

# Rising rates to propel continuing housing downturn

**Robert Harley**

With the prospect of an interest rate rise in November, and another next year, leading forecaster BIS Shrapnel expects the national housing downturn to extend into its third year.

After a 4 per cent fall in housing starts last financial year, BIS Shrapnel expects another decline of 5 per cent in 2006-07, down to just 142,500 dwellings.

Senior project manager Jason Anderson said the expected 25 basis point rise in November, followed by another 25 basis points next June

would "extinguish the embers of recovery in national dwelling construction".

The Housing Industry Association has also revised its outlook for 2006/07 down to 149,000 starts because of the "delayed recovery" in NSW and Victoria, and land supply shortages in Western Australia.

And economics@anz is expecting 145,000 starts in 2006/07.

At the peak of the last cycle, in 2003/04, 172,000 new dwellings were started in Australia.

Mr Anderson said the housing downturn was taking place despite

strong population growth – particularly through overseas migration – that was pushing housing demand to around 165,000 starts a year.

"The surge in population gain through overseas migration has led to very strong demand for housing. Particularly, rental properties and rental markets throughout Australia are as tight as a drum," he said.

"With the supply of new dwellings decreasing, rental markets are set to tighten even further in 2007 and 2008."

BIS Shrapnel expects average rentals to rise 10 per cent a year in

2007 and 2008 – and by a cumulative 40 per cent in Sydney between now and 2010.

According to BIS Shrapnel's latest *Building Industry Prospects*, dwelling commencements will fall 3 per cent in NSW and Queensland this financial year, by 4 per cent in Western Australia, 6 per cent in Tasmania and 9 per cent in both Victoria and South Australia.

Mr Anderson said the downturn in investor demand would continue for new apartments in Victoria, but the price of residential land should support demand for detached houses.