

Housing Industry Forecasting Group

Forecast
Dwelling Commencements
in Western Australia



October 2011

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Executive Summary

The October report provides the group's forecast of dwelling commencements in Western Australia for 2011/12 and 2012/13.

HIFG Forecast of Dwelling Commencements in WA, 2011/12 & 2012/13		
Financial Year	Dwelling Commencements	% change
2010-11 (actual)	20,500	
2011-12 (forecast)	18,500	-10%
2012-13 (forecast)	21,000 – 22,000	+14 to 19%

The key points of the report are as follows:

- Despite the continued strength of the Western Australian economy, the building market has not improved since our last report in April 2011 with homebuyers still reluctant to commit to signing contracts.
- There is no overall land shortage in Perth with land listings remaining at a high level.
- Perth's established house prices continue to soften with the preliminary median value of \$465,000 in the September quarter 2011, down 3% on the previous quarter and 5% lower than a year ago.
- Total year-to-date seasonally adjusted dwelling approvals for WA in the eight months to August 2011 at 13,382 were down 22% compared to the same period in 2010.
- Dwelling commencements in 2010/11 at 20,500 were down 18% on 2009/10.
- The trend in home loan commitments bottomed out in early 2011, although the rate of recovery has been modest. First homebuyers with 27% of commitments (excluding refinancing) were back to their long-term average for the last 11 years.
- The decline in FHOG applications evident in 2009/10 appears to have reversed with applications for new homes back to a similar level existing in the period before the last global financial crisis.
- Perth's median rental has started to rise with a vacancy rate of 2.8% in the three months to September 2011; it now stands at \$395 per week (up 7% on the same time last year).
- Despite the softening housing market, housing affordability remains an issue for a significant number of Western Australian households on low or moderate incomes, whether in affording private sector rents or accessing home ownership.
- A household in Perth needs an income of \$1,300 per week (\$68,000 pa) to be able to afford the median rent of \$395 per week. A single person with an income just above the income limit for public housing of \$430 per week would have been able to access only one percent of all new lettings in the quarter.

The short-term prospects for housing construction activity in WA are weak and there is likely to be pressure on governments to 'do something'. HIFG members are concerned about NSW changes (from 1 January 2012) to limit first homebuyers full stamp duty concessions only to those buying newly constructed homes. The first homebuyer sector is a critical driver in the housing market through their purchase of established homes and allowing sellers to trade up to new homes. Accordingly, HIFG's industry members do not support any policy changes particularly in relation to first homebuyers without full industry consultation.

Table of contents

Executive Summary	3
Table of figures	5
1 Introduction	6
2 Housing Industry Drivers	6
2.1 Economic Overview	6
2.2 Finance Sector	7
2.3 Population Growth	8
3 Land Supply	9
3.1 Lot Potential and Production	9
3.2 Residential Land Sales	11
3.3 Residential Demolitions	12
3.4 Lot Requirements to Meet Projected Dwelling Demand	12
4 Building Industry Activity and Trends	13
4.1 Building Approvals	13
4.2 Dwelling Commencements and Completions	14
4.2.1 Dwelling Commencements	14
4.2.2 Completions	16
4.2.3 Work under Construction	17
4.2.4 Housing Finance	18
5 Housing Market Trends	19
5.1 Introduction	19
5.2 New Homes Market	19
5.3 Established Dwelling Market	20
5.4 First Home Buyers Market	21
5.5 Private Rental Market	22
5.6 Public Sector	23
6 Housing Affordability in WA	23
6.1 Home Ownership	23
6.2 Private Rental	24
7 Housing Industry Resources	25
7.1 Construction Costs, Building Materials and Labour Supply	25
8 Underlying Demand for Housing	25
8.1 Underlying Housing Requirements	25
9 Forecast of Dwelling Commencements	28
9.1 HIFG's Forecast of Dwelling Commencements	28
9.2 Land Supply Assessment	28
Appendix A – Regional Land and Housing Activity	29
Appendix B – Measuring housing affordability	33
Appendix C – Housing Industry Forecasting Group	35

Table of figures

Figure 1: Annualised components of WA Population Growth, June 2000 - Mar 2011	8
Figure 2 Quarterly final lot approvals by region, Sept 2003 - June 2011	10
Figure 3 Land listings in Perth and Mandurah, March 2008-Sept 2011.....	11
Figure 4 Estimated residential demolitions in Perth and Peel regions, 2001/02-2009/10	12
Figure 5 Building approvals in WA, July 2000-Aug 2011	13
Figure 6 Finance commitments for new buildings and private sector approvals, Jul 2000-Aug 2011	14
Figure 7 WA seasonally adjusted dwelling commencements, Jun 2000-Jun 2011.....	15
Figure 8 Total dwelling commencements in WA, Jun 2000-Jun 2011	15
Figure 9 Annualised commencements, construction and completions, Jun 1985-Jun 2011.	17
Figure 10 WA unit dwellings as % of total dwellings under construction, end quarter Jun 1970-Jun 2011	18
Figure 11 WA home loan approvals, July 2000-Aug 2011	18
Figure 12 Value of finance commitments for housing investors in WA, Jun 2000-Aug 2011	19
Figure 13 Private house sales and approvals in WA, July 2006-Aug 2011	20
Figure 14 Quarterly indexes of house prices, Mar 2002-Jun 2011	21
Figure 15 Quarterly number of FHOG grants paid in WA, July 2000- Sept 2011	22
Figure 16 Quarterly FHOG grants as proportion of commencements and sales, Sept 2000- June 2011	22
Figure 17 Net dwelling starts and cumulative surplus/shortfall in WA, Perth and ROS	27
Figure 18 Building approvals in Perth and regional WA, 1991/92-2010/11	29
Figure 19 Land listings by metropolitan region, March 2008-Sept 2011.....	30
Figure 20 Building approvals by metropolitan region, 2010/11.....	31
Figure 21 Building approvals for four southern regions, 1991/92-2010/11	32
Figure 22 Building approvals for remaining regions, 1991/92-2010/11	32

1 Introduction

The Group's fourth annual report provides our forecast of dwelling commencements for 2011-12 and 2012-13. The WA housing market was much subdued in 2010-11 following 2009/10's strong growth generated by first homebuyers and the social housing stimulus. Housing starts fell 18% to 20,568 in 2009-10. HIFG expects this trend to continue into 2011/12, with only a modest turn-around anticipated for 2012/13.

Forecasting is always a difficult art and with several conflicting trends affecting the State we find it more difficult than usual to predict the fortunes of WA's housing sector. There are the upside benefits of a population trend starting to lift again, continuing income growth, a relatively low rate of unemployment and early prospects of a reduction in the cash rate. However, downside risks are many: another credit crunch to rival the last GFC, continuing low levels of consumer confidence, a continued reluctance by households to take on further debt and new tax imposts on housing construction.

The short-term prospects for housing construction activity in WA are weak and there is likely to be pressure on governments to 'do something'. HIFG members are concerned about NSW changes (from 1 January 2012) to limit first homebuyers full stamp duty concessions only to those buying newly constructed homes. The first homebuyer sector is a critical driver in the housing market through their purchase of established homes and allowing sellers to trade up to new homes. Accordingly, HIFG's industry members do not support any policy changes particularly in relation to first homebuyers without full industry consultation.

2 Housing Industry Drivers

2.1 Economic Overview

State Final Demand (SFD) in Western Australia grew by 1.0% in the June quarter 2011, following growth of 4.5% in the previous quarter. Over the year, SFD grew by 6.6%. Business investment grew by 2.3% while dwelling investment declined by 2.1%, due to softening housing market conditions. Household consumption continued to strengthen in the June quarter 2011, growing by 1.8%, and was the main contributor to growth in SFD (adding 0.8 of a percentage point to growth).

Western Australian labour market conditions bounced back in September 2011 with employment increasing by 0.6% during the month. This was driven by a 1.6% increase in the number of full-time workers but was partly offset by a 1.8% fall in part-time employment. Over the year, employment grew by 1.4%, compared to a 4.9% rise in the year to September 2010. Western Australia's unemployment rate fell by 0.1 percentage points in September 2011 to 4.3%. Total average weekly earnings for full-time adults in Western Australia was estimated to be \$1,551.30 per week in May 2011, an increase of 8.2% over May 2010.

However, the overall strength of the economy masks the patchiness that exists in some sectors of the economy.

While consumption remains firm, the pattern of spending and consumer attitudes have shifted since the global financial crisis (GFC). Consumers have become more cautious since the GFC and are now being more careful with their income, choosing savings over debt. This has been reflected in the household savings ratio, which has risen to historically high levels in recent times – a significant turnaround from early last decade, where households were spending more than they were earning. Consumer spending patterns have also changed in recent times, with discretionary spending occurring on cafés and restaurants, cultural services and alcoholic beverages, rather than big-ticket items such as motor vehicles.

Consumers are also concerned about the prospects for the local economy. The *Curtin Business School – CCI Survey of Consumer Confidence* showed that medium term confidence dropped to its lowest level on record in the September quarter survey. This was driven by a number of factors such as deteriorating personal finances and weak perceptions of the labour market. Property buying conditions fell in the September quarter, but remained positive. The latest *Commonwealth Bank – CCI Survey of Business Expectations* also revealed that business confidence in the WA economy had taken a sharp fall. Respondents to the survey revealed that confidence in the Australian economy had fallen to levels not seen since the GFC. Much of the uncertainty felt by businesses and consumers has stemmed from the renewed concerns about the global economy.

The recent US national accounts have shown that their economy has slowed in 2011, and that unemployment remains a concern. On top of this, the last minute decision by the US to increase their debt ceiling, has led to the US losing its AAA credit rating and to concerns about the nation's prospects going forward. Worries about sovereign debt levels in Europe also persist. The continued risk of a default in Greece and the implications this would have for the region have seen turmoil in global financial markets in recent times and some speculation of another major financial crisis.

However, a range of domestic factors is also weighing on confidence. The precise impact the Carbon Tax will have on the Australian economy is unknown. While the direct impact will not be felt until 2012-13, there may be implications for the economy over the next financial year if it leads to a pull forward in activity by businesses and consumers looking to avoid the anticipated price increases under the regime.

Despite this uncertainty, the prospects for the WA economy remain strong, with growth expected to increase over the next couple of years on the back of continued strong investment and rising export returns. CCI expects the WA economy to grow by 6.5% in 2011-12 and 7% in 2012-13.

