



Housing Industry Forecasting Group

Forecasting Dwelling Commencements
in Western Australia

2016-2017



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Executive Summary

The 2016-17 report reviews and updates the Group's April 2016 forecasts, and provides the first forecast for 2019-2020.

HIFG Forecast of Dwelling commencements in WA, 2016-17 to 2019-20		
Financial Year	Dwelling Commencements	% change
2015-16 (actual)	25,563 (23,000 forecast)	
2016-17 (forecast)	19,000	-26%
2017-18 (forecast)	21,000	11%
2018-19 (forecast)	22-24,000	
2019-20 (forecast)	22-24,000	

The report's key points are as follows:

- Population growth in WA remains slow, at 1.2% for the year to March 2016. Population growth is critical to dwelling commencements and the Group expects population growth to remain at a relatively low level over the forecast horizon.
- While overall first-home buyer activity has softened, first-home buyers made up around 21% of total finance commitments for housing in WA in 2015-16, in line with the decade average. This is well above the national proportion of around 13%.
- REIWA data shows that established home sales fell by 15% over the past year. Preliminary data shows the Perth median house price at \$512,500.
- The Perth metro rental vacancy rate has risen over the year and currently sits at 6.6%. In line with this, the median rent has fallen to \$370.
- Housing affordability continues to be a significant issue for WA households on low or moderate incomes despite some positive incremental developments in the form of low interest rates, falling house prices and declining rents.
- Dwelling commencements in WA fell by 19% in 2015-16 and are expected to keep falling. Forward looking indicators, such as building and lot approvals, continue to fall and the general economic outlook remains weak.
- HIFG is forecasting a fall to 19,000 dwellings in 2016-17. Expectations of persistently low population growth in WA are key to the outlook. The availability of stock in the established market for both purchase and rentals is likely to dampen demand for new housing.
- HIFG foresees no difficulty in meeting the predicted need for serviced residential lots in the forecast period.
- The housing sector is cyclical and the current downturn in commencements fits this trend. The Group expects a subdued pick-up in 2017-18, with a further strengthening in 2018-19 and 2019-20.
- Despite the recent fall in building activity, dwelling commencements remain among the strongest in the country. Over the past 30 years, dwelling commencements per capita in Western Australia have been the highest of any state or territory.

1 Introduction

The Housing Industry Forecasting Group (HIFG) provides a forecast of dwelling commencements and residential-lot availability for Western Australia to assist government and industry in their forward planning. This report covers the period 2016-17 to 2019-2020.

2 Economic Overview

2.1 Western Australian Economy

Western Australia's (WA) State Final Demand (SFD) contracted by 2.5% in the June quarter 2016 in real seasonally-adjusted terms, following a 1.2% fall for the March quarter. SFD contracted by 7.3% in annual average terms to the June quarter. There have now been nine consecutive quarters of annual average declines in SFD. WA's Gross State Product growth fell to 3.5% in 2014-15, from a peak of 9% in 2011-12.

A recent report from the *Bankwest Curtin Economics Centre*¹ notes that after an economic boom lasting a decade, WA's economy has returned to a level more consistent with national averages.

The September edition of the *CCI Survey of Business Expectations* found that short term business confidence has increased in the September quarter of 2016, after experiencing a decline in confidence in the June quarter. The State's medium-term economic performance has also improved in the September quarter, as businesses indicate some optimism about future growth.

The *CCI-WA Super Survey of Consumer Confidence* indicated that short-term confidence improved during the September quarter. About 57% of consumers expect the WA economy to remain relatively unchanged in the short-term, a 6% increase in the number reporting the same for the June quarter. Consumer expectations about the medium term outlook for the State's economy also improved; with the number of respondents expecting the medium-term outlook to worsen falling from 47% to 44% this quarter.

In October 2016 the *ANZ/Property Council Survey* index for WA moved up 9 points from 95 to 104 in the third quarter of 2016. This is the first improvement in confidence since June 2013, however it remains the lowest confidence rate nationally.

The WA labour market continues to soften as the lagged effect of the end of the construction phase of the resources boom continues to impact full-time jobs growth. WA's trend unemployment rate of 6.3% in September 2016 is below the national rate of 5.7%. Further weakness is shown through the 3.5% contraction in total hours worked in WA in the year to September. WA's trend underemployment rate has also risen to a historic high of 9.4%². Unemployment and job instability are key factors underpinning residential demand.

2.2 Finance sector

The Reserve Bank of Australia lowered the cash rate to 1.5% in August 2016. Given well contained inflationary pressures, the RBA has been able to maintain a low cash rate to

¹ Back to the future: Western Australia's economic future after the boom. October 2016
<http://bcec.edu.au/publications/back-to-the-future/>

² Western Australia underemployment rate (proportion of labour force). ABS 6202.0 Table 23.

encourage the borrowing and spending that stimulate growth. Interest rates are likely to remain around their record low levels in the short term.

Supervisory measures introduced by the Australian Prudential Regulation Authority (APRA) to contain high loan to valuation ratio lending and investment loans remain in place. The RBA also noted in its October statement that a number of lenders are taking a more cautious attitude towards lending in certain segments. Low and stable interest rates would normally cushion a cyclical downturn in the Western Australian construction sector. However, demographic trends, including population growth, are likely to outweigh interest rates as a driver of dwelling commencements for the near future.

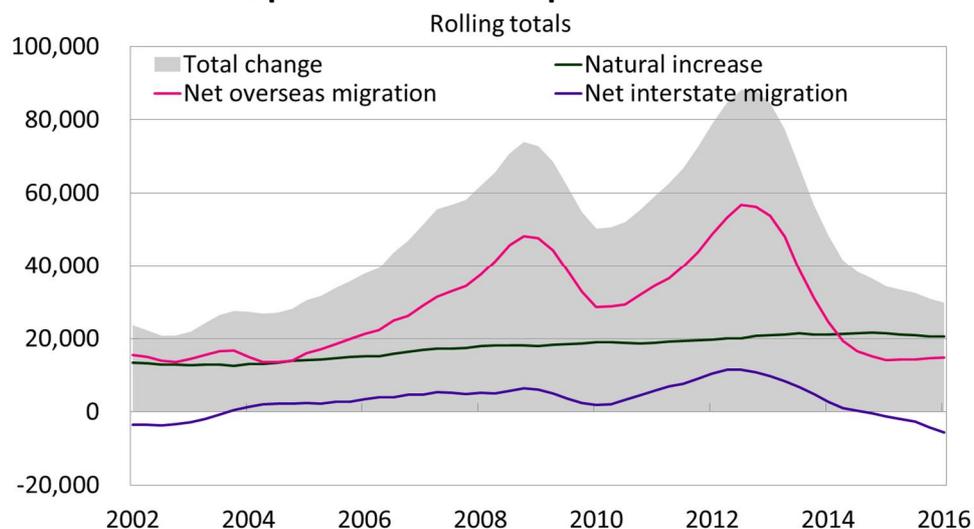
3 Demand factors

3.1 Population growth

Western Australia's population growth continues to slow, with a figure of 1.2% recorded for the year to March 2016 (Figure 1). Western Australia's estimated residential population is now 2,613,650.

- WA's population grew by 29,819 people in the year to March 2016, a decline on the previous year when the population grew by 34,304 people.
- Net interstate migration is negative, falling by 5,624 over the year. Net interstate migration has now been negative for eight quarters.
- Net overseas migration grew by 14,817 in the year to March 2016, similar to the previous year.
- WA population growth fell below the national average of 1.4% in the year to March 2016.
- HIFG believes population growth rates will remain relatively flat over the forecast horizon. This is expected to dampen demand for housing in the short term, both in the rental market and in the owner occupier sector; established and new builds. Uncertainty over future population growth remains the key risk to the accuracy of HIFG's forecasts of future dwelling commencements.

Figure 1
Components of WA Population Growth



Source: ABS 3101.0

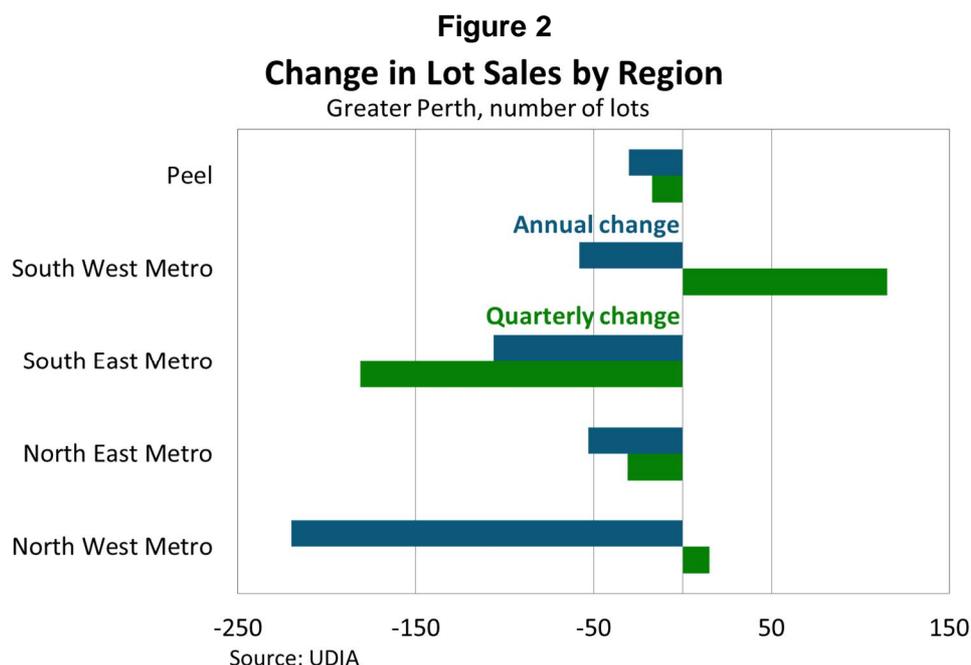
3.2 Lot sales³

Lot sales are important because lots sold will lead directly to a dwelling commencement and then completion. Despite the impact of a slowing WA economy, the lot market has exhibited initial signs of stabilisation, with the rate of decline in developer lot sales easing. The projected twelve-month lot production figures also fell at a slower pace. When coupled with a decline in stock on the market this indicates a more balanced supply equation.

In the Greater Perth area developer lot sales have levelled out considerably over the last three quarters falling 22% in the last 12 months but just 4% since March 2016. Similarly, projected lot production for the next twelve months is demonstrating significantly less fluctuation than previous quarters. The supply of lots is now coming more into line with lot demand, evidenced by substantial declines in the amount of stock on the market, down 20% from the previous year.

