

# Housing Industry Forecasting Group

## Forecasting Dwelling Commencements in Western Australia

May 2021

HIFG update and media statement

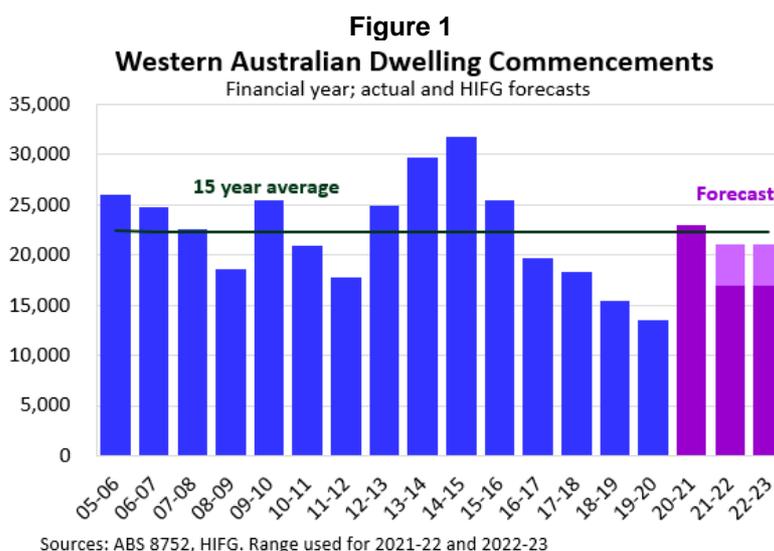
### WA dwelling commencements highest level in five years

The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in WA. The previous forecasts were reported in November 2020.

The Group revised its forecast to approximately 23,000 dwelling commencements in 2020-21, above the 18,500 forecast reported in November 2020 and an increase of over 70 per cent when compared to 2019-20. This would be the highest number of commencements since 2015-16 but well below the peak of 2014-15 (31,705) and above the long-term average of over 22,000. It is anticipated dwelling commencements will fall back to within the range of 17,000 to 21,000 for the two preceding financial years.

Activity in the new build market continues to be underpinned by stimulus packages<sup>1</sup> which are expected to flow through into dwelling commencements through to 2021-22 (Figure 1). The extension of construction-start times under the State's Building Bonus program to 12 months after signing a building contract supported dwelling commencements over the forecast period however potential steadying in commencements when stimulus measures end is expected.

Financial Year	Dwelling Commencements
2020-21 (forecast)	23,000
2021-22 (forecast)	17,000 - 21,000
2022-23 (forecast)	17,000 - 21,000



<sup>1</sup> Federal Government HomeBuilder program gives a grant of \$25,000 for new home builds or substantial renovations. WA State Government Building Bonus grants \$20,000 to homebuyers building a new home. Eligible home builders can receive both grants (from 4 June to 31 December 2020) First-home owners can also receive the \$10,000 State First Home Owner Grant.

# Housing Industry Forecasting Group

## Forecasting Dwelling Commencements in Western Australia

### **Economic review and outlook**

The immediate outlook for WA's economy is largely positive. Both consumer and business confidence remain at close to record highs, and households appear well placed to handle the withdrawal of key government support measures - having significantly grown their pool of savings throughout the pandemic. Lower interest rates are expected to remain for some time, which will continue to support mortgage holders and stimulate activity in the housing sector.

The COVID-19 pandemic severely impacted Western Australia's economy in early to mid-2020, cutting domestic economic activity to levels last recorded in 2010. Since then, the WA economy has shown strong signs, with the December 2020 National Accounts indicating the size of WA's domestic economy now exceeded the level it was before the pandemic. This outcome was largely driven by a booming mining sector and Government stimulus.

WA's mining sector now makes up a record 43 per cent of the State's economy. Global commodity markets have been favourable for WA, with China's recovery and global stimulus fuelling demand for record amounts of iron ore, and uncertainty driving demand for safe-haven assets like gold. While the iron ore price is anticipated to moderate in the second half of 2021, it is expected to remain above pre-pandemic trends.

