

Residential building at a turning point?

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OXFORD
ECONOMICS
AUSTRALIA

AUSTRALIAN BUILDING OUTLOOK

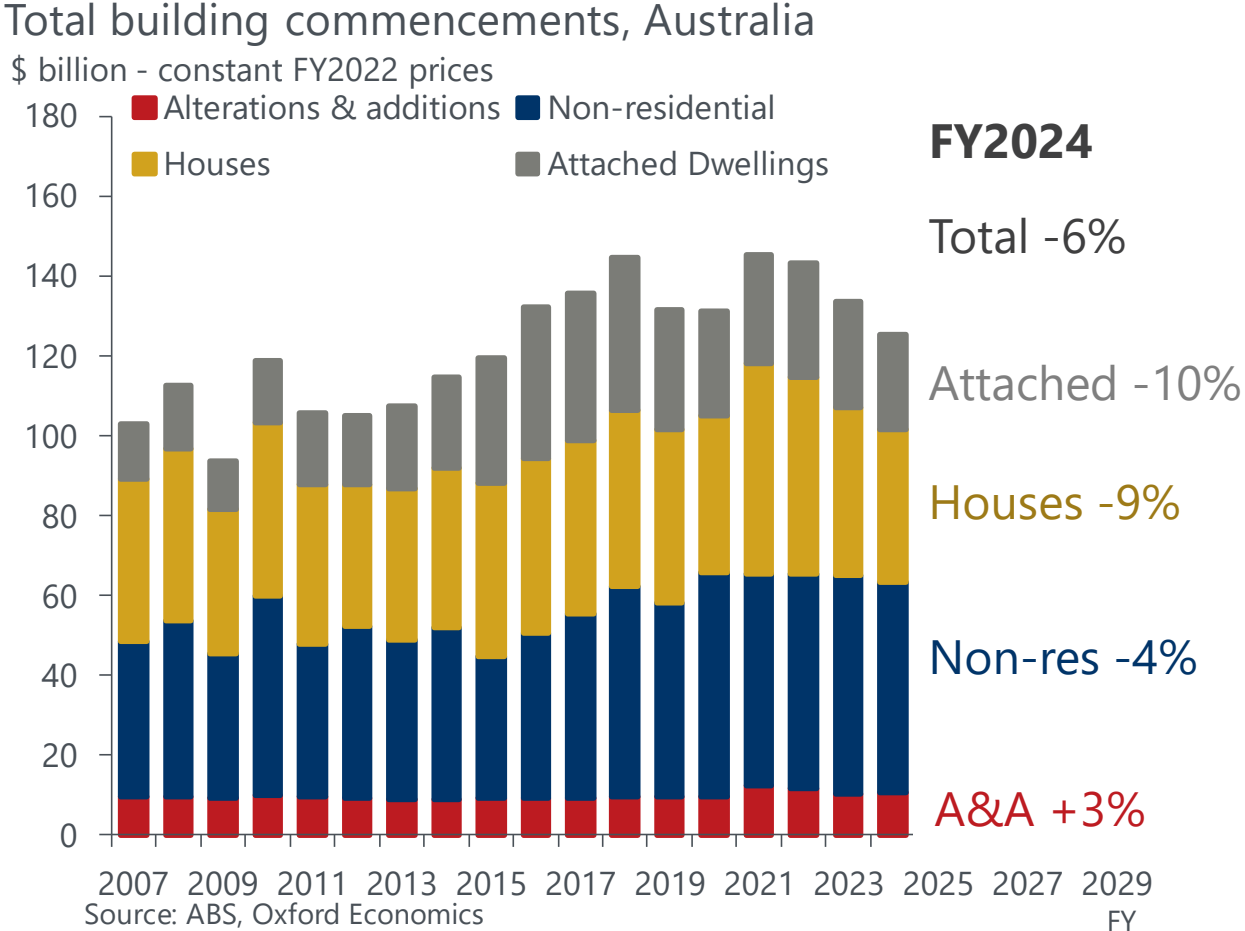
September 2024





State of play

Total building has been on a downwards trajectory



Demand destruction

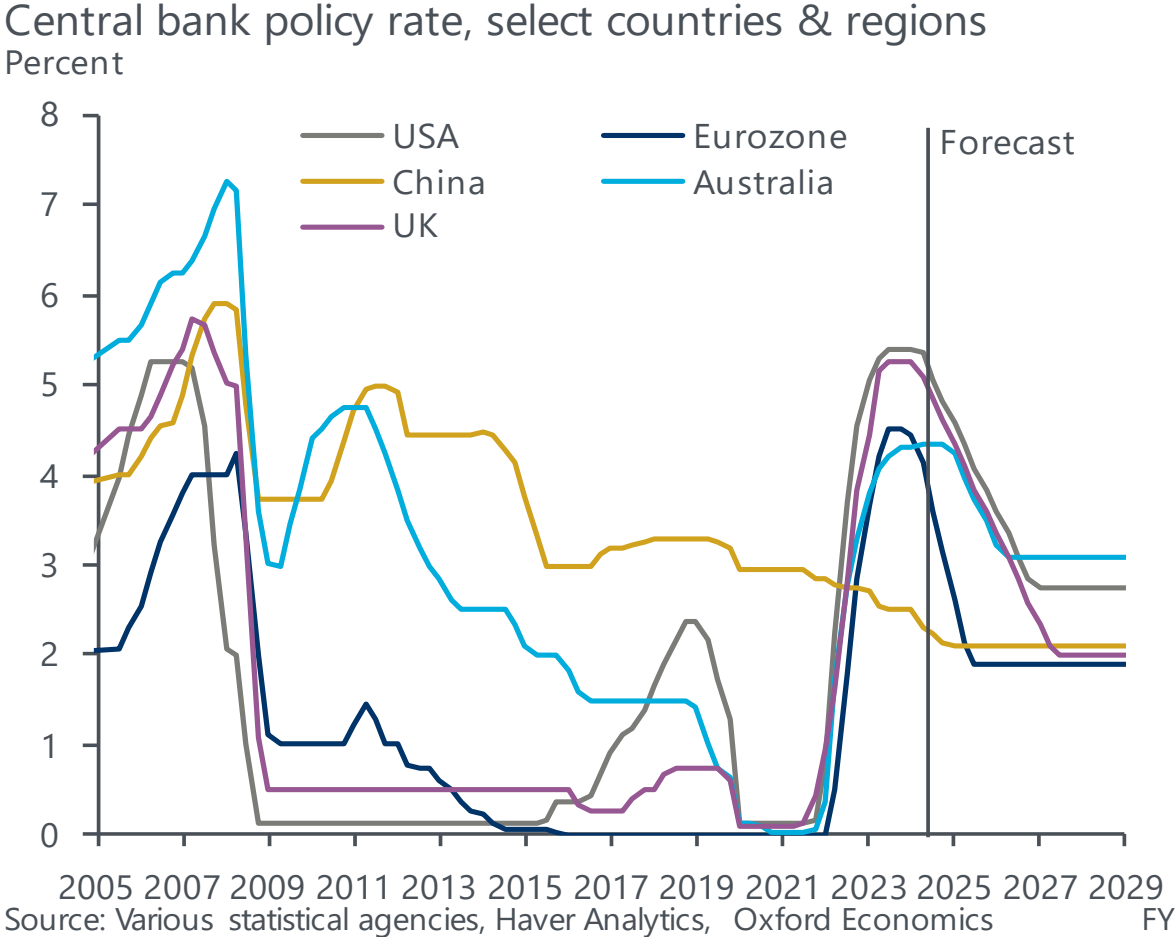
Indicative cost to build a new house

	Dec-19	Dec-23	Variation
Build cost^	\$330,000	\$465,000	+41%
Land cost^	\$305,000	\$410,000	+34%
20% deposit	\$127,000	\$175,000	+38%
Interest rate	3.25%	6.25%	+300bps
Mortgage repayment*	\$2,211	\$4,310	+95%
Delivery time (land & house)	15-24 months	21-36 months	+40 to 140%

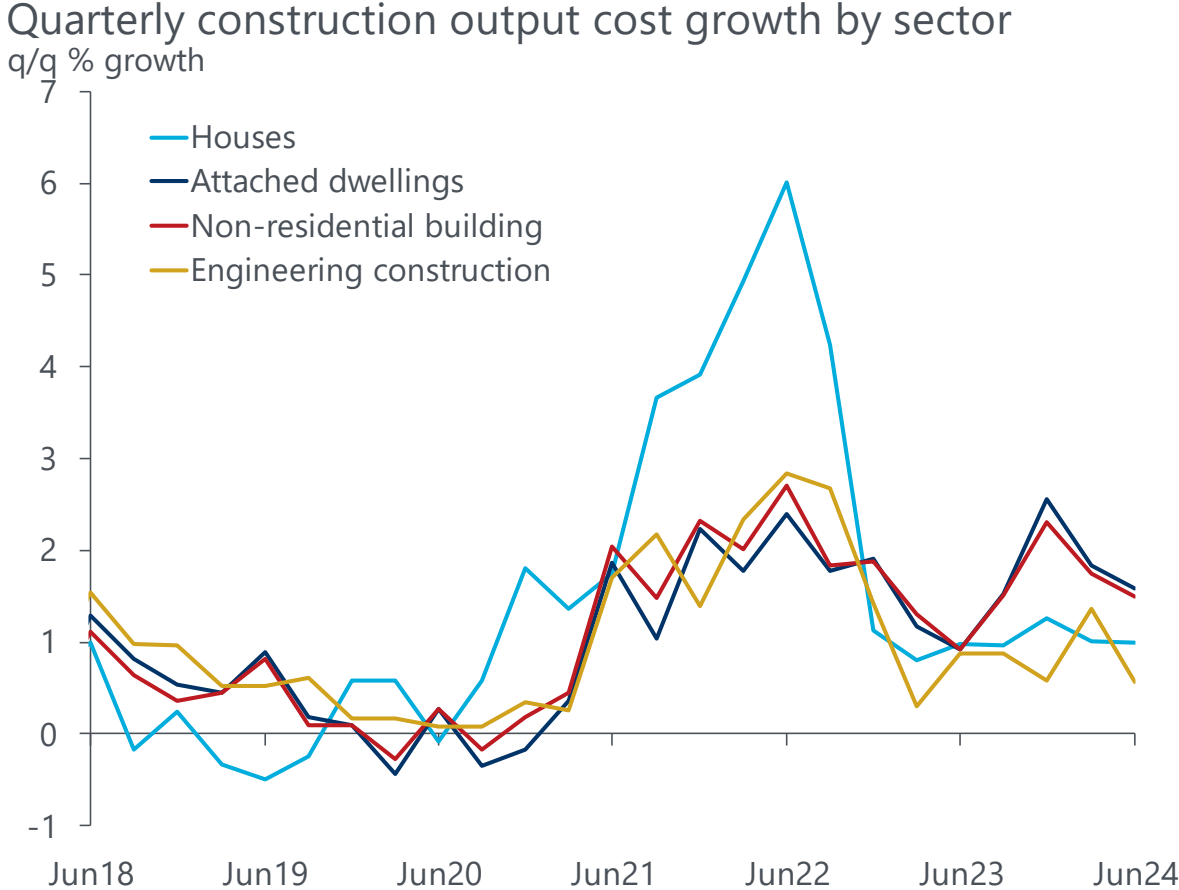
*Assuming 80% LVR, 30 year term, ^Weighted capital city estimates

Not inclusive of tax considerations

Cash rate has peaked, next move down

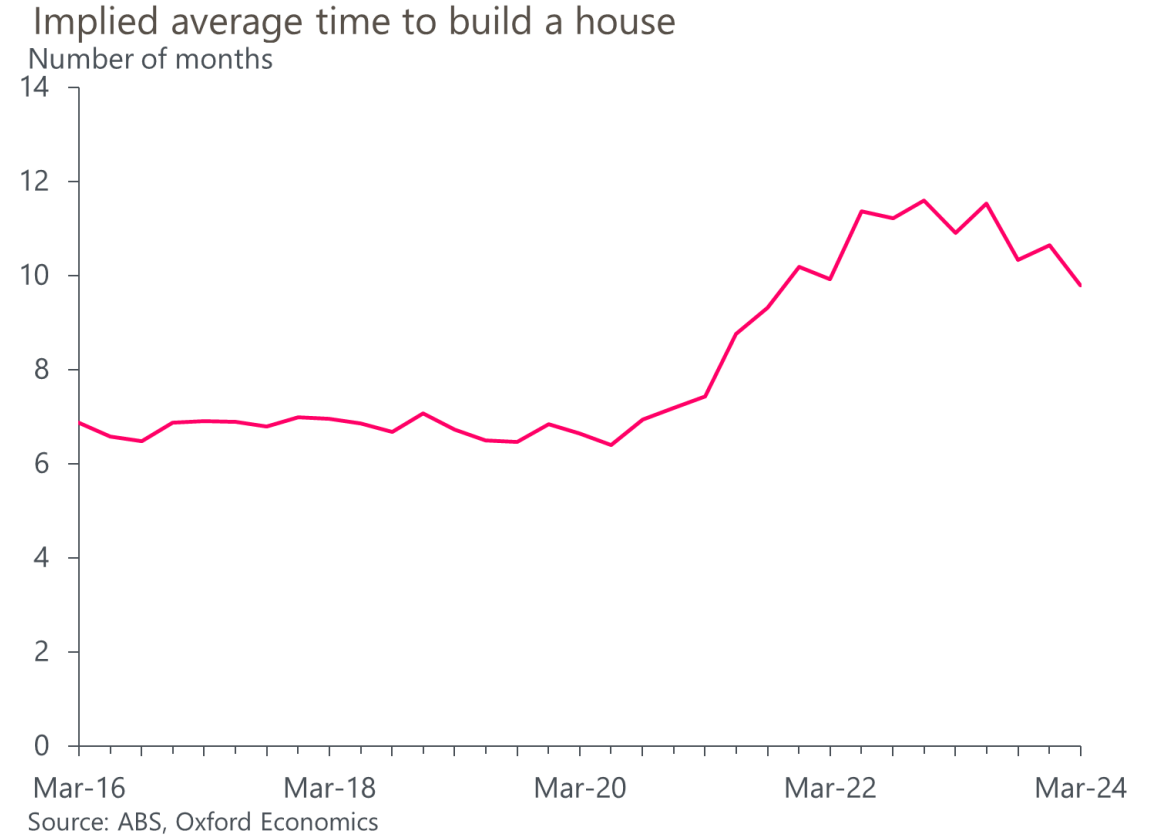
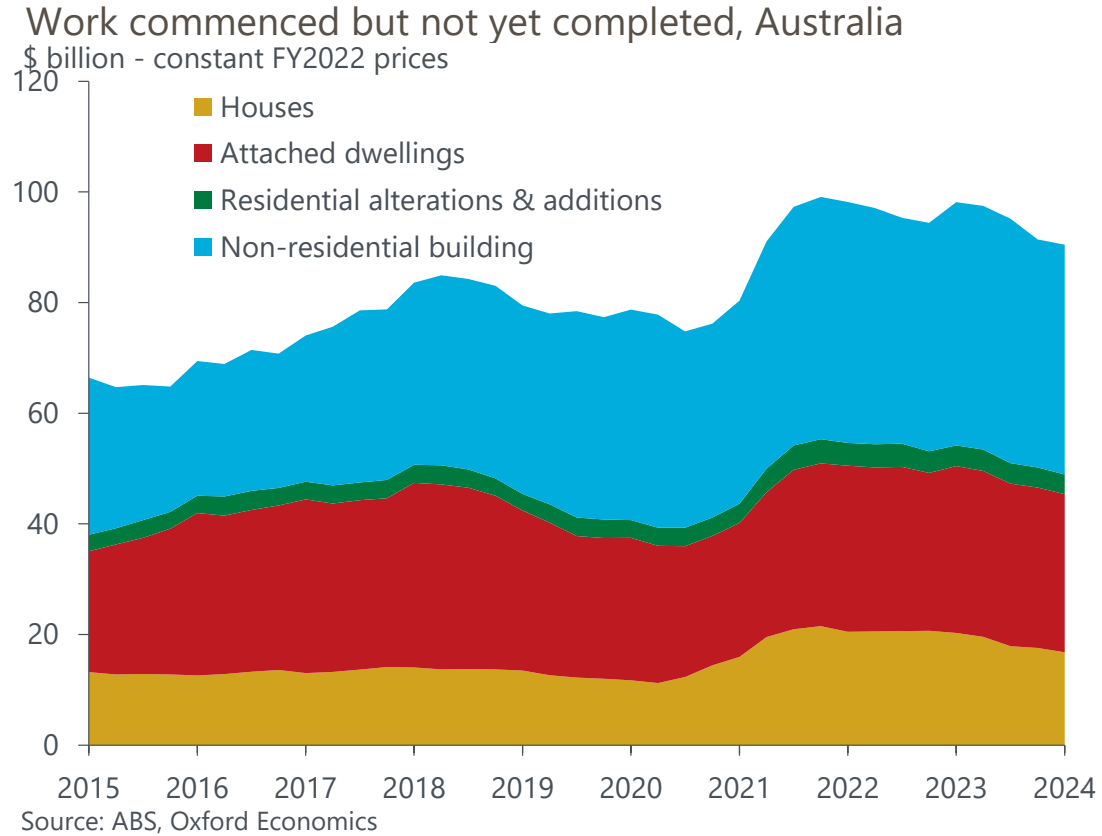


