

Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

September 2020

HIFG update and Media statement

Despite Covid-19, WA dwelling commencements show signs of recovery – stimulus packages expected to boost dwelling commencements.

The Housing Industry Forecasting Group (HIFG) has updated its April 2020 forecast of dwelling commencements in WA. This is an additional update due to the high level of uncertainty when the Group last met in April.

The Group is now expecting around 14,500 dwelling commencements in 2019-20, slightly below the 15,500 forecast in November 2019, but higher than the 12,500 forecast in April 2020. Commencements are expected to increase to 17,000 in 2020-21 on the back of the Federal and State Government's Covid-19 house building stimulus packages¹.

The stimulus packages have significantly increased activity in the new build market which will feed through into dwelling commencements in 2020-2021. It remains to be seen how much of this is new demand or as a result of demand pulled forward from future years (HIFG believes it is a combination of both). This factor, coupled with uncertainty around elevated levels of unemployment and levels of population growth affected by the WA border closure, means the Group has provided a range of 14,000-18,000 dwelling commencements for the 2021-22 financial year. This suggests there is the potential for a downturn in commencements when stimulus measures are wound back.

Financial Year	Dwelling Commencements
2018-19 (actual)	15,490
2019-20 to date (9 months)	10,530
2019-20 (forecast)	14,500
2020-21 (forecast)	17,000
2021-22 (forecast)	14,000-18,000

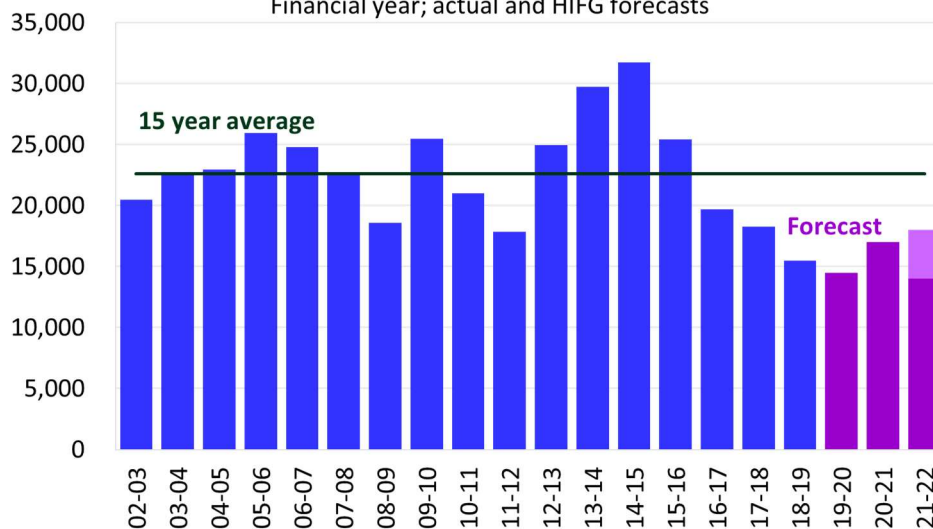
¹Federal Government HomeBuilder program - from 4 June to 31 December 2020 HomeBuilder gives a grant of \$25,000 for new home builds or substantial renovations. WA State Government - from 4 June to 31 December 2020 the Building Bonus grants \$20,000 to homebuyers building a new home. Eligible home builders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

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Western Australian Dwelling Commencements

Financial year; actual and HIFG forecasts



Sources: ABS 8752, HIFG. Range used for 2021-22

The economic outlook for Western Australia remains subdued due to the ongoing impacts of the Covid-19 pandemic. Employment and hours worked have fallen substantially, impacting spending and consumer confidence. Unemployment may rise further when JobKeeper is scaled back later in the year. High iron ore prices and supporting business investment in WA are providing some buffer to the overall weak global economic conditions.

