



## **The Residential Outlook for Victoria**

**Melbourne**  
**February 10, 2010**

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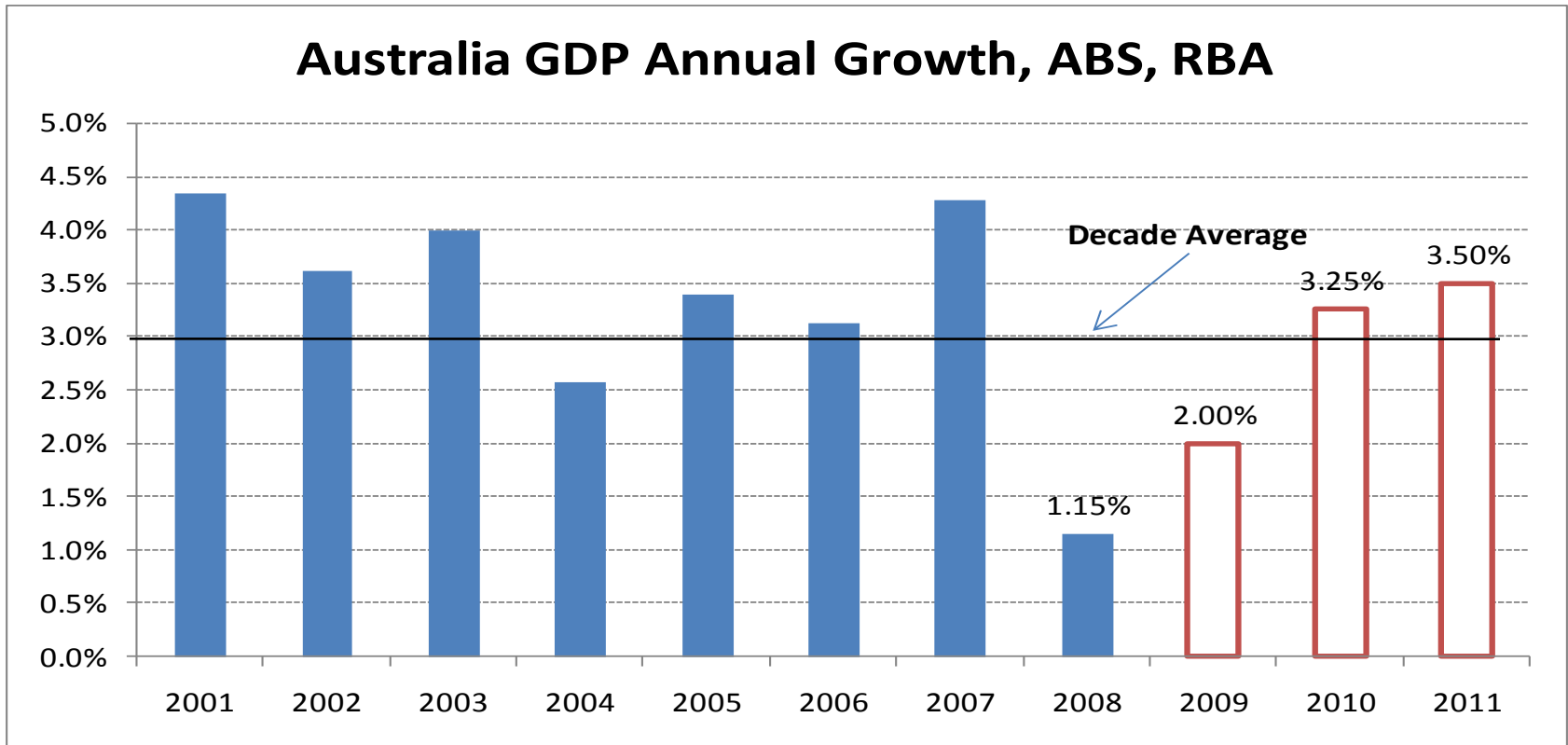
February 2010



## **Economic Backdrop**



## Australia - the lucky country



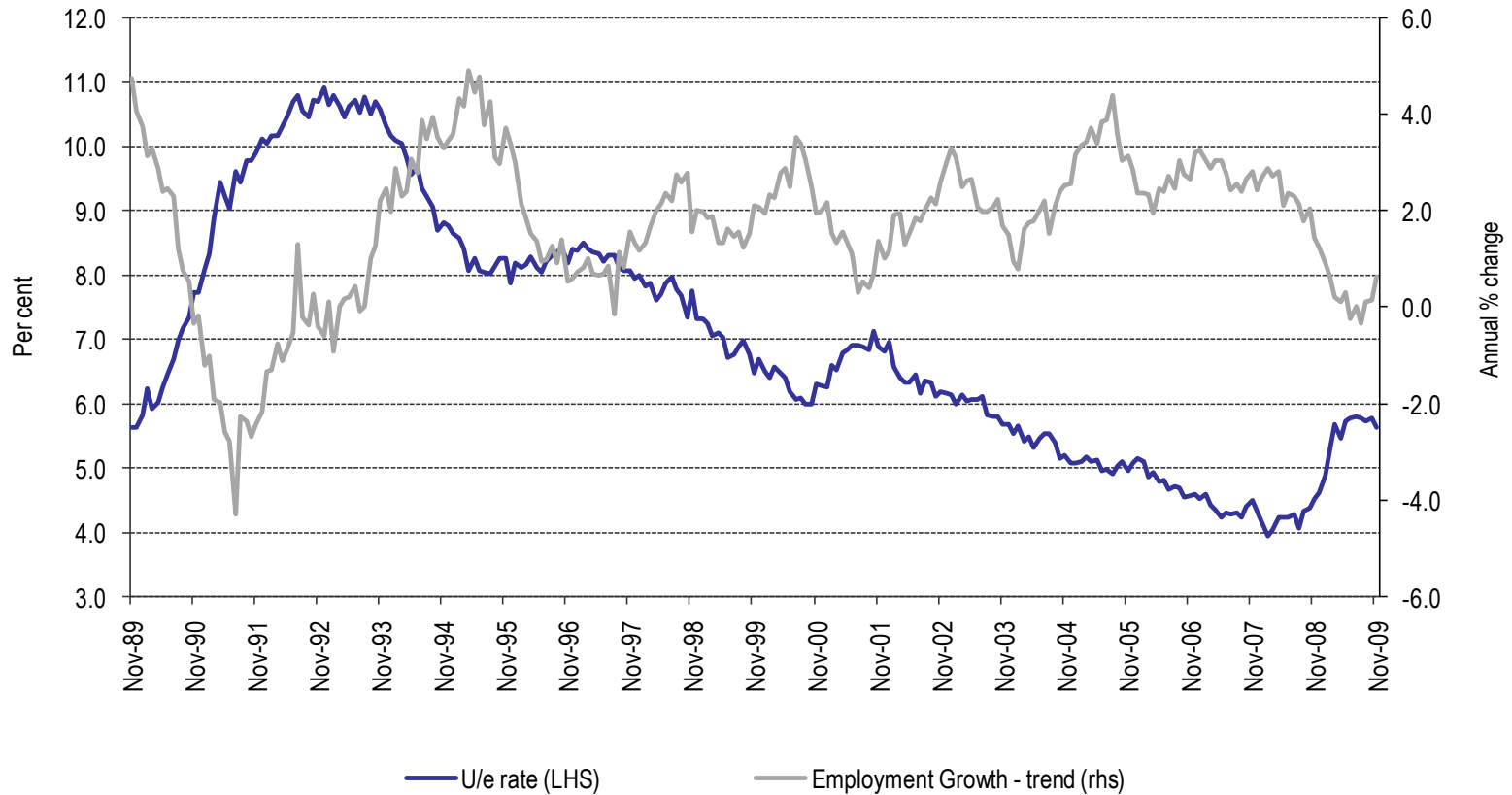
- China's insatiable appetite for Australian resources has supported Australia
- Strong fiscal stimulus through 2008 and 2009
- Strong early drops in interest rates



Australian labour market outperformed all expectations in 2009.

