Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

2018-2019

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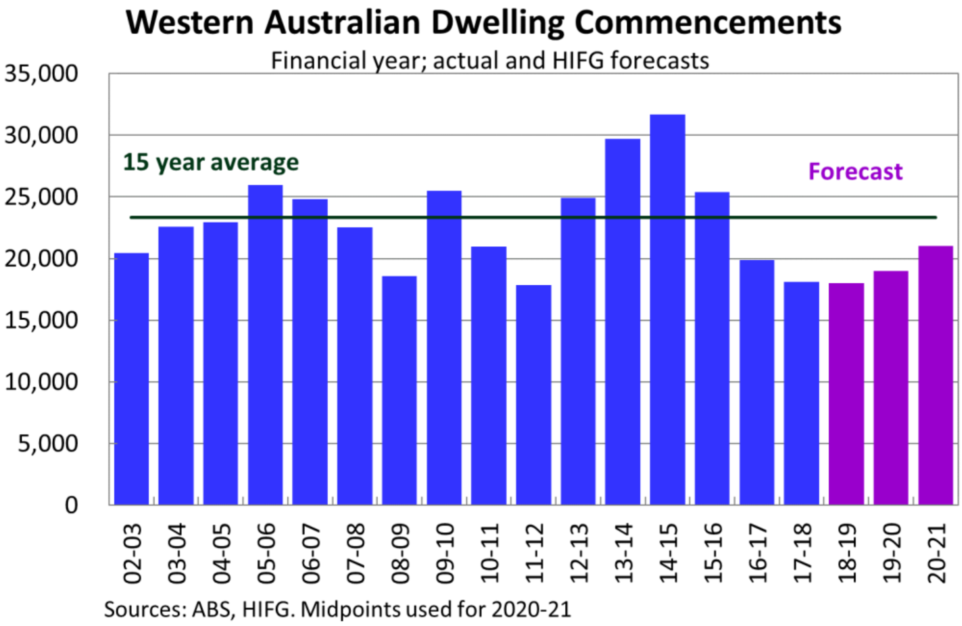
Executive Summary

This report forecasts dwelling commencements in Western Australia (WA) for the period 2018 to 2021. The Housing Industry Forecasting Group (HIFG) predicts the following pattern of dwelling commencements:

HIFG Forecast of Dwelling Commencements in WA, 2017-18 to 2020-21[1]

Financial Year	Dwelling Commencements
2017-18 (actual)	18,124 (19,500 forecast)
2018-19 (forecast)	18,000
2019-20 (forecast)	19,000
2020-21 (forecast)	20-22,000

Dwelling commencements in WA fell by 9% in 2017-18 to 18,124, below the forecast of 19,500, primarily because the expected stabilisation of the new build market did not eventuate. HIFG expects conditions to remain flat over the coming year with a slow and subdued recovery commencing from 2019-20 and into 2020-21.

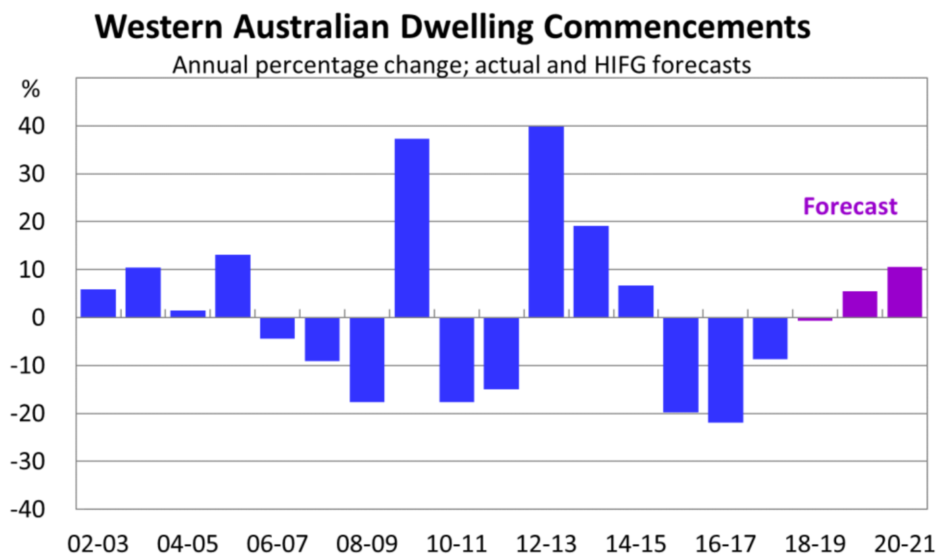


The main factors behind this forecast are:

- Population growth in WA remains slow at 0.8% in the year to March 2018. It is expected to gradually increase over the forecast horizon.
- First home buyer activity remains stable with first home buyers making up around 25% of total finance commitments for housing in 2017-18, although overall finance commitments have fallen steadily for the last three years so actual first home buyer numbers are down. This is well above the national proportion of around 14%. WA continues to be the state of the first home buyer.

[1] Data and forecasts finalised October 2018

- The established housing market remains soft overall with prices in around two thirds of suburbs continuing to fall. Real Estate Institute of WA (REIWA) data shows that the number of established home sales fell by 9% over the past year. June quarter data shows the Perth median house price at $515,000 and listings remain high.
- The Perth metro rental vacancy rate has fallen sharply to 3.9% according to preliminary September REIWA data, while the median rent remains steady at $350. Further reduction in the vacancy rate will likely place upward pressure on rents.
- 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 steady rents.
- Forward-looking indicators such as building and lot approvals and finance commitments continue to fall, although the rate of decline slowed over the year.
- Some positive signs have emerged with an improvement in the overall WA economic outlook, including improved labour market conditions and general consumer and business confidence.
- HIFG expects overall demand for new housing to pick up slowly over the forecast horizon in line with economic improvements and a continued recovery in population growth.
- However, stock levels in the established market remain high and it may take some time for that to be absorbed and demand for new housing to strengthen.
- The housing sector is cyclical and the current downturn in commencements is hardly unique, despite being the deepest this century. The Group expects a subdued recovery in dwelling commencements to 19,000 in 2019-20, on the back of a strengthening economy, and a further pick-up in the range of 20,000-22,000 in 2020-21.
- Due to continued weak demand, HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast period.



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

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 2018-19 to 2020-21.

2 Economic overview

2.1 Western Australian economy

The Western Australian economy continued its subdued recovery in 2018. State Final Demand (a measure of domestic economic growth) increased by 0.8% over the year to June quarter 2018, driven by growth in household and government consumption. The decline in business investment in Western Australia has slowed falling by just 1.5% over the year to June quarter 2018, compared to 16.3% the previous year.

Western Australian exports are growing at a solid pace. Merchandise exports increased by 5.3% in annual average terms reflecting businesses switching on major projects, such as lithium, and exporting larger quantities of goods overseas.

The labour market has also shown signs of improvement. 20,000 more jobs have been created by the WA economy since this time last year while more people are looking for work. As a result, the participation rate increased by 0.52 percentage points over the year to August 2018 and the unemployment rate increased by 0.6 percentage points to 6.4% over the same period.

Wages increased by 1.4% over the year to June 2018. For the first time since 2013, wage growth in the public sector was roughly in line with wage growth in the private sector. The Chamber of Commerce and Industry WA (CCIWA) expects that wages growth will trend higher if economic conditions continue to improve.

Leading survey indicators of economic conditions in Western Australia indicate that consumers and businesses are optimistic about future conditions. The *CCIWA Consumer Confidence Survey* shows that consumer confidence about medium term prospects increased over the year to September 2018 to the highest level in the past five years. The *WA Super-CCIWA Business Confidence Survey* suggests that business confidence in the WA economic outlook also increased, trending well above its ten-year average. The *ANZ/Property Council Survey* index for WA remained stable, despite a big fall in the overall national confidence index.

2.2 Monetary and macroprudential policy settings

The Reserve Bank of Australia (RBA) has left the cash rate on hold at 1.5% for the 26th consecutive month. Financial market commentators expect the RBA to increase the cash rate by 25 basis points around the middle of 2019, at the earliest.

Nonetheless, some banks have lifted their standard variable mortgage rates by 15 basis points citing higher borrowing costs. Further out-of-cycle rate rises are likely if the strengthening US economy continues to place downward pressure on the value of the Australian dollar and drive up the cost of borrowing over time (although Australian banks have negotiated long term borrowing arrangements).

At its October 2018 meeting, the RBA board members voiced concerns that the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry may result in further tightening of lending conditions. A recent poll of economists expressed concern that the recommendations and findings of the Royal Commission would lead to limited credit availability to households and businesses.[2]

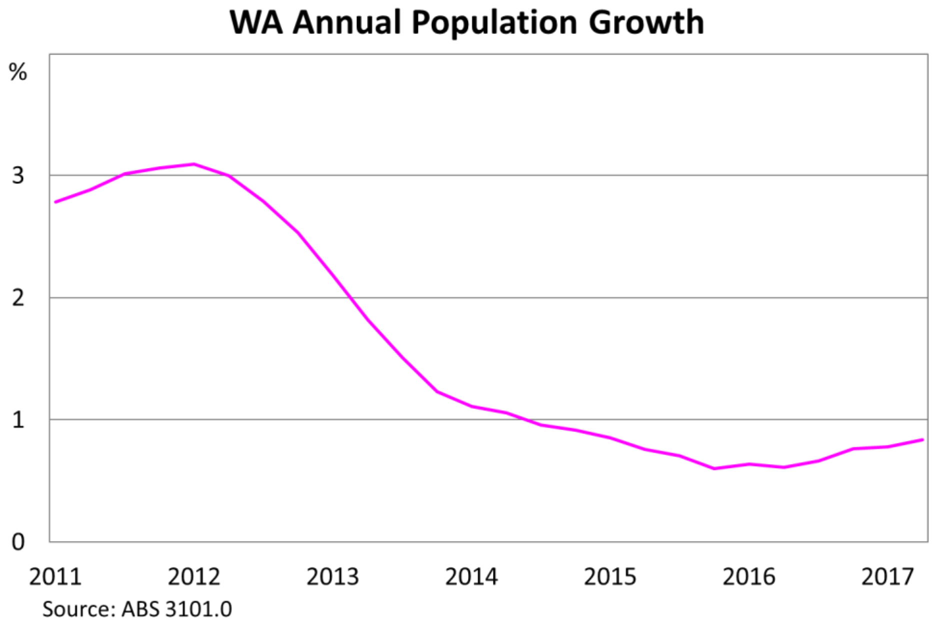
3 Demand factors

3.1 Population growth

Population growth in WA remains subdued, up 0.8% in the year to March 2018 (Figure 1) with WA's estimated residential population now 2,591,887.

