Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

2017-2018

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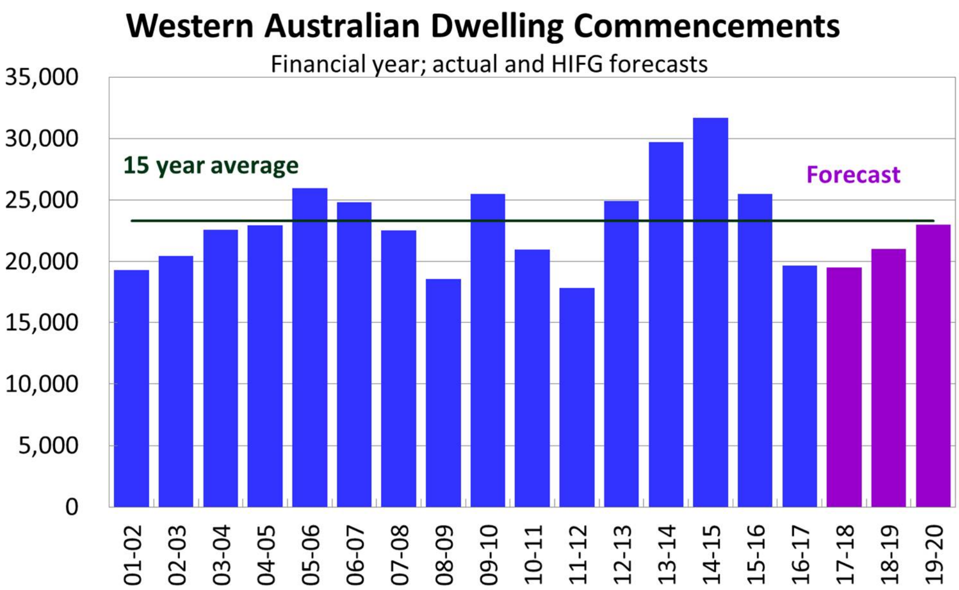
Executive Summary

This report forecasts dwelling commencements in Western Australia (WA) for the period 2017 to 2020. The Housing Industry Forecasting Group (HIFG) predicts the following pattern of dwelling commencements:

HIFG Forecast of Dwelling commencements in WA, 2016-17 to 2019-20[1]

Financial Year	Dwelling Commencements
2016-17 (actual)	19,702 (19,000 forecast)
2017-18 (forecast)	19,500
2018-19 (forecast)	21,000
2019-20 (forecast)	22-24,000

Dwelling commencements in WA fell by 23% in 2016-17 to 19,702, slightly above the forecast of 19,000. HIFG forecasts an end to this decline with the level of dwelling commencements in 2017-18 predicted to be very similar to 2016-17 with a slow recovery following in 2018-19.



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

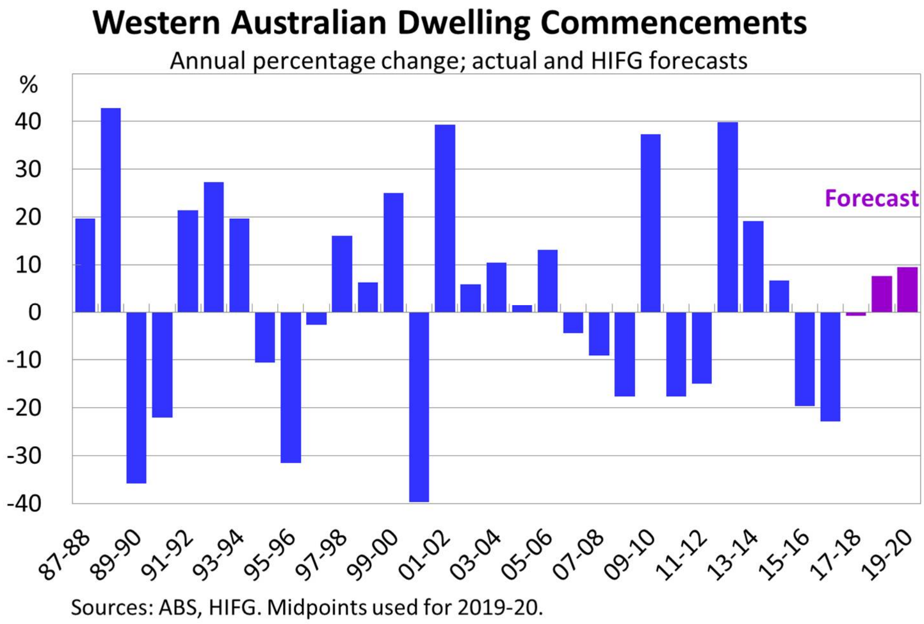
The main factors behind this forecast are:

- Population growth in WA remains slow at 0.7% for the year to March 2017. It is expected to increase slightly over the forecast horizon.
- First home buyer activity has softened with first home buyers making up around 22% of total finance commitments for housing in WA in 2016-17, although this is in line with the decade average. This is well above the national proportion of around 14%. WA continues to be the state of the first home buyer.
- The Real Estate Institute of WA (REIWA) data shows that the number of established home sales fell by 4.7% over the past year. Preliminary September quarter data shows

[1] Data and forecasts finalised October 2017.

the Perth median house price at $504,320. A soft established market means more choice for consumers.

- The Perth metro rental vacancy rate has risen over the year and currently sits at 6.9% while the median rent has fallen to $350. A soft rental market means more choice for renters and less pressure to enter home ownership.
- Housing affordability continues to be a significant issue for WA households on low incomes despite some positive incremental developments in the form of low interest rates, falling house prices and declining rents. Considerable price and rent falls in many regional markets mean most are now more affordable than Greater Perth. Keystart continues to play an important role in providing access to home ownership for those on moderate incomes.
- The rate of decline in forward-looking indicators such as building and lot approvals appears to have slowed and reached the bottom of the trough. There has been a recent pick-up in housing finance commitments which are a leading indicator of new building activity.
- Some positive signs have emerged with expectations of a modest improvement in the WA economic outlook, including the labour market and general consumer and business confidence.
- HIFG predicts overall demand for housing is likely to pick up slowly over the forecast horizon in line with economic improvements.
- However, the strong availability of stock in the established market for both purchase and rentals is likely to dampen the demand for new housing, hence the slow recovery predicted.
- The housing sector is cyclical and the current downturn in commencements fits this trend. The Group expects a subdued pick-up in 2018-19, with a further strengthening in 2019-20. This is in line with expectations of a modest recovery in population growth.



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

1 Introduction

HIFG provides a forecast of dwelling commencements and residential lot availability for WA to assist government and industry in their forward planning. This report covers the period 2017-18 to 2019-20.

2 Economic overview

2.1 Western Australian economy

The WA economy has continued along a steady path of recovery in 2017. The latest figures suggest that much of the structural change in the economy following the end of the resources investment boom is now behind us.

Domestic economic activity, as measured by State Final Demand (SFD), shrank by 4.3% over the year to June 2017. However, most of this decline occurred in the first quarter of the financial year (-4.0%), with the fall in SFD slowing substantially over the past three quarters. Encouragingly, the largest contribution to this slowdown in negative growth comes from business investment which has also moderated over the past three quarters (-2.4%). The Chamber of Commerce and Industry WA's (CCIWA) latest edition of *Outlook*[2] forecasts that business investment is nearing the end of its decline.

Exports grew by 7.0% in 2016-17, largely reflecting major resource projects entering the production phase of their project life.[3] Export growth is expected to more than offset the decline in domestic economic activity and keep the WA economy from recording a recession in 2016-17 when the official ABS State Accounts figures are released in late 2017. The 2017-18 State Budget estimates that Gross State Product grew by 0.25% in 2016-17 and is forecast to increase by 3.0% in 2017-18, and for growth to stay around this level over the forward estimates.

The labour market has been another large source of adjustment in the WA economy over 2016-17. The trend unemployment rate averaged 6.2% across 2016-17 but is currently sitting at 5.6% (September 2017). Part-time job creation, a falling participation rate and a slowdown in population growth (largely driven by negative net interstate migration) have all contributed to keeping the unemployment rate lower than it otherwise would have been. Underemployment remains relatively high, averaging around 10% across 2016-17. On balance, labour market indicators suggest that spare capacity has tightened somewhat.

Wages grew by 1.4% over the year to June 2017, with wage moderation in the private sector (1.0% growth) leading adjustment in public sector salaries (2.1% growth). While public sector wages growth is expected to continue to decline in 2017-18 given announcements in the State Budget, overall wages growth is expected to increase given the tightening of labour market conditions and improvement in business conditions.

Leading indicators of economic conditions in WA have been increasingly optimistic in 2017. The *CCIWA Survey of Consumer Confidence* shows confidence at a three-year high in the June quarter 2017, while the *WA Super-CCIWA Survey of Business Expectations* shows a slight decrease in the index in June but remains at a higher level than over the previous two years.

[2] *Outlook* is a quarterly publication that provides forward-looking economic analysis.
[3] Exports measured by goods and services credits on a Balance of Payments basis.

In line with the general improvement in confidence, the *ANZ/Property Council Survey* index for WA moved up to 129 in the December quarter 2017, an increase of 24 points over the past year. It remains the lowest confidence rate nationally, but has shown the biggest increase over the year.

2.2 Monetary and macroprudential policy settings

The official cash rate has remained at 1.5% since August 2016. Notably, the RBA Board discussed estimates of the neutral nominal cash rate at 3.5% in the minutes of the July 2017 meeting. If taken as a sign of the RBA Board's intentions, this implies that the RBA would need to raise the cash rate by 200 basis points to contain upwards inflationary pressure. However, estimates of underlying inflation remain below the target band. Accordingly, financial markets have only priced in a single 25 basis point rise in the cash rate by March 2019.[4]

Macroprudential policy settings have been tightened over 2016-17 in response to growing investor activity in the residential housing market. The Australian Prudential Regulation Authority (APRA) announced new supervisory measures in March 2017 limiting interest-only lending to 30% of new lending, with greater scrutiny placed on high loan-to-valuation ratios (LVRs). APRA has to some extent relaxed its geographic application of macroprudential restrictions on high LVRs, interest only and investor loans in general, but lenders are still bound by total limits so the move will not necessarily boost lending in WA to a significant extent. Moreover, APRA and other regulators, including the RBA, remain concerned that the historically high household debt-to-income ratio poses a systemic risk to the broader economy.

