



Economics Group

Australia's Housing Markets

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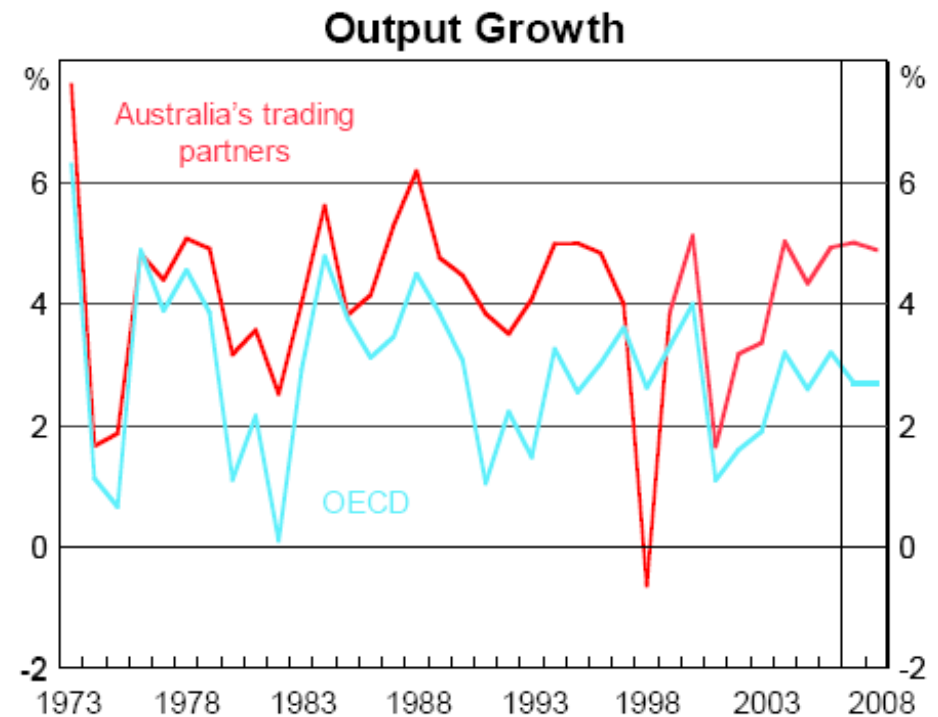
Overview:

- An Economic Health Check
 - *Developments in the global and domestic economies*
- The Australian Consumer
 - *Nerves of steel or are cracks appearing?*
- The Housing Industry
 - *4 very different sectors – 4 very different sets of circumstances*
 - *State by State*
- Some Other Issues
 - *Trade availability, and the built form.*
- The Future
 - *Interest rates, elections, the housing “winners” and “losers” and our latest forecasts*



An Economic Health Check – Global Markets

- In a nutshell, global conditions are robust, particularly in the key markets of China and South East Asia
- The US slowdown is a big concern, requires close scrutiny, and the switch between bad dream and nightmare is set to continue for a while yet
- Australia should get away with this latest 'glitch' but there is a risk we won't and perhaps it is a timely reminder that we won't always

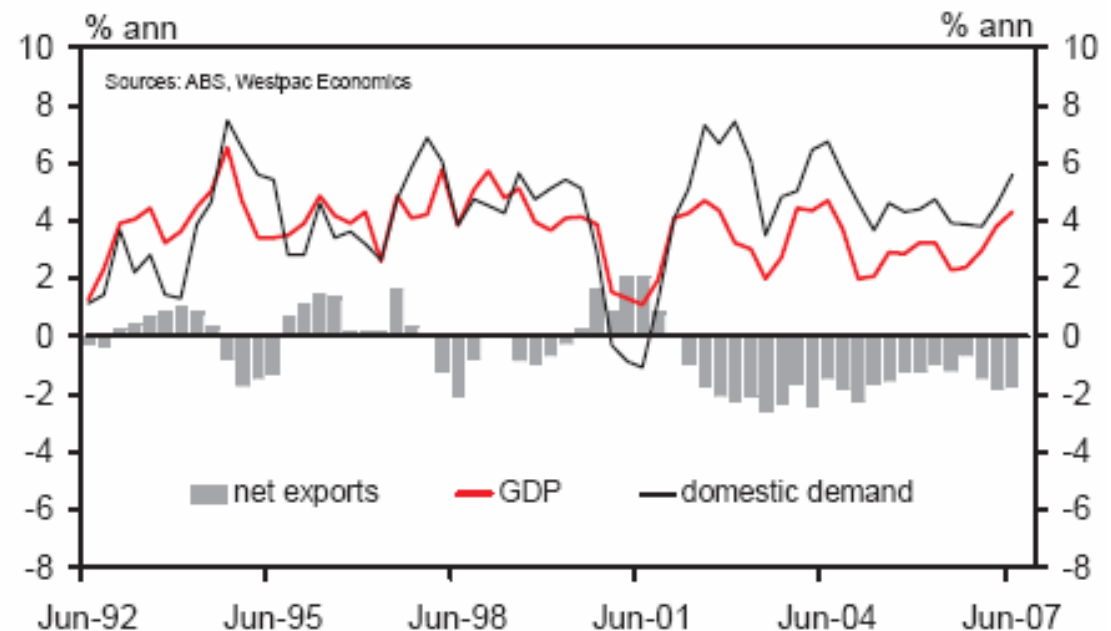




An Economic Health Check - Australia

- Recent growth has been very strong
- We are still net importers of goods and services but recently domestic demand has rebounded strongly
- Economic growth has jumped above 4 per cent

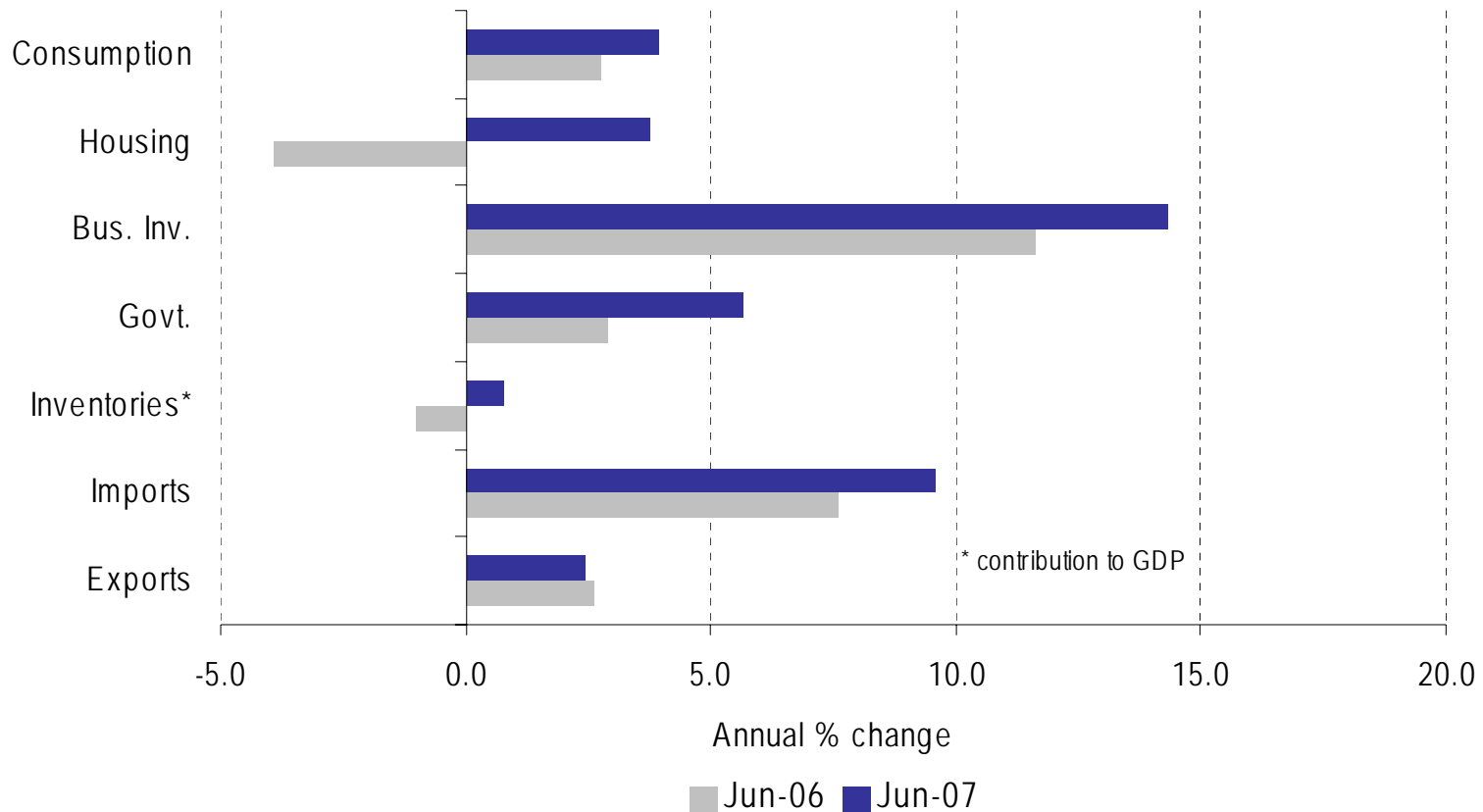
Australia's expansion accelerates





An Economic Health Check - Australia

The Economic Growth Mix

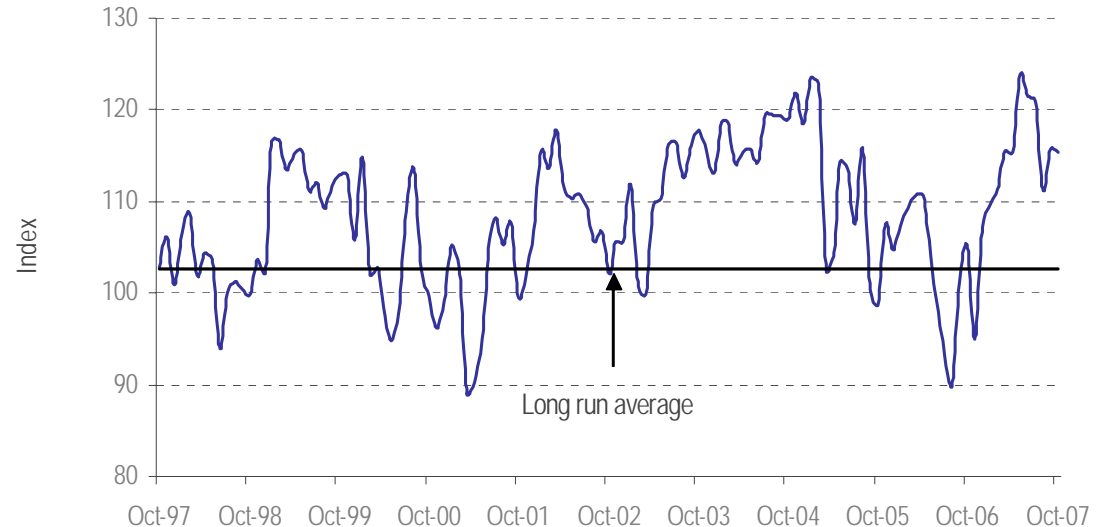




The Australian Consumer

- Despite high petrol prices, rising interest rates, rising rents and poor housing affordability, Australians are a confident bunch
- Has a lot to do with continued growth in house prices as 60% of Australia's either own outright or have a mortgage

