

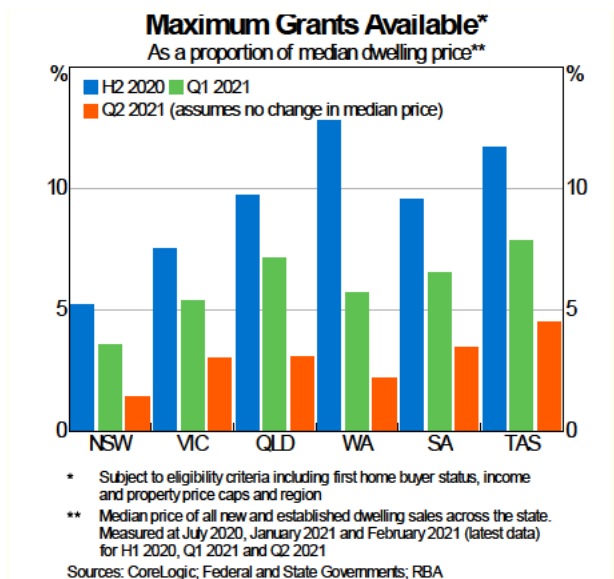
LIAISON ON CURRENT CONDITIONS: APRIL 2021

- Construction activity for new detached houses continued to pick up over the March quarter and is expected to increase further over the coming months and remain elevated for the remainder of the year. This has led to construction delays and higher input costs, which are beginning to flow through to prices for detached housing.

Household demand

Housing demand and activity

- Sales of greenfield land and detached housing declined in the March quarter, reflecting the reduction in the size of the HomeBuilder subsidy and some other state grants. However, sales remained above pre-COVID levels because of continued support from the scaled back HomeBuilder program and low interest rates. Sales are expected to decline further following the cessation of HomeBuilder at the end of March, although there remains considerable uncertainty about the magnitude of the decline in sales. Some contacts expect demand to remain above pre-COVID levels because of support from low interest rates and improved consumer sentiment.
- Construction activity for new detached houses continued to pick up over the March quarter in response to the heightened level of sales in the second half of 2020. Activity is expected to increase further over the coming months and remain elevated for the remainder of the year. Housing starts are expected to peak around May in most states. However, the peak is expected to be closer to September in NSW, reflecting longer time to commencement.
- Elevated construction activity both domestically and overseas has led to a shortage of key building materials (e.g. steel, timber, concrete, bricks and roof tiles); strong demand for new detached housing is also putting pressure on sub-contractor availability and rates. This has caused construction delays and large increases in input costs, which are beginning to flow through to prices for detached housing. There had been some concern that smaller builders would have trouble meeting the HomeBuilder construction deadlines because of the large number of job commitments relative to their capacity. In response, the Government recently [announced](#) an extension to the construction commencement requirement for the HomeBuilder grant from 6 months to 18 months.



Off-the-plan apartments

- Demand for off-the-plan apartments remains subdued, especially from investors. Demand for luxury apartments from owner-occupiers remains more resilient to the decline in international migration and students than entry-level apartments.
- Apartment construction activity remained subdued in the March quarter. A couple of contacts have reported that projects they placed on hold early in the pandemic recommenced towards the end of last year.
- See [New Housing – The View from Liaison – March Quarter 2021](#) for more information.

Financing conditions

Households

- Access to finance for buyers was little changed over the March quarter. While lending standards have eased since the outbreak of COVID-19, they remain tighter than before the Banking Royal Commission. Loan approval times for construction loans remain elevated and have extended since the December quarter because of high application volumes.

From: JONES, Bradley
Sent: Tuesday, 20 April 2021 9:31 AM
To: EA - Economic Analysis Department
Cc: ELLIS, Luci; HARTIGAN, Luke
Subject: rundown - dwelling investment
Attachments: meeting.pptx