3 Demand factors

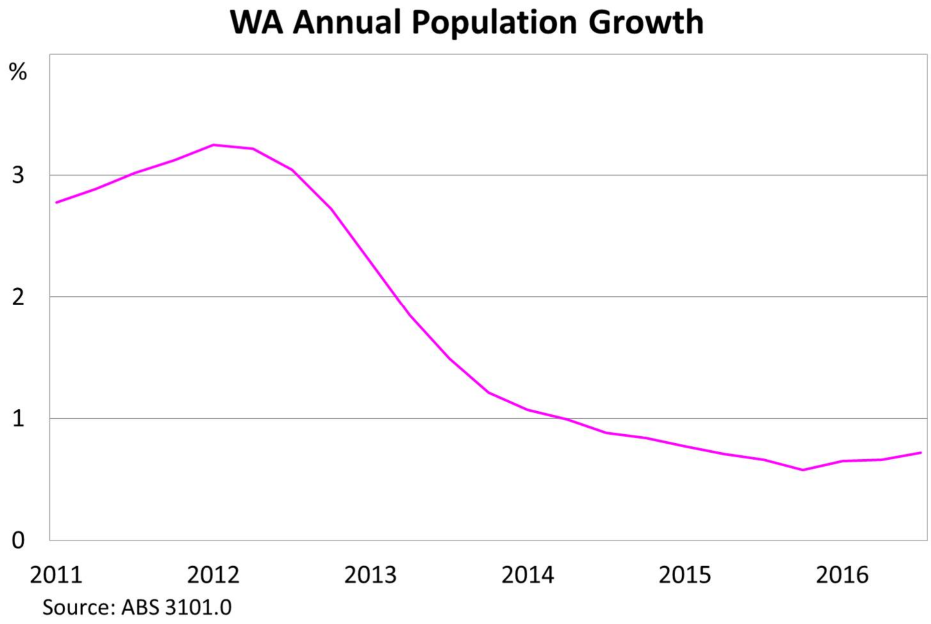
3.1 Population growth

WA's population growth remains subdued, with a figure of 0.7% recorded for the year to March 2017 (Figure 1). The release of the 2016 Census data has revised WA's population figures downward by 57,400.[5] WA's estimated residential population is now 2,575,970.

WA's population grew by 18,398 people in the year to March 2017, slightly higher than in the year to March 2016 (16,861). Net interstate migration is negative, falling by 11,760 over the year and has now been negative for three years while net overseas migration grew by 12,476 over the year, similar to the previous year. WA's population growth of 0.7% was well below the national average of 1.6% in the year to March 2017. WA Treasury is forecasting population growth to increase slightly to 1.0% in 2017-18, and gradually increase to 1.5% by 2019-20.[6]

[4] ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve, as at market close on 13 November 2017.
[5] ABS 3101.0.
[6] 2017-18 WA State Budget.

Figure 1



3.2 Lot sales[7]

Lot sales are an important forward indicator as lots sold should lead directly to a dwelling commencement, albeit with a lag. Data from the Urban Development Institute of Australia (UDIA) WA shows the land market has entered a period of gradual recovery, although still exhibiting the effects of slow economic growth statewide. Sales activity for Greater Perth increased on a year-on-year basis for the first two quarters of 2017. This follows 12 consecutive quarters of annual declines in sales activity, making the upturn in sales activity an encouraging sign.

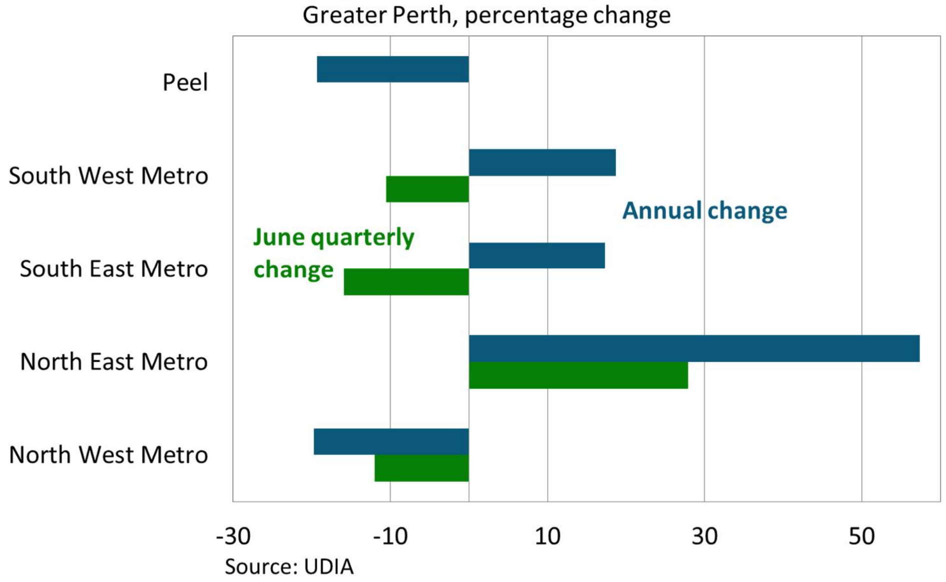
Lot sizes have remained relatively steady over the last 12 months, with the Perth average lot size falling 3.0% over the June quarter and 6.2% from the same time last year. At 363sqm, this is the smallest average lot size ever recorded, and continues a long-term downward trend in lot sizes.

Figure 2 shows annual and quarterly changes in sales activity within five activity corridors. Sales activity in the South Western corridor rose 18.7% from the corresponding quarter in the previous year. The South Eastern corridor saw sales numbers up 17.3% from the previous year. In the North Western Corridor annual sales growth remained negative, falling 19.7% over the year, however the decline has slowed significantly since late 2016. North Eastern corridor sales increased 57.4% on the same time last year. This is the third quarter in a row with a positive annual increase, although future quarters may not have the same scale of growth due to unusually high sales in two developments in the City of Swan from end-of-financial-year incentives. Peel region sales activity remained unchanged across the first half of 2017; annual sales declined by 28% in March and 19.3% in June, continuing a trend of slowing rates of decline.

[7] This report uses "lot" to refer to subdivided land available for sale for the construction of dwelling(s). "Land" is used as a generic term to refer to land that has yet to be subdivided and made available for sale as lots. In simple terms, land needs to be available in order to deliver lots for dwelling construction.

Figure 2

Change in Lot Sales by Region



REIWA estimates that residential lot sales for WA during the year to September 2017 were down 17% from the previous year to 10,593 sales. During the same time period, estimated land sales for the Perth region were down 18.1% to 6,569, whilst regional land sales were down by 13.6% to 2,222 sales.

In the September 2017 quarter, the preliminary median lot price in the Perth Metro Region was $290,000 which is likely to vary as additional settlements come through. The latest September quarter preliminary figure remains 16% higher versus the same time last year and a quarterly increase of 16.5% based on the revised June 2017 figure of $249,000. In regional WA, the median lot price has improved by 2.7% over the September 2017 quarter to $170,000 and remains on par versus the same time last year.[8]

[8] 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.

3.3 Housing finance

Finance commitments for new housing construction have trended downwards over most of 2016-17, but picked up towards the end of the year and into the first few months of 2017-18 (Figure 3 and Figure 4). This is a positive leading indicator for new dwelling commencements.

Figure 3[9]

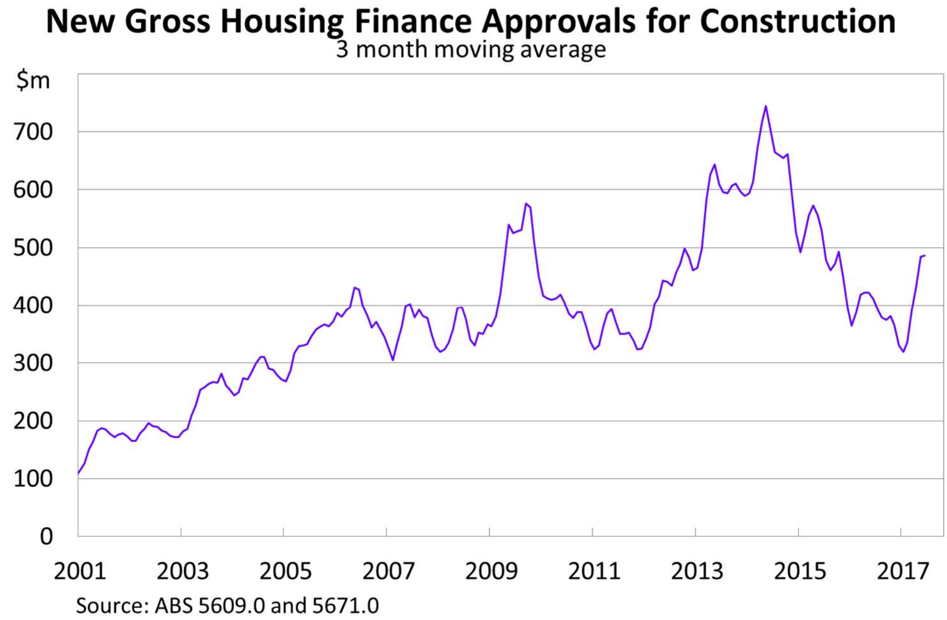
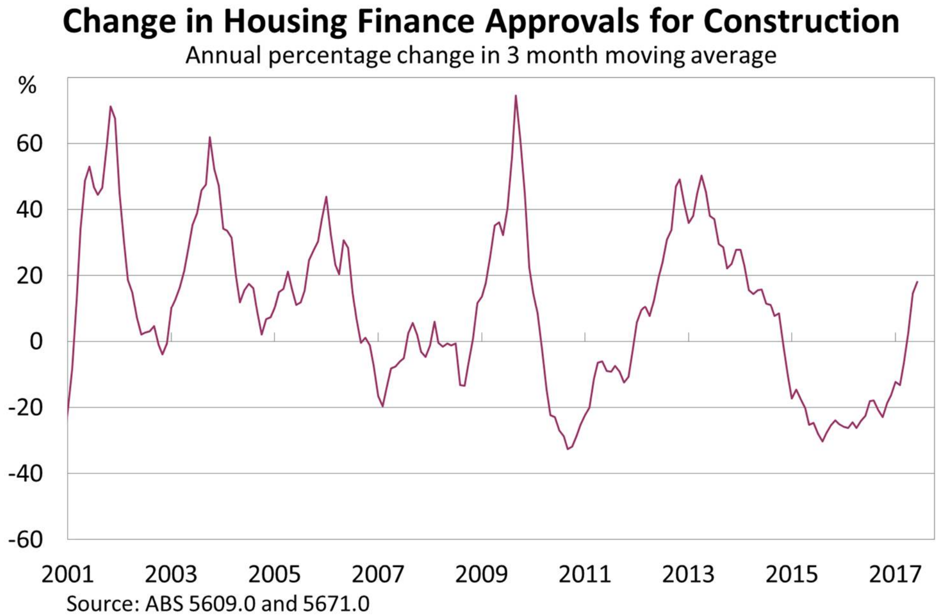


Figure 4

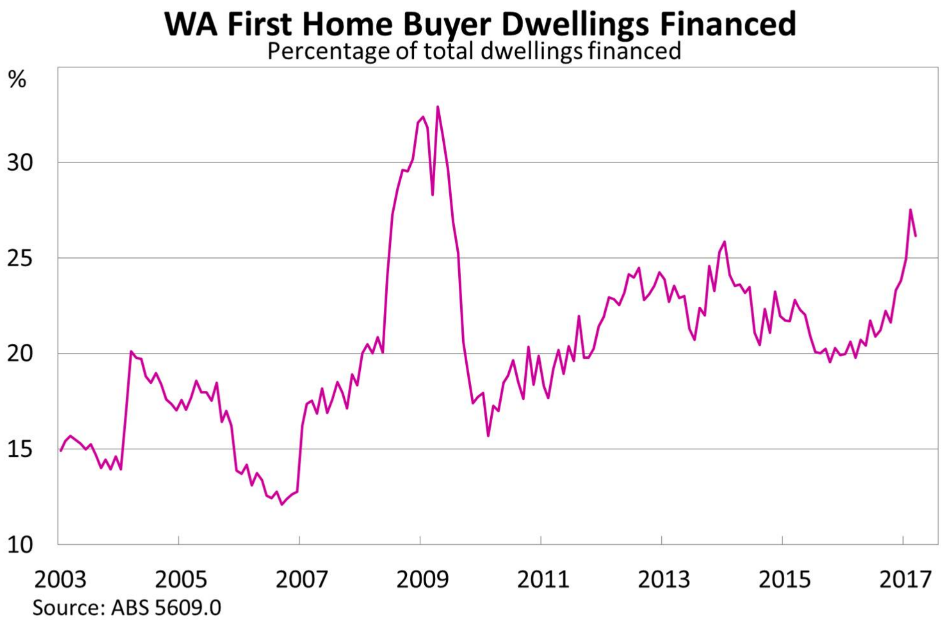


[9] A small amount of data has been imputed as it was missing in the series for confidentiality reasons.