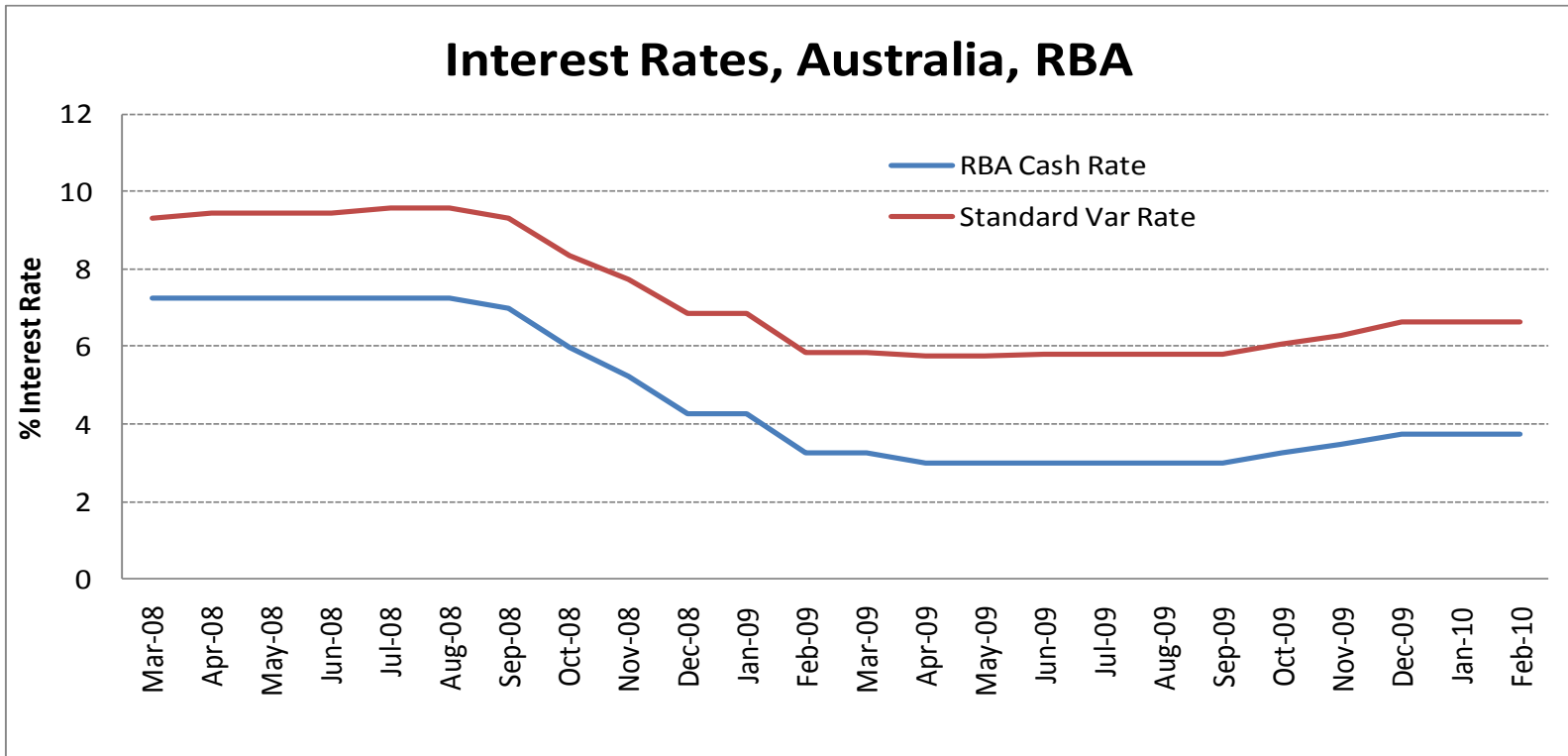
## Australia's Labour Market

Source: ABS Labour Force





## Interest rate hiking cycle has begun



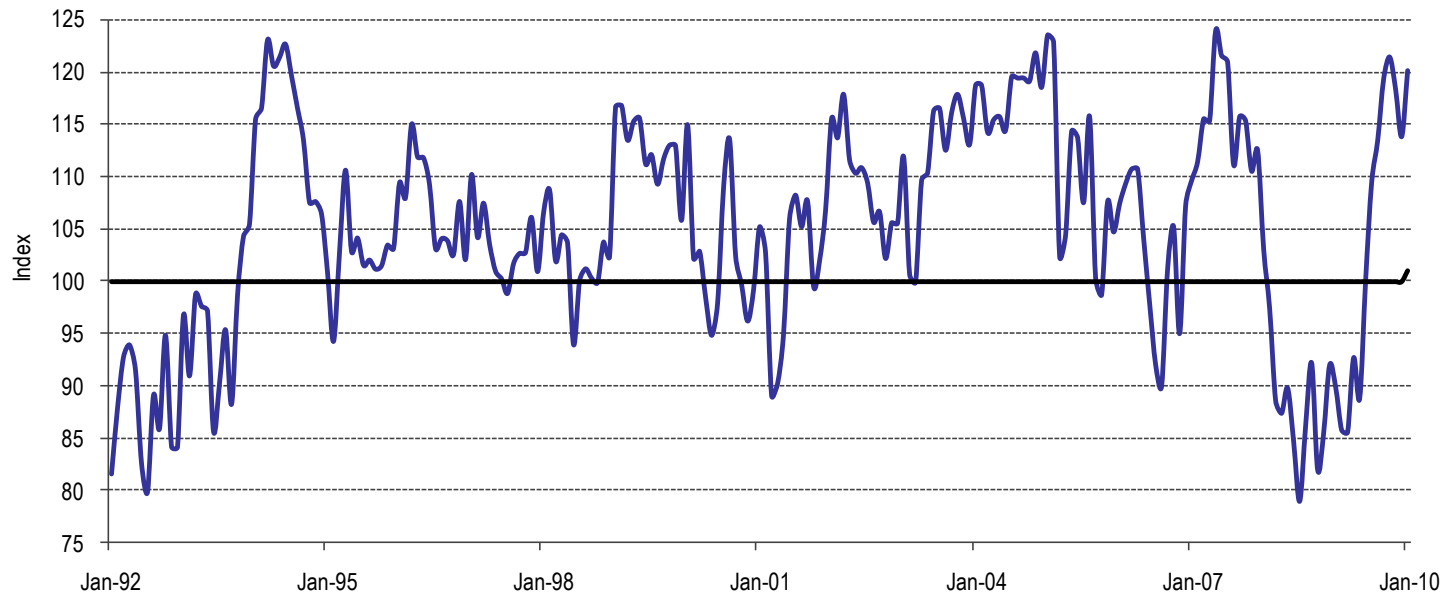
- The RBA lifted the cash rate by 25bps on Dec 2<sup>nd</sup>, the third hike in a row, and more increases are likely over 2010.
- RBA will, as always, focus on the long term inflation – RBA currently views inflation as under control.
- Wage and capacity pressures are in check.
- RBA in a 'wait and see' approach but keen to return rates back to 'normal' levels later this year.



## Consumer confidence is sky high again

### Consumer Confidence

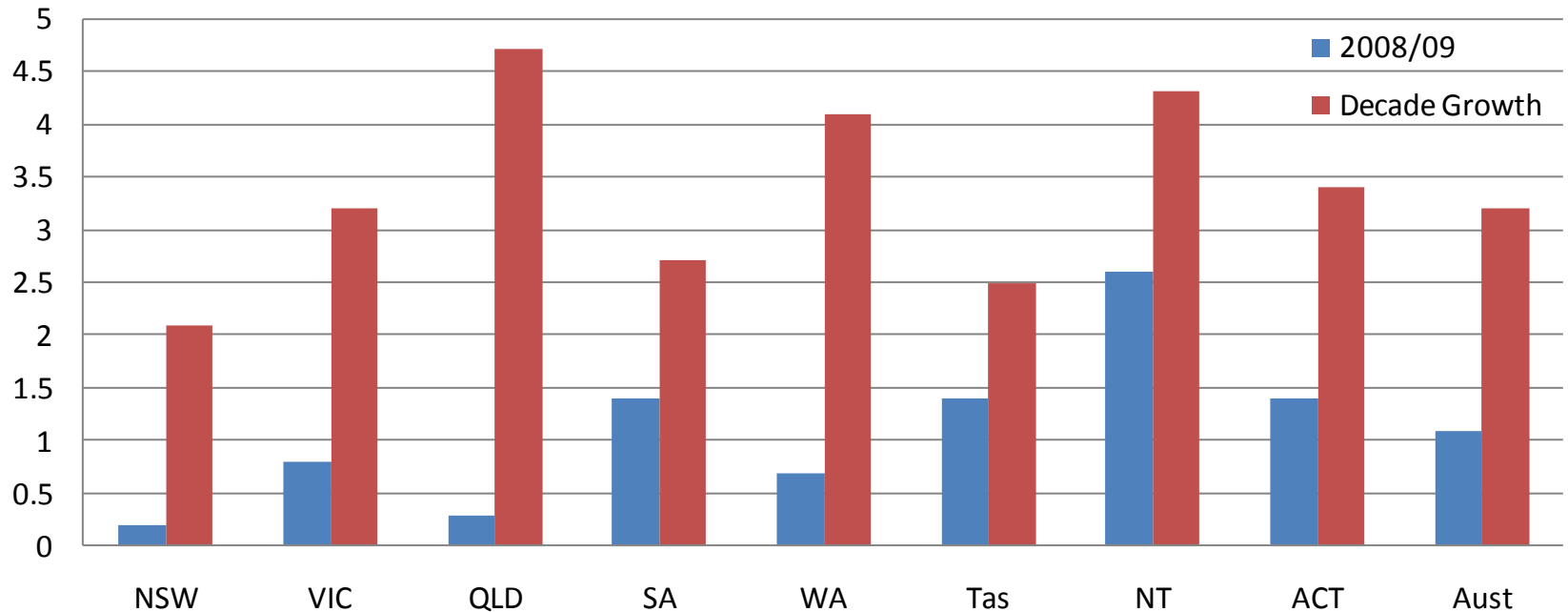
Source: Westpac-Melbourne Institute



- Low interest rates are not the only factor affecting sentiment, but also the performance of the stock market, relatively low petrol prices, and the strong \$AUD



## State GDP Financial Year Growth % Change, ABS



- VIC the best of the big 4 states in 2008/09 but well down on decadal average.