Morning all,

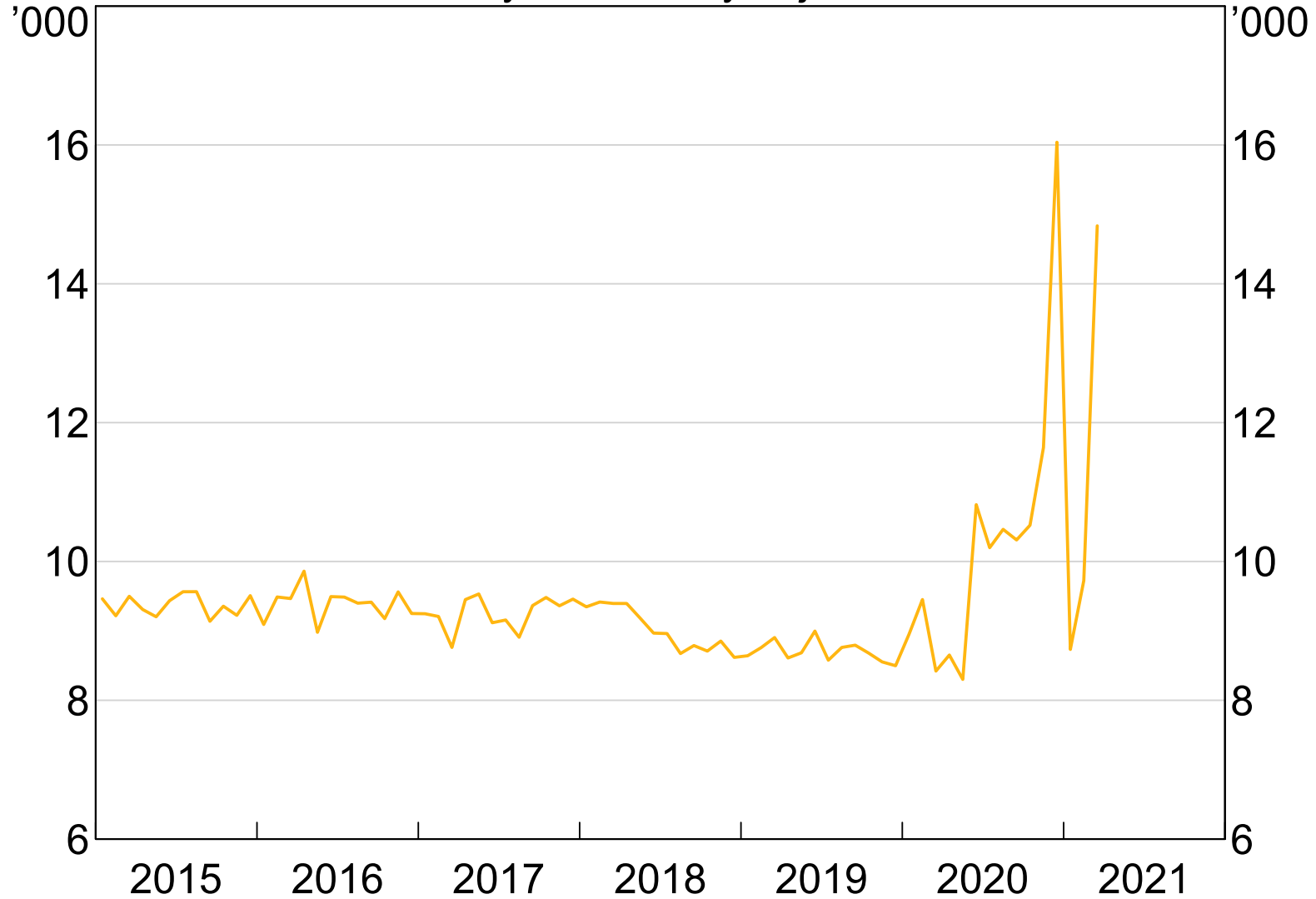
With thanks to team HANA (Richie, Aaron and Connor) and Tom and Luke, I covered off dwelling investment

Dwelling Investment

- The HIA New Home Sales series, which is based on the largest 100 home builders who account for nearly half of new home construction in the country, increased strongly in March to near the peak recorded in December when the 25k HB grant was tapered
 - As with December, the rush was driven by new home buyers seeking to have contracts signed by the end of March, before the cut-off date, with sales in Qld and Vic particularly strong
- The next reading on detached building approvals for March does not arrive until the day after Board, but it looks as though detached approvals will remain elevated over coming period given the lag with which these sales translate into building approvals, and this will offer some additional support to the dwelling investment profile
- As flagged yesterday, the other dwelling-investment related development in recent days was the announcement that the timeline to commence construction under the HB program has been extended from 6 to 18 months
 - Depending on how tight the capacity constraints in the industry were going to bind, this could spread out dwelling investment activity over a longer period of time – so we could see a little less jammed into the June and Sep quarters
- I discussed HANA's initial cut of the dwelling investment forecast profile from late last week, noting there has been a decent upward revision, driven by:
 - The higher starting level following the upside surprise in the DQ
 - The strong take-up of HB into the MQ which supports the revision to the detached and alts & adds segments, though the team are still being conservative (relative to the dwelling investment models) in assuming that a good deal of HB-related activity represents a pull forward in demand
 - But of course the longer that housing price growth remains strong, the greater the upside risk to the dwelling investment f/casts
 - In the case of higher-density resi investment – it is still pretty grim, with the level unchanged by the end of the f/cast period albeit there is a slightly shallower decline assumed now after the DQ outcome was not as bad as we thought it would be and overall conditions in apartment market appear to have stabilised a bit earlier than we thought

