



The Profile for Residential Building Approvals by Type and Geography

Key Points:

- ☺ ABS Building Approvals for Australia peaked back in October 2015. As we have frequently highlighted, approvals have subsequently held up at what are extremely high levels by historical standards.
- ☺ In other words the cyclical decline in building approvals has been modest to date. Total seasonally adjusted building approvals were only 3.8 per cent lower in 2016 than in 2015.
- ☺ While building approvals peaked in late-2015, HIA Economics expects that total building approvals will still be over 200,000 in 2017.
- ☺ Three out of eight states and territories recorded increases in total building approvals in 2016: the Australian Capital Territory; South Australia; and New South Wales.
- ☺ As the down cycle in building approvals intensifies, 'High density' dwellings are expected to carry the burden of the deceleration. Detached and semi-detached dwellings are likely to fare better in a relative sense.
- ☺ Approvals for semi-detached, row or terrace houses/townhouses performed strongly in 2016, with the Australian Capital Territory, Queensland and Victoria being key markets for this form of housing. This is a segment of the new home building market to keep an eye on in 2017.
- ☺ The proportion of detached house approvals compared to multi-unit approvals was 51.2 per cent in 2016, a slight reversal on the previous majority share held by multi-units.
- ☺ Overall, we retain our long held outlook for continued healthy levels of new home construction in 2016/17, and to a lesser extent in calendar year 2017. The profile for ABS Building Approvals is consistent with these forecasts.

The chart below shows that in the current cycle building approvals began to rise from mid-2012. It took until late 2015 for the cycle to peak and approvals have subsequently maintained very high levels from a historical perspective. Australia's latest new home construction cycle, for which building approvals formed a very accurate lead indicator, is the longest and largest in the nation's history. This has produced very healthy outcomes for the broader Australian economy.

The December 2016 numbers for ABS Building Approvals (the latest available data) confirm that we have passed the peak for this cycle. However, actual residential construction activity will remain healthy throughout 2016/17 and into 2017/18 due to the continuing gap between building approvals and new dwelling commencements (starts).

In monthly terms building approvals peaked in October 2015 at a level of 21,546. The annual peak for building approvals was a staggering 241,561 over the 12 months to November 2015. In calendar year 2016 building approvals reached a level of 230,813 compared to 240,009 in 2015.

A gradual decline in building approvals in the early stages of the down cycle provides an important signal for the Australian economy.

This trend is consistent with continued healthy levels of new dwelling commencements and residential work being done in 2016/17 and into next year.

This situation in turn provides positive impacts on economic growth and employment.

