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Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

November 2023

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HIFG update November 2023

Small rise anticipated for WA dwelling commencements in 2023-24

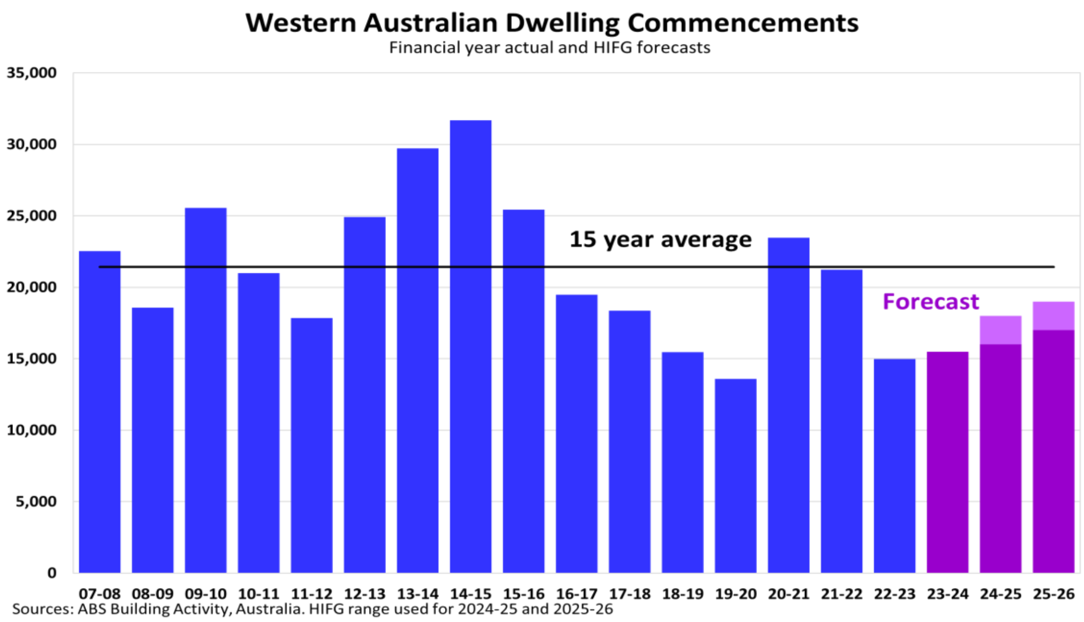
The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in Western Australia. The previous forecasts were reported in June 2023.

The HIFG revised its 2023-24 dwelling commencement forecast to 15,500, in line with the range of 15,000 – 16,000 reported in June 2023 and an increase of approximately 3.6 per cent when compared to actuals for 2022-23. The revision upwards was driven by improved capacity, population growth, elevated lot demand, and increased investor activity.

It is anticipated dwelling commencements will remain below the long-term average over the forecast period with a range of 16,000-18,000 in 2024-25, before a modest improvement in 2025-26 to 17,000-19,000.

Financial Year	Dwelling Commencements
2022-23 (actual)	**14,967**
2023-24 (forecast)	**15,500**
2024-25 (forecast)	**16,000-18,000**
2025-26 (forecast)	**17,000-19,000**

Figure 1



Western Australia's economy remains robust, although slowdown expected

The Western Australian economy has continued to plough ahead over the past six months despite numerous economic headwinds intensifying. Solid household consumption, a resilient jobs market and strong export activity have continued to feed this economic momentum. WA's economy, as measured by State Final Demand, grew 2.4 per cent over the September 2023 quarter, taking annual growth to 5.5% - up from the 4.2 per cent recorded in the June quarter. This brings WA's economy to its largest size on record, with a record number of people in employment.

This momentum has started to fade, and a slowdown in economic activity is expected. Elevated interest rates and the higher cost of living have already started to weigh on household spending, and this is set to continue over the next 12 months as the full impact of interest rates is felt.