HIA New Home Sales*

Monthly, seasonally adjusted**



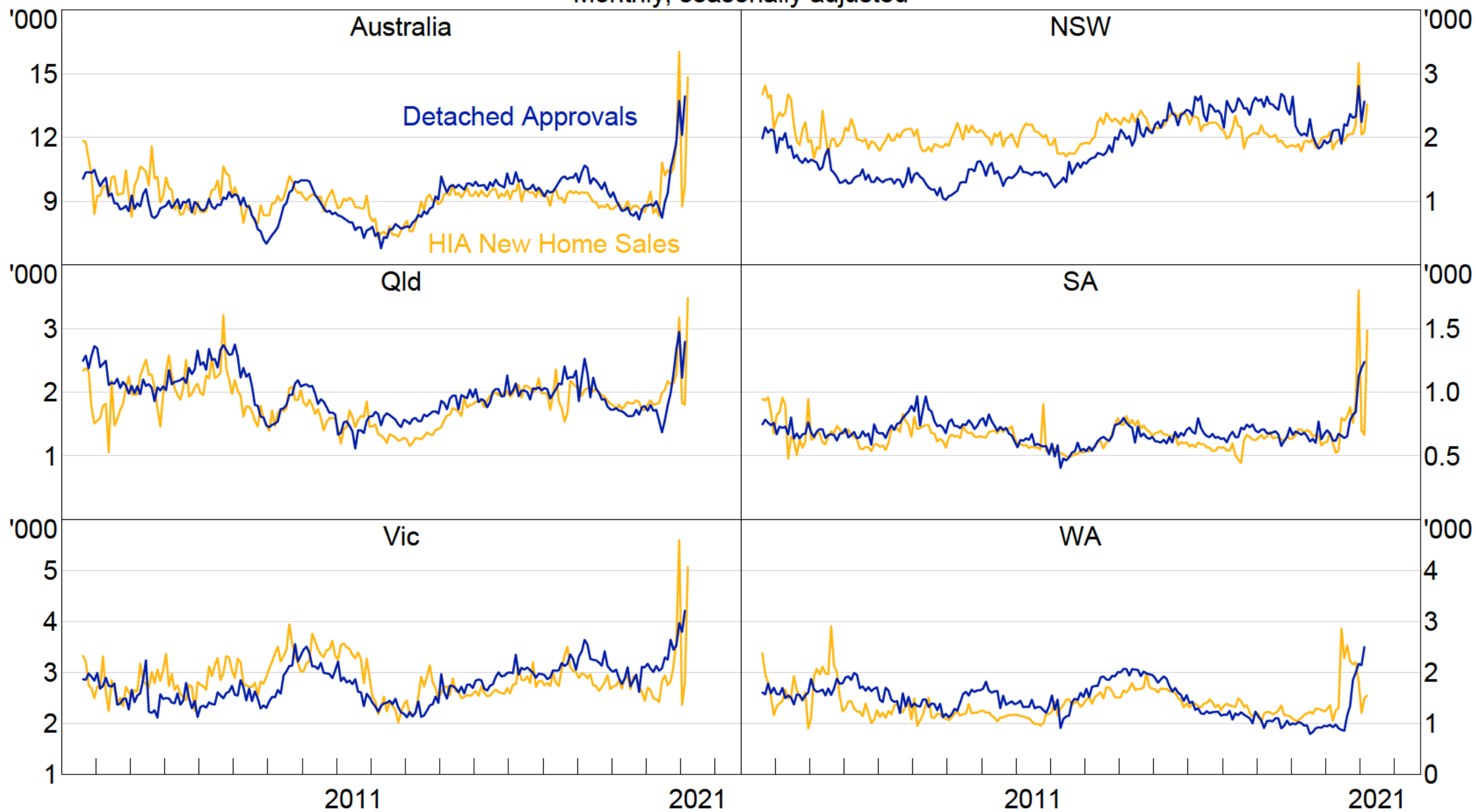
* HIA's sample captures around 20 per cent of Australia's new detached sector

