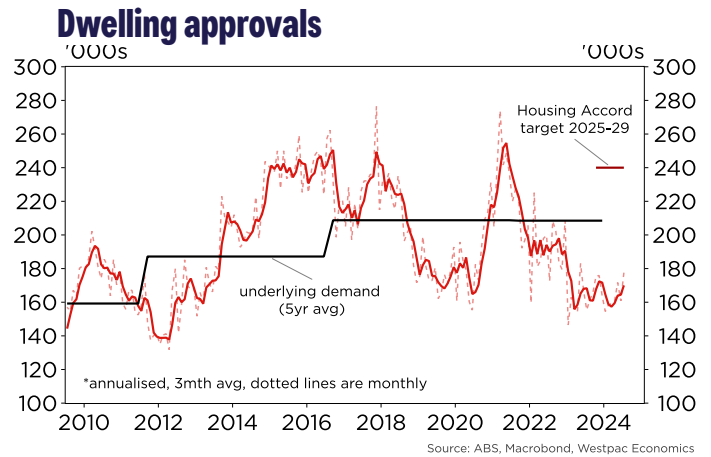


2 September 2024

AUSTRALIAN DWELLING APPROVALS BULLETIN

July's rebound driven by high-rise unit volatility

- Total dwelling approvals rebounded +10.4% in July, more than offsetting a -6.4% decline from June.
- Results over the last couple of months have been volatile, following significant swings in 'high-rise' unit approvals.
- Underlying detail on less volatile segments such as private detached houses and 'low-mid rise' private units are showing tentative signs of improvement, albeit from a weak base.
- The state detail highlights an impressive uptrend in WA, as 'high-rise' volatility drives swings in NSW and Vic.
- Approvals are still bumping around its lows, suggesting that risks to the front-end of the pipeline still linger.



Total dwelling approvals
+10.4% mth,
+14.3% yr

Approvals bounce around lows, some promise in detail



Ryan Wells
Economist

In July, total dwelling approvals surged 10.4% to be 14.3% higher over the past year. Westpac and the market were anticipating somewhat of a bounce-back from a particularly weak read in June (-6.4%), but today's result far exceeded the consensus forecast for a 2.8% gain, driven by a much sharper rebound in the volatile 'units' segment from last month's decline.

Looking past the month-to-month volatility, there are tentative signs of improvement in less volatile segments, but the current pace remains around current lows and well below the House Accord's lofty target of 1.2mn new dwellings over the five years to 2029.

Most of the figures in the table and in the accompanying charts show approvals in rolling three-month average terms, to tone down the volatility of the monthly data.

Volatility in units, while houses continue to firm

Growth in private sector unit approvals have been very choppy over the past couple of months, the sharp decline of -20.2% in June giving way to a +32.1% rebound in July. Since this segment captures large multi-dwelling projects, it is not uncommon to see big 'swings' in dwelling approvals on a month-to-month basis as a result of projects in this segment moving into or out of the count.

The volatility in private sector unit approvals has been largely driven by the 'high-rise' segment - those dwellings in buildings with four or more storeys - having collapsed circa 50% to a new post-GFC low in June before almost tripling in July. Currently, 'high-rise' approvals are around 2019 levels.

Moves in 'low-mid rise' units are up 6.9% over the past three months. State governments in NSW and Vic are using zoning and other policy levers to actively encourage this type of building, which our own survey information suggests is in strong demand from prospective buyers at the moment. The resilience in this segment may not reflect these measures just yet but may reflect a wider industry view that this form of housing is becoming more favoured.