The average lot size increased to 388sqm for June 2016, up from a low of 370sqm in March 2016 and down from 404sqm in the June 2015 quarter.

Figure 2 shows annual and quarterly changes in sales activity within 5 regions/corridors. With the exception of the South West metro region, sales activity has generally been in decline.



The Real Estate Institute of WA (REIWA) estimates that residential lot sales for WA during the year to September 2016 were down 35% to 8,497 from the prior year. During the same time period, estimated land sales for the Perth region, were down 36% to 6,258 whilst regional land sales were down by 33% to 2,239.

³ 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.

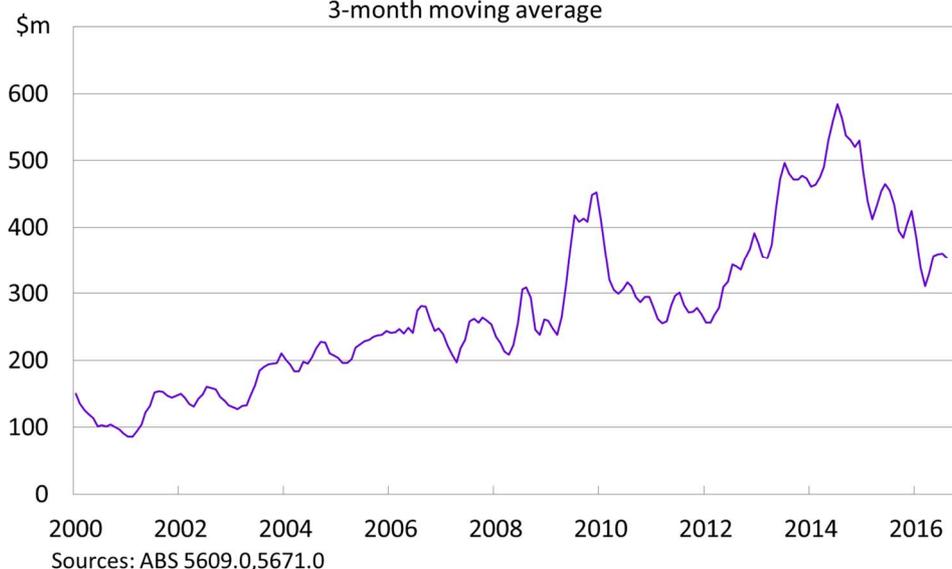
In the September 2016 quarter, the preliminary median lot price in the Perth Metro Region was \$285,000 which is likely to vary as additional settlements come through. The latest September quarter preliminary figure recorded an overall increase of 9% since last year and a quarterly increase of 11% based on the revised June 2016 quarterly figure of \$255,000. In regional WA, the median land price has declined over the quarter by 3% to \$173,000 but compared to the quarter ending September 2015, prices are still 2% higher.⁴

Research from the HIA shows that Greater Perth continues to have the second highest median lot price of Australia’s major capital cities – behind only Sydney.⁵ Some HIFG members noted that the prevalence of rebates and incentives could be obfuscating the true lot price, as prices are reported without taking these into account. It was also noted that the relatively high lot prices in Perth are a constraint on affordability and building activity.

3.3 Housing finance

Finance commitments for housing continue to trend downwards, as they have since mid-2014. Over the past year, finance approvals for housing construction have fallen by around 19% (Figure 3).

Figure 3
WA New Housing Finance Approvals for Construction
3-month moving average



3.4 First-home owners

The First-home Owner Grant (FHOG) for existing dwellings was removed in October 2015. The grant for new dwellings remains at \$10,000. ABS data shows there were 16,424 dwellings financed by first-home buyers in the 2015-16, 14% lower than the previous year (Figure 4). First-home buyers made up around 21% of total finance commitments in WA

⁴ 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.

⁵ HIA-CoreLogic Residential Land Report June 2016 Quarter.

in 2015-16, in line with the decade average. This is well above the national proportion of around 13%.

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 was crucial to first-home buyer activity, particularly in regional areas.

Figure 4
WA First-home Buyer Dwellings Financed
Percentage of total dwellings financed



3.5 New housing market

House sales by major builders picked-up slightly in the three months to August 2016, but remains 19% below the same period in the previous year.⁶ The HIA identified the Madeley - Darch - Landsdale area as having the most momentum for new home building in 2016.⁷

4 Supply factors

4.1 Established market

There has been a continued decline in house sales in the Perth region, falling 15% in the year to September 2016. Multi-residential unit sales have declined by 20% 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. There were 11,737 houses and units listed for sale as at the September quarter 2016, above the five-year average of 10,316. This level of availability offers more choice to purchasers and can pull demand away from the new build sector.

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.

⁶ HIA New Home Sales Report August 2016

⁷ HIA Population and Residential Building Hotspots 2016

Figure 5 provides more information on the annual median price for houses in the metro region. Early Landgate data indicate Perth's preliminary median house price of \$512,500 in the September quarter has declined by 3.7% from the revised June 2016 quarter median house price of \$532,000. However, it is timely to note that reiwa.com figures suggest median prices are likely to increase to around \$520,000 once further transactions for the latest quarter settle.

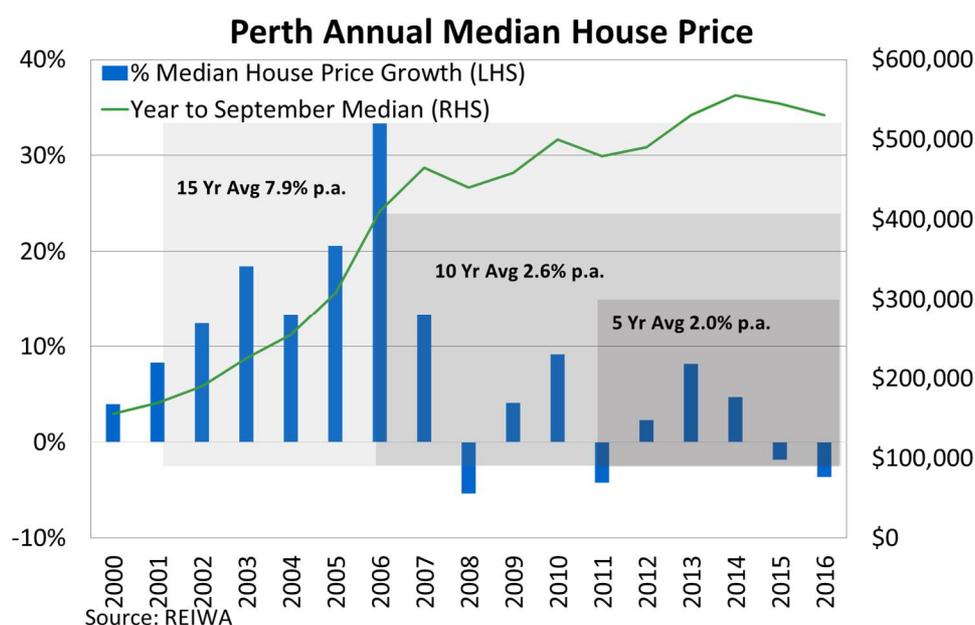
Table 1

House prices in Perth and major regional centres, Preliminary data September 2016

Region	Lower Quartile	Median	Upper Quartile	Median Quarterly Change	Median Annual Change
Perth Metro Region	\$415,000	\$512,500	\$681,500	-3.7 %	-3.7 %
Regional WA	\$257,500	\$347,750	\$440,000	-0.6 %	-7.3 %
Albany Urban Area	\$320,000	\$370,000	\$435,000	5.7 %	-6.6 %
Broome Urban Area	\$455,000	\$545,000	\$642,500	14.7 %	-0.9 %
Bunbury Greater	\$300,000	\$360,000	\$423,750	-1.6 %	-6.3 %
Busselton Urban Area	\$360,000	\$425,000	\$505,000	-3.4 %	-4.2 %
Carnarvon Urban Area	\$255,000	\$300,000	\$490,000	1.7 %	0.4 %
Esperance Urban Area	\$250,000	\$315,000	\$384,000	-10.0 %	-3.1 %
Geraldton/Greenough	\$226,500	\$326,000	\$400,750	8.7 %	-10.7 %
Kalgoorlie/Boulder	\$246,500	\$320,000	\$400,000	-3.8 %	4.1 %
Karratha Urban Area	\$220,000	\$270,000	\$376,375	-14.3 %	-29.9 %
Mandurah/Murray	\$315,000	\$380,000	\$464,375	-2.6 %	-7.3 %
Northam	\$150,000	\$213,000	\$270,000	-0.9 %	-9.4 %
Port Hedland	\$195,000	\$285,000	\$440,000	-6.6 %	-57.0 %

Source: REIWA

Figure 5

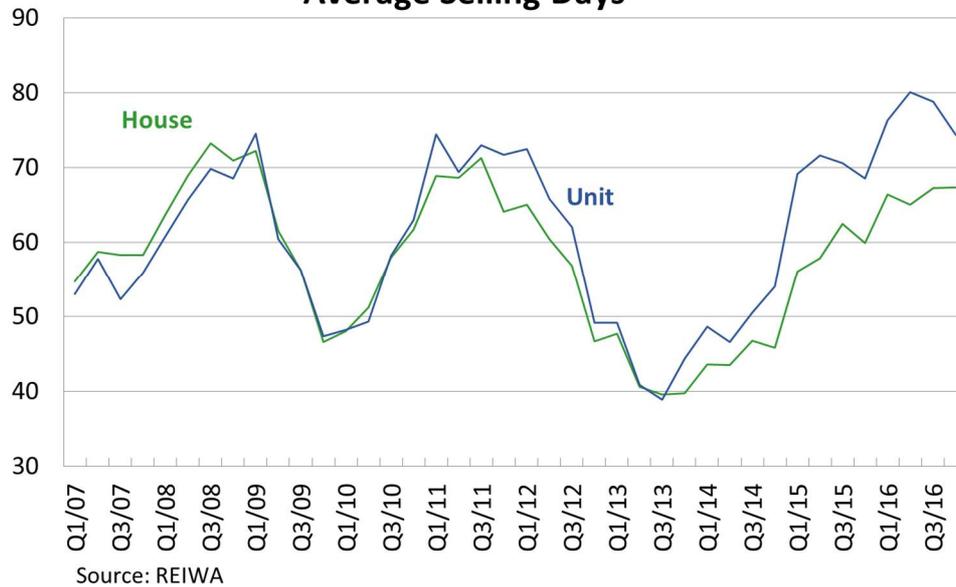


The average number of days it takes to sell a dwelling is a good indicator of the demand supply balance in a particular market. Comparing the level with the trend over time is a useful way of assessing whether a market favours the buyer or seller. Figure 6 shows how

selling days have increased significantly since 2013 demonstrating strong availability of property in the established market (Figure 6).