The second key force that has underpinned a strong WA economy is the significant level of Government stimulus injected into the local economy. The Chamber of Commerce & Industry of Western Australia (CCIWA) estimates that as at early December 2020, close to \$16 billion had been injected into the local economy from Commonwealth stimulus measures and the early withdrawal of superannuation. The Government initiatives helped bolster household incomes and enabled household consumption to support the recovery, particularly in the retail sector. In addition, the estimated \$6 billion that Western Australians usually spend overseas, has largely contributed to the recent uptick in intrastate tourism.

According to CCIWA's latest Business Confidence Survey, skills shortages remain the largest barrier facing WA businesses over the next twelve months. More than half (54 per cent) of businesses are struggling to fill at least one skilled occupation, with concerns most acute in the food services, wholesale trade and construction sectors.

Another key risk to WA's economic recovery is the possibility of additional lockdowns. Results from CCIWA's rapid-fire survey of the business community during the April 2021 lockdown indicated that the average cost inflicted on businesses was \$25,200, with the average for small businesses at \$8,057. In total, it was estimated an aggregate cost of \$170 million to the local economy across the full seven days.

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## Forecasting Dwelling Commencements in Western Australia

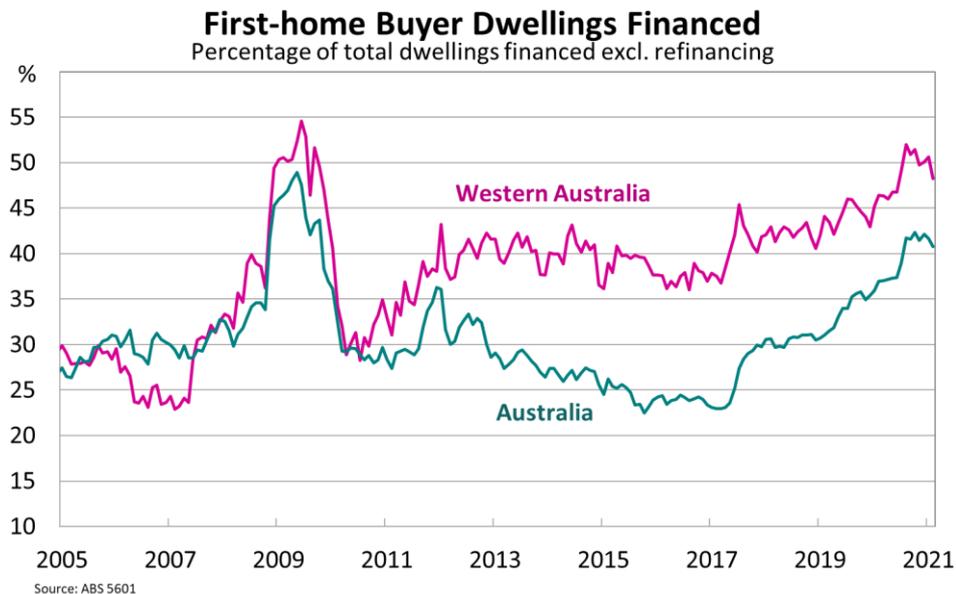
### Demand for housing

Conditions across the residential property market remain buoyant with a resurgence of price growth across sales and rental fronts.

As at March 2021, the Perth house median sale price was 4.2 per cent higher than March 2020 (based on transactions settled to date). Price growth was driven by strong buyer demand outpacing supply. Over the last 12 months, sales activity across WA grew by approximately 44 per cent and new listings rose 12 per cent. While new listings added to the market have risen, strong demand is keeping overall advertised stock levels low with 33 per cent fewer listings for sale in Perth when compared to March 2020. Low listing levels have resulted in intensified competition amongst prospective buyers to secure the limited supply available. This is evidenced by median days to sell falling from 28 days in March 2020 to 19 days in March 2021.