WA's population grew by 20,419 people over the year to March 2018, slightly higher than in the year to March 2017 (18,398). Net interstate migration continues to detract from growth, falling by 12,040 over the year, offset by net overseas migration which grew by 13,348. WA's population growth remained below the national average of 1.6% in the year to March 2018. WA Treasury is forecasting population growth to increase sharply to 1.2% in 2018-19, and then grow to 1.8% by 2020-21.[3] Population growth remains key to any sustained recovery in the residential property market.

Figure 1



[2] ESA Monash Poll – Banking Royal Commission, October 2018
[3] 2018-19 WA State Budget.

3.2 Lot sales[4]

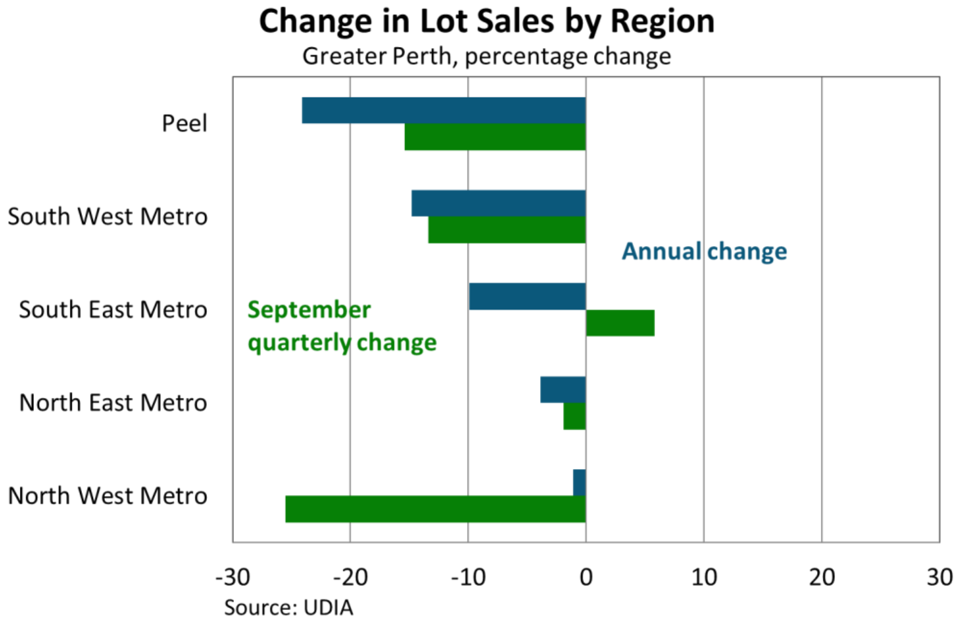
Lot sales are an important forward indicator as lots sold should lead to a dwelling commencement, albeit with a lag. The first six months of 2018 data from the Urban Development Institute of Australia (UDIA) WA showed the land market has entered a period of gradual recovery, despite the lingering effects of reduced state economic growth. However, September 2018 quarter data shows mixed results, with a 15% quarterly fall in sales activity for Greater Perth following three consecutive quarters of gradually increasing sales figures. It is worth noting sales activity has historically been softest in the September quarter.

Lot sizes in Perth are continuing a long-term downward size trend. The Perth average lot size fell by 1% in the year to the September quarter 2018 to 380sqm. In line with soft conditions, the price per square metre fell by 3% in the September quarter to sit at $601 per square metre, 4% below levels during the same quarter in 2017.

Figure 2 shows annual and quarterly changes in sales activity within five activity corridors, with generally negative outcomes. Sales activity in the South Western corridor fell 13% on a quarterly basis, and slowed 15% from the corresponding quarter in the previous year. The number of lots sold in the South Eastern corridor were 6% higher than the same quarter in the previous year, but fell 10% over the quarter. Sales activity in the North Western corridor fell 26% over the September 2018 quarter, following three quarters of relatively elevated figures, returning to 1% below numbers recorded in the September 2017 quarter. North Eastern corridor lot sales continued a slow decline in the September quarter, down 2% from the previous quarter following similar decreases over the first two quarters of 2018. While the number of lots sold in the Peel region remained steady from late 2017 and throughout the first two quarters of 2018, figures fell 15% over the September quarter and 24% from the corresponding quarter in 2017.

[4] 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



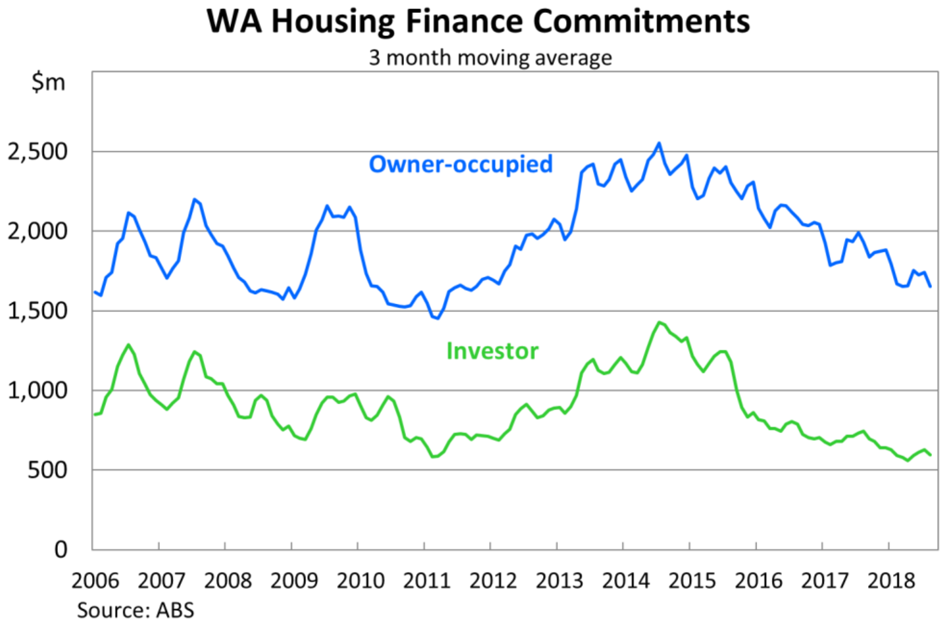
REIWA estimates that residential lot sales in WA dropped over the year to July 2018 by a very significant 32% to 7,161 sales. Similarly, estimated sales of residential lots in the Perth region fell by 33% over the same period to 5,415 sales.

The REIWA median lot price in the Perth region recorded an increase of 4% over the year to $259,000, underpinned by sales of larger lots. As land transactions usually take longer to settle than dwelling sales these figures will likely be revised.

3.3 Housing finance

Finance commitments for new housing construction have continued to trend downwards over most of 2017-18. This trend has continued into 2018-19 despite a slight pick up towards the end of the year and into the first month of the new financial year (Figure 3). This will feed through into levels of commencements.

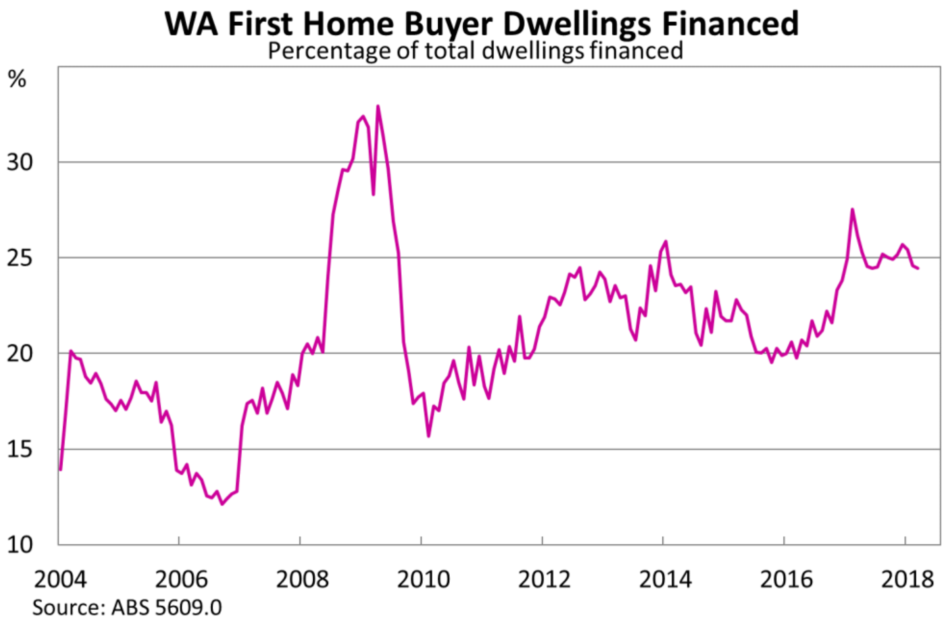
Figure 3



3.4 First home buyers

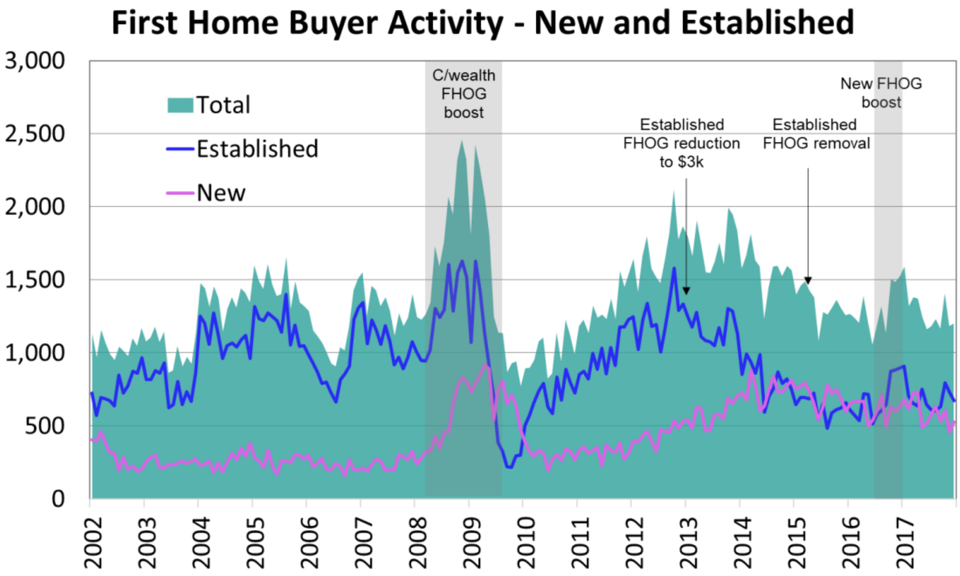
ABS data shows that first home owner activity is stable. There were 15,760 dwellings financed by first home buyers in 2017-18, 3% higher than the previous year. First home buyers made up around 25% of the total number of finance commitments in WA in 2017-18 (Figure 4), slightly higher than the decade average. This is well above the national proportion of around 14% as a period of house price decline in most suburbs has provided opportunities for first home buyers to enter the market, alongside funding opportunities from Keystart and generally low interest rates.

