HIA National and State Outlooks – Summer Edition 2016

The HIA National Outlook includes detailed analysis of activity and forecasts for new housing and renovations activity, consideration of a wide range of housing indicators, and an assessment of broader economic conditions.

Residential Construction – a healthy outlook in the short term

In what has turned out to be an extended summer, key points from the first HIA National and State Outlook reports for 2016 include:-

- The national **new home building** cycle peaked in 2015, but a healthy short term outlook is in store.
- Below the surface, **widely divergent conditions** will persist across states and territories in terms of new home building, renovations activity, and the residential property price cycle.
- The outlook for investment in **national renovations** is looking a little brighter for 2015/16 and 2016/17.
- The growth cycle for national **residential property prices** has peaked, within which the variation in dwelling prices between capital cities (and regional areas) is at its widest in over 20 years.
- At 1.2 per cent, annual **rental price inflation** is running at its slowest pace since the March 1995 quarter. With general price inflation at 1.7 per cent, rental prices have actually fallen over the past 12 months in real terms.
- Housing is naturally a very **cyclical industry**, but for much of the 2000s that was less the case than usual on a national basis. Subsequently, especially in terms of new home building, we find ourselves coming off a record up-cycle from which there will be a subsequent (large) decline.
- Under current policy settings, the period of 2016/17 – 2017/18 looms as a crucial time for the industry – a period of heightened uncertainty and downside risk. At this juncture in time it would be a courageous move to promote any policies that risk damaging confidence towards housing.

The National New Home Building Cycle:-

- It is expected that in calendar year 2015 Australia commenced around 220,000 new dwellings - another record level!
- HIA Economics projects that the 2015 calendar year will represent the peak for new home starts (commencements) in this cycle. Since we are now at the top of the cycle, considerations about the future centre on how long we can stay near the top, what may cause activity to decline, when the decline will happen, and how quickly it will develop… and ultimately how low will it go.
- HIA Economics projects that activity will begin to decline slowly during the latter part of 2016, with the reduction in activity accelerating during 2017 and bottoming out in the 2017/18 financial year at around 160,100 starts.
- This is an unusual outlook - a peak in the market is normally followed by a relatively abrupt downturn, but in the short term new home building is expected to remain at historically very high levels.
- This unusual cycle will also be beneficial to the broader Australian economy and new dwelling investment is forecast to grow for a fourth consecutive year in 2015/16.
- The upturn in new home building since 2012 has been driven primarily by ‘multi-unit’ dwellings. Accordingly, this segment of new home building is expected to be the disproportionate driver of the subsequent downturn in activity.

The National Cycle in Renovations Investment:-

- Having grown by just 0.9 per cent during the 2014/15 financial year, HIA Economics projects that renovations growth will pick up during 2015/16 with an increase of 2.8 per cent forecast. Growth is anticipated to slow to 1.7 per cent in 2016/17, with activity then projected to see modest yet steady growth out to the end of the decade.

- Renovations activity will continue to face a challenging environment in the short term, in the context of a relatively low volume of detached housing stock in the key renovations age group of between 10 and 20 years old. However, the detached housing stock in the key renovations age group is set to start increasing again over the next decade.

- Differing conditions around dwelling stock and the wider economy in each of the eight states and territories provides for divergent forecasts across these different jurisdictions. While national renovations activity is likely to continue recovering over the next few years, not all states will share in this experience.

- The HIA **Renovations Roundup** for Summer 2016 is due for release on Wednesday 23 March.

The Residential Property Price Cycle:-

- Outside of Sydney and Melbourne it is difficult to find evidence of a 'price boom'. References to a generalised national home price boom continue to appear, but are inaccurate and misleading.

- Conditions for residential property prices remain extremely disparate around Australia, from a historical perspective.

- Across Australia, dwelling price growth has slowed over the past few months. Capital city prices are estimated to have increased by 1.4 per cent during the three months ended February 2016 – according to CoreLogic – RP Data, and were 7.6 per cent higher than the same period 12 months earlier.