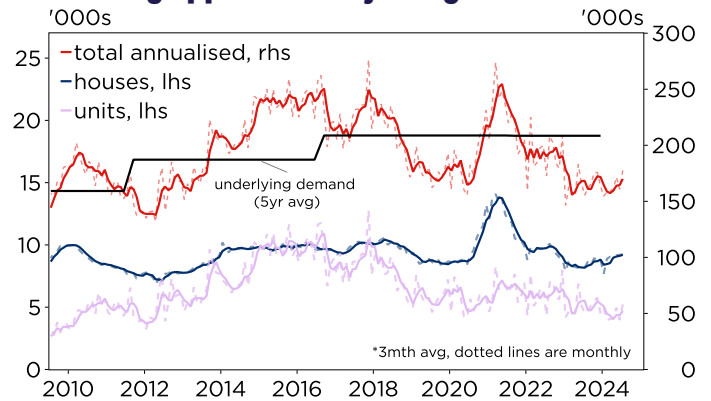
Meanwhile, it has been encouraging to see a continued uptrend in private detached house approvals - a more stable segment that tends to be more indicative of underlying trends. Approvals in this segment lifted 0.6% in July and are now 13.1% over the past year.

Building approvals – July 2024

3mth avg	latest	3mth %chg*		%yr	
		Jun	Jul	Jun	Jul
Private houses	9,208	6.8	2.6	11.4	12.6
Private units	4,722	0.5	16.8	-21.0	-14.5
Public dwellings	238	-4.2	-11.4	-25.1	-27.8
Total dwellings	14,167	4.5	6.6	-2.1	1.0
Total dwellings, mthly*	14,797	-6.4	10.4	-3.4	14.3
- units in 'high rise'^	2,287	-31.8	17.7	-40.5	-27.5
- units in 'low rise'^	2,519	13.7	6.9	-0.9	0.5
Renovations, \$bn	1.128	7.2	2.1	11.5	8.0
Non-res., \$bn	4.862	4.9	-5.0	-29.1	-34.9

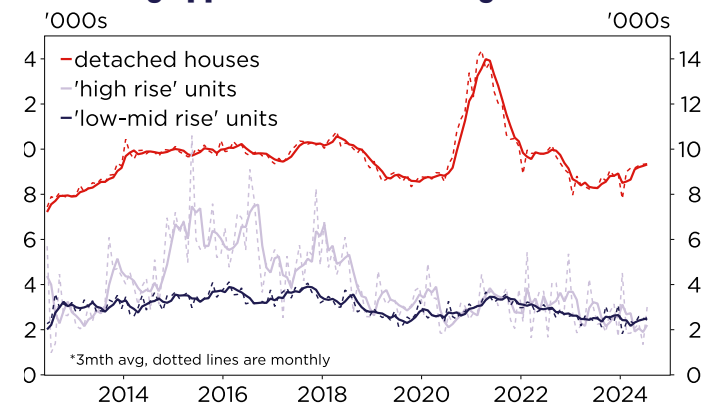
*figures for 'total dwellings mthly' are monthly and mthly%ch, all others are rolling 3mth avg and 3mth%ch; ^all sectors, Westpac estimates
Sources: ABS, Westpac Economics

Dwelling approvals: major segment



Source: ABS, Macrobond, Westpac Economics

Dwelling approvals: detailed segment



Source: ABS, Macrobond, Westpac Economics

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High-rise swings in NSW & Vic as WA forges ahead

Given how much of July's gain was driven by 'high-rise' unit approvals, it is not surprising to see that the states where most of these projects are located recorded the strongest gains in the month, NSW and Vic up +25.2% and +20.1% respectively.

Most of the other states recorded an increase as well, including SA (+9.9%), Tas (+8.0%) and WA (+1.9%), with Qld being the only state to record a decline (-5.0%).

It is once again worth emphasising the scale of the upturn of total dwelling approvals in WA, currently tracking a breathtaking annual pace of +74%yr, having showed few signs of slowing thus far.

Renovations and non res building approvals

The value of renovation approvals pared back from June's historic high, falling -6.8% in July. Despite the monthly volatility, the quarterly pace remains solid at 2.1%qtr. Meanwhile, the value of non-residential building approvals increased +3.2% in the month, failing to fully recover from the sizeable -15.1% decline from June.

