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Housing Industry Forecasting Group

Forecasting Dwelling Commencements in Western Australia

April 2024

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HIFG update April 2024

Small rise anticipated for WA dwelling commencements in 2023-24

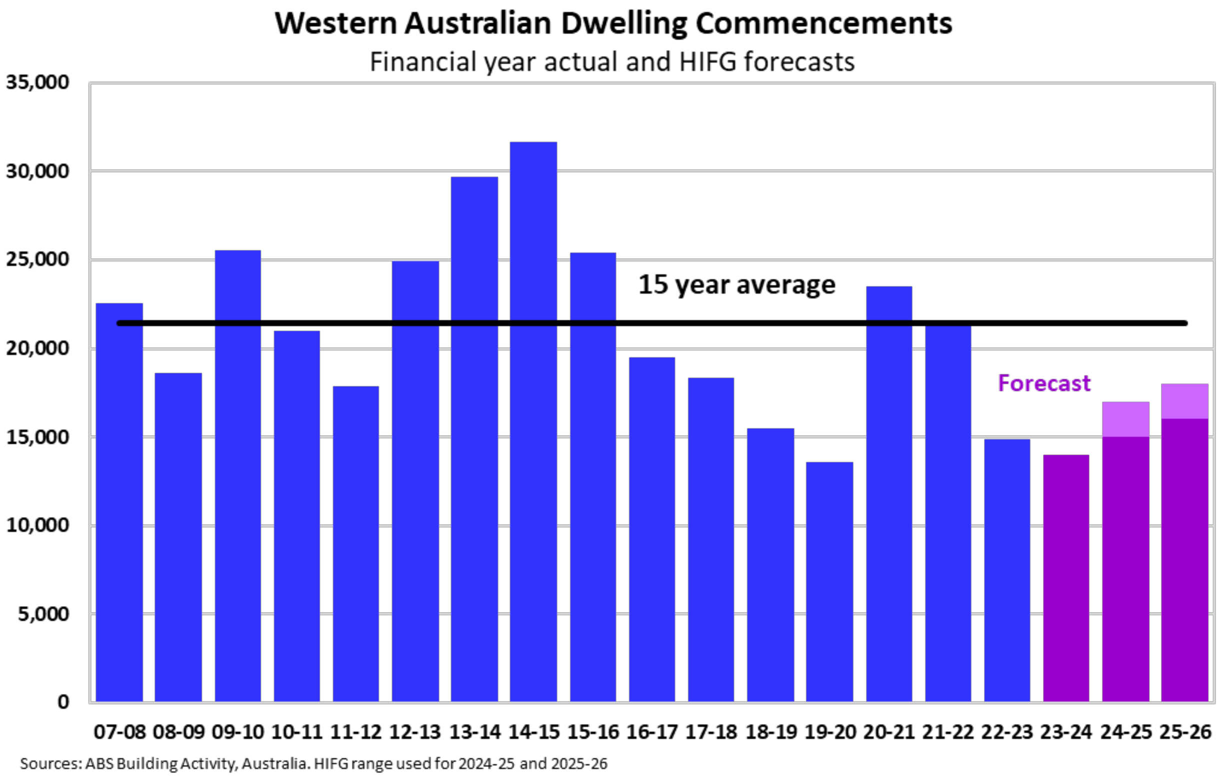
The Housing Industry Forecasting Group (HIFG) has reviewed and updated its most recent forecasts of dwelling commencements in Western Australia. The previous forecasts were reported in November 2023.

The HIFG revised its 2023-24 dwelling commencement forecast to 14,000, downgraded from the forecast of 15,500 reported in November 2023 and a decrease of approximately 6.5 per cent when compared to actuals for 2022-23. The revision downwards was driven by capacity constraints, manifesting in sluggish completions, and delayed commencements.

It is anticipated dwelling commencements will remain below the long-term average over the forecast period with a range of 15,000-17,000 in 2024-25, before a modest improvement in 2025-26 to 16,000-18,000.