Figure 4



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 5). 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 been a broader increase in activity in the established first home buyer 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 5 shows the shift between established and new dwellings since the reduction and subsequent removal of the grant for established dwellings.

Figure 5



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[5] decreased by 9% in the year to July 2018. By contrast, multi-residential unit sales increased by 7% over the same period, although this remains around one fifth of total sales. 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 established prices. The number of listings remains high, placing downward pressure on prices, particularly in the outer suburbs. There were 11,527 houses and units listed for sale in the June quarter 2018, 11% above the five-year average of 10,407.

[5] 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 shows median house prices in the Perth metro region and selected other regions. The lower quartile price provides information on entry level dwelling prices in those areas. Figure 6 provides more information on the annual median price for houses in the Perth Metro region.

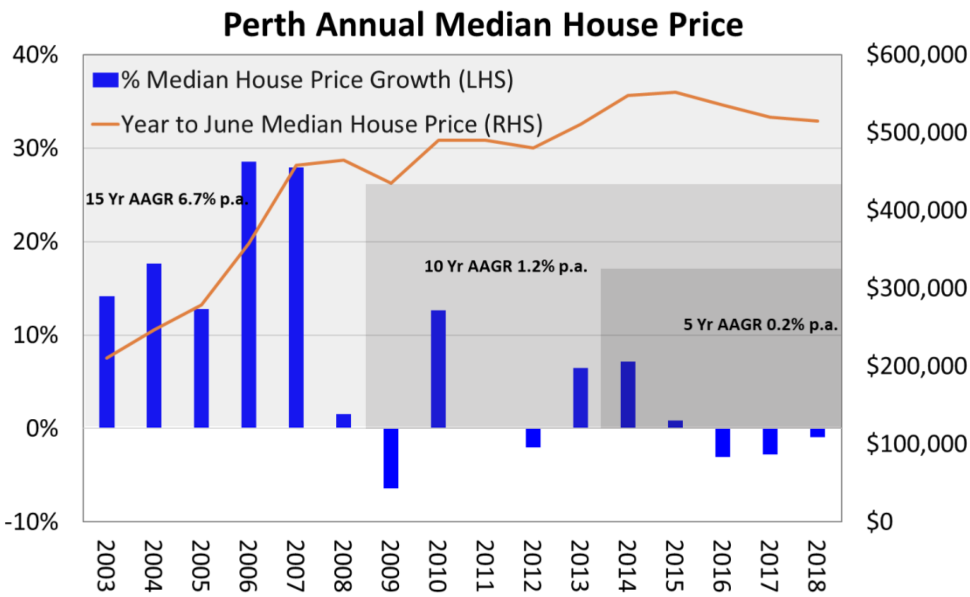
Table 1

House prices in Perth and major regional centres. Final data June quarter 2018.

Region	Lower Quartile	Median	Upper Quartile	Median Quarterly Change	Median Annual Change
Perth Metro Region	**$400,000**	**$515,000**	**$730,000**	**0%**	**-1%**
Regional WA	**$230,000**	**$320,000**	**$427,500**	**-6%**	**-4%**
Albany Urban Area	$294,500	$339,000	$444,000	-15%	-7%
Broome Urban Area	$435,000	$470,000	$520,000	0%	-1%
Bunbury Greater	$276,250	$335,000	$410,000	-1%	-6%
Busselton Urban Area	$352,500	$410,000	$575,000	-10%	-11%
Carnarvon Urban Area	$216,250	$220,000	$266,500	-22%	24%
Esperance Urban Area	$287,500	$350,000	$412,500	-5%	4%
Geraldton/Greenough	$156,750	$275,000	$355,000	0%	-15%
Kalgoorlie/Boulder	$217,500	$310,000	$387,500	-3%	8%
Karratha Urban Area	$278,000	$317,500	$390,000	-9%	2%
Mandurah/Murray	$310,000	$375,000	$480,000	2%	4%
Northam	$190,000	$230,000	$280,000	60%	0%
Port Hedland	$170,000	$205,500	$328,500	-1%	-4%

Source: REIWA/Landgate

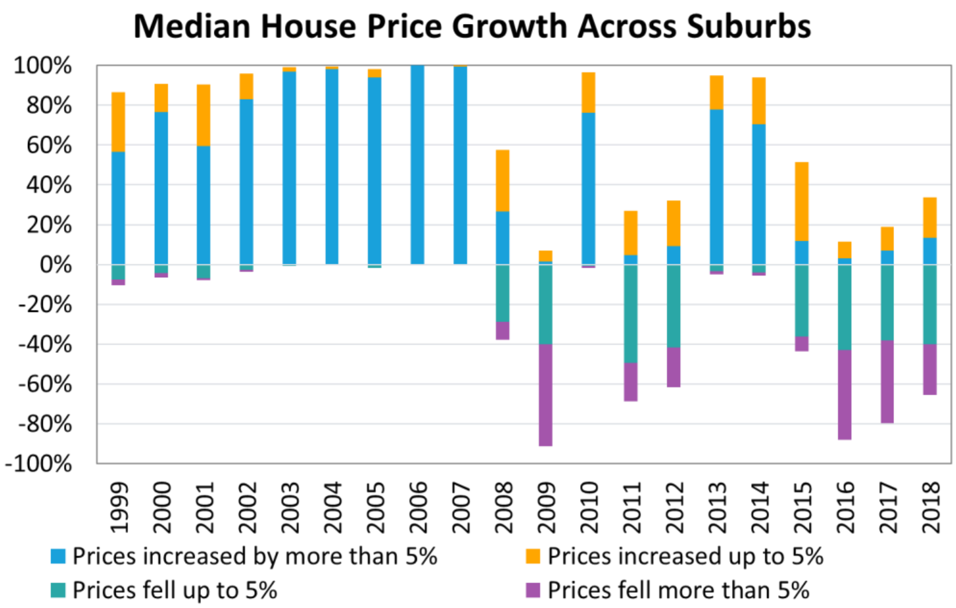
Figure 6



Source: REIWA/Landgate

The median house price has increased in some suburbs within the Perth Metro region, despite an overall softening in house prices. Price growth has been concentrated to inner, high value locations. REIWA data shows that whilst some suburbs have observed growth in median house prices during the year, median prices are falling for the vast majority of suburbs
(Figure 7). Price falls have moderated on 2017 levels but if current trends continue it will be some time before the majority of suburbs experience price growth.

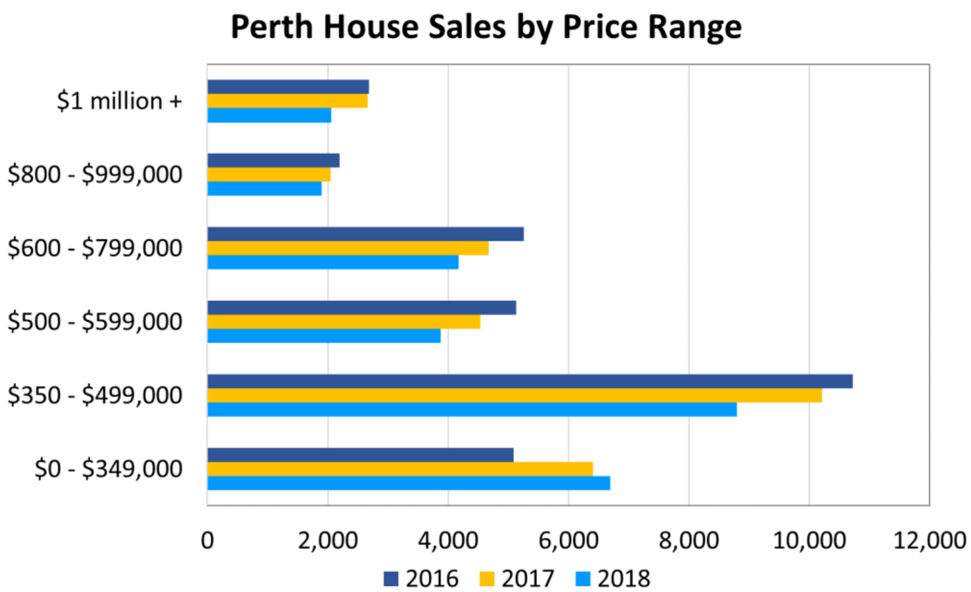
Figure 7



Source: REIWA

There has been a big increase in the number of sales below $350,000 since 2016 (Figure 8). This reflects the fall in prices in many suburbs and an increase in availability of cheaper apartments. The number of sales has declined over the period in all other price bands.

