

Housing Industry Forecasting Group

Forecast
Dwelling Commencements
in Western Australia



April 2013 Update

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1 Executive Summary

The April 2013 report updates the group's October 2012 forecast with the latest available data. The key points are as follows:

- Data available since our last report show WA's residential construction and established housing markets grew strongly in the first half of 2012/13 and into 2013.
- The lagged effect of previous interest rate cuts and one more prospective cut support the case for an upward revision to our October 2012 forecast. We believe the upside potential is now stronger than the downside risks on which we based our October 2012 forecast. This has resulted in an increase in our 2012/13 forecast of dwelling commencements from 21,000 to 22,500, the latter being a 27% increase over 2011/12.
- The group also predicts 22,500 dwelling starts in 2013/14. Our prediction for the out-years of 2014/15 and 2015/16 is that dwelling starts in WA will be in the 21-23,000 range, up 500 on our previous forecast figures.
- Both real estate industry and developer data are indicating a declining supply of titled lots available for sale in Perth over the past 12 months. The development industry has ramped up activity to meet the current demand and is pre-selling future supply. Whilst there is no measure of a shortage at this stage as building applications move through the system and approvals continue to trend up, the industry has indicated the availability of titled lots is emerging as a short term issue for commencements. This has occurred due to a shift in policy associated with the new Building Act that allows for a building approval to be granted on a land sale contract whereas previously it required a titled lot.
- We estimate WA will need around 17,300 serviced lots per annum over the period of our forecast, some of which will be sourced from demolitions and vacant land listings.
- Total year-to-date seasonally adjusted building approvals for WA in the nine months to March 2013 at 17,638 were up 17% compared to the same period in 2011/12.
- Dwelling commencements for the first half of 2012/13 at 11,239 were up 22% on the same period for 2011/12.
- Seasonally adjusted home loan commitments for the eight months to February 2013 were 21% higher than for the same period of 2011/12.
- Preliminary figures for the March quarter 2013 suggest Perth's established median house price was \$505,000 and its lower quartile \$405,000.
- Total FHOG applications have been on an upward trend since early 2011 with the percentage of new build above the long-term trend of 26%.
- Perth's median rent now stands at \$470 per week (up 11.9% on the year) and the vacancy rate for three months to March 2013 was 2.4%.
- Industry members of the group have raised concerns regarding the future availability of housing indemnity insurance in WA. HIFG understands that government is aware of these concerns and is considering the issue.
- Despite improvements to housing affordability with lower interest rates and rising incomes, Western Australian households on low or moderate incomes continue to face unaffordable private sector rents and an inability to access home ownership.

Our next forecast will be published on our web page www.hifg.net.au towards the end of October 2013.

2 Introduction

The Group's October 2012 annual report forecast a rise of 20% in dwelling commencements in 2012/13, following significant falls in the previous two financial years. Dwelling starts in 2013/14 were forecast to increase by between 0-5% to a range of 21-22,000 commencements and a range of 20,500-22,500 in the following two years to 2015/16. Data available since our last report suggest that the upside potential is now stronger than the downside risks for new housing starts in WA over the next four years.

3 Housing Industry Drivers

3.1 Economic Overview

The WA economy consolidated in the final quarter of 2012, with state final demand increasing by 0.5%, following a 2.9% rise in the previous quarter. State final demand expanded by 14.2% compared to a year earlier. Business investment remains the key driver of state final demand growth in WA, with spending by WA firms rising by 34.5% in the year to December.

The April edition of the *Westpac-CCI Leading Index of WA Economic Activity* revealed that the WA economy would continue to perform well in the short-term, with the index rising for eight consecutive months. However, the business community is still being challenged by tough operating conditions and rising costs, which worked to keep medium-term expectations subdued in the March quarter of 2013, according to the *Westpac-CCI Survey of Business Expectations*.

Seasonally adjusted total employment in Western Australia rose by 1.9% over the year to March 2013 but fell 0.1% over the last three months. Between January and March 2013, Western Australia's seasonally adjusted unemployment rate increased by 0.6 percentage points to 4.7%. The rise in the unemployment rate in recent months has largely been driven by an increase in labour supply, with the state's working age population increasing by a record 67,500 in the year to March.

Notwithstanding this rise, the demand for labour has softened in recent times. A number of public and private sector job vacancies/advertisements series have been trending down, with the official ABS job vacancies series pointing to a 1.6% fall in job openings in the year to March 2013. Notwithstanding this, income growth remains strong, with the WA wage price index rising by 4.3% in 2012 – by far the strongest increase of all the states and territories.

On the consumer side, confidence in WA's short and medium term prospects rebounded in the March quarter, according to the *Curtin Business School-CCI Survey of Business Expectations*. Confidence rose with households reporting that they feel they are in their best financial shape in three years, on the back of a period of financial conservatism which began following the GFC. However, attitudes towards the property market remain on a downward trajectory, while perceptions about affordability hit a record low.

The Reserve Bank reduced its cash rate to 3.0% in December 2012, down 1.25 percentage points from the rate 12 months previously. However, the major four banks, claiming higher funding costs, did not pass on the full cuts in the cash rate. The variable standard indicator interest rate at 6.45% in March 2013 was down by less than one percentage point from 7.4% in March 2012¹.