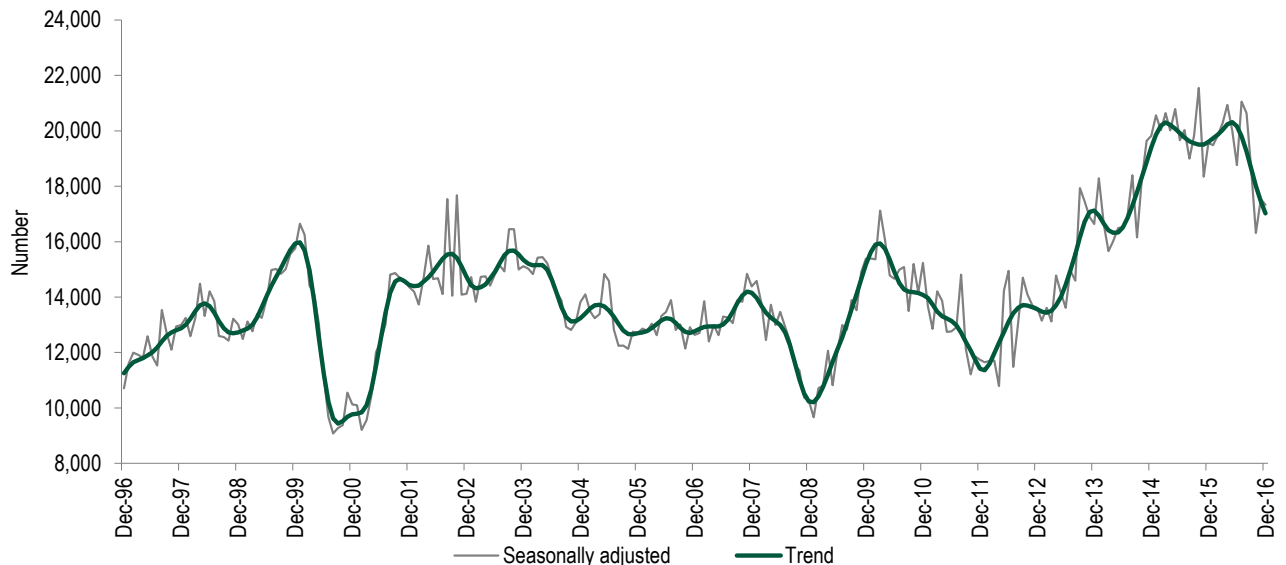


Building Approvals

For example, construction absorbs 9 per cent of the workforce and is the third largest employer, after health (12.8 per cent) and retail (10.5 per cent) in the Australian economy. Record levels of residential construction and related jobs have in recent years offset job losses in other sectors.

Monthly Building Approvals - Australia

Source: ABS 8731



Total approvals by state and territory

There was considerable variation in the evolution of dwelling approvals among the states in 2016 compared to 2015. This is not a surprising finding – this building cycle has been marked by larger than normal divergences in housing conditions around Australia given that the up-cycle began before Australia's largest ever resources investment boom had peaked.

In original (i.e. not seasonally adjusted) terms three out of eight states recorded increases in total building approvals in calendar year 2016.

The strongest increase occurred in the Australian Capital Territory (+44.6 per cent), followed by South Australia (+3.8 per cent) and New South Wales (+1.2 per cent). Total building approvals declined in Western Australia and the Northern Territory (-23.4 per cent in each instance), Tasmania (-23.0 per cent), Queensland (-5.9 per cent), and Victoria (-1.3 per cent).

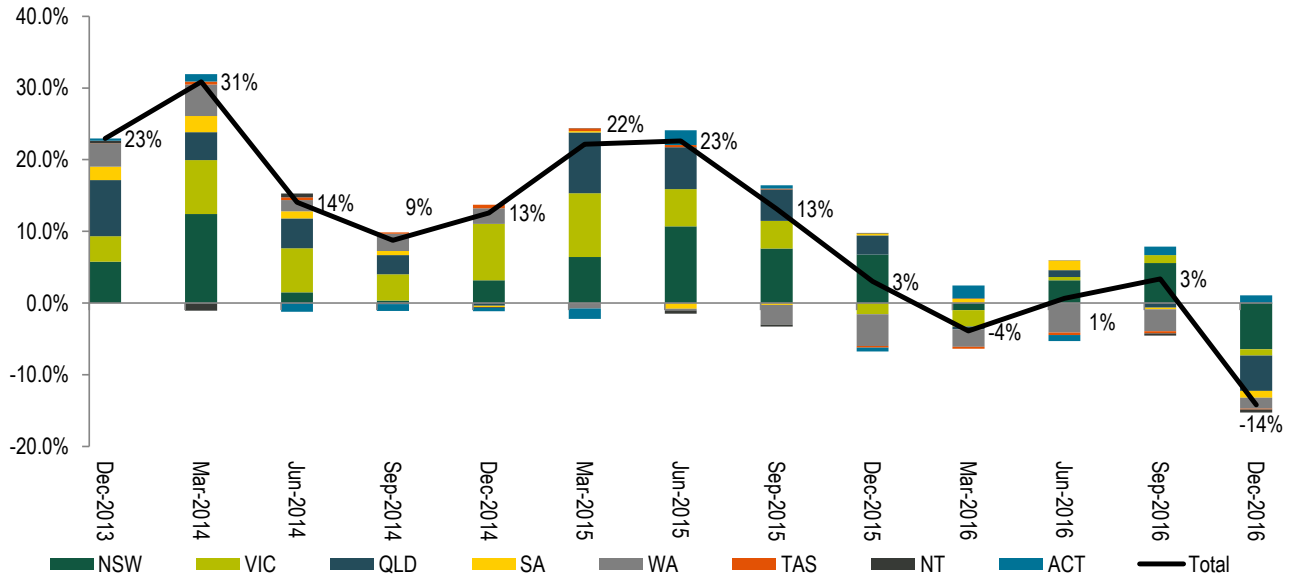
Comparing the December 2016 quarter to the December 2015 quarter, there was a decline in approvals nationwide of 14.2 per cent (in unadjusted terms, see chart below). Different jurisdictions played varying roles in this overall result. The main drivers of this annual change in the December 2016 quarter were New South Wales (-6.4 percentage points) and Queensland (-4.9 percentage points). Contractions were also evident for: Western Australia (-1.5 percentage points); and Victoria and South Australia (-0.9 percentage points in each instance). Tasmania had a minor - 0.1 percentage point result. In terms of the number of building approvals, the decline in NSW (-3,884) acted as a large drag on the national outcome (-8,560).