Data released by the Australian Bureau of Statistics indicated first home buyers have been a core proponent of increased buyer activity with first home buyer finance approvals more than doubling when comparing the three months to February 2021 to the corresponding period in 2020. First home buyers contributed more than 40 per cent of all housing finance approvals during the period.

Figure 2



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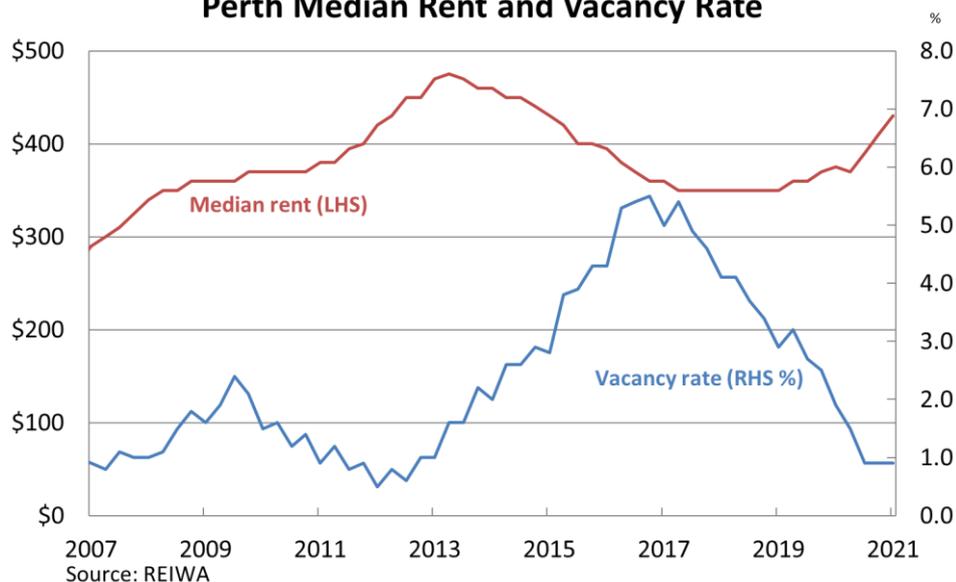
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### Rental market tightness

The WA rental market remained tight, with the vacancy rate persisting below 1 per cent for 7 consecutive months (benchmark is approximately 3 per cent). Demand for rental properties has unsurprisingly fallen due to a combination of reduced migration flows and low interest rates creating opportunity for tenants to purchase their own home more affordably. Leasing activity fell 20 per cent over the year (12 months to March 2021 compared to 2020). Despite less demand for rental properties, a steeper decline in supply has created more competition amongst the fewer pool of prospective tenants seeking to secure the low supply of rental options available. New listings for rent fell by 26 per cent over the year (12 months to March 2021). This has led to rent prices rising at their fastest pace since 2008. Perth house median rents prices are \$430 per week as at March 2021, 14 per cent higher than a year ago. Despite rent prices again increasing, Perth remains one of the most affordable major cities to rent in with rents still \$30 below their 2014 peak.