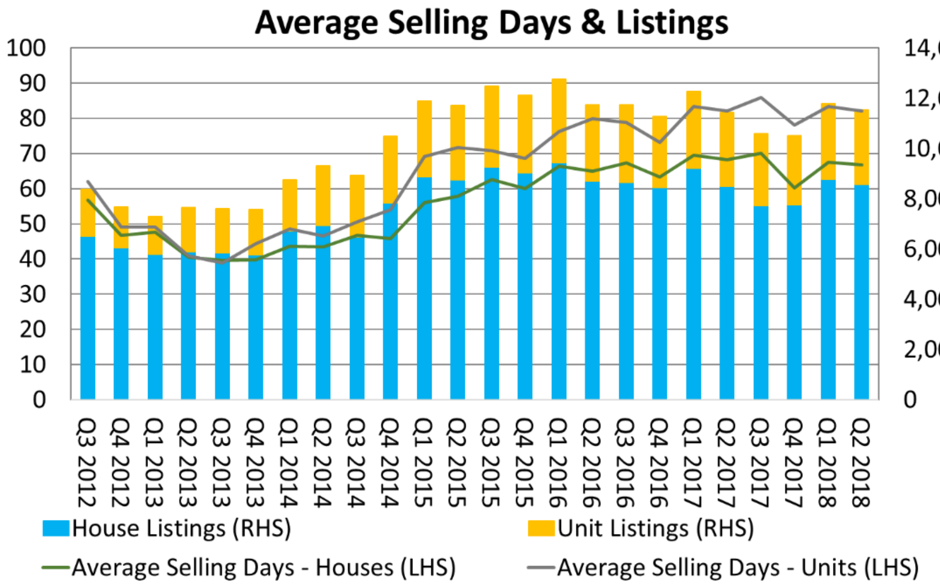
Figure 8



Source: REIWA

Figure 9 shows how selling days have increased significantly since 2013, reflecting strong availability of property in the established market. It is important to note that strong availability and choice in the established market means less demand for new build dwellings.

Figure 9

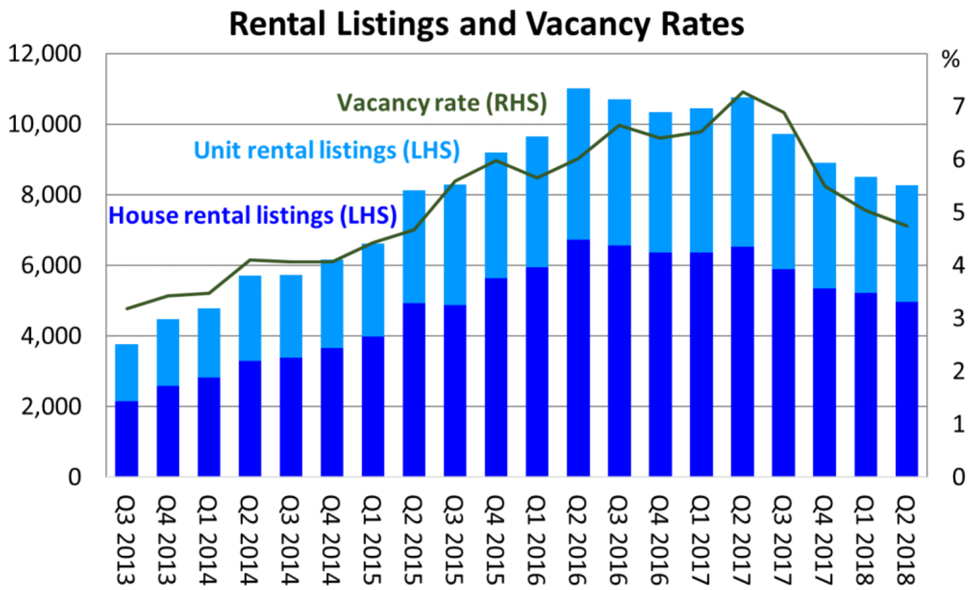


Source: REIWA

4.2 Private rental market

The latest data from REIWA indicates the vacancy rate in Perth's private rental market fell by 2.6 percentage points over the past year, to reach 4.7% for the June 2018 quarter (Figure 10). The decline in the vacancy rate appears to be caused by a combination of lower stock levels and increased demand for properties. Preliminary REIWA data indicates that the vacancy rate has fallen further to 3.9% in the September quarter 2018.

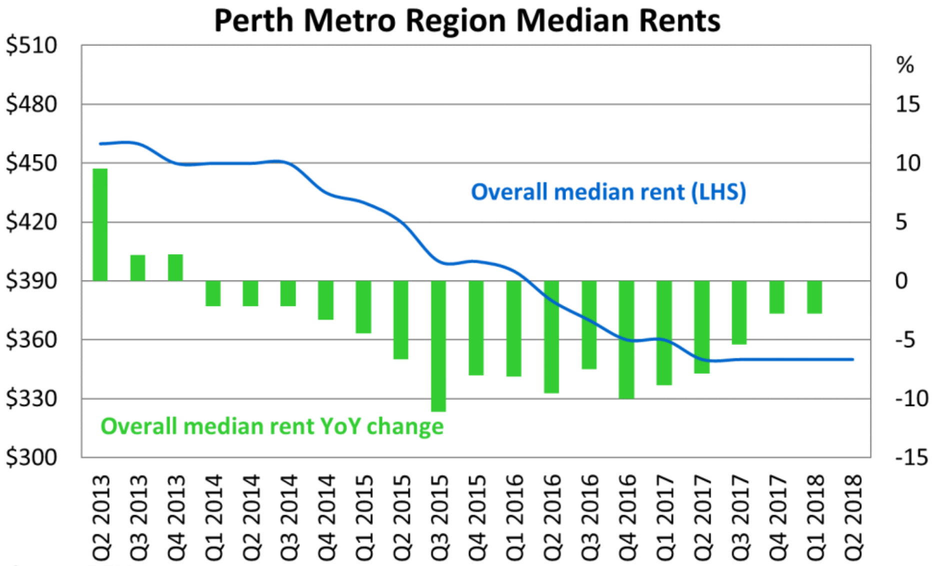
Figure 10



Source: REIWA

Overall median rents have stabilised and remained unchanged since June quarter 2017 (Figure 11) to sit at $350 per week. The median house rent is $350 per week whilst the median unit rent is lower, at $320 per week. Rents have been stable for some time now but if the vacancy rate continues to decline there will be upward pressure on rents. Indeed, some suburbs are already experiencing rental growth.

Figure 11



Source: REIWA

Data for regional centres for the June 2018 quarter (Table 2) shows overall median rents and changes on a quarterly and annual basis. Median rents have fallen or have stabilised on an annual basis in most areas, but have risen in Geraldton-Greenough (4%) and Karratha (5%). However, on a quarterly basis there are signs that other regional WA markets are beginning to grow. For instance, the Broome and Northam regions have seen median rents increase during the latest June 2018 quarter, with various other regional centres observing unchanged values in rents over the quarter.

Table 2

Private sector rents in Perth and major regional centres. Final data June 2018.

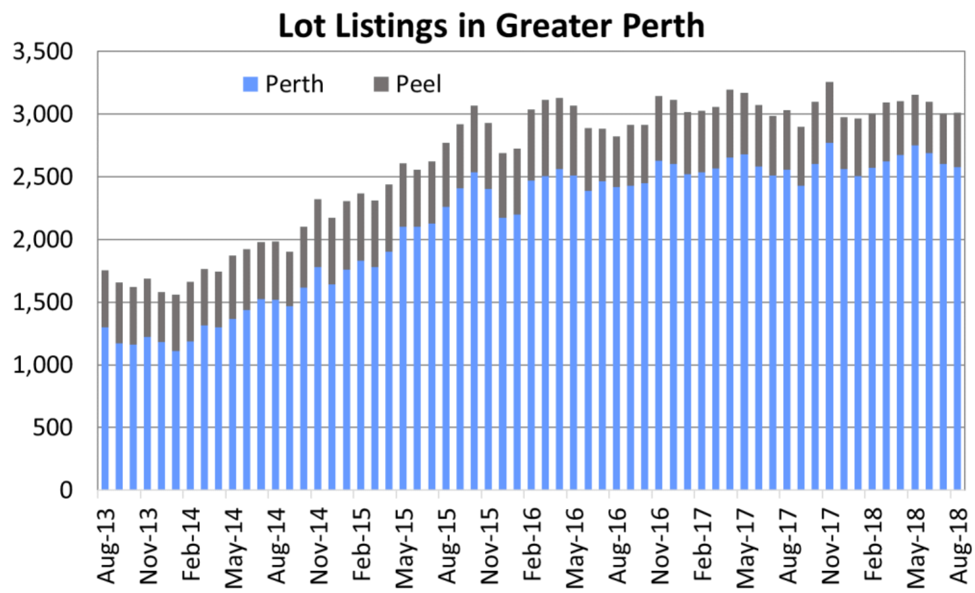
Region	Lower Quartile Rent	Median Rent	Upper Quartile Rent	Median Quarterly Change	Median Annual Change
Perth Metro Region	**$295**	**$350**	**$420**	**0%**	**0%**
Regional WA	**$270**	**$320**	**$390**	**-3%**	**0%**
Albany Urban Area	$293	$345	$383	-2%	1%
Broome Urban Area	$397	$468	$593	4%	-1%
Bunbury Greater	$280	$320	$360	0%	0%
Busselton Urban Area	$330	$373	$400	1%	-2%
Esperance Urban Area	$250	$300	$340	-7%	-3%
Geraldton-Greenough	$205	$280	$320	4%	4%
Kalgoorlie-Boulder	$260	$330	$395	0%	0%
Karratha Urban Area	$315	$400	$500	5%	5%
Mandurah-Murray	$260	$300	$350	0%	0%
Northam	$240	$280	$325	4%	-4%
Port Hedland	$290	$350	$475	0%	0%

Source: REIWA

4.3 Lot supply

Figure 12 shows monthly listings for established lots by REIWA members in the Perth and Peel regions to August 2018. Lot listings in the Perth Metro region stood at 2,579 at the end of August 2018. This is 6.3% lower than three months ago and similar to August 2017. Lot listings have been trending lower since peaking in May 2018. By contrast, the listing levels in the Peel region are 7.5% higher than three months ago but 9.5% lower than August 2017. REIWA's lot listings in Greater Bunbury at the end of August 2018 are 28% lower than those seen at the same time last year. Total lot listings in the region currently sit at 127. On the other hand, the number of lots for sale in Geraldton-Greenough grew slightly from around 234 a year ago to 243 as at the end of August 2018.