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

Figure 1



Western Australia’s economy remains robust, although slowdown expected

Despite inflationary pressures, supply-side risks and global uncertainty, Western Australia’s economic growth continues on a solid path. The strong performance has primarily been underpinned by robust business investment, significant government investment and a record number of people in employment, supporting household consumption.

The size of Western Australia’s economy is now the largest on record, surpassing the previous peak seen during the state's mining construction boom in 2012. Measured by State Final Demand, Western Australia's economy grew 0.8 per cent during the December 2023 quarter, resulting in an annual growth rate of 5.5 per cent – the same annual rate as last quarter. This is the fastest pace of growth nationally – expanding at a rate more than double that of Queensland in second place.

However, elevated interest rates and the rising cost of living continue to dampen household finances, with CCIWA’s March 2024 Consumer Confidence Survey finding three in five (58%) Western Australians dipped into their savings to cover the elevated cost of living. With households having to tighten their belts, consumer spending has held relatively flat – retail trade volumes have remained relatively unchanged over the past two years. Looking to the second half of the year, the household sector is expected to be aided by a resilient job market, elevated incomes, skyrocketing house prices and robust population growth, in turn helping underpin economic growth.

Business investment is expected to further fuel domestic growth, with major LNG projects such as Woodside's Scarborough and Pluto 2 extension continuing to move towards completion. In addition, iron ore majors continue to operate close to capacity and newly established mines ramp up production, helping to sustain baseline investment and injecting further into the State’s economy.

Despite the strong aggregate domestic projections, Western Australia’s exports are set to moderate over the coming year, particularly as LNG exports soften, following record levels of production. Meanwhile, agricultural exports are set to weaken following the El Nino weather event. Strong iron ore production and new iron ore mines coming online should however look to boost the State’s exports in the outyears.

The global economy is expected to grow at a slower pace than recent history as tight monetary policy, a withdrawal of fiscal support and lower productivity growth sets in. Of particular concern to WA is China’s weakening property market, as falling steel demand and rising iron ore inventories at ports has seen the price of iron ore plummet around 30 per cent since the start of 2024. At the same time, unrest in the Middle East and Ukraine is adding to geopolitical instability. There is potential for this to place further pressure on food and commodity prices, as well as freight costs as some vessels reroute to avoid attacks in the Red Sea.

As such, significant challenges continue to weigh on WA businesses. CCIWA's March 2024 Business Confidence Survey found the rising cost of business and the availability of skilled labour remain the leading barriers to business growth, with 71 per cent and 68 per cent of businesses reporting each as a barrier. Alarmingly, one in five (18%) Western Australian businesses indicated they are at risk of closing or significantly scaling down their operations in the upcoming 12 months.