Figure 6

Average Selling Days

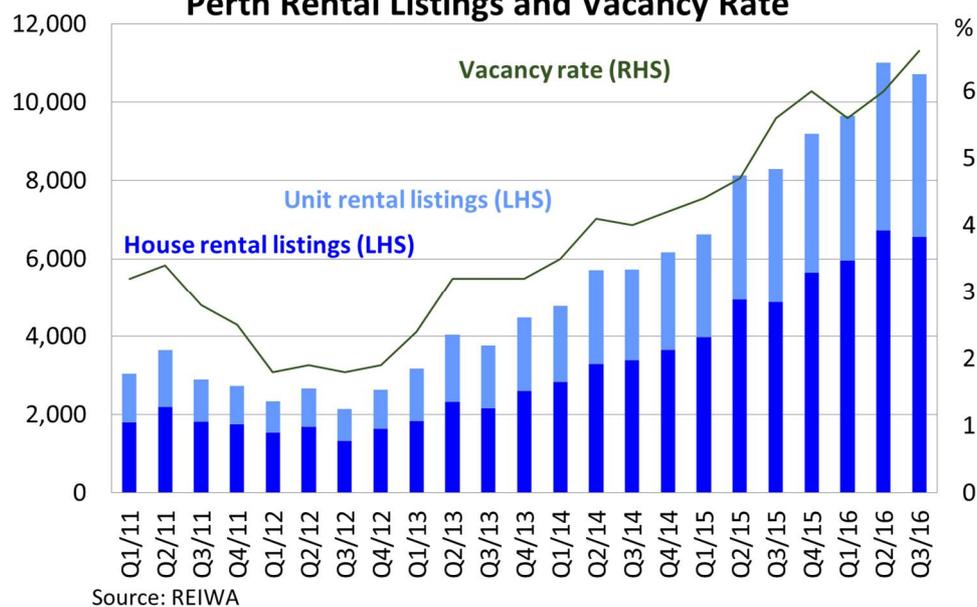


4.2 Private rental market

The latest data from REIWA indicates the vacancy rate in Perth’s private rental market has risen by 0.9 percentage points over the past year, to reach 6.6% for the September 2016 quarter. The higher vacancy rate saw a moderation in the overall median weekly rent to \$370, down 2.6% from the previous quarter and 7.5% on the year. The availability of rentals and relatively low rents constrains demand for new housing as there is less incentive for renters to exit rental and build new dwellings.

Figure 7

Perth Rental Listings and Vacancy Rate



Comparative data for regional centres for September 2016 quarter (Table 2) shows a downward trend in median rents. The slowdown in the resources sector has contributed to

big quarterly declines in median rents, particularly in Kalgoorlie (-7.1%) and Carnarvon (-21.4%) and strong annual declines in Broome, Geraldton and Karratha. Albany, Bunbury and Northam produced positive results in their quarterly changes in median rents.

Table 2

Private sector rents in Perth and major regional centres, Preliminary data September 2016

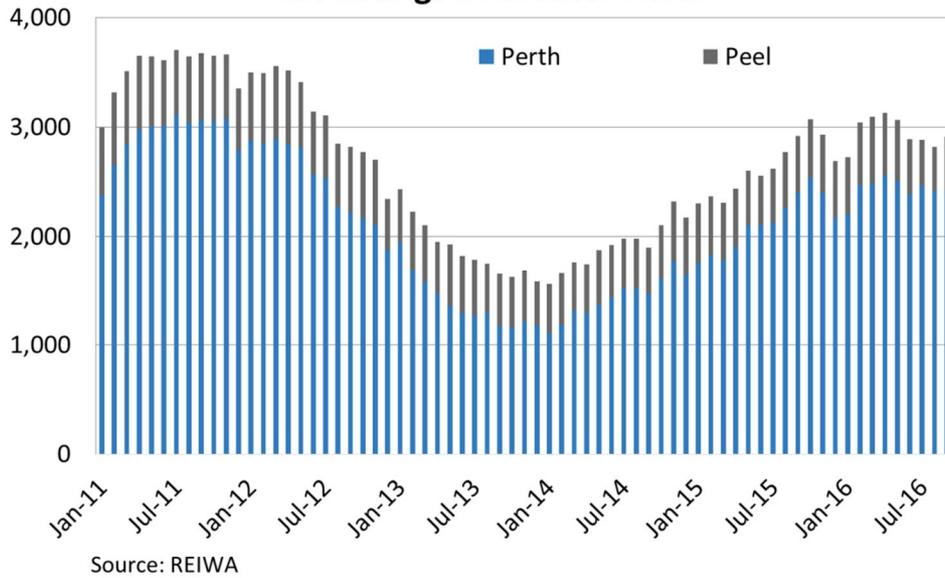
Region	Lower Quartile Rent	Median Rent	Upper Quartile Rent	Median Quarterly Change	Median Annual Change
Perth Metro Region	\$320	\$370	\$450	-2.6%	-7.5%
Regional WA	\$280	\$330	\$400	-2.9%	-8.3%
Albany Urban Area	\$300	\$348	\$400	3.0%	-0.7%
Broome Urban Area	\$350	\$450	\$558	0.0%	-9.1%
Bunbury Greater	\$300	\$340	\$380	3.0%	-5.6%
Busselton Urban Area	\$350	\$380	\$410	0.0%	-5.0%
Carnarvon Urban Area	\$250	\$550	\$850	-21.4%	13.4%
Esperance Urban Area	\$240	\$300	\$340	-3.2%	-4.8%
Geraldton/Greenough	\$220	\$280	\$320	-1.8%	-12.5%
Kalgoorlie/Boulder	\$280	\$325	\$400	-7.1%	-7.1%
Karratha Urban Area	\$310	\$400	\$525	-3.6%	-20.0%
Mandurah/Murray	\$280	\$320	\$360	-4.5%	-11.1%
Northam	\$250	\$300	\$350	5.3%	0.0%
Port Hedland	\$295	\$375	\$550	-6.3%	-31.8%

Source: REIWA

4.3 Lot supply

Figure 8 shows monthly listings for established lots by REIWA members in the Perth and Peel regions to September 2016. September 2016 listings at 2,428 were at similar levels in comparison to August and a marginal 1% higher in comparison to a year ago. The recent number of lot listings in the Perth Metro Region continues to remain at elevated levels. Following an increase in lot listings since early 2016, the Peel region has seen figures trend lower since the second half of 2016, although the most recent month of September saw a 21% increase in listings. REIWA's lot listings in Greater Bunbury have decreased over the year to 166 as of September 2016, 17% lower than figures in September 2015, while the number of lots for sale in Geraldton-Greenough also fell from around 300 a year ago to 261 at the end of September 2016.

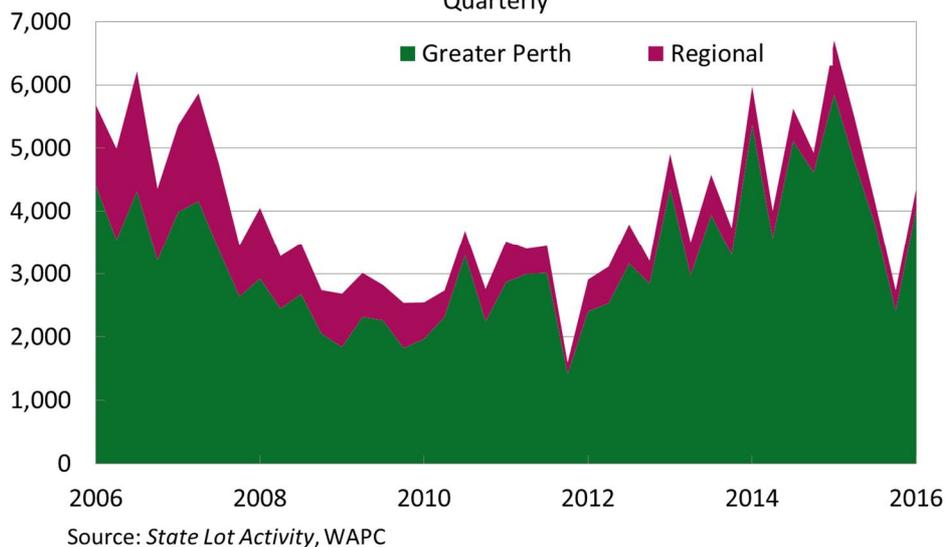
Figure 8
Lot Listings in Greater Perth



4.4 Lot development trends

Despite a pick-up in the June quarter 2016, final lot approvals continue to trend downwards steeply after peaking in the June quarter 2015 (Figure 9). There were 4,353 final lot approvals in Western Australia in the June quarter 2016, 4,037 of which were in Greater Perth. The downward trend 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 9
Final Lot Approvals
Quarterly



Data provided by the Water Corporation to the Department of Planning indicates that as at June 2016 there were 11,250 residential lots where the developer had a servicing

agreement with the Water Corporation.⁸ This is roughly unchanged from June 2015. 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, 9,830 were located in the Perth and Peel area and 1,420 in the rest of WA. Lots with a servicing agreement accounted for approximately 16% of the developers stock of current conditional approvals in the Perth and Peel region and about 9% of current stock in regional WA. This equates to approximately 15% across the entire state.

A survey of WA's major land developers⁹ showed as at the June quarter 2016, developers had 3,999 lots under construction in the Perth and Peel region for release within the next 12 months, up 3% on the previous quarter but down 31% over the year. HIFG members noted that, compared with a few years ago, lots are being released in smaller stages.

4.5 Residential demolitions

The Department of Planning collects data on dwelling demolitions from the 37 local government authorities in the Perth, Peel and Greater Bunbury regions (Table 3). The number of demolitions in 2015-16 was 2,043, down 19% from 2014-15. Demolitions are considered a lead indicator for infill development. The downturn in demolitions in 2015-16 suggests lower levels of infill development in Perth in 2016-17.