## Vic Economy General Comments

- Strong population growth and consumption are the main drivers pushing Vic's economic recovery.
- Home building and engineering construction also positives.
- Business investment, especially commercial construction remain weak.
- Strong \$A and higher interest rates remain a key drag.
- 2010 looks brighter for Vic and commercial approvals are slowly turning around.



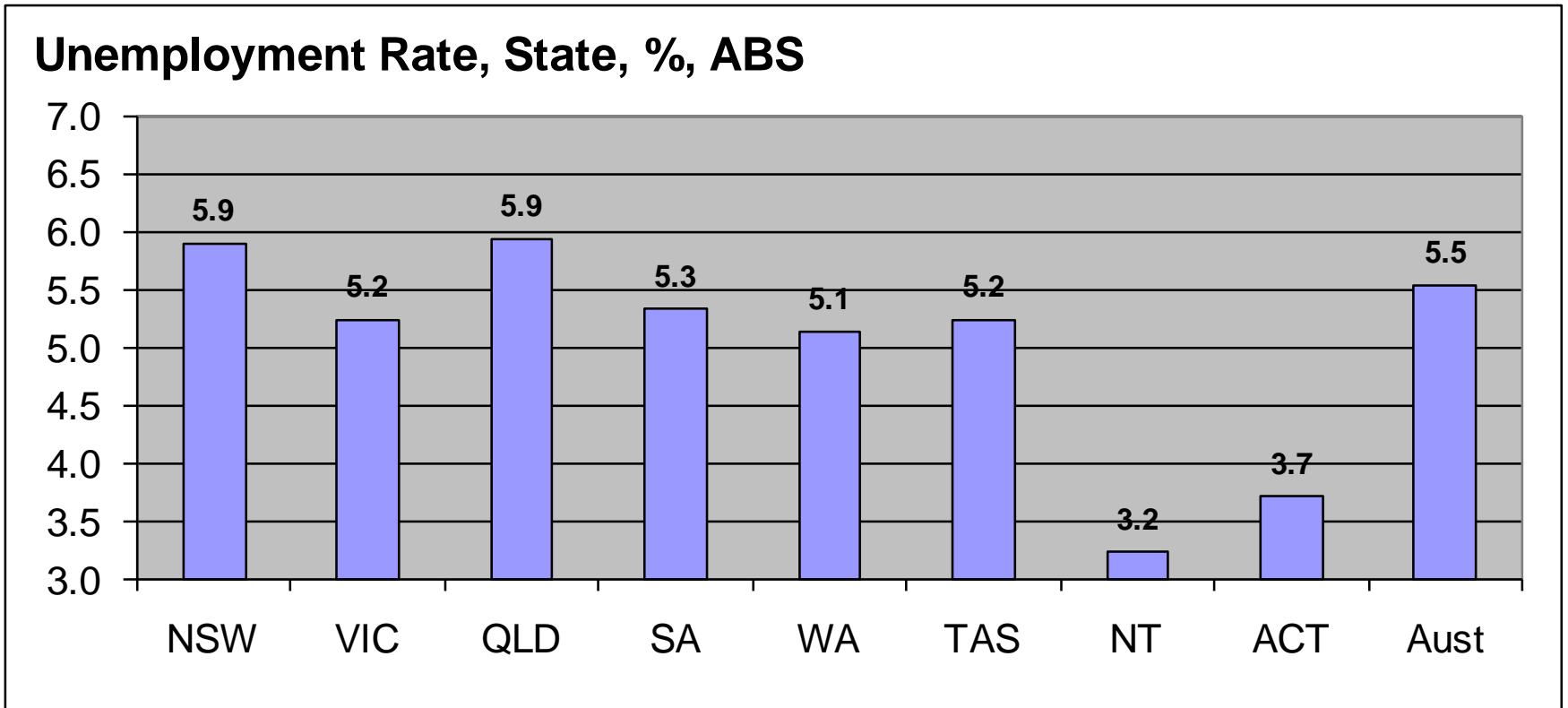
## VIC unemployment rate dips below national average

### Victoria's Unemployment Rate

Source: ABS Labour Force



- The unemployment rate fell a substantial 0.8ppts over 2009 Half 2 to sit at 5.2%
- 75K new jobs - 37 PT and 38 FT – half of Australia's jobs growth!



- VIC unemployment below national average and recovered after a scare early in 2009 as the 'high' unemployment state.



