

US overtakes Australia to build biggest homes

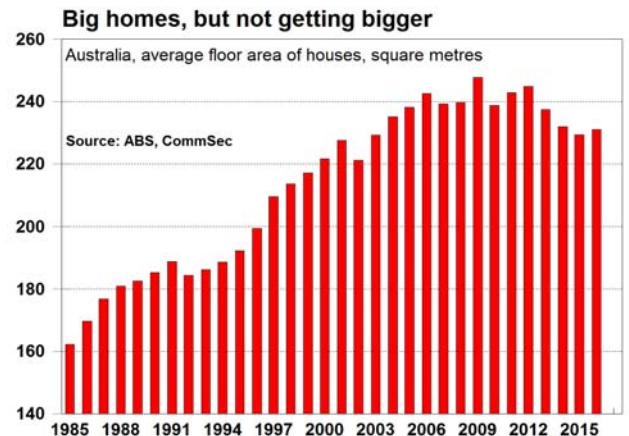
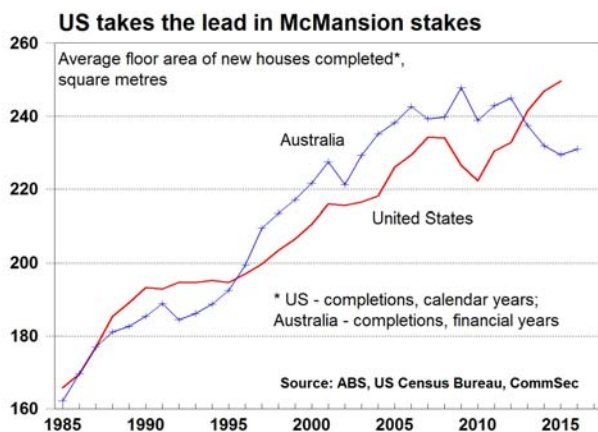
CommSec Home Size Trends Report

- Australia had been building the biggest homes in the world. But based on data commissioned by CommSec from the Australian Bureau of Statistics, Australia has been overtaken by the US.
- The average floor area of a new detached house built in Australia in 2015/16 was 231 square metres, down from a record 247.7m² in 2008/09. The US Census Bureau reports that the average size of a new single-family house in 2015 was 2,687 square feet (249.6m²) – 10 per cent larger than in Australia.
- The average new house built in Australia is still 10 per cent bigger than 20 years ago and in fact over 30 per cent bigger than 30 years ago (the 1986/87 financial year). But in recent years Australia has been building smaller homes and more apartments. At the same time more households have been formed.
- The fall in the number of people per home, lift in demand for smaller homes and increase in the number of households further justify the record amount of building, together with solid population growth.
- Victorians are building the biggest houses in Australia, ahead of Queensland and NSW.

The estimates of home size have implications for home builders, building material producers and home appliance retailers as well as developers, government department and local councils.

What does it all mean?

- Compared with 20 or 30 years ago, Australians could be regarded as building ‘McMansions’. Still, houses are not continuing to get bigger, having peaked around 4-5 years ago. The same can’t be said for the US. US houses built in 2015 were the biggest on record, and arguably the biggest in the world.
- Unfortunately there is no central reference source for the size of homes across the globe. Still, when we last looked at this issue in 2013, Australia and the US were building the biggest homes in the developed world. And now it seems to be clear that the US has pushed ahead in building even bigger homes while the size of new homes built in Australia have plateaued in recent years. European homes are far smaller than in the US or



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Australia, NZ homes are 7 per cent smaller than Australia, and latest data suggests that Canadian homes are around 10 per cent smaller than in Australia.

- The average new house built in the US last calendar year (latest available) was almost 250 square metres, around 10 per cent bigger than in Australia. The results were actually greeted with some consternation in the US in June when they were released. Particularly the fact that homes are getting bigger, but not lot sizes (*"The Shrinking of the American Lawn"*).
- Australian houses are still big, but they don't seem to be getting bigger on average. Still, the average new house is 10 per cent bigger than 20 years ago and around 30 per cent bigger than 30 years ago.
- And this is a point not picked up in discussion of home prices. Not only are homes far bigger than those built in the 1980s and before, but the standard of fit-out today is far superior with quality kitchens, bathrooms, floor coverings and inclusions like air-conditioners.
- Australians have also been shifting to smaller apartments. In 2015/16 more than 200,000 homes were built, up 37 per cent in the space of three years. But less than 60 per cent of homes built were free-standing houses, down from the long-term average of 70 per cent.
- Through the latter period of the 'noughties', the average apartment was around 140m². Today it is closer to 130m².
- The shift to smaller apartments may mean that more of them need to be built to house the growing population than if bigger houses were being built instead. In short, when considering issues like under-supply and over-supply, a range of issues need to be considered.
- Five years ago economists were baffled by the failure of home building to lift to the level of assumed underlying demand. However the "apparent paradox" was explained by structural change such as demographics and increased utilisation of Australia's large homes. Now household size is falling together with the size of homes being built. And if household size falls again to around two people per dwelling, then clearly more homes can be built without over-supply developing.