** Detrended and rescaled to have the same mean as detached dwelling approvals

Sources: HIA; RBA

Detached Approvals and New Home Sales*

Monthly, seasonally adjusted

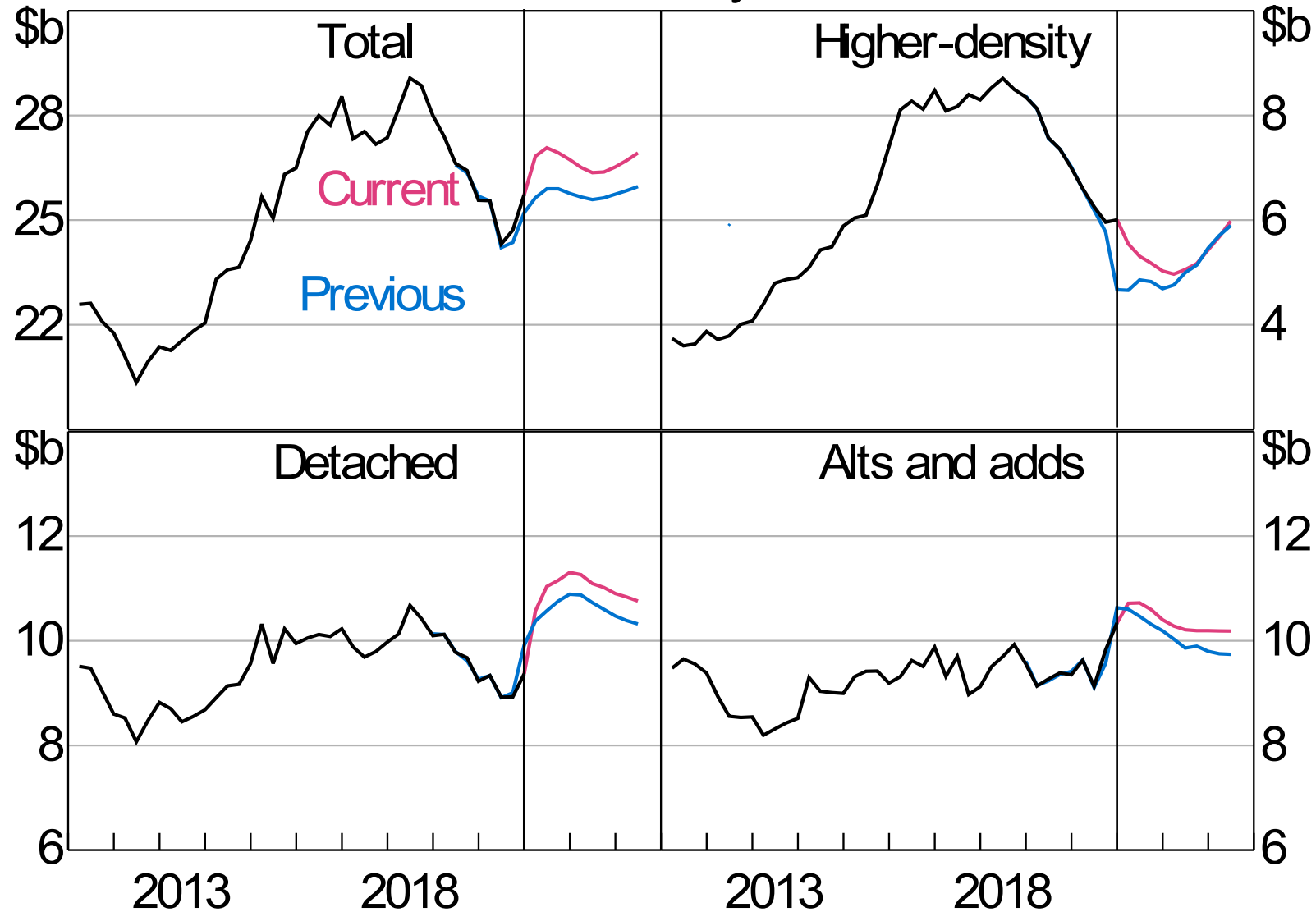


* HIA New Home Sales are detrended and rescaled to have the same mean as detached dwelling approvals

Sources: ABS; HIA; RBA

Dwelling Investment

Quarterly

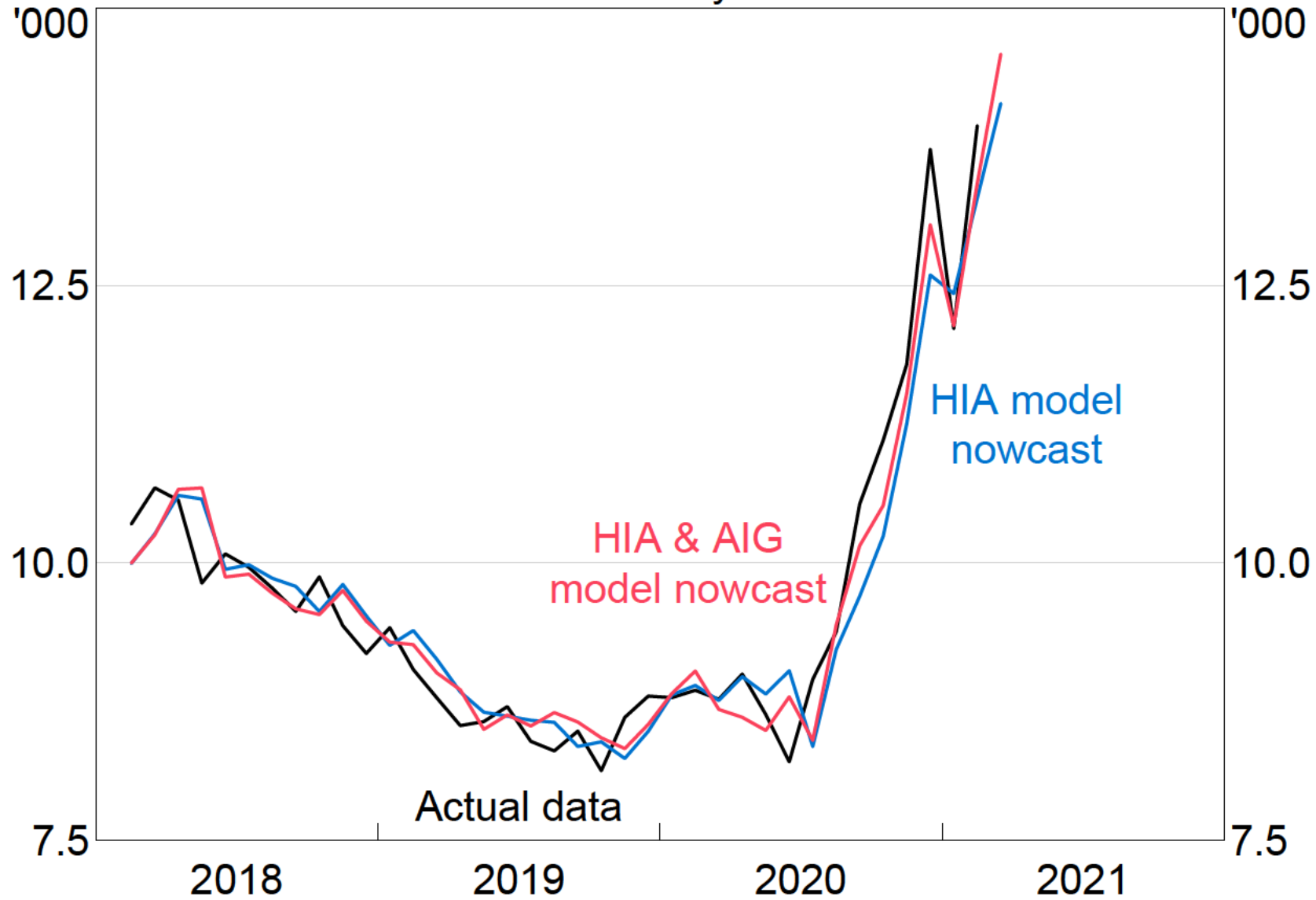


Sources: ABS; RBA

The forecasts in this graph are preliminary and should not be relied upon.