Building Approvals

Total Dwelling Approvals - state contributions to total annual growth

Source: ABS 5609, HIA Economics



Approvals by dwelling type

The following analysis provides greater detail on developments in approvals for different dwelling types. This breakdown of building approvals – separating out semi-detached style product from medium/high density (MHD) units, for example provides important ‘colour’ to the building approvals landscape and is often forgotten in generalised commentary regarding detached houses ‘versus multi-units’.

Let’s start from the top with the aggregate profiles to provide the necessary background.

The chart below shows monthly changes in seasonally adjusted approvals. There were 51,173 total seasonally adjusted building approvals in the December 2016 quarter, a level 15.2 per cent lower than approvals in the September quarter. As previously noted, building approvals were 3.8 per cent lower in 2016 than in 2015.

Seasonally adjusted building approvals for detached houses totalled 28,275 in the December 2016 quarter, a level 2.2 per cent lower than in the September quarter of 2016.

Total approvals for ‘other dwellings’ – usually referred to as ‘multi-units’ numbered 22,900 in the December 2016 quarter. That level was 26.9 per cent lower than the approvals in the September quarter of 2016. In the 12 months to December 2016 approvals were 5.5 per cent lower than in 2015.

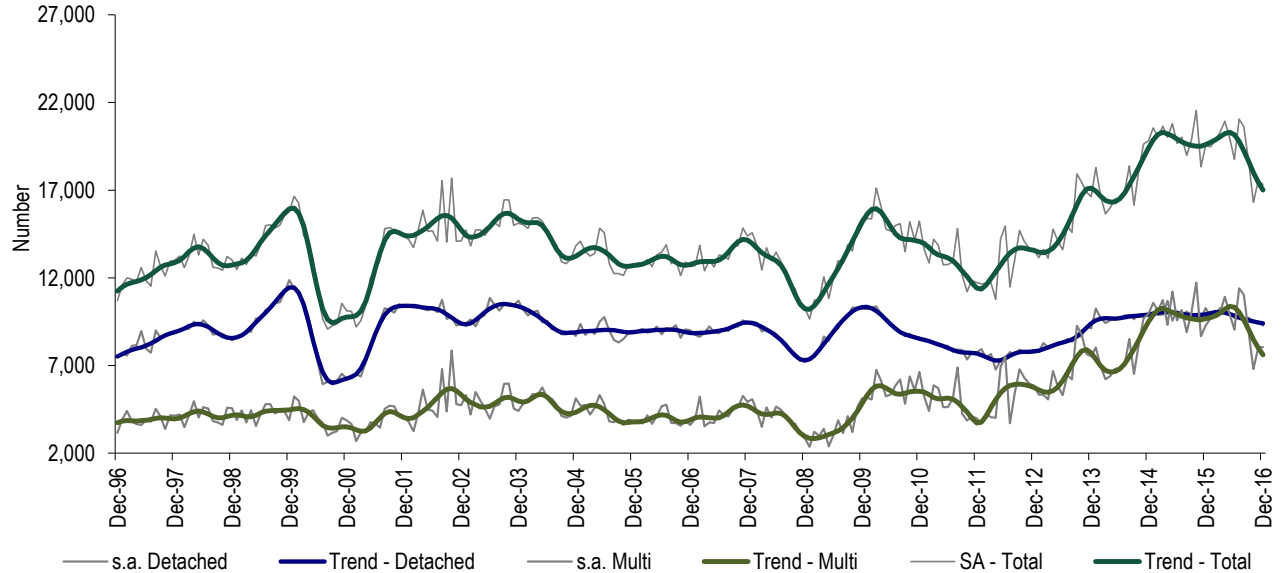
The overall profile for detached house approvals in 2016 suggests this segment of the new home building market remains in relatively healthy shape in early 2017.



Building Approvals

Building Approvals - Australia

Source: 8731



Drilling down from this aggregate profile we consider five categories of residential building approvals. Comparing the December 2016 quarter to the same period in 2015, all of the five categories of dwellings recorded a decline in approvals: detached houses (-5.8 per cent); semi-detached, row, terrace or townhouse homes (-10.1 per cent); flats or units in 1 or 2 storey buildings (-21.9 per cent); flats or units in 3 storey buildings (-25.8 per cent); and flats or units in 4 or more storey buildings (-27.4 per cent). All the categories combined recorded a national decline of 14.2 per cent.

