

Housing Industry Forecasting Group

Forecasting Dwelling Commencements
in Western Australia

November 2021



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HIFG update November 2021

WA dwelling commencements anticipated to remain high in 2021-22

The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in Western Australia. The previous forecasts were reported in May 2021.

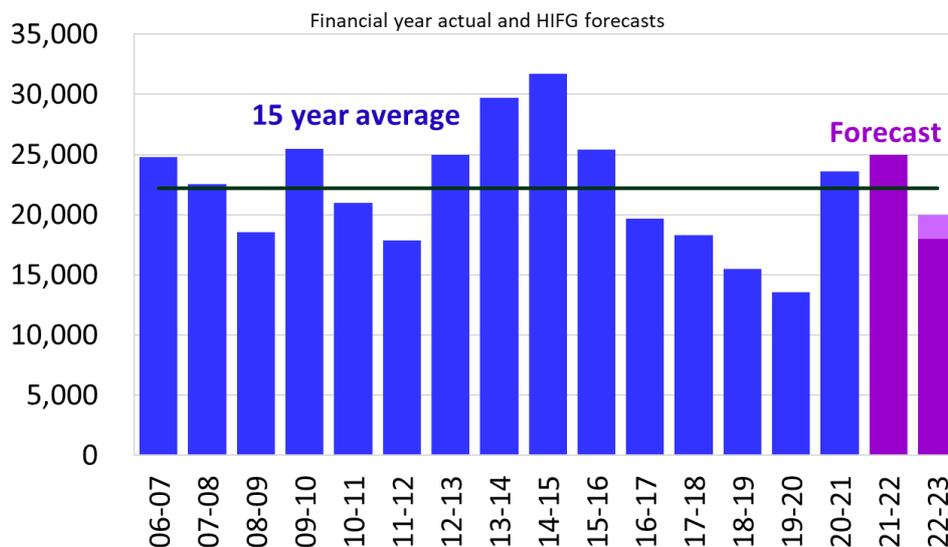
Dwelling commencements for 2020-21 were 23,627, slightly above the HIFG forecast figure of 23,000. The Group revised its 2021-22 dwelling commencement forecast to approximately 25,000, above the 17,000 to 21,000 forecast range reported in May 2021 and an increase of over 80 per cent when compared to actuals for 2019-20. This latest forecast would be the highest number of commencements since 2015-16 and exceeds the long-term average of around 22,000, but it is well below the peak of 2014-15 (31,709).

It is anticipated dwelling commencements will continue to rise throughout 2021-22, with the positive effects of the State's Building Bonus and HomeBuilder programs still stimulating the market. However, a plateau in commencements is expected when the impacts of the stimulus measures decline during 2022-23. Forecasts beyond this period were not provided due to high uncertainty in economic conditions, industry constraints and anticipated population growth following the easing of border restrictions.

Financial Year	Dwelling Commencements
2020-21 (actual)	23,627 (23,000 forecast)
2021-22 (forecast)	25,000
2022-23 (forecast)	18,000 - 20,000

Figure 1

Western Australian Dwelling Commencements



Sources: ABS Building Activity, Australia. HIFG forecast range used for 2022-23.

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WA economy shines during the gloom

WA's economy has continued to perform well throughout 2021. National Accounts (June 2021) data from the Australian Bureau of Statistics revealed that the domestic economy continued to surge past pre-pandemic levels, rising 1.2 per cent over the quarter. Consumer and business confidence continued to hover at near-record highs, helping to underpin strength in household consumption and private investment, particularly in the mining sector.

Record low borrowing costs continued to support businesses and households, especially those grappling with high levels of financial stress. Generous housing grants from the State and Commonwealth Governments, assurance from the RBA that interest rates would remain low until at least 2024, and the 'fear of missing out' has spurred demand for residential properties, triggering a material uplift in WA's construction pipeline.

A significant factor driving WA's economy has been the strength of the mining sector, underpinned by surging commodity prices and robust demand from WA's largest trading partner.

WA experienced a small number of COVID-19 related lockdowns in the first half of 2021. While the introduction of lockdowns inflicted deep and far-reaching impacts on the WA business community – with small businesses bearing the brunt – the swift containment of outbreaks has, in aggregate, avoided sustained damage to WA's economic recovery.

WA's economic outlook for the next 12 months remains solid. Household spending is expected to hold strong, despite the roll back of government support payments. It is anticipated the COVID-19 vaccine rollout will provide upward support to consumer sentiment, and according to CCIWA's recent Consumer Confidence Survey, it will help unlock an estimated \$650 million in accumulated savings throughout the second half of 2021.

