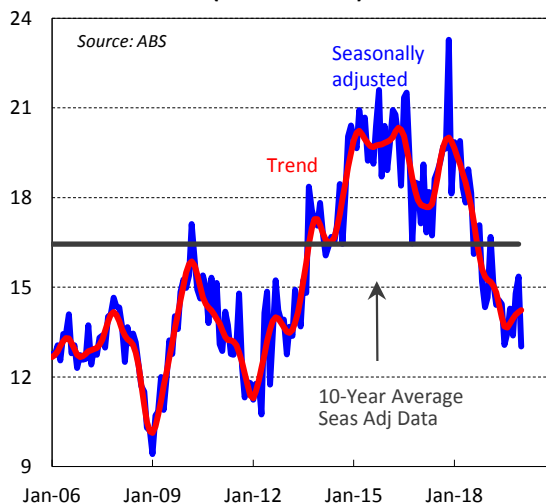


Tuesday, 3 March 2020

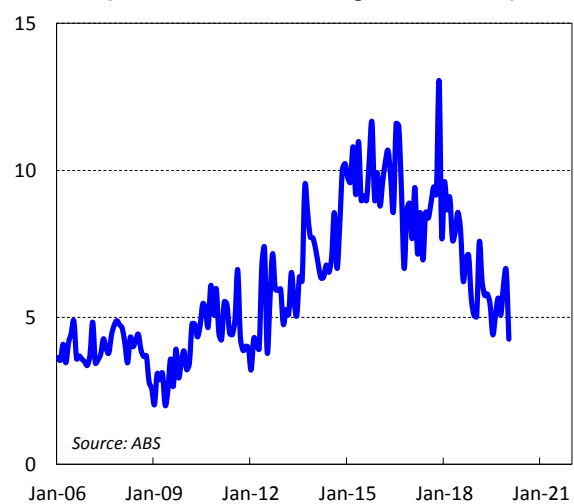
Building Approvals High-Rise Doubts

- Building approvals had appeared to be forming a bottom in recent months, but today's data threw the cat among the pigeons.
- Building approvals fell by a sharp 15.3% in January, which is the biggest monthly decline in 2 years and more than undoes the two months of gains over November and December.
- There is a dichotomy opening up in the data. Building approvals for detached housing in the private sector rose 0.3% in January, representing the third consecutive month of improvement. But building approvals for "other" dwellings, that is multi-density dwellings (includes high-rise apartments) fell by 35.5% in January, the deepest fall since December 2017.
- The fall in multi-density approvals was driven by a sharp drop in building approvals for this segment in Victoria. Building approvals for this segment fell 67.8% in January in Victoria, after a spike of 96.5% in December.
- We expect building approvals in detached housing and low-rise-density dwellings to continue to improve, but building approvals for high-rise dwellings will struggle, especially with the current debt coverage requirements.
- Anecdotes suggest greenfield development enquiries have lifted in recent months, but this has not yet translated into sales. Uncertainty remains high for developers.
- Concerns over cladding and structural issues of high-rise apartments in Melbourne and Sydney are also likely to continue to have an impact on dwelling approvals and development.

Number of Building Approvals
(In Thousands)



Number of Building Approvals
(Private Sector Other Segment, in 000's)



Underlying Trends

Building approvals had appeared to be forming a bottom, but today's data threw the cat among the pigeons. Building approvals fell by a sharp 15.3% in January, which is the biggest monthly decline in 2 years and more than undoes the two months of gains over November and December of last year. The annual rate of change also turned negative again; on a year ago, building approvals fell 11.9%, after the first return to annual growth in December in 18 months.

Approvals data is very volatile month to month. In trend terms, which smooths the data, building approvals lifted by 0.5%, which is the fifth consecutive monthly improvement.

However, there is a dichotomy opening up in the data. Building approvals for detached housing in the private sector recorded a gain of 0.3% in January, representing the third consecutive month of improvement. But building approvals for "other" dwellings, that is multi-density dwellings (includes high-rise apartments) fell by 35.5% in January, the deepest fall since December 2017. This fall was driven by a sharp drop in building approvals for this segment in Victoria.

We expect building approvals in detached housing and low-rise-density dwellings (especially boutique developments) to continue to improve, but building approvals for high-rise dwellings will struggle, especially with the current debt coverage requirements. Anecdotes suggest enquiries for greenfield developments have lifted, but at this stage it has not translated into a recovery in sales. There remains a lot of uncertainty for developers.

Concerns over cladding and structural issues of high-rise apartments in Melbourne and Sydney are also likely impacting building approvals for this segment.

By State

The detail by State reveals that the January result was heavily influenced by a sharp contraction for building approvals in multi-density for Victoria. Building approvals for this segment fell 67.8% in January, after a spike of 96.5% in December. Dwelling approvals for detached housing rose by 5.3% in the month, underpinned by demand for owner-occupier housing.

Building approvals also fell in South Australia and Western Australia in January, by 10.9% and 6.0%, respectively.

The gains were led by QLD. Building approvals rose 8.7% in the Sunshine State in February with approvals for the other segment up 44.5%.

NSW and Tasmania also recorded growth in February. NSW building approvals lifted by 3.6%, but a fall of 5.4% was recorded for housing while a rise of 14.5% was printed for other. Building approvals lifted by 0.4% in Tasmania in the month.

Outlook

Greenfield enquiries have risen, but this is not yet translating into a lift in sales or building approvals. With the high-rise sector beset by concerns over cladding, structural issues and tighter debt coverage requirements, this sector might struggle to recover in the near term, despite the upturn in unit prices.

Detached housing and low-rise boutique apartments should continue to see a recovery in building approvals, reflecting greater optimism in this space and also the recovery in dwelling prices and dwellings demand.

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The Detail

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