

Housing Industry Forecasting Group

Forecast
Dwelling Commencements
in Western Australia



April 2014 Update

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1 Executive Summary

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

- Data available since our last report show WA's residential construction sector continued to grow strongly in the first half of 2013/14 and into 2014.
- The lagged effect of the low interest rate and continuing strong trend in building approvals support the case for an upward revision to our October 2013 forecast. The group has increased its forecast of dwelling commencements for 2013/14 from 24,000 to 27,000, the latter being a 12.4% increase over 2012/13.
- In line with the higher 2013/14 forecast, the group is also increasing its prediction for dwelling starts in 2014/15 by 2,500 to 25,000 commencements, a fall of 7% on 2013/14. Our prediction for the out-years of 2015/16 and 2016/17 is that dwelling starts in WA will be in the 20-22,000 range, unchanged from our report last October.
- Both real estate industry and developer data are indicating a declining supply of titled lots available for sale in Perth over the past 18 months. The development industry increased activity to meet demand and continues to pre-sell future supply.
- We estimate WA will need over 21,000 serviced lots in 2013/14, falling to 17,000 in 2014/15 and around 16,000 in the out-years, some of which will be sourced from demolitions and vacant land listings.
- Total year-to-date seasonally adjusted building approvals for WA in the eight months to February 2014 at 20,180 were up 26% compared to the same period in 2012/13.
- Dwelling commencements for the first half of 2013/14 at 14,185 were up 18% on the same period of 2012/13.
- Seasonally adjusted home loan commitments (excluding re-financing) of 41,155 for the eight months to February 2014 were 10% higher than for the same period of 2012/13.
- Perth's established median house price was \$549,000 (+9.8% on the year) with a median unit price of \$450,000 (+7.7%).
- Total applications for the First Home Owner Grant (FHOG) of 15,778 in the nine months to March 2014 were 3% higher than for the same period of 2012/13. The number of applications for new dwellings grew 25.3% to 5,742 and for established homes fell 6.5% to 10,036.
- Perth's median rent for the first quarter of 2014 was \$460 per week (down -2.1% on the year). The vacancy rate of 4.0% for the quarter is expected to increase during 2014.
- 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. This growing problem has been highlighted by a recent survey into the real costs of housing in WA conducted by the Bankwest Curtin Economics Centre.

Our next forecast will be published in early November 2014.

2 Introduction

Our October 2013 annual report forecast no change in dwelling commencements in 2013/14 compared to 2012/13, with 2014/15 forecast to fall by 6% to 22,500 commencements and a range of 20,000-22,000 in the following two years to 2016/17. Data available since our last report suggest that dwelling starts in 2013/14 will be stronger than we originally predicted.

3 Housing Industry Drivers

3.1 Economic Overview

The WA economy slowed in the final quarter of 2013, with state final demand declining by 0.1% in the quarter, following a 2.9% rise in the previous quarter. State final demand expanded by 2.7% compared to a year earlier. After the strong growth in the previous year, business investment declined 16.2% in the year to December 2013.

Business investment activity in the state has now passed its “peak”, and is expected to decline over the coming two financial years. However, the national accounts showed that a significant portion of the “gap” created by waning business investment is being made up in other areas, such as housing and exports.

The April edition of the *Westpac-CCI Leading Index of WA Economic Activity* showed the state’s economy is expected to perform well over the second half of 2014, but that this remained contingent on a recovery in investment activity from businesses outside of the resources sector. The March quarter *Westpac-CCI Survey of Business Expectations* showed that while confidence remained fragile, “*expansion plans appear to be on the agenda for the majority of WA businesses this year.*”¹

In trend terms, total employment in Western Australia rose by less than 0.1% between February and March 2014 and only by 1.8% over the year. The trend unemployment rate increased from 5.1% to 5.3% in the month to March 2014 and compares to 4.7% a year ago. However, Western Australia’s unemployment rate remains the lowest of all the states.

The demand for labour remains weaker than recent history, with the official ABS job vacancies series pointing to a 25.7% fall in job openings in the year to February 2014. However, there was an 11.1% increase in private job vacancies between November and March, the first increase since September 2012. Wages growth remains moderate, with the WA wage price index rising by 3.0% in 2013.

After finishing 2013 on a positive note, consumer confidence in WA fell back in the March quarter to near-record lows, according to the *Curtin Business School-CCI Consumer Confidence Survey*. The majority of surveyed households expected a deterioration of the WA economy over the next year. Respondent attitudes towards the property market continue on a downward trajectory, with perceptions about housing affordability also declining sharply. The percentage of respondents believing housing affordability to be worse or much worse

¹ *Westpac-CCI Survey of Business Expectations*, March quarter 2014, CCIWA

increased from 40% in February 2013 to 51% in February 2014. However, the Westpac – Melbourne Institute Survey of Consumer Sentiment for April 2014 reported a 17% increase in its index for WA to 109.3, the largest improvement of all the States. The 'time to buy a dwelling' index for WA also increased to 126.3, a rise of 12.4% in the month and 4.4% over April 2013.

The Reserve Bank (RBA) reduced its cash rate to 2.5% in August 2013, 0.5 percentage points lower than in April 2013. The March quarter consumer price index confirmed that the jump in both headline and underlying inflation in the December quarter last year was mainly statistical 'noise', rather than a break out in key measures of inflation sharp enough to require immediate attention by the RBA. So financial markets continue to price for an unchanged cash rate for at least six months, and are only assigning a modest probability to a tightening in monetary policy before the middle of 2015. However, both the RBA and the Australian Prudential Regulation Authority are openly concerned about house price growth across Australia, in particular Sydney and Melbourne. Accordingly, actual and prospective 'macro prudential' measures, including more stringent loan to value ratio and debt servicing requirements could have the unintended consequence of exacerbating the affordability squeeze on low to middle income households.

The variable standard indicator interest rate charged by the banks has been steady at 5.95% since August 2013 and was down by half of one percentage point since March 2013².

3.3 Population Growth

The latest demographic data to September quarter 2013 showed a slowing growth rate:

- WA's estimated population growth (Figure 1), with an annual increase of 3.1% in the 12 months to the September quarter 2013, was double the national average growth rate.
- The preliminary estimate of WA's annual population increase to September 2013 was 76,300, down 12% on the year to September 2012 (87,200).
- Net overseas migration at 48,400 in the year to September 2013 was 13% lower than for the year to September 2012 (55,500).
- Net interstate migration at 6,800 for the year was down 40% on the previous year (11,400) and the lowest annual figure since the March quarter 2011.

