# Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

**November 2020** **HIFG update and media statement**

## WA dwelling commencements on the road to recovery

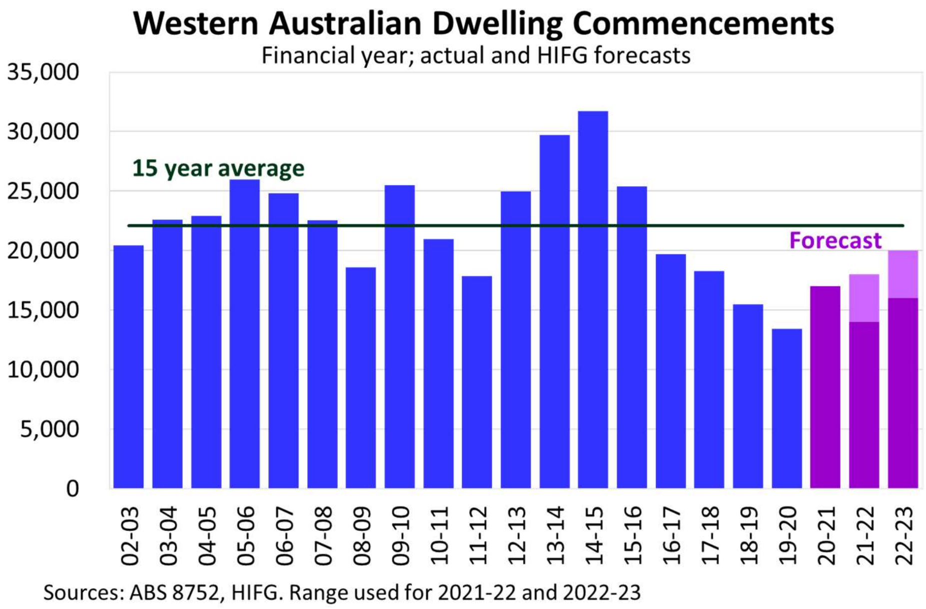
The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in WA. The previous forecasts were made in August 2020.

The Group has revised its forecast to approximately 18,500 dwelling commencements in 2020-21, firmly within the 18-20,000 forecast in October 2019. Activity in the new build market continues to be underpinned by stimulus packages[1] which are expected to flow through into dwelling commencements in 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 is expected to support dwelling commencements over the forecast horizon and moderate a potential downturn in commencements when stimulus measures end.

| Financial Year | Dwelling Commencements |
|---|---|
| 2019-20 (actual) | 13,454 (14,500 forecast) |
| 2020-21 (forecast) | 18,500 |
| 2021-22 (forecast) | 14 - 18,000 |
| 2022-23 (forecast) | 16 - 20,000 |

**Figure 1**




[1] 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.

The economic outlook for Western Australia is stronger than first expected aided by the state's response to the COVID-19 pandemic. WA was the only state to record positive economic growth in 2019-20. WA Treasury expects the economy to maintain this momentum and grow by 1.25 per cent in 2020-21. Although economic growth has been patchy with some industries and regions yet to return to pre-COVID-19 levels, WA is leading the nation over a range of economic indicators.

Employment and hours worked improved further in September and retail sales growth is stronger than pre-COVID levels, reflecting both increased consumer confidence and the impact of government support payments. Looking forward, some moderation is expected as these support payments are scaled back. High iron ore prices and business investment in the state will continue to provide an important buffer to the overall weak global economic conditions.

The pipeline of residential construction activity is expected to largely be defined by stimulus measures and border restrictions. While a transition to a controlled interstate border arrangement has been scheduled, uncertainty remains around the reopening of international borders.

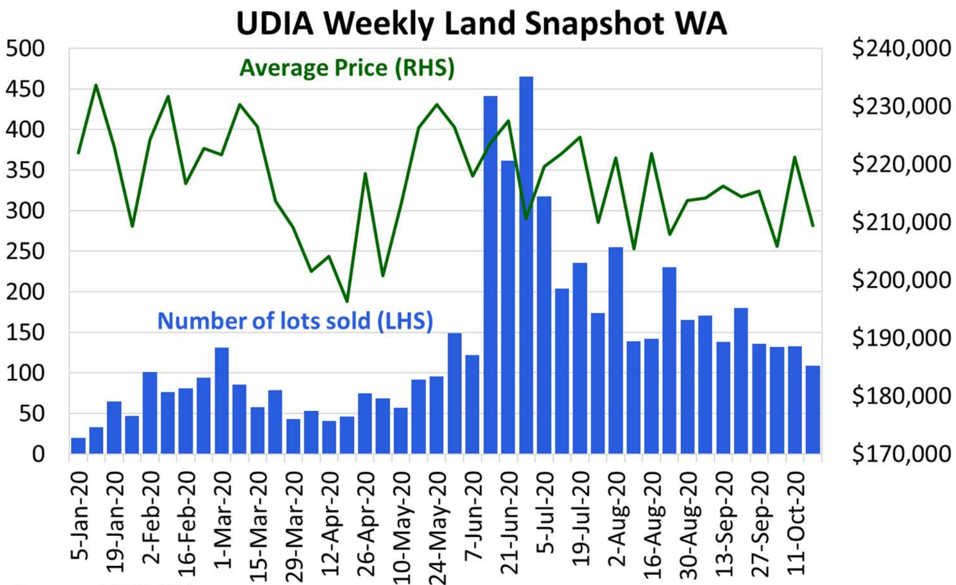
Population growth received a short-term boost in the March quarter as people returned to Perth from interstate and overseas but is expected to slow significantly to 0.8 per cent in 2020-21, reflecting travel restrictions. This provides some short-term reprieve to the extremely tight private rental market. REIWA reports that the vacancy rate in the Perth metro region fell to a 13-year low of 0.9 per cent in the September quarter, leaving the private rental market unable to respond to an increase in demand from overseas or interstate migration.

