

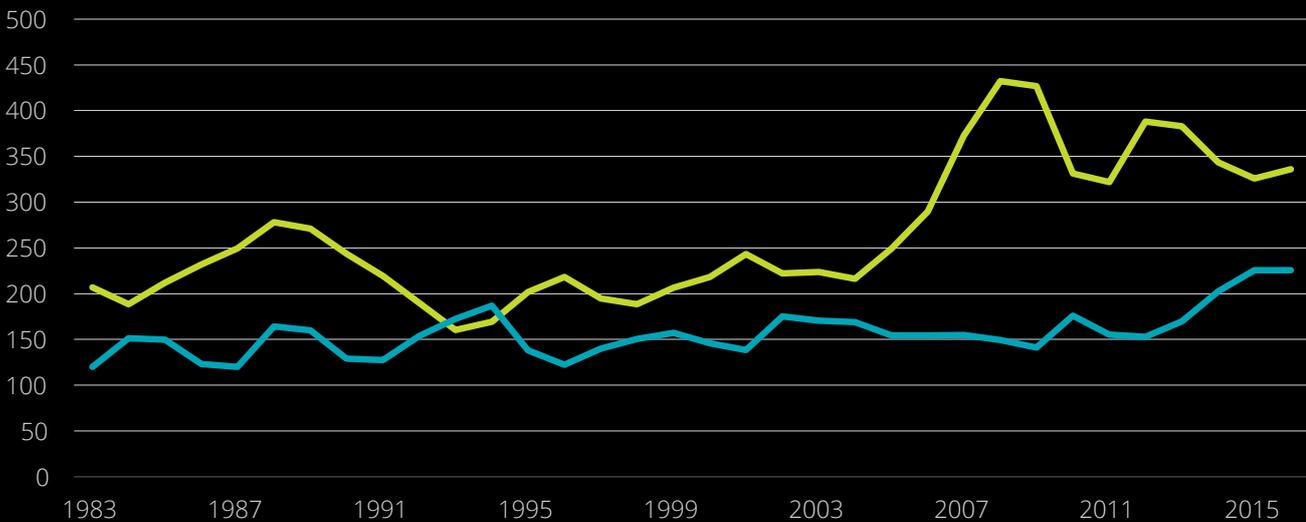
Finding focus in a complex market

Mortgage Report 2017

12th Annual Deloitte Australian Mortgage Report

Demographics and demand: a glimpse of the mechanics underlying housing demand

Population growth and dwelling starts



— Population growth (000s)
 — Dwelling starts ('000s)

Source: ABS

Deloitte Access Economic Director Michael Thomas looks at the relationship of demographics and demand when it comes to housing and the mechanics underlying them.

The housing market story is a people story – or more accurately a population story. Population growth drives demand for housing, and the strength of Australia’s population growth over the past decade is fuelling the current surge in building.

The chart above shows Australia’s population growing at an average rate of around 220,000 p.a. in the two decades to 2005. By way of comparison, the number of new dwellings started ran at an average pace of 150,000 p.a. in the earlier two decades.

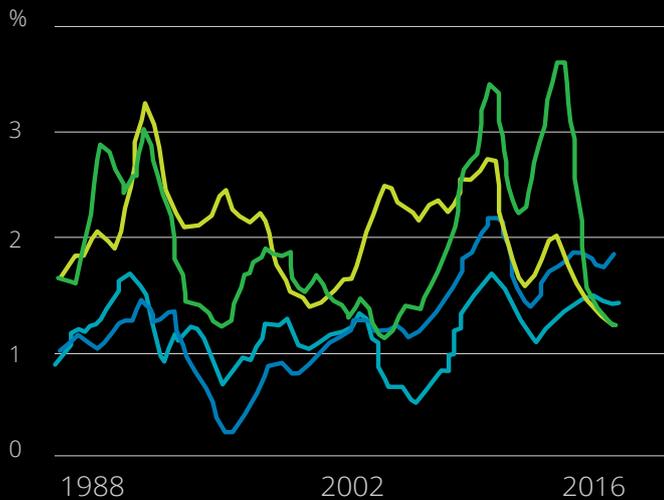
If we take into account replacement of existing stock, and a decline in the size of households (increased household formation), underlying demand for new houses probably exceeded the average pace of building towards the end of the period.

Then in 2005 things changed dramatically. Driven by stronger immigration and a new baby boom, Australia’s population stepped up to 360,000 p.a. in the next decade. The average growth rate jumped from 1.2% p.a. to 1.6% p.a.

1. Household formation is an even better guide to dwelling requirements. It was growing faster than population around the time of the 2011 Census, increasing pent up demand for housing. However, the corresponding 2016 Census data have not yet been released, so it’s not clear if household formation still is growing faster.
2. Housing formation is the number of new households being formed so when the children grow up and move out of the family home, they create a new household similarly, with relationship break-ups, if one party moves out, one household becomes two

Population growth

Year-ended



- QLD
- WA
- NSW
- VIC

Source: ABS, RBA

The home building response was tardy. Unmet demand kept mounting until 2013, when work on 170,000 new homes kicked off. Cyclical factors such as prices of new houses vs. established houses, renting vs. buying and interest rates all influenced the precise timing of the response.

But suffice to say building activity has surged since then, with dwelling starts reaching record heights of 226,000 in both 2015 and 2016.

Unsurprisingly, house prices have risen while the shortfall in dwelling construction is being made up. During this period, the quality of the supply response also mattered. For example building CBD apartments will not satisfy demand for large detached houses.

A similar population story has played out at a state level. The chart to the left shows that, in the two decades to 2005, interstate migration delivered Queensland and Western Australia relatively higher population growth rates than the other large states.

Post the resources boom, interstate migration trends favoured the broad-based economies of Victoria and NSW, with the former also attracting a greater share of migration from overseas.

So what does this tell us about future demand?

On current trends, Victoria and NSW are likely to continue to lead the way in the population growth stakes, with Queensland starting to close the gap and WA stabilising. These growth differences should be reflected in building activity over time.

Overall, Australia's population growth is likely to stay above 300,000 p.a. This suggests underlying demand for new dwellings will also be notably higher going forward.

Housing analysts suggest underlying demand now may reside in the 180-200,000 p.a. range (with the precise rate dependent on household formation). And this means if dwelling starts drop back below these underlying levels for any length of time, price pressures will begin to build again.

Contact



Michael Thomas

Director, Financial Advisory
michaelthomas@deloitte.com.au
+61 2 9322 7145

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 225,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

© 2017 Deloitte Touche Tohmatsu.

MCBD_HYD_02/17_054021