



## **Australian Housing & Renovation Markets**

Danks Trade Show and Conference  
Adelaide  
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**Harley Dale**  
Chief Economist  
Housing Industry Association (HIA)

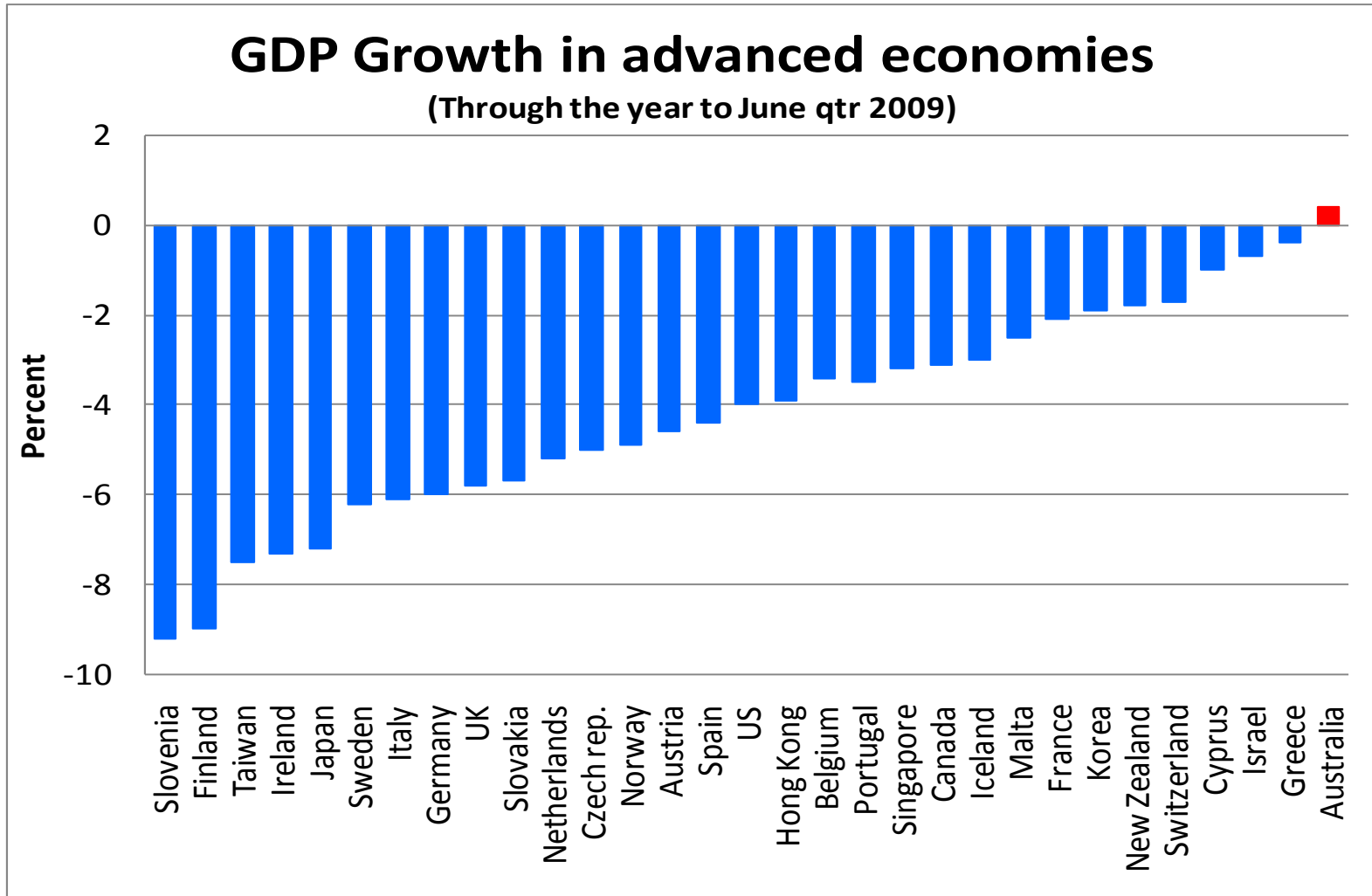


## Where are we heading?





## An Economic Health Check – the world versus Australia





## An Economic Health Check – Australia

Table 2 – Size of Discretionary Fiscal Expansions  
(Per cent of GDP)

	2009	2010
China	3.1	2.7
Australia	2.9	2.0
Japan	2.4	1.8
United States	2.0	1.8
Canada	1.9	1.7
Germany	1.6	2.0
United Kingdom	1.6	0.0
France	0.7	0.8
Italy	0.2	0.1

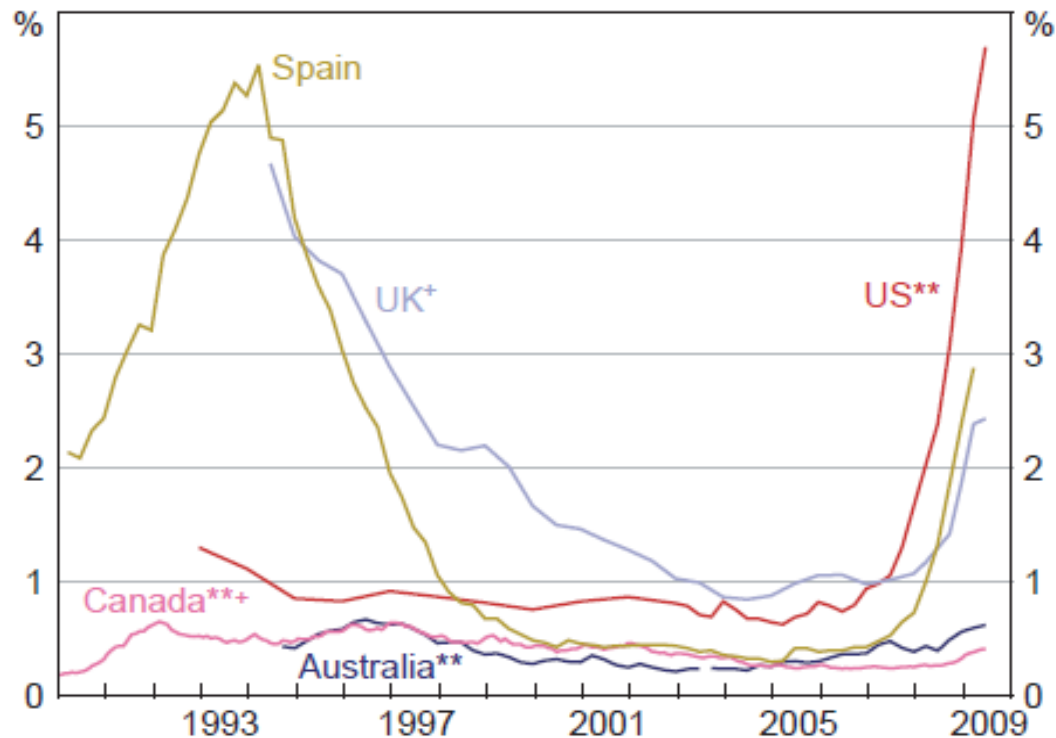
Note: Data reflect budgetary cost of measures in each year compared to 2007 (baseline), as at October 2009. Numbers do not include acquisition of assets (including financial sector support) or measures planned before the crisis. Source: IMF Fiscal Monitor, November 2009.



