.55	43.96	5	3	5	0.76

- Could 2008/09 look better than this? Yes
- Could 2009/10 look better than this? Maybe, but the odds are against it



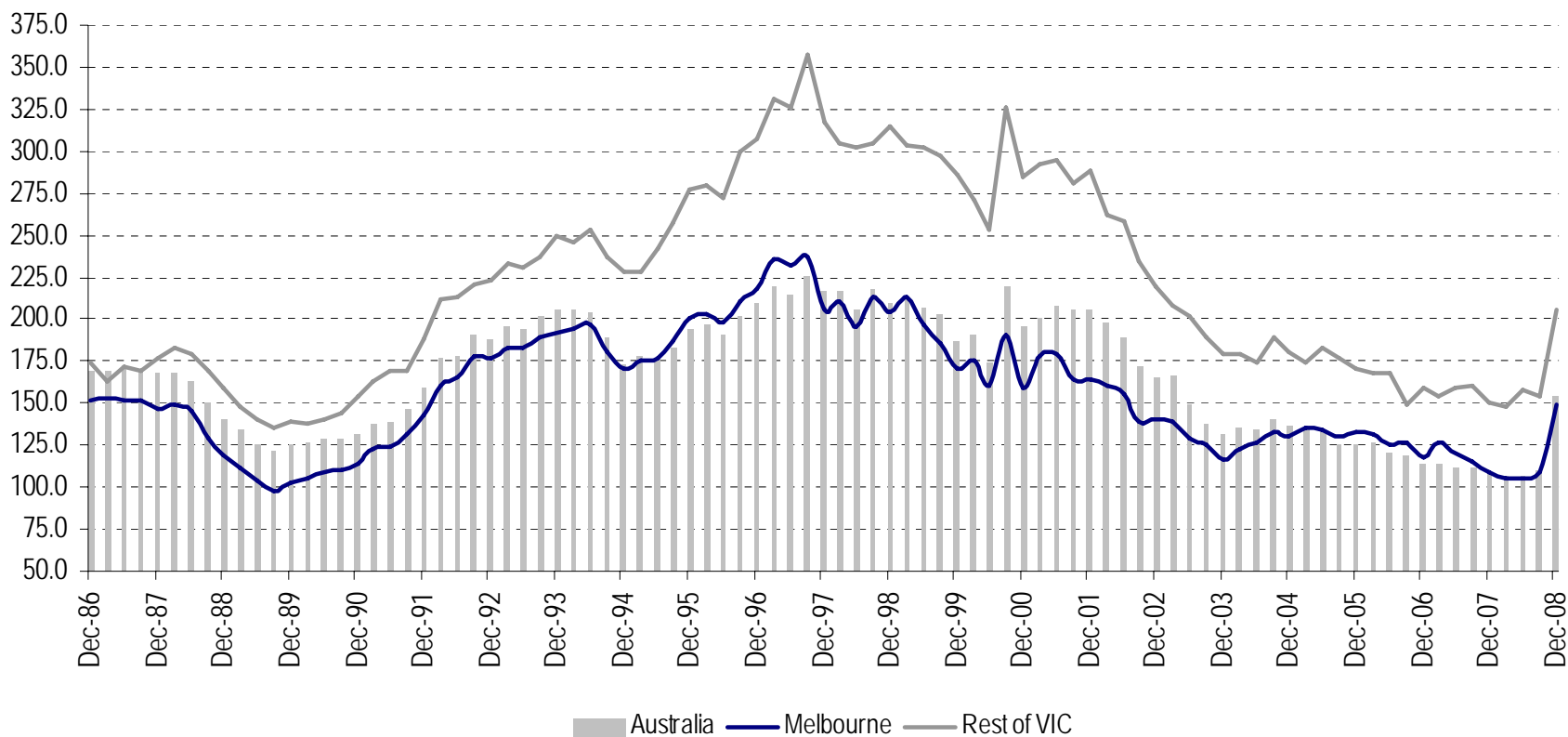
First Home Buyers and Affordability



Housing Affordability – solid on-going improvement

Housing Affordability in Victoria

Source: HIA Affordability Report

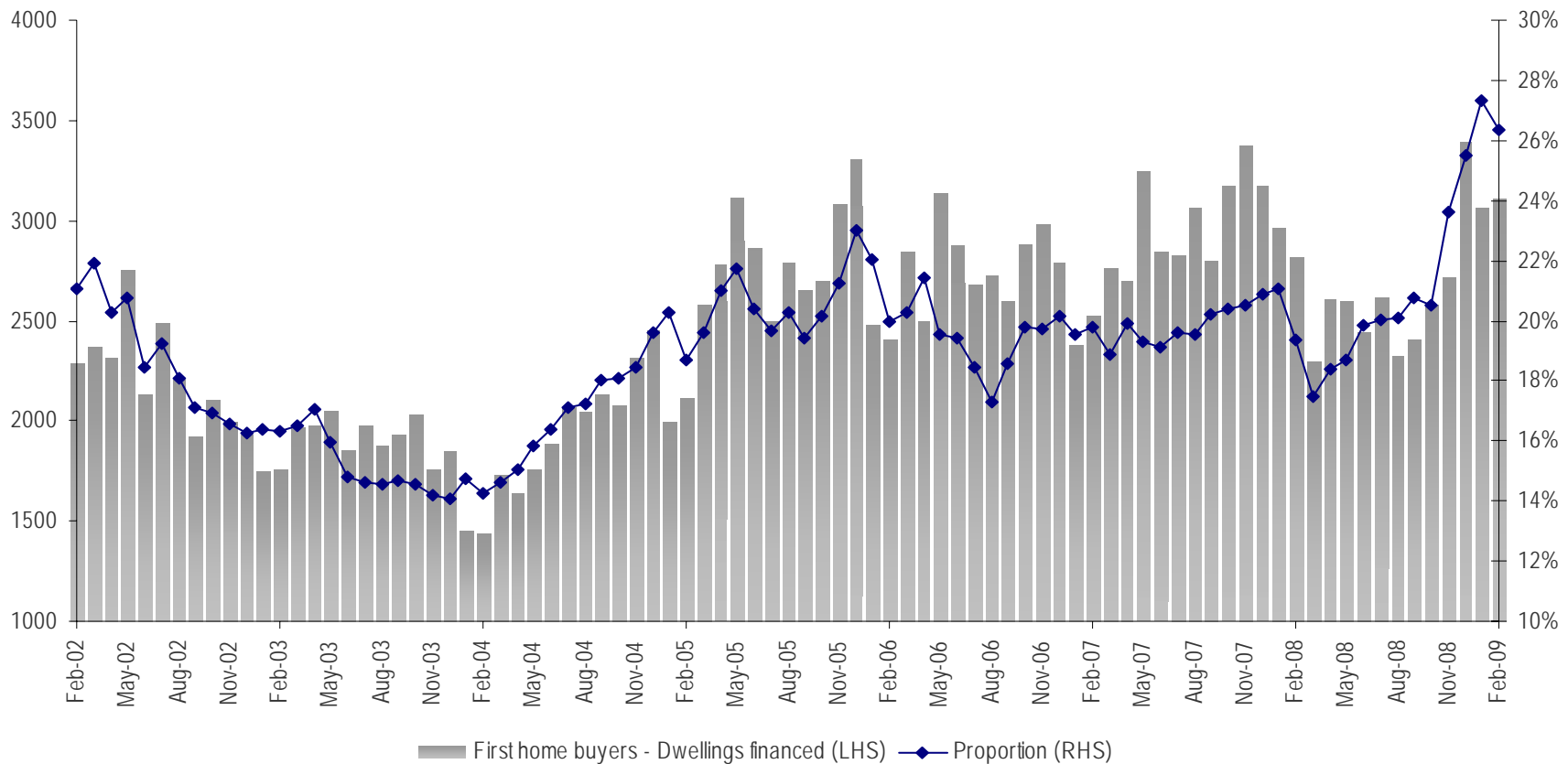