Difficult economic conditions and large increases in unemployment affect consumer confidence, feeding through into soft new house building activity. International and domestic travel bans will reduce population growth considerably in the short-term, further reducing potential demand. However, there has been some improvement in the established housing market, with conditions returning to levels similar to before the Covid-19 shutdown, being boosted in part by people returning from overseas and other parts of Australia. House prices have softened somewhat but not substantially. Rental market conditions have tightened further over the past few months, with the rental vacancy rate now sitting at 1.6 per cent, the lowest since March 2008. This has predominantly been driven by low levels of supply and this is unlikely to change in the short term given limited new development supply over the past few years.

The forecast of 17,000 for 2020-21 remains lower than the long-term average but has been boosted by the home building grants on offer. The grants have increased awareness of home building opportunities and many consumers have jumped at cash incentives. The relative affordability of the WA market has helped boost the impact of the grants. There has also been additional stimulus through the State Government's Social Housing Economic Recovery Package.

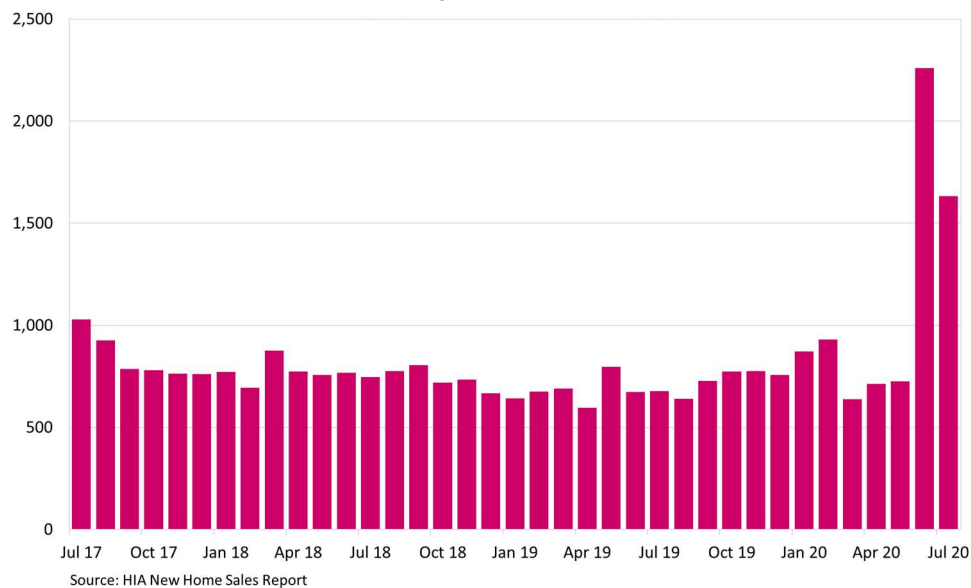
Due to the short duration of the grants, the initial demand response has been very strong. This has been evident in stark increases in land and new home sales in June and July, as evidenced in the graphs below from the Housing Industry Association and the Urban Development Institute of Australia. After the initial spike, demand has fallen back but is still at levels well above the past three years. There remains considerable uncertainty for 2021-22,