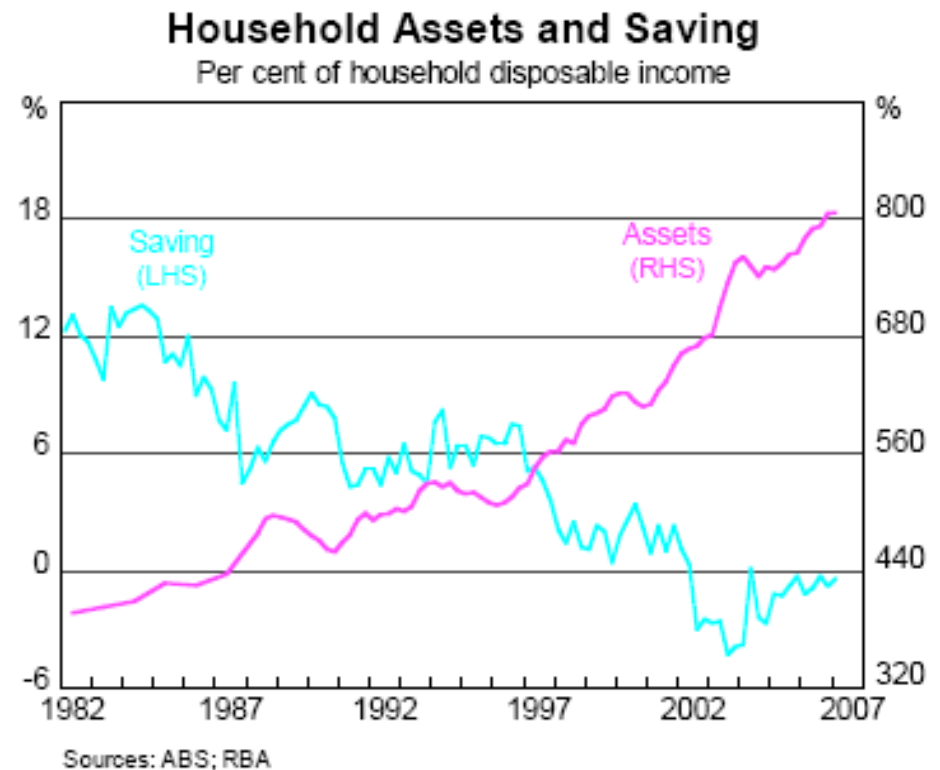
Consumer Confidence – holding up





The Australian Consumer

- Rising asset prices have boosted consumption.
- Since 2003, however rising interest rates have encouraged a higher level of savings
- In the meantime, asset prices have soared to 800 per cent of disposable income

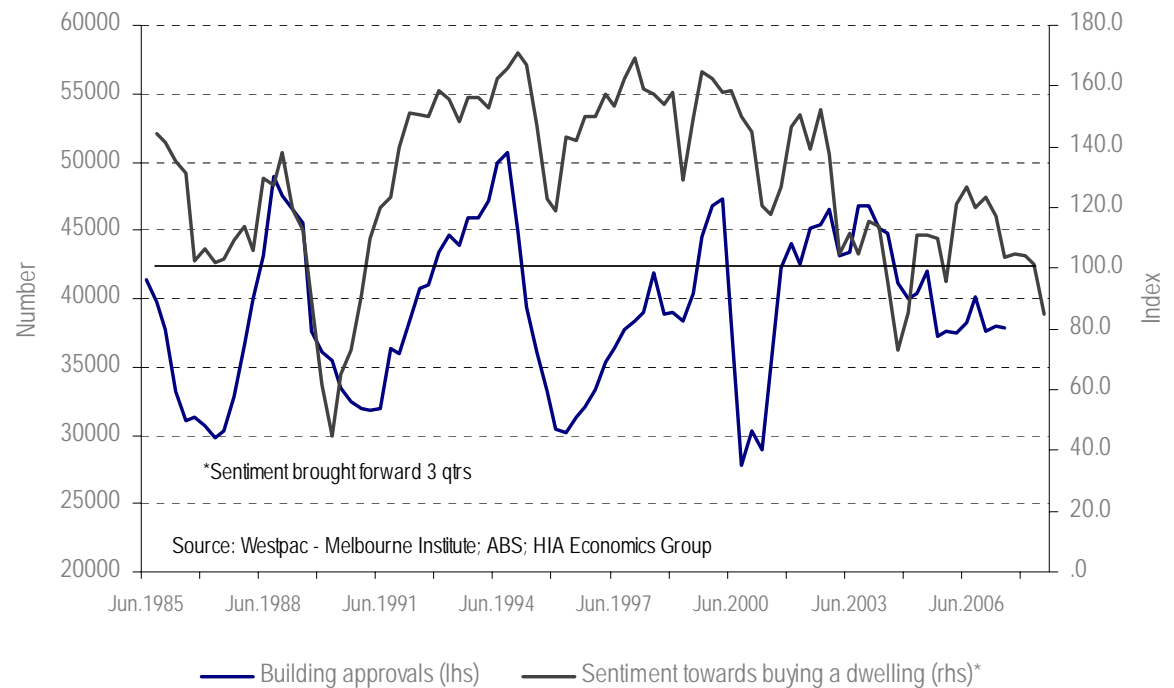




The Australian Consumer

- Sentiment towards buying a home has been trending down for two years
- This is yet another indicator of the constraining effect record low housing affordability is having

Sentiment Towards Home Buying & Building Approvals





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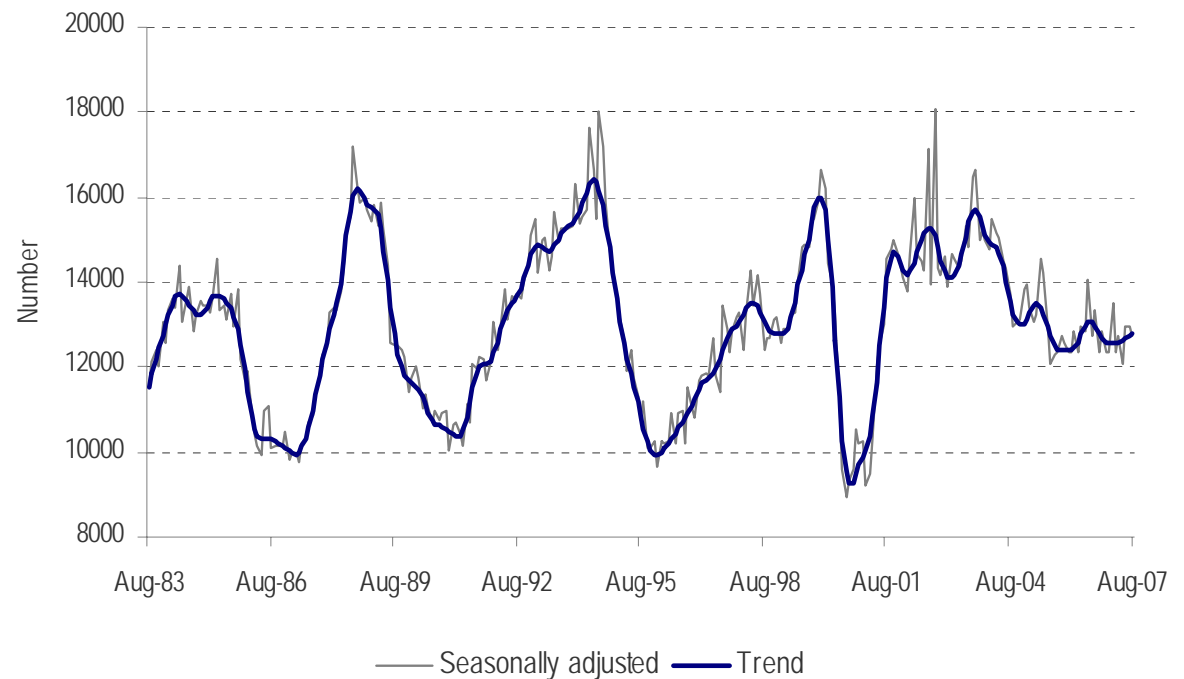
The Housing Industry



Sector 1: New Homes

- Dwelling Approvals – the heartbeat of the new home industry
- Activity very cyclical until recently
- The industry needs to build 165,000 homes per annum to satisfy population growth (equates to 14,500 approvals per month)
- Have been below this level since 2003

Building Approvals - Australia



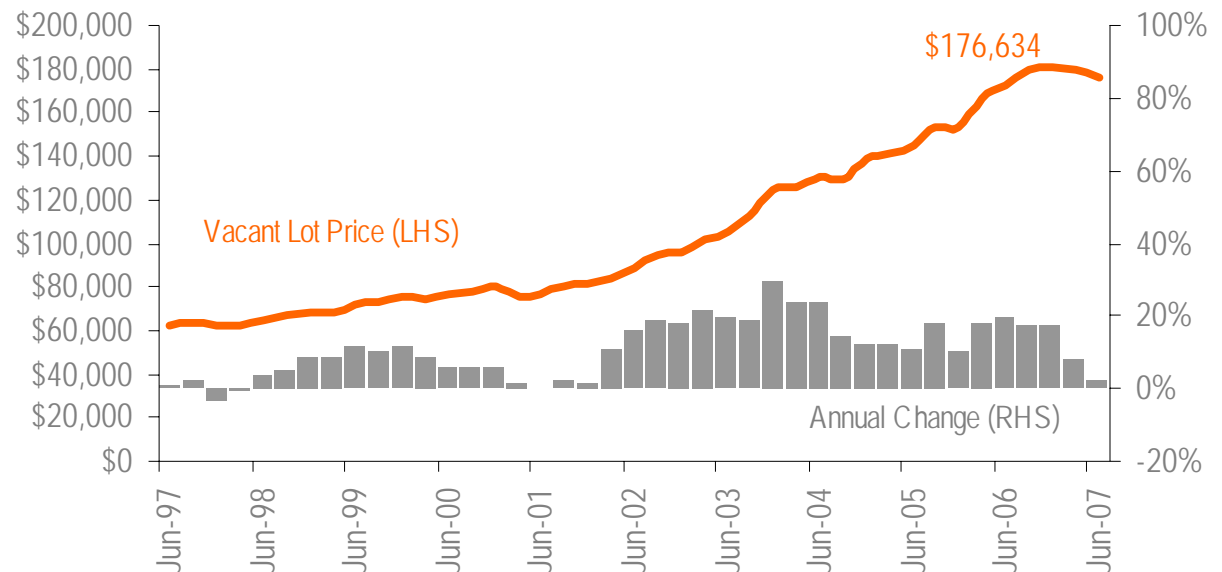


Sector 1: New Homes

- Supply side constraints have been an issue, in particular land availability and price.
- High prices have hammered affordability
- Typical “house-and-land” package was 4.5 times annual earnings in the 1990’s – it’s currently 8 times

