

# Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

**May 2020**

**HIFG April update and Media statement**

## **COVID-19 halts WA housing recovery**

The Housing Industry Forecasting Group (HIFG) has updated its November 2019 forecast of dwelling commencements in WA. The Group is now expecting 12,500 dwelling commencements in 2019-20, a reduction from the previous forecast of 15,500. This would be the lowest number of commencements since 1982-83 and by far the lowest on record when adjusting for population (a figure under half the 25-year average).

Due to uncertainty resulting from the COVID-19 pandemic, the Group does not believe it is prudent to provide a forecast beyond the current financial year. Instead, HIFG will meet again in July to reassess the situation.

Financial Year	Dwelling Commencements
2018-19 (actual)	15,490
2019-20 to date (6 months)	6,704
2019-20 (forecast)	12,500

The forecast 12,500 dwelling commencements for 2019-20 will be a fall of 19 per cent on 2018-19. Activity was weak in the last six months of 2019 with just 6,700 commencements, however the group noted a strong pick up in both the established and new housing building sectors in the first three months of 2020, with the Housing Industry Association reporting new home sales up 5.8 per cent in the March quarter. The recovery was stopped by the COVID-19 crisis and the June quarter will reflect this fall in activity.

There is limited data currently available showing the impact of COVID-19 on the housing industry due to lags in data collection and publication. Early signs suggest there were falls in land sales, display home traffic and enquiries, which will flow through to a drop in new home sales and commencements. Industry members report that many builders have a pipeline of work that will only sustain them until June or July and some new projects have been put on hold. Last month's easing of restrictions allowing home opens and opening display villages was welcome.

Difficult economic conditions and large increases in unemployment affect consumer confidence, feeding through into soft new house building activity. International and domestic travel bans will reduce population growth considerably in the short-term, further reducing potential demand. It may be some time before key demand drivers improve, feeding through into new commencements.

## **Industry Issues and Challenges:**

- The Group praised the speed of the response to COVID-19 by both Federal and State governments but noted there is much to do to generate an economic recovery moving forward. The Group noted the strong role housing construction has played in previous

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economic recoveries and the broad economic benefits of sustaining the housing industry. Industry members feel support is required to ensure the housing industry is in a position to play its part in the economic recovery.

- The industry is concerned that most building businesses will not be eligible for JobKeeper payments. Due to the pipeline of work (which is likely to sustain some builders until around June), and the timing of cash flows coming from previously completed projects, many organisations will not be able to show a 30 per cent fall in revenue until later in the year. With JobKeeper scheduled to end in September, this may prove far too early for many workers, leading to job losses. Industry members called for a better appreciation of the cash flows and employment structures within the housing industry to ensure appropriate support for the sector.
- Industry members of the group expressed concern that some local governments have reduced staffing levels and this has the potential to cause delays to development approvals, if not managed correctly. Government has acted to provide more flexibility for developers by extending existing development approvals for two years.
- HIFG members remain concerned about the ability of buyers to obtain finance, particularly due to bank valuations for new purchase contracts of homes coming in lower than expected. This has been an ongoing concern but is heightened with difficulties in valuations in the current environment. There were particular concerns about multi-residential developments.
- Industry members note that the housing industry should be a key component of any economic recovery strategy and that Federal and State governments need to support the industry to enable it to respond quickly to any broad economic stimulus package.

### Media quotes:

Quotes may be attributed to Professor Steven Rowley, Chair – Housing Industry Forecasting Group:

“This is the fifth year in a row new dwelling commencements have fallen. We were confident 2020-21 was going to be the turning point, and that still might be the case, however any recovery will now take longer than previously forecast, largely due to the impact of COVID-19 on population growth, employment and consumer confidence.”

“Both the established and new build market were showing strong signs to recovery in early 2020 but that recovery has been halted by COVID-19. 2019 was another terrible year for new home building activity, when compared to historical outcomes, and the industry was hoping 2020 would be the start of a sustained recovery. Those hopes have been dashed in the short-term.”

“The house building industry is such an important contributor to the WA economy and it will be a vital component of any economic recovery. Government and the housing industry must work together to ensure the industry is well placed to contribute quickly to that recovery.”

