

# Housing Industry Forecasting Group

Forecast  
Dwelling Commencements  
in Western Australia



October 2015

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## Executive summary

The October report provides the group's forecast of dwelling commencements in Western Australia from 2015-16 to 2018-19. The forecast will be reviewed in April 2016.

<b>HIFG Forecast of Dwelling Commencements in WA, 2015-16 to 2018-19</b>		
Financial Year	Dwelling Commencements	% change
2014-15 (actual)	31,158	
2015-16 (forecast)	23,000	-26%
2016-17 (forecast)	20,000	-13%
2017-18 (forecast)	20 – 22,000	
2018-19 (forecast)	22 – 24,000	

The report's key points are as follows:

- WA's population growth rate continues to slow with a 1.4% increase in the year ended March 2015. This equated to 35,348 people, 30% lower than in the year to March 2014.
- Land sales slowed considerably in 2014-15. In contrast final lot approvals continue to trend upwards.
- WA's building approvals reached a record 32,125 in 2014-15, an increase of 6% from 2013-14. However, approvals are now trending downwards.
- WA's dwelling commencements also reached a record high of 31,158 in 2014-15, 7% higher than in 2013-14, but are now trending downwards.
- HIFG predicts a lower level of dwelling commencements in 2015-16 due to slowing population growth, a high rental vacancy rate and a soft outlook for WA's economy. However the strong carryover of building approvals means that the forecast level of 23,000 remains healthy.
- Commencements are forecast to fall further, to 20,000, in 2016-17, primarily due to the lagged effect of lower population growth. Commencements are then expected to recover in 2017-18 and 2018-19.
- Uncertainty about future population growth poses both downside risk and upside potential to our forecast of dwelling commencements.
- The First Home Owner Grant for existing dwellings was abolished for purchases on or after 3 October 2015. The grant for newly built dwellings is unchanged at \$10,000. The removal of the grant for existing dwellings may encourage more first home owners towards new dwellings.
- REIWA data shows that established home sales fell by 6% in the September quarter.
- The Perth rental vacancy rate has risen over the past year to 5.6% in the September quarter. In line with this, Perth median rent has fallen to \$400 per week in the June quarter. A household paying no more than 30% of their income would have needed a gross income of around \$1,300 per week to afford this rent.
- In the June quarter 2015, a Perth household on the estimated median income of \$87,300 would have been able to afford a property valued at \$426,100 if they were to pay no more than 30% of their income in repayments. This was well below the median house price of \$545,000 in the June quarter.

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## 1 Introduction

The Housing Industry Forecasting Group (HIFG) provides a forecast of dwelling commencements and residential-lot availability for Western Australia, covering the period 2015-16 to 2018-19. This will assist government and industry in their planning but it should be noted that in using a four-year timeframe the forecast becomes less certain beyond 2015-16, hence our use of ranges for the outer years beyond 2016-17.

## 2 Housing industry drivers

### 2.1 Economic overview

Western Australia's State Final Demand (SFD) grew by 1.5% in the June quarter 2015 in real seasonally adjusted terms, following a 1.6% fall for the March quarter. Non-dwelling construction was the strongest contributor to growth at 7.8% following six consecutive quarters of falls on the back of a sharp rise in activity for the quarter. SFD contracted by 3.6% in annual average terms to the June quarter.

Western Australia's private capital spending increased by 2.6% in the June quarter following four consecutive quarters of decline. Notwithstanding this rise, private capital spending decreased by 9.9% over the year to June with the largest fall recorded in machinery and equipment (17.4%). Dwellings recorded the only growth, of 8.1% over the year.

The Westpac-CCI Leading Index declined 1% in June, marking the fifth time the Index has fallen since the start of 2015. Persistent low levels of business and consumer confidence has been weighing on the index in recent times. The June 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 75% of businesses expect the local economy to deteriorate over the coming 12 months, up from 71% last quarter.

Consumer confidence has improved against the recent downward trend in the September quarter edition of the CCI WA Super Survey of Consumer Confidence. The survey found that 38% of consumers expect the WA economy will deteriorate over the coming months, down from 51% in the June quarter. Consumers are less pessimistic about the medium term outlook for the State's economy, with 39% of respondents predicting that the WA economy will perform poorly over the next 12 months, down from 56% in the June quarter.

The proportion of consumers that expect conditions in the State's economy will improve over the next 12 months remained largely unchanged at 18%. The improvement in the three month and 12 month outlook for the WA economy reflects a slight pickup in consumer sentiment towards the labour market. The index of job prospects tracked upwards in the September quarter as a higher proportion of respondents (17% compared to 11% in June) reported that their job prospects had improved when compared to a year ago. Despite the slight improvement in September, the labour market is still a major concern for consumers, being in positive territory just once over the past two and a half years.

WA's labour market is softening as the lagged effect of the phasing down of the construction phase of the resources boom takes hold. The state's trend jobless rate is now the same as the national rate of 6.2%, having been lower than the national rate continually since early 2004. WA's jobless rate is likely to increase above the national rate as the construction phases of major resources projects wind down, although this may be somewhat offset by workers leaving the state.

Annual full-time employment growth has evaporated, having slowed from more than 7% in late 2012, to zero in the year to September 2015. While monthly growth may have bottomed, full-time job creation is unlikely to return to recent peaks during the forecasting horizon.

## 2.2 Finance sector

The Reserve Bank Board lowered the cash rate to 2% in May 2015, a record low. Given the well contained inflationary pressures, the RBA has been able to maintain a low cash rate to encourage borrowing and spending that stimulates growth. The board is mindful that the global economy is expanding at a moderate pace, with some further softening in conditions in China and East Asia of late, but stronger US growth. The RBA noted that regulatory measures are *"helping to contain risks that may arise from the housing market"*.<sup>1</sup> The success of the regulatory measures introduced by the Australian Prudential Regulation Authority<sup>2</sup> may give the RBA scope to cut the cash rate further in coming months, particularly given lenders have recently increased housing loan interest rates independent of cash rate moves. Even if the cash rate is not cut, the next increase is unlikely to be for some time. Moreover, the absence of inflationary pressures means that when the cash rate does rise, it will amount to a vote of confidence in the durability of the national economy rather than a signal that it is generating too much inflation.

## 2.3 Population growth

The latest demographic data for the March 2015 quarter (Figure 1) showed the following.

- WA's population growth continues to slow with a 1.4% increase in the year ended March 2015, or 35,348 people. This is in contrast to the previous year where the population grew by 2.0% (50,630 people).
- Net interstate migration is now negative, falling by 1,296 over the year.
- Net overseas migration continues to grow, but at a much lower rate than in previous years. Net overseas migration increased WA's population by 15,383 people in the year to March 2015, compared to 26,737 in the year to March 2014 and 53,834 in the year to March 2013.
- The Australian population also grew by 1.4% in the year to March 2015.

If population growth remains at current levels, or slows further, this will affect demand for housing. Low levels of net overseas migration are likely to impact the rental market in the short-term, but flow through to lower demand for new housing over time.

Recent projections of net overseas migration suggest that nationally, annual net overseas migration is expected to increase from 186,300 in the year ended June 2015 to 227,800 by the year ended 2018.<sup>3</sup> HIFG expects that Western Australia's share of overseas migration will return toward the long-run average of around 14%, following a peak of 25% in the June quarter of 2012. This would imply a net overseas migration figure of around 32,000 per annum by June 2018, a significant reversal of the current downward trend in numbers.

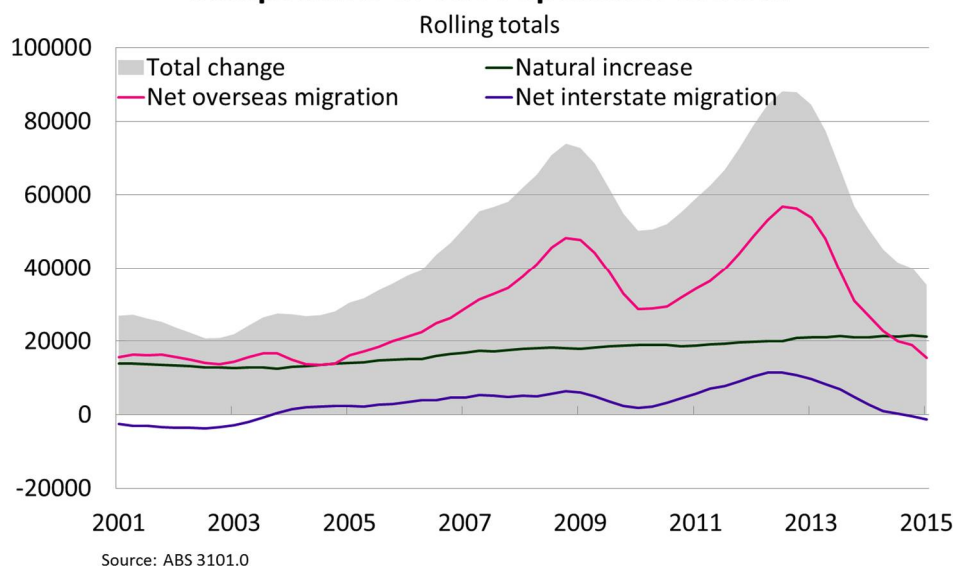
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<sup>1</sup> Media Release 2015-18, Reserve Bank of Australia

<sup>2</sup> Banking on Housing, Australian Prudential Regulation Authority

<sup>3</sup> The Outlook for Net Overseas Migration, June 2015, Dept. of Immigration and Border Protection

**Figure 1**  
**Components of WA Population Growth**



The estimated residential population for Greater Perth was 2,021,203 as at June 2014, an increase of 33% over the past decade.<sup>4</sup> Greater Perth now comprises 79% of the State's population, up from 77% in 2004. The Pilbara experienced the greatest growth over this time period, growing by around 50%, from 45,092 in 2004 to 67,507. Greater Bunbury grew by 30% over the decade, and remains the regional area with the highest population at 178,053 people, or 7% of the State population.

## 3 Residential land market activity and trends

### 3.1 Residential land sales

Developer lot sales in the Perth and Peel region fell by 11.5% in the June quarter 2015, with the heaviest falls in the South Eastern corridor, down 36% (Figure 2). This should be looked at in the context of a 23% rise in the March quarter after a strong marketing campaign to ensure settlements were achieved prior to annual reporting on the 30th June. It is anticipated that the September quarter will show conditions continuing to moderate but without the dramatic falls of the June quarter.

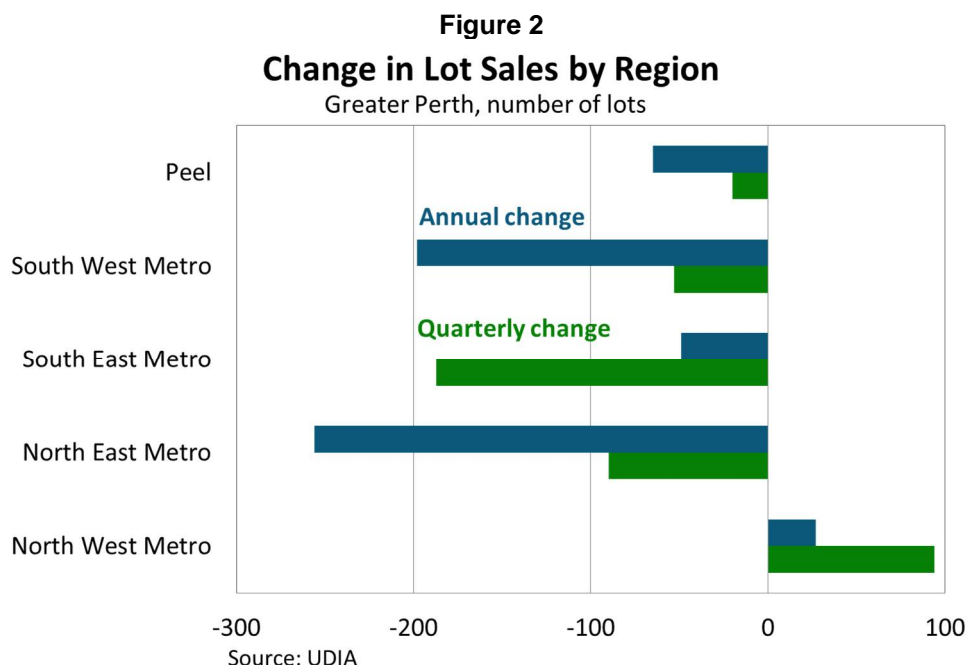
The North Western corridor stood up to the downturn experienced in other corridors, lifting 16.4% in the quarter, regaining the 14.3% fall in the previous quarter. The North Eastern corridor remains a major growth corridor for Perth, with the City of Swan continuing to hold the second highest proportion of developer land sales at 18%, after the City of Wanneroo. Looking ahead, the North East is expected to maintain strong growth, as a number of large developments in the area continue to deliver stock to the market.