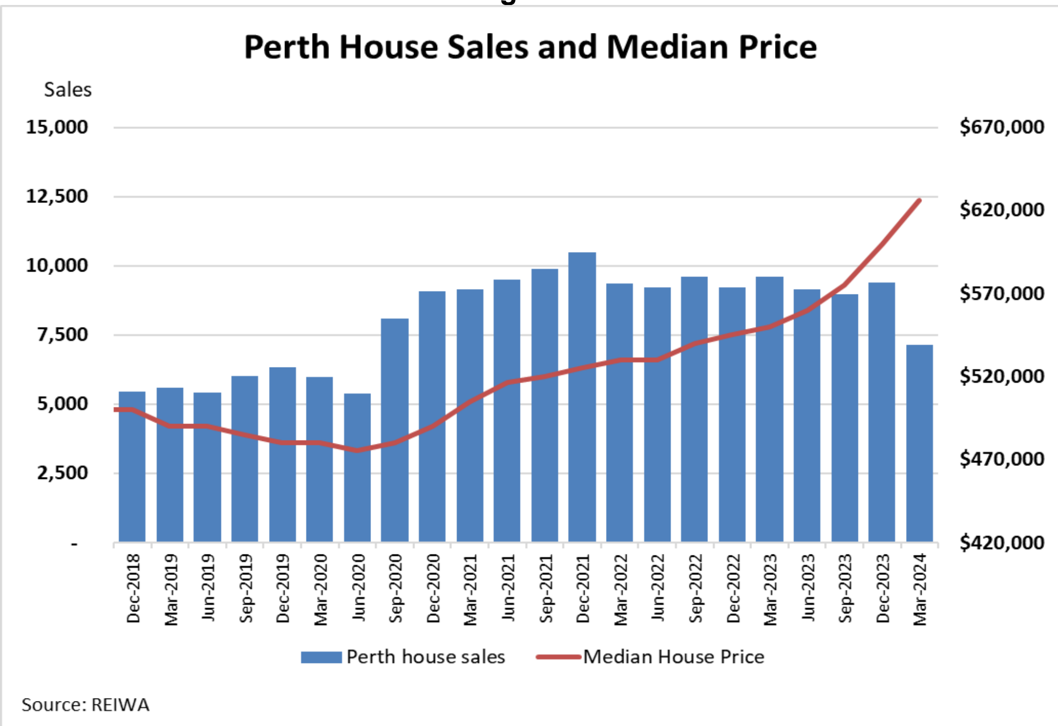
Labour shortages are particularly prevalent in the construction sector. A greater proportion (78 per cent of businesses in the construction sector have reported labour shortages as a barrier over the coming year compared to businesses in WA as a whole (69%).

Despite the significant headwinds faced by businesses in the construction industry, the outlook remains relatively optimistic in both the short and longer term, compared with other WA businesses. The relatively higher optimism likely reflects strong demand for housing, despite some of the supply constraints facing the industry.

Strong demand and low supply in the established property market

Demand for established property in WA remains strong even after the 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

Prices continue to rise across most of the state with 12.7 per cent annual growth in the median house sale price in the Greater Perth region, and 30.4 per cent since March quarter 2020.

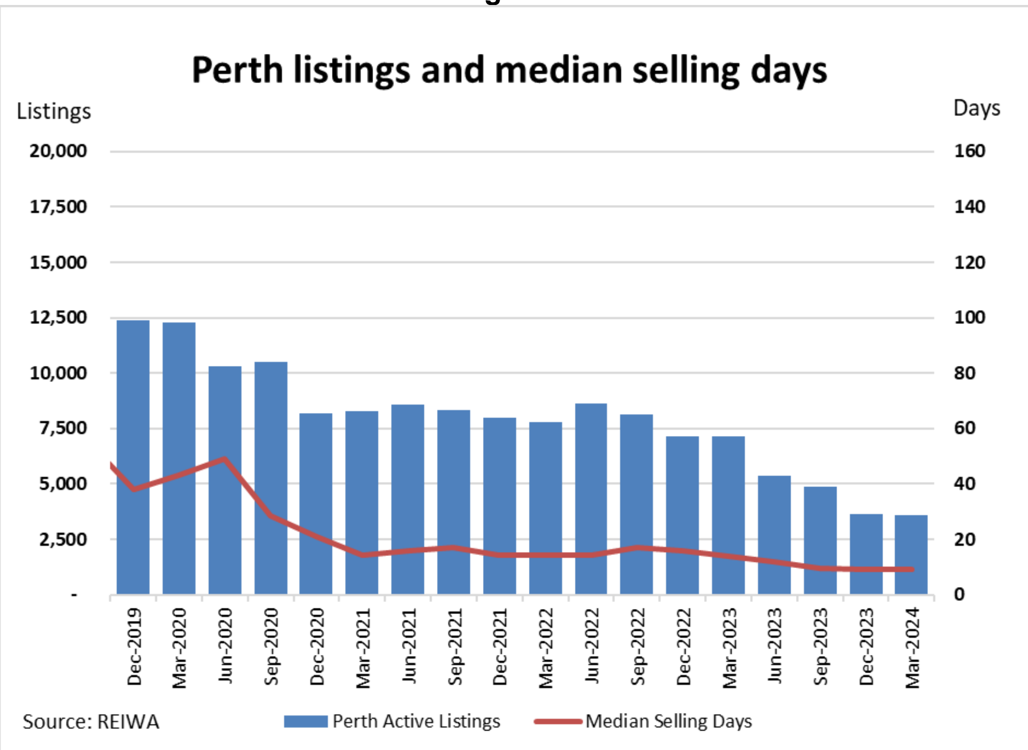
With limited rental properties available and the rising cost of living, demand for units, particularly villas and townhouses, is increasing. The median annual sale price for units rose 5 per cent over the year to March 2024.

