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New Home Sales



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A monthly update on the sales of new homes

April 2020

NEW HOME SALES DOWN 23 PER CENT SINCE February

This downturn in New Home Sales will not be reflected in Building Approvals data from the Australian Bureau of Statistics until July 2020 at which point the contraction of work on the ground will have commenced.

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After falling sharply in March, new home sales remained lower in April, down by 1.1 per cent. This Report focuses on the two months of data since COVID-19 restrictions emerged, rather than the quarterly data we usually present. This is due to the unique nature of the current economic events.

In the two months since the start of the COVID-19 restrictions, new home sales has fallen by 22.8 per cent compared to the first two months of 2020. Sales in March and April 2020 were 12.9 per cent lower than in the same two months in 2019. March and April 2019 were record low months, as they were at the bottom of the previous cycle and coincided with a Federal Election which created market uncertainty.

Sales in March and April 2020 are 27.8 per cent lower than for the same two months in 2018, which is a better reflection of recent sales volumes.

The contraction in new home sales this year has come at a time when the volume of work occurring on the ground had contracted by 18 per cent since mid-2018 due to the restrictions in access to credit.

The decline in new home sales is due to the fall in consumer confidence with households facing an unstable employment outlook. Purchasing a new home is a significant life decision and households are choosing to delay housing purchase decisions until they feel confident in their employment.

The fall in new home sales has been compounded by an increase in cancellations of projects. During market downturns such as the one currently underway we ask survey respondents to provide data on the number of projects cancelled in a month. Typically, around 5 - 7 per cent of new home contracts are cancelled due to changes in a household's financial situation or a change of mind. During previous shocks such as the GFC or the 2018 credit squeeze, the cancellation rate peaked at 17 per cent.

In April 2020, the cancellation rate of new home builders exceeded 30 per cent. For many builders, the number of projects cancelled exceeded the number of new homes sold this month. These negative net sales outcomes accelerate the timeframe for work on the ground to begin to contract.

If this situation is sustained through May, then we would expect to see the volume of building work occurring, on the ground, to contract as early as July 2020.

If the economy is re-started at that point and consumer confidence returns, then we would not see an improvement in work on the ground until early 2021.

The lead time for the home building from the sale of a home to the commencement of building work varies over time and across each jurisdiction depending upon the volume of work in the pipeline and the timeframe for regulatory assessments by local councils. As the pool of work that has been approved, but not yet commenced had contracted significantly over the past 18 months, this COVID-19 related shock will flow through to a reduction in work on the ground relatively quickly.

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Across the jurisdictions, South Australia has seen the largest decline, falling by 26.8 per cent in the two months to April 2020 compared to the first two months of the year. Followed by Western Australia with a 25.2 per cent decline that stripped away the small improvement that was gained during the second half of 2019. New South Wales and Queensland followed with declines of 23.9 per cent and 21.3 per cent respectively and Victoria declined by 16.7 per cent.

Methodology: Each month HIA surveys the largest 100 home builders in Australia on their sales (contract to build) volume for the previous month. These builders account for 33 per cent (2018/19) of all houses built in Australia. This sample is used to extrapolate results for the rest of the market including a seasonal adjustment.

Each October the sample surveys are re-calibrated to reflect changes in the market share of each of the 100 largest builders. This can affect the comparison between September and October results.