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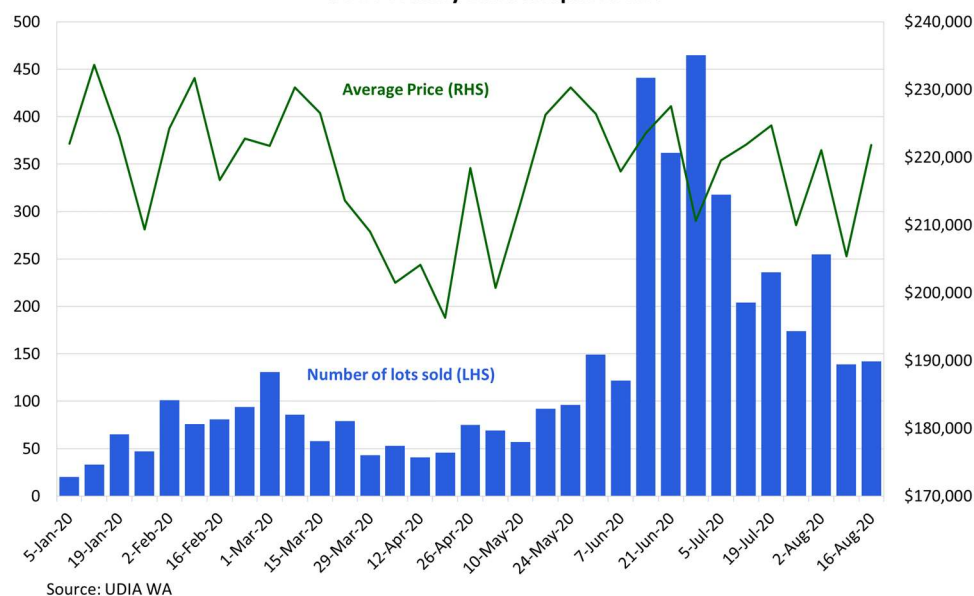
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when the impact of the grants will have fed through the building industry. Key uncertainties for the future outlook include whether stimulus or grants will be extended, what further changes will be made to JobKeeper and JobSeeker, when borders will be reopened, and any future restrictions resulting from Covid-19.

HIA Monthly New Home Sales WA



UDIA Weekly Land Snapshot WA



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Industry Issues and Challenges:

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

- Industry members of the Group raised concerns about the ability of the building industry to respond in time to meet the requirements of the grants, which necessitate significant earthworks, excavations or physical building works to have taken place within 3-6 months² of contracts being signed. Particular concerns raised were:
 - The availability of trades (both civil and building). After many years of soft building conditions, many have left the industry and few new apprentices have been trained. The current spike in demand is expected to be short-term in nature and is not sufficient for new apprentices to be hired and, with borders close, it is difficult to increase capacity in certain parts of the industry.
 - The availability of titled land. Most developers have sold out of titled land and are now selling untitled land. If a title does not come through in time, customers may not be eligible for grants. The industry is working with relevant government agencies and authorities to ensure they are prepared to meet the substantial increase in demand for issuance of titles and for utility services.
 - There is expected to be a strong increase in demand for building permits and planning approvals to local government authorities later in the year.
- The home building grants, along with the stamp duty concessions for off-the-plan apartment developments, have increased interest in new multi-residential buildings. However, many developers have high unsold stock levels from recently completed apartments, which is constraining their ability to finance and develop new sites.
- Industry members of HIFG note that some buyers are having difficulty obtaining finance, particularly due to bank valuations for new purchase contracts of homes coming in lower than expected, reflecting weakness in the established market. This has been an ongoing issue but is heightened with uncertainty created by the current environment.

² 3 months for the federal HomeBuilder grant, and 6 months for the state Building Bonus grant.

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Media quotes:

Quotes may be attributed to Professor Steven Rowley, Chair – Housing Industry Forecasting Group:

“The generous grants provided by both Federal and State governments to new home builders have had a substantial and sudden impact on demand for new dwellings in Western Australia. It remains to be seen how long this increased level of demand will last, given key demand drivers around employment, wages and population growth remain soft but it will boost new dwelling commencements in the short term at least.”

“The short-term nature of the grants and building conditions that need to be in place to receive them have led to considerable capacity constraints in an industry that has been operating at subdued levels for the past few years. If the industry cannot respond appropriately, the impact of the grants may be lower than the initial demand response suggests.”

“The rental market in WA continues to tighten, with very low levels of supply. This potentially presents challenges once the rental moratorium ends in September and mortgage deferral periods conclude. Both could increase demand for social housing.”

“The future outlook remains incredibly uncertain, with Covid-19 continuing to impact local and global conditions. Uncertainty over employment, population growth, borders and government support mean it is difficult to forecast over anything but the short-term. HIFG will meet again later this year to update its forecasts and comment on conditions. However, the housing market is showing remarkable resilience and while any recovery will be uneven, there are encouraging signs in many markets.”

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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