

Housing Industry Forecasting Group

Forecast
Dwelling Commencements
in Western Australia



April 2015 Update

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Published April 2015

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1 Executive Summary

This report reviews and updates the group's October 2014 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 calendar year 2014.
- The lagged effect of low interest rates and continuing strong trends in both building approvals and dwelling commencements support the case for an upward revision to our October 2014 forecast for 2014/15 from 25,000 to 30,000, a 2.9% increase over 2013/14.
- In line with the higher 2014/15 forecast, the group is raising its prediction for dwelling starts in 2015/16 by 500 to 23,000 commencements. While this represents a fall of 23% on 2014/15, the number represents a healthy level of activity and is still above the long-term annual average of 22,000 dwelling starts since 2000/01.
- Our prediction for the out-years is that the number of dwelling starts will bottom out at 20,000 in 2016/17 and in 2017/18 will start to slowly move up to be within a range of 20-22,000 dwellings.
- A downside risk to our predictions for 2015/16 and the out-years is that the State's population growth rate turns out to be lower than the projections made by Treasury in its mid-term review. If the halt to the downturn in the net overseas migration to WA seen in the September quarter 2014 is not maintained then dwelling commencements are likely to be lower than our present predictions for 2015/16 and beyond due to the softening of demand caused by lower population growth.
- Both real estate industry and developer data are indicating a good supply of titled lots available for sale in Perth and regional WA.
- To meet our dwelling forecast, we estimate WA will need over 23,000 serviced lots in 2014/15, falling to 17,700 in 2015/16 and around 15,000 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 2015 at 21,221 were up 5% compared to the same period of 2013/14.
- Seasonally adjusted dwelling commencements for the first half of 2013/14 at 16,493 were up 21% on the same period of 2012/13 (13,644 dwellings).
- Seasonally adjusted home loan commitments (excluding re-financing) of 39,041 for the eight months to February 2015 were 5% lower than for the same period of 2013/14.
- Total applications for the First Home Owner Grant of 14,160 in the nine months to March 2015 were 10% lower than for the same period of 2012/13. The number of applications for new dwellings grew 6% to 6,112 but for established homes fell 20% to 8,048.
- Perth's median rent for the first quarter of 2015 was \$430 per week (down 5.5% on the year). The vacancy rate of 4.4% for the quarter is expected to increase during 2015, resulting in continued downward pressure on the median rent.
- Despite improvements to housing affordability with lower interest rates, lower rents 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 in early November 2015.

2 Introduction

In our October 2014 annual report we forecast a fall of 14% to 25,000 dwelling commencements in 2014/15 from the record high of 28,966 in 2013/14, with a further fall of 10% to 22,500 commencements in 2015/16 and a range of 20,000-22,000 in the following two years to 2017/18. New data since our last report, and examined in the following sections, suggest that dwelling starts in 2014/15 have not softened as quickly as we originally predicted.

3 Housing Industry Drivers

3.1 Economic Overview

Western Australia's State Final Demand (SFD) grew by 2.1% in the December quarter 2014 in real seasonally adjusted terms. This was the highest growth rate of all Australian states and territories in the quarter.

Private capital spending in Western Australia increased by 4.4% in December quarter 2014, which confirms that capital spending has continued even though the resources investment boom has peaked. Notwithstanding, private capital spending decreased by 7.4% over the full year 2014, with the largest fall recorded in machinery and equipment (12.2%). Dwellings recorded the only growth of 5.4% over 2014.

The *Westpac-CCI Leading Index* declined 0.2% in January, with hours worked the only domestic component to increase on the month. Persistent low levels of business and consumer confidence has been weighing on the index in recent times. The March edition of the *Westpac-CCI Survey of Business Expectations* found that businesses are increasingly concerned about the state's economic outlook, despite further relief from cost pressures. Some 71% of businesses expect the local economy to deteriorate over the coming 12 months, up from 55% last quarter.

The state's labour market remains sound, despite a lift in the unemployment rate to a level more akin to a long term average. March's labour market figures showed the state's seasonally adjusted unemployment rate fell to 5.5% (falling by 0.2 percentage points from February). WA's participation rate at 69.1%, continued to be the highest in the nation. The WA economy created some 38,000 jobs over the course of 2014, an increase on 2013 when 20,400 new jobs were created.

Consumer confidence has dropped to fresh record lows in the first quarter of 2015. The March edition of the *CCI Survey of Consumer Confidence* found 31% of consumers expect the WA economy will deteriorate over the coming months, up from 26% in the December quarter. Some 39% of respondents predict the WA economy will perform poorly over the next 12 months. This is largely unchanged from the 38% that were pessimistic in December. The higher cost of living was again the largest factor affecting confidence for 47% of respondents, an increase of three percentage points from the December quarter (44%).

The *Westpac-Melbourne Institute Index of Consumer Sentiment* also recorded a significant decline in the index for Western Australia in March 2015, down by 11.5% to 83.4 from 94.2 in the previous month. The “*Time to Buy a Dwelling*” index fell significantly by 12.9% in March 2015, although this is still 10.5% higher than its value a year ago. The index tracked higher in the previous month (up 7.2%) following the 25 basis point cut in the cash rate and indicates a possible correction in the month, following increased expectations in February 2015.

3.2 Finance Sector

The Reserve Bank cut its cash rate to 2.25% in February 2015, a reduction of 0.25 percentage points on the rate in place since August 2013. Interest rates are likely to remain around their record low levels for the immediate future, due to the December quarter National Accounts showing the national economy is growing at a rate below its long term trend.

The variable standard home loan indicator interest rate had been steady at 5.95% since August 2013 but fell to 5.65% in February 2015 as the major banks more than passed on the cut in the official cash rate¹. The Australian Prudential Regulation Authority announced advisory measures last December designed to reinforce sound housing lending practices by banks and other deposit-taking institutions. The measures cover: the extent of higher-risk mortgage lending; the pace of growth in investor lending for housing; and interest rate buffers and floors used in loan serviceability assessments². The Reserve Bank continues to express concern about the level of investor activity in some cities, particularly Sydney, as “... *the heightened level of investor activity and borrowing could amplify the housing price cycle and increase the risk of significant price falls later*”³.

3.3 Population Growth

As expected, Western Australia’s population growth rate has continued to slow. However, it still remains the highest of all Australian states and territories and grew at 2.1% in the year to September 2014. This was the lowest growth in nine years, although population growth in WA did not continue to experience the sharp downward trend reported in recent releases. The largest contributor to this stabilisation was a strong and unexpected increase in net overseas migration, which totalled 10,911 in September quarter. This is the first quarter on quarter increase in net overseas migration since September 2013.

The latest demographic data to September quarter 2014 (see Figure 1) showed:

- The preliminary estimate of WA’s annual population increase to September 2014 was 53,700, down 30% on the year to September 2013 (76,200).
- Net overseas migration estimated at 32,200 in the year to September 2014 was 33% lower than for the year to September 2013 (48,200) and 43% lower than the September 2012 peak of 56,800.