Cost growth has settled but challenges remain

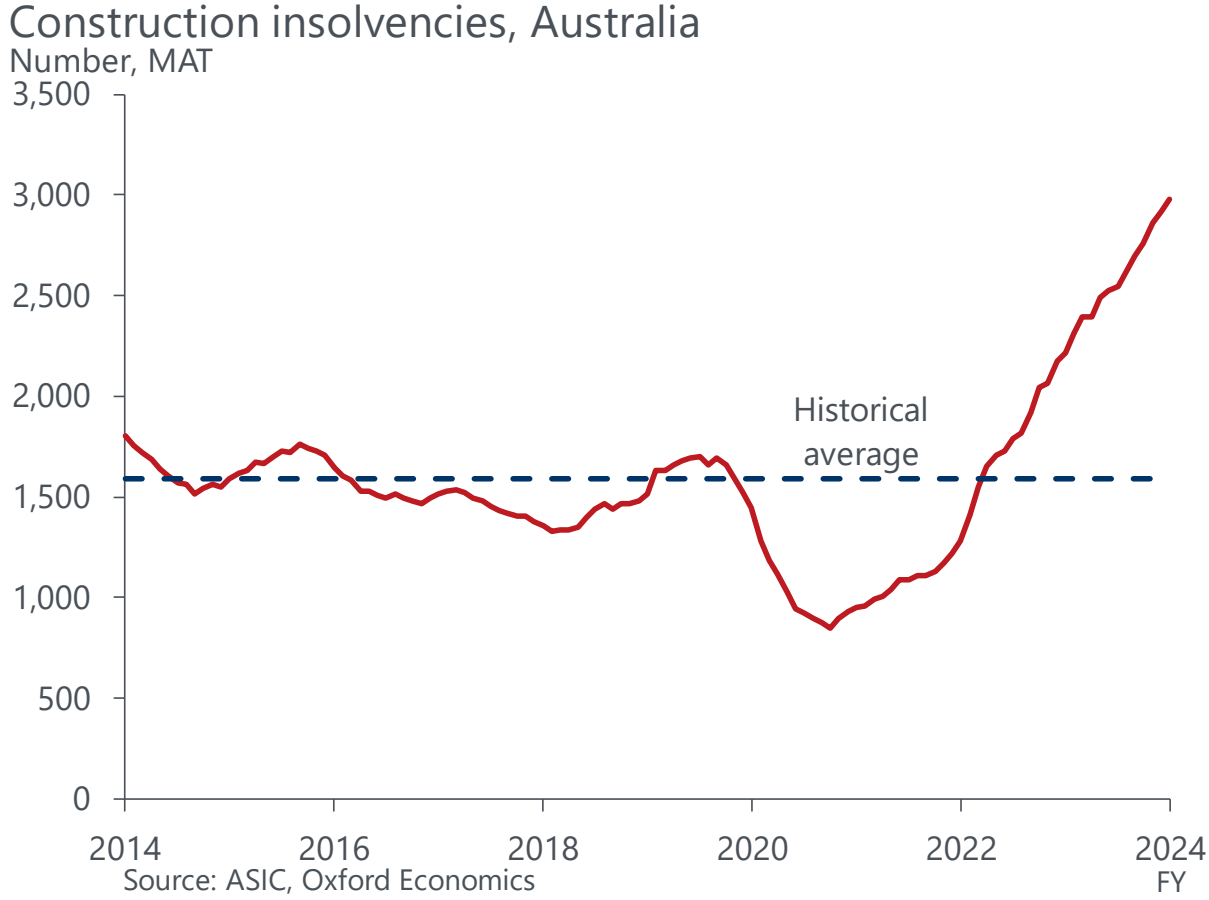


Source: Oxford Economics, ABS

Building backlog

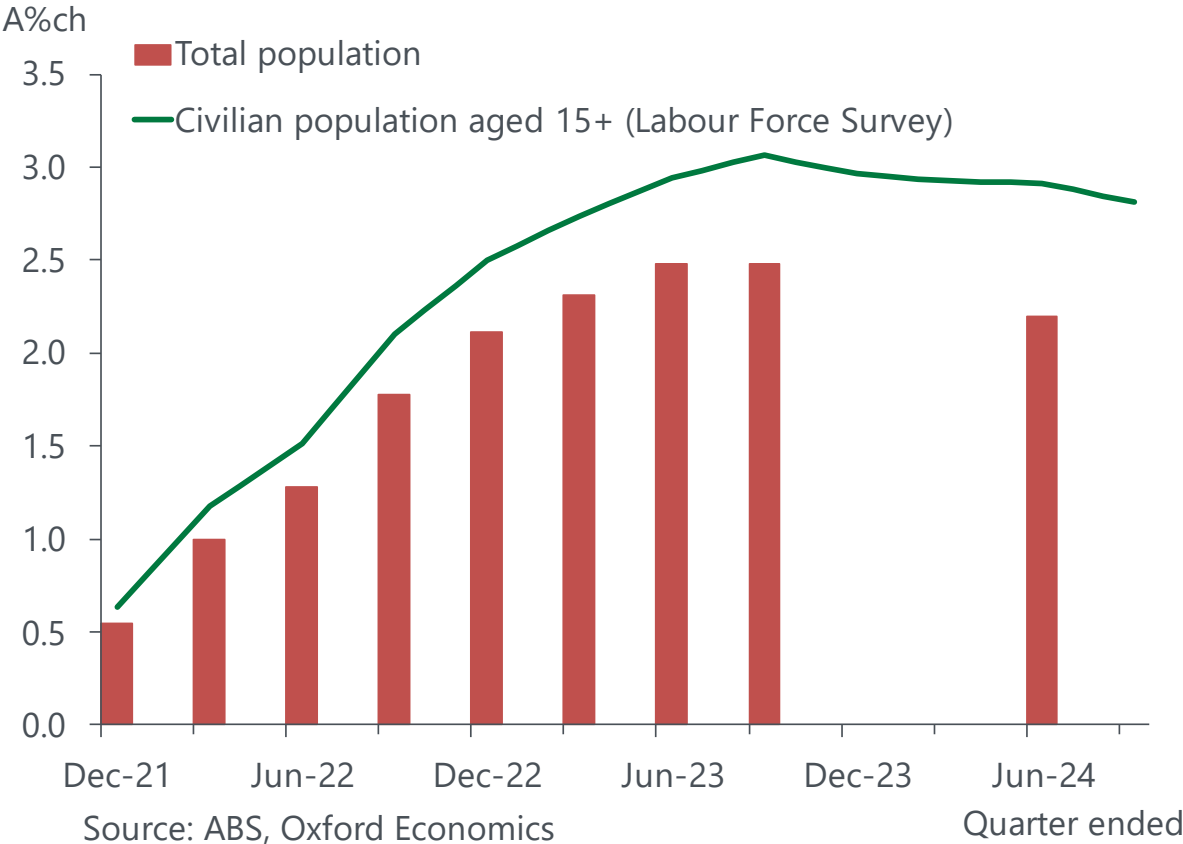


Further builder insolvencies to come

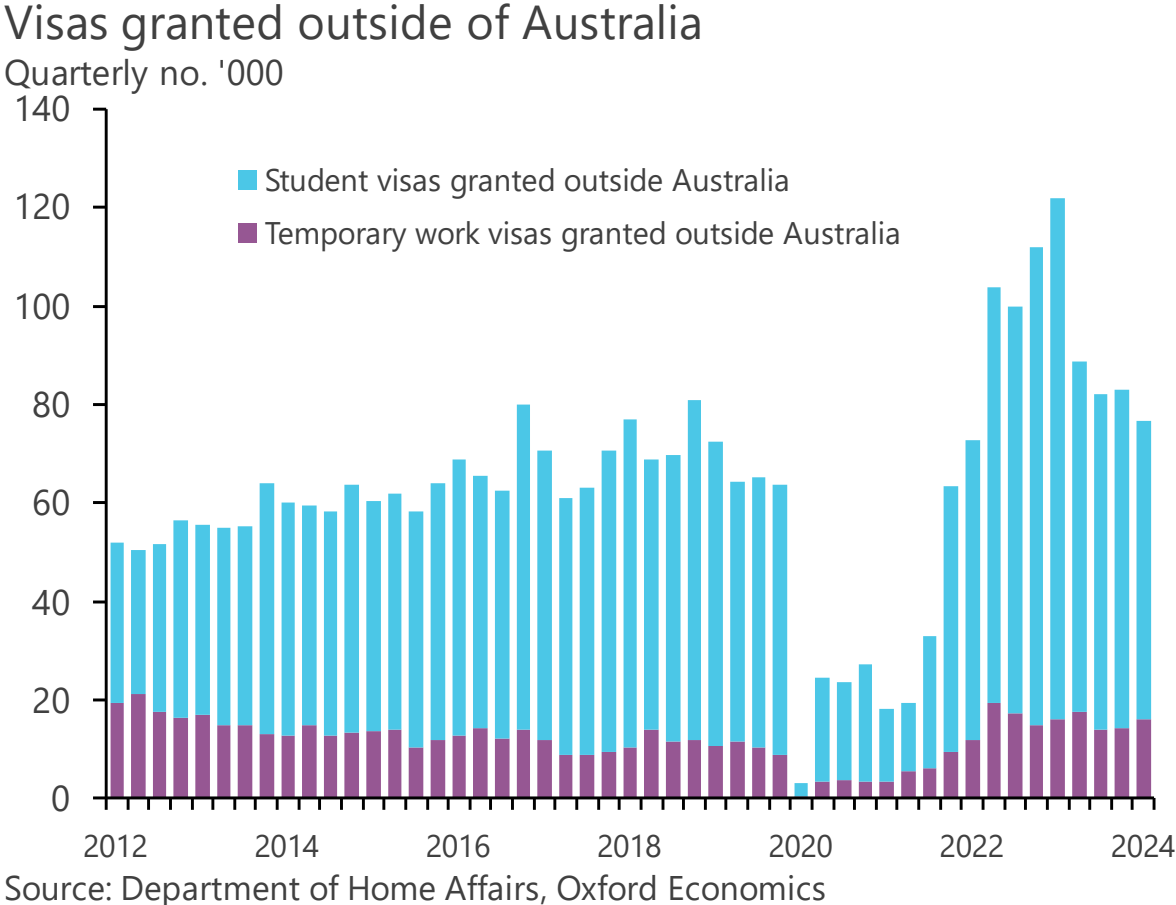


Near-term population leads remain strong

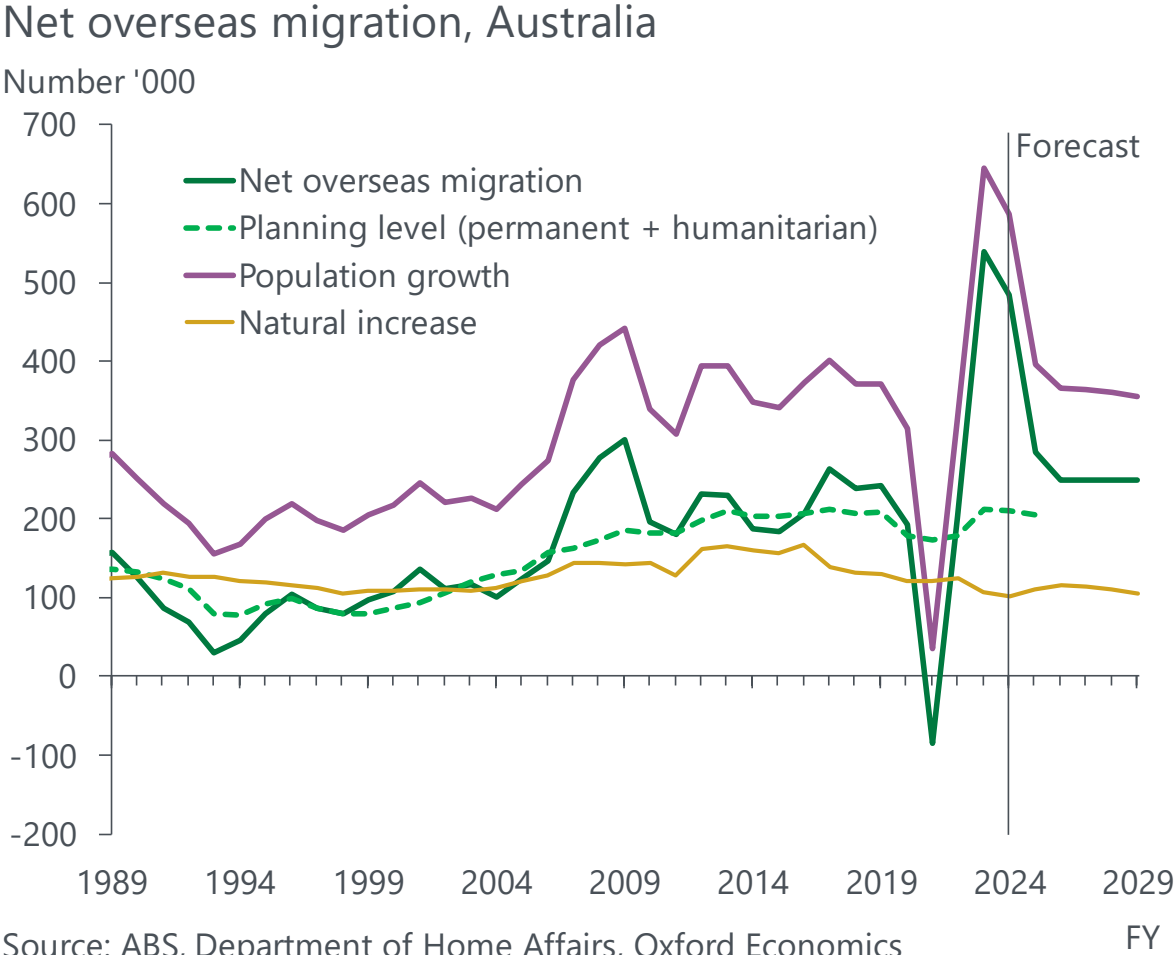
Labour Force Survey vs. resident population, Australia



Policy to weigh on overseas migration in 2025 and 2026



Population normalisation is underway



Sector specific themes



Tailwinds

Technology – Data centres, warehouses

Population ageing – Aged care, hospitals

Densification – Schools, aged care, apartments,
multi-storey warehouses

Infrastructure renewal – Aquatic, schools, hospitals

Sustainability

-**Renewables** – Factory, other industrial

-**Tenancy standards** – Office, industrial, retail

-**Utilities** – Water, waste

Sovereign capacity – Factories, defence, mining

Policy - Residential



Headwinds

Technology – Retail, office, education

Population ageing – Broader private investment

Densification – Houses

Government debt – Schools, universities, prisons, hospitals

Regulation/costs – All

Capacity constraints – All

Stock balances

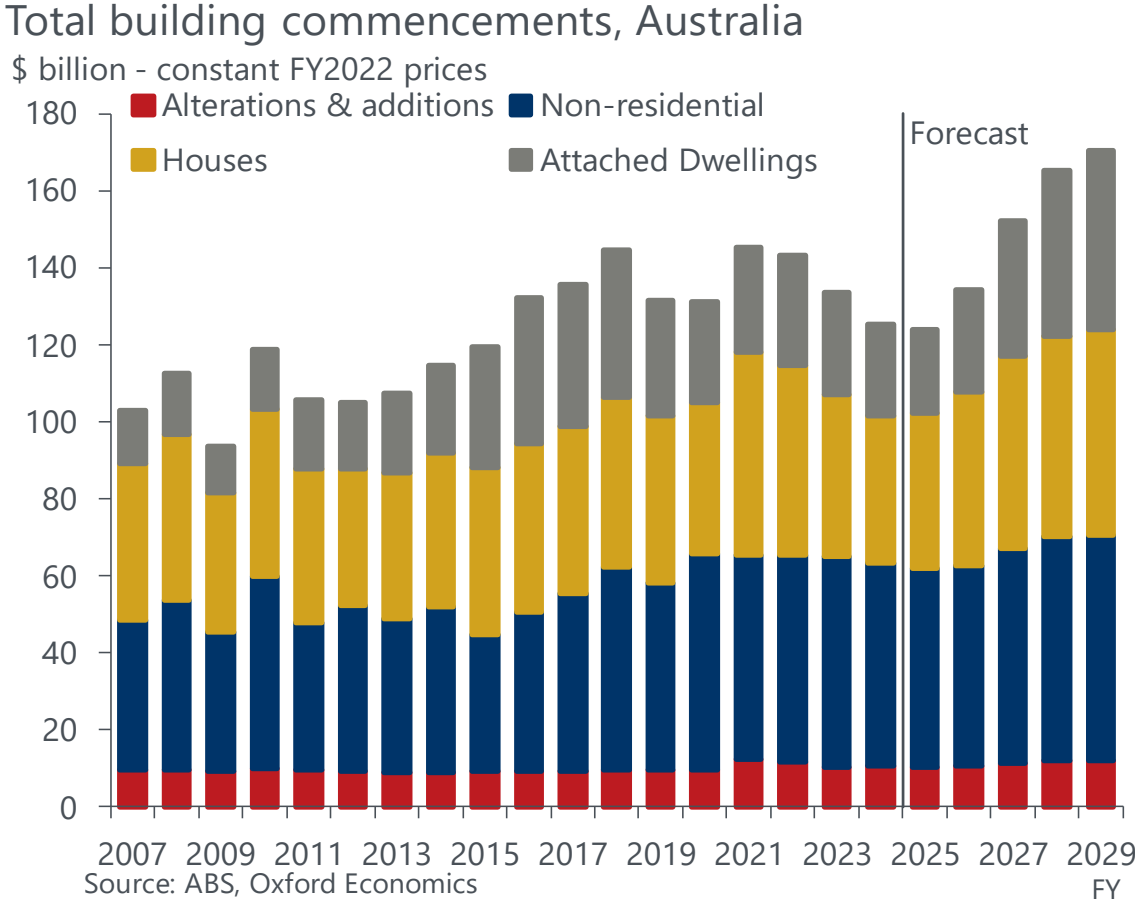
Undersupplied
Balanced
Oversupplied

Sector indicators	Value	Trend	Timestamp
Residential - stock deficiency ('000)	151.3	↑	June 2024
Residential - rental vacancy rate (%)	1.3	—	June 2024
Office (metropolitan) - vacancy rate (%)	15.2	↑	June 2024
Industrial* - vacancy rate (%)	2.4	↑	June 2024
Aged care - occupancy rate (%)	86	↓	June 2023
Hotels - occupancy rate (%)	70	↑	December 2023
Retail - vacancy rate (%)	4.9	↓	December 2023
Student accommodation - vacancy rate (%)	~ 1	↓	April 2024
Education - Students per teacher	13.1	—	December 2023
Health - Public hospital beds per 1000 population	2.5	↑	June 2023
Justice - Prison design capacity utilisation (%)	97.7	↓	June 2022
Data centres^ - Colocation vacancy (%)	8	↓	June 2024

* Average of Sydney, Melbourne and Brisbane, ^ Sydney

Source: Oxford Economics, PCA, SQM, ABS, AIHW, CBRE, STR, MJA, Productivity Commission, Cushman & Wakefield

Total building upturn from FY2026

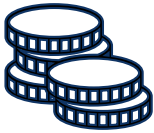


Stretched relationships - Building activity vs. inputs demand



Delays – Timing of work

- In the process of a gradual normalisation
- Insolvencies will continue to weigh



Cost inflation – Relay to physical volumes

- Cost growth has settled



Regional – Some states are stronger than others

- Regional variation will always be the norm
- Capacity constraints have amplified in recent years



Build form – Fewer tall buildings (units, office)
More industrial, data centres etc.

- Significantly varied outlooks by sector
medium term



Residential building

Approvals have bottomed out



House approvals have turned

Approvals seven months to July 2024 - A%ch.

	Houses	Attached dwellings
Sydney		
Melbourne		
Brisbane		
Adelaide		
Perth		
Canberra		
Tasmania		
Regional		
AUST	9	-8

Source: Oxford Economics, ABS

House approvals, Australia
Monthly number, seasonally adjusted



Source: ABS, Oxford Economics

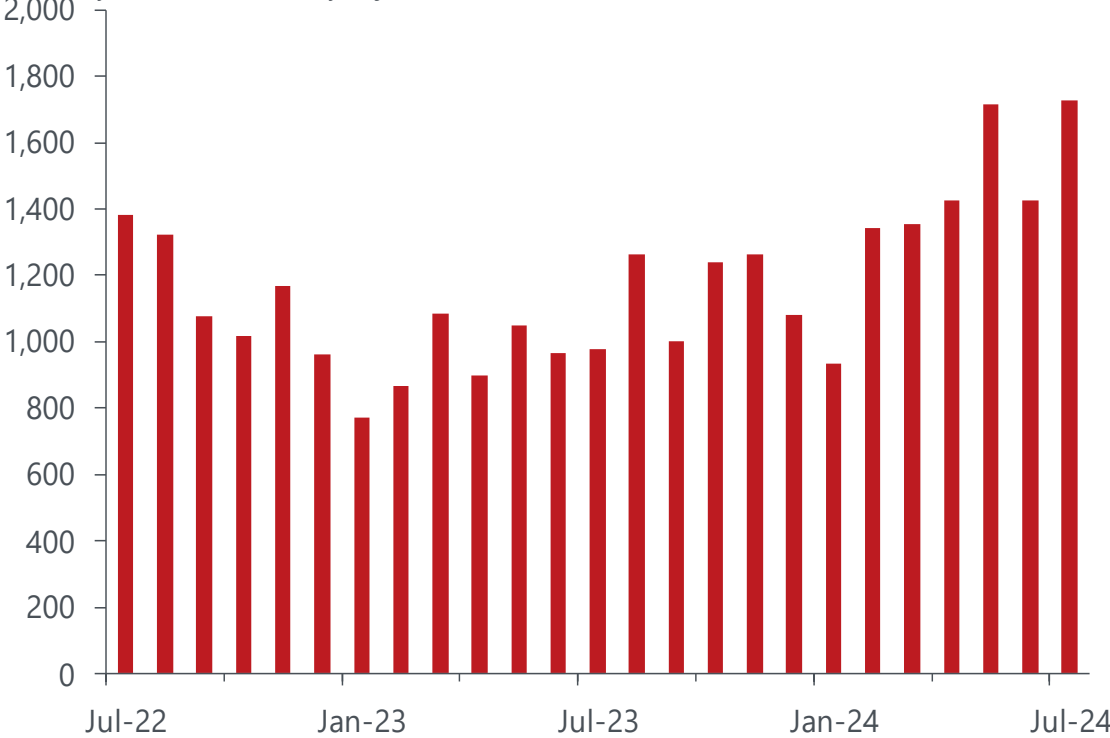
Western Australia leading the pack

Approvals seven months to July 2024 - A%ch.

	Houses	Attached dwellings
Sydney		
Melbourne		
Brisbane		
Adelaide		
Perth	57	119
Canberra		
Tasmania		
Regional		
AUST	9	-8

Source: Oxford Economics, ABS

House approvals, Western Australia
Monthly number, seasonally adjusted



Source: ABS, Oxford Economics

Melbourne and Brisbane houses also up

Approvals seven months to July 2024 - A%ch.

	Houses	Attached dwellings
Sydney		
Melbourne	13	
Brisbane	19	
Adelaide		
Perth	57	119
Canberra		
Tasmania		
Regional		
AUST	9	-8

Source: Oxford Economics, ABS



Utility connections, land availability, build costs dragging

Approvals seven months to July 2024 - A%ch.

	Houses	Attached dwellings
Sydney	-4	
Melbourne	13	
Brisbane	19	
Adelaide	1	
Perth	57	119
Canberra	-18	
Tasmania	-12	
Regional	-1	
AUST	9	-8

Source: Oxford Economics, ABS

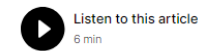
— Exclusive

Pay dispute delays construction of 1600 homes

Campbell Kwan and David Marin-Guzman

Jun 25, 2024 - 4:00pm

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Five months of industrial action by workers at poles and wires company Endeavour Energy has delayed the construction of 1600 homes and a slew of warehouses owned by ASX-listed property giants, adding millions of dollars in extra costs.

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Analysis

No water means no new houses in Adelaide's north. And there are no quick or cheap fixes

By state political reporter Rory McClaren

Posted Sun 23 Jun 2024 at 7:02am, updated Sun 23 Jun 2024 at 11:08am

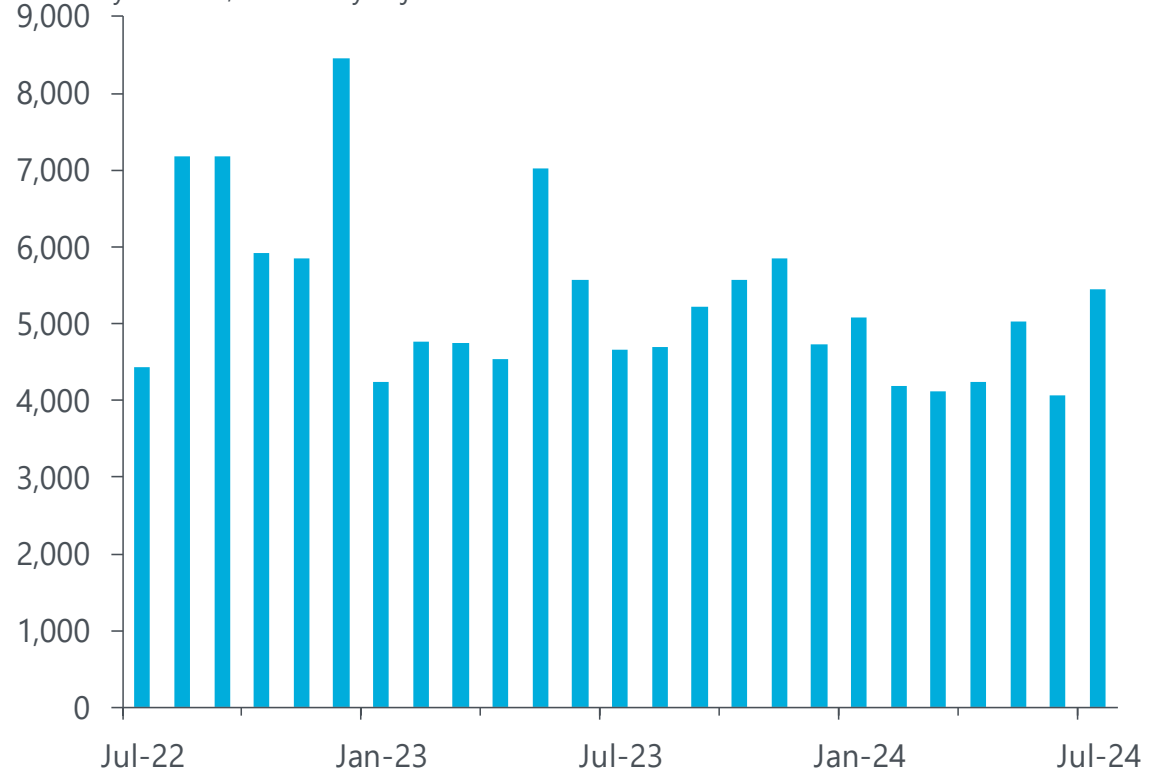
Attached dwellings yet to turn

Approvals seven months to July 2024 - A%ch.

	Houses	Attached dwellings
Sydney	-4	-24
Melbourne	13	-5
Brisbane	19	-45
Adelaide	1	-10
Perth	57	119
Canberra	-18	-7
Tasmania	-12	1
Regional	-1	24
AUST	9	-8

Source: Oxford Economics, ABS

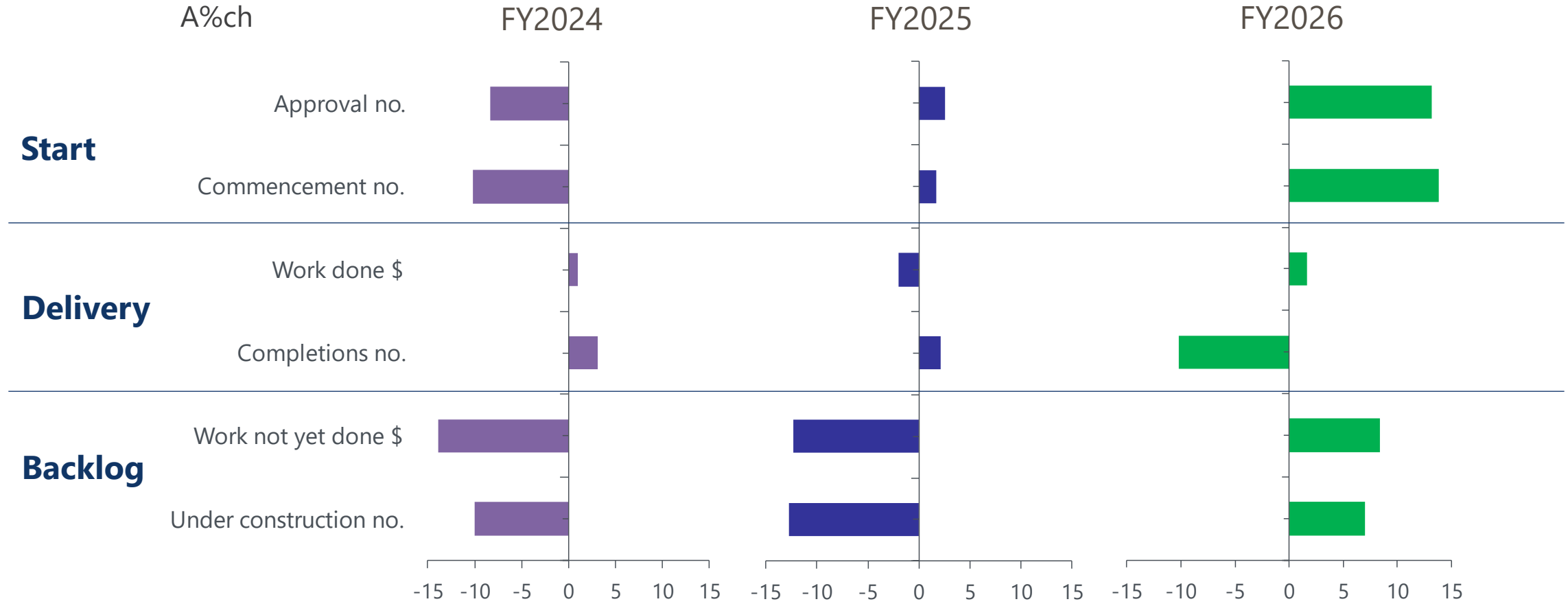
Attached dwellings, Australia
Monthly number, seasonally adjusted



Source: ABS, Oxford Economics

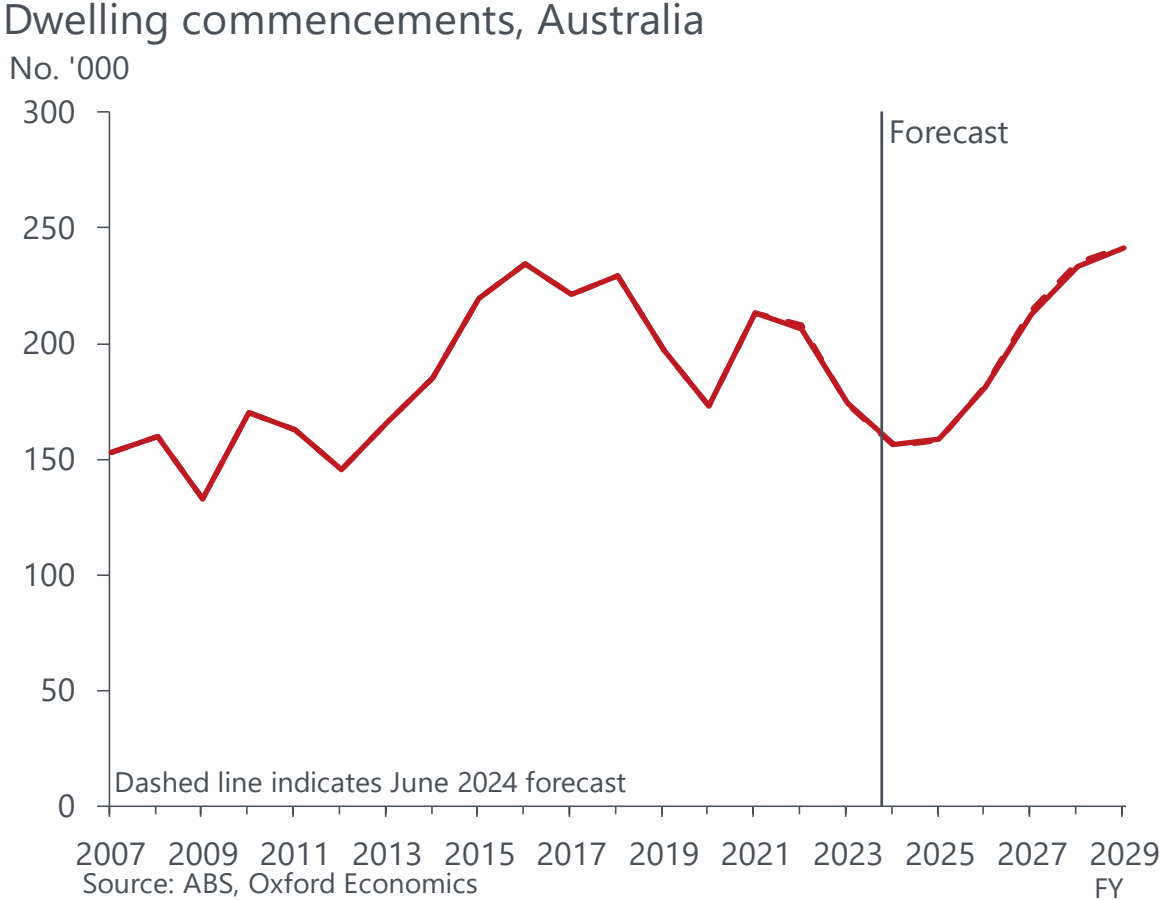
Discrepancy in stage of work

Residential construction metrics, Australia

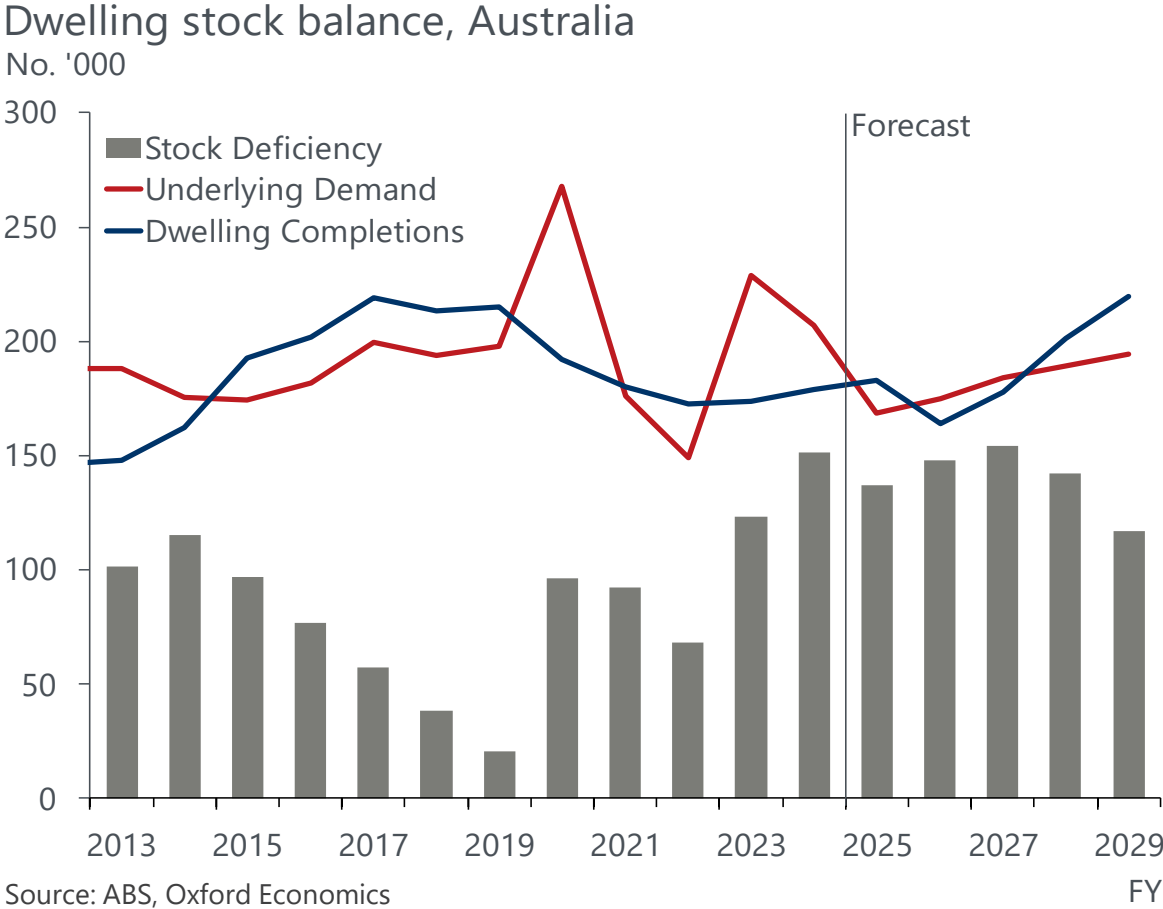


Source: ABS, Oxford Economics

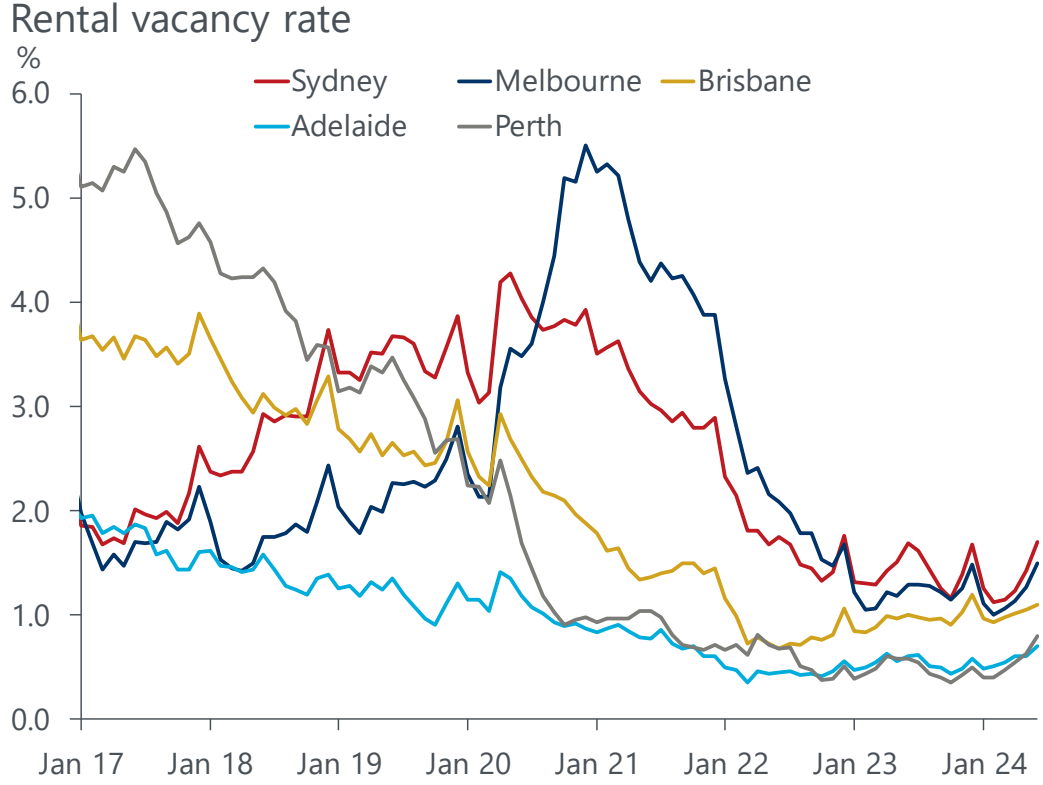
Total dwelling commencements have likely bottomed