First Home Buyer market – large increase in share

First Home Buyers – Victoria

Source: ABS Housing Finance

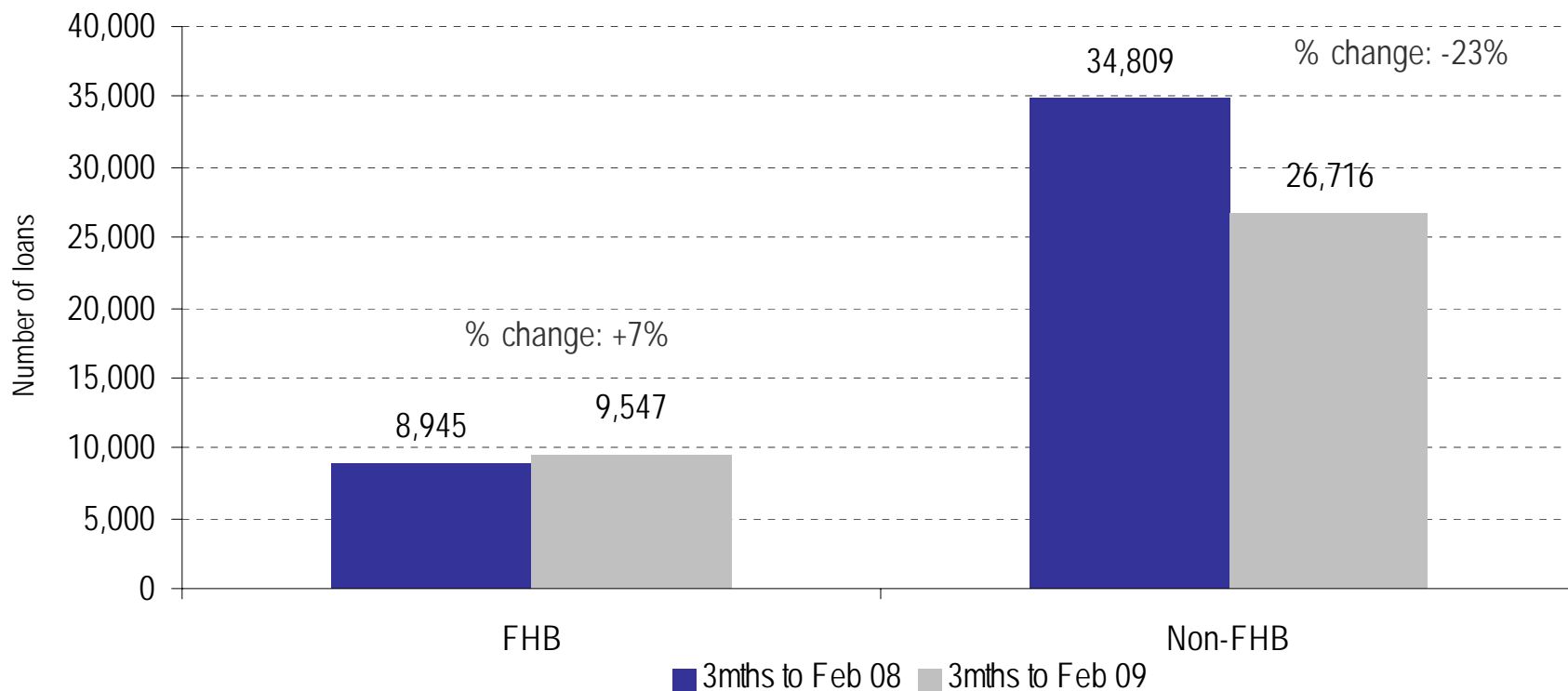




First Home Buyer loan numbers are also on the rise but ...

First Home Buyer versus Non-First Home Buyer Loans

Source: ABS Housing Finance



- ... Non-first home buyer numbers are still falling.