3.4 First home buyers

ABS data shows that first home owner activity fell in line with the general market. There were 15,256 dwellings financed by first home buyers in 2016-17, 6.5% lower than the previous year. First home buyers made up around 22% of the total number of finance commitments in WA in 2016-17 (Figure 5), in line with the decade average. This is well above the national proportion of around 14%.

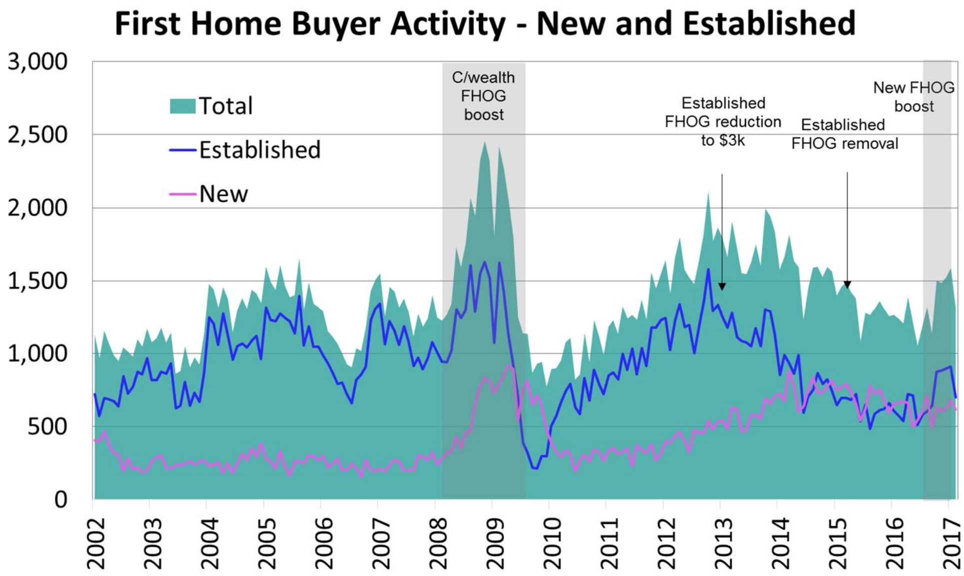
Figure 5



The ability to save a deposit is considered the key constraint on first home buyers. HIFG members noted that existence of Keystart low deposit home loans in WA is crucial to first home buyer activity, particularly in regional areas. Keystart increased its eligible income limits in December 2016, which has allowed more potential buyers access to finance. Data provided by Keystart shows that since the increase in the limits, approximately 400 loans have been approved to households that would not have been eligible under the previous criteria.

The First Home Owner Grant (FHOG) for existing dwellings was removed in October 2015. The grant for new dwellings remains at $10,000. A $5,000 boost payment was introduced in December 2016 but removed in June 2017. Analysis undertaken by REIWA using ABS and WA Treasury data breaks down first home owner activity between established and new dwellings (Figure 6). The available data suggests that the boost payment increased first home owner activity in the new build market during that time period, but that there has also been a broader increase in activity in the established market in recent months. The relative affordability of the Perth market, combined with the availability of Keystart finance, continues to make it an attractive proposition for first home owners with stable employment. Figure 6 shows the shift between established and new dwellings since the reduction and subsequent removal of the grant for established dwellings.

Figure 6



Sources: ABS 5609.0, Dept of Treasury FHOG Data, REIWA

4 Supply factors

4.1 Established market

The number of house sales in the Perth Metro region[10] has declined marginally, by 4.7% in the year to September 2017. Multi-residential unit sales experienced an uptick, by 1.5% over the same period. However, these figures are preliminary and may yet increase as further settlements are included.

The amount of supply (listings) in the established market is a key driver of prices. Lower levels of listings represent less choice for buyers and put pressure on prices. There were 10,609 houses and units listed for sale as at the end of September 2017, 9.5% lower than the same time last year but marginally above the five-year average of 10,267. The reduction in listings over the last two quarters may be attributed to a slowdown in new dwelling completions together with some sellers de-listing properties due to slower market conditions, typically experienced during the winter and early spring seasons.

Table 1 shows median house prices in the Perth metro region and selected other regions. The lower quartile price provides information on entry level dwelling price in those areas. Figure 7 provides more information on the annual median price for houses in the Perth Metro region. Early Landgate data indicate Perth's preliminary median house price of $504,320 in the September quarter has declined by 1.1% from the revised June 2016 quarter median house price of $510,000. However, it is timely to note that reiwa.com figures suggest the median price is likely to increase to around $508,000 once further transactions for the latest quarter settle, which would represent a marginal 0.4% decrease in house prices once further settlements are accounted for.

[10] Due to differences in geographical areas used by data providers, some Perth data in this report is for the Perth Metro region (which does not include the Peel region) while other data is for Greater Perth.

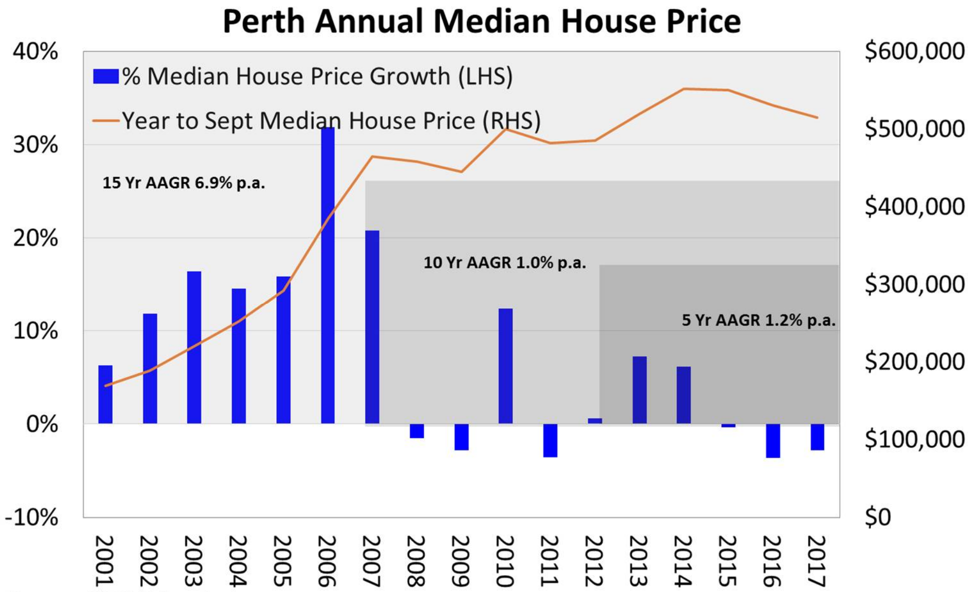
Table 1

House prices in Perth and major regional centres. Preliminary data September 2017.

Region	Lower Quartile	Median	Upper Quartile	Median Quarterly Change	Median Annual Change
Perth Metro Region	**$393,500**	**$504,320**	**$670,000**	**-1%**	**-3%**
Regional WA	**$242,500**	**$338,000**	**$440,500**	**1%**	**-3%**
Albany Urban Area	$299,000	$360,000	$436,500	-4%	-1%
Broome Urban Area	$386,250	$495,000	$618,000	4%	-9%
Bunbury Greater	$290,000	$356,000	$452,000	0%	-2%
Busselton Urban Area	$385,000	$455,000	$565,000	-1%	6%
Carnarvon Urban Area	$125,000	$257,500	$340,000	45%	-16%
Esperance Urban Area	$290,000	$365,000	$431,000	11%	16%
Geraldton/Greenough	$174,500	$295,000	$360,000	-8%	-9%
Kalgoorlie/Boulder	$251,250	$324,000	$413,500	14%	-1%
Karratha Urban Area	$204,500	$260,000	$350,000	-15%	-4%
Mandurah/Murray	$290,000	$360,000	$448,750	0%	-6%
Northam	$162,000	$190,000	$247,500	-17%	-12%
Port Hedland	$170,000	$255,000	$365,000	19%	-8%

Source: REIWA/Landgate

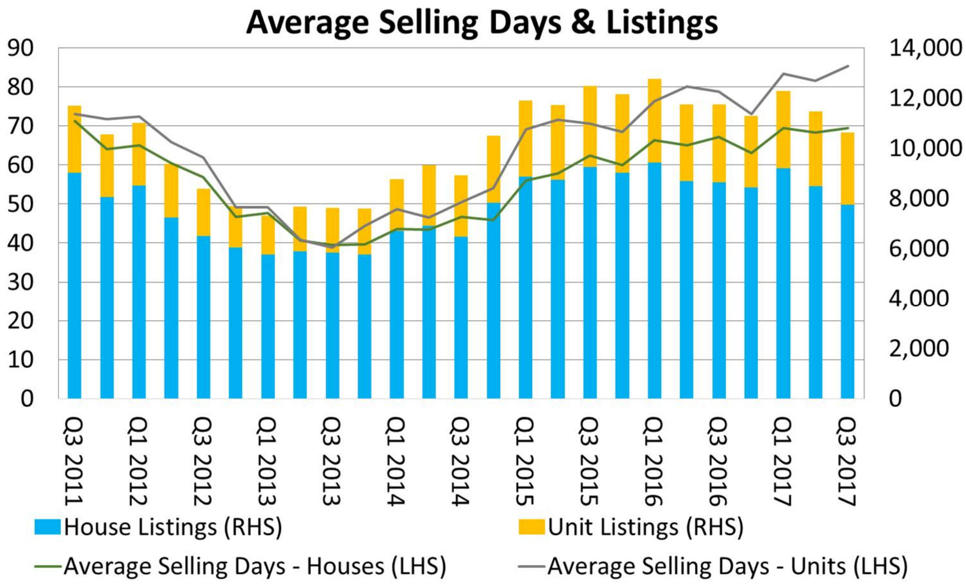
Figure 7



Source: REIWA/Landgate

The average number of days it takes to sell a dwelling is a good indicator of the demand-supply balance in a particular market. Comparing the level with the trend over time is a useful way of assessing whether a market favours the buyer or seller. Figure 8 shows how selling days have increased significantly since 2013 demonstrating strong availability of property in the established market. Once again it is worth noting that strong availability and choice in the established market mean less pressure on the new build market.