In the South Western corridor, sales of developer lots in the June quarter were fairly evenly spread between the Cities of Cockburn, Kwinana and Rockingham. Sales are down significantly on last quarter but this was affected by a significant surge in sales in the March quarter. The South Eastern corridor was also affected by a significant surge in sales in the March quarter and sales numbers moved back towards their longer term average.

<sup>4</sup> ABS 3218.0



Sales in Peel lost the ground they made up in the March quarter. Sales in regional areas have been hit hard however there was some recovery from a very low base in the Kimberley and Pilbara regions. It is anticipated that the cycle will continue to be subdued throughout Western Australia.



The Real Estate Institute of WA (REIWA) estimates that residential land sales for WA during the year to September 2015 were down 28% to 9,926 from the year to September 2014. During the same time period, estimated land sales for the Perth region, were down 30% to 7,178 whilst regional land sales were down by 29% to 2,748.

In the September quarter 2015, the preliminary median land price in the Perth region at the time of writing was \$291,750 and likely to moderate further with outstanding settlements. The latest September quarter figure recorded an overall increase of 13% since last year and a quarterly increase of 11% based on the revised June 2015 quarter figure of \$263,000. In regional WA, the median land price has declined over the quarter at \$162,000, an annual and quarterly decline of 7%.<sup>5</sup>

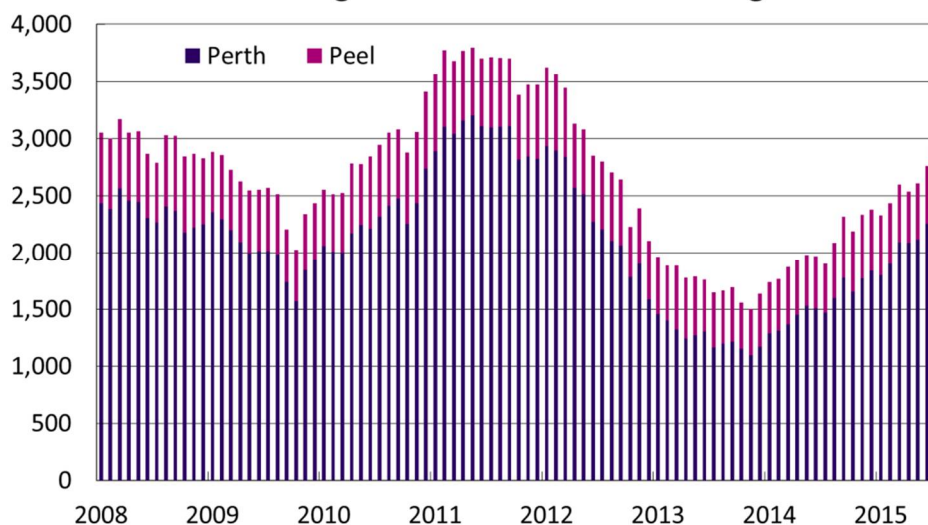
### 3.2 Land on the market

Figure 3 shows monthly land listings by REIWA members in the Perth and Peel regions to September 2015. September 2015 listings at 2,415 were up 7% on August and a significant 65% increase in comparison to a year ago. The recent number of land listings in the Perth region is the highest in three years. After a decline in land listings since early 2015, the Peel region recorded an increase in land listings as of September 2015 to 513, reflecting a 19% annual increase. REIWA's land listings in Greater Bunbury have also increased over the year to 203 as of September 2015, a 34% annual increase, while the number of lots for sale in Geraldton-Greenough has been relatively stable around the 300 lot mark.

<sup>5</sup> REIWA cautions drawing too many conclusions from movements in median land price as the sample represents approximately 30-35% of settled sales at present and may take up to 12 months for the balance to be received. Initial data has a higher proportion of more expensive near city land sales which lifts the median price.

Figure 3

## Land Listings in the Perth and Peel Regions



Source: REIWA

### 3.3 Land development trends

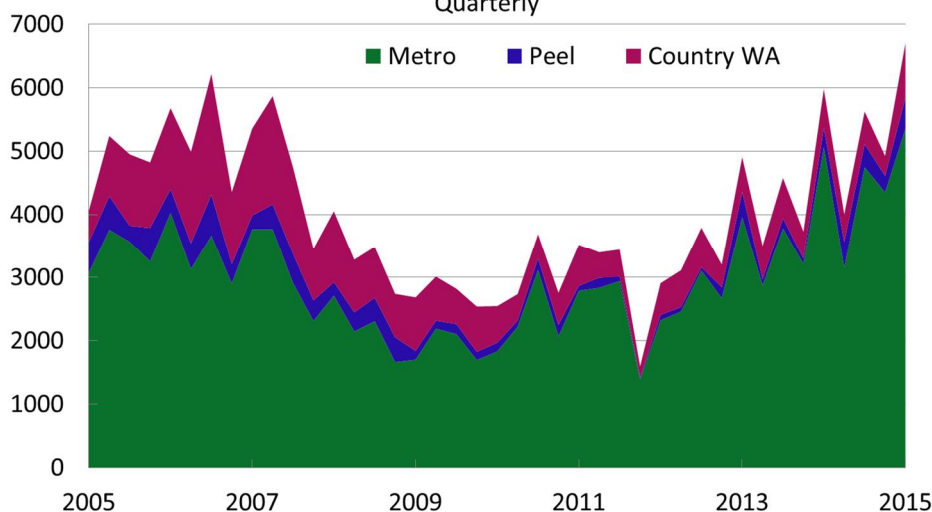
Conditional approval was given to 5,328 lots state-wide in the June quarter of 2015, a decrease of 14% from the previous quarter and 50% lower than the same period in 2014. Final residential approvals were given to 6,703 lots; up 12% on June 2014. At the end of June 2015, the number of proposed residential lots with current conditional approval totalled 79,615; down 5% on the previous quarter and roughly unchanged from June 2014. Perth accounted for 76% of the State total and with 60,866 lots was slightly below the level in June 2014 (61,322).

Figure 4 shows final lot approvals for the Perth area, Peel region and the rest of the State<sup>6</sup>. Final approvals have been trending upwards, reaching 6,703 in the June quarter of 2015.

Figure 4

## Final Lot Approvals

Quarterly



Source: State Lot Activity, WAPC

<sup>6</sup> Final approval is granted by the WAPC when the developer has satisfied all approval conditions, and permits the issue of new titles by Landgate.

Data provided by the Water Corporation to the Department of Planning indicates that as at June 2015 there were 11,100 residential lots where the developer had a servicing agreement with the Water Corporation.<sup>7</sup> This is 16% lower than in June 2014. These lots can be considered as active and available over the next 12-18 months. Of the total, 9,100 were located in the Perth and Peel area and 2,000 in the rest of WA. Active lots accounted for approximately 15% of the developers stock of current conditional approvals in the Perth and Peel region and about 11% of current stock in regional WA. This equates to approximately 14% across the entire state.

A survey of WA's major land developers<sup>8</sup> showed that as at the March 2015 quarter developers had 5,493 lots under construction in the Perth and Peel region for release within the next 12 months, down 17% on the previous quarter and 21% on the March quarter of 2014.

### 3.4 Residential demolitions

The Department of Planning collects data on dwelling demolitions from the 37 local government authorities in the Perth, Peel and Greater Bunbury regions (Table 1). The number of demolitions has fluctuated from year to year, reaching a peak of 2,670 in 2007-08. In 2014-15 there were 2,509 demolitions, down 4% on 2013-14.

**Table 1**  
Residential demolitions by region

Region	Perth	Peel	Greater Bunbury	Total
2001-02	1598	65	13	1676
2002-03	2067	88	44	2199
2003-04	2191	96	21	2308
2004-05	1934	110	70	2114
2005-06	2208	118	95	2421
2006-07	2311	145	77	2533
2007-08	2515	98	57	2670
2008-09	1796	59	60	1915
2009-10	2264	86	49	2399
2010-11	2383	72	47	2502
2011-12	1874	62	47	1983
2012-13	2061	85	33	2179
2013-14	2493	63	46	2602
2014-15	2405	71	33	2509

Source: Data collected by Department of Planning from local authorities

## 4 Building industry activity and trends

### 4.1 Building approvals

In 2014-15, building approvals reached a record high for the second year in a row, with 32,125 approvals. This was an increase of 6% on 2013-14 (30,373). However, despite the

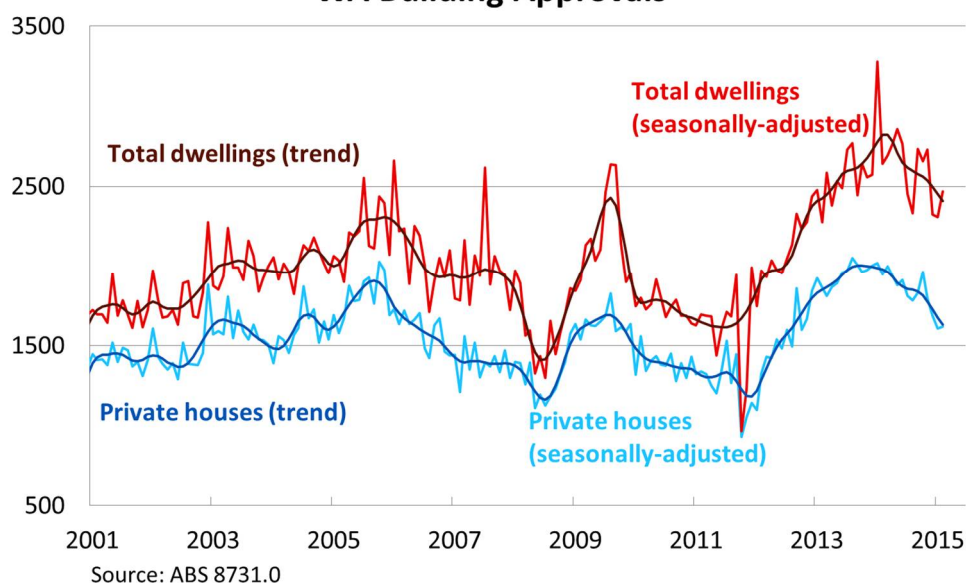
<sup>7</sup> Urban Development Program, Unpublished data, WAPC

<sup>8</sup> *Urban Development Index*, March quarter 2015, UDIA (WA)

strong result in 2014-15 approvals are now trending downwards (Figure 5). Greater Perth accounted for 87% of total WA approvals in 2014-15, an increase from 83% in 2013-14.

There were 8,935 multi-residential approvals in WA in 2014-15, an increase of 36% on 2013-14. Multi-residential approvals comprised 28% of total approvals, well above the long term average of 20% since 1991-92. Despite this relatively high level, the share of multi-residential approvals remains well below that in New South Wales and Victoria.

**Figure 5**  
**WA Building Approvals**



Appendix A presents a regional analysis of annual land and housing activity based on lots created and cleared by the WAPC and building approvals from the ABS.