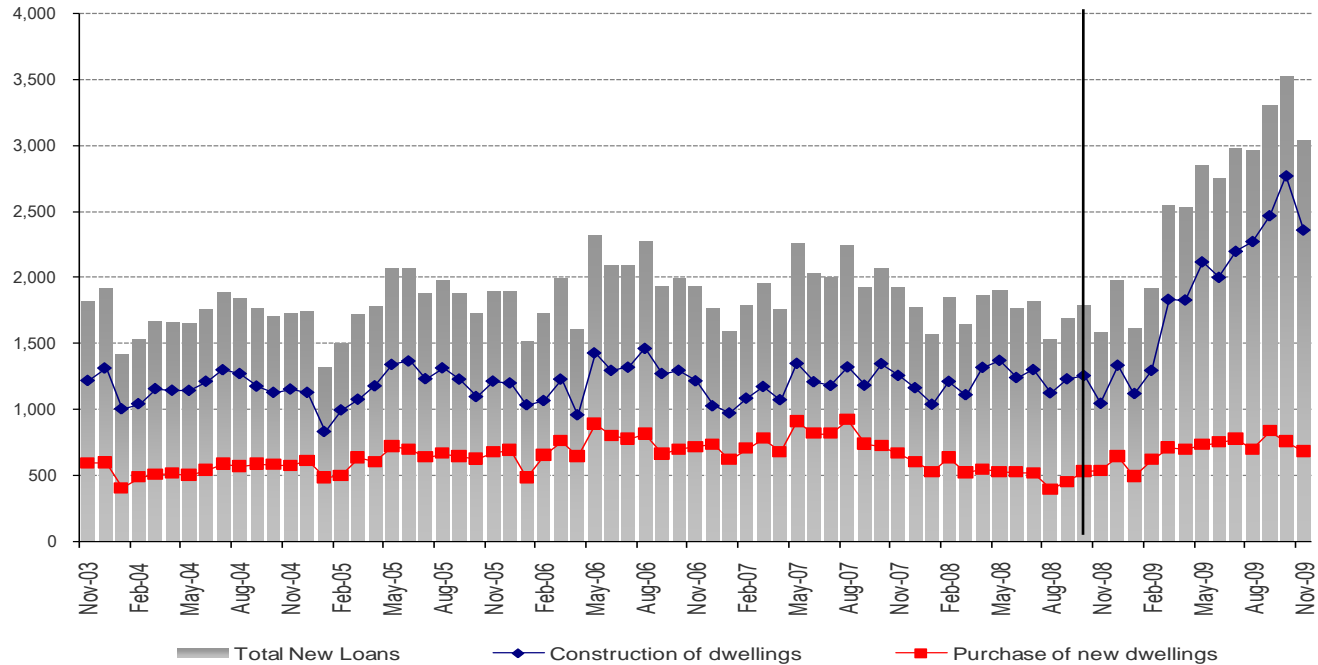
## **New Home Building Sector**



## New home lending has surged through 2009

Victoria New Home Lending - Number of Loans

Source: ABS Housing Finance

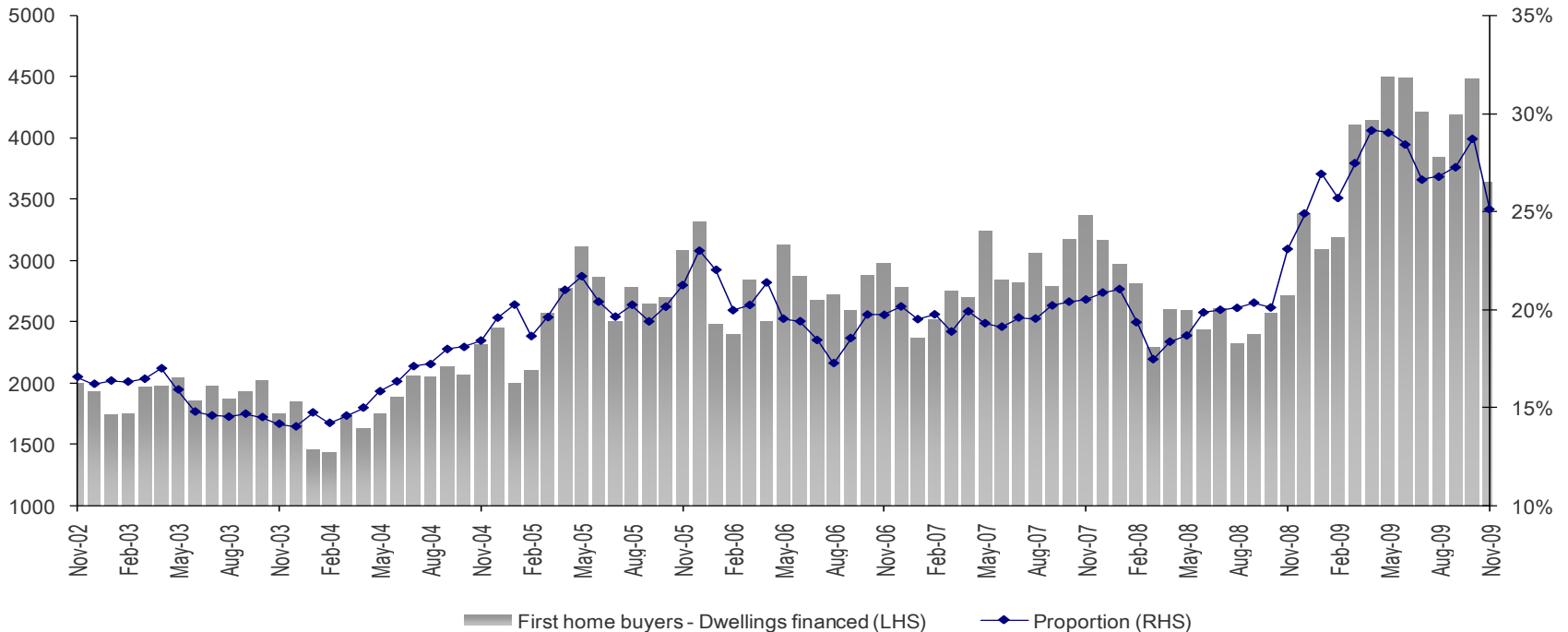


- But what happens post FHB boost? Higher Rates?



## First Home Buyers – Victoria

Source: ABS Housing Finance



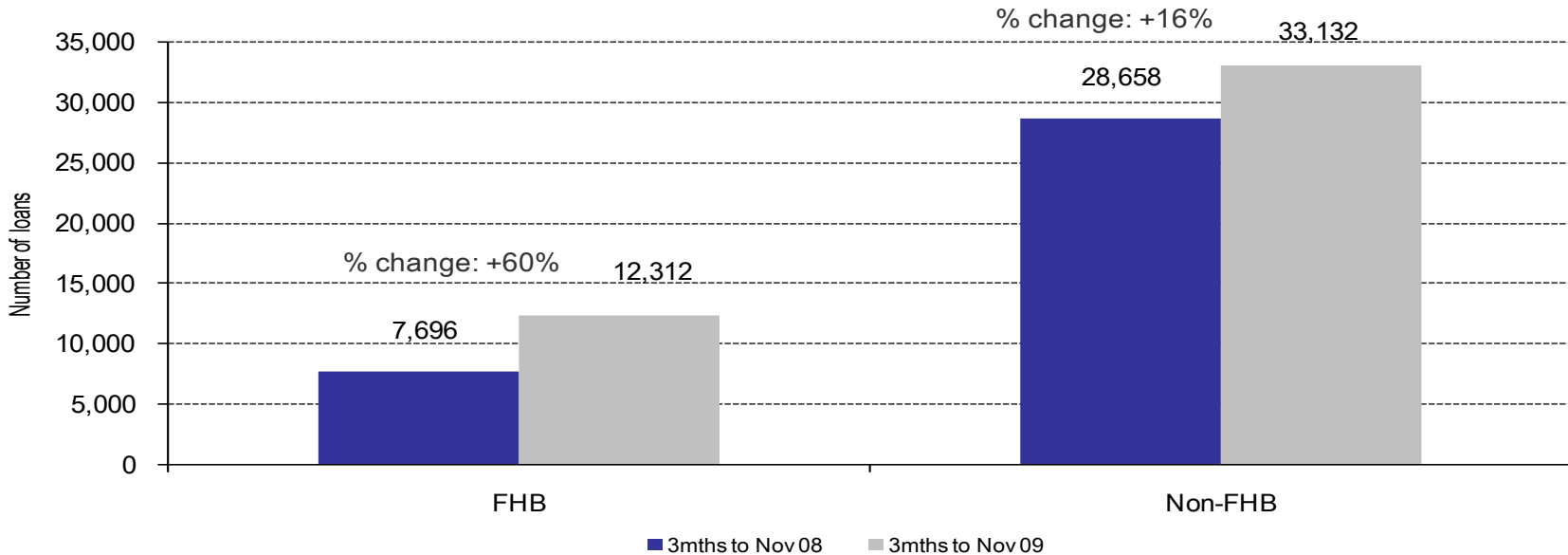
- FHB numbers have increased by 50 % over past 12 months.
- Share of finance remains high but will drop off over 2010.



## First time buyers have lead the charge

First Home Buyer versus Non-First Home Buyer Loans - Victoria

Source: ABS Housing Finance



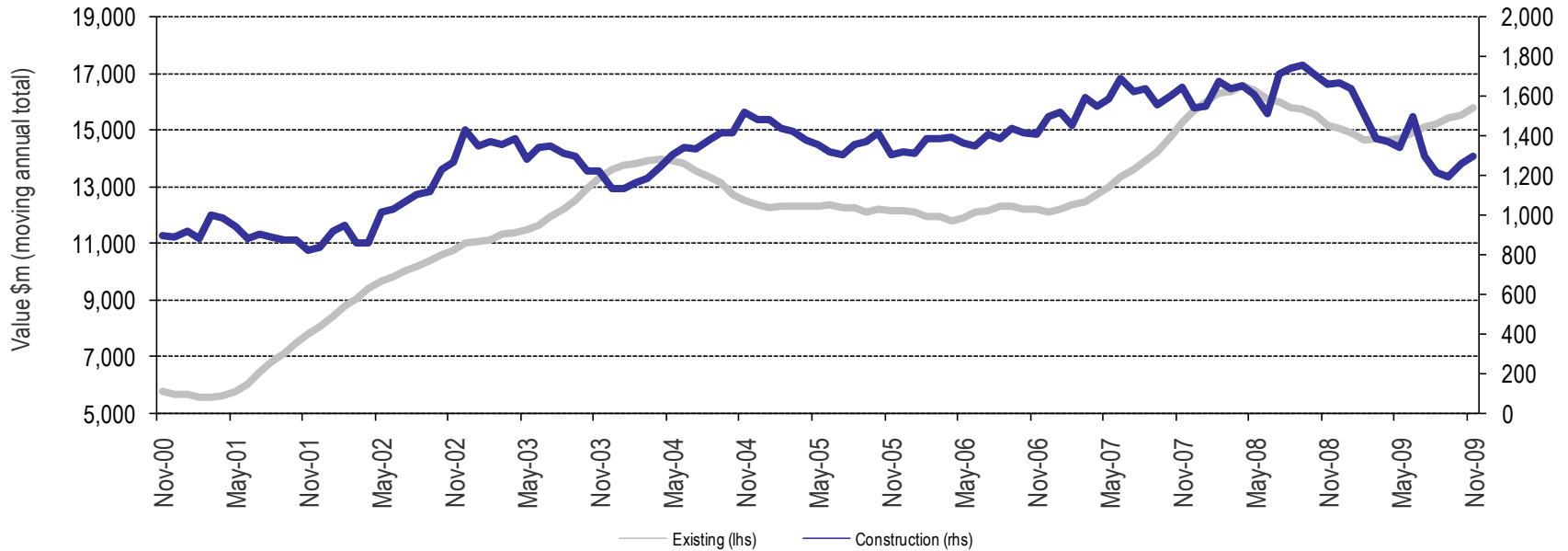
- The number of FHB loans over the Nov '09 'quarter' was 12,312, a level 60% higher than in the Nov '08 'quarter'.
- Change up buyers are picking up the slack – as are investment properties , and don't forget the Social Housing Stimulus housing program.