Retail trade volumes are down slightly from this time last year despite the State welcoming a record number of overseas migrants, indicating spending per person has started to decline. At the same time, CCIWA's Consumer Confidence Survey also found around four in five (81%) households are finding ways to cut back their spending over the next year to help cope with the higher cost of living. Given monetary policy operates with a lag, household consumption is expected to slow further over the year ahead, placing a further drag on economic growth.

Slowing economic activity has also seen inflation begin to moderate. Nationally, inflation has fallen to 5.4 per cent for the year to September 2023 (down from 7.8 per cent in December 2022), while in Perth inflation is slightly higher at 5.8 per cent. While on the right trajectory, inflation remains well above the Reserve Bank's target, meaning interest rates are expected to remain elevated into 2024.

Despite these headwinds to growth, WA's economy remains on 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 two years. This pipeline is headlined by major LNG projects, including Woodside's Scarborough and Pluto 2 extension, while our abundance of critical minerals and renewable energy sources places the State in a strong position to capitalise on future investment opportunities.

At the same time, there remains significant challenges that present material risks to WA's economic trajectory. The rising cost of doing business continues to dominate as the most significant issue for WA businesses, with CCIWA's September 2023 Business Confidence Survey finding four in five (79 per cent) WA businesses see this as a barrier to growth over the next year. The availability of skilled labour also remains a significant barrier, as indicated by 71 per cent of businesses. Skill shortages remain a particular concern for the construction industry, where 78 per cent view this as a barrier.

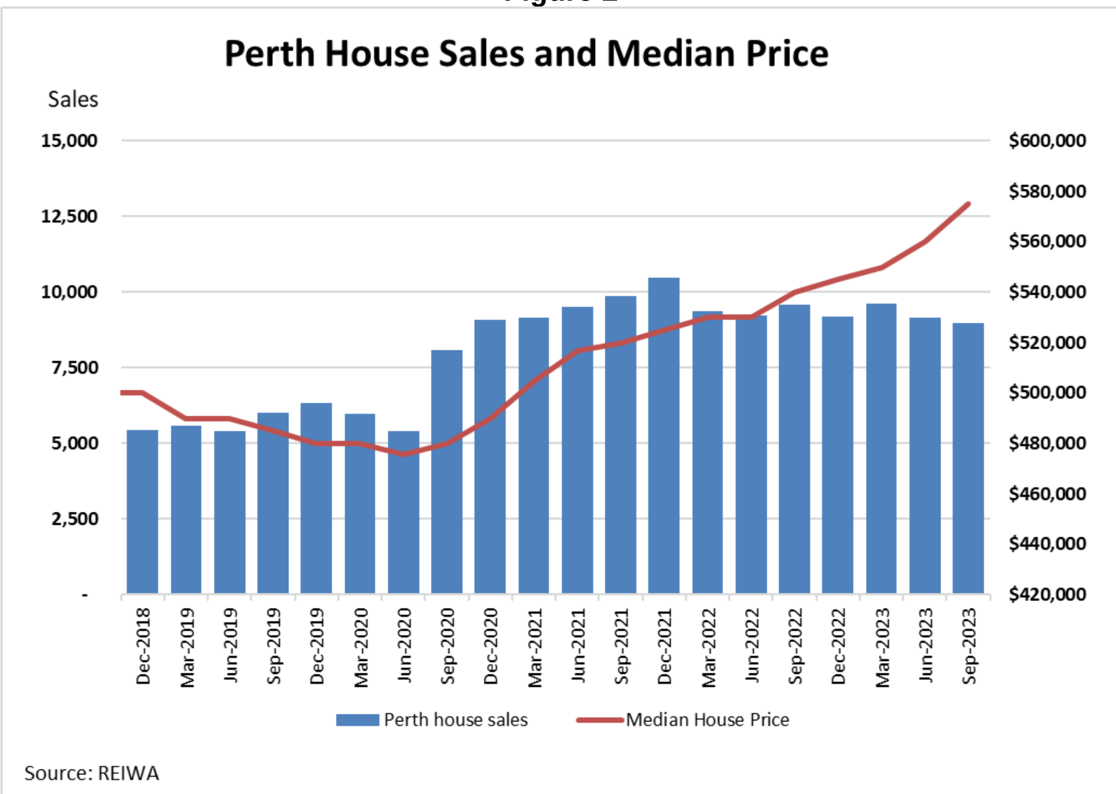
Internationally, China's economic challenges and the conflict in the Middle East risk dampening growth further. Much of the uncertainty in China's economy stems from the challenges in its property sector – a key watch for WA given the amount of steel, and therefore iron ore, used in the industry. In a more recent development, the conflict between Israel and Hamas has the potential to see a spike in oil prices if the conflict was to escalate, which could play havoc with supply chains once again and further weaken global demand.