## An Economic Health Check – Australia

### Non-performing Housing Loans

Per cent of loans\*



\* Per cent of loans by value. Includes 'impaired' loans unless otherwise stated.  
For Australia, only includes loans 90+ days in arrears prior to September 2003.

\*\* Banks only.

+ Per cent of loans by number that are 90+ days in arrears.

Sources: APRA; Bank of Spain; Canadian Bankers' Association; Council of Mortgage Lenders; FDIC; RBA

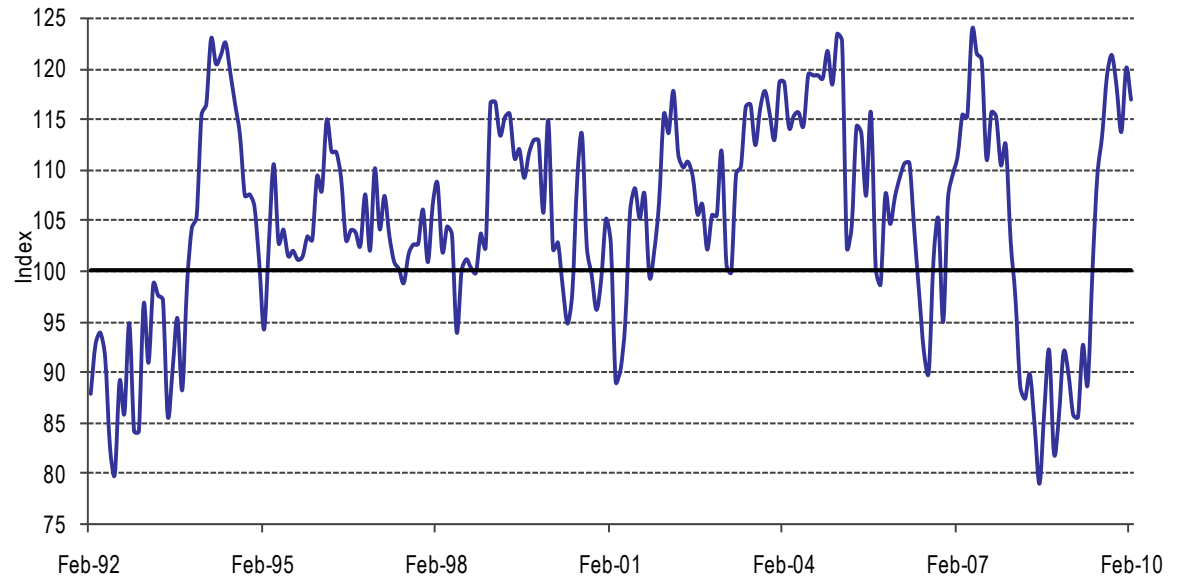


## The Australian Consumer

- In Australia, consumer confidence has come roaring back because ....
- Home prices are rising, petrol prices are relatively lower, share markets are recovering, the Aussie dollar is higher again, and ...
- ... far more people still have a job than was feared through much of 2009.

### Consumer Confidence

Source: Westpac-Melbourne Institute





## The Australian Consumer

- The national unemployment rate peaked at less than 6 per cent because ....
- ... we have a more flexible labour market than we used to and therefore ...
- ... we reduced the number of hours worked as well as laying people off.

Australia's Unemployment Rate

Source: ABS Labour Force





## **The Housing Industry**

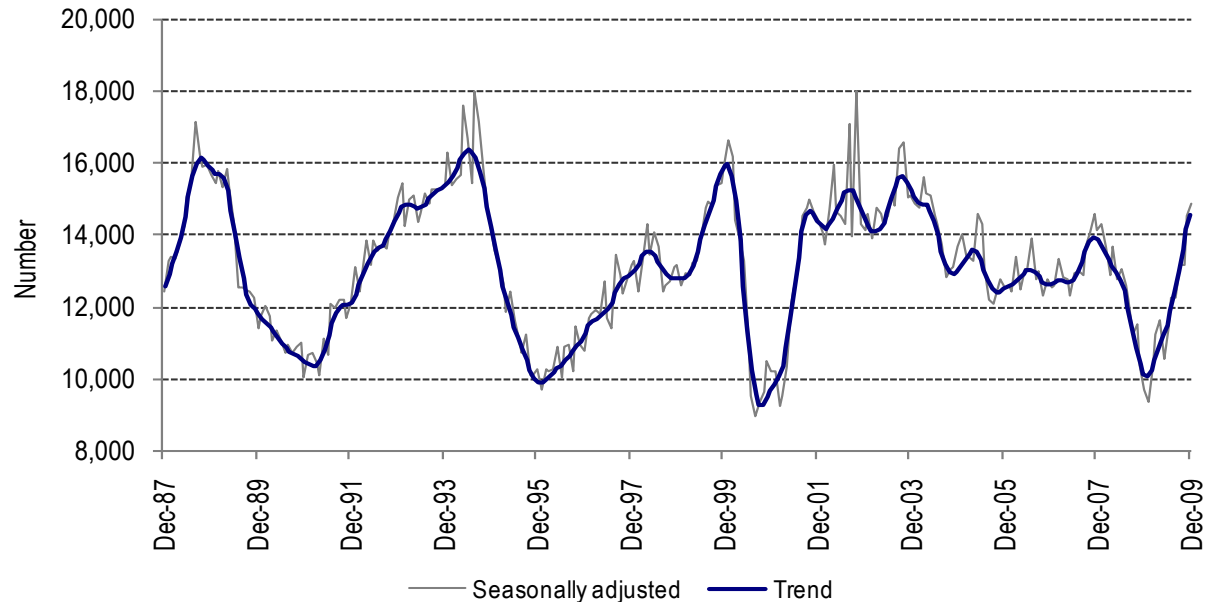


## Sector 1: New Homes

- Dwelling Approvals – the heartbeat of the new home industry
- Approvals are finally on the rise again
- The industry needs to build 190,000 homes per annum to satisfy population growth
- Have been below this level since 2003

