

Housing Industry Forecasting Group

Forecasting Dwelling Commencements
in Western Australia

August 2022



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HIFG update August 2022

WA dwelling commencements anticipated to dip in 2022-23

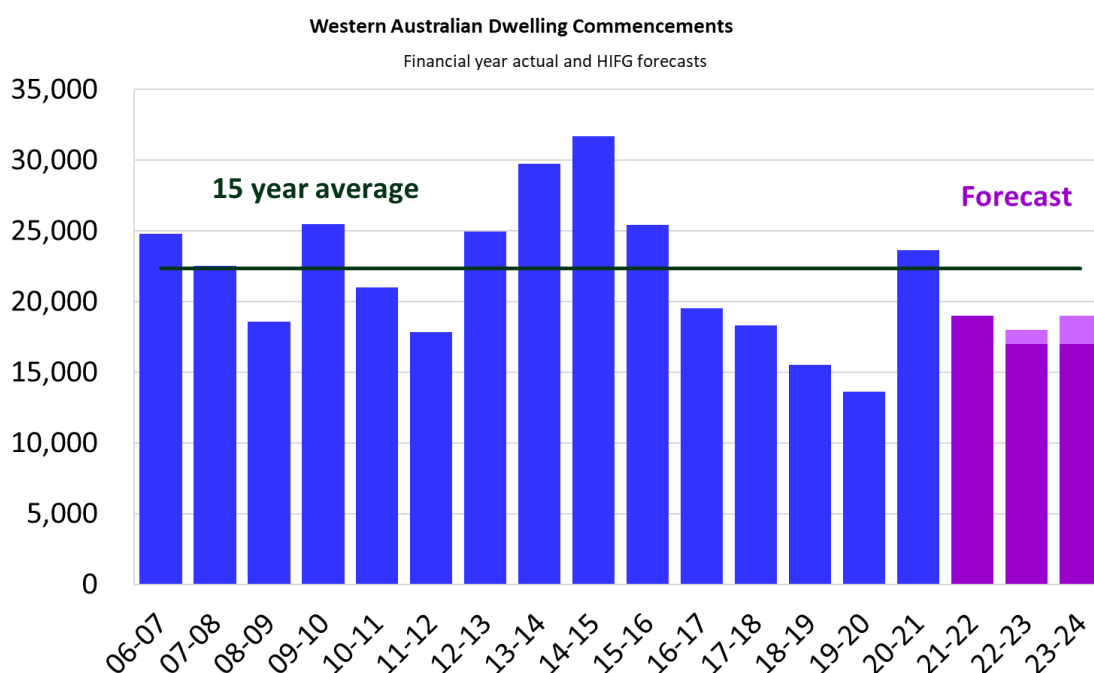
The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in Western Australia. The previous forecasts were reported in December 2021.

The Group revised its 2021-22 dwelling commencement forecast to approximately 19,000, down from 25,000 reported in December 2021 and a decrease of 18.6 per cent when compared to actuals for 2020-21. The revision downwards was driven by prolonged build times, continued shortages of skilled labour and building materials, extended border controls impacting population growth and recent major global upheaval.

It is anticipated dwelling commencements will remain below the long-term average throughout 2022-23 (at 17,000-18,000), before a modest improvement in 2023-24 to 17,000-19,000.

Financial Year	Dwelling Commencements
2021-22 (forecast)	19,000
2022-23 (forecast)	17,000-18,000
2023-24 (forecast)	17,000-19,000

Figure 1



Sources: ABS Building Activity, Australia. HIFG range used for 2022-23 and 2023-24

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WA economy navigates Omicron with poise, but key challenges mount

The Western Australian economy has continued to perform strongly despite an uncertain global environment and the ongoing effects of the COVID-19 pandemic. This strength has been underpinned by solid growth in household spending, tight labour market conditions, and a recovery in business investment.

The Western Australian Treasury expects the domestic economy (as measured by State Final Demand) to grow by a very strong 5.25 per cent in 2021-22 (which would be the strongest in a decade), with further growth of 4 per cent expected in 2022-23.

