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Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

June 2023

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HIFG update June 2023

WA dwelling commencements anticipated to dip in 2022-23

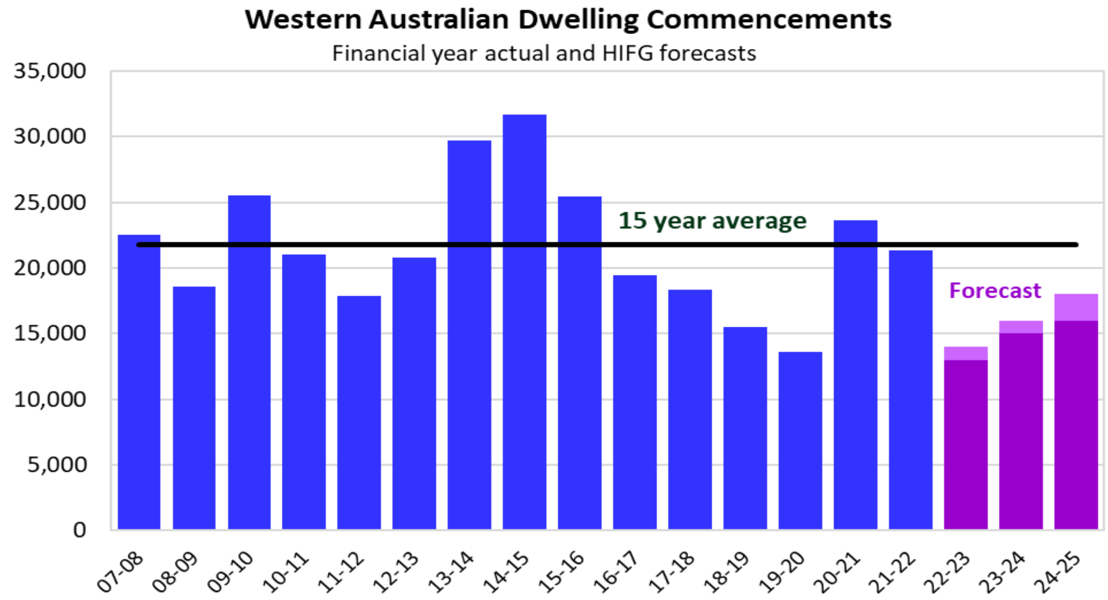
The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in Western Australia. The previous forecasts were reported in August 2022.

The Group revised its 2022-23 dwelling commencement forecast to a range of 13,000 – 14,000, down from a range of 17,000 – 18,000 reported in August 2022 and a decrease of approximately a third when compared to actuals for 2021-22. The revision downwards was driven by continued shortages of skilled labour and building materials, prolonged build times, unprecedented interest rate hikes and ongoing major global upheaval.

It is anticipated dwelling commencements will remain below the long-term average throughout 2023-24 (at 15,000-16,000), before a modest improvement in 2024-25 to 16,000-18,000.

Financial Year	Dwelling Commencements
2021-22 (actual)	**21,242**
2022-23 (forecast)	**13,000-14,000**
2023-24 (forecast)	**15,000-16,000**
2024-25 (forecast)	**16,000-18,000**

Figure 1



Sources: ABS Building Activity, Australia. HIFG range used for 2022-23, 2023-24 and 2024,25

WA economy stays strong against mounting headwinds

WA's economy performed strongly over 2022. The most recent National Accounts (March Quarter 2023) data revealed the domestic economy has continued its post-pandemic rebound although at a slower pace, rising 0.8 per cent over the quarter and 2.8 per cent over the year. In a sign of its strength, WA's economy is now more than 14 per cent larger than before the pandemic hit.

This has been underpinned by strong consumer spending that has remained more resilient than first anticipated. Significant savings buffers built up throughout the pandemic as generous government stimulus, combined with a record number of people in employment and rising wages, unlocked a tidal wave of household spending.

While this has seen the economy continue to grow, it has also helped trigger the surge in inflation we have experienced over the last 12 months. Inflation fell to 7.0 per cent for the year in March 2023 for Australia, from a peak of 7.8 per cent in December 2022. Similarly in WA, inflation fell to 5.8 per cent in March 2023 from the December 2022 peak of 8.3 per cent (although this was driven up artificially by the State Government's electricity subsidy). Perth currently has the lowest CPI level of all eight capital cities, however, the past 12 months have seen the cost of many goods and services skyrocket, forcing many households to tighten their belts.

