Snapshot of the Western Australian Land and Housing Sectors

April 2008

Prepared by
the Western Australian Housing Industry Forecasting Group

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Key Points
The Housing Industry Forecasting Group’s Snapshot of the WA land and housing sectors for April 2008 found the following:

- The WA economy continues to grow at a faster rate than the rest of the country with a 9.7% growth in domestic demand in 2007.
- The Reserve Bank is likely to maintain its cash rate at 7.25% for the time being.
- WA’s economic boom continued to attract people to WA leading to a population growth in the year to September 2007 of 2.4%, the highest percentage increase of all States and Territories.
- Residential lots granted conditional approval continued to decline in the March quarter 2008 from their peak in June quarter 2006.
- WA residential land sales declined 48% in calendar year 2007 while the median land price increased 7.7% over the same period.
- The stock of residential lots with conditional approval has been increasing since the March quarter 2005 and topped 70,000 in the last two quarters.
- There were just over 3,000 vacant lots for sale in Perth, Mandurah and Shire of Murray at the end of April 2008.
- Dwelling unit approvals continue on a downward trend with a year-to-date figure for March 2008 9.5% below the same period of 2006/07.
- The trend estimate for the number of approvals for private sector houses fell 1.4% in March 2008, a declining trend in WA for the last 25 months.
- Building commencements in WA have also been falling from their peak of 25,722 in 2005/06. Commencements for the first half of 2007/08 were 17% down on the same period of 2006/07.
- The backlog of work reflected by the number of dwellings under construction reached a historic peak of 23,204 in the December quarter of 2006 but had declined 9% to 21,204 by the December quarter of 2007.
- The rises in home loan rates and impact on overall consumer confidence had a direct impact on the established property market in Perth with a 12% fall in sales in the December quarter of 2007, a 2.7% decline in the median house price and growth in the number of property listings from around 5,000 in June 2006 to 17,000 in the March quarter of 2008.
- First home buyer grants were down 28% in 2006/07 but are up 28% so far in 2007/08 compared with the same period last year, helped by the doubling of the threshold for the first home buyer rebate on stamp duty.
- The private rental sector vacancy rate in Perth remained very low with a figure of just 1.4% in the March quarter of 2008.
- While construction and building material costs continued to moderate, they were still above the CPI for Perth. Supplies in and around Perth of basic building materials such as sand, limestone and plastic clays were reported as being critical.
- Labour supply was still short but according to a HIA survey was improving.
- HIA is forecasting a fall in dwelling commencements for WA of 12% in 2007/08, followed by a smaller decline of 3% in the following year to a total of 21,180. This is substantially below HIA’s estimate of underlying demand at 28,000 or BIS Shrapnel’s estimate of 23,800.
SNAPSHOT OF LAND AND HOUSING, APRIL 2008

1. Introduction

The Housing Industry Forecasting Group (HIFG) was reconstituted in February 2008 and is working towards making its first forecast and full report in October 2008. This April report is intended as a quick snapshot of the current state of the residential land and housing sectors in Western Australia.

Housing Industry Drivers

2. Economic Overview

The Western Australian economy finished 2007 on a high, with domestic demand rising 1.5% in real terms in the December quarter. Year on year growth in the domestic economy (as measured by state final demand (SFD)) was impressive, reaching 9.7% over 2007, the strongest in the nation and up from 7.6% in 2006 (Chart 1).

Over the year business investment was by far the major driver of growth, increasing by 19.9% and accounting for half of the growth in the WA economy. Household consumption was also a key driver of the economy, increasing by 7.3% over 2007, and accounting for 36% of growth in the state’s economy over the year.

Not surprisingly given the buoyant economic conditions, the Western Australian labour market continues to tighten. The unemployment rate fell to 2.8% in February, the lowest rate since September 1974, underpinned by solid employment growth over the past year.

Looking forward, the outlook for Western Australia and the nation as a whole remains buoyant. Economic growth in the state (as measured by GSP) is unchanged at 6.5% in 2007-08, although some revisions have been made to the growth profile.