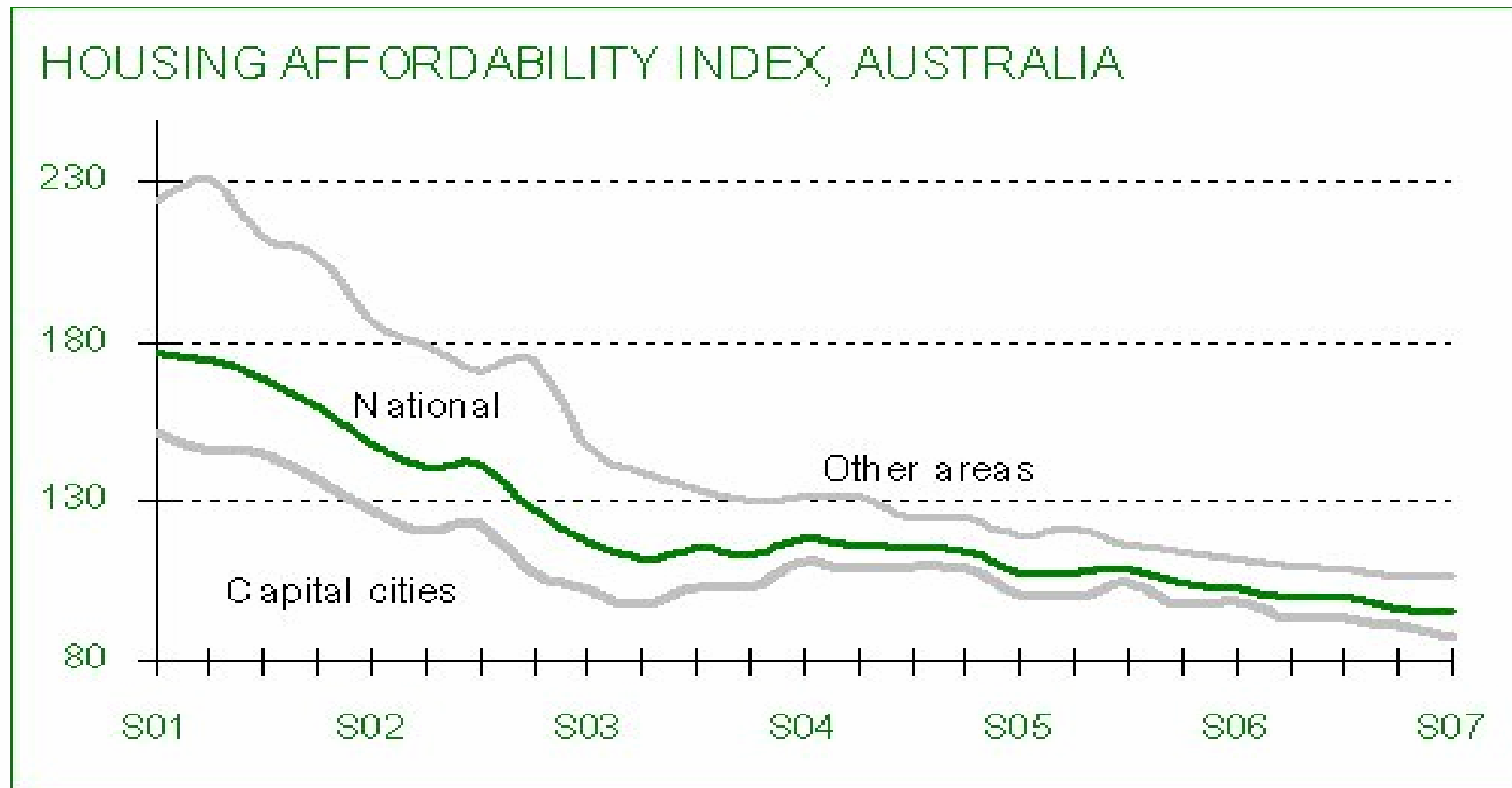
Vacant Lot Price - Average of Australia's Largest 5 States

Source: Australian Property Monitors





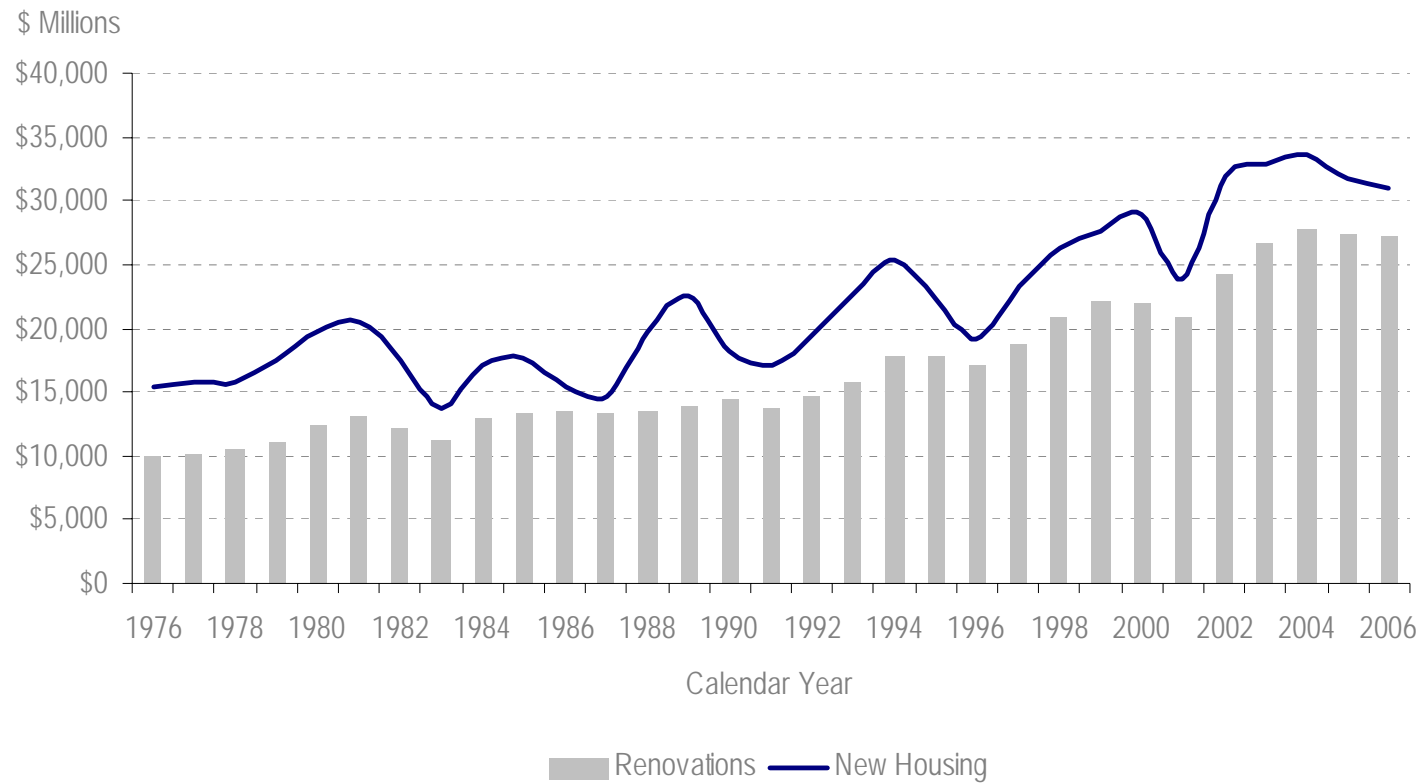
Housing Affordability Index





Sector 2: Renovation Activity

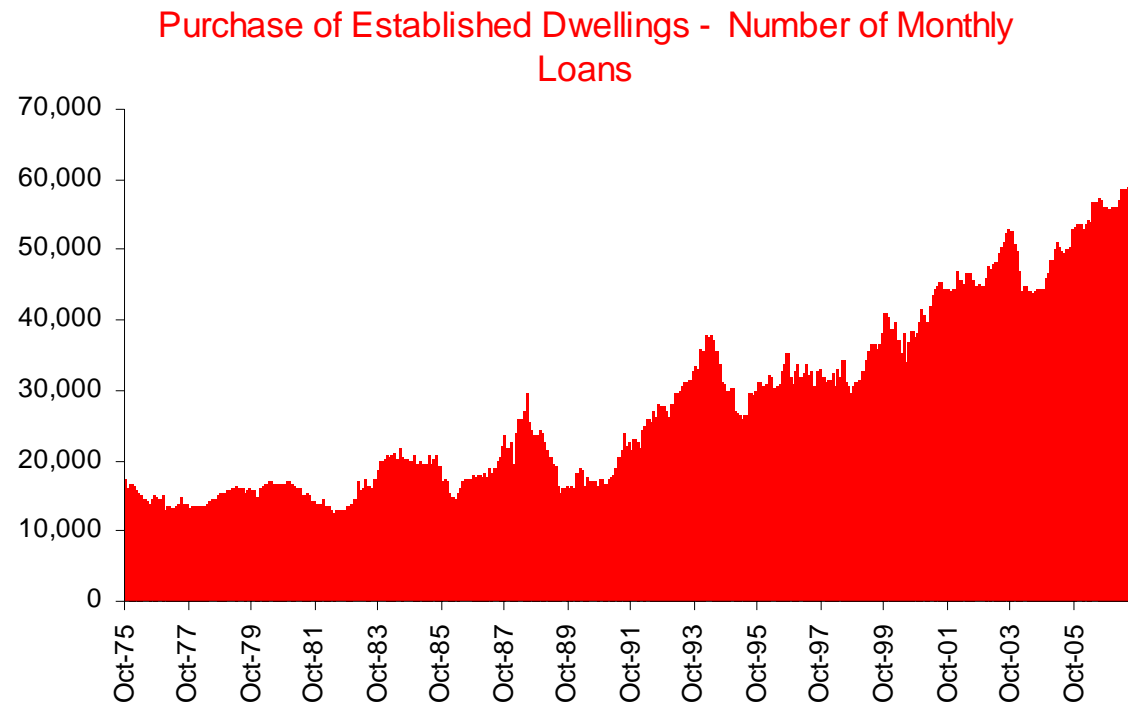
Value of Work Done on New Housing and Renovations - Australia





