

RESIDENTIAL APPROVALS GAIN MORE MOMENTUM

The number of residential building approvals in Australia hit a recent high in 2014, an increase of 15% above the previous year's total and 41% above the average for the previous 10 years. Is this an oversupply?

The growth in residential approvals has largely been driven by an increase in apartment approvals (albeit approvals for houses are also at an annual high), consecutively hitting over 50% of all approvals for the past three years, and growing gradually since 2009. This was not just a phenomenon for one or two capital cities. Sydney, Melbourne, Brisbane, Perth and Adelaide all recorded peaks in residential apartment approvals, significantly above the levels recorded over the past decade.

For the past two years (2013 and 2014) the total number of apartment approvals has averaged close to the 70,000 mark, with the preceding 10 years averaging some 30,000 per annum less, at around 42,500. This spike in residential approvals aligns with a similar spike in both residential apartment values and residential apartment sales. Since this time two years ago (Dec 2012 to Dec 2014), the average Australian apartment value has increased to \$448,500, or growth of 13%, while the number of sales has grown to 151,200, which is a 19%

increase during the same period. This suggests that apartment approvals (and most likely developers) are playing catch-up with demand.

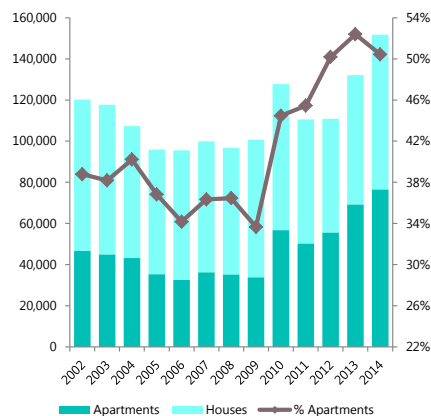
Although most of Australia's Capital Cities are experiencing record levels of apartment approvals, the market is still very much dominated by Sydney, Melbourne and Brisbane. These three Capital Cities amassed 82% of all approvals over the past two years.

The natural follow up question to figures which show apartment approvals (and to a lesser degree housing approvals) massively outnumbering recent historic trends is the question of oversupply. However if we look at the gap between cumulative housebuilding and

cumulative population growth over the period from 2002, then that gap is clearly widening (see Figure 3). Albeit not every new addition to the population requires a residential unit, however increasing population rates and stable supply levels indicates which way the demand and supply pendulum is balancing.

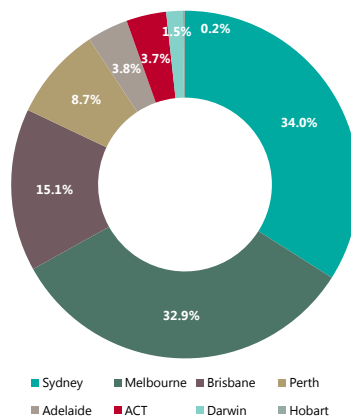
On a national basis it appears that not enough housing was being approved and built, hence why values are still rising, albeit supported by historically low mortgage rates and strong investor demand. Understandably, and importantly for developers and investors alike, housing supply and demand is not just a national macro issue. To say that there is a broad undersupply of housing can be regarded as generalised and risky, as micro markets need to be analysed before diving into Australia's housing markets.

FIGURE 1
Residential Building Approvals



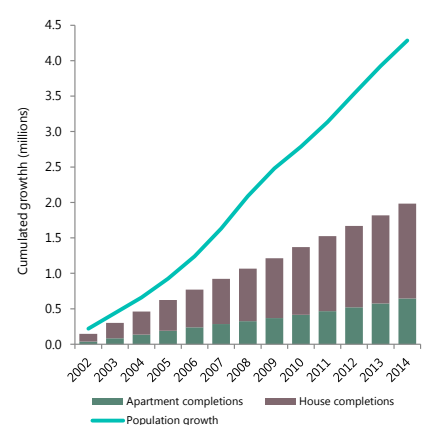
Source: Knight Frank, ABS

FIGURE 2
Apartment Approvals by City 2013-14



Source: Knight Frank, ABS

FIGURE 3
Undersupply of Housing



Source: Knight Frank, ABS



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For more information or if you require property due diligence or detailed residential market assessments, including socio-demographic profiling, supply and demand forecasts, competitor profiling, price point identification and development recommendations, please contact Paul Savitz or Luke Crawford to discuss your research requirements.

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