The State's robust economic conditions are flowing through to a very tight labour market, with employment increasing by 5.1 per cent in the 3 months to June 2022 compared to the same period last year, and the unemployment rate decreasing in the month of June 2022 to 3.4 per cent from 5.1 per cent a year earlier. Skill shortages have been particularly acute in the residential construction industry, with vacancies for trades such as plumbers, carpenters, and painters reaching record highs in the March quarter 2022. CCIWA's June 2022 Business Confidence Survey identifying that four out of five (83 per cent) WA businesses are struggling to hire for a particular skillset. It is anticipated that these trade shortages will not ease substantially until a higher proportion of dwellings currently under construction are completed.

Consumer prices and input prices to dwelling construction have accelerated since late 2021. Factors contributing to the rising prices include high global oil prices, supply chain disruptions from Omicron outbreaks (particularly in New South Wales and Victoria), and adverse weather events, such as flooding that caused the temporary closure of the east-west rail route in January 2022. Reflecting these pressures, the Perth Consumer Price Index increased by 7.4 per cent in year-on-year terms in the June quarter 2022 (the second highest rate since the June quarter 1990), while the index for input prices to dwelling construction increased by 18 per cent over the same period (the highest rate since the December quarter 1975).

Western Australia's population grew by 0.3 per cent (or 8,084 people) in the December quarter 2021. Growth in the quarter was primarily driven by Natural Increase (4,305 people) and Net Interstate Migration (NIM) (4,970 people). These increases were partly offset by a decline in Net Overseas Migration (-1,191 persons).

The outlook for WA remains largely positive. CCIWA expects continued domestic economic growth, underpinned by robust activity in the mining sector, a pick-up in larger scale business investment and tight labour market conditions (underscoring strong household consumption).

Recent interest rate hikes this year also present fresh challenges, with financial markets pricing in further increases to the cash rate over the next 8 months. CCIWA's March Business Confidence Survey identified that one in five (21 per cent) WA businesses considers increases in interest rates to have a 'significant' impact on their

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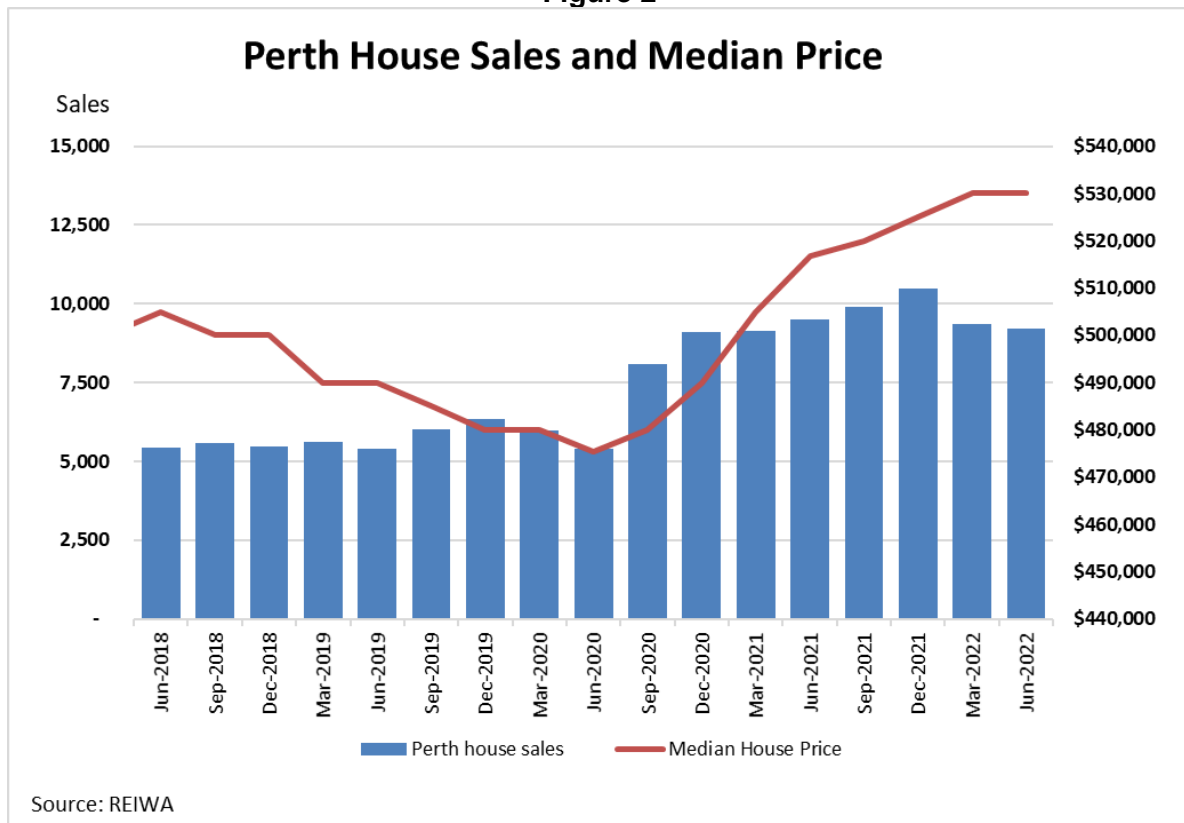
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operations with those in the retail trade (32 per cent), agriculture (32 per cent), real estate (31 per cent) and resources (31 per cent) sectors most acutely affected.

