

HOUSING REPORT CARD HIGHLIGHTS RISK FROM HIGHER RATES

Australia's most comprehensive report card on the future of the housing industry highlights a relatively subdued year ahead, a situation not helped by a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA New South Wales Outlook* publication, HIA Executive Director, NSW, Mr Wayne Gersbach, said that strong anecdotal feedback and evidence from New Home Sales point to the May rate rise taking an immediate bite out of housing.

"The housing industry continues to undergo a moderate slowdown nationally, but New South Wales is struggling under the weight of very weak housing conditions in Sydney," Mr Gersbach said.

"In early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. Early evidence points to this situation now coming to pass and as a consequence the risk of a further weakening in the Sydney market has increased," Mr Gersbach added.

"It is not all doom and gloom. The housing industry in NSW outside of Sydney is generally only coming off the boil to a moderate extent, in line with the national experience."

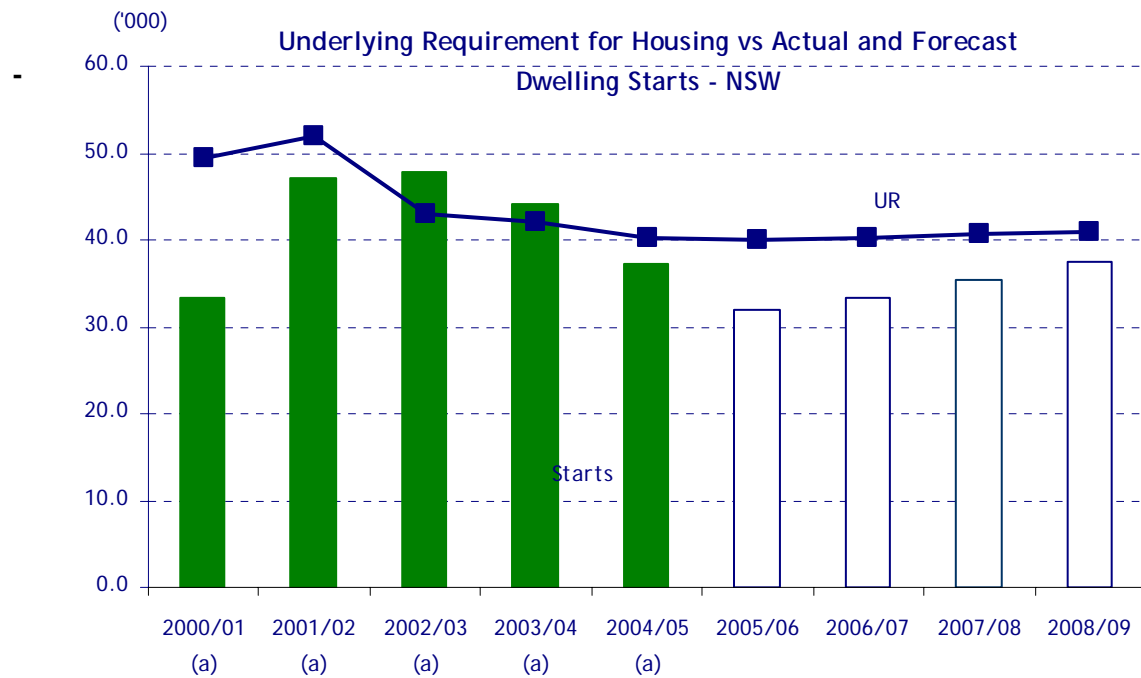
"The Northern, North Western, and Mid North Coast regions, to name a few, are holding up reasonably well in the midst of an overall weakening in residential activity."

"Housing starts are forecast to fall by 14 per cent in 2005/06 to a level of 31,844. This view is unchanged from three months ago and reflects an expectation that 2005/06 will mark the lowest level of housing starts in 20 years."

"The profile for housing starts would not be nearly as soft if it wasn't for the weakness in Sydney where extremely low housing affordability is continuing to weigh heavily on housing activity and confidence."

"Since the peak, housing starts have dropped by over 50 per cent in Sydney but have fallen by less than 20 per cent in Regional NSW."

"Housing starts in NSW are forecast to grow by 5 per cent in 2006/07. Interest rate uncertainty and very low housing affordability will constrain the recovery next financial year."