Residential property sales

At the end of March 2024, the number of listings for properties available for sale, at any given time, were 54 per cent below the 5-year average. Meanwhile, new stock coming to the market in the first quarter were only one per cent below the five-year average. This indicates that while stock is coming to the market, it is selling at or near record speed. High levels of demand have kept active listings below 4,000 for the past two quarters and seen houses in Greater Perth sold in a median of nine days in March quarter 2024

REIWA member sales in the first quarter of 2024 were four per cent above the 5-year average for the March quarter. The low levels of stock on the market (down 24 per cent) in March quarter 2024 have likely contributed to sales recently falling relative to the past three years.

Figure 3



Source: REIWA

Low Supply Continues in the Rental Market

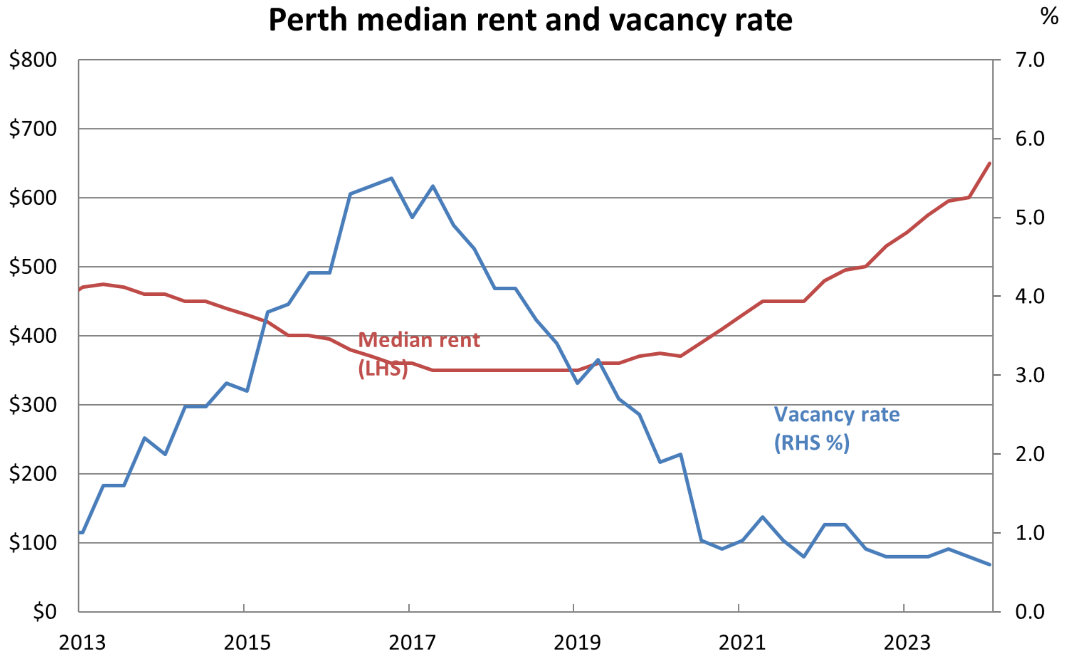
Stock in the rental market remains low while strong migration bolsters high demand. The Perth rental vacancy rate reached a record low of 0.4 per cent in March 2024, with most regional areas in a similar situation. WA, as a whole, is experiencing a significant shortage of rental properties.