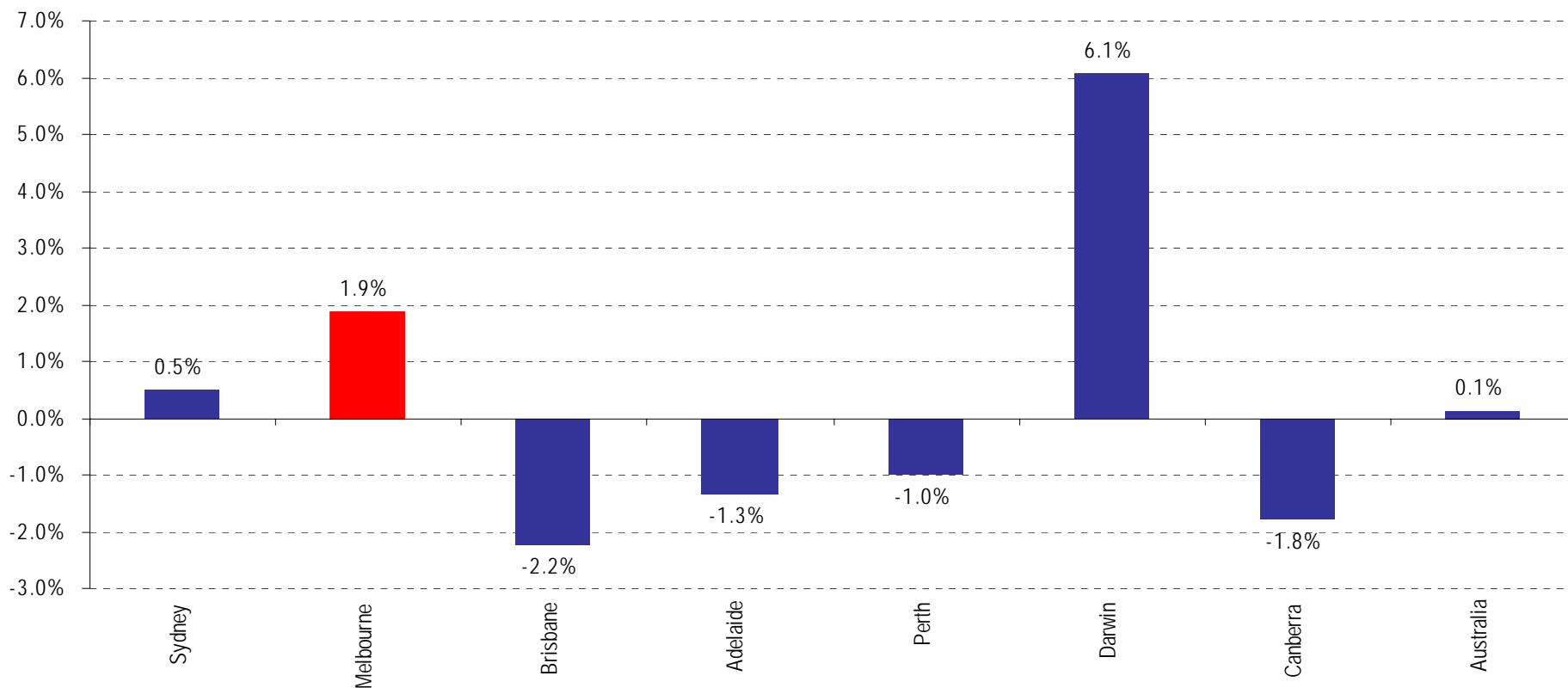
House Prices and Residential Investment



House Prices – doing better than in Steve Keens' world

Quarterly change in Home values - three months ending Feb 09 (preliminary)