The outlook for business investment is an estimated growth of 12.5%, reflecting the sizeable value of work yet to be done in the engineering construction sector. Longer-term forecasts of business investment remain unchanged as the long queue of investment projects currently in the pipeline continue to move into the construction phase.

Apart from the upward revision to forecast SFD growth in 2007-08, forecasts for the out years are broadly unchanged. SFD is anticipated to increase by 6% in 2008-09 and 2009-10, before moderating to a still healthy 5% growth in 2010-11.
Consistent with a continuation of buoyant economic conditions, the labour market is expected to remain constrained, despite increased domestic and overseas migration into the state. This increased population growth should see employment grow by 3.5% in 2007-08, before easing to growth of 2.25% by 2010-11. Such employment growth will be sufficient to keep the unemployment rate at historic lows, averaging 3.25% in 2007-08 and 2008-09, and falling to 3% by 2009-10, if not earlier.

Not surprisingly, given the combined strength of the economy and tightness of the labour market, wages pressures are anticipated to persist. Wages, as measured by average weekly ordinary time earnings, is forecast to increase by 7.5% in 2007-08, and remain above 6% for the remainder of the decade.

Inflation, as measured by growth in the consumer price index (CPI) for Perth, is forecast to remain at or above 3% for the outlook period.

Nationally, the downward revision to consensus forecasts suggest the uncertainty and losses stemming from the recent turmoil in the global finance markets will have some impact on the Australian economy, with GDP growth anticipated to grow by 4% in 2007-08 and by a further 3.5% in 2008-09.

The national economy will continue to be driven by household consumption, which is forecast to grow by 4% in 2007-08 before easing to 3.5% in 2008-09. Business investment is expected to be the other principle driver of the national economy, with forecast growth of 9% and 6% in 2007-08 and 2008-09 respectively. Business conditions remain favourable despite increasing interest rates.

3. National Housing Finance Trends

Nationally, February 2008 figures showed the number of housing finance commitments continued to decline by 6% in seasonally adjusted terms from the previous month\(^1\) as the latest increase in the Reserve Bank cash rate continued to tighten monetary policy. The current global credit shortfall has meant that lenders have been increasing their lending rates above the increases in the Reserve Bank cash rate increases because of greater increases in their wholesale cost of funds. An increasing number of existing borrowers have responded by refinancing their variable rate loans to loans with fixed interest rates.

However, in giving evidence to the Parliamentary Standing Committee on Economics on 4 April 2008, the Governor of the Reserve Bank stated “... I think the current level of rates, ..., is on the high side. At some point in time, they can be lower. When they have done the job, they can come down.” \(^2\)

Therefore, unless the economic fundamentals change then the cash rate is likely to remain unchanged and the next movement should be downwards but exactly when is unclear.

\(^1\) Housing Finance, Cat No 5609.0, ABS, April 2008.
4. Population Growth

4.1 Recent Demographic Trends

Population data released by ABS in March 2008 show the following as at September 2007:

- WA’s growth for the year to September 2007 was 2.4%, the highest increase in Australia and ahead of both Queensland and the Northern Territory by 0.2 percentage points.
- The preliminary estimate of WA’s annual population growth was 48,600 for the financial year to June 2007 and continued the high rate of growth since June 2003. This was also the highest growth in numbers and topped the previous peak in 1988/89 by 2,203.

![Annual Population Growth in WA, 1982/83 - 2006/07](chart.png)

4.2 Quarterly Population Components

All components continue to show a strong upward trend. Net Interstate migration had a downturn in September 2007 quarter but this may have been a temporary downward tick.
The continuation of a positive change in the natural increase is no doubt helped by the baby bonus but obviously does not create any increase in the demand for housing for the next couple of decades.

The upward trend in net overseas migration, which is considerably higher than net Interstate migration, does have implications for the demand for housing. This initially places pressure on the rental market, which has been a major factor in the private rental sector’s very low vacancy rate. Economic migrants, as opposed to humanitarian migrants, will often move quickly into home ownership once they have found their chosen location.