Figure 3

### Perth Median Rent and Vacancy Rate



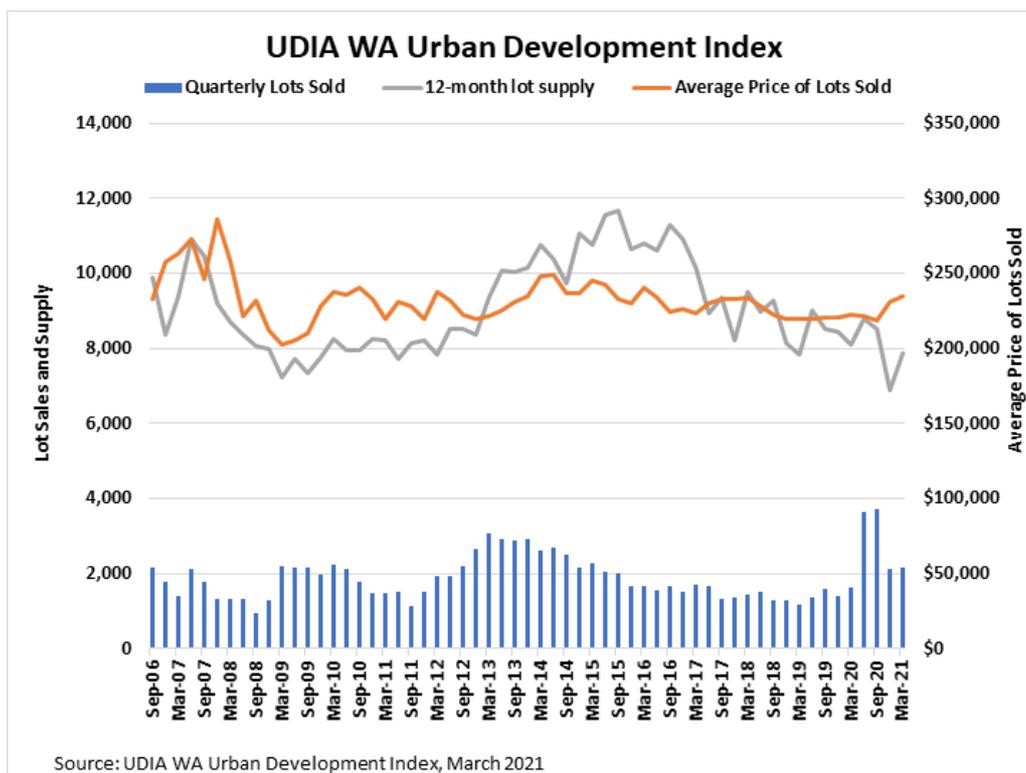
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## Forecasting Dwelling Commencements in Western Australia

### Land sales remain strong

Perth land sales activity has continued to be relatively heightened, positively affected by the Commonwealth Government's HomeBuilder Program and the State Government's Building Bonus but was subdued in comparison to the sales peak of mid-2020. Total lot sales reported in the March 2021 quarter of UDIA WA's Urban Development Index increased 33.9 per cent year-on-year, a lower increase than the 50.3 per cent uplift seen in the December 2020 quarter. These lower sales figures have been attributed to reduced land and builder availability in Perth, as well as limited contractor availability being a barrier to developers releasing land in line with demand. In December 2020, developers had reported the lowest number of lots on the market since mid-2014, although this appears to have improved slightly with a 10 per cent higher number of lots on the market in March 2021. In addition, 3,500 lots are expected to be released to market over the coming 12 months, along with 1,570 lots constructed but not yet released to market for varying reasons. However, despite these improvements total 12-month land supply projections remain lower than has been seen since early 2019.

