AUSTRALIAN CONSTRUCTION INSIGHTS
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Research Snapshot

2 July 2015

The Profile for Residential Building Approvals by Type and Geography

Key Points:

- While there are signs that the monthly level of approvals nationally has reached a peak, the level in the 2015 calendar year is still likely to be higher than in 2014.
- In 2015 thus far, approvals for high density dwellings – flats or units in four or more storey buildings – have been the key driver of total growth.
- Detached house approvals have remained steady for nearly two years, tracking at around 9,500 per month.
- Approvals for semi-detached, row or terrace houses and townhouses have also performed relatively strongly in 2015, with Victoria a key market for this form of housing.

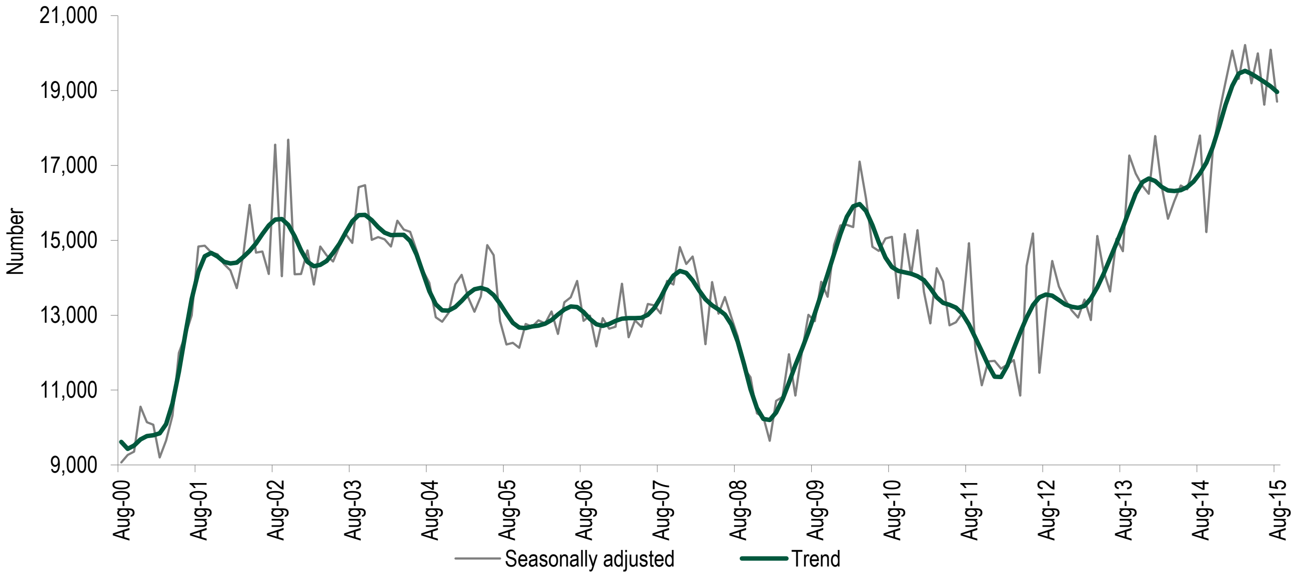
In January 2015, seasonally adjusted monthly residential building approvals, for the first time, breached the 20,000 threshold, with 20,063 dwellings approved for building that month. Since then, monthly approvals have remained around that level, even reaching a new all-time high of 20,215 in March. As the trend line is starting to show, monthly approvals levels may be making their way back down from that peak.

In the three months to August 2015, total seasonally adjusted residential building approvals numbered 57,406. This level is 3.3 per cent lower than in the previous three months, but is 12.1 per cent higher than 12 months earlier, the three months to August 2014.

In annual terms, however, approvals are still climbing and reached another new all-time high in the 12 months to August 2015 – reflecting a situation whereby the monthly declines thus far have been marginal relative to the sharp increases on the way up. If the relatively modest pace of decline continues for the remaining months of 2015, then we could reasonably expect approvals in annual terms to keep rising and peak only toward the end of the year. That would still represent a strong pipeline of new home building. In fact, approvals levels in each of the remaining months of 2015 would have to drop to just under 12,000 per month for the level of approvals activity in the entire 2015 calendar year to be lower than what occurred in 2014.

The critical question is: how much of this very large number of homes being approved is flowing through to actual construction? ABS figures indicate that construction has not managed to keep pace, with the pipeline work starting to bulge in 2015. That is, the number of homes approved but not yet commenced has reached its largest number on record, some 35,770 dwellings at the end of the June 2015 quarter. This compares with the size of the pipeline during most of the 2000s which tended to remain quite steady at around 25,000 dwellings approved but not yet commenced at any given time.