Building Approvals - Australia

Source: ABS 8731



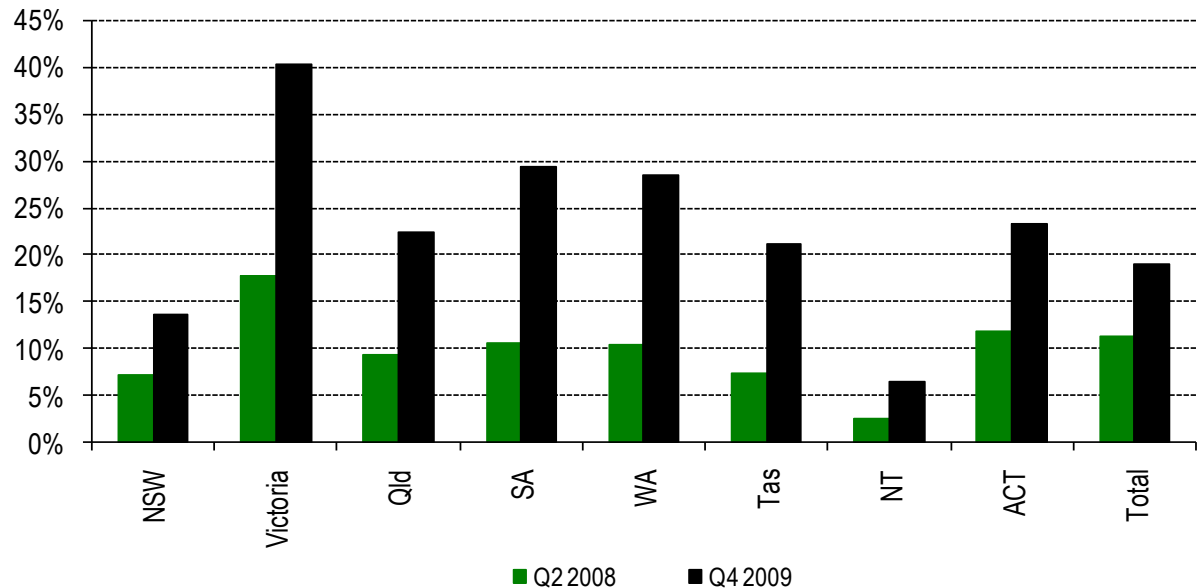


## Sector 1: New Homes

- The tripling of the First Home Owner Grant was a very successful policy because ...
- ... it lifted the share of FHB's building new homes

Share of FHB New Homes in Total

Source: HIA; ABS; CBA



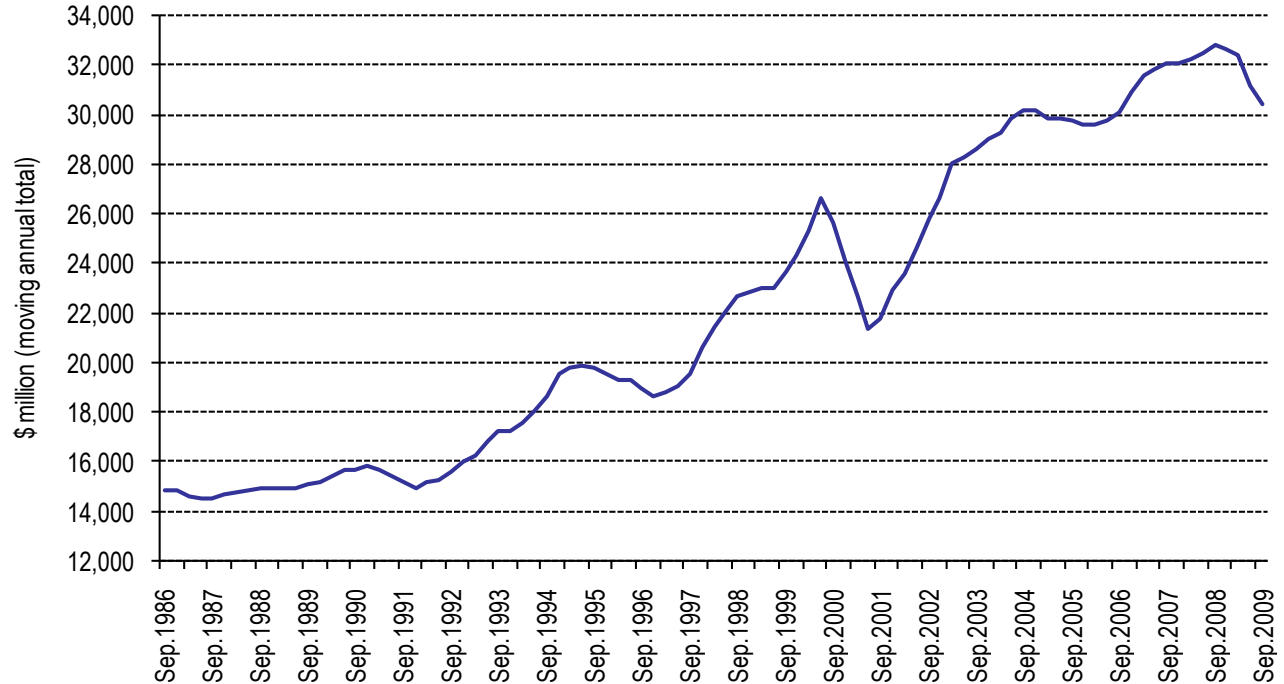


## Sector 2: Renovations and Additions

- Renovations, additions and repairs had a stronger decade than new home building
- However, investment fell by 4% in 2008/09, but increased by 8% in the September 2009 quarter.
- Renovation is not as popular when home values aren't rising

