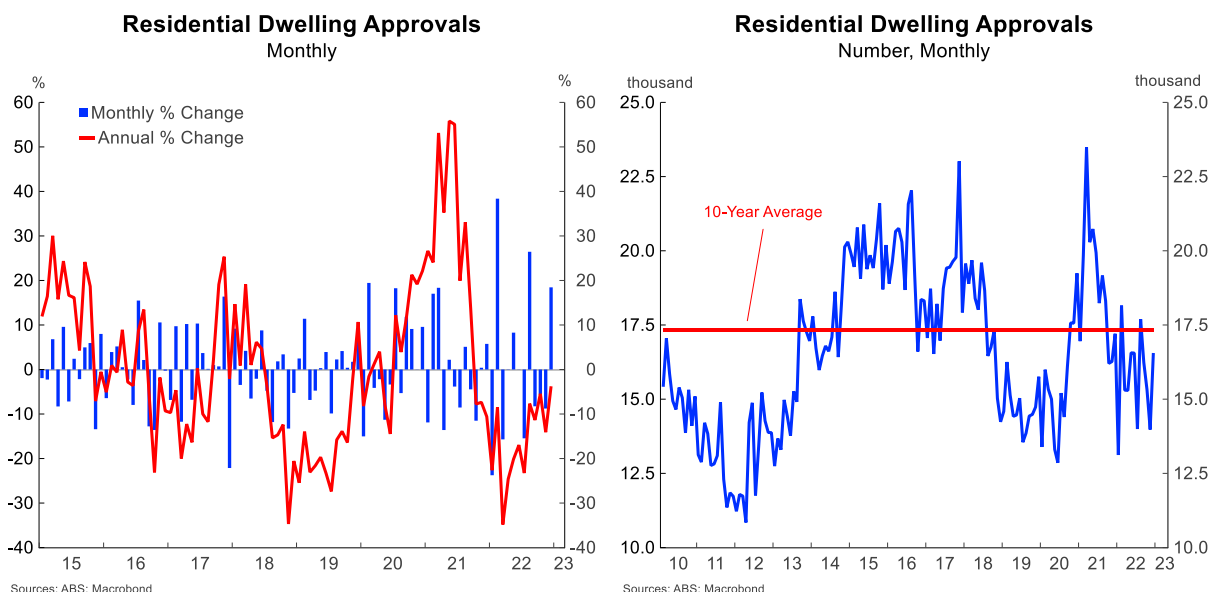


Thursday, 2 February 2023

## Building Approvals

### Apartment Spike Masks Harsh Slowdown

- New residential building approvals rose a surprise 18.5% in December, partly unwinding a 21% fall in the monthly rate of new approvals between August and November 2022.
- Is December's strong result a sign of better things to come? Probably not. Underlying weakness in approvals in December was masked by a sharp rise in high-rise apartment approvals in NSW and Victoria.
- The rate of new private sector dwelling approvals has been steadily declining from a peak in early 2021. Surging material and labour costs in the construction sector have combined with rising interest rates to sap demand for new housing.
- Private sector house approvals fell 2.3% in December. New house approvals have tumbled 37.5% since their peak in March 2021 and are now running below the average rate of the past 10 years.
- Private sector multi-density approvals surged 56.6% in December. Despite the monthly spike, multi-density approvals are not immune to the headwinds facing new housing demand. The 3-month moving average reveals a gradual slowdown has also been underway for multi-density building approvals since peaking in May 2021.
- The slowdown is likely to persist for some time until some of the headwinds facing the housing sector reverse. However, the rapid resumption in overseas migration will lift demand for new housing and may provide some support to new dwelling approvals.



New residential building approvals rose a surprise 18.5% in December, partly unwinding a 21% fall in the monthly rate of new approvals between August and November 2022. This trimmed the annual slow-down in new dwelling approvals to just -3.8%, from -14.1% in November.

The rate of new private sector dwelling approvals has been steadily declining from a peak in early 2021. Surging material and labour costs in the construction sector have combined with rising interest rates to sap demand for new housing.