Figure 12

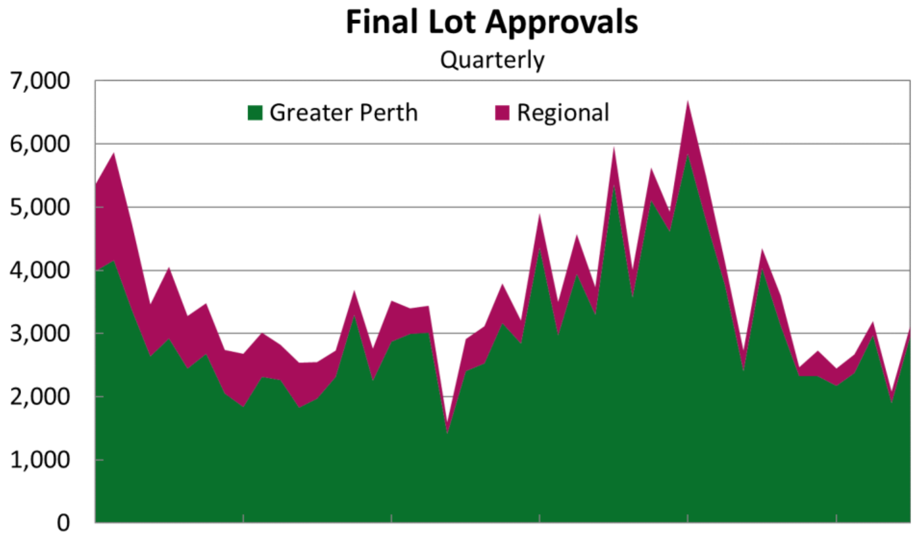


Source: REIWA/Landgate

4.4 Lot development trends

Final lot approvals remain lower than in previous years but have increased in recent quarters (Figure 13). It remains to be seen whether this is a sustained increase. There were 3,116 final lot approvals in WA, 2,884 of which were in Greater Perth. 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 13



Source: *State Lot Activity*, WAPC

Data provided by the Water Corporation to the Department of Planning, Lands and Heritage indicates that overall lot development has been falling. As at June 2018 there were 7,489 residential lots where the developer had a servicing agreement with the Water Corporation.[6] This represents a reduction in activity from June 2017, when there were agreements in place to service 9,020 new residential lots.

Servicing agreements are considered a proxy for lots under construction and likely to be available within a few months. Of the total, 6,702 were located in the Greater Perth area and 787 in the rest of WA.

A survey of WA's major land developers[7] by UDIA WA showed that as at the September quarter 2018, developers had 2,949 lots under construction in the Greater Perth region for release within the next year. This is down 5.2% on the previous year. Lot production has been relatively low and stable for the past 18 months, compared with higher production rates between 2013 to 2015. Nonetheless, members noted that there was sufficient capacity to respond to a short-term upturn in demand.

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 2017-18 remain reasonably unchanged from last year. Demolitions are considered a lead indicator for infill development and, in Perth, have remained stable over the last 12 months.

[6] Urban Development Program, unpublished data.
[7] Urban Development Index, September quarter 2018, UDIA WA.

Table 3
Residential demolitions by region

	Perth	Peel	Greater Bunbury	Total
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
2017-18	1,854	18	28	1,900

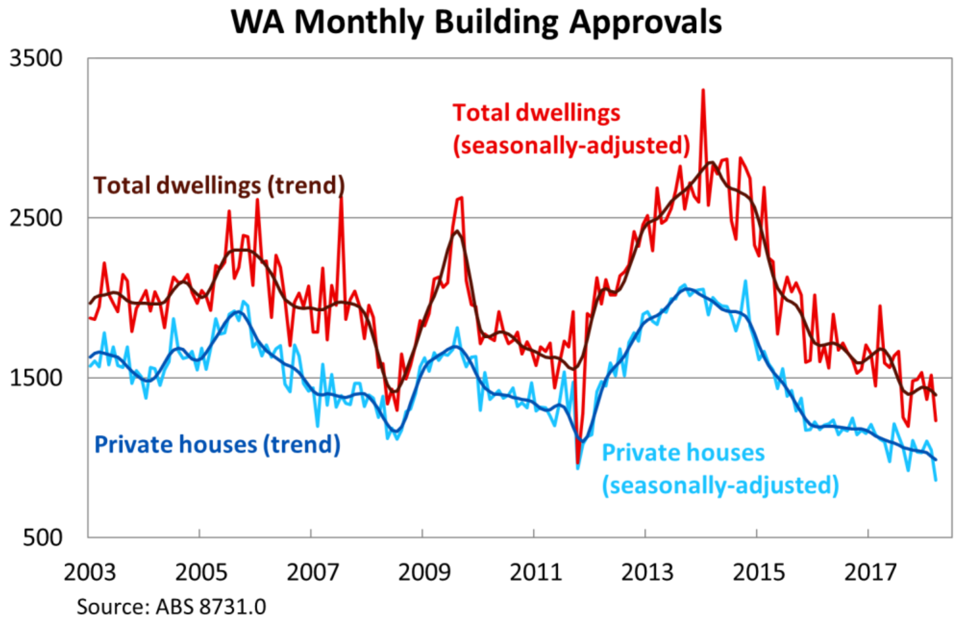
Source: Department of Planning, Lands and Heritage WA

4.6 Building approvals

Building approvals fell by 9.4% in the year to 2017-18 to 18,443, down from 20,367 in 2016-17. Whilst this continues to trend downwards, the rate of decline has slowed. In trend terms, building approvals peaked in September 2014 (Figure 14). Greater Perth accounted for 85% of total WA approvals in 2017-18, a level similar to the previous year. Approvals are a lead indicator of dwelling supply, with falls in approvals feeding through to commencement figures. It currently takes an average of six weeks for housing construction to commence once building approval has been granted. Recent data shows around 4.8% of building approvals in WA are abandoned and do not progress to construction.[8]

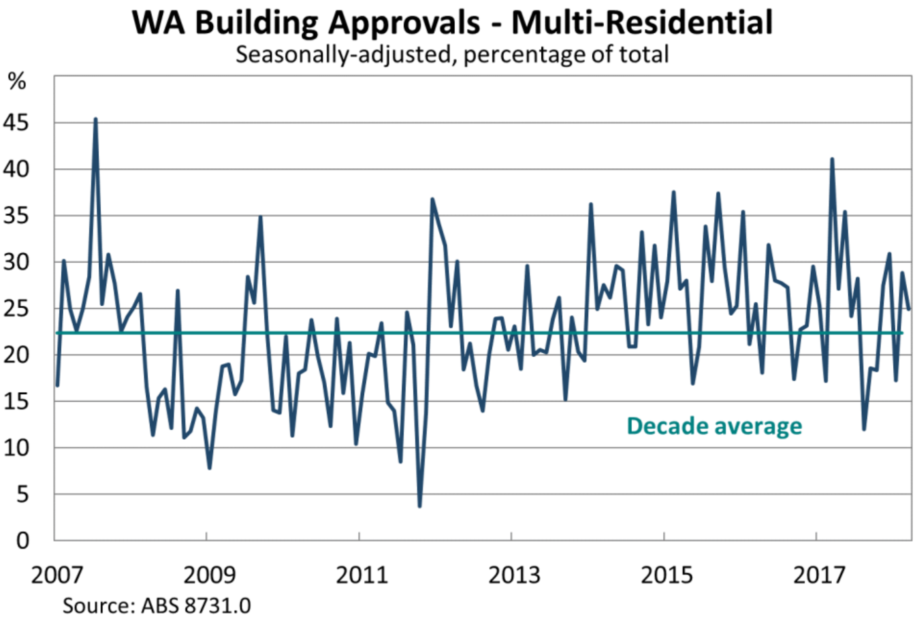
[8] ABS Cat. No. 8752.0

Figure 14



Multi-residential approvals made up 27% of all approvals in 2017-18, down two percentage points from its peak of 28% and well above the decade average of 22%. There was a large variance in monthly figures (Figure 15). The strength of the multi-residential sector is important 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 15



4.7 Building approvals over time

The distribution of building approvals across the Greater Perth region reveals pockets of demand for new residential construction. Comparing the three-year average of building approvals to 2014-15 and the three years to 2017-18 shows that some local government areas have proved resilient to the overall subdued conditions (Figure 16 and Figure 17).

With houses comprising the majority of building approvals, the change in distribution over the period shows supply growth within the outer-coastal local government areas of Joondalup and Rockingham. Inner ring areas appear to be much more resilient to current market conditions with growth in building approvals, albeit subdued. Outer ring areas are less resilient observing low or negative growth in building approvals for new houses.