4.3 Monitoring Population Projections

The population increase brought about by WA’s economic boom has meant that the latest figures on the estimated resident population\(^3\) show clearly that WA’s population growth has been tracking well above the medium series B for the ABS population projections 2004 to 2101\(^4\). The following table shows WA’s population has in fact been tracking slightly above ABS’s higher series A projections.

<table>
<thead>
<tr>
<th>Projected Population (Series A)</th>
<th>Population (000s) as at June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Perth</td>
<td>1,454.6</td>
</tr>
<tr>
<td>Regional WA</td>
<td>523.5</td>
</tr>
<tr>
<td>WA</td>
<td>1,978.1</td>
</tr>
<tr>
<td>ERP (Final)</td>
<td>(Final)</td>
</tr>
<tr>
<td>Perth</td>
<td>1,393.0</td>
</tr>
<tr>
<td>Regional WA</td>
<td>508.2</td>
</tr>
<tr>
<td>WA</td>
<td>1,901.2</td>
</tr>
</tbody>
</table>

Source: Projected Population (Cat 3222.0)  ERP = Estimated Resident Population (Cat 3101.0)

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\(^3\) Australian Demographic Statistics, Cat No 3101.0, ABS, March 2008

\(^4\) Population Projections, Australia, 2004 to 2101, Cat No 3222.0, ABS, reissue June 2006
Land Supply

5. Lot Potential and Production

Conditional approvals fluctuate significantly when compared on a quarter by quarter basis but have been in general decline since the peak recorded in the June quarter 2006 (see chart below). There were 4,800 residential conditional approvals in the March quarter 2008 throughout Western Australia, a significant decrease of 44% on the December quarter, which recorded 8,790 approvals when there was a spike in approvals in regional WA. Of the 4,800 approvals, 2,733 occurred in Metropolitan Perth/Peel and the remainder in regional WA. The majority of conditional approvals are issued in metropolitan Perth/Peel but the proportion of approvals in regional WA is unpredictable ranging from under 10% to as high as 45%.


Source: State Lot Activity, WAPC

Note: Metro/Peel includes the Perth Metropolitan Region plus the City of Mandurah and the Shire of Murray in the Peel Region.

On a financial year basis, residential lots given conditional approval in WA peaked at 33,515 in 2005/06 and decreased to 29,552 in 2006/07. Early indications are that 2007/08 will see significantly lower approvals than 2006/07.
Developers' stock of current conditional approvals

Developers' stock of current conditionally approved residential lots available for development\(^5\) State-wide has crept back over 70,000 in the last two quarters after experiencing a small decline in the September quarter 2007.

Although the stock in the metropolitan Perth/Peel region has remained steady at around 48,000 to 49,000 lots between the September quarter 2006 to December quarter 2007, it has dipped below 48,000 for the first time since the June quarter 2006.

![Stock of Residential Applications and Lots with Conditional Approval, Mar 2004 - Mar 2008](Source: State Lot Activity, WAPC)

Note: 1. Metro/Peel includes the Perth Metropolitan Region plus the City of Mandurah and the Shire of Murray in the Peel Region.

Final approval

Residential lots granted final approval throughout the state and in metropolitan Perth/Peel are at their lowest level in over four years. Final approvals declined for the second consecutive quarter in WA to record 3,455 lots in the March quarter 2008 representing a decline of 27% when compared with the December quarter total of 4,742 lots.

In the metropolitan Perth/Peel region there were 2,635 final approvals granted to residential lots, a decline of 22% from the December quarter. The fall was strongly felt in the regions, which recorded a decline of 40% from 1,368 in the December quarter to 820 in the current quarter.

\(^5\) Refers to those lots with conditional approval and available for development (lot balance) but have not proceeded to final approval. Lots may be awaiting or undergoing lot construction, road works and utility servicing.
After residential subdivision activity peaked during 2005/06 and 2006/07, three-quarter figures suggest that 2007/08 will see final approvals weakening in the aftermath of these boom years.