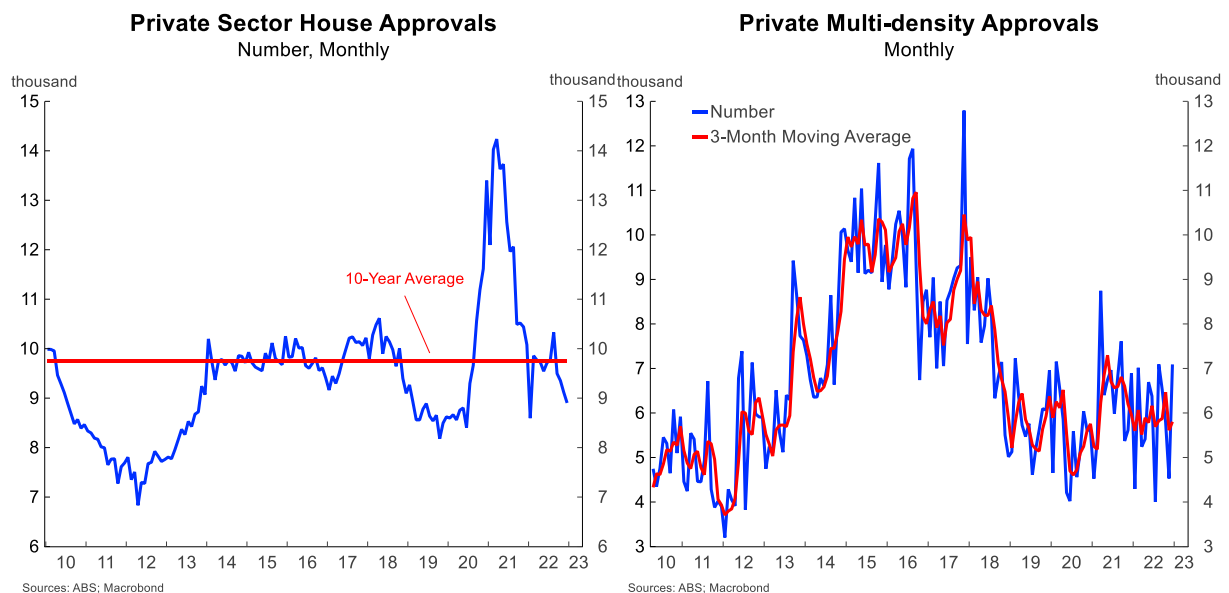
Is December's strong result a sign of better things to come? Probably not.

Underlying weakness in approvals was masked by a sharp rise in high-rise apartment approvals in NSW and Victoria. While the spike in approvals of large apartment developments is a positive for housing supply, they tend to be extremely volatile as the approval of a single development can include a large number of apartments which are recorded individually in the approvals data. Additionally, the approval of large developments tends to be more sporadic month to month. These characteristics can mask the underlying trend in approvals activity, especially for detached houses which represent the largest share of Australia's housing supply.

### Detached House Approvals

Private sector house approvals fell 2.3% in December. This was the fourth consecutive monthly decline in detached house approvals and marked the weakest month for new approvals since January 2022. Taking a step back, new house approvals have tumbled 37.5% since their peak in March 2021 and are now running 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 for demand for new houses to turn a corner. Although, falling prices and surging rents may also bring investors back to the table as yields expand.



### Multi-Density Approvals

Multi-density approvals in the private sector surged 56.6% in December. As noted above, this was driven by the approval of several large apartment developments in NSW and Victoria in December. A base effect also contributed to the out-sized monthly growth rate as there was a relatively small

number of apartments approved in November. Semi-detached approvals, including for construction of terraces, townhouses, etc were considerably more lacklustre and declined in the month.

Aside from the monthly spike, 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 for multi-density building approvals. This measure suggests that approvals have fallen 20.5% 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 long-run average.

### By State

State	Residential Building Approvals by State								
	Total			Private Sector Houses			Private Sector Other		
	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %
<b>NSW</b>	4,998	48.4	8.3	2,152	-4.2	-10.5	2,806	155.3	30.1
<b>VIC</b>	5,874	20.7	2.9	2,886	0.3	-9.8	2,525	39.2	2.6
<b>QLD</b>	2,777	8.3	-3.1	1,742	0.2	-8.4	1,027	33.9	8.4
<b>SA</b>	909	-24.6	-24.0	756	-7.4	-13.0	134	-64.1	-59.0
<b>WA</b>	1,141	6.4	-20.4	1,069	8.2	-14.6	58	56.8	-46.3
<b>AUS</b>	<b>16,556</b>	<b>18.5</b>	<b>-3.8</b>	<b>8,903</b>	<b>-2.3</b>	<b>-11.7</b>	<b>7,091</b>	<b>56.6</b>	<b>2.9</b>

### Outlook

Rising interest rates, elevated and uncertain costs for new dwelling construction and falling house prices are weighing heavily on demand for new housing construction. This is likely to persist for some time until some of these headwinds reverse.

The rapid resumption in overseas migration will support demand for new housing over the longer-term, especially once short-term market headwinds subside. This could lure larger developers back into the market before the housing cycle turns and provide some support to new dwelling approvals.

**Jameson Coombs, Economist**

Ph: +61 401 102 789

## Contact Listing

### Chief Economist

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

### Senior Economist

Jarek Kowcza  
jarek.kowcza@banksa.com.au  
0481 476 436

### Senior Economist

Pat Bustamante  
pat.bustamante@banksa.com.au

### Economist

Jameson Coombs  
jameson.coombs@banksa.com.au  
0401 102 789

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