In response, the Reserve Bank of Australia has hiked interest rates at their fastest pace in more than 30 years in a bid to bring inflation back to target. Interest rates have risen by 4.0 percentage points in just over a year, which has significantly increased mortgage repayments for homeowners on variable mortgages. However, given monetary policy operates with a lag, we are yet to see the full effect of these interest rate increases – this is particularly the case for mortgage holders currently on fixed rates yet to refinance. Combined, these factors are set to see growth in consumer spending fall over the next year, as spending is diverted to absorb cost of living pressures.

But despite these headwinds, WA's economy remains on a solid footing. While household spending is set to slow, the State's strong pipeline of business investment should help shore up the economy over the next couple of years. This pipeline is headlined by big ticket LNG projects, namely Woodside's Scarborough and Pluto 2 extension, while a raft of new mining and agriculture projects have been announced over the last six months. This will also help maintain demand for WA based workers, supporting the labour force over this period. The reopening of China is also a positive development for WA's economy, particularly for our exporters.

At the same time, key risks remain that have the potential to push the State's economic trajectory off course. The rising cost of doing business has become the largest challenge facing WA businesses, with CCIWA's latest Business Confidence Survey (March 2023) finding three quarters (75%) of WA businesses are seeing this as a barrier to growth over the coming year. Skills shortages also remain a significant challenge, with almost three quarters (74%) of businesses stating they had struggled to fill a skilled occupation this quarter.

Another key risk to the economic outlook includes inflation being more persistent than expected, leading to further increases in the cash rate. High interest rates, combined with protracted skills shortages, also risks the reduction or delay in new private investment announcements.

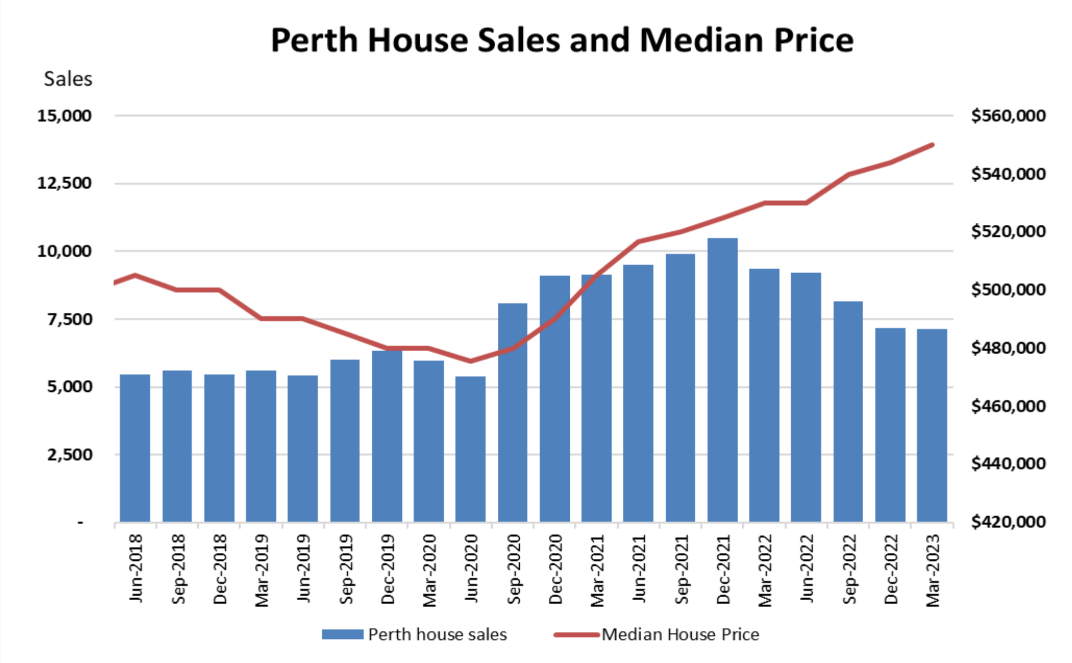
Strong Demand and Low Supply in the Established Property Market

Demand for established property in WA remains strong even after 12 rate rises to June 2023. One of the drivers of this is population growth, with the September 2022 quarter seeing the highest combined quarterly gain from net interstate and overseas migration since 2012. Meanwhile the number of rentals declined by nearly 5,000 in the year to March 2023 as investors continued selling investment properties to owner occupiers.