![Residential Lots Granted Final Approval, Mar 2004 - Mar 2008](image)

Source: State Lot Activity, WAPC

Notes: Metro/Peel includes the Perth Metropolitan Region plus the City of Mandurah and the Shire of Murray in the Peel Region.

**Vacant residential lots on the market**

REIWA has recently started recording the number of vacant residential lots on the market via property listing information provided by its members and some supplementary advertised listings of non-members available from other published sources such as newspapers. This listing does not provide a complete count of the vacant land available to the market and is limited to metropolitan Perth, the City of Mandurah and Shire of Murray. There were 3,053 vacant lots for sale in these areas in March, with a marginal decline of 1.6% to 3,002 in April 2008.

**6. Residential Land Sales**

- Annual land sales data reported in REIWA’s Market Update for the December Quarter 2007 and updated for settlements to the end of April 2008 showed the following trends:
  - Land sales (12,855) across WA declined by 40% in calendar year 2007.
  - Sales of lots in Perth declined by 38% to 8,525 with the median price increasing to $267,000 in the December quarter 2007, a rise of 6% over the figure for the December quarter 2006.
Sales in Regional WA also declined by a similar amount of 44% to 4,330. There was a mixture of price rises and decreases in regional centres across 2007 with the largest increases in Augusta/Margaret River (29%), Broome (63%), Kalgoorlie/Boulder (35%) and Karratha (92%).

The median land price increase of 8.0% for WA from December 2006 to 2007 exceeded the 4.2% increase in median house prices for the whole state over the same period.

- The Urban Development Institute of Australia’s December Quarter 2007 Urban Development Index reported that the average price of newly created lots sold by its members in the December 2007 quarter for Perth was $399,983, an increase of 39% on the previous year. The average sales price in Regional WA in the December quarter was $155,714, a decrease of 42% since the June quarter, which the Institute suggested was a reflection of the availability of affordable lots in regional areas close to Perth.

Building Industry Activity and Trends

7. Building Approvals in 2006/07

- Building approvals for new dwellings in WA declined marginally by 3% in 2006/07, to a total figure of 25,098. However, this number of approvals was still historically at a very high level.

8. Current Situation in 2007/08
The trend estimate for total dwelling units approved in Western Australia fell 0.2% in the month of March 2008 and has now been showing falls for the past four months. The year-to-date figure of approvals in the eight months to March 2008 is 9.5% below the figure for the same period of 2006/07.

The trend estimate for the number of private sector houses fell 1.4% in March 2008 and has been exhibiting a declining trend for the last 25 months.

9. Dwelling Commencements in 2006/07

The number of dwelling commencements in WA, after reaching a peak of 25,754 commencements in 2005/06, fell by 4% in 2006/07 to 24,724. This fall compares with a marginal increase of 0.3% nationally to 151,717 commencements in 2006/07.

The multi-residential sector continued its volatility with an 18% increase in 2006/07 after a 13% decline in the previous financial year. New house commencements declined by 8% overall in 2006/07.

Private sector activity decreased by 3.4% whilst public sector activity which typically represents around 5% of activity fell by 16.7%.

Regional commencements continued to increase their share of total WA starts, increasing from 26% in 2001/02 to 33% in the first half of 2007/08.

Perth continues to dominate multi-residential work with 74% of activity in 2006/07.
Commencements in 2006/07 were 20% above the rolling 10-year average of 21,000 dwellings but commencements for the first half of 2007/08 were 17% below the same period of 2006/07.

### Dwelling Commencements Distribution for Western Australia

**Source:** ABS Cat 8752 – Unpublished data & include conversions

<table>
<thead>
<tr>
<th>Year</th>
<th>Perth</th>
<th>Regional WA</th>
<th>WA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Houses</td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>2001/02</td>
<td>11,824</td>
<td>2,338</td>
<td>14,162</td>
</tr>
<tr>
<td>2002/03</td>
<td>12,435</td>
<td>2,649</td>
<td>15,084</td>
</tr>
<tr>
<td>2003/04</td>
<td>13,359</td>
<td>2,974</td>
<td>16,333</td>
</tr>
<tr>
<td>2004/05</td>
<td>12,845</td>
<td>3,611</td>
<td>16,456</td>
</tr>
<tr>
<td>2005/06</td>
<td>14,864</td>
<td>3,130</td>
<td>17,994</td>
</tr>
<tr>
<td>2006/07</td>
<td>13,826</td>
<td>3,731</td>
<td>17,557</td>
</tr>
<tr>
<td>2007/08(p)</td>
<td>5,757</td>
<td>1,878</td>
<td>7,635</td>
</tr>
</tbody>
</table>