Monthly Building Approvals - Australia
Source: ABS 8731



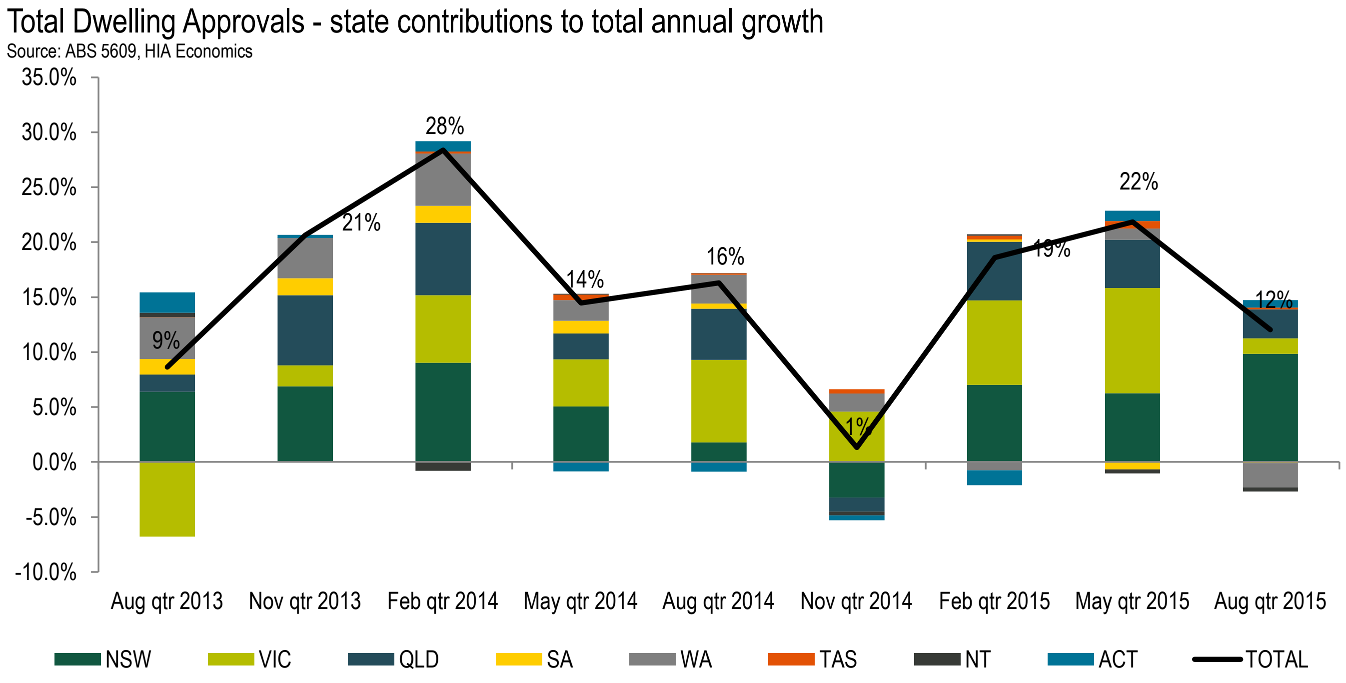
Total approvals by state and territory

Most jurisdictions (five out of the eight states and territories) recorded annual increases in total approvals in the three months to August 2015. The strongest increase occurred in New South Wales (+41.4 per cent), followed by the Australian Capital Territory (+33.5 per cent), Queensland (+12.9 per cent), Tasmania (+12.1 per cent) and Victoria (4.9 per cent). South Australia and Western Australia both experienced declines over this period (-1.5 per cent and -13.5 per cent, respectively), while the sharpest reduction occurred in the Northern Territory (-30.5 per cent).

While this reflects a largely broad base to the latest annual increase in approvals activity, each state's new home building cycle has evolved slightly differently, having varying effects on the situation nationally. The chart below illustrates the changing roles that the different jurisdictions have had in driving approvals activity nationally over the past two years.