Housing prices stable as new listings diminish

After six quarters of consecutive growth, the volume of established house sales for the March 2022 quarter dipped to 9,356, in the June 2022 quarter house sales fell further to 9,222. Commensurate with demand, the annual Perth median house price has remained stable at the high of \$530,000 in the June quarter 2022, a 2.9 per cent increase from June quarter 2021.

Figure 2

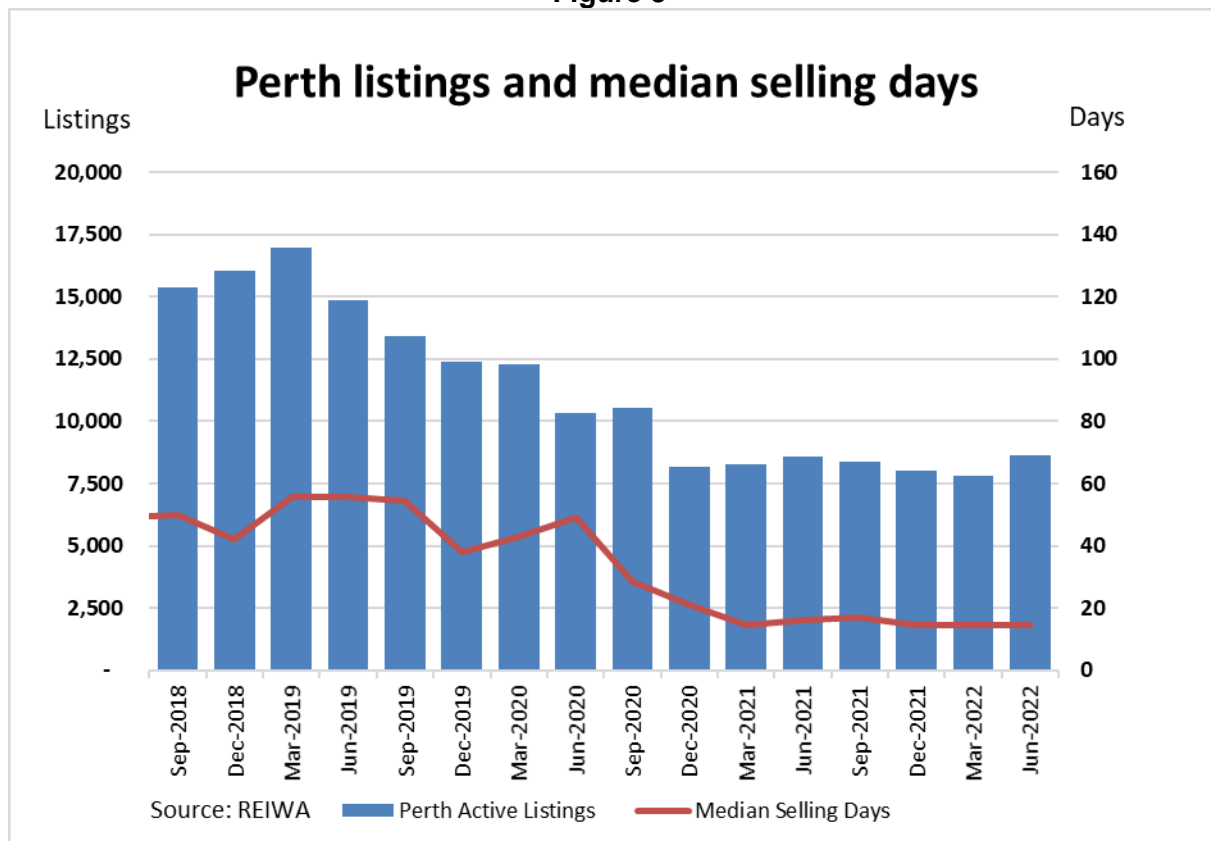


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Established sales continue to outpace the flow of new listings on to the market. The number of houses listed at the end of June quarter 2022 were around 42 per cent lower when compared to two years earlier. The time taken to sell a house in Perth continues to be at record lows, with the median selling days at 15, less than half the long-term average of 38 days.