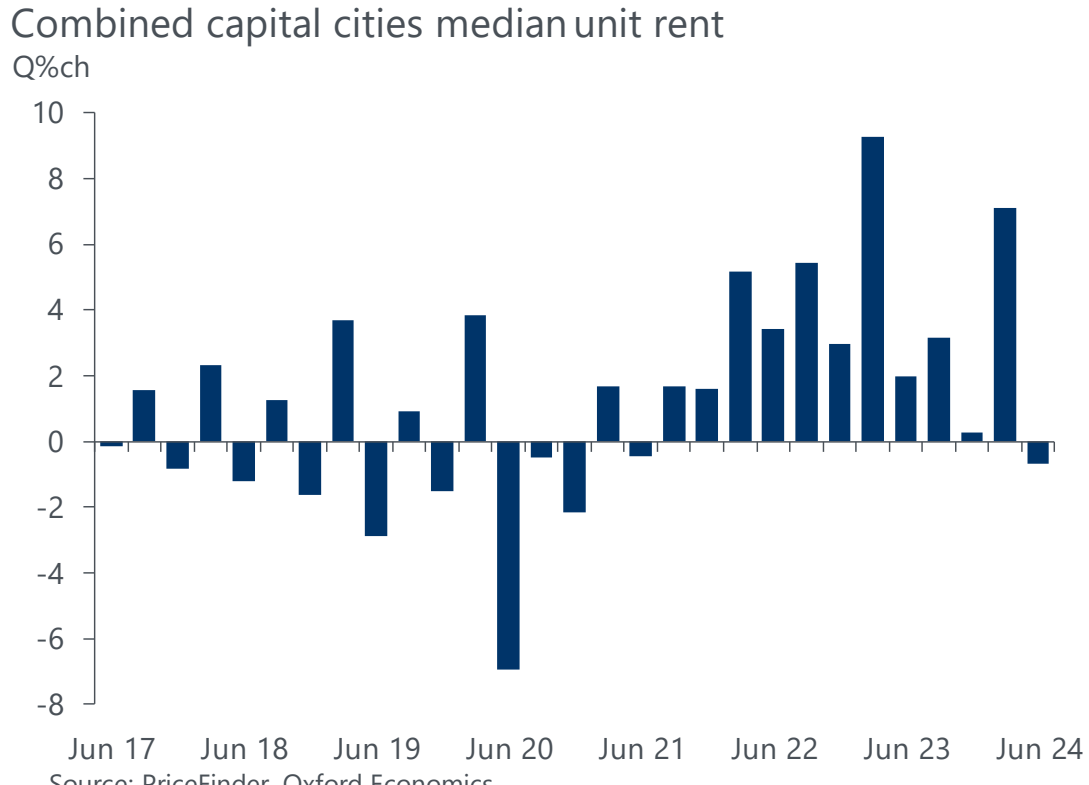
There is also a significant dwelling stock deficiency



Rental markets to remain historically tight

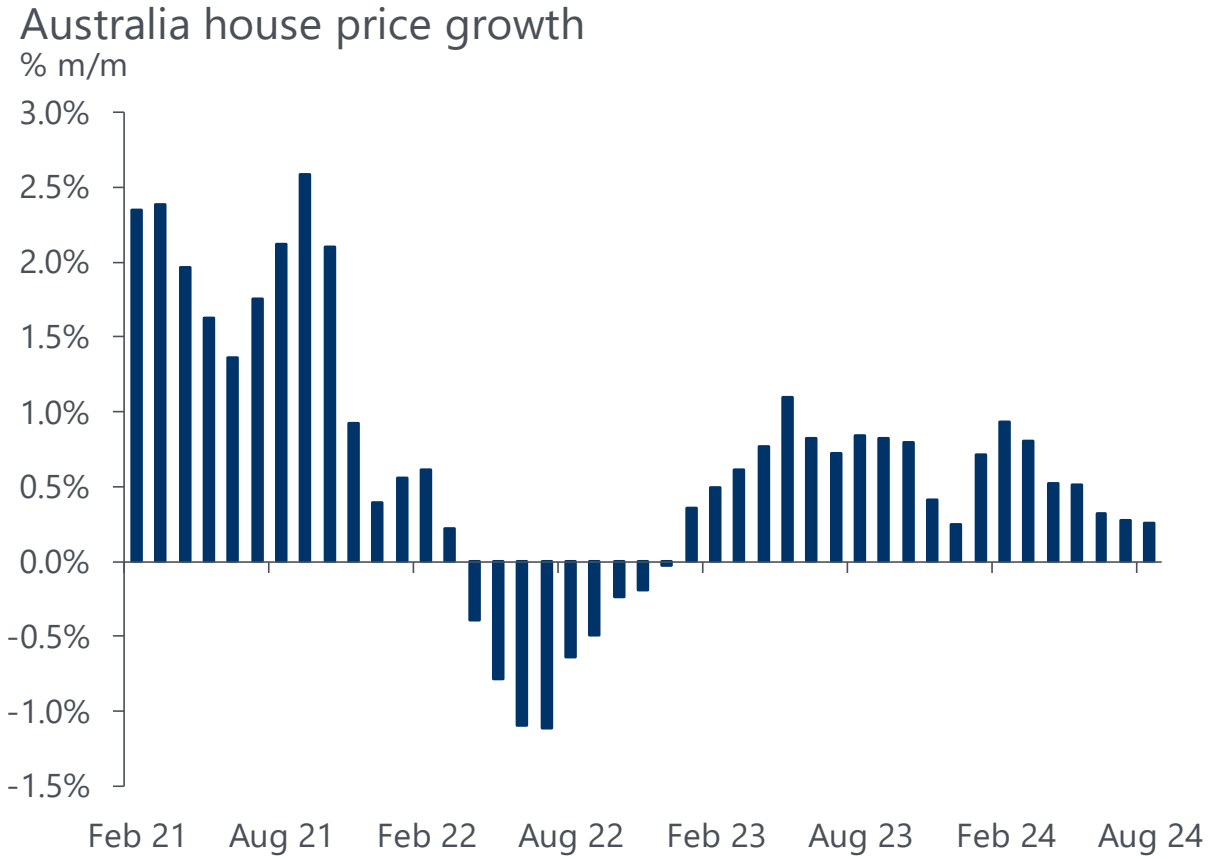


Source: SQM



Source: PriceFinder, Oxford Economics

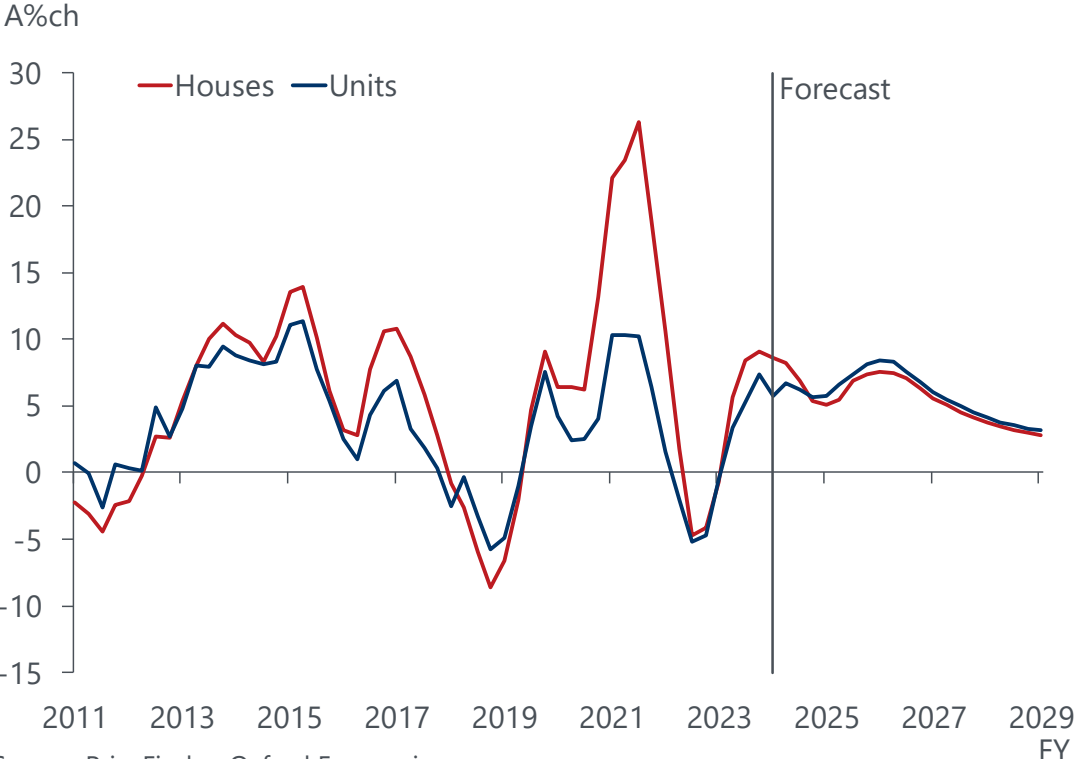
Monthly house price growth is moderating



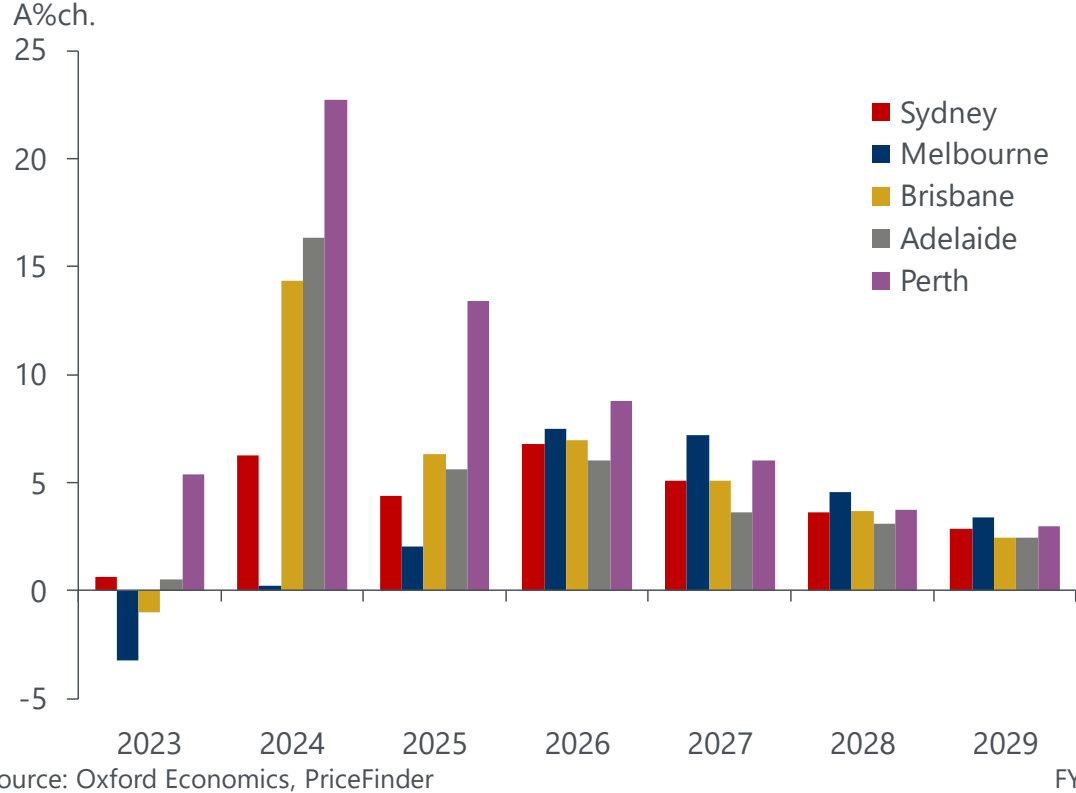
Source: PropTrack, Oxford Economics

Falling interest rates will support further price growth

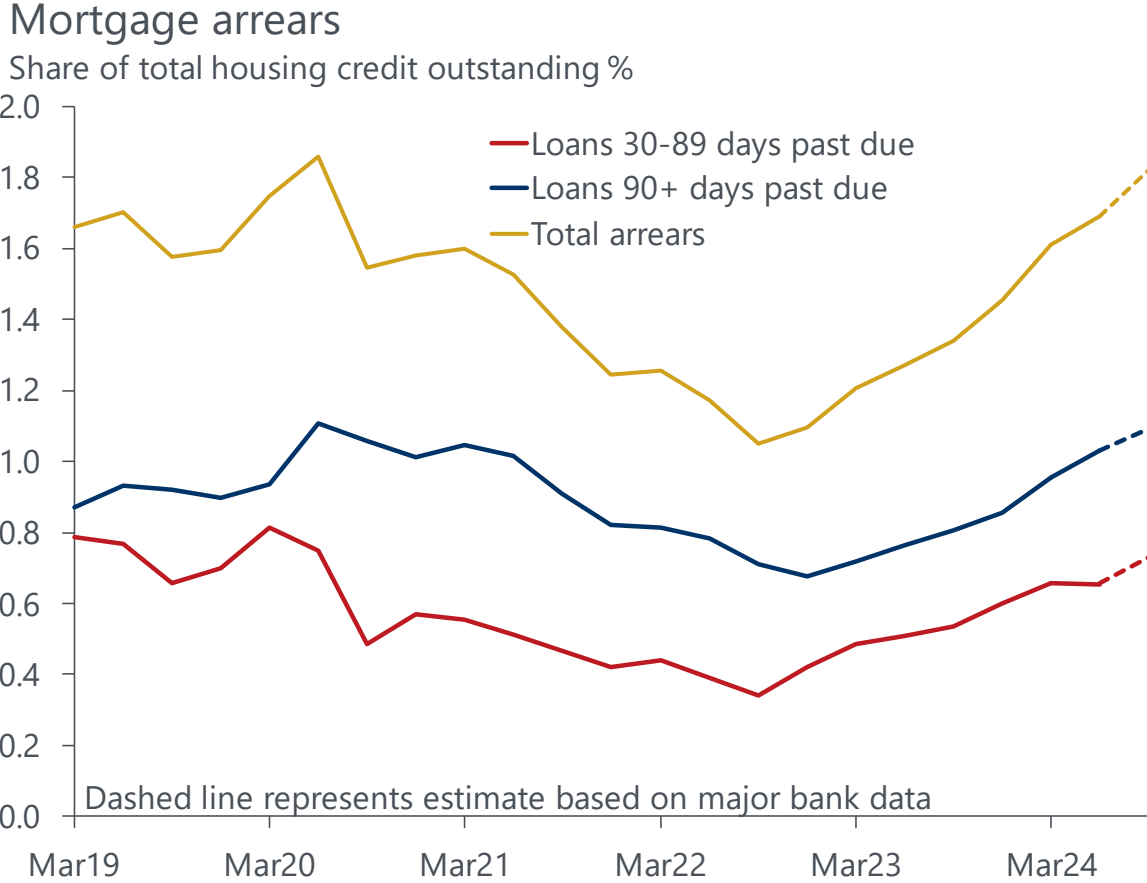
Combined capital cities median house & unit price



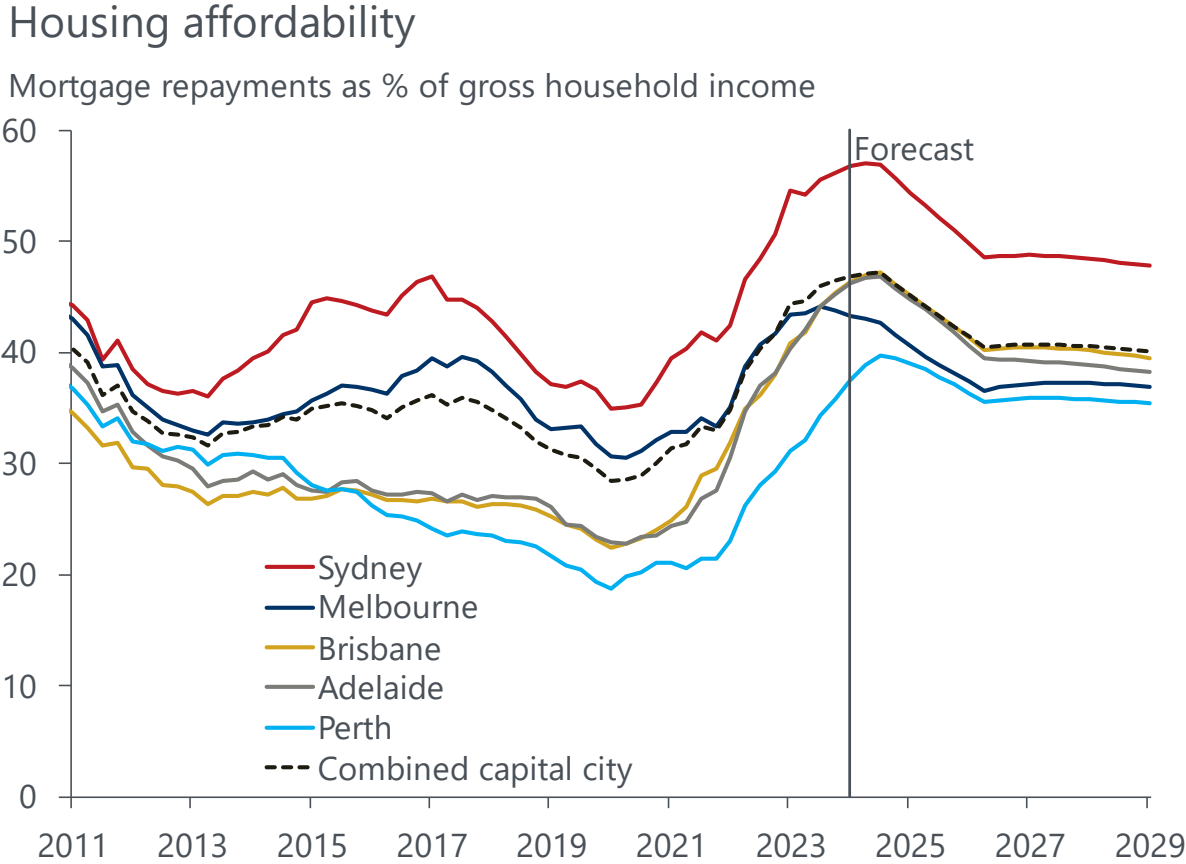
Median house price growth



Mortgage stress is growing by remains limited



Mortgage affordability will improve from mid-decade

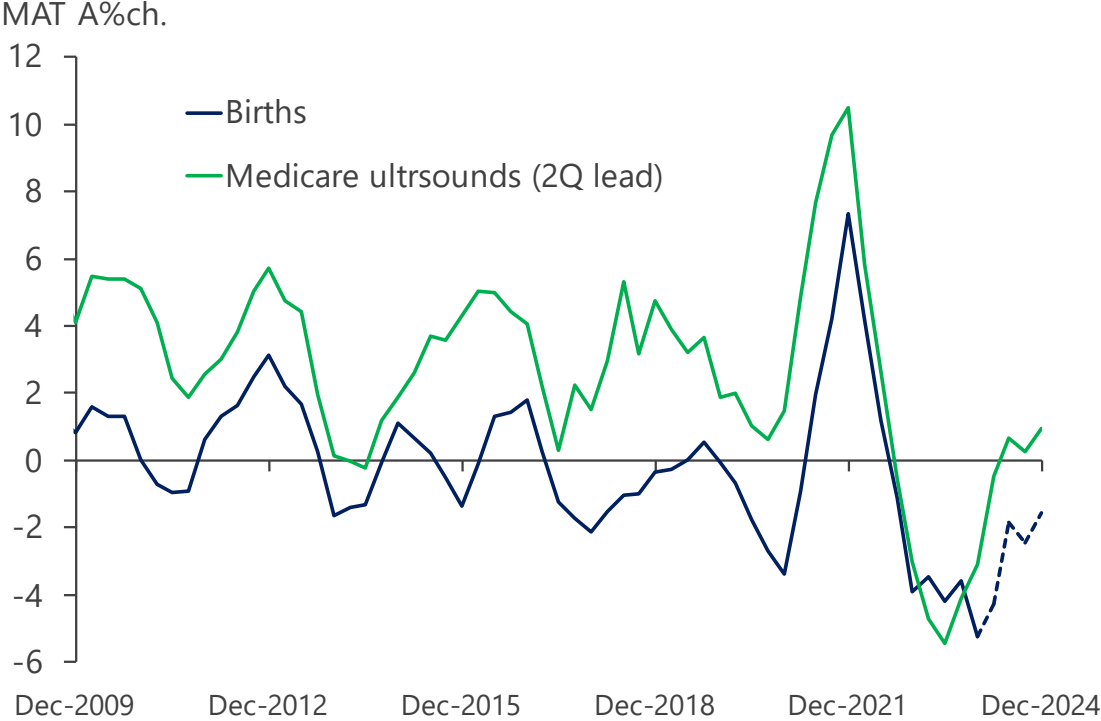


Source: ABS, PriceFinder, Oxford Economics

FY

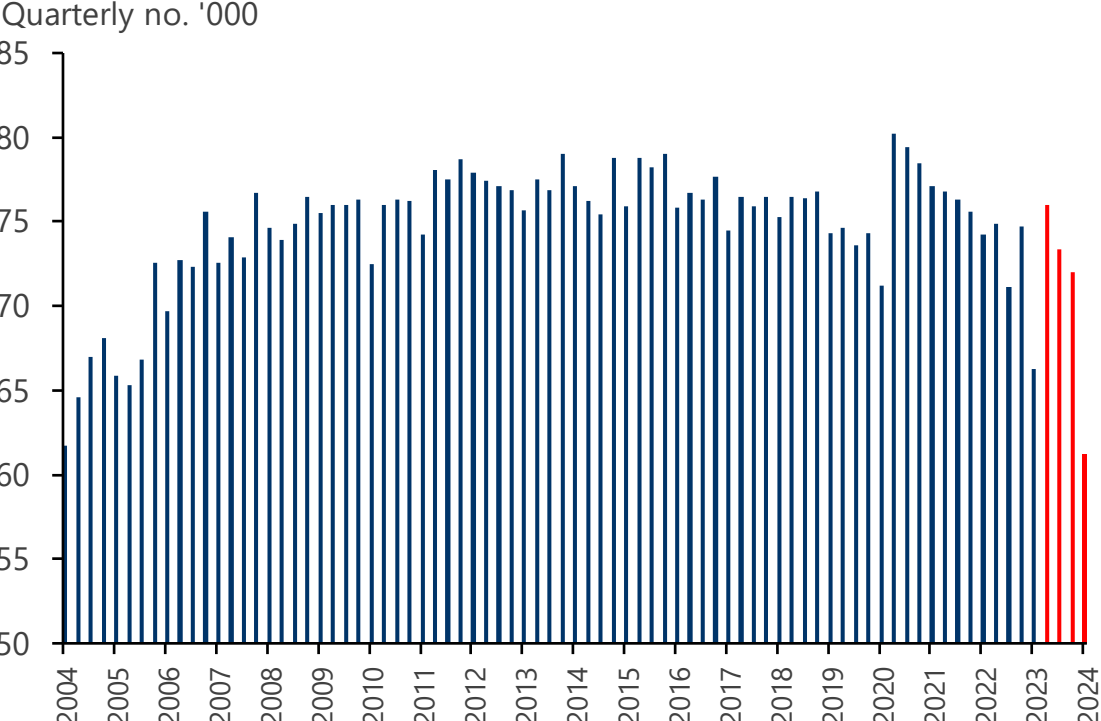
Affordability pressures contributing to a falling birth rate?