While risks remain, WA's fundamentals remain robust and businesses in the construction sector remain generally optimistic about the future. CCIWA's September 2023 Business Confidence Survey results reveal that a higher proportion of construction businesses anticipate stronger conditions in WA over both the short and long term.

Strong demand and low supply in the established property market

Demand for established property in WA remains strong even after 13 rate rises since May 2022. A significant driver behind this is the record high rate of population growth. Buyer demand for the established market is also being held up by the shortage of rental properties and constraints in the construction sector. The high demand for the limited supply of established residential property has propelled property values in WA even with the record rise in rates and decline in borrowing capacity.

Figure 2



Rising property prices

The limited supply and high demand for established property has seen the annual median house sale price in Perth rise by 7.4 per cent over the year to September 2023. Unit prices were down 2.4 per cent in the same period, while the median price for vacant land was up 4.5 per cent.

Rent reached a record high of $600 per week for houses and $550 for units in September 2023. House rent was up 15.4 per cent year-on-year and unit rent was up 22.2 per cent in the same period.

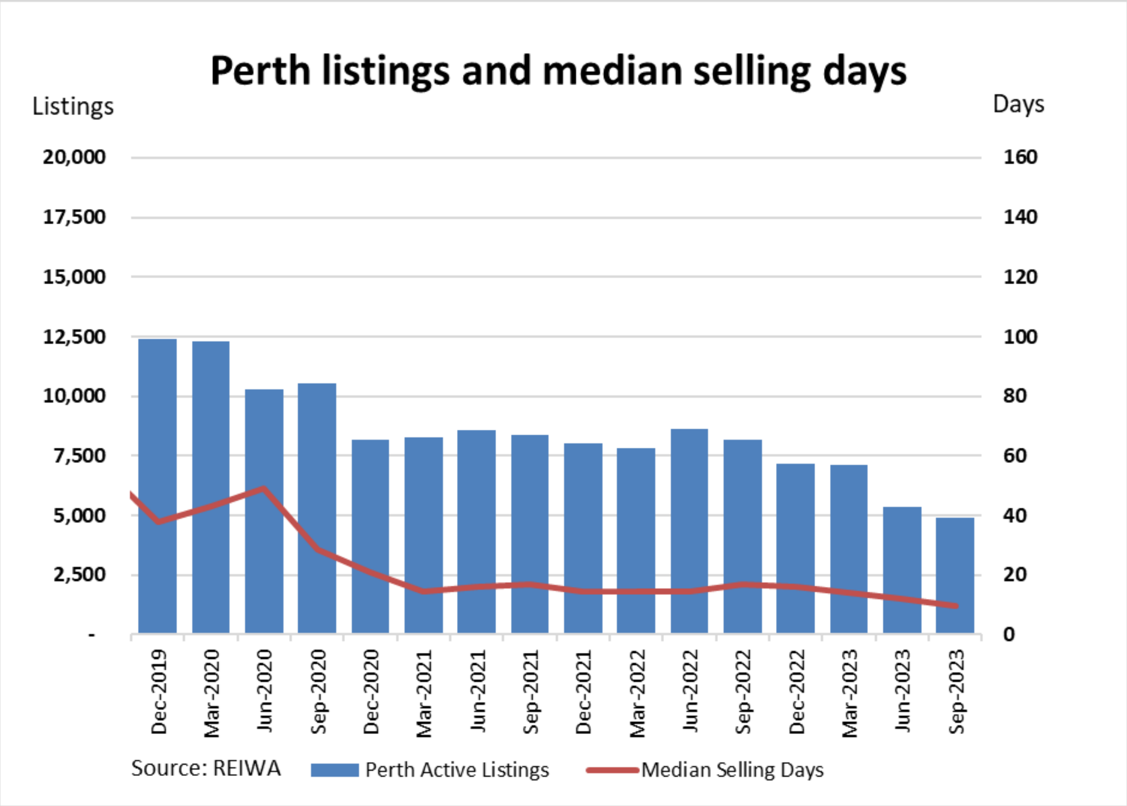
Residential property sales

There were 47,662 new residential property listings for sale in Greater Perth in the year to September 2023, 14.3 per cent lower than the year prior. Compared to the five-year average though new listings in the September quarter 2023 were two per cent lower.

High demand for established property has seen new stock snapped up at record speed, which has kept active listings around or below 5,000 for most of 2023. Houses in Greater Perth sold in a median of nine days in September 2023 and units in 16 days.

There were 57,041 settled residential property sales in the Greater Perth region in the year to September 2023, which is only 0.3 per cent lower than the year prior. Settled sales in the September 2023 quarter were 26.6 per cent higher than the five-year average.

Figure 3



Tight rental market

The Perth rental vacancy rate remained significantly low, an average 0.7 per cent, in 2023 with many regional areas in a similar situation. There is a significant shortage of rental properties across WA.

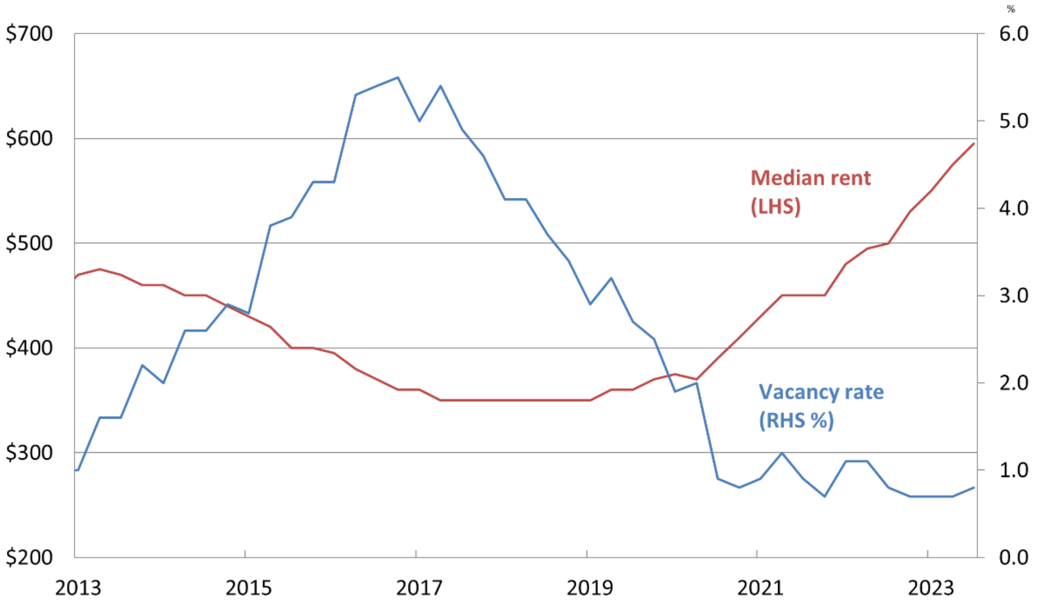
There were 33,254 new listings for rent in the Greater Perth region in the year to September 2023, 8.6 per cent lower than the year prior. During the same period, there were 31,253 properties leases, 7.8 per cent lower than the year prior.