Rental Market Conditions in Australia:-

- During the December 2015 quarter, the **annual rental inflation rate eased to 1.2 per cent**. This was the slowest pace since back in the March 1995 quarter when rental inflation was just 0.9 per cent. With general price inflation at 1.7 per cent, rental prices have actually fallen over the past 12 months in real terms.

- Over the past eleven years, annual rental price inflation in Australia has remained within a band of between 1 per cent and 9 per cent. However, there have been several distinct phases in the rental price story over this period.

- These 'phases' or changes have largely been driven by variations in overseas migration, mortgage interest rates and economic conditions, together with the interaction of these factors with the supply of rental housing over time.

The Economic Background:-

- The **global economy** has already experienced somewhat chaotic times in 2016. There is a prevailing focus on downside risks and 2016 could produce a bumpy ride.

- The **Reserve Bank of Australia** (RBA) recently signalled a greater preparedness to cut the Official Cash Rate (OCR) again if it feels that the economic environment, especially the labour market, is deteriorating relative to their current expectations.

- More favourable sentiment was evident in the December 2015 quarter **Gross Domestic Product** (GDP) result. Along with a positive contribution from residential building, the strong contribution from the household sector boosted Australia's annual rate of economic growth to 3.0 per cent during the December 2015 quarter.

- A key housing message in this latest **HIA National Outlook** report is that 2016 will be a good year, without being the best. The unique HIA Housing Indicator Profile – updated for each quarterly Outlook - lends support to this view.

- There is a **HIA State Outlook** report available data for each state and territory.

State highlights:

New South Wales

- The preliminary estimate of new dwelling commencements in New South Wales in the September 2015 quarter showed there were a total of 15,473 starts in NSW, which was roughly on par (1.3 per cent higher) with our expectation. The mix of dwellings was 43.6 per cent detached houses (6,743) and 56.4 per cent other dwellings (8,730).

- There is now sufficient evidence to assume that 2015/16 will be another strong one for new home building in NSW. There is a substantial pipeline of residential building work that has been approved but has not yet commenced construction. As these projects progress, it should sustain a high level of commencements in the short to medium term. However, there are signs that the number of new approvals coming through may have peaked, which should see commencement activity slow as we head into 2017.

- NSW renovations activity increased by 8.6 per cent in 2014/15 and activity is forecast to decline by 1.9 per cent in 2015/16 and then increase by 4.7 per cent in 2016/17.

Victoria

- In the preliminary estimate of new dwelling commencements for Victoria in the September 2015 quarter showed there were a total of 16,661 starts in Victoria, which was somewhat higher than our expectation. The mix of dwellings was 50.7 per cent detached houses (8,444) and 49.3 per cent other dwellings (8,217).

- There is now sufficient evidence to assume that 2015/16 will be another strong year for new home building in Victoria. There is a substantial pipeline of residential building work that has been approved but have not yet commenced construction.

- Renovations activity in Victoria fell by 4.0 per cent during 2014/15 to $7.30 billion. The state's renovations market is likely to be influenced by the deceleration of dwelling prices in Melbourne. Accordingly, a decline of 1.9 per cent is forecast for 2015/16, but renovations activity in 2016/17 is projected to increase slightly by 0.5 per cent.

Queensland

- The preliminary estimate of new dwelling commencements in Queensland in the September 2015 quarter showed there were a total of 10,914 starts, which was slightly higher than our expectation. The mix of dwellings was 48.8 per cent detached houses (5,328) and 51.2 per cent other dwellings (5,586).

- There is now sufficient evidence to assume that the 2015/16 year will be even stronger for new home building in Queensland. The strength of building approvals data, primarily for the higher density dwelling types has led us to upgrade the forecast.

- Queensland's renovations market is showing clear signs of momentum. The volume of activity grew by 1.4 per cent in 2014/15 for the second consecutive year. Growth is forecast to accelerate to 10.5 per cent in 2015/16 with growth of 4.3 per cent projected for 2016/17.