Births vs. ultrasounds, Australia



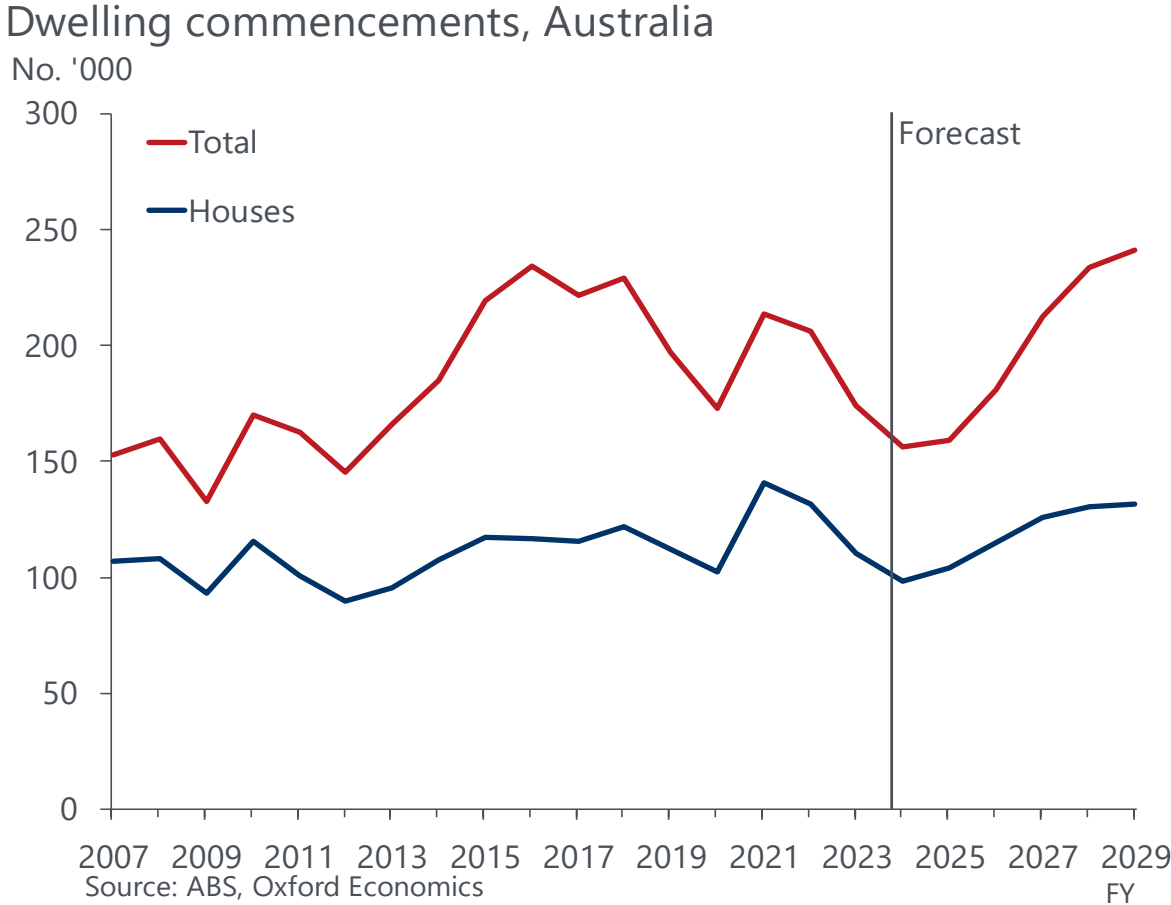
Source: ABS, Services Australia, Oxford Economics

Births, Australia

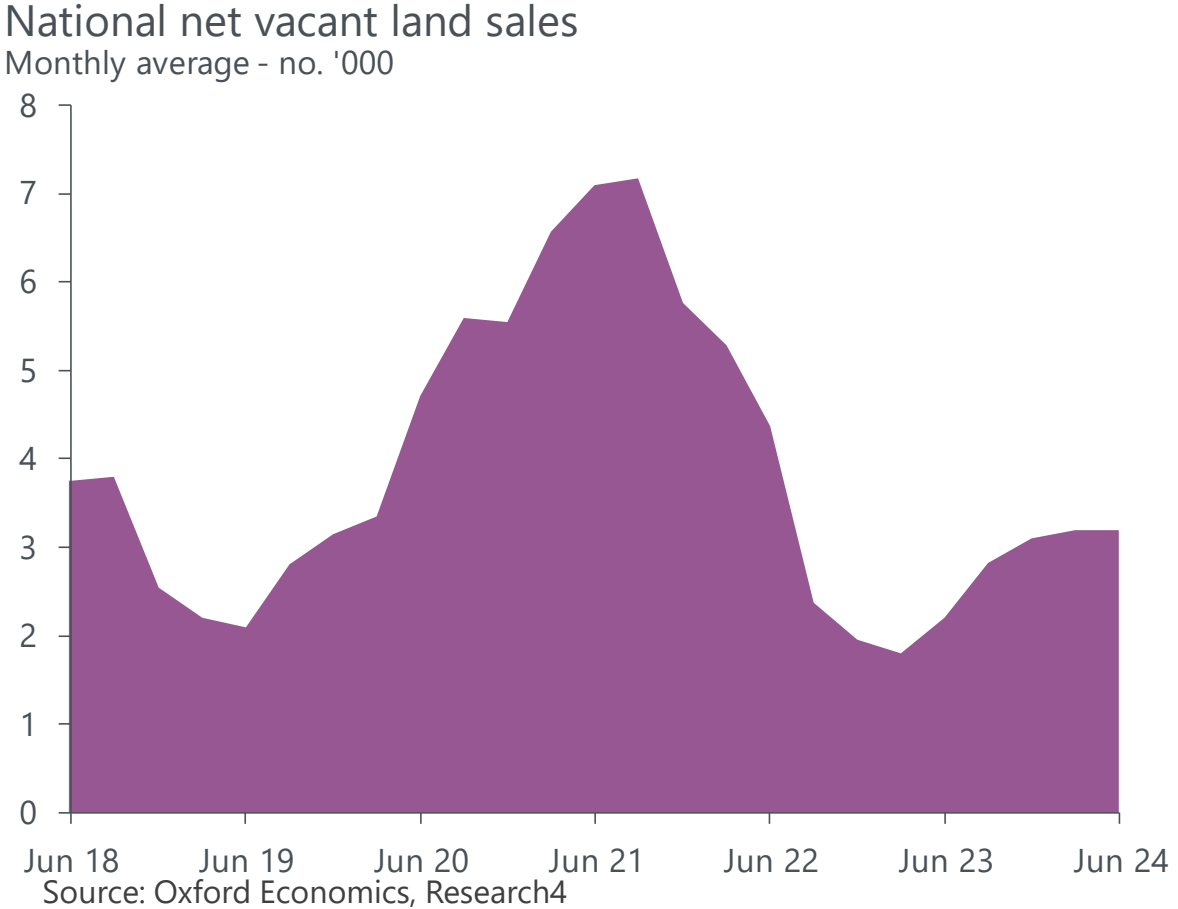


Source: ABS, Oxford Economics

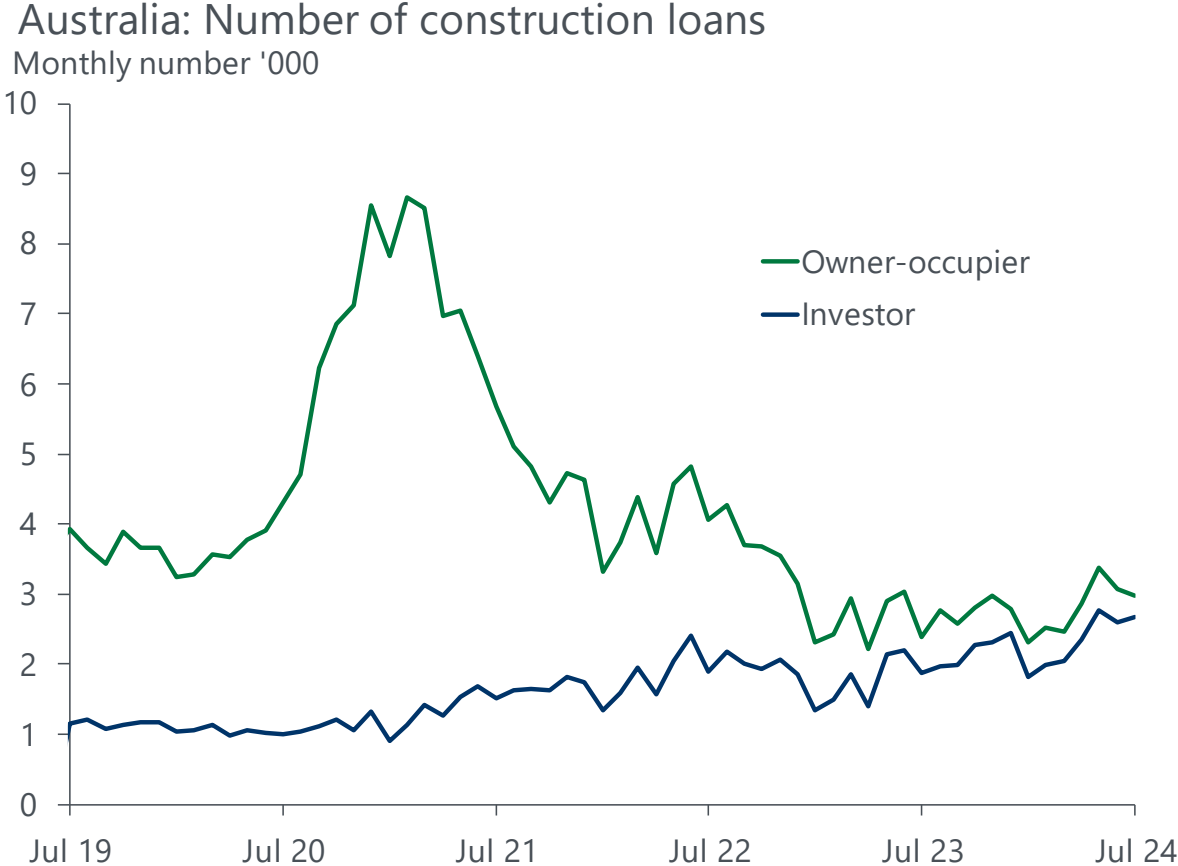
Houses have turned but contribution to upturn will be limited



Some green shoots are emerging for houses



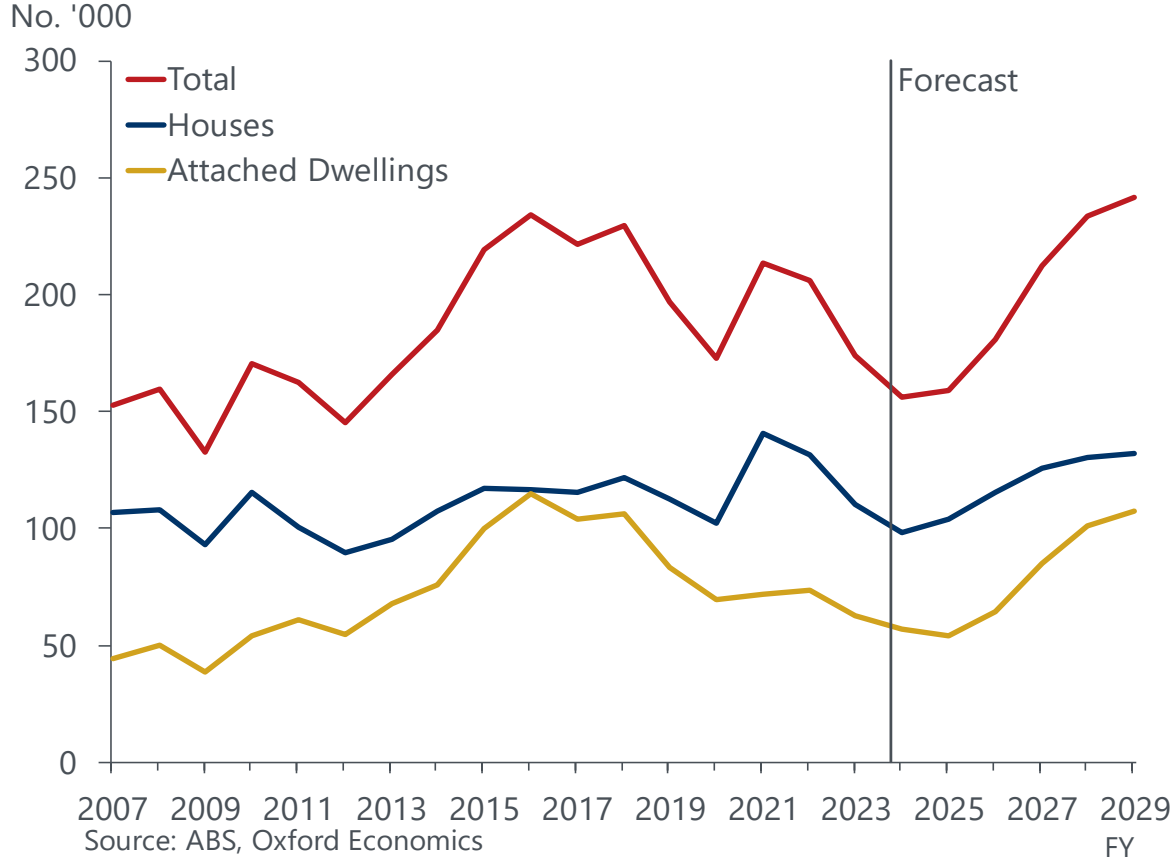
Investors playing a more active role in the greenfield market



