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## News Release

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### **New home approvals to rebound – BIS Shrapnel** *Positive growth expected to show next financial year*

Leading industry analyst and economic forecaster, BIS Shrapnel, is forecasting the current slowdown in new detached house approvals to begin to turn around in the middle of this year, setting the stage for stronger growth into 2011/12.

BIS Shrapnel's *Building Industry Prospects* report shows the total number of new dwelling approvals is expected to rise eight per cent to 177,000 in 2011/12 – the highest level since 2003/04. New house approvals in the same period are forecast to rise 10 per cent nationally.

"The increase in first-home buyer demand from the Federal Government's First Home Owner's Grant Boost Scheme, together with various State Government incentives for new dwellings, resulted in new house approvals rising by 22 per cent in 2009/10," said Mr Angie Zigomanis, Senior Manager, Building and Construction, BIS Shrapnel.

"However, these incentives only served to pull forward existing demand, with first-home buyers who would have otherwise been in the market in 2010 entering the market in 2009 to take advantage of the increased incentives before they expired. As a result, there was a drop off in first-home buyers in 2010, which has been evident by the decline in new house approvals through the second half of last year."

The number of loans approved for first-home buyers nationally by the middle of 2010 was nearly 60 per cent below the same (albeit elevated) period in 2009. With first-home buyer demand well down, upgrader demand for new dwellings also eased as fewer potential buyers were in the market for their existing properties.

As a result, BIS Shrapnel is forecasting new house approvals to record a decline of 11 per cent in 2010/11. However, strong investor demand is driving further growth of 26 per cent in other dwelling approvals (private medium and high density dwellings). Meanwhile, public sector dwelling approvals will decline by 51 per cent to only 7,500 over 2010/11 as the government stimulus comes to an end. Overall, total dwelling approvals are forecast to fall by four per cent to 164, 000.

"With the lower level of construction since the Global Financial Crisis, supply has fallen further behind underlying demand, and there is a rising deficiency of dwelling stock," said Zigomanis. "At the same time, there is evidence that the drop off of first-home buyers has now bottomed out. The latest data for the month of December 2010 indicates that the number of first-home buyers improved to a decline of 29 per cent on the previous year, while the actual number of loans given to first-home buyers was also the highest level since December 2009."

BIS Shrapnel says the improvement in first-home buyer activity should continue through 2011 as the post-Boost Scheme decline in first-home buyers is played out and numbers slowly recover back to long term levels by the second half of the year. Together with the pent up demand from the deficiency of dwelling stock, and an environment where economic growth is picking up and interest rates are stable over the next six months, demand for new houses will subsequently increase as upgraders also take advantage of the stronger demand for their existing dwellings and trade up to a new house.

## **Dwelling forecasts by state**

### **New South Wales**

New dwelling approvals in New South Wales rebounded by 39 per cent in 2009/10, albeit from a very low base in 2008/09, in fact the lowest level since 1953. While the 26 per cent increase in new house approvals was in line with the rest of the country, the number of public sector other dwelling approvals increased fivefold, to 5,300 units, due to Federal and State Government stimulus spending. BIS Shrapnel says solid growth in private sector other dwelling approvals is now taking up the baton from waning government spending and, despite a small decline in new house approvals, total dwelling approvals are forecast to return growth of three per cent in 2010/11.

The momentum in other dwelling approvals is forecast to continue into 2011, and together with the next leg of growth in new house activity, total dwelling approvals are forecast to increase by 21 per cent in 2011/12. BIS Shrapnel says this will take new dwelling activity in New South Wales to its highest level since 2003/04.

### **Victoria**

BIS Shrapnel says residential construction in Victoria barely felt the effects of the Global Financial Crisis, with total new dwelling approvals falling by only three per cent in 2008/09. The combination of lower interest rates and Federal and State Government first-home buyer incentives drove an upturn in new house approvals from this already high base, while other dwelling approvals also soared on the back of very strong investor demand. The resultant 36 per cent increase in activity saw approvals rise to a record 57,000 dwellings in 2009/10.

New dwelling approvals in Victoria are forecast to rise to a new record of 60,500 in 2010/11. While new house approvals are easing due to the reduction in first-home buyer incentives and higher interest rates, other dwelling approvals have been continuing to go from strength to strength, and are forecast to rise to a new record of 24,600 dwellings. However, BIS Shrapnel says new dwelling activity is now running above underlying demand, and the deficiency of dwellings in Victoria is slowly being eroded. This will reduce some of the pressure in the market, with approvals forecast to decline by six per cent in 2011/12, to 56,700 dwellings.