Ends -

Note to Editors

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2. The data is sourced each quarter from the Australian Bureau of Statistics, the Department of Employment and Workplace Relations, the National Centre for Vocational and Education Research, and HIA's own datasets.
3. For a copy of the full 40 page HIA Outlook reports (media only) please contact Kirsten Lewis on (02) 6245 1393. Copies of HIA State and National Outlook can be ordered from <http://economics.hia.asn.au>

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HOUSING REPORT CARD FOR VIC HIGHLIGHTS RISK FROM HIGHER RATES

Victoria's most comprehensive report card on the future of the housing industry highlights a further slowing in 2006/07 together with the risk of a deeper, more prolonged downturn resulting from a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA Victoria State Outlook* publication, HIA's Victorian Executive Director, Mr Graham Wolfe, said that the May rate rise runs the risk of taking another bite out of housing.

"Victoria's housing industry continues to undergo a moderate slowdown and that situation will continue in the short term," Mr Wolfe said.

"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. Early evidence points to this situation now coming to pass in Victoria and as a consequence the risk of a sharper pull-back in housing activity has increased," Mr Wolfe added.

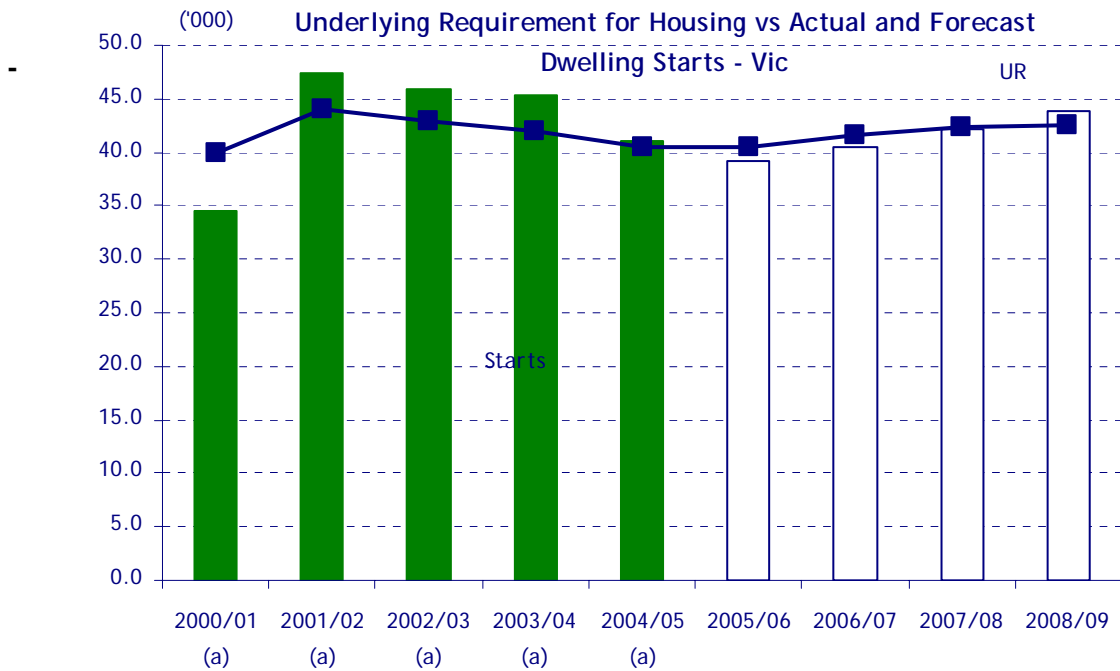
"Building approvals are continuing on their downward trend with total dwelling approvals falling by 5.2 per cent to a monthly total of 2,763 over the 4 months to April 2006."

"Structural costs imposed on housing in Victoria are still too high, and since the first home buyer market dropped off in January 2006, it has struggled to recover. Between January and April 2006 the total number of first home buyer loans rose by only 0.5 per cent."

"Housing starts in Victoria fell by 10 per cent in 2004/05. Starts are expected to decline by a further 4 per cent over 2005/06, bottoming out at a level of 39,210. A modest recovery is forecast for 2006/07 with growth of 3 per cent. Interest rate uncertainty represents the key risk to this outlook."

"Dwelling investment continues to peel off, down by 7.7 per cent in the first quarter of 2006. However, for the 12 months to March 2006 new housing investment was down by 3.7 per cent, a very moderate decline. A similar situation applies to renovation investment which fell by 3.2 per cent over the 12 months to March this year."

"For 2005/06 as a whole, expenditure on renovations is expected to fall by 5 per cent to a still very healthy level of \$5.8 billion. A modest improvement is expected to come through over the course of 2006/07, with spending on renovations forecast to rise by 2 per cent over the year."