¹ Table F5, Indicator Lending Rates, Reserve Bank of Australia web site

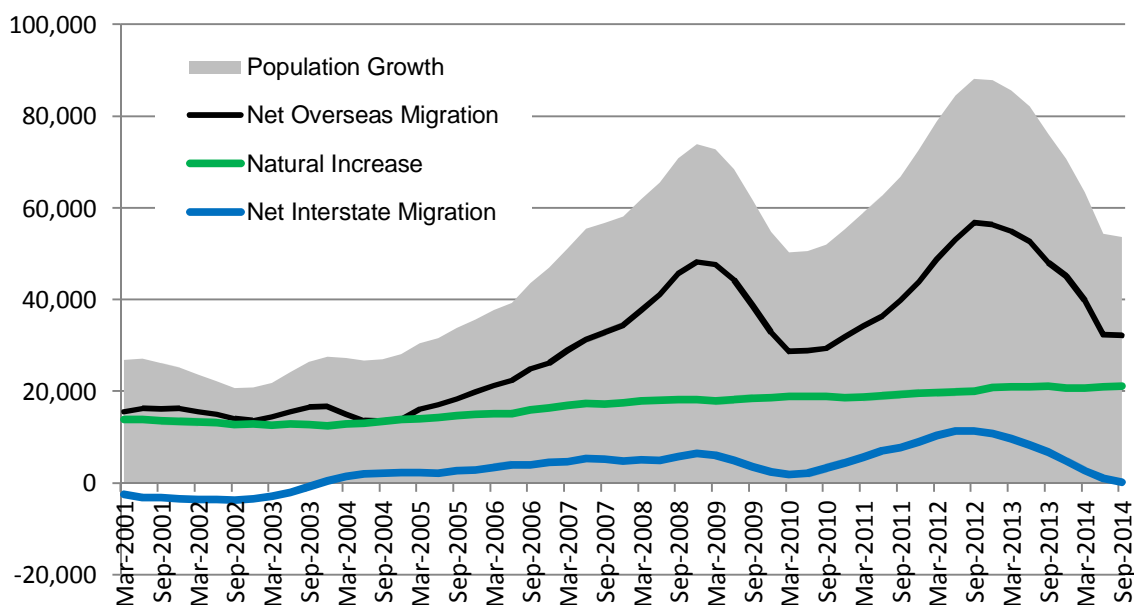
² Annual growth in investor housing lending should not be materially above 10 per cent; and serviceability assessments should include an interest rate buffer of at least 2% above the loan rate, with a minimum floor assessment rate of 7%

³ *Financial Stability Review, March 2015*. Reserve Bank of Australia

- Estimated net interstate migration at 300 for the year was down 96% on the previous year (6,800) and the lowest annual figure since the year to the September quarter 2003, when there were more people moving to the Eastern States than arriving in WA.

Figure 1: Annualised components of WA's population growth, June 2000 - September 2014

Source: ABS Cat No 3101.0 Table 2



The estimated residential population⁴ for Greater Perth⁵ for the ten years to 30 June 2014 grew 33% to 2,021,200, increasing its share of the State's population from 76.8% to 78.5%. Outside Perth, the fastest growing regions were Greater Bunbury and the Pilbara. Greater Bunbury increased 30% over the ten years from 137,400 to 178,100 but only maintained its share of the State population over that period at 6.9%. The Pilbara increased its share of the State population from 2.3% to 2.6% over the ten years, growing 50% from an estimated population of 45,100 in June 2004 to 67,500 as at 30 June 2014. However, with the end of the mining boom's construction phase this growth is unlikely to be maintained and at least in the short-term can be expected to be negative.

4 Residential Land Market Activity and Trends

4.1 Residential Land Sales

Urban Development Institute of Australia's (UDIAWA) data for the December quarter 2014 saw a continued contraction of lot sales to 2,129, to be on par with the five year rolling average. The North West and South East metropolitan corridors were the strongest performers, with developments in the City of Wanneroo and the City of Armadale bucking the trend to record an increase in sales.

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

⁵ Following the ABS ASGS (2014) geographic classification, Greater Perth includes Mandurah.

The average price of lots sold fell 3.3% over the December 2014 quarter to \$245,384 as the average lot size continued the downward trend that was interrupted briefly in the September 2014 quarter. For the first time the average lot size in the Perth dipped below the 400m² threshold, recording an all-time low of 399m². The North East corridor has the smallest average lot size at 382m², just ahead of the North Western corridor at 386m². The smallest lot size average at a local government level was in the City of Armadale at just 362m².

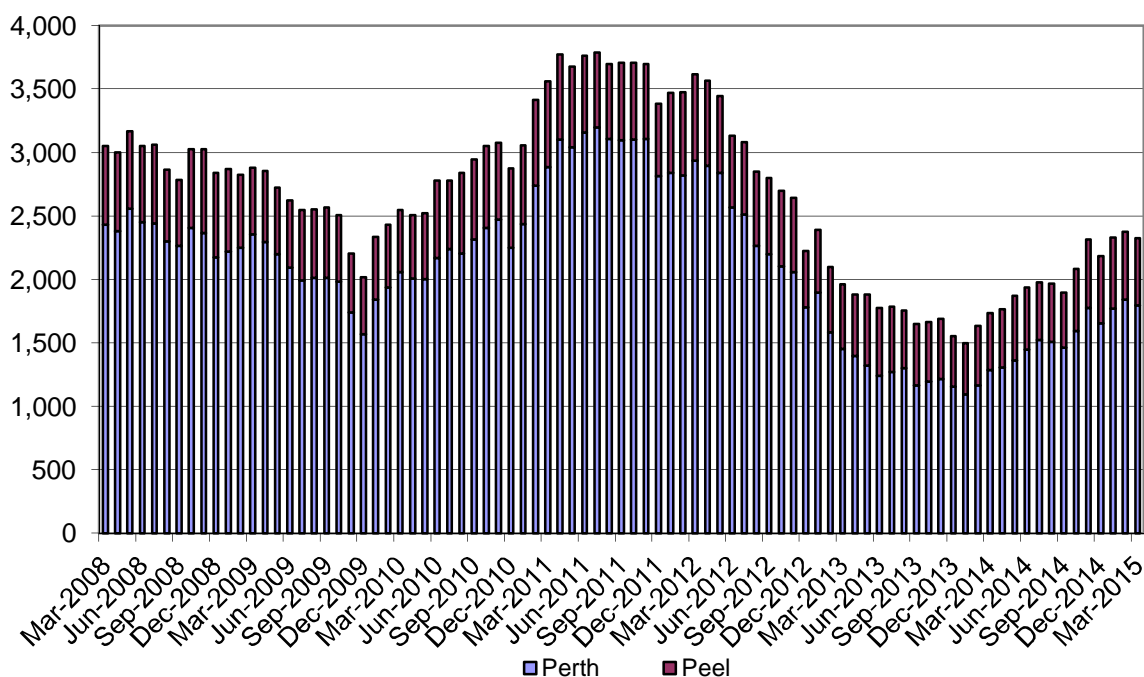
The latest number of settled land sales figures from Landgate/REIWA for calendar year 2014 was 16,100 for WA, of which 11,900 were in Perth. However these figures will increase, particularly for Perth as pre-sales in 2014 continue to settle. In the December quarter 2014, the preliminary median residential land sale price in Perth was \$268,000 (up 8% on the year) and in regional WA was \$172,750 (up 2% on the year). Price trends in the land market are very different to the established market⁶ indicating that demand continued to shift towards the new housing market and hence the strong growth in dwelling commencements.