2.2 Finance Sector

The Reserve Bank Board has maintained its cash rate at 4.75% since November last year. The ongoing turmoil in the global financial markets and continued sovereign debt crisis in the eurozone make a cut in the rate either later this year or early in 2012 more likely than further increases in the cash rate.

Credit supply continues to remain an issue for many Australian businesses, particularly for land developers and builders. Bank constraints on the level of presales required is resulting in smaller land developments. Major developers are reported to be returning to offshore sources of non-bank finance as wholesale credit markets thaw and it may be some time before banks regain their pre-credit crunch appetite for lending to land developers.

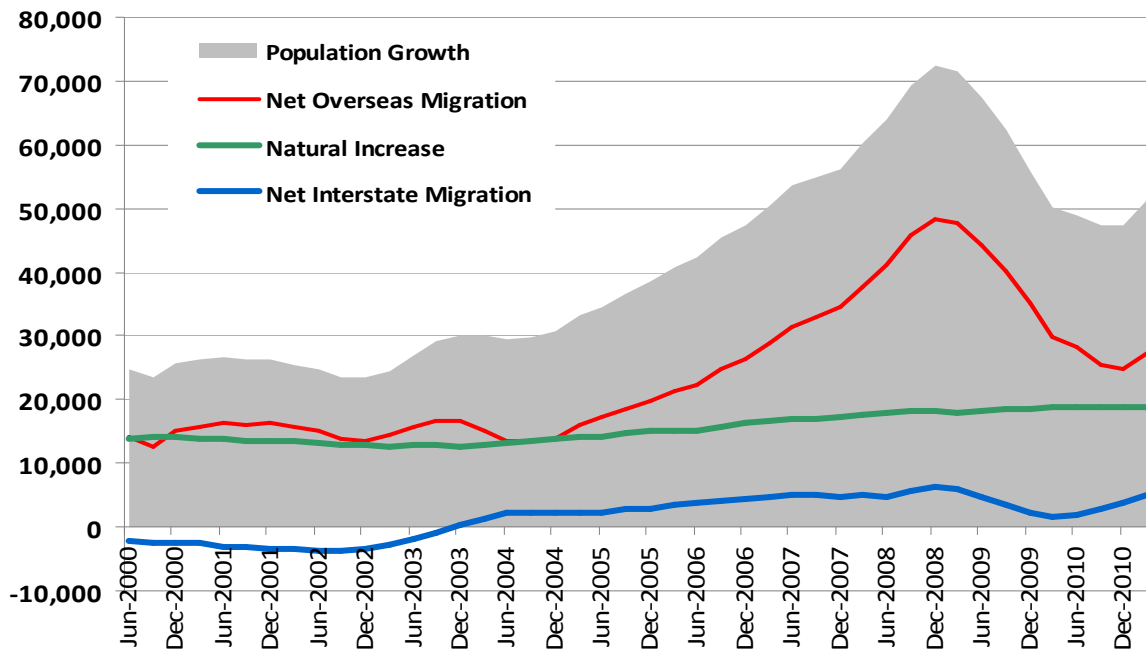
2.3 Population Growth

The latest demographic data for the March quarter of 2011 (see Figure 1 below) showed:

- WA's population continued to grow at a higher rate than for Australia as a whole. In the March quarter 2011, WA saw a rebound in net overseas and net interstate migration.
- Net overseas migration in the year to March 2011 was 27,448, slightly lower than for the year to March 2010 (27,534). The March quarter 2011 (10,340) was 90% higher than the previous quarter (December 2010).
- Net interstate migration in the year to March 2011 at 4,996 was up 188% on the year to March 2010 (1,736).
- The preliminary estimate of WA's annual population increase to March 2011 was 50,962 (2.2%). This figure was 21,644 lower than the year to December 2008 when it peaked at 3.4%.

Figure 1: Annualised components of WA Population Growth, June 2000 - Mar 2011

Source: ABS Cat No. 3101.0 Table 2



Estimated residential population figures for the period 30 June 2001 to 30 June 2010 showed the continued overwhelming dominance of the metropolitan area. Perth's estimated population grew by 21.8% to 1,696,065 over the nine years, increasing its share of the State population from 73.3% to 74.0%. Outside Perth, the fastest growing region was the South West with a growth of 30.6% over the period and increasing its share of the State population

from 10.2% to 11.1%. The Pilbara maintained its share of the State population at 2.1%, growing from an estimated population of 39,461 in June 2001 to 48,610 as at 30 June 2010.¹

HIFG has adopted the following population growth rate projections as a basis for calculating its short-term dwelling demand. The population growth has been calculated by applying the following percentage growth rates, in line with the State Government 2011/12 Budget papers to the June 2010 Estimated Resident Population (ERP) for WA of 2,293,500. However, these population growth estimates are likely to be conservative if economic growth picks up strongly over the next few years.

		Net Increase	Projected ERP
2010-11	2.2%	50,500	2,344,000
2011-12	2.2%	51,600	2,395,600
2012-13	2.2%	52,700	2,448,300

3 Land Supply

3.1 Lot Potential and Production

In August 2010, the WA Planning Commission² reported that there was sufficient zoned land available in the Perth metropolitan and Peel regions to meet anticipated demand at current rates of urbanisation for approximately the next 27 years. However, there remains the critical issue of how quickly that land can be brought to market. The estimated time required to change undeveloped land to building lots is estimated to be 4-5 years. In the June quarter 2011, developers lodged 591 applications to create 6,286 residential lots across the state, decreases over the previous quarter of -4% and -33% respectively³.

Conditional residential lot approval was given to 6,261 lots in the June quarter of 2011; a 34% increase from the previous quarter. Final residential lot approval was given to 2,546 lots; down 5% from the June quarter 2009. At the end of June 2010, the number of proposed residential lots with current conditional approval totalled 74,881 lots across the state; no change on the previous quarter but up 1% on the June quarter 2010 figure.

Figure 2 shows final lot approvals for the Metropolitan area, Peel region and rest of the State since September quarter 2003⁴. After reaching a peak in September 2004 and June 2006, the number of lots with final approval for the Metropolitan area declined to a low of 1,663 in the March quarter 2009 but has since increased to 2,787 in the June quarter of this year.

¹ *Regional Population Growth, Australia* March 2011 ABS Cat No. 3218.0

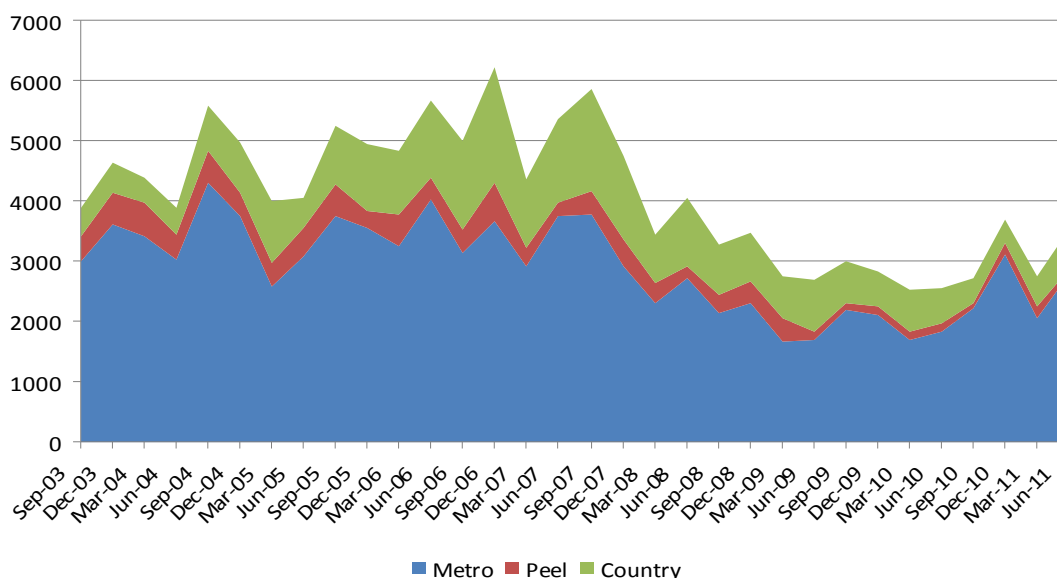
² *Urban Growth Monitor*, August 2010, WAPC

³ *State Lot Activity*, June Quarter 2011, WAPC

⁴ Final approval is granted by the Western Australian Planning Commission when the developer has satisfied all approval conditions, including the construction of roads and provision of utility services to the new lots. Final approval permits the issue of new titles by Landgate.

Figure 2 Quarterly final lot approvals by region, Sept 2003 - June 2011

Source: *State Lot Activity*, June Quarter 2011, WAPC



Based on industry data, there appears to be less land in Perth's land development pipeline as at 30 June 2011 with UDIA(WA) members reporting⁵ 3,663 lots under construction for release within 12 months, down 19% on a year ago. However, in regional WA the UDIA survey found members had 695 lots under construction for release within 12 months, up 16% on 12 months ago and with most activity continuing to occur in Mandurah and Capel.⁶

Data provided by the Water Corporation to the Department of Planning indicates that in July 2011 there were 12,600 residential lots where the developer had a servicing agreement with the Water Corporation. These lots can be considered close to being available over the next 12-18 months. Of the total, 10,100 (80%) were located in the metropolitan area and 2,500 in the rest of WA, representing falls of 12% and 16% respectively in the year to July 2011.⁷

The following chart (Figure 3) shows land listings by REIWA members in the Perth region rising over the year to September 2011 by 34% to 3,100. The stock of listings has nearly doubled since the low point in December 2009. The Peel region has seen land listings decline in the year to September 2011 by 3% to 611. In the same period, land listings in Greater Bunbury fell 22% to 183 while listings in Geraldton/Greenough declined 6% to 372 lots.