Renovations Investment in Australia

Source: ABS 5206



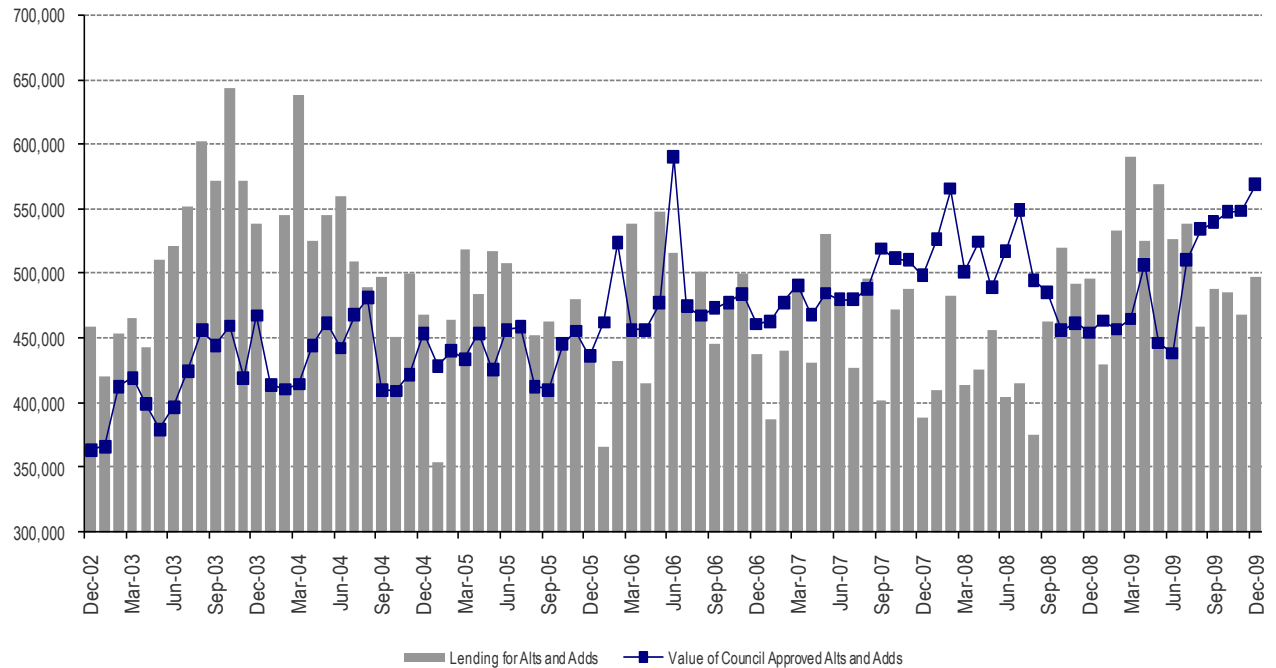


## Sector 2: Renovations and Additions

- The most popular major renovation jobs are ...
- ... Ground floor and second floor extensions, kitchens, and bathrooms.
- This market is coming back.

Renovations and Additions Market - Australia

Monthly Lending and Monthly Council Approvals





## Sector 2: Renovations and Additions

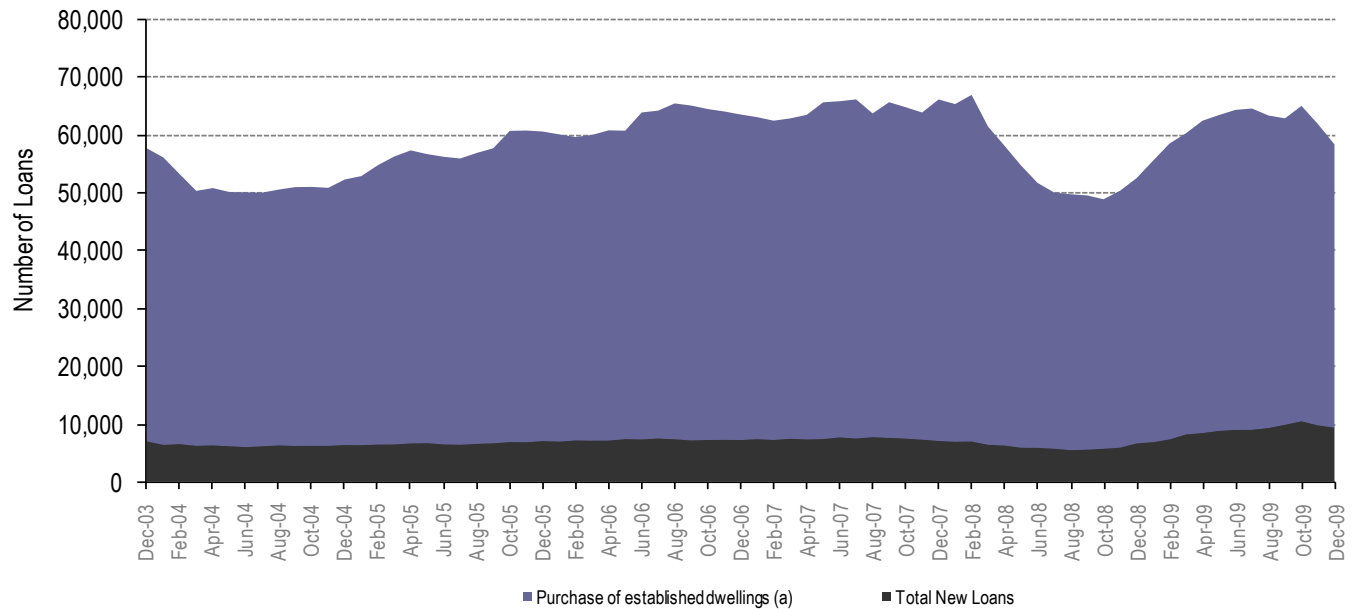
Have Renovated - Type of renovation	Number	%
Re-painting	2811	55%
General Repairs	2282	44%
Landscaping/Outdoor Building Project	2161	42%
Deck or pergola	1732	34%
New flooring	1643	32%
Bathroom makeover	1411	27%
Rewiring/ Lighting	1293	25%
<b>Kitchen makeover</b>	<b>1201</b>	<b>23%</b>
Internal modification	1196	23%
Roofing (guttering/ repair/ painting)	1183	23%
<b>Kitchen replacement</b>	<b>1177</b>	<b>23%</b>
New Doors	1108	22%
Bathroom replacement	1062	21%
Laundry makeover	1020	20%
Built in Heating/ Cooling Systems	1005	20%
Driveway	870	17%
New Windows	712	14%
Garage Addition	625	12%
Other	621	12%
Laundry replacement	591	11%
Ground Floor Extension	466	9%
Outdoor Room	427	8%
Swimming Pool	304	6%
Restumping	214	4%
Second Storey Extension	181	4%
<b>Total</b>	<b>5148</b>	



## Sector 3: The Established Real Estate Market

- Credit constraints in financial markets haven't had a big impact upon the availability of finance for credit worthy 'regular' home loans but ...
- ... higher interest rates may