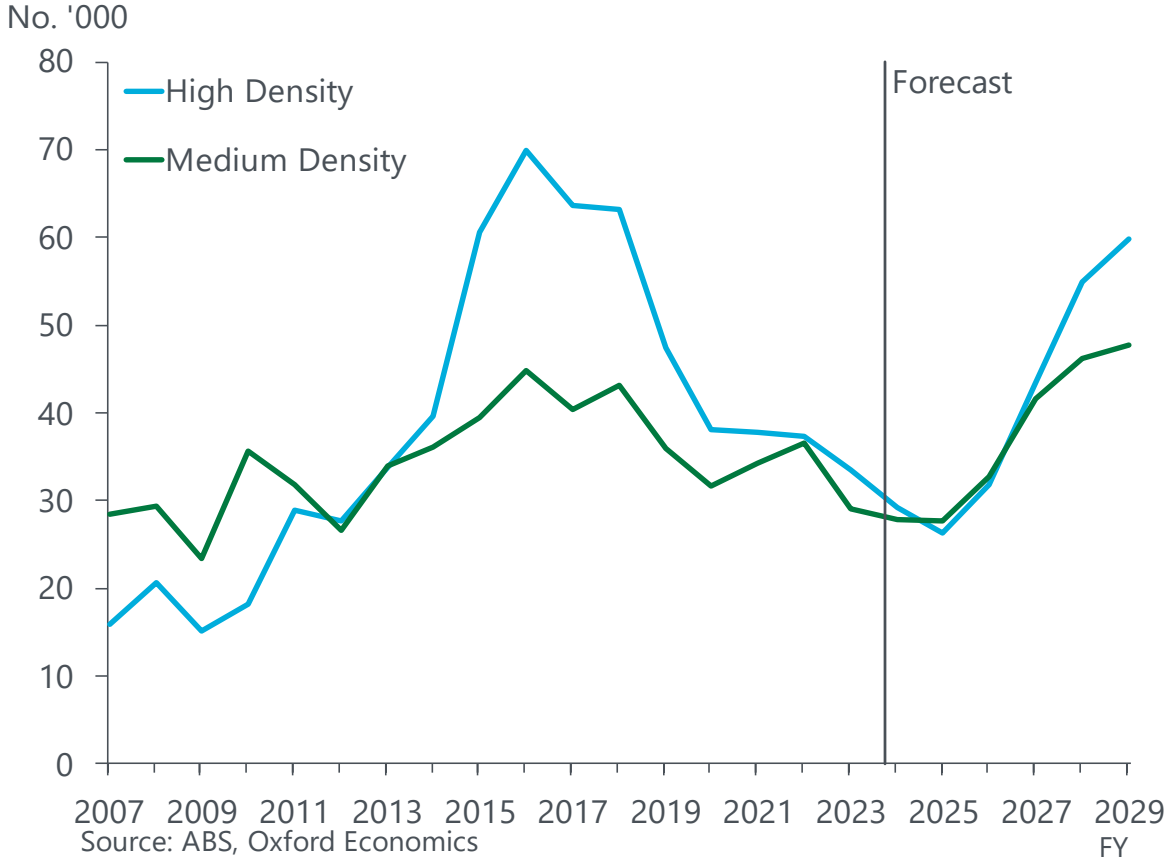
Source: Oxford Economics, ABS

Attached dwellings will primarily drive the upturn

Dwelling commencements, Australia

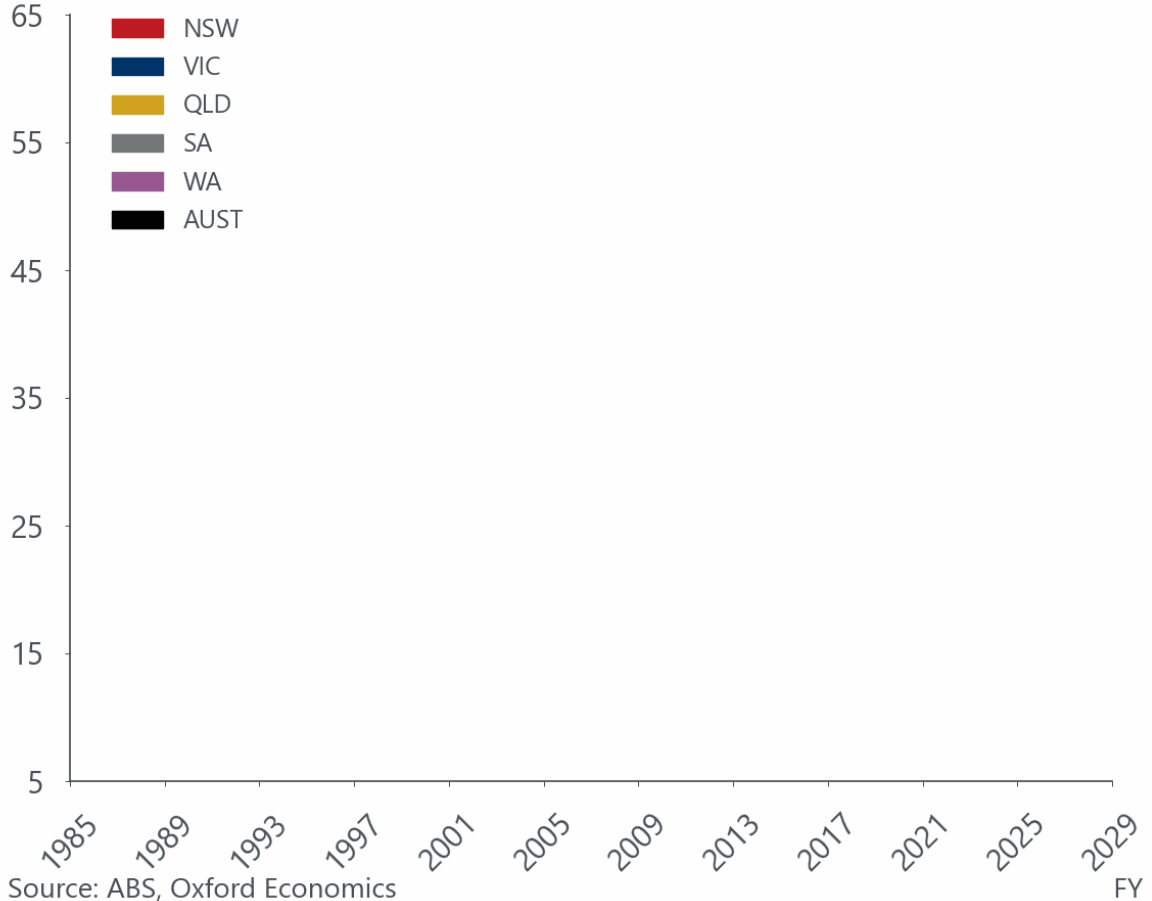


Attached dwelling commencements, by type



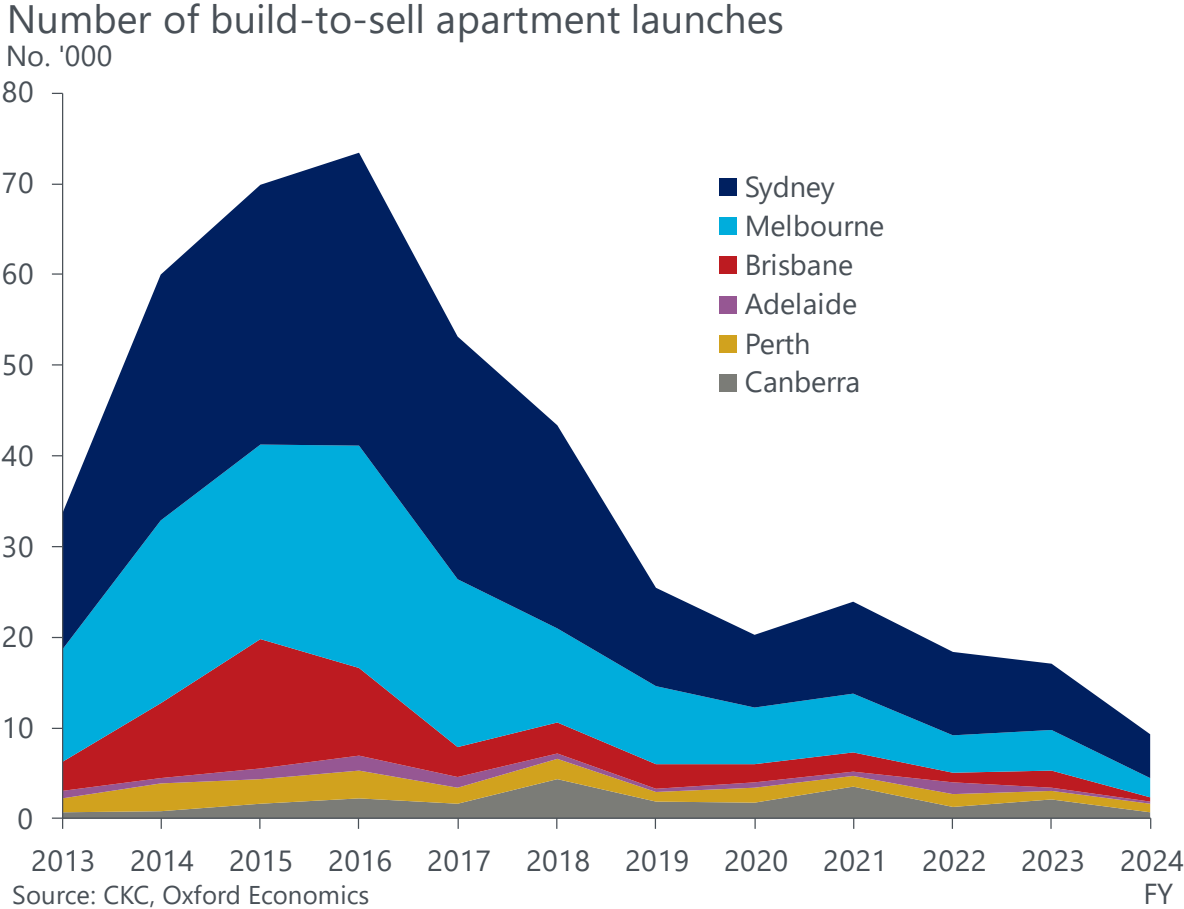
Shifting dwelling mix

Attached dwelling commencements, Australia
% of total dwelling commencements

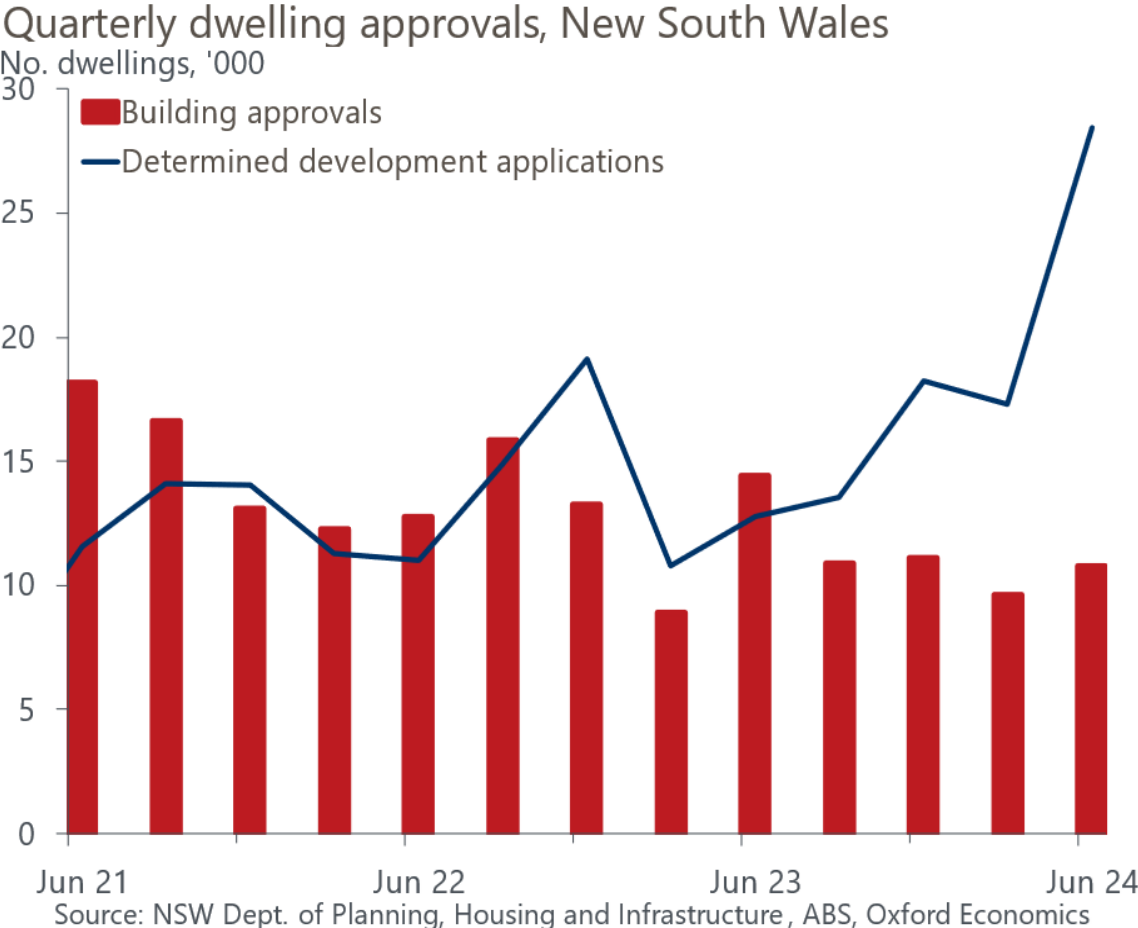


Source: ABS, Oxford Economics

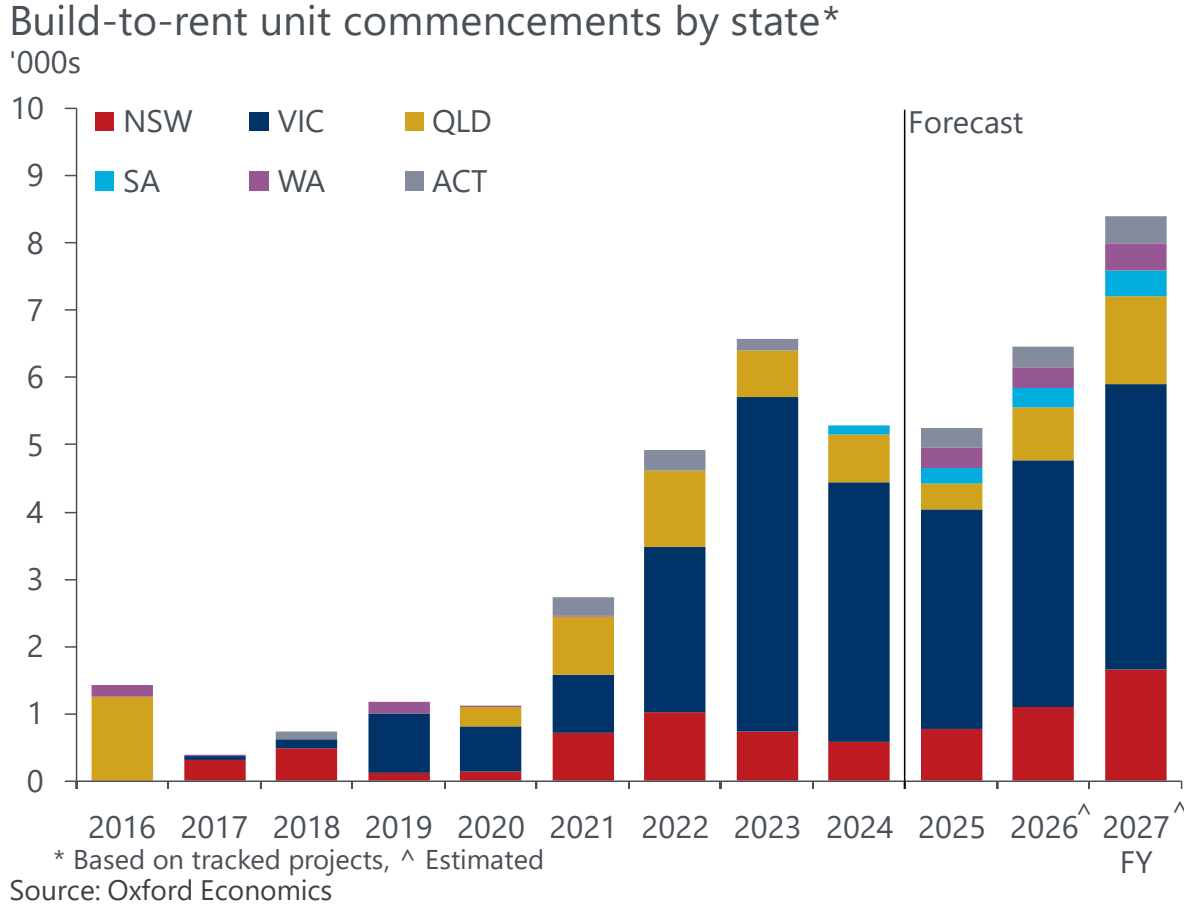
Apartment launches continue to be subdued



However, developers are gearing up for improving conditions

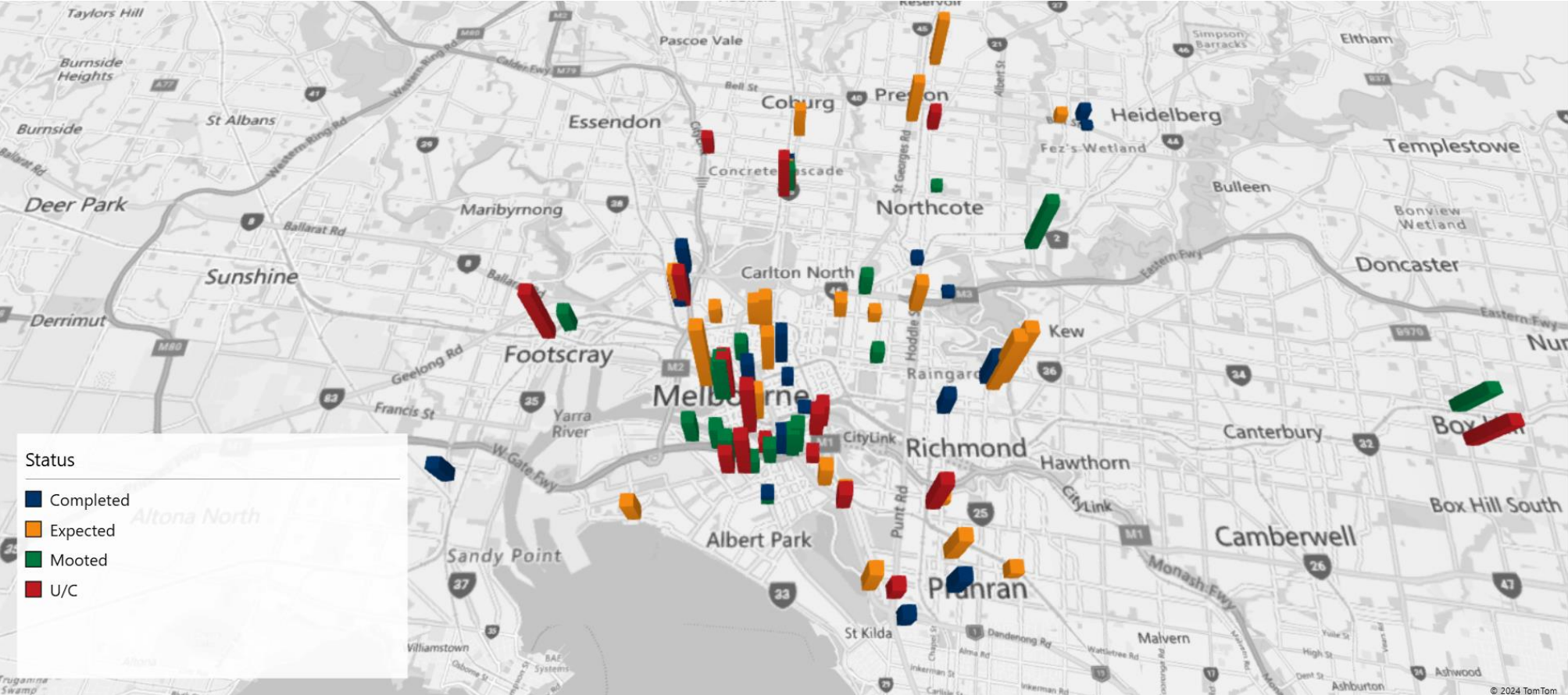


Build-to-rent commencements took a step back in FY2024



Victorian projects have clustered near the Melbourne CBD

33,083 Units* 92 Projects*



Source: Bing, TomTom, Oxford Economics

* Includes active stock, based on tracked projects, unit/project count for Victoria as a whole



Policy on the move

Policy has been a key driver of the BTR surge

MIT withholding tax reduction

National – YET TO BE ACTIONED

Capital works deduction rate increase

National – YET TO BE ACTIONED

Foreign investor fee reductions/exemptions

National, NSW, VIC, QLD

Land tax concessions (50%)

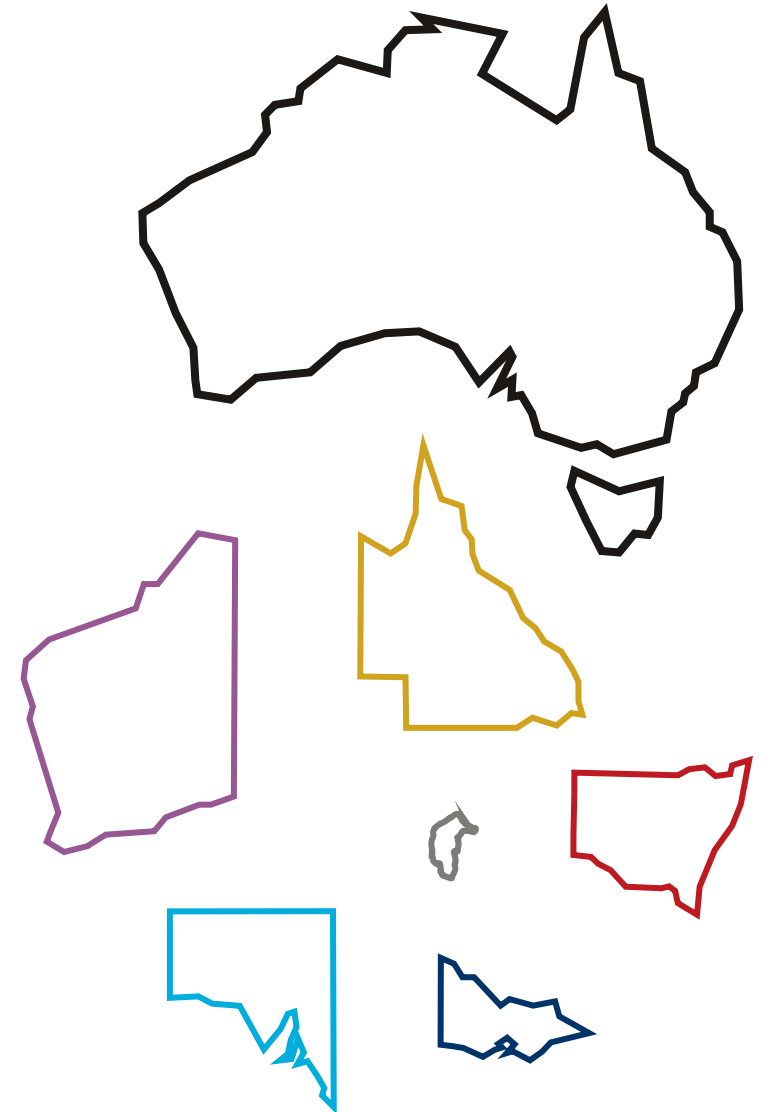
NSW, VIC, QLD, SA, WA

Land releases, pilot programs & PPP projects

NSW, VIC, SA, WA, QLD, ACT

Government investments & funds

QLD



Where have we gotten to with the Housing Accord?

\$2 billion Social Housing Accelerator

Funding paid; states have begun flagging related projects

\$500 million Housing Support Program

Will likely be delivered gradually, question marks by geography

National Planning Reform Blueprint

Ongoing task... Some states have begun making changes

\$10 billion Housing Australia Future Fund

First round awarded 16th September
13,700 dwellings across 185 projects

\$3 billion New Home Bonus

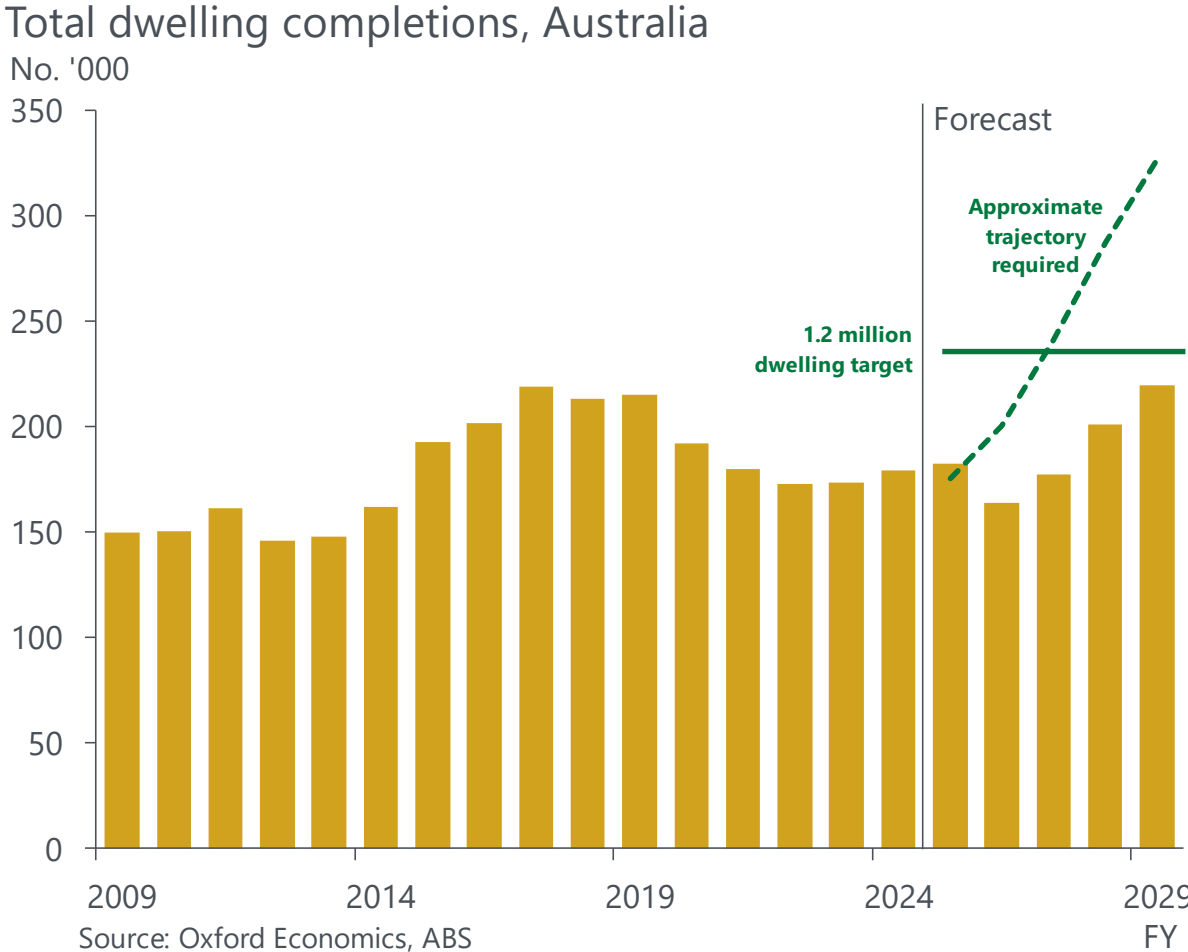
Applies once original targets hit, won't be seen until 2028

Target 1.2 million dwellings delivered

Ambitious... Dwelling count has just started



1.2 million new homes by 2029?



Policy themes



PLANNING

- National Planning Reform Blueprint
- NSW SEPPs & TOD program
- VIC planning responsibility tweaks
- Regional plans (e.g. Shaping SEQ)
- Priority development areas



AFFORDABLE HOUSING

- HAFF & Social Housing Accelerator
- Floorspace ratio & height bonuses in NSW
- Planning carve outs in NSW & VIC
- Housing Investment Fund in QLD
- PPP developments



SUSTAINABILITY

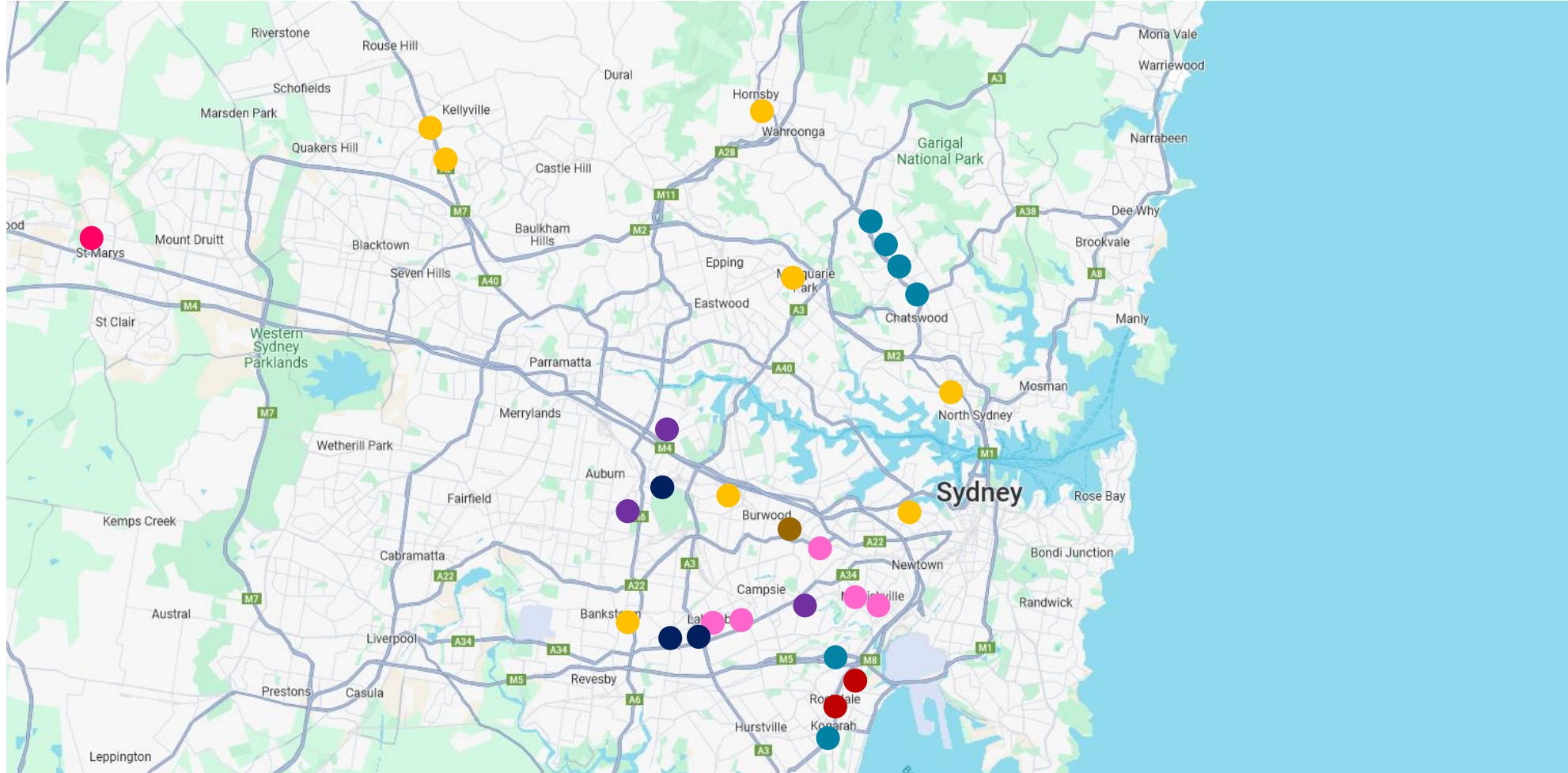
- National Construction Code 2022
- Household Energy Upgrades Fund
- VIC Gas Substitution Roadmap
- NSW Sustainability SEPP
- Green standards on government projects
- Council incentives & grants



SECONDARY DWELLINGS

- Construction without a development approval in NSW, VIC, & WA
- Removal of rental restrictions in QLD & SA

Densification - Transport Oriented Development Precincts, Sydney



Source: Oxford Economics, NSW Government, Google Maps



Enterprise bargaining/BPIC themes



REMUNERATION

- Annual pay increases (compounding to 22% in **NSW**, 20% in **VIC**, and 26% in **QLD** over the next four to five years)
- Incremental weather and emergency work bonuses (**QLD**)
- Increased travel and accommodation allowances (**QLD**)
- Increased overtime rates and holiday period loading (**QLD**)
- Income protection & industry training levies (**NSW, QLD**)
- Technology allowances (**QLD**)



LEAVE

- Greater accrual of rostered days off (including accrual while on leave) (**QLD**)



SAFETY

- Weather guidelines and temperature-related stop-work threshold (**QLD**)
- Air quality procedures (**QLD**)



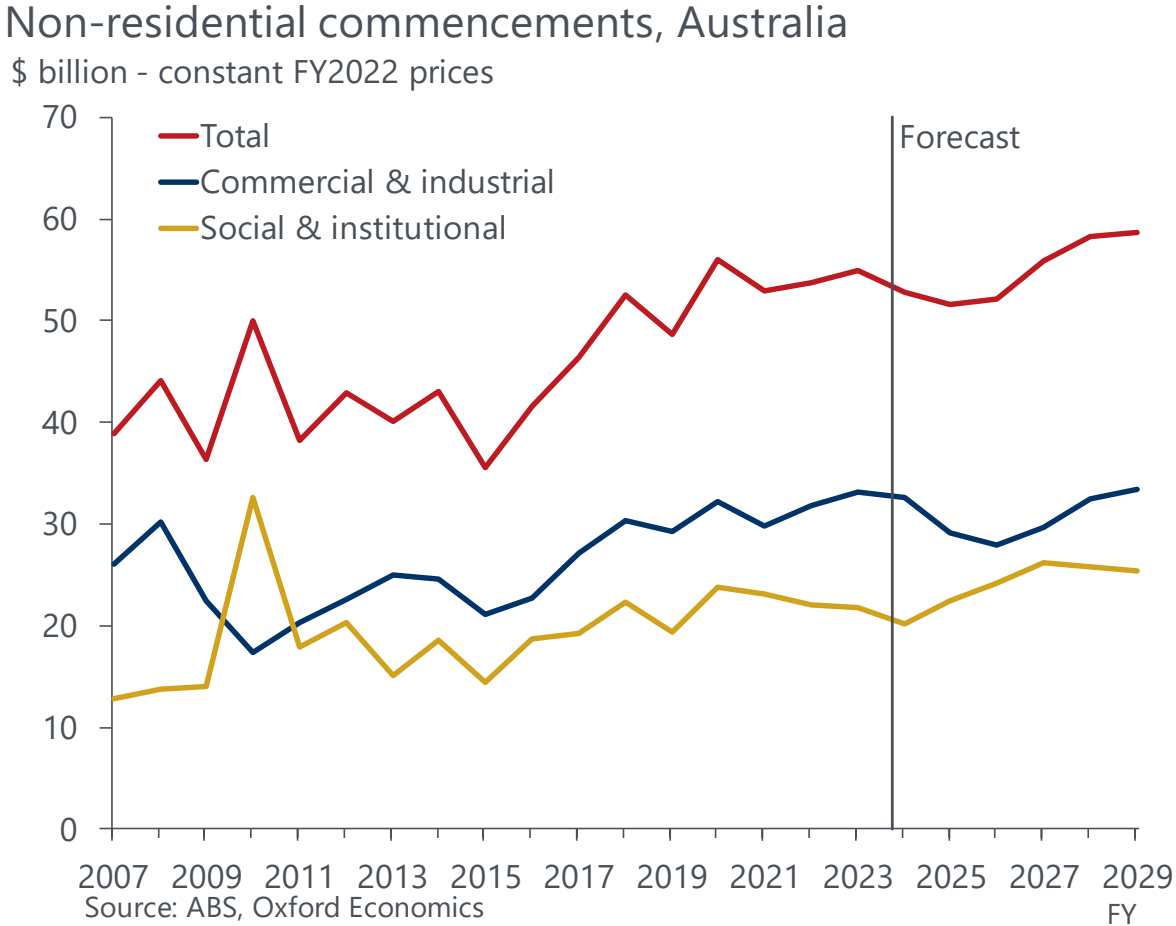
OTHER

- Creation of new standard form contracts (**VIC**)
- Casual contract conversion (**QLD**)
- Labour hire restrictions (**QLD**)