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

Source: Department of Planning

4.6 Building approvals

Building approvals fell to 24,601 in 2015-16, after reaching a record high of 32,686 in the 2014-15 financial year (Figure 10). In trend terms, building approvals in Western Australia peaked in September 2014 and have now been falling for 23 months. Approvals are a lead indicator of dwelling supply with falls in approvals feeding through into commencement

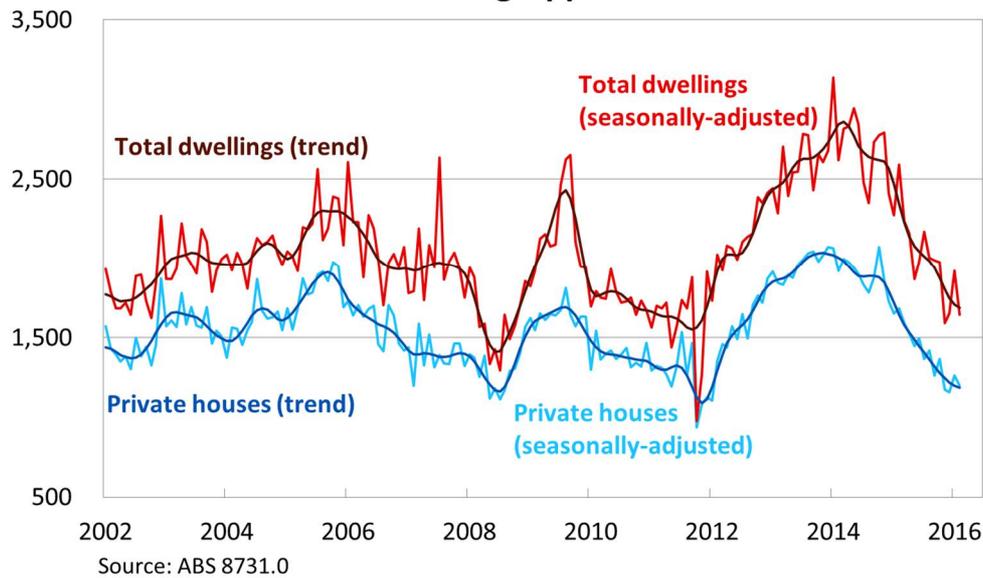
⁸ Urban Development Program, Unpublished data, WAPC

⁹ Urban Development Index, June quarter 2016, UDIA (WA)

figures. Greater Perth accounted for 87% of total WA approvals since 2015-16, a level similar to the previous year.

Multi-residential approvals made up 28% of all approvals in 2015-16, well above the decade average of 22%. The strength of the multi-residential sector over the next 12 months is crucial to overall levels of dwelling commencements and will play a big part in determining the extent of the overall decline in activity. Multi-residential dwellings remain a much lower proportion of dwelling stock in Western Australia compared to New South Wales, Victoria and Queensland.

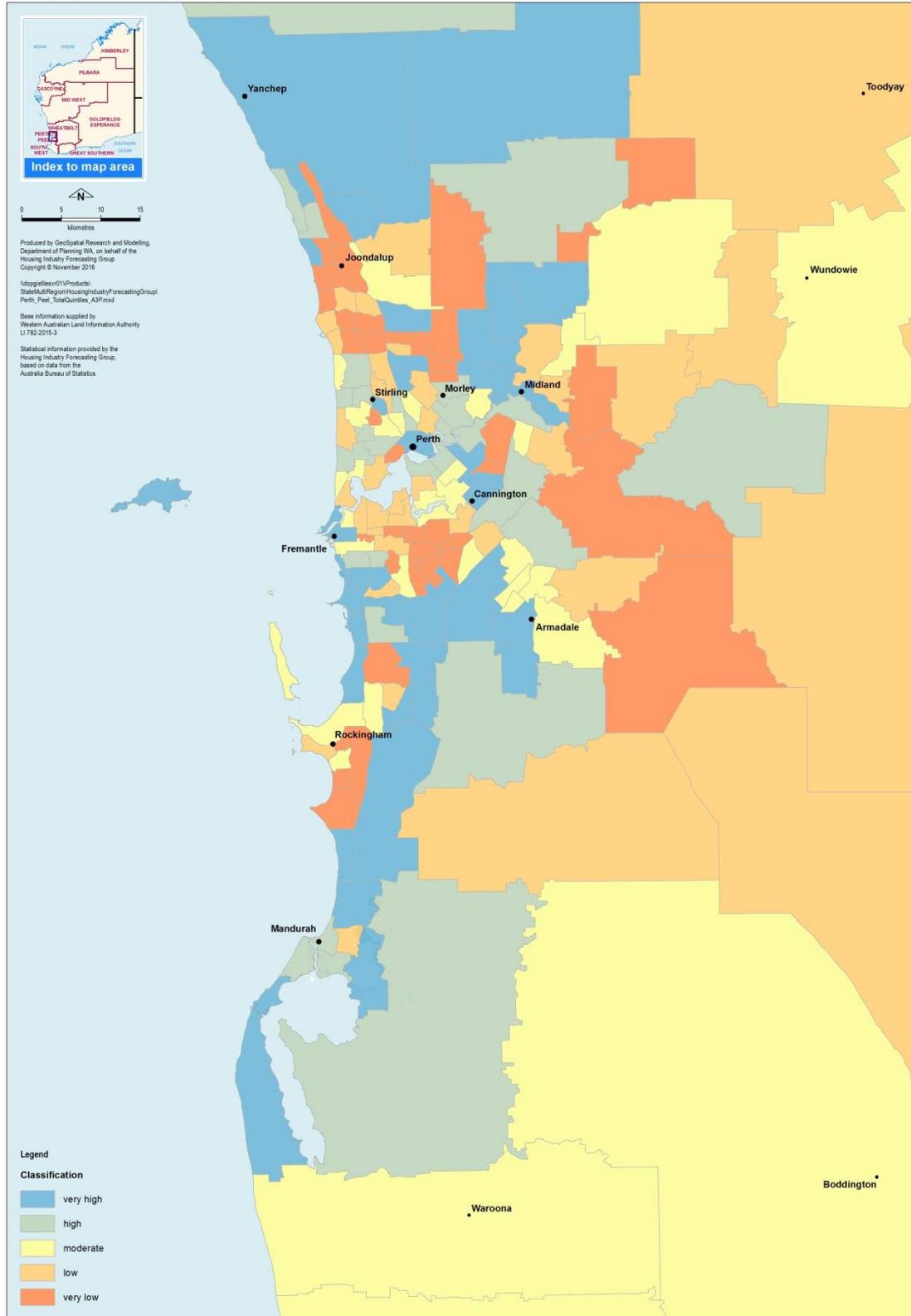
Figure 10
WA Building Approvals



The following maps classify the level of building approvals from 2011-12 to 2015-16 by region. Maps have been prepared showing the level of total building approvals, new housing approvals, and new other residential approvals, for both Perth and Western Australia relative to local population. These maps highlight significant variations in building activity during the past five years with some strong activity in regional areas and low levels of activity within much of Greater Perth's inner area. Maps for total building approvals are shown below, while maps breaking down approvals into houses and other residential are in Appendix A.

Figure 11
Perth and Peel, Total Building Approvals

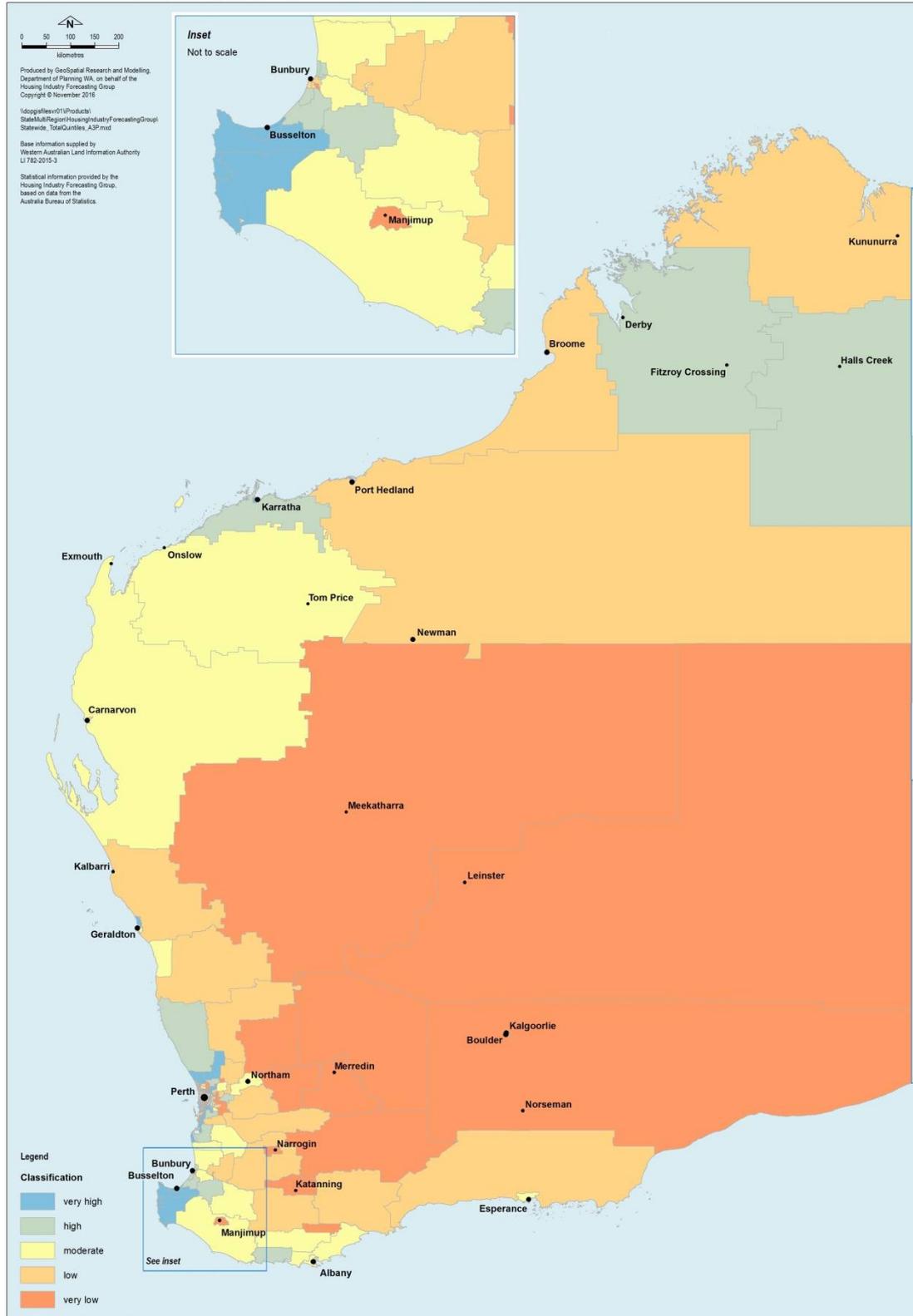
Building Approvals by Population, by SA2 Area



Total Building Approvals

Figure 12
Western Australia, Total Building Approvals

Building Approvals by Population, by SA2 Area



Total Building Approvals

4.7 Dwelling commencements, completions and work in progress

4.7.1 Dwelling commencements

In 2015-16 dwelling commencements in Western Australia fell to 25,498 in seasonally-adjusted terms (25,563 in original terms) (Figure 13). This is 19% lower than the record high of 30,829 in 2014-15, but remains higher than the decade average. Private sector house commencements fell by 24% over the year, while private sector multi-residential dwelling commencements fell by just 9%. Public sector dwelling commencements increased by 12% over the year. Despite a pick-up in multi-residential commencements in the June quarter 2016, housing commencements continue to trend downwards.