Sector 3: The Established Real Estate Market

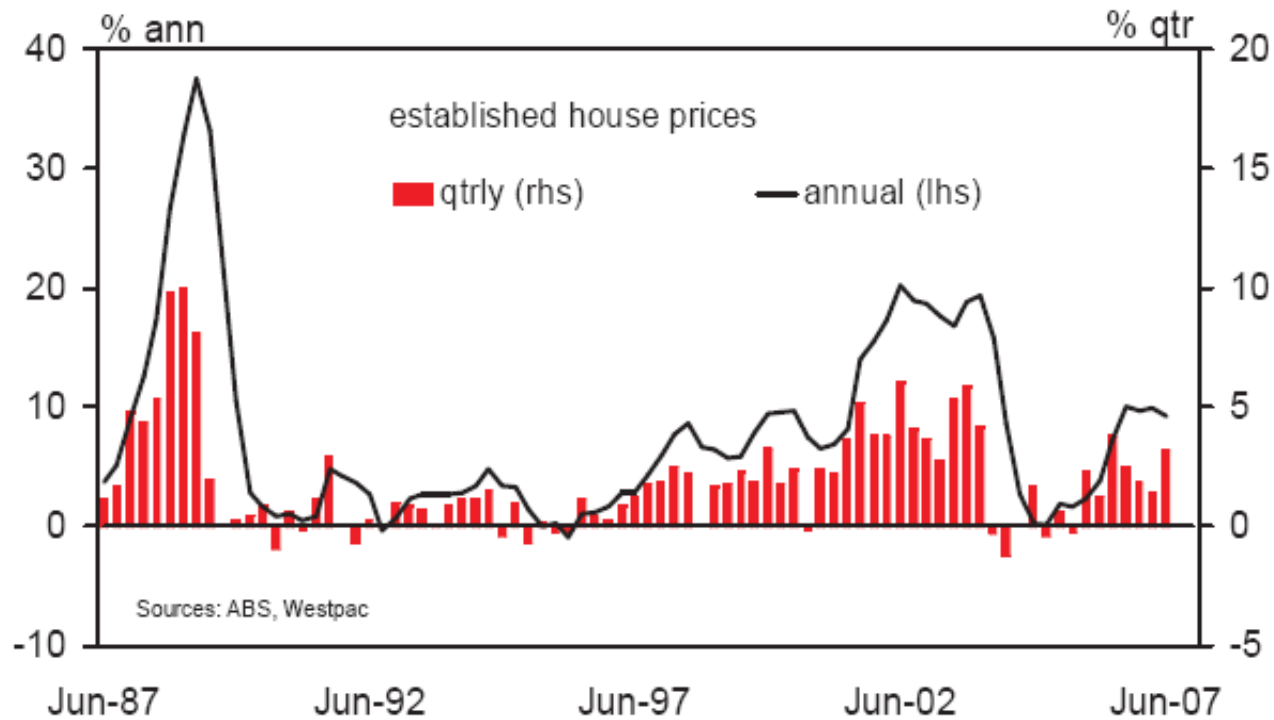
- When will the housing bubble burst..?
- Some media would have us believe that the property market is sinking under the weight of mortgage defaults
- ...not true, defaults are rising but loans for residential property continue to break records





Sector 3: The Established Real Estate Market

House price growth

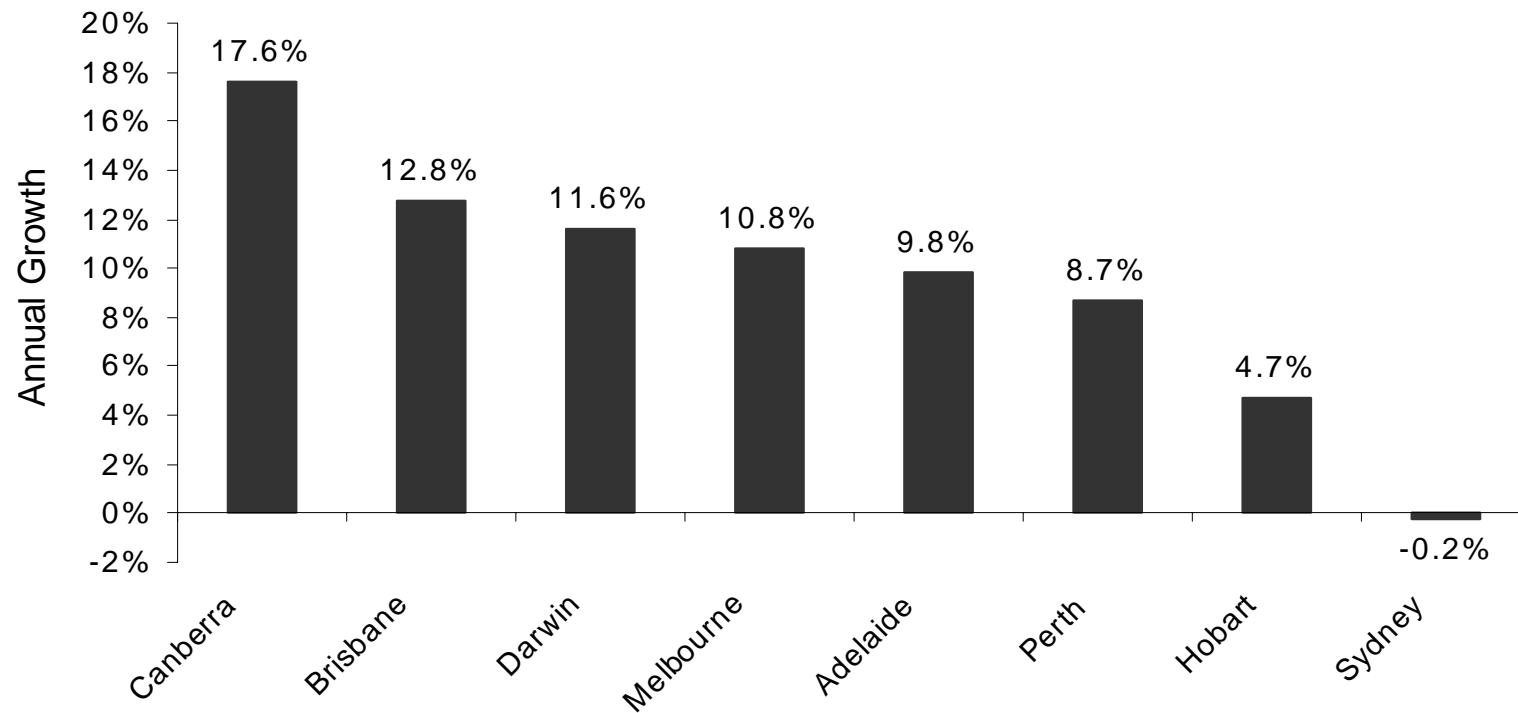




Sector 3: The Established Real Estate Market

Median House Prices

June 2007 quarter



Source APM

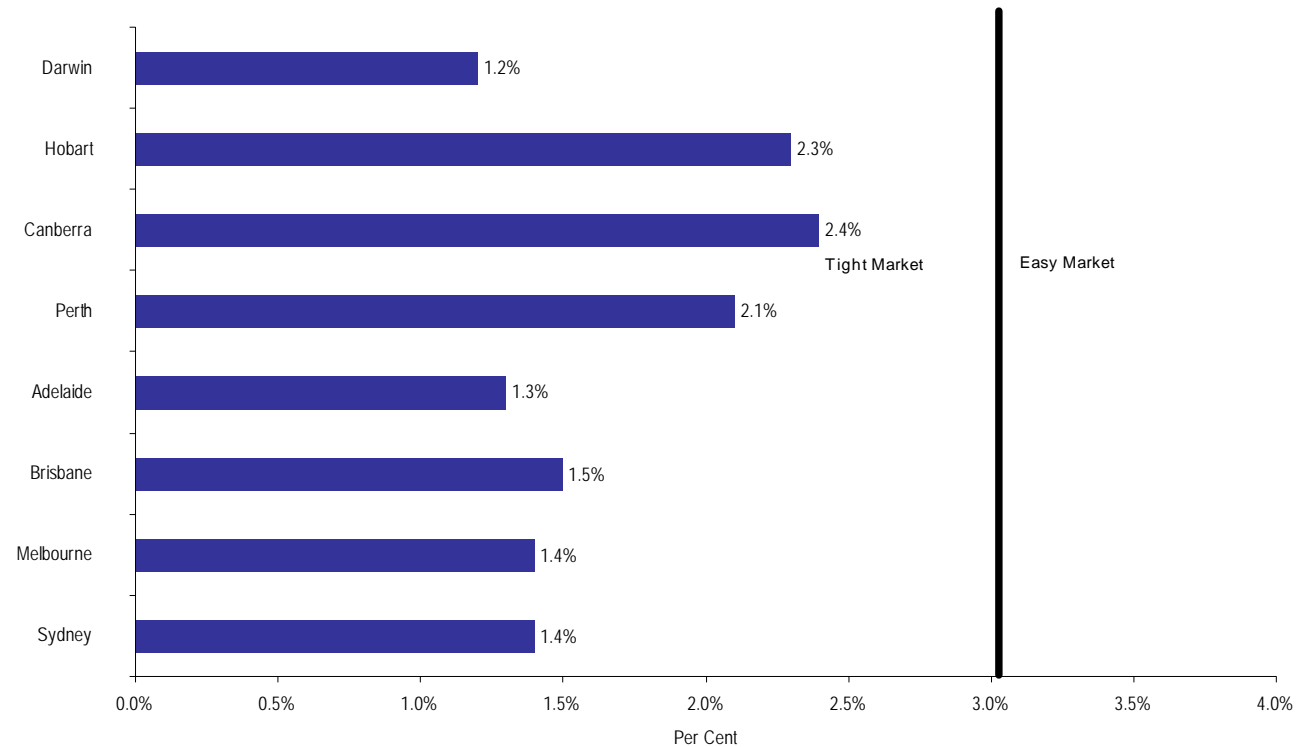


Sector 4: The Rental Market

- The real casualty of the current housing squeeze
- Public housing supply has all but disappeared
- Vacancy rates are at crucially tight levels

Vacancy Rate, Capital Cities, June 2007 qtr

Source: REIA

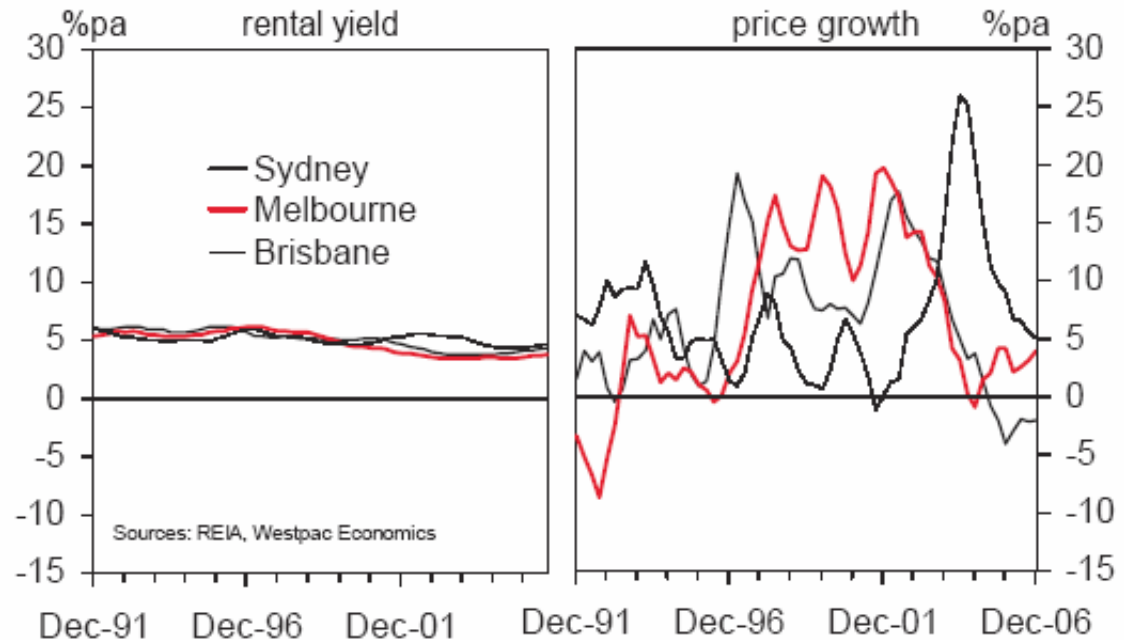




Sector 4: The Rental Market

- Private investors have jumped from property to shares
- Rental yields are stuck at 4 per cent while house prices are no longer growing at 20 per cent per annum.
- Returns will be better in the next two years as supply is unlikely to improve in the short term