Source: RP Data, Rismark International





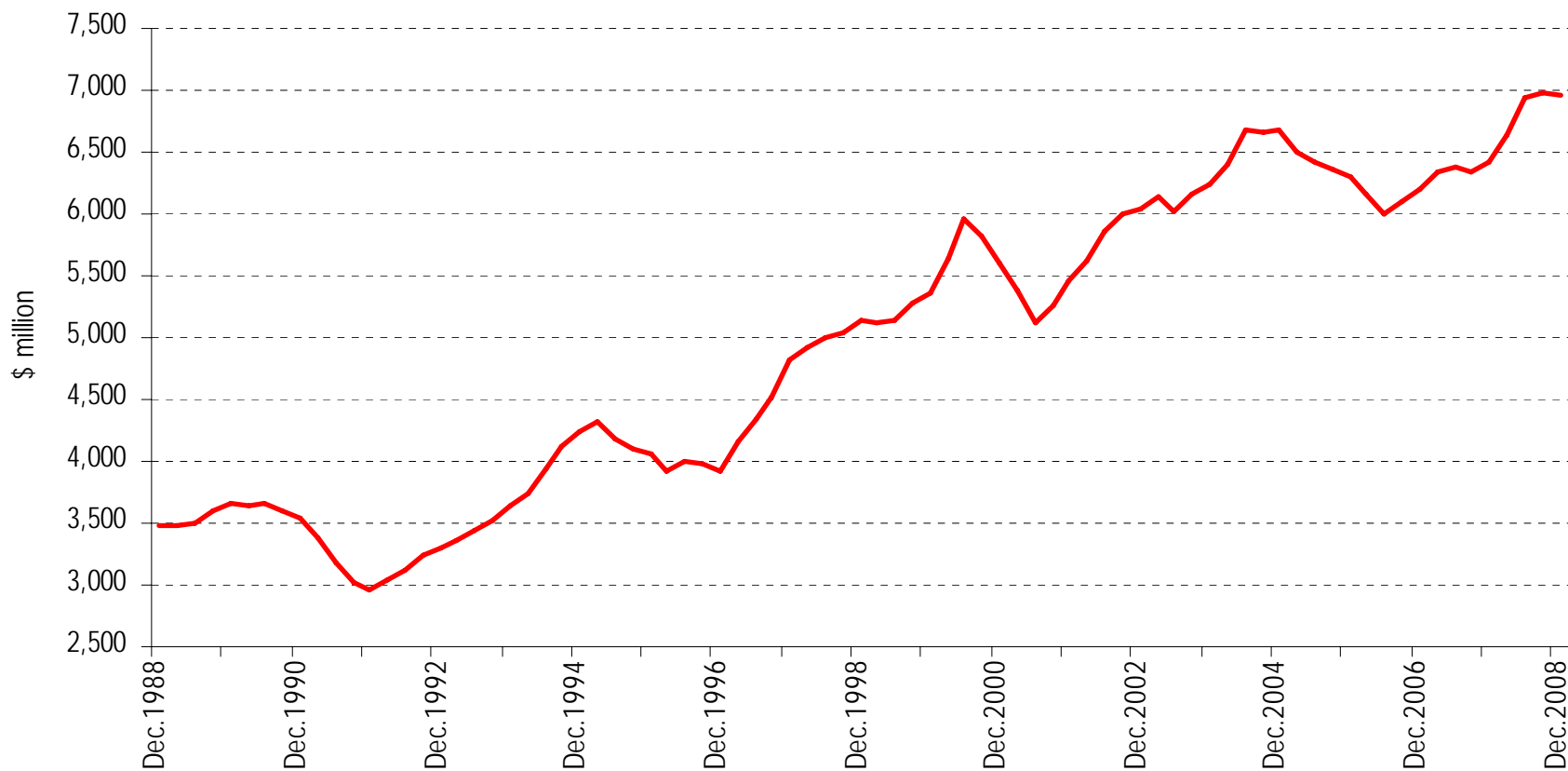
The Renovations Market



Renovations – holding steady

Renovations Investment in Victoria - Moving annual total

Source: ABS State Final Demand