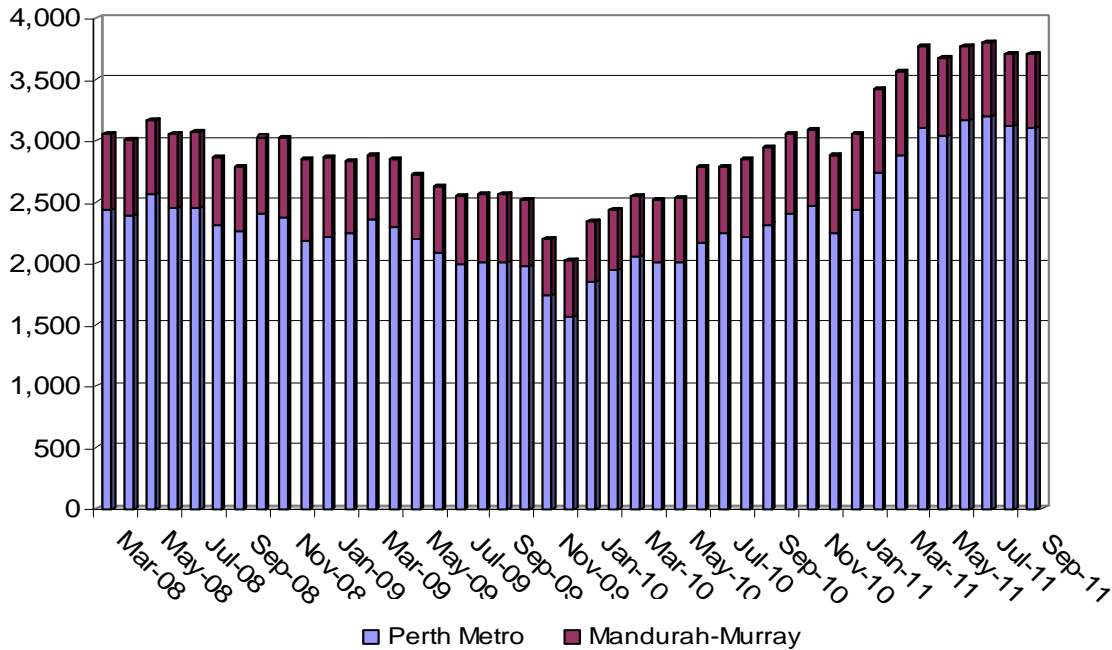
⁵ *Urban Development Index, June quarter 2011*, UDIA (WA). Survey covers the 42 major land developers.

⁶ *Ibid*

⁷ See: *Land Supply & Housing Activity Western Australia*, June Quarter 2011, WAPC

Figure 3 Land listings in Perth and Mandurah, March 2008-Sept 2011

Source: Unpublished data, Real Estate Institute of WA



3.2 Residential Land Sales

The index number of lots sold by UDIA (WA) members in the June quarter of 2011 was down 0.2% on the previous quarter and -29% on the June quarter of 2010. The average price of lots sold was \$242,610 in the June quarter 2011, 1% lower than the previous year but up 7% on the previous quarter. UDIA (WA) reported “*The land market has stayed remarkably stable over the last 6 months but the June quarter reflects continued low consumer confidence and interest rate uncertainty.*”⁸ The highest proportion of lots on the market was reported to be in Rockingham, Wanneroo and Swan.

Latest land sales data reported by REIWA shows the following trends:

- Preliminary settled annual residential land sales for WA in 2010-11 were 11,500, down an estimated 35% on the figure for 2009-10.
- Annual sale of lots in Perth in 2010-11 to date is 8,000, down 35% but is likely to fall as pre-sold sales are settled.
- Annual land sales in regional WA in 2010-11 were also down 35% on the previous year to 3,500

In the June quarter 2011, the median land price in Perth fell to \$235,000. There has been little overall movement across the year, up 7% on the market low of \$220,000 but still well down on the market peak of \$265,000 in 2007. In regional WA, the median land price at \$176,000 was up nearly 9% in the year to June 2011.

Analysis undertaken by REIWA of all settled land sales indicates reselling represented 16% of sales in 2010/11 and 2009-10, unchanged from 2008-09 and well short of the 23% of lots resold in 2007-08 and 22% in 2006-07 as speculators tried to sell lots purchased and

⁸ Urban Development Index, June quarter 2011, UDIA (WA)

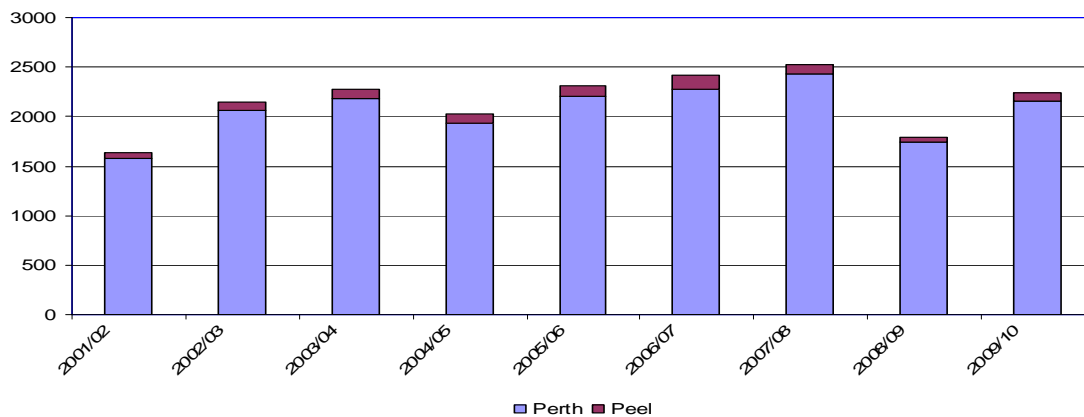
warehoused during the boom years of 2004-07. The increased level of reselling activity is also reflected in the level of land currently listed for sale, which is dominated by the South East and South West Corridors.

3.3 Residential Demolitions

Earlier this year, the Department of Planning started collecting data on dwelling demolitions from local government authorities. The data enables us to estimate that there were 2,244 demolitions in the Perth/Peel regions in 2009/10. The following figure shows the level of demolitions in the two regions since 2001/02. Perth had an average of 2,062 residential demolitions and Peel region a further average of 92 over the period. Demolition data for country WA has not yet been collected but will be included in the collection of data for 2010/11.

Figure 4 Estimated residential demolitions in Perth and Peel regions, 2001/02-2009/10

Source: Department of Planning



3.4 Lot Requirements to Meet Projected Dwelling Demand

Analysis of unpublished ABS building approval data of dwellings approved and licences (jobs) from 2001/02 to 2009/10 provided a good measure of lot requirements to meet expected demand. The data covers Perth, Rest of State and WA and captures both houses and multi-residential projects. Table 1 outlines the average number of dwellings per job, which provides a good proxy for the number of lots required.

	Perth	Rest of State	WA
Houses	1.1	1.1	1.1
Multi-residential	7.1	6.1	4.9
Total	1.3	1.2	1.3

SOURCE: ABS unpublished data - HIA State Outlook

Not unexpectedly, the increase in group housing activity results in the land requirements for houses not being a 1 for 1 relationship but 1 lot for every 1.1 dwellings. Likewise, the multi-residential lot requirement captures a range of projects from basic duplexing through to high-density apartment development. Over the nine-year analysis period, the multi-residential multiple in Perth has varied from a low of 4.9 in 2001/02 up to 10.1 in 2006/07 when multi-

residential approvals peaked in overall terms, the data suggests an average lot requirement of 1 lot to every 1.3 dwellings in Perth and a marginally lower figure of 1.2 dwellings for Regional WA. These multiples can then be applied to projected dwelling demand and related to lot production capacity by way of final approvals reported by the WAPC plus the lots created by demolition activity.

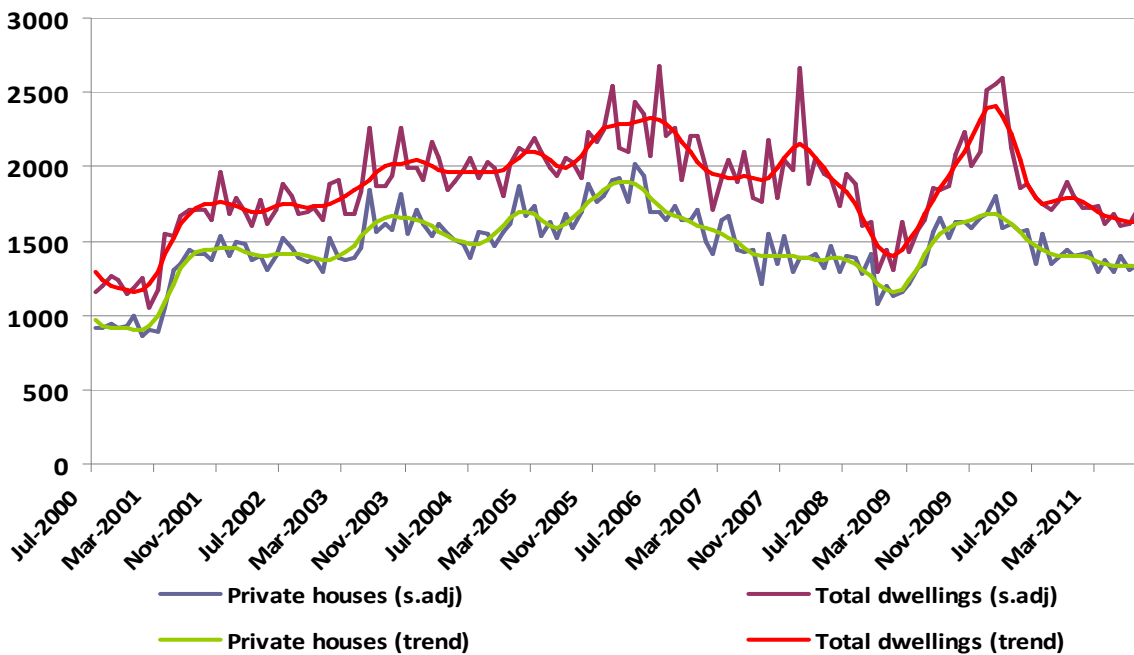
4 Building Industry Activity and Trends

4.1 Building Approvals

Building approvals in Western Australia fell 18% to 20,857 in 2010/11 compared to the previous year. The latest data for August 2011 showed the seasonally adjusted number of total dwelling approvals were up 5% on the previous month and down 3% on the same month of 2010. Figure 5 clearly shows the decline in the trend estimates for private sector houses and total dwelling approvals since the beginning of 2010, but now appear to have flattened out.

Figure 5 Building approvals in WA, July 2000-Aug 2011

Source: ABS Cat. No. 8731.0 Table 5



After the large increase in 2009/10, multi-residential approvals fell 26% in 2010/11 to 3,640 units resulting in a small decrease in their share of total approvals to 18%, compared with 19% in 2009/10 and the long-term average of 20% since 1991/92. Perth continued to account for just over 70% of approvals (12,210 houses and 2,668 other dwellings), with multi-residential units representing 18% of total approvals in Perth compared with 20% in the previous year and a long-term average of 21% since 1991/92.