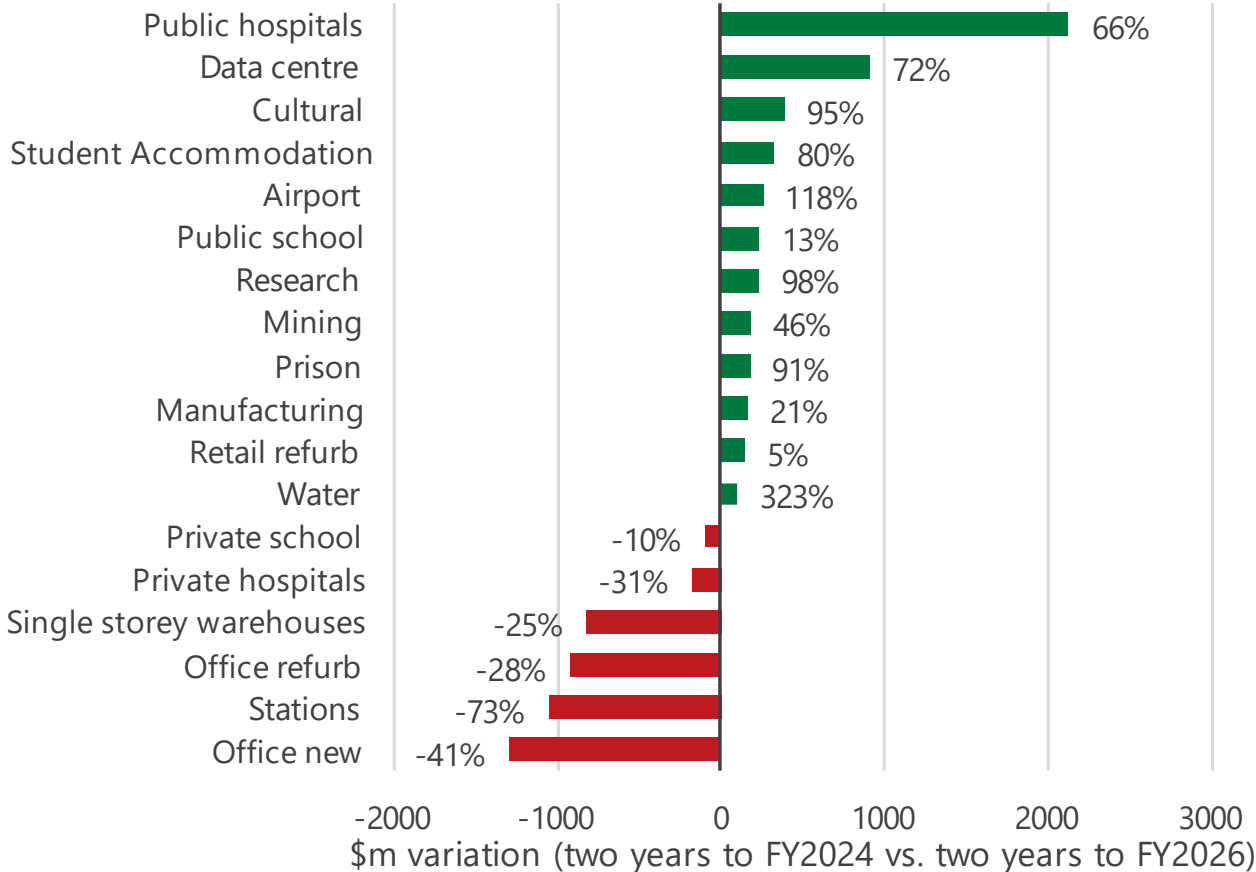
Non-residential building

Private work to lead the near-term slide for non-residential



Non-residential building winners & losers

Winners & losers - past two years vs. next two years



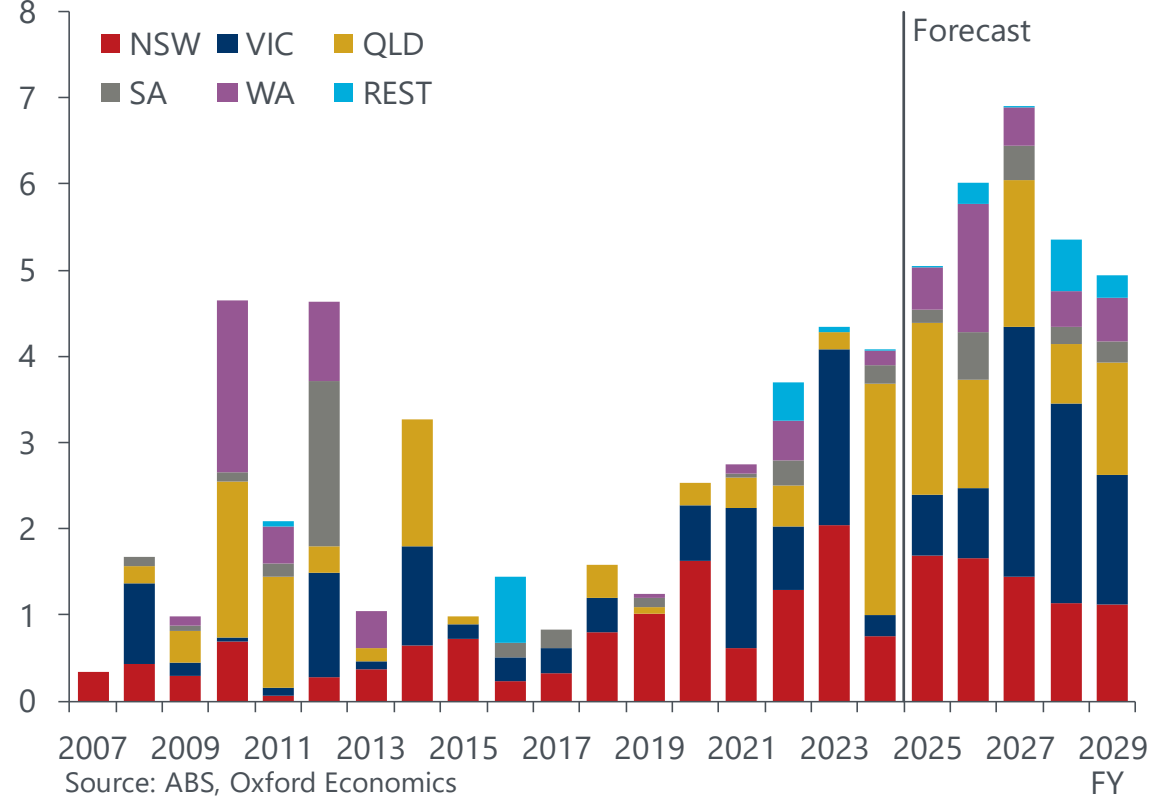
Source: Oxford Economics

Constant prices

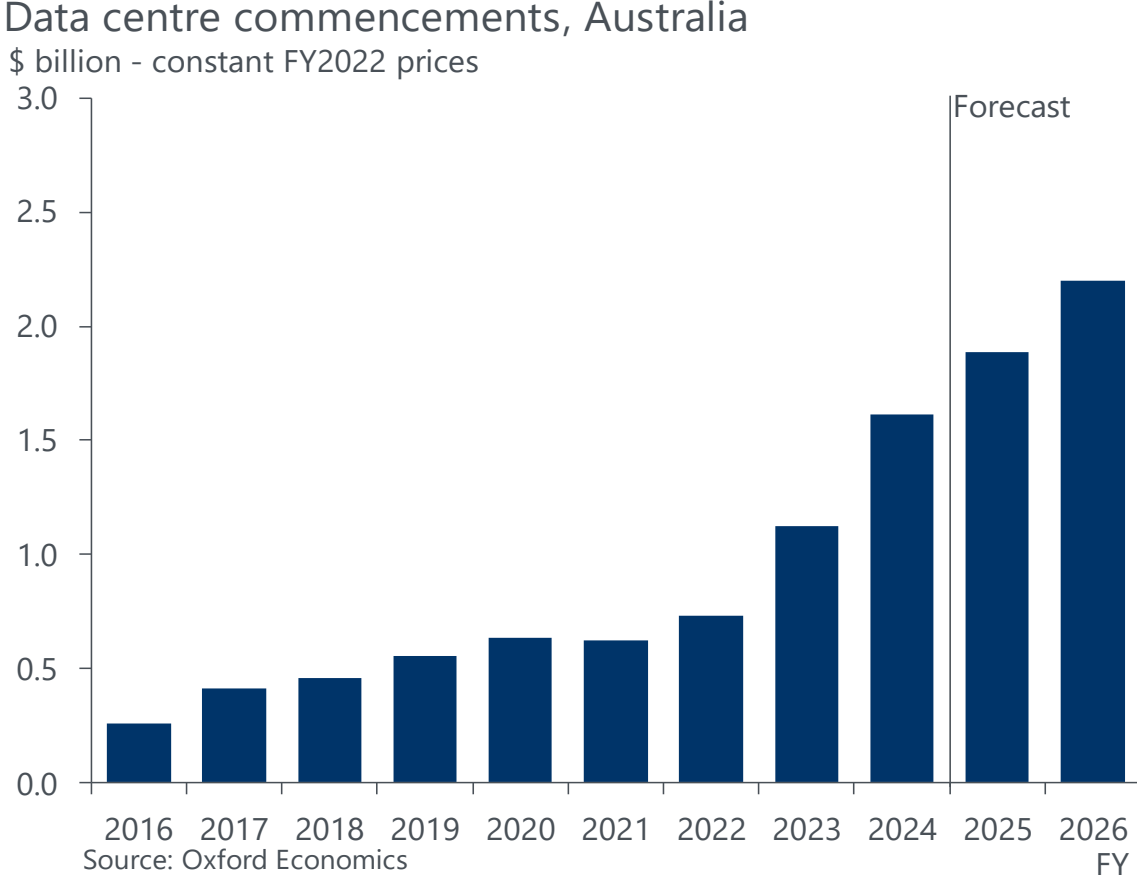
A prolonged hospital boom

Health commencements valued over \$50m

\$ billion - current prices



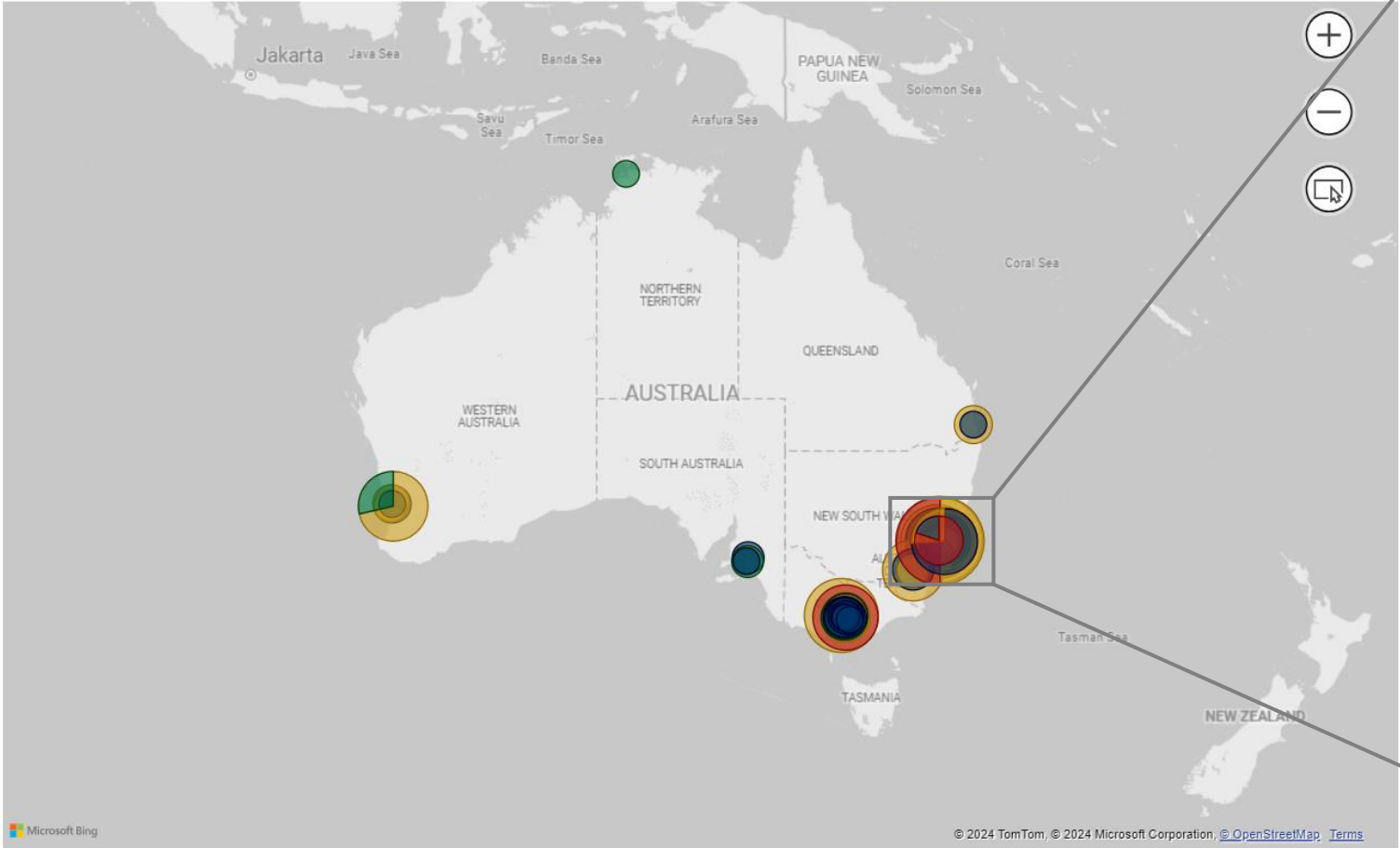
Data centre surge



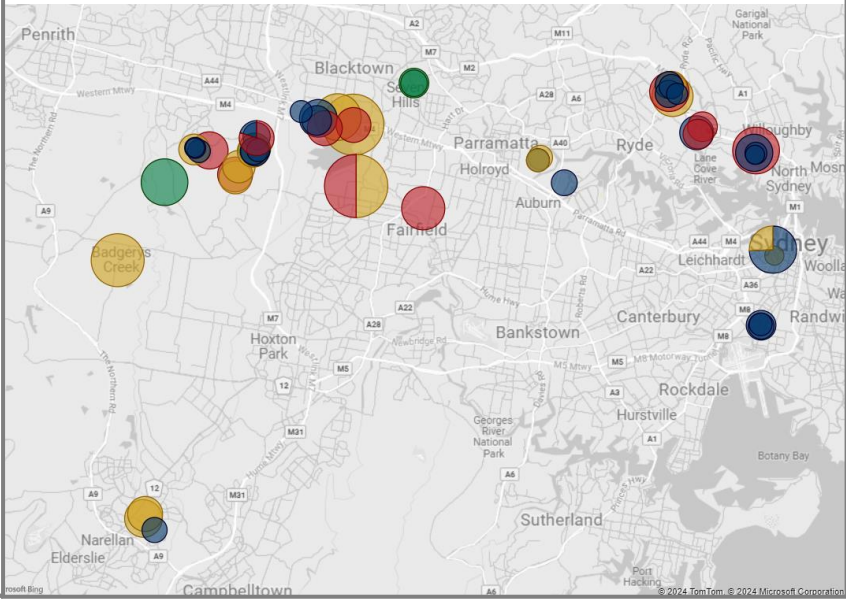
Development clustering

Project map

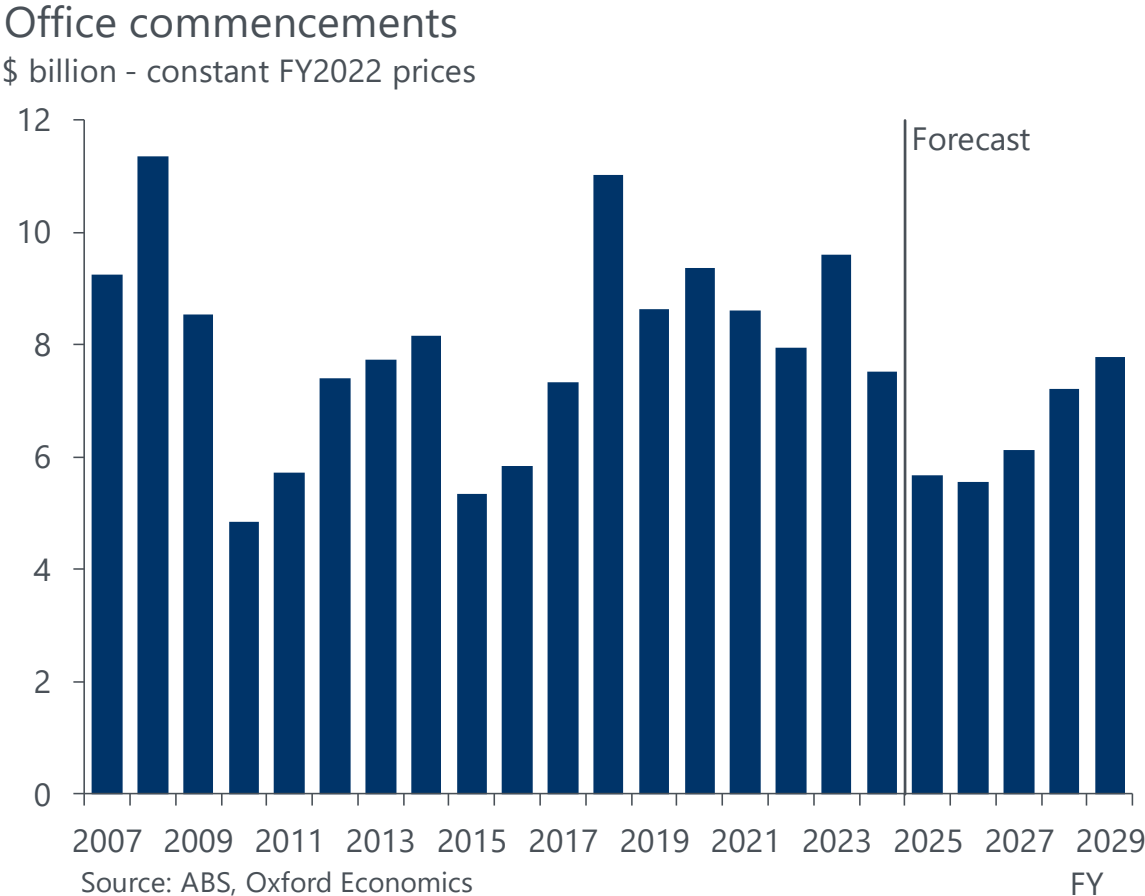
11,140 Total value \$m 107 Total projects 12 Mooted 31 Expected 11 U/C 53 Completed



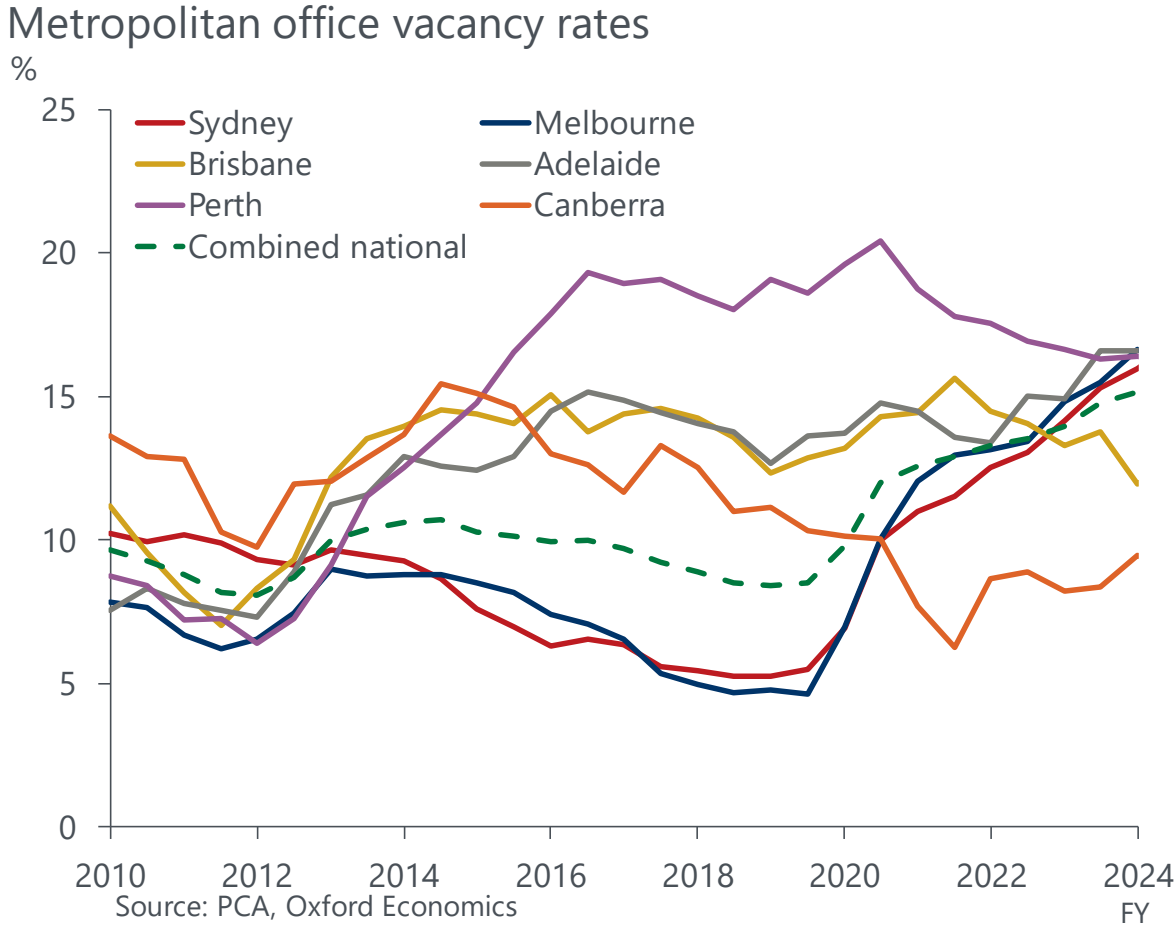
Data centre projects have **clustered in Sydney**. With the support of undersea cable development and broadening demand for data services, activity is spreading to other cities. Nonetheless Sydney remains the hotspot for expected future development.



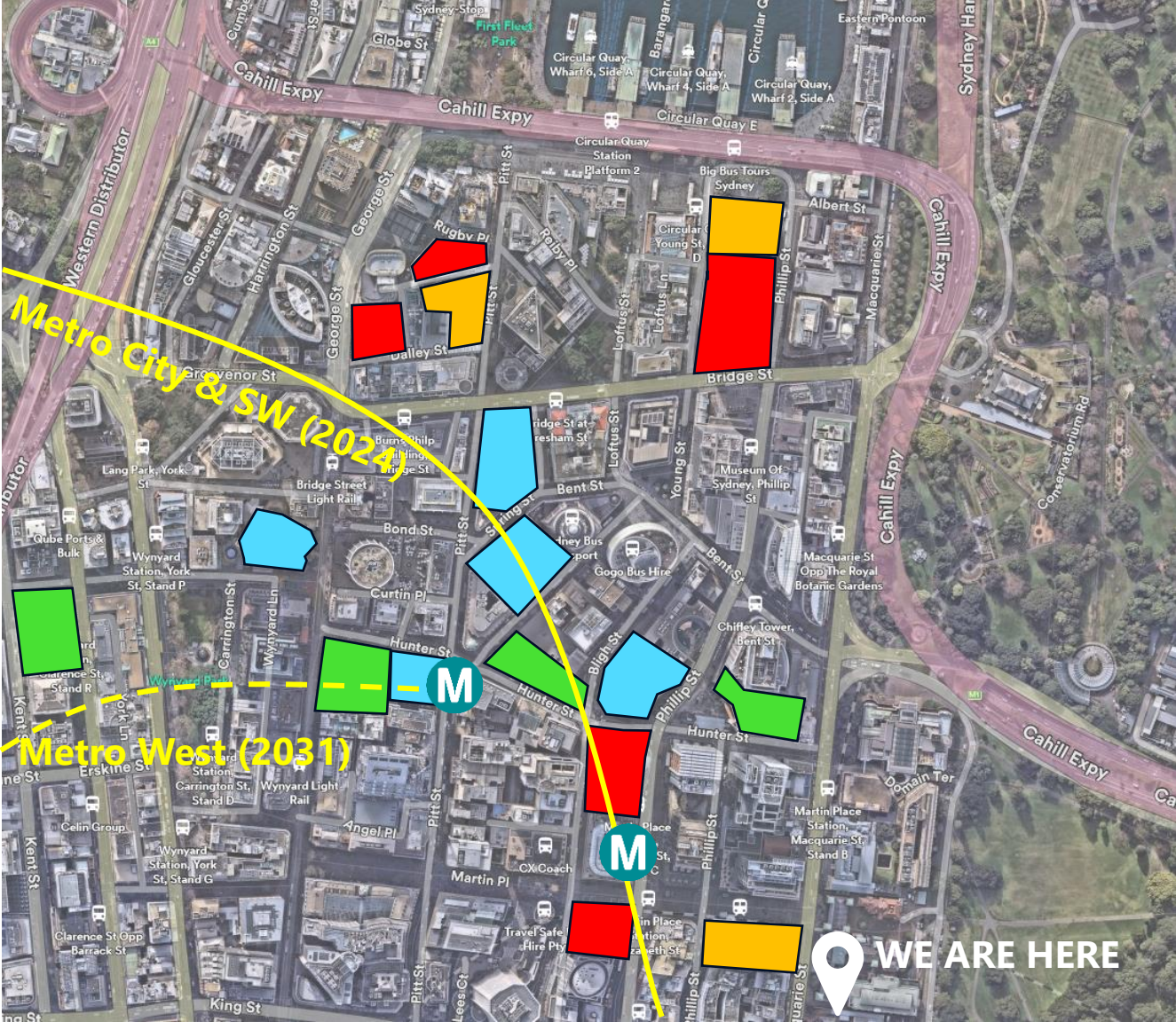
Pandemic impacted sectors to recover gradually



