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NEWS RELEASE

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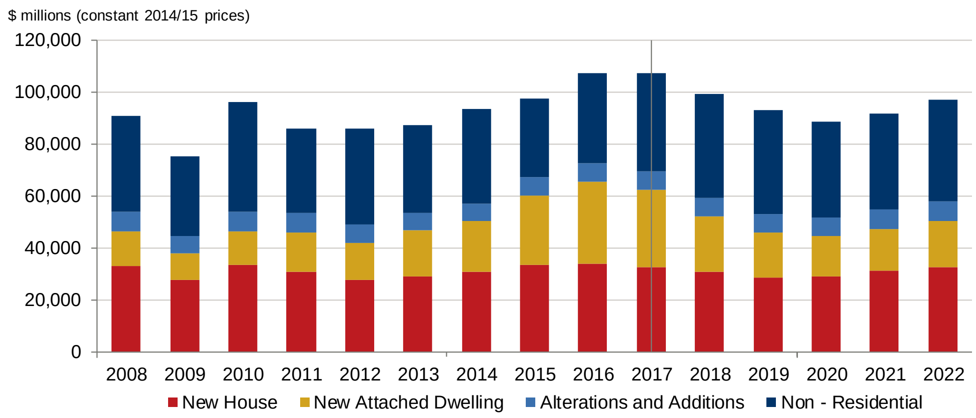
Australian Building Market Set for Three-Year Decline; Challenges for Industry and Broader Australian Economy Ahead

- *Residential starts to fall 31 per cent as key markets move into oversupply*
- *Non-residential building commencements to peak in 2017/18 before also easing*
- *New investment drivers required to sustain economic growth*

Sydney, Australia, August 10, 2017 – Australia's building market – one of the recent pillars of growth in the national economy – will shift into reverse over the next three years led by a collapse in residential starts, according to leading building market analyst and economic forecaster, BIS Oxford Economics.

In its ***Building in Australia 2017-2032*** report, launched today, BIS indicates the value of national building commencements peaked in 2015/16 at A$107.3 billion (in constant 2014/15 prices), up 22 per cent in real terms since the end of the resources investment boom in 2012/13. While a similar value of commencements is estimated for 2016/17, the report forecasts a cumulative 17 per cent decline in the real value of commencements over the three years to 2019/20.

Figure 1: Value of Total Building Commencements
Constant 2014/15 Prices, $Millions

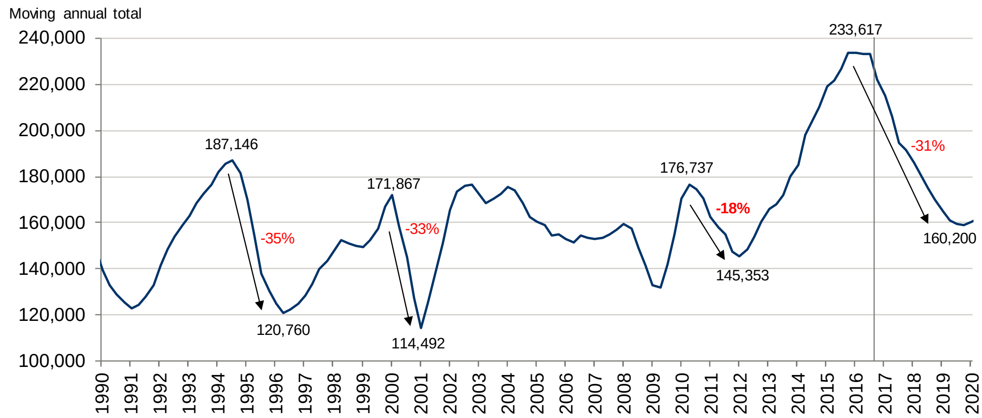


Source: ABS, BIS Oxford Economics

"The record breaking residential building boom is already turning, offsetting growth in starts for non-residential building through 2016/17," said Adrian Hart, Associate Director of Construction, Maintenance and Mining at BIS Oxford Economics. "Over the next two years, the fall in residential building starts will accelerate sharply, particularly in the investor-driven apartments segment, as supply catches up to underlying demand."

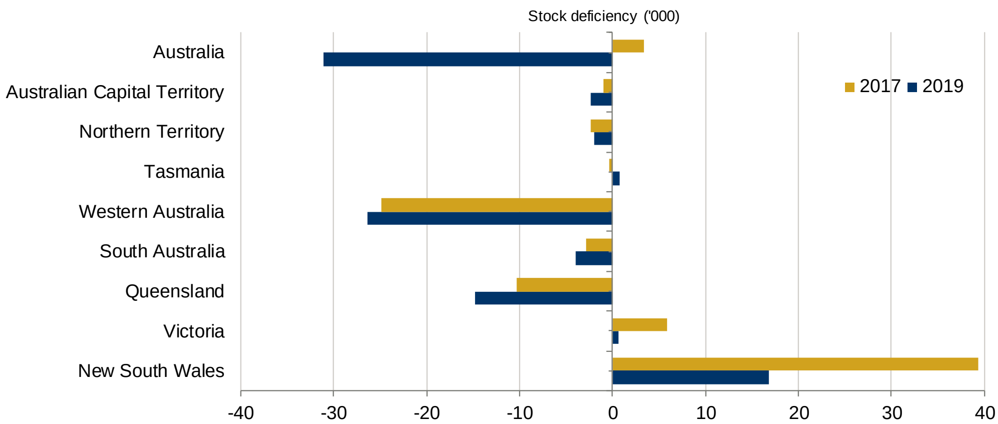
"BIS expects the total residential market to fall by around 31 per cent over the next three years, but the decline in the number of private high density apartments getting underway nationally will be closer to 50 per cent. Overall the slump will be similar in percentage terms to the residential downturns in the mid-1990s and the introduction of the GST in 2000/01."