Figure 3



The lifting of the Western Australian border controls in March 2022 likely added additional pressure on depleted housing stock, as returning residents and relocating migrants added new demand to the market. The low level of supply relative to demand in the established housing market, combined with prolonged build times is keeping the rental market tight.

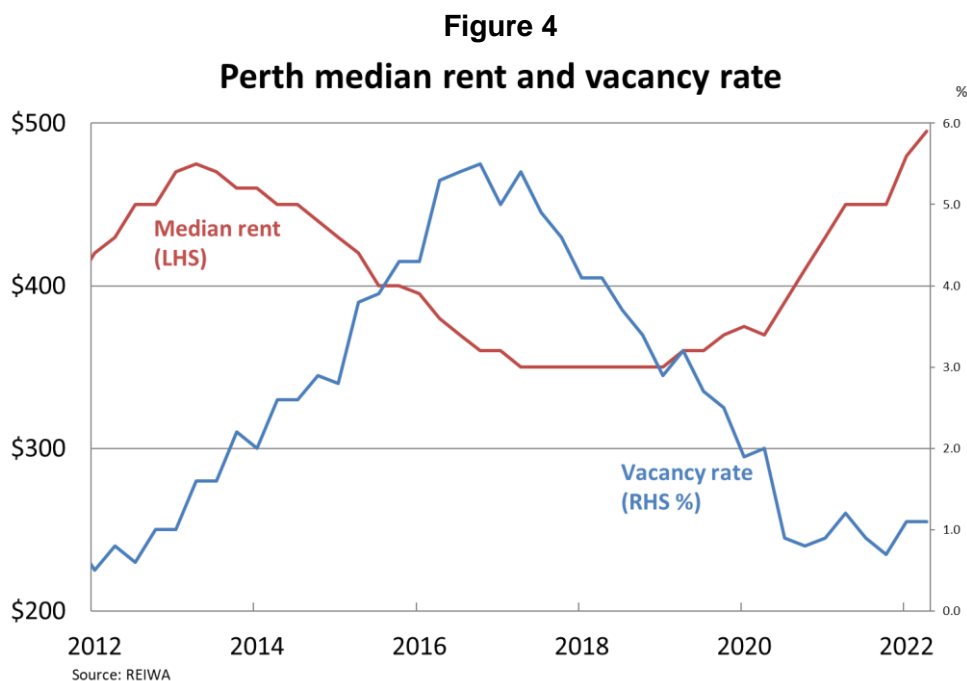
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Rental prices rise as vacancies remain low

Between June 2019 and June 2022, the Perth weekly median rent price grew by \$135 (37.5 per cent), reaching the historical high of \$495 per week. Despite this increase, Perth remains the third-most affordable capital city in which to rent a house or unit, \$195 per week lower than the most expensive city, Canberra.