Office sector woes



Sydney CBD premium office developments

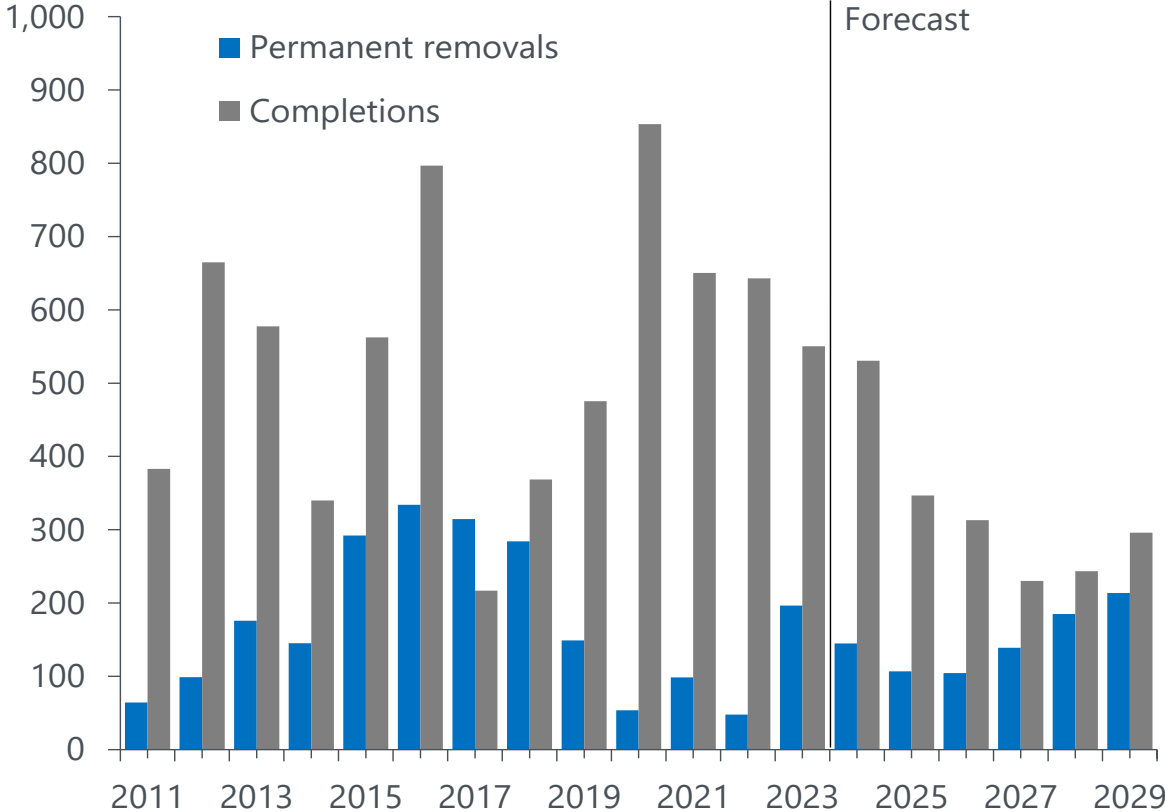


- Key:
- - Mooted
 - - Expected
 - - U/C
 - - Completed since FY22

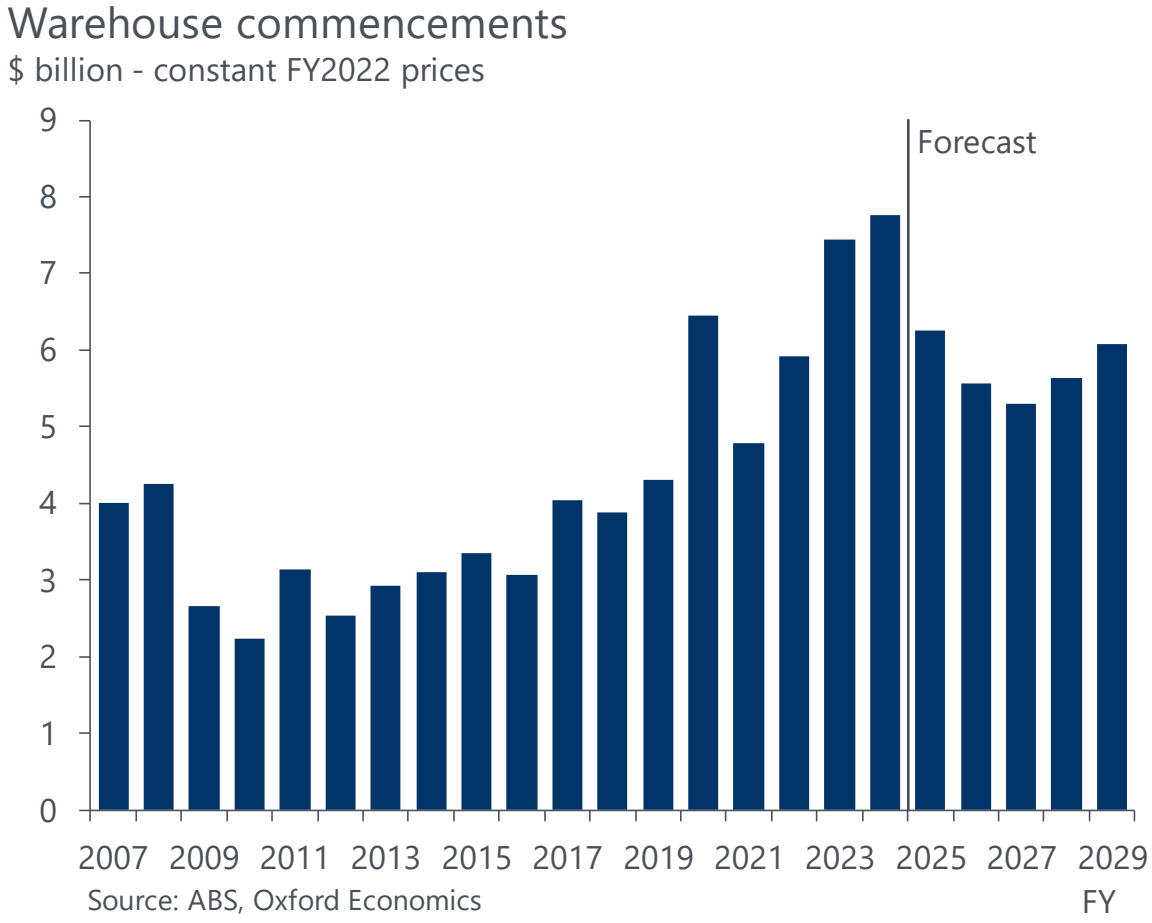
Office withdrawals

New and removed office space, combined major capitals

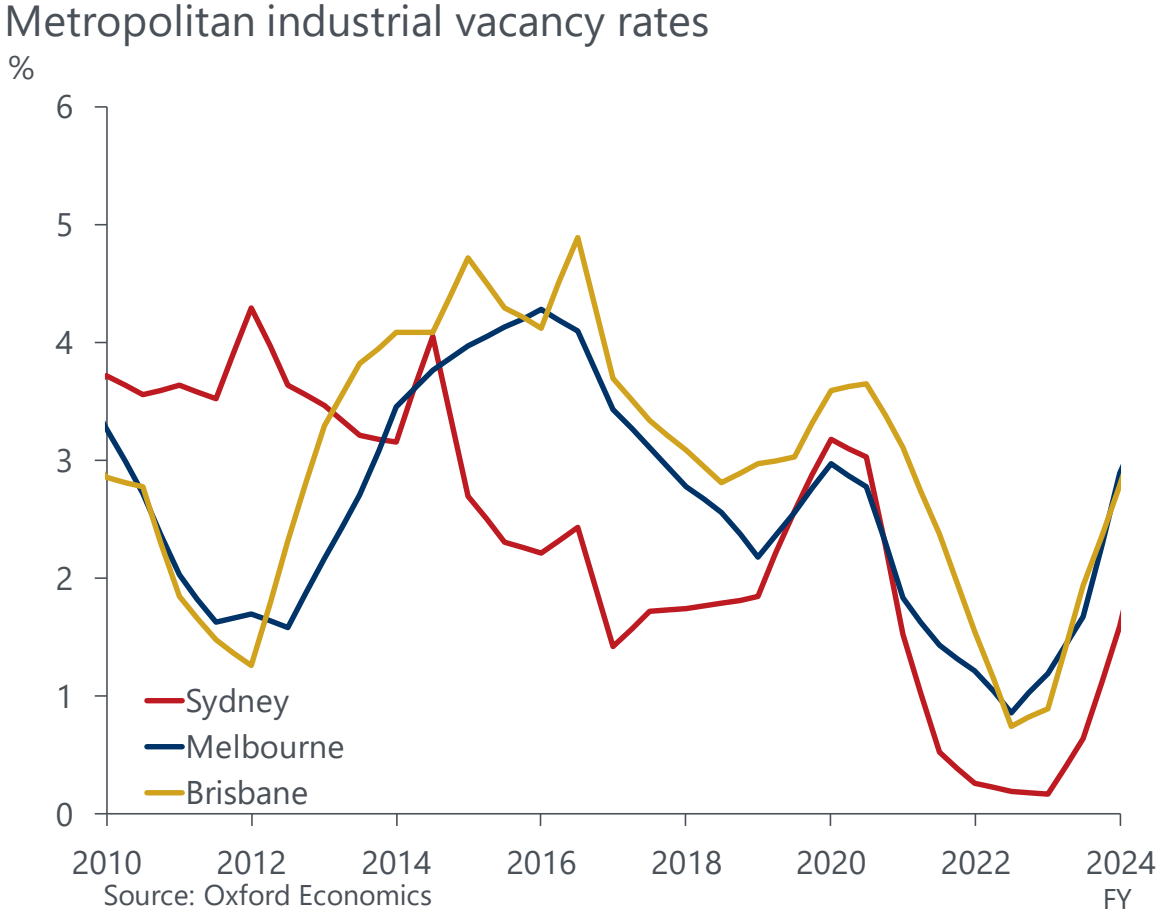
'000 m2 NLA



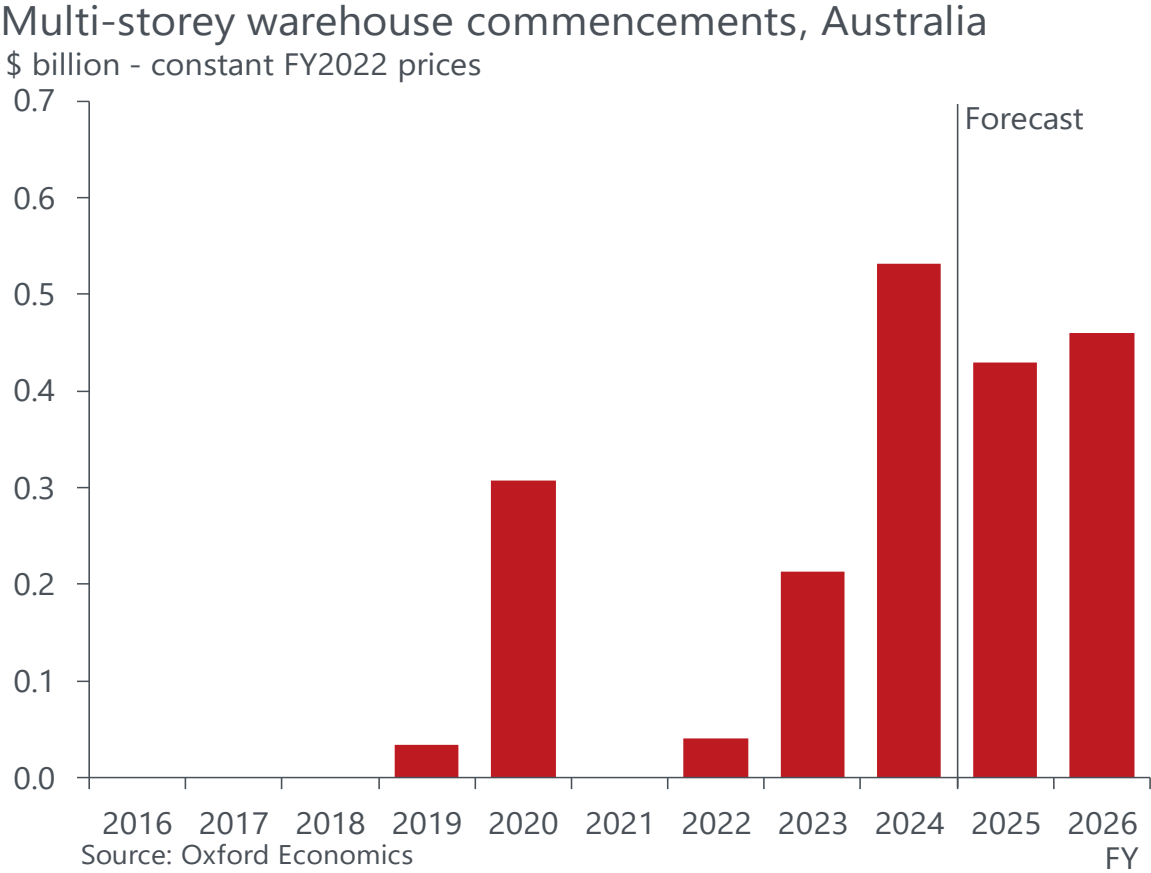
Warehouses at a turning point



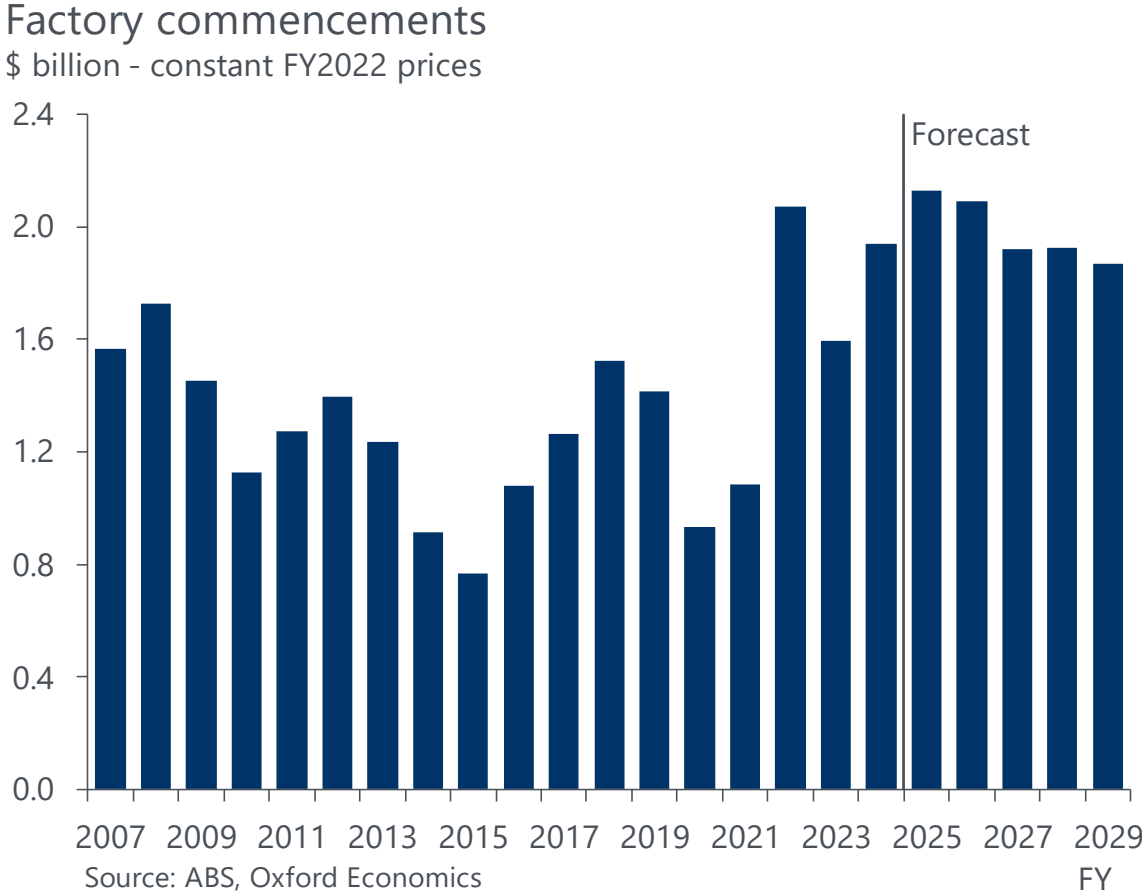
Industrial vacancy rates



Momentum for multi-storey



Sector to watch



Defence production a big focus



Source: Boeing



Source: Anduril Australia



Source: Hanwha



Source: Kongsberg

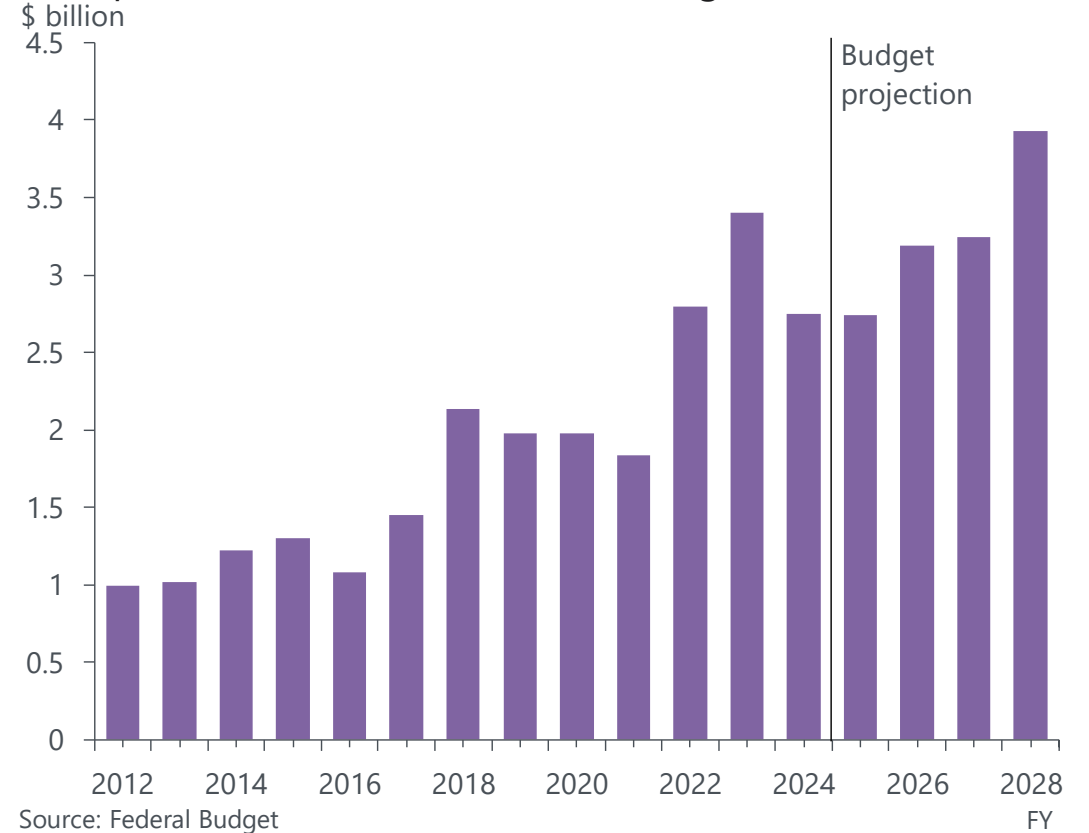
Base works have a positive trajectory but timing is uncertain

DEFENCE BUDGET CATEGORIES

Categories	2024-25 \$'b	2027-28 \$'b	2033-34 \$'b
Acquisition	17.6	23.5	42.1
Sustainment	17.8	21.1	29.1
Workforce	17.1	20.0	25.2
Operating and Operations	3.0	3.3	4.0
Total Funding¹	55.5	67.9	100.4
Percentage of GDP¹	2.1%	2.2%	2.4%

Source: Australian Government

Enterprise Estate and Infrastructure Program



Other areas of sovereign capacity

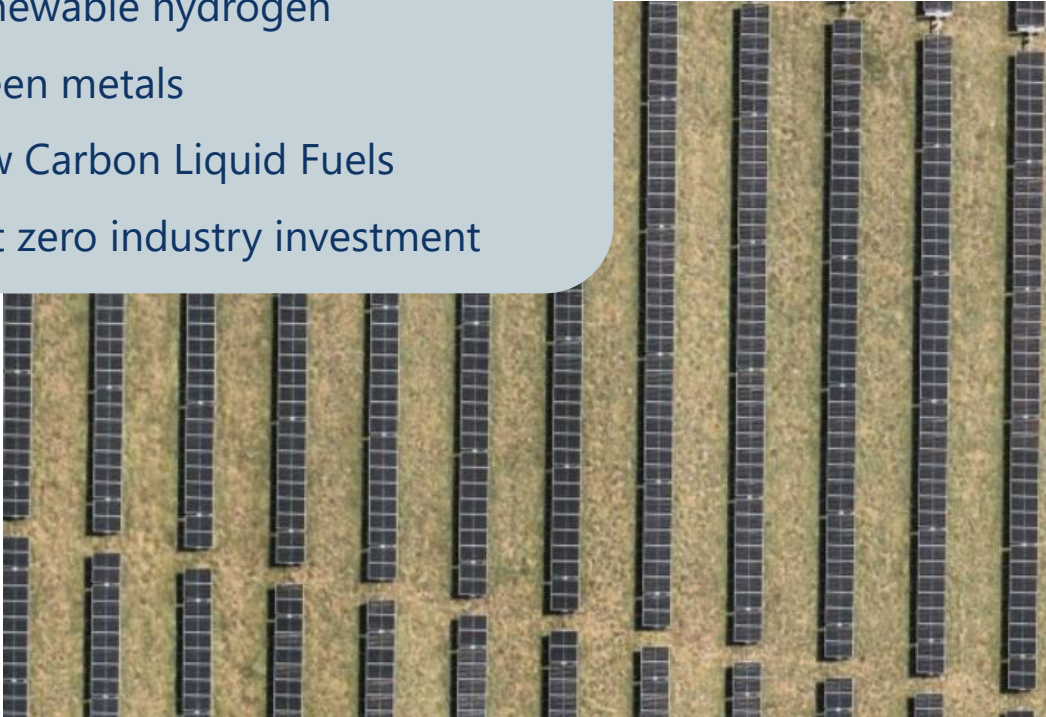
Future Made in Australia \$22.7 billion

- Net Zero Transformation Stream**
- Renewable hydrogen
 - Green metals
 - Low Carbon Liquid Fuels
 - Net zero industry investment

- Economic Resilience & Security Stream**
- Critical Minerals Processing
 - Clean energy manufacturing