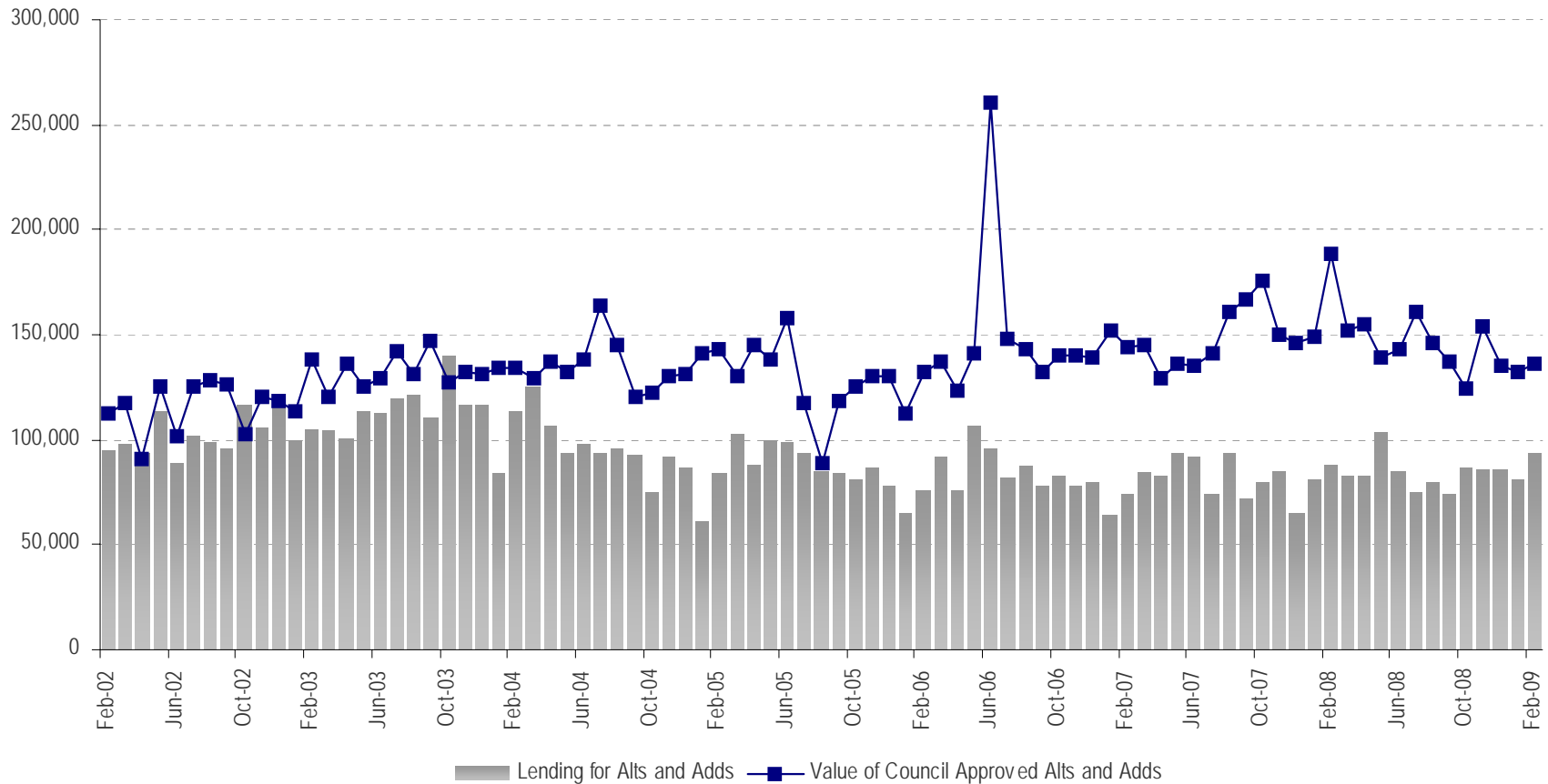




Major renovations work is also holding up

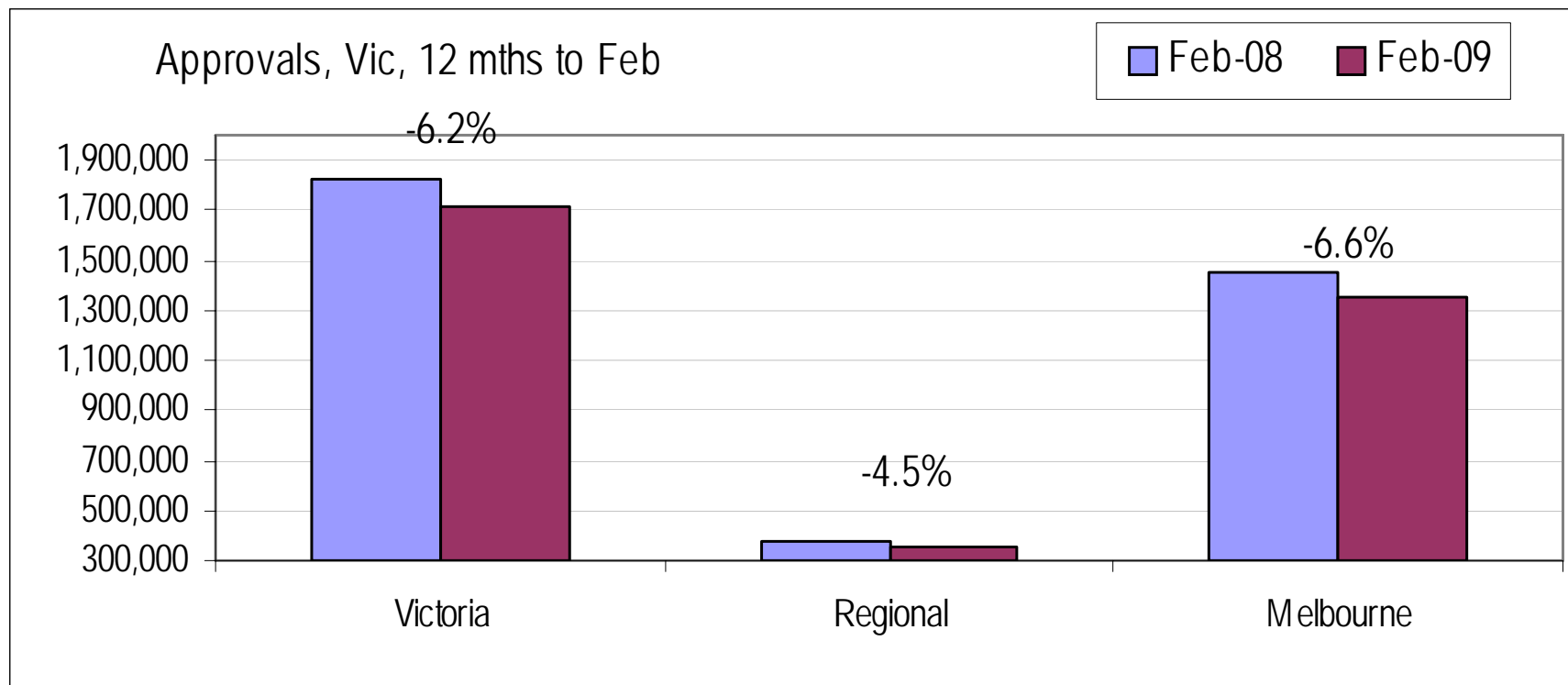
The VIC Renovations and Additions Market

Monthly Lending and Monthly Council Approvals (\$000)



