

Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

2016-17 Update

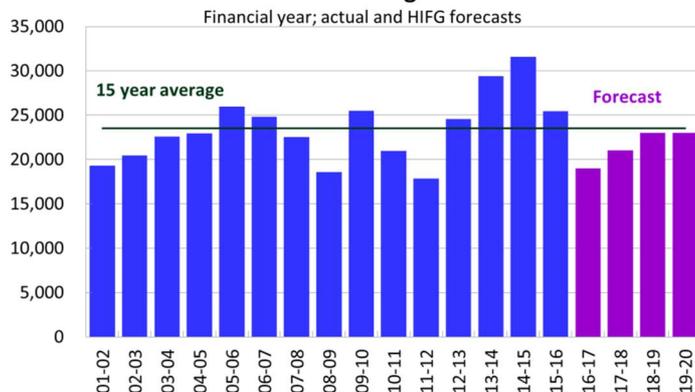
The 2016-17 update reviews the Group's forecasts made in late 2016.

HIFG Forecast of Dwelling Commencements in WA, 2016-17 to 2019-20 ¹		
Financial Year	Dwelling Commencements	% change
2015-16 (actual)	25,482 (23,000 forecast)	
2016-17 (forecast)	19,000	-25%
2017-18 (forecast)	21,000	11%
2018-19 (forecast)	22-24,000	
2019-20 (forecast)	22-24,000	

The Housing Industry Forecasting Group (HIFG) has confirmed its forecast for 19,000 dwelling commencements for the year 2016-17. The Group agreed that although this figure represents a significant fall on the previous year there are some positive signs for the industry going forward.

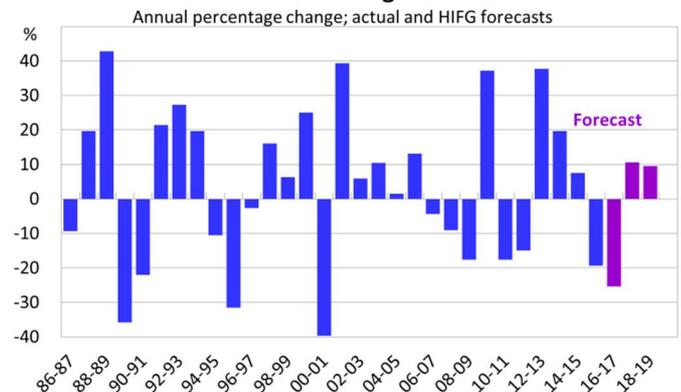
Dwelling commencements have trended lower over the year, and population growth, one of the key drivers of dwelling demand, has been soft. Subdued labour market conditions, with high underemployment and low wages growth, have also dampened demand, along with good availability of stock in the established market for both purchase and rentals.

Western Australian Dwelling Commencements



Sources: ABS, HIFG. Midpoints used for 2018-19 and 2019-20.

Western Australian Dwelling Commencements



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While 19,000 is a fall of 25% from the previous year, such a downturn is not unusual as the housing sector is a cyclical industry. Despite the relatively low level of commencements for 2016-17, members noted that there are signs many aspects of the Western Australian economy have bottomed, and maintained the expectation that dwelling commencements will recover to 21,000 in 2017-18. This is based on early indications of a moderate recovery in population growth, employment conditions and the general economic outlook.

Members agreed that whilst buyer confidence in the Western Australian housing market is improving it remains tentative, and that any changes to the policy or regulatory environment at all levels of government are likely to have significant effect on the market. Members noted a key risk to the outlook being changes to regulatory measures designed to cool price

¹ Data and forecasts finalised 8 May 2017.

growth in the Sydney and Melbourne markets, but that would apply equally to Western Australia.

1 Economic overview

WA's State Final Demand (SFD) grew by 0.4% in the December quarter 2016², after more than a year of decline. In annual terms, SFD fell by 7.8% over the year. Business investment remained the largest detractor to growth over the year.