Figure 2: Number of Dwelling Commencements



Source: ABS, BIS Oxford Economics

Figure 3: Dwelling Stock Deficiency, Thousands



Source: ABS, BIS Oxford Economics

The BIS outlook for residential building activity is more bearish than that included in the 2017/18 Commonwealth Budget, as well as last week's Reserve Bank's statement accompanying its decision to keep interest rates on hold. In the statement, Reserve Bank Governor, Philip Lowe, said that the "current high level of residential construction is forecast to be maintained for some time, before gradually easing".

"It may not be as rosy as all that," said Robert Mellor, Managing Director at BIS Oxford Economics. "Our dwelling demand/supply analysis indicates that all states with the exception of Victoria and New South Wales are either in balance or oversupply," said Hart. "With dwelling completions running ahead of underlying demand over the next two years, Australia will swing to a significant national residential stock surplus by 2018/19 despite New South Wales still facing a significant stock deficiency."

"While high density dwellings do take longer to complete than traditional detached dwellings, when the end comes it will be very swift," said Mellor. "The high proportion of investor activity is another risk factor as investor sentiment can turn quickly. Overall, we expect 2017/18 will be the peak in high density residential completions, but that part of the market will slump around 50 per cent in the subsequent two years. By contrast, a milder decline is forecast for detached houses. The saving grace is that the floor in residential commencements is likely to be higher than in previous busts."

In contrast to the residential building market, BIS' *Building in Australia* report forecasts the value of non-residential building commencements to rise further in 2017/18 – following a cumulative increase of 25 per cent over the past two years.

"Improved economic conditions along the eastern seaboard are driving new commercial and industrial developments, particularly in New South Wales and Victoria," said Hart. "Offices, retail and accommodation commencements have been very strong, although the latter two segments will run out of puff in coming years given the project pipeline and fundamental demand drivers. By contrast, education and health segments are poised for further growth in commencements given a range of large tertiary education and hospital projects about to get underway."

However, the total value of non-residential building commencements is expected to ease later this decade, joining the downturn in residential starts.

"Except for a few sub-segments, the current upswing in non-residential building commencements is unlikely to be sustained over the next few years," said Hart. "Weaker prospects for growth in retail sales will see a narrower pipeline for retail projects, while a tripling in accommodation starts since 2012/13 may also push activity in this segment over the top, resulting in a correction. With the exception of offices, transport building (eg. railway stations and airport terminals), health and education, most other non-residential building segments are expected to experience flat or declining commencements activity over the remainder of the decade."

According to BIS, the looming downturn in building commencements presents a fundamental challenge to achieving the three per cent growth targets for the Australian economy outlined in the 2017/18 Federal Budget.

"The strong growth in building commencements since 2012/13 provided a welcome boost for the Australian economy at a time when resources-related investment and construction activity fell heavily," said Hart. "But with residential building activity in particular now set for a sharp decline – along with its multiplier impacts on industries such as construction, manufacturing and retail – the Australian economy will need new investment drivers to support growth and employment."

ABOUT BIS OXFORD ECONOMICS

Following the merger of Oxford Economics with BIS Shrapnel in March 2017, BIS Oxford Economics is Australia's foremost independent economic advisors and provider of industry research, analysis and forecasting services.

BIS Oxford Economics applies local methodologies and international insights within a fully consistent modelling framework to help clients better understand the markets and sectors in which they operate, by providing reliable and detailed market data, analysis of developments and drivers, and thoroughly researched forecasts.

Operating in Australia since 1964, BIS Oxford Economics provides strong sectoral coverage of the Australian economy, as well as expanded analysis across Asia with a specific focus on building, residential and commercial property, infrastructure and mining, transport, building materials, household appliances and products, forestry, and paper and packaging.

For more information please contact info@bisoxfordeconomics.com.au.

Further Details

This is the 37th annual **Building in Australia** report produced by BIS Oxford Economics. It provides a respected and independent medium-term assessment of the Australian building industry outlook. It contains demographic trends and detailed forecasts on the residential (housing, other dwellings), non-residential (commercial, industrial, social and institutional) sectors, and the alterations and additions market, by state. The report covers key drivers for housing demand, population trends, the outlook for building material costs, and the non-residential building cycle.