### **Queensland**

New house approvals in Queensland were most severely affected by the Global Financial Crisis, and experienced little rebound from low interest rates and first-home buyer stimulus during 2009/10. As new mining and non-residential building projects wound up over 2009, there has been little new activity to take over. BIS Shrapnel says that as a result, dwelling approvals are forecast to decline by a further 18 per cent in 2010/11 to 26,300, which is 10 per cent worse than the GFC-driven low in 2008/09. Approvals in the June half of 2011 will also be affected by the flooding across various Queensland regions at the start of the year and the delay in new dwelling activity coming through.

A more solid rebound in new dwelling approvals of 30 per cent is forecast for 2011/12. The collapse in construction since the 2007/08 peak means the underlying shortfall of dwellings is becoming larger. As the next round of resource investment ramps up and creates employment opportunities, there will be a pick-up of migration into Queensland which will boost demand. Nevertheless, despite the magnitude of the increase anticipated, the forecast 34,200 new dwelling approvals in 2011/12 will still be nearly 25 per cent below the previous 2007/08 high.

### **South Australia**

New dwelling approvals in South Australia have remained high at around 12,000 to 13,000 units per annum in 2008/09 and 2009/10. BIS Shrapnel says the Global Financial Crisis did little to dent new home activity in 2008/09 and, due to the high level of activity already taking place, lower interest rates and government stimulus in 2009 did not cause a huge jump in approvals in 2009/10. The latest data for private house approvals (December quarter 2010) showed a 17 per cent decline on the previous year. This points to a more significant decline in total dwelling approvals in 2010/11 as activity has been running above underlying demand for a number of years. BIS Shrapnel forecasts total dwelling approvals to decline eight per cent to 11,700 in 2010/11, followed by little change in 2011/12.

## **Western Australia**

New dwelling approvals in Western Australia continued to decline through to 2008/09, hampered by affordability issues after prices and construction peaked in 2005/06. In this period, an underlying deficiency of dwellings began to emerge, which helped approvals to rebound sharply by 31 per cent in 2009/10. BIS Shrapnel says this was largely driven by Federal and State Government incentives for first-home buyers, who, in Western Australia, were more likely to use the grants to buy a new dwelling compared to other states. As a result, activity is also expected to fall in 2010/11 by 14 per cent to 21,900 dwelling approvals.

However, major resource expansion projects in the state will begin to drive significant employment and income growth, which will feed through to migration and demand for housing. Given the deficiency of stock in place, new dwelling approvals are forecast to increase by 15 per cent in 2011/12, the highest level since the 2005/06 peak.

## **Tasmania**

New dwelling approvals in Tasmania remained high through the Global Financial Crisis. With lower home prices than the mainland, the addition of the First Home Owner's Grant Boost Scheme and higher grants for new dwellings made new homes in the state more affordable.

However, BIS Shrapnel says the high level of construction is beginning to exceed underlying demand and an excess of dwellings could begin to emerge. Without any pent up demand pressures, the expiry of the Boost Scheme and increases in interest rates in 2009/10 should see new dwelling approvals slowly ease, with declines of six and seven per cent forecast in 2010/11 and 2011/12 respectively.

## **Northern Territory**

Low interest rates and Federal Government first-home buyer incentives began to support a recovery in new house approvals in the Northern Territory from 2008/09. However, the upturn in other dwelling approvals lagged until 2009/10, due to the constrained financial environment impacting access to finance for developers. While new house approvals are declining in 2010/11 after the expiry of the first-home buyer's grants, strong investor demand will result in other dwelling approvals more than compensating for the decline. BIS Shrapnel says total approvals are forecast to rise by 16 per cent in 2010/11, before increasing by a further one per cent in 2011/12.

## **Australian Capital Territory**

New dwelling approvals in the Australian Capital Territory surged 24 per cent in 2008/09, despite this being the worst period of the Global Financial Crisis. Approvals then increased by a further 57 per cent in 2009/10. BIS Shrapnel says this could possibly be due to the generally transient Canberra population deciding to take advantage of low interest rates and Federal Government first-home buyer incentives to set up a more permanent residence. However, at 4,500 approvals in 2009/10 new dwelling construction is now exceeding underlying demand and approvals are forecast to grow by a modest three per cent, in 2010/11, before declining by 32 per cent in 2011/12 to a level more commensurate with underlying demand.

## **About BIS Shrapnel**

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 47-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.