## Lending for rental properties - VIC

Lending for Rental Properties - Victoria

Source: ABS Lending Finance



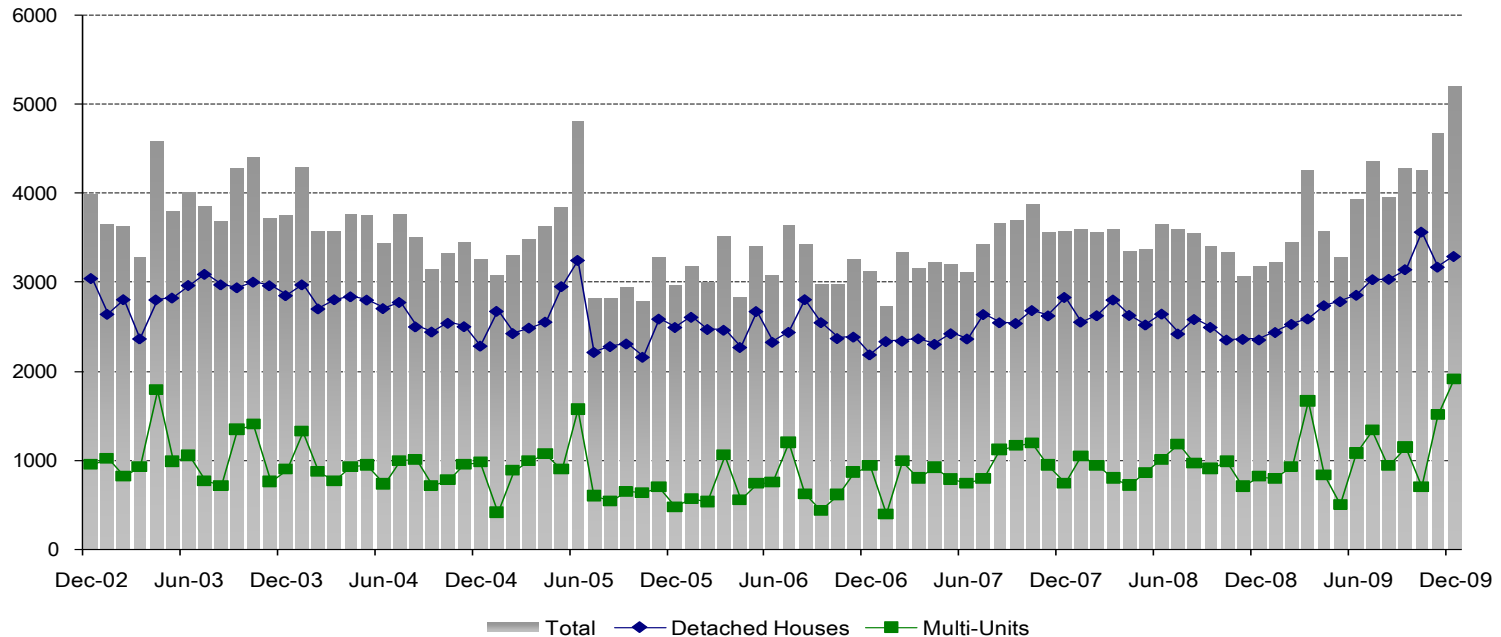
- Lending in the established sector has been steady over 2009 while investment spending is yet to show signs of growth (-27% year on year for the November 'quarter')



## Building approvals have rebounded strongly

Victoria Monthly Dwelling Approvals

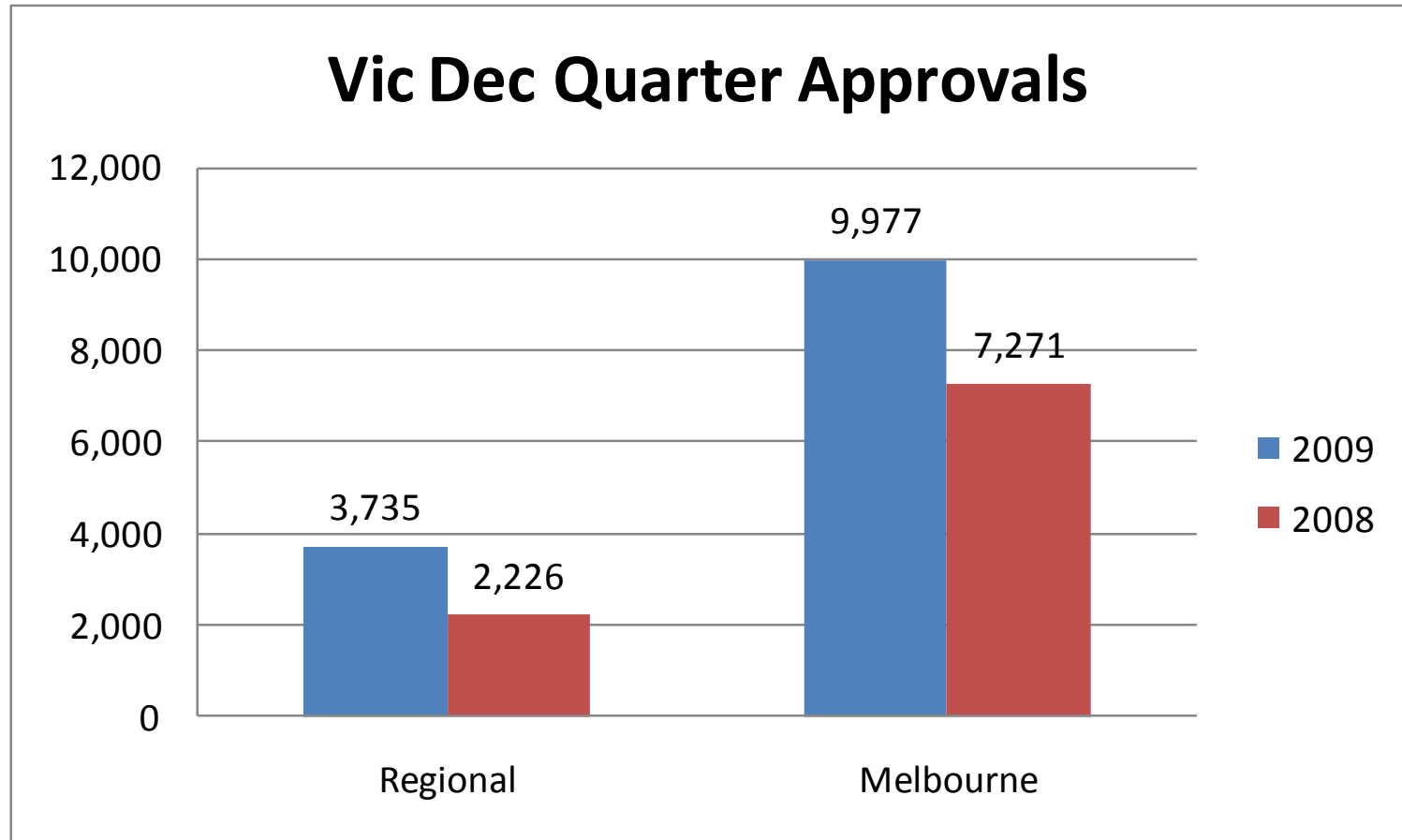
Source: ABS Building Approvals



- Total dwelling approvals were up 47.7% in the 3 months to Dec 09 compared with Dec 08
- Detached house approvals were up 41.8% in the 3 months to Dec 09 compared with Dec 08
- Multi-unit approvals were up 64.4% in the 3 months to Dec 09 compared with Dec 08.