The estimated residential population for Perth³ for the ten years to 30 June 2013 grew 30.9% to 1,876,200, increasing its share of the State's population from 73.4% to 74.5%. Outside Perth, the fastest growing regions were Mandurah, Greater Bunbury and Pilbara. Mandurah grew 53.2% over the period and increased its share of the State population from 3.2% (62,700) to 3.8% (96,100). Greater Bunbury increased 28.0% over the ten years from 135,500 to 173,500 but only maintained its share of the State population over the ten years at 6.9%. The Pilbara increased its share of the State population from 2.2% to 2.6% over the ten years, growing 53.5% from an estimated population of 43,200 in June 2003 to 66,300 as at 30 June 2013.⁴

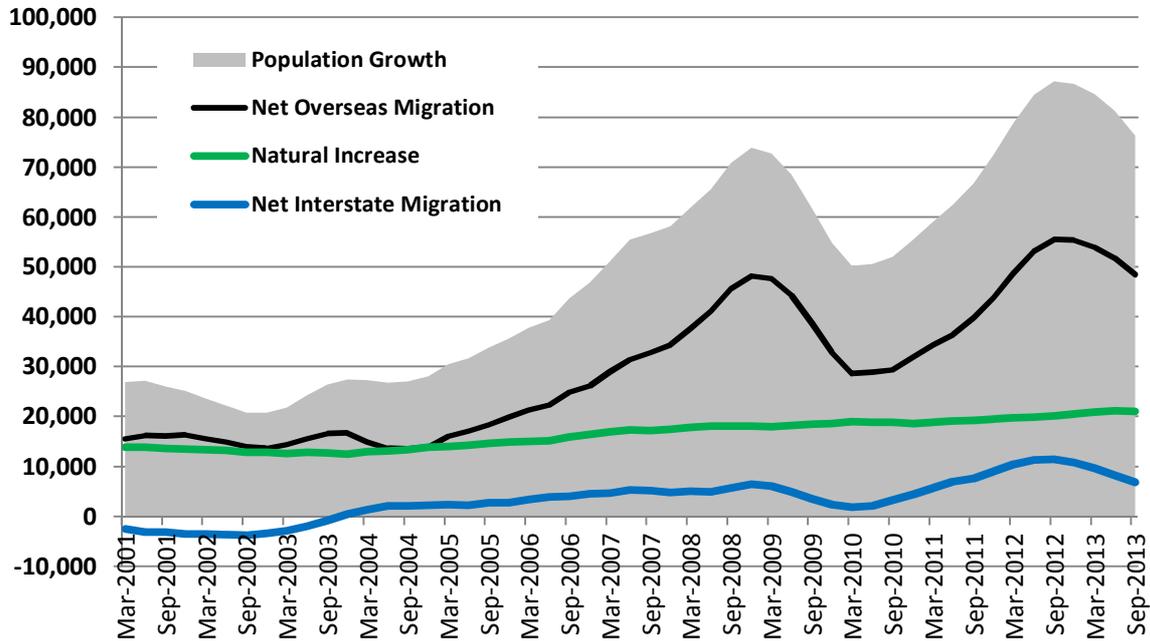
² Table F5, Indicator Lending Rates, RBA web site

³ Standard ABS outputs now include Mandurah with Perth but has been excluded in this paragraph.

⁴ *Regional Population Growth, Australia* ABS Cat No. 3218.0

Figure 1: Annualised components of WA's population growth, June 2000 - September 2013

Source: ABS Cat No 3101.0 Table 2



4 Residential Land Market Activity and Trends

4.1 Residential Land Sales

Calendar year 2013 saw record land sales in the Perth and Peel regions by UDIA (WA) members with 11,159 lots sold. The previous high in major-developer lots sold was in 2003 at 10,687, boosted off the back of a protracted recovery from the implementation of the GST and the response to additional government stimulus.

Residential lot sales in the December quarter 2013 by UDIA (WA) members in Perth and Peel increased 5% on the previous quarter and 10.9% on the year. Only sales in the South Western metropolitan market corridor contracted this quarter, however that was due to low stock levels rather than a falling market.

The average lot size fell 4.9% year-on-year which masked the impact of the 13.3% per square metre price increase over the same period, containing overall price rise to a 7.2% increase year-on-year. The lot size reduction has been driven both by the need for developers to continue providing an affordable product and government objectives of achieving higher lot yields in new structure plan areas. The change in the first home owner grant in 2013 is likely to support activity in 2014.

Lot sizes in the North West corridor fell 6.3% as developers brought product to market to meet the growing first home owner market, lot prices fell 1% but the per square metre rate rose 5.8%. The stock shortage in the North Eastern corridor drove the per square metre rate up 6.7% over the quarter.

The uplift in activity, and the need to meet end of year targets, is predicted to create pressure on the government agencies to achieve final approval and clearance in the lead up to June 30, particularly Landgate for the creation of titles.

Regional WA land markets continue to lag behind the growth in Greater Perth. Sales in the South West contracted 24% over the December quarter to be only 1.1% above figures from the same time in 2012. Sales in the Great Southern region remain challenged with prices falling 13.5% over the twelve months to December 2013.

The latest number of settled land sales figures from Landgate/REIWA for calendar year 2013 was 18,242 for WA, of which 13,757 were in Perth. However these figures will increase, particularly for Perth as pre-sales in 2013 continue to settle. Landgate settled sales data as at 18 April 2014 highlights the settlement lag of pre-sales in Perth and also the influence that higher priced near city lots have on preliminary market medians which fall by up to \$40,000 as cheaper outer regional pre-sales settle:

Table 1: Perth settled land sales, June quarter 2013 - March quarter 2014

Quarter	Sales	Median sale price
June 2013	4,300	\$239,000
Sept 2013	3,164	\$240,000
Dec 2013	1,993	\$260,000
March 2014	816	\$307,000

Source: Landgate/REIWA

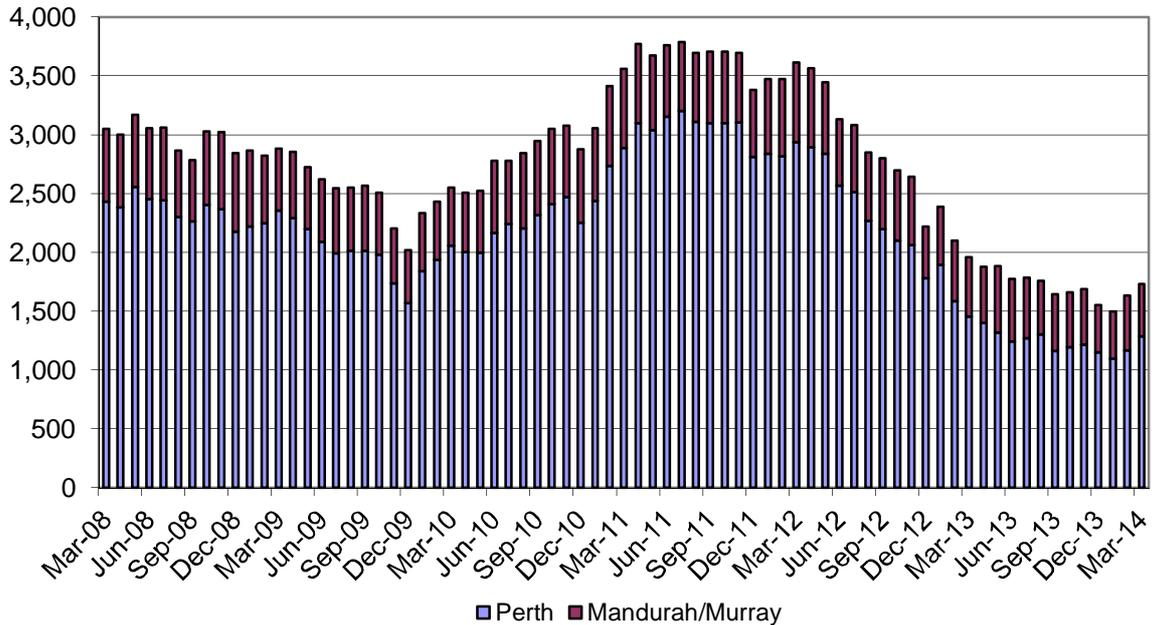
The preliminary median sale price in regional WA was \$176,000 for the March quarter 2014, up 4.4% from the previous quarter and 1.1% on the year.

