Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

2018-19 Update

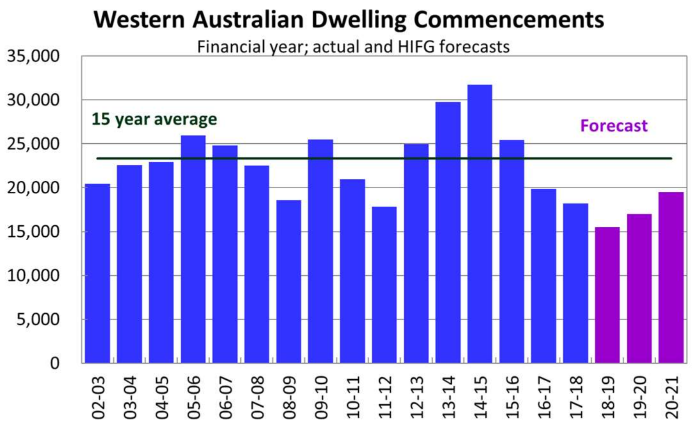
The 2018-19 Update reviews the Group's forecasts published in November 2018.

HIFG Forecast of Dwelling Commencements in WA, 2018-19 to 2020-21[1]

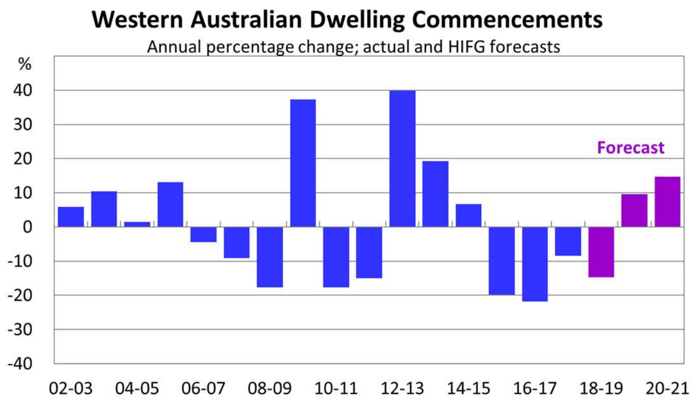
Financial Year	Dwelling Commencements
2017-18 (actual)	18,124 (19,500 forecast)
2018-19 (forecast)	15,500
2019-20 (forecast)	17,000
2020-21 (forecast)	18,000-21,000

The Housing Industry Forecasting Group (HIFG) has revised down its forecast for the 2018-19 financial year. Members now expect commencements of 15,500 dwellings, down from its previous forecast of 18,000. Members noted that leading indicators such as building approvals and household lending have deteriorated since its previous forecasts were prepared and that uncertainties have increased. Potential changes to housing policy (such as the first home deposit scheme) and tax settings (changes to negative gearing and the capital gains tax discount) may impact the Group's forecasts.

Population growth, one of the key drivers of dwelling demand, has improved but remains soft. Subdued labour market conditions, with low wages growth, have also dampened demand for new housing, along with good availability of stock in the established market. Access to finance is difficult for many borrowers and uncertainty in the economic and political landscape is also negatively affecting consumer and business confidence. These factors contribute to fewer dwelling commencements.



Sources: ABS, HIFG. Midpoints used for 2020-21.



Sources: ABS, HIFG. Midpoints used for 2020-21.

The 2018-19 forecast of 15,500 reflects a deterioration in home building conditions over the last year. Members highlighted the high degree of uncertainty in the residential market and the economy, with access to finance post the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) a key

[1] Data and forecasts finalised May 2019.

constraint on activity. Along with the soft conditions in the industry, the cumulative impact of a number of proposed policy and planning settings which impact the development industry, such as Design WA, are adding to concerns.

Despite the relatively low level of commencements, members noted that there are signs some aspects of the Western Australian economy have bottomed, with this trend expected to support dwelling commencements in the medium-term. The group expects that dwelling commencements will recover to 17,000 in 2019-20 and to a range of between 18,000 and 21,000 in 2020-21. This is based on indications of a moderate recovery in population growth, employment conditions and wages.