## 4.2 Dwelling commencements, completions and work in progress

### 4.2.1 Dwelling commencements

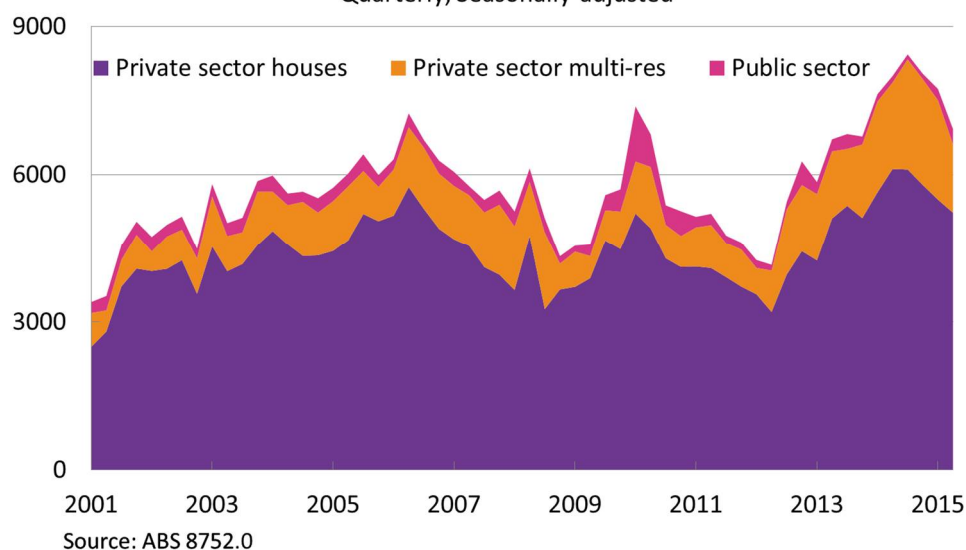
Seasonally-adjusted dwelling commencements reached a record high of 31,124 in 2014-15 (31,158 in original terms), 7% higher than the previous year (29,210). Private sector house commencements increased by 2% to 22,610, while multi-residential dwellings increased by 25% to 7,768. Public sector commencements increased by 1% to 746 (Figure 6). Despite the strong annual result, commencements have been trending downwards for the past three quarters (Figure 7).



**Figure 6**

## WA Dwelling Commencements

Quarterly, Seasonally-adjusted



**Figure 7**

## Total WA Dwelling Commencements

Quarterly

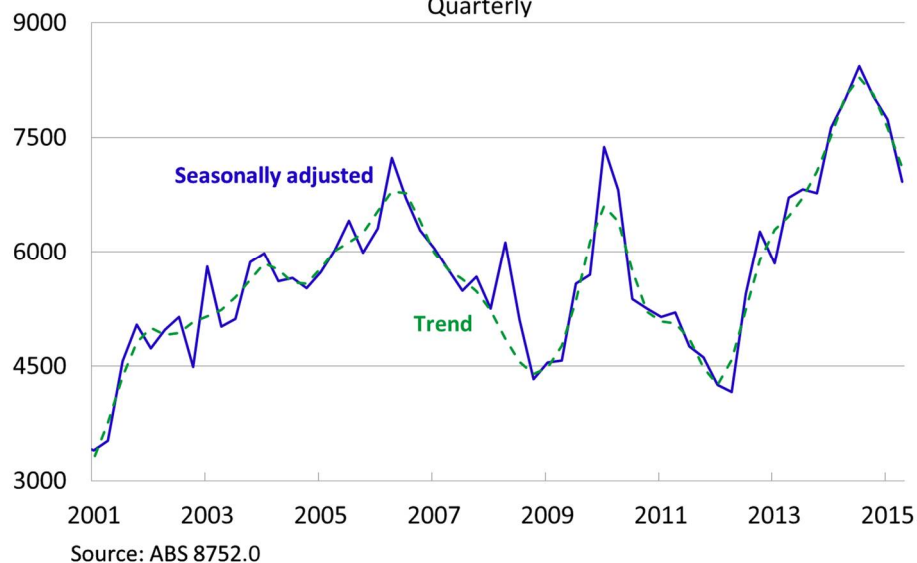


Table 2 shows the distribution of dwelling commencements between Greater Perth and regional WA for the past four years. The proportion of dwelling commencements in Greater Perth fell from 79% in 2011-12 to 77% in 2012-13, but has since risen, reaching 86% in 2014-15. The table also indicates that the proportion of dwellings other than houses in WA rose from 17% in 2011-12 to 25% in 2014-15. In Greater Perth the increase was more marked, from 17% in 2011-12 to 28% in 2014-15. Development of dwellings other than houses tends to be more volatile than development of houses.

**Table 2**

	Greater Perth				Regional WA				WA		
	Houses	Other	Total		Houses	Other	Total		Houses	Other	Total
2011-12	11,576	2,441 (17%)	14,017 (79%)		3,145	606 (16%)	3,751 (21%)		14,721	3,047 (17%)	17,768
2012-13	14,118	4,490 (24%)	18,609 (77%)		4,416	1,007 (19%)	5,423 (23%)		18,534	5,497 (23%)	24,031
2013-14	18,051	5,696 (24%)	23,746 (82%)		4,612	661 (13%)	5,273 (18%)		22,663	6,357 (22%)	29,020
2014-15	19,165	7,442 (28%) <sup>1</sup>	26,607 (86%) <sup>2</sup>		4,004	419 (9%) <sup>1</sup>	4,424 (14%) <sup>2</sup>		23,170	7,861 (25%) <sup>1</sup>	31,031

Notes: 1. Other dwellings as % of total in region.  
 2. Total dwellings as % of total WA dwellings.  
 3. Original data, not including alteration and additions.  
 4. Source: Based on ABS data

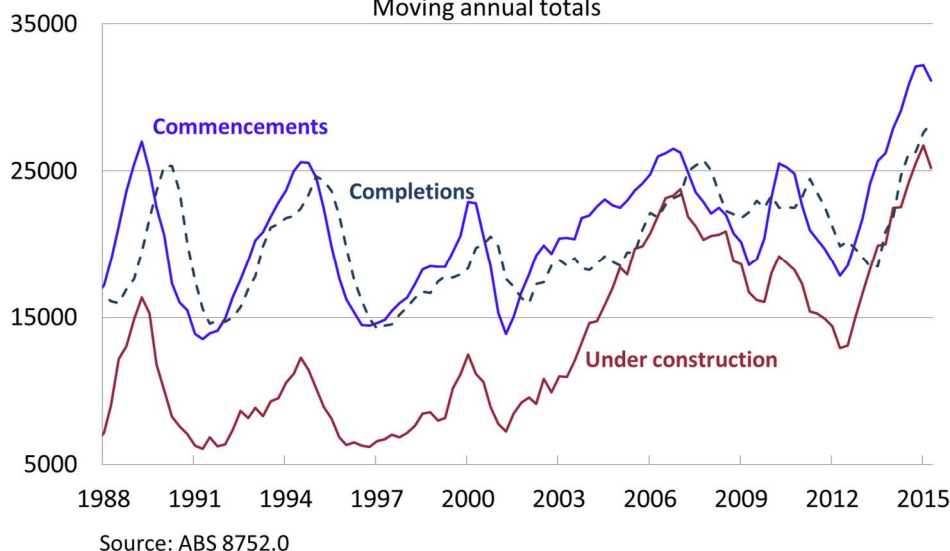
## 4.2.2 Completions

Completions were up 14% in 2014-15 to 28,253, a record high and well above long-term averages. Completions are likely to start to mirror the decline in commencements in coming quarters (Figure 8).

**Figure 8**

### WA Building Activity

Moving annual totals

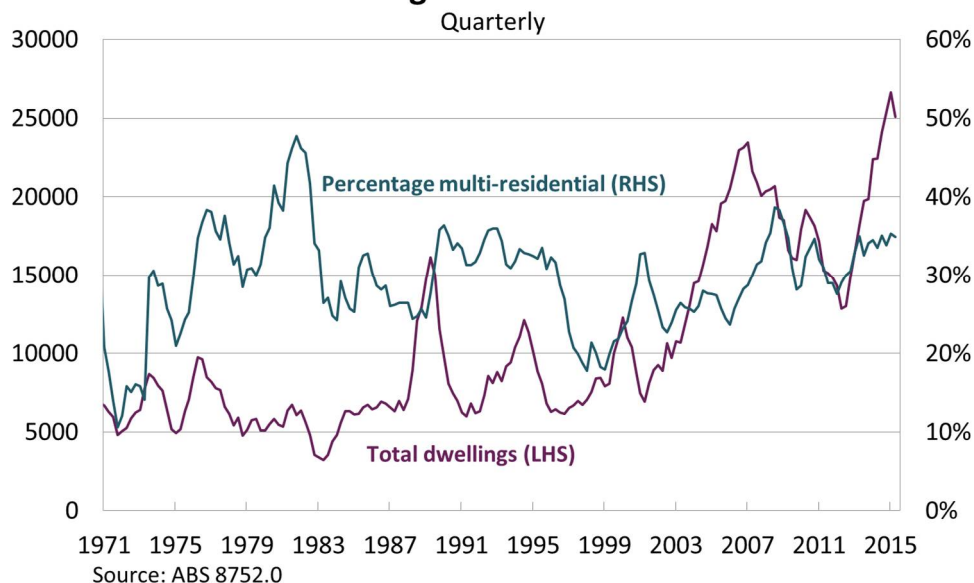


## 4.2.3 Residential construction work in the pipeline

The backlog of work reflected by the number of dwellings under construction was 25,195 in the June quarter 2015, 12% higher than a year earlier (Figure 9), although they fell slightly in the quarter.

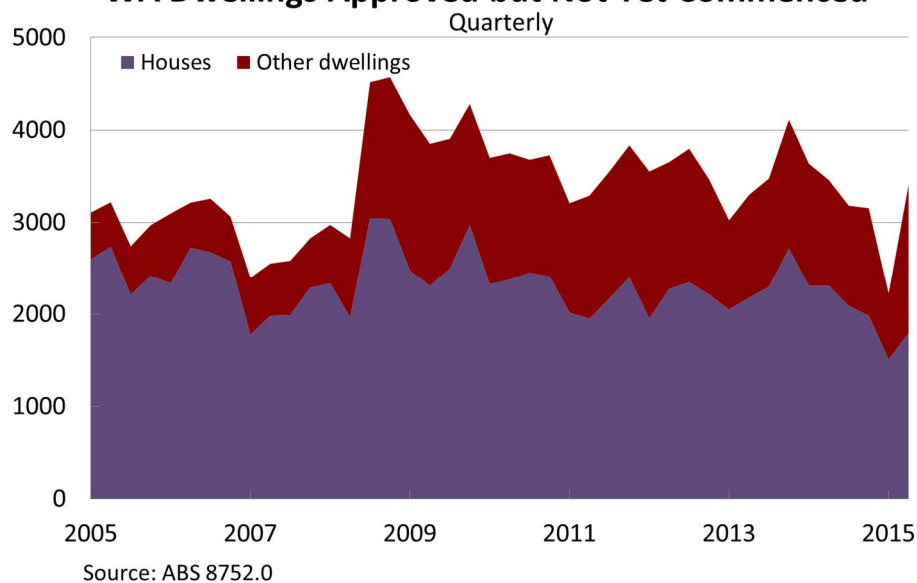
The percentage of multi-residential dwellings under construction was 35% in the June quarter 2015, broadly unchanged over the past few years. The multi-residential component is generally higher than the overall level of approvals and commencements due to the longer construction time for this sort of activity.

**Figure 9**  
**WA Dwellings Under Construction**



As at the June quarter 2015, there were 3,429 building approvals not yet started, down 1% from June 2014 (Figure 10). The stock of houses yet to be started fell by 22% over the year, while the stock of multi-unit dwellings rose by 40%. The percentage of multi-residential dwellings as a proportion of total dwellings was high at 47% in June 2015, compared to an average of 29%.

**Figure 10**  
**WA Dwellings Approved but Not Yet Commenced**



As at the June quarter 2015, the value of work in the residential construction pipeline totalled \$5.1 billion<sup>9</sup>, 8% higher than the previous year. Of this, \$1.2 billion represented the value of

<sup>9</sup> ABS 8752.0

work approved but not yet started (up 11% on the previous year), while \$3.9 billion represented the value of work commenced, but not yet completed (7% higher than 2014).

## 4.2.4 Housing finance

Total finance commitments for owner occupation (including refinancing) have fallen since May 2013 (Figure 11). Total loan commitments (including established dwellings) for first home buyers fell by 8% to 18,959 in 2014-15, compared to 20,704 in the previous year. Loan commitments to trade-up buyers (excluding refinancing of existing loans) fell by 6% over the same period (39,241 from 41,665). The share of loan commitments to first home buyers<sup>10</sup> was 33%, compared to the long-term average of 29% since July 2000.