South Australia

- The preliminary estimate of new dwelling commencements in the September 2015 quarter in South Australia showed there were a total of 2,691 starts, which was slightly higher than our expectation. The mix of dwellings was 74.4 per cent detached houses (2,001) and 25.6 per cent other dwellings (690).

- There is now sufficient evidence to assume that the 2015/16 year will be a moderately softer one for new home building in SA. However, there is a substantial pipeline of multi-unit developments that have gained approval but have not yet commenced construction. As these projects progress, it could sustain a healthier level of commencements in the short to medium term than many expect.

- In South Australia, the renovations market has put in a reasonable performance against the backdrop of high unemployment and weak economic growth. During 2014/15, the volume of renovations activity rose by 1.5 per cent which marked the second consecutive year of growth. Activity is forecast to decline by some 5.4 per cent in 2015/16 with renovations activity forecast to remain largely unchanged during 2016/17.

Western Australia

- The preliminary estimate of new dwelling commencements in Western Australia in the September 2015 quarter showed there were a total of 7,099 starts, which was slightly higher than our expectation. The mix of dwellings was 73.5 per cent detached houses (5,221) and 26.5 per cent other dwellings (1,878).

- There is more than enough evidence to suggest that, unfortunately, the 2015/16 year will be a markedly softer one for new home building in WA. However, there is a substantial pipeline of multi-unit developments that have gained approval but have not yet commenced construction. As these projects progress, it could sustain a healthier level of commencements in the short to medium term than currently appears the case. That obviously doesn't help the short term detached house outlook.

- The renovations market in Western Australia contracted by 5.7 per cent 2014/15, the fourth consecutive financial year of decline. A strong finish to 2015 means that activity is projected to rise by 11.2 per cent during 2015/16, but a decline of 5.5 per cent is forecast for 2016/17.

Tasmania

- The preliminary estimate of new dwelling commencements in Tasmania in the September 2015 quarter showed there were a total of 674 starts, which was on par with our expectation. The mix of dwellings was 85.5 per cent detached houses (576) and 14.5 per cent other dwellings (98).

- There is now, unfortunately, sufficient evidence to suggest that the 2015/16 year will be a softer one for new home building in Tasmania.

- In Tasmania, the renovations market fell by some 7.5 per cent in 2014/15, its third consecutive year of decline. Growth is forecast to return to 5.0 per cent in 2015/16 with another increase of 3.4 per cent projected for 2016/17.

Northern Territory

- The preliminary estimate of new dwelling commencements for the Northern Territory in the September 2015 quarter showed there was a total of 405 starts, which was slightly lower than our expectation. The mix of dwellings was 67.4 per cent detached houses (273) and 32.6 per cent other dwellings (132).

- There is sufficient evidence to suggest that the 2015/16 year will be a markedly softer one for new home building in the NT. However, there is still a substantial pipeline of multi-unit developments that have gained approval but have not yet commenced construction. As these projects progress, it could sustain a healthier level of commencements in the short to medium term than many expect.

- In the Northern Territory, the renovations market grew at a remarkable rate of 16.7 per cent in 2014/15 following three consecutive years of substantial contraction. Another year of growth is projected for 2015/16, with renovations expected to increase by 9.4 per cent. Challenges arising from the natural resources downturn are likely to weigh on renovations activity during 2016/17, with a 7.8 per cent decline projected.

Australian Capital Territory

- The preliminary estimate of **new dwelling commencements in the Australian Capital Territory** in the September 2015 quarter showed that there were a total of 1,404 starts, which was slightly above our expectation. The mix of dwellings was 19.4 per cent detached houses (272) and 80.6 per cent other dwellings (1,132).

- There is likely to be considerable variation in the pattern of **renovations activity** from state to state over the coming years due to the diverging economic conditions of respective economies.

- **Renovations activity in the ACT** appears to have gathered momentum and experienced growth of 2.7 per cent during 2014/15. Strong growth continued during the second half of 2015, and we forecast a 10.6 per cent increase in renovations activity during 2015/16. Growth is projected to slow to 1.4 per cent during 2016/17 – still a very healthy outcome.