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 1,289 lots in March 2014, a 60% decline and down 11% over the last 12 months. Listings in other regions over the year to March 2014 were: Peel region down 12% to 447, Greater Bunbury down 24% to 149 lots and Geraldton/Greenough no change at 334.

Figure 2: REIWA land listings in Perth and Peel, March 2008 - March 2014

Source: unpublished data from the Real Estate Institute of WA



Stock levels for UDIA members in Perth and Peel have contracted for eight consecutive quarters with sales now occurring between six and nine months from titles being issued. The number of lots on the market has improved 27% on last quarter however that is down 21% on the same time last year.

This recovery may not be sustained, however, with a fall in production of lots over the next six months of 29%. This is still 36% stronger than December 2012 and it is likely to be operational barriers that are creating a supply bottleneck rather than developer intention. Many developers are now reporting that they have now presold all of the lots with conditional approval and, until lots clear the Local Structure Planning process, they are unwilling to put them onto the market.

The availability of stock is causing major sales volatility with stock being snapped up as soon as it comes to the market. In the South Western corridor, which has been strong first home buyer territory, variations in stock impact on results with a 32% uplift in sales over the quarter but only a 0.8% variation year-on-year. The real story for that corridor is in the value of lots sold, up 42.9% for the quarter showing purchaser appetite for product driven by lack of stock in this affordable corridor.

The highest risk is in the North Eastern metropolitan corridor which is forecast to only have stock to meet 67% of current demand. The South East metropolitan corridor saw the strongest fall in sales volumes over the quarter but solid gains year-on-year. This has moved the corridor into the enviable position in a tight market of being the only area with a forecast surplus of lots which is likely to accelerate sales.

Across Perth there are a number of developments with zero or very low stock volumes as of 31 December 2013, with some reporting no stock being brought to the market over the next six months. For those with capacity, forecast construction for the next six months is up year-

on-year by 20.9% with forecast construction six-to-twelve months out, up 26.2% year-on-year.

4.3 Land Development Trends

The preliminary number of residential lots conditionally approved in December quarter 2013 totalled 8,426 lots across the State, which was down 2% on the previous quarter but up 24% on the December quarter of 2012. Final approvals for residential lots in the December quarter 2013 totalled 4,576 across the State, representing an increase of 31% from the previous quarter and 21% from the same quarter of 2012⁵. Of total final approvals, Perth accounted for 3,779 lots (83%) with 797 (17%) in regional WA (including the Peel region). Calendar year final approvals for Perth totalled 13,281 in 2013, up 43% on 2012 (9,277). For WA, final approvals totalled 16,185 and were up 42% on the previous year (11,401).⁶

The development industry has been examining the current stage of the residential land market cycle with the period during 2005–2007. Whilst superficially similar, fundamentally there are differences with the most important being the level of price sensitivity that has remained in the market, constraining overall price growth in Perth to a modest 7.2% increase in the year to December 2013.

The challenge will be over the next six months if sales volumes remain high. Beyond that the forecast interest rate rises and economic factors such as rising unemployment are likely to have a natural dampening effect. To date, developers have managed to avoid technical land shortages by selling back into the pipeline but that elasticity has virtually been exhausted. Whilst developers are forecasting the delivery of 20.5% more stock over the next six months than forecast in December 2012, that remains only 90% of forecast demand.

Price rises have been contained through the 5% fall in lot sizes. Lots in the Perth metropolitan region are now averaging only 408m², which is the second smallest in Australia after Adelaide. Whilst the average lot size in Perth is forecast to fall to 377m² over the next six months, it is questionable how long overall price increases can be buffered using this methodology, particularly as the per-square-metre rate has risen 13% over the 12 months to December 2013. If prices rise above 8% per annum, demand for lots is expected to fall significantly.

5 Building Industry Activity and Trends

The residential construction sector has remained very buoyant since our October 2013 report, with building approvals reaching an all-time high in the year to February 2014 and dwelling commencements continuing to grow strongly in the first half of 2013/14.

5.1 Building Approvals

Total building approvals for the year to February 2014 reached a total of 29,165. This is a record number of approvals, exceeding the last peak of around 27,000 in the second half of 2006 and even the 28,000 plus in 1989.

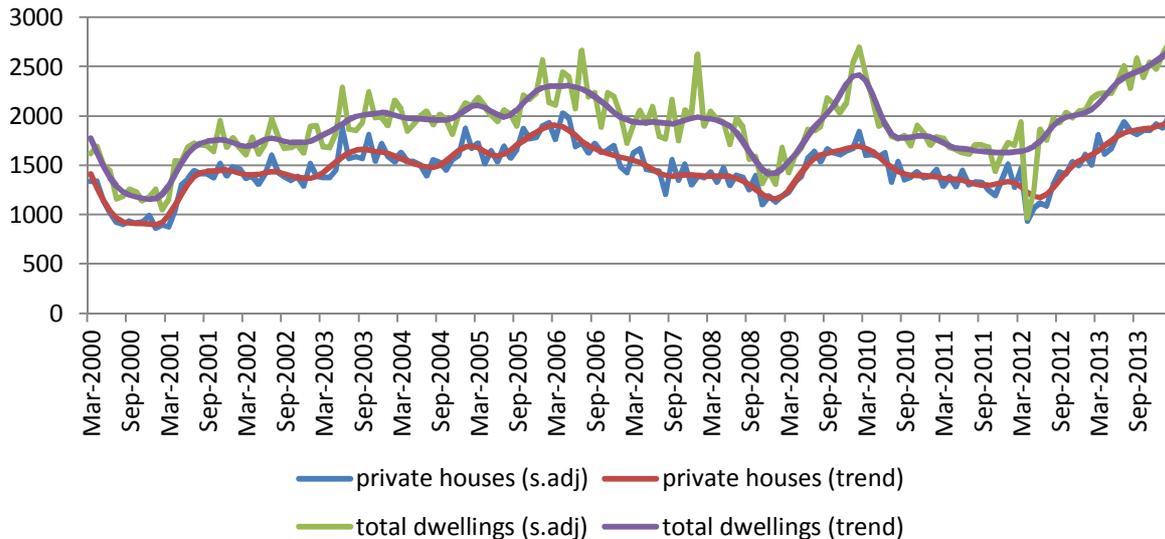
⁵ *State Lot Activity*, Department of Planning

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

As at February 2014, total financial year-to-date seasonally adjusted dwelling approvals were 20,180, up 26% compared to the same period in 2012/13. The trend estimate for the number of total dwelling approvals has been rising strongly since the beginning of 2012 (see Figure 3). However, while the trend in private sector houses rose strongly from June 2012 to September 2013 it has started to flatten out over the last six months.