Figure 11

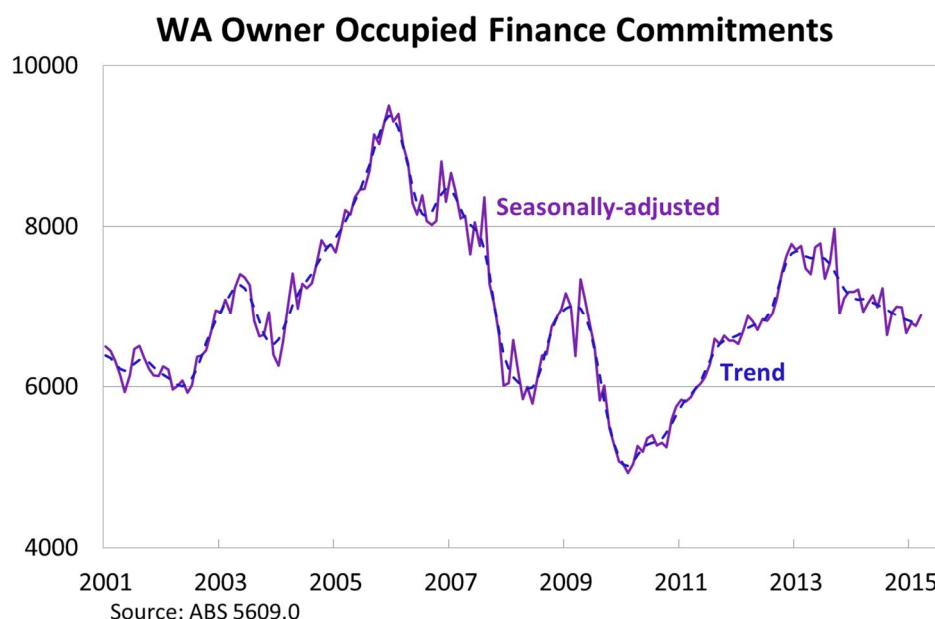
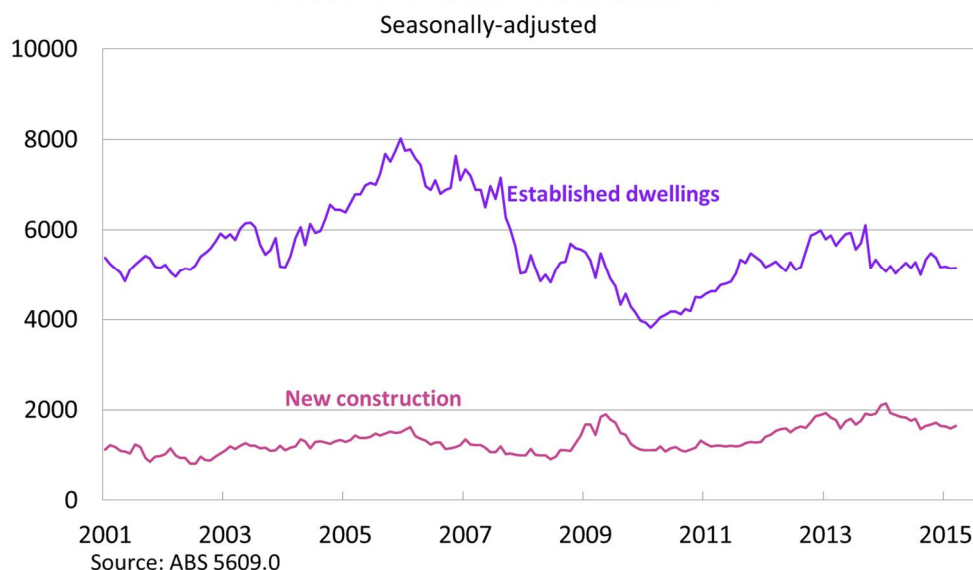


Figure 12 shows seasonally-adjusted loan commitments for the construction-purchase of new dwellings and established dwellings. Monthly loan commitments have been relatively flat since 2014. A total of 20,961 loan commitments (seasonally-adjusted) were made for new dwellings in 2014-15 representing a 5% fall on the previous year (22,118). Loan commitments for established dwellings fell 7% to 62,619 from 67,286 over the same period.

<sup>10</sup> Share based on total loans excluding loans commitments for re-financing.

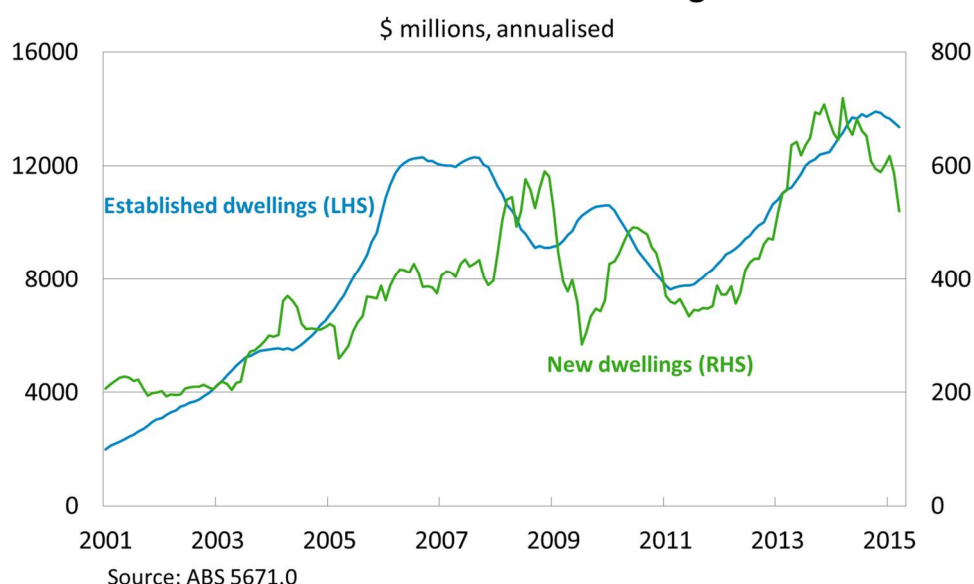


**Figure 12**  
**WA Home Loan Commitments**



The annualised value of monthly financial commitments to investors<sup>11</sup> for the construction of dwellings for rent or resale (Figure 13) has been falling since August 2014, after rising for a number of years. In the year to August 2015, the value of commitments totalled \$520 million, down 28% on the same period in the previous year. In contrast, the total value of loan commitments to investors for the purchase of established dwellings for rent or resale for the year to August 2015 increased by 2% over the same period, to \$13,372 million. However, it has started to fall in recent months.

**Figure 13**  
**WA Finance Commitments for Housing Investment**



<sup>11</sup> Note that housing investment finance only indicates where the borrower lives, not necessarily where the investment occurs.

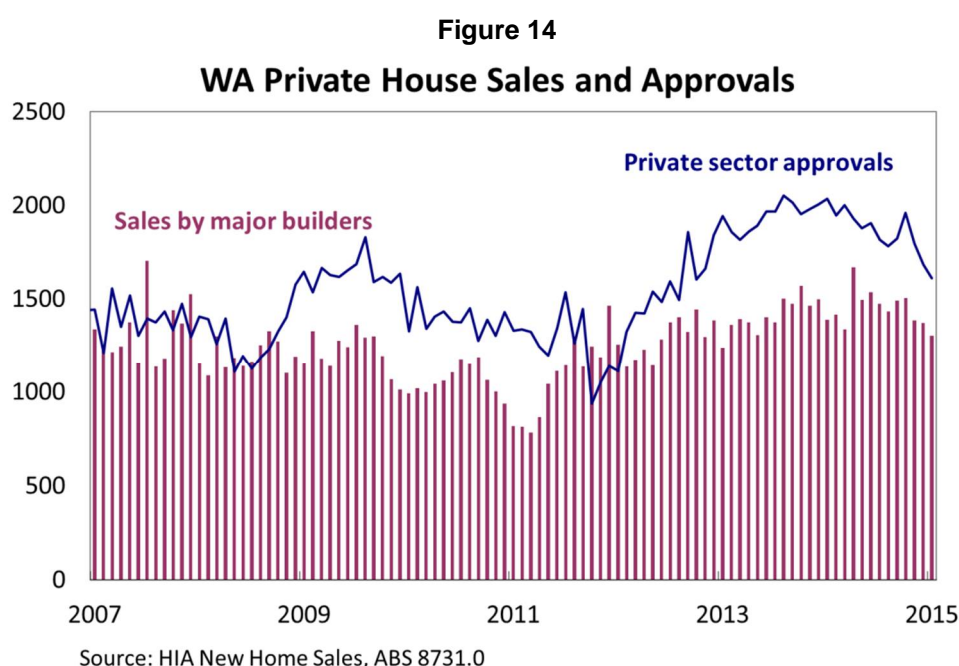
## 5 Housing market trends

### 5.1 Introduction

While the residential construction sector has been performing strongly with a high level of approvals and commencements, the established housing market in Perth has been characterised by falling home sales and lower prices.

### 5.2 New homes market

Figure 14 shows seasonally adjusted Housing Industry Association (HIA) data on house sales and building approvals for the private sector houses recorded by the ABS. New house sales by the major builders were 6% lower in July 2015 than in July 2014, but remain at a relatively high level.



The price of new homes in Perth increased by 2.6% in the year to June 2015 (Figure 15), above the increase in the consumer price index of 1.2%, but below the national rate of 4.8%.

### 5.3 Established dwelling market

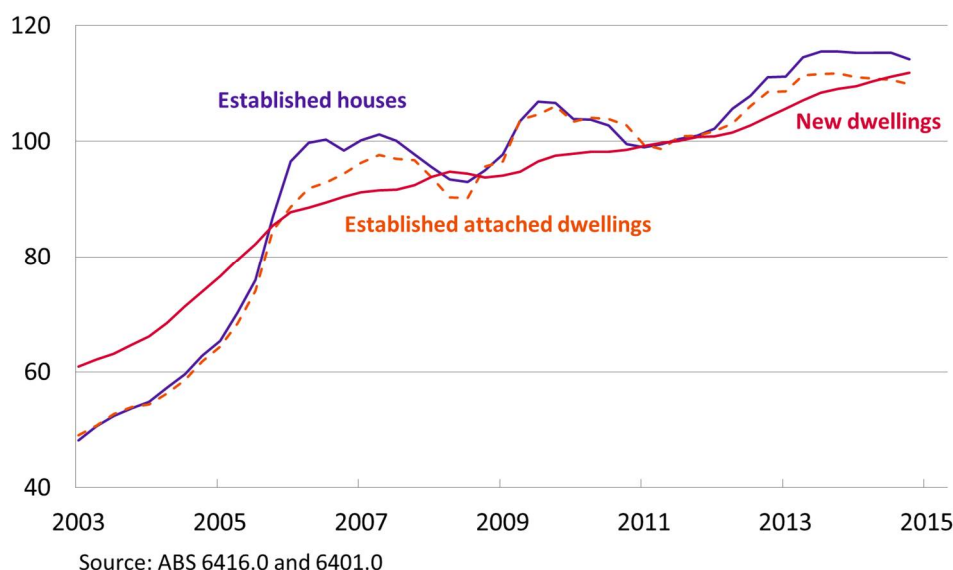
REIWA analysis on the established dwelling market shows:

- There has been a continued decline in house sales in the Perth region, falling 6% in the year to September 2015 in comparison to sales recorded during the year to June 2015. Similarly, multi-residential unit sales have declined by 8% over the same period.
- The number of sales in regional WA remains volatile on a quarterly basis. The June quarter recorded the lowest house sales since December 2010 while the unit sales are lowest since December 2008.
- In terms of median house prices, despite a quarterly decline across most markets, there were a few urban areas which recorded a marginal growth in annual median price for houses. This includes Mandurah, Bunbury, Busselton, Carnarvon, Albany, Esperance and Kalgoorlie-Boulder.

REIWA data indicate Perth's preliminary median house price of \$522,000 in the September quarter has declined significantly by 4.2% from the revised June 2015 quarter median house price of \$545,000 and a 5.9% decline over the year.