Listings of rental properties available at the end of March 2024 were 35 per cent below the five year average. New stock coming to the market in the March quarter 2024 was also low at 20.8 per cent below the five year average. With limited stock leased, properties were also down 18.6 per cent on the five year average for the same period.

The median dwelling rent has risen 18.2 per cent over the year to $650 per week in March 2024.

Figure 4

Perth median rent and vacancy rate



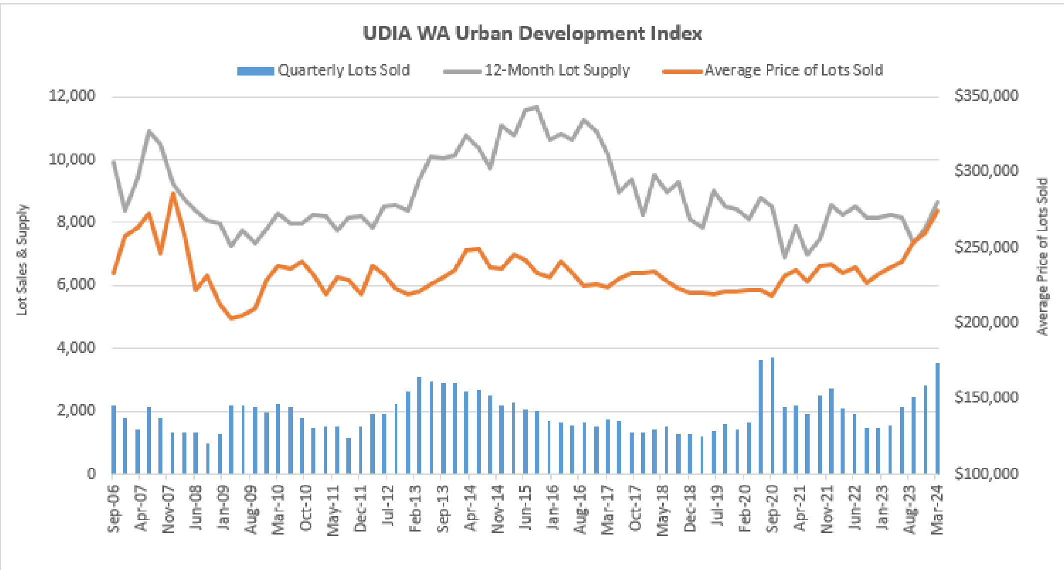
Source: REIWA

Greenfield land sales soar to historic highs & supply pipeline diminished.

New residential land sales across Western Australia totalled 3,550 for the March quarter 2024. This represents a 27 per cent increase from the December quarter 2023 sales volumes and a 127 per cent increase from March 2023 volumes.

The expressed demand profile across the WA greenfield markets is currently at historical highs with metropolitan Perth recording more lot sales in 2023 than any other capital city market in the nation. The sales momentum achieved throughout the 2023 calendar year continued apace into the first quarter of 2024 with the second highest volume of quarterly lot sales on record. This was only narrowly eclipsed by the September 2020 quarter, which was underpinned by government stimulus and ultra-low interest rates.

Construction activity has increased to near record highs with the number of lots under construction and lots set to be released to the market over the next 12 months sitting at 6,297. Construction activity grew 32 per cent on the December 2023 volumes and 49 per cent higher than the decade average.



Average lot prices increased by six per cent in the March 2024 quarter to $274,140 which represents a 15 per cent uplift year on year (YoY) from $238,087 in March quarter 2023. Average lot sizes remained stable at 379m^2 with the average land price also remaining steady at $701 per sqm.

The increased participation of investors in the WA greenfield market has been a notable feature of the buyer profile over the last two years, growing from 20 per cent of total lot sales in the March quarter 2022 to 37 per cent in the June quarter 2023. Investors comprised a similar share of activity across the September and December 2023 quarters, though dropped to 32 per cent for the March quarter 2024. This slightly reduced investor participation in part reflects efforts by certain developers to carefully manage the amount of investor purchases for any particular stage of a project.