Figure 8

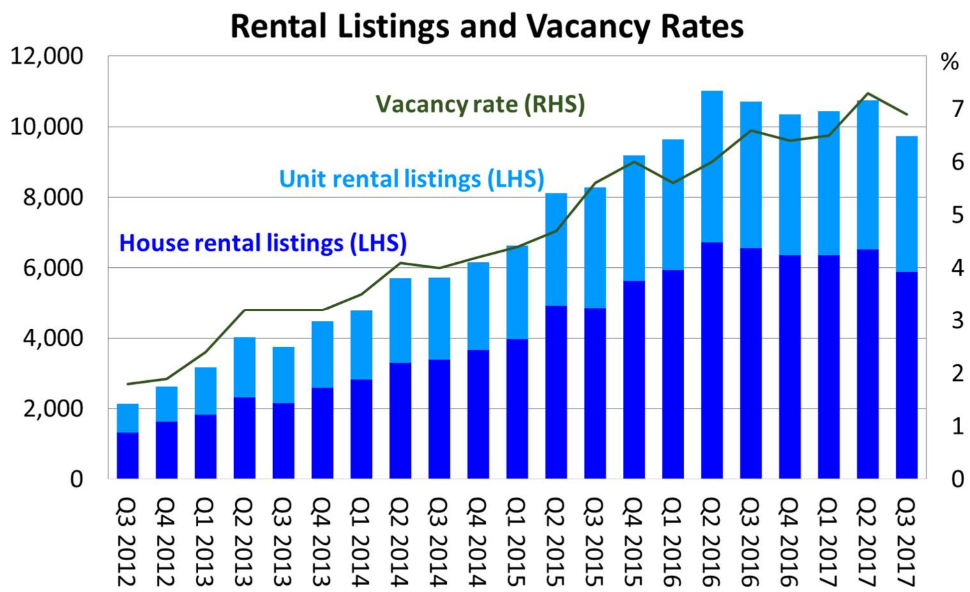


Source: REIWA

4.2 Private rental market

The latest data from REIWA indicates the vacancy rate in Perth's private rental market has risen by a marginal 0.3 percentage points over the past year, to reach 6.9% for the September 2017 quarter (Figure 9). Despite the increase in the overall vacancy rate, the pace at which it has increased has slowed down. A general uptick in leasing activity, combined with the recent reduction in rental listings have contributed to the overall steadiness of the vacancy rate. However, stock levels still remain elevated when compared to historical trends. The availability of rentals and relatively low rents constrains demand for new and established housing as there is less incentive for renters to exit the rental market to purchase established or build new dwellings.

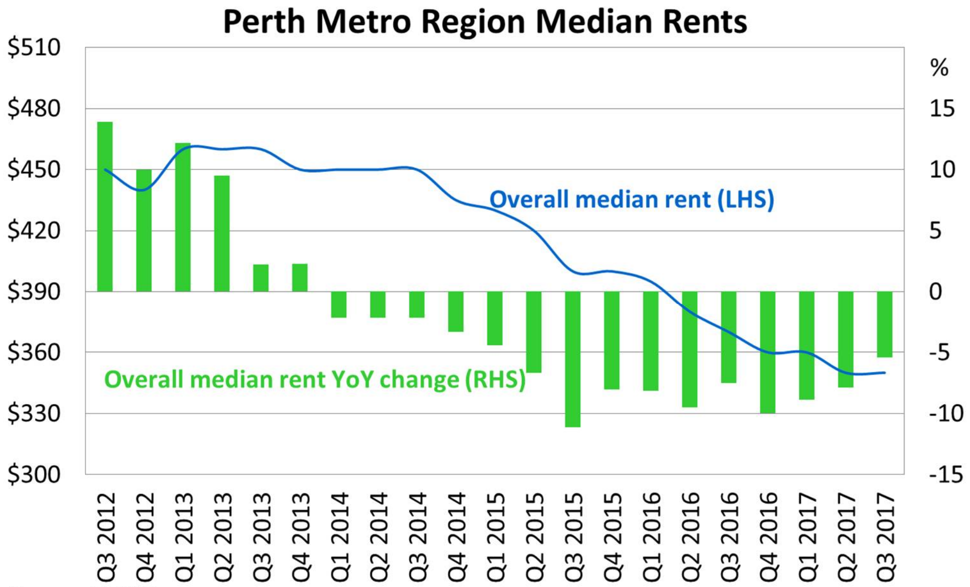
Figure 9



Source: REIWA

Although overall median rents have been trending lower since peaking during the September 2013 quarter, the latest data indicate that rents have remained steady over the September 2017 quarter (Figure 10). The overall median rent sits at $350 per week, which is unchanged from the June 2017 quarter and down by 5.4% in comparison to September 2016. In terms of the components of overall rents, the median house rent is $350 per week whilst the median unit rent is lower, at $325 per week.

Figure 10



Source: REIWA

Table 2

Private sector rents in Perth and major regional centres. Preliminary data September 2017.

Region	Lower Quartile Rent	Median Rent	Upper Quartile Rent	Median Quarterly Change	Median Annual Change
Perth Metro Region	**$290**	**$350**	**$420**	**0%**	**-5%**
Regional WA	**$270**	**$320**	**$390**	**0%**	**-3%**
Albany Urban Area	$300	$340	$380	0%	-2%
Broome Urban Area	$378	$450	$565	-4%	0%
Bunbury Greater	$280	$320	$360	0%	-6%
Busselton Urban Area	$340	$380	$400	0%	0%
Esperance Urban Area	$275	$320	$380	3%	7%
Geraldton/Greenough	$220	$270	$320	0%	-4%
Kalgoorlie/Boulder	$260	$320	$380	-3%	-3%
Karratha Urban Area	$300	$385	$560	1%	-4%
Mandurah/Murray	$260	$300	$350	0%	-6%
Northam	$240	$253	$320	-14%	-15%
Port Hedland	$295	$350	$500	0%	-7%

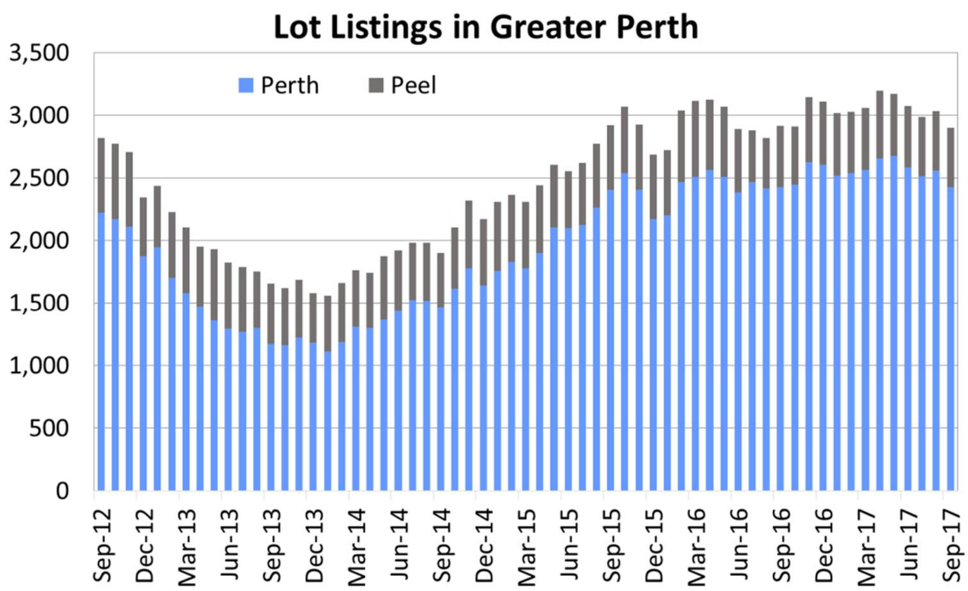
Source: REIWA

Data for regional centres for the September 2017 quarter (Table 2) shows overall median rents and changes on a quarterly and annual basis. There have been annual declines in median rent in many areas, particularly in Northam (-15%) and Port Hedland (-7%). However, on a quarterly basis there are signs that regional WA markets are beginning to stabilise. For instance, the Karratha and Esperance regions have seen median rents increase during the latest September 2017 quarter, with various other regional centres producing unchanged values in rents over the quarter.

4.3 Lot supply

Figure 11 shows monthly listings for established lots by REIWA members in the Perth and Peel regions to September 2017. Lot listings in the Perth Metro region stood at 2,428 at the end of September 2017. This is 6.1% lower than 3 months ago and similar to the same time last year. Lot listings have been trending lower since peaking in May 2017. The Peel region has experienced similar trends with listing levels also tracking lower (-3.5%) in comparison to 3 months ago and down by 2.5% versus the same time last year. REIWA's lot listings in Greater Bunbury at the end of September 2017 have remained at similar levels to those seen during the same time last year. Total lot listings in the region currently sit at 170. On the other hand, the number of lots for sale in Geraldton-Greenough fell from around 261 a year ago to 200 as at the end of September 2017.

Figure 11

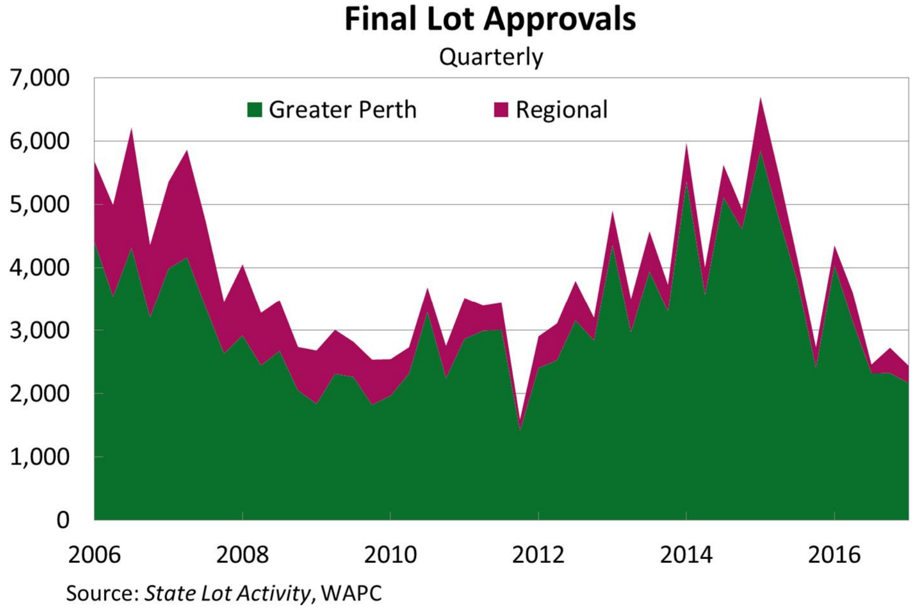


Source: REIWA/Landgate

4.4 Lot development trends

Final lot approvals have remained relatively steady over the past few quarters, but remain lower than in previous years (Figure 12). There were 2,173 final lot approvals in WA, 2,028 of which were in Greater Perth. The relatively low level of approvals is significant in terms of forecasting dwelling commencements as fewer approvals mean fewer lots for housing development. Lot approvals include green title and survey-strata subdivision approvals and can be considered a leading indicator for single residential (rather than multi-unit) construction.