Demand for WA rental properties remains solid, with low supply applying pressure to the rental market. Figure 4 illustrates trends in Perth median rent prices and vacancy rates.



Rental supply remains at very low levels, with the vacancy rate hovering around 1 per cent since September 2020. During this time, rapidly rising rents have seen gross rental yields increase at a faster pace than purchasing prices. Gross rental yields for houses and units are now at their highest point on record for Perth. This could help attract investment activity, particularly given Perth offers the highest house yields of all the capital cities.

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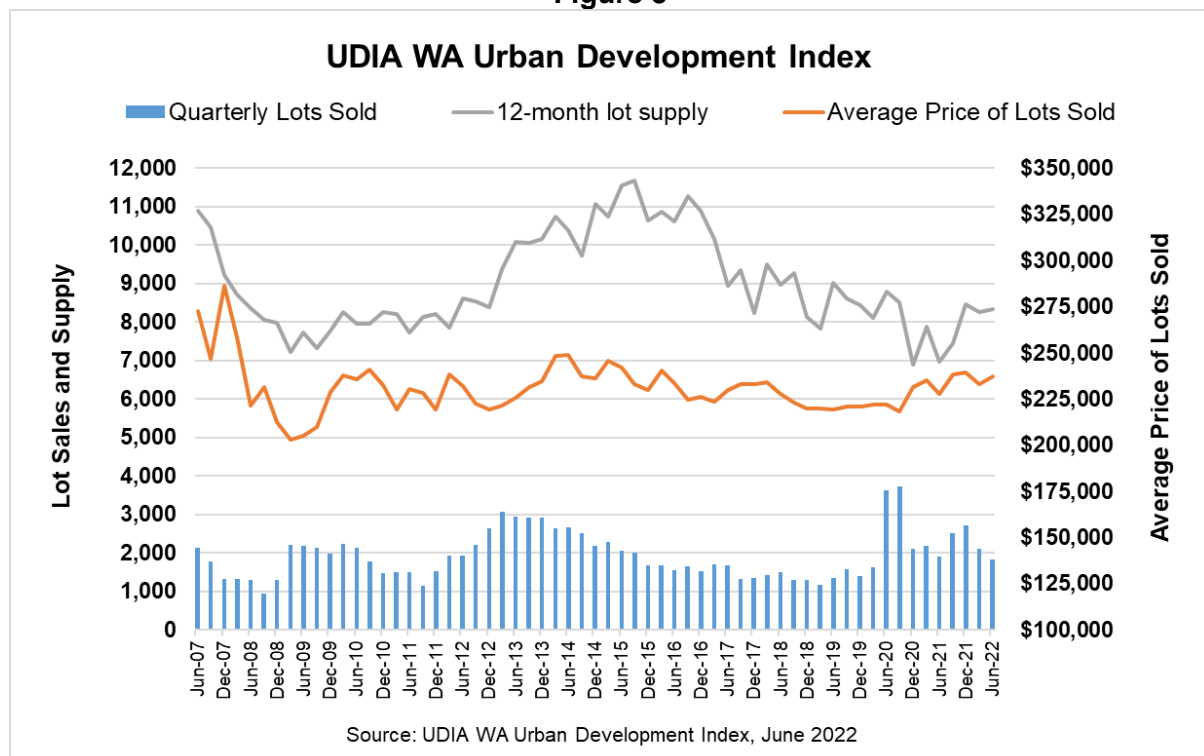
Land sales continue to strengthen

Over the first half of 2022, lot sales have seen a downward trend, with sales in the June quarter decreasing to 1,841 compared to 2,115 in the March quarter. This likely reflects an unwinding of demand following the construction grants announced in 2020, as well as consumer concern around build times and rising interest rates.