Building delays and rising construction costs have driven people looking for a home to the established market and kept people in rentals longer while they wait for their builds to be completed. The increased demand and overall limited supply of established residential property has held up property values in WA even with the record rise in rates and decline in borrowing capacity.

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

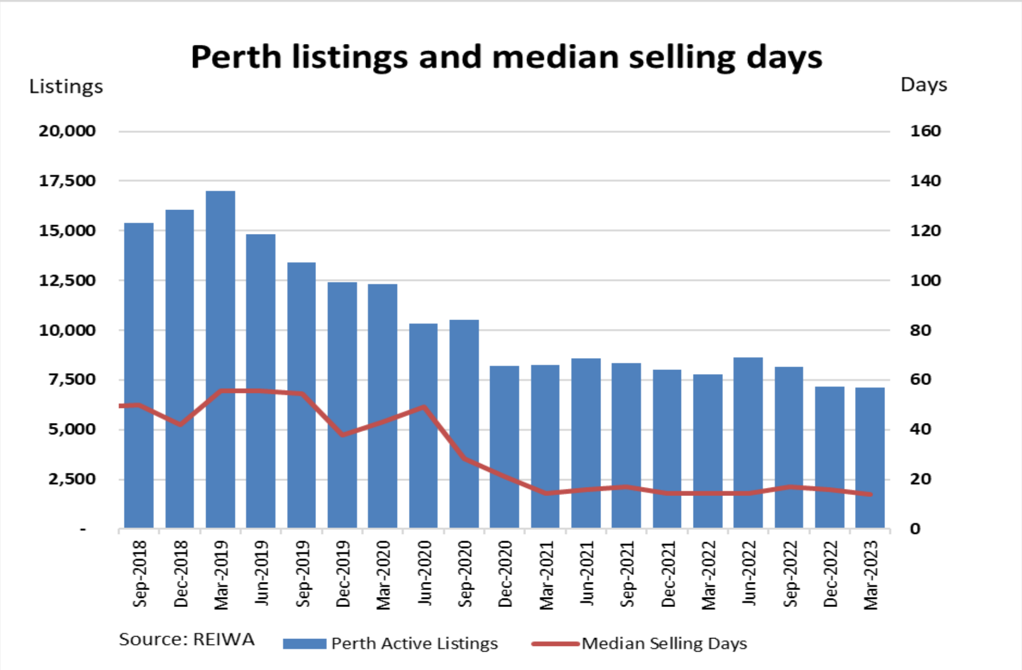


Source: REIWA

Listings for Sale and Sales

New listings remain above pre-COVID levels however appear to track towards pre-pandemic levels. New listings in 2022 were 19.3 per cent higher than new listings for sale in 2019. In the year to March 2023 there were 51,360 new property listings in Greater Perth, 8.1 per cent lower than the equivalent period prior. New listings for houses and units averaged a monthly year-on-year decline of 14.9 per cent in the six months to March 2023, new listings for land were down 17.2 per cent on average. New listings for houses are currently at levels equivalent with 2018-19.

Figure 3



In the year to March 2023 sales were 12.4 per cent below new listings compared with 10.7 per cent the year prior. Pre-2020 sales were nearly 40 per cent lower than new listings. There were 53,184 settled sales in 2022 in Greater Perth compared with 58,441 in 2021. Land sales declined the most with 40.3 per cent fewer land sales transactions. Total transactions of units were similar across 2021 and 2022 with 9,720 settled sales of units in 2022. There were 37,722 settled house sales in 2022 which is 3.7 per cent lower than 2021.

Established houses and units are continuing to sell at record quick rates with houses taking 13 days to sell in March 2023 and 21 days for units. The quick sale times and reasonably high ratio of sales to new listings has kept active listings at low levels. The average monthly active listings across the first three months of 2023 are sitting at a low 7,080. This is 9 per cent lower than the year prior and 57.9 per cent lower than the same time in 2019.