Housing Finance, Australia  
Source: ABS 5609

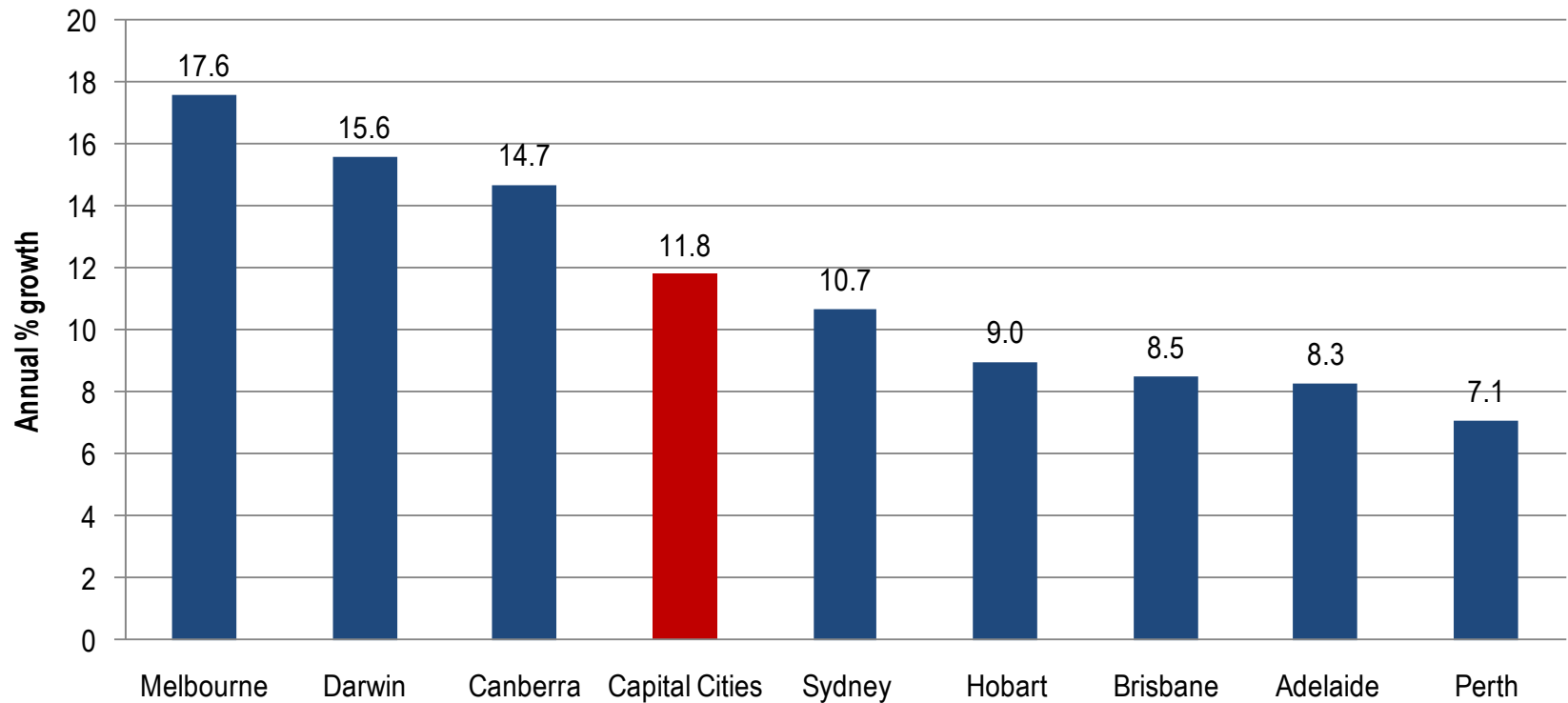




## Sector 3: The Established Real Estate Market

Annual change in home values - January 2010

Source: RP Data/Rismark

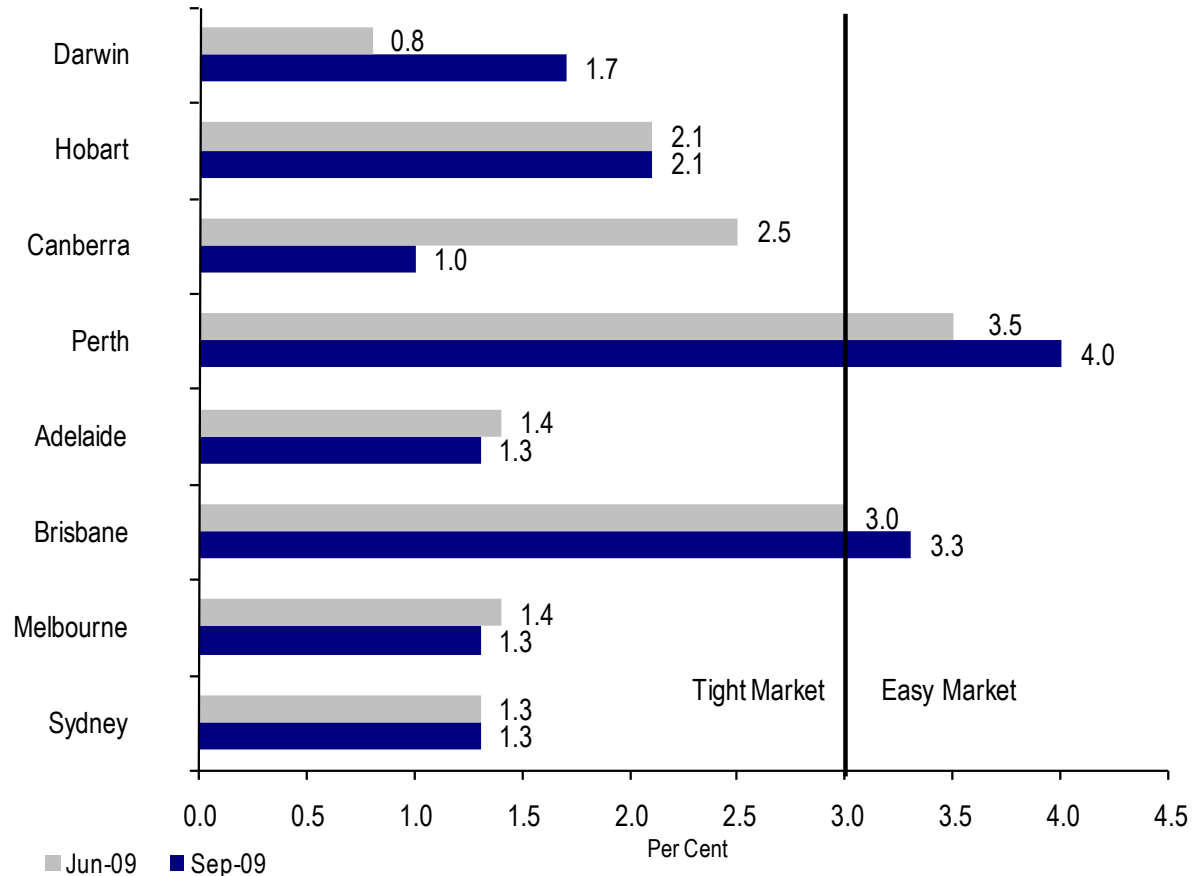




## Sector 4: The Rental Market

Vacancy Rate, Capital Cities, September 2009

Source: REIA



- The real casualty of the current housing squeeze
- Vacancy rates are at tight levels
- New investor activity is woefully weak



## State by State



## New South Wales

- Housing remains in the doldrums, but early signs of a turnaround are there in approvals and loans.
- Economy has under-achieved for years, lowest growth state and high unemployment.
- Low interest rates and stronger population growth are a bright light for the state.
- The clock is ticking for a sustainable turnaround to take effect.
- NSW is Australia's largest state but only builds the third highest number of new homes each year.



## Victoria

- Still the goldilocks state – not too hot and not too cold
- The economy slowed, but proved resilient
- Manufacturing jobs took Vic to the worst unemployment in the country, but it is rebounding.
- New housing is the best in the country as ...
- ... house and land packages are relatively affordable



## Queensland

- A huge infrastructure spend is well underway and that is positive for the state.
- Housing market has deteriorated markedly in the state – weakest in the nation in 2009 because Suncorp turned off the tap.
- Japan's weakness is a problem for QLD, but China is keeping things from turning ugly.
- Population growth remains reasonably strong ...
- ... and the medium term prospects are good but..
- ...2010 will be a tough year



## South Australia

- The “10,000” state is now more like the “12,000” state
- SA economy has performed well through the credit crisis.
- Land is relatively available although it's been rising in price and ...
- ...the housing market is currently under-performing
- The kick from resources will be large and ...
- ... this is already reflected in high confidence for the future but ...
- ... a dire lack of water is a massive constraint



## Western Australia

- With growth again come the same old challenges.
- There has been a marked improvement in sentiment and activity over the last 6 months.
- WA economy is even more reliant on a strong resources sector than ever and ...
- ... China remains key for exports.
- Residential land availability is becoming a problem again already.