However, there are a number of significant challenges impacting WA's strong economic trajectory. Rising skill shortages remain the largest challenge facing the economy, with CCIWA's latest Business Confidence Survey (September 2021) identifying that more than two out of three (71 per cent) WA businesses are struggling to fill a skilled occupation – up from 54 per cent in March 2021.

Disruptions in global supply chains present growing challenges, with CCIWA Members in the manufacturing, transport, agriculture and construction sectors reporting significant delays in routine freight movements and a material rise in import prices (i.e. freight costs).

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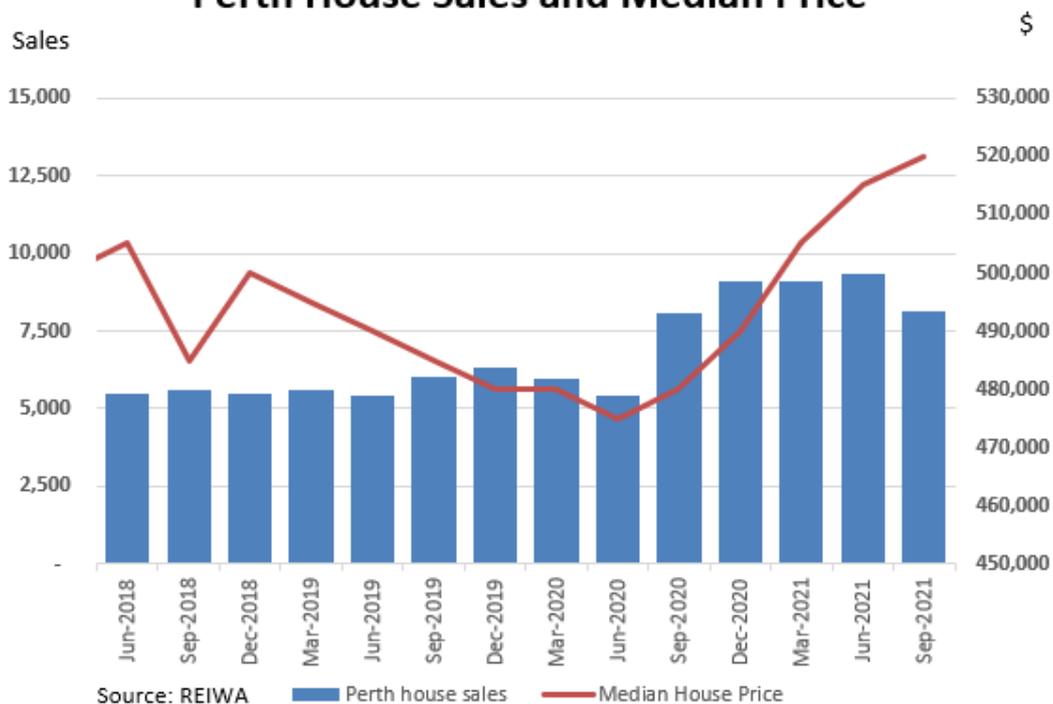
Housing demand remains strong

Demand within the residential property market has remained high throughout 2021. As at September 2021, the annual Perth median house price rose by approximately \$40,000 (or 8 per cent) to \$520,000. This is the highest Perth median house price since December 2016 and the fastest selling pace in five years with houses taking approximately 17 days to sell (compared to 56 days in September 2019). Price growth was driven by strong buyer demand outpacing stock supply. Although there has been substantial price growth, Perth remains one of the most affordable cities in which to purchase a house, as prices have risen rapidly across the other capital cities.

Over the past 12 months, sales activity across the residential property market grew by approximately 24 per cent and new listings rose 17 per cent. Strong demand is keeping overall advertised stock levels lower, with intensified competition amongst prospective buyers to secure the limited supply available.

Figure 2

Perth House Sales and Median Price



The number of houses listed (8,355 in September 2021) is half the figure reported three years ago, and together with huge demand from local, interstate and overseas buyers, this is placing continued pressure on the Perth property market. Record low borrowing costs have continued to drive house prices upwards as in some areas, it remains cheaper to buy a home, in terms of mortgage repayments, than it is to rent.

