



Chronic housing shortage a myth

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AUSTRALIA is building too many houses.

Now, there's something you don't see written very often. It runs contrary to the song the developer lobby has been singing, repeatedly, for several years.

But it's an argument that needs to be considered by anyone interested in facts rather than propaganda from vested interests.

Independent property analyst Michael Matusik believes we are moving more towards oversupply than shortage in housing and I agree with him. I have never believed the industry rhetoric about "a chronic housing shortage crisis".

His argument includes the observation that Australia's population growth has slowed markedly, with a 100,000 drop over the past 12 months. As a result, he says, the underlying demand for new housing has dropped from 180,000 starts a year to about 125,000.

On this basis, he says: "We are now building too much stock."

Building industry groups keep claiming an under-supply because they overestimate "underlying demand".

Media keeps reporting these claims as fact, but in reality they're guesses.

Whether deliberately (for political reasons) or through incompetence, industry lobby groups keep publishing inflated estimates of underlying demand — which,

they claim, is more than the number of homes actually being built.

But Matusik calculates we have the opposite situation. And I think all the evidence suggests he's right.

"Unless new housing starts decline in earnest or population growth accelerates, Victoria, South Australia, Tasmania and the Northern Territory face an oversupply," he says. "Perth and Canberra are better positioned, with Queensland currently at equilibrium and NSW undersupplied."

Melbourne and Victoria are an example. Although the developer lobby keeps making spurious claims of shortages, all the facts point to an existing oversupply in key market areas and a looming oversupply in others. Wyndham City, which encompasses the outer southwest of the Melbourne metro area, is now the No 1 population growth area in the nation and a key target for new home building. It now has a major oversupply, because developers are drawn to these growth areas and build too much new stock (as they've done in the three highest population growth areas in Queensland — the Gold Coast, the Sunshine Coast and Fraser Coast — which are also the three worst performers in the state for capital growth, because of the over-supply).

Many of the suburbs of Wyndham City have 10 per cent vacancy rates and developers who continue to build new product are selling their house-and-land packages to investors in China.

A recent report by the government development entity VicUrban confirms that building of new houses in the outlying areas of Melbourne is "excessive".

There is also a looming oversupply of apartments in inner-city Melbourne.

Investors need to be very care-

ful here. Thousands of units are under construction and there's considerably more in the pipeline.

"Much of Victoria's potential pain lies in Melbourne's inner-city apartment boom, which has seen an unprecedented proportion of the state's new dwelling starts go to apartments," Matusik says. "This mostly speculator-fuelled surge has provided some very misleading media headlines of late about the rise of apartment living and how it is becoming the new Australian dream. Two-thirds of Australians continue to buy a detached dwelling."

Andrew Wilson, senior economist for Australian Property Monitors, has published figures which support this viewpoint. He says record numbers of building approvals for units in Melbourne are being converted into actual projects. "This is despite concerns in some quarters that approved developments were failing either to gain finance or to secure enough off-the-plan presales for construction to commence," Wilson says.

"In the March quarter, 5168 units commenced construction — second only to the record set in the September quarter last year for 5998 unit commencements."

Wilson says that in the 10 months between July last year and May, 20,213 units were approved for building in Melbourne. Of these, 9532 units, or nearly half, are planned for the inner-city.

This does not depict "Melbourne's love affair with inner-city living", as some reports have claimed. This describes a looming oversupply that will drag down values and destroy the capital growth plans of investors.

The new government in Victoria is likely to exacerbate the problem with plans to open up new

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inner-city areas for residential development.

Ted Baillieu's administration has swallowed the developer lobby line that there's a serious shortage and appears hell-bent on addressing a problem that doesn't exist.

It's great for developers but bad news for investors buying off-the-plan. But it's not only Melbourne with a problem.

Matusik notes that, last year, Queensland's underlying demand for new dwellings fell to 29,000, down from 47,000 two years before.

There were 31,000 new homes built across the state during 2010.

Matusik warns the new Queensland Building Boost will exacerbate problems in the market.

This provides a \$10,000 grant for buyers building or buying a new home.

"We anticipate the need to build only 12,500 new dwellings across Queensland over the next six months," he says. "This low number reflects declining population growth and low business/consumer confidence.

"The boost — if it goes to the government's plan (i.e. 14,000 new starts between August 1 and the end of January next year) — could more than double our projected

forecast."

This, he says, will further distort the Queensland building cycle.

Right now, there are many good reasons why investors should be considering a move in this buyers' market. But these reasons do not include a chronic shortage.

Those who believe this myth and buy in the wrong areas face a bleak future.

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MARK SMITH, CHANNEL 10

An independent property analyst believes Australia is moving more towards oversupply than a shortage in housing, and nowhere more so than in Melbourne