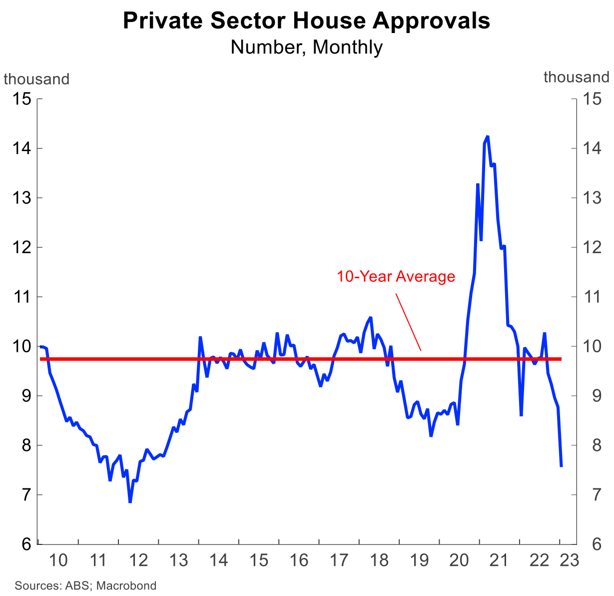
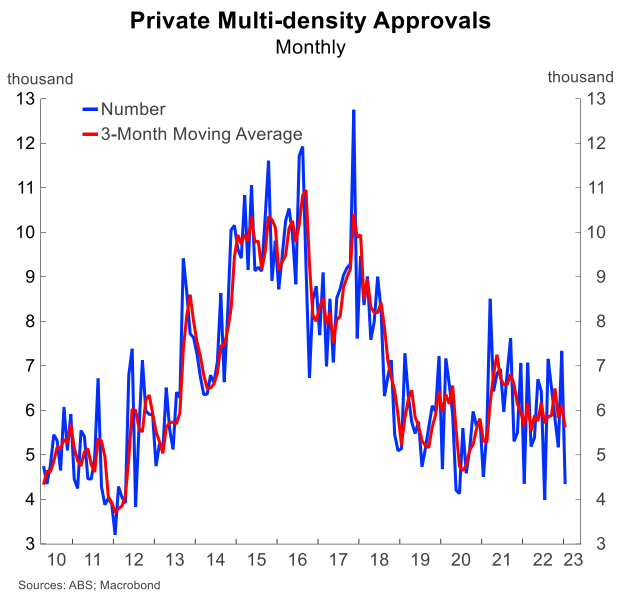
Data Snapshot

Thursday, 2 March 2023

Building Approvals
Ominous Sign for Renters as Approvals Slump

- **Private sector approvals have slumped to their lowest level since July 2012. Compared to their peak in March 2021, private sector approvals have fallen by almost 50%. The number of both house (-13.8%) and multi-density approvals (-40.8%) declined over the month of January.**
- **Approvals for houses declined across all states and territories, while multi-density approvals increased in the mining states of Queensland and Western Australia.**
- **The rate of new private sector dwelling approvals has been falling steadily. Elevated material and labour costs in the construction sector have combined with rising interest rates to reduce demand for new housing.**
- **The weakness is likely to persist for some time, putting further upward pressure on rents as booming demand from high migration pushes up against inelastic supply. We have previously argued that higher interest rates will delay the supply side response compared to other periods where we have experienced strong population growth.**
- **We are seeing this play out. Just yesterday, ABS data showed that average rents across Australia increased by almost 5% in the year to January 2023. Newly advertised capital-city rents increased by 11.6% in annual terms to the end of February 2023 – the highest on record (since the early 2000s). Eventually, higher rents will entice investors to return to the market. We expect this to happen towards the end of 2023 in some pockets, only after further rent hikes.**





The total number of dwellings approved fell 27.6% in January, to be 8.4% lower in annual terms.

Detached House Approvals

Approvals for private sector houses fell by 13.8%, to be the lowest result recorded since June 2012. Taking a step back, new house approvals have tumbled by almost 50% since their peak in March 2021 and are running well below the average rate of the past 10 years.

Clearly, the slow-down in demand for the construction of new detached houses has been material. However, this is not especially surprising given the elevated cost of construction and rise in borrowing costs. Additionally, the HomeBuilder policy induced a large bring forward of demand and the unwind of that policy has also been flowing through. It will likely take a reversal of the headwinds to demand for new house approvals to turn a corner.