In terms of last calendar year, all categories except semi-detached, row or terrace dwellings posted a negative change. Building approvals in the 'semi-detached' category increased by 3.8 per cent in 2016. The remaining categories posted declines in 2016 of: detached houses (-1.9 per cent); flats or units in 1 or 2 storey buildings (-27.1 per cent); flats or units in 3 storey buildings (-7.7 per cent); and flats or units in 4 or more storey buildings (-7.5 per cent).

The chart below shows how approvals for each of the different dwelling types have been contributing or detracting from total growth in the number of building approvals in a quarter over the same quarter a year ago. Clearly, up to the December 2016 quarter, approvals for all categories have driven declines in aggregate approvals, but to a widely varying extent.

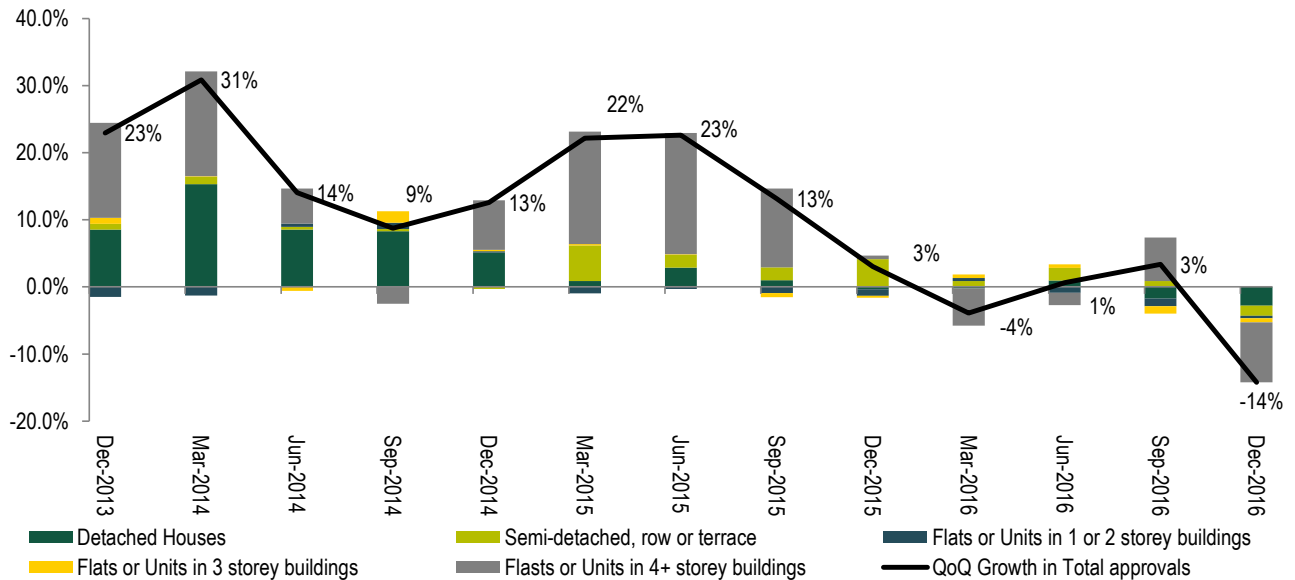
Further discussion around the dynamics of detached housing versus the various components of 'multi-unit' dwellings can be found in the breakout box on page 6.



Building Approvals

Total Dwelling Approvals - state contributions to total annual growth

Source: ABS 5609, HIA Economics



Detached house approvals

- 51.2 per cent of total building approvals in 2016 compared with the decade average of 60.9 per cent;
- A significant 5.8 per cent decline during the three months to December 2016 to reach a (non-seasonally adjusted) level of 27,610. This level is 13.8 per cent lower than in the December 2015 quarter;
- Average monthly approvals of 9,735 dwellings over 2016 in unadjusted terms;
- Eastern seaboard states the primary geographical drivers of growth in 2016.

Semi-detached and townhouse approvals

- 14.6 per cent of total building approvals in 2016 compared with the decade average of 13.5 per cent;
- Average monthly approvals of 2,781 dwellings over 2016, in unadjusted terms;
- Strong 3.8 per cent growth in 2016, driven by the eastern seaboard states;
- Queensland, the Australian Capital Territory, the Northern Territory and Victoria contributed to aggregate growth nationally;

Approvals for units in 1 or 2 storey buildings

- 1.4 per cent share in 2016, compared with the decade average of 2.9 per cent;
- Average monthly approvals of 271 dwellings over 2016, in unadjusted terms. Growth driven by South Australia and the Australian Capital Territory, but declines elsewhere.