Houses built in 2015/16		
Average floor area		
State/Territory	Square metres	% change on year
NSW	227.4	-4.5
Victoria	241.1	3.1
Queensland	237.7	3.5
South Australia	202.4	-0.9
Western Australia	227.0	-0.8
Tasmania	188.1	3.2
Northern Territory	205.3	-4.4
ACT	180.8	-7.3
AUSTRALIA	231.0	0.7

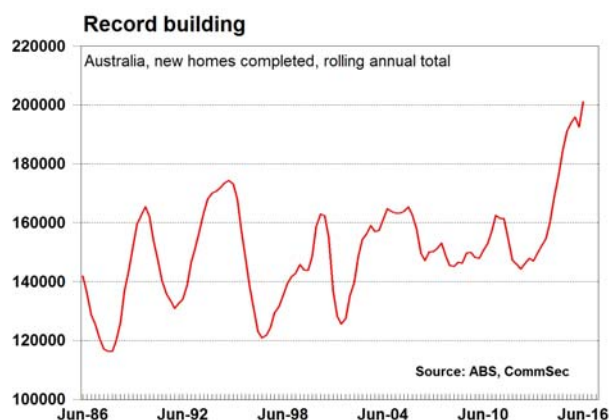
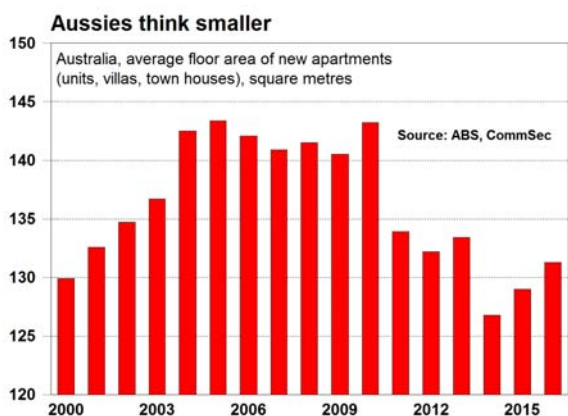
Source: ABS, CommSec

Apartments built in 2015/16		
Average floor area		
State/Territory	Square metres	% change on year
NSW	132.4	5.0
Victoria	134.7	-0.4
Queensland	128.0	2.2
South Australia	131.0	-4.2
Western Australia	128.3	-2.9
Tasmania	121.5	-4.1
Northern Territory	179.3	24.4
ACT	100.2	-0.5
AUSTRALIA	131.3	1.8

Source: ABS, CommSec

All new homes built in 2015/16		
Average floor area		
State/Territory	Square metres	% change on year
NSW	185.8	-1.0
Victoria	203.3	2.6
Queensland	195.4	4.2
South Australia	184.3	-2.3
Western Australia	205.0	-1.4
Tasmania	178.8	4.4
Northern Territory	193.4	13.2
ACT	128.1	-5.4
AUSTRALIA	195.4	1.6

Source: ABS, CommSec



What do the figures show?

Australia & US home completions

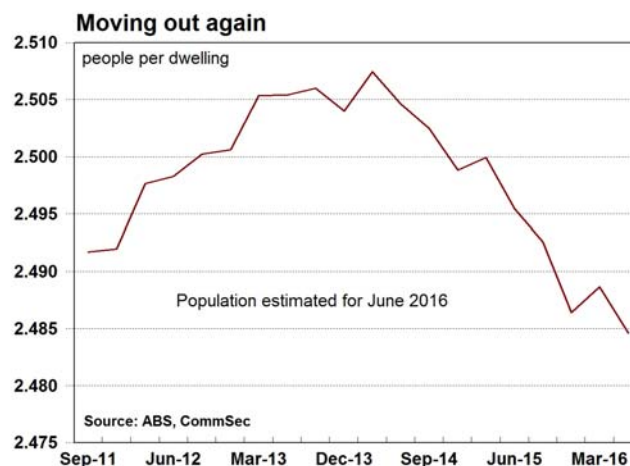
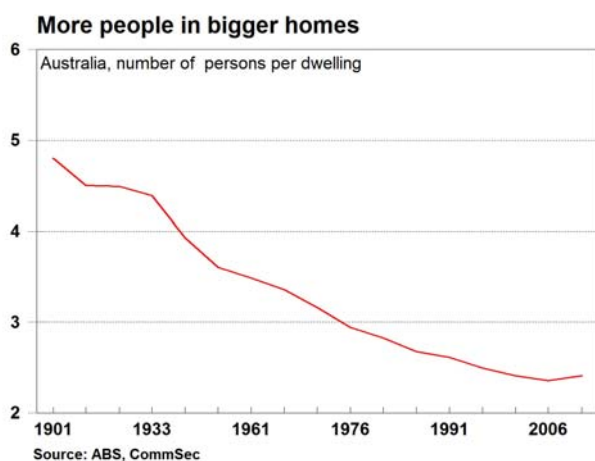
- CommSec commissioned the Australian Bureau of Statistics to supply data on the average size of new homes built in Australia. The last time that the ABS supplied information on average home size was in November 2013 for the 2012/13 year.
- The data supplied relates to the average size of new homes built – houses, apartments and the total of all homes. The ABS also indicates the proportion of homes built at the stated “average floor area”.
- The United States Census Bureau provides both median and average estimates of new homes built and also supplies similar floor area data on new homes sold.
- **In 2015/16, the average size of a new house built in Australia** was 231 square metres (m²), up from 229.4m² in 2014/15 but down from the record high of 247.7m² in 2008/09.
- **In the US, the average size of new single-family houses built in 2015** (latest estimate) was 2,687 square feet or 249.6 square metres. At the recent peak in 2011/12, the average house built in Australia had stood at 244.9m², just over 5 per cent above the US average of 232.7m².
- **In 2015/16 the average floor area of a new apartment in Australia** (unit, townhouse, villa etc.) was 131.3m², up from 129.0m² in 2014/15 but almost 9 per cent below the high of 143.7m² in 2004/05.