Price growth the real driver of returns





State by State

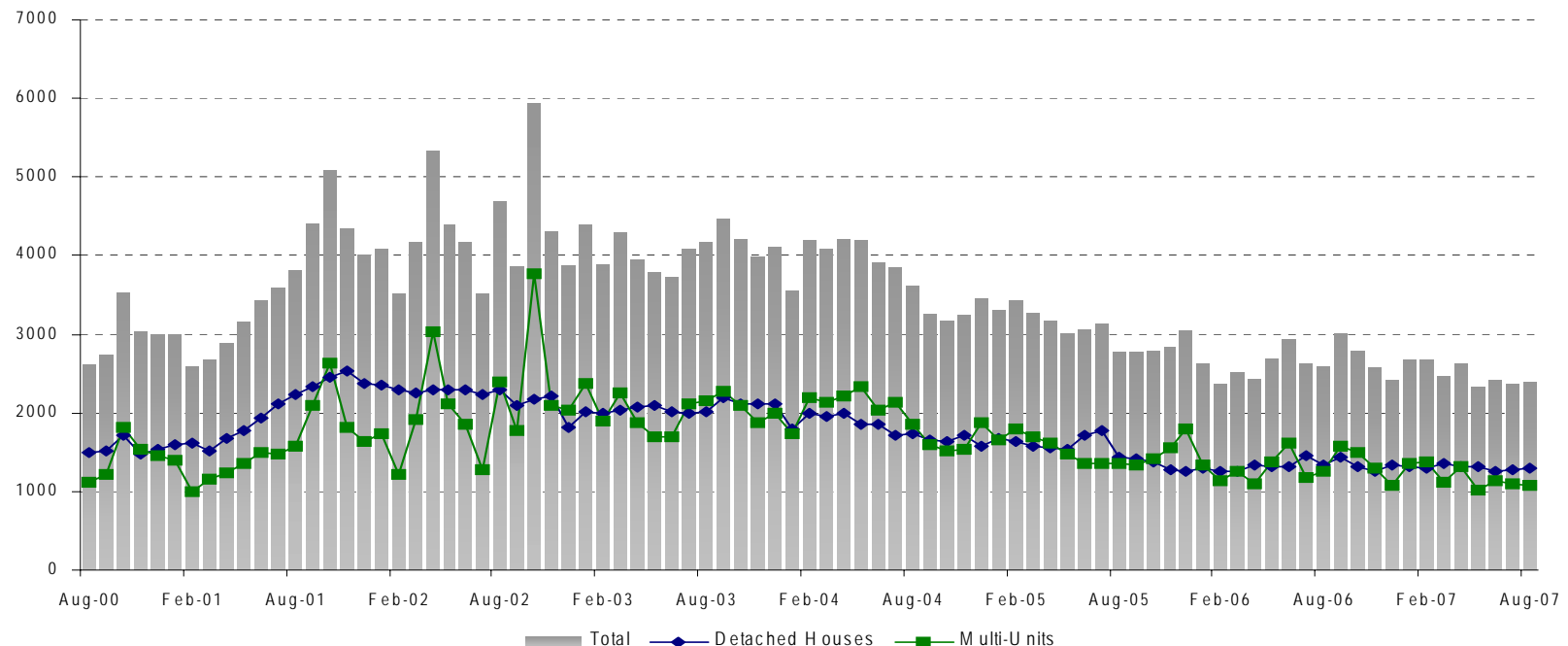


New South Wales

- Facing the toughest housing conditions in Australia
- Eastern suburbs real estate in Sydney has been rock solid however elsewhere, prices have stalled
- New housing is a disaster – 32,000 home starts, typical land price at \$288,000, total new house and land at \$520,000.
- Has been a population and business exodus which has seen economic growth fall to 0.5 per cent
- Some encouraging signs appearing however

NSW Monthly Dwelling Approvals

Source: ABS



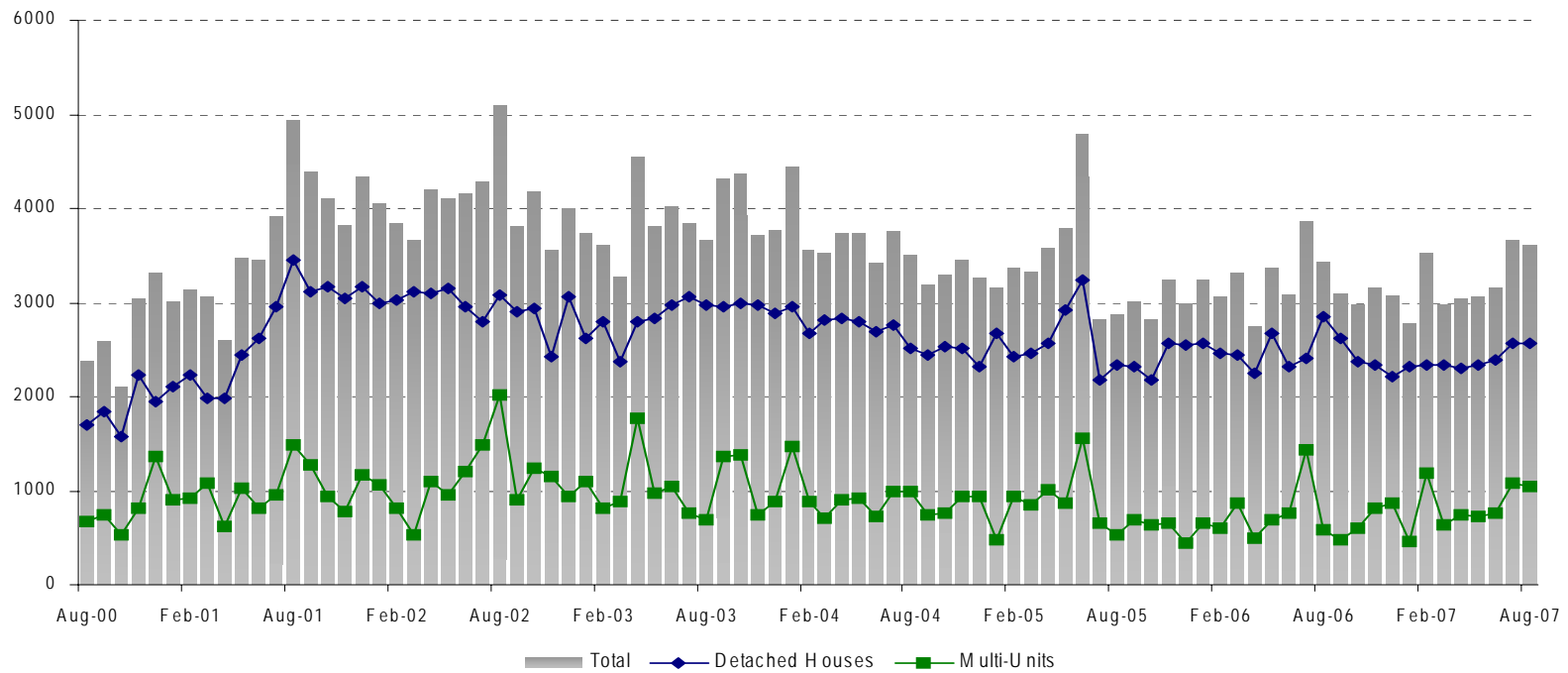


Victoria

- The goldilocks state – not too hot and not too cold
- Very strong employment growth and a robust economy growing at close to 4 per cent
- New housing has been a standout – 42,000 homes in 2006/07 – more than NSW and QLD
- Land is affordable - \$167,000
- Housing Affordability is the best of the 4 largest states

VIC Monthly Dwelling Approvals

Source: ABS



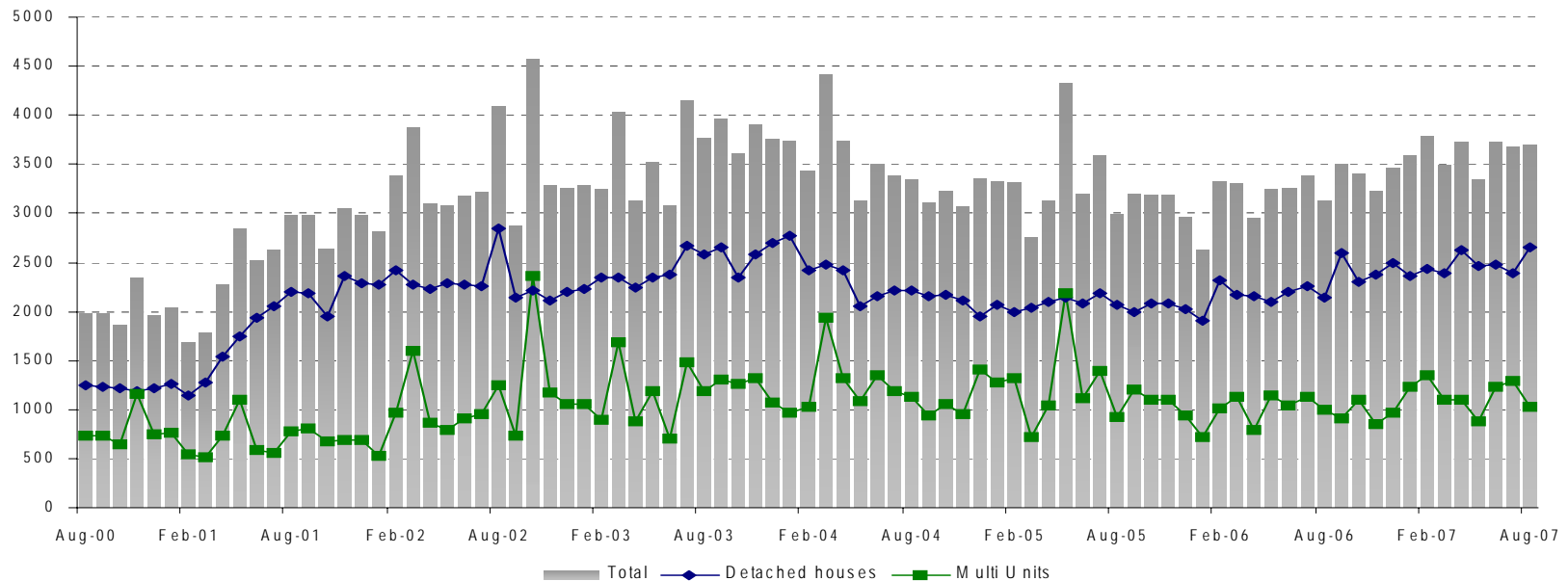


Queensland

- The land of opportunity but it missed the bus in 2005, 2006.
- Rapid escalation in land prices through chronic shortages – has stabilised recently at \$165,000
- Very poor infrastructure and transport systems have affected the liveability of SEQ and slowed population growth
- A huge infrastructure spend will turn things around next decade