Detached Building Approvals

Monthly



Sources: ABS; RBA

Housing Market Discussion Group

21 April 2021



RESERVE BANK OF AUSTRALIA

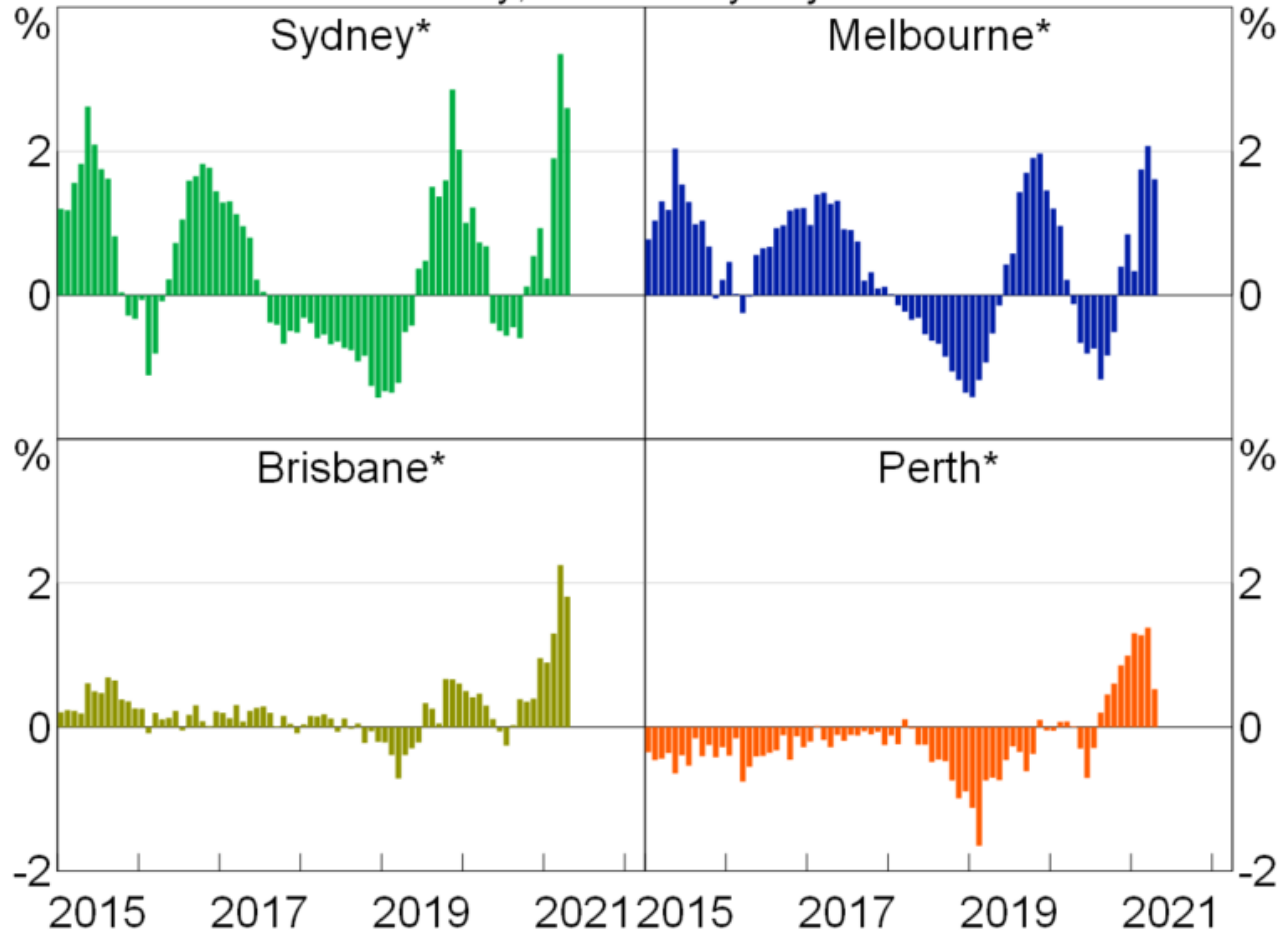
Agenda

- 1 Housing Market Updates – HANA, IMS, RIA

Housing price growth remained robust in the first half of April

Housing Price Growth

Monthly, seasonally adjusted

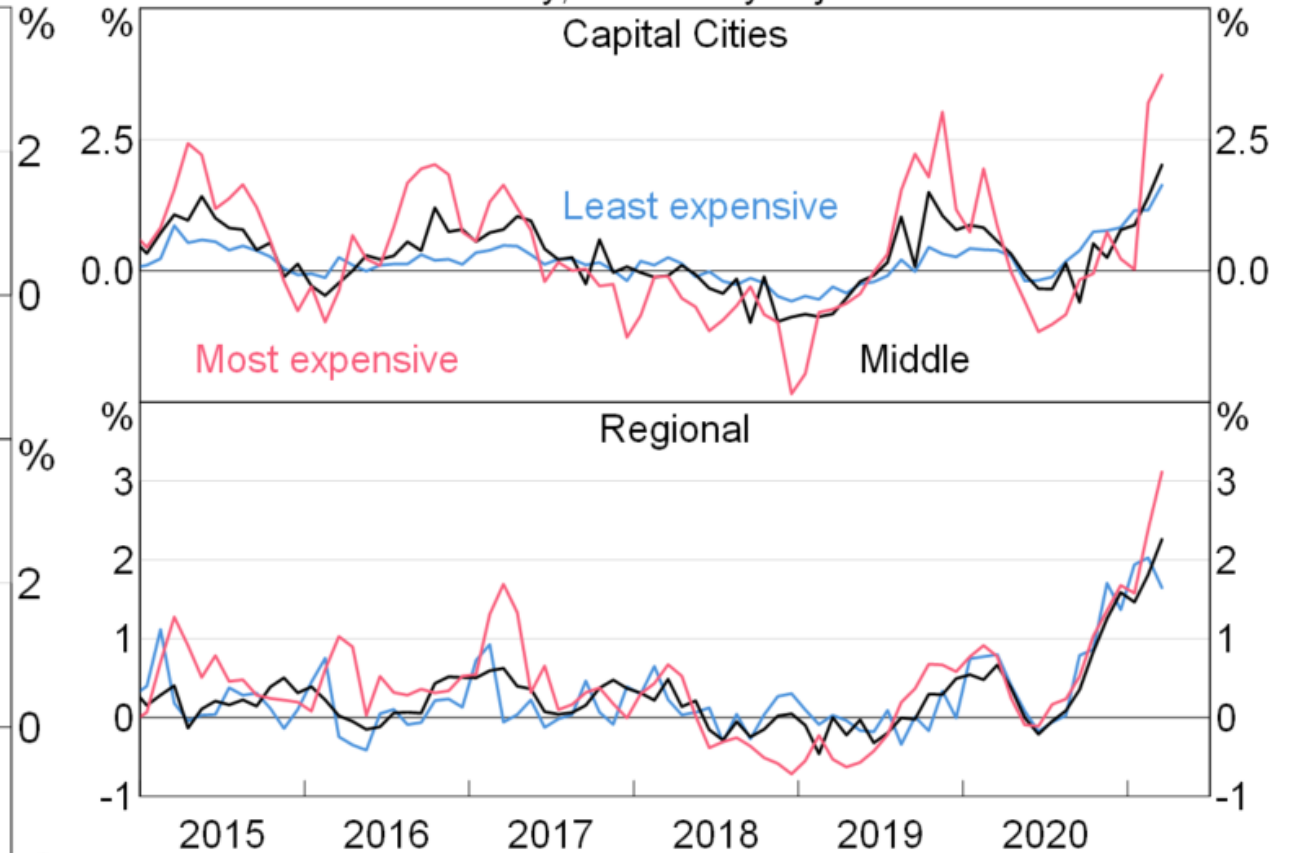