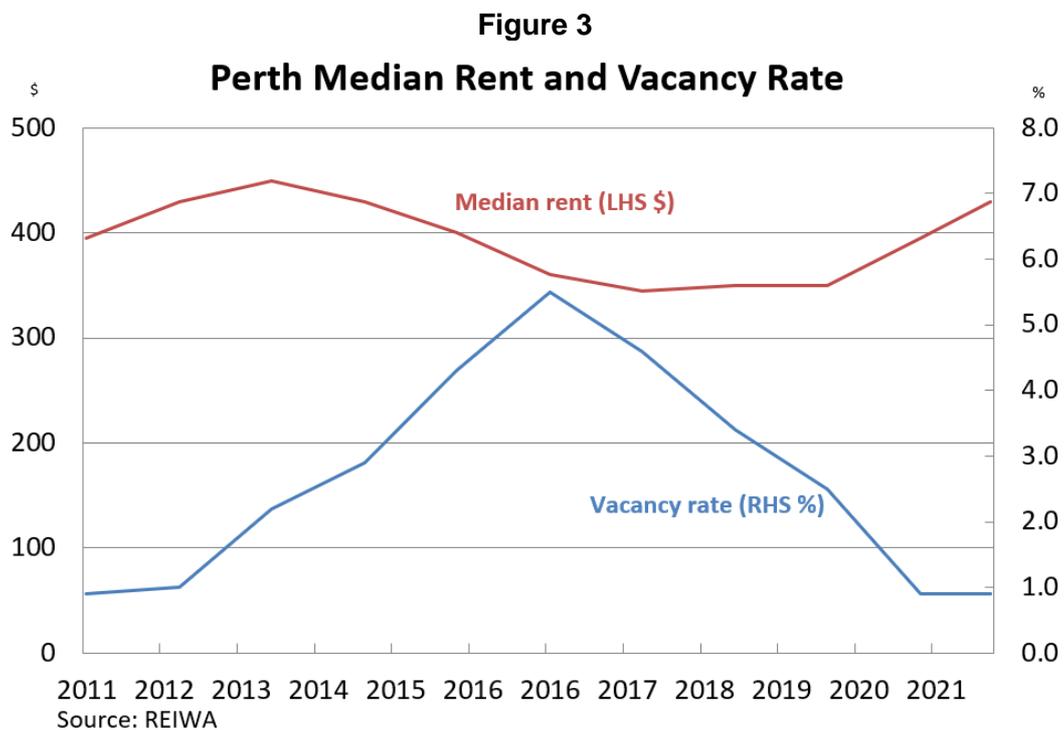
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Rental prices rise as vacancies remains low

Between June 2020 and June 2021, the Perth house median rent price grew by \$80 per week, raising the weekly rent price to a six-year high of \$450. This rapid growth appears to have stabilised as the median rental price remained unchanged for the September quarter. House rents are still lower than the peak prices experienced in 2012-13. Across capital cities, Perth is considered the third most affordable in which to rent a house or unit, \$195 per week lower than Canberra.

Even with many existing tenants seeking to purchase their own property, demand for WA rental properties remained solid with low supply stock applying pressure to the rental market. The below charts illustrate trends in Perth median rent prices and vacancy rates.



During the 12 months to September 2021, new listings for rent fell by 19 per cent. This steep reduction in rental supply along with strong demand is keeping the rental market tight. As a result, the vacancy rate in Perth has fallen to 0.9 per cent, persisting at less than 2 per cent for 15 consecutive months. In a balanced market, a rental vacancy rate closer to 3 per cent is considered the benchmark. According to REIWA, additional rental demand from internal migration reached its highest point in eight years in 2021, further increasing demand for Perth's already depleted rental stock. While there remains an inward flow into Perth, it appears to have eased in recent months.