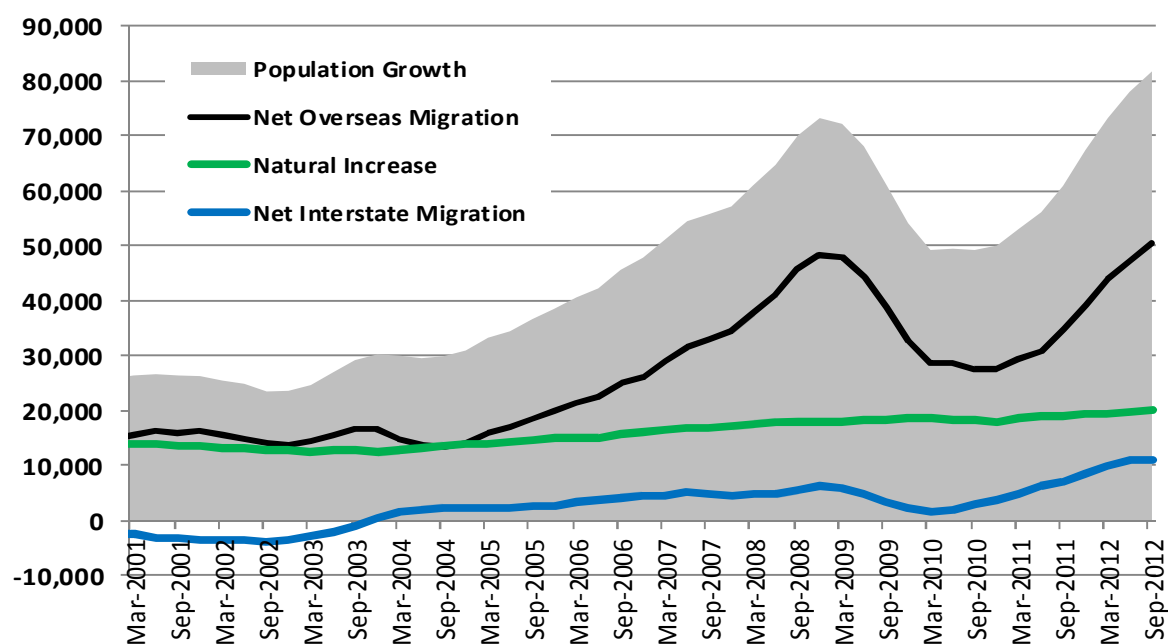
3.3 Population Growth

The latest demographic data to September quarter 2012 continued to show strong growth:

- WA's population growth (see Figure 1), with an annual increase of 3.4% in the 12 months to September quarter 2012, was double the national average growth rate.
- The preliminary estimate of WA's annual population increase to September 2012 was 81,700, an all-time high and 11,800 higher than for the year to September 2011.
- Net overseas migration at 50,600 in the year to September 2012 was 46% higher than for the year to September 2011.
- Net interstate migration at 11,100 for the year was up 59% on the previous year.

Figure 1: Annualised components of WA's population growth, June 2000 - September 2012

Source: ABS Cat No 3101.0 Table 2



Estimated residential population figures for the eleven years to 30 June 2012 showed Perth's² population grew by 29.7% to 1,806,300, increasing its share of the State's population from 73.3% to 74.3%. Outside Perth, the fastest growing regions were the South West and Pilbara. The former grew 34.6% over the period and increased its share of the State population from 10.2% (194,100) to 10.7% (261,300). The Pilbara increased its share of the State population from 2.1% to 2.7% over the eleven years, growing by 64.5% from an estimated population of 39,500 in June 2001 to 64,900 as at 30 June 2012.³

¹ Table F5, Indicator Lending Rates, RBA web site

² Standard ABS outputs now include Mandurah with Perth but has been excluded in this paragraph.

³ *Regional Population Growth, Australia* ABS Cat No. 3218.0

4 Residential Land Market Activity and Trends

4.1 Residential Land Sales

Residential lot sales by UDIA (WA) members in Perth and Peel increased 23.4% in the December 2012 quarter and 12.9% in the March 2013 quarter to their highest levels since 2006. While not widespread, several residential developments – especially rare coastal releases – in Perth have experienced buyers camping out the night before a land release. The average price of lots sold by UDIA members in the March quarter at \$225,000 was held steady by strong demand in the sub-\$200,000 category.

The South West land market is also recovering with sales of residential lots increasing 34.7% in the March quarter 2013, albeit from a low base.

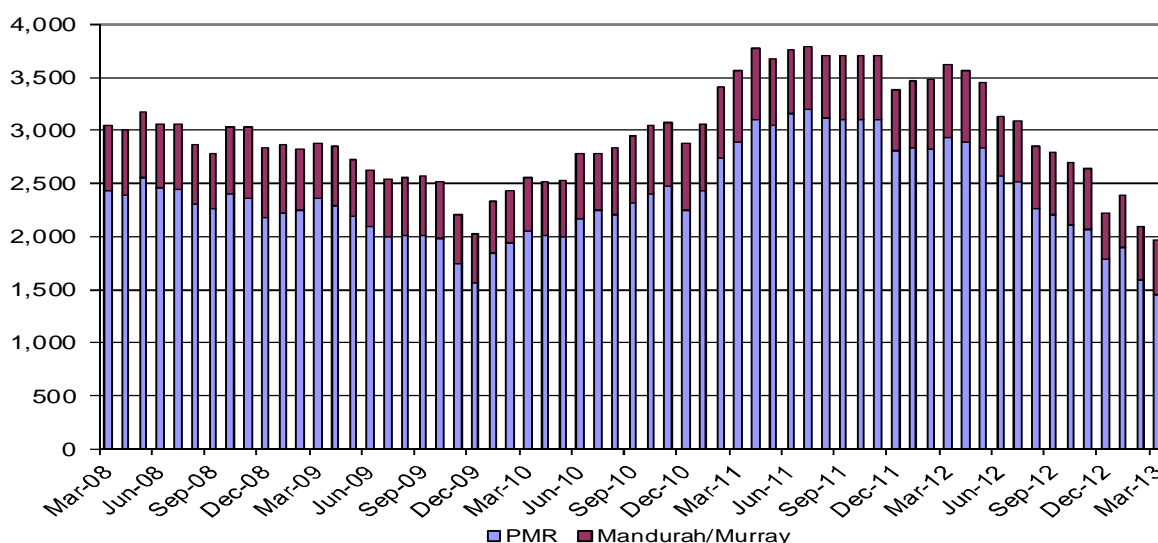
The latest settled land sales figures from Landgate/REIWA for calendar year 2012 as at 19 April 2013 were 15,775 for WA, of which 12,125 were in Perth. Settled sales to date for the December quarter 2012 and March quarter 2013 in Perth were 2,870 and 1,224. The median price for the March quarter 2013 was \$272,000⁴, up 11% on the previous quarter and 13.3% on the year. The preliminary median sale price in regional WA was \$180,000 for the March quarter 2013, up 10.4% from the previous quarter and 7.1% on the year.

4.2 Land on the Market

Figure 2 below shows Perth land listings by REIWA members falling from the high point of 3,202 lots in July 2011 to 1,455 lots in March 2013, a 50% fall from March 2012. Listings over the year to March 2013 were: Peel region down 25% to 509, Greater Bunbury fell 3% to 195 lots, Geraldton/Greenough down 18% to 334, Albany up 24% to 254 and in Busselton down 23% to 28 lots.

Figure 2: REIWA land listings in Perth and Peel, March 2008 - March 2013

Source: unpublished data from the Real Estate Institute of WA



⁴ These preliminary median prices can be expected to fall as balance of settlements are lodged.