Figure 6 Finance commitments for new buildings and private sector approvals, Jul 2000-Aug 2011

Source: ABS Cat No. 8731.0 Table 5 & 5609.0 Table 10a

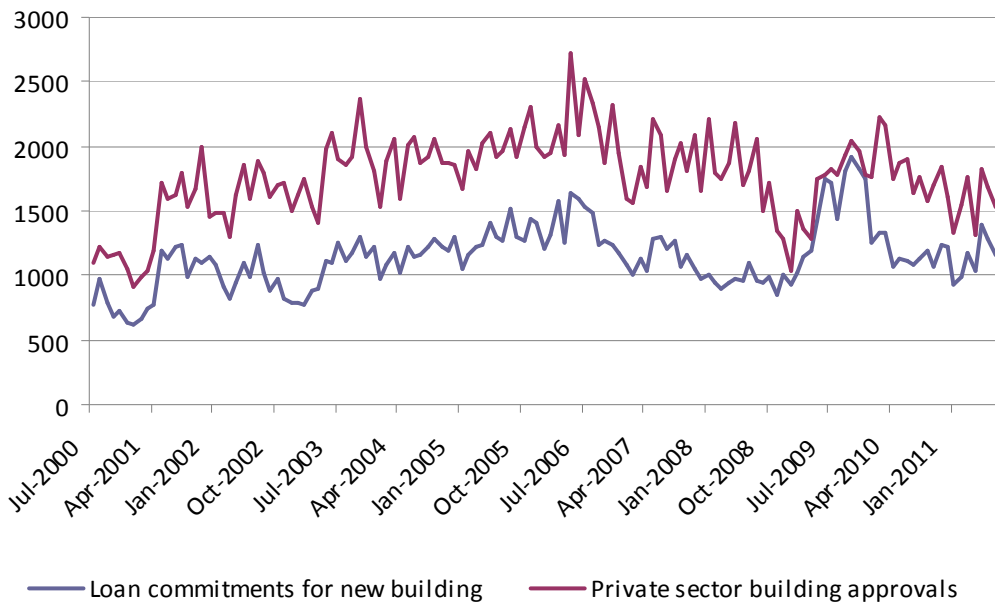


Figure 6 above shows the relationship between finance commitments for new construction and purchase of new dwellings compared with private sector building approvals. The data suggest some improvement in housing starts towards the end of the year.

4.2 Dwelling Commencements and Completions

4.2.1 Dwelling Commencements

Dwelling commencements⁹ in 2010/11 at 20,500 were 18% lower compared to the 25,092 commencements in the previous year, the third highest level in 40 years. The number of houses started fell by 3,142 (-16%) to 16,728, while commencements of other dwellings fell by 1,452 (-28%) to 3,771. Following the finish of the social housing stimulus, total public sector dwelling starts declined 47% in 2010/11 from 2,475 to 1,308.

⁹ Excluding conversions.

Figure 7 WA seasonally adjusted dwelling commencements, Jun 2000-Jun 2011

Source: ABS Cat No 8752 Table 34

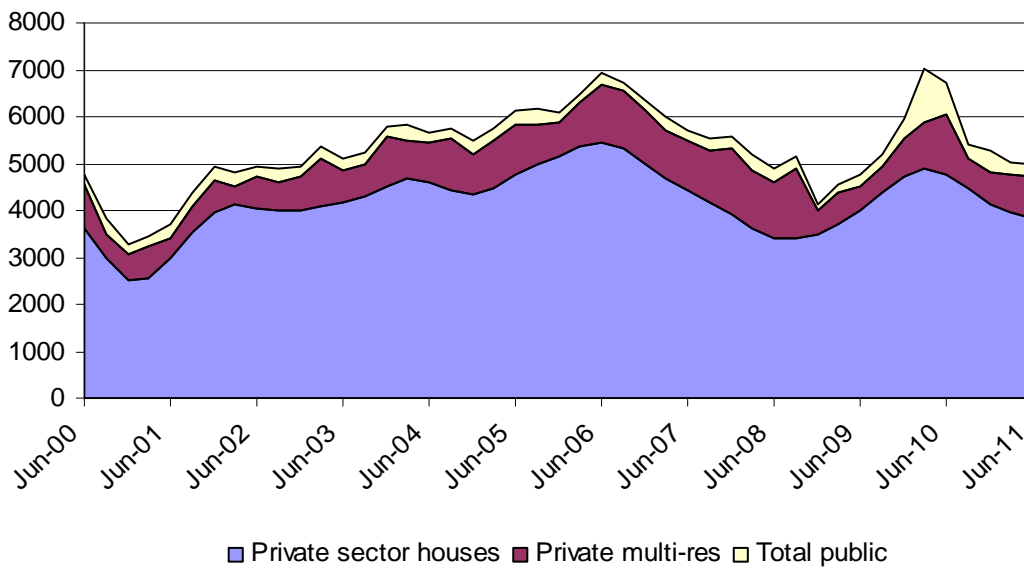


Figure 8 below shows quarterly data for total commencements, which has been falling since March quarter 2010. However, after a steep decline up to September 2010 the trend in total commencements has fallen at a much slower rate.

Figure 8 Total dwelling commencements in WA, Jun 2000-Jun 2011

Source: ABS Cat No 8752.0 Table 34

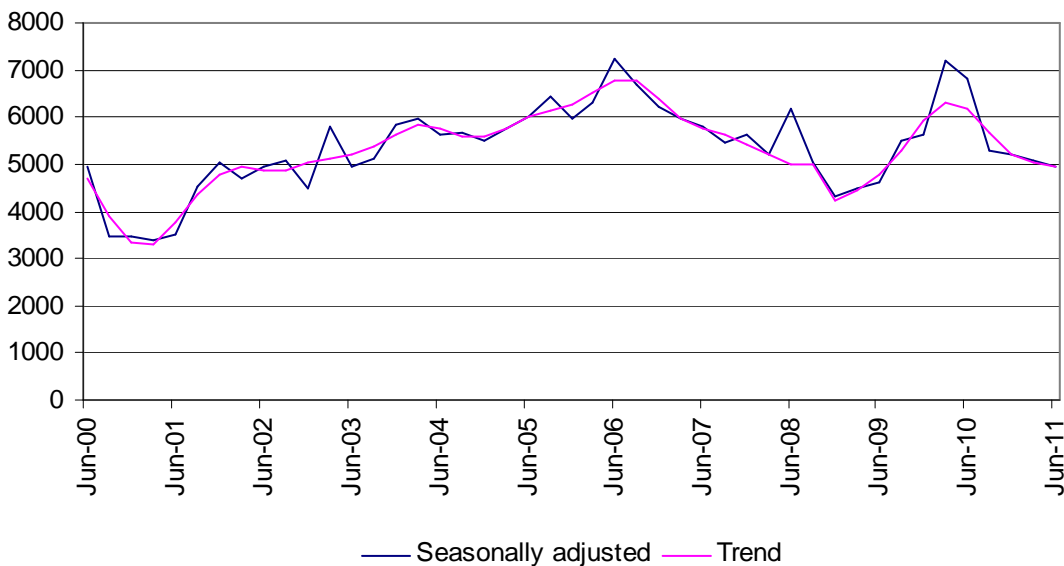


Table 2 below shows that the distribution of dwelling commencements between Perth and regional WA has shifted from a ratio of 74:26 at the beginning of the decade to 71:29 in 2010/11. The table also indicates that dwellings other than houses have been accounting for a greater proportion of total dwellings compared to houses, rising from 15% of the total in 2001/02 to 25% in 2007/08 but fell back to 18% in 2010/11.

Table 2: Distribution of Dwelling Commencements in WA, 2001/02-2010/11¹⁰

Source: ABS Cat No 8752 – Unpublished data & includes conversions

	Perth			Regional WA			WA		
	Houses	Other	Total	Houses	Other	Total	Houses	Other	Total
2001/02	11,824	2,338	14,162 (74%)	4,417	528	4,945	16,241	2,866 (15%)	19,107
2002/03	12,435	2,649	15,084 (75%)	4,381	765	5,146	16,816	3,414 (17%)	20,230
2003/04	13,359	2,974	16,333 (73%)	5,215	927	6,142	18,574	3,901 (17%)	22,475
2004/05	12,845	3,611	16,456 (72%)	5,397	1,071	6,468	18,242	4,647 (20%)	22,835
2005/06	14,864	3,130	17,994 (70%)	6,677	1,051	7,728	21,541	4,181 (16%)	25,722
2006/07	13,360	3,787	17,147 (69%)	6,379	1,293	7,672	19,739	5,080 (20%)	24,819
2007/08	11,615	4,442	16,057 (72%)	5,101	1,173	6,274	16,716	5,615 (25%)	22,331
2008/09	10,335	3,116	13,451 (73%)	4,411	548	4,959	14,749	3,664 (20%)	18,413
2009/10	13,979	3,545	17,524 (69%)	6,030	1,750	7,780	20,009	5,295 (21%)	25,304
2010/11	11,760	2,811	14,571 (71%) ¹	4,968	969	5,937	16,728	3,780 (18%) ²	20,508

Notes: 1. Perth total as % of WA total.