Construction activity has remained steady over the June quarter with 4,752 lots under construction and set to be released to market over the next 12 months. This combined with the number of lots currently on the market, together with lots not on the market, provides a total 12-month lot supply of 8,332 in the June quarter 2022, an increase from 8,265 in March quarter 2022.

Average lot prices increased by 4.3% in the June quarter to \$237,271 when compared to the same quarter in 2021 (\$227,560). This is despite a decrease in average lot sizes from 403sqm in the June quarter 2021 to 399sqm for the June quarter 2022.

Figure 5



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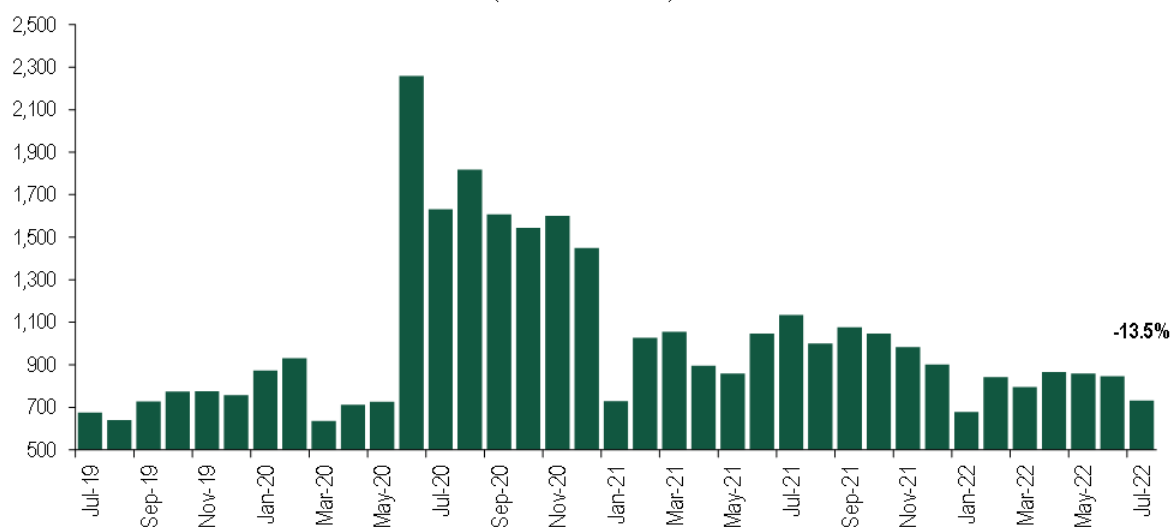
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New home sales WA

New home sales in Western Australia fell by 13.5 per cent in July 2022. This is one of Western Australia's weaker monthly performances since the announcement of the HomeBuilder grant. Sales in July 2022 remained 8.2 per cent higher compared to the same month in 2019.

Figure 6

Private New House Sales - Western Australia (SEASONALLY ADJUSTED)



Source: HIA New Home Sales Report

Building commencements

In 2021, the number of dwellings under construction reached 24,752, the highest level since September 2015 and 85 per cent higher than 2020. The number of dwellings under construction increased further to 25,503 in the March quarter 2022. The increase in activity was primarily due to the flow through of strong demand for new homes in response to the Commonwealth and State Government building construction grants (announced in mid-2020).

While activity remains strong, dwelling completions have yet to pick up materially. This reflects ongoing labour constraints in the industry and delays in sourcing some building materials, which are further extending completion times.