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HOUSING REPORT CARD FOR QLD HIGHLIGHTS RISK FROM HIGHER RATES

Queensland's most comprehensive report card on the future of the housing industry highlights a further slowing in spending on housing in 2006/07 together with the risk of a deeper, more prolonged downturn resulting from a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA Queensland State Outlook* publication, HIA's Queensland Executive Director, Mr Warwick Temby, said that early evidence from New Home Sales pointed to the May rate rise taking an immediate bite out of housing.

"Queensland's housing industry continues to undergo a moderate slowdown and we should see that situation continue in 2006/07," Mr Temby said.

"Within the state, housing conditions in the north remain quite buoyant," Mr Temby added.

"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. Early evidence points to this situation now coming to pass in Queensland and as a consequence the risk of a sharper pull-back in housing activity has increased," Mr Temby added.

"Housing starts in Queensland in the March 2006 quarter were down to 8,466, the third consecutive quarterly fall. For the 12 months to March 2006, total starts reached 36,760, down by 7.5 per cent on the previous 12 months," he said.

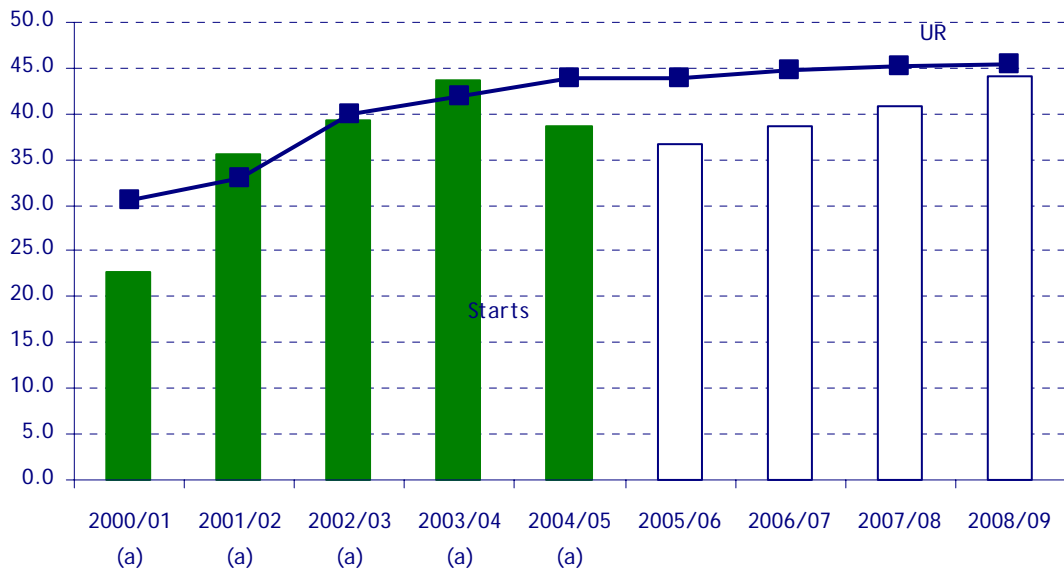
"Housing starts in Queensland fell by 11 per cent in 2004/05, and this downturn is expected to have continued over 2005/06. Starts are forecast to fall by 5 per cent over the entire 2005/06 financial year, to 36,630, but recover by a moderate 5 per cent in 2006/07. Interest rates mark the key risk to this outlook for 2006/07."

"Actual expenditure on detached houses declined during the March 2006 quarter, as was the case for multi-units, but the falls were not alarming."

"Total expenditure on new construction will be down by around 4 per cent in 2005/06, less than for Australia as whole,. Spending is forecast to fall by a further 2 per cent in 2006/07 to a value of nearly \$7.3 billion, not what could be called a weak amount."

"Renovation activity increased by 5 per cent over 2004/05, and a stronger rise of 8 per cent is forecast for 2005/06. This will take the value of renovations to an unprecedented \$6.3 billion. Spending on renovations is forecast to fall by a modest 3 per cent in 2006/07 to just under \$6.1 billion, still the second highest level of expenditure on record."

(’000) Underlying Requirement for Housing vs Actual and Forecast Dwelling Starts - Qld



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HOUSING REPORT CARD FOR SA HIGHLIGHTS RISK FROM HIGHER RATES

South Australia's most comprehensive report card on the future of the housing industry highlights a further slowing in 2006/07 together with the risk of a deeper, more prolonged downturn resulting from a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA South Australia State Outlook* publication, HIA's South Australia Executive Director, Mr Robert Harding, said that strong anecdotal feedback and evidence from New Home Sales point to the May rate rise taking an immediate bite out of housing.