Figure 4



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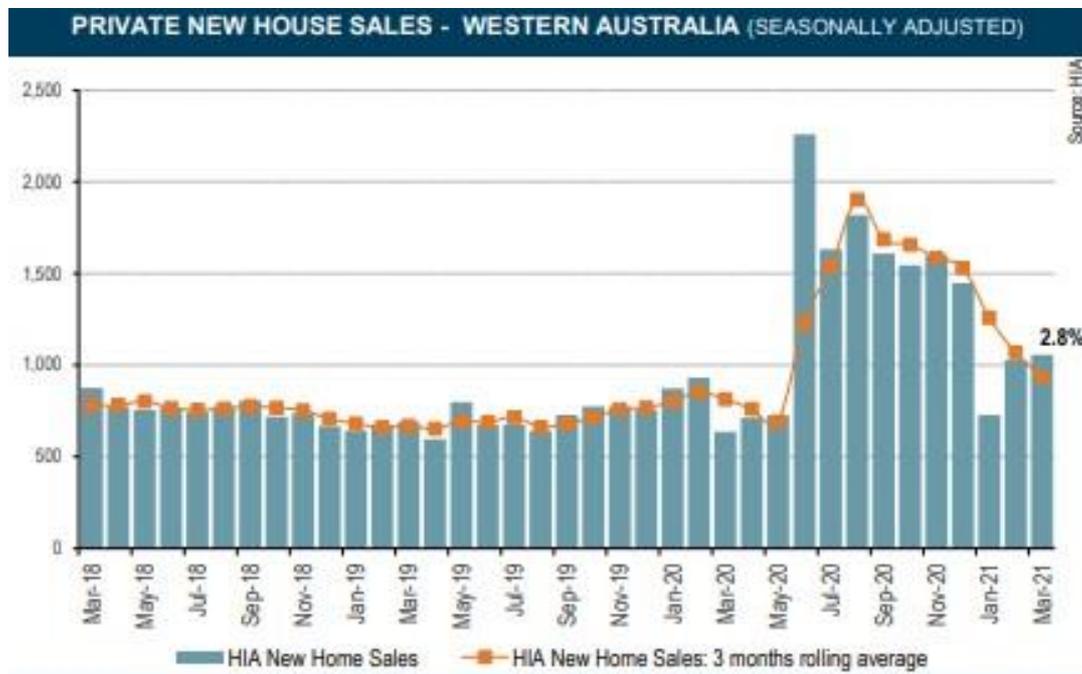
### New home sales WA

New home sales in WA were 82.5 per cent higher throughout the year to March 2021 (when most of COVID-19's impact was evident in New Home Sales data) than the previous year. New home sales in the March 2021 quarter were 15.2 per cent higher than the same time last year and sales increased by 2.8 per cent in the month of March 2021 compared to February 2021 (see Figure 5, below).

Sales in WA peaked earlier than other jurisdictions due to the State Government's \$20,000 Building Bonus grant. To receive this grant, contracts needed to be signed before 31 December 2020 and when combined with HomeBuilder amounted to \$45,000. For eligible first home buyers, this amount could be further increased to \$55,000 with the addition of the First Home Owner grant.

After the 31 December 2020, this amount fell to just \$15,000 (\$25,000 for first home buyers), providing less incentive to home builders, relative to the previously available \$45,000. Investors were also only eligible for the Building Bonus grant and not HomeBuilder.

Figure 5



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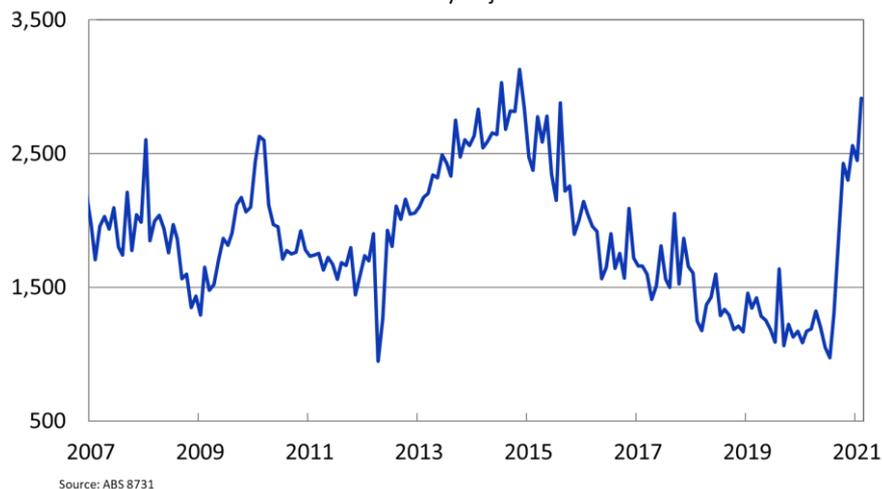
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### Building activity on the up

Demand for residential land surged following the introduction of the Commonwealth Government's HomeBuilder Program and the State Government's Building Bonus in mid-2020. These land sales have since begun to flow through to building approvals and in turn new dwelling commencements.