Note the cost escalation will be a factor in both of these approval measures. For renovations, that points to flatter underlying 'volumes' of work approved while for non-residential building it implies outright declines.

Average approval value continues to tick lower

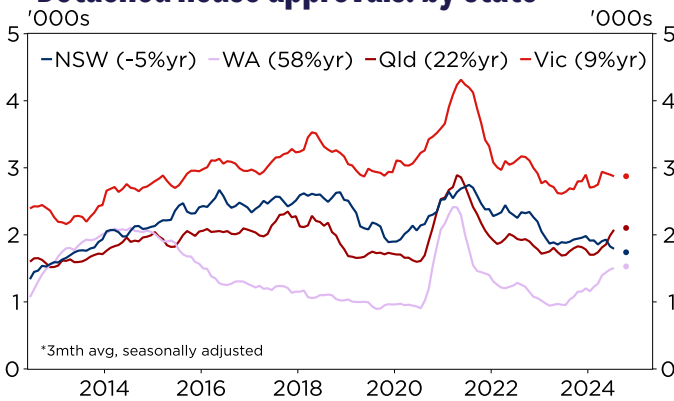
One aspect of the approvals data we have been keeping half an eye on in recent months is the average value of dwellings approved, for detached houses in particular.

This surged 20% when the cost-of-living crisis erupted in 2022, capturing the sharply higher cost of raw materials (steel and timber especially) and the sector's wider profitability issues stemming from fixed price contracting.

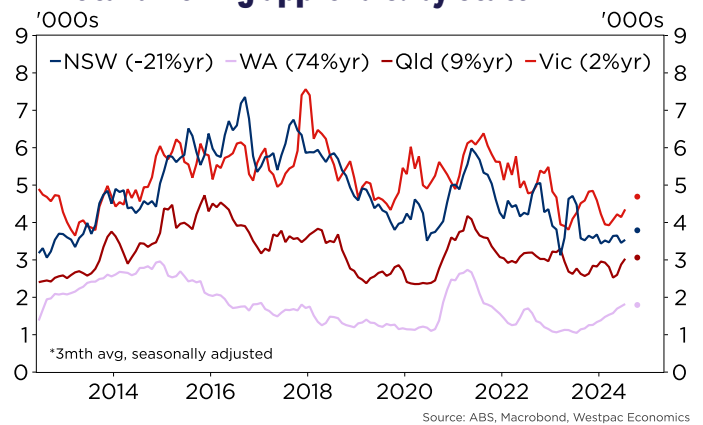
The latest update shows that cost pulse continues to unwind, the average value of houses approved easing to an annual pace of 3.0%yr in July from 3.2% in June.

This does not map perfectly to the house purchase costs in the CPI, but it does suggest this component may have seen a further step down in price momentum in the period ahead.