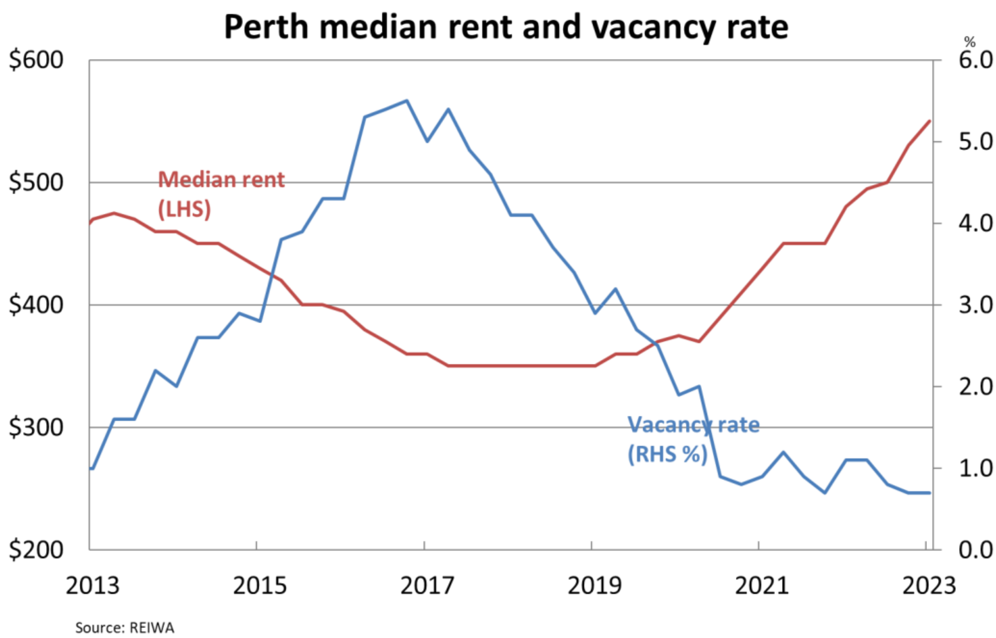
Tight Rental Market

Availability of rentals has declined significantly with a current 0.7 per cent vacancy rate in Greater Perth, new listings for rent over the last six months have been down 11.1 per cent YoY, on average. There were 34,222 new listings for rent in the year to March 2023 compared with 37,911 the year prior.

Meanwhile, demand for rental properties is still at high levels with only 6.4 per cent fewer leases to listings on average and properties are leasing two days quicker than a year ago. Resultantly active listings for rent, in 2023, have declined to monthly average of 1,859, 18.8 per cent lower than a year prior and 66.4 per cent lower than the same period in 2019.

Limited supply in the owner occupier and rental markets remains the central issue, as high demand for rental properties is not expected to ease anytime soon. The tight environment has seen weekly dwelling rents increase to $550 per week in March 2023, a 17 per cent YoY increase.

Figure 4



Land sales back to pre-COVID levels

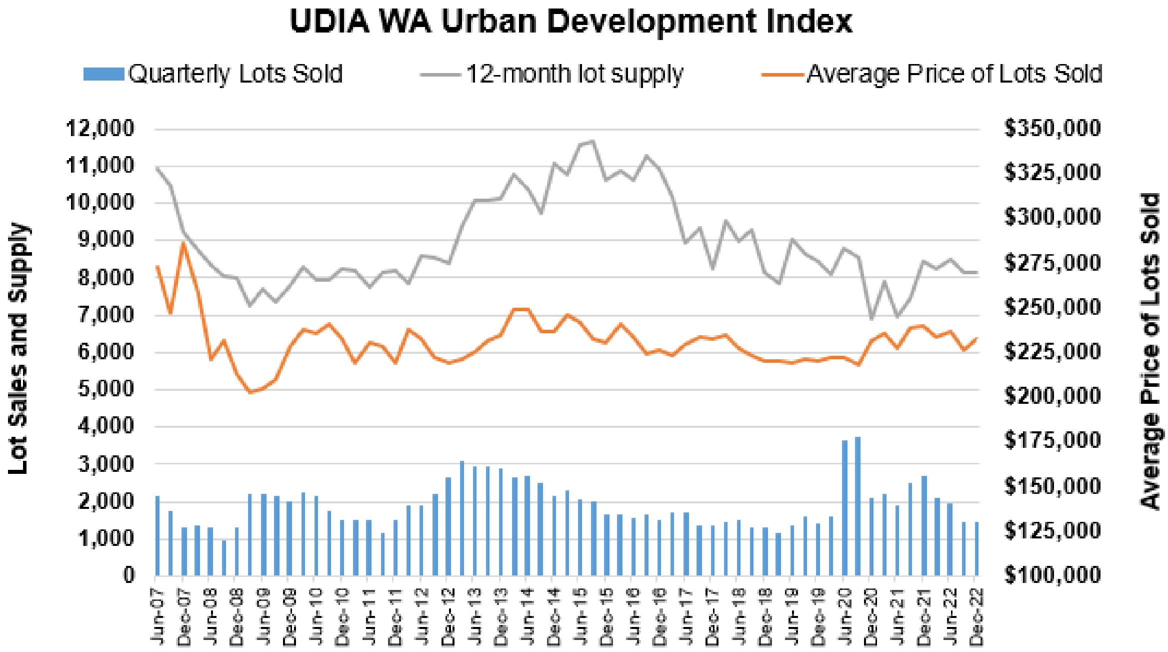
Over the second half of 2022, State-wide lot sales moderated by 27 per cent from the first half of the year to average 1,460 a quarter compared to 2,022 sales averaged across the March and June quarters. The current sales volumes are at a similar level to what was recorded across both 2018 and 2019. On-going challenges with trades, materials, and civil contractor availability, along with the continued interest rate rises has undoubtedly impacted the property market.