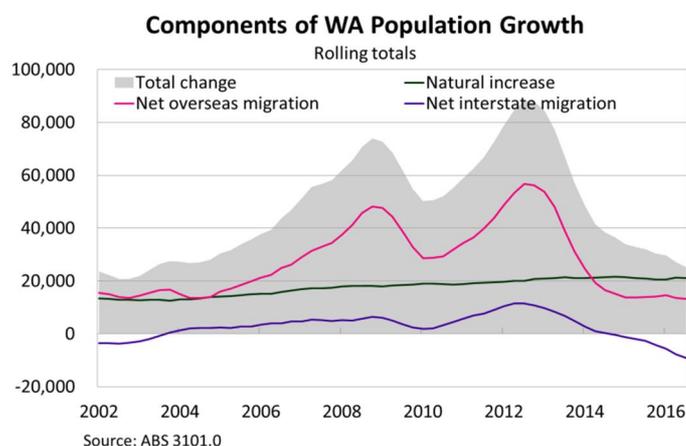
The labour market appears to have stabilized with the unemployment rate sitting around 6.4% in trend terms over the past few months. There has been an increase in full-time employment, which had been falling for some time. However, unemployment remains elevated, and underemployment has risen to almost 10%³. Wages growth remains soft.

There are signs economic confidence is returning, with the *CCI Survey of Consumer Confidence* showing an increase in people expecting the WA economy to improve or remain unchanged in the short-term. The *ANZ/Property Council Survey* for June quarter 2017 shows the confidence of those working in the WA property sector has risen to its highest level since 2014.

2 Population growth

WA's population growth continues to slow with a growth rate of 1% recorded for the year to September 2016. WA's estimated residential population is now 2,623,164. Net interstate migration has been negative for 10 quarters. Net overseas migration grew by 13,315 in the year to September 2016, similar to the previous year. This slow rate of growth, particularly in interstate and overseas migration, is one of the drivers behind the decline in dwelling commencements.

HIFG believes that the record low growth in population has now stabilised and expects a subdued pick-up over the forecast horizon. This is in line with the latest forecasts in the Pre-election Financial Projections Statement.

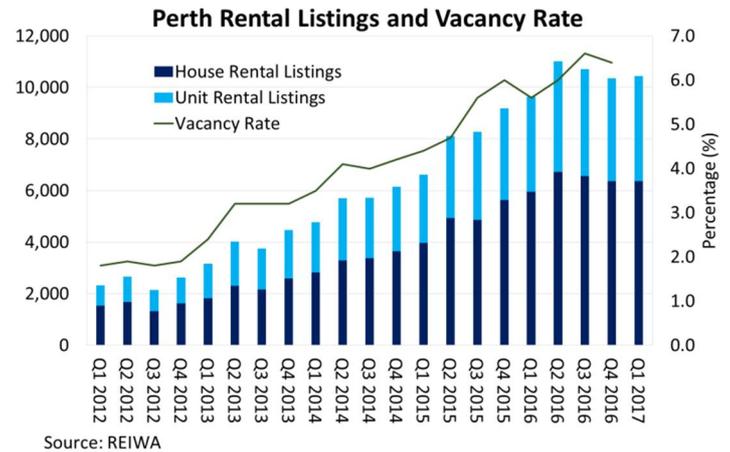
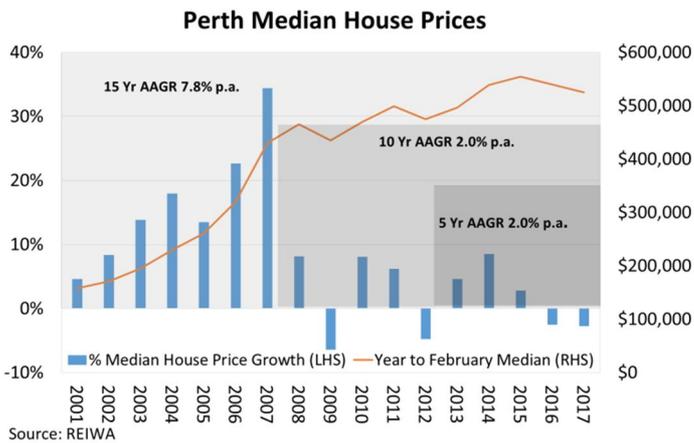


3 Established purchase and rental market

After consistent falls over recent quarters, house prices in Greater Perth rose in the December quarter 2016, with the median house price increasing by 1.0% in the quarter to \$525,000, although still 3.0% lower over the year. Regional house prices also picked up overall, but there were large variations between markets.

² Seasonally-adjusted.

³ February 2017. Western Australian underemployment rate (proportion of labour force). ABS 6202.0



The rental market remains very soft with a vacancy rate of 6.4% in the December quarter 2016. Rental listings for both houses and units remain high. Median rents have fallen by 10% over the year to \$355 per week in the March quarter 2017.