Note: Unlike building approvals, data on commencements and completions are drawn from a 10% sample of industry activity and are, therefore, subject to sampling error.

(p) Provisional figures for the first 6 months of 2007/08.

10. **Dwelling Completions in 2006/07**

- The number of dwellings completed (excluding conversions) increased by 14% from 21,631 in 2005/06 to 24,620 in 2006/07
- The backlog of work reflected by the number of dwellings under construction reached a new historic peak in the December quarter of 2006 with a figure of 23,204, but 12 months later had reduced by 9% to 21,204 in the December quarter 2007.

11. **Investment in Housing Activity**

#### Level of Investment

- The value of residential work carried out in calendar year 2007 at $5,889 million was 14.4% up on 2006 and of this total $5,633 was on completed contracts, a 29.7% increase on the previous year.
- In line with the slightly lower number of approvals in 2006/07, the value of work commenced in 2007 was $5,933 million, which represented a 5.0% rise on the previous year.
Housing Market Trends and Housing Affordability

12. Established Dwelling Market

12.1 Sales of Established Homes
REIWA data showed the following:

- A 12% fall in the total number of sales in WA for the December quarter 2007 compared with the previous quarter but at a level still 6% above sales in the December quarter of 2006.
- The number of listings including land, reported by REIWA members, grew from around 5,000 in June 2006 to 17,600 in 18 months and the number of days to sell have blown out from 35 to 71 days, for the time between listing and exchange of contracts. REIWA believes that the Perth real estate market is currently seeing many investors withdrawing from the market and placing their investment homes on the market.\(^7\)

12.2 Median Property Prices

- Preliminary data from REIWA indicated that the median house price in Perth fell by 2.7% from the December quarter’s figure of $470,000, down to $457,000 in the March quarter 2008. The Institute attributed this fall to a “combination of factors including interest rate rises, a drop in overall consumer confidence and a record number of listings now on the market.”\(^8\)
- REIWA sees a slightly better situation in regional WA with strong growth in some areas. Kalgoorlie/Boulder’s median house price increased by 10% as a result of continuing demand generated by the price of gold and the booming local economy.\(^9\)
- Quarterly price indexes for established and project homes shown in the chart below, demonstrate clearly that in comparison with the Eight Capital Cities Average, between 2004 and the end of 2006 Perth prices for both established homes and project homes increased at a much faster rate than for the eight cities average but flattened out in 2007.

\(^7\) Perth median house price slides as listings soar. REIWA Media Release, 11 April 2008.
\(^8\) Ibid.
\(^9\) Ibid
13. First Home Buyers Market

- The proportion of first home buyers was estimated by REIWA to represent 28% of the market in the December quarter 2007, a small fall of 2 percentage points on the previous quarter but an increase of 8 percentage points on December quarter 2006. The improvement over the year was helped by the State Government’s move in May 2007 to double the maximum property value from $250,000 to $500,000 for a full rebate on stamp duty.
- This improvement can be seen in the following chart with a jump in the number of grants paid after July 2007, albeit with a falling away in number of grants since.
- Just over 12,700 grants were paid under the First Home Owner Grant scheme in 2006/07, a 28% decline on the number of grants paid out in the previous financial year. However, the number of grants paid so far this financial year to the end of March 2008 is 28% above the year-to-date figure for 2006/07, which supports the improvement reported by REIWA.
- Established property grants represented 80% of year-to-date grants paid and were slightly higher than the 78% figure in 2006/07 but below the long term average of 81.4% since 2000.
14. Home Loan Affordability

- According to the HIA – Commonwealth Bank Housing Affordability Index for December 2007, “affordability declined in Perth on account of moderate house price growth and higher interest rates in the December quarter. Affordability was down 2.1%. For the third consecutive quarter, first home buyer affordability improved in regional WA. The quarterly rise for Regional WA was a moderate 0.3% due to flat housing prices.”