1 Economic overview

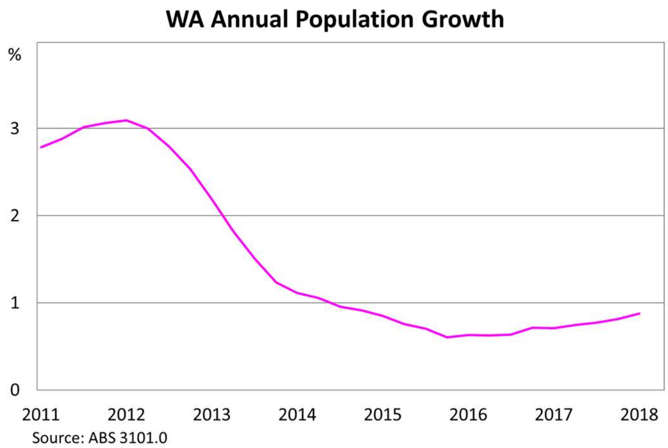
The WA domestic economy contracted over the 2018 calendar year. WA's State Final Demand (SFD) fell by 0.5% in annual average terms[2], largely due to a fall in business investment.

While there has been some recent volatility in the headline unemployment rate, it remains at a relatively high level, hovering between 5.7% and 6.9% over the past year. Wages growth remains soft, impacting on confidence and the capacity to save for a mortgage, with the wage price index increasing by just 1.7% in the year to December 2018.

Consumers and businesses are slightly less confident about future economic conditions compared to the end of 2018. The latest *CCI Survey of Consumer Confidence* indicates that consumer confidence fell slightly during the March quarter 2019.

2 Population growth

WA's population growth has recovered slightly on the previous year but remains soft with a figure of 0.9% recorded for the year to September 2018. WA's estimated residential population is now 2,602,419. Net interstate migration has been negative for 21 quarters, however net overseas migration improved on the previous year. The slow rate of growth, particularly in interstate and overseas migration, is contributing to weak demand for new dwellings.

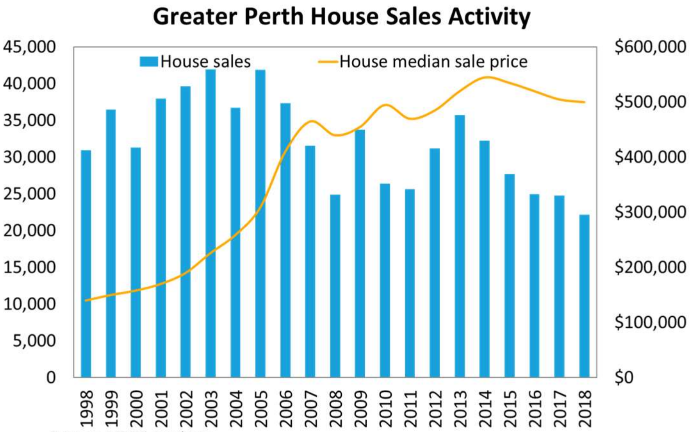


3 Established purchase and rental market

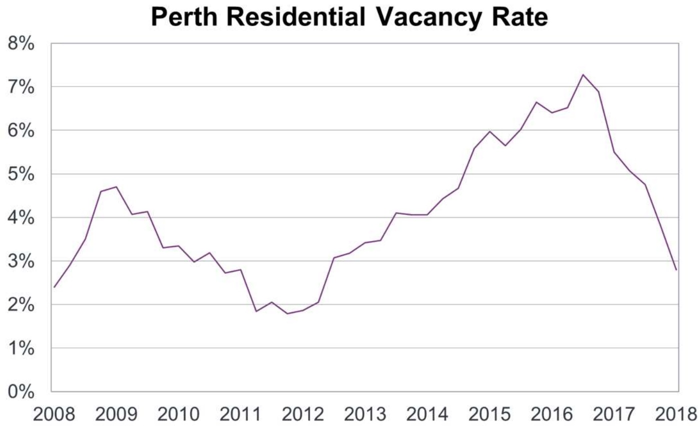
Median house prices in Greater Perth fell over the 2018 calendar year to $500,000, partly as a result of house sales activity falling by 10.5% over the year and unit sales by 12.2%. Around a third of suburbs increased in price over the year while prices in the other two-thirds declined. Regional house prices also fell slightly overall, but there were large variations between local markets.

[2] Seasonally-adjusted.

Properties available for sale in the established market remain above historical levels. This is likely to continue to dampen demand for new housing as buyers have a healthy level of choice in the established residential market.