4.2 Land on the Market

Supply of developer lots by UDIWA members increased with stock now adequate for three months; up from a low of just one month in 2013 when supply constraints were acting as a brake on the market. The improvement in supply was due to both a rise in the number of lots on the market and a reduction in the number of lots “*not on the market*”; lots that would normally have been available to the market but had been delayed. Lots not on the market are down 40% quarter-on-quarter in Greater Perth whilst lots on the market are up 22%, indicating new supply is flowing through and will lead to strong commencements in the short term.

Figure 2: REIWA land listings in Perth and Peel, March 2008 - March 2015

Source: unpublished data from the Real Estate Institute of WA



⁶ See section 6.2.

Figure 2 above shows Perth and Peel listings of vacant land by REIWA members. Perth listings fell from the high point of 3,202 lots in July 2011 to a low point of 1,155 lots in December 2013, after which they have been rising. The March 2015 figure of 1,799 was down 2% on the previous month but 40% higher than a year ago. Listings in other regions over the year to March 2015 were: Peel region up 19% to 530, Greater Bunbury up 17% to 175 lots and Geraldton/Greenough down 11% to 297.

4.3 Land Development Trends

The preliminary number of residential lots conditionally approved in the 2014 December quarter totalled 10,563 lots across the State, which was down 11% on the previous quarter but up 25% on the year. Final approvals for residential lots in the December quarter 2014 totalled 5,624 across the State, increasing 40% from the previous quarter and 23% from the same quarter of 2013⁷. Of total final approvals, Perth accounted for 4,747 lots (84%) with 877 (16%) in regional WA (including the Peel region). Calendar year final approvals for WA totalled 19,332 in 2014, up 19% on 2013 (16,185). Perth accounted for 16,178 lot approvals and was up 22% on the previous year (13,281).

At the end of December 2014, the number of proposed residential lots with current conditional approval totalled 86,866 across the State; up 6% on the previous quarter and up 15% on the year. Perth accounted for 70% of the total with 60,533 lots and was up 9% on the previous quarter and up 22% on the year.

Overall there was a slight recovery in the lots forecast by UDIA WA members to be constructed for release by June 2015 in Greater Perth. South of the Swan River production is strong with the six month construction forecast up 20% on the previous quarter in the South Western Corridor and up 34% on the previous quarter in the South Eastern sector. The North Western Corridor was also up 7% in the quarter. However, production in the North East Corridor is forecast to be slow, down 32% on the previous quarter and 22% year on year.

A current concern to the land development sector is the continued uncertainty about the cost of connecting serviced lots to the National Broadband Network. These as yet unknown costs will be absorbed into the selling price and may make some marginal developments uneconomic.

5 Building Industry Activity and Trends

Activity in the residential construction sector remained very strong in calendar year 2014 and will continue into the first half of calendar year 2015. However, while building approvals reached an all-time high in the year to January 2015, the trend estimate for approvals has been falling for the last five months.

5.1 Building Approvals

Total building approvals reached a record of 31,787 in the year to January 2015, exceeding the previous peak of around 27,000 in 2006 and even the 28,000 plus in 1989. However,

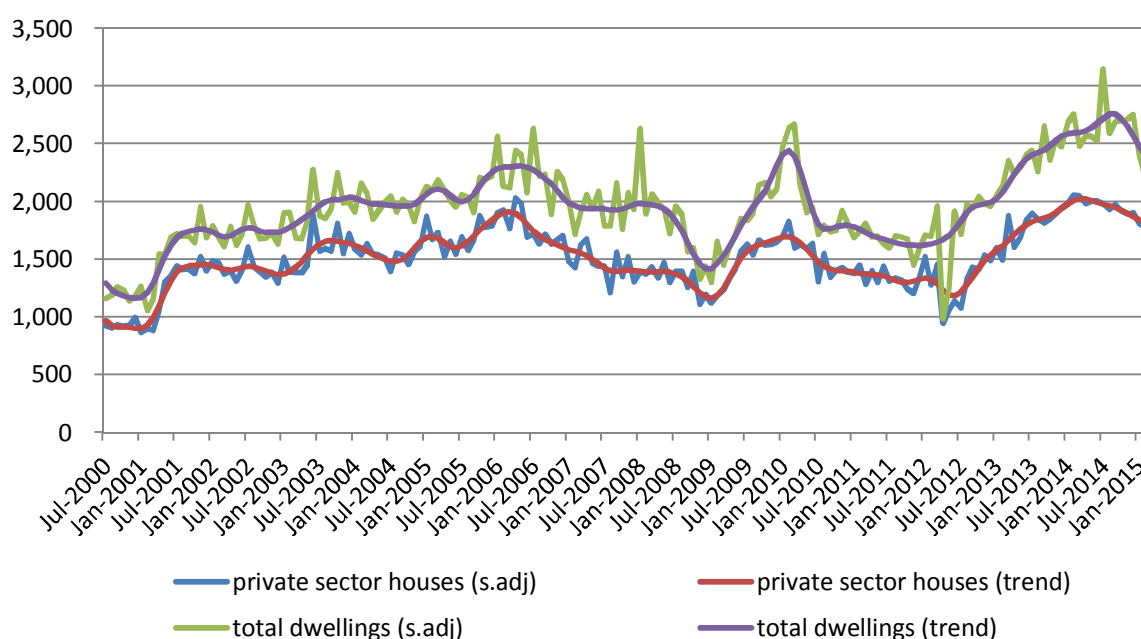
⁷ *State Lot Activity*, Department of Planning

approvals for both houses and “other dwellings” can be seen to be on a downward trend (see Figure 3) and totalled 31,241 in the year to February 2015.

As at February 2015, total financial year-to-date seasonally adjusted dwelling approvals were 21,221, up 5% compared to the same period in 2013/14. The trend estimate for the number of total dwelling approvals, which had been rising strongly since the beginning of 2012, has now been on a downward slope since October 2014. The trend in private sector houses has been falling for the last 11 months while the trend in private sector “other dwellings” has only been falling for the last five months.

Figure 3: Building approvals in WA, July 2000 - February 2015

Source: ABS Cat. No. 8731.0 Table 5



Seasonally adjusted multi-residential dwelling approvals of 5,579 for the financial year to February 2015 were up 21% on the same period of 2013/14 and accounted for 26% of total building approvals (24% in the same period of 2013/14).

In the eight months to February 2015, building approvals in Greater Perth increased 11% to 18,241 over the same period of 2013/14 and accounted for 87% of total building approvals (13,167 houses and 5,074 “other dwellings”). “Other dwellings” represented 28% of total approvals in Greater Perth, up from 27% in the same period of 2013/14. Building approvals in regional WA saw a fall in all regions other than Albany, which had a 21% increase from 278 in the eight months to February 2014 to 258 in the year-to-date to February 2015. Bunbury had a 4% fall in approvals from 1,358 down to 1,298 in the period. The Pilbara had a 67% fall in building approvals from 968 in the eight months to February 2014 to 316 so far this financial year. Building approvals in the Kimberley fell 18% from 260 in the eight months to February 2014 to 214 approvals so far this financial year.