Key findings from the latest survey of UDIA (WA) developer members showed that land developers brought forward new land releases in the March quarter to help meet increasing demand for new dwellings in Perth that has seen sales volumes reach their highest level since 2006.

In March 2013, land developers in Perth and Peel have increased the number of lots brought onto the market for the sixth consecutive quarter. An average of 214 residential lots were brought onto the market each week in the March quarter, which represents a 10.3% increase on the December quarter and a 78% increase on levels 12 months ago.

Despite land developers bringing onto the market lots at their fastest rate in seven years, demand is exceeding supply in Perth and the South West. The number of lots advertised for sale by developers declined 33.1% over the year to March 31, 2013 in Perth and Peel. In the South West, stock levels have declined 46.1% over the year.

4.3 Land Development Trends

The preliminary number of residential lots conditionally approved in December quarter 2012 totalled 6,819 lots across the State, which was up 1% on the previous quarter and up 52% on the December quarter of 2011. Final approvals for residential lots in the December quarter 2012 totalled 3,789 across the State, representing an increase of 22% from the previous quarter and 10% from the same quarter of 2011⁵. Of the State total, Perth accounted for 3,107 lots (82%) with 682 (18%) in regional WA (including the Peel region). Calendar year final approvals for Perth totalled 9,277 in 2012, down 13% on 2011 (10,633). For WA, final approvals totalled 11,401 and also were down 13% on the previous year (13,113).⁶

The number of lots with a cleared servicing agreement with the Water Corporation, indicating land close to final approval, totalled 12,200 as at December 2012 and was up 8% from the 11,300 at the start of the year.

The major land developers are confident sales levels in Perth and Peel will continue to remain strong in the near term with just over two-thirds of the 83 residential land estates surveyed in Perth and Peel expecting to bring more land onto the market by March 31, 2014.

The index tracking new land release intentions increased for five consecutive quarters to its highest level since 2007 with the number of lots expected to be available for sale over the next twelve months up 62% compared to a year earlier. However, over the shorter term, land release expectations were steady, albeit still significantly up on levels experienced 12 months ago. The index tracking the number of lots expected to be available for sale over the next six months increased only 1.8% over the March quarter.

5 Building Industry Activity and Trends

The residential construction sector has shown a marked improvement since our October 2012 report, with strong growth in both building approvals and dwelling commencements in

⁵ *State Lot Activity*, Department of Planning

⁶ See Appendix 1 for a description of the land development pipeline.

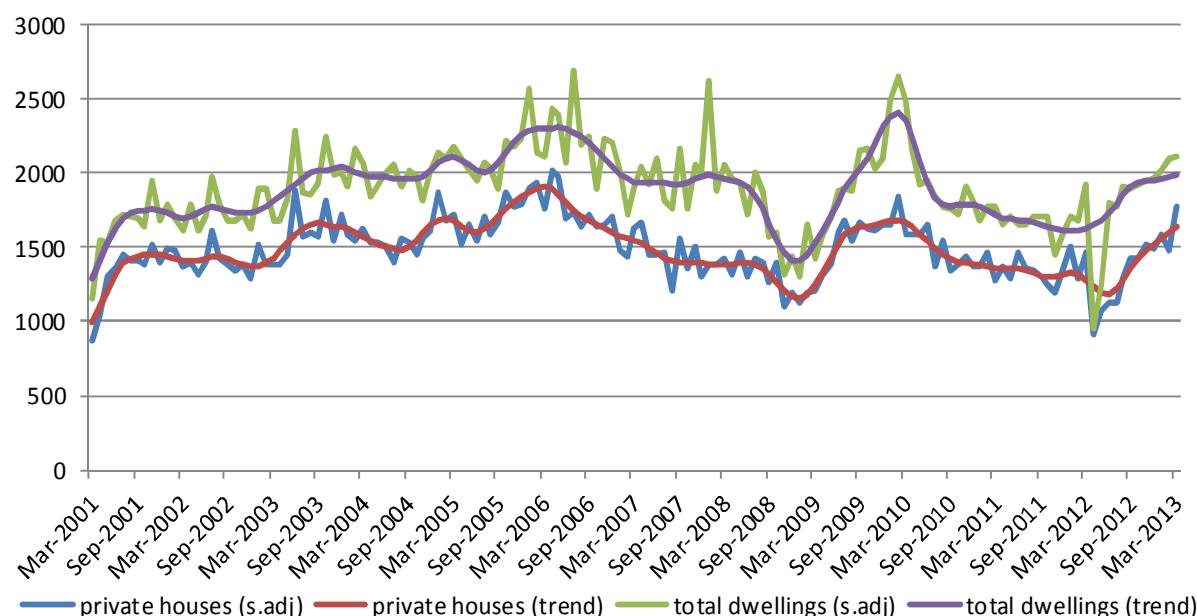
the first half of 2012/13. The implementation problems during the introduction of the Building Act have settled down. However, as the market continues to pick up, the ability of local government to meet their statutory deadlines under the Act could be tested.

5.1 Building Approvals

As at March 2013, total financial year-to-date seasonally adjusted dwelling approvals at 17,638 were up 17% compared to the same period in 2011/12 and were up 17% in the March quarter 2013 compared to the same period of 2011/12. The trend estimate for the number of total dwellings rose strongly in the second half of 2012 but has eased in the first three months of this year (see Figure 3). The trend in private sector houses has risen for 15 months but appears to have slowed slightly in the first three months of 2013.

Figure 3: Building approvals in WA, July 2000 - March 2013

Source: ABS Cat. No. 8731.0 Table 5



Financial year-to-date figures of seasonally adjusted building approvals for the public sector at 986 were up 112% on the same period of 2011/12 compared to a rise of 14% for the private sector with 16,652 approvals. Multi-residential dwellings at 3,717 for the financial year to March 2013 were up 34% on the same period of 2011/12 and accounted for 21% of total building approvals (18% in 2011/12).

Perth accounted for 72% of total building approvals (9,629 houses and 2,654 other dwellings), with multi-residential units representing 22% of total approvals in Perth. Building approvals were also up in regional WA with very strong growth in the North West. The Pilbara saw a 44% increase in building approvals from 899 in the nine months to March 2012 to 1,296 so far this financial year. Building approvals in the Kimberley almost doubled from 306 in the nine months to March 2012 to 591 approvals so far this financial year.