Figure 3: Building approvals in WA, July 2000 - February 2014

Source: ABS Cat. No. 8731.0 Table 5



Seasonally adjusted multi-residential dwelling approvals at 4,743 for the financial year to February 2014 were up 26% on the same period of 2012/13 and accounted for 24% of total building approvals.

In the eight months to February 2014, Perth accounted for 76% of total building approvals (11,294 houses and 3,812 other dwellings), with multi-residential units representing 25% of total approvals in Perth. Building approvals over the same period were a mixed bag in regional WA with very strong growth in the South West and big falls in the Kimberley and Pilbara. Mandurah increased 63% to 1,144 and Bunbury by 34% to 1,349. The Pilbara saw a 22% fall in building approvals from 1,244 in the eight months to February 2013 to 973 so far this financial year. Building approvals in the Kimberley fell 53% from 530 in the eight months to February 2013 to 248 approvals so far this financial year.

5.2 Building Activity

5.2.1 Dwelling Commencements

Western Australia's dwelling commencements⁷ totalled 24,010 in 2012/13, 34% higher than in 2011/12. Seasonally adjusted dwelling commencements (Figure 4) in the December quarter of 2013 at 6,801 were 9.5% higher than the same quarter of 2012. Private sector houses were down 5.1% (5,146) on the quarter but up 16.8% on the year. Private sector multi-residential starts were up 25.5% on the quarter (1,489) and up 11.9% on the year.

⁷ including conversions

Total dwelling commencements for the first half of 2013/14 were 14,145, with a seasonally adjusted figure of 13,689, increases of 18% and 17% respectively on the same period of 2012/13.

Figure 4: WA seasonally adjusted dwelling commencements, June 2000 - December 2013

Source: ABS Cat No 8752.0 Table 34

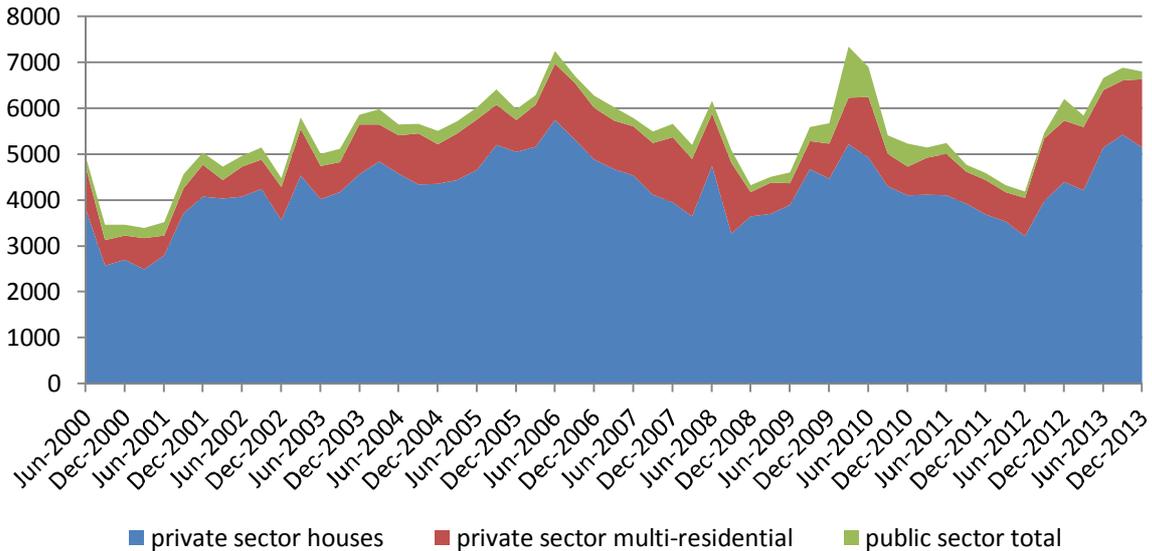
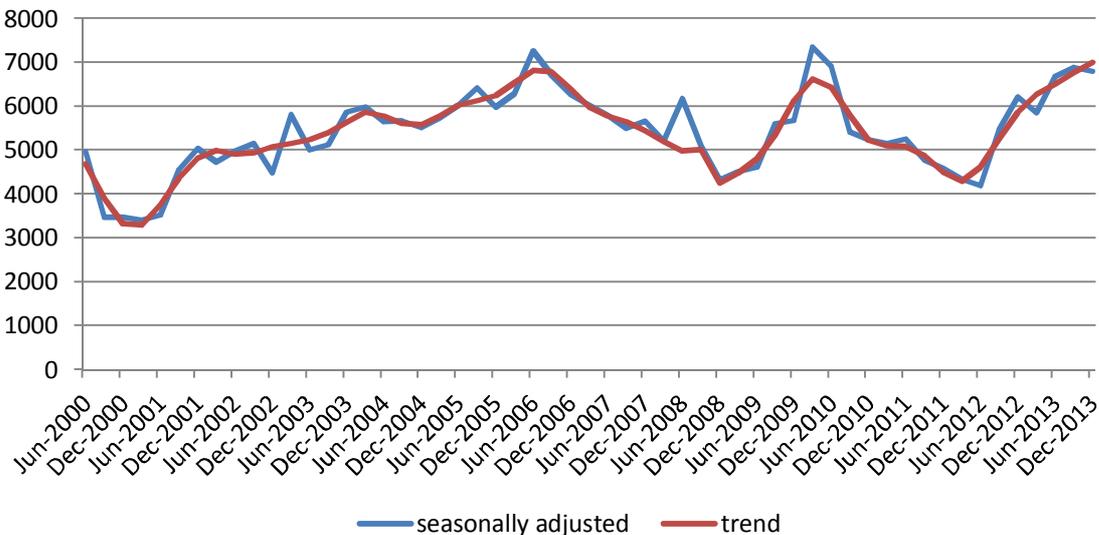


Figure 5 below shows seasonally adjusted and trend figures of total quarterly dwelling commencements since June 2000. While the seasonally adjusted total number of dwelling commencements fell in the December 2013 quarter, the trend in total dwelling commencements has continued rising and has been for the last seven quarters.

