



the voice of the industry

25 February 2020

Home Building Contraction to End

“The number of homes that commenced construction in Australia fell from 225,061 in 2018 to just 174,770 in 2019. This is the sharpest contraction experienced by the industry, with only the exception of the contraction caused by the introduction of the GST. The slowdown in home building is a significant reason why the national economy slowed to a stall.

“Despite this whopping contraction, we believe that the cycle had just about run its course and the overall housing market reached a turning point at the end of 2019, buoyed by interest rate cuts and house price growth.

“The next upswing in new home building will not see a return to the hive activity of the boom years, 2014 to 2018. These years set a record that will not be eclipsed in the foreseeable future. Population growth has pulled back from previous heady days but has nevertheless remained relatively strong, just shy of 400,000 people per annum. This steadier rate of population growth along with much of the underbuild, now largely worked down, means the pressure for new builds won’t reach the same fever pitch.

“A credit squeeze was a key brake on the previous cycle, and while some restrictions have since loosened there has been a structural tightening of how we lend money in this country. Tighter lending standards are excluding many aspiring home owners from the mortgage market and will continue to adversely impact home ownership rates.

“Typically, any drop in owner-occupier demand for new homes would likely be filled by investors, except this time round we wouldn’t count on the same wave of foreign investment, given the barriers they now face with punitive rates of stamp duty when entering the domestic housing market. As a consequence we expect upward pressure on rents.

“As for the anticipated recovery in new home building we think it will be a very modest affair. At best, this next cycle will see the current rate of home building maintained, with slow growth in coming years.

“In order to pull out of this cycle, the home building industry requires a strong national economy.

“Unfortunately, international factors are likely to impact on the volume of home building in Australia over the medium term. The effects of trade and tourism restrictions with China pose a material downside risk to our forecasts. As these effects are still emerging we have not factored them into our forecasts.

“If the impact on tourism and trade is short-term, and if the Australian Government’s infrastructure projects do finally flow through to work on the ground then Australia will continue its record run to 30 years of continuous economic growth,” concluded Mr Reardon.

HIA Economics expects these dynamics to weigh more heavily on multi-unit rather than detached house construction. On average, during the 2014-2018 boom the industry was commencing construction on nearly 105,000 multi-unit homes per annum. We’re forecasting the industry to commence construction on 75,750 multi-unit homes in 2020/21, 77,390 in the following year and 80,980 in 2022/23.

During the previous boom the industry was commencing construction on an average of nearly 117,000 detached houses per annum. We’re expecting detached house starts to rise from 101,390 houses in 2020/21, to 102,750 houses in the following year and then to 104,350 in 2022/23.

For further information please contact:

Tim Reardon, Chief Economist
Angela Lillcrap, Economist

0423 141 031
0404 406 567



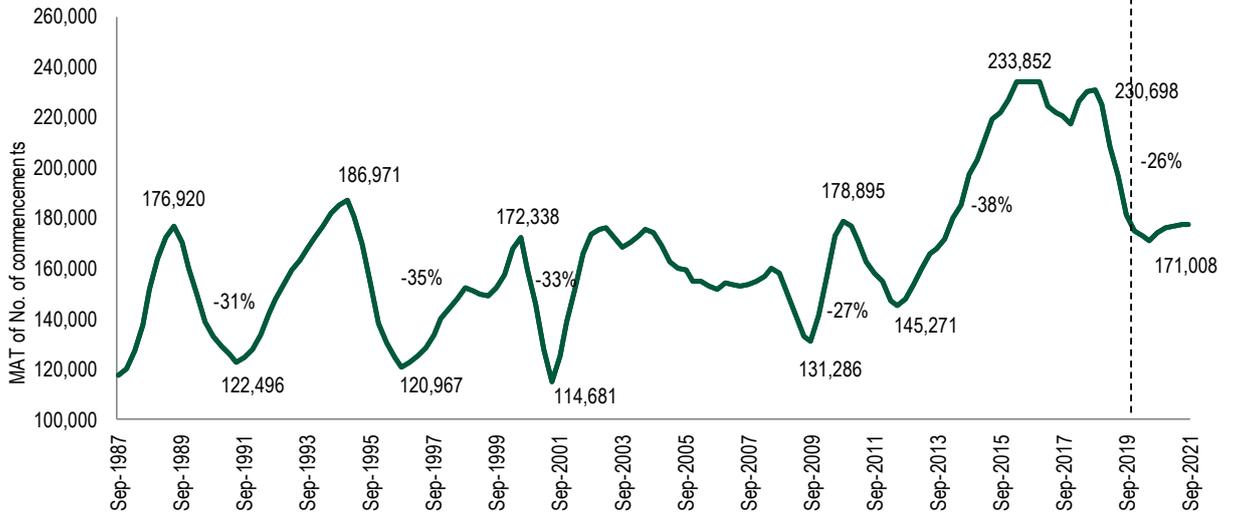
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Dwelling Commencements / HIA Forecasts - Australia

Source: ABS 8752 Qtr, HIA



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