With dwellings renting in a record fast 14 days, active listings for rent have remained below 2,000 for most of 2023.

Although there is strong interest from investors, supply is expected to remain tight for an extended period, with rents likely to increase as a result.

Figure 4

Perth median rent and vacancy rate



Source: REIWA

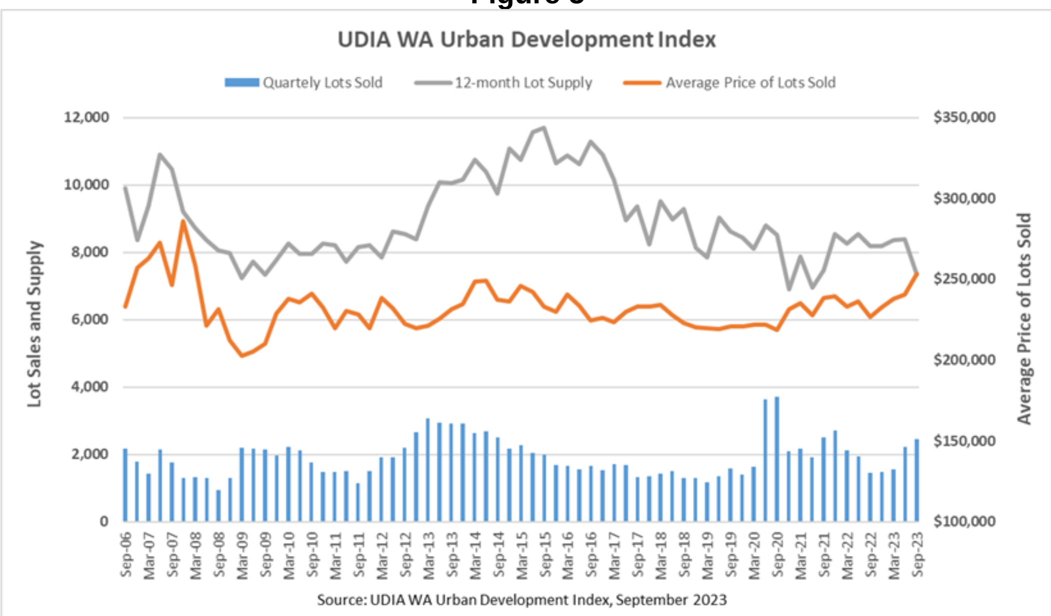
Land sales back to pre-COVID levels

Across the first three quarters of 2023 State-wide lot sales continued to grow in aggregate volume with sales in the September quarter increasing by 11 per cent to 2,461 compared to 2,214 in the June quarter. September quarter lot sale volumes are 21 per cent higher than the long run average, the highest quarterly volume achieved since 2014. Aside from the abnormally high volumes achieved through the HomeBuilder and Building Bonus stimulus period of 2020/21.

Construction activity remained steady over the September quarter, with lots under construction and set to be released to market over the next 12 months sitting at 4,213. This combined with the number of lots currently on the market and lots not on the market, provides a total 12-month lot supply of 7,340, a decrease from 8,399 in the June quarter 2023.

The September quarter featured a significant uplift in investor purchasing activity, accounting for 62 per cent of metropolitan lot sales. This is double the proportion of investor activity typically witnessed in the Western Australian land market and reflects heightened activity from both local and interstate investors.

Figure 5



The strong greenfield land market activity has eroded supply pipelines leading to the lot supply to demand ratio dropping to 0.9. This is first time the supply/demand ratio has dropped below one since the frenzied market conditions witnessed in the June and September quarters 2020, underpinned by ultra-low interest rates and the HomeBuilder and Building Bonus grants stimulus. The ratio has only dropped below one in two other periods, in 2013 at the peak of the last housing cycle and in 2009.