5.2 Building Activity

5.2.1 Dwelling Commencements

Following a revision for the June quarter, dwelling commencements⁷ totalled 17,785 in 2011/12, 15% lower than in 2010/11. Seasonally adjusted dwelling commencements (Figure 4) clearly show a turnaround in the first half of 2012/13. Total dwelling commencements were up 22% in the six months to 11,239 compared with 9,250 in the same period of 2011/12, with private sector multi-residential starts up 72% (2,624) and private sector houses up 10% (8,331). Total public sector starts at 284 were down 27% in the half year compared to the same period of 2011/12.

Figure 4: WA seasonally adjusted dwelling commencements, June 2000 - December 2012

Source: ABS Cat No 8752.0 Table 34

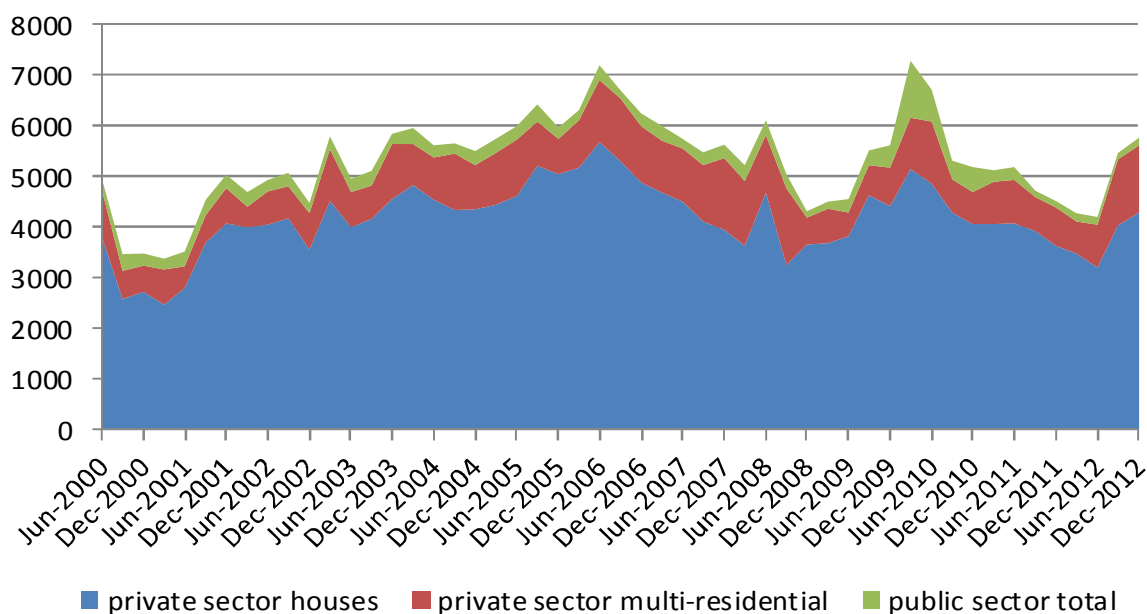
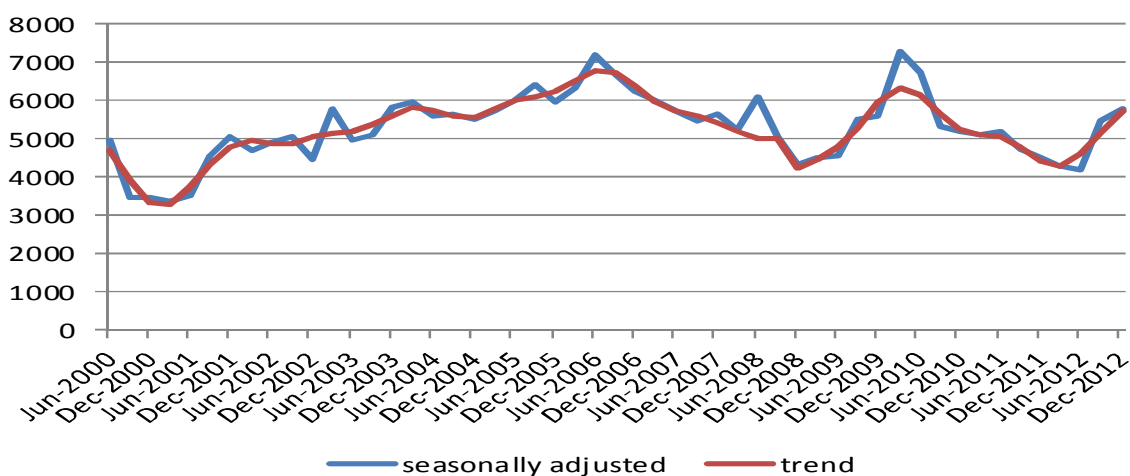


Figure 5: Total dwelling commencements in WA, June 2000 - December 2012

Source: ABS Cat No 8752.0 Table 34



⁷ including conversions

Figure 5 above shows seasonally adjusted and trend figures of total quarterly dwelling commencements since June 2000. After eight quarters of falling, the trend turned upwards in the June quarter of 2012.

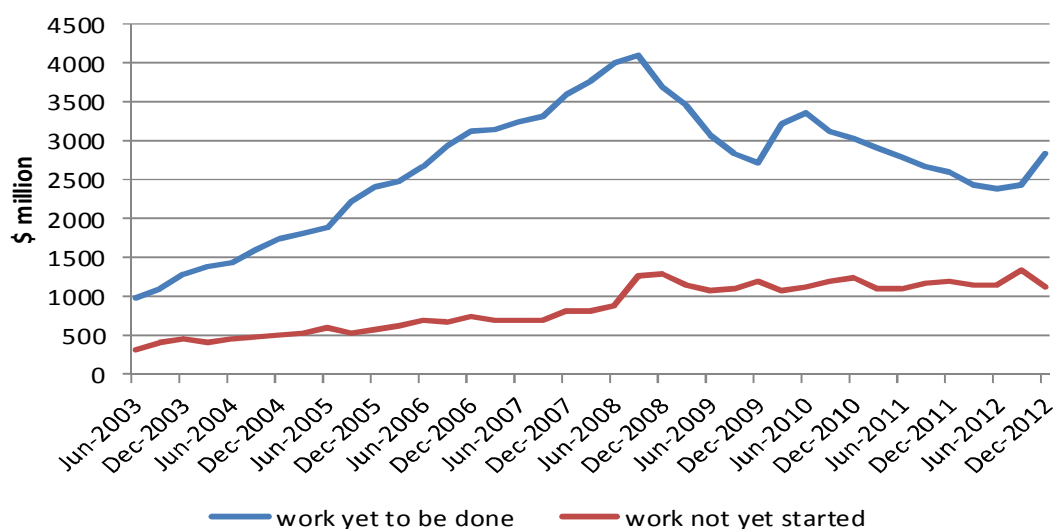
5.2.2 Completions and Residential Construction Work in the Pipeline

Seasonally adjusted dwelling completions in the first half of 2012/13 were down 4% at 9,460 compared to the same period of 2011/12 (9,859). Out of this total, houses (7,861) were up 0.7% whereas multi-residential completions (1,599) were down 22%⁸. Dwelling approvals not yet started totalled 3,547 at the end of the December quarter 2012⁹ and were down by 6% on the total for December 2011. The stock of “other dwellings” yet to start (1,183 at the end of the December quarter 2012) was 12% lower than a year ago and houses were down 2% to 2,348.