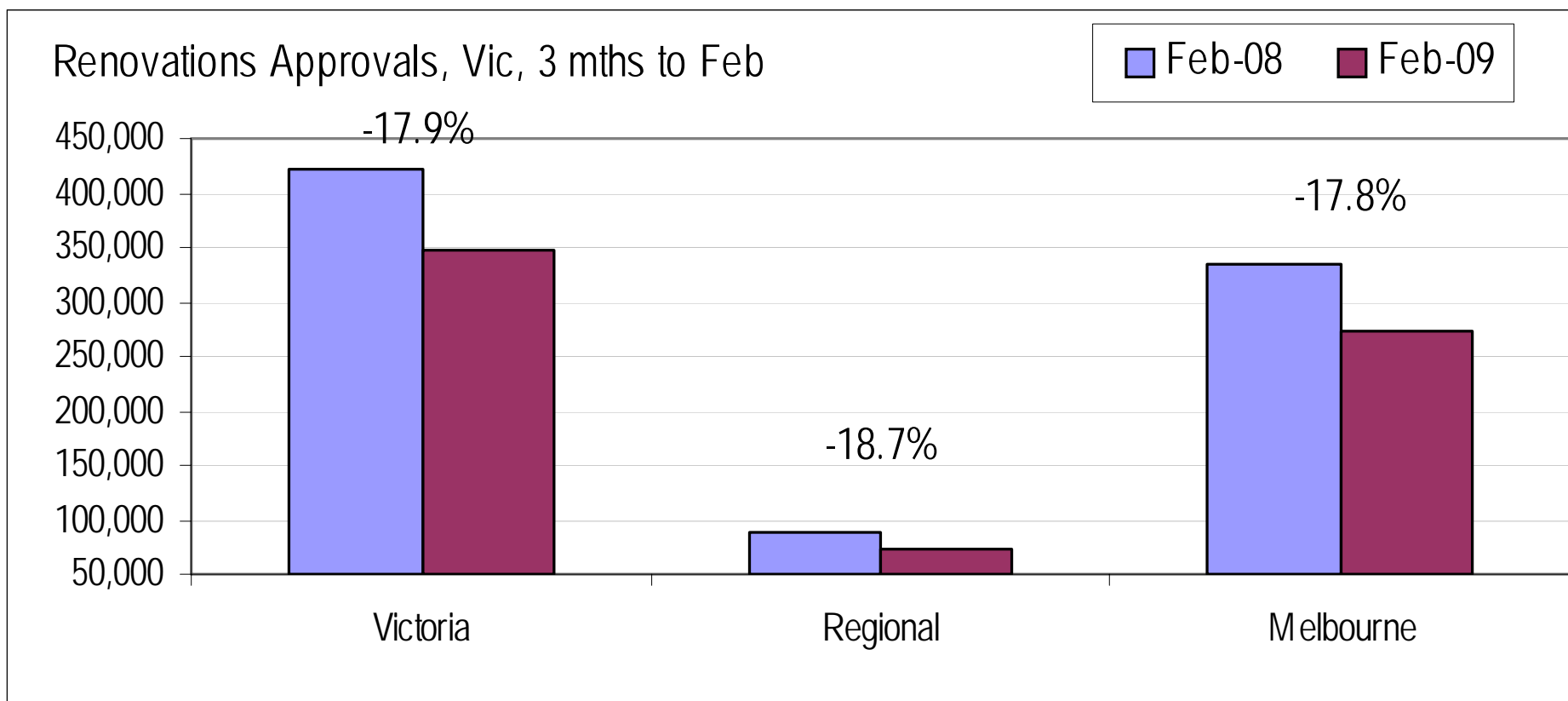


Regional Renovations – 12 months (000s)