Figure 12



Data provided by the Water Corporation to the Department of Planning, Lands and Heritage indicates that as at June 2017 there were 9,020 residential lots where the developer had a servicing agreement with the Water Corporation.[11] This represents a significant reduction in activity from June 2016, when there were agreements in place to service 11,250 new residential lots.

Servicing agreements can be seen as a proxy for lots that are under construction and likely to be available within a few months. Of the total, 7,968 were located in the Greater Perth area and 1,052 in the rest of WA. Lots with a servicing agreement accounted for approximately 13% of the developers stock of current conditional approvals in the Greater Perth region and about 8% of current stock in regional WA. This equates to approximately 12% across the entire state.

A survey of WA's major land developers[12] by UDIA WA showed that as at the June quarter 2017, developers had 3,065 lots under construction in the Greater Perth region for release within the next year. This is down 23% on the previous year. Lot production has been relatively low and stable for the past 18 months, compared with higher production rates over 2013 to 2015. Production levels are now more in line with demand.

Despite the lower levels of lot production, HIFG notes that the overall supply of titled lots remains at a high level and is not expected to be a drag on dwelling commencements over the forecast horizon.

4.5 Residential demolitions

The Department of Planning, Lands and Heritage collects data on dwelling demolitions from the 32 local government authorities in the Perth, Peel and Greater Bunbury regions (Table 3). The number of demolitions in 2016-17 was 1,983, down 3% from 2015-16, but actually rose slightly when removing Greater Bunbury from the totals. Demolitions are

[11] Urban Development Program, unpublished data.
[12] Urban Development Index, June quarter 2017, UDIA WA.

considered a lead indicator for infill development and, in Perth, have remained stable over the last 12 months.

Table 3
Residential demolitions by region

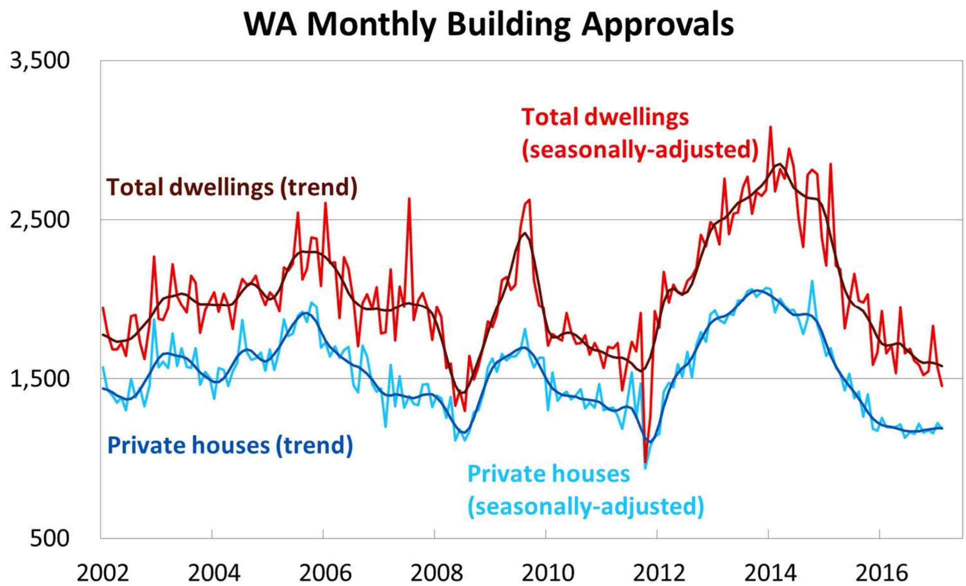
	Perth	Peel	Greater Bunbury	Total
2001-02	1,598	65	13	1,676
2002-03	2,067	88	44	2,199
2003-04	2,191	96	21	2,308
2004-05	1,934	110	70	2,114
2005-06	2,208	118	95	2,421
2006-07	2,311	145	77	2,533
2007-08	2,515	98	57	2,670
2008-09	1,796	59	60	1,915
2009-10	2,264	86	49	2,399
2010-11	2,383	72	47	2,502
2011-12	1,874	62	47	1,983
2012-13	2,061	85	33	2,179
2013-14	2,493	63	46	2,602
2014-15	2,405	71	33	2,509
2015-16	1,795	80	168	2,043
2016-17	1,880	61	42	1,983

Source: Department of Planning, Lands and Heritage WA

4.6 Building approvals

Building approvals fell to 20,315 in 2016-17, down from 24,631 in 2015-16. In trend terms, building approvals peaked in September 2014 (Figure 13). Approvals are a lead indicator of dwelling supply with falls in approvals feeding through to commencement figures. Greater Perth accounted for 87% of total WA approvals in 2016-17, a level similar to the previous year.

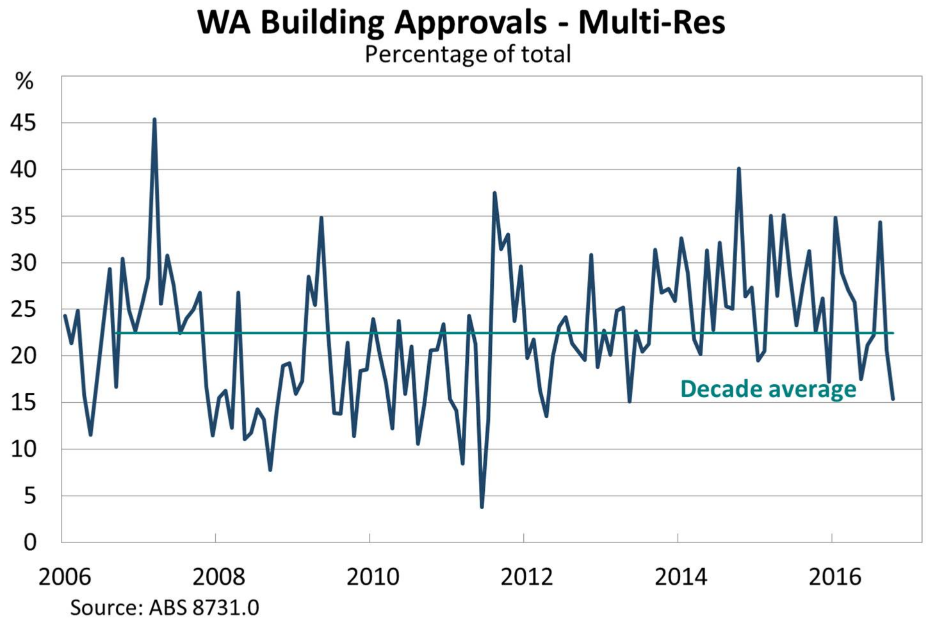
Figure 13



Source: ABS 8731.0

Multi-residential approvals made up 28% of all approvals in 2016-17, well above the decade average of 22%. There was a large variance in monthly figures (Figure 14). The strength of the multi-residential sector is crucial to overall levels of dwelling commencements and will play a big part in determining activity over the forecast horizon. Multi-residential dwellings remain a much lower proportion of dwelling stock in WA compared to New South Wales, Victoria and Queensland.

Figure 14



4.7 Building activity over time

Detached houses continue to dominate the WA market. In the "other" residential market, there has been more development in the high-rise (4+ storey apartment buildings) and low-rise (single storey semi-detached) over the past five years (Figures 15 and 16). Development has been limited in medium-density dwelling types. HIFG notes that there appears to be demand for medium-density dwellings, but that the regulatory framework and limited building industry experience may be holding back development.

Figure 15

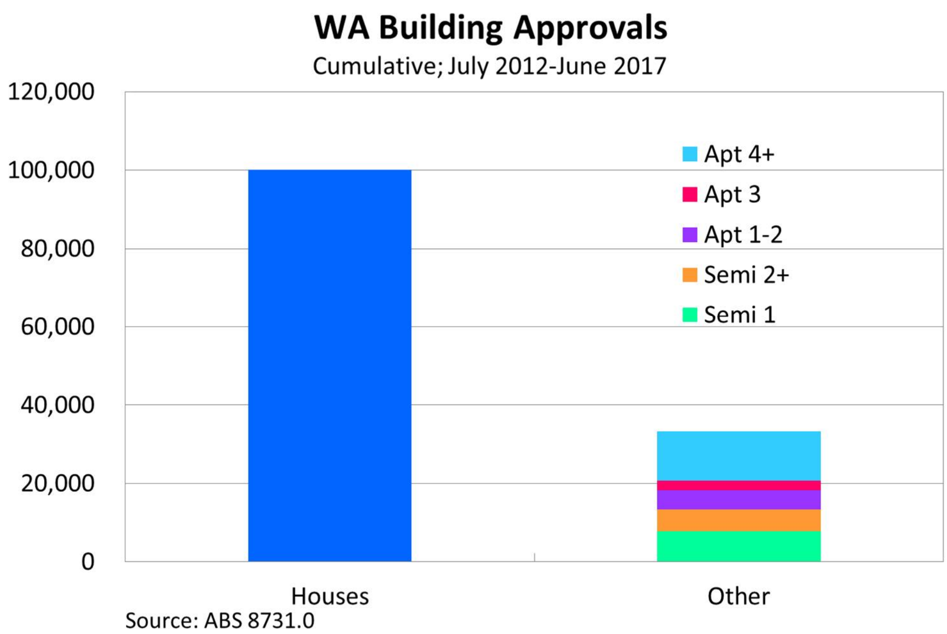
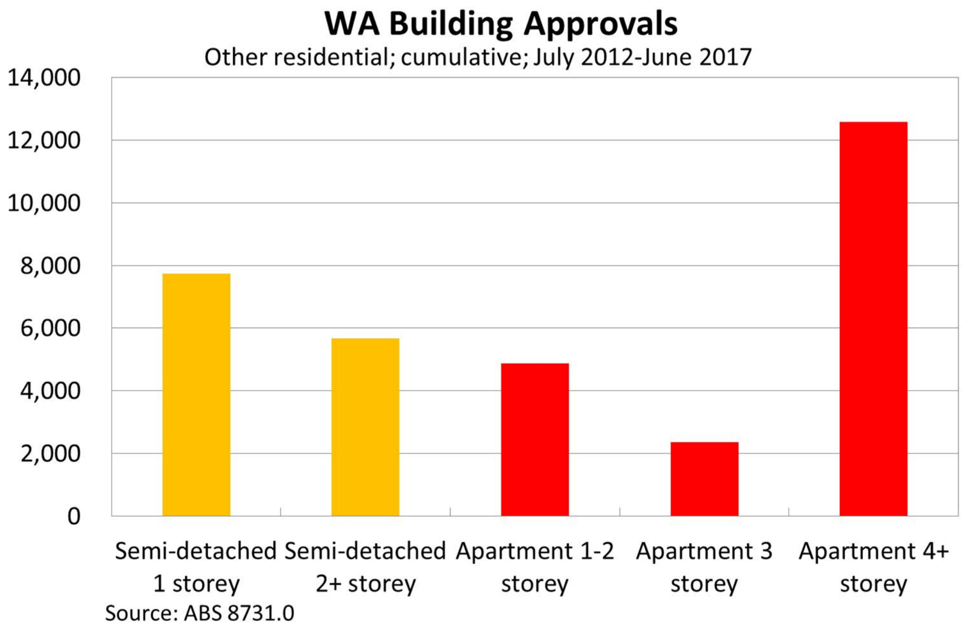