5.2 Building Activity

5.2.1 Dwelling Commencements

Western Australia's dwelling commencements⁸ totalled 29,145 in 2013/14, 21% higher than the previous year. Seasonally adjusted dwelling commencements (Figure 4) in the December quarter of 2014 at 8,064 were 18% higher than the same quarter of 2013 and for the first half of 2014/15 were 21% higher at 16,493 than the same period of 2013/14. Private sector houses were down 5% (5,785) on the quarter but up 12% on the year. Private sector multi-residential starts were down 2% on the quarter (2,177) but up 43% on the year.

Figure 4: WA seasonally adjusted dwelling commencements, June 2000 - December 2014

Source: ABS Cat No 8752.0 Table 34

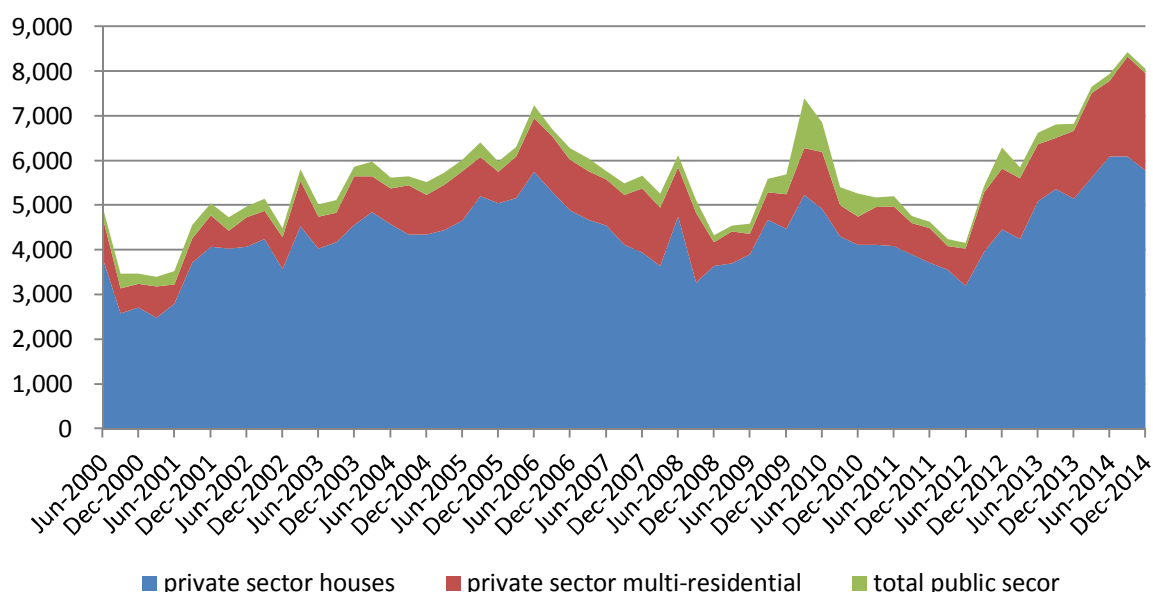
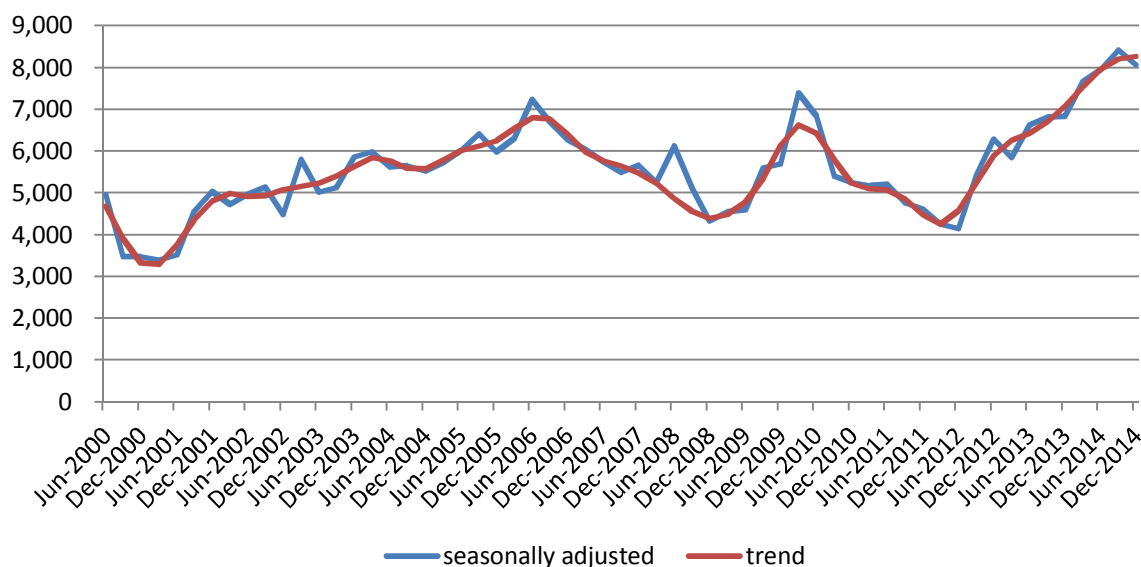


Figure 5 below shows seasonally adjusted and trend figures of total quarterly dwelling commencements since June 2000 and shows activity reached the highest level since the turn of the century and multi-residential starts are also at levels not seen in the last 15 years. The seasonally adjusted total number of dwelling commencements fell in the December 2014 quarter by 4% whereas the trend in total dwelling commencements continued to rise in the quarter by 1% but at a noticeably slower rate than the previous ten quarters.