Figure 5: Total dwelling commencements in WA, June 2000 - December 2013

Source: ABS Cat No 8752.0 Table 34



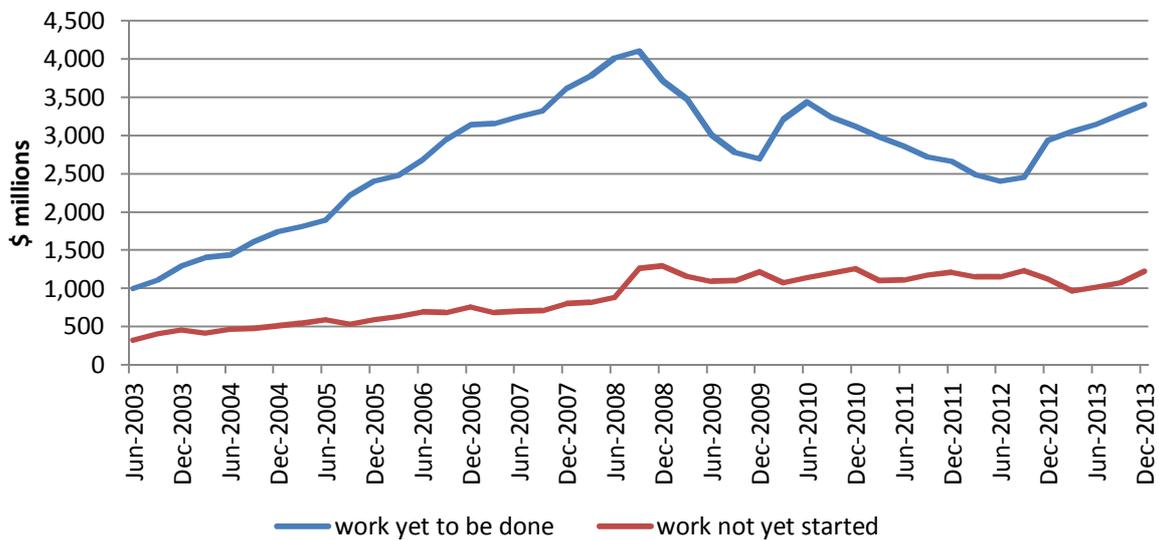
5.2.2 Completions and Residential Construction Work in the Pipeline

Seasonally adjusted dwelling completions in the December quarter 2013 were up 16.9% on the previous quarter (6,256) and up 46.4% compared to the same quarter of 2012 (4,273). Out of this total, houses (5,060) increased 38.3% on the year and multi-residential completions (1,196) were up 94.5%⁸.

Dwelling approvals not yet started totalled 3,967 at the end of the December quarter 2013⁹, up 13.7% on the previous quarter and up 16.5% on the total for December 2012. The stock of “other dwellings” yet to start at the end of the December quarter 2013 (1,305) was 10.8% higher than the previous quarter and up 12.2% on the year. The number of houses yet to start at 2,647 was up 15.2% on the quarter and 19.0% higher for the year.

Figure 6: Value of residential work in pipeline in WA, June 2003 - December 2013

Source: ABS Cat No 8752.0 Table 79



As at the December quarter of 2013, the value of residential work in the pipeline, including dwellings approved but not yet started, totalled \$3,411 million¹⁰, 15.9% 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 and has continued to increase in 2013. The value of work yet to be started has been relatively stable at just over a billion dollars since 2008 and although it fell back in the March quarter of 2013 has turned upwards (see figure 6 above).

The number of dwellings approved but still to commence (see figure 7) has been increasing since the March quarter 2013. However, levels are still below the numbers seen in the second half of 2008. The higher number of multi-residential dwellings approved (but not started) has also continued since 2008.

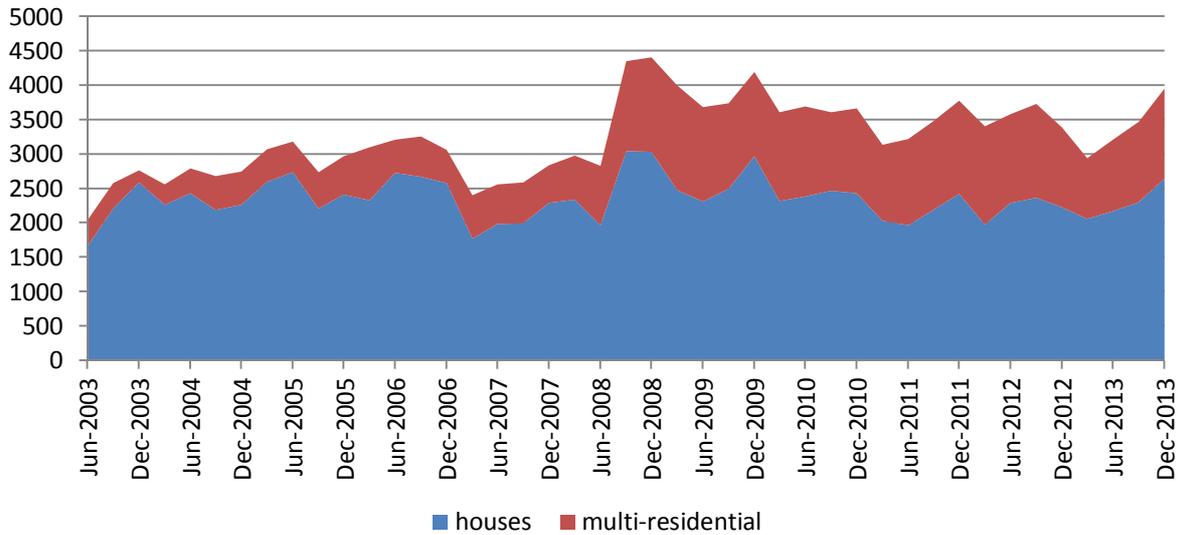
⁸ ABS Cat No 8752.0 Table 38

⁹ ABS Cat No 8752.0 Table 80

¹⁰ ABS Cat No.8752.0 Table 79

Figure 7: Number of dwellings approved but not started in WA, June qtr 2003 - Dec qtr. 2013