As at the December quarter of 2012, the value of residential work in the pipeline, including dwellings approved but not yet started, totalled \$3,956.8 million¹⁰, 4% higher than 12 months previously. The value of work yet to be done had been falling since June quarter 2010 but turned up sharply in the last quarter of 2012. The value of work yet to be started took an upturn in the September quarter 2012 after being relatively flat since 2008 but fell back in the final quarter of 2012 (see figure 6 below).

Figure 6: Value of residential work in pipeline in WA, June 2003 - December 2012

Source: ABS Cat No 8752.0 Table 79



The number of dwellings approved but still to commence (see figure 7) was increasing between the March and September quarters 2012, but the number of houses flattened out and the number of multi-residential dwellings was down strongly in the December quarter.

The building industry has indicated that the availability of titled lots is emerging as a short term issue for the commencements of new dwellings. Under the new Building Act, building approvals can be granted where a land sale contract is in place but titles are not yet issued.

⁸ ABS Cat No 8752.0 Table 38

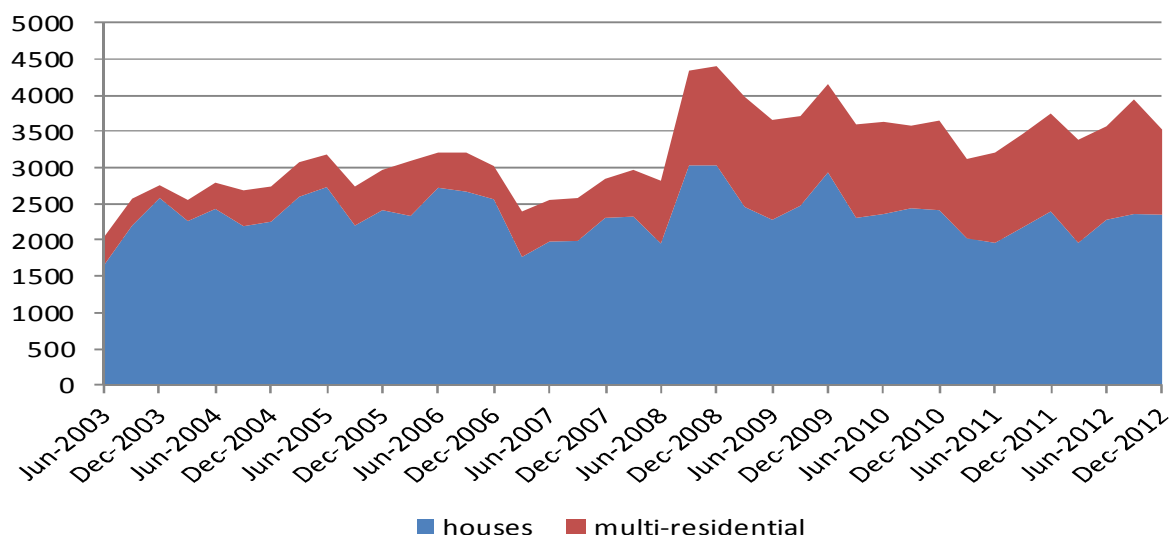
⁹ ABS Cat No 8752.0 Table 80

¹⁰ ABS Cat No.8752.0 Table 79

However, there is no official or industry data available to measure this issue. If significant, this will ultimately flow through into ABS data on the number of dwellings approved but not yet started.

Figure 7: Number of dwellings approved but not started in WA, June qtr 2003 - Dec qtr. 2012

Source: ABS Cat No 8752.0 Table 80



5.2.3 Housing Finance

In the eight months to February 2013, seasonally adjusted total home loan commitments (excluding refinancing) at 36,982 were 21% higher than the same period of 2011/12. Owner-occupier loan commitments for the construction and purchase of new dwellings were up 29% to 12,374 loans in the same period (see figure 8 below). The proportion of first homebuyers has been over 30% of all buyers (excluding refinancing) since September 2011, compared to the long-term average of 28% since July 2000.

Figure 8: WA seasonally adjusted home loan approvals, July 2000 - February 2013

Source: ABS Cat No 5609.0 Tables 9b & 10a adjusted for seasonal factors in Table 15

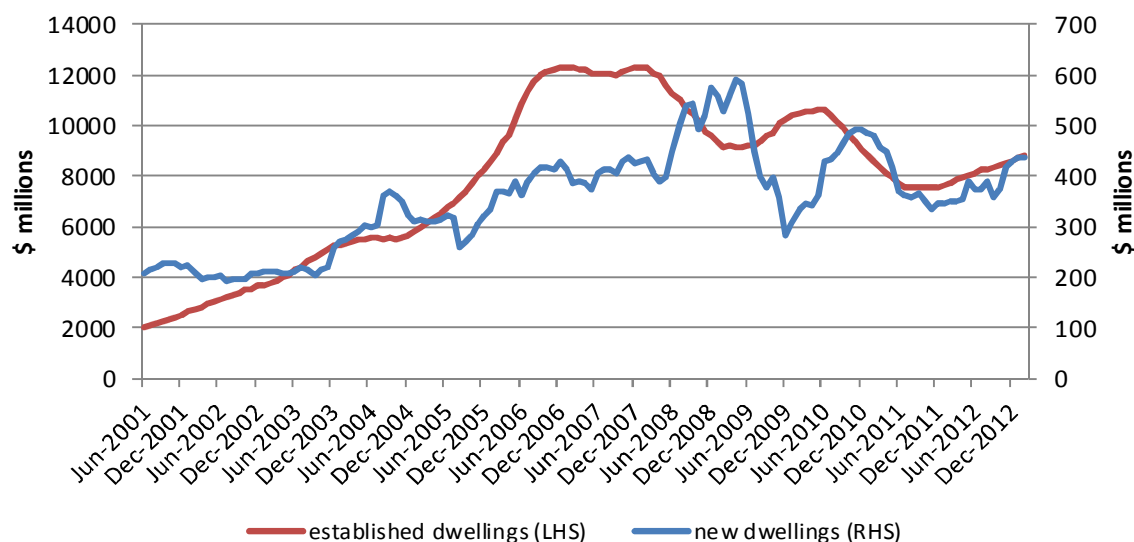


The annualised value of financial commitments for investment in new and existing housing both showed an upward trend since the low point in 2011 (Figure 9 on next page). In the eight months to February 2013 at \$5.734 billion, investment in established dwellings for rent