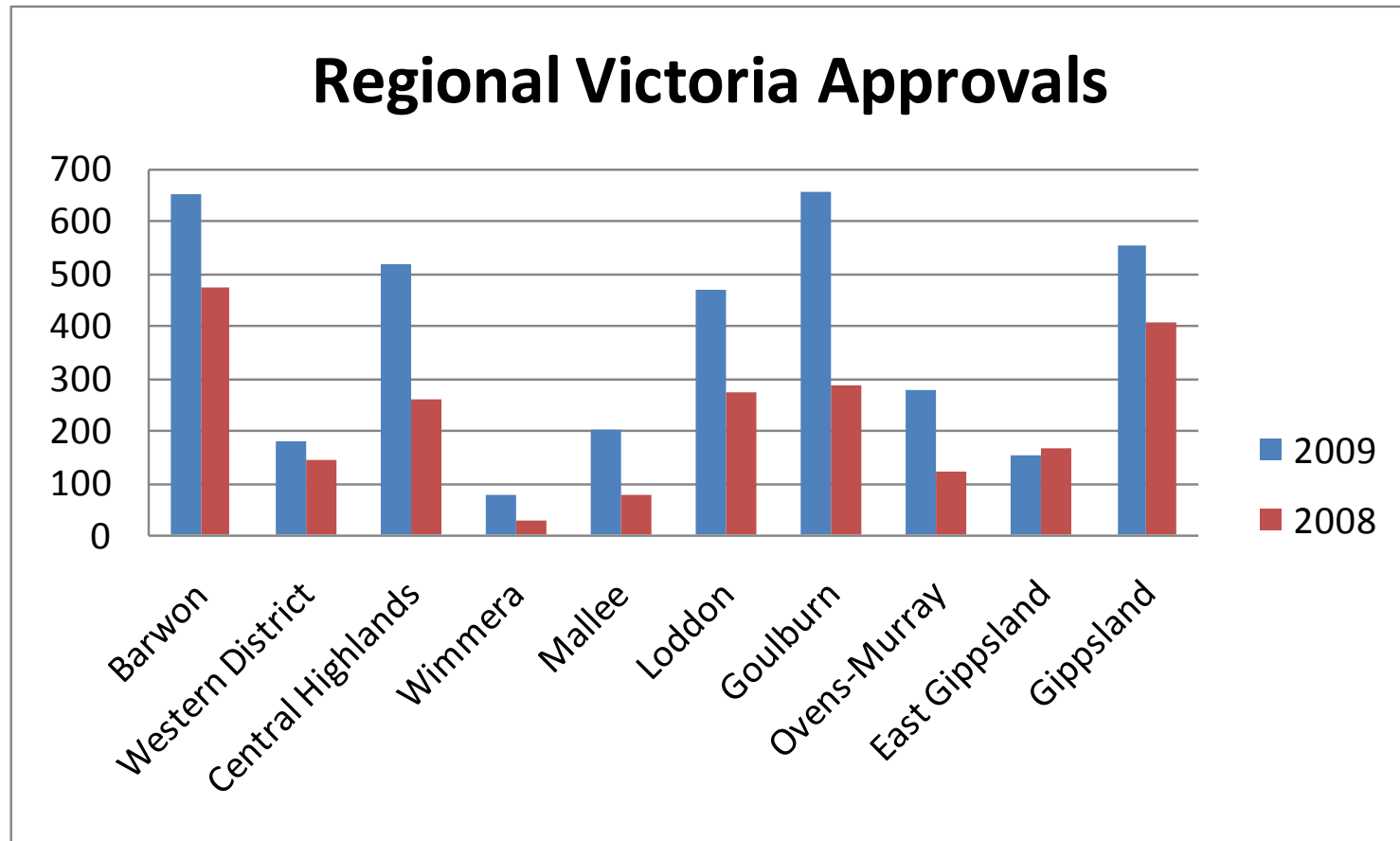


## Regions Running Hot!



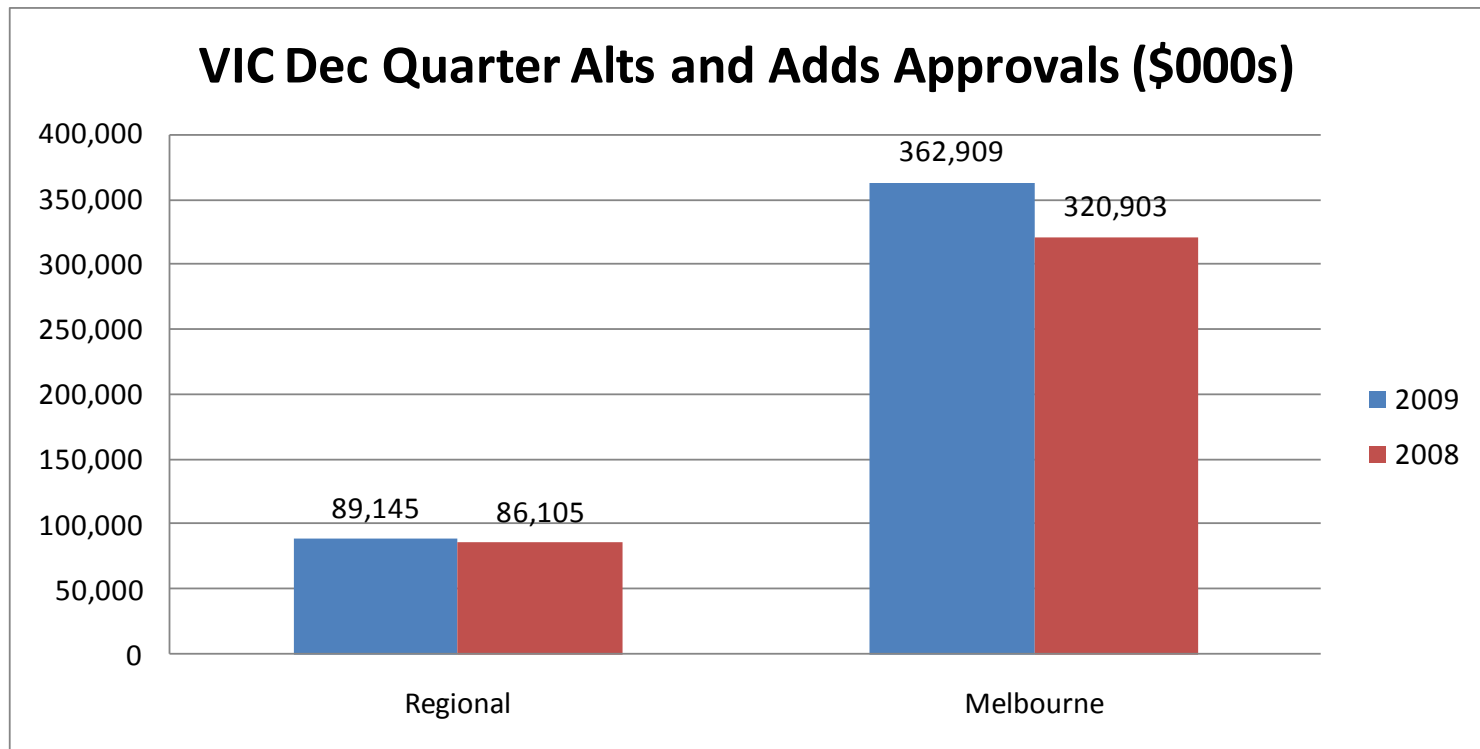


## Regions Running Hot!



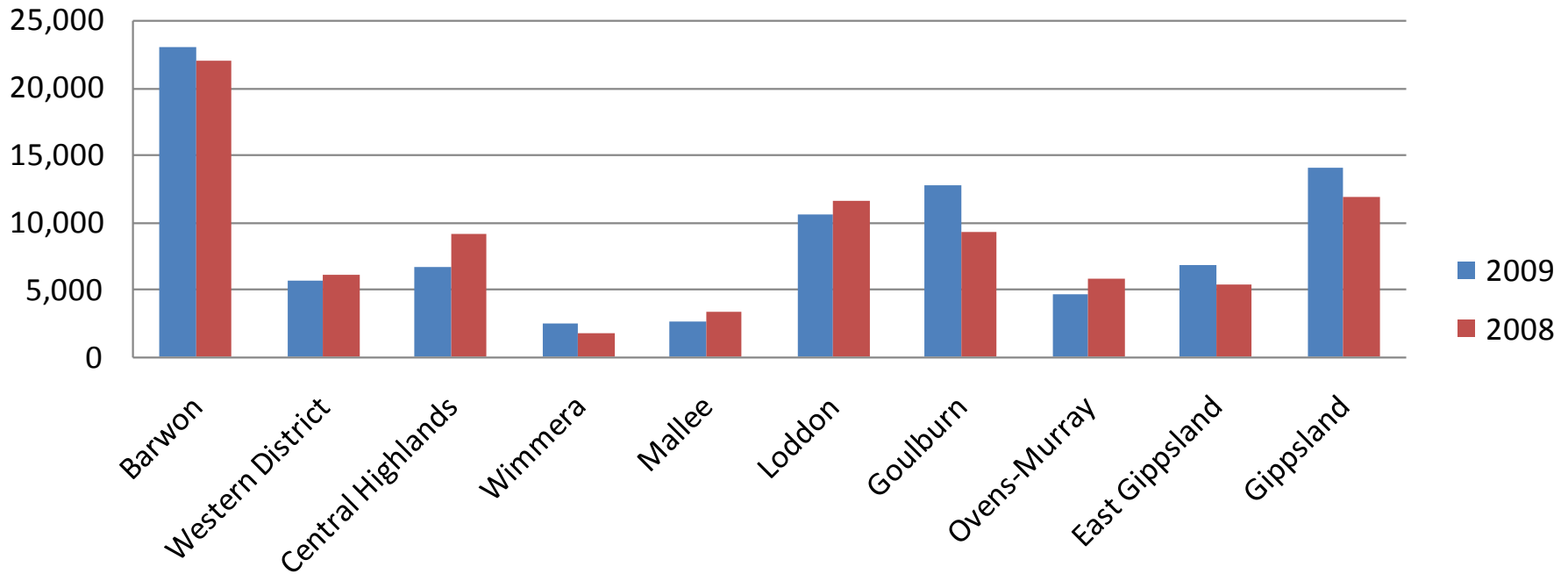


Alts and Additions Approvals – recovering late in 2009.