Sources: REIWA, Landgate



Source: REIWA

The vacancy rate in the private rental market has reduced considerably, sitting at 2.8% in the December quarter 2018, down from the peak of 7.3% in the June quarter 2017. Median rents remained flat at $350 per week over the year. It should be noted that the reduction in the rental vacancy rate is a function of supply rather than demand as evidenced by a significant drop in rental listings but no increase in leasing activity. The tightening of the vacancy rate should result in an increase in rents, which, although there will be variations between local markets, will marginally improve demand for new housing.

HIFG notes that despite soft conditions in the housing market over the last four years, housing affordability continues to be an issue for households on low incomes. Members expressed concern about rental affordability with the reduction in the vacancy rate and a potential lack of new supply following a contraction in the investment market and overall dwelling supply.

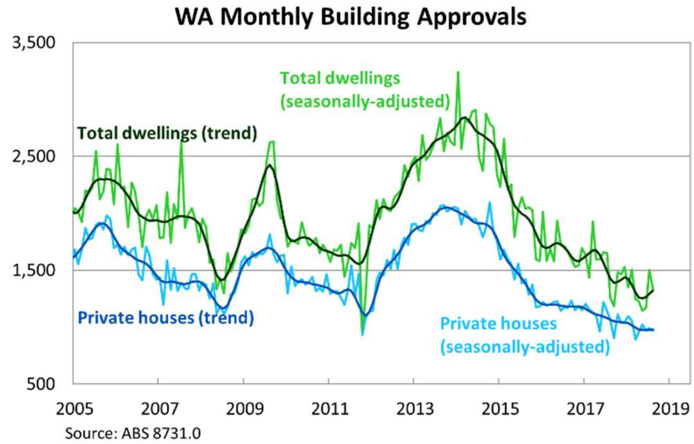
4 Forward indicators

Final **lot approvals** remain at relatively low levels, with 2,090 final approvals in the December quarter 2018. UDIA reports that lot sales activity remains soft, with a fall in activity in the final six months of 2018. REIWA data shows that listings for established land have stabilised but remain elevated, well above the 10 year average. Members noted that land supply is not a constraint on activity and is unlikely to become one unless demand rebounds sharply. HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast horizon.

New home sales remain soft, with detached house sales in the March quarter 2019 14.3% below the same quarter in 2018.[3] Conditions are very tough in the new home building sector. The Group welcomes the temporary increase in the Keystart eligibility limits which may have a positive impact, albeit modest, on the sector.

The number of building approvals continued to decline in early 2019 and remain well below their decade level averages. Building approvals have been falling since late 2014. Multi-residential approvals remain volatile but made up around 24% of seasonally-adjusted approvals in the year to February 2019, compared to the decade average of 22%. The trend in this proportion is particularly important in terms of targets around infill development.

[3] HIA New Home Sales March 2019.



The number of **finance commitments** for housing continues to trend downwards, indicating weak demand. **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 comprised 26% of total owner-occupier finance commitments in February 2019, above with the decade average for WA and well above the national level of 18%. Members noted that the availability of Keystart home loans supports the high proportion of first-home owner activity in the state and, as noted above, increases in income eligibility limits are a positive move.

5 Dwelling commencements

Dwelling commencements fell in the six months to December 2018 at 7,759 in seasonally-adjusted terms (8,054 in original terms). This is 21% lower than the same period in 2017. HIFG expects dwelling commencements to decline further to 15,500 in the 2018-19 financial year, followed by a subdued recovery to 17,000 in 2019-20.

6 Industry issues and challenges

- The Royal Commission has contributed to tighter lending conditions for many borrowers. Members reported that access to finance is currently the key constraint on home building.
- Bank valuations for new purchase contracts of homes that are lower than expected, constraining buyers' ability to obtain finance, remains an issue for the industry.
- Some industry members expressed concern about the cumulative impact of recent and upcoming changes to planning and related policies that have the potential to cause uncertainty in the industry and could lead to delays in development.
- Some industry members also noted concerns about the implementation of the upcoming Apartment Design Policy through a lack of clarity on how individual local governments may interpret requirements and the time it could take industry to understand the changes, potentially leading to delays in development.
- The introduction of the Foreign Buyers Duty Surcharge has dampened foreign investor demand, making it more difficult to obtain pre-sales.
- Further adding to uncertainty in the industry is the upcoming Federal election and potential changes to tax and policy settings including negative gearing and capital gains tax.