was up 14% on the same period in 2011/12. The investment in new dwellings for rent increased 27% over the same period to \$298 million.

Figure 9: Annualised finance commitments for housing investment, June 2001 - February 2013

Source: ABS Cat No 5671.0 Table 23



6 Housing Market Trends

6.1 New Homes Market

The continued attractive discounts being offered by the major builders resulted in strong sales of new homes since the last low point in September 2011. Despite a 5.6% fall in the month of March, new home sales were 12.4% higher than the previous quarter and were up 15.1% on the March quarter 2012¹¹.

6.2 Established Dwelling Market

Perth dwelling sales have rebounded strongly since our October 2012 report with projected house sales for the March quarter 2013 back to the 15 year average level after languishing to the lowest level in 2011 and then rebounding across 2012. Multi-residential sales remain below the long term average due to weak investor activity but are rebounding with current figures benefitting from strong pre-sale activity being reported around the CBD apartment sector. While REIWA's preliminary *reiwa.com* data for Perth has a median house price of \$505,000, on track to record a record median house price of \$510,000 in the March quarter 2013.

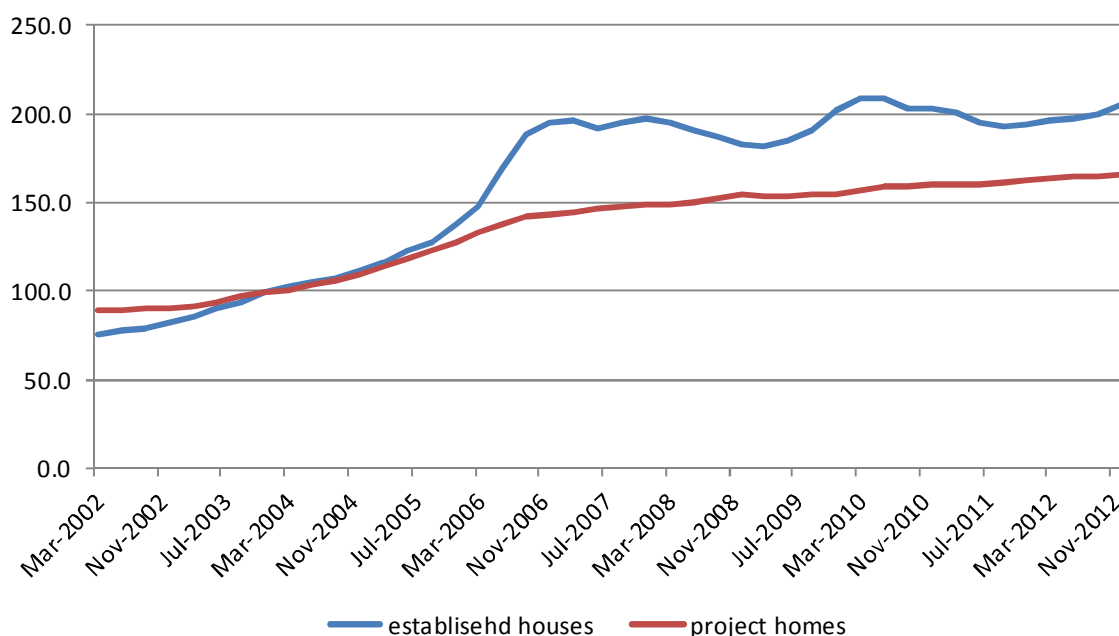
A regional house sale represented 20% of WA's house sales in 2012 as they stagger to recover from 20-year lows and are well below the 25% of sales recorded during the boom years. That said, South West markets have seen a seasonal upswing in the March quarter along with Kalgoorlie-Boulder. However, turnover remains flat in Geraldton-Greenough whilst Karratha and Port Hedland recorded their lowest level of sales in the December quarter since the 1990s.

¹¹ *New Home Sales, March 2013, HIA*

The index of established home prices in Perth (Figure 10) increased 5.6% in the year to the December quarter 2012, the highest index figure since the September quarter 2010. The index for project homes in Perth increased by 2.0% over the same period.

