

Home Construction Economic Outlook - Some Bright Points Amid a Sea of Gloom

By Justin Cotton, partner and head of practitioner advocacy, Lovegrove Solicitors

While the trend of low construction activity in the residential sector is set to continue in Victoria, there are some heartening signs for the industry that nevertheless may take some time to act as a booster. New home construction remains mired in low volume in the State, with no dramatic turn-around foreseeable on the horizon, but on the other hand home renovation figures are doing quite nicely.

These were some of the economic signposts discussed at the HIA breakfast held at Crown in the last week of February. Attendees that had peeled themselves out of bed at such a crisp hour may have been hoping for slightly rosier economic forecasts, however it was also stressed that it was not all doom and gloom and there were some positives that needed to be focussed upon. There were also a couple of surprises in the mix, but not necessarily always for the better.

After years of high residential construction activity, followed by a period of lessened but still strong patterns that saw Victoria responsible for around 40% of residential starts with only 25% of the national population, things have now swung the other way quite dramatically. Amid improved residential building across Australia, Victoria has declined in new home construction to a point where it is now dragging on the figures nationally.

There was some discussion at the start of proceedings, of a lack of incentivisation presided over by the current State government. Just one example could be the end to the first home buyer's grant that was wrapped up in mid 2012. (The writer was indeed fortunate to buy his first home just a few months before the cut off point). Coupled with high levels of stamp duty, the end to economic incentives like the first home buyer's grant can only have a negative impact on housing activity.

With the trend towards more inner city apartment living and a decline in the spread of suburbs outwards, this could have another impact on new home construction. Interestingly, the HIA's chief economist Mr Dale noted in his address that new home renovations were on the increase, so the news is not all bad for domestic builders. That was one positive to look at, another was the reduction in interest rates on many occasions (some of which have actually been passed on by the banks), and this could well incentivise new home construction starts. The problem is that this is not yet translating to any upward trend in new home starts.

So what is the reason for public / consumer caution? It appears there could be a

myriad of reasons for a lack of confidence, almost as a hangover of the GFC and the knowledge of poor global economic conditions. As the economist explained, where people have more concern about their jobs and their financial futures, they will be less likely to spend up large. This is after all a 'two speed economy', even though mining also now seems to be slowing. It is not a recession, but it is not a domestic economic paradigm that encourages spending and investment.

On the figures presented the Retail sector does not appear to be performing as poorly as people seem to think, but retail expenditure is strongest in areas such as restaurants and lower cost consumer items, rather than large expenditures. This may also partly explain why renovations are doing better than new home construction.

On the high Australian currency, despite what you may hear in other quarters, the HIA economist considered it likely that the Australian dollar will remain strong for some time yet. This is good for overseas travellers of course, and it was proffered that part of the reason will be down to stagnant international economies that keep the Aussie dollar (and indeed the Kiwi dollar) at strong levels.

Come to think of it, there is no compelling evidence of macro economic features that must separate Victoria from other Australian States and territories. NSW has been viewed as being flat for construction for several years, but there are recent signs of a turn-around in domestic construction there and in other States. Even though Victoria is now seen as 'dragging the chain' a little in the construction statistics, if we look at the nationwide figures there is cause for optimism that Victorian new home starts will eventually recover.

Many economic weathervanes can be something of a 'double edged sword'. Low prices in the market for new homes coupled with lower interest rates is positive for buyers, but the news is not good for those looking to develop and sell. These weathervanes are also usually cyclical and the current trough should at some point start to trend upward.

The earlier part of the HIA breakfast featured an address from the venerable Lord Mayor, Robert Doyle. In an engrossing presentation, he discussed the benefits of Melbourne continuing to experience population growth (perhaps to as high as 6-7 million) but doing so in a smart and considered way. There was no point, he stressed, in building new suburbs or subdivisions disconnected from transport and other infrastructure and disconnected from employment opportunities. He cited Broadmeadows as a suburb that has turned things around for the better, whereas previously it had been set up with almost no forward planning, resulting in a host of social problems in the 1950s and 1960s. On the other hand, the Lord Mayor considered that outward growth in Melbourne is now trending toward the western corridor between Melbourne central and Geelong - this is the future as he sees it for

growth, and makes sense because of the existing rail network between the city and Geelong and the job opportunities in both centres.

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