2. WA other dwellings as % of total dwellings..

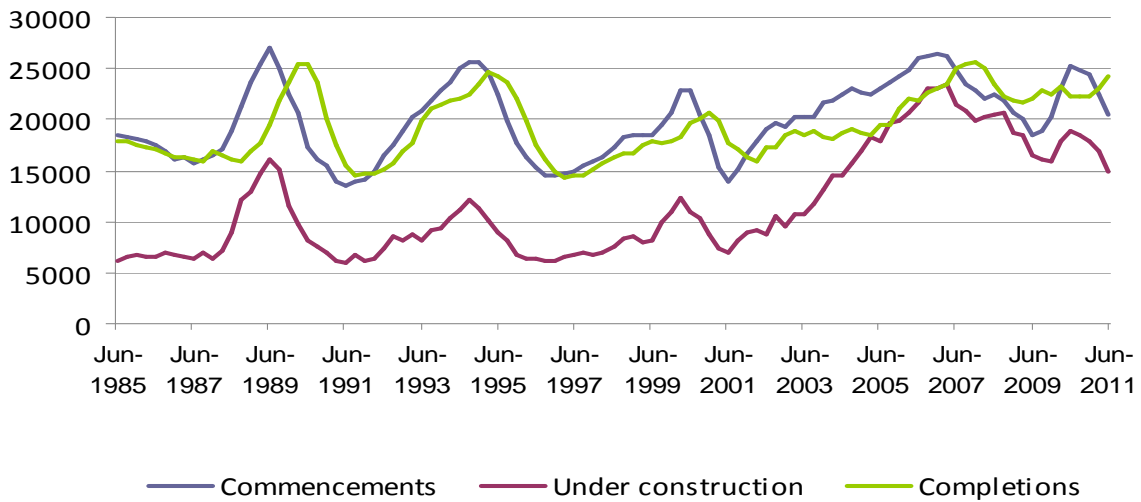
4.2.2 Completions

The level of completions reached an annualised peak of 25,717 dwellings at the end of December 2007 but after a dip during 2009 (see Figure 9 below) was up to 24,324 for the year to June 2011, lagging the strong commencements in 2009/10. The annualised level of completions is expected to fall later this year with the strong fall in annualised commencements and dwellings under construction in the first half of calendar 2011.

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

Figure 9 Annualised commencements, construction and completions, Jun 1985-Jun 2011

Source: ABS Cat No 8752 Tables 34, 38 & 77



4.2.3 Work under Construction

After an all-time high of 23,351 in the March quarter 2007, the backlog of work reflected by the number of dwellings under construction in the June quarter 2011 totalled 14,900 and was 21% lower than the 18,882 dwellings under construction at the end of the June quarter 2010¹¹. As figure 10 indicates, the volume of work under construction has now reduced to a similar level to the start of the WA property boom in mid 2004.

The following chart (Figure 10) shows the total dwellings under construction and the percentage of units since the data was collected starting in 1969. After two peaks of close to 50% in the early 1970s and 1980s, the percentage of units in total dwellings under construction has fluctuated around 30%. The percentage rose strongly in 2008 to reach 39% in the September quarter of 2008 but has eased back to 30% in the June quarter 2011.

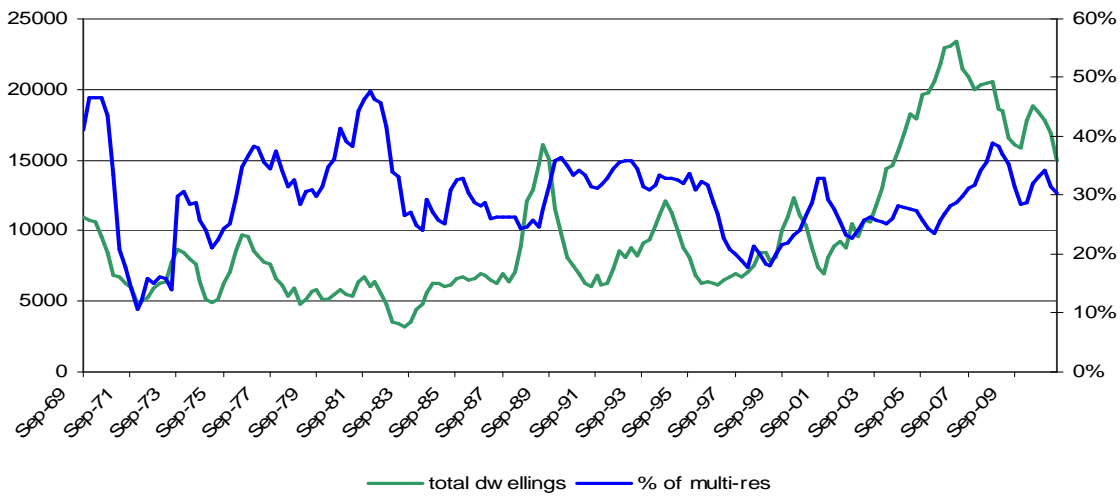
As at the June quarter of 2011, the value of residential work in the construction pipeline totalled \$3.915 billion¹², 13% lower than 12 months previously. Out of this total, \$1.156 billion represented the value of work approved but not yet started, 2% up on 12 months previously.

¹¹ ABS Cat 8752.0 Table 77

¹² ABS Cat No 8755.0 Table 12

Figure 10 WA unit dwellings as % of total dwellings under construction, end quarter Jun 1970-Jun 2011

Source: ABS Cat No 8752.0 Table 77

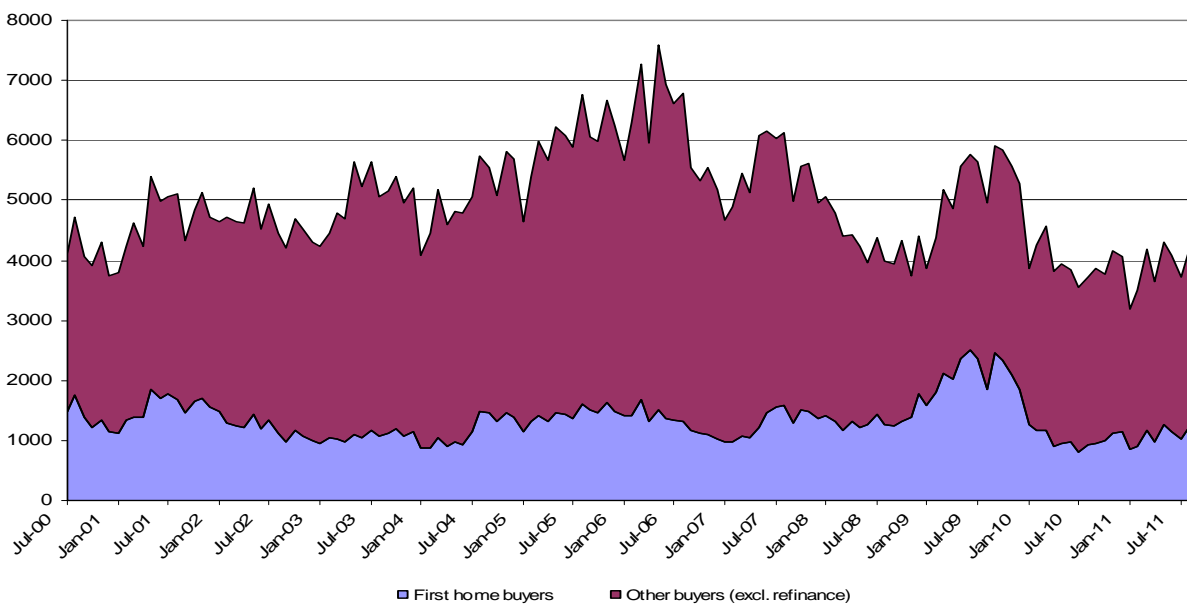


4.2.4 Housing Finance

Growth in total (including established dwellings and excluding refinancing loans) new gross finance approvals for owner-occupier loans bottomed in early 2011, although the rate of recovery has been modest and is running at a lower level than in the previous ten years (see Figure 11 below). Approvals for owner-occupier and identifiable investment loans for the construction of new dwellings remain subdued, although they have recovered modestly from their trough earlier this year.

Figure 11 WA home loan approvals, July 2000-Aug 2011

Source: ABS Cat No 5609.0 Tables 9b & 10a



The share of loan commitments to first homebuyers¹³ is now back to the long-term average of 27% since July 2000 and in August 2011 was two percentage points above the average.

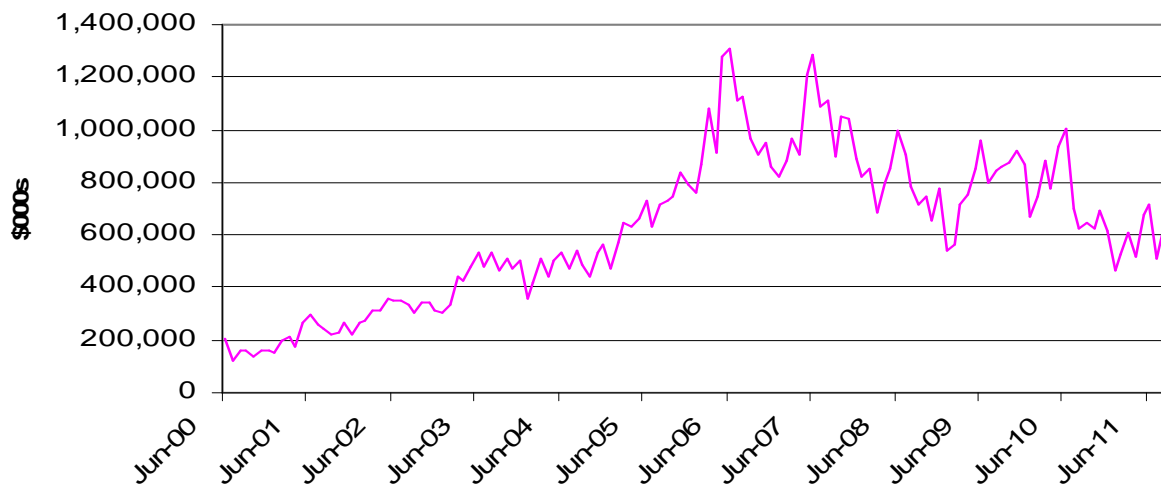
¹³ Share based on total loans excluding loan commitments for re-financing.

The average loan amount for first homebuyers was \$282,000 in August 2011, up 2% on the previous month and up 1% on the August 2010 average. The average loan amount for other buyers at \$261,500 was down 9% from the average figure in August 2010.

The level of financial commitments for investment in new and existing housing (Figure 12) shows a downward trend since the June 2006 peak. Total value of loan commitments to investors for the three months to August 2011 was down 20% on the same period of 2010.