"After a relatively strong 2005/06, South Australia's housing industry is forecast to undergo a moderate slowdown in 2006/07," Mr Harding said.

"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. Early evidence points to this situation now coming to pass in South Australia and as a consequence the risk of a sharper correction has increased," Mr Harding added.

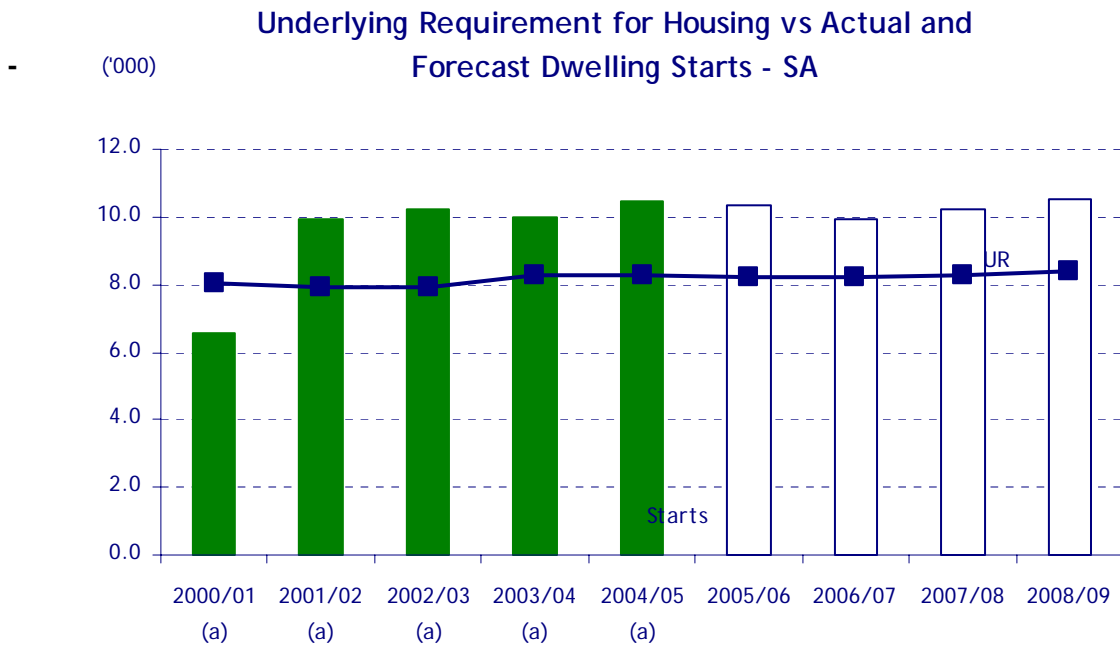
"The surprise positive story is definitely building approvals. Predicted to be only mediocre in 2006, total approvals rose by 22.8 per cent between December 2005 and March 2006. However, after the effect of the May interest rate rise hits, and with stronger petrol prices, approvals may well back track a little again through the middle part of this year."

"The first home buyer market is fluctuating in the first half of 2006. The number of first home buyer loans reached 724 in March 2006 but dropped off in April 2006, down by 17.4 per cent to 598 loans. A sustained recovery in the first home buyer market in the second half of 2006 is hard to see."

"While housing starts in South Australia rose by 11 per cent in 2004/05, a decline is expected for 2005/06. Starts are forecast to fall by a very modest 1 per cent over the 2005/06 financial year, and then by 4 per cent over 2006/07, bottoming at a level of 9,920."

"Total housing investment in South Australia is forecast to rise by 2 per cent over 2005/06, but fall by 1 per cent in 2006/07. Investment in new housing is expected to rise by 3 per cent over 2005/06, but then fall by 3 per cent over 2006/07."

"The renovations market has performed very strongly and the level of spending in 2004/05, around \$1.8 billion, is expected to be maintained in 2005/06 and again in 2006/07. The levels of spending currently taking place on renovations are historically unprecedented for the state."



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HOUSING REPORT CARD POINTS TO STRONG 2006/07 FOR HOUSING IN WA

Australia's most comprehensive report card on the future of the housing industry highlights another strong year ahead as global economic conditions continue to favour the Western Australian economy.

Commenting today on the release of the June 2006 quarter *HIA Western Australia State Outlook* publication, HIA Executive Director, Western Australia, Mr John Dastlik, said that at a time when housing activity was softer in most parts of the country, WA could look forward to another good year.