* Includes preliminary estimate of housing price growth in latest month

Sources: CoreLogic; RBA

Housing Price Growth by Dwelling Value*

Monthly, seasonally adjusted



* Least expensive (5th-25th percentiles), middle (25th-75th percentiles), most expensive (75th-95th percentile)

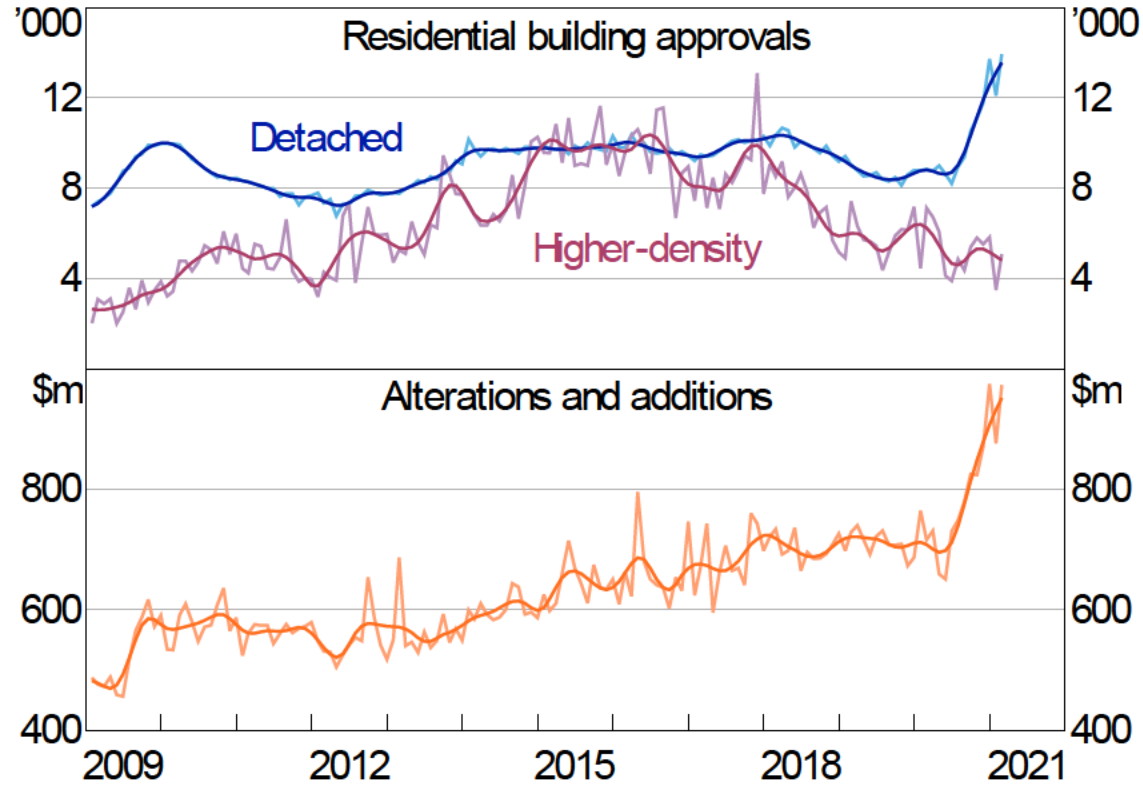
** Capital cities price indexes are for the eight capital cities and regional prices are for the rest of Australia