In the year to February 2021 (eight months), building approvals increased by more than 75 per cent compared to the same period a year earlier and in the month of February, were at their highest level in around six years (Figure 7). In annual terms, building approvals reached 21,546 in February, suggesting annual commencement levels of this order in the near term.

**Figure 7**  
**WA Building Approvals**  
Seasonally-adjusted



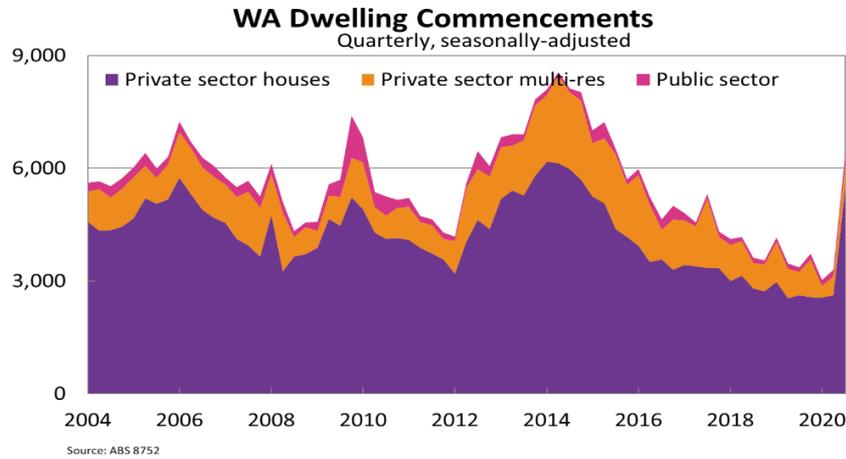
Source: ABS 8731

In the December 2020 quarter, new dwelling commencements reached their highest level in five years and almost doubled when compared to the previous quarter (Figure 8). Commencements were overwhelmingly concentrated in detached dwellings and are expected to remain at relatively elevated levels in the short to medium term given the current strength of building approvals.

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## Forecasting Dwelling Commencements in Western Australia

Figure 8

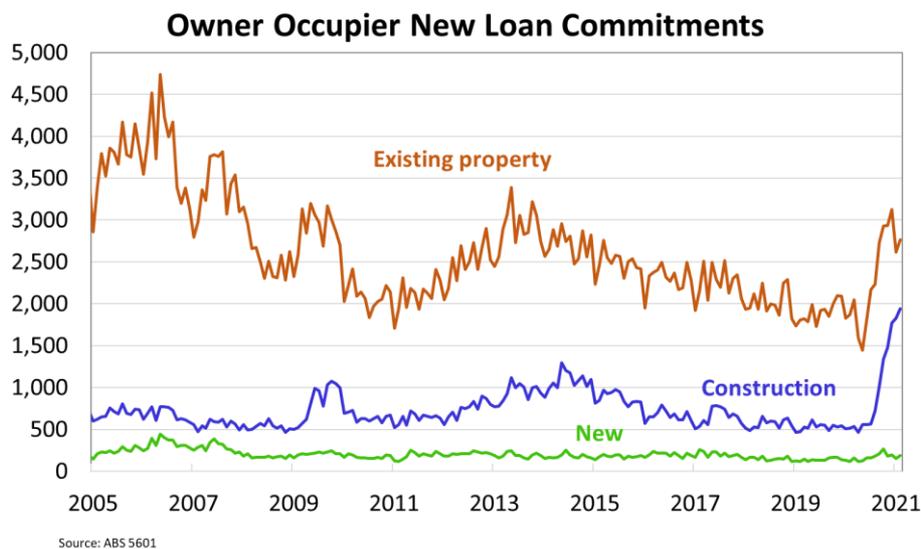


### Housing finance rises

With increased housing market activity, the demand for mortgages in WA continues to be elevated compared to pre-COVID levels. Construction loans demand was significantly elevated throughout the second half of 2020, where some financial institutions experienced approximately double the amount of loans compared to the same period the prior year. The increase in mortgage demand has been predominately driven by owner occupier mortgages, however investor mortgages are starting to reappear.