"Housing starts and actual spending on the sector will hold up well in 2006/07, running against the national trend," Mr Dastlik said.

"Further growth for the housing industry in WA is unlikely as we have hit full capacity," Mr Dastlik added.

"However, this is a sign of strong housing demand underpinned by buoyant economic conditions. The majority of Australia simply isn't in this situation."

"The housing industry in New South Wales is very soft, reflecting extremely weak conditions in Sydney which will have only been exacerbated by the interest rate rise in May."

"Dwelling investment in Victoria, South Australia, Tasmania, the Australian Capital Territory, and south east Queensland is either falling, or about to go into decline."

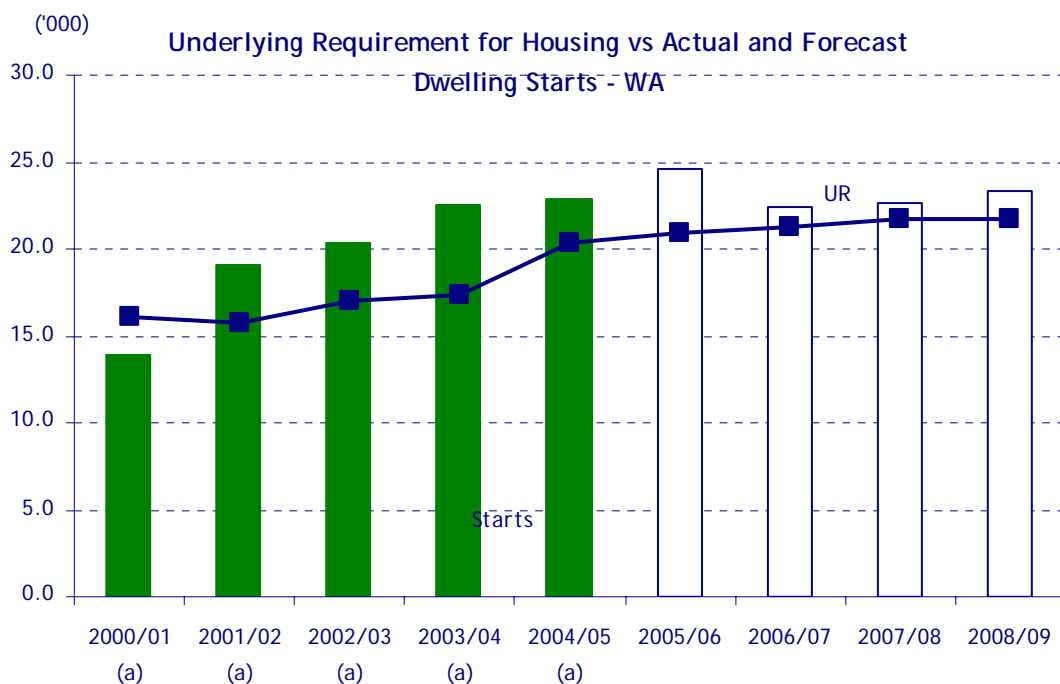
"Building approvals in Western Australia are still belting along, up by 11 per cent between December 2005 and April 2006. This is the first time that monthly house approvals have cracked the 2000 mark, and this is a very positive update for detached house construction over 2006/07."

"Housing starts increased by 4 per cent in 2004/05. Starts are expected to have risen by a stonger 8 per cent in 2005/06 to a level of 24,600, a very healthy financial year update. As a result of labour constraints, starts are forecast to dip to a level of around 22,400 in 2006/07, which would still be a very good level."

"After growing by 4 per cent in 2004/05, renovations expenditure is expected to have increased by a further 2 per cent in 2005/06. This would see renovation activity reach an unprecedented value of over \$2.4 billion, a mark that will probably be slightly pipped again by the outcome for 2006/07."

"The renovations boom in WA still has some way to run."





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HOUSING REPORT CARD FOR TASMANIA HIGHLIGHTS RISK FROM HIGHER RATES

Tasmania's most comprehensive report card on the future of the housing industry highlights a further slowing in spending on housing in 2006/07 together with the risk of a deeper, more prolonged downturn resulting from a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA Tasmania State Outlook* publication, HIA's Executive Director, Tasmania, Mr Stuart Clues, said that the May rate rise runs the risk of taking a further bite out of housing.

"Tasmania's housing industry is undergoing a moderate slowdown and we should see that situation continue in 2006/07," Mr Clues said.