⁸ including conversions

Figure 5: Total dwelling commencements in WA, June 2000 - December 2014

Source: ABS Cat No 8752.0 Table 34

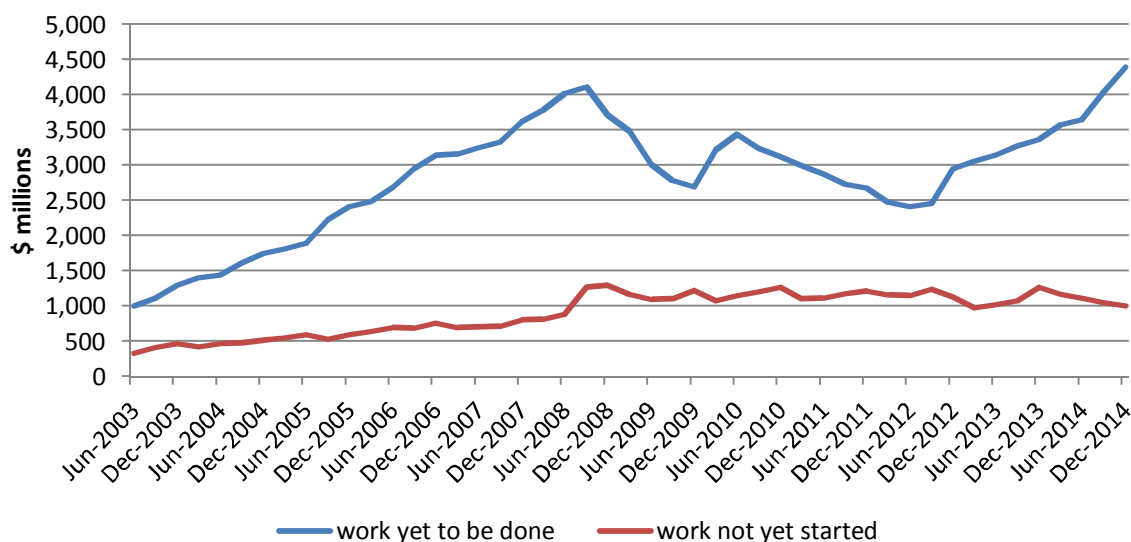


5.2.2 Completions and Residential Construction Work in the Pipeline

Seasonally adjusted dwelling completions of 6,780 in the December quarter 2014 were up 2% on the previous quarter (6,677) and up 1% compared to the same quarter of 2013 (6,719). Out of this total, houses (4,959) fell 11% on the year but multi-residential completions (1,821) were up 60%⁹.

Figure 6: Value of residential work in pipeline in WA, June 2003 - December 2014

Source: ABS Cat No 8752.0 Table 79



As at the December quarter of 2014, the value of residential work in the pipeline, including dwellings approved but not yet started, totalled \$4,390 million¹⁰, 17% higher than 12 months previously and a record figure. The value of work yet to be started of \$999.8 million has started to fall back, falling 4% on the previous quarter and down 21% on the year (Figure 6).

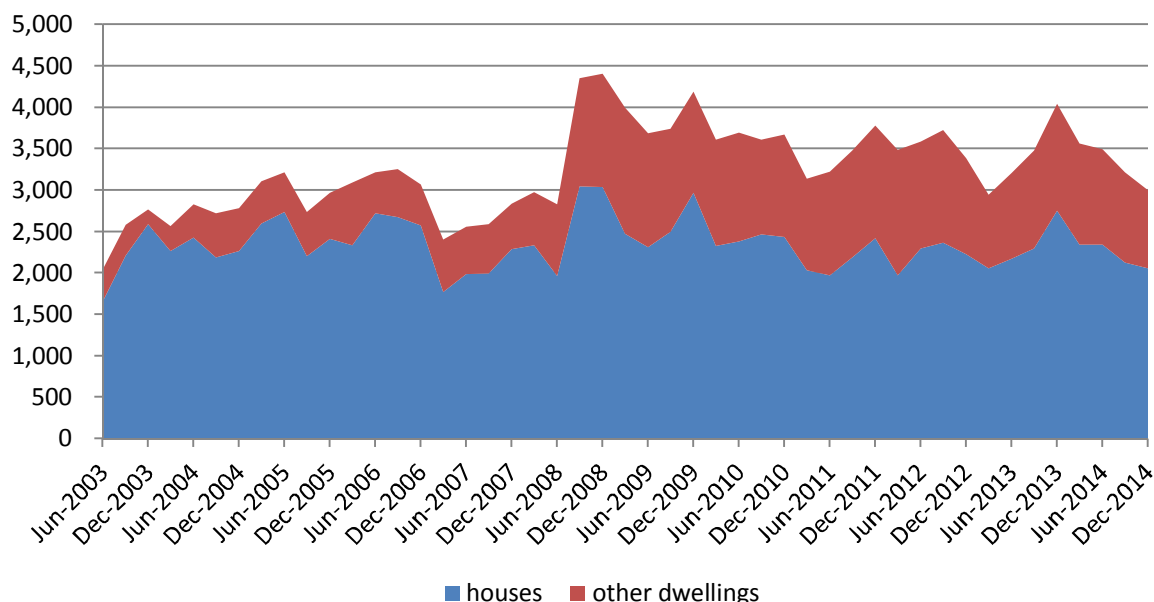
⁹ ABS Cat No 8752.0 Table 38

¹⁰ ABS Cat No.8752.0 Table 79

The number of dwellings approved but still to commence (see Figure 7) has been falling since the March quarter 2014. The number of houses and multi-residential dwellings approved (but not started) were 2,060 and 939, down 3% and 14% respectively on the previous quarter and down 25% and 27% on the year.

Figure 7: Number of dwellings approved but not started in WA, June qtr 2003 – Dec qtr. 2014

Source: ABS Cat No 8752.0 Table 80

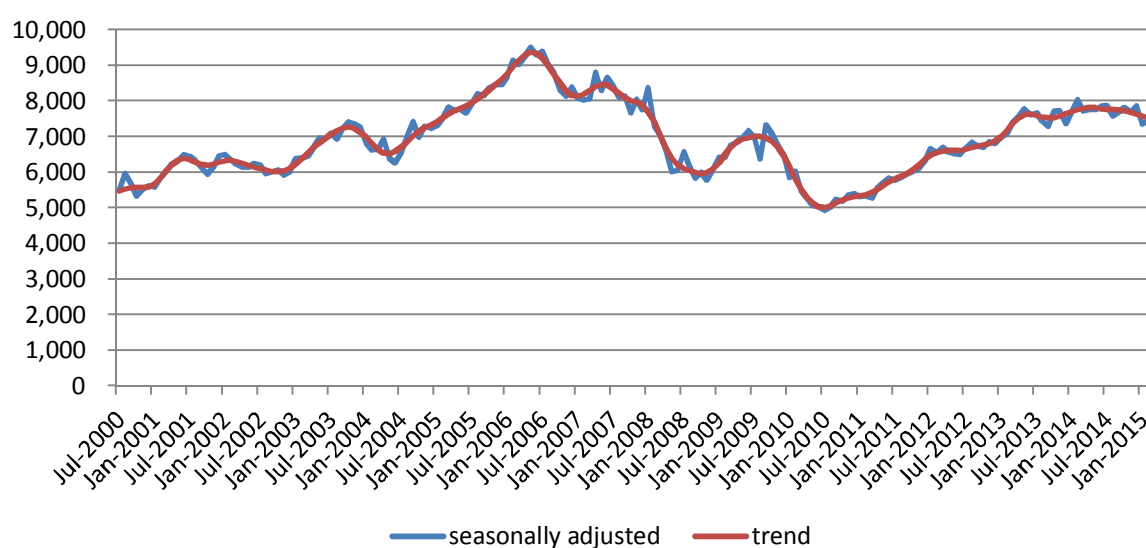


5.2.3 Housing Finance

The trend in total finance commitments for owner occupation in WA (including refinancing) has been gradually falling since April 2014 (see Figure 8).