## Tasmania

- Along with SA, Tasmania was the over-achieving state last decade.
- A relatively affordable housing market together with a 'late to the party pass' means Tassie largely skipped the 'recession' and ...
- ... Tassie remains among the most consistent and strongest economies.
- Good prospects ahead and mainland investment in the Apple Isle reflects that outlook.



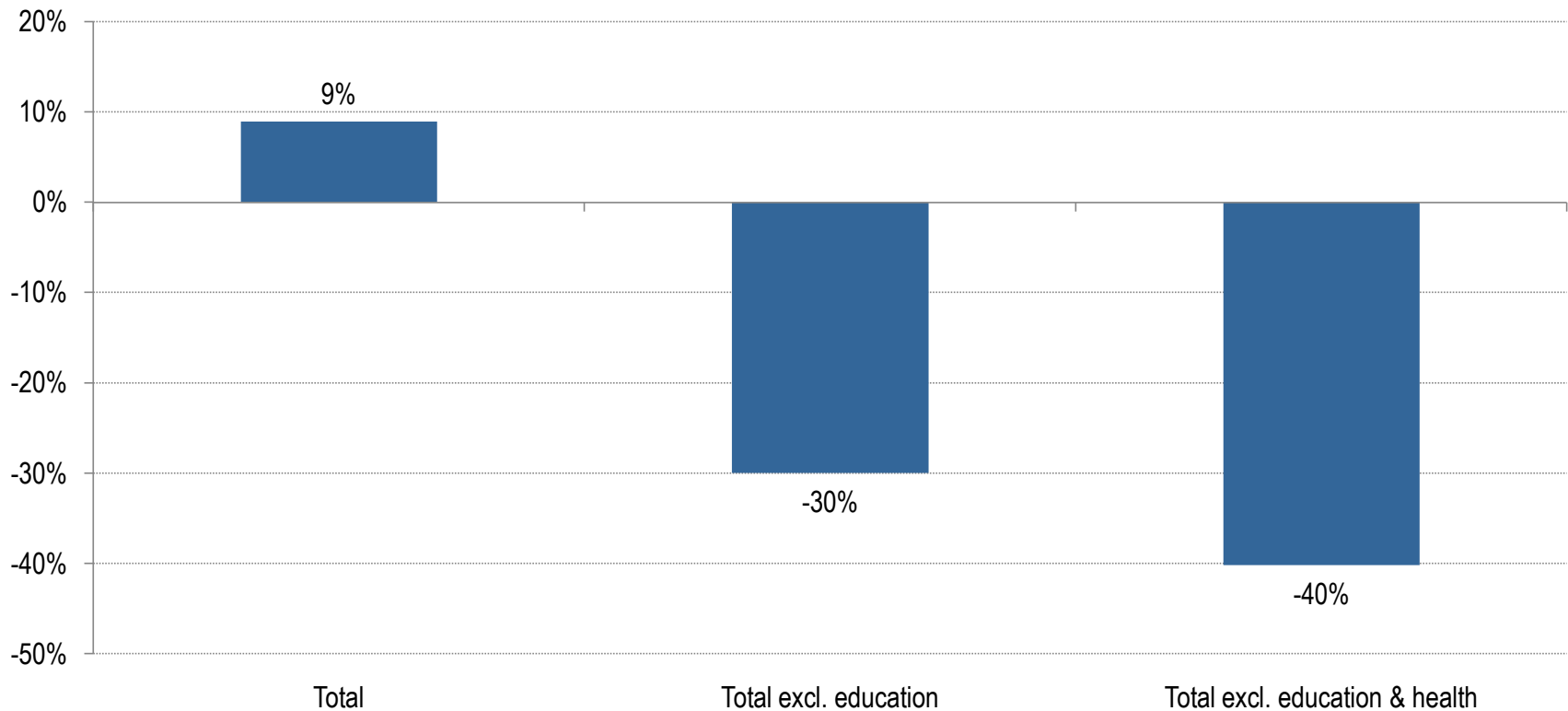
## **Additional Issues to consider**



## Non-res building looks less than crash hot

### Non-res building - Australia

Source: ABS



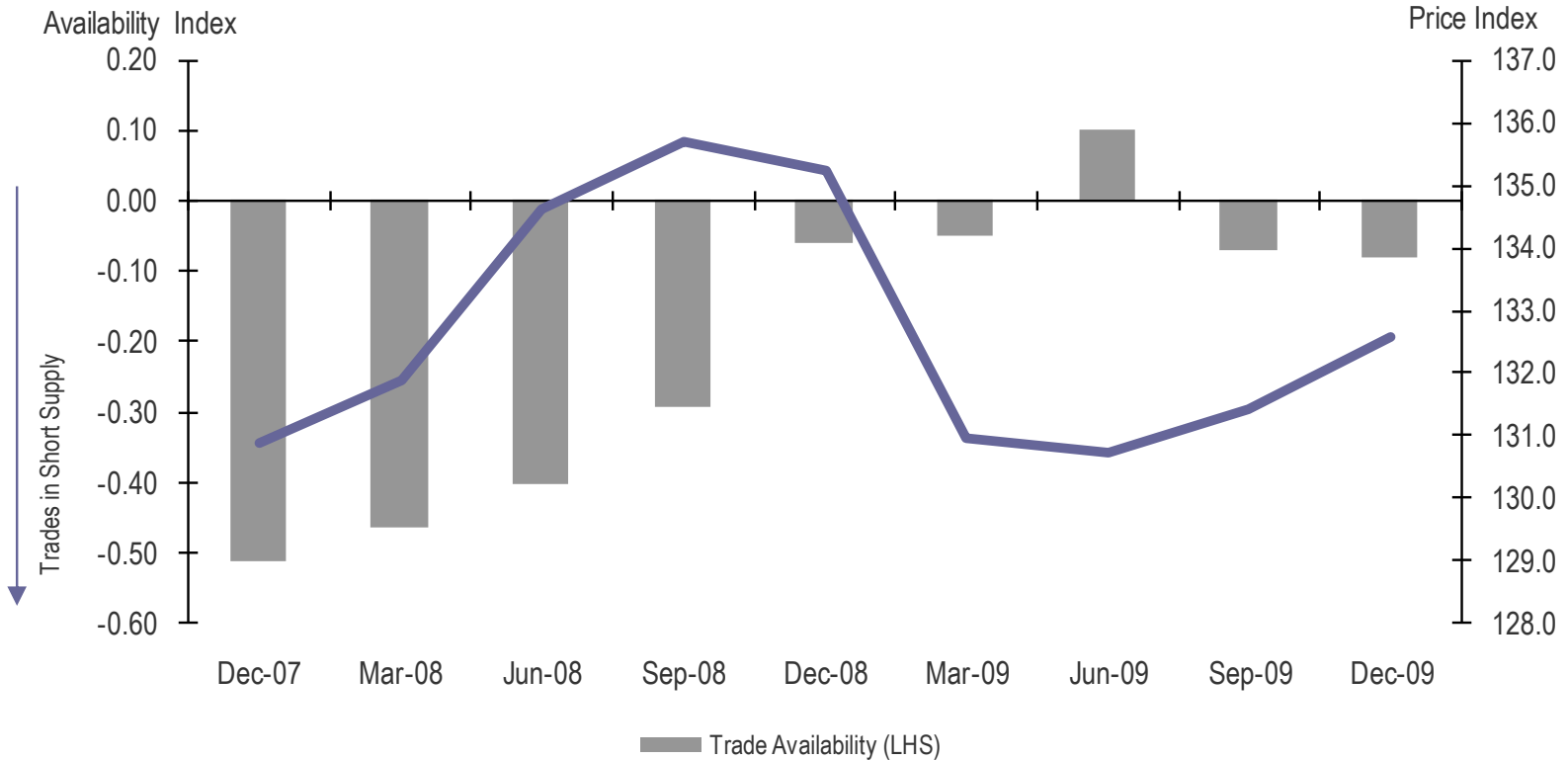


## Trade Prices and Availability

- Skilled trades are already moving back into short supply

### Home Building Trade Prices and Availability - Australia

Source: HIA-Austral Bricks Trade Report

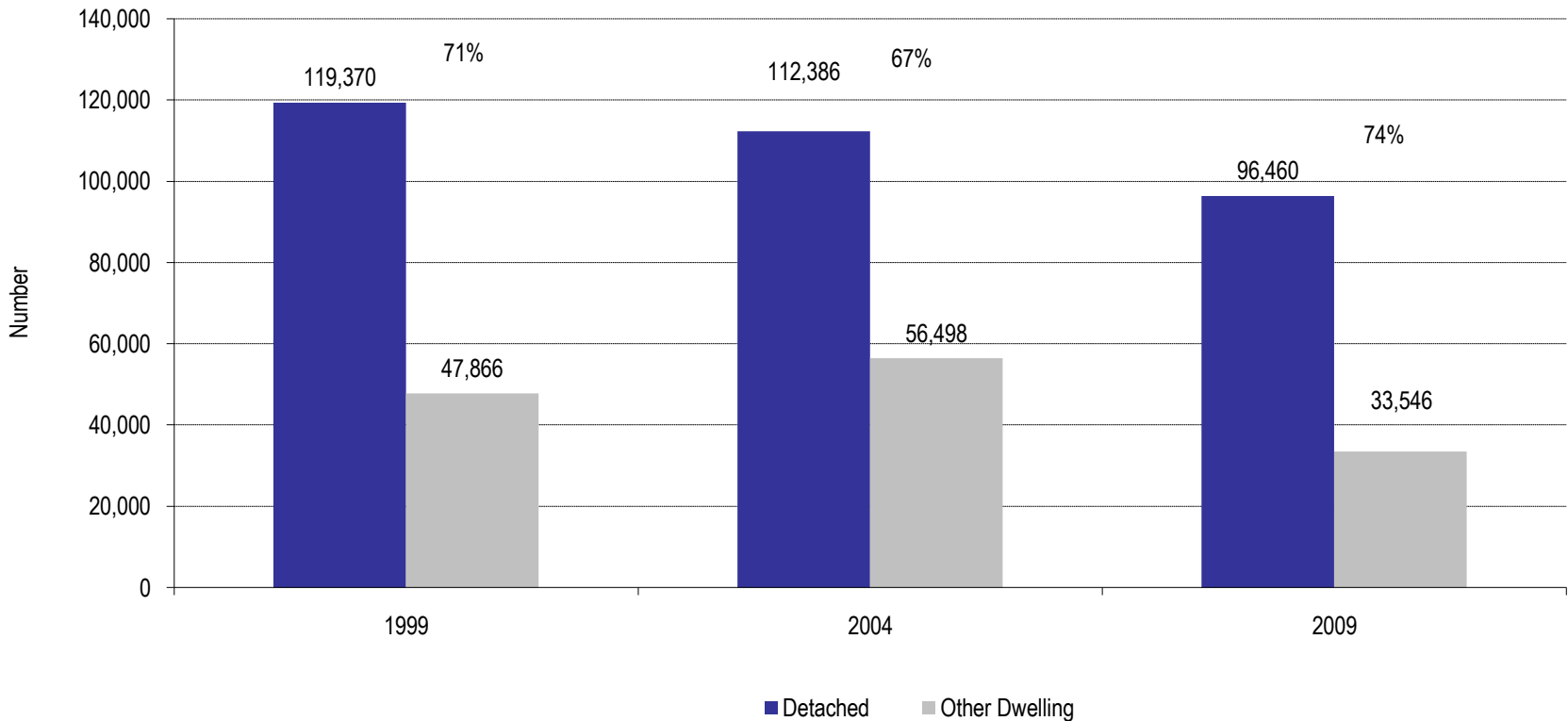




## The Built Form – Types of Dwellings

Detached vs 'Other Dwelling' Approvals - Australia

Source: ABS Building Approvals

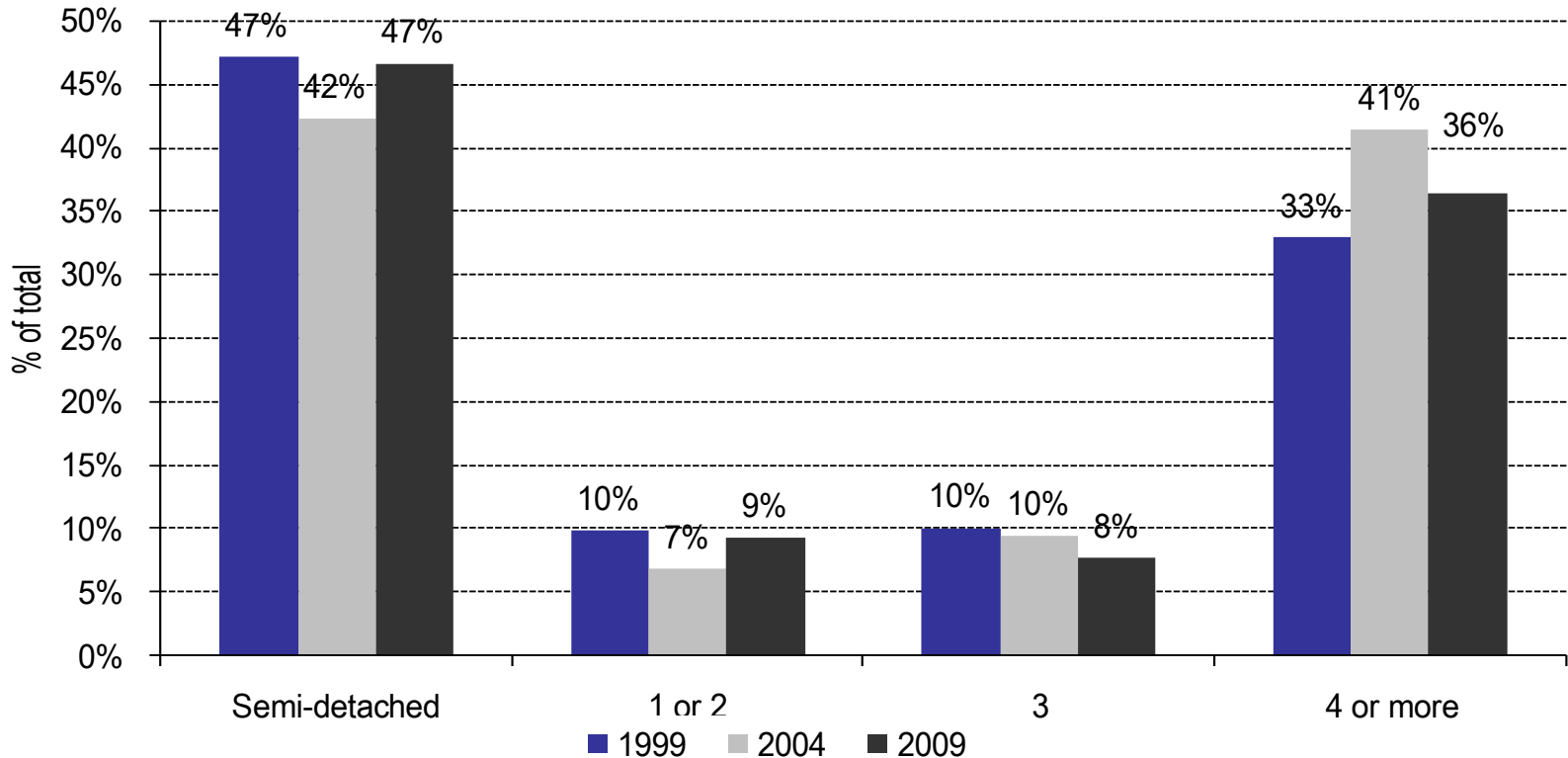




## The Built Form – Types of Dwellings

The 'Other Dwelling' Market - Australia

Source: ABS Building Approvals





## The Future



## Interest rates & the subsiding sea of stimulus





## The Housing Winners

- Trades that have exposure to residential construction
- 'Upgrade buyers' – interest rates are still relatively low and many more of them have a job still than thought would be the case
- Homeowners – prices will continue to rise this year