Perth's index of established home prices fell by 1.1% in the year to June 2015 (Figure 15). This is in stark contrast to the eight capital cities weighted average, which showed an increase of 10.5%. The strong increase in the latter was driven by very strong price growth in Sydney (21.5%) and Melbourne (9.1%).

**Figure 15**  
**Perth House Price Indices**



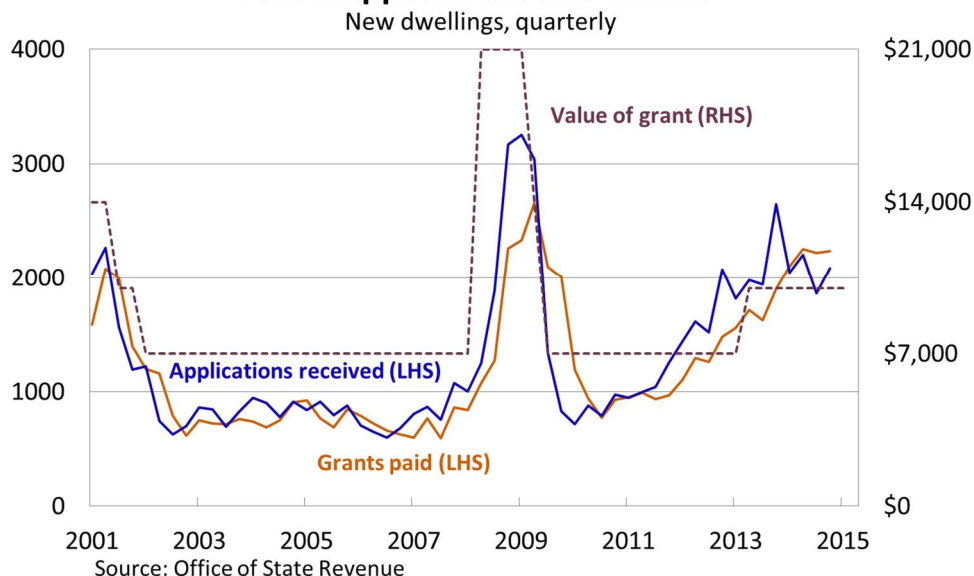
## 5.4 First home buyers' market

REIWA estimated first home buyers accounted for 30% of the established market in the September quarter up from 25% of the established market in the June quarter 2015 based on data from the Office of State Revenue.

The First Home Owner Grant (FHOG) for first home buyers building a new home was increased in 2013 from \$7,000 to \$10,000, while conversely the grant for existing dwellings was reduced from \$7,000 to \$3,000. The 2015-16 WA State Budget included a measure to abolish the grant for existing dwellings, which came into effect for purchases on or after 3 October 2015. The grant for new dwellings was unchanged at \$10,000. The removal of the grant for existing dwellings may encourage more first home owners towards new dwellings.

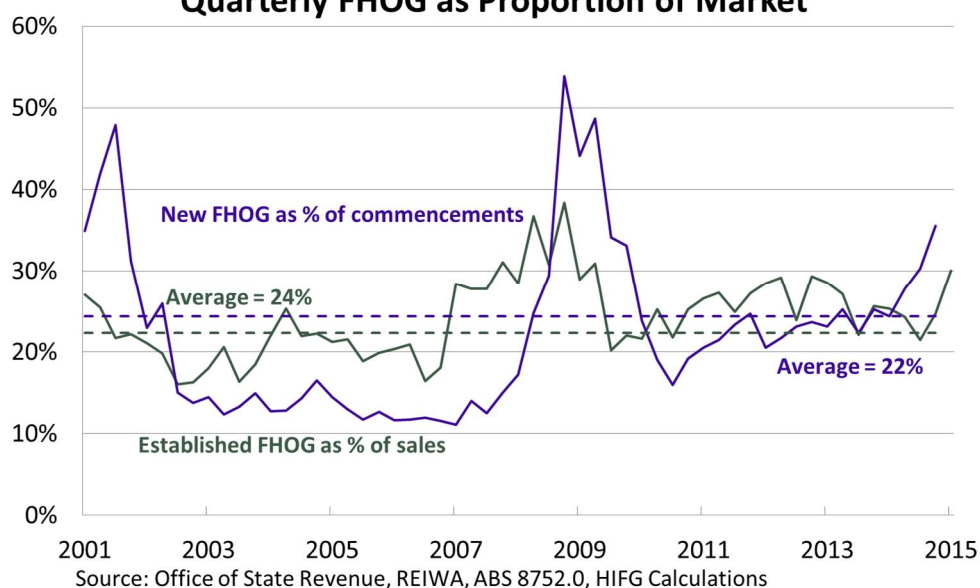
There were 19,222 first home owner grants paid in 2014-15, a fall from 19,802 in 2013-14. 46% (8,822) of grants paid in 2014-15 were for new dwellings, up from 34% in the previous year. This is the highest percentage of new dwellings since the grant was introduced.

**Figure 16**  
**FHOG Applications and Grants**



In the June quarter of 2015, new first homebuyers made up roughly 36% of total new dwelling construction (Figure 17), above the average of 22%. The ratio has been above 20% since 2011.

**Figure 17**  
**Quarterly FHOG as Proportion of Market**



## 5.5 Private rental market

The latest data from REIWA indicates the vacancy rate in Perth's private rental market has risen 1.5 percentage points over the past year, to reach 5.6% in the September quarter. The higher vacancy rate saw a moderation in the median weekly rent to \$400, down 5% from the previous quarter and 11% for the year.



Figure 18

## Perth Median Rent and Vacancy Rate

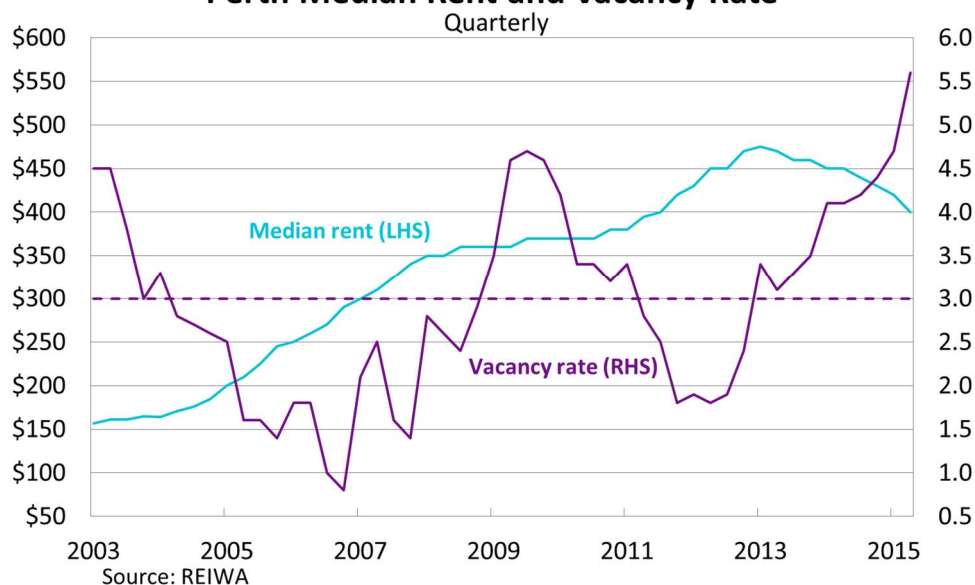


Figure 18 shows the relationship between Perth's median rent and vacancy rate since 2003. As the vacancy rate fell below 3%<sup>12</sup>, the increase in the median rent accelerated. The rise in the vacancy rate has coincided with a slowdown in the mining sector, first home buyers exiting the rental sector and a slowing in the population growth rate. Much of the increase in the rental stock for lease has come from near-city multi-residential markets, which may be further exacerbated by the completion of new apartment projects over the next year. If the vacancy rate continues to increase rents are likely to continue to soften.

Comparative data for regional centres for September quarter 2015 (Table 3) shows largely a fall in median rents. The slowdown in the resources sector has seen big annual declines in the median rents particularly in Karratha (-33%) and Port Hedland (-45%). Broome, Geraldton-Greenough and Mandurah-Murray also felt the impact of softening resources sector activity but with a milder annual decline of -8%, -6% and -5% respectively. Similarly, Greater Bunbury recorded a marginal decline of -3% during the September 2015 quarter comparing to the same time last year. The private rental market in Albany and Kalgoorlie were the only regional centres with a positive annual growth in median rent, both up by 3% and 6.1% respectively.

Table 3

Private sector rents in Perth and major regional centres, September quarter 2015

Region	Median Weekly Rent	Quarterly change	Annual change
Perth	\$400	-5%	-11%
Mandurah-Murray	\$360	nil	-5%
Greater Bunbury	\$350	-3%	-3%
Geraldton-Greenough	\$320	+1%	-6%
Kalgoorlie	\$350	+3%	+6%
Albany	\$340	nil	+3%
Broome	\$497	+0.4%	-8%
Karratha	\$500	-17%	-33%
Port Hedland	\$550	-8%	-45%

Source: REIWA

<sup>12</sup> The accepted industry standard for a balance between supply and demand.

## 5.6 Public sector

Public sector dwelling commencements in year to June 2015 grew by 1% on the previous year to 746 dwellings.

The State Government's Affordable Housing Strategy 2010-2020 has improved the supply of affordable land and housing in Western Australia. Since the inception of the Strategy in 2010 the Authority has delivered more than 20,000 affordable homes in partnership with the private and community sectors. This has included:

- 11,390 lots produced by the Authority and its joint venture partners for sale to market as well as for government housing programs, with an average of 75% of lots below the median land price.
- Over 13,700 newly constructed homes – supporting economic activity and jobs in construction and related industries.
- Partnering to construct a high density transport-oriented apartment development in West Perth using Housing Authority land to secure private sector capital. The development, called Abode, comprises 86 units, around 30% of which are affordable to people on low-to-moderate incomes.
- Participating in a private-public venture to construct Adara, a 77 apartment building in Success, the first high density modular residential building completed in the Perth metropolitan area.

The State Government continues to support the housing industry through a number of initiatives, including the:

- Public Housing Stock Redevelopment Strategy which will result in the redevelopment of 200 sites by the Housing Authority to deliver 500 new affordable homes by 2015-16, and
- \$560 million Social Housing Investment Package which will deliver 1,000 new social homes over the next two years, at least 600 of which will be newly constructed dwellings.

## 6 Housing affordability in WA

### 6.1 Home ownership

In Western Australia housing affordability improved by 4.9% in the June quarter compared with the previous quarter.<sup>13</sup> During the quarter, affordability improved in both Perth and regional WA. The incremental increase in affordability was driven by reductions in both interest rates and dwelling prices. The median sale price for a house in Perth decreased to \$522,000 in the September quarter of 2015, with the median price for a unit in Perth remaining fell to \$420,000<sup>14</sup>. While this represents a sizeable decline in the sale price of properties in Perth, home ownership is still out of reach for low to moderate income earners.<sup>15</sup>

For example, in the June quarter of 2015, a household on the estimated median household income of \$87,300, with minimal other credit commitments, could have borrowed around

<sup>13</sup> *HIA-Commonwealth Bank Affordability Report*, June Quarter 2015, HIA

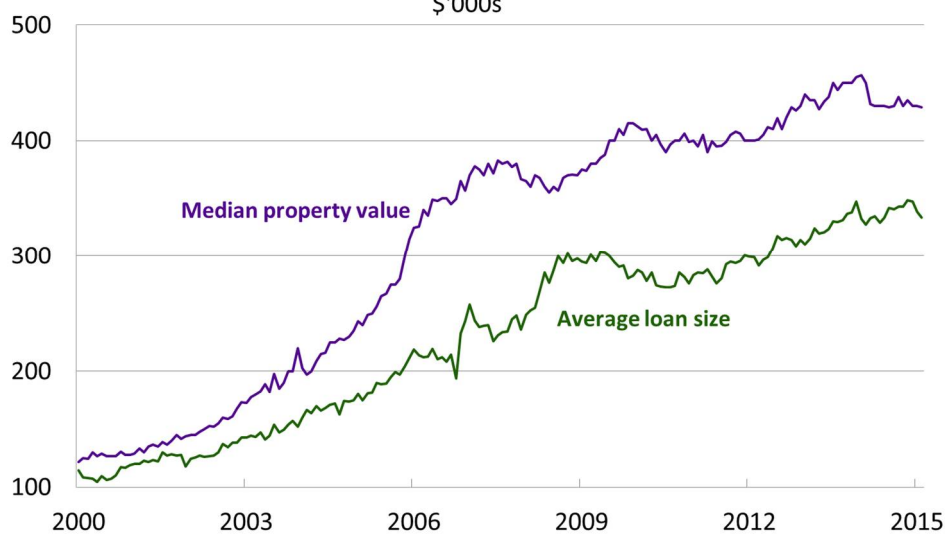
<sup>14</sup> REIWA

<sup>15</sup> Low to moderate income approximately \$30,000 – \$105,000 p.a.