A recent omnibus HIA survey showed approximately 25 per cent of clients experienced difficulty securing finance in 2021. This is down from 32 per cent in 2020 and 47 per cent in 2018 but is still higher than the historical average of 15 per cent.

Figure 9



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### **Industry Issues and Challenges:**

*Industry members of HIFG raised the following issues that may materially impact on the dwelling commencement forecasts:*

- Industry members of the Group welcomed the extension of the Federal Government deadline to begin construction under the HomeBuilder grants program by an additional 12 months. Those who were eligible for the grant before its March 31 conclusion now have 18 months after signing contracts to commence construction. As at April 2021, Western Australia recorded 17,752 HomeBuilder applications (plus additional WA State Government Building Bonus applications) since the grants were announced in June 2020. However, of the applications, 16,391 were for new homes causing a surge in the demand of skilled labour, specifically bricklayers and concreters. Industry members of the Group raised concerns that the labour shortages will see further pressure on dwelling commencements and adversely impact completion timeframes. Unfortunately, with COVID-19 restricting overseas and interstate migration and similar labour demands across Australia, the ongoing heavy demand for local skilled labour is expected to continue through 2021-22.
- Industry members of the Group raised concerns that the expected longer dwelling completion timeframes will apply further pressure to an already tight WA rental market. Supply within the WA rental vacancy market continues to be at record lows levels, and with expected increases in dwelling completion timeframes, rental conditions are likely to remain strained throughout 2021.
- Anecdotal evidence suggests some intermittent shortages of various building materials both in Western Australia and globally. Construction times are expected to lengthen as the timber industry predicts timber processing mills will be under pressure to meet demand throughout 2021. The Federal Government's decision to extend the HomeBuilder construction commencement timeframe for all applicants will allow more time for stock to be produced and delivered to builders.
- A recent HIA omnibus survey conducted in March shows the availability of materials and skilled labour were the greatest pressure points for businesses in 2020-21 in WA and these remain the main pressures heading into the next 12 months.
- The biggest shortages from those surveyed in terms of skilled labour was bricklayers, closely followed by carpenters. The survey found WA businesses were more likely to report a shortage in skilled trades compared to other states.
- COVID-related supply chain issues have had a substantial impact across all jurisdictions. In WA, 59 per cent of respondents had factored cost increases into builds.

# Housing Industry Forecasting Group

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## Media quotes:

*Quotes may be attributed to Cath Hart, Chair – Housing Industry Forecasting Group*

“An improved level of new home building activity in WA will extend into 2022 as a result of WA’s Building Bonus and the Commonwealth’s HomeBuilder schemes,” Ms Hart said.

“Recently announced changes to the construction start times for the scheme will also help relieve pressure from labour shortages and intermittent supply chain challenges.

“The Housing Industry Forecasting Group noted that low levels of housing stock will be a key challenge in Western Australia throughout 2021, driven by a tight rental market and longer-than-usual completion times for new dwellings.

“WA’s extraordinarily low rental vacancy rate signals strong consumer demand and a lack of supply as people have moved to Western Australia or returned here from interstate and overseas as a result of COVID-19.

“However, despite the low rental vacancy rate and record-low interest rates, investors have not yet come back into the market to provide additional stock as might ordinarily be expected.

“Overall, WA has recovered faster than other parts of Australia and we expect that to continue throughout 2021.”

*The Housing Industry Forecasting Group is a joint housing industry and government body providing independent forecasts and commentary on the Western Australian housing sector. The Group includes representatives from the UDIA, Property Council, HIA, Department of Communities, REIWA, Development WA, Landgate, the Water Corporation, CCIWA, Department of Treasury, Department of Planning, Lands and Heritage, MBA, Bankwest and AHURI – Curtin University.*

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