Figure 8: WA finance commitments for owner occupation, July 2000 - February 2015

Source: ABS Cat No 5609.0 Table 5

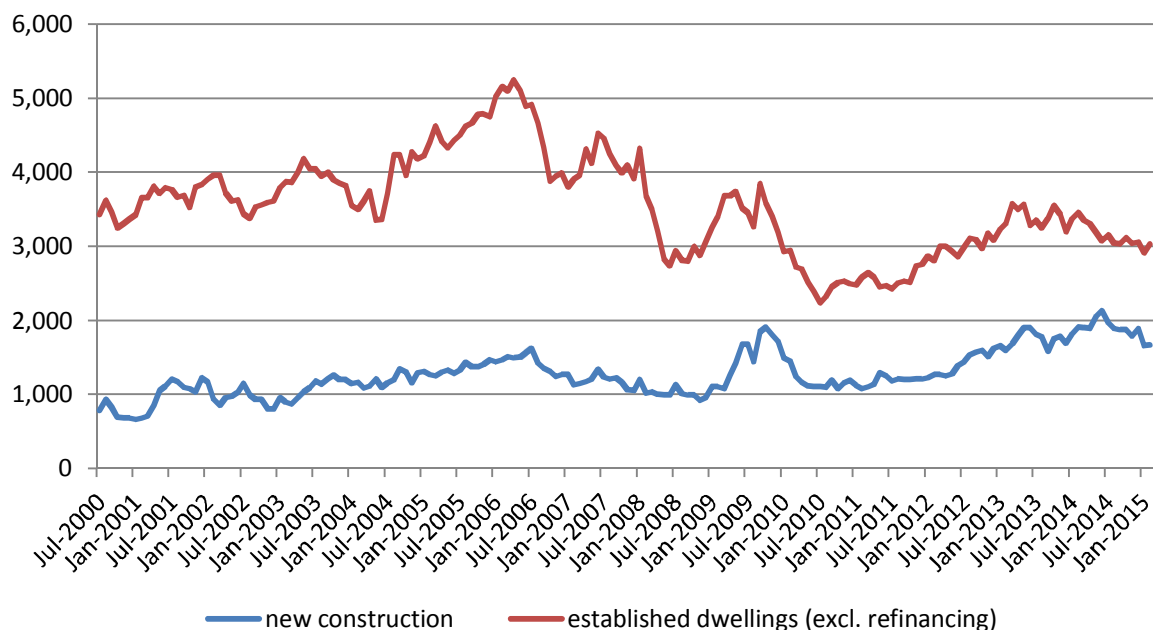


In the eight months to February 2015, seasonally adjusted total home loan commitments (excluding refinancing) at 39,041 were 5% lower than the same period of 2013/14. However,

of these owner-occupier loan commitments, 14,626 were for the construction or purchase of new dwellings and were up 3% on the same period of 2013/14. However, loan commitments for both established and new homes are clearly moving down (see Figure 9 below), a leading indicator identifying activity is starting to slow.

Figure 9: WA seasonally adjusted home loan approvals, July 2000 - February 2015

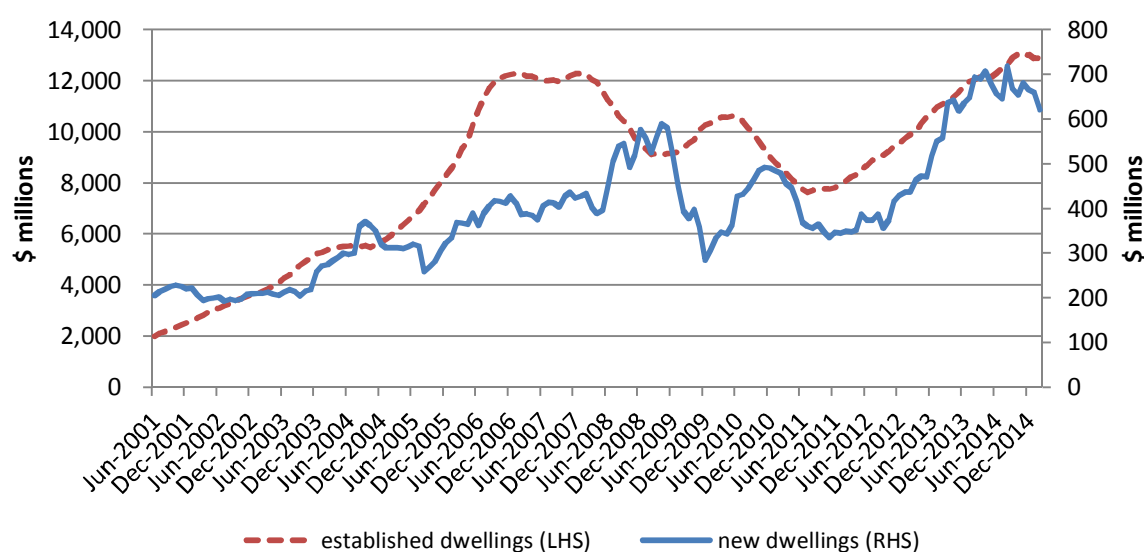
Source: ABS Cat No 5609.0 Tables 10a & 15 (seasonal factors)



The proportion of first homebuyers has been over 30% of all buyers (excluding refinancing and investment) since September 2011 and was as high as 36% in June 2014, compared to the long-term average of 28% since July 2000. In February 2015 the ratio was 32%.

Figure 10: Annualised finance commitments for housing investment, June 2001 - Feb 2015

Source: ABS Cat No 5671.0 Table 23



The annualised value of financial commitments for investment in new and existing housing showed a strong upward trend from late 2012 to late 2014 but turned down at the start of 2015 (see Figure 10). In the eight months to February 2015, investment in established

dwelling for rent at \$8,461 million was up 8% on the same period in 2013/14. The investment in new dwellings for rent over the same period fell by 7% to \$439 million.

6 Housing Market Trends

6.1 New Homes Market

House sales by the major builders in February 2015 were 3% lower than the previous month, following a 4% fall in the previous month. Sales are now 14% lower than the five-year high reached last October. HIA believes that, although the State's new house building in 2014/15 will be lower than the previous two boom years, activity in 2015 will still remain strong¹¹.

6.2 Established Dwelling Market

Perth house sales experienced a 10% decrease and multi-residential sales were down 11% in the calendar year 2014 but has picked up in the first quarter of 2015. REIWA's Perth median house price sits at \$550,000 in the December 2014 quarter, with a median price for units of \$440,000. The slowing market activity saw the median prices virtually unchanged for houses and down 2% for units on the year.

Regional house sales represented 22% of WA's house sales in 2014, with all regional centres seeing reduced sales activity in 2014 compared to the previous year.

A recent analysis of the turnover of WA's housing stock since 1990/91 by REIWA¹² has shown that *"owners and investors are holding property longer and debunks the long held myth that households move on average every seven years."* The average turnover time has increased from around 14 years to 21 years in WA, with the lowest turnover rate of 11 years happening during the 2005/06 property boom and the longest period of 25 years in 2010/11 during the lowest level of dwelling sales since the 1990/91 recession.