- However, according to the Real Estate Institute of Australia figures, home loan affordability improved slightly in the December quarter, mainly due to the average size of new loans taken out in the quarter being lower than the previous quarter.

15. Private Rental Market

- Vacant private rental properties continued to be in short supply in Perth, with REIWA reporting a vacancy rate of 1.4% in the March quarter 2008. The median rent on houses increased by 1.5% to $335 per week of the quarter and by 3.3% to $310 per week for units. The overall median rent was up 3.1% to $330 per week.

- New REIWA data provide a snapshot of the private rental market in the following major regional centres.

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10 HIA – Commonwealth Bank Affordability Report, HIA, December Quarter 2007
11 Deposit Power/REIA Home Loan Affordability Report, December Quarter 2007
12 REIWA Media Release, 11 April 2008
<table>
<thead>
<tr>
<th>Region</th>
<th>Median Weekly Rent</th>
<th>% Change over previous Quarter</th>
<th>Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandurah/Murray</td>
<td>$260</td>
<td>+4.0%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Greater Bunbury</td>
<td>$270</td>
<td>0</td>
<td>3.3%</td>
</tr>
<tr>
<td>Geraldton/Greenough</td>
<td>$285</td>
<td>+14.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Kalgoorlie/Boulder</td>
<td>$320</td>
<td>+6.7%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: REIWA Media Release, 11 April 2008

- REIWA is predicting that the vacancy rate should ease given the large number of listings and the likelihood of investors deciding to rent out properties that they cannot currently sell for the price that they want. While this will help ease the vacancy rate and help to moderate the rise in rents there is unlikely to be any significant fall in rental levels in the private market.

- Data derived from new rental bonds lodged with the Bond Administrator at the Department of Consumer and Employment Protection show that the Perth median rent in the March quarter 2008 was $320 per week, an increase of 23% over the same quarter in 2007. Median rents in the regions are shown in the following table and all exhibited double digit inflation, with the increase in the Goldfields being particularly high.

**Median Weekly Rent of New Bonds Lodged, March Quarters 2007 and 2008**

<table>
<thead>
<tr>
<th>Region</th>
<th>Median Rent March Qtr 2008</th>
<th>Median Rent March Qtr 2007</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perth</td>
<td>$320</td>
<td>$260</td>
<td>23%</td>
</tr>
<tr>
<td>Peel</td>
<td>$260</td>
<td>$220</td>
<td>18%</td>
</tr>
<tr>
<td>South West</td>
<td>$250</td>
<td>$220</td>
<td>14%</td>
</tr>
<tr>
<td>Gt Southern</td>
<td>$230</td>
<td>$195</td>
<td>18%</td>
</tr>
<tr>
<td>Wheatbelt</td>
<td>$200</td>
<td>$170</td>
<td>18%</td>
</tr>
<tr>
<td>Goldfields</td>
<td>$320</td>
<td>$240</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: DHW Calculations on data from DOCEP

16. Rental Affordability

- Rents in Perth have increased by 45% since the March quarter of 2006 and have put many low income households reliant on the private rental market into housing related stress. The major government program to help this group is the Commonwealth’s Rental Assistance program but the level of assistance under this program has not kept pace with rental increases.

- To help address the rental affordability crisis, the new Australian Government has announced a National Rental Affordability Scheme (NRAS) to increase the supply of affordable rental housing over the next four years by 50,000 homes across Australia, with expansion if needed by an additional 50,000 after 2012. The proposed scheme will offer incentives to providers of appropriate affordable rental housing comprising a Commonwealth benefit of $6,000 per annum and a State benefit of $2,000 per annum.
17. Demand for Public Housing

- With the very tight private rental market and the continued migration of people to WA, the demand for public housing has been growing. The waiting list for public housing totalled 16,399 at the end of March 2008, an increase of 9.8% on the March 2007 figure of 14,938.