Figure 12 Value of finance commitments for housing investors in WA, Jun 2000-Aug 2011

Source: ABS Cat No 5671.0 Table 23



5 Housing Market Trends

5.1 Introduction

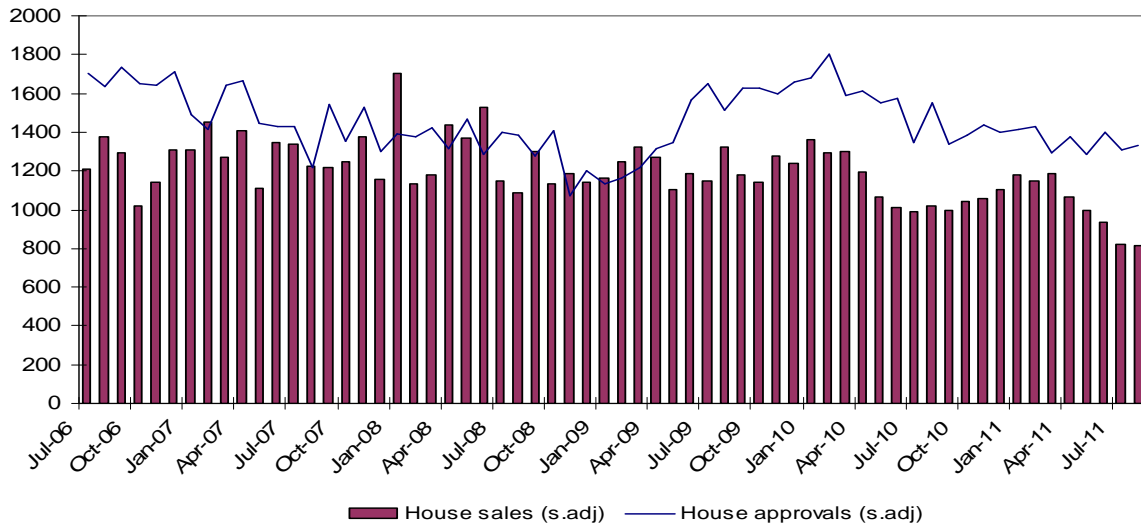
The building market has not improved since our April 2011 report. Homebuyers are still reluctant to commit. Significant features of the market are an unprecedented level of TV, radio and newspaper advertising by major builders and extensive promotions in an attempt to entice buyers into the market. Paradoxically there appears to be an increasing number of builders still establishing themselves, which is adding to price and non-price competition. However, converting customer interest into sales is more difficult because of lending constraints or a lack of urgency by buyers.

5.2 New Homes Market

After a brief revival in early 2011, new home sales by the major builders in WA have been falling since March with new home sales down 19% in the three months to August 2011 compared to the previous quarter and 15% lower than the same period of 2010. The following chart shows HIA data on house sales and seasonally adjusted building approvals for private sector houses recorded by ABS. The widening gap between sales by the major building companies and building approvals is probably an indication of a greater share of the market by smaller building companies maintaining their level of activity in a falling market.

Figure 13 Private house sales and approvals in WA, July 2006-Aug 2011

Source: New Home Sales, September 2010, HIA & ABS Cat No 8731.0



The index of project home prices in Perth increased by 3% in the year to the June quarter 2010 (see Figure 14 below), which was marginally above the increase for the consumer price index over the same period.

5.3 Established Dwelling Market

REIWA data¹⁴ showed the following:

- The volume of sales of established dwellings in WA for 2010/11 was at its “... lowest level in 15 years when the market troughed in 1996/97.”
- The number of listings (including land) reported by REIWA members in the metropolitan area has reduced from its most recent high of over 18,000 in April but at 15,000 in September 2011 was still well above the market equilibrium of 12,000.
- The number of days between listing and exchange of contracts was 79 days in the June and September quarters of 2011, 13 days greater than for the same time last year and well above the 45 days considered as a normal market.

Preliminary data from REIWA indicated that the Perth median house price fell 3% in the September quarter of 2011 to \$467,000 from a revised figure of \$480,000 in the previous quarter and was 5% lower than a year ago. Falls have been a lot more subdued than the solid four quarters of decline across 2008, which saw Perth's median house price fall 10% from \$475,000 in December 2007 to \$429,000 in December 2008.

The median house price in regional WA in the September quarter 2011 at \$365,000 was down 3% compared to the previous quarter and marginally below the \$370,000 in September 2010.

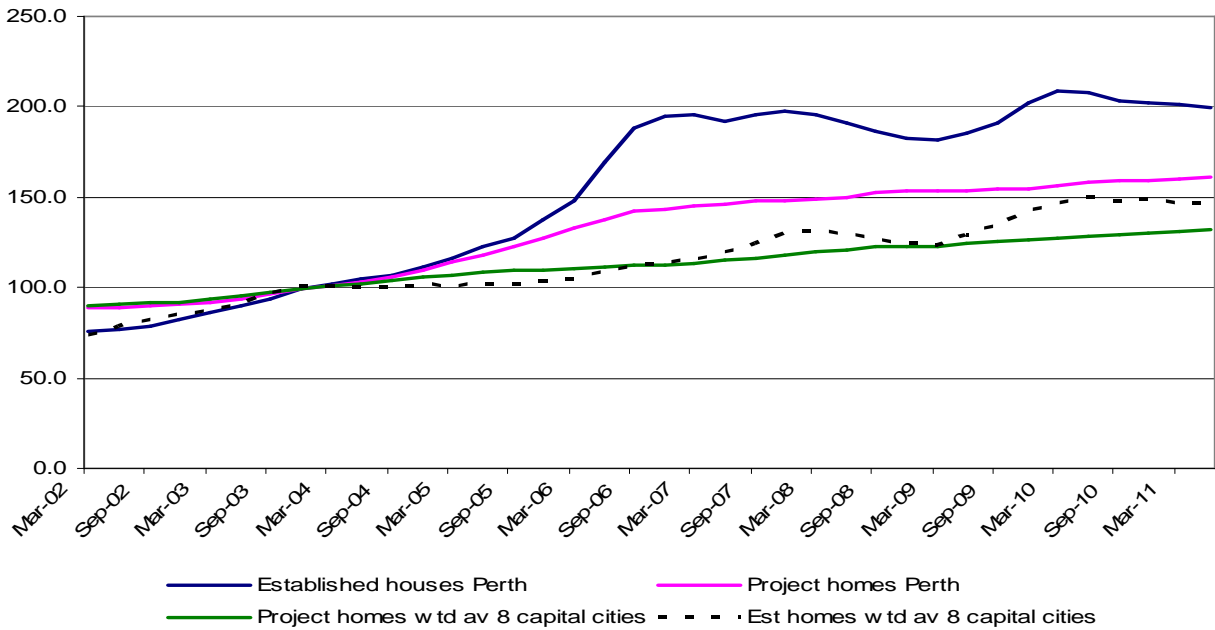
The index of prices for established homes in Perth has been falling since the December quarter 2009 and in June quarter was lower than the index for March 2009. Perth's index of established home prices fell 4% in the year to the June quarter 2011 compared to a 2% fall

¹⁴ REIWA *Market Update*, June Quarter 2011, REIWA

for the eight capital cities weighted average. The index for project home prices has continued to rise albeit below the increase in the consumer price index. Perth project home price index increased 1% in the year to the June quarter 2011 compared to 3% for the eight capital cities weighted average.

Figure 14 Quarterly indexes of house prices, Mar 2002-Jun 2011

Source: ABS Cat No 6416.0



5.4 First Home Buyers Market

REIWA estimates the proportion of first homebuyers accounted for 25% of the established market in the June quarter 2011, which was up 3 percentage points on the previous quarter and year.

Out of 12,584 grants paid in 2010/11, 3,838 were for new dwellings representing 30% of total grants, down from the 40% achieved in 2009/10 as result of the FHOG Boost. Figure 15 shows a positive upturn in grants paid on established homes after the trough in September 2010, although the September 2011 number was still 20% below the eleven-year average.

Application data suggest the ratio of first homebuyers building a new home is now returning to the pre FHOG Boost level of around 15% of total new dwelling construction. In the June quarter 2011, the ratio was as high as 19%, representative of the weak demand by up-graders to enter the market for a new home.

Figure 15 Quarterly number of FHOG grants paid in WA, July 2000- Sept 2011

Source: Office of State Revenue

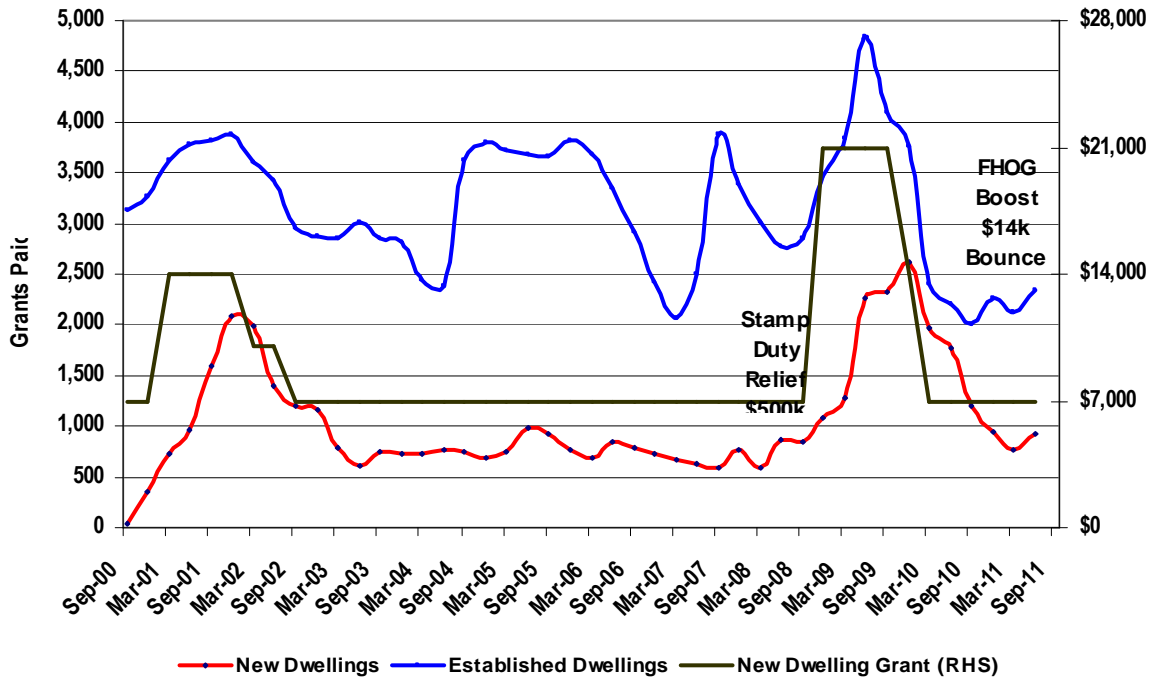
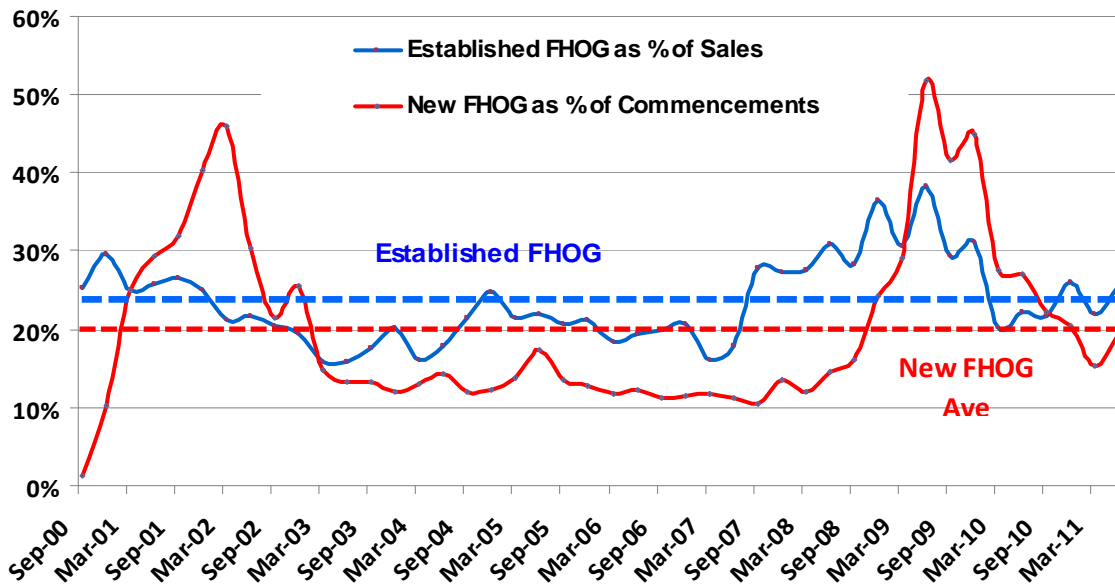