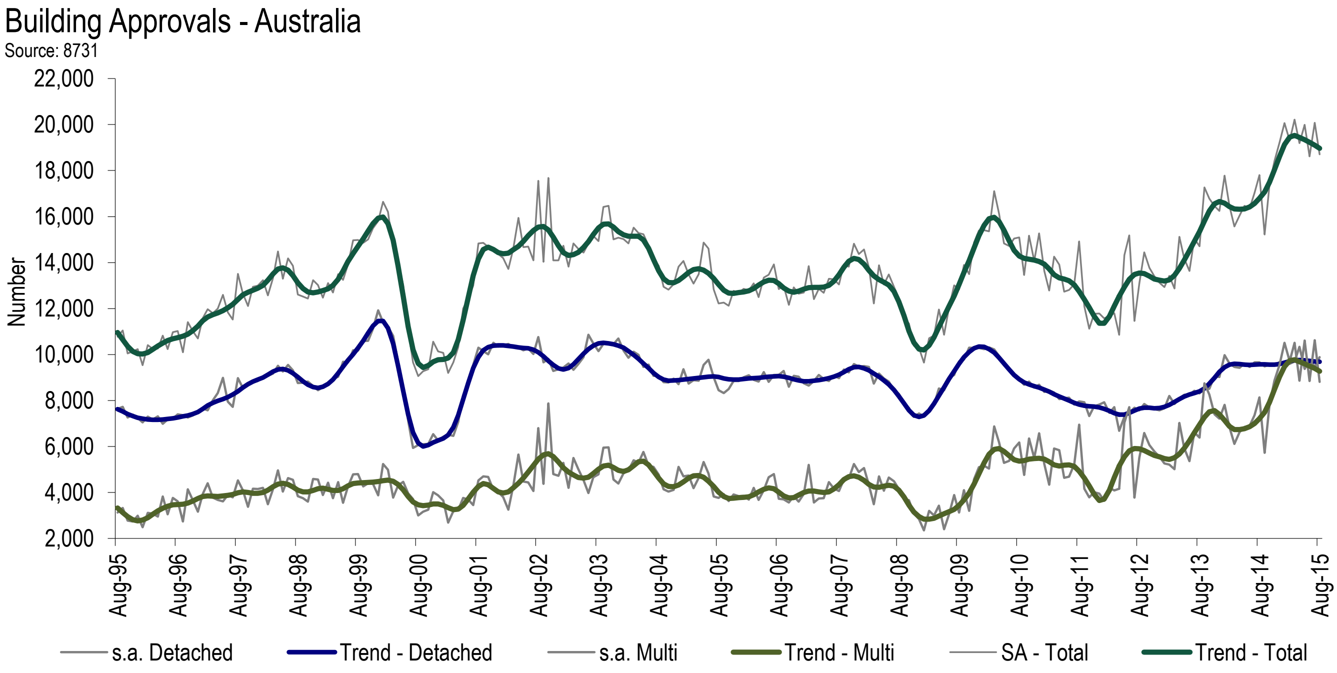
Looking at 2015 in particular, annual growth in approvals activity nationally has been driven predominantly by NSW and Victoria, notwithstanding the diminishing role that the latter is playing as the second half of the year gets underway. Declining approvals activity in WA is now weighing on the national aggregate, while Queensland's contribution to growth nationally has remained relatively steady throughout the past two years. In the three months to August, it was NSW which accounted for the lion's share of aggregate growth, contributing nearly 10 percentage points to the national aggregate growth of 12 per cent.

Looking out to the end of the current financial year and just beyond, it will be the performance of approvals in NSW in particular that will have a critical role in the situation nationally. Furthermore, there are early signs of decline emerging in Victoria. If this emerges as a broader trend, then Victoria will join WA as a key market – previously a strong contributor – that actually weakens the national profile.