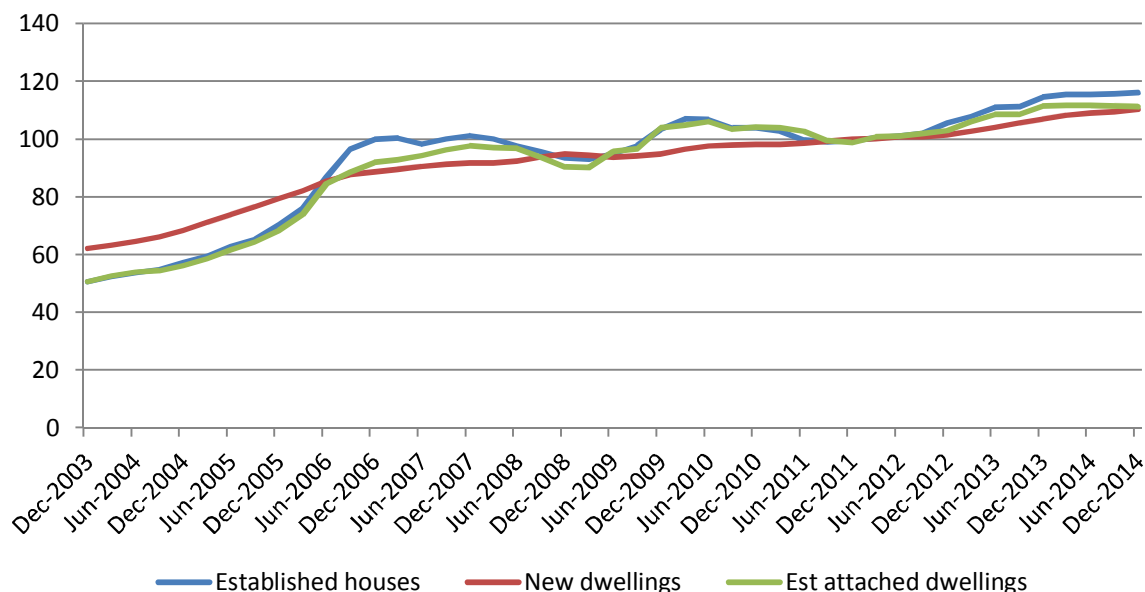
The average turnover time in Perth increased from 14 years in 1990/91 to 19 years in 2013/14. In regional WA, the average turnover time increased from 16 to 27 years over the same period with all regions having a higher turnover than the Perth metropolitan area.

The index of established house prices in Perth (Figure 11) increased 1.5% in the year to the December quarter 2014 and that for established attached dwellings fell by 0.1%. The index of the price of new dwellings purchased for owner occupation increased by 3.1% over the same period and in the March quarter of 2015 declined to an annual rate of 2.6%.

¹¹ *New Home Sales, January 2015*, HIA

¹² *"Debunking the Seven Year Moving Myth", Market Update, December Quarter 2014*, REIWA

Figure 11: Quarterly indexes of Perth house prices¹³, Dec quarter 2003 - Dec quarter 2014
Source: ABS Cat No 6416.0 & Cat No 6401.0

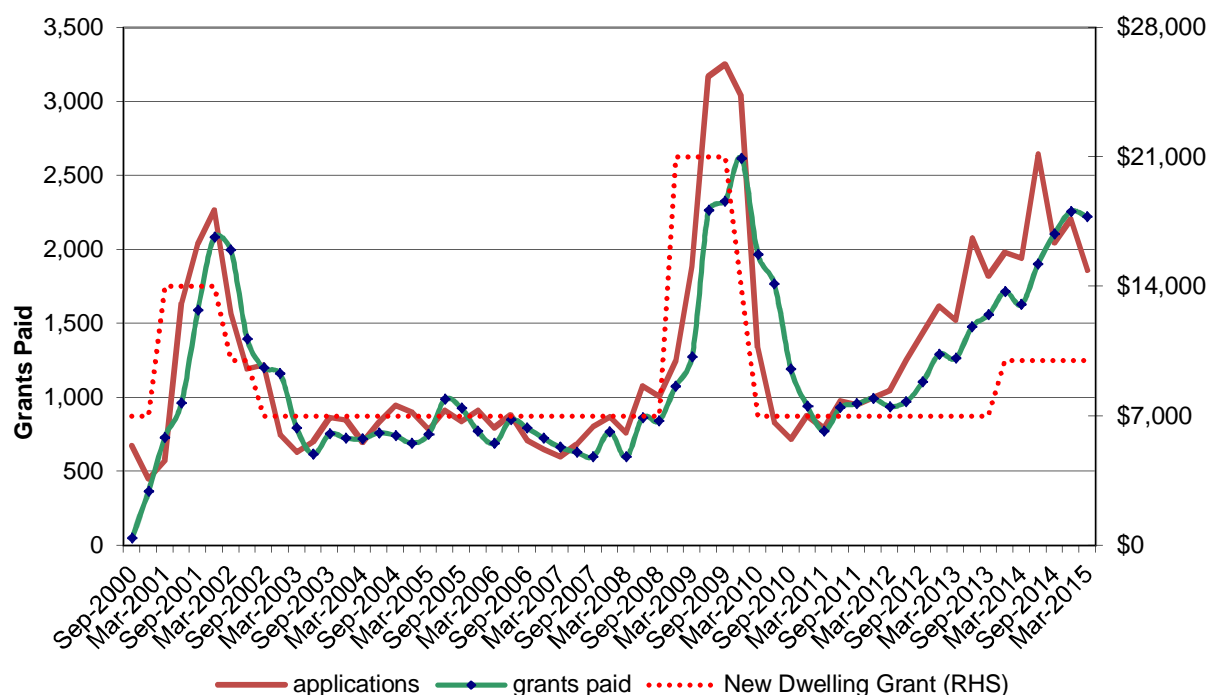


6.3 First Home Buyer Market

Total applications for the First Home Owner Grant (FHOG) of 14,160 in the nine months to March 2015 were 10% lower than for the same period of 2013/14. However, the number of applications for new dwellings and land grew 6% to 6,112 (see Figure 12) while the number for established dwellings fell 20% to 8,048.

Figure 12: Quarterly FHOG applications and grants paid in WA for new dwellings and land, July 2000 - March quarter 2015

Source: Office of State Revenue



¹³ Index numbers are based on 2011/12=100.

With the increase in the grant for new build to \$10,000 in September 2013, grants paid for new build at 48% of total grants paid in the March quarter 2015 were 21 percentage points higher than the long-term average.

In the March quarter 2015, total applications of 4,311 were down 11% on the same period of 2014 (4,827). Applications for established homes were 2,451 and 2,886 (down 15%) while applications for new build were 1,860 and 1,941 (down 4%) respectively, indicating a slowdown in the first home buyer sector.

The median established house price paid by FHOG buyers in March 2015 was \$453,500 in Perth and \$349,500 in regional WA, down 4% and no change respectively in the year.

From REIWA data, the proportion of first home buyers in established home sales fell to 24% in the December quarter 2014, with preliminary estimates putting the March quarter 2015 figure at 21%.

6.4 Private Rental Market

Conditions in Perth's rental market continued to ease over calendar year 2014 ending the year in the December quarter with a vacancy rate of 4.2%, above the 3.0% rate considered to represent a balanced market¹⁴. For the first quarter of 2015, the median rent fell to \$430 per week and the vacancy rate lifted to 4.4%.

Comparative data for regional centres for the March quarter 2015 (Table 1 below) shows largely a fall in median rents. The slowdown in the resources sector has seen big declines in the median rents for both Karratha and Port Hedland, with annual falls of 19% and 42% respectively. Kalgoorlie-Boulder is also feeling the impact of softening resources sector activity with an annual fall of 6%. The private rental market in Albany was the only regional centre with a positive annual growth in its median rent (up 9%).