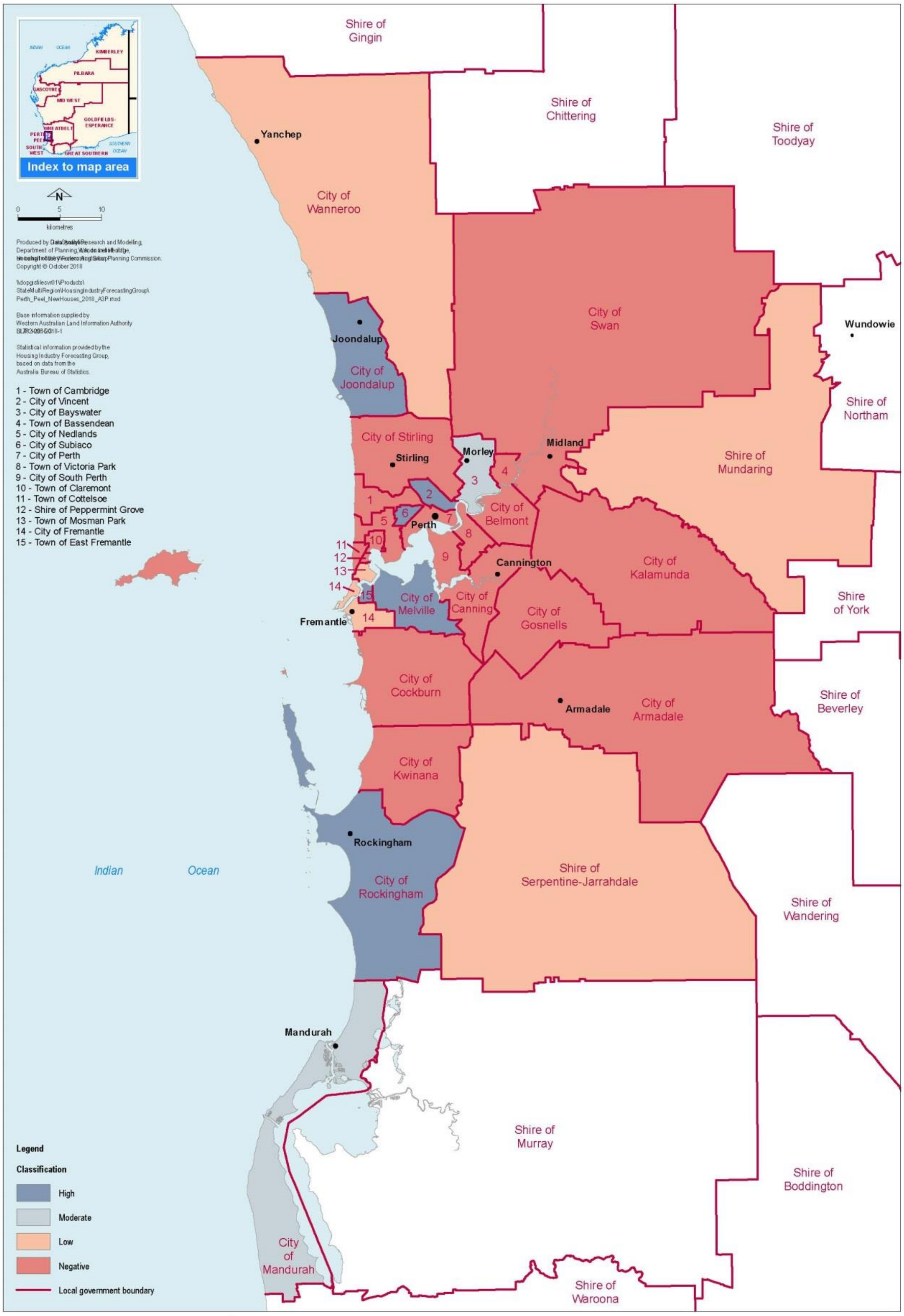
The number of building approvals for multi-residential dwellings has grown at a reasonably strong rate (although the total number is relatively small) in the inner areas, with some moderate growth observed in middle-ring areas. Whilst these areas have been able to maintain the rates of multi-residential approvals during a period of relatively soft conditions, it is yet unclear whether these levels can be sustained on the back of challenging market conditions. Infill activity has been steady in recent years. The net infill rate for Greater Perth in 2016 was approximately 41%, its highest level in six years.[9] This reflects the very strong level of multi-residential activity during the period 2014-16.

Construction of METRONET stations is expected to be completed by 2020-21. Any residential construction around the precincts are therefore expected to commence outside of the forecast horizon.

Recent ABS analysis shows that the average commencement timeframe for housing construction in WA is equivalent to around six weeks from the time of approval. This is consistent with the national average. However, the abandonment rate (approvals not commenced within a defined period) in WA is currently higher than the national average. This poses a risk to dwelling commencements should this trend continue.

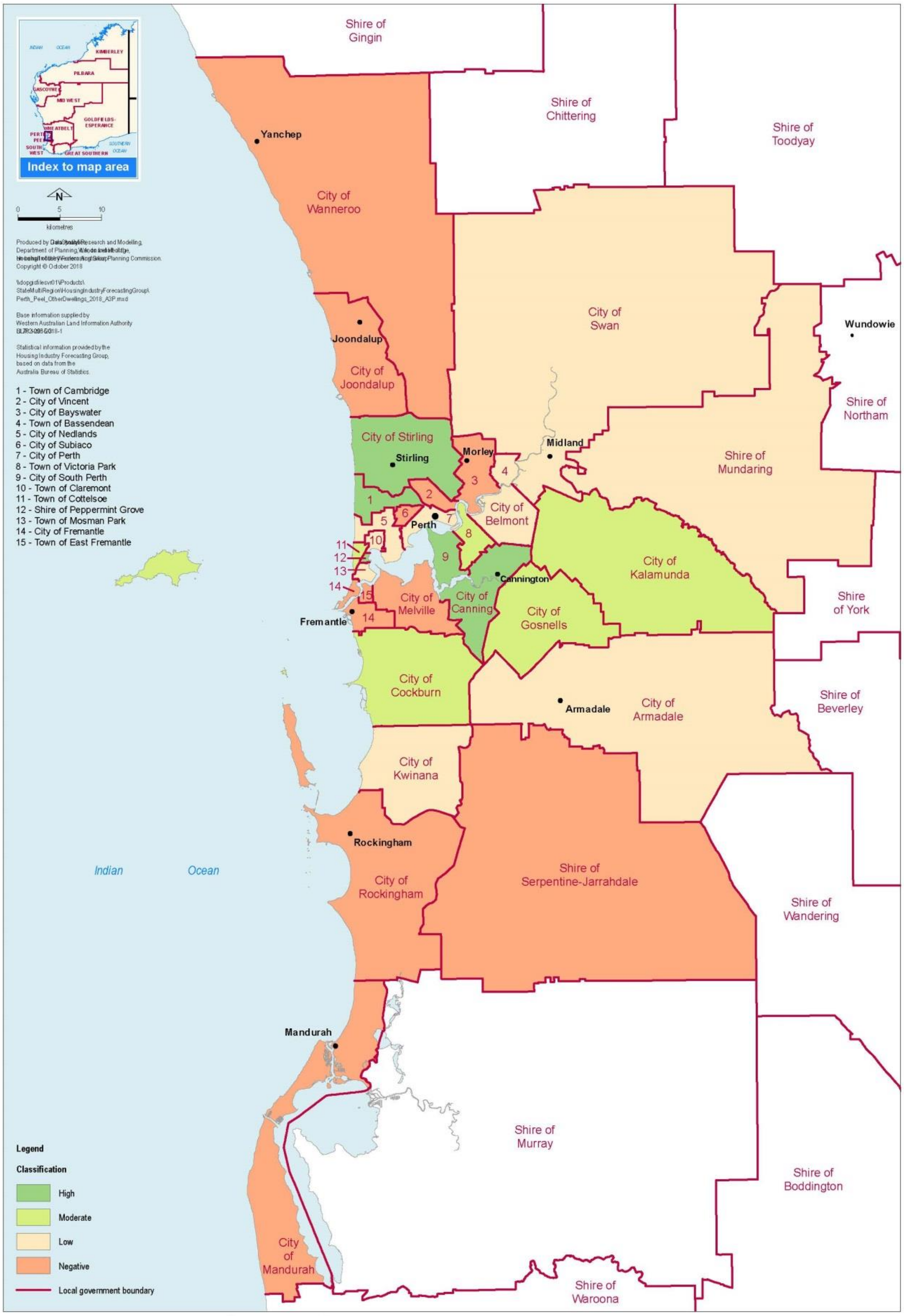
[9] Urban Growth Monitor – December 2017, Department of Planning, Lands and Heritage

Figure 16



Building Approvals for New Houses

Figure 17



Building Approvals for New Other Dwellings

4.8 Dwelling commencements, completions and work in progress

4.8.1 Dwelling commencements

In 2017-18 dwelling commencements in WA fell by 9% to 18,124 in seasonally-adjusted terms (18,245 in original terms). This was below HIFG's forecast of 19,500 for the year and 9% lower than in 2016-17. HIFG attributed the lower than anticipated levels to slower than expected population growth, high levels of stock in the established market and tightened lending conditions. Private sector house commencements fell by 5%, while private sector multi-residential commencements fell by 9% (Figure 18). Figure 19 shows the number of dwelling commencements per 1,000 persons has reached a 30-year low. This is the longest downturn in dwelling commencements since records began.