Source: ABS Cat No 8752.0 Table 80

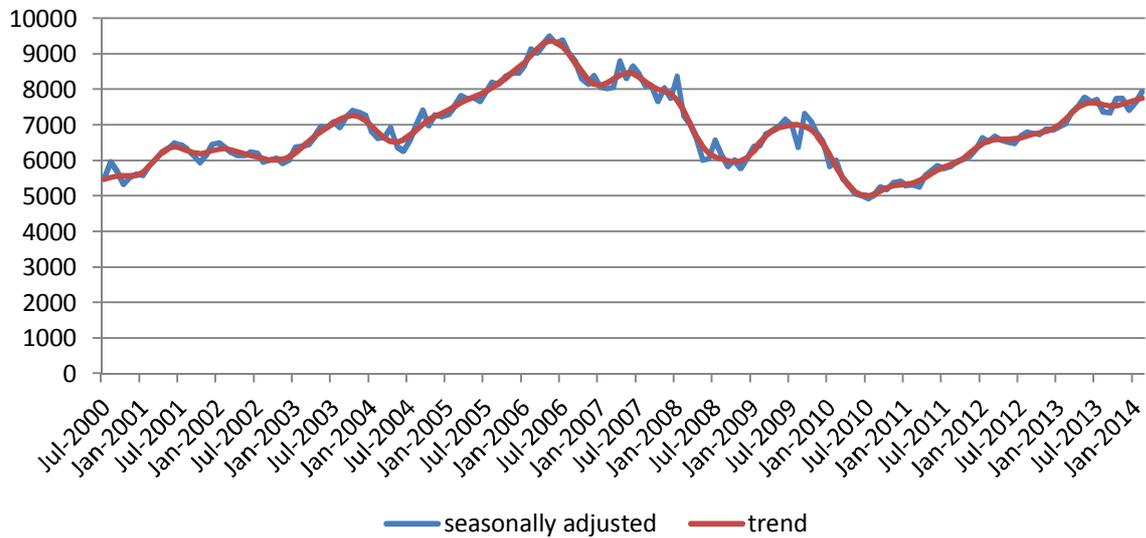


5.2.3 Housing Finance

The trend in total finance commitments for owner occupation in WA (including refinancing) had been rising from July 2010 for 36 months and, after a short period when it appeared to flatten out, has been rising again since September 2013 (see Figure 8).

Figure 8: WA finance commitments for owner occupation, July 2000 - February 2014

Source: ABS Cat No 5609.0 Table 5



In the eight months to February 2014, seasonally adjusted total home loan commitments (excluding refinancing) at 41,155 were 9.5% higher than the same period of 2012/13. Owner-occupier loan commitments for the construction and purchase of new dwellings were up 12.6% to 14,143 loans in the same period (see figure 9 below). The proportion of first homebuyers has been over 30% of all buyers (excluding refinancing and investment) since September 2011 and was 33% in the first two months of 2014, compared to the long-term average of 28% since July 2000.

Figure 9: WA seasonally adjusted home loan approvals, July 2000 - February 2014

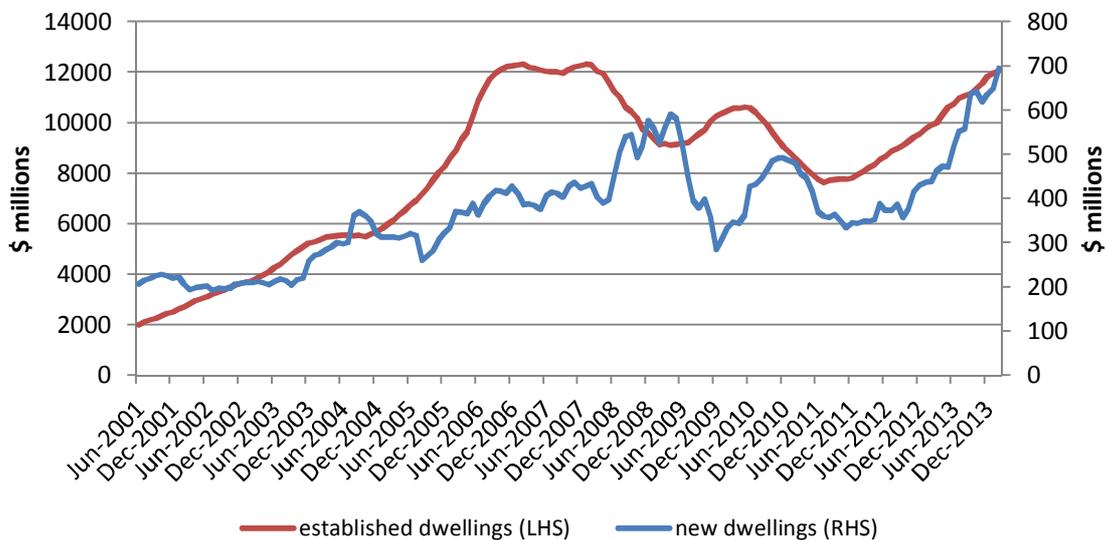
Source: ABS Cat No 5609.0 Tables 9b & 10a (adjusted for seasonal factors in Table 15)



The annualised value of financial commitments for investment in new and existing housing have both shown a strong upward trend since the most recent low point in 2011 (see Figure 10). In the eight months to February 2014, investment in established dwellings for rent at \$7,841 million was up 20% on the same period in 2012/13. The investment in new dwellings for rent over the same period was much lower at \$474 million, but was up 59%.

Figure 10: Annualised finance commitments for housing investment, June 2001 - Feb 2014

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. House sales by the major builders over the three months to February 2014 were 5.1% higher than the previous three

months and 5.4% higher than the same period of 2012/13. However, HIA believes that the trend of sales is now tracking sideways with a likely moderation in 2014¹¹.

6.2 Established Dwelling Market

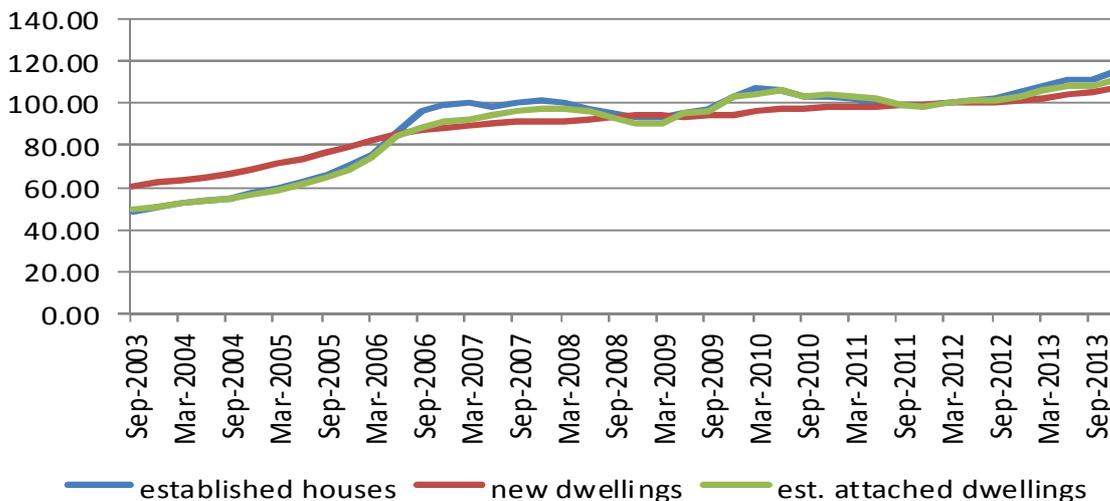
Perth house sales experienced a 14% increase in 2013 and were above the 15-year average level after languishing to the lowest level in 2011 and rebounding across 2012. Multi-residential sales remain below the long-term average due to soft investor activity that is likely to persist with the increasing vacancy rate in Perth's private rental sector. REIWA's Perth median house price reached \$549,000 in the December 2013 quarter, with a median price for units of \$450,000. The surge in the trade-up activity and slowing first home buyer activity saw the respective medians rise 9.8% and 7.7% in 2013. Preliminary analysis of the March quarter has the market marking time with literally no movement in either turnover or market medians as first home buyer activity continues to slow whilst soft upper-end activity has resulted in a very compressed market.

