



Summary

Home building to remain strong throughout 2022

Demand for new detached and multi-unit construction has remained strong because of economic lockdowns. There has been a clear shift towards lower density housing during the pandemic and this trend does not appear to show signs of slowing. This shift is not just those in units moving to detached housing but includes a shift to fewer people per household. As a result, we have seen a significant change in the volume, type and location of new homes.

Leading indicators show that the demand for new detached homes remains strong. Sales since the end of HomeBuilder (April 2021 – October 2021) are the strongest they have been since 2017 when over 115,000 detached homes commenced construction. This strong level of home building activity suggests that the current boom in house building will be sustained throughout 2022.

The shift to lower density is also the likely driver of demand for multi-units. Approvals for multi-units were 34.3 per cent higher in the September 2021 quarter than the same quarter a year earlier. This is being driven by both medium density housing and high-rise apartments. Investors are looking through the haze of the pandemic to a brighter outlook on the other side. Affordability constraints are also pushing households, particularly first home buyers, back to townhouses and apartments.

The industry will continue to run at capacity, constrained by the availability of land, labour and materials. Over the year to September, the price of skilled trades increased by 5.2 per cent, while the price of materials as measured by the ABS increased by 8.0 per cent. The price of residential land increased by 8.5 per cent in the 2020/21 financial year. This has led to an increase in the cost of a new house and land package.

These cost increases have not led to constraints on access to finance, as the cost of an established home has increased significantly faster.

In this outlook, we have reviewed our medium-term forecasts. The COVID pandemic has had a material impact on key drivers for housing demand including density, location and type of housing. The full impact of the loss of migration has also not yet fully impacted demand and these recent trends will revert, to some extent, over the decade.

In this Outlook, we have also revised our forecast of housing starts to 2030. Overall, we anticipate a similar number of homes will commence construction this decade as prior to the COVID recession, but there will be more detached homes constructed than previously forecast. We also anticipate fewer homes will commence construction in Sydney and Melbourne over the decade due to the COVID shock. This is to the benefit of all other regions.

It is anticipated there will have been 148,880 starts in 2021. This is a record and represents growth of 31.3 per cent over 2020. A further 121,200 starts are expected in 2022. This is 11 per cent above average for the 10 years to 2020. Starts are expected to decline to 107,700 in 2023. This is broadly in line with the average of the 10 years to 2020. A further decline to 96,930 starts is anticipated in 2024. An increase in interest rates will weigh on starts in 2024.

It is anticipated there will have been 76,440 multi-unit starts in 2021. This is growth of 8.9 per cent on 2020. As noted, this heralds the beginning of a volatile period, as domestic demand returns while demand from recent immigrants and tourists remains weak. Expected starts drop to 70,130 in 2022 but improve to 72,010 in 2023 and stay around that level in 2024. Growth returns from 2025 onwards. These projections are stronger than previous forecasts.



HIA Housing Forecasts

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Source: ABS 8752, HIA