Construction activity remained steady over the December quarter with lots under construction and set to be released to market over the next 12 months sitting at 4,638 lots.

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 8,162, a commensurate volume to the September quarter.

Average lot prices increased slightly in the December quarter to $232,762 representing a 3 per cent increase on the September quarter but a 3 per cent decline YoY from $239,417 recorded the December 2021 quarter. This is despite a decrease in lot size from 407sqm in the December quarter 2021 to 386sqm for the December quarter 2022.

Figure 5

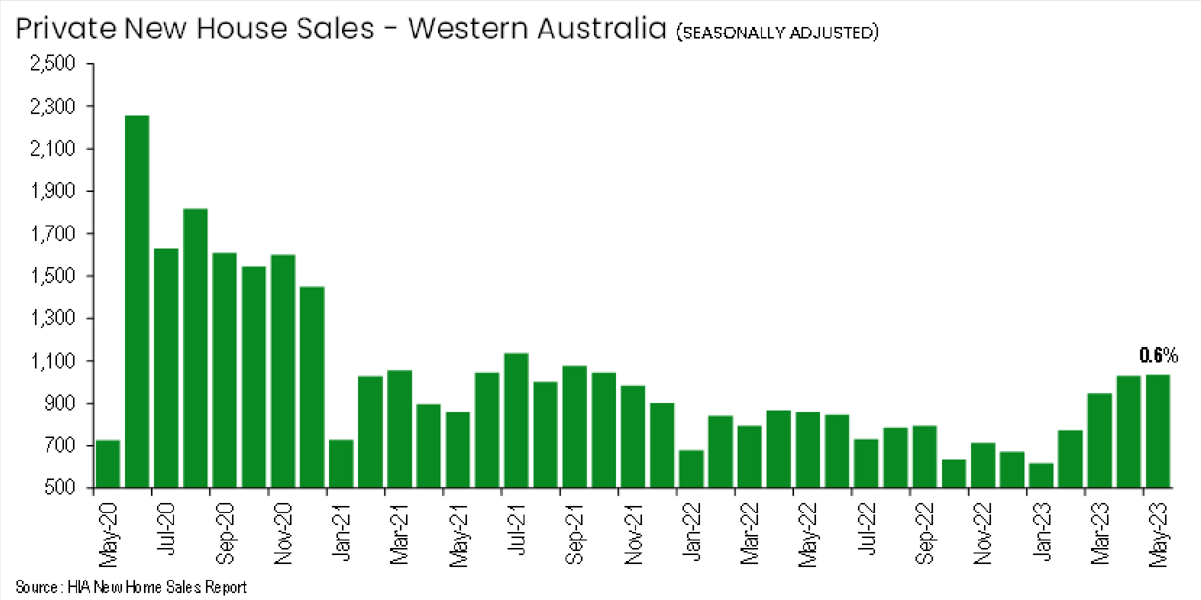


Source: UDIA WA Urban Development Index, December 2022

New home sales WA

New home sales in Western Australia increased by 0.6 per cent in May 2023. Indicating an improvement in home sales from 2022, around levels seen in 2021.