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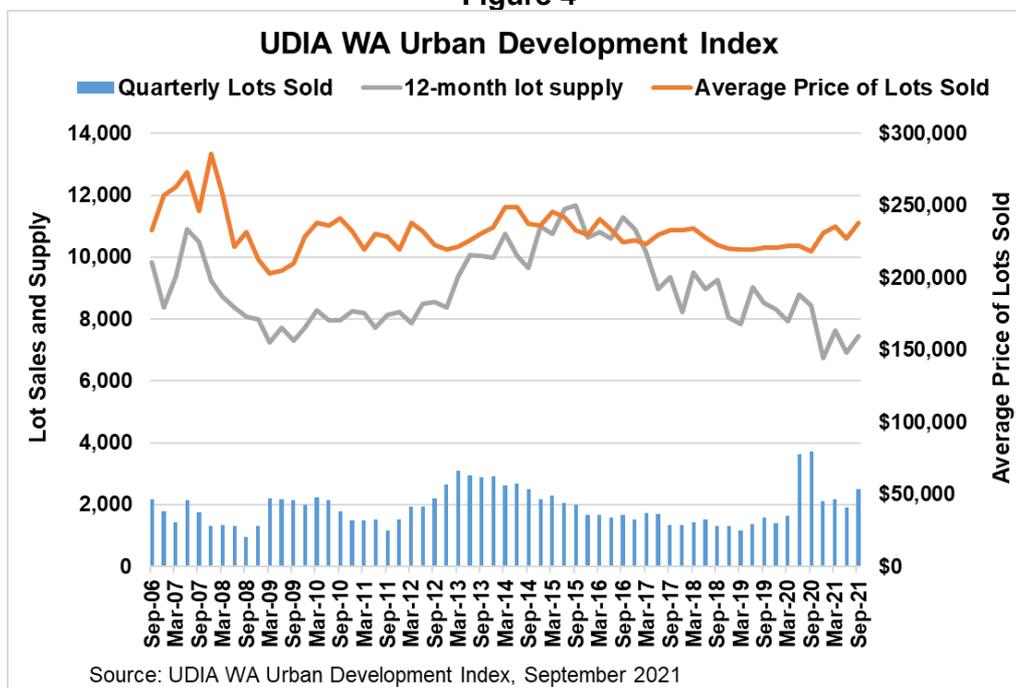
Land sales strengthening, but supply concerns arising

Land sales across Perth during the final quarter of 2020 and throughout the first half of 2021 remained strong, following the six-month surge in demand triggered by the State Government's Building Bonus and the Commonwealth Government's HomeBuilder program. Data released in September 2021 by UDIA WA's Urban Development Index, indicated strong demand growth, with total lot sales increasing 31 per cent on a quarterly basis.

In June 2021, developers reported the lowest number of lots on the market since September 2014. Although the September 2021 quarter showed an increase of 7.4 per cent, this was considerably lower than the corresponding period in 2020 and 29.3 per cent lower than the five-year average. Over the coming 12 months, there are projected to be an additional 3,335 lots released to the market, as well as 1,535 lots constructed but not released.

In June 2021, total 12-month land supply projections were at their lowest level since records began in 2006, and while September 2021 showed a quarterly increase of 7.0 per cent, this remains 12.5 per cent down on the corresponding period last year and 13.3 per cent below the five-year average.

Figure 4



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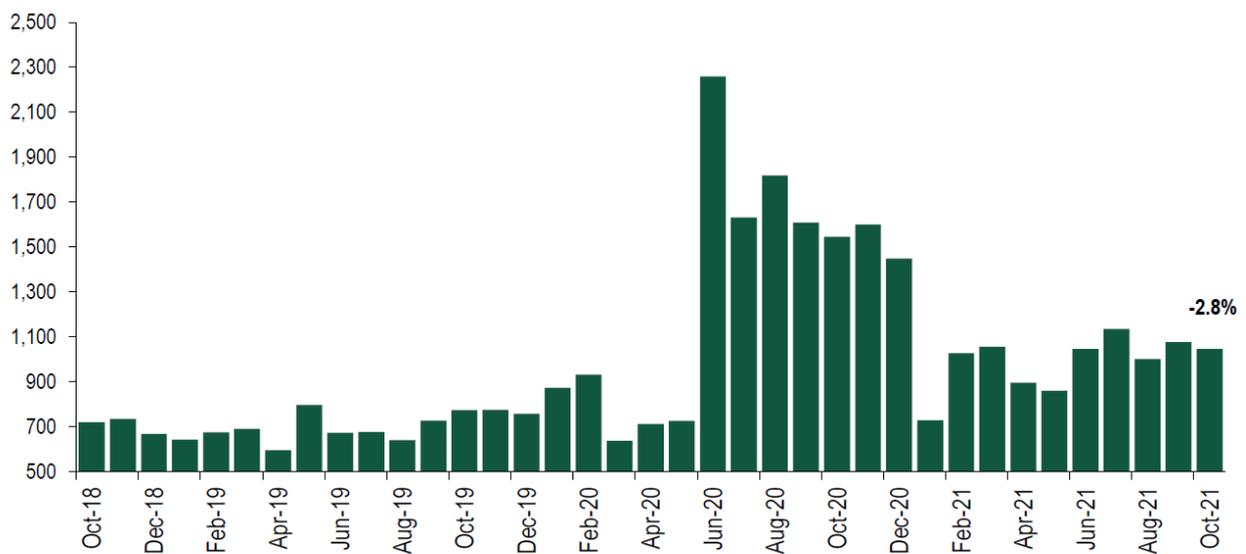
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New home sales WA

New Home Sales in WA fell by 2.8 per cent in October 2021, however the previous three months collectively experienced 2.7 per cent growth.