Figure 16 Quarterly FHOG grants as proportion of commencements and sales, Sept 2000-June 2011

Source: Calculations based on data from Office of State Revenue, REIWA and ABS Cat No 8752.0



5.5 Private Rental Market

The latest preliminary data from REIWA indicates the vacancy rate in Perth's private rental market, after easing slightly to 3.4% in the June quarter of 2011, fell to 2.8% in the three months to September 2011. The reduction saw a rise in the median rental to \$395 per week, up 4% on the previous quarter and followed no increase between the March and June

quarters of 2011.¹⁵ These trends may be an indication of people choosing to rent rather than enter home ownership in these uncertain times.

REIWA data also reported no change in three regional rental markets and the others saw rent increases in line with Perth.

Table 3: Private rental sector in Perth and Major Regional Centres, Sept Qtr 2011

Region	Median Weekly Rent	% Change over previous Quarter	Vacancy Rate
Perth	\$395	+4%	2.8%
Mandurah	\$320	n.c.	3.8%
Greater Bunbury	\$350	+6%	3.4%
Geraldton	\$315	+5%	2.8%
Kalgoorlie	\$365	n.c.	1.2%
Albany	\$290	n.c.	4.6%
Broome	\$620	+3%	1.0%

Source: REIWA

5.6 Public Sector

With the passing of activity generated by the housing stimulus packages, public sector dwelling commencements in 2010/11 were down 47% to 1,308. Public sector dwelling starts will see a further drop in 2011-12 and the program for the following financial year is yet to be determined. HIFG industry members believe that the current downturn in residential construction activity in Western Australia is an opportune time for government to take advantage of the downturn and provide a positive stimulus to both the sector and the supply of social housing. In this regard, the new shared equity loan scheme announced last month by the Minister for Housing will provide an additional 2,000 homes to assist moderate income households to access affordable home ownership.

6 Housing Affordability in WA

6.1 Home Ownership

The latest HIA–Commonwealth Bank index on housing affordability for first homebuyers for the June quarter of 2011 was up 8.1 points for Perth and up 7.1 points for regional Western Australia compared to the June quarter 2010.¹⁶ The Real Estate Institute of Australia's Home Loan Affordability Indicator for the June quarter 2011¹⁷ witnessed a small improvement in home loan affordability for homebuyers in WA with an index up 0.3 points on the previous quarter 3.5 points on the year.

However, affordability indexes tend to obscure accessibility problems for first homebuyers. See Appendix C for a short discussion on how housing affordability is currently measured in Australia and what is currently missing from these constructs.

¹⁵ *Market Update, June Quarter 2011*, REIWA and web site accessed 18 October 2011.

¹⁶ *Affordability Report, June Quarter 2011*, HIA

¹⁷ *Housing Affordability Report, June Quarter 2011*, Real Estate Institute of Australia

Despite the continued softening of house and land prices in most areas of Western Australia other than the North West, access to affordable housing remains a problem for first homebuyers. A couple with no dependants on the estimated median household income of \$78,200, with minimal other credit commitments, can borrow just over \$270,000¹⁸. With a 10% deposit, they can afford a property valued at just over \$300,000, which is still well below the median dwelling¹⁹ price of \$465,000 or even the lower quartile price in Perth of \$370,000. This household would only have been able to afford 8% of house and apartment sales in the June quarter of 2011.

In August 2011, the average loan size of finance commitments to first homebuyers was \$282,200 in Western Australia. The median price of established homes bought by first homebuyers in the same month was \$395,000. Despite one figure being a median and the other an average, the difference signifies a substantial deposit gap of over \$100,000, whether it has been saved by the first homebuyers or provided by family.

HIFG members note and welcome the increasing diversity now entering the housing market, with developers and builders providing new product such as more two bedroom and one-bathroom homes to appeal to first home buyers, down-sizers and investors.

6.2 Private Rental

Although private rents in Perth have been reasonably stable since the end of 2009, the median rental has now increased to \$395 per week in the three months to September 2011. A household needs a gross income of just over \$1,300 per week, or \$68,000 per annum, to be able to afford this rent in Perth (i.e. by not paying more than 30% of their income on rent). Households in lower incomes will be struggling and this has been one factor behind the continuing high demand for public housing, which in August 2011 totalled just over 23,000 households.

The National Rental Affordability Scheme (NRAS) is now beginning to provide affordable rental housing in Western Australia with 291 dwellings completed by the end of June 2011 and over 200 under construction. The University of WA will shortly be commencing construction of 515 student apartments at its Crawley campus. In return for financial incentives, currently worth \$9,524 per dwelling per year for ten-years, investors will make the dwellings available to low and moderate income households for 20% below the local market rent. Western Australia currently has a total allocation of 5,000 incentives.

HIFG notes the trial by the City of Fremantle to remove the “granny flat” label from ancillary accommodation to allow this type of housing to be occupied by a non-family member. Removal of this restriction across the State would be consistent with one of the strategies to increase the supply of affordable rental housing and set out in the State Affordable Housing Strategy released last May.

¹⁸ Estimate based on 10% deposit and repayments at 30% of gross income. However, households with no dependent children are often permitted by banks to exceed this 30% limit.

¹⁹ Median covers both houses and apartments.

7 Housing Industry Resources

7.1 Construction Costs, Building Materials and Labour Supply

The increase in the Project Home Price Index for Perth in the year to June quarter 2011 was below the increase in the consumer price index with an increase of 1%, and below the weighted average for the eight capital cities of 3%.

The price index of building materials used in housing construction in Perth increased by 1.9% in the year to the June quarter 2011, compared with a 2.2% increase for the six major capital cities²⁰. The increase was largely attributable to increases in cement products, steel and electrical equipment.

A survey of HIA trade subcontractor members²¹ in the June quarter 2011, reported the availability of trades in Perth and regional WA was in moderate surplus, which followed a lengthy period of moderate short supply. In preliminary figures for the first eight months of 2011, the Master Builders Association recorded only 3125 advertised job vacancies and calls for building subcontractors. This was 48% lower than for the same period in 2010 and is the lowest level since the post-GST downturn in 2001. There is ample availability of trades at present. The simultaneous down turn in housing and commercial building has led to higher competition and downward pressure on prices.

The HIA Trade Contractor Price Index²² in Perth for the June quarter 2011 was down 0.3% on the previous quarter and up 2.7% compared with 12 months ago. The equivalent figures for regional WA were +0.3% and 3.0% respectively.

Industry members of HIFG have expressed concern about potential issues that are likely to increase the cost of home building, such as the introduction of 6 star housing from May 2012, the introduction of the Building Act (including private certification of building applications), impending Carbon Tax impacts and a new Australian Taxation Office payment reporting system scheduled to start in July 2012. In a similar way to the introduction of the GST in July 2000, these changes may possibly generate some pull forward due to additional costs in the first half of 2012.

8 Underlying Demand for Housing

8.1 Underlying Housing Requirements

Despite the downturn in the previous high levels of net overseas migration, the Group believes the underlying dwelling requirement in WA based solely on demographic factors is running at around 27,000 dwellings per annum. This estimate is based on a population growth of 2.2% per annum and a ratio of 2.6 persons per household. An un-occupied factor of 5.3% and a demolitions rate of 14.41% were based on figures calculated by the National

²⁰ ABS Cat 6427.0 Tables 16 & 17.

²¹ Trades Report, HIA Austral Bricks, June Quarter 2011

²² *ibid*

Housing Supply Council²³ from inter-censal stock figures between 2001 and 2006. Our preference would be to use actual demolitions data and we will continue to work with the Department of Planning firming up these data.

An important component of this demographic-based model is the rate of household formation, which does not take into account the ability of a household to actually form a separate household. A lack of available and affordable housing is one barrier to household formation. Rising rents in the private rental market will have the same affect with young people forced to stay within the family home. Other economic variables such as unemployment will also have an impact on the ability to form new households. The increase in the number of people per household between the 2001 and 2006 Censuses suggests that these economic considerations resulted in many putting off forming a new household. Results from the recent 2011 Census will not start to be made available until mid-2012 providing a check on this trend.

If the number of people per household continued to grow at the same rate seen between 2001 and 2006 then this brings down the crude measure of underlying demand from 27,000 to just over 20,000 dwellings needed each year to accommodate the growth in household numbers, allowing for demolitions and vacancies.