Figure 16



The 2016 Census data gives a good overview of the changing WA dwelling landscape. Figures 17 and 18 show maps of the change in total dwelling stock in Greater Perth (Figure 17) and the rest of WA (Figure 18) between the 2011 and 2016 Censuses. Figure 17 shows that the level of development in Perth has been strong around the city fringes, but limited more centrally (with the exception of Perth CBD). This has implications for housing affordability, commute times and infrastructure provision.

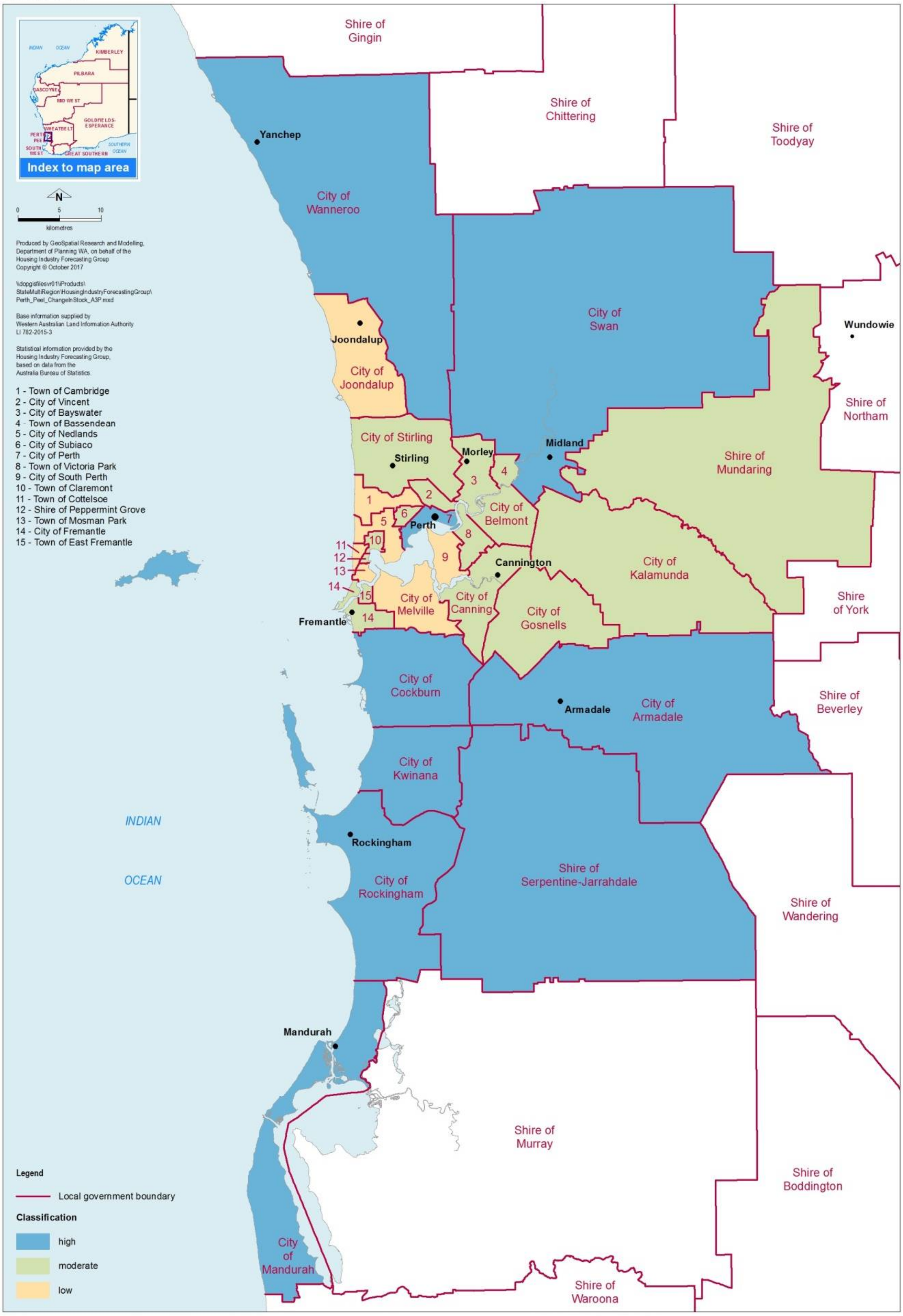
Many regional areas have seen a decline in dwelling stock over the inter-censal period (Figure 18). In most cases this coincided with falls in population over this time period. Regional areas with strong dwelling growth were predominantly those with significant mining activity. South West centres including Busselton and Capel also recorded high levels of growth. These areas experienced strong population growth over the five year period.

HIFG notes that there was a change in the method of collecting information on dwelling type for the 2016 Census and, as such, care should be taken when comparing multi-residential dwelling stocks between the 2011 and 2016 Censuses.[13] However, the building approvals data shows that there has been an increasing proportion of multi-residential development.

[13] ABS 2900 Census of Population and Housing: Understanding the Census and Census data.

Figure 17

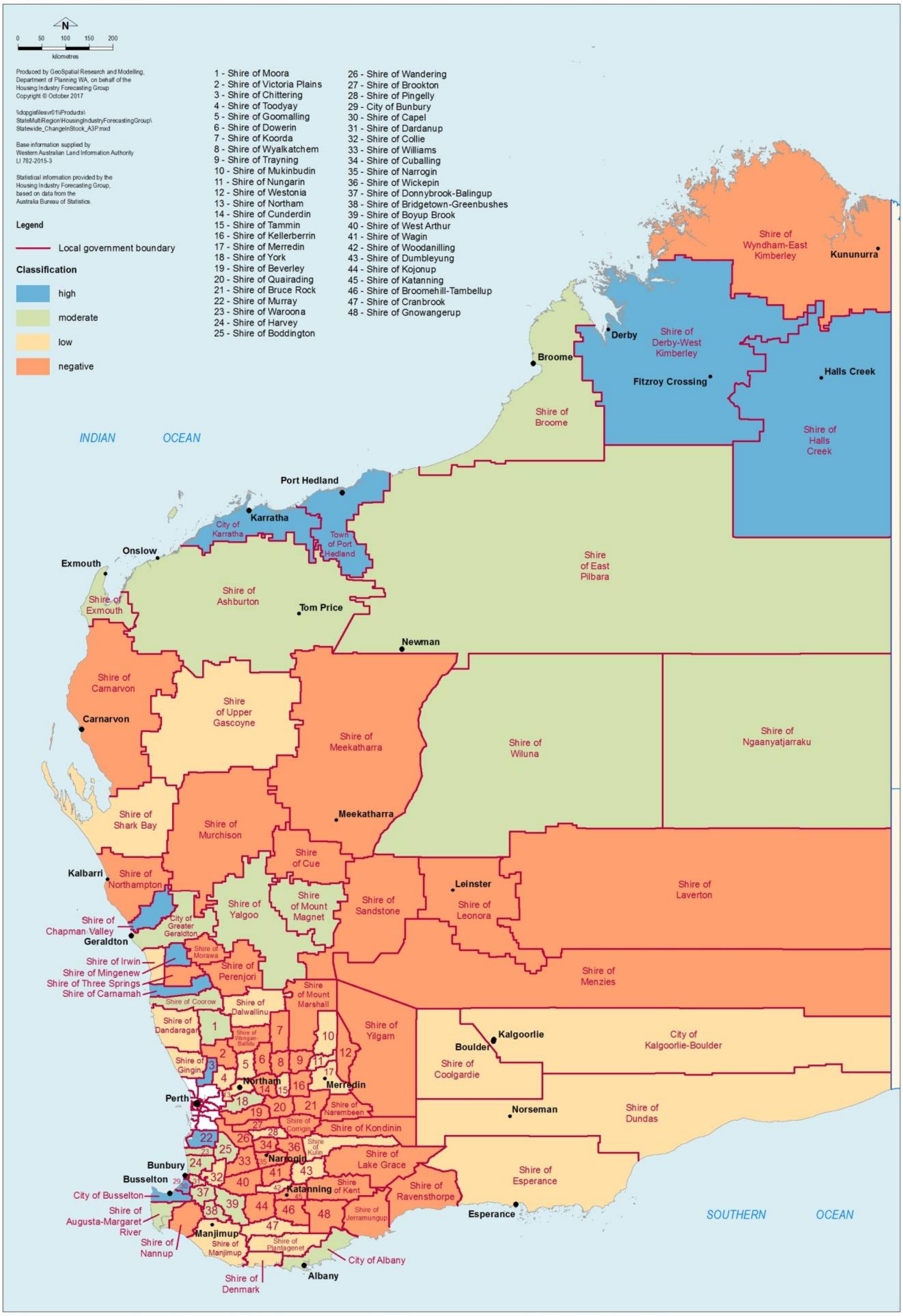
Greater Perth



Change in Dwelling Stock by Local Government (2011-2016)

Figure 18

Rest of Western Australia



Change in Dwelling Stock by Local Government (2011-2016)

4.8 Dwelling commencements, completions and work in progress

4.8.1 Dwelling commencements

In 2016-17 dwelling commencements in WA fell to 19,666 in seasonally-adjusted terms (19,702 in original terms). This was slightly above HIFG's April 2017 forecast of 19,000 for the year and 23% lower than in 2015-16. The current level of commencements is lower than the 15 year average of 23,000. Private sector house commencements fell by 24%, while private sector multi-residential commencements fell by 31%. Public sector dwelling commencements increased by 24% over the year, predominantly due to the Social Housing Investment Package. Over the past three quarters, dwelling commencements have been fairly flat in trend terms (Figure 19).