The decline of the supply/demand ratio to below one suggests that if sales continue at a similar rate there will be a deficit of lots recently completed or currently under construction to keep up with demand. The lowest the supply and demand ratio has reached is 0.8 in 2013, however, at this time there were a higher number of lots under construction for the next six to 12 months, with 2,757 lots, compared to only 1,726 lots under construction currently. Given that lot sales are expected to continue to grow during the next six months and the current low level of supply to be brought on, the supply/demand ratio is expected to continue to fall and may reach a new low.

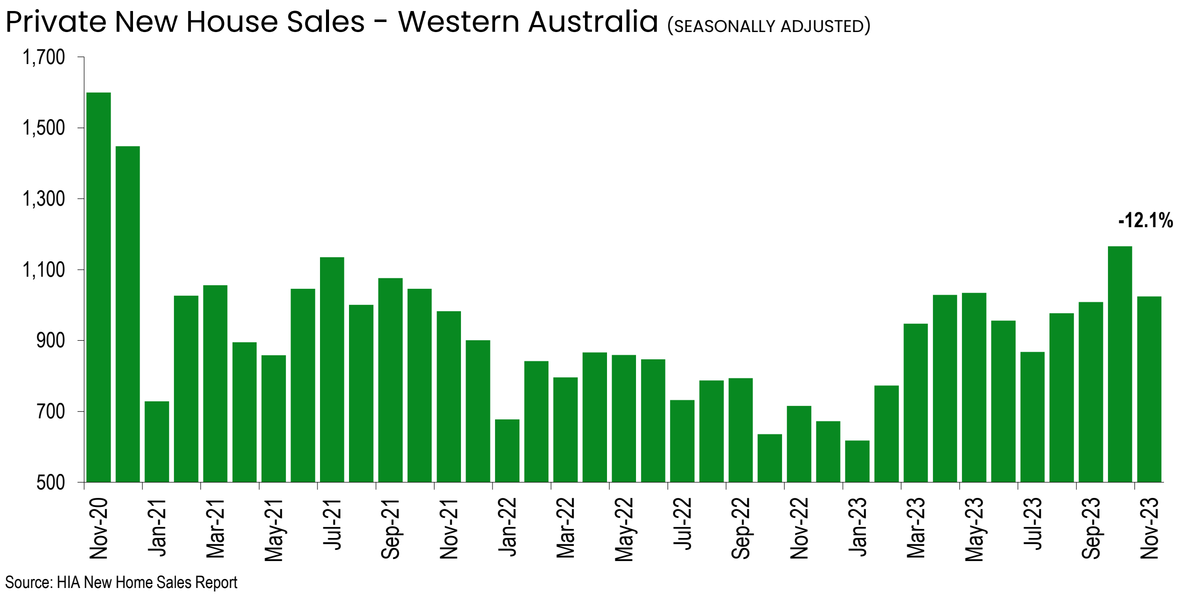
History indicates that when the lot supply/demand ratio falls below one, prices start to rise and we are certainly seeing this now, with lot prices for the Perth Metropolitan area up 5.7 per cent across the September quarter and 10.5 per cent higher than 12 months ago.

New home sales WA

Sales of new homes in WA fell by 12.1 per cent in the month of November. The volume of new home sales in recent months were strong, which puts sales in the three months to November higher by 14.2 per cent compared to the previous three-month period. Compared to the previous year, new home sales are up by 49.1 per cent.

This continued uptick is confirmed by home approvals data from the ABS, which saw an 11.7 per cent increase in October compared to the previous month. This places approvals in the three months to October 2023 higher by 15.3 per cent compared to the previous three-month period, and lower by 1.7 per cent compared to the previous year.

