T1 HOMES

Building a Home:
The Cost of Holding Off

Delaying even a few months can potentially expose you to further increases and reductions in borrowing capacity

THE POTENTIAL COST OF HOLDING OFF?

Borrowing capacity is influenced by a number of factors; all individuals should conduct their own research and utilise professional financial advice to confirm their capacity based on their unique circumstances.

Based on a $1 million mortgage, a 1% increase in interest rates would correlate to around a 10% reduction in borrowing capacity for an average household.

For buyers with a specific set of needs for their new home, this could greatly impact their ability to meet these needs. Concessions may be needed in the build, such as reducing inclusions or house size or the location.

Typically the entire process takes around 15 months from initial deposit to move-in (6 months for pre-construction, and 9 months for construction)

Mortgage repayments begin once your land is registered, delaying your build can result in doubling up on these repayments, as well as rental costs. Assuming an additional 6 months of rent at $650 per week, this could see you paying an additional $16,900 out of pocket.

Borrowing Capacity

10%

Out of Pocket

$16.9k

INCREASING MIGRATION, INCREASING DEMAND

With the Australian Government recently increasing its permanent migration cap for FY 22/23 to 195,000, along with a backlog of 900,000 visa applications. This coupled with active customers looking to delay commencing, could result in an avalanche of customers looking to build at the same time, potentially driving up costs and waiting times.

Migration Cap Increased

195k FY22/23

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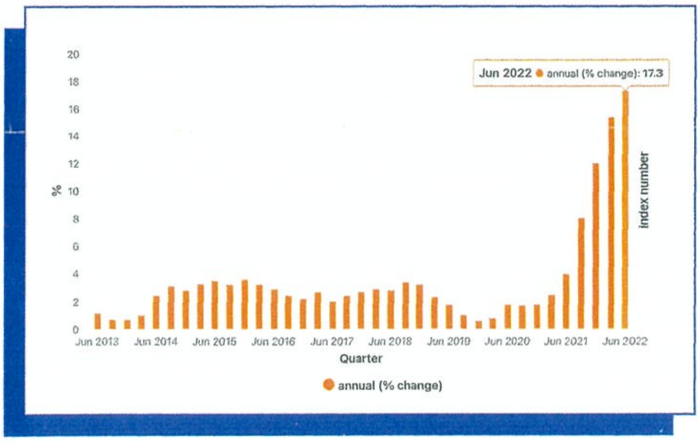
Since 2021, we've seen unprecedented increases in construction costs - and the rate of growth is only accelerating. Combined with increasing interest rates, all signs indicate that the buying power of prospective homeowners will be greatly diminished the longer that they hold off purchasing – indecision will prove costly.

CLIMBING CONSTRUCTION COSTS

According to the Australian Bureau of Statistics, from June 2021 to June 2022, construction costs rose by 17.3%. This represented the largest increase in over 40 years.

In the last 50 years, construction costs have almost always increased on an annual basis. On the 3 years that construction costs did decrease, the largest reduction was only 0.9%.

According to Trend Connection Group, between October 2021 to August 2022, construction costs increased by $62,015 for a typical double storey home, and $44,190 for a typical single storey home.



Construction costs ↑

17.3%

AVG SINGLE STORY ↑ $44K

AVG DOUBLE STORY ↑ $62K

CLIMBING INTEREST RATES

The Reserve Bank of Australia (RBA) has increased the cash rate by 2.25% from a historic low of 0.10% in April 2022 to 2.35% in September 2022.

Data from the RBA indicates the cash rate is going to continue to rise. Many economists predict it will reach 3-3.5% in 2023.

While these rates are not directly tied to interest rates, there is historically a strong trend of the two rates following consistently patterns.

Cash rate ↑

2.25%