Dwelling commencements have continued to decline from their peak in March 2021 (7,214), with 3,996 dwellings commenced in the March quarter 2022 (Figure 7). This trend is expected to continue in the short to medium term, with lead indicators of new dwelling construction, such as First Home Owner Grant (FHOG) applications and building approvals, further easing in recent months. FHOG applications totalled 1,276 in the June quarter 2022, declining by approximately 7.4 per cent from the previous

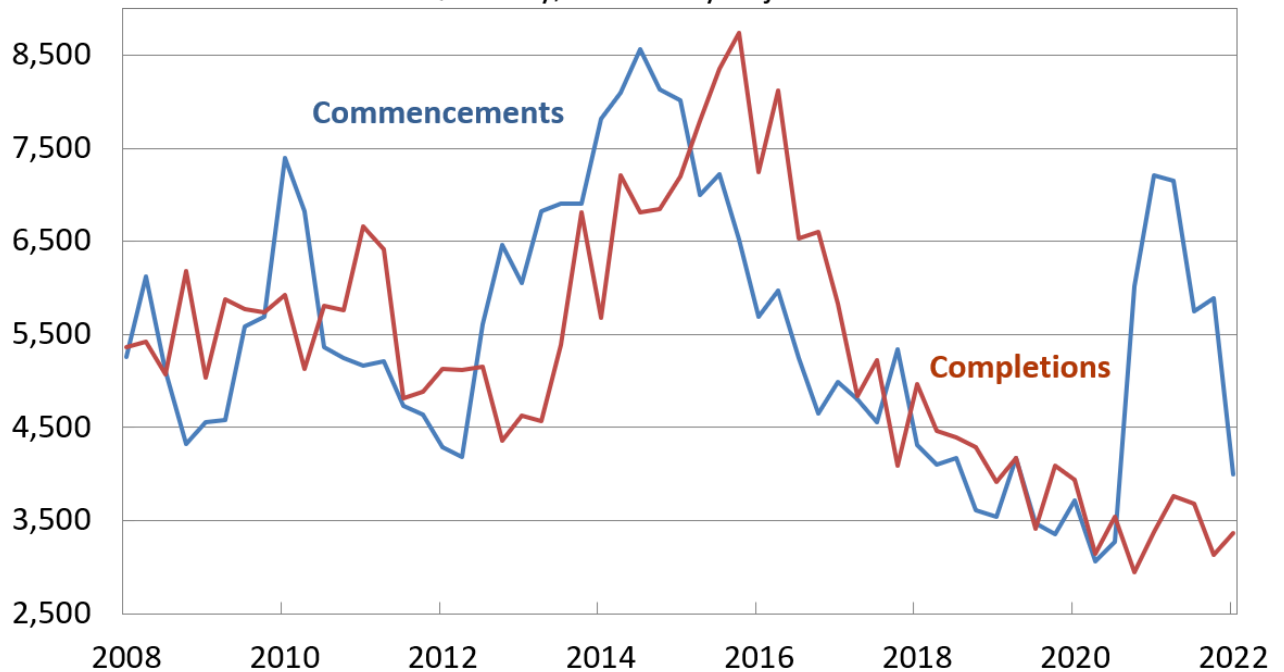
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quarter and 73 per cent from the recent peak 18 months ago. Notably, building approvals increased by approximately 35 per cent in the June quarter 2022 though are now 31 per cent lower than a year ago.

Figure 7

WA Building Activity Quarterly, Seasonally-adjusted



Source: ABS Building Activity

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Constraints in residential development

The residential development pipeline, particularly infill development, is severely compromised, with labour availability and materials cost escalation, leading to a significant proportion of projects being no longer feasible. It is projected that few substantial apartment projects, not currently under construction, will commence in the next 12-18 months.

There are several factors driving price escalation, including global influences such as pandemic impact on supply chains, the Russian war in Ukraine, and diminished immigration levels. However, domestically, the challenge is the ability of businesses in the development pipeline to ascertain a reliable forecast price from builders and subcontractors.

Total project construction costs submitted by builders are comprised of contractors submitting tenders for their materials and services. There are various factors currently resulting in tendering at very high prices, with a number of these challenges expected to continue in the short to medium term. These include:

1. High short-term demand – intense current workloads mean contractors are stretched thin and not seeking new projects.
2. Labour and material shortages, and continued price increases for materials.
3. Commercial and civil major projects absorbing capacity in the construction industry.

