



by [Jessica Sier](#)

A key signal for whether Australia is about to experience its own property market collapse lies in the spike of house constructions, says [value investor Roger Montgomery](#), adding if the United States is anything to go by, we're in serious trouble.

After crunching the numbers, Mr Montgomery says the estimated 18 months local overhang is more than the 12 months oversupply the US had prior to the popping of its housing market bubble.

"It looks like Australia has a greater oversupply problem than the US did in 2007," says Mr Montgomery in a note to clients. "And after their property market collapse, it took five years before property prices began recovering."

Mr Montgomery points to data from the Australian Bureau of Statistics which uses household formation as a proxy for demand and [construction as an indicator of supply](#).



Housing supply may outstrip demand by the end of this year. David Paul Morris

A housing report from last year, says the number of households in Australia is projected to increase from 8.4 million in 2011 to between 12.6 and 12.7 million in 2036.

Breaking down what will be constructed and what will be required, Mr Montgomery is left with an oversupply of 200,000 dwellings by the end of 2016.

"At the current rate of household formation, that oversupply could be soaked up in about 18 months, provided construction of new dwellings ceased completely," says Mr Montgomery. "But of course construction will continue and the oversupply will take longer to be absorbed."

Indeed, apartment construction is set to hit record highs over the next two years in Australian capital cities, [according to CoreLogic](#).

"The volume of new apartments is now approaching, and even exceeding, the average number of apartment sales overall in the past five years," reads the CoreLogic report.

Prior to the collapse of the US housing bubble in 2007, the [construction of houses rocketed to record levels](#), in a bid to keep up with the frenzied demand of buyers.

While Mr Montgomery is quick to point out Australia has much stricter subprime lending and borrowing standards than the United States and things like employment, inflation expectations, interest rates, debt-to-income ratios, house-prices-to-income all influence short-term property prices, by looking at the medium-term supply-and-demand metrics, Australian house prices are running out of steam.

"For better or for worse, we have been discussing here at Montgomery HQ, and I have been sharing privately with friends, the suggestion that apartment oversupply will exacerbate a decline in property prices already cooling," he says.