Figure 13

WA Dwelling Commencements Quarterly, Seasonally-adjusted

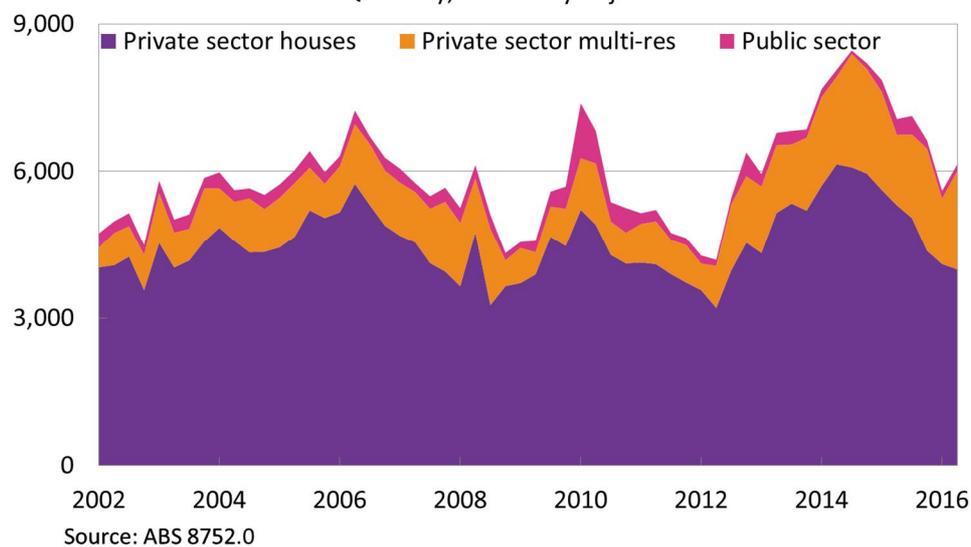


Figure 14

Total WA Dwelling Commencements Quarterly

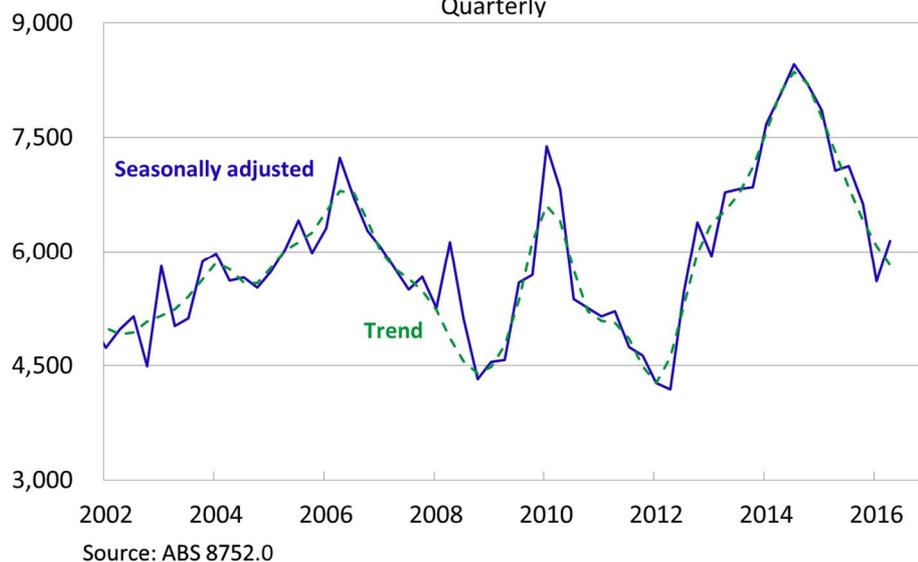


Table 4 shows the distribution of dwelling commencements between Greater Perth and regional WA for the past four years. The proportion of dwelling commencements in Greater Perth has risen from 77% in 2012-13 to 86% in 2015-16. The table also indicates that the proportion of other residential dwellings rose from 23% in 2012-13 to 28% in 2015-16. In Greater Perth the proportion is higher at 32%. Development of other residential dwellings tends to be more volatile than the development of houses and we could see a sharp fall in other residential commencements in the next 12 months.

Table 4
New dwelling commencements in Western Australia

	Greater Perth			Regional WA			WA		
	Houses	Other	Total	Houses	Other	Total	Houses	Other	Total
2012-13	14,293	4,539 (24%)	18,832 (77%)	4,471	1,010 (18%)	5,481 (23%)	18,764	5,549 (23%)	24,313
2013-14	18,171	5,734 (24%)	23,905 (82%)	4,650	667 (13%)	5,317 (18%)	22,821	6,401 (22%)	29,222
2014-15	19,425	7,547 (28%)	26,972 (86%)	4,094	416 (9%)	4,510 (14%)	23,519	7,964 (25%)	31,483
2015-16	14,867	6,857 (32%) ¹	21,723 (86%) ²	3,195	342 (10%) ¹	3,537 (14%) ²	18,062	7,199 (28%) ¹	25,260

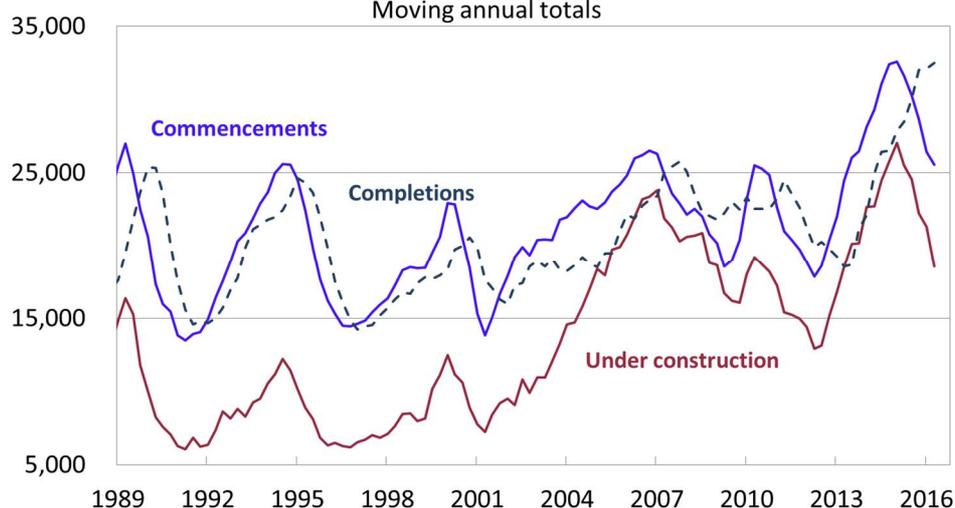
Source: Based on ABS data. Original data, not including alterations and additions.

(1) Other dwellings as a % of total in region. (2) Total dwellings as % of total WA dwellings.

4.7.2 Completions

Completions rose to 32,489 in 2015-16, 14% higher than the same period in the previous year. Completions are likely to decline in coming quarters, following the decline in commencements (Figure 15).

Figure 15
WA Building Activity
Moving annual totals



Source: ABS 8752.0

4.7.3 Residential construction work in the pipeline

There were 18,222 dwellings under construction in the June quarter 2016, 28% lower than at the corresponding period in the previous year (Figure 16).

The percentage of multi-residential construction remains high at 46% in the June quarter, and has remained above 30% for the past three years. 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 2016 there were 2,742 building approvals not yet commenced (Figure 17), 20% lower same as the corresponding quarter in the previous year. Multi-residential approvals made up 55% of dwellings not yet commenced in the quarter, well above the decade average of 35%. It remains to be seen how many of these multi-residential approvals will proceed given prevailing market conditions.

Figure 16
WA Dwellings Under Construction
Quarterly

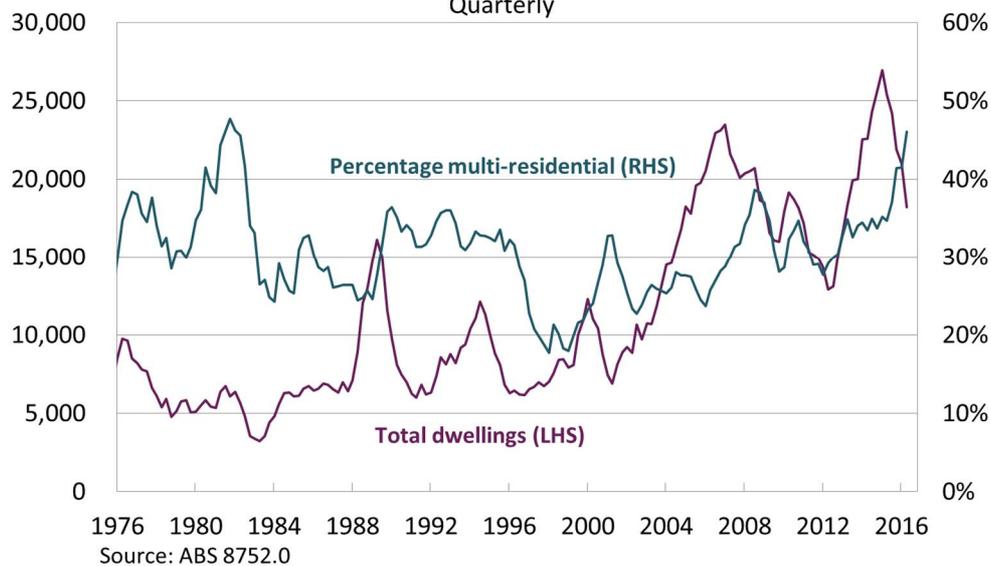
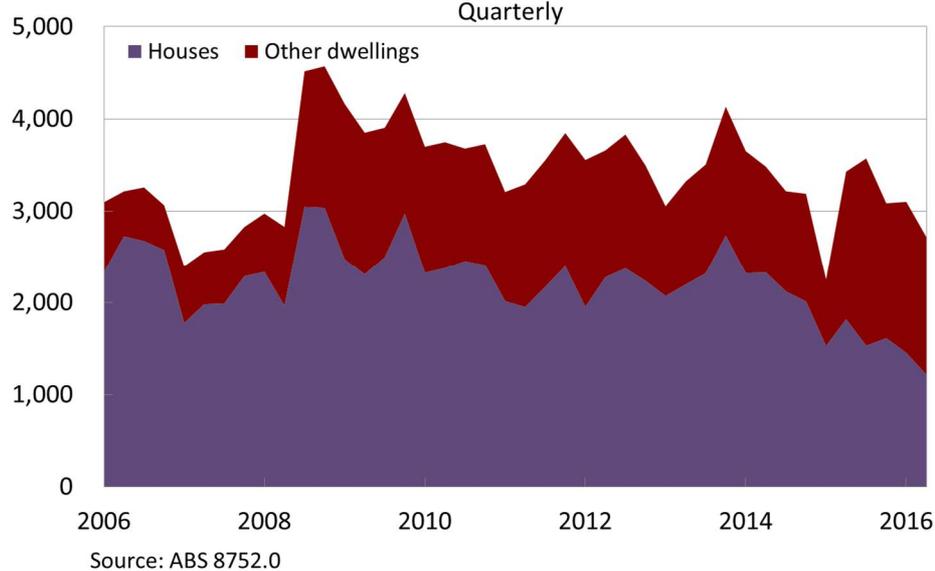