\$383,500. With a 10% deposit, they would have been able to afford a property valued around \$426,100, which was well below Perth's median house price of \$545,000 in the quarter.<sup>16</sup>

In August 2015, the median price of established homes bought by first home buyers was \$429,000 in Western Australia. Although a different measure, the average loan size of finance commitments to first home buyers was \$333,400. The average loan, however, is based on all loan commitments to first home buyers and includes cases where some borrowers take a loan 'cocktail', one variable and the other fixed interest. This means the average loan figure likely understates the total loan amount taken out by first home borrowers but has some use as a trend measure (Figure 19)

**Figure 19**  
**First Home Buyer Loan and Property Values**  
\$'000s



Source: ABS 5609.0, Office of State Revenue

## 6.2 Private rental

A household needed a gross income of around \$1,300 per week, or around \$70,000 per annum, in order to afford Perth's median rent of \$400 per week<sup>17</sup> (i.e. by not paying more than 30% of their income on rent). Though the vacancy rate in Perth has lifted to 5.6% over the September quarter 2015<sup>18</sup>, suggesting a softening rental market, households on very-low to low incomes<sup>19</sup> would still struggle to afford the median rent without being in housing stress. This has been one factor behind the continuing high demand for public housing, which at the end of August 2015 totalled 19,899 on the waiting list<sup>20</sup>.

The National Rental Affordability Scheme (NRAS) continued adding to the supply of affordable rental housing in Western Australia, with 2,989 dwellings delivered and made available for rent to the end of August 2015. In return for indexed financial incentives for ten years, currently worth \$10,917 per dwelling per year, dwellings will be available to eligible applicants for at least 20% below the local market rent.

<sup>16</sup> Median household income for Perth from 2011 Census and indexed by wage price index (ABS 6345), HIFG Calculations

<sup>17</sup> REIWA

<sup>18</sup> REIWA

<sup>19</sup> Very-low to low approximately \$30,000 – \$70,000 p.a.

<sup>20</sup> Housing Authority Internal Data, as at 01 September 2015

HIFG notes the cancellation of the final round of NRAS translated to a loss of 1,568 incentives in WA. This is a significant loss to the supply of affordable housing and the residential construction industry.

## 7 Housing industry resources and challenges

### 7.1 Construction costs, building materials and labour supply

The Perth project home price index increased by 2.6% in the year to June 2015, above the 1.2% increase in the Perth consumer price index.<sup>21</sup>

The price of building materials used in housing construction increased by 4.3% in Perth for the year to June 2015, above the 3.5% increase for the six major capital cities. The increase in Perth was driven by increases in timber products (5.2%) and gas and electrical appliances (4.7%). After a large price increase in the previous year, the price of concrete, cement and sand fell by 5.7% in the year to June 2015.

As the residential construction cycle in WA has passed its peak, previous intense pressure on the availability of skilled tradespeople has eased. This development has led to a commensurate easing in the rate of growth in trade prices.

### 7.2 Industry issues and short-term challenges

Industry members of HIFG highlighted a number of potential pressures on housing in WA in the forecasting horizon:

- The Australian Property Institute has recently announced changes to valuation standards and now requires that valuations for vacant residential land include physical inspection of the allotment in order to complete the valuation. The industry believes these changes could potentially delay settlement of land sales and building approvals.
- The industry is concerned about the potential impact of new bushfire management regulations. Due to the delayed release of mapping, the cost effects and distribution are currently unknown. However, it is likely to impact on housing affordability by raising the prices of houses in zoned areas. There is also the likelihood of commencement delays as assessment criteria are developed and implemented.
- The potential impacts of new regulatory measures on lending to the housing sector implemented by the Australian Prudential Regulation Authority remains a concern.<sup>22</sup>

Industry members noted that new planning regulations taking effect from October 2015 are viewed as a positive change and may reduce the time and cost involved in the approvals process for some dwellings. The regulations are a major part of Western Australia's planning reform agenda, affecting arrangements for local planning strategies, schemes and amendments.<sup>23</sup>

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<sup>21</sup> ABS 6401, Table 11

<sup>22</sup> *Banking on Housing*, Australian Prudential Regulation Authority

<sup>23</sup> The Planning and Development (Local Planning Schemes) Regulations 2015 were gazetted on 25 August 2015, taking effect on 19 October 2015, replacing the Town Planning Regulations 1967.



## **8 Underlying demand for housing**

### **8.1 Underlying housing requirements**

Based on population growth projections in line with the 2015-16 State Government Budget, HIFG estimates the underlying dwelling requirement in WA based on *demographic and construction factors* is on average 27,000 dwellings per annum over the period of our forecast. This estimate uses an on-going ratio of 2.6 persons per household. An un-occupied factor of 5.3% and a demolitions rate of 14.4% are based on figures calculated by the former National Housing Supply Council (NHSC)<sup>24</sup> from inter-census stock figures between 2001 and 2006. The demolitions data of around 2,500 for Greater Perth and Bunbury would suggest that the figure of 14.4% for WA is still valid.

The above estimate of underlying demand is obviously greatly affected by future population trends. If the *current downturn in WA's population growth rate*, as outlined in section 2.3, continues then the underlying demand will be significantly lower. Updated forecasts of population growth will be published in the 2015-16 State Government Mid-year Financial Projections Statement. There is a risk that population projections will be revised downwards, as at this stage population growth is tracking below the 2015-16 State Budget forecast of 1.9% growth in 2014-15 (in annual average terms Western Australia's population increased by 1.6% over the year to the March quarter 2015). If the growth rate were to level off at 1.5% per annum, as it did in the period from 2001-02 to 2005-06, then the *underlying demand for housing would fall substantially*, to around 19,000 dwellings per annum.

### **8.2 State of supply**

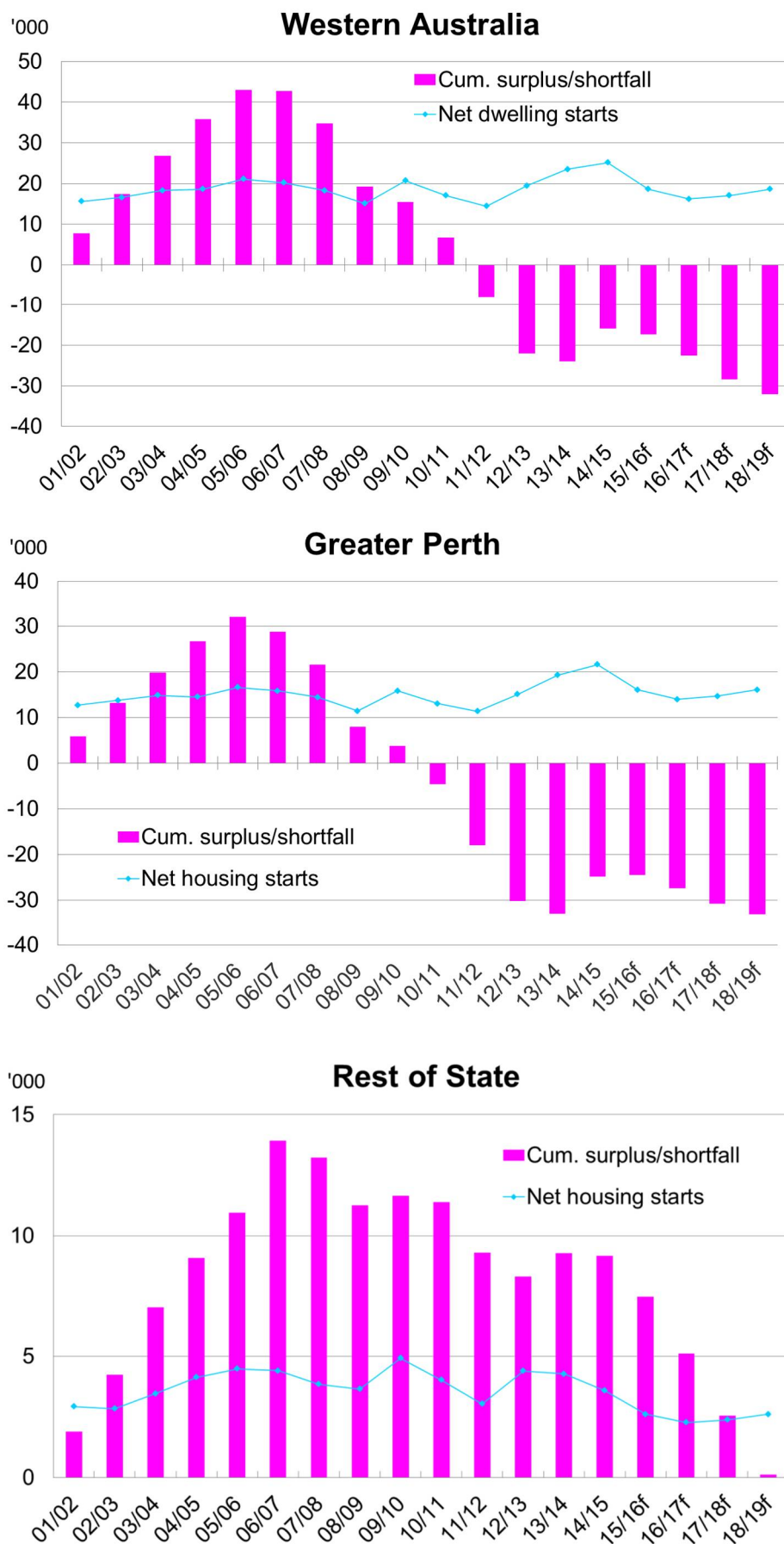
With the benefit of disaggregated commencement data provided by the ABS along with historic population data and projections, HIFG is able to make an assessment of housing supply in WA. Using this methodology, the following chart (Figure 20) shows the estimated surplus-shortfall of dwellings in WA, Perth and the rest of the State for the forecast period of 2015-16 to 2018-19 against the number of dwelling commencements net of demolitions and an adjustment for un-occupied properties.

At the end of June 2015, Perth had an estimated shortfall of 24,900 dwellings. This estimate increases to a shortfall of 33,200 by June 2019. In the rest of the State, excluding Perth, there is an estimated surplus of 9,100 dwellings over underlying demand in June 2015 that falls to a surplus of 100 by June 2019. The respective figures for the State are shortfalls of 15,800 in June 2015 and 33,100 by June 2019.

This outcome is highly sensitive to *population growth projections*. The fact that the rental vacancy rate in Perth was 5.6% in the September quarter and the price of housing in Perth is falling would suggest a cooling housing market with limited expressed demand. The latent demand measured in HIFG's underlying demand model is *likely to be overstated* and will be reviewed in the coming year.

<sup>24</sup> 2<sup>nd</sup> State of Supply Report, April 2010, NHSC.