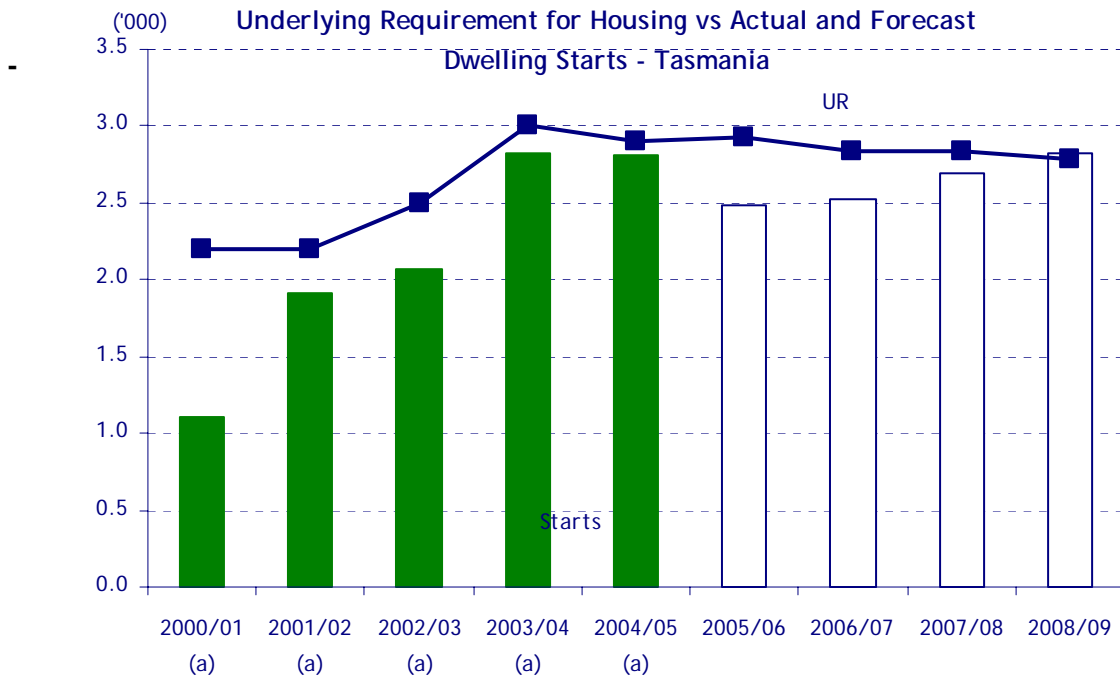
"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. A rate rise and a more uncertain climate surrounding interest rates will not be helpful for our industry," Mr Clues added.

"The volume of work done on new housing fell by 15.2 per cent in the March 2006 quarter, with work done on detached houses falling by 14.1 per cent to an annual level of \$380 million."

"After floating around the 220 mark for much of 2005, monthly dwelling approvals fell to 183 in April 2006. This is the lowest they have been in over three years and signals further softness in new residential expenditure ahead."

"Housing starts were flat in Tasmania over 2004/05, but they are forecast to fall by 12 per cent over the 2005/06 financial year, reaching a level of 2,480. A modest recovery developing in 2006/07 is forecast to see growth of 2 per cent overall. Interest rates mark the key risk to this outlook."

"Renovation activity is forecast to increase by a marginal 1 per cent in 2005/06, a very encouraging result following a fall of 4 per cent the previous year. In 2006/07, spending on renovations is forecast to fall by 3 per cent to a still very healthy level of \$543 million."



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HOUSING REPORT CARD POINTS TO HEALTHY 2006/07 FOR TOP END HOUSING

Australia's most comprehensive report card on the future of the housing industry highlights another healthy year ahead as global economic conditions continue to favour the Northern Territory economy.

Commenting today on the release of the June 2006 quarter *HIA Northern Territory Outlook* publication, HIA Regional Director, Northern Territory, Mr Graham Kemp, said that at a time when housing activity was softer in most parts of the country, the NT could look forward to another good year.

"Housing starts will be down a little but still high and actual spending on the sector will hold up well in 2006/07. This runs against the national trend," Mr Kemp said.

"Strong housing demand is set to continue, underpinned by buoyant economic conditions. The majority of Australia simply isn't in this situation," Mr Kemp added.

"The housing industry in New South Wales is very soft, reflecting extremely weak conditions in Sydney which will have only been exacerbated by the interest rate rise in May."