Figure 17
WA Dwellings Approved but Not Yet Commenced
Quarterly



4.8 Dwelling commencements in context

Figure 18 shows the pattern of dwelling commencements in WA over the last 30 years. The cyclical nature of development activity is evident from the graph and what is also noticeable is the particularly strong level of activity during 2013 to 2015. The figure shows how development activity responded to strong population during the middle of the last decade but failed to keep pace with growth during, and immediately after, the global financial crisis (2008 to 2010). The recent fall in the rate of population growth has coincided with very strong development activity which was stimulated by strong population growth during the period 2011 to 2013. This is one reason behind the declining price growth of the last couple of years.

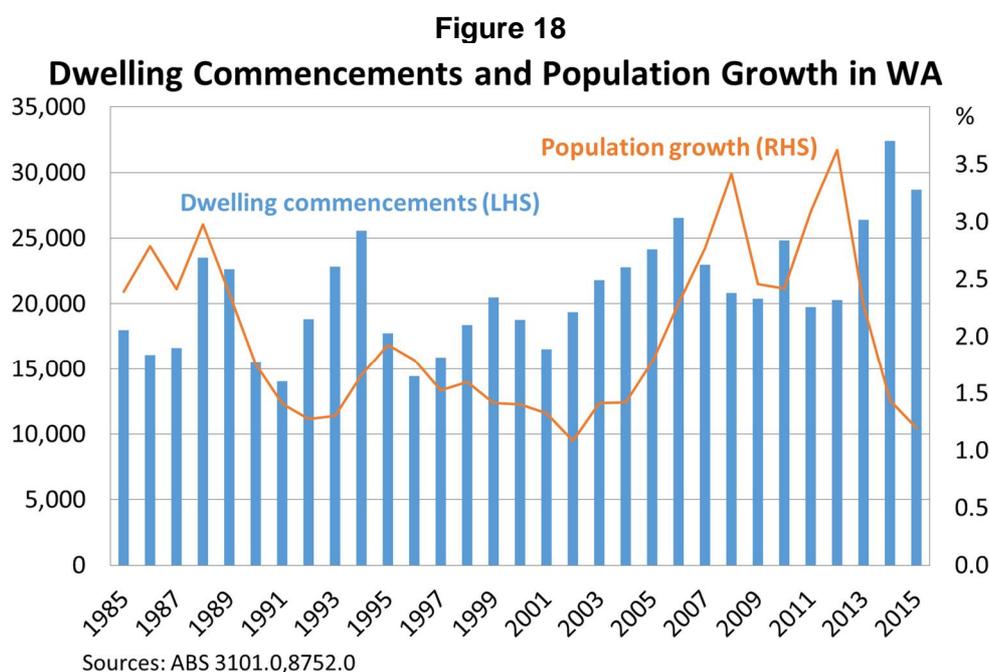


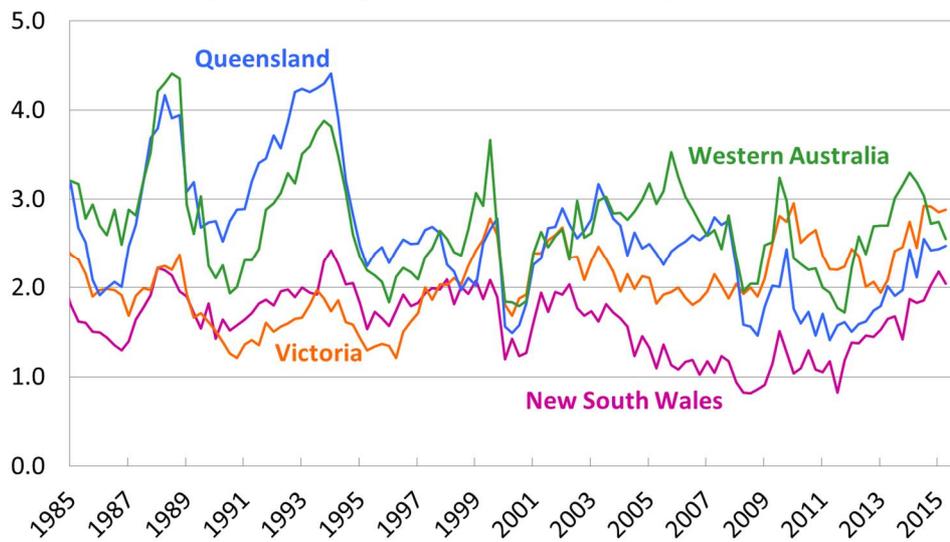
Table 5 examines dwelling commencements per 1,000 persons across four time periods including all states and territories. The 30 year time period is represented graphically in Figures 19 and 20. In WA, development activity has been remarkably stable across 30 years, although there have been prominent cycles. In fact, development activity per capita in Western Australia is the strongest of any state or territory over the 30 year period, and indeed over the last 10 years, consistently well above the Australian average. Figure 20 shows between 1985 and 2015 the average annual number of commencements per 1,000 persons was 10.9 in WA compared to 8.1 in Australia and just 6.5 in NSW, where activity has been consistently weak relative to population. It is only in the last 12 months that development activity in Victoria and Queensland has caught up with WA, where, despite the slowdown, commencements per capita were still above the 30 year average in 2015. NSW still lags behind despite a rapid increase in the last three years. It is worth noting patterns of completions are identical to commencements.

Table 5
Annual dwelling commencements per 1,000 persons by state and territory

	1985-2015	1995-2015	2005-2015	2010-2015	2015
Western Australia	10.9	10.3	10.5	10.3	11.1
Queensland	10.3	9.1	8.4	7.6	9.9
Australian Capital Territory	9.5	8.5	9.9	11.9	11.3
Victoria	8.2	8.6	9.1	10.0	11.6
Australia	8.1	7.7	7.6	7.8	9.5
Northern Territory	7.7	7.1	6.8	7.8	6.6
South Australia	6.6	6.1	6.7	6.2	5.9
New South Wales	6.5	6.1	5.2	5.9	8.1
Tasmania	5.8	4.7	5.3	4.8	5.4

Figure 19

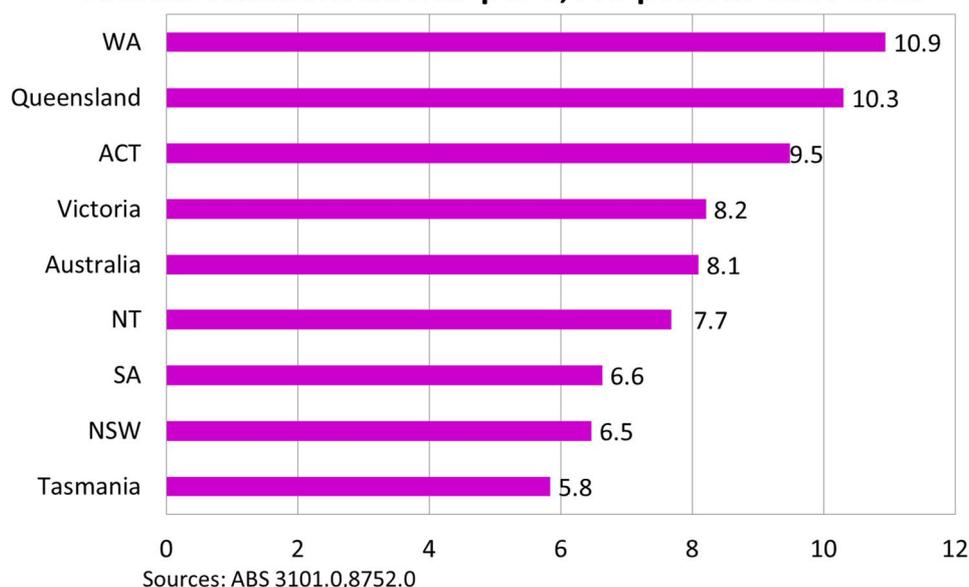
Quarterly Dwelling Commencements per 1,000 Persons



Sources: ABS 3101.0,8752.0

Figure 20

Annual commencements per 1,000 persons 1985-2015



5 Other factors

5.1 Housing affordability

5.1.1 Home ownership

Housing affordability remains a challenge in Western Australia, despite some positive incremental developments in the form of low interest rates and easing house prices. Western Australian households on low incomes are 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 \$207,800 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 in the private rental market. There would also be additional costs associated with mortgage insurance. A recent study undertaken by the Housing Authority found that less than 1% of properties sold in Perth during 2013 to 2015 were within this price range.¹⁰ Further, the lower quartile cost of a house in Perth (a good indicator of entry level housing) is around \$410,000, far outside the reach for a low income household.