8.2 State of Supply

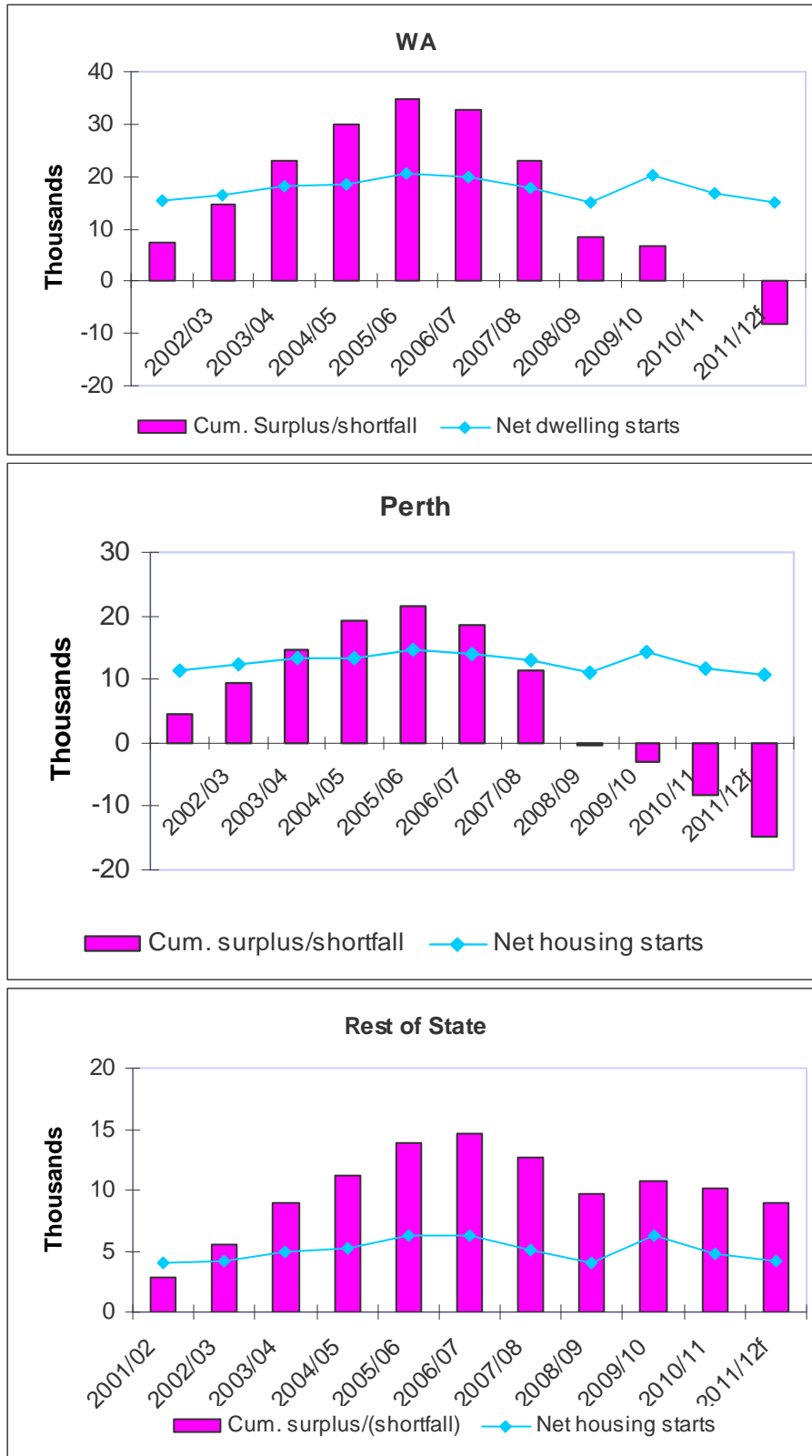
In terms of the state of housing supply, the HIFG has adopted the National Housing Supply Council model updated to reflect the increase in persons per household indicated in the latest ABS household projections. This presents a dramatic turnaround in the state of housing supply in WA as at June 2009 whereby the NHSC suggested a shortfall of some 30,000, the model based on completions suggest the housing system was in virtual equilibrium in June 2009.

Despite there being 25,050 new commencements in 2009-10, the volume of completions was only 22,300, which resulted in the supply balance turning negative and a theoretical shortfall of 4,400 in WA as at 30 June 2010. Despite dwelling completions of 24,324 in 2010/11, the overall cumulative shortfall is still an estimated 7,900 at 30 June 2011.

The alternative approach of using commencements, which has been the traditional method of assessing the state of supply, allows for the inclusion of projected commencements to forecast the state of supply over the short term. With the benefit of disaggregated commencement data provided by ABS along with historic population data and projections, the HIFG is able to make a more informed assessment of housing supply in WA. Using this methodology, the following charts show the estimated surplus/shortfall of dwellings in WA, Perth and the rest of the State for 2001/02 to 2011/12 against the number of dwelling commencements net of demolitions and an adjustment for un-occupied properties.

²³ 2nd State of Supply Report, April 2010, NHSC.

Figure 17 Net dwelling starts and cumulative surplus/shortfall in WA, Perth and ROS
 Source: HIFG (assumes a declining persons per household trend post 2006 & may alter once the 2011 Census is released)



9 Forecast of Dwelling Commencements

9.1 HIFG's Forecast of Dwelling Commencements

After the significant correction in 2010/11 with an 18% fall in housing starts, HIFG are expecting no immediate reversal in 2011/12. Consumer confidence remains low because of the overseas turmoil in financial markets and sovereign debt issues in the eurozone. Industry members of HIFG foresee a difficult introduction of the Building Services (Registration) Act 2011 leading to a temporary period of slow building approvals during the introductory phases of the legislation. The social housing stimulus impact on dwelling commencements is now over and with no other positive factors around, the outlook for 2011/12 is poor with a number of negative factors resulting in HIFG's forecast of a 10% fall in dwelling commencements to 18,500 in 2011/12.

Prospects for 2012/13 are even more difficult to predict than usual. On the one hand, if consumer confidence remains flat then demand is likely to remain stagnant. However, with the increasing level of underbuild and a change in consumer confidence, linked to a flight to bricks and mortar from uncertainty in the global share market, we could see a rapid increase in demand for new housing construction in 2012/13. HIFG believes on balance that there will be an increase in demand of between 14-19% from this year's low base figure as buyers start taking advantage of softer house prices continuing into 2012.

HIFG Forecast of Dwelling Commencements in WA, 2011/12 & 2012/13		
Financial Year	Dwelling Commencements	% change
2010/11 (actual)	20,500	
2011/12 (forecast)	18,500	-10%
2012/13 (forecast)	21,000 – 22,000	+14 to 19%

9.2 Land Supply Assessment

Although we are now starting to see data on dwelling demolitions from local governments we still need a better understanding of how many single lot demolitions are being replaced by strata lot developments, whereby one demolished house is replaced by two or three strata homes. We also need a much better understanding of the land development pipeline, the speed of developments from application to final issue of title and why so much land in the metropolitan area remains vacant for several years after the land boom in 2006.

The Group notes that while there is an adequate land supply to meet housing commencements into at least 2013 a turn around in demand may well be sudden. Then we will be up against the old problem of demand outstripping the speed with which new lots can be brought to market.

Appendix A – Regional Land and Housing Activity

B1 Introduction

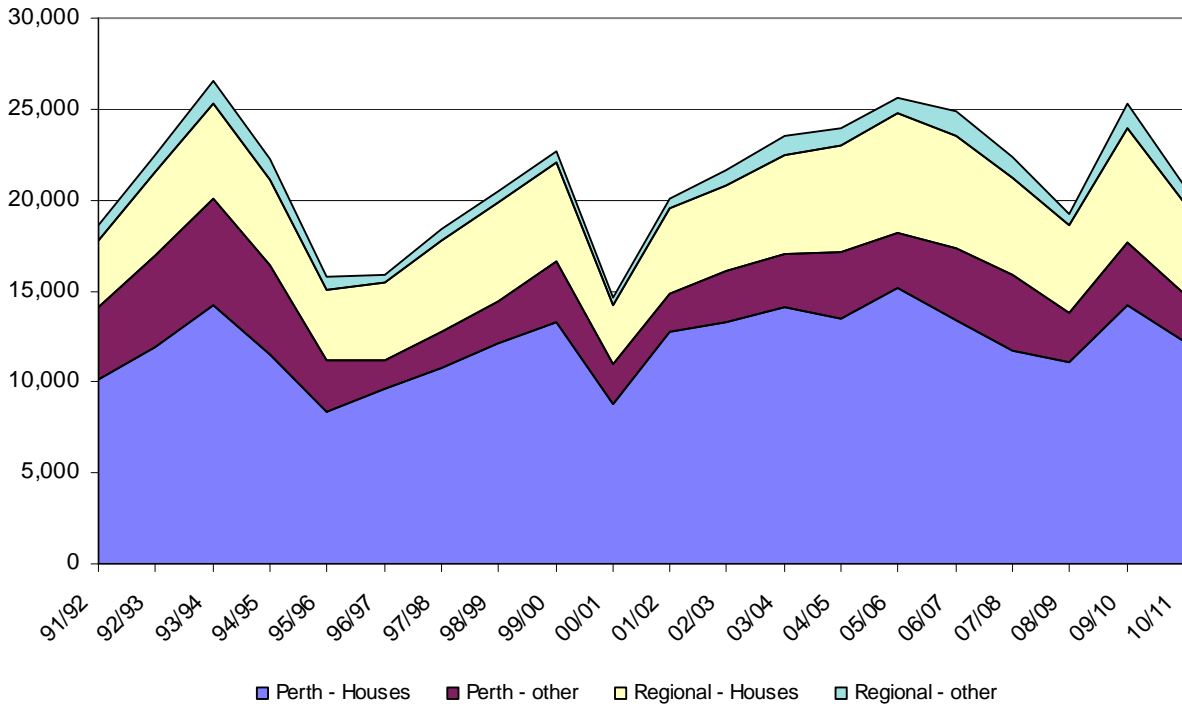
This appendix provides a summary of land development and building activity in regional Western Australia, using available data and reports from HIFG member organisations.

B2 State Overview

Figure 18 shows the trend in building approvals between Perth and regional Western Australia since 1991/92. Perth's share of building approvals was 72% in 2010/11, slightly above the long-term average of 71%, varying from a low of 69% in 1997/98 to a high of 76% in 1991/92 and 1993/94.

Figure 18 Building approvals in Perth and regional WA, 1991/92-2010/11

Source: ABS Cat No 8731.0