## VIC Regional Alts and Adds Approvals (\$000s)



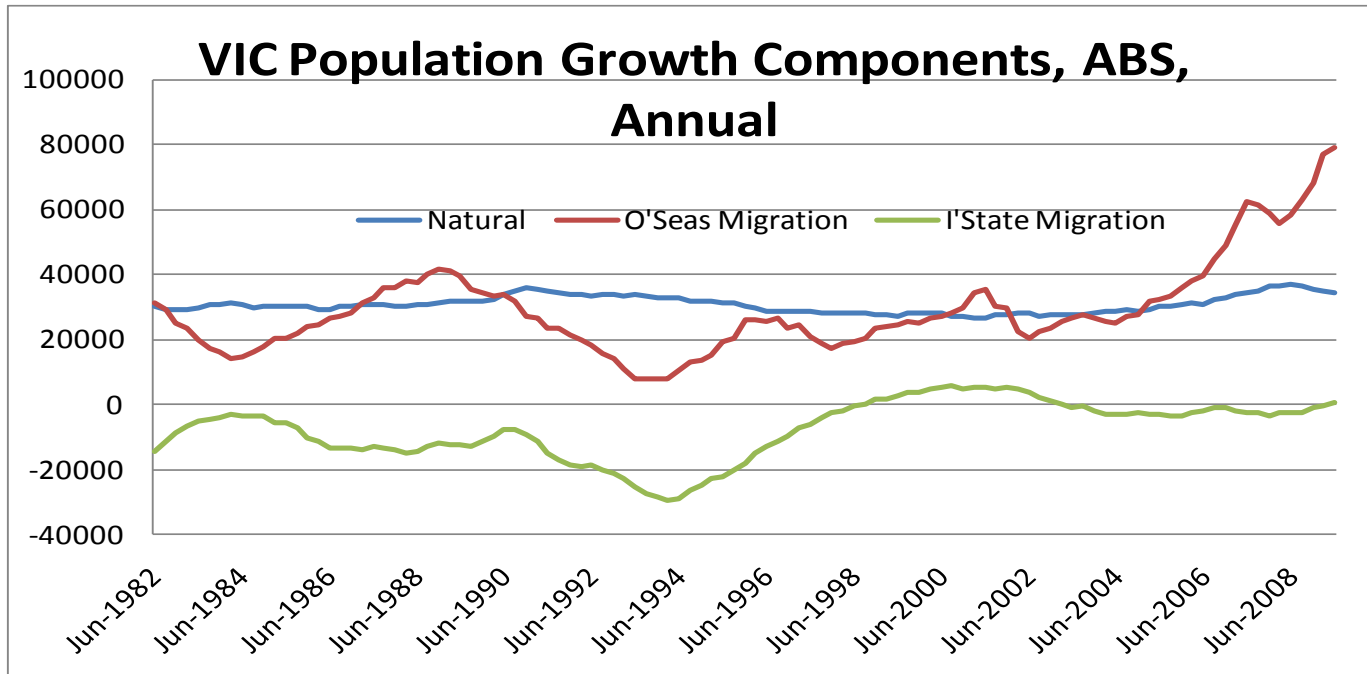


## Australia's population growing at record levels in 2009

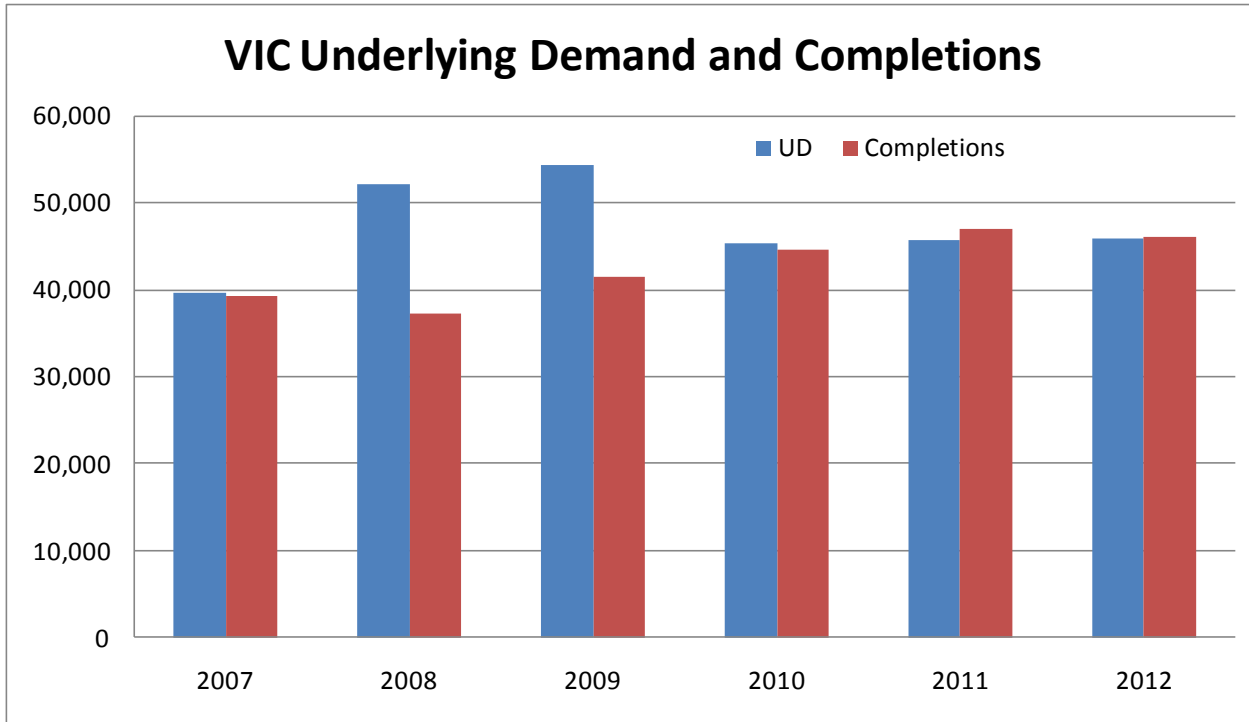
| <b>PRELIMINARY DATA</b>      | <b>Population at end Jun qtr 2009</b> | <b>Change over previous year</b> | <b>Change over previous year</b> |
|------------------------------|---------------------------------------|----------------------------------|----------------------------------|
|                              | <b>'000</b>                           | <b>'000</b>                      | <b>%</b>                         |
| New South Wales              | 7 099.7                               | 115.5                            | 1.7                              |
| Victoria                     | 5 427.7                               | 113.9                            | 2.1                              |
| Queensland                   | 4 406.8                               | 112.9                            | 2.6                              |
| South Australia              | 1 622.7                               | 19.4                             | 1.2                              |
| Western Australia            | 2 236.9                               | 65.7                             | 3.0                              |
| Tasmania                     | 502.6                                 | 5.1                              | 1.0                              |
| Northern Territory           | 224.8                                 | 5.0                              | 2.3                              |
| Australian Capital Territory | 351.2                                 | 5.6                              | 1.6                              |
| <b>Australia(a)</b>          | <b>21 874.9</b>                       | <b>443.1</b>                     | <b>2.1</b>                       |



## VIC's population growth is very strong



- Overseas migration has tripled in recent years in Vic.
- Natural increase has grown and bleeding to other states has stopped.
- IGR – Melbourne 7 million by 2050! IGR assumes a slower growth rate over next 40 yrs compared to last 40 yrs!



- Victoria's housing boom is still struggling to keep up with UD.
- Shortages still exist – predominantly in Melbourne.



## So where to post FHB and low interest rates?

- The changeover buyer market is looking strong and is vastly bigger than FHB market.
- Higher rents are likely to drive better investor activity in 2010.
- Population growth is strong in VIC and will drive the state's housing industry for years.
- Social housing stimulus will remain strong over 2010.
- The main concerns remains with looming infrastructure cost increases, a lack of land, expensive regulatory changes (6 star/accessibility) and housing affordability.
- In any case, a strong 2010 and 2011 looks to be locked in.



## HOUSING STARTS: by state and territory

*thousand dwellings commenced*

|                  | <b>NSW</b> | <b>Vic</b> | <b>Qld</b> | <b>SA</b> | <b>WA</b> | <b>Tas</b> | <b>NT</b> | <b>ACT</b> | <b>Aust</b> |
|------------------|------------|------------|------------|-----------|-----------|------------|-----------|------------|-------------|
| 2003 (a)         | 44.46      | 44.90      | 41.20      | 10.23     | 21.73     | 2.42       | 0.99      | 2.78       | 168.71      |
| 2004 (a)         | 45.14      | 42.59      | 41.34      | 10.51     | 22.76     | 2.99       | 1.24      | 2.28       | 168.84      |
| 2005 (a)         | 34.24      | 40.20      | 39.07      | 10.72     | 24.14     | 2.63       | 1.31      | 2.42       | 154.73      |
| 2006 (a)         | 31.80      | 39.36      | 38.73      | 11.19     | 26.45     | 2.76       | 1.19      | 2.42       | 153.88      |
| 2007 (a)         | 29.90      | 40.06      | 43.18      | 11.29     | 22.85     | 2.89       | 1.45      | 2.28       | 153.89      |
| 2008 (a)         | 28.49      | 41.41      | 38.69      | 12.73     | 20.73     | 2.92       | 1.05      | 2.40       | 148.41      |
| 2009             | 24.40      | 44.03      | 25.71      | 11.48     | 18.68     | 2.93       | 1.20      | 2.40       | 130.63      |
| 2010             | 32.09      | 47.55      | 31.11      | 12.17     | 21.57     | 3.12       | 1.39      | 2.58       | 151.59      |
| 2011             | 35.18      | 47.37      | 37.09      | 12.24     | 23.24     | 3.10       | 1.48      | 2.66       | 162.35      |
| <b>% change:</b> |            |            |            |           |           |            |           |            |             |
| 2003 (a)         | -10        | -8         | 3          | -1        | 13        | 19         | 2         | 0          | -3          |
| 2004 (a)         | 2          | -5         | 0          | 3         | 5         | 23         | 26        | -18        | 0           |
| 2005 (a)         | -24        | -6         | -5         | 2         | 6         | -12        | 5         | 6          | -8          |
| 2006 (a)         | -7         | -2         | -1         | 4         | 10        | 5          | -9        | 0          | -1          |
| 2007 (a)         | -6         | 2          | 11         | 1         | -14       | 5          | 22        | -6         | 0           |
| 2008 (a)         | -5         | 3          | -10        | 13        | -9        | 1          | -28       | 5          | -4          |
| 2009             | -14        | 6          | -34        | -10       | -10       | 1          | 15        | 0          | -12         |
| 2010             | 32         | 8          | 21         | 6         | 15        | 6          | 16        | 8          | 16          |
| 2011             | 10         | 0          | 19         | 1         | 8         | -1         | 6         | 3          | 7           |



