Construction Brief

31 July 2017

Boom in apartments has not solved affordability problem, yet

Insight: Record investment in new apartment construction in recent years has not yet impacted housing affordability in key metropolitan areas.

Update: HIA's Affordability Index shows housing affordability in Australia continued to decline in the June quarter this year. This is largely due to a rise in the median dwelling price of 9.1 per cent to a record high of $540,200.

The Affordability Index for Australia dropped by 0.3 per cent in the June 2017 quarter.

NSW was the most significant negative influence. The index for Sydney was showing the worst affordability in the country, it declined further in the June quarter.

Acquiring and servicing a mortgage on a house in Sydney now requires more than twice the average earnings of an adult Sydneysider working full time.

Affordability in Melbourne improved marginally in the quarter (+0.8 per cent) but remains 6.0 per cent less affordable than this time last year.

On the positive side, affordability improved in six of the eight capital cities during the June 2017 quarter. The largest improvement occurred in Darwin (+4.3 per cent), followed by Adelaide (+2.9 per cent), Hobart (+1.6 per cent), Brisbane (+1.0 per cent), and Canberra (+0.8 per cent).

US and AU Interest Rates run Parallel

Insight: The US Federal Open Market Committee met last week and left rates on hold but commentary retained expectations for rates to gradually increase. The RBA is also talking up interest rates in Australia but without evidence of a problem.

Update: Core inflation in the US has persistently weakened over four consecutive months and low wage growth further limits inflationary pressure.

The money market is pricing in a less than a 50 per cent chance of a rate increase in the US by December, and probably until March 2018.

In its latest monetary policy statement the Federal Open Market Committee reiterated that they intend to persist with gradual interest rate rises. In addition, at some point it will also need to look closely at how to reduce its inflated balance sheet which reached around US$4.5 trillion at the end of the program of quantitative easing.

The subdued inflationary pressures and low wage growth are similar in Australia.

The minutes of the latest RBA meeting discussed the neutral interest rate and suggested that it has dropped to around 3.5% over recent years. An ongoing economic recovery would see the official cash rate in Australia trend back to this rate. Concerns of rising interest rates may be premature. The consensus amongst economists is that the next interest rate move in Australia will be upward but there is still debate about whether that will be in 2018 or 2019.

Did the Census really report a jump in 'ghost homes'?

Update: The Census reported that 11.2% per cent of Australia's over 9 million dwellings were unoccupied on the census night. Contrary to the many reports, a dwelling that is unoccupied on census night does not necessarily imply that it is vacant or unused. Community concerns that affordability is being exacerbated by foreigners purchasing property and leaving it vacant cannot be extrapolated from this Census data.

Insight: The vacancy rate of housing reported in the Census is not 'self-reported' data, as is the case for all other Census data. The vacancy rate is as reported by census collectors based upon the number of forms completed compared with the known number of dwellings. This provides a vastly different and inconsistent outcome to other data sets.

A house that is vacant for two weeks during the Census collection period will be reported as 'vacant' in the Census. This is a very different interpretation of 'vacant' than what is necessary for policymakers.

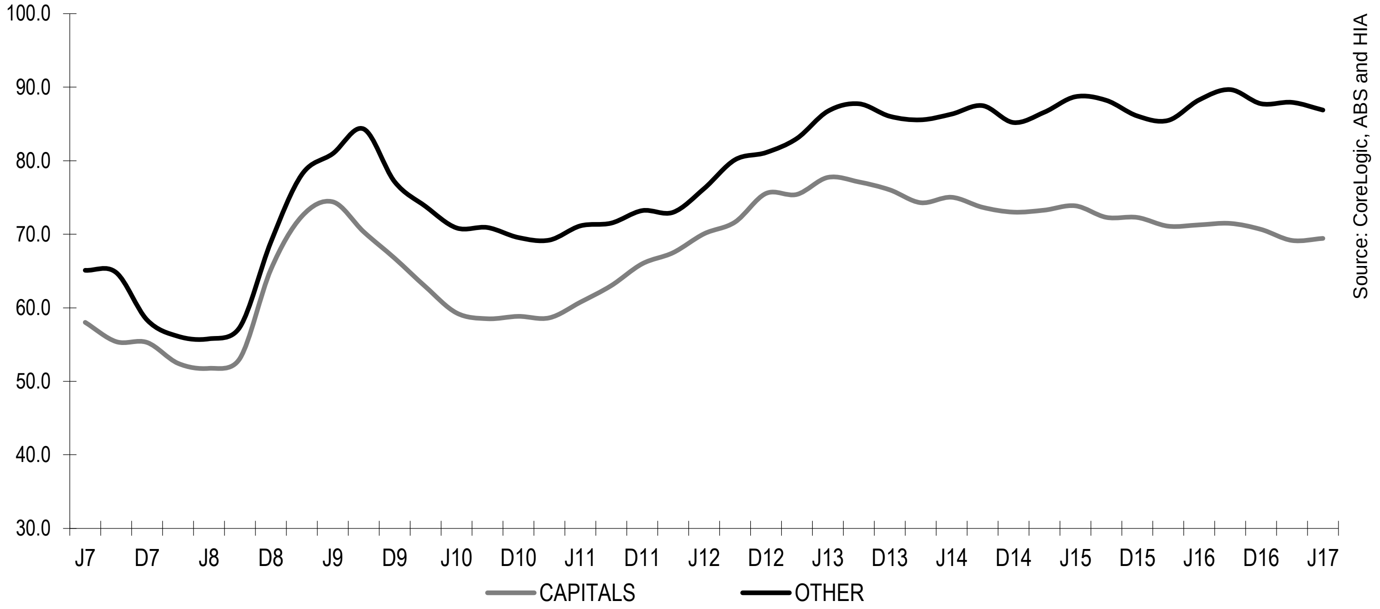
Other data sources tell us that the largest concentration of unoccupied dwellings was in the regions caused by a lack of accommodation demand, rather than the excess demand experienced in metropolitan areas.

The most common reason for a house being 'vacant' for the duration of the Census was simply that the households was away from home on census night. This accounts for 453,000 properties. In addition, there were also 237,000 holiday houses that were unoccupied for the duration of the Census and were not in locations with excess demand for housing.

More detailed analysis of the Census data and other data sources confirms that most of the dwellings that were unoccupied on census night were unoccupied for reasons other than them being withheld from the market by investors.

This is of little consequence for some jurisdictions that have already moved to address the perception of a problem.

HOUSING AFFORDABILITY INDEX, AUSTRALIA



The fortnight ahead – key dates and releases

Monday 31 July

HIA New Home Sales Report, June 2017 11am

Tuesday 1 August

CoreLogic Home Value Index

ABS Interest Rate decision, 2.30pm

Wednesday 2 August

ABS Building Approvals June 2017, 11.30am

Thursday 3 August

HIA Stamp Duty Watch, winter 2017, 11.00am

Wednesday 9 August

ABS Housing Finance June 2017, 11.30am

ABS Regional Building Approvals June 2017 11.30am

Friday 11 August

ABS Lending Finance June 2017, 11.30am

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