Notwithstanding, demand for rentals is strong and outstripping supply. According to REIWA, there were just over 2,900 rental listings in September quarter 2020 – less than half the approximately 6,200 listings at the same time last year. Furthermore, new rental listings are down 20 per cent over the same period. The lifting of the moratorium on residential tenancies scheduled to occur in March 2021 is likely to drive higher turnover and place significant upward pressure on median rents.  While some households may be led to consider home ownership, it poses a key risk to rental affordability particularly for very low-income households who may be forced to apply for social housing assistance.

Sales activity in the established market of the Perth metropolitan region remains strong. REIWA reports that new sales listings are being quickly absorbed with average time to sell down from 50 days last year to less than 30 days. While growth in median house prices remains contained, REIWA reports a greater number of homes sold above asking price. Limited supply in the established market will likely strengthen demand for new residential dwellings beyond the effects of the stimulus measures.

Lot sales, an important forward indicator of dwelling commencements, have been boosted by State and Federal government stimulus measures and historically low mortgage rates. The number of lot sales grew by 132.4 per cent in the year to September quarter 2020 (Figure 2). Pre-commitment for new stages has been at very high levels not seen for 15 years. Developers are reporting low levels of titled stock, with the number of lots not on the market at a five-year low. In response to low stock levels, close to 4,000 lots are currently under construction, over 50 per cent more than last year. These lots are expected to be released to the market within the next 12 months.

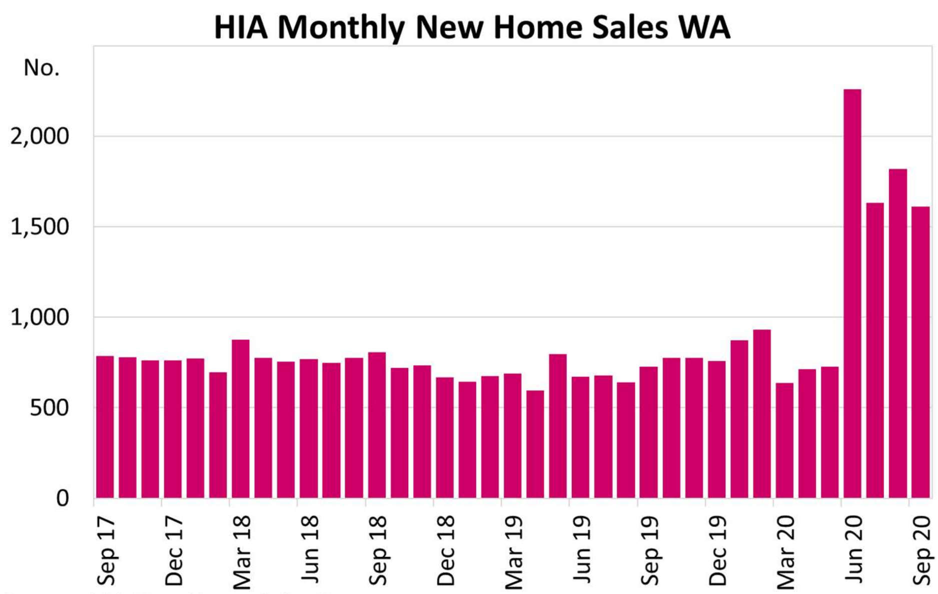
**Figure 2**




Source: UDIA WA

The number of new home sales have moderated from recent peaks but remain at high levels, up 147 per cent in the September quarter compared to the previous year (Figure 3). HIA attributes the recent decline in sales to builders capping monthly sales. Anecdotal evidence suggests some builders had reached capacity and stopped taking on new jobs in October. The extension of construction start times under the State Government's Building Bonus Program will enable more home builders to be eligible for the grants, reducing the number of job cancellations that had been occurring.