Figure 20



## 9 Forecast of dwelling commencements and land supply

### 9.1 HIFG's Forecast of Dwelling Commencements

HIFG Forecast of Dwelling Commencements in WA, 2014-15 to 2018-19		
Financial Year	Dwelling Commencements	% change
2014-15 (actual)	31,158	
2015-16 (forecast)	23,000	-26%
2016-17 (forecast)	20,000	-13%
2017-18 (forecast)	20 – 22,000	
2018-19 (forecast)	22 – 24,000	

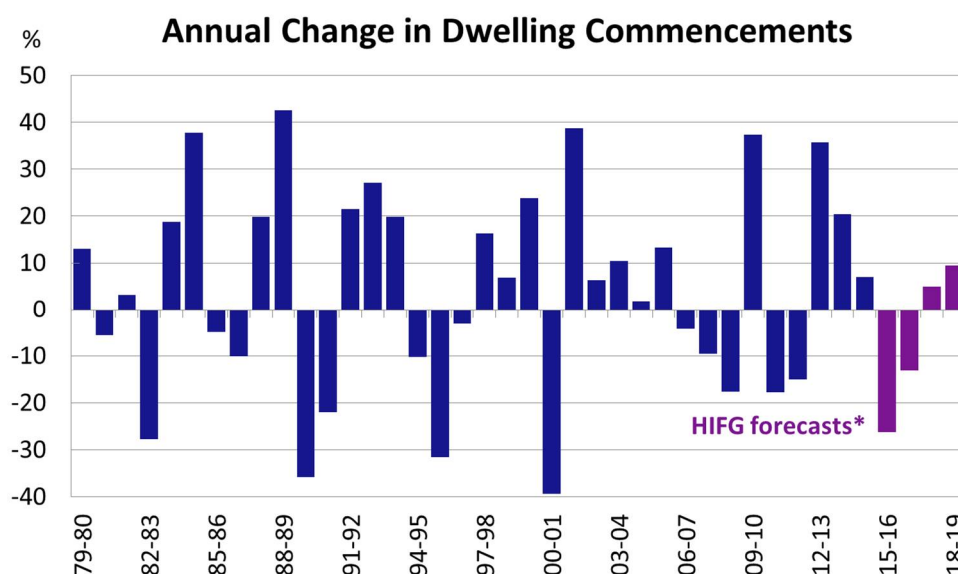
Dwelling commencements grew by 7% in 2014-15, to 31,158, 3.9% higher than HIFG had forecast at its meeting last April.

Since the April meeting, Western Australia's annual population growth rate has slowed from 2.1%, to 1.4%, while trend dwelling approvals have fallen by 15% since their peak in September 2014. Approvals for finance for the construction of new dwellings are also falling steadily, while Perth's rental vacancy rate is around 2 percentage points above its long-term average.

Despite the growth in commencements in 2014-15 as a whole, they fell away in the second half of the financial year. Seasonally adjusted commencements peaked at 8,432 in the September quarter of 2014, but fell to 6,290 in the June quarter of 2015.

In view of the fall in commencements in the second half of 2014-15, coupled with falling finance and dwelling approvals, much slower population growth and significant slack in the rental market, HIFG is forecasting a 26% decline in commencements in 2015-16, to 23,000. As the lagged effect of slower population growth extends into 2016-17, commencements are forecast to fall further, by 13%, to 20,000, before recovering in 2017-18 and 2018-19. The forecast magnitude of the fall in commencements is similar to the mid-1990s, when they fell by a total of 41% in the three years to 1996-97 (Figure 21).

**Figure 21**



Source: ABS 8752.0

\*Mid-point of forecast range used for 17/18 and 18/19

The forecasts are framed in the context of uncertainty about the future trajectory of population growth as the end of the construction phase of the most recent resources boom means much lower levels of overseas migration; from more than 50,000 in the year to March 2013, to around 15,000 two years later. Moreover, interstate migration added more than 10,000 to the state's population in the year to March 2012, followed by another 9,700 a year later, but in the year to March 2015, a net total of more than 1,000 residents left Western Australia to live elsewhere in the nation.

Indications from the labour force survey suggest that the rate of population growth may be close to bottoming, but uncertainty about future demographic trends poses both downside risk and upside potential to our forecast of dwelling commencements. A rapid and steep rebound in population growth is not assumed, and neither is further slowing, although the risk that population growth has not yet troughed remains significant.

## 9.2 Assessment of serviced residential land supply

On the basis of 1.3 dwellings per lot<sup>25</sup>, our forecast suggests there will be a need for around 17,700 residential lots in 2015-16, reducing to 16,000-17,000 in the out-years of our forecast. Demolitions will provide between 2,500-3,000 lots per annum, resulting in a need for around 15,000 lots this financial year falling to around 14,000 lots in the outer years, to be supplied from new land developments and vacant unsold serviced lots. Vacant land lot listings in Perth, Peel, Bunbury, Busselton and Geraldton have continued to increase over the last 12 months to 3,445 listings at the end of September 2015, up 47% on the year.

Final lot approvals have been on an upward trend since the March quarter 2012. Although major land developers are reporting that lots under construction for release in the next 12 months fell by 17% on the previous quarter and 21% in the year (section 3.3), the stock of proposed residential lots with current conditional approval remains at a high level.

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

HIFG notes that restricted credit supply post-GFC continues to result in much smaller staged developments and the provision of lots for immediate demand rather than adding to stock numbers.

<sup>25</sup> The average number of dwellings per building approval over the period 2009-2014 based on ABS data.

## Appendix A – Regional Land and Housing Activity

### A1 Introduction

This appendix provides a summary of land development and building activity in regional Western Australia, using available data and reports from HIFG member organisations.

### A2 Regional Western Australia – Lot Activity 2014-15

**Table A1 State Lot Activity, June Quarter 2015**

Region	Applications lodged by Developers: proposed lots	Applications under assessment: proposed lots	Conditional approvals: proposed lots	Developers' stock of conditional approvals: proposed lots	Final approvals: lots
Metropolitan (incl. Peel)	7,375	10,259	3,589	60,866	5,849
Peel	501	476	168	5,928	493
South West	260	819	285	6,069	284
Great Southern	51	183	475	2,615	34
Mid-West	916	123	900	3,263	52
Wheatbelt	68	81	20	3,024	10
Goldfields-Esp	27	25	51	790	64
Gascoyne	0	0	2	352	2
Pilbara	5	5	6	1,959	333
Kimberley	155	155	0	665	75
Country	1,482	1,391	1,739	18,737	854
<b>Total State</b>	<b>8,857</b>	<b>11,650</b>	<b>5,328</b>	<b>79,615</b>	<b>6,703</b>

Source: State Lot Activity, June Quarter 2015, WAPC

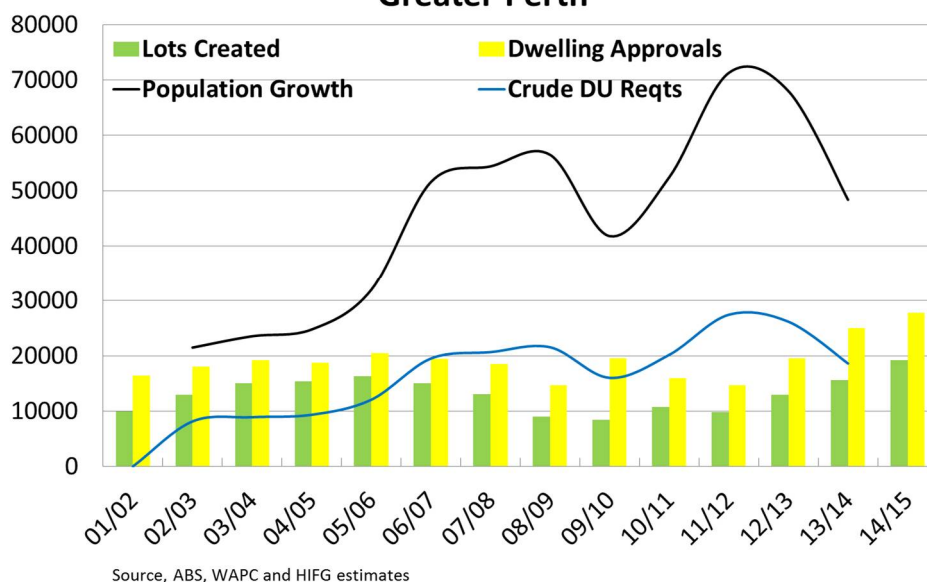
### A3 Annual regional trends, 2001-02 to 2015-16

The following charts provide summary annual data showing: final residential lots created, total building approvals, population growth, and estimated dwelling unit requirements based on regional persons per household from the 2011 census.



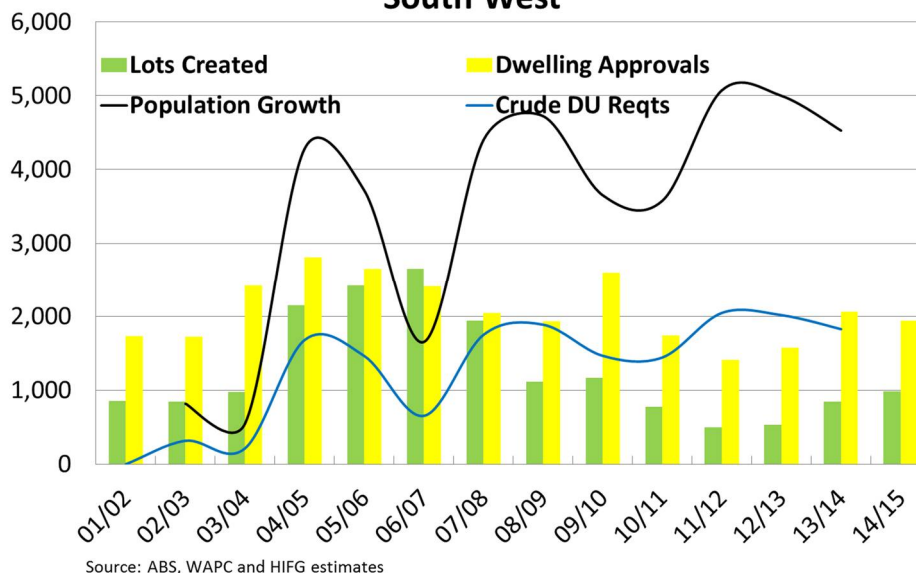
Figure 22 shows that after strong population growth in the Greater Perth region for many years, it has now started to fall. The level of crude dwelling unit requirements in Perth is now more in line with the number of new lots created and building approvals.

**Figure 22**  
**Greater Perth**



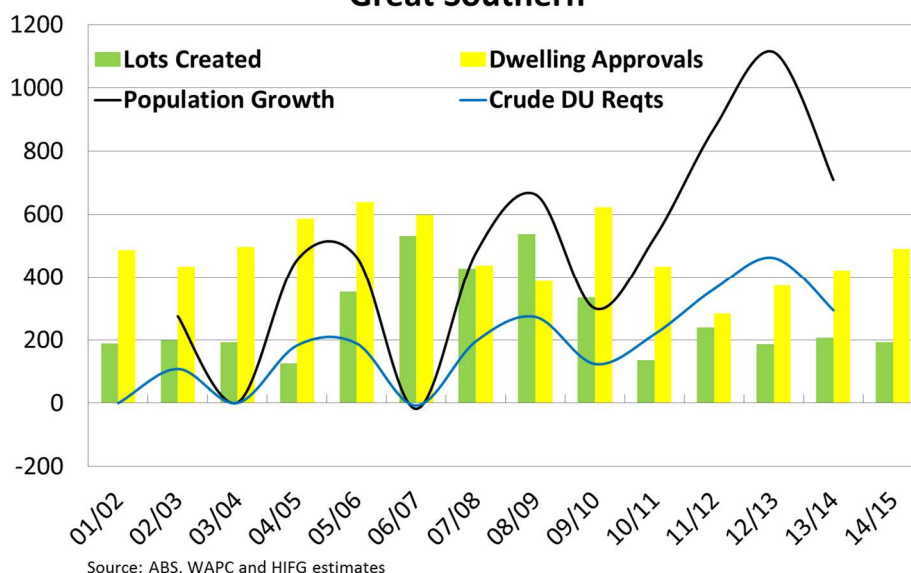
The South West region (Figure 23) has also experience slowing population growth since 2012-13. Crude dwelling unit requirements are now roughly in line with building approvals.