While sales have fallen 37.2 per cent compared to the levels seen last year during HomeBuilder and other stimulus measures, sales have found some degree of stability, which is significantly higher than the year prior to COVID.

Figure 5
WA Private New House Sales



Source: HIA New Home Sales Report

WA has experienced the largest improvement in sales compared to its pre-COVID levels. Sales in the three months to October were 45.8 per cent higher than the same time in 2019.

The HomeBuilder and Building Bonus grants have supported the revitalisation of the WA market, and the strong level of home building activity suggests the current boom will be sustained through the course of 2022.

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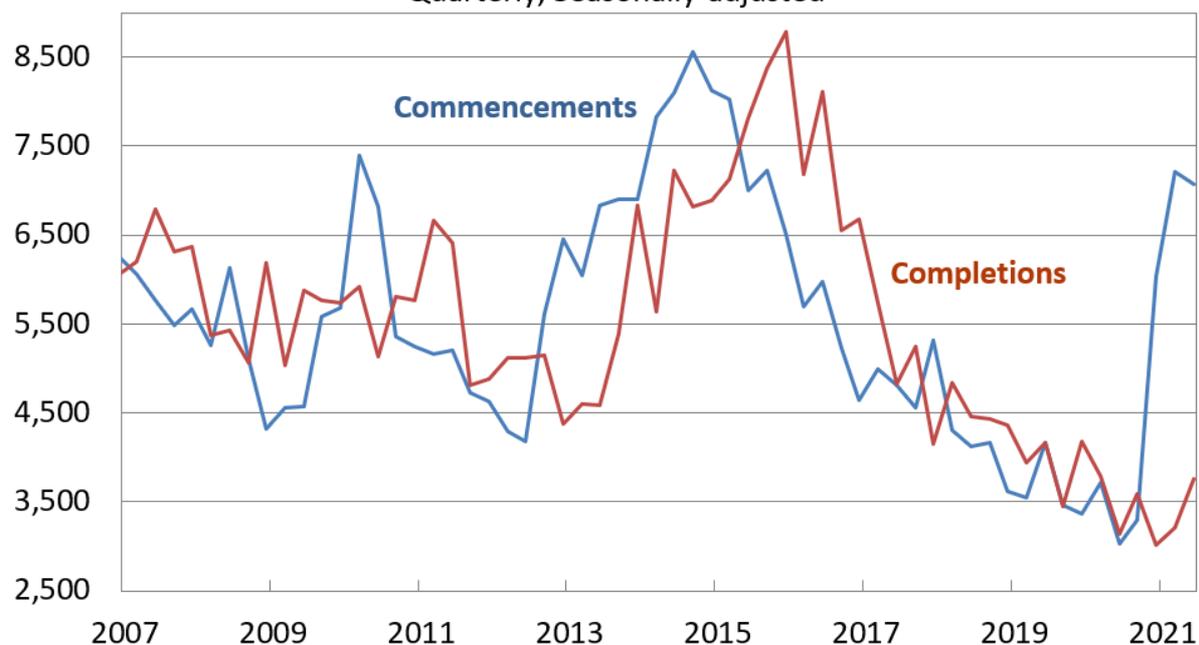
Building commencements surge in 2021

Demand for residential land surged following the introduction of the HomeBuilder Program and Building Bonus grants in mid-2020. This demand is translating into construction activity, with the number of dwelling commencements and dwellings under construction increasing strongly throughout 2021.

In June 2021, new dwelling commencements totalled 7,075 and were 133 per cent higher compared to the June quarter 2020 (Figure 6). Commencements were overwhelmingly concentrated in detached dwellings (approximately 88 per cent of all commencements). The number of dwellings under construction has also risen significantly over this period to 19,761, from 10,491 a year earlier.

Figure 6

WA Building Activity Quarterly, Seasonally-adjusted



Source: ABS Building Activity

Lead indicators of new dwelling construction such as First Home Owner Grant (FHOG) applications and building approvals remain elevated compared to pre-COVID-19 levels, although they have eased from peaks in late 2020/early 2021. FHOG applications totalled 648 in August 2021, compared to a record 1,642 in December 2020. However, applications in August 2021 remained well above the monthly average of 478 over 2019-20.