QLD Monthly Dwelling Approvals

Source: ABS



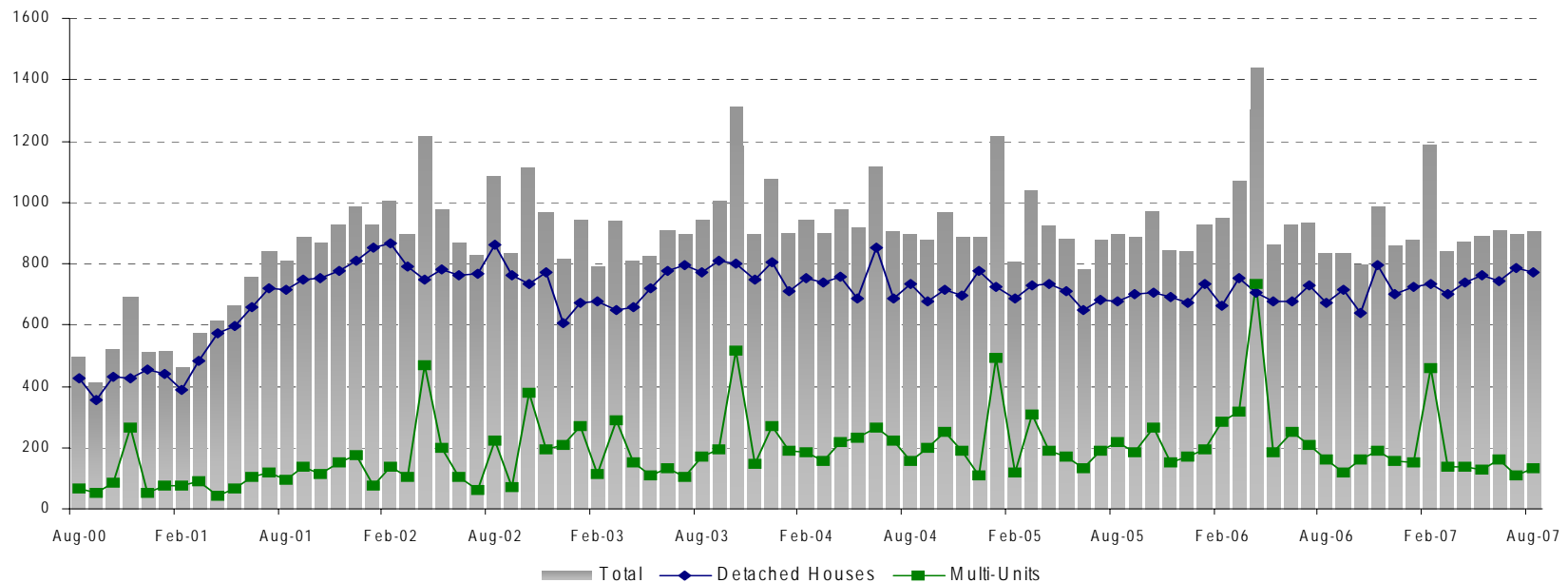


South Australia

- The “10,000” state
- Favourable affordability and a boost to population growth through migration
- Land is readily available although it’s been rising in price - \$130,000
- Wine and Mitsubishi have been a problem however the new BHP Olympic Dam Resources project will be a huge boost for the economy

SA Monthly Dwelling Approvals

Source: ABS



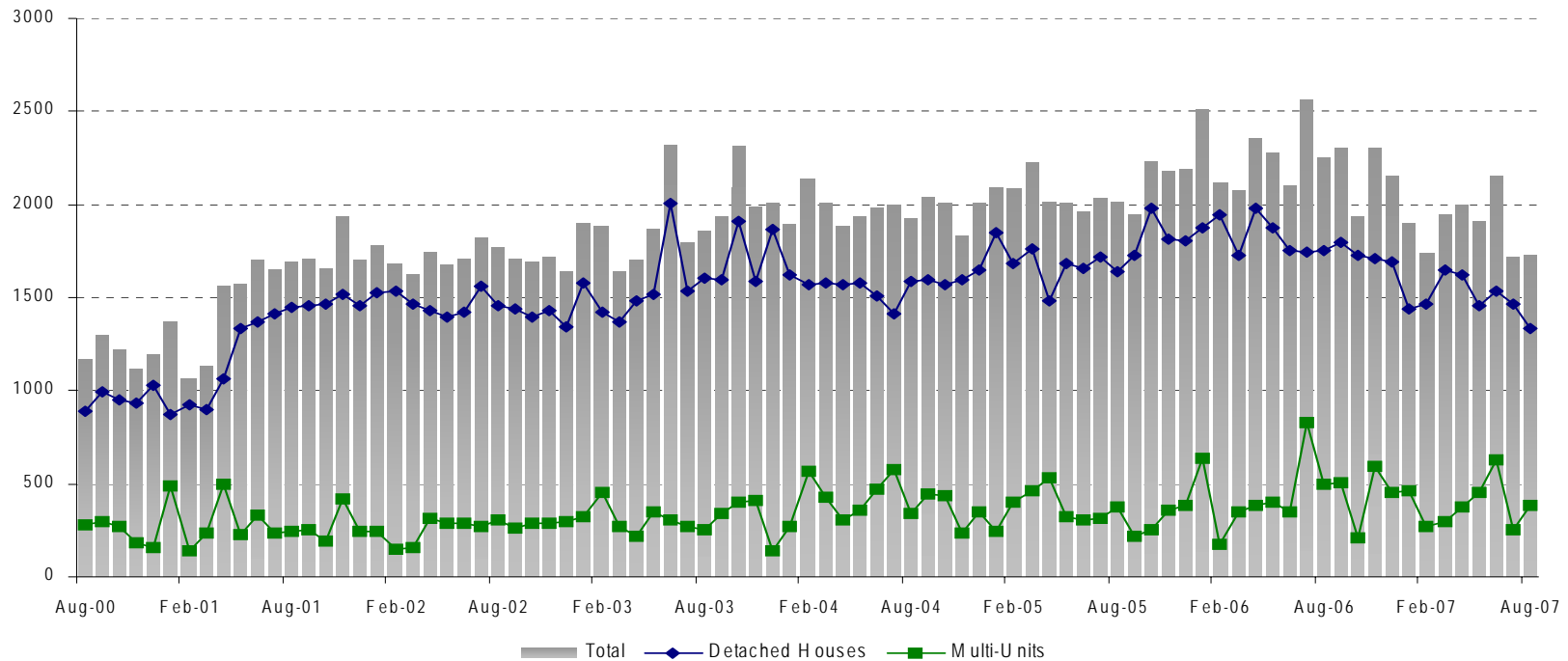


Western Australia

- Oh dear...!
- With growth comes growing pains – no land, no labour, no housing
- Inflation in the west is 1.5 times that of eastern states while it has the least affordable housing market
- Land prices have escalated to \$276,000 per block
- The resource juggernaut will roll on however the gold rush mentality has eased due to slightly lower commodity prices, and rising costs of living

WA Monthly Dwelling Approvals

Source: ABS



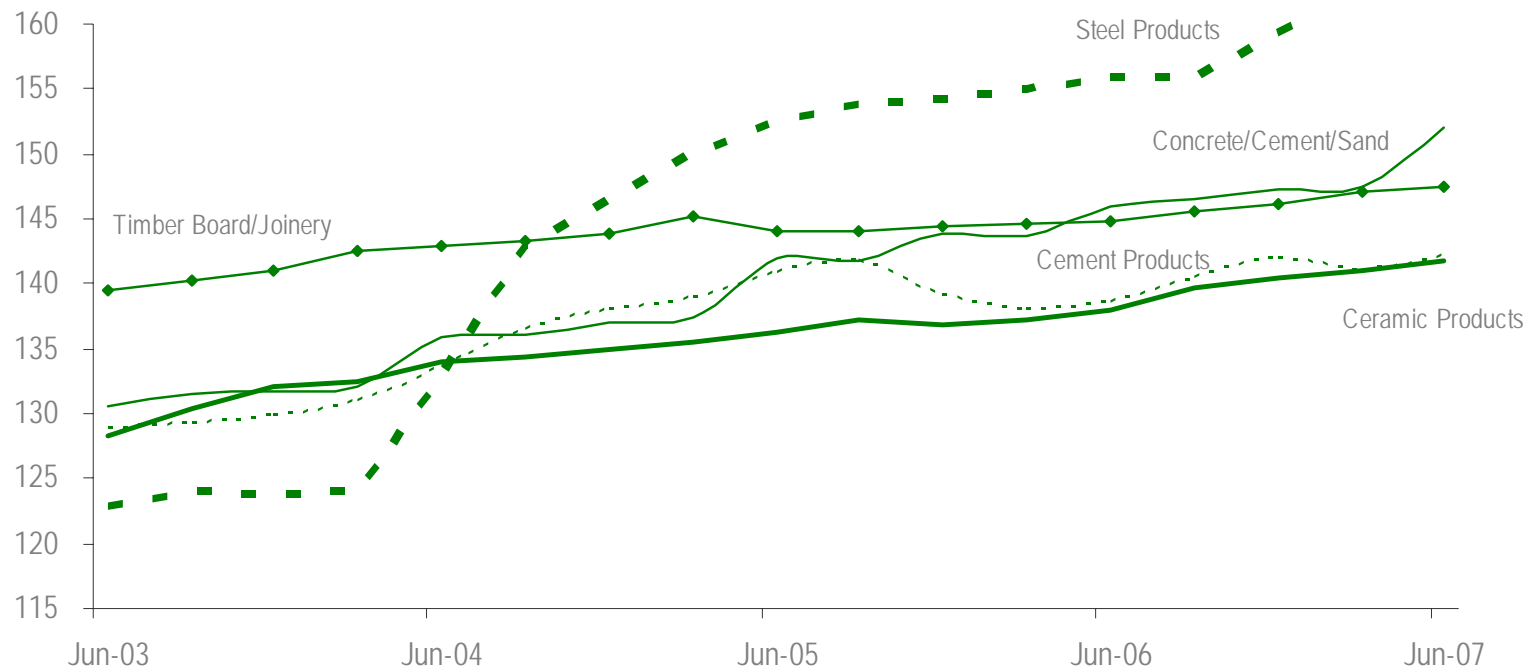


Some Other Issues...