**Figure 23**  
**South West**



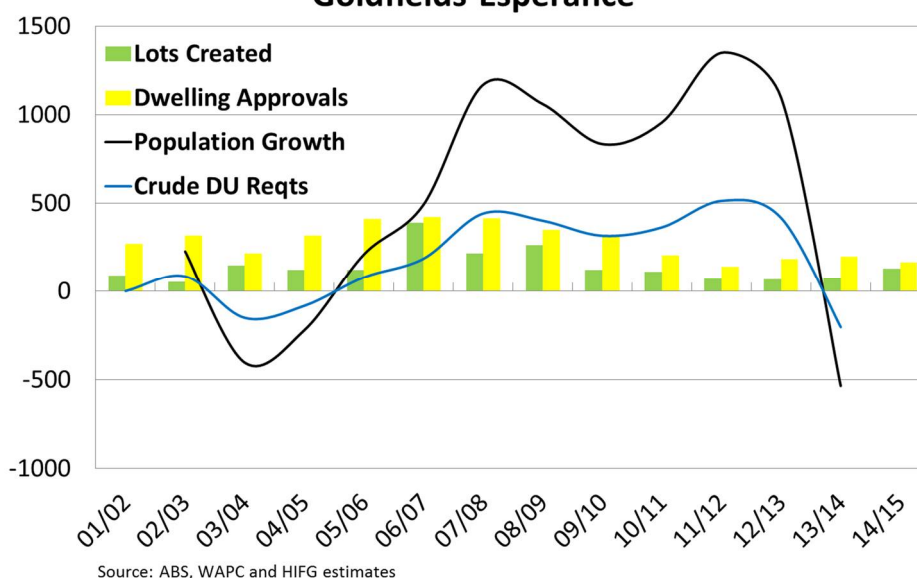
Population growth in the Great Southern (Figure 24) has been volatile over the last decade. Growth picked up sharply in 2011-12, but has now fallen back considerably. Dwelling approvals are now running above the crude measure of housing demand.

**Figure 24**  
**Great Southern**



Population growth in the Goldfields-Esperance region has fallen sharply over the past couple of years, driven by the decline in the mining sector in Kalgoorlie (Figure 25). New lots created have been running at a low level for a number of years.

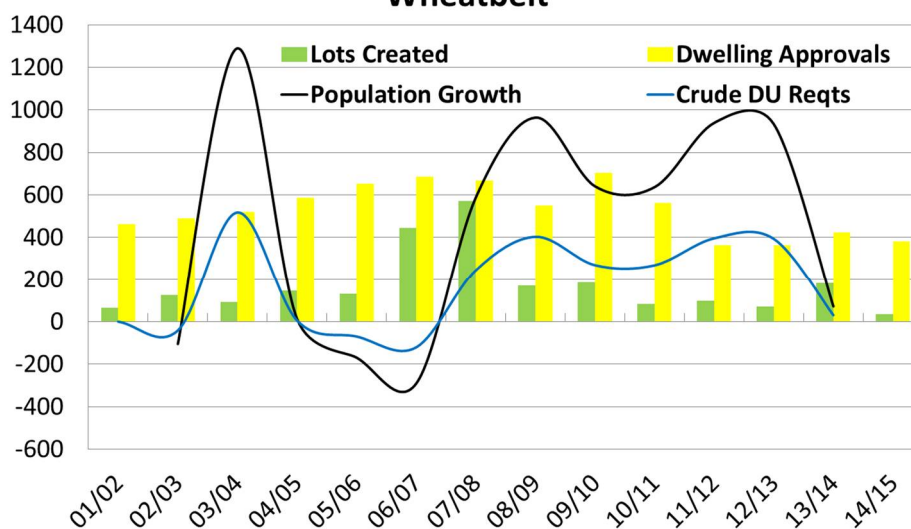
**Figure 25**  
**Goldfields-Esperance**



Population growth in the Wheatbelt has also fallen sharply (Figure 26). Building approvals remain at a relatively high level and are well ahead of what would be needed to meet the estimated dwelling needs of the region.

**Figure 26**

## Wheatbelt

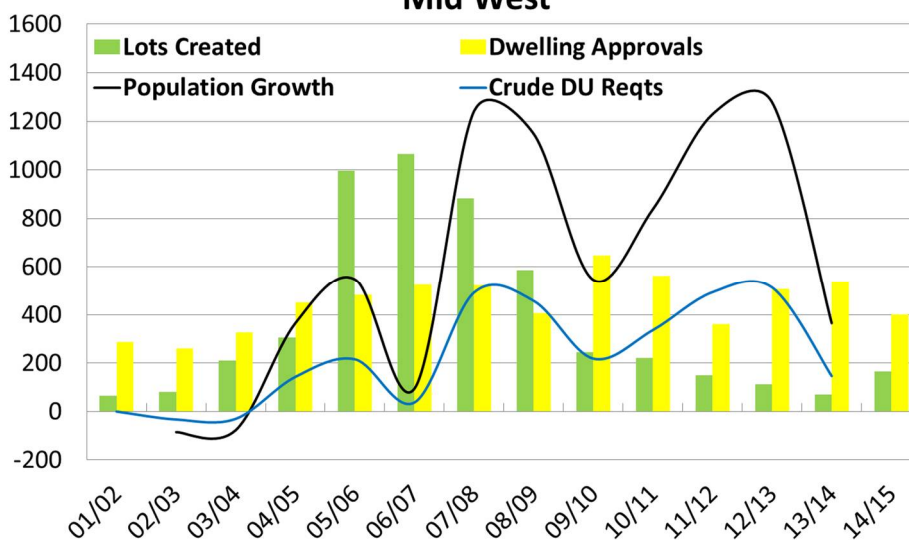


Source: ABS, WAPC and HIFG estimates

The Mid West region was experiencing substantial population growth (Figure 27), but this has now fallen back. Dwelling approvals are now running above crude demand requirements. The Mid West experienced strong growth in lots created earlier in the decade, which is now being taken up.

**Figure 27**

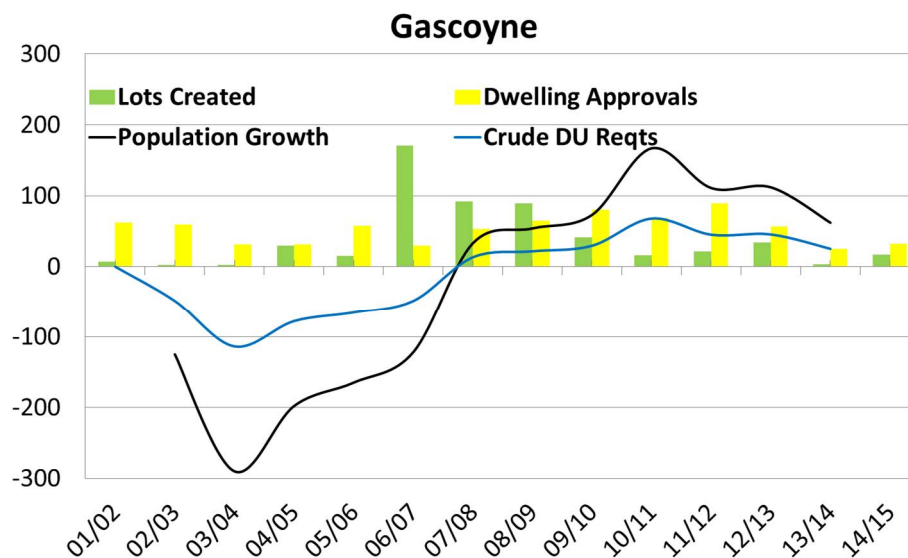
## Mid West



Source: ABS, WAPC and HIFG estimates

Population growth in the Gascoyne region (Figure 28) was negative for the first half of last decade. This has now picked up, but remains relatively soft. In contrast, dwelling approvals have remained relatively steady over the time period. They are now roughly in line with the crude measure of housing need.

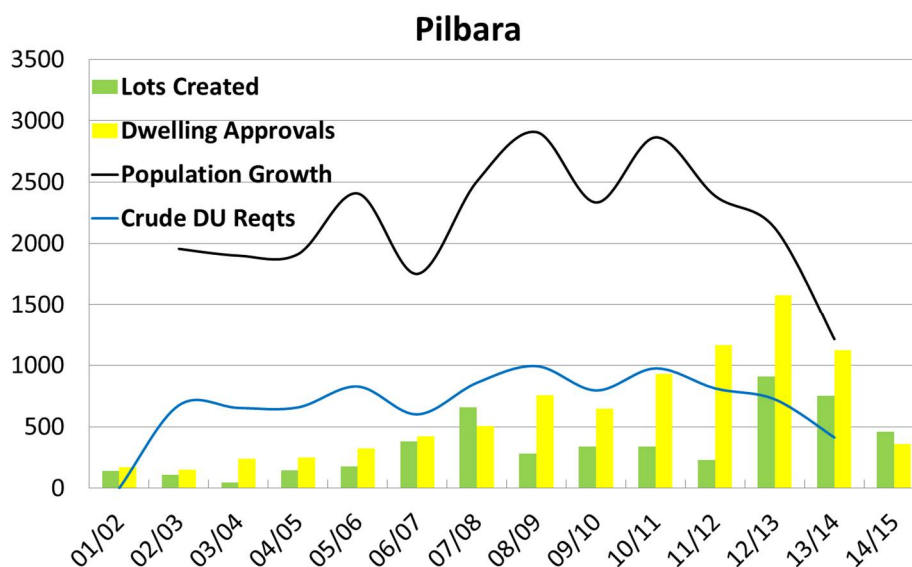
**Figure 28**



Source: ABS, WAPC and HIFG estimates

Population growth in the Pilbara is strongly tied to activity in the mining sector (Figure 29). Population growth had been very strong for some time, but has now fallen sharply. New building lots and dwelling approvals were running well below the level needed to meet demand until 2010-11 but are now well above housing need.

**Figure 29**

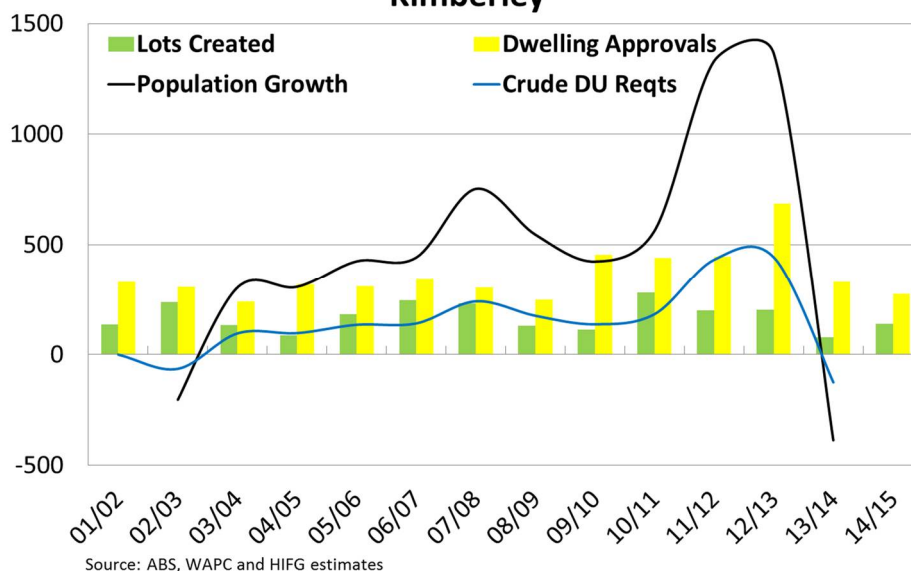


Source: ABS, WAPC and HIFG estimates

After strong growth from 2010-11, the population in the Kimberley region (Figure 30) has now fallen dramatically. New residential lot creation and building approvals are now well above the crude measure of housing demand.

**Figure 30**

## Kimberley





## Appendix B – Housing Industry Forecasting Group

The Housing Industry Forecasting Group (HIFG) 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 Housing Authority jointly provide the HIFG secretariat and research function.

Membership of HIFG is drawn from major organisations associated with the housing and land development industry in Western Australia and from government. Through its diverse membership, HIFG 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 October 2015

Member	Organisation Represented
Alan Langford	Bankwest
Paula Gadsby	Chamber of Commerce and Industry WA
John Gelavis	Housing Industry Association
Karl Millard	Master Builders Association
Benjamin Hammer	Chamber of Minerals and Energy
Debra Goostrey	Urban Development Institute of Australia (WA)
Balveen Kaur	Real Estate Institute of WA
Adrian Warner	Housing Authority
Steven Rowley	Housing and Urban Research Institute of WA
Brett Coombes	Water Corporation
Jonathan Palmer	Department of Treasury
Damien Martin	Department of Planning

### Observers

Marion Thompson	Urban Development Coordinator
David Waymouth	Australian Bureau of Statistics

### Secretariat

Ian Hafekost  
Cassandra Winzar