Figure 18

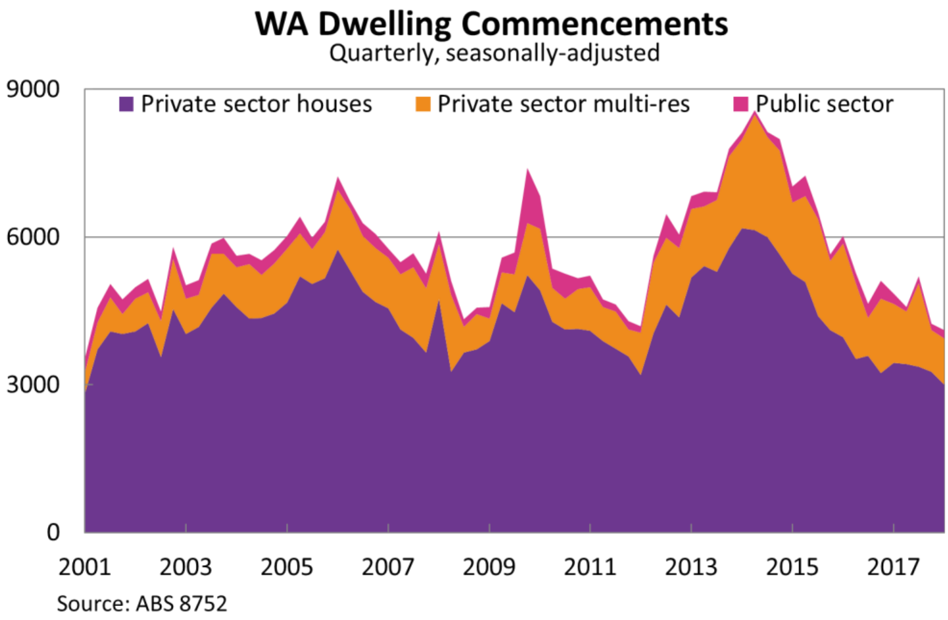


Figure 19

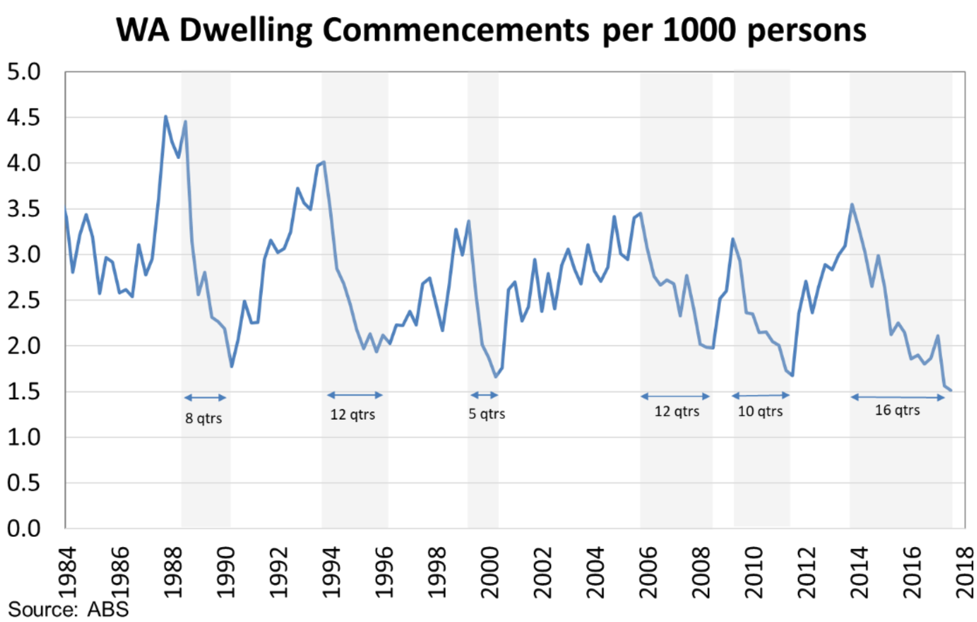
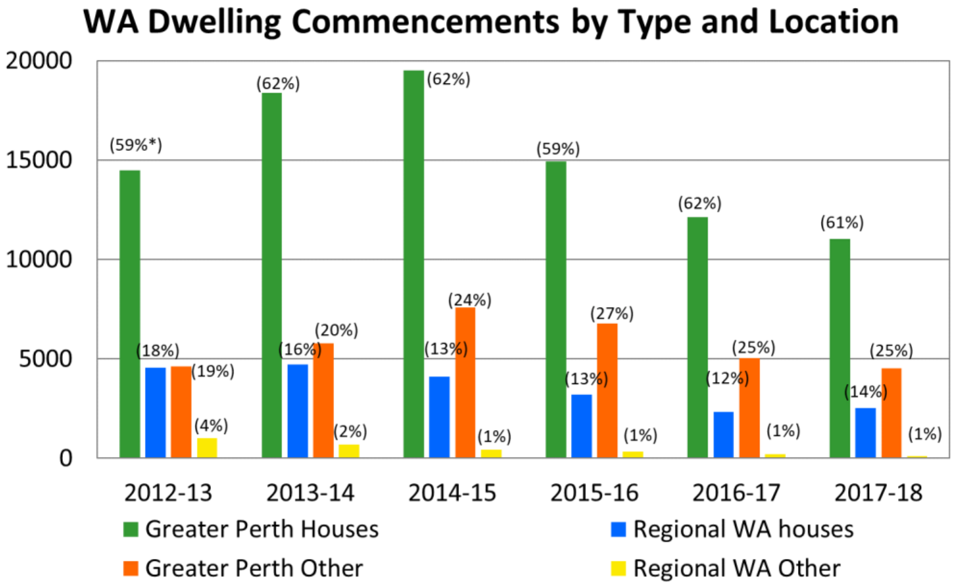


Figure 20 shows the distribution of dwelling commencements between Greater Perth and regional WA for the past six years. Detached houses in Perth remain the dominant proportion of commencements throughout the time period. “Other” residential dwellings in Perth have increased in importance despite moderating in recent years. Regional houses have declined over the years, 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. The figure clearly shows how the number of commencements have declined significantly from the peak of 2014-15 while maintaining the overall distribution across locations and dwelling types.

Figure 20

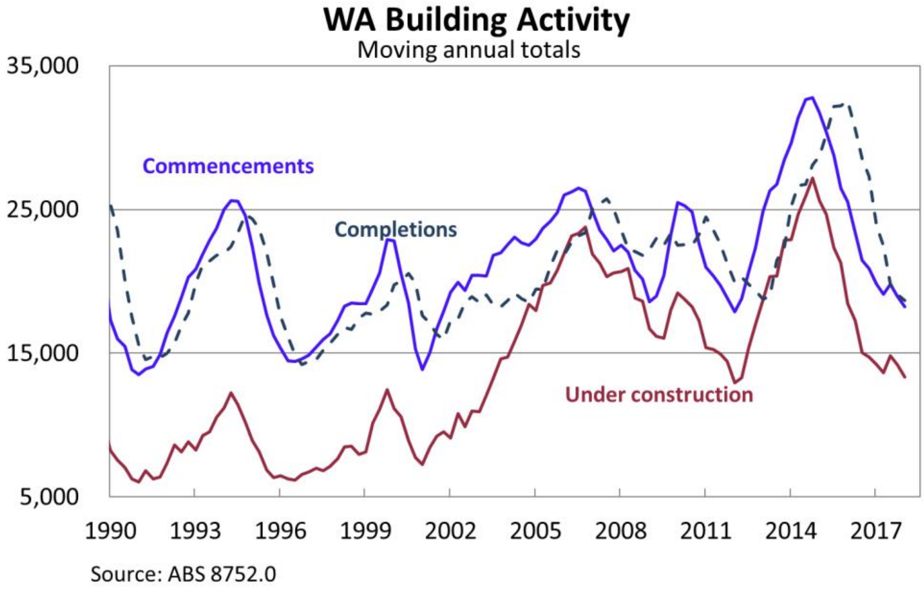


Source: ABS *Percentage of total WA commencements

4.8.2 Completions

Completions fell by 22% to 18,650 in 2017-18. It takes an average of seven months for new houses to be completed.[10] Completions are likely to continue to decline in coming quarters, in line with commencements (Figure 21).

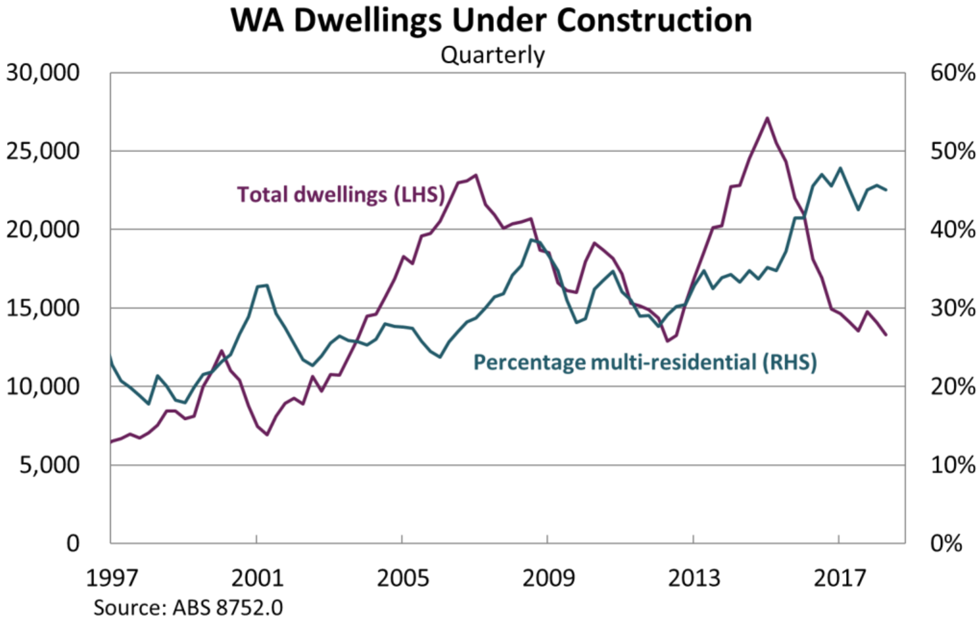
Figure 21



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.

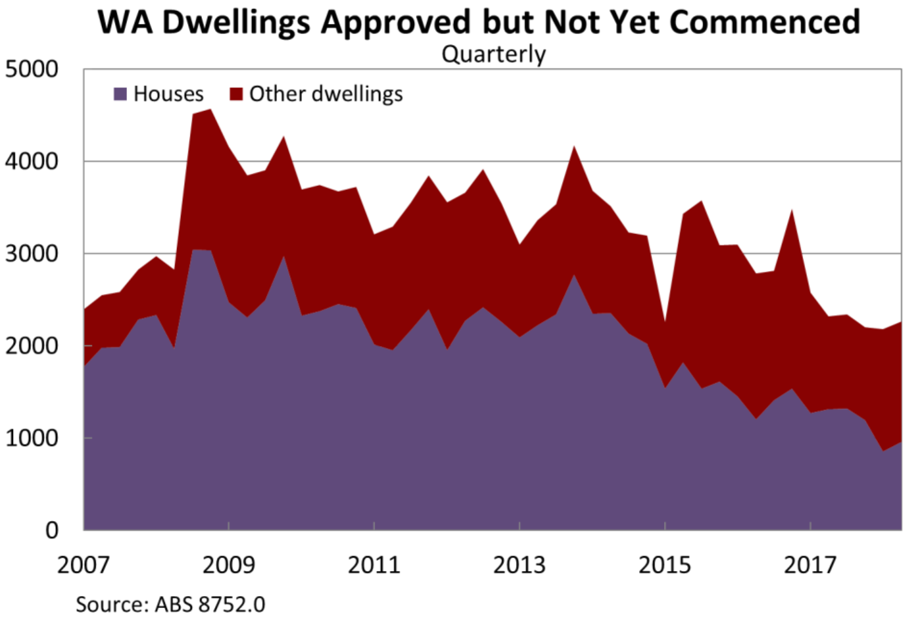
Figure 22



[10] ABS Cat. No. 8752.0

As at the June quarter 2018 there were 2,268 dwelling approvals not yet commenced (Figure 23), 2% lower than the corresponding quarter in the previous year. Multi-residential approvals made up 58% of dwellings not yet commenced in the quarter, higher than the decade average of 41%.

Figure 23



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 locked out of home ownership unless in receipt of external help, for example parental loans. A household on a very low income in Perth (less than 50% of the median income, or around $44,000) would be able to afford a dwelling priced around $221,000 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 $400,000. Conditions are also difficult for those on moderate incomes. A household on 80% of the Perth median (roughly $84,000) can afford a house of approximately $425,000; well below the median house price of $515,000.