Figure 10: Quarterly indexes of Perth house prices, Mar 2002 - Dec 2012

Source: ABS Cat No 6416.0



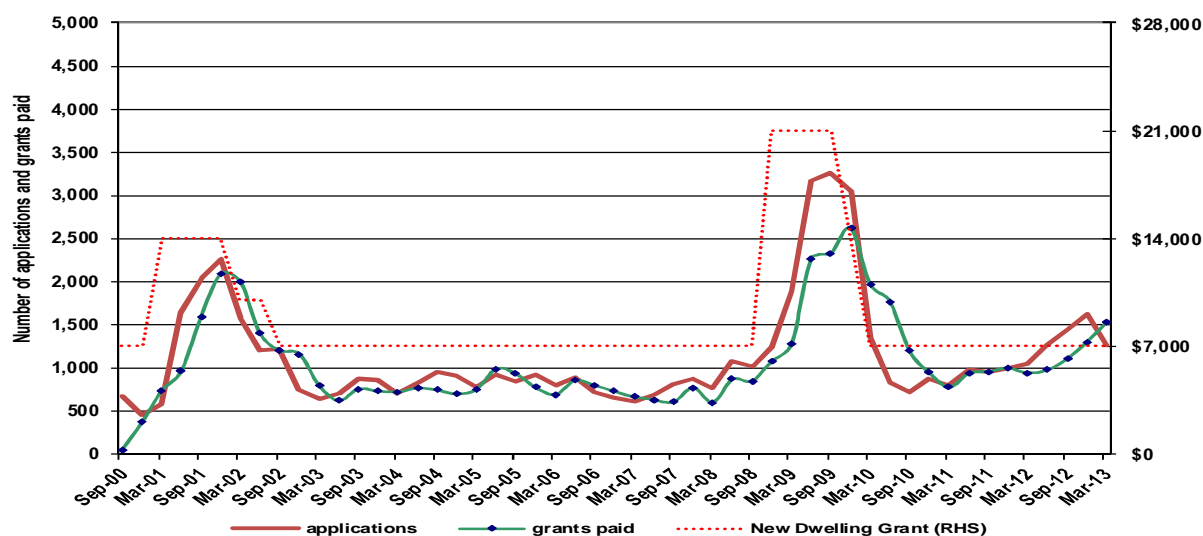
6.3 First Home Buyer Market

Total FHOG applications of 15,310 in the nine months to March 2013 were 32% higher than for the same period of 2011/12. The number of applications for new dwellings grew even more strongly with an increase of 53% to 4,581 was even stronger over the same period with figures of and growth of 53%. However, quarterly applications for new build in the March quarter 2013 were down 22% on the previous quarter although still up 21% on a year ago (see Figure 11). Applications for new build made up 30% of total applications in the March quarter, four percentage points higher than the long-term average since July 2000.

With the small decline in established grants paid in the March quarter 2013 and 14% increase in dwelling sales across the State, the proportion of established first home buyers has fallen to 26% for the quarter.

Figure 11: Quarterly FHOG applications and grants paid in WA for new dwellings, July 2000 - March 2013

Source: Office of State Revenue



6.4 Private Rental Market

A 51% increase in properties for lease in Perth over the December to March quarters lifted the March quarter vacancy rate from 1.9% to 2.4% and is trending rapidly back toward 3.0% (considered to be a balanced market) as first home buyers vacate property and investors bring property to the market. The median rental increased over the year to the March quarter by 11.9% to \$470 per week.

Comparative data for regional centres for the March quarter 2013 (see Table 1 below) showed a mixture of growth and decline in median rents. The slowdown in the resources sector has seen big falls in the median rents for both Karratha and Port Hedland. The latter witnessed a significant fall of 15.2% in the quarter although the annual change was only minus 6.9%. Karratha's median rent was down 25% on the year and minus 4% for the quarter.

Table 1: Median Weekly Rent in Major Regional Centres, March Quarter 2013

Region	Median Weekly Rent	Qtly/annual Change	Vacancy Rate
Perth	\$470	4.4%/11.9%	2.4% (p)
Mandurah/Murray	\$360	n.c. /10.8%	
Albany urban area	\$310	6.9%/5.1%	
Bunbury urban area	\$350	2.9%/2.9%	
Geraldton/Greenough	\$340	-5.6%/3.0%	
Kalgoorlie/Boulder	\$420	n.c./7.7%	
Karratha urban area	\$1,200	-4.0%/-25.0%	
Port Hedland	\$1,675	-15.2%/-6.9%	
Broome urban area	\$650	n.c./4.8%	

Source: REIWA

7 Housing Affordability in WA

7.1 Home Ownership

Lower interest rates and rising incomes meant that affordability indexes improved over the year. The latest HIA–Commonwealth Bank index on housing affordability for first homebuyers for the December quarter of 2012 was up 7.4 index points to 68.2 for Perth and up 14.7 points to 82.6 for regional Western Australia compared to the December quarter 2011.¹² The Real Estate Institute of Australia's Home Loan Affordability Indicator for December quarter 2012¹³ witnessed a similar improvement in home loan affordability for homebuyers in WA with an index up 2.8 points on the previous quarter and up 2.7 points on the year.

In the December quarter of 2012, a Perth household on the estimated median household income of \$82,300 and allocating 30% of their gross income to loan repayments with a 10% deposit could afford a property valued around \$360,000. This was below the lower quartile house price of \$395,000 in the December quarter and would have enabled them to access 17% of all Perth properties sold in the quarter.

7.2 Private Rental

With Perth's median rental at \$470 per week in the March quarter 2013¹⁴, a household would need a gross income \$1,567 per week (\$81,500 per annum) if they wanted to allocate no more than 30% of their income to rent. Households on lower incomes will be struggling to afford the higher rents, which increased by 11.9% over the year. This has been one factor behind the continued high waiting list for public housing, which at the end of March 2013 totalled 21,333 households.

The National Rental Affordability Scheme (NRAS) is continuing to add to the supply of affordable rental housing in Western Australia with 1,286 dwellings completed to the end of March 2013. In return for indexed financial incentives for ten-years, currently worth \$9,981 per dwelling per year, dwellings will be available to eligible applicants for 20% below the local market rent. Round 5 was recently announced by the Commonwealth which is expected to lead to an extra 400 dwellings in Western Australia by June 2014 plus a further 1,000 dwellings to be completed in 2015/16.

8 Housing Industry Resources

8.1 Construction Costs, Building Materials and Labour Supply

The Project Home Price Index for Perth in the December quarter 2012 was 2% higher than the index for December 2011¹⁵, while Perth's price index of building materials used in housing construction increased by 2.3% in the year to the December quarter 2012¹⁶.

¹² *HIA-Commonwealth Bank Affordability Report*, December Quarter 2012, HIA

¹³ *Housing Affordability Report*, December Quarter 2012, Real Estate Institute of Australia

¹⁴ REIWA

¹⁵ House Price Indexes, Cat No. 6416.0, ABS.

¹⁶ Producer Price Indexes, Table 18, Cat No 6427.0, ABS.

No shortages are being reported for material supplies for the construction sector.

The HIA's trade price index for the September quarter 2012 fell 0.4% for Perth but rose 0.3% for regional WA compared with the previous quarter and was up 5.9% and 15.8% respectively over the year. Availability of trades in the last quarter was in moderate undersupply in Perth and in equilibrium in regional WA¹⁷. The impending wind-down in the mining sector is likely to free up trades for the residential construction sector.

Industry members of the group have raised concerns regarding the future availability of housing indemnity insurance in WA. HIFG understands that government is aware of these concerns and is considering the issue.

9 Underlying Demand for Housing

9.1 Underlying Housing Requirements

We are proposing no changes to our estimates of the underlying demand for housing made last October, and will be updating them in our October 2013 report.