Conditions are only slightly improved for those on 50-80% of the Perth median income. These households, earning under \$68,000, would be able to afford (using 30% of income as repayments) a house worth \$332,400. Only 8% of properties sold during 2013 to 2015 were within this price range, despite very low and low income households making up 43% of Perth households.¹¹ This mismatch between incomes and prices highlights the problems faced by households trying to enter owner occupation. The report also highlights the lack of diversity of Perth housing stock, with over 80% of sold properties having three or more bedrooms.

¹⁰ Housing Affordability – a study for the Perth Metropolitan Area (forthcoming).

¹¹ Housing Affordability – a study for the Perth Metropolitan Area (forthcoming).

5.1.2 Private rental

The situation is also difficult for those in the private rental market, despite rents falling in recent quarters. A very low income household (earning around \$43,000), paying 30% of income on rent, could only afford \$250 per week in rent. Only 3% of private rentals reported to reiwa.com during the 2015-16 financial year were in this price range¹². This is below the lower quartile rent of \$316. Despite rent falls, affordability in the private rental sector remains a major concern for households on low incomes, even with access to Commonwealth Rent Assistance. In contrast, a household earning \$68,000 could afford rent of \$400 per week, above the median rent of \$370.

6 Housing industry resources and challenges

6.1 Construction costs, building materials and labour supply

The Perth new home price index fell by 2.3% in the year to June 2016, in contrast with a 0.5% per cent increase in the Perth consumer price index.¹³ The price of building materials used in housing construction increased by 1.6% in the year to June 2016, well below the 2.9% increase for the six major capital cities.¹⁴

Pressure in the labour market in WA has eased markedly over recent quarters and this is evident in HIA's analysis of conditions for trade contractors in residential building. The *HIA Trade Availability Index* shows the availability of trades workers has improved during 2016 in both Perth and the rest of the state.¹⁵

While industry level labour market figures from the ABS can be quite volatile on a quarterly basis, the latest data show that the number of people employed in construction in WA at the end of May 2016 was down by 9.4 per cent compared with a year earlier.

6.2 Industry issues and short-term challenges

- The lack of diversity of housing stock remains a concern in Western Australia. Members noted that while dwelling diversity is improving, the needs of some sectors were not being met, particularly seniors and smaller households. Along with this, infill development in Greater Perth remains below its target levels.
- Valuations were a key concern for many members. Members remarked that valuations were increasingly coming in lower than expected, which was constraining buyers' ability to obtain finance. This is placing an increased burden on buyers to self fund, or to seek out alternative options. This has impacted affordability and is creating a barrier to home ownership. This may put some pressure on future commencements if a lower proportion of building approvals convert to commencements.
- Some members expressed continued concern that the taxes, fees and levies charged by various levels of government were adding to the cost of developing housing, and therefore negatively impacting affordability.
- It was noted that any significant changes to policy measures affecting the housing industry could change the outlook for dwelling commencements.

¹² Housing Affordability (rental) – a study for the Perth Metropolitan Area (forthcoming).

¹³ ABS 6401, Table 10.

¹⁴ ABS 6427, Table 18.

¹⁵ HIA Trades Report

7 Forecasts

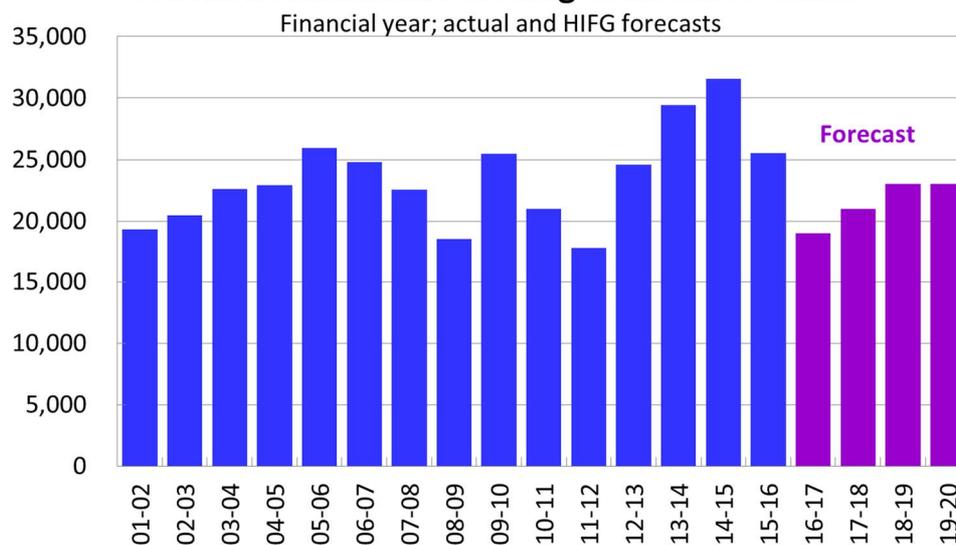
7.1 HIFG's Forecast of Dwelling Commencements

HIFG Forecast of Dwelling commencements in WA, 2016-17 to 2019-20		
Financial Year	Dwelling Commencements	% change
2015-16 (actual)	25,563 (23,000 forecast)	
2016-17 (forecast)	19,000	-26%
2017-18 (forecast)	21,000	11%
2018-19 (forecast)	22-24,000	
2019-20 (forecast)	22-24,000	

Members agreed to maintain the previous forecast of 19,000 dwellings for 2016-17. Dwelling commencements have trended lower over the year, and available data suggest they will fall further. Expectations of persistently low population growth in Western Australia are key to the outlook. Forward looking indicators, such as building and lot approvals, have been falling and the general economic outlook, including employment, remains weak. There is good availability of stock in the established market for both purchase and rentals, which is likely to dampen demand for new housing. While 19,000 dwellings is a fall of 26% from 2015-16, it remains in line with normal longer-term conditions (Figure 21). The housing sector is a cyclical industry and the current downturn in commencements fits this trend (Figure 22).

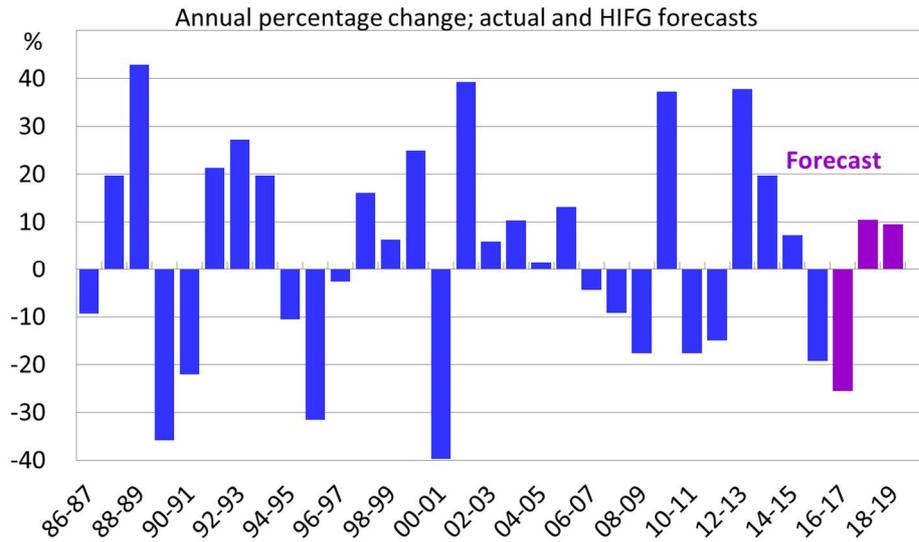
Figure 21

Western Australian Dwelling Commencements



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

Figure 22
Western Australian Dwelling Commencements



The Group expects a subdued pick-up in 2017-18, in line with expectations of slight recovery in population growth. Conditions are expected to strengthen further in 2018-19 and 2019-20. 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 Western Australia) will impact the actual level of commencements.

7.2 Assessment of serviced residential lot supply

On the basis of 1.3 dwellings per lot¹⁶, our forecast suggests there will be a need for 14,600 residential lots in 2016-17, picking up to 16,100 in 2017-18 and between 16,000 to 18,000 in the outer years of our forecast horizon. Demolitions are likely to provide between 2,000 to 3,000 lots per annum, resulting in a need for around 12,000 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 – Building Approvals by Region