Material Prices

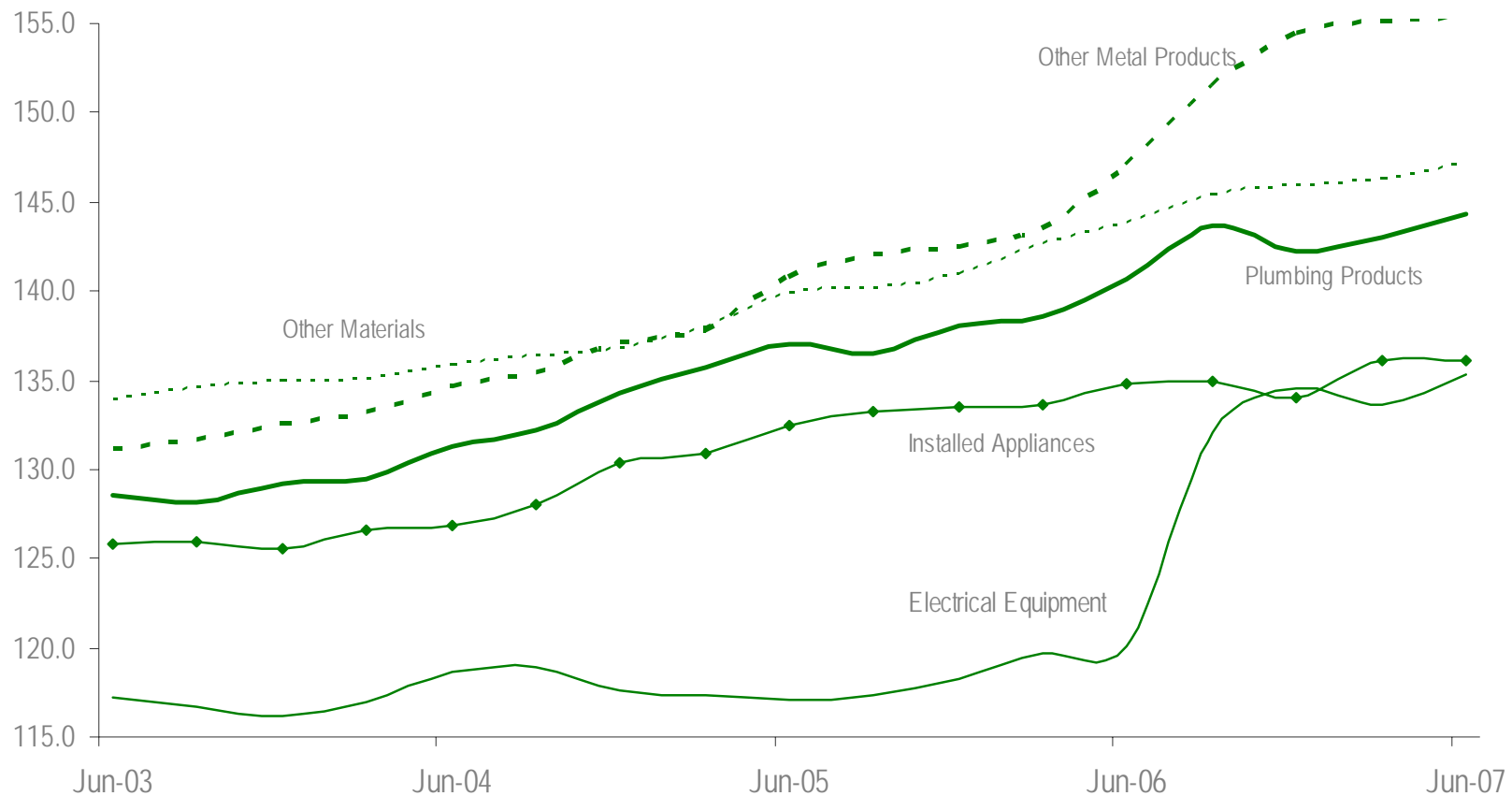
Price Index of Materials Used in House Building





Material Prices

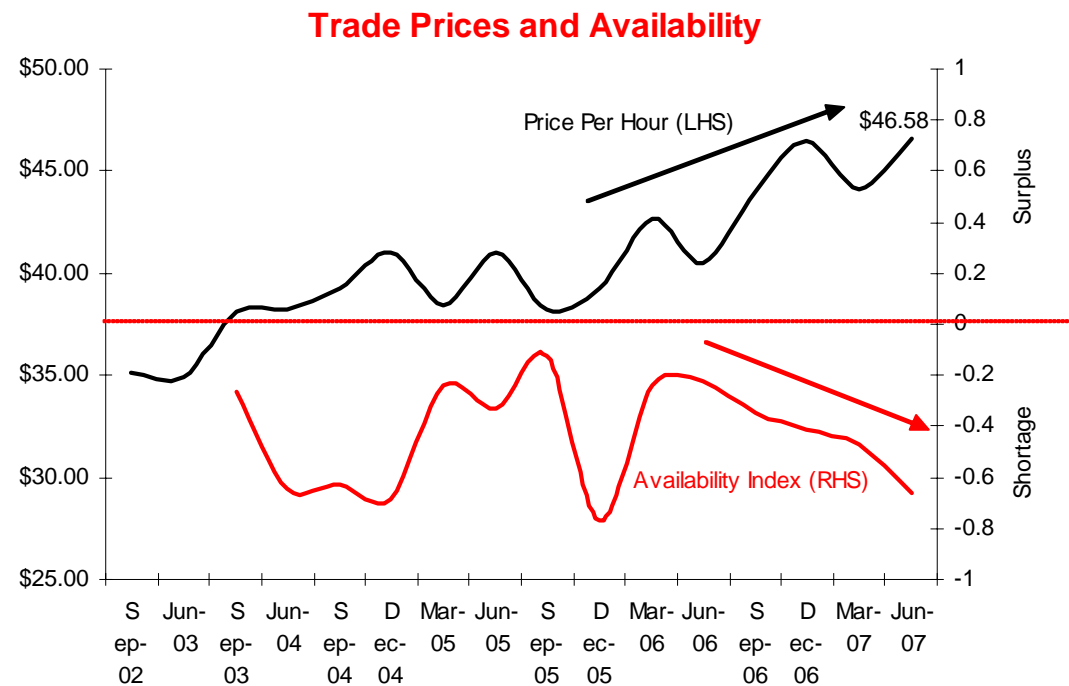
Price Index of Materials Used in House Building





Trade Prices and Availability

- Despite plenty of talking from Governments, trades are still in short supply.
- Will create a number of challenges for the years ahead with every likelihood of a synchronised upturn in all construction sectors
- What will turn it around....
- \$ per hour, flexible training methods and licensing, smoother transition from school to the tools

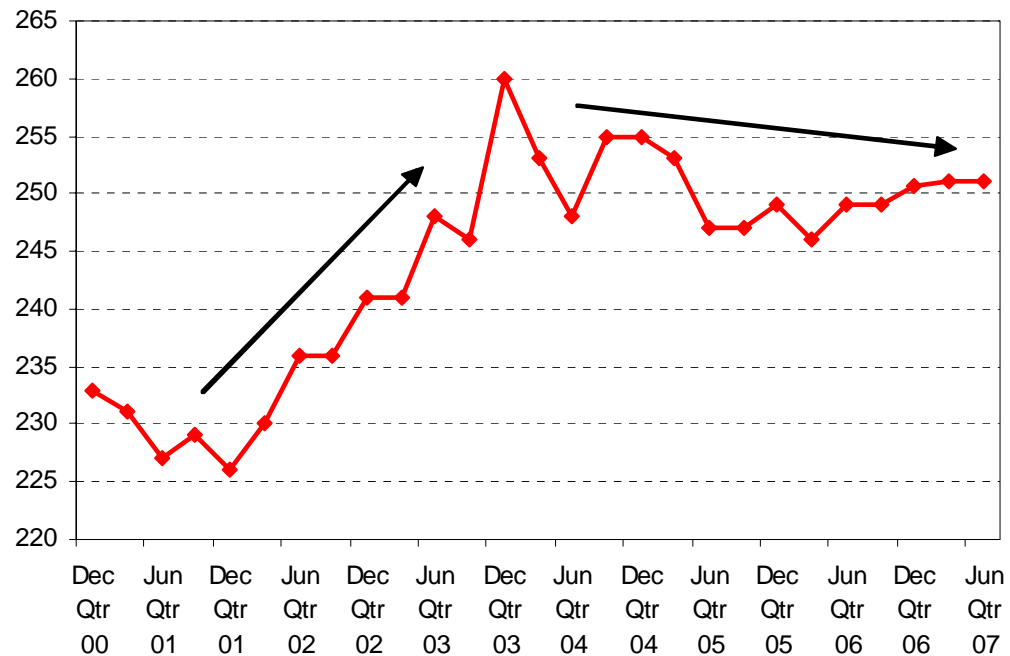




The Built Form – House Size

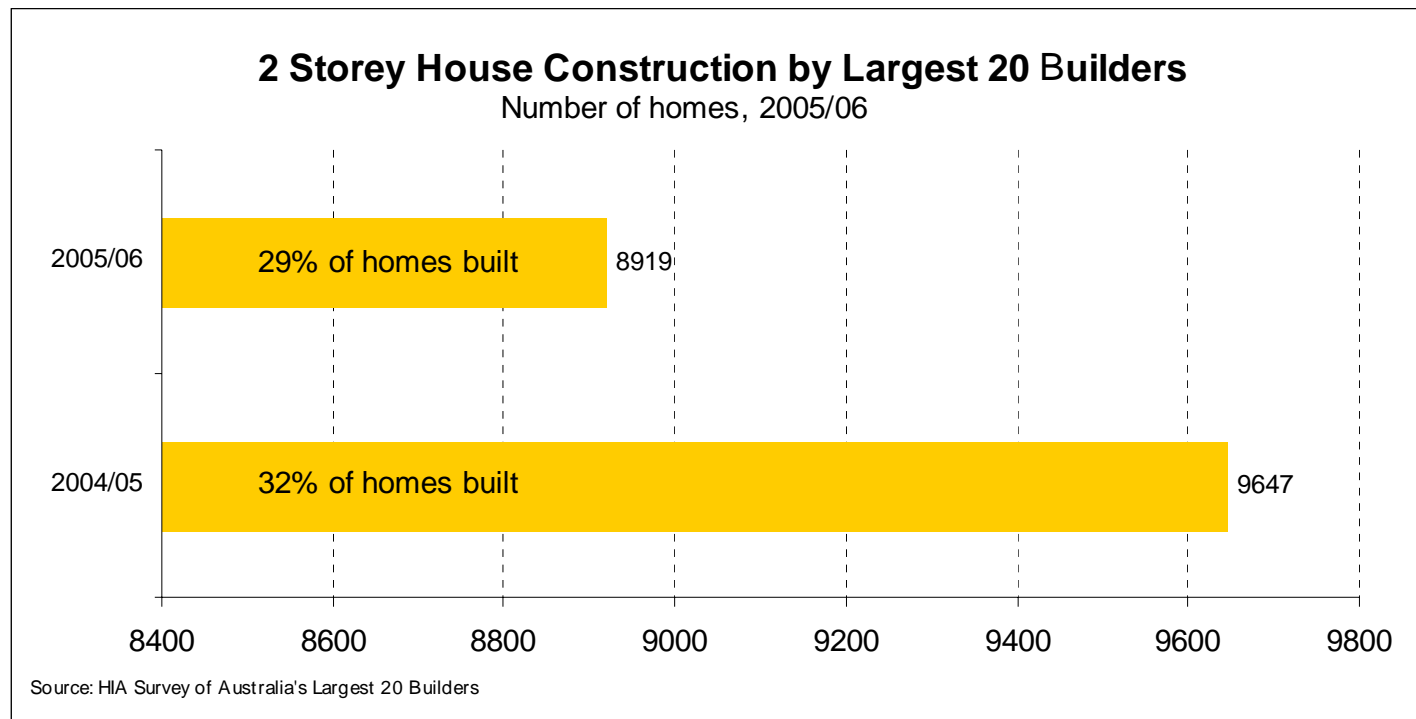
- For housing, affordability and energy concerns has seen house sizes ease of late

House Size (sqm)