Regional house sales represented 20% of WA's house sales in 2013 as they recover from 20-year lows and are well below the 25% of sales recorded during the boom years. South West markets witnessed some sales increase in 2013 over 2012, with increases in Greater Bunbury and Mandurah/Murray while other regions were flat or saw lower sales. Karratha and Port Hedland recorded their lowest level of sales in the December quarter since the 1990s. Preliminary data for the March quarter indicates a seasonal surge in activity in Mandurah-Murray, Bunbury and South West whilst the balance of the State experienced little change in turnover.

In Perth the index of established house prices (Figure 11) increased 8.9% in the year to the December quarter 2013 and the index of new dwellings purchased for owner occupation increased by 5.5% over the same period¹².

Figure 11: Quarterly indexes of Perth house prices, Mar 2002 - Dec 2013

Source: ABS Cat No 6416.0 & Cat No 6401.0 Table 11



¹¹ *New Home Sales, February 2014*, HIA

¹² The index numbers have been re-based by ABS to 2011/12=100.

6.3 First Home Buyer Market

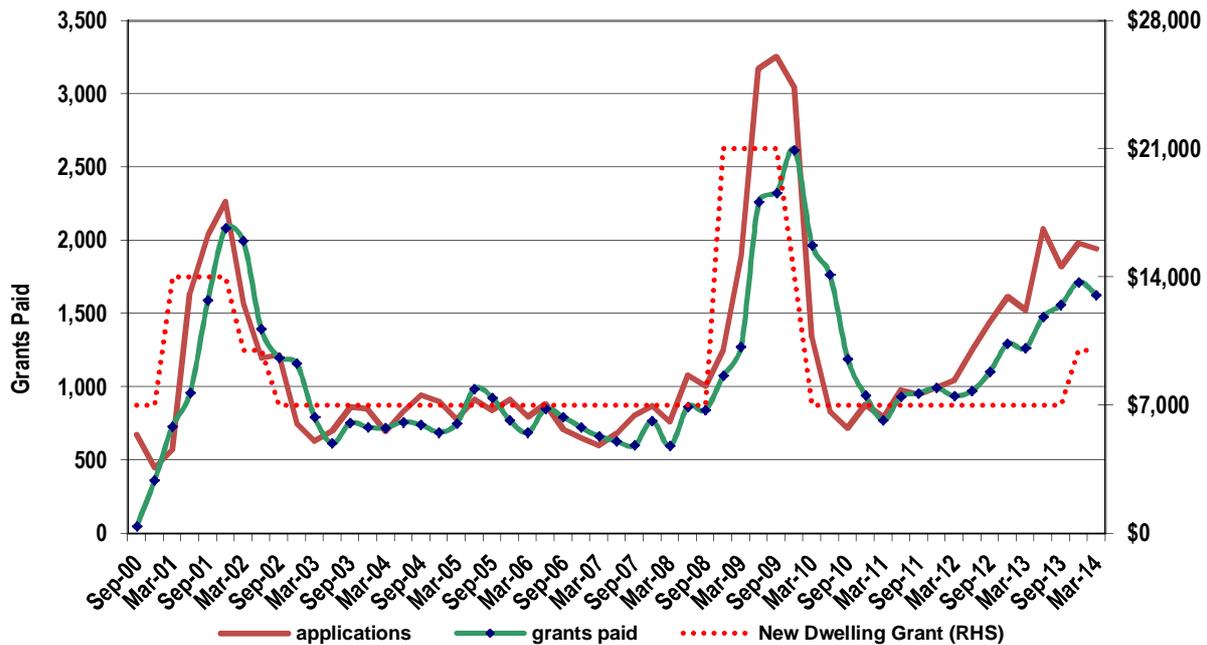
Total applications for the First Home Owner Grant (FHOG) of 15,778 in the nine months to March 2014 were 3% higher than for the same period of 2012/13. The number of applications for new dwellings grew much more strongly with an increase of 25.3% to 5,742 (see Figure 12) while the number for established dwellings fell 6.5% to 10,036. With the increase in the grant for new build to \$10,000 last September, applications for new build at 40% of total applications in the March quarter 2014 were 13 percentage points higher than the long-term average.

In the March quarter 2014, total applications of 4,827 were down 5% on the same period of 2013 (5,099). Applications for established homes were 2,886 and 3,577 (-13%) while applications for new build were 1,941 and 1,522 (up 28%) respectively.

The median established house price paid by FHOG buyers in March 2014 was \$470,000 in Perth and \$350,000 in regional WA, up 5.5% and 2.9% respectively in the year.

Figure 12: Quarterly FHOG applications and grants paid in WA for new dwellings, July 2000 – March quarter 2014

Source: Office of State Revenue



From REIWA data, the proportion of established first home buyers fell to 26% in the December quarter 2013 and was down 3 percentage points on the quarter and four percentage points compared to a year ago.

6.4 Private Rental Market

Conditions in Perth's rental market eased over calendar year 2013 ending the year in the December quarter with a vacancy rate of 3.5%, above the 3.0% rate considered to represent a balanced market. The median rental increased over the year to the December quarter by

2.2% to \$460 per week¹³. For the first quarter of 2014, the median rent remained at \$460 per week but the vacancy rate increased to 4.0%, the highest level for four years¹⁴. It is likely the vacancy rate may rise further in 2014 as new dwellings are completed and new home owners exit rental property at the same time as the population growth is slowing.

Comparative data for regional centres for the March quarter 2014 (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, with annual falls of 33% and 22% respectively with Kalgoorlie-Boulder also now feeling the bite of softening resources sector activity. The private rental market in Bunbury and Albany appears to be very tight with vacancy rates well below the 3% benchmark.

Table 1: Median Weekly Rent in Major Regional Centres, March Quarter 2014

Region	Median Weekly Rent	Qtly/annual Change	Vacancy Rate
Perth	\$460	n.c./-2.1%	4.0%
Mandurah/Murray	\$370	-3%/+1%	3.4%
Albany	\$310	n.c./-3%	1.6%
Greater Bunbury	\$380	+6%/+9%	1.4%
Geraldton/Greenough	\$360	n c/ +3%	4.2%
Kalgoorlie/Boulder	\$360	-5%/-14%	5.5%
Karratha	\$800	-27%/-33%	NA
Port Hedland	\$1,300	n c/-22%	NA
Broome	\$600	-8%/-8%	NA

Source: REIWA

7 Housing Affordability in WA

7.1 Home Ownership

Lower interest rates and rising incomes meant that affordability indexes improved over the first three quarters of 2013. However, the latest HIA–Commonwealth Bank index on housing affordability for the December quarter of 2013 indicated a downturn with an index of 71.5 for Perth, down 1.8 index points on the previous quarter, and in regional Western Australia down 5.5 points to 75.4. For the year, the indexes were up 1.4 points for Perth and no change in the rest of the State.¹⁵ The Real Estate Institute of Australia's Home Loan Affordability Indicator for December quarter 2013¹⁶ fell 0.9 points on the previous quarter but was up 1.4 points on the year. The quarterly fall was due to an increase in the average monthly loan repayment needed to service the average loan of \$338,498, which was up 3.5% on the quarter.