An easing in these lead indicators is not unexpected, given record growth over the past year and the temporary nature of the construction grants.

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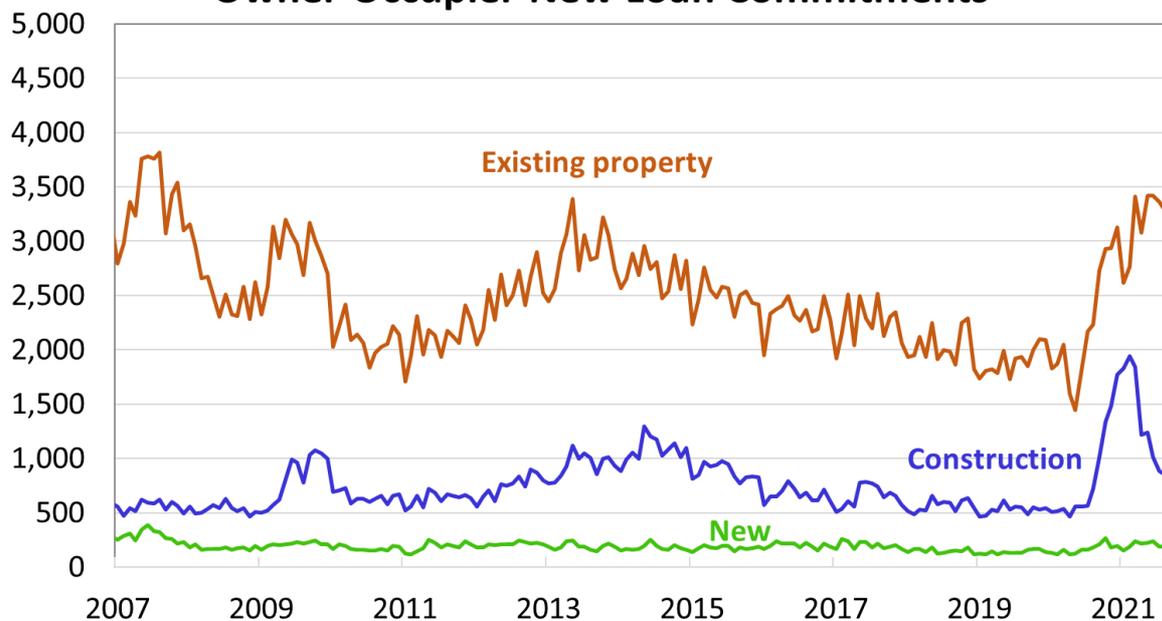
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Housing finance

With increased housing market activity, demand for mortgages in WA remains elevated compared to pre-COVID levels. Over the last six months, demand for investor lending has increased, with strong demand for owner occupier mortgages being maintained. Construction loans demand was significantly elevated throughout the second half of 2020, when some financial institutions experienced approximately double the number of loans compared to the corresponding period in 2019. Whilst the number of constructions loans has reduced, it remains above pre-COVID levels.

Figure 7

Owner Occupier New Loan Commitments



Source: ABS Lending Indicators

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Industry Issues and Challenges

- The Group acknowledged that significant building industry challenges will likely remain throughout 2021 and 2022. Construction costs, skill shortages, and constraints on appliances and building materials have all impacted on the industry and led to extended build times. In 2021, dwelling completions dipped to their lowest level in recent history.
- Supply chain disruptions are driving up costs and causing delays throughout the industry. The cost of containerised freight has risen sharply, and companies are having difficulty accessing containers. There are significant issues with port congestion in Singapore, the US and Europe. This is severely impacting the timing of supplies entering WA.
- Throughout 2021, the WA economy has remained strong, heavily supported by a thriving mining sector and boosted by government stimulus. WA unemployment is at a five-year low and business sentiment remains positive. However, the COVID-19 pandemic, uncertain population growth following the easing of border restrictions and broader economic challenges present many industry issues which will likely continue through 2022 and beyond. Consequently, the Group has decided not to provide forecasts beyond 2022-23 until there is more certainty in the market and the broader economy.
- Both WA rental and sale stock remain at low levels. The completion of grant-related builds is expected to ease rental pressure, with many current renters expected to move into these new builds. However, inward migration once borders open may counteract these effects.

For further information please visit <https://www.wa.gov.au/government/document-collections/housing-industry-forecasting-group>