- Victorian and WA home builders
- Landlords – tight rental markets look set to continue in 2010



## The Housing Losers

- Trades that have exposure to non-residential construction
- Land Developers and small/medium sized builders – Government charges have made it a profit-less industry and credit availability is still very tight
- First home buyers – Federal boost has gone and interest rates are on the rise
- Renters – housing affordability is deteriorating and median weekly rents are increasing strongly



## Housing Starts Outlook

### HOUSING STARTS: by state and territory

*thousand dwellings commenced*

Starts	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2003/04 (a)	45.72	45.33	44.22	10.39	22.55	2.85	1.04	2.89	174.99
2004/05 (a)	39.40	40.97	39.31	11.01	22.90	2.83	1.33	2.46	160.20
2005/06 (a)	32.92	39.35	37.72	10.78	25.90	2.56	1.35	1.87	152.45
2006/07 (a)	29.78	38.64	41.14	11.17	24.73	2.86	1.40	2.33	152.05
2007/08 (a)	31.50	41.71	44.83	11.89	22.48	2.90	1.05	2.26	158.61
2008/09 (a)	23.28	41.81	28.65	11.97	18.26	2.89	1.15	2.64	130.65
2009/10	28.94	46.63	27.89	11.93	20.11	3.08	1.31	2.42	142.31
2010/11	34.32	47.85	34.15	12.18	23.01	3.13	1.45	2.66	158.75
2011/12	36.04	46.89	40.03	12.30	23.47	3.06	1.51	2.66	165.96

% change:

2004/05 (a)	-14	-10	-11	6	2	-1	28	-15	-8
2005/06 (a)	-16	-4	-4	-2	13	-9	2	-24	-5
2006/07 (a)	-10	-2	9	4	-5	12	3	24	0
2007/08 (a)	6	8	9	6	-9	1	-25	-3	4