In the December quarter of 2013, a Perth household on the estimated median household income of \$84,800 and allocating 30% of their gross income to loan repayments with a 10% deposit could afford a property valued around \$395,000. This was below the lower quartile

¹³ *Market Update*, December 2013 Quarter, REIWA

¹⁴ News article, 1 April 2014, REIWA

¹⁵ *HIA-Commonwealth Bank Affordability Report*, December Quarter 2013, HIA

¹⁶ *Housing Affordability Report*, December Quarter 2013, Real Estate Institute of Australia

house price of \$432,375 in the December quarter and would have enabled them to access 20% of houses and units sold in Perth in the quarter.

A recent report¹⁷, which analysed both the economic and social impacts of housing affordability in Western Australia, showed a significant percentage of Western Australians are being forced to live a considerable distance from their preferred locations and places of work through a lack of affordable housing. The focus was on housing stress for different groups in the state, particularly lower income earners, lone parent families, and older renters. The report found that one in four lone parent families in the lowest two income quintiles pay more than half their income towards mortgage costs (treble the rate of any other household group).

7.2 Private Rental

The Bankwest Curtin Economics Centre report found a significant percentage of Western Australians are suffering from rental stress, particularly lone parent families and elderly renters (42% of lone-parent families are paying more than 30% of their income on rent and 13% are paying more than 50% of their income). The report concluded the State's private rental sector is unable to supply a secure and affordable supply of housing to those on lower incomes and unable to access home ownership.

With Perth's median rental at \$460 per week in the December quarter 2013¹⁸, a household would need a gross income of \$1,533 per week (\$79,700 per annum) if they wanted to allocate no more than 30% of their income to rent. Despite a small fall of 2.1% in Perth's median rent in the year to March 2014, households on lower incomes will continue to struggle to afford rents in the private sector. This has been one factor behind the continued strong demand for public housing, with a waiting list of 20,506 households as at the end of March 2014.

The National Rental Affordability Scheme (NRAS) is continuing to add to the supply of affordable rental housing in Western Australia with 2,092 dwellings completed to the end of March 2014. In return for indexed financial incentives for ten-years, currently worth \$10,350.00 per dwelling per year, dwellings will be available to eligible applicants for 20% below the local market rent.

8 Housing Industry Resources

8.1 Construction Costs, Building Materials and Labour Supply

The price index for Perth of new dwellings purchased for owner occupation in the December quarter 2013 was 5.5% higher than the index for December 2012¹⁹, while Perth's price index of building materials used in housing construction increased by a minimal 0.1% in the year to the December quarter 2013²⁰.

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

¹⁷ *Real Costs of Housing in Western Australia*, April 2014, Bankwest Curtin Economics Centre

¹⁸ REIWA

¹⁹ Consumer Price Index, Cat No. 6401.0, Table 11, ABS.

²⁰ Producer Price Indexes, Table 18, Cat No 6427.0, ABS.

The HIA's trade price index for the December quarter 2013 fell 2.9% for Perth and was down 2.6% in regional WA compared with the previous quarter and up 4.4% and 6.1% respectively over the year. Availability of trades in the last quarter was in moderate undersupply in both Perth and regional WA, which is consistent with the strong building activity in 2013²¹. Advertisements for trades in 2014 have been steady according to research conducted by Master Builders WA, with continuing demand for bricklayers and plasterers.

9 Underlying Demand for Housing

9.1 Underlying Housing Requirements

Our estimates of the underlying demand for housing made last October will be updated in our October 2014 report.

10 HIFG's Forecast of Dwelling Commencements

10.1 Forecast of Dwelling Commencements

Our October 2013 forecast of 24,000 dwelling starts in 2013/14 was based on continuing strong population growth, interest rates at historically low levels and changes to the increase of the FHOG to \$10,000 for first homebuyers building their new home. Dwelling starts (including conversions) for the first half of this financial year totalled 14,145, up 18% on the same period of 2012/13. Current trends in building approvals suggest that dwelling starts will continue at a high level into the second half of 2013/14. Therefore, we are raising our prediction for the current financial year from 24,000 to 27,000, the highest level since 1988/89.

The prospect of interest rates starting to rise within the next year from the current very low rates and a slowing WA economy with rising levels of unemployment will see a fall in dwelling starts for 2014/15 but we are increasing our October 2013 prediction from 22,500 to 25,000 as the sector comes off a historically high level of commencements. We are not making any change to our predictions for the out-years 2015/16 and 2016/17.

HIFG Forecast of Dwelling Commencements in WA, 2013-14 to 2016-17

Financial Year	Dwelling Commencements	% change
2012/13 (actual)	24,010	
2013/14 (forecast)	27,000	12%
2014/15 (forecast)	25,000	-7%
2015/16 (forecast)	20 – 22,000	
2016/17 (forecast)	20 – 22,000	

²¹ HIA Trades Report December Quarter 2013, HIA

10.2 Assessment of Serviced Residential Land Supply

Based on 1.3 dwellings per lot²², our revised forecast suggests the need for over 21,000 serviced lots in 2013/14, falling to 17,000 in 2014/15 and around 16,000 in the out-years. Demolitions will provide between 2-2,500 lots per annum, resulting in a need for around 16,000 serviced lots per annum to be supplied from new land developments and vacant unsold serviced lots. Lot listings of vacant lots in Perth, Peel, Bunbury, Busselton and Geraldton continued falling over the last 12 months with 2,219 listings in March 2014, down 11% on the year.

As mentioned in our October report, the data are indicating a declining supply of titled lots available for sale in Perth over the past 12 months. The development industry has increased activity to meet the current demand and is pre-selling future supply.

The attached appendix outlines the six stages needed to convert undeveloped zoned land to serviced lots on the market.

²² Based on unpublished ABS data, see page 12 of HIFG's October 2011 report.

Appendix A – Estimation of the residential land pipeline

The following table shows the six key stages of the lot supply pipeline with estimates for the volumes of land/lot supply in the first four stages of development.

Stage		Definition	Land/lot estimate
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.	29,670 ha. Figure as at December 2012 (for Perth, Peel & Greater Bunbury Regions)
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.	29,530 lots 12 months to 31 December 2013 (Western Australia)
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).	75,569 lots Stock as at 31 December 2013 (Western Australia)
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.	16,185 lots 12 months to 31 December 2013 (Western Australia)
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, that 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 B – 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 2014

Members	Organisation
Stewart Darby (Chair)	Real Estate Institute of WA
Alan Langford	Bankwest
Ryan Buckland	Chamber of Commerce and Industry WA
John Gelavis	Housing Industry Association
Geoff Cooper	Master Builders Association
Benjamin Hammer	Chamber of Minerals and Energy WA
Debra Goostrey	Urban Development Institute of Australia (WA)
Adrian Warner	Department of Housing
Adam van Lohuizen	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

