



HIA State and National Outlooks

Policy changes necessary to build 1.2 million homes

The detached housing market continues its descent toward a widely anticipated trough. Across all metrics, the outlook suggests that the volume of detached home construction will continue to decline in 2024. This is despite the persistence of an acute shortage of housing, a robust national economy and escalating prices for established homes. If these conditions are sustained, then detached home building should start to recover in 2024/25.

The downturn in home building activity is not evident in lagging indicators of activity, and the relatively robust national economy suggests that a cut to the cash rate in 2024 is increasingly uncertain. Even in the absence of a rate cut, and if unemployment remains low, the underlying demand for homes is expected to see sales of new homes pick up in 2024 leading to a modest recovery in starts in the latter half of 2024. Given pent-up demand for homes and low unemployment, a recovery in starts is not dependent on a cut to the cash rate, but a return to a stable economic outlook for households.

Policy reforms aimed at achieving the Australian Government's goal of 1.2 million new homes is an upside risk to this outlook if the reforms include lower taxes on home building, lower construction costs and/or decreasing land costs. Without these reforms, the rebound in detached home building activity will be hindered by the elevated cash rate, constrained household spending, and increased costs in delivering a new home.

This Outlook does see an increasing divergence amongst each state and territory as the impact of global shocks dissipate. Notably, home building activity in Western Australia has already seemingly bottomed out and is poised for growth in the upcoming cycle, predicated on the availability of labour. Western Australia's trajectory remains out of sync with that of the east coast capital cities, where a substantial recovery in home building appears to be further away.

Detached home building starts are projected to experience modest growth from late 2024, even in the absence of a cut to the cash rate, until mid-2026. The forecast for detached starts in each region will de-couple from the synchronised market dynamics of the pandemic and it is anticipated that this divergence will be exacerbated by state-specific factors and policies that impact the supply of new homes.

It is likely that the trough in the number of new multi-unit construction projects was reached in 2022. Capacity constraints during the pandemic slowed progress in the multi-unit sector. While material costs have stabilised, competition for labour and materials from other construction sectors, particularly public infrastructure projects, remains intense.

As a result of these challenges, the acute housing shortage persists, with workers returning to metropolitan areas, and migration driving additional demand. Construction times are gradually returning to pre-pandemic time frames. Combined with low unemployment and a recovery in established dwelling prices, as well as a period of stable interest rates, these factors should contribute to a stronger increase in multi-unit starts in 2024, from a very low base.

As it stands, Australia is expected to commence just over a million new homes over the next five years, falling almost 200,000 homes short of the government's 1.2 million target. Achieving this target will require more ambitious policy reforms.

Detached house: An annual total of 96,250 detached house commencements is expected for 2023/24, down by 12.6 per cent on the previous year and down by almost a third on the 2020/21 peak. This will mark the trough of the cycle and the weakest financial year since 2012/13, over a decade earlier. Commencements are expected to remain weak at 97,800 in 2024/25, just a 1.6 per cent improvement, before recovering and exceeding 110,000 by 2026/27.

Multi-unit commencements are expected to total 72,010 in 2023/24, up by 14.1 per cent on the 63,100 trough and 11-year low in 2022/23. The recovery in multi-unit commencements is expected to continue, up by 23.1 per cent to 88,610 in 2024/25 and reaching almost 100,000 by 2026/27 before moderating back to 96,230 by 2027/28.



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Source: HIA Economics