Sources: CoreLogic; RBA

Detached construction and renovations activity remained strong

Private Building Approvals*

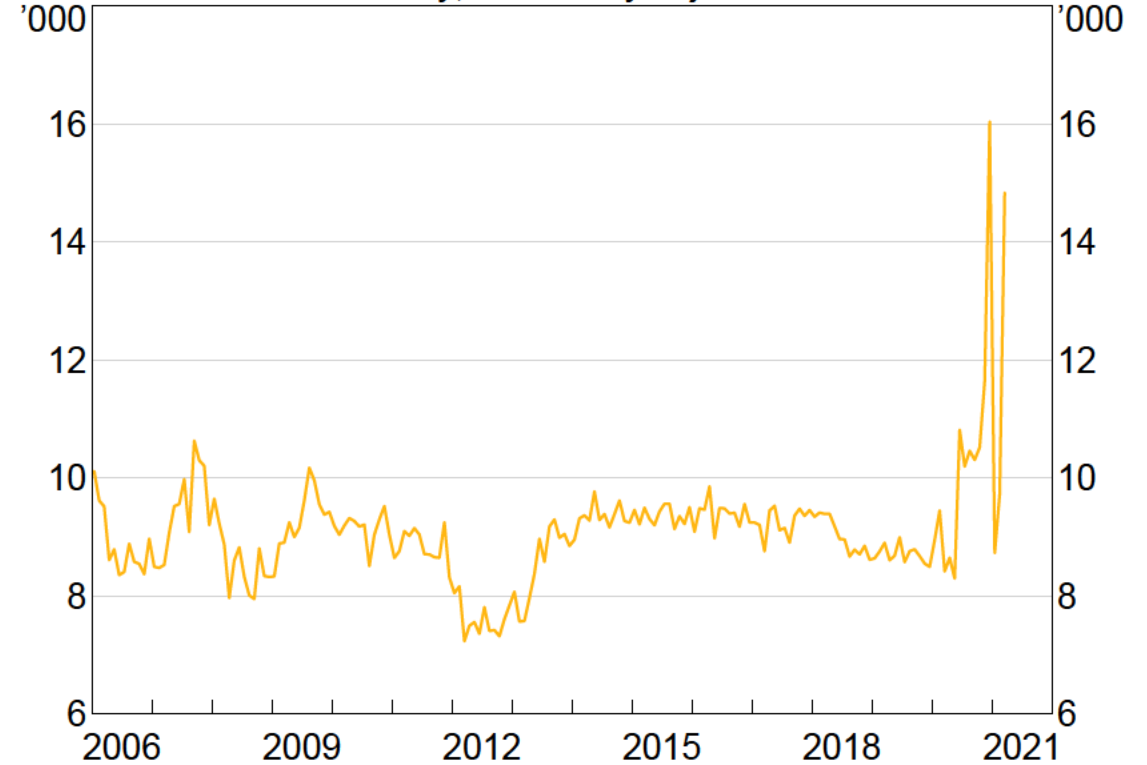
Monthly



* Smoothed lines are 13-period Henderson trends
Sources: ABS; RBA

HIA New Home Sales*

Monthly, seasonally adjusted**



* HIA's sample captures around 20 per cent of Australia's new detached sector
** Detrended and rescaled to have the same mean as detached dwelling approvals
Sources: HIA; RBA

Questions we have been grappling with

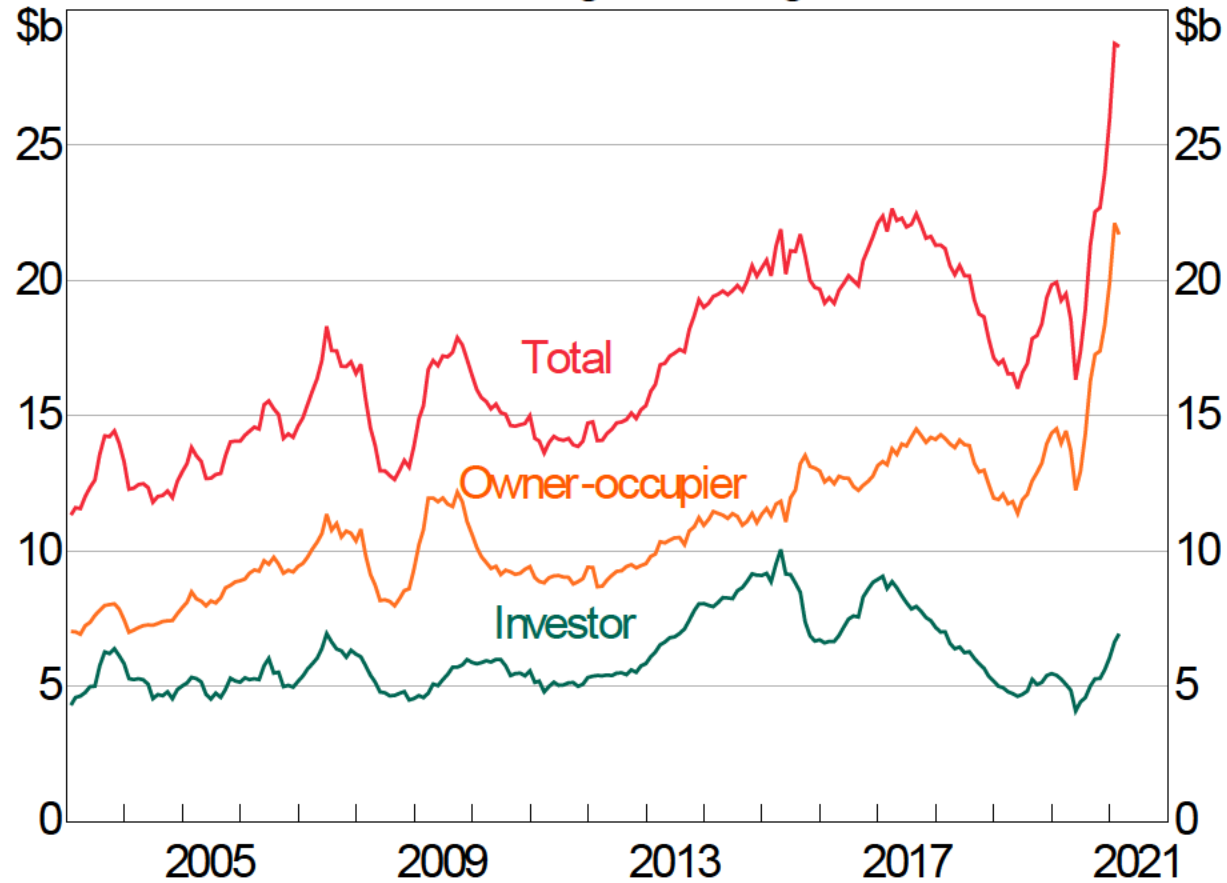
IMS: Why has housing credit growth only increased moderately when housing loan commitments have increased strongly?