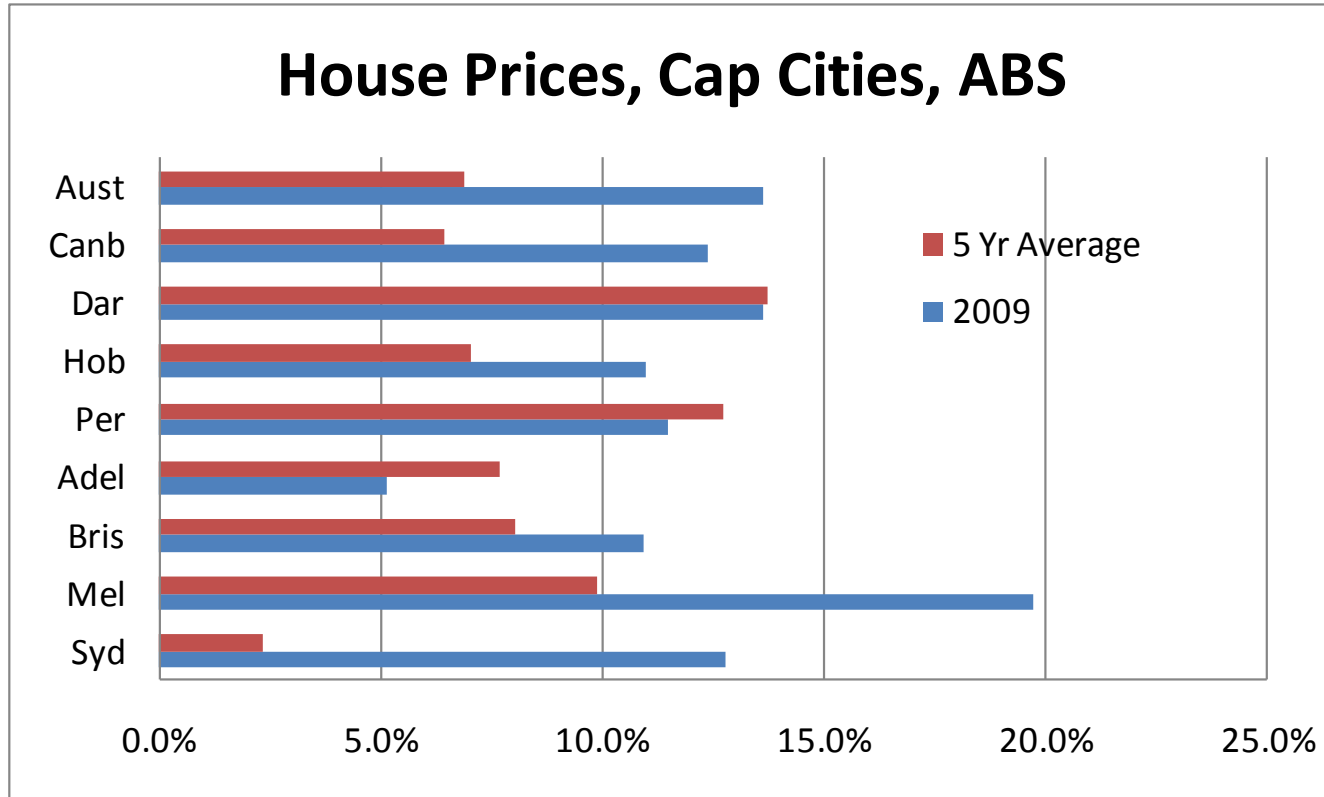
## The outlook – renovations

### HOUSING RENOVATIONS FORECAST: by state and territory

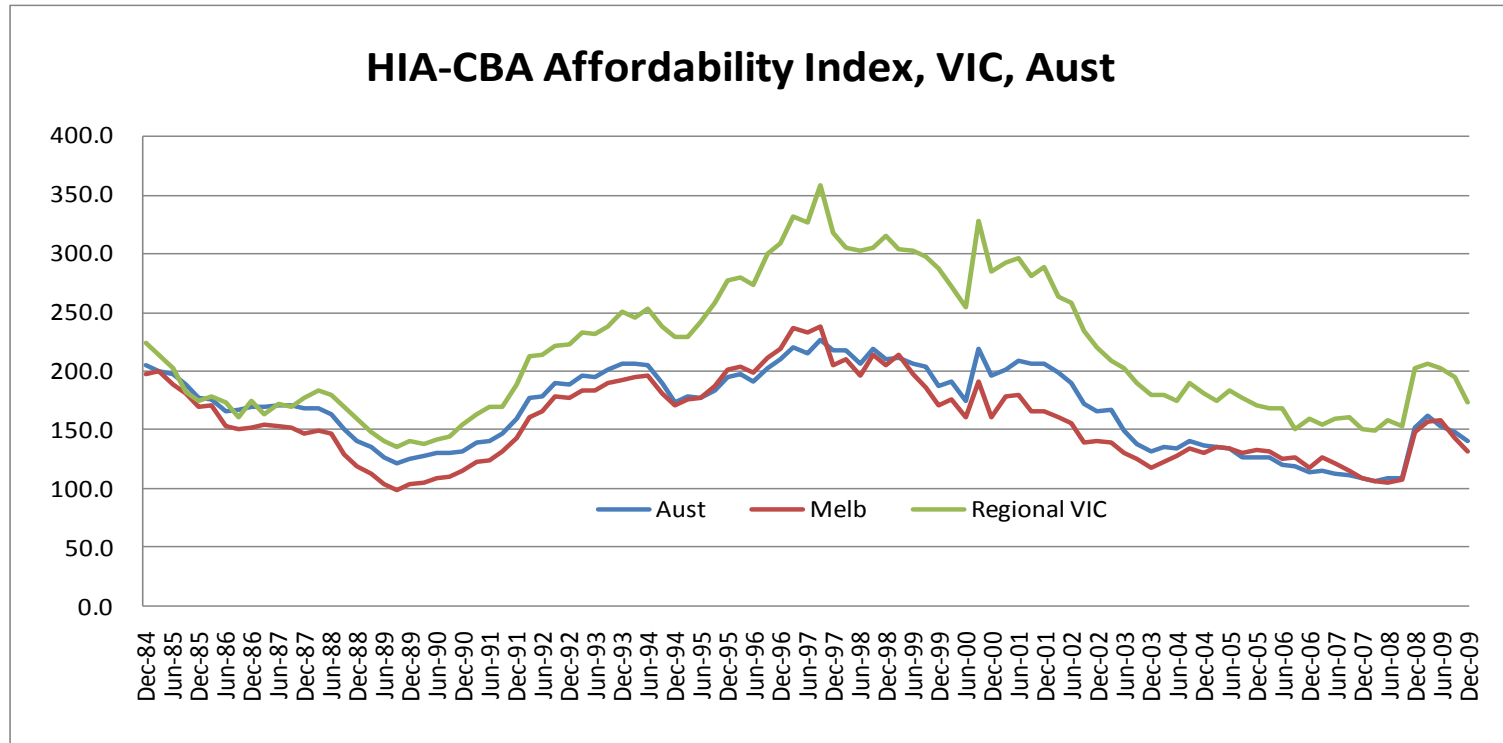
*Value of investment, \$ million, Chain Volume Measure*

|                 | <b>NSW</b> | <b>Vic</b> | <b>Qld</b> | <b>SA</b> | <b>WA</b> | <b>Tas</b> | <b>NT</b> | <b>ACT</b> | <b>Aust</b> |
|-----------------|------------|------------|------------|-----------|-----------|------------|-----------|------------|-------------|
| 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



- Melb prices outpacing other capitals – starting to lose that affordability advantage!
- Driven by stronger economy, low rates, FHB boost, and lack of well located land for a growing population.



- Affordability on the way down again – higher rates and prices the drivers.



## Key challenges ahead

- Commonwealth Treasury expects VIC's population will nearly double to 7 million people 40 years from now.
- Unlike other major states Vic is doing a good job at building the required supply and the industry is having a purple patch.
- The challenge will be to keep this form up!
- Affordable land supply, inequitable taxation on new housing, increased regulation (e.g. 6-Star) pushing people towards existing housing stock, planning delays, skilled labour shortages are short, medium, and long term challenges.
- If we get these things right, The VIC residential industry will remain healthy and housing will remain affordable.



**Thank you for your time**

**Ben Phillips**  
Senior Economist

**HOUSING INDUSTRY ASSOCIATION**

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