Figure 6

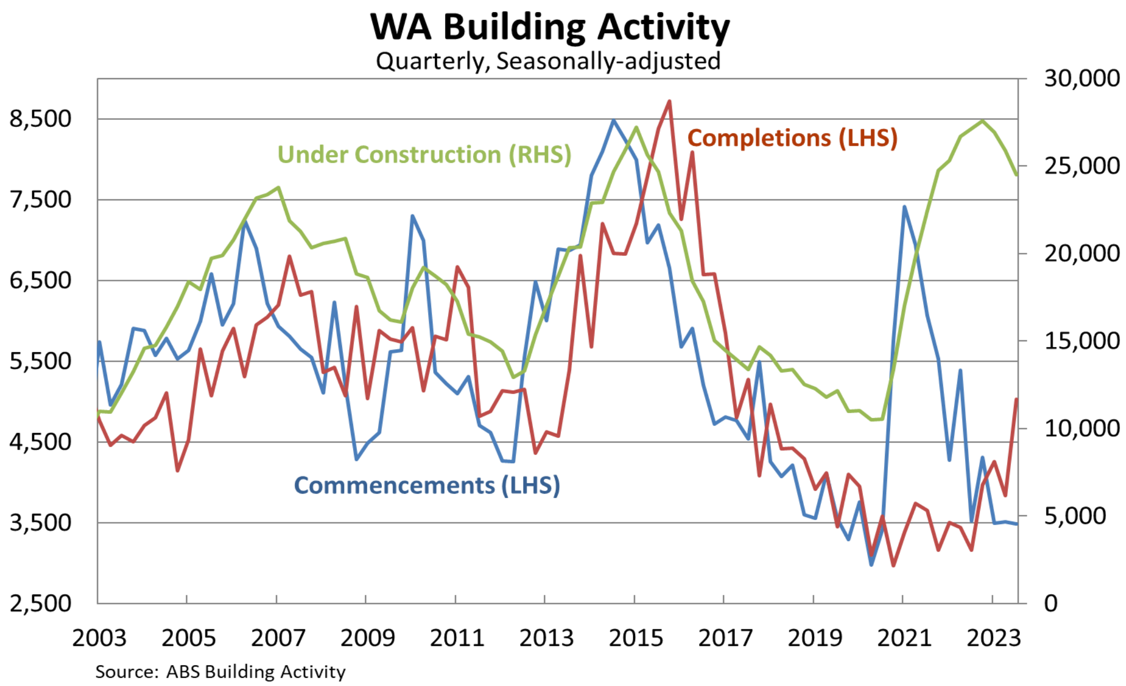


Building commencements

The number of dwellings under construction reached their peak in December quarter 2022 at 27,565 after increasing for 11 consecutive quarters. In September quarter 2023 there were 24,480 dwellings under construction, a 5.4 per cent decrease. Commencements have eased down from the heights seen following the introduction of the temporary Commonwealth and State Government building grants (announced in mid-2020). However, dwelling completions have yet to pick up significantly, though have remained above commencements over the last three quarters heralding further, if minor, relief for the number of dwellings under construction.

Dwelling commencements fell 0.7 per cent over the quarter in September 2023 (to 3,487), 0.9 per cent lower than September quarter 2022. The September quarter 2023 showed a slight decrease in the number of commencements, it is expected that commencements will remain around similar levels in the short to medium term, with lead indicators of new dwelling construction, such as First Home Owner Grant (FHOG) applications and building approvals, not showing any indication of upward movements. FHOG applications totalled 941 in the September quarter 2023, increasing by approximately eight per cent from the previous quarter though were down 79.2 per cent from the peak of March quarter 2021. Building approvals in October 2023 continue to dwindle with an annual monthly average of 1,127 for the 12 months prior compared to an annual monthly average of 1,428 for the 12 months prior to October 2022, a 21.1 per cent decrease.

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.