Figure 19

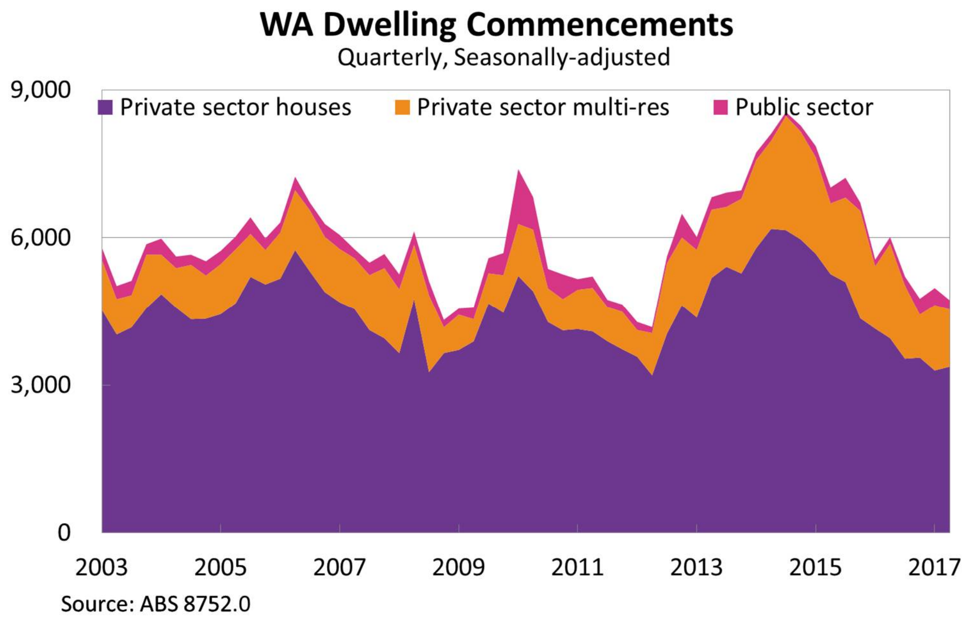
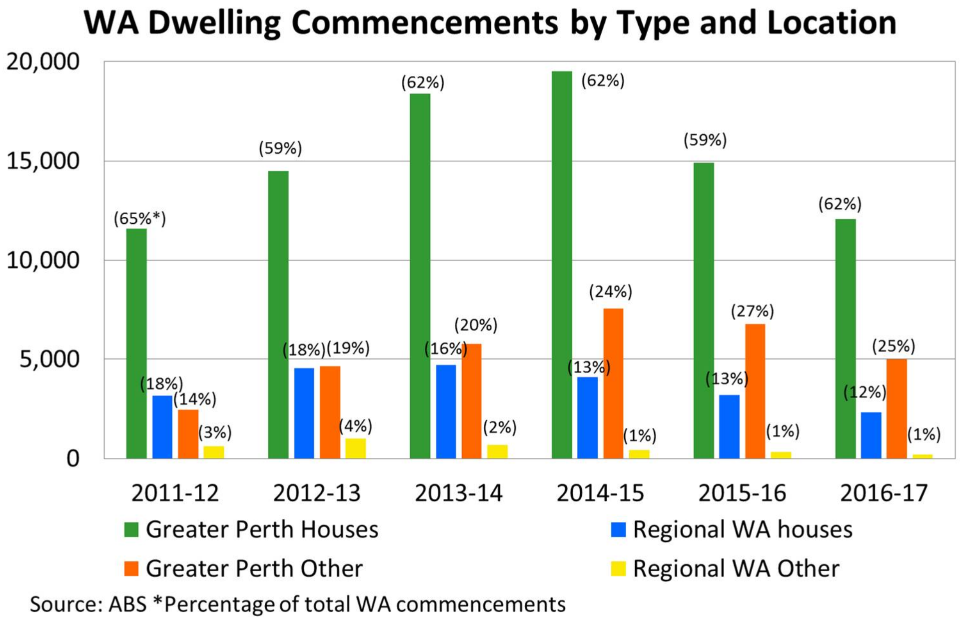


Figure 20 shows the distribution of dwelling commencements between Greater Perth and regional WA for the past six years. Detached houses in Perth have remained the dominant proportion of commencements throughout the time period. "Other" residential dwellings in Perth have increased in importance, although dropped back slightly in 2016-17. Regional houses have declined over the time period, and regional "other" residential has fallen to a very small percentage of overall commencements in WA. Development of "other" residential dwellings tends to be more volatile than the development of houses.

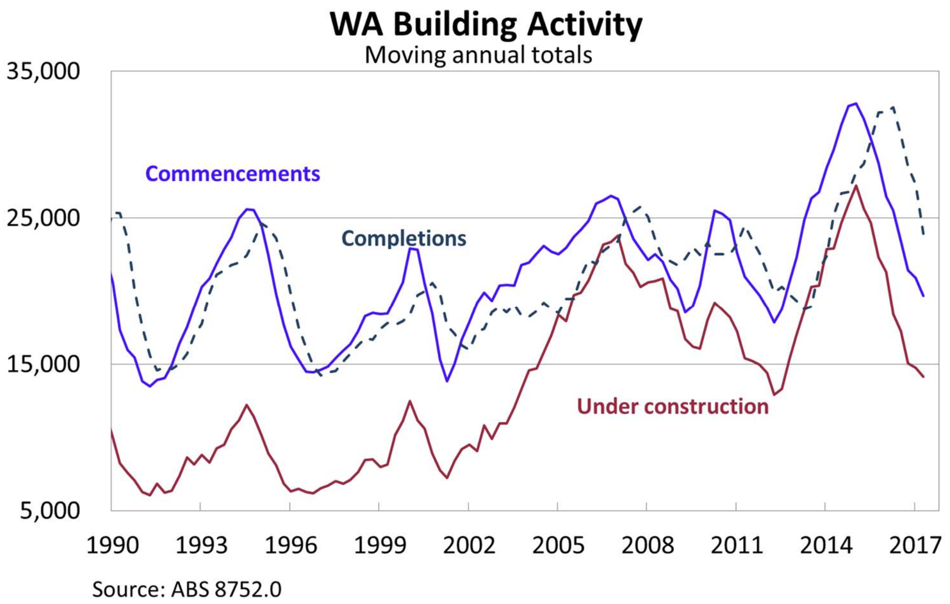
Figure 20



4.8.2 Completions

Completions fell to 23,912 in 2016-17, 27% lower than the previous year. Completions are likely to continue to decline in coming quarters, following the decline in commencements (Figure 21).

Figure 21



4.8.3 Residential construction work in the pipeline

The percentage of multi-residential construction remains high at 45% in the June quarter and has remained above 40% for the past two years (Figure 22). The multi-residential component is generally higher than the overall level of approvals and commencements due to the longer construction times for this type of building.

As at the June quarter 2017 there were 3,031 building approvals not yet commenced (Figure 23), 8% higher than the corresponding quarter in the previous year. Multi-residential approvals made up 34% of dwellings not yet commenced in the quarter, slightly below the decade average of 37%.

Figure 22

WA Dwellings Under Construction

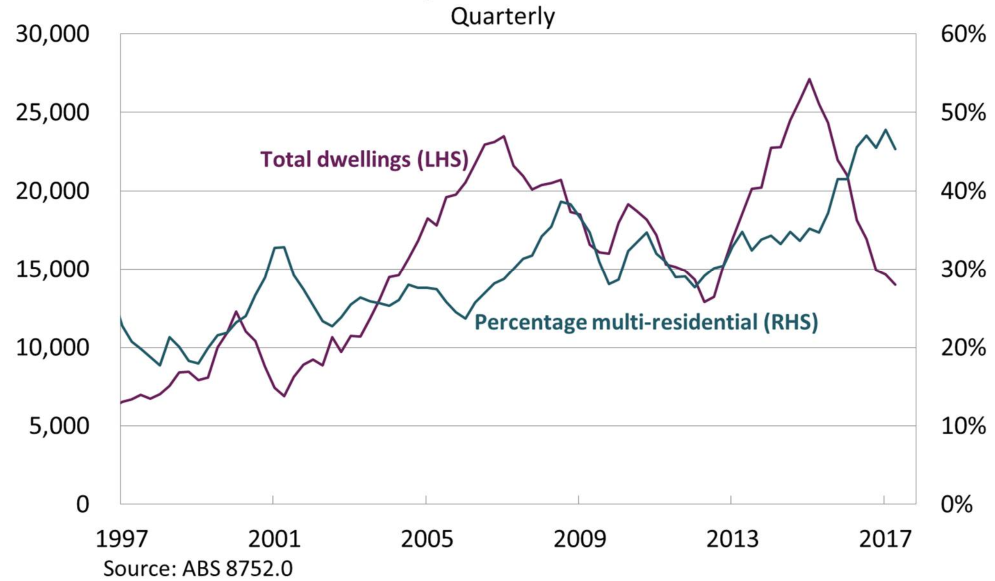
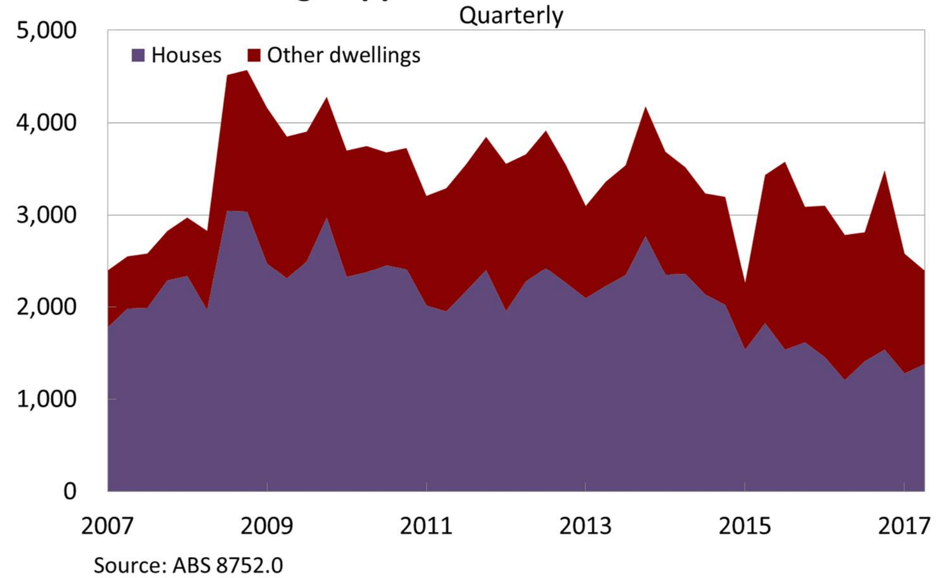


Figure 23

WA Dwellings Approved but Not Yet Commenced



5 Other factors

5.1 Housing affordability

5.1.1 Home ownership

Housing affordability in WA remains challenging, despite the softening in prices over the past few years. Western Australians on low incomes remain essentially locked out of home ownership. A household on a very low income in Perth (less than 50% of the median income, or around $43,000) would be able to afford a dwelling priced at $216,300 if they were to spend only 30% of their income on repayments (the standard measure of housing stress). This also assumes that the household is able to save a 10% deposit, which would likely be extremely difficult for a low income household, especially while renting in the private market. This is well below the lower quartile house price of $393,500. Conditions are also difficult for those on moderate incomes. A household on 80% of the Perth median (roughly $70,000) can afford a house of approximately $350,000; well below the median house price of $504,320.