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 centre of Busselton. Significant falls in house prices in the North West centres of Karratha and Port Hedland have considerably improved affordability.

Table 4

House Price to Income Ratio June 2018

Region	House Price to Income ratio[11]
Perth	**6.2**
Busselton	6.7
Albany	6.0
Esperance	5.2
Geraldton	5.1
Bunbury	4.9
Broome	4.8
Northam	3.8
Carnarvon	3.4
Kalgoorlie	2.9
Karratha	2.4
Port Hedland	1.3

5.1.2 Rental affordability

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 $44,000), 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 $295. In contrast, a household earning $70,000 could afford rent of $400 per week, above the median rent of $350.

[11] Median household incomes from ABS Census 2016 indexed to June 2018 using ABS Wage Price Index. Median house prices from REIWA year to June quarter 2018.

6 Housing industry resources and challenges

6.1 Construction costs, building materials and labour supply

The Perth new home price index fell by 2.2% in the year to June 2018, in contrast with a 1.1% increase in the Perth consumer price index.[12] The price of building materials used in housing construction increased by 1.9% over the last year, below the 2.8% increase observed across the major capital cities.[13]

The *Housing Industry Association (HIA) Trade Availability Index* shows that the availability of trade workers remains in oversupply both in Perth and regional areas, but the extent of the oversupply has marginally contracted in recent quarters.[14] 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 2018 has fallen by 14% over the year, to levels comparable with the lowest levels recorded over the past decade.[15]

6.2 Industry issues and short-term challenges

- The implications of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry on lending conditions remain unclear and could affect the forecasts. Any restrictions on lending to potential purchasers will affect new build demand and restrictions on lending to the development industry will also impact on new supply.
- HIFG members remain concerned about buyers' ability to obtain finance. Greater scrutiny of applications and valuations coming in lower than expected continue to constrain finance approvals and therefore effective demand.
- Developers are also having difficulty securing finance due to similar issues which have reportedly delayed construction commencement.
- Despite foreign investment representing a small proportion of sales, the Foreign Buyer Surcharge due to come into effect on 1 January 2019 is expected to impact multi-residential investment, although the extent of that impact is very difficult to forecast. Any further impediment to investment in the housing market is likely to have adverse effects upon what are already subdued conditions.
- The Group noted the importance of robust housing market data to inform its forecasts and recommends continued support of the ABS' research and development program relating to its building activity data series.

[12] ABS 6401, Table 10.
[13] ABS 6427, Table 18.
[14] HIA Trades Report June 2018.
[15] ABS 6291.0.55.003, Table 5.

7 Forecasts

7.1 HIFG's forecast of dwelling commencements

Financial Year	Dwelling Commencements
2017-18 (actual)	18,124 (19,500 forecast)
2018-19 (forecast)	18,000
2019-20 (forecast)	19,000
2020-21 (forecast)	20-22,000

HIFG members expect dwelling commencements to be flat over the coming year based on current conditions with a forecast of 18,000 new dwelling commencements in WA. This is a downward revision on the previous forecast of 21,000 for 2018-19. Although building approvals in the first quarter of 2018-19 are low, posing a risk to the revised forecast, approvals are expected to pick up in the second half of the year.

Conditions have been softer than expected over the previous year due to a combination of lower than expected population growth and subdued conditions in the established market with high levels of stock. Rental activity has been stable and pressure on rents has been limited. Building approvals remain low. Housing finance commitments have continued to trend downwards reflecting tight lending conditions which may worsen pending the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

With activity in 2018-19 expected to be very similar to 2017-18, HIFG forecasts a subdued recovery in dwelling commencements to 19,000 in 2019-20 and further improvement in the range of 20,000-22,000 in 2020-21. This is based on WA Treasury expectations of increases in population growth and improved economic activity that may reduce the current high levels of stock in the established market and support demand for new dwelling construction in the out-years.

These forecasts are subject to some risks which are skewed to the upside, with stronger than anticipated economic growth and an improvement in the rental market the most prominent. Greater public investment underpinned by the reallocation of GST funds and sustained improvement in consumer and business confidence may lead to stronger than expected economic activity. Stronger than anticipated improvement in the rental market may place upward pressure on prices and push demand into new builds. Population growth which generally moves in line with economic activity may be impacted by the Federal Government's proposed population strategy to incentivise migrants to settle outside of Sydney and Melbourne.

The possibility of further tightening in lending conditions is the main downside risk to the forecasts. Interest rates are forecast to rise by mid-2019 and the Foreign Buyers Surcharge is expected to dampen demand from investors. Softer than anticipated economic activity and continued slow population growth are other downside risks.

Multi-residential dwelling construction remains a key to the recovery. While the Group does not expect much change in the level of multi-residential commencements over the short term, it expects that any increase in dwelling commencements to be underpinned by demand for multi-residential dwellings as land values increase and the economics of multi-residential construction become more favourable. The Group noted that although consumer preferences from some demographic groups are slowly shifting from detached dwellings to multi-residential dwellings, it will take some time to translate to strong overall consumer demand for multi-residential living.

Figure 24

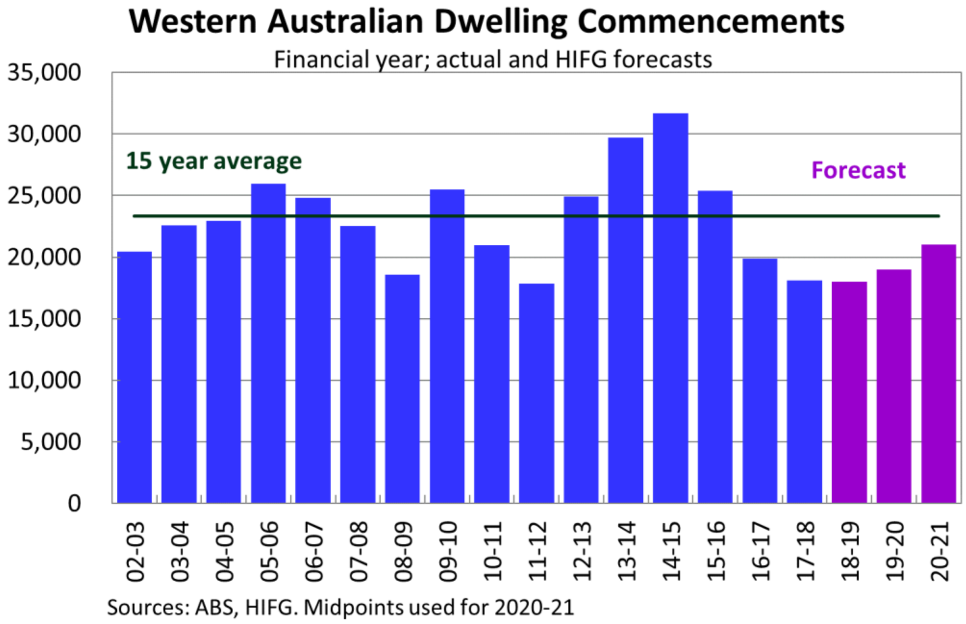
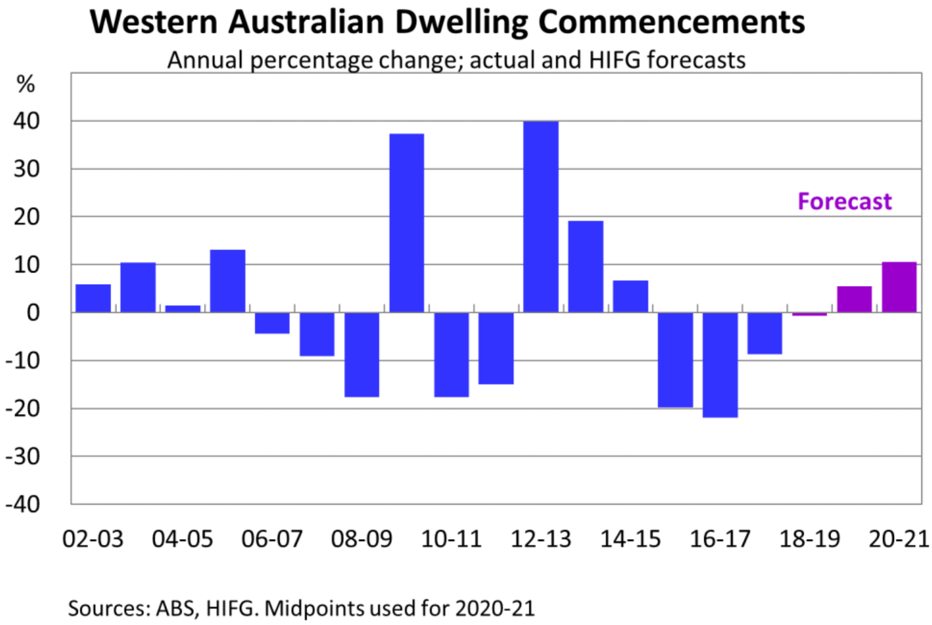


Figure 25



7.2 Assessment of serviced residential lot supply

On the basis of 1.3 dwellings per lot[16], our forecast suggests that there will be a need for around 14,000 residential lots in 2018-19, picking up to 15,000 lots in 2019-20 and 16,000 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 11,000 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.

[16] 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 October 2018

Member	Organisation represented
Steven Rowley (Chair)	AHURI - Curtin Research Centre
Alan Langford	Bankwest
Daniel Norrie	Chamber of Commerce and Industry WA
Adrian Warner	Department of Communities
John Chortis	Department of Planning, Lands and Heritage
Jonathan Palmer	Department of Treasury
John Dastlik	Housing Industry Association
James Butterfield	LandCorp
Dione Bilick	Landgate
Jason Robertson	Master Builders Association
Rachel Champtaloup	Property Council
Dillon Kanbi	Real Estate Institute of WA
Chris Green	Urban Development Institute of Australia (WA)
Brett Coombes	Water Corporation
Observers	
Zaneta Georgievski	Australian Bureau of Statistics
James Yuen	Housing Advisory Unit, Department of Communities/Department of Planning, Lands and Heritage
Secretariat	
Joanne Penaranda	Department of Communities