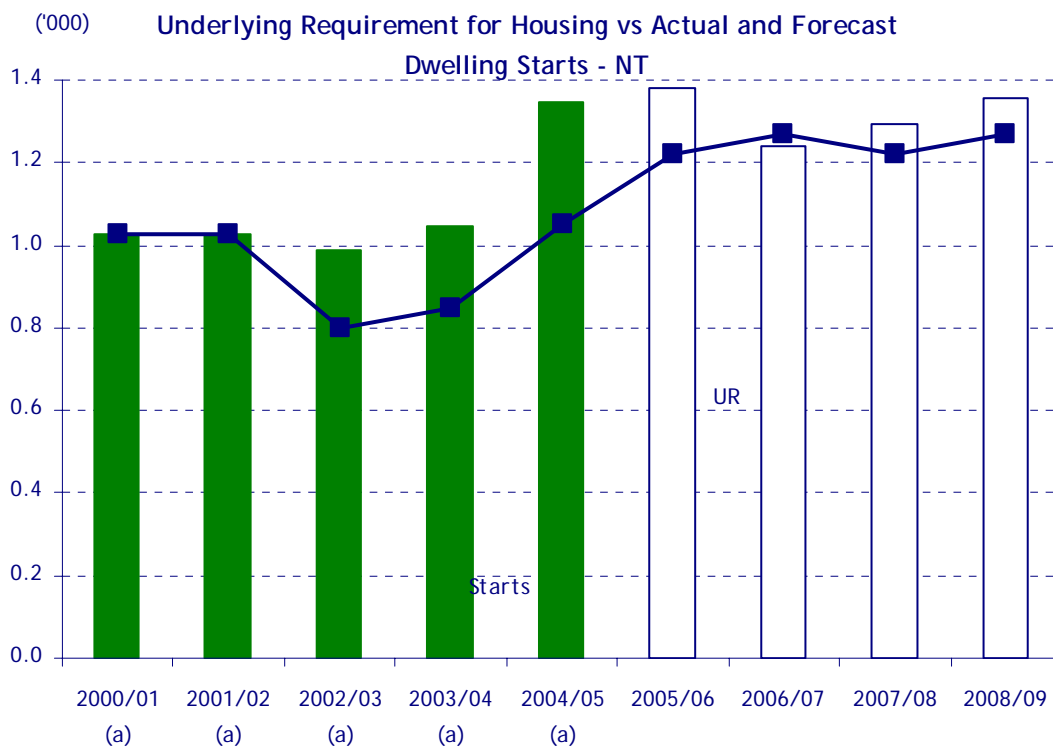
"Dwelling investment in Victoria, South Australia, Tasmania, the Australian Capital Territory, and south east Queensland is either falling, or about to go into decline."

"When comparing the 12 months to April 2005 with the 12 months to April 2006, dwelling approvals in the NT have fallen by a moderate 5 per cent."

"Housing starts shot up by 35 per cent over 2003/04 – 2004/05 and are expected to rise by another 2 per cent in 2005/06, to a level of 1,380. From such a high level starts are forecast to drop by 10 per cent in 2006/07, to what would still be a strong level of 1,240."

"Actual expenditure on new housing, which always occurs with a lag, is expected to surge by 31 per cent in 2005/06, and hold there in 2006/07 at a very strong value of \$265 million."

"On the renovations front, spending is expected to hold steady at around \$214 million in 2005/06, a stunning achievement given the 44 per cent growth burst put on in 2004/05. Renovation activity is forecast to decline by a moderate 3 per cent in 2006/07, which would still see it sitting at the second highest level on record."



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HOUSING REPORT CARD FOR ACT HIGHLIGHTS RISK FROM HIGHER RATES

The ACT's most comprehensive report card on the future of the housing industry highlights the risk of a more prolonged downturn resulting from a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA ACT Outlook* publication, HIA's ACT/Southern NSW Executive Director, Ms Caroline Lemezina, said that the May rate rise runs the risk of taking another bite out of housing.

"Following a couple of years of weakness the housing industry in the ACT is expected to find a base over the course of 2006/07," Ms Lemezina said.

"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. The risk is that in a higher and more uncertain interest rate climate, the recovery in housing is either muted, or delayed," Ms Lemezina added.