Comparing median local household incomes to median house prices, most regional areas are now more affordable than Perth (Table 4), with the exception of the South West centres of Albany and Busselton. Significant falls in house prices in the North West centres of Karratha and Port Hedland have improved affordability considerably.

Table 4

House Price to Income Ratio June 2017

Region	House Price to Income ratio[14]
Perth	**5.9**
Albany	6.6
Broome	4.7
Bunbury	5.0
Busselton	7.1
Carnarvon	2.6
Esperance	4.8
Geraldton	5.8
Kalgoorlie	2.6
Karratha	2.2
Northam	3.7
Port Hedland	1.2

5.1.2 Private rental

Affordability has improved for those on moderate incomes in the private rental market, but for those on very low incomes, conditions have not changed. A very low income household (earning around $43,000), paying around 30% of income on rent, could afford only $250 per week in the private rental market. This is well below the lower quartile rental price of $290. In contrast, a household earning $70,000 could afford rent of $400 per week, above the median rent of $350.

[14] Median household incomes from ABS Census 2016 indexed to June 2017 using ABS Wage Price Index. Median house prices from REIWA year to June quarter 2017.

6 Housing industry resources and challenges

6.1 Construction costs, building materials and labour supply

The Perth new home price index fell by 1.1% in the year to June 2017, in contrast with a 0.7% increase in the Perth consumer price index.[15] The price of building materials used in housing construction increased by 0.1% over the year to June 2017, well below the 2.0% increase for the six major capital cities.[16]

The *HIA Trade Availability Index* shows that the availability of trades workers remains in oversupply both in Perth and the rest of the state, but the extent of the oversupply has moderated somewhat in recent quarters.[17] WA is the only region in Australia estimated to have a surplus of trades. ABS data shows that the number of people employed in construction in WA at the end of August 2017 has increased by 16% compared with a year earlier, but remains lower than in 2015.[18]

6.2 Industry issues and short-term challenges

- The Group remains concerned about the impact of macroprudential regulation from APRA aimed at cooling activity in the Sydney and Melbourne markets, if applied equally to the softer Perth market. Such measures have the potential to stifle a market recovery.
- It was reported that valuations are coming in lower than expected and constraining buyer's ability to obtain finance. This remains an issue for the industry.
- The lack of diversity in Perth housing stock remains a challenge. Members report that there is unmet demand for medium-density housing, particularly within inner suburbs, but that policy settings, planning issues, infrastructure requirements and access to quality sites make these types of developments difficult.
- Members welcomed the focus on housing affordability in the 2017-18 Federal Budget; but noted that the introduction and impact of the measures remains uncertain.
- The planned introduction of a 4% stamp duty surcharge on foreign investors by the State government has the potential to dampen demand and impact on new development activity.
- The sudden removal of the FHOG boost six months early was disappointing from a housing industry perspective. There was a surge in activity in the months of May and June 2017. The surge in applications likely reflects the number of first home buyers who brought their purchasing decision forward to benefit from the temporary boost. Although the removal of the boost will not have a significant impact on demand it will have had an impact on timing for some households.
- The upward revisions to the income eligibility of the government's Keystart home loan limits were welcomed by HIFG as they provide additional households with an opportunity to enter into home ownership.

[15] ABS 6401, Table 10.
[16] ABS 6427, Table 18.
[17] HIA Trades Report June 2017.
[18] ABS 6291.0.55.003, Table 5.

7 Forecasts

7.1 HIFG's forecast of dwelling commencements

Financial Year	Dwelling Commencements
2016-17 (actual)	19,702 (19,000 forecast)
2017-18 (forecast)	19,500
2018-19 (forecast)	21,000
2019-20 (forecast)	22-24,000

Members expect dwelling commencements to be flat in 2017-18 with a forecast of 19,500 new dwelling commencements in WA. This is a small downward revision on the previous forecast of 21,000 for the year. Dwelling commencements have trended lower since 2014-15, but the available data suggests that the rate of decline has slowed as evidenced in forward looking indicators such as building and lot approvals. There has been a recent pick-up in housing finance commitments which are a leading indicator of activity.

Signs have emerged that the WA economy may have reached its trough, and the labour market and general confidence have improved in recent months. Population growth remains low but is expected to gradually increase over the forecast horizon. These factors are likely to lead to improved demand for housing; however there remain high levels of stock in the established rental and purchase markets, as well as a high level of multi-residential dwellings under construction. It is expected to take some time for this stock to be absorbed and for construction of new dwellings to increase.

HIFG is forecasting a small increase in dwelling commencements to 21,000 in 2018-19, with further improvement in the range of 22,000-24,000 in 2019-20. This is in line with expectations of a modest recovery in population growth. Population growth remains the key risk, on both the upside and downside, for the Group's forecasts and any material changes in the outlook for population growth (which is likely to move in line with general economic conditions in WA) will impact the actual level of commencements. The continued strengthening of the labour market is also key to the Group's outlook. HIFG notes that if demand were to increase sooner than expected, the availability of titled lots and trades means that supply would be able to respond quickly.

Figure 24

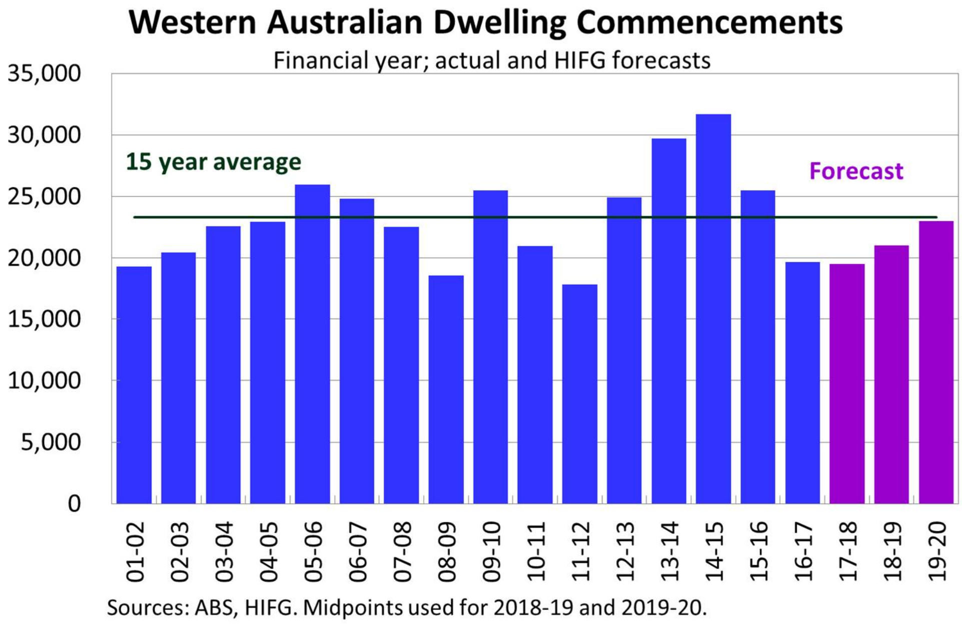
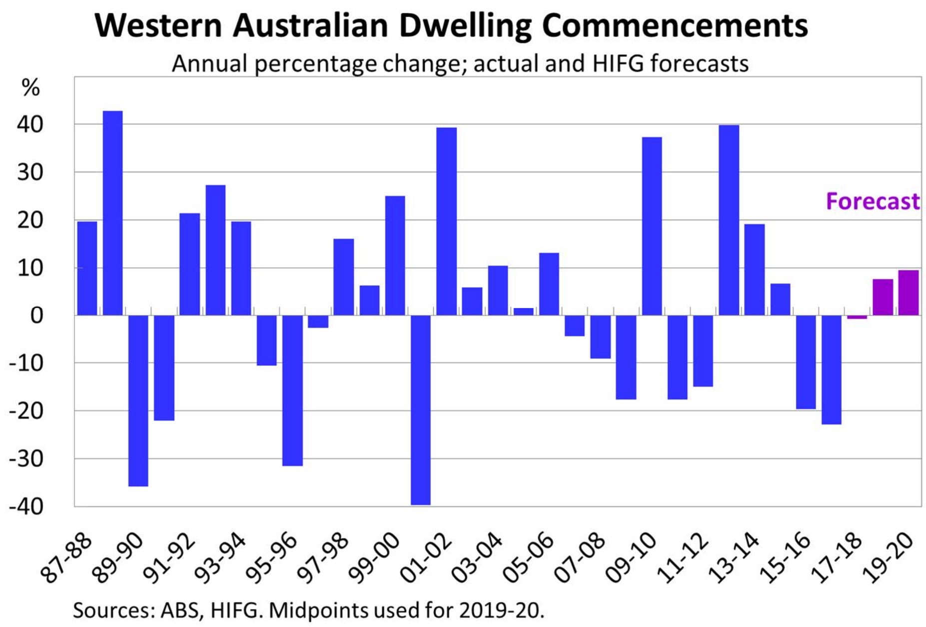


Figure 25



7.2 Assessment of serviced residential lot supply

On the basis of 1.3 dwellings per lot[19], our forecast suggests there will be a need for 15,000 residential lots in 2017-18, picking up to 16,000 in 2018-19 and between 17,000 to 18,000 in the outer years of our forecast horizon. Demolitions are likely to provide between 2,000-3,000 lots per annum, resulting in a need for around 13,000 lots this financial year, to be supplied from new lot developments and vacant unsold serviced lots. HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast horizon.

[19] The average number of dwellings per building approval over the period 2009-2014 based on ABS data.

Appendix A – 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, Lands and Heritage and the Department of Communities 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 WA 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 November 2017

Member	Organisation represented
Alan Langford	Bankwest
Nathan Viles	Chamber of Commerce and Industry WA
John Gelavis	Housing Industry Association
Jason Robertson	Master Builders Association
Allison Hailes	Urban Development Institute of Australia (WA)
Ronak Bhimjiani	Real Estate Institute of WA
Adrian Warner	Department of Communities
Alix Rhodes	Property Council
Steven Rowley (Chair)	AHURI - Curtin Research Centre
Brett Coombes	Water Corporation
James Butterfield	LandCorp
Jonathan Palmer	Department of Treasury
Damien Martin	Department of Planning, Lands and Heritage
Dione Bilick	Landgate
Caroline Cherry	Chamber of Minerals and Energy
Observers	
James Yuen	Office of Land and Housing Supply
Zaneta Georgievski	Australian Bureau of Statistics
Secretariat	
Cassandra Winzar	Department of Communities