- To address this growing demand, the State Government committed in the 2007/08 Budget an extra $417 million over the following four years to increase the stock of public and community housing. This was topped up with a further $238 million in September 2007.

Housing Industry Resources

18. Construction Costs

- The annualised Project Home Price Index for Perth increased by 5.9% in calendar year 2007 over the previous year, which was much below the increases of over 15% in each of the two previous years but was still above the average for the Eight Capital Cities and the all groups Consumer Price Index for Perth.

- The MBA/Grant Thornton Survey of business conditions noted in its April report that “construction times have improved considerably as on-site bottlenecks have eased and productivity improved.”

- The building industry estimates that 5 Star Plus, with implementation of energy efficiency and water reduction measures in all new homes approved for construction since September 2007, could add an extra $3-4,000 to the cost of building a new home. Any upfront costs, however, will be offset by energy and water cost-savings over the life of the dwelling.

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13 It should be noted that other States have also increased sustainability requirements on new homes.

- The price index of building materials used in housing construction increased 4.6% in the year to the March quarter 2008 in Perth, compared with a 3.6% increase for the six major capital cities\(^\text{14}\). The increase for Perth was only marginally higher than the 4.3% increase in the all groups Consumer Price Index for Perth.
- Steel prices are expected to escalate sharply with the boom in commodity prices, which will have an impact on the cost of steel used in roof structures and scaffolding.
- A Chamber of Commerce and Industry report found that the availability in and around Perth of basic building materials such as sand, limestone and plastic clays are at critically low levels and could mean “the cost of building a new house will increase by $10,000 if materials have to be transported an additional 50 kilometres.”\(^\text{15}\)

20. Labour Supply and Costs

- While the availability of trades has been gradually improving since the June quarter 2006, the HIA Austral Bricks Trades Report\(^\text{16}\) found that trades were still in moderate short supply in Perth in the March quarter of 2008. However, in regional WA trade availability worsened in the March quarter of 2008. The Master Builders Association believes the labour market pressure in the sector is being maintained by the tight commercial sector and continued labour demand in mining. Housing trades supply for starting trades (grano workers, bricklayers and roof carpenters) has improved but there is still a demand for other trades.
- The HIA Trade Contractor Price Index\(^\text{17}\) in the March quarter of 2008 was 15.3% higher in Perth and 7.7% higher in regional WA compared with 12 months ago. However, the quarterly change for Perth was down to 1.6%, or 6.4% annualised, and 0.3% in regional WA or 1.2% at an annual rate.

Forecasts of Underlying Housing Requirements and Commencements

21. Forecasts by Other Organisations

- As at December 2007, BIS Shrapnel’s forecast of the underlying demand for housing in WA for the period to 2011/12 was 23,800 dwellings per annum.\(^\text{18}\) This represented a 10% increase from the estimate in their May 2007 report, no doubt representing a factoring in of new data on WA’s population growth. BIS Shrapnel estimated the annual underlying demand for housing in WA averaged 19,800 per annum in the period 2001/02 to 2006/07.

\(^{14}\) ABS Cat 6427.0 Table 17, 18 and 30.
\(^{16}\) Trades Report, HIA Austral Bricks, March 2008
\(^{17}\) ibid
• HIA forecasts the number of dwelling commencements in 2007/08 will fall 12% from the 2006/07 total of 24,660 to 21,820, followed in 2008/09 by a smaller decline of 3% to 21,180 dwellings. Based on strong fertility rates and near-record levels of immigration pushing up the rate of population growth in WA, the HIA estimates that the underlying demand for dwellings in the State will be 27,800 in 2007/08, rising to 29,000 by 2009/10.