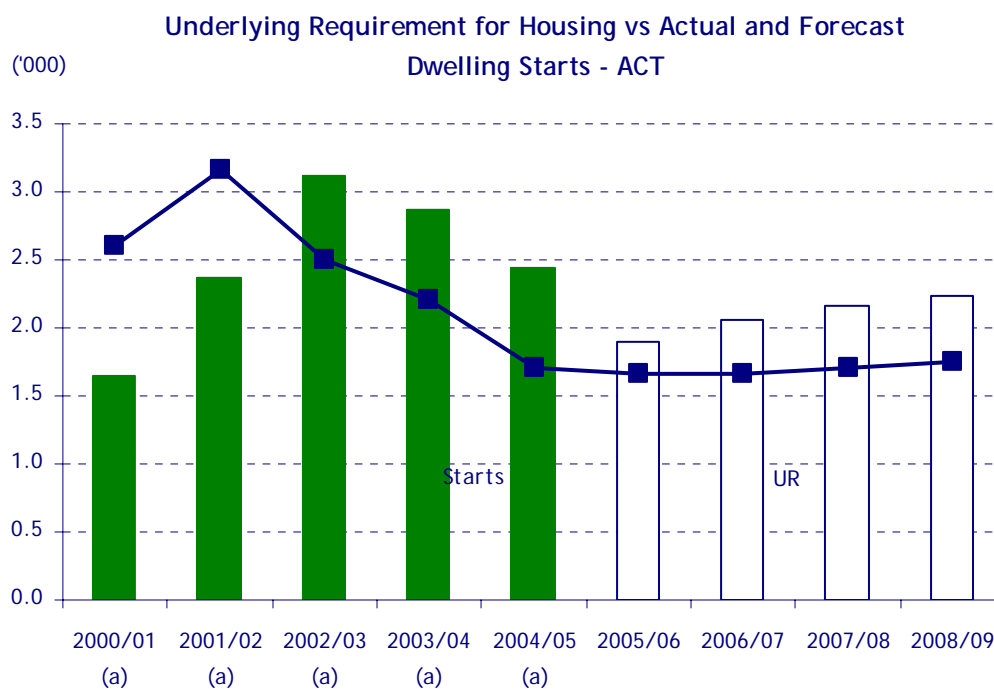
"At present, forward indicators such as building approvals continue to be quite choppy, but some improvement is starting to show through."

"The first home buyer market continues to struggle with the number of first home buyer loans still below the long term average of 156 loans per month," she added.

"The May interest rate rise will inevitably be a major blow to housing affordability in the ACT. The mortgage repayment to income ratio will quickly lose much of the ground that it has made up over the past 18 months."

"Housing starts in the ACT are forecast to fall by a significant 22 per cent over 2005/06, from 2,440 starts in 2004/05 to 1,900 starts. However, a recovery is expected to show through over 2006/07 with starts forecast to increase by 8 per cent. Interest rates form the key risk to this recovery"

Expenditure on renovation work is forecast to rise by 3 per cent in 2005/06. We were previously expecting a relatively sharp fall but that now looks to be unlikely, which is an encouraging development. Renovation activity is forecast to hold largely steady in 2006/07 at a healthy level of \$325 million."



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HOUSING REPORT CARD HIGHLIGHTS RISK FROM HIGHER RATES

Australia's most comprehensive report card on the future of the housing industry highlights a relatively subdued year ahead for housing in the Hunter region, a situation not helped by a higher and more uncertain interest rate environment.

Commenting today on the release of the June 2006 quarter *HIA New South Wales Outlook* publication, HIA Regional Director, Hunter Region, Mr Steve Jeffries, said that the May rate rise ran the risk of delaying a recovery in housing.

"The housing industry continues to undergo a moderate slowdown nationally, and unlike down south in Sydney, this situation is largely reflected in the Hunter," Mr Jeffries said.

"However, in early 2006 the biggest fear within the housing industry was that of higher interest rates and their negative effect on sentiment towards housing. Early evidence points to this situation now coming to pass and as a consequence the risk of a delay in a sustained recovery in housing has increased," Mr Jeffries said.

"The slowdown in housing in the Hunter Region is nevertheless not occurring to the magnitude seen in Sydney."

"For instance, since the peak of the cycle housing starts in Sydney have fallen by more than twice the decline seen here in the Hunter."

"Building approvals in the Hunter are expected to have fallen by around 9 per cent in 2005/06, following a 6 per cent drop in 2004/06. A recovery is forecast to come through over 2006/07 – 2007/08 with approvals rising by 11 per cent over these two years."

"The key risk to the outlook is a higher and more uncertain interest rate climate."

"All up, however, the economic fundamentals of the region are sound and we remain confident that as we proceed through 2006/07 we will see signs of a housing recovery coming through."

- Ends -

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