Multi-Density Approvals

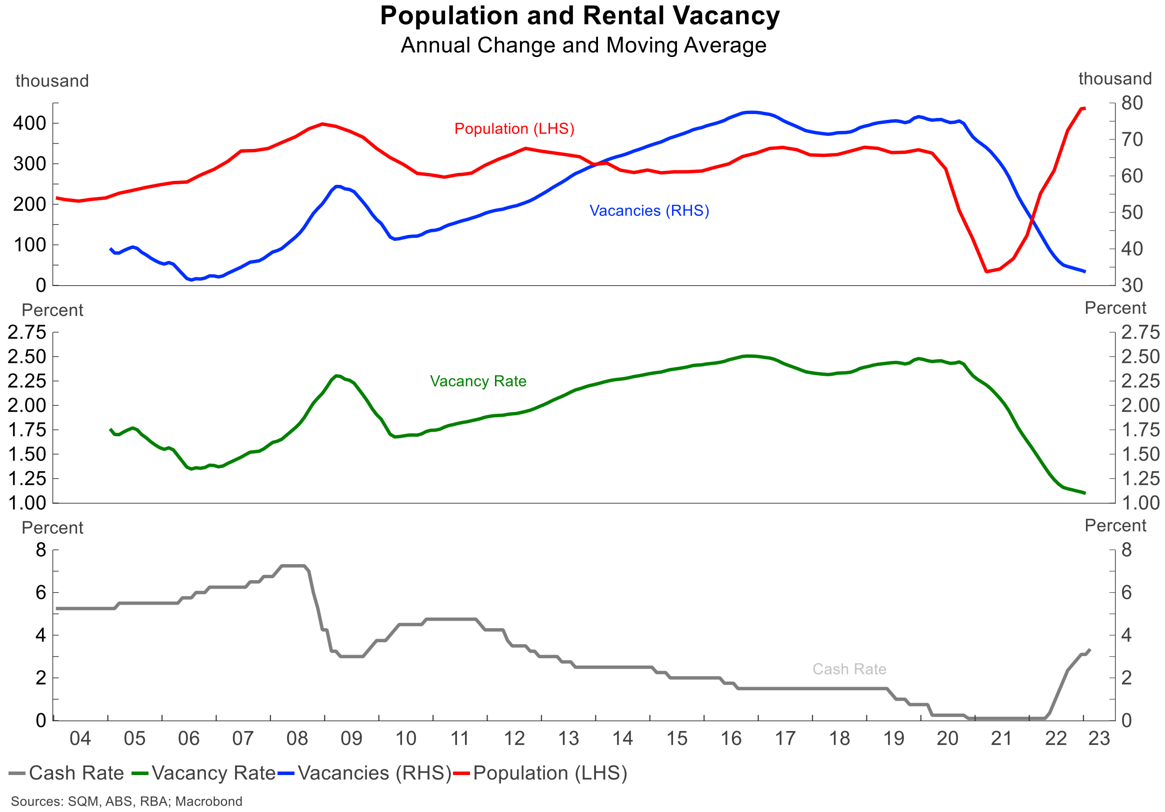
Private multi-density approvals fell 40.8%, demonstrating that multi-density approvals are not immune to the headwinds facing new housing demand.

The 3-month moving average, which accounts for some of the month-to-month volatility, reveals that a gradual slowdown is also underway in multi-density building approvals. This measure suggests that approvals have fallen 22.5% since their peak in May 2021, despite the spike in apartment approvals in December. Indeed, average approvals over the three months to December were running well below the 10-year average.

Impact on rents

The downturn in the residential construction sector will put further upward pressure on rents as booming demand from high migration pushes up against inelastic supply.

We have previously argued that higher interest rates will mean the supply side response will be delayed compared to other periods where we have experienced strong population growth.



Last time we had as strong a pickup in migration was in 2008-09; back then, interest rates were falling in the aftermath of the GFC. This led to a strong supply side response and increase in rental properties. In this cycle, we expect the supply response to lag, exacerbating the pressure in rents.

By State

Across Australia, total dwelling approvals decreased in every state and territory bar one. Only Queensland recorded an increase, driven by apartment developments approved in January.

Residential Building Approvals by State

State	Total			Private Sector Houses			Private Sector Other		
	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %
NSW	2,599	-49.0	-32.4	1,749	-17.3	-11.8	815	-72.3	-55.6
VIC	3,586	-38.6	-5.6	2,570	-9.9	-1.0	984	-61.0	-13.5
QLD	3,525	25.6	15.1	1,406	-16.6	-21.2	2,098	88.5	71.5
SA	845	-6.5	-0.4	731	-2.8	0.6	113	-14.4	-6.6
WA	1,050	-7.9	-12.7	867	-18.7	-23.7	112	86.7	918.2
AUS	**12,065**	**-27.6**	**-8.4**	**7,560**	**-13.8**	**-12.0**	**4,340**	**-40.8**	**-0.3**

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