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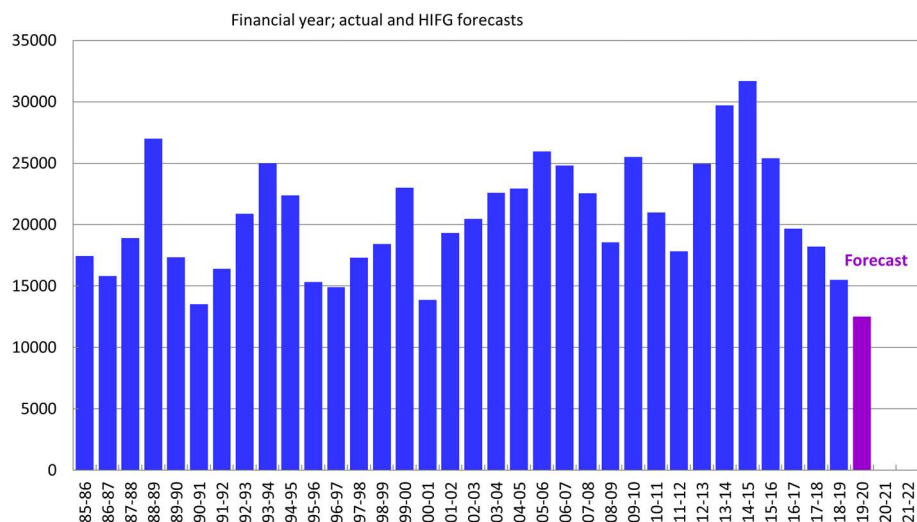
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“COVID-19 has presented so many unknowns that it is virtually impossible to predict what is going to happen week to week, let alone year to year. Consequently, HIFG has decided to delay forecasts beyond this financial year until July, when we hope there is more certainty in the market and the broader economy.”

### Supporting information:

The four figures below highlight the seriousness of the sustained downturn in the new house building sector and how COVID-19 is likely to make an already bad situation worse. A recovery into 2020-21 was expected as market confidence improved and population growth picked up, but this will now be delayed because many potential purchasers are no longer in a position to buy while others will enter “wait and see” mode, particularly if the rental sector weakens due to lower population growth and an increase in supply.

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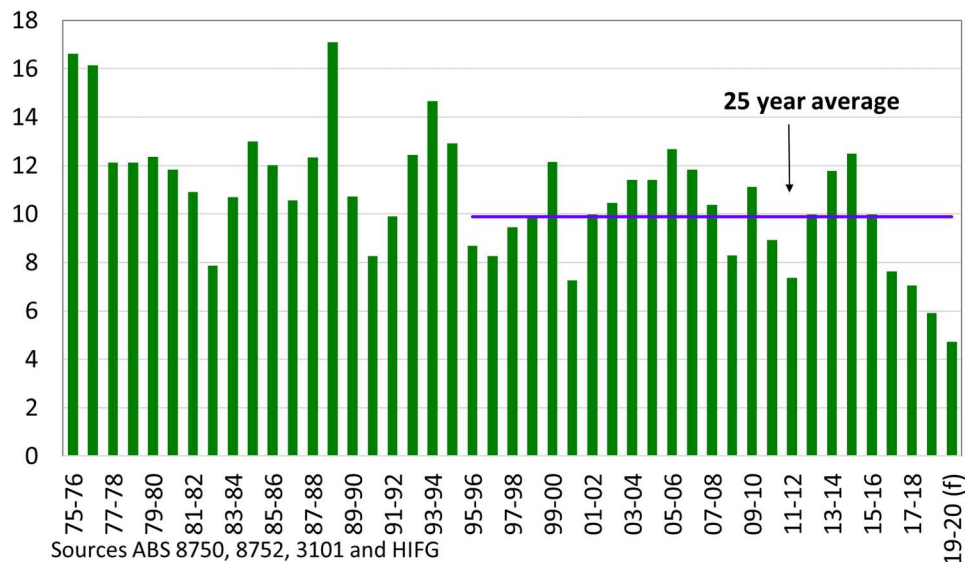


Sources: ABS, HIFG.

