FINANCIAL REVIEW

Housing construction is collapsing around Australia. Here's why

Developers can charge buyers more, or the costs can come down to make apartment developments viable.
It's clear which is better.

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Unlike most housing precincts in Australia, Bondi has no shortage of residential construction work.

Two cranes mark the horizon. In one stretch of Ramsgate Avenue, I can walk past an extensive apartment block remediation, the full restoration of a 1920s flat building, a new dual occupancy and a small unit project.

A crane over Sydney's Bondi Junction. The construction cost alone on a new Sydney apartment is about $650,000.
Kate Geraghty

These boutique projects do nothing to tackle Sydney's housing shortage. Nor are they affordable. But they do demonstrate that projects, if viable, will proceed.

That is the rub. The collapse in new housing construction around Australia is because so many projects are simply unviable.

The end sale prices, or the forecast rents, don't cover the cost of the land, the price of construction, the finance charges, the planning challenges and the myriad government fees and taxes.

This means prices or rents must rise – happening, but hardly a worthwhile ambition – or governments need to find nuanced ways to reduce each of the supply-side costs.

CoreLogic's research director, Tim Lawless, noted this week that despite negatives, such as worsening affordability and the higher-for-longer mortgage rate outlook, house prices were being propped up by a mismatch between supply and demand that "doesn't look like it will change in the new future".

Today's graphs, from national property consultants Charter Keck Cramer, show just how far new apartment supply has fallen below underlying demand.

The numbers are even further below what would be required to meet the Albanese government's target of 1.2 million new homes over the next five years – an ambition that increasingly looks like Bob Hawke's impromptu promise that "by 1990, no Australian child will be living in poverty".

In Sydney, the Albanese target would require an "off-the-chart" 35,000 new apartments each year, according to Charter Keck Cramer directors Richard Temlett and Brendan Woolley.

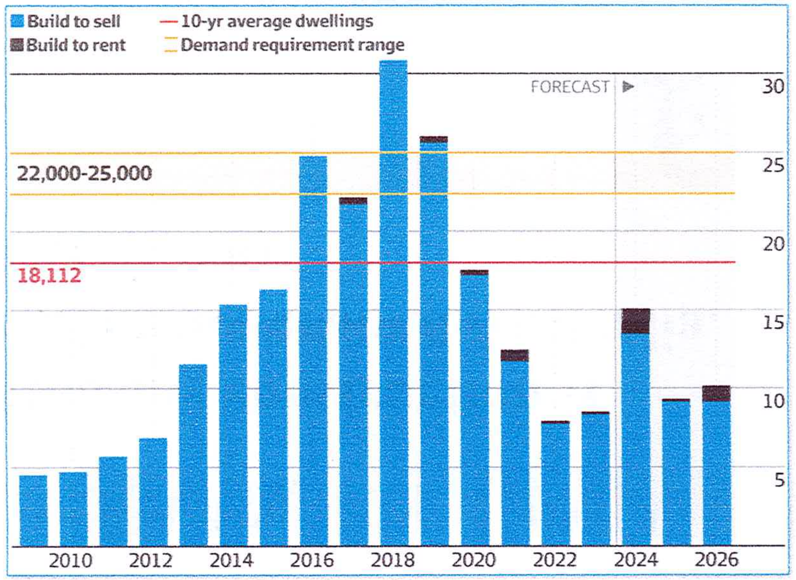
They put the feasibility challenge quite simply. "Building costs have risen 40 per cent to 60 per cent. Buyers are being asked to pay 30 per cent more, and they can't do it."

Temlett and Woolley note that the nascent build-to-rent sector also faces challenges with the cost of capital increasing as interest rates rise, as well as concerns among investors about planning and construction risk.

The 12 property analysts and economists polled for *The Australian Financial Review*'s recent quarterly property survey noted the lack of feasibility in new housing.

Apartment supply v demand balance ('000s)

Sydney



Jarden's chief economist, Carlos Cacho, points to the gap between the prices buyers are "willing and able to pay" and the prices needed to make new development feasible.

"While efforts to cut red tape, increase densities around transportation hubs and generally make the development of new housing easier are a positive, we don't expect them to make a material difference until affordability improves," he says.

Sameer Chopra, the Pacific Head of Research at global real estate giant CBRE, says new construction is largely restricted to precincts such as Bondi, where higher sale prices, at least $15,000 a square metre, or $1.2 million for an average 80-square-metre new apartment, can absorb the construction costs.

"When prices have corrected higher, and interest rates are falling to improve affordability, we expect more supply to return to the market but this is unlikely to be significant until the end of the decade," he says.

The Urban Development Institute of Australia has just looked at 70 NSW housing projects that are approved but not proceeding.

> **There are DA approved projects all over Sydney that are not commercially viable because of the new development charges and taxes.**
>
> — Solido Capital's Michael Corcoran

"Half are stuck," says the acting NSW chief executive of the UDIA, Gavin Melvin, because on current feasibilities, the projects don't make sense and can't gain finance or deliver the required rate of return for the developer.

The construction cost alone on a new Sydney apartment is about $650,000 according to the UDIA. Add in the costs of land, finance, planning delays, and government charges, and most new apartments don't stack up when the median sale price of all units across the city, on the CoreLogic numbers, is $844,000.

The problems with supply extend to detached housing in the outer suburbs which, although out of favour with many planners and politicians, remain a popular choice for many.

Nigel Satterley, Australia's leading private land developer, says that during the 2010s, about 50,000 lots were created around the country each year. Today, the figure is about 30,000.

"Without lots, you can't build homes," he says.

Governments, of course, are trying to meet the housing challenge.

On Wednesday the Albanese government dealt with one aspect of the cost of capital, with *reforms that will allow foreign investors* to buy existing build-to-rent properties.

The Property Council's group executive, policy and advocacy, Matthew Kandelaars, welcomes the move but notes that another aspect of foreign investment, the proposed changes to the managed investment trust withholding rate for build-to-rent, need to be handled well, or the opportunity to create an extra 150,000 rentals, and 10,000 affordable rentals by 2033, could be wasted.

Labour costs are high on the agenda. Housing Industry Association managing director Jocelyn Martin warns of an "acute shortage" of skilled tradespeople compounded by government spending on sectors such as energy and transport infrastructure.

"The government needs to address this shortage, through either financial incentives – like maintaining the national Priority Wage Subsidy for apprentices – or through addressing weaknesses in the skilled trade visa system," she says.

Planning reform has also been a focus. This week, the NSW government opened the way for increased housing density around 18 key transport nodes.

Government taxes and charges

But what about government taxes and charges? While much work has gone into planning, the Minns government has also increased infrastructure charges and building costs.

Each charge has a logic. The extra $20,000-to-$30,000 cost to meet the new National Construction Code should make homes more sustainable, to a minimum 7-star standard, and more liveable for those with disabilities.

(Similar NCC upgrades come into force in Queensland and Victoria this week, and Master Builders Queensland warns of "significant costs and technical challenges".)

In Western Sydney, the new imposts add as much as $110,000 to the cost of a new house and $84,000 to a new apartment, according to the UDIA.

"There are DA-approved projects all over Sydney that are not commercially viable because of the new development charges and taxes," says Michael Corcoran, a former UDIA national president, and now Solido Capital executive director.

"The government is not collecting any infrastructure charges if nothing is being built."

Corcoran says the short-term solution is tax reductions.

"In 2011, the new O'Farrell government listened to the industry and to the market and restarted supply, not with planning reforms but with the reduction in levies and charges," he says.

“New housing supply boomed, house prices fell or stabilised, and the government started collecting infrastructure charges again.”