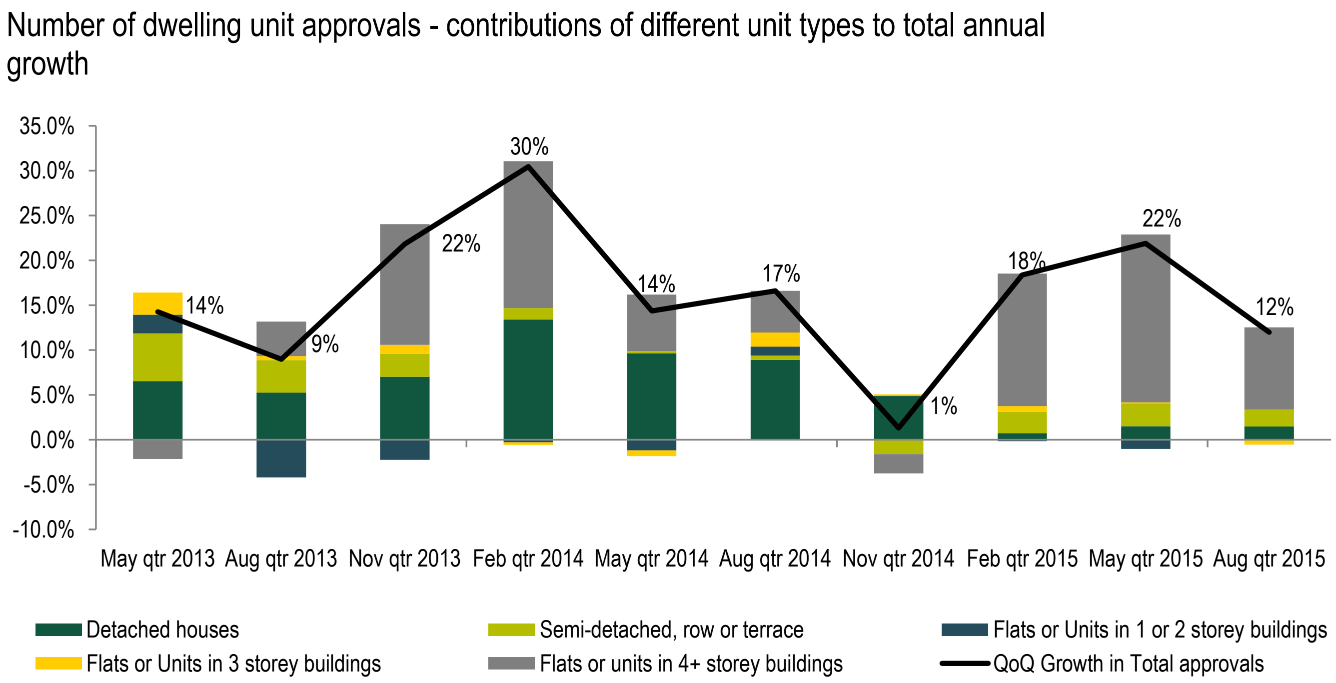
Approvals by dwelling type

As we have been observing for quite some time, changes in multi-unit approvals have been and will continue to drive the direction of total approvals activity. While a renewed round of momentum in multi-unit approvals gathered pace at the end of 2014, monthly detached house approvals continue to track steadily at around 9,500. Looking ahead, it will be the extent of decline in multi-unit dwelling approvals that will drive the aggregate reduction.



The latest performance of approvals in the different categories of dwelling is outlined further below. In summary, in the three months to August 2015, four out of the five categories of dwelling recorded an annual increase in approvals activity; detached houses (+1.1 per cent), semi-detached, row, terrace or townhouse homes (+15.0 per cent), flats or units in 1 or 2 storey buildings (+1.6 per cent) and flats or units in 4 or more storey buildings (+41.1 per cent). Approvals for the relatively small category of dwelling, flats or units in 3 storey buildings saw the number of approvals in the three months to August 2015 reach a level 17.8 per cent lower than 12 months earlier.

The chart below shows how approvals for each of the different dwelling types have been contributing or detracting from total growth in approvals activity. Clearly, in 2015 thus far, approvals for flats or units in 4+ storey dwellings have driven growth in aggregate approvals.



Geographical dynamics of approvals for high vs low density multi-unit dwellings

Approvals for high density dwellings – units in four or more storey buildings – as well as the detached house substitute – semi-detached, row or terrace houses and townhouses have and will continue to be the important elements within the broader multi-unit segment of approvals activity over the coming cycle. These types of dwellings account for the second and third largest shares of total approvals, respectively, after detached dwellings.

The chart above shows that the key subset of total approvals (indeed, not just multi-unit housing approvals) in 2015 thus far has been approvals for ‘flats or units in 4+ storey buildings’. Such has been the rise in approvals for this form of dwelling that it now accounts for nearly 30 per cent of total approvals. This compares with its decade average of 18.4 per cent.

In the three months to August 2015, a total of 16,057 of these types of dwellings were approved for construction, 41.1 per cent more than what was approved in the same period in 2014. This was the key driver of growth in total approvals activity, contributing the vast majority, 9.1 percentage points, to the 12.0 per cent annual growth in aggregate (unadjusted) approvals. The question on how much approvals activity flows through to actual construction is especially relevant for this segment of housing construction. A decision to shelve just single (approved) apartment project will result in dozens of individual dwelling approvals not reaching construction.

Another obvious question is where are all of these flats and units in 4+ storey buildings actually being approved for construction? –In 2015, not surprisingly, the key markets have been the eastern seaboard states. Specifically, the total growth in approvals for this higher-density form of housing has been driven by NSW, Victoria and Queensland.

More generally, approvals in this category of dwelling are heavily dependent on developments in NSW, given that the state approves the largest share of these types of dwellings among all the jurisdictions (although Victoria is certainly catching up). When approvals for these types of dwellings are on the rise in NSW, this tends to drive increases nationally. Similarly, when approvals for these types of dwellings are on the decline in NSW, then also the same happens nationally.

