



# Residential Construction

## Plenty left in the residential construction tank

We have noted on many previous occasions, including in this section of the last Outlook that Australia is in the midst of the longest new home building cycle in modern history. Meanwhile investment in renovations (alterations and additions) continues to grind higher, which is much better than this activity heading lower.

This new dwelling commencements (housing starts) cycle began in financial year 2011/12 and peaked in 2015/16, meaning it ran over four consecutive years. Our latest forecasts - that are comprehensively outlined later in this Outlook - find that FY2015/16 was the fiscal year high, but even after that commencements came in only a tad lower (-1.5 per cent) in calendar year 2016.

This is a key finding. Now that the pinnacle of the new home commencements cycle has passed, we are in a period where starts are holding up very well, rather than immediately entering a sharp decline. This moderate first stage in the new housing down cycle is projected to be evident throughout FY2016/17 and to a lesser extent in CY2017.

There is evidence supporting this outlook in the latest HIA Housing Indicator Profile, summarised below. Our combination of thirteen housing indicators represents a mixed bag, as it has throughout the 'pointy end' of the new housing upcycle. The latest update reveals upward momentum in seven of the variables assessed, compared to five in the December 2016 Outlook. Four variables are pointing downwards (compared to five last Outlook) and two variables are neutral (compared to three previously).

This is a very strong outcome for our Profile because of its timing. The current upcycle in commencements began in the June 2012 quarter. The latest HIA Housing Indicator Profile still looks really solid in March 2017, based on data from late 2016 and early 2017.

### HIA Housing Indicator Profile

Indicator	Implication for housing starts
ABS Detached house approvals	↓
ABS 'Other' dwelling approvals	↓
HIA new detached house sales	↓
HIA apartment sales	→
HIA-CoreLogic residential land sales	↑
ABS net overseas migration	↑
AiG/HIA PCI new house orders	↑
Owner- occupied housing finance (new homes)	↑
Investment property lending - new homes	→
Westpac-Melbourne Institute Time to Buy a Dwelling Index	↓
Home buildings approved, not yet commenced	↑
Detached house prices (capital cities)	↑
Unit prices (capital cities)	↑

As the current cycle has progressed the wide geographical variation in housing conditions has been increasingly reflected in the three eastern seaboard states versus the rest of the country. More specifically, New South Wales, Victoria, and the southeast corner of Queensland given that north of the Sunshine Coast, Queensland's housing industry is generally engaged in a struggle for decent health in 2016/17.

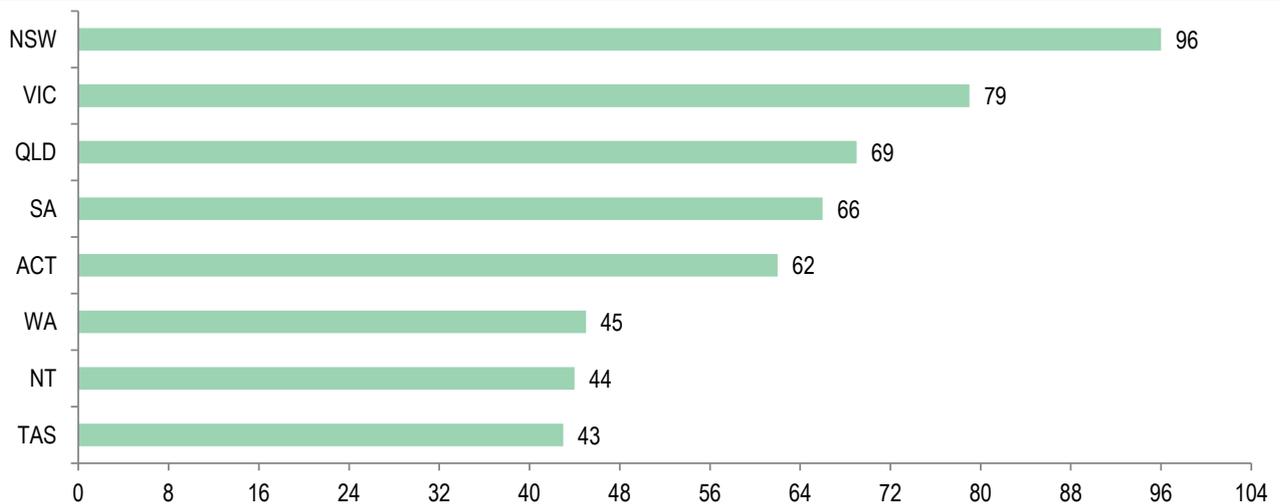
Even within the three eastern seaboard states there are considerable differences in housing conditions. The HIA Housing Scorecard provides the clearest example of this fact. New South Wales, Victoria and Queensland are ranked number one, two and three, respectively. However, NSW is streaks ahead of the



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other two states while Queensland is not very far ahead of South Australia (ranked number four) because of the big gap in housing conditions between Southeast Queensland and the rest of the state.

## State Scores



Score - A state score of 14 is the lowest possible and would arise if a state posted the lowest indicator score of 1 for all 14 indicators, 112 is the maximum possible and would arise if a state recorded the strongest possible score of 8 across all 14 indicators.

The first stage of the down cycle in new home building will continue to expose large geographical differences. Conditions in the nation's renovations markets will also continue to differ noticeably between states and territories this year. Two official interest rate cuts in 2016 may have stoked the fires of existing property prices in Sydney and Melbourne, but they also stirred the embers of other markets. There will be some convergence in the rate of growth in property prices this year across Australia's capital cities.

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