Source: Arafura



Source: Nearmap

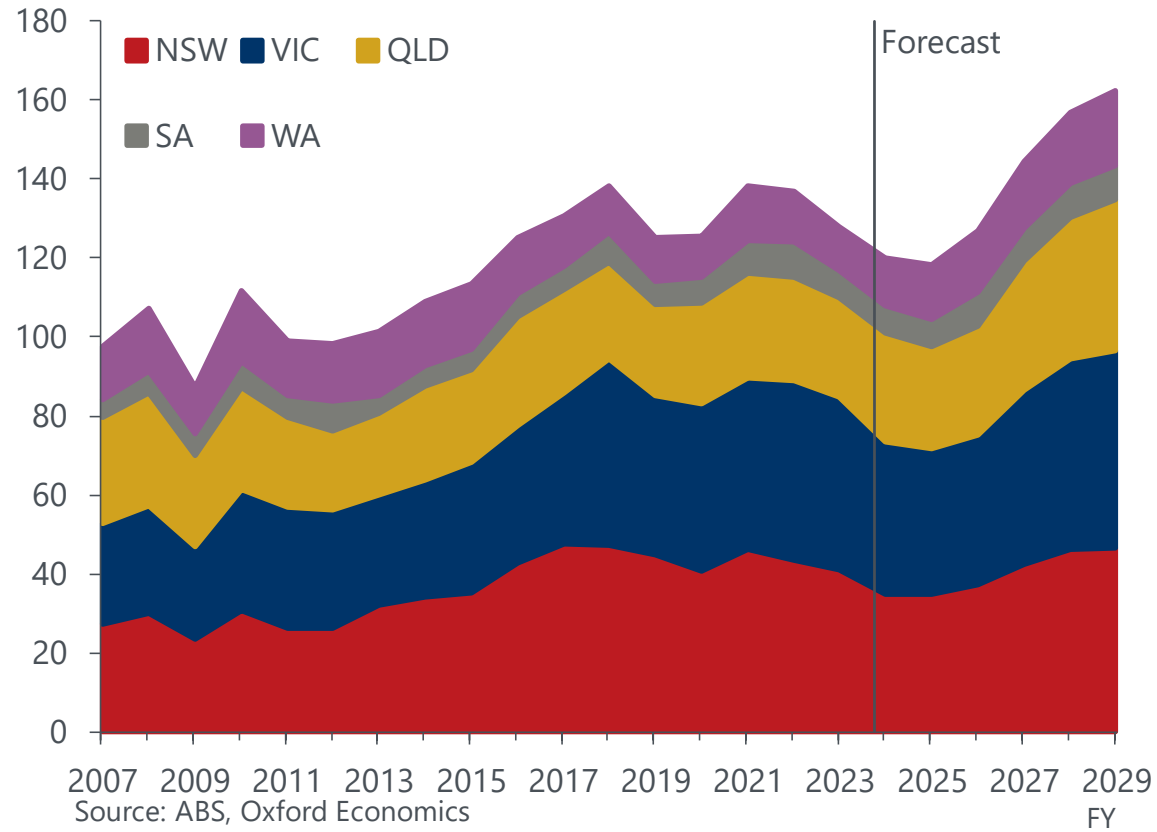


Regional composition

Total building by state

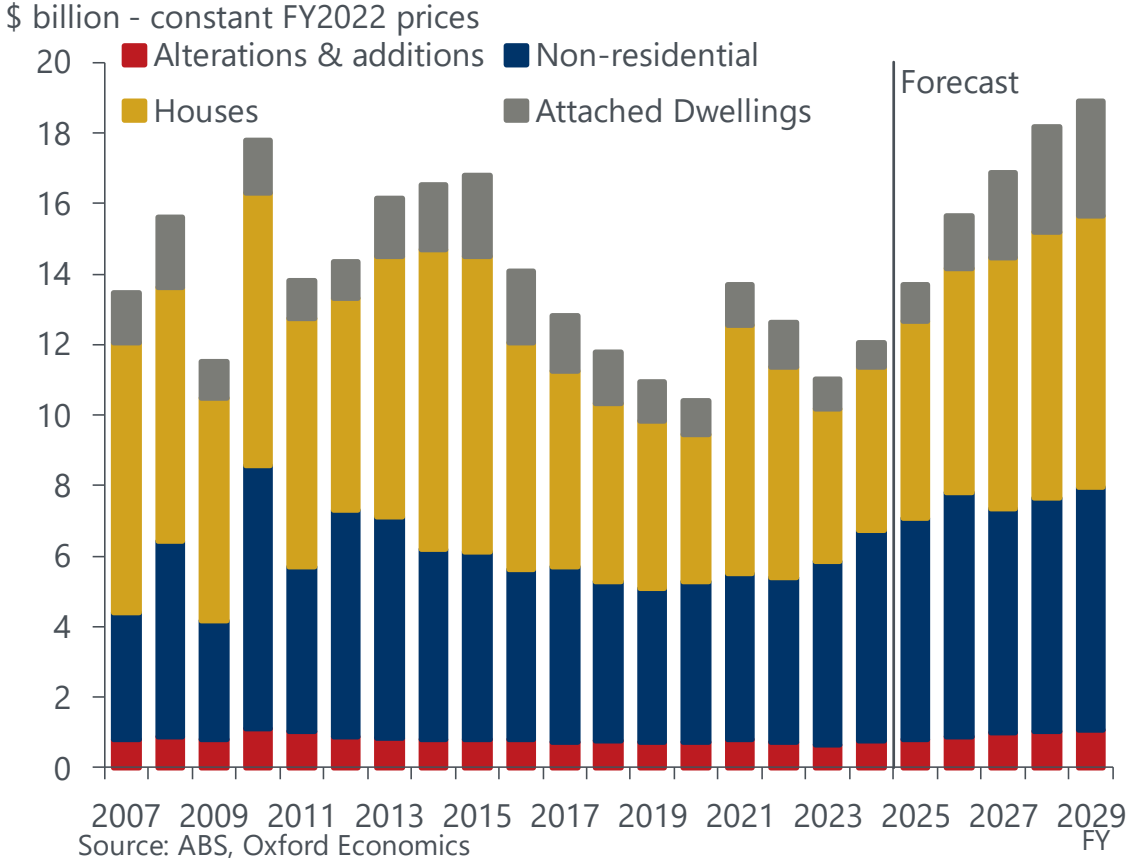
Total building commencements, by state

\$ billion - constant FY2022 prices



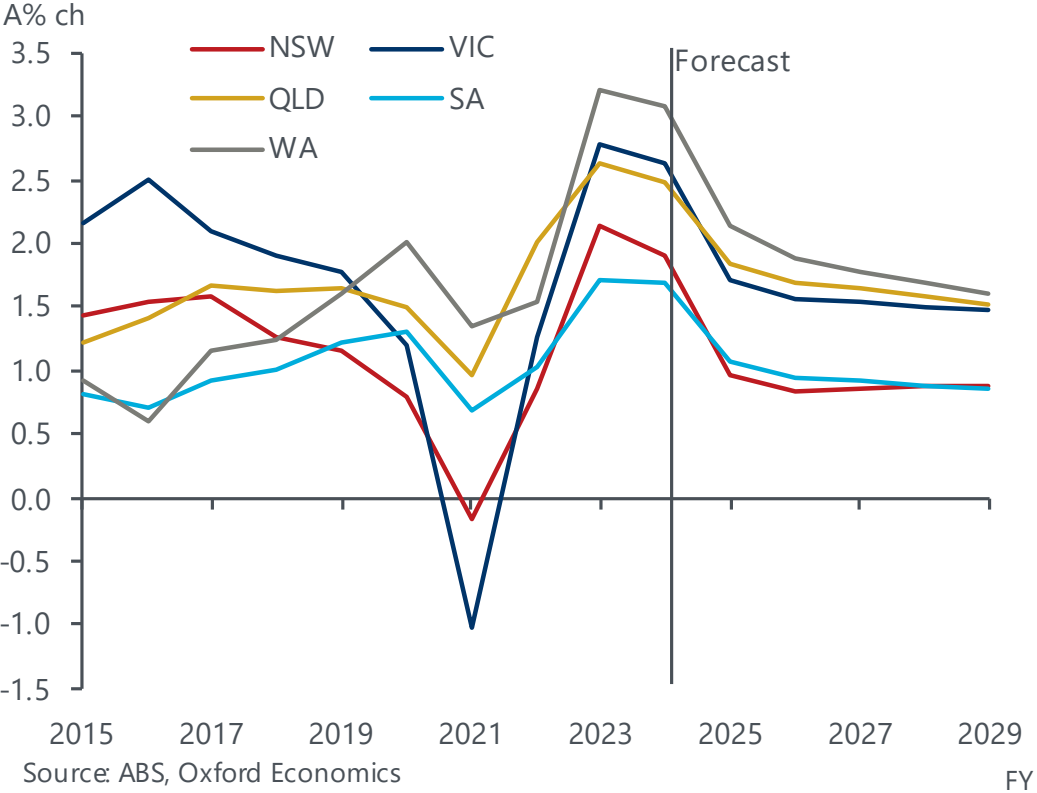
Western Australia

Total building commencements, Western Australia

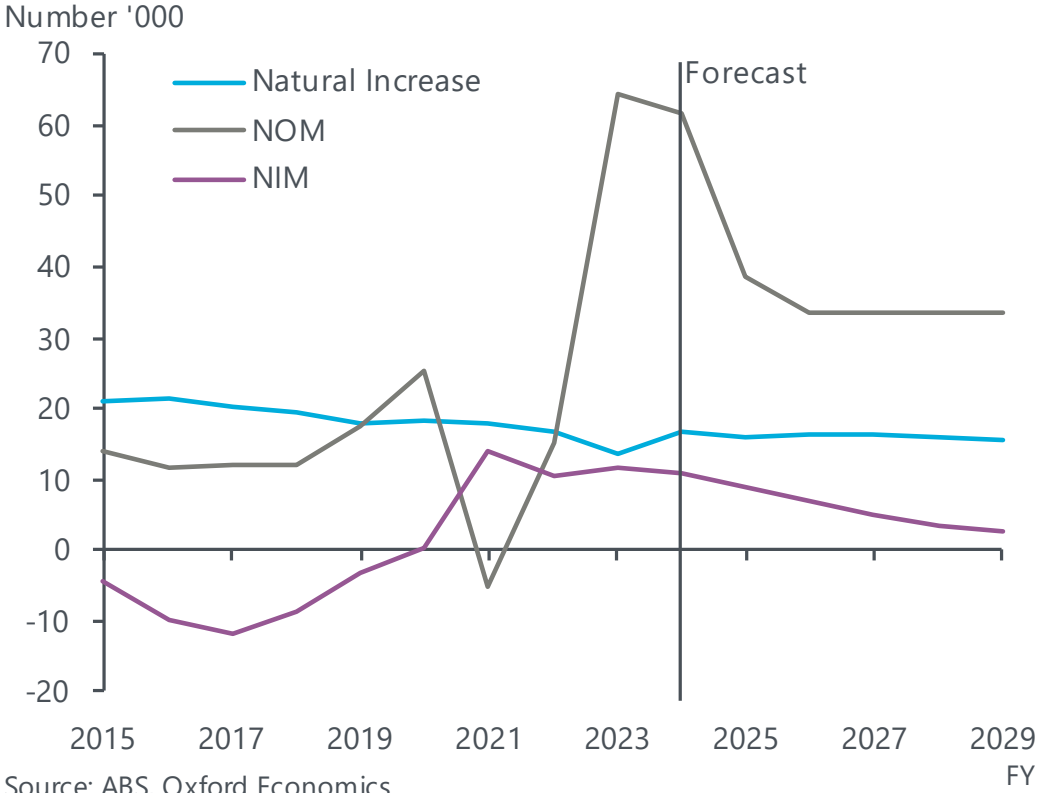


Population pressure in Western Australia

Population growth rate, by state



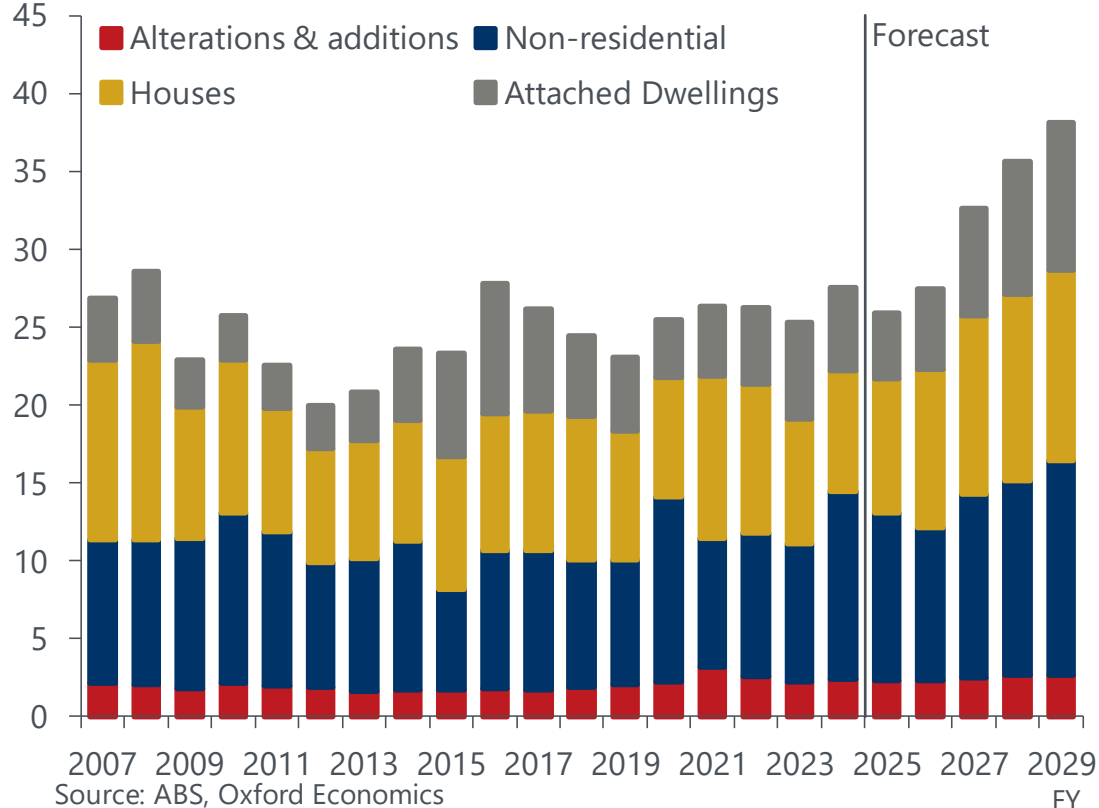
Components of population increase, WA



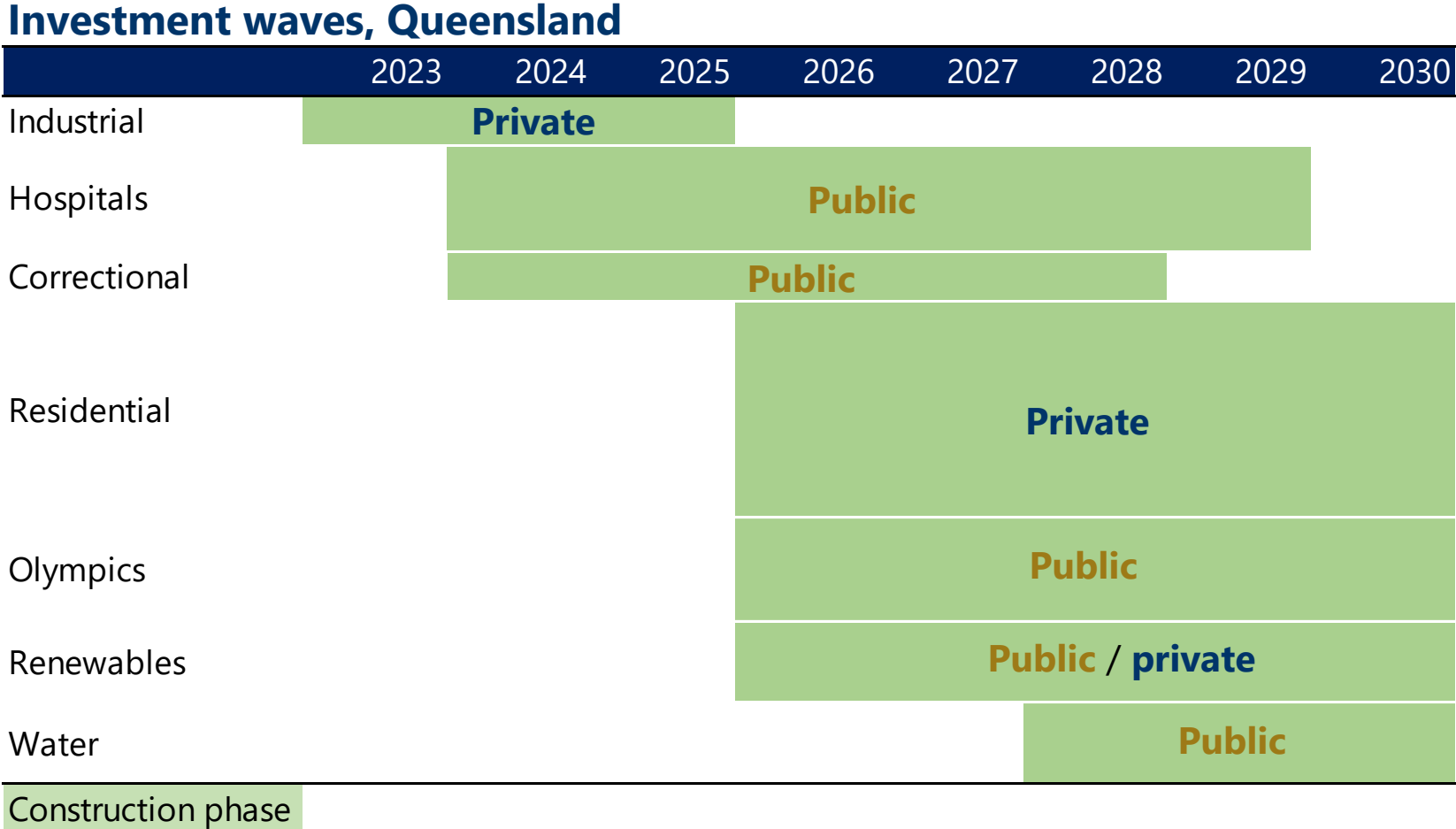
Queensland

Total building commencements, Queensland

\$ billion - constant FY2022 prices



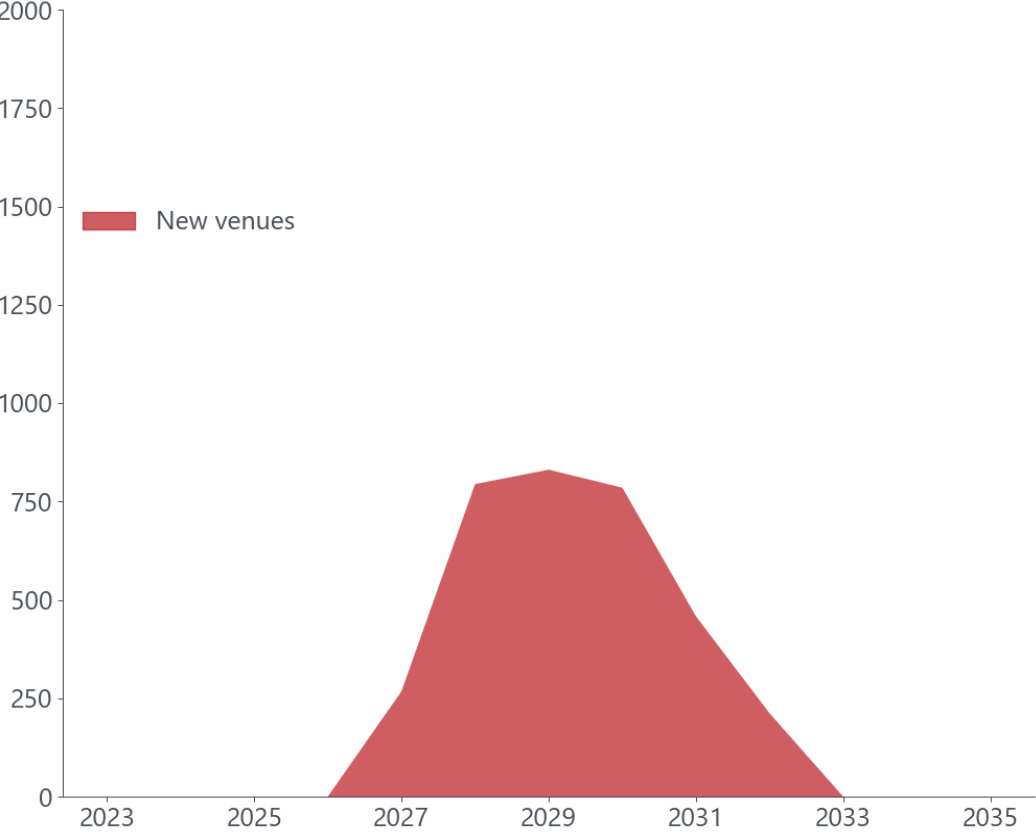
Rolling booms in Queensland



Some wobbles with Olympic venues

Brisbane Olympics direct investment

Work done \$ million- current prices



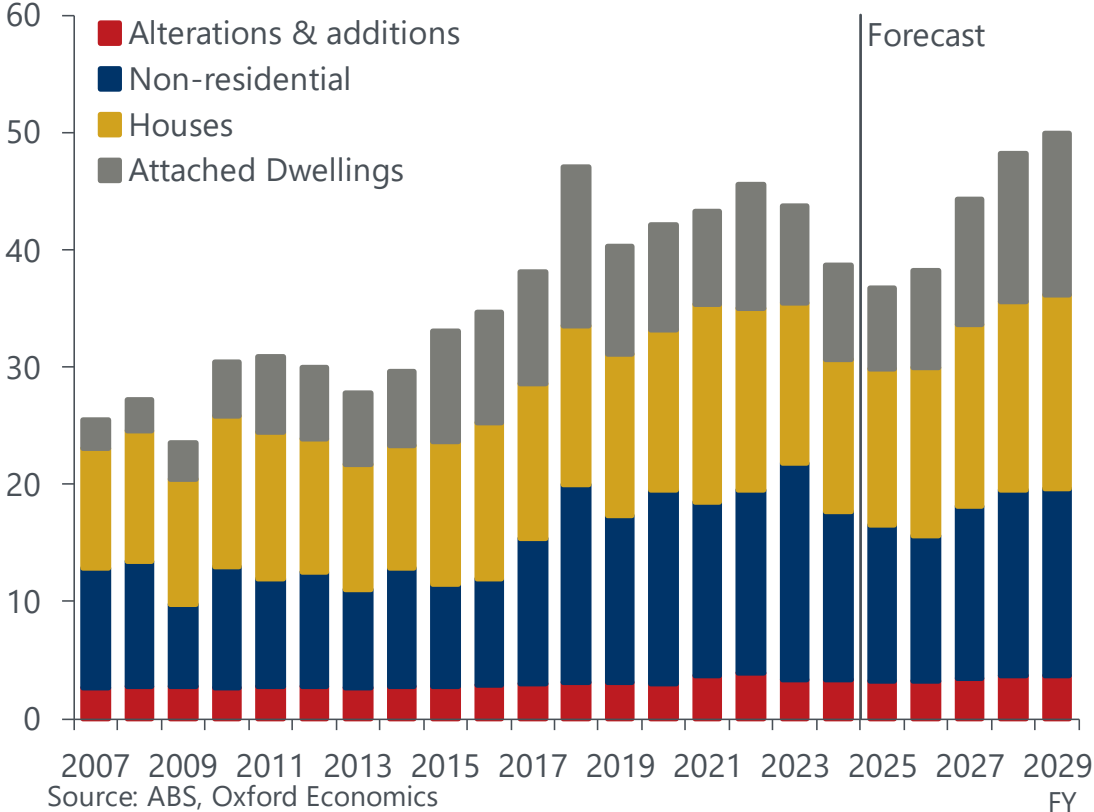
Source: Oxford Economics

FY

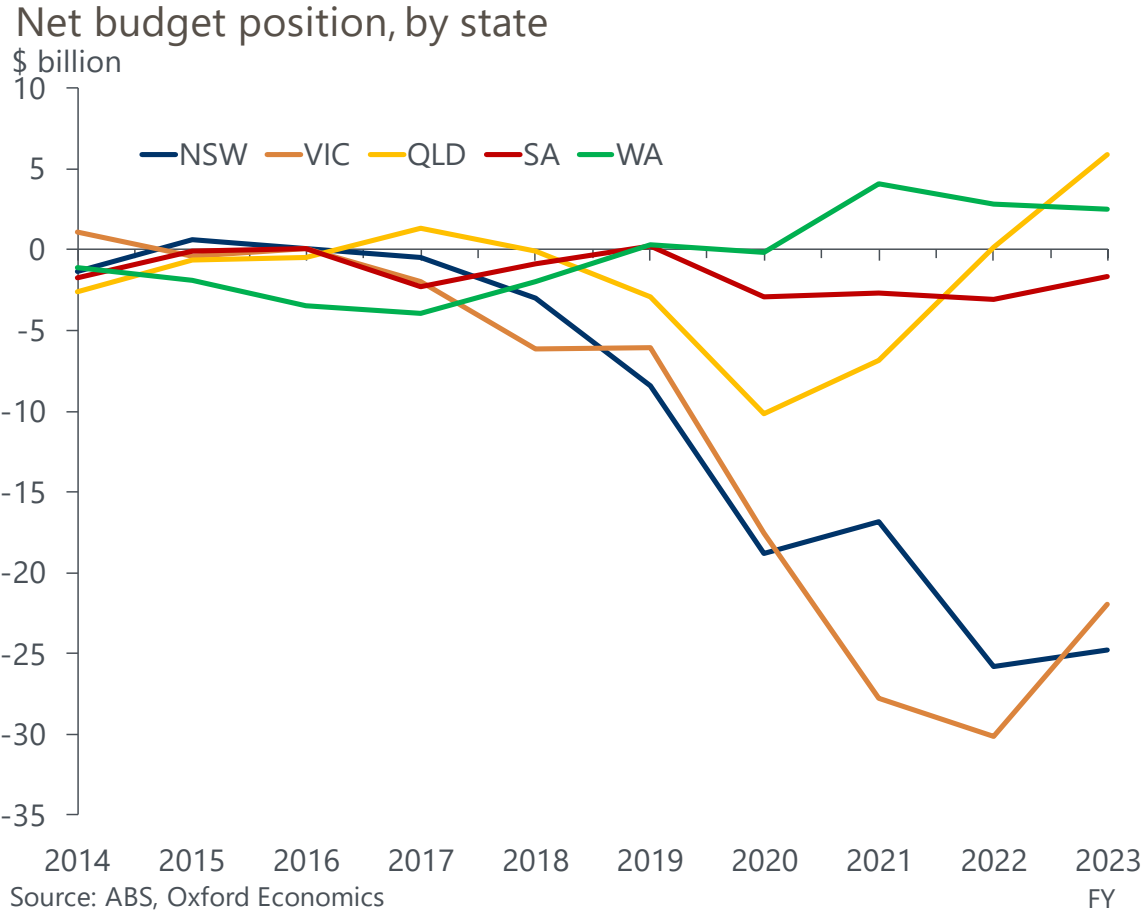
Victoria

Total building commencements, Victoria

\$ billion - constant FY2022 prices



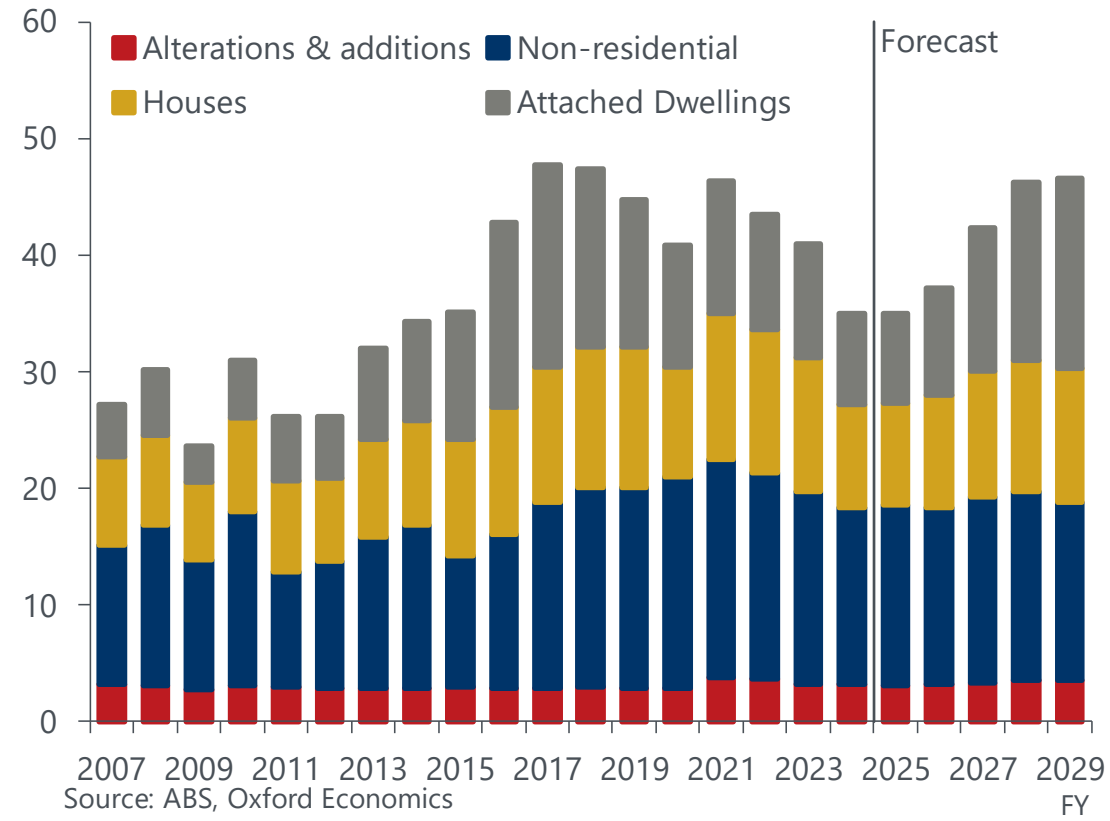
Weak budget position for Victoria



New South Wales

Total building commencements, New South Wales

\$ billion - constant FY2022 prices



New South Wales leading the charge in emerging sub-sectors

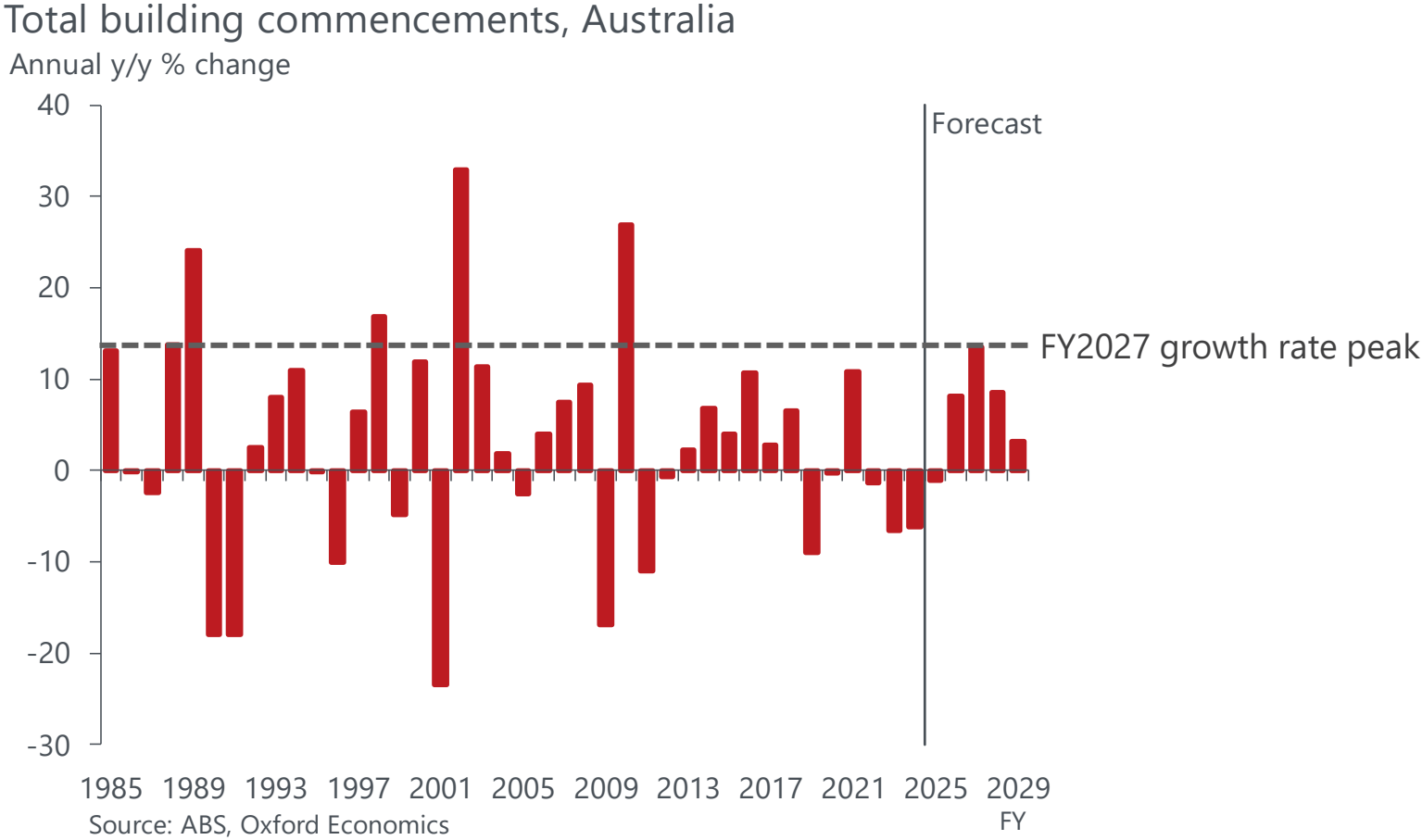


Source: AirTrunk



Source: LOGOS

Capacity the biggest downside risk



Key takeaways

- Is residential at a turning point?...Yes, houses have already moved
- Major compositional shifts are at play...especially by sector
- Capacity lingers as the key downside risk