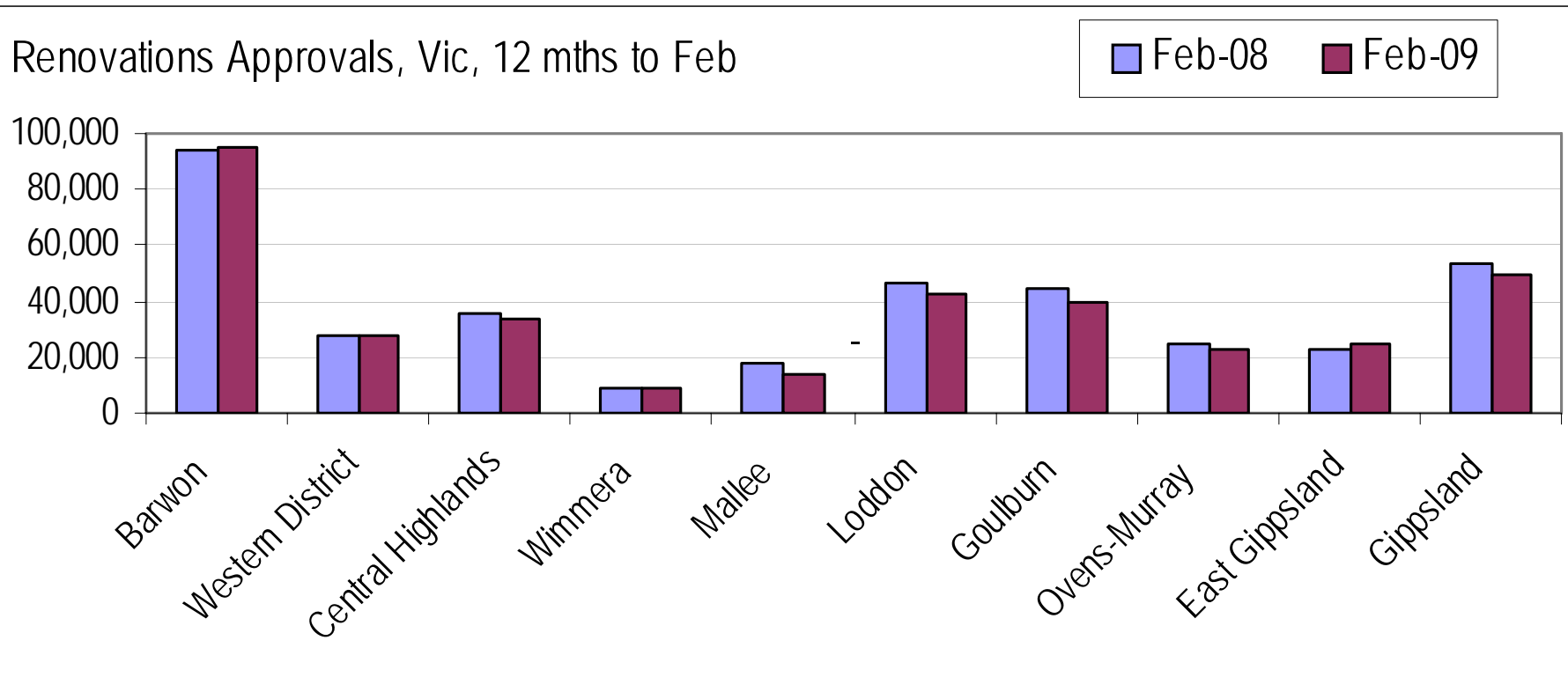


Regional Renovations – 3 months (000s)