Figure 6

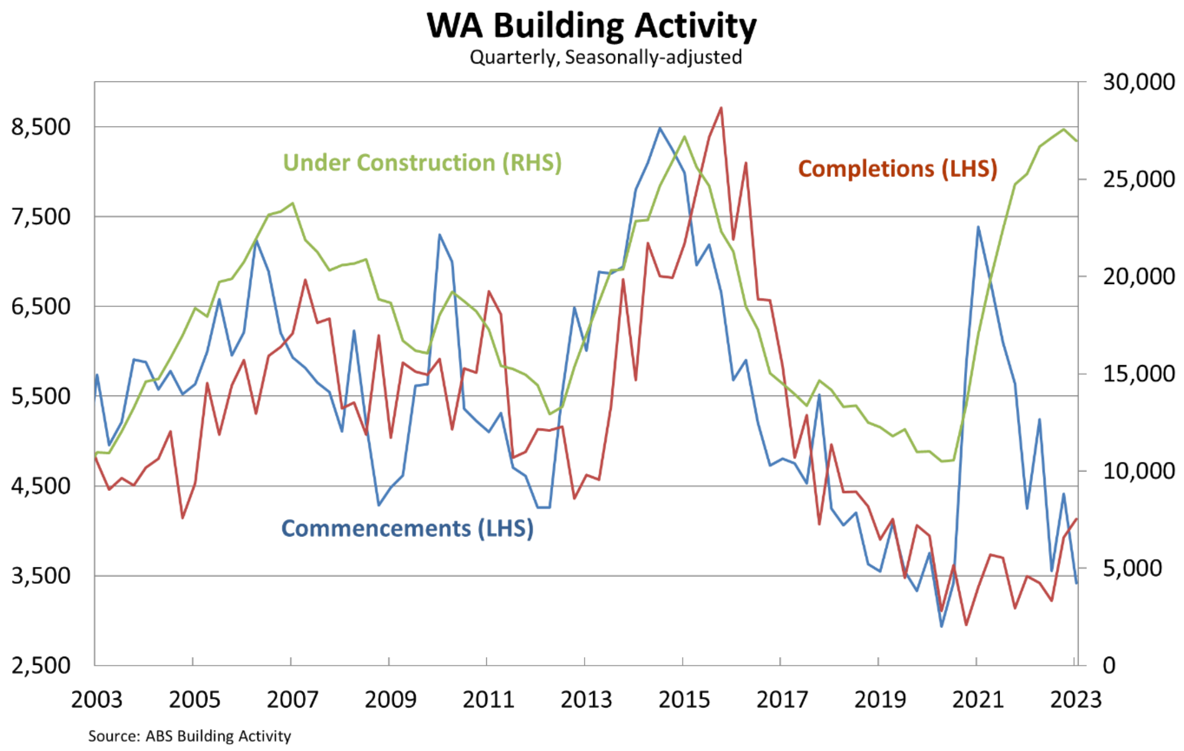


Building commencements

In 2021-22, the number of dwellings under construction reached 21,242, a 9.4 per cent decline from the 2020-21. The number of dwellings under construction decreased for the first time since June 2020, falling from the peak of 27,439 in the December quarter 2022, to 26,974 in the March quarter 2023 (-2.1 per cent decrease). Commencements have eased down following the introduction of the temporary Commonwealth and State government building grants (announced in Mid-2020). Dwelling completions have yet to pick up significantly, though had a further uptick in March quarter 2023, exceeding commencements for the first time since September quarter 2020, heralding relief for the number of dwellings under construction.

Dwelling commencements fell 22.4 per cent over the quarter in March 2023 (to 3,422), 19.5 per cent lower than March quarter 2022. The March quarter 2023 was the lowest level of commencements since June 2020, further commencements are expected to ease 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 819 in the March quarter 2023, declining by approximately 10 per cent from the previous quarter and 81.9 per cent from the peak of March quarter 2021. Building approvals in May 2023 continue to dwindle declining by 11.1 per cent over the month and are now 41.6 per cent lower than a year ago.