10 HIFG's Forecast of Dwelling Commencements

10.1 Forecast of Dwelling Commencements

Our October 2012 forecast of 21,000 dwelling starts in 2012/13 was based on several negative factors (such as continuing low levels of consumer confidence, overseas turmoil in financial markets and the end of the social housing stimulus) damping down the positive factors (such as continuing population growth and easing interest rates). Seasonally adjusted dwelling starts (including conversions) for the first half of this financial year totalled 11,239, up 22% on the same period of 2011/12. Current trends in building approvals suggest that dwelling starts in the second half will be a little higher. Therefore, we are raising our prediction for this financial year from 21,000 to 22,500.

Continuing low interest rates (with the possibility of a further cut), high rents in Perth and increased investment in the rental sector should see the upside potential remaining stronger than the downside risks. Therefore, we are increasing our forecast for 2013/14 from a 21-22,000 range to 22,500. With the more positive outlook we have raised the range for the out-years 2014/15 and 2015/16 by 500 per annum.

¹⁷ *HIA Trades Report September Quarter 2012*, HIA

HIFG Forecast of Dwelling Commencements in WA, 2012-13 to 2015-16

Financial Year	Dwelling Commencements	% change
2011/12 (actual)	17,785	
2012/13 (forecast)	22,500	27%
2013/14 (forecast)	22,500	No change
2014/15 (forecast)	21 – 23,000	
2015/16 (forecast)	21 – 23,000	

10.2 Assessment of Serviced Residential Land Supply

As noted in our October 2012 report, sufficient zoned land is available to meet demand for the next 22 years but questions remain on how quickly that land can be brought to market, given the time needed to provide the required infrastructure and obtain the necessary development approvals.

Based on 1.3 dwellings per lot¹⁸, our revised forecast suggests the need for around 17,300 serviced lots per annum over the course of the forecast to 2015/16. Demolitions will provide between 2-2,500 lots per annum. So there is a need for around 15,000 serviced lots per annum to be supplied from new land developments and vacant unsold serviced lots. Lot listings have been falling steeply over the last 12 months with 2,775 listings of vacant lots in Perth, Peel, Bunbury, Busselton, Albany and Geraldton in March 2013.

Both real estate industry and developer data are indicating a declining supply of titled lots available for sale in Perth over the past 12 months. The development industry has ramped up activity to meet the current demand and is pre-selling future supply. Whilst there is no measure of a shortage per se at this stage as building applications move through the system and approvals continue to trend up, the housing industry has indicated the availability of titled lots is emerging as a short term issue for commencements. This has occurred due to a shift in policy associated with the new Building Act that allows for a building approval to be granted on a land sale contract whereas previously it required a titled lot.

The attached appendix outlines the six stages needed to convert undeveloped zoned land to serviced lots on the market. In order to give us a better understanding of the state of the land development pipeline and its ability to meet demand, we will work with the Department of Planning to estimate the flows and stocks at the different stages and report the findings in our main report next October.

¹⁸ Based on unpublished ABS data, see page 12 of HIFG's October 2011 report.

Appendix 1 - What does land supply mean?

The term land supply has various meanings. In its broadest sense, it can refer to the amount of broad-hectare land, regardless of whether that land is zoned or suitable for development. It is also used to refer to the amount of land that is zoned for urban, industrial or commercial use in a region scheme and is undeveloped. Most buyers of residential land view the term “land supply” in terms of the number of developed and serviced lots that are available to purchase and build on. The following table shows the six key stages of the lot supply pipeline. Our October 2013 report will provide data to show the state of supply at the different stages of the pipeline.

Stage		Definition
Undeveloped zoned land supply (stock)		Land zoned for urban development is defined as land zoned urban or urban deferred in the Metropolitan, Peel or Greater Bunbury region schemes. The undeveloped area (measured in hectares) refers to the portion of land zoned for development, which has not yet been subdivided for urban purposes.
Conditional subdivision approvals (flow)		Conditional approval is granted by the WAPC for subdivision to begin subject to certain conditions being met. The approval is preceded by an assessment of the proposed subdivision plan by statutory referral agencies, including servicing authorities. On receipt of conditional approval, the proponent may commence subdivision development in accordance with the conditions of approval. A conditional approval remains valid for three years when five lots or fewer are approved; and for four years when six lots or more are approved.
Conditionally approved lots (stock)		Current conditional approvals (or stock of current conditional approvals) refer to those conditional approvals that are still valid but have not yet been issued with final approval. In general, these are approvals for which construction/servicing has not yet commenced or is currently under way (see active conditional approvals).
Final subdivision approvals (flow)		Final approval is the WAPC endorsement of the proponent’s submitted plan/diagram(s) of survey describing the now complete subdivision, constructed in accordance with the conditions set down in the conditional approval. Final approvals are then registered with the Office of Titles where certificates of titles for the newly created lots can be issued.
Serviced lots available (stock)		Stock of serviced lots available to public refers to the number of serviced lots, for which title has been issued, that are available to the public for purchase.
Lots sold (flow)	Titled	Titled lots sold refers to the number of residential lots, for which title had been granted prior to sale, to have been sold in the quarter.
	Pre-sales	Pre-sales refers to the number of residential lots to have been sold prior to final subdivision approval. These lots are generally (but not always) approved and under construction, but not yet titled.

Source: Department of Planning

Appendix 2 – Housing Industry Forecasting Group

The Group is a joint industry and government body re-established in February 2008 to provide independent commentary on the housing sector in WA. The Department of Planning and the Department of Housing jointly provide the HIFG secretariat and research function.

Membership of the Group is drawn from major organisations associated with the housing and land development industry in Western Australia and from government. Through its diverse membership, the Group has access to considerable expertise and knowledge of the sector, including land development, real estate, the private rental market, social housing, building statistics, demographics, building resources and home finance.

HIFG Members – as at April 2013

Members	Organisation
Stewart Darby (Chair)	Real Estate Institute of WA
Alan Langford	Bankwest
Ryan Buckland	Chamber of Commerce and Industry WA
John Dastlik	Housing Industry Association
Gavan Forster	Master Builders Association
Andrew Winter	Chamber of Minerals and Energy WA
Tim Connoley	Urban Development Institute of Australia (WA)
Simon Ward	Department of Housing
Simon Zheng	Department of Treasury
Steven Rowley	Housing and Urban Research Institute of WA
Brett Coombes	Water Corporation
Jacqui Homer	Department of Premier and Cabinet
Damien Martin	Department of Planning
Observers	
Marion Thompson	Urban Development Coordinator
David Waymouth	Australian Bureau of Statistics

Secretariat

Ian Hafekost