States & territories

- **Victorians are building the biggest houses in Australia.** In 2015/16 the average floor area of houses built in Victoria was 241.1m², ahead of Queensland (237.7m²), NSW (227.4m²) and Western Australia (227.0m²).
- **The smallest new houses** built were in the ACT (180.8m²) and Tasmania (188.1m²).
- **In 2015/16 the biggest apartments** could be found in the Northern Territory (179.3m²). However, the data may be distorted by the small number of completions in the year (857).
- **Of the states**, Victoria built the biggest apartments in 2015/16 with the average floor area at 134.7m², ahead of NSW (132.4m²) and South Australia (131.0m²).
- **Of all homes built in 2015/16**, the average floor area was biggest in Western Australia (205m²), then Victoria (203.3m²). In Western Australia over 76 per cent of homes built were free-standing houses, compared with around 59 per cent in Victoria.

Home size peaks, more apartments, occupancy falls again

- Since the first Census was conducted in 1911, the number of persons per dwelling has consistently fallen. In 1911 there was an average of 4.5 people in every home. But by 2006 this ratio had almost halved to around 2.4 people in every home. Not only have more homes been built over time but other factors like fewer children and divorces have resulted in smaller families.
- And as noted above, homes had been getting bigger until a few years ago. Apart from floor area, another way of looking at home size is the number of bedrooms. In the 2006 Census around one in every 3.5 homes had four or more bedrooms whereas 20 years ago the ratio was one in every six homes.
- Unfortunately Census figures are only produced every five years. Fortunately demographic estimates are produced each quarter and they provide a guide to current trends in dwelling occupancy.
- From 2006 to 2013, the number of people per dwelling rose. At face value, the modest increase in average household size may not seem significant. But it was the first increase in household size – and as a consequence,



the average number of people in Australian homes – in at least a century.

- Children were staying home longer with their parents – no doubt the cost of homes and rising rents being key influences. With the ageing population, more generations were choosing to stick together in the one dwelling – a trend that is a consequence of the increased size and quality of homes. New migrants also chose to stay with family or friends. And given the increased preference to attend universities and colleges, Generation Y was forced to share accommodation and save longer to buy a home.
- But since 2014 the number of people per dwelling has again been falling. Lower interest rates and increased supply of apartments have prompted older couples to down-size. Generation Y began to move out of home and take ownership of accommodation more appropriate to their needs. In part, this explains some of the lift in home building. The question is whether household size continues to fall or whether higher home prices stalls demand, prompting greater co-habitation of dwellings.

What is the importance of the economic data?

- **The Australian Bureau of Statistics (ABS)** collects data on new home completions. Where the data is made available, estimates of the average floor area of the com homes can be calculated. Changes in the size of homes has implications for builders, developers and retailers of home appliances. If bigger homes are built, this may result in fewer homes being built to absorb increases in population.

What are the implications for interest rates and investors?

- Australians continue to build big homes. But there has been a clear shift in the past few years. Australians are re-assessing their needs. Couples and small families are considering apartments. Down-sizers are also moving closer to the city or sea-changing or tree-changing. There is less need for big 4-5 bedroom homes and it is clear across suburbia that consolidation continues to occur – homes being demolished and replaced with apartments, town houses and villas.
- While one theme is ‘ageing Australia’, there is also the re-assessment of housing needs by Generation Y and Millennials. Many in Sydney, Melbourne and Brisbane are seeking to live closer to work, cafes, restaurants, shopping and airports and are giving up living space for better proximity to the desirable amenities.
- Last year Victoria built a record number of homes. Similarly NSW built the greatest number of homes since the Sydney Olympics. But rental vacancy rates haven’t soared, rather gravitated to more balanced outcomes. Clearly investors need to pay greater attention to changes in household size to work out what is going on.
- At present there is significant discussion about the potential for some housing markets to be over-supplied with new homes. But while home building is at record highs, demand for homes has increased in line with rising population, especially in Sydney and Melbourne. And housing needs have changed. Younger buyers – and indeed some older ‘downsizers’ – are looking to live in smaller homes. And the market is responding. Clearly the issue of over-supply is complicated. But the changes in housing demand and supply have major implications for builders, developers, investors, building material companies, financiers and all levels of Government.

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