

# Morgan Stanley tips 100,000 apartment glut

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Australia will find itself with a surplus of 100,000 apartments by 2018 even though a credit crunch for developers will cause a sharp slowdown in apartment construction before then, Morgan Stanley expects.

In a stark warning against the "complacent" consensus about the near future of housing construction, the investment bank says a "sudden stop" of apartment activity, triggered by regulator-driven rationing of credit, will limit the growth of unsold apartments to that level.

"The Australian housing market is tipping into oversupply, with a further surge in completions still in the pipeline," strategists Daniel Blake, Steven Ye, Chris Nicol and Antony Conte wrote in their latest report *Australian Housing: Stressing the Foundations*.

"We estimate this will take the cumulative national overbuild to about 100,000 (1.1 per cent of estimated stock) by 4Q18, mostly in the apartment markets of Brisbane, Melbourne and Perth, although Sydney has also seen a large upswing in commencements."

The report follows fresh concerns aired this week by the new Reserve

Bank of Australia governor Philip Lowe about mixed signals in the housing market and is a contrast to the separate signals – such as falling crane numbers in Melbourne and Brisbane – that the development industry is undergoing a self-correction that will ensure an orderly slowdown.

The dramatic end to the housing construction boom will come on top of the continued unwinding of resources-based investment and push unemployment as high as 6.5 per cent, the strategists said.

"We see housing no longer contributing to growth in 2017 and becoming a drag over 2018."

Developers themselves say the market is changing. Price falls of up to 15 per cent in CBD apartments represent a correction to fair value of prices inflated by excessive sales commissions, WBP executive chairman Greville Pabst said this week.

But many expect the industry to avoid a hard landing.

In a market update on Thursday, developer Lend Lease said it expected the outlook for the Australian market to moderate after a "stellar" performance over the past few years.

The company repeated comments it made in August at its full-year results presentation, saying Sydney's

apartment market was peaking and affordability was "becoming a challenge".

In Melbourne, the sector was "navigating a high level of incoming supply". New planning controls limiting the density of developable sites, along with rising vacancies would likely cause supply to "taper" from 2019, the company said.

Bank of America Merrill Lynch also took a more benign view. Economists Alexandra Veroude and Tony Morriss said on Thursday that while apartment oversupply in Brisbane could see a "mild" correction in prices, overall demand from overseas buyers was likely to increase.

"Our calculations suggest that broad claims of oversupply in the Australian property market are more manageable," they wrote.

Housing construction was likely to continue stronger for longer, investment bank UBS said last week, upping its predictions for housing commencements this year and next.

Morgan Stanley, however, which last week also said it had called a peak in the housing market too early, on Thursday warned of complacency among buyers and sellers. "Peak housing conditions have passed and consensus appears too complacent about the slowdown."