Approvals for units in 3 storey buildings

- 2.2 per cent share in 2016, compared with the decade average of 2.5 per cent;
- Average monthly approvals of 426 dwellings over 2016, in unadjusted terms;
- Decline of 7.7 per cent in 2016;



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- Annual decline a result of pull-backs in New South Wales and the Northern Territory. Growth in Victoria and South Australia was insufficient to offset the declines.

Approvals for units in 4+ storey buildings

- 30.5 per cent share in 2016 compared with ten year average of 20.1 per cent;
- Average monthly approvals of 5,826 dwellings over 2016, in unadjusted terms;
- Some slow-down in 2016, driven mainly by Victoria, Queensland and the Northern Territory. The Australian Capital Territory and New South Wales were the two star contributors to growth.

Geographical dynamics of approvals for high vs low density 'multi-unit' dwellings

Approvals for high density dwellings – units in four or more storey buildings – as well as the detached house 'substitute' – semi-detached-type dwellings, have been the key elements within the broader 'multi-unit' segment of approvals over recent years. At the aggregate level, over the December 2016 quarter compared to the December 2015 quarter seasonally adjusted detached house approvals fell by 5.0 per cent, but total 'Multi-unit' approvals dropped by a sharper 22.9 per cent.

The proportion of detached house versus multi-unit approvals in 2016 was 51.2 per cent and 48.8 per cent, respectively. In 2015 detached houses held the lower share (only just) with 49.9 per cent compared to 50.1 per cent. This is obviously not a huge compositional change, but there was a subtle shift away from multi-unit dwellings. Also, as seen above, there were relatively large falls in all categories of multi-unit approvals in the 2016 calendar year compared to detached houses. The notable exception was semi-detached, row or terrace houses where approvals grew by 3.8 per cent last year. As we noted at the outset, the semi-detached market is one to keep an eye on.

Restrictions to housing credit in recent years have had an adverse effect on new home building activity, but the impact is likely to weigh disproportionately on apartment construction activity, which is estimated to have a greater share of investor (rather than owner-occupier) demand. This is one reason behind the disproportionate decline in apartment approvals and will be a driver behind the relatively sharp fall in the commencement of apartments over 2016/17 – 2018/19.

The key subset of total multi-unit approvals in 2016 was approvals for 'flats or units in 4+ storey buildings'. Such has been the rise in approvals for this form of dwelling that the segment now accounts for 30.5 per cent of total approvals. This compares with the segment's decade average of 18.5 per cent. The question on how much approvals activity flows through to actual construction is especially relevant for this segment of housing construction. A decision to shelve just a single (approved) apartment project can result in a substantial number of individual dwelling approvals not reaching construction.

Another obvious question is where are all of these flats and units in 4+ storey buildings actually being approved for construction? In 2016, not surprisingly, the key markets were the eastern seaboard states.

The other major subset of multi-unit dwelling approvals is those for 'semi-detached, row or terrace houses and townhouses' and some interesting dynamics are certainly at play in this segment of the market. In 2016 there were a total of 33,371 of these types of dwellings approved for construction. Compared with the much larger detached house segment, approvals for semi-detached houses have performed strongly over the past year. This indicates that commencements in this segment may increase further in the short term.



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Conclusion

Australia's new home-building boom looks set to taper off from 2017. Building approvals for new housing have faded (moderately) in the past year, but they didn't tank. ABS building approvals figures show that the number of houses and 'other dwellings' approved in 2016 were lower than in 2015 by less than 4 per cent. This outcome is not a precursor of any serious declines in new dwelling commencements in the first half of 2017. The steady trend in detached house approvals suggests that actual activity will similarly remain reasonably healthy in the short term. A slightly more positive short term outlook applies to semi-detached type approvals.

Overall, we retain our long held outlook for continued healthy levels of new home construction in 2016/17, and to a lesser extent in calendar year 2017:-

- ☺ Detached house construction will remain healthy in the short term, but the volume of building will be lower than last year;
- ☺ The semi-detached market has some further growth to it in the first half of 2017 – a tick in the box that shouldn't be missed;
- ☺ The pipeline of work in progress is substantial, particularly in terms of medium/high density dwellings.

HIA Economics will shortly be releasing their latest forecasts for dwelling commencements. This release will include updates for the subscription products of: dwelling starts composition forecasts; regional building approvals forecasts; and long term forecasts. For further information go to:

<https://hia.com.au/en/BusinessInfo/economicInfo/housingForecasts.aspx>

CONTRIBUTORS:

Harley Dale Chief Economist

Arif Syed Economist