A high level of properties available for rent and sale in the established market is likely to continue to dampen demand for new housing. Buyers and renters are able to source good deals in both markets which reduces demand for new build products.

HIFG notes that despite the decline in rental and purchase prices, housing affordability continues to be a significant issue for WA households on low incomes.

4 Forward indicators

Finance commitments for housing continue to trend downwards, but the rate of decline has slowed.

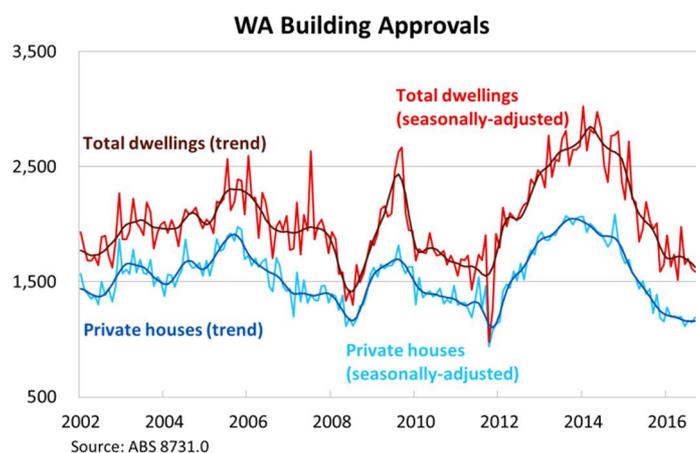
Final **lot approvals** continue to fall after peaking at 6,703 in June 2015. There were 2,461 final lot approvals in WA in the December quarter of 2016. UDIA reports that lot sales activity continued to slow in the December quarter 2016, but that the rate of decline has eased over the year, indicating a steadying of the market. REIWA data shows that listings for established land have stabilised but remain elevated.

HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast horizon.

There are some signs that the **market for new homes in WA** has bottomed out. Over the three months to February 2017 detached house sales grew by 3.0% in WA, but volumes were still down by 6.3% compared to a year earlier from what was an already low base.⁴

The number of building approvals has flattened in recent months after falling since late 2014. Approvals remain below their decade level averages. Multi-residential approvals made up around 20% of seasonally-adjusted approvals in March 2017, compared to the decade average of 22%. It remains to be seen whether the recent drop in multi-residential approvals will become a trend in what is a traditionally volatile sector. If so, this is a potential downside risk for HIFG's forecasts.

⁴ HIA New Home Sales February 2017.



First-home owners continue to constitute a significant proportion of the WA housing market, despite the overall volume of first-home owners falling in line with the general market. WA first-home owners secured 22% of total finance commitments in February 2017, in line with the decade average for WA and well above the national level of 13%. On 27 December 2016, the WA government announced a temporary \$5,000 boost to the First Home Owner Grant (on top of the standard grant of \$10,000 for new dwellings). At the same time, the income eligibility limits for Keystart were increased, allowing more consumers access to low-deposit home loans. These changes have led to an increase in inquiries. It remains to be seen whether these inquiries will feed through to new build activity.

5 Dwelling commencements

Dwelling commencements fell to 10,003 in the six months to December 2016 in seasonally-adjusted terms (10,269 in original terms). This is 28% lower than the same period in 2015. HIFG expects dwelling commencements to reach 19,000 for the 2016-17 financial year, followed by a subdued recovery to 21,000 in 2017-18.

6 Industry issues and challenges

- The possibility of increased macro-prudential regulation is of concern to the Group. Members noted increased regulation would be in response to conditions in Sydney and Melbourne, but will apply equally to Perth. Members view this as a risk to the accuracy of the forecast and, more importantly, a market recovery.
- Members commented that any changes to Federal government policy settings related to housing would have an impact on the Group's forecasts.
- Some members noted that the potential implementation of a foreign investor surcharge in WA could impact future demand and inhibit market recovery.
- The Group looks forward to further guidance from the new WA Government on policy settings relating to housing and planning.
- Members reported that there is unmet demand for medium-density housing, but that policy and planning settings make these types of developments difficult. This includes a lack of design guidance specific to medium-density developments, inconsistent planning policies amongst local governments, and plot ratio requirements which limit the number of dwellings that can be built on a site. Members noted that the Department of Planning is working to address some of these issues through the implementation of Design WA.
- Members remarked that the proposed strata title reform is important to support higher density infill development.
- It was reported that valuations coming in lower than expected and constraining buyers' ability to obtain finance remains an issue for the industry.