

# Residential unit completions growth is weak

By  John Loos

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For the month of June, square metres' worth of residential buildings completed rose by 12.4% year-on-year. This represents a strengthening from the prior months' slower growth of +2.7%.



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However, as monthly data is traditionally volatile, we prefer to analyse trends through smoothing the data with a three-month moving average. Here we see a more moderate growth rate of 2.06% year-on-year for the three months to June, up from a previous negative rate of -5.68% for the 3 months to May.

The three-month moving average for Square Metres of Residential Plans Passed has been recording decline to the tune of -3.23% for the three months to June.

## Acceleration in the year-on-year growth rate

A similar picture is witnessed when examining the number of residential units completed. Here, too, we saw an acceleration in the year-on-year growth rate from 3% year-on-year in the previous month to 10.9% in June.

But smoothing using the three-month moving average, we see a smaller growth rate of 3.85% for the three months to June.

In short, since late-2015 the Residential Building Market remains weak and lacking in clear direction.

And so, residential building completions chug along at a level around half of what they were back at the height of the building boom. 1.353-million square metres of residential space were completed for the three months to June, compared to 2.706-million completed for the three months to December 2005.

While the currently moderate level of building activity is not great news for the development sector, it remains crucial to maintaining a reasonable balance between demand and supply in the residential market at a time when the economy teeters on the brink of recession.

## Conclusion

We have had four-and-a-half years of broad economic growth stagnation and two-and-a-half-years of mild interest rate hiking. Building activity growth has more or less responded to the economic deterioration, hovering not far from zero in response to these economic forces when one smooths out the monthly data volatility.

Given that economic growth teeters on the brink of recession, and consumer confidence remains very weak, we would expect the stagnant growth in residential completions to continue through the second half of 2016.

We would expect to see relative strength in the flats and townhouses category of building, which would mean a shift towards a smaller average size of home built, which would better reflect the financially constrained household sector.

## ABOUT JOHN LOOS

John Loos is Property Sector Strategist: FNB Commercial Property Finance

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