Table 1: Median Weekly Rent in Perth and Major Regional Centres, March quarter 2015

Region	Median Weekly Rent	Quarterly Change	Annual change
Perth	\$430	-2%	-5%
Mandurah/Murray	\$360	-3%	-5%
Albany	\$350	0%	+9%
Greater Bunbury	\$360	-1%	-3%
Geraldton/Greenough	\$320	0%	-11%
Kalgoorlie/Boulder	\$340	0%	-6%
Karratha	\$650	-7%	-19%
Port Hedland	\$750	-17%	-42%
Broome	\$500	-8%	-17%

Source: REIWA

¹⁴ *Market Update*, December 2014 Quarter, REIWA

7 Housing Affordability in WA

7.1 Home Ownership

Low interest rates, falling real house prices in Perth and moderately rising incomes meant that housing affordability indexes improved in 2014. The latest HIA–Commonwealth Bank index on housing affordability in Western Australia for the September quarter of 2014 was 107.5, up 2.9 index points on the previous quarter but down 3.0 points on the year¹⁵. The report found that housing affordability was more favourable than in NSW, Victoria and Queensland. The Real Estate Institute of Australia's *Home Loan Affordability Indicator* for the December quarter 2014¹⁶ fell 0.2 points on the previous quarter and 0.1 points on the year, indicating a small decline in housing affordability in Western Australia.

In the December quarter of 2014, a Perth household on the estimated median household income of \$86,700 and allocating 30% of their gross income to loan repayments with a 10% deposit could afford a property valued around \$404,000. This was below the lower quartile house price of \$440,000 in the December quarter 2014 and would have enabled them to access 22% of houses and units sold in Perth in the quarter.

7.2 Private Rental

With Perth's median rental at \$440 per week in the December quarter 2014¹⁷, a household would need a gross income of \$1,467 per week (\$76,300 per annum) if they wanted to allocate no more than 30% of their income to paying rent. Despite a fall of 4.3% in Perth's median rent in the year to December 2014, households on lower incomes will continue to struggle to afford rents in the private sector.

The National Rental Affordability Scheme (NRAS) was designed to enable low to moderate income households to access private rental properties discounted by at least 20% from market rates. As noted in our October 2014 report, the Commonwealth Government cancelled the final round of the scheme. As at 31 December 2014, 2,604 NRAS dwellings had been delivered.

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 March quarter 2015 was 2.6% higher than the index for March 2014¹⁸, while Perth's price index of building materials used in housing construction increased by 2.9% in the year to the December quarter 2014¹⁹.

¹⁵ *HIA-Commonwealth Bank Affordability Report*, June – September 2014 Quarters, HIA. (It should be noted that the methodology for this index is under review.)

¹⁶ *Housing Affordability Report*, December Quarter 2014, Real Estate Institute of Australia

¹⁷ REIWA

¹⁸ *Consumer Price Index*, Cat No. 6401.0, Table 11, ABS.

¹⁹ *Producer Price Indexes*, Cat No 6427.0, Table 18, ABS.

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

Advertisements for trades in the first quarter of 2015 have fallen back by 18% from the comparable period in 2014, according to research conducted by Master Builders WA, with reduced demand for bricklayers being prominent.

9 Underlying Demand for Housing

9.1 Underlying Housing Requirements

Our estimates of the underlying demand for housing have been updated with revised estimates of population growth rates for WA, as produced by WA Treasury in their latest mid-year revision, and rebasing the figures to Greater Perth and Rest of State. Based simply on demographic factors, the underlying demand for housing in the State is estimated to be around 20,000 dwellings per annum over the next four years. This produces a cumulative shortfall of dwelling stock of 23,900 in 2013/14 rising to 30,900 by 2017/18. In Greater Perth the cumulative shortfall is estimated to be 30,200 in 2013/14, rising to 35,800 by 2017/18. The respective figures for the rest of WA are a surplus of 6,300 reducing to a cumulative surplus of 5,100 in 2017/18. As noted in previous reports, these estimates are based solely on demographic trends and take no account of the impact of economic factors on the demand for housing, such as house prices, interest rates and incomes.

10 HIFG's Forecast of Dwelling Commencements

10.1 Forecast of Dwelling Commencements

Our October 2014 forecast of 25,000 dwelling starts in 2014/15 was based on a slowdown in population growth, interest rates starting to rise from historically low levels and a slowing WA economy. With the trend in building approvals now only just starting to move downwards, interest rates remaining low and seasonally adjusted dwelling commencements up to 16,493 in the first half of the financial year, dwelling starts are expected to only start falling gradually in the second half of 2014/15. Therefore, we are raising our prediction for the current financial year from 25,000 to 30,000.

In line with the higher 2014/15 forecast, the group is also raising its prediction for dwelling starts in 2015/16 by 500 to 23,000 commencements. While the figure of 23,000 dwelling starts represents a fall of 23% on 2014/15, it should be understood this number still represents a healthy level of activity for the sector and is above the long-term annual average of 20,400 dwellings since 1984/85. Our prediction for the out-years is that the number of dwelling starts will bottom out at 20,000 in 2016/17 and in 2017/18 will start to slowly move up to be within the range of 20-22,000 dwellings.

A downside risk to our predictions for 2015/16 and the out-years is that the State's population growth rate turns out to be lower than the projections made by Treasury in its mid-term review of 2.0% in 2015/16 followed by 2.1% in 2016/17 and 2.2% in 2017/18. If the halt to the downturn in the net overseas migration to WA seen in the September quarter 2014 is not

maintained then dwelling commencements are likely to be lower than our predictions for 2015/16 and beyond.

Table 2: HIFG Forecast of Dwelling Commencements in WA, 2014-15 to 2017-18

Financial Year	Dwelling Commencements	% change
2013/14 (actual)	29,145	
2014/15 (forecast)	30,000	3%
2015/16 (forecast)	23,000	-23%
2016/17 (forecast)	20,000	-13%
2017/18 (forecast)	20 – 22,000	

10.2 Assessment of Serviced Residential Land Supply

Based on 1.3 dwellings per lot²⁰, our forecast suggests the need for 23,000 serviced lots in 2014/15, falling to 17,700 in 2015/16 and around 15,000 in the out-years. Demolitions will provide between 2-2,500 lots per annum, resulting in a need for around 20,000 serviced lots this financial year, falling to 13,000 lots in the out-years, to be supplied from new land developments and vacant unsold serviced lots. Lot listings of vacant lots in Perth, Peel, Bunbury, Busselton and Geraldton have been increasing over the last 12 months to 2,801 listings at the end of March 2015, up 26% on the year.

The data on land supply, examined in section 4, suggest there should be no difficulty in the short and medium term in meeting the predicted need for serviced lots.

²⁰ The average number of dwellings per job over the period 2009 to 2014, based on ABS data.

Appendix – 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 2015

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
Jonathan Palmer	Department of Treasury
Steven Rowley	Housing and Urban Research Institute of WA
Brett Coombes	Water Corporation
Damien Martin	Department of Planning

Observers

Marion Thompson	Urban Development Coordinator
David Waymouth	Australian Bureau of Statistics

Secretariat

Ian Hafekost



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