The strong greenfield land market activity has diminished current supply pipelines with a total 1,032 lots remaining unsold at the close of the March quarter, which is 68 per cent lower than the decade average. The lot supply to demand ratio has now dropped to 0.7 which is well below the long run average of 1.6 and deeply into ‘undersupply’ territory.

When the supply/demand ratio gets to a level below one and sales continue at a similar rate, the inference is there will not be enough lots recently completed or currently under construction to keep up with demand. As we have observed over the last year with the supply/demand ratio dropping from 1.8 in March 2023 to 0.7 in March 2024, lot prices have started to rise sharply. The expectation is for further strong price growth over the coming quarters as there is limited evidence of demand moderating or any significant improvements to supply.

Building commencements

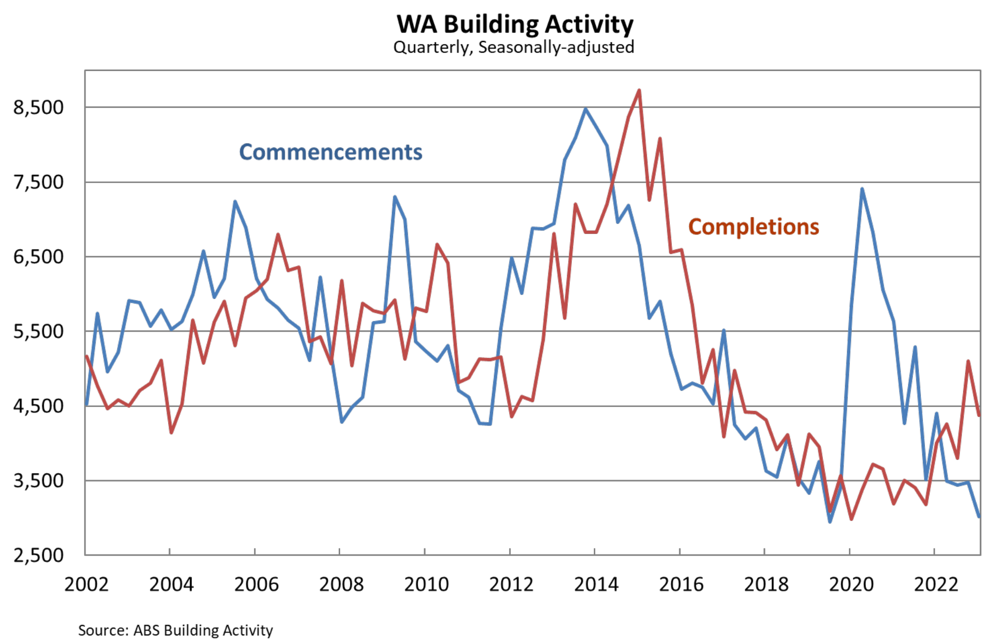
The number of dwellings under construction have continued to fall, though remain elevated with 23,153 dwellings under construction in December quarter 2024. This is 16 per cent lower than their peak in December quarter 2022 at 27,565. Commencements have eased down from the heights seen following the introduction of the temporary Commonwealth and State Government building grants (announced in mid-2020). Dwelling completions are yet to pick up significantly, though have remained above commencements over the last four quarters heralding relief in building capacity.

Dwelling commencements fell 13.2 per cent over the quarter in December 2023 (to 3,022), 31.3 per cent lower than December quarter 2022. The December 2023 quarter showed a further decrease in the number of commencements. It is expected that commencements will show a moderate increase in the short to medium term, with lead indicators of new dwelling construction, such as First Home Owner Grant (FHOG) applications and building approvals, showing some indication of upward movements.

FHOG applications totalled 1,138 in the March quarter 2024, falling by approximately two per cent from the previous quarter though were up 39 per cent from March quarter 2022. 858 FHOG grants were paid in March quarter 2024, 36 more than December quarter 2023.

Building approvals in March 2024 increased to its highest level since June 2022 with 1,516. There was an annual average of 1,268 building approvals per month in Western Australia, a 3.4 per cent decrease from the annual average of 1,312 for the 12 months prior to March 2023.