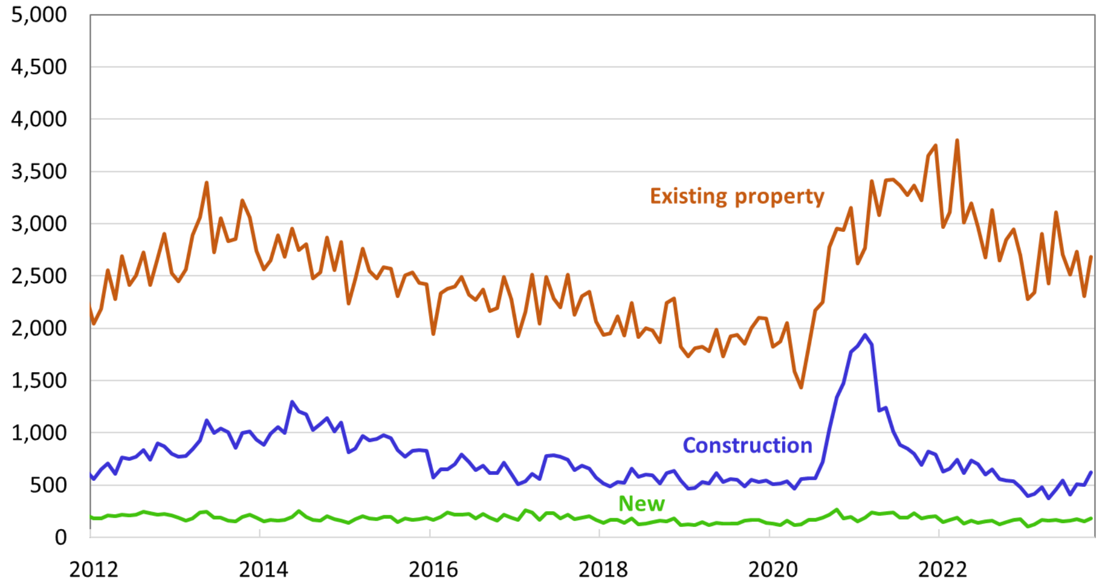
Investor lending in WA, however, continues to exceed pre-pandemic levels with October 2023 volumes more than triple January 2020 volumes (1,442 new loan commitments compared to 431).

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 abate.

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

Figure 8

Owner Occupier New Loan Commitments



Source: ABS Lending Indicators

Industry outlook

- The HIFG acknowledged that significant building industry challenges continued into 2023 and will likely remain throughout 2023 and in to 2024. Capacity constraints and elevated construction costs persist, impacting the industry and limiting the economics of dwelling construction, particularly for high density projects.

- The WA economy remains robust despite intensifying headwinds, though a slowdown in economic activity is expected. Long term expectations in the construction sector remain positive as capacity improves and strong demand levels foster increased activity.

- Building commencements are expected to improve moderately in 2023-24, as the market returns to a post-stimulus equilibrium, and capacity issues lessen. A modest recovery is then expected in 2024-25 and further in 2025-26 as building completions become available to the market and migration into WA continues to drive demand. It is expected that demand for new dwellings will continue to exceed capacity in the residential construction market.

- Extended building times, capacity constraints and completions remaining sluggish, have contributed to demand for dwellings (rentals and owner-occupier) continuing to be persistently high, leading to record low vacancy rates and listing periods, and continuous price increases.

- Greenfield land market activity increased during 2023, with demand to supply ratios reaching levels seen during the heightened period of the government stimulus packages in 2020, indicating further construction activity. However low levels of lot supply indicate this measure may hit record lows, heralding higher lot prices in the short to medium term.

- Inflation in Australia remains at some of the highest levels seen since the early 1990s. Consequently, the Reserve Bank of Australia has raised the cash rate to 4.35 per cent in close to a year and a half. While inflation is showing signs of having reached its peak, there remain possibilities of stickiness in prices particularly in the services industry which may contribute to the need for further rate increases. The increased cost of borrowing is expected to curtail commencements in the short to medium term.

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