The Built Form – 2 Storey Construction



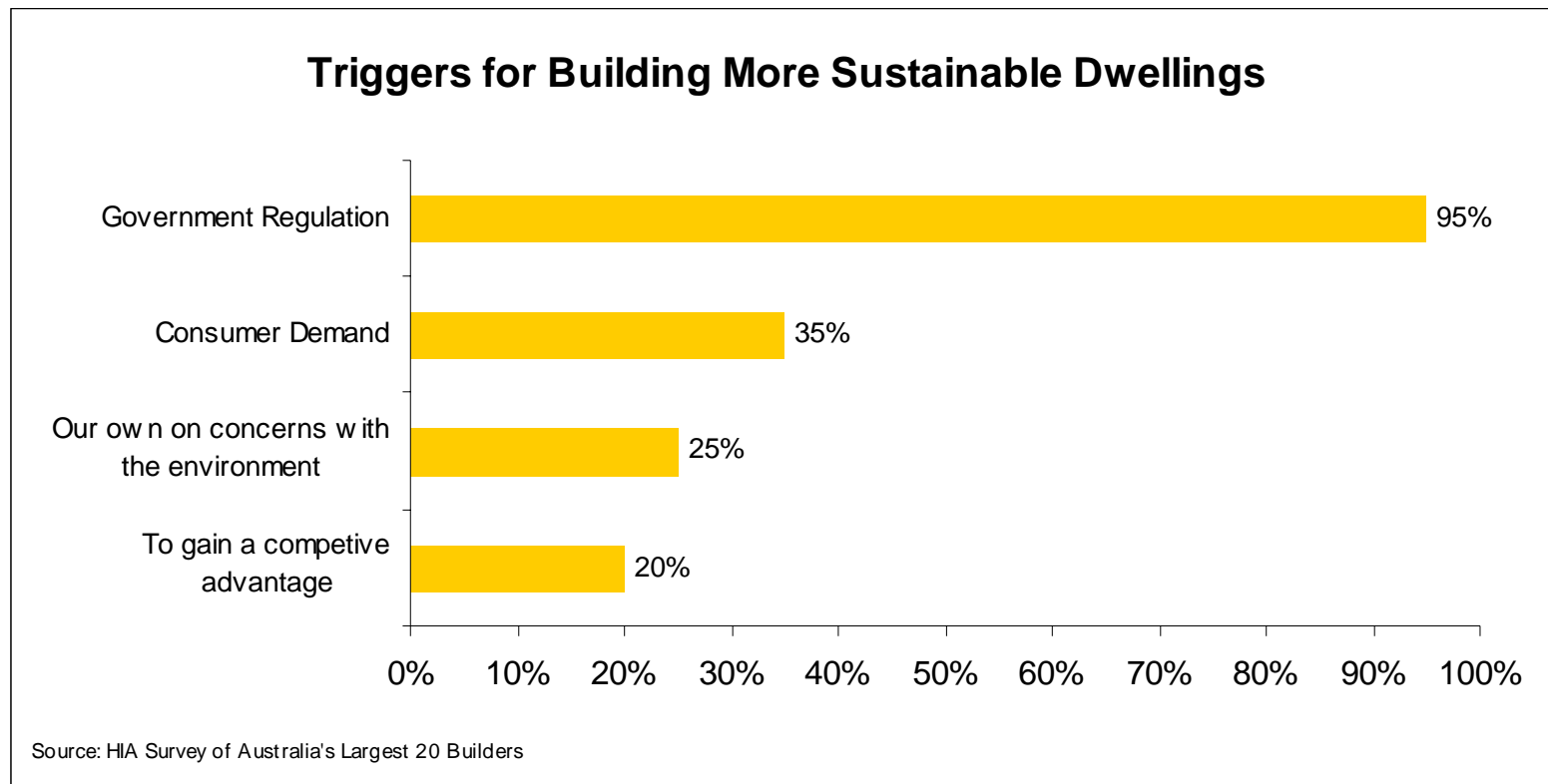


The Importance of Multi-Unit Construction:

Aust	Houses	Multi-units	Total				
2002/03 (a)	112.522	57.543	170.065				<i>0.662</i>
2003/04 (a)	118.477	56.198	174.675	5	-2	3	<i>0.678</i>
2004/05 (a)	106.351	53.545	159.896	-10	-5	-8	<i>0.665</i>
2005/06 (a)	103.547	47.880	151.427	-3	-11	-5	<i>0.684</i>
2006/07 (a)	106.070	44.896	150.966	2	-6	0	<i>0.703</i>
2007/08	106.521	45.155	151.676	0	1	0	<i>0.702</i>



The Role of Sustainability – Australia's Largest 20 Builders





The Future



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Elections and Interest Rates





The Housing Winners

- Trades that have exposure to both residential and non-residential construction
- Homeowners – prices will continue to rise in the next two years
- Queensland home builders
- Landlords – a lack of supply has given the green light to double digit increases in rents

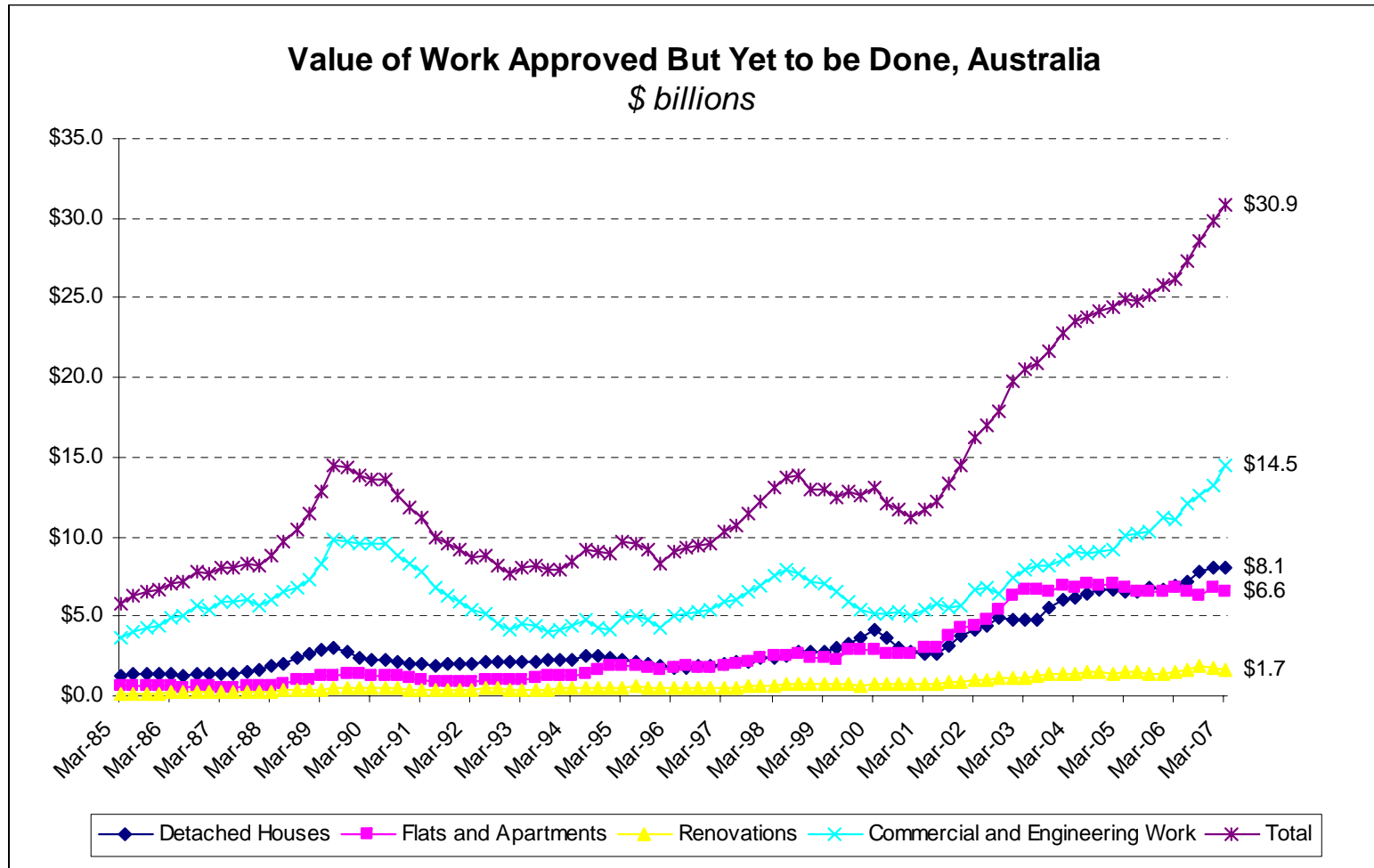


The Housing Losers

- First Home Buyers – record low affordability is hurting
- Land Developers – Government charges have made it a profit-less industry
- Renters – saving for a deposit has never been harder
- WA home builders – the boom is over
- NSW home builders – the boom is still 2 years away



The Other Sectors





The Other Sectors

State Government Infrastructure Spending

Estimates for 2006/07 to 2010/11

NSW	\$49.6 billion
VIC	\$13 billion
QLD	\$25 billion
SA	\$4 billion
WA	\$21.6 billion
TAS	\$920 million
NT	\$650 million
ACT	\$290 million
Total	\$115 billion

Source: Various 2006/07 State Budget Papers



Housing Forecasts

HOUSING STARTS: by state and territory

thousand dwellings commenced

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2002/03 (a)	47.91	45.80	39.61	10.24	20.31	2.07	0.99	3.13	170.07
2003/04 (a)	45.54	45.31	44.23	10.27	22.58	2.85	1.03	2.87	174.68
2004/05 (a)	39.18	40.91	39.37	10.90	22.93	2.83	1.34	2.44	159.90
2005/06 (a)	32.32	39.23	37.66	10.70	25.75	2.56	1.36	1.85	151.43
2006/07 (a)	29.32	38.50	40.91	11.12	24.56	2.87	1.41	2.29	150.97
2007/08	28.86	39.54	43.21	11.46	21.92	2.88	1.49	2.31	151.68
2008/09	31.26	42.24	44.12	10.90	21.92	2.77	1.43	2.52	157.16
2009/10	36.98	44.22	45.77	11.13	22.36	2.83	1.46	2.45	167.20
 % change:									
2003/04 (a)	-5	-1	12	0	11	37	4	-8	3
2004/05 (a)	-14	-10	-11	6	2	-1	30	-15	-8
2005/06 (a)	-18	-4	-4	-2	12	-9	2	-24	-5
2006/07 (a)	-9	-2	9	4	-5	12	4	24	0
2007/08	-2	3	6	3	-11	1	5	1	0
2008/09	8	7	2	-5	0	-4	-4	9	4
2009/10	18	5	4	2	2	2	2	-3	6



Renovation Forecasts

HOUSING RENOVATIONS FORECAST: by state and territory

Value of investment, \$ million, Chain Volume Measure, 2002/03 prices

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2002/03 (a)	8,936	5,695	5,962	1,505	2,717	480	172	334	25,801
2003/04 (a)	9,585	6,495	5,943	1,853	2,517	640	164	367	27,564
2004/05 (a)	9,300	6,222	6,226	1,859	2,635	618	234	324	27,418
2005/06 (a)	8,768	5,803	6,600	1,865	2,615	639	252	339	26,881
2006/07 (a)	8,330	6,250	7,418	2,079	2,898	673	209	320	28,177
2007/08	8,231	6,309	7,777	2,078	3,020	668	219	327	28,629
2008/09	8,907	6,487	8,093	2,159	2,958	690	225	343	29,862
2009/10	9,352	6,617	8,336	2,203	2,899	704	236	351	30,697
% change									
2003/04	7	14	0	23	-7	33	-5	10	7
2004/05	-3	-4	5	0	5	-3	43	-12	-1
2005/06	-6	-7	6	0	-1	3	8	5	-2
2006/07	-5	8	12	11	11	5	-17	-6	5
2007/08	-1	1	5	0	4	-1	5	2	2
2008/09	8	3	4	4	-2	3	3	5	4
2009/10	5	2	3	2	-2	2	5	2	3

(a) = actual



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