

DOWNTURN IN ACTIVITY WILL HOLD UP PRICES

Australia's most comprehensive report card on the residential sector highlights a weaker short term outlook reflective of sharply higher borrowing costs, labour rates, and building materials prices.

The new home building sector will be weak for some time yet as higher interest rates and construction costs fuel a widening gap between the level of new housing required and the volume of new stock actually being built.

Commenting today on the release of the March 2008 quarter *HIA National Outlook* publication, HIA Chief Economist, Harley Dale, said that the national new home building cycle was unlikely to turn up until 2009/10.

"Australia is enjoying its 17th year of economic expansion at the same time as the weakness in new home building looks set to last for an unprecedented five consecutive years," Mr Dale said.

New dwelling starts are forecast to be flat in 2008/09. The last up-cycle ended in 2003/04.

"The lack of new housing supply is driving up rents and is holding up real estate prices for existing housing stock," Mr Dale said.

"Right now, however, the chronic shortage of housing stock is generating a real social problem via a dislocating impact on lower income households. Policies on the table need to translate into activity on building sites, in a matter of months not a matter of years," said Harley Dale.

Contrary to new construction, the renovations sector is running strongly.

"Total investment in renovations is expected to post growth of 4 per cent in 2007/08 to surpass the \$30 billion mark for the first time," Mr Dale said.

"In part, the health of the renovations sectors is fuelled by astronomical transaction charges on property coupled with taxes and charges on new residential dwellings," added Mr Dale.

A shortage of housing stock will maintain house prices, although rate hikes will see a moderate cooling in existing house prices. This is primarily a price correction.

"Talk of widespread falls in house prices is way off the mark," Harley Dale said.

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Note to editors

1. HIA's State and National Outlook publications are a comprehensive quarterly roundup of key housing indicators on a state by state and National basis. There are nine reports in the set.
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 on home sales, affordability, and trade prices and availability.
3. For a copy of the full 80 page HIA Outlook reports (media only) please contact Kirsten Lewis on (02) 6245 1393 or k.lewis@hia.com.au Copies of HIA State and National Outlook can be ordered from <http://economics.hia.asn.au>