Figure 7



Housing finance

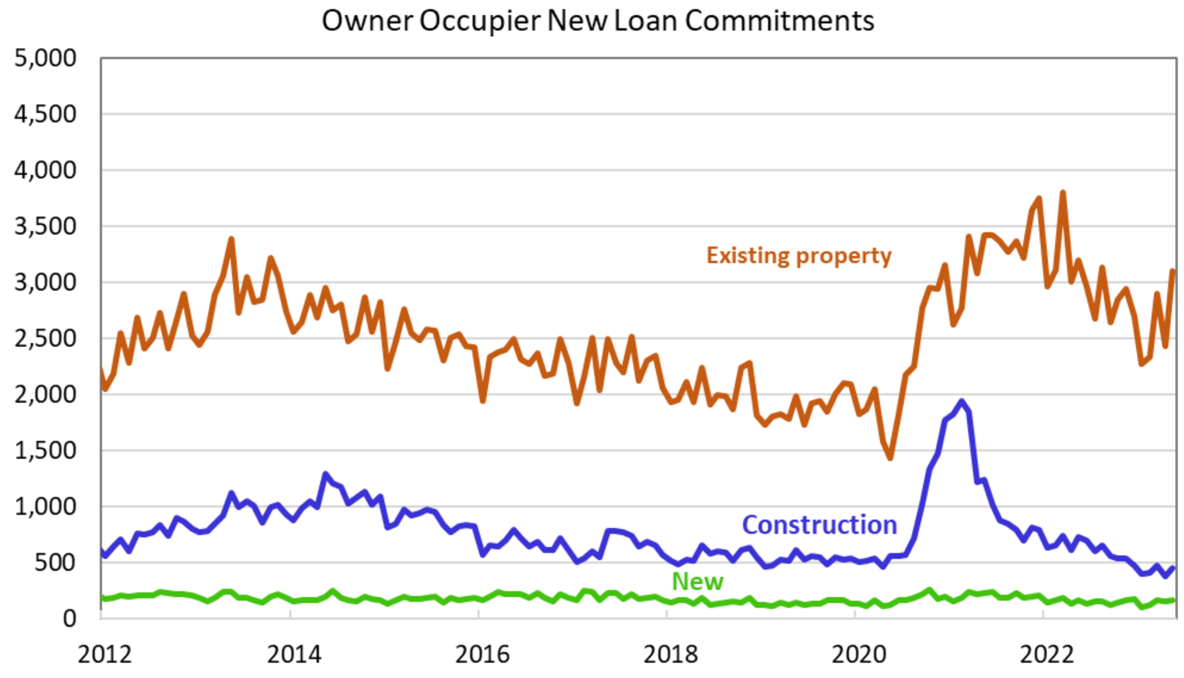
Demand has eased in owner occupier lending across WA, as the multiple RBA rate increases and cost of living pressures impact households. Construction lending has returned to pre-pandemic levels, with those purchasing an existing property still surpassing pre-pandemic volumes.

Investor lending in WA, however, continues to exceed pre-pandemic levels with January 2023 volumes more than twice January 2020 volumes (899 new loan commitments compared to 431), despite the seasonal reduction in settlements.

The volume of first home buyers in WA has returned to pre-pandemic levels, much like the other states, finally normalising after the Federal and State Government stimulus packages introduced during the pandemic. Fixed rate lending has reduced significantly since January 2022, driven by the RBA rate rises and uncertainty as to when the increases will abide.

Capacity constraints in construction are reflected in new dwelling investment expenditure which has plateaued since the temporary grants were introduced.

Figure 8



Source: ABS Lending Indicators

Industry Outlook

- The Group acknowledged that significant building industry challenges continued into 2023 and will likely remain throughout 2023. Skills shortages and construction costs persist, impacting the industry and maintaining extended build times.

- The peak of dwellings under construction appears to have passed, heralding relief in capacity for the industry. Further capacity is expected to free up as significant infrastructure projects come to completion. Workforce capacity will also improve with the pipeline of trainees, apprentices, and skilled migration.

- Building commencements will likely continue to decline in 2022-23, as the market returns to a post-stimulus equilibrium, and capacity issues constrain activity. A modest recovery is then expected in 2023-24 and 2024-25 as building completions become available to the market and migration into WA begins to increase. It is expected that demand for new dwellings will continue to exceed capacity in the residential construction market.

- Inflation in Australia remains at some of the highest levels it has seen since the early 1990s, with construction cost growing almost 50% higher than three years ago. Consequently, the Reserve Bank of Australia has raised the cash rate to 4.1 per cent in just over a year. Financial markets are pricing in further increases before the years end, before plateauing and improving borrowing capacity. Though, increases to the cost of borrowing are expected to curtail commencements in the short to medium term.

- So far in 2023, the WA economy has remained positive, with low levels of unemployment and resilient household spending. However, costs and skill shortages persist as significant issues expected to curtail business activity in the short to medium term.

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