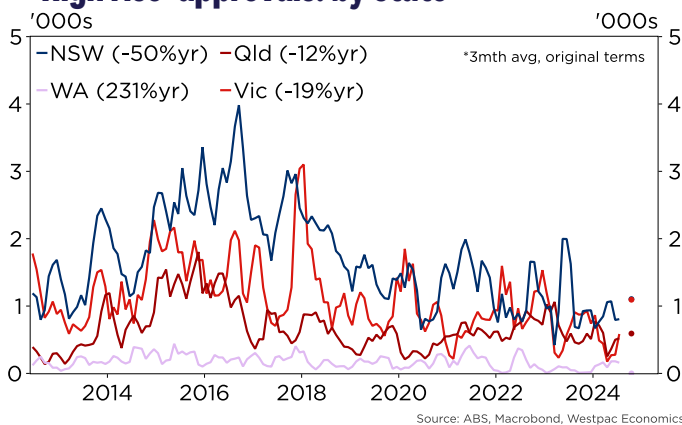
Detached house approvals: by state



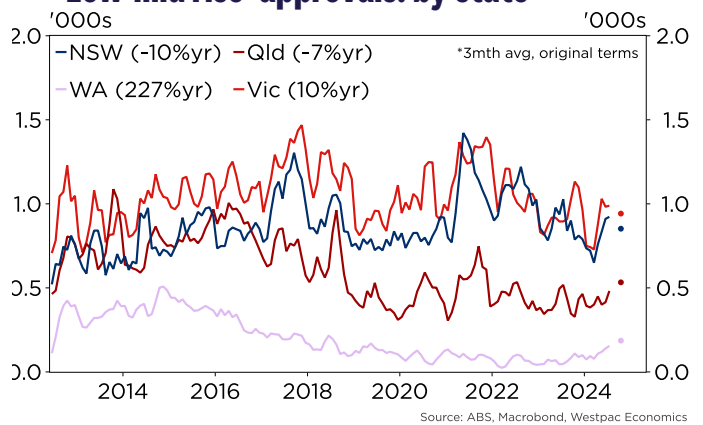
Total dwelling approvals: by state



'High rise' approvals: by state



'Low-mid rise' approvals: by state



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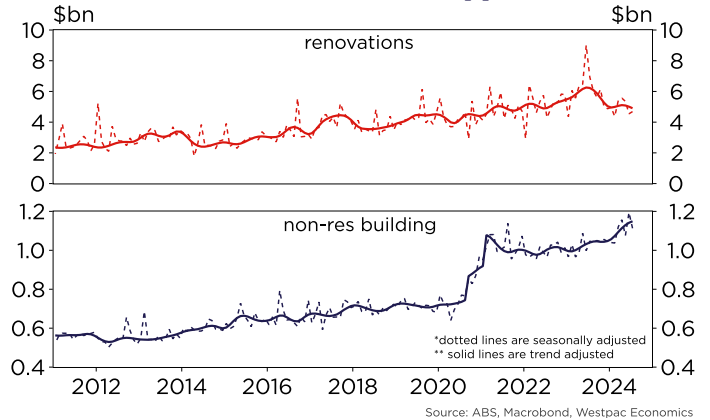
Conclusion

Overall, July's update marks a continuation of recent themes, albeit with a little more volatility in the mix associated with high-rise unit approvals.

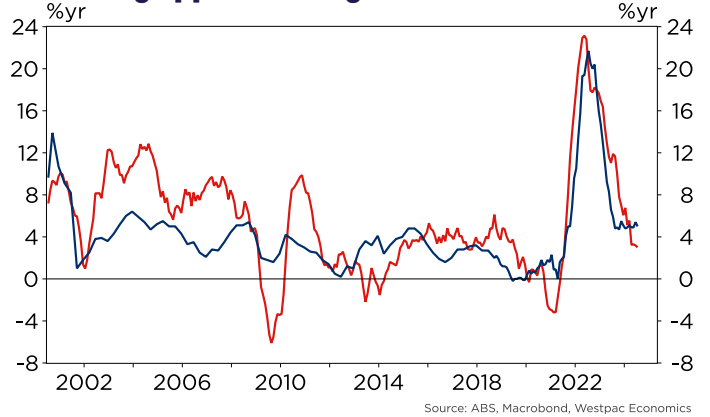
There are some promising signs with respect to private detached house approvals, and to a slightly lesser extent, 'low-mid rise' unit approvals. Each of these segments are coming off a weak base however, and are still broadly tracking a range comparable to the lows from twelve years ago.

In this context, the front-end of the pipeline is still considered to be in a weak state, highlighting the risk that building activity could fall off significantly as backlogged projects move to completion. While there is still time before such risks would eventuate given the sizeable pipeline of existing projects, the demand for extra housing capacity remains significant. At this early stage, there remains considerable uncertainty around whether the Housing Accord's ambitious targets could be met based on current trends.

Value of renovation & non res approvals



Dwelling approvals: avg value





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