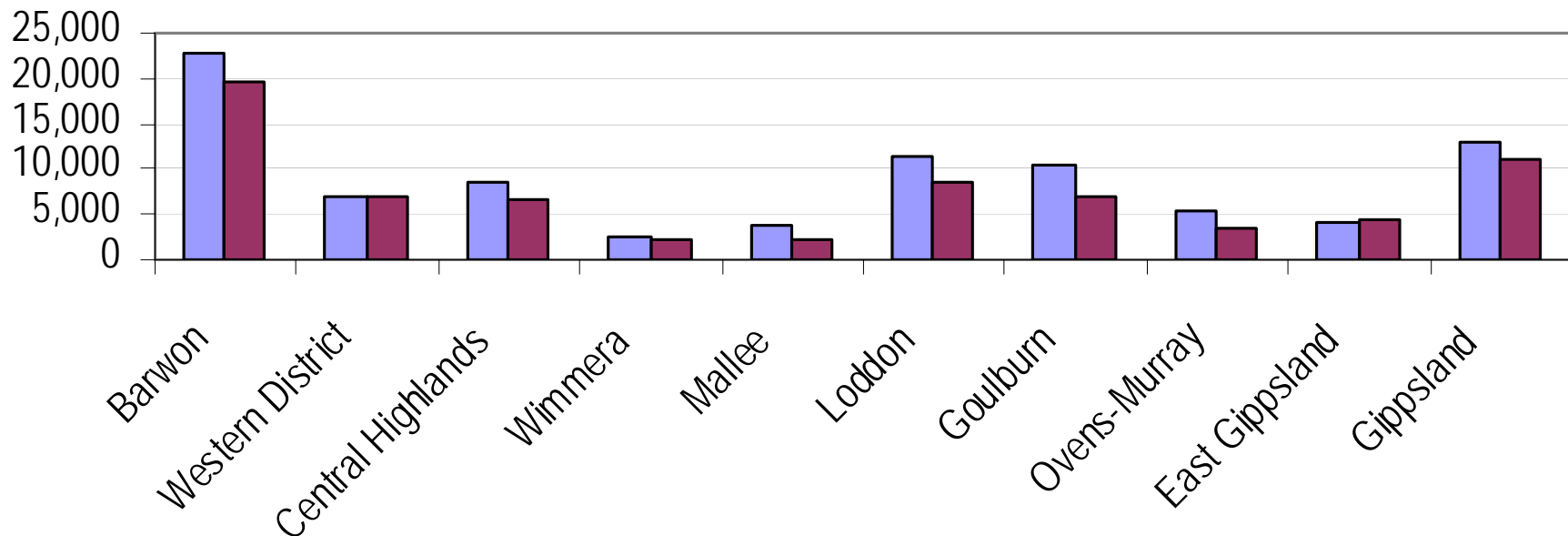
12 month growth – Regional Vic (000s)





3 month growth – Regional Vic (000s)

Renovations Approvals, Vic, 3 mths to Feb





The outlook – renovations

HOUSING RENOVATIONS FORECAST: by state and territory

Value of investment, \$ million, Chain Volume Measure

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2002/03 (a)	9,363	5,959	6,194	1,570	3,217	517	191	351	27,362
2003/04 (a)	9,972	6,629	6,057	1,917	2,913	676	177	375	28,716
2004/05 (a)	9,791	6,370	6,365	1,936	3,066	657	255	333	28,773
2005/06 (a)	9,041	5,940	6,719	1,911	3,033	678	276	349	27,947
2006/07 (a)	8,597	6,376	7,574	2,141	3,371	715	230	331	29,335
2007/08 (a)	8,565	6,937	7,263	1,836	4,065	779	176	376	29,997
2008/09	8,570	6,903	7,560	1,920	3,689	780	238	367	30,027
2009/10	8,827	6,972	7,787	1,960	3,838	795	247	368	30,794
2010/11	9,250	7,374	8,160	2,058	4,011	820	259	374	32,307
% change									
2003/04	7	11	-2	22	-9	31	-7	7	5
2004/05	-2	-4	5	1	5	-3	44	-11	0
2005/06	-8	-7	6	-1	-1	3	8	5	-3
2006/07	-5	7	13	12	11	5	-17	-5	5
2007/08	0	9	-4	-14	21	9	-23	14	2
2008/09	0	0	4	5	-9	0	35	-2	0
2009/10	3	1	3	2	4	2	4	0	3
2010/11	5	6	5	5	5	3	5	2	5

(a) = actual



Summary

- The short word on it all is that the world economy is stuffed for at least another year, probably some time longer.
- The Australian and Victorian economy will falter in 2009.
- The economy and housing in particular are much better off with the stimulus in the system than without and ...
- ... Victoria has a relatively strong 'starting' position and solid long term fundamentals
- Housing is important to the short term economic outlook.



Thank You for your time this morning

Ben Phillips

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<http://economics.hia.com.au>