**Figure 3**

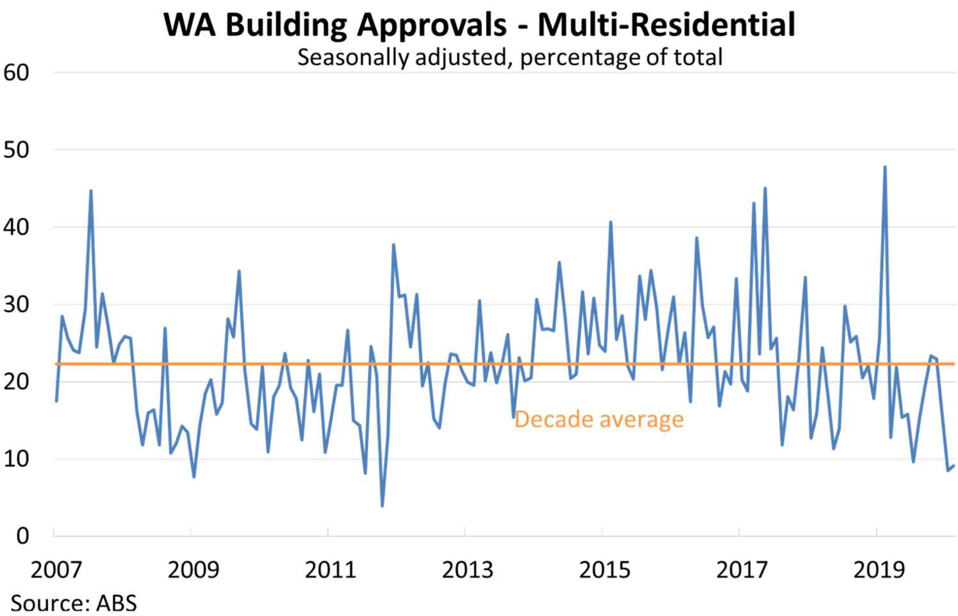



Source: HIA New Home Sales Report

Building approvals have broadly reflected new home sales. However, the multi-residential sector has softened further over the year. Multi-residential approvals comprised 9 per cent of approvals in August 2020, compared to 48 per cent a year ago (Figure 4). It remains to be seen if the COVID-19 period has shifted consumer preferences away from higher-density development.

The strength of the multi-residential sector is important to overall levels of dwelling commencements. Commencements of multi-residential dwellings fell below 3,000 in 2019-20 despite stimulus measures aimed at promoting infill and multi-residential developments. This historic low in multi-residential commencements presents a lack of diversity in the residential market and affordable options for future home buyers.

**Figure 4**




The number of finance commitments for new housing construction grew by 27 per cent in the month to August 2020. Some financial institutions have observed around 2½ times more construction loans than pre-COVID levels. This trend has continued in the early months of 2020-21. By contrast, the number of new investor loans decreased over the same period. An absence of investor activity, despite low rental vacancy rates, record low interest rates and investor eligibility for Building Bonus grants, presents a downward risk to the forecasts.

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

- Industry members welcomed the extension of construction commencement times under the State's Building Bonus program as it enables industry to respond to the very strong demand that has been generated, particularly as:
    - the availability of both civil and building trades has been tight. Many trades have left the industry and few apprentices have been trained due to the many years of soft building conditions. Incentives for builders to take on new apprentices is unlikely to address the immediate skill shortage;
    - titled land is in short supply. Developers are seeking to address the supply shortage, connection to utilities is proving challenging. Title processing times have reportedly remained relatively efficient despite increased development activity;
    - anecdotal evidence suggests an emerging shortage of building materials. Although this is likely to be concentrated to those materials imported into WA rather than those manufactured within the state such as bricks; and
    - construction times are expected to lengthen as a result of the increased volume of work coupled with labour constraints.

- The impact of easing consumer credit conditions announced in the Federal Budget, is unknown. Industry members estimated a proportion of bank valuations will likely be lower than expected and could lead to several finance fall overs. Lending practices are already being reviewed in the wake of the Banking Royal Commission.

- Softness in the multi-residential sector poses a risk to the overall forecasts of dwelling commencements. Industry members noted that previous stimulus measures for off-the-plan purchases had been short-lived as COVID-recovery measures potentially re-directed consumers towards detached houses.

- Industry members commended the breadth of consultation undertaken to inform the State Government's *WA Housing Strategy 2020-2030* which aims to connect people to safe, stable and sustainable homes.

**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 BuildingBonus and the Commonwealth's HomeBuilder schemes," Ms Hart said.

"Recently announced changes to the construction start times for the scheme will help moderate shortages of title land and trades.

"However, dwelling starts in WA are expected to remain below the state's long-term average of 22,000 for the foreseeable future.

"The Housing Industry Forecasting Group also noted that housing supply is emerging as a key challenge for WA in early 2021.

"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."

*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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