Where recent restrictions on housing credit have an effect on new home building, it is likely to weigh disproportionately on apartment construction activity, which is estimated to have a greater share of investor (rather than owner-occupier) demand. Building approvals in this category of dwelling – units in 4+ storey buildings – will be quite instructive of the actual effects on actual activity.

The other major subset of multi-unit dwelling approvals is those for ‘**semi-detached, row or terrace houses and townhouses’** and some interesting dynamics are certainly at play in this segment of the market. In the three months to August 2015, a total of 7,383 of these types of dwellings were approved for construction, 15.0 per cent more than what was approved in the same period in 2014. This was the key driver of growth in total approvals activity, contributing 1.9 percentage points, to the 12.0 per cent annual growth in aggregate (unadjusted) approvals.

The key markets driving growth in this segment of the market in 2015 have been Queensland, Victoria, NSW and South Australia. In contrast with the higher density housing product, approvals for semi-detached and other low-density housing are heavily dependent on activity in Victoria – although the state’s influence on this segment of the market is not a strong as NSW’s influence on apartment approvals.

This likely reflects the contrasting land constraints faced by Sydney and Melbourne in particular. That is, Sydney faces natural geographical constraints on its ability to release new land for low-density housing that Melbourne doesn’t face – a larger coastal border, more national parks at the city boundary as well as hillier terrain. In this context, Victoria consistently approved a larger amount of detached housing for the duration of the 2000s. This is starting to translate into a would-be substitute for detached housing – semi-detached, row or terrace houses and townhouses. Victoria has been approving more of these types of dwellings than NSW for the past five years.

Detached house approvals

- 54.4 per cent of total approvals compared with the decade average of 63.1 per cent.
- A modest, 1.0 per cent decline during the three months to August 2015 to reach 29,123 (seasonally adjusted) approvals. This level is 1.1 per cent higher than 12 months earlier.
- Overall trend continues to track sideways at just over 9,500 approvals per month for nearly two years now.
- Eastern seaboard states the primary geographical drivers of growth in 2015, while WA, SA, NT and the ACT weigh on aggregate.

Semi-detached and townhouse approvals

- 12.9 per cent share compared with the decade average of 13.4 per cent.
- The unadjusted number of these approvals was 7,383 in the August 'quarter', 15.0 per cent higher than 12 months earlier.
- Strong growth in 2015, driven by the eastern seaboard states.
- SA, ACT and Tasmania have contributed to aggregate growth nationally. WA is now weighing on the aggregate.

Approvals for units in 1 or 2 storey buildings

- 2.6 per cent share, compared with the decade average of 2.9 per cent.
- The unadjusted number of these approvals was 1,484 in the August 'quarter', 1.6 per cent higher than 12 months earlier.
- Marginal annual growth in August 2014 'quarter', driven by NSW, WA and the ACT. Declines elsewhere.

Approvals for units in 3 storey buildings

- 2.3 per cent share, compared with the decade average of 2.6 per cent.
- The unadjusted number of these approvals was 1,302 in the August 'quarter', 17.8 per cent lower than 12 months earlier.
- Current levels elevated off a recent peak, but remain well above the previous trough in late 2012.
- Annual decline in the August 'quarter' a result of sharp declines in Queensland and the ACT, growth in NSW, Victoria and WA insufficient to offset these declines.

Approvals for units in 4+ storey buildings

- 28.0 per cent share compared with ten year average of 18.4 per cent.
- The unadjusted number of these approvals was 16,057 in the August 'quarter', 41.1 per cent higher than 12 months earlier.
- Renewed round of growth in 2015, driven mainly by NSW and Victoria, with Queensland the next largest contributor. Elsewhere, growth in 2015 has been widespread; NT was the only jurisdiction to record an annual decline in the August 2015 'quarter'.

Conclusion

A renewed round of growth in building approvals activity in 2015 signals bright prospects for the level of actual new home building in the year ahead, with NSW emerging as a key state where activity will continue to grow. While Victoria used to outperform NSW, approvals activity is suggesting this state may join WA in weakening the national profile, having previously contributed strongly.

Approvals are also indicating that the high-density segment of the market in NSW in particular will be where much new home building activity takes place. In 2015 thus far, growth in approvals for flats and units in 4 or more storey buildings has driven growth in the aggregate, with much of these higher-density dwellings being approved occurring in NSW. Meanwhile, the very steady trend in detached house approvals suggests that actual activity will similarly remain steady at the current, elevated levels.

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