2008/09 (a)	-26	0	-36	1	-19	0	10	17	-18
2009/10	24	12	-3	0	10	7	14	-8	9
2010/11	19	3	22	2	14	1	11	10	12
2001/12	5	-2	17	1	2	-2	4	0	5

Updated November 2009

- Housing starts are forecast to increase by 9% in 2009/10 and by 17% over the following 2 years



## Renovation Forecasts

### HOUSING RENOVATIONS FORECAST: by state and territory

*Value of investment, \$ million, Chain Volume Measure*

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2003/04 (a)	10,105	6,689	6,334	1,978	3,291	704	203	390	29,834
2004/05 (a)	9,920	6,427	6,656	1,997	3,462	683	290	345	29,850
2005/06 (a)	9,160	5,995	7,026	1,971	3,426	704	315	362	28,989
2006/07 (a)	8,635	6,379	7,852	2,188	3,774	735	261	341	30,166
2007/08 (a)	8,625	6,941	7,552	1,878	4,565	798	204	384	30,946
2008/09 (a)	8,239	6,881	7,120	2,069	4,205	811	210	314	29,849
2009/10	8,404	6,950	7,334	2,110	4,373	827	218	314	30,481
2010/11	8,656	7,228	7,627	2,153	4,548	844	229	320	31,561
2011/12	8,916	7,445	8,008	2,196	4,776	852	241	330	32,763
<b>% change</b>									
2004/05	-9	-10	11	0	4	0	56	-7	-3
2005/06	0	0	0	0	0	0	0	0	0
2006/07	-6	6	12	11	10	4	-17	-6	4
2007/08	0	9	-4	-14	21	8	-22	12	2
2008/09	-4	-1	-6	10	-8	2	3	-18	-4
2009/10	2	1	3	2	4	2	4	0	2
2010/11	3	4	4	2	4	2	5	2	4
2011/12	3	3	5	2	5	1	5	3	4

(a) = actual

- Renovations investment is forecast to hit a new record in 2010/11



**Thank you for your time this morning**

**Harley Dale**  
HIA Chief Economist

*March 2010*

<http://economics.hia.com.au>