Figure 7



Housing finance

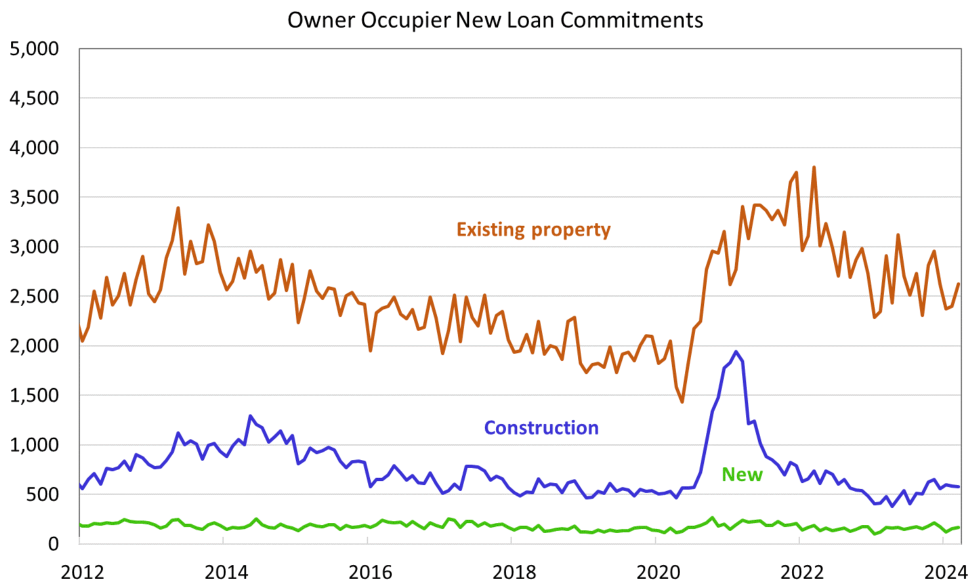
Demand has eased in owner occupier lending across WA, as the multiple RBA rate increases and cost of living pressures impact households. Construction lending has returned to pre-pandemic levels, while those purchasing an existing property still surpassing pre-pandemic volumes.

Investor lending in WA, however, continues to exceed pre-pandemic levels, demonstrating growth in both purchasing an existing property and construction. Investor lending volumes were 47.5 per cent higher in March quarter 2024 relative to March quarter 2023 (6,352 new loan commitments compared to 4,305).

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



Source: ABS Lending Indicators

Industry outlook

- The HIFG acknowledged that significant building industry challenges continue into 2024. Labour shortages continue to constrain capacity while elevated construction costs persist, impacting the industry and limiting the economics of dwelling construction, particularly for high density projects.

- Though a slowdown in economic activity is expected, the WA economy continues on a solid path despite inflationary pressures and supply side risks. Long term expectations in the construction sector remain positive as capacity improves and strong demand levels foster increased activity.

- Greenfield land market activity is elevated at historical highs, in line with high levels of demand across the housing market and indicating substitution from other sectors. Demand to supply ratios remain at low levels foreshadowing future construction activity, while supply pipelines are significantly depleted leading to strong growth in lot prices.

- Building commencements are expected to decline moderately in 2023-24, as the sector recovers to a post-stimulus equilibrium, and capacity issues persist. A modest recovery is then expected in 2024-25 and further in 2025-26, with strong greenfield activity indicating a surge of demand for detached construction. Building completions will also improve as many projects reach their finishing stage 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.

- Labour shortages remain a critical issue in the construction industry constraining capacity, while strong population growth and economic conditions foster demand for dwellings (rentals and owner-occupier). This will culminate in record low vacancy rates and listing periods, while prices continue to rise across the sector.

- Inflation in Australia has moderated since reaching the highest levels seen since the early 1990s. The Reserve Bank of Australia has raised the cash rate to 4.35 per cent in close to a year and a half. Inflation has reduced since reaching its peak. There does however remain evidence of stickiness in prices as inflation levels exceed expectations. 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