HBC: Are first home buyers riskier than other borrowers?

IMS: Why has housing credit growth only increased moderately when housing loan commitments have increased strongly?

Housing Loan Commitments*

Excluding refinancing



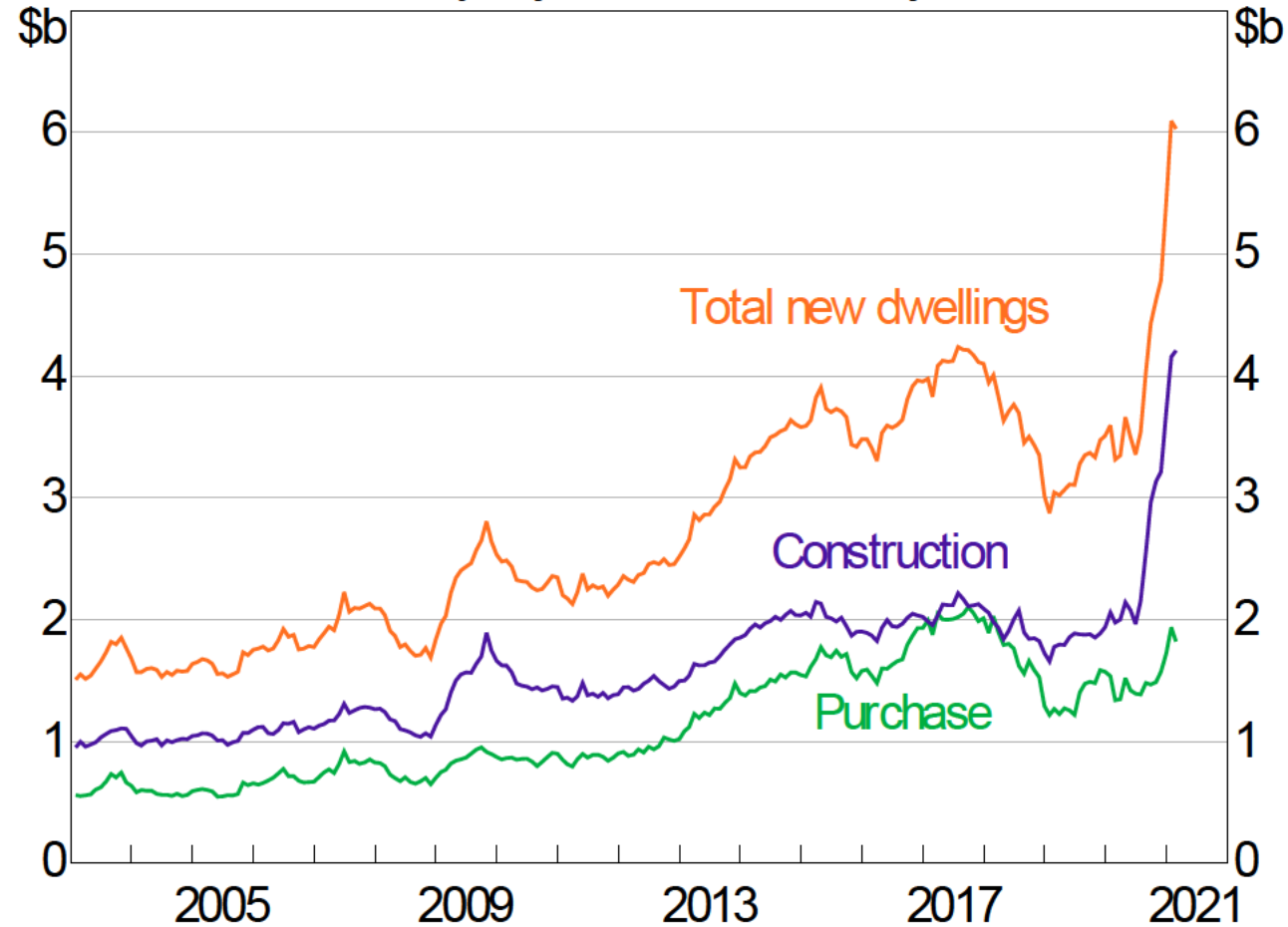
* Seasonally adjusted and break-adjusted

Sources: ABS; RBA

IMS: Why has housing credit growth only increased moderately when housing loan commitments have increased strongly?

Housing Commitments for New Dwellings

Seasonally adjusted and break-adjusted



Sources: ABS; APRA; RBA

Questions we have been grappling with

IMS: Why has housing credit growth only increased moderately when housing loan commitments have increased strongly?

HBC: Are first home buyers riskier than other borrowers?