Figure 23
Perth and Peel, Building Approvals for New Houses

Building Approvals by Population, by SA2 Area

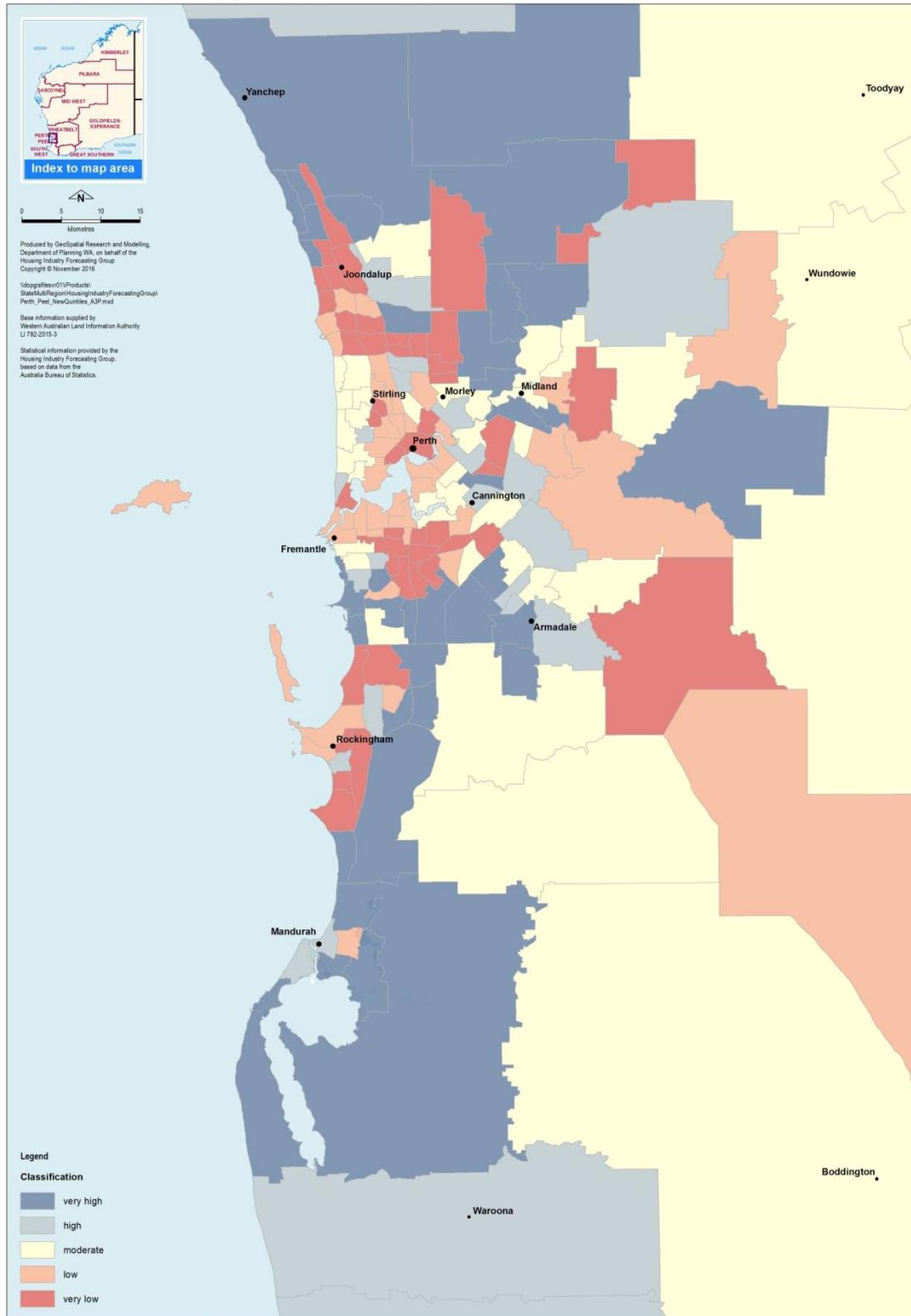


Figure 24
Perth and Peel, Building Approvals for New Other Residential

Building Approvals by Population, by SA2 Area

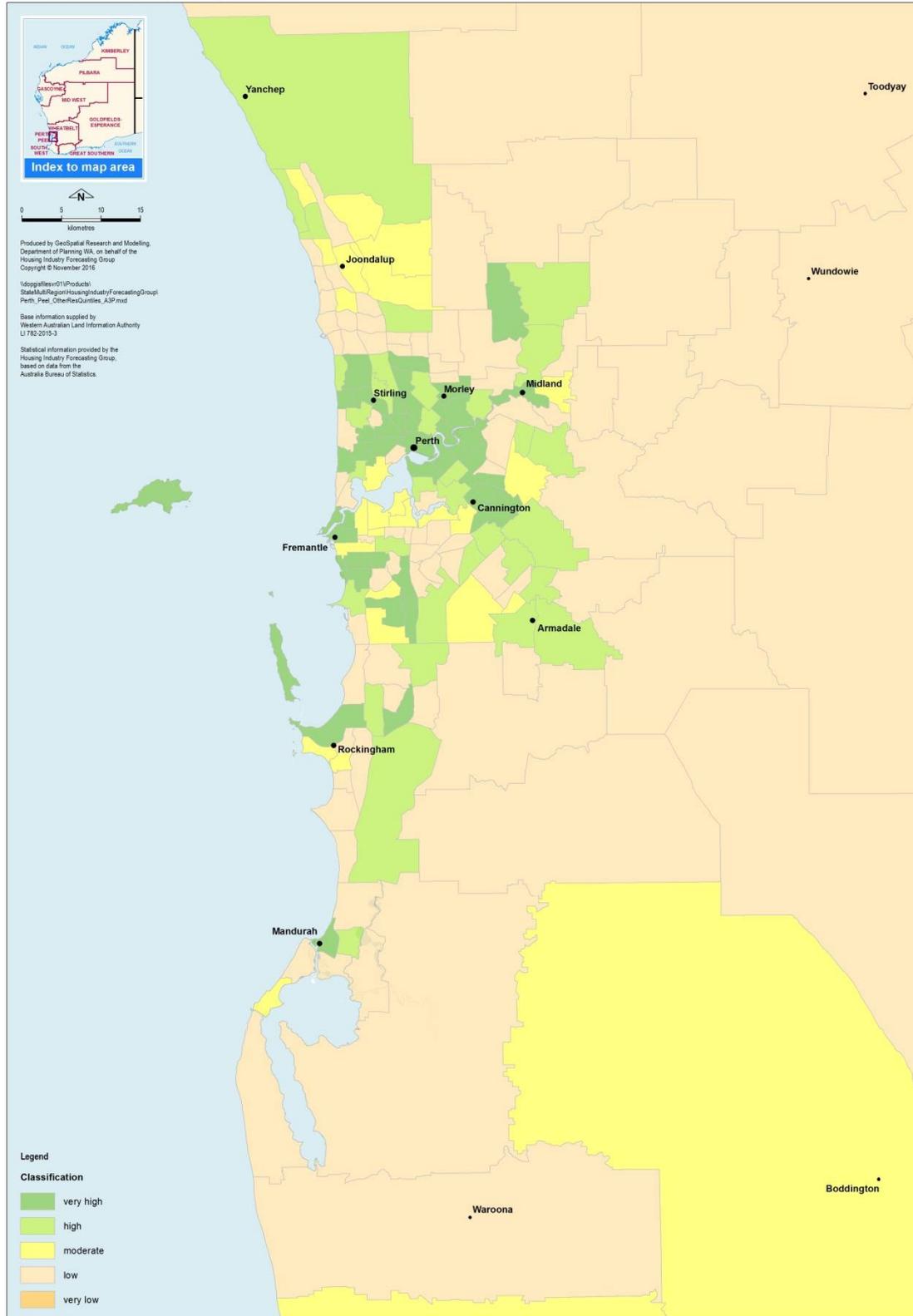
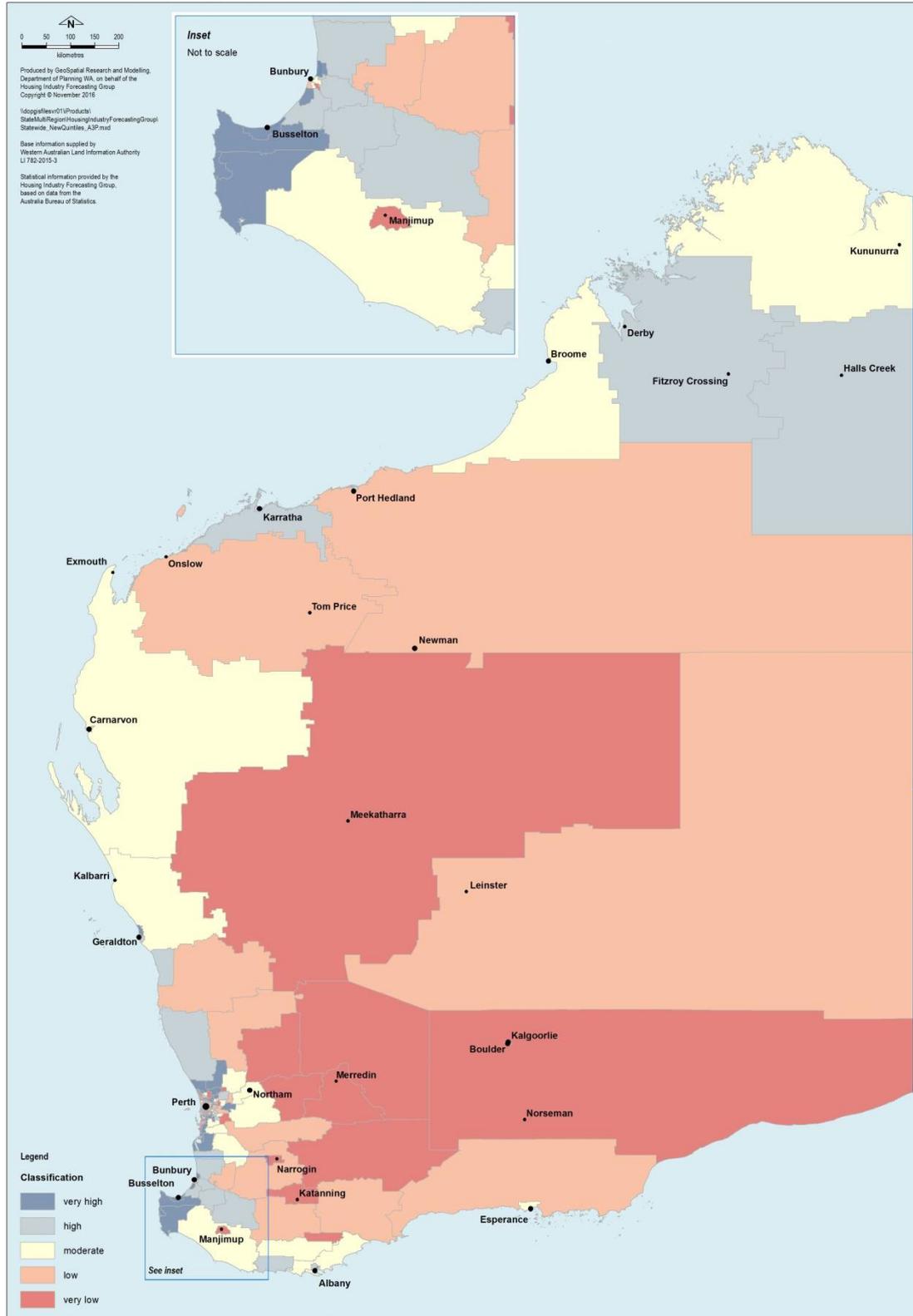


Figure 25
 Western Australia, Building Approvals for New Houses

Building Approvals by Population, by SA2 Area



Building Approvals for New Houses

Figure 26
Western Australia, Building Approvals for New Other Residential

Building Approvals by Population, by SA2 Area



Building Approvals for New Other Residential Dwellings

Appendix B – Housing Industry Forecasting Group

The Housing Industry Forecasting Group (HIFG) is a joint industry and government body re-established in February 2008 to provide independent commentary on the housing sector in WA. The Department of Planning and the Housing Authority jointly provide the HIFG secretariat and research function.

Membership of HIFG is drawn from major organisations associated with the housing and land development industry in Western Australia and from government. Through its diverse membership, HIFG has access to considerable expertise and knowledge of the sector, including land development, real estate, the private rental market, social housing, building statistics, demographics, building resources and home finance.

HIFG Members – as at November 2016

Member	Organisation represented
Alan Langford	Bankwest
Dale Leggett	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	Housing Authority
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
Observers	
Marion Thompson	Urban Development Coordinator
Zaneta Georgievski	Australian Bureau of Statistics
Giles Tuffin	Department of Premier and Cabinet
Secretariat	
Cassandra Winzar	Housing Authority