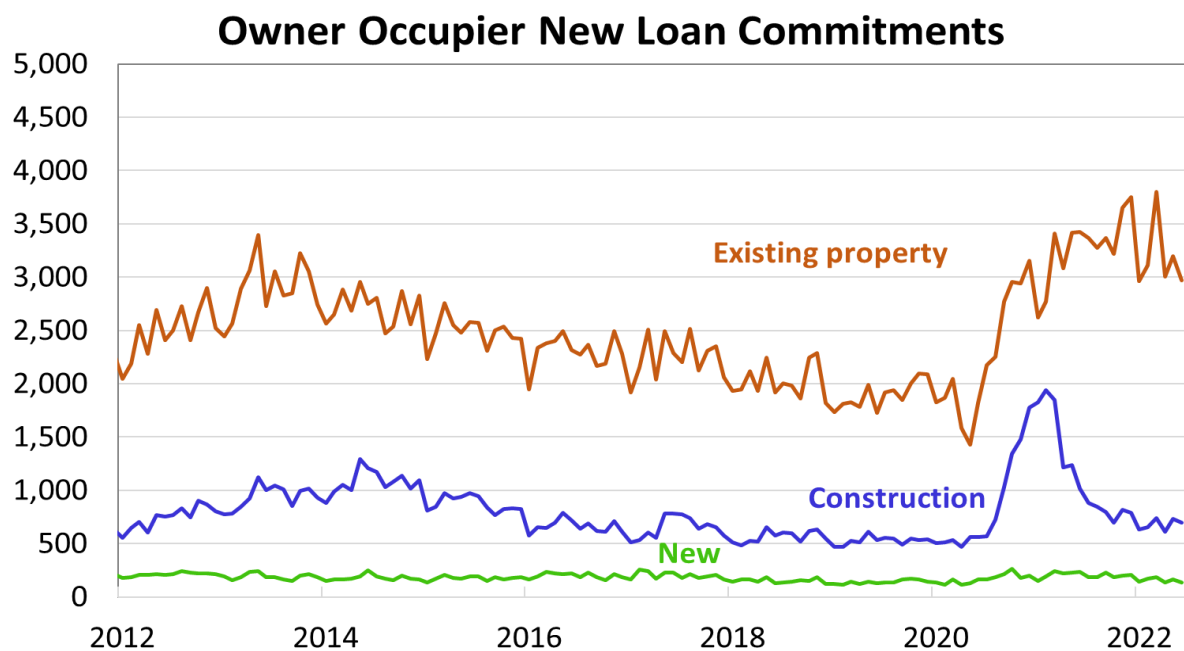
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Housing finance

Demand for borrowing in WA is softening across all mortgage types – especially for construction loans, which have returned to pre-COVID levels. Fixed rates have picked up substantially over the past year, and although variable interest rates have risen, they remain low in historical terms. Interest rates fell to record lows during the pandemic inducing increased demand for fixed rate mortgages. Recent increases to interest rates have caused this trend towards fixed rate mortgages to waver.

Figure 8



Source: ABS Lending Indicators

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Industry Outlook

- The Group acknowledged that significant building industry challenges continued into 2022 and will likely remain throughout 2023. Skills shortages, construction costs, and limited building material supply have all impacted on the industry and led to extended build times. In 2021, dwelling completions dipped to their lowest level in recent history.
- Inflation in Australia is the highest it has been since the early 1990s, with construction cost growth at its highest since 1975. Consequently, the Reserve Bank of Australia has raised the cash rate over the past consecutive five months to reach 2.35 per cent. Financial markets are pricing in further increases over the next 8 months. Increases to the cost of borrowing are expected to curtail commencements in the medium term.
- So far in 2022, the WA economy has remained positive, with record low unemployment and high household spending. Housing availability remains a constraint, but it is expected to improve as more stimulus grant builds reach completion during 2022-23.
- Building commencements will likely continue to decline in 2022-23, as the market returns to a post-stimulus equilibrium. A modest recovery is then expected in 2023-24 as building completions become available to the market and migration into WA begins to increase.

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