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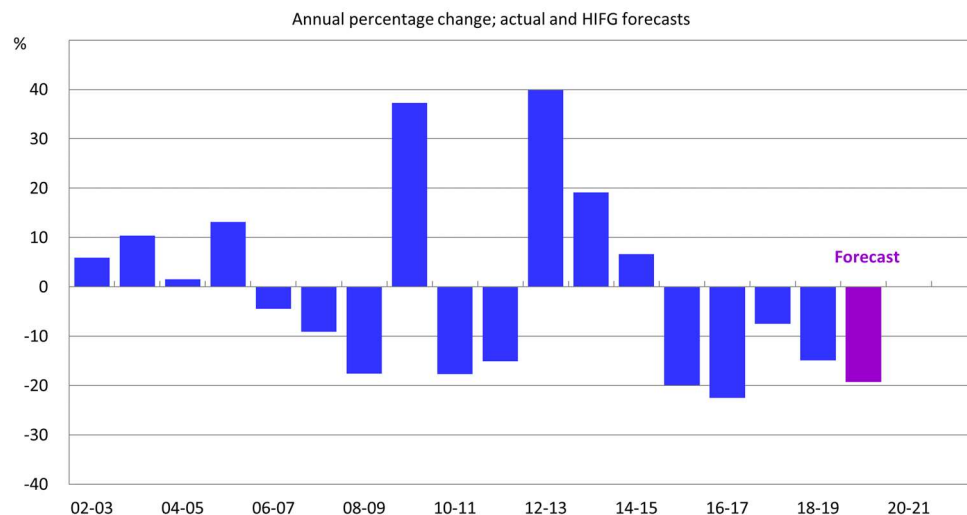
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Dwelling commencements per '000 persons



Forecasts outcomes for 2019-20 show the lowest level of commencements since 1982-83 and lowest level per capita for over 40 years. The Group is predicting the fifth consecutive annual fall in commencements.

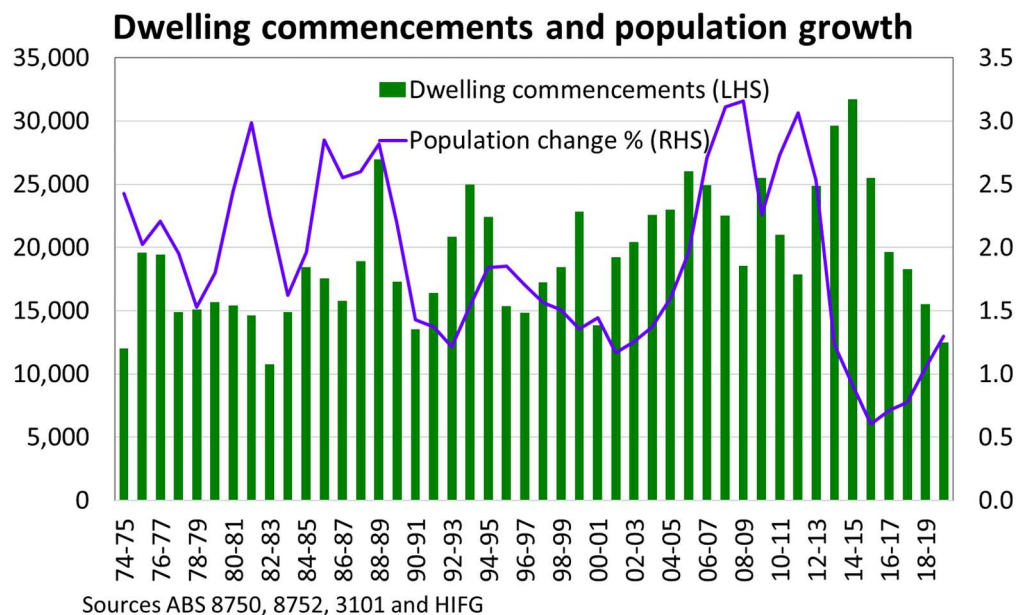
Western Australian Dwelling Commencements





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Population growth was on an upward trend and this was expected to feed through into stronger commencements. COVID-19 will mean a big drop in population growth, which will likely delay any recovery when combined with unemployment and low consumer confidence.

*The Housing Industry Forecasting Group is a joint housing industry and government body providing independent forecasts and commentary on the Western Australian housing sector. The Group includes representatives from the UDIA, Property Council, HIA, Department of Communities, REIWA, Development WA, Landgate, the Water Corporation, CCIWA, Department of Treasury, Department of Planning, Lands and Heritage, MBA, Bankwest, and AHURI – Curtin University*

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