• The Chamber of Commerce and Industry Western Australia (CCI) expects housing investment to grow by 6% in 2007-08, despite rising interest rates and moderating house price growth. The solid addition to the workforce and population, more generally, has added to both the capacity of the building industry and demand for housing. Forward-looking indicators of building activity, such as building approvals and housing finance figures, point to few additions to the residential construction pipeline in 2008-09, while interest rates are also expected to peak during next year. Longer term, CCI expect investment is likely to continue as the demand for housing from a growing population and improved returns to investors from rising rents and stable prices, drives the sector. As such, the CCI forecast modest growth in housing investment of 2.5% in 2008-09 that should accelerate to 10% in 2009-10.

• The Construction Forecasting Council, however, is forecasting a 2.8% fall in residential construction investment\(^\text{19}\) in WA for 2007/08, followed by a 3.8% fall in the following year\(^\text{20}\). The Council does not forecast an upturn in investment until 2009/10 when they believe there will be a 1.8% increase. However, the Council forecasts that residential alterations and additions\(^\text{21}\) will grow by 2% in 2007/08, 8.1% in 2008/09 and 6.5% in 2009/10 and by the latter year is estimated by the Council to represent 47% of total residential construction investment activity.

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The variation in these forecasts clearly demonstrates an urgent need to acquire a much better local understanding of housing demand in WA. This will be a key task for the HIFG secretariat, to research and develop a suitably robust model that can be used to project future housing demand in the State and the regions. \\
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\end{tabular}
\end{center}

\(^{19}\) The forecast cited here excludes alterations and additions.


\(^{21}\) Covers all alterations and additions, including those values at less than $10,000.
Appendix – Housing Industry Forecasting Group

The Group is a joint industry and government body re-established in February 2008 by the Minister for Planning and Infrastructure to provide independent commentary on the housing sector in WA. The Department for Planning and Infrastructure and the Housing and Works jointly provide the HIFG secretariat and research function.

Membership of the Group is drawn from major organisations associated with the housing and land development industry in Western Australia and from government. Through its diverse membership, the Group 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 April 2008

<table>
<thead>
<tr>
<th>Member</th>
<th>Organisation Represented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dorte Ekelund (Chair)</td>
<td>Deputy Director General, DPI</td>
</tr>
<tr>
<td>Wavne Rikkers</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>Alan Langford</td>
<td>BankWest</td>
</tr>
<tr>
<td>Manuel Arapis</td>
<td>Chamber of Commerce and Industry WA</td>
</tr>
<tr>
<td>John Dastlik</td>
<td>Housing Industry Association</td>
</tr>
<tr>
<td>Gavan Forster</td>
<td>Master Builders Association</td>
</tr>
<tr>
<td>Stewart Darby</td>
<td>Real Estate Institute of WA</td>
</tr>
<tr>
<td>Debra Goostry</td>
<td>Urban Development Institute of Australia (WA)</td>
</tr>
<tr>
<td>Glen Kar</td>
<td>Department of Housing and Works</td>
</tr>
<tr>
<td>Michael Eckermann</td>
<td>Department of Treasury and Finance</td>
</tr>
<tr>
<td>Andrew Wilkinson</td>
<td>Department of Treasury and Finance</td>
</tr>
<tr>
<td>Fiona McKenzie</td>
<td>Housing and Urban Research Institute of WA</td>
</tr>
<tr>
<td>Brett Coombes</td>
<td>Water Corporation</td>
</tr>
<tr>
<td>Marcus Devenish</td>
<td>Department of Premier and Cabinet</td>
</tr>
<tr>
<td>Paul Hynch</td>
<td>Chamber of Minerals and Energy</td>
</tr>
<tr>
<td>John Syme</td>
<td>Inner City Housing Development Assoc.</td>
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<tr>
<td>Robyn Barrow</td>
<td>Department for Planning and Infrastructure</td>
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<tr>
<td>Anne Hill</td>
<td>Department for Planning and Infrastructure</td>
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<tr>
<td>Erwin Swasbrook</td>
<td>Department for Planning and Infrastructure</td>
</tr>
<tr>
<td>Marion Thompson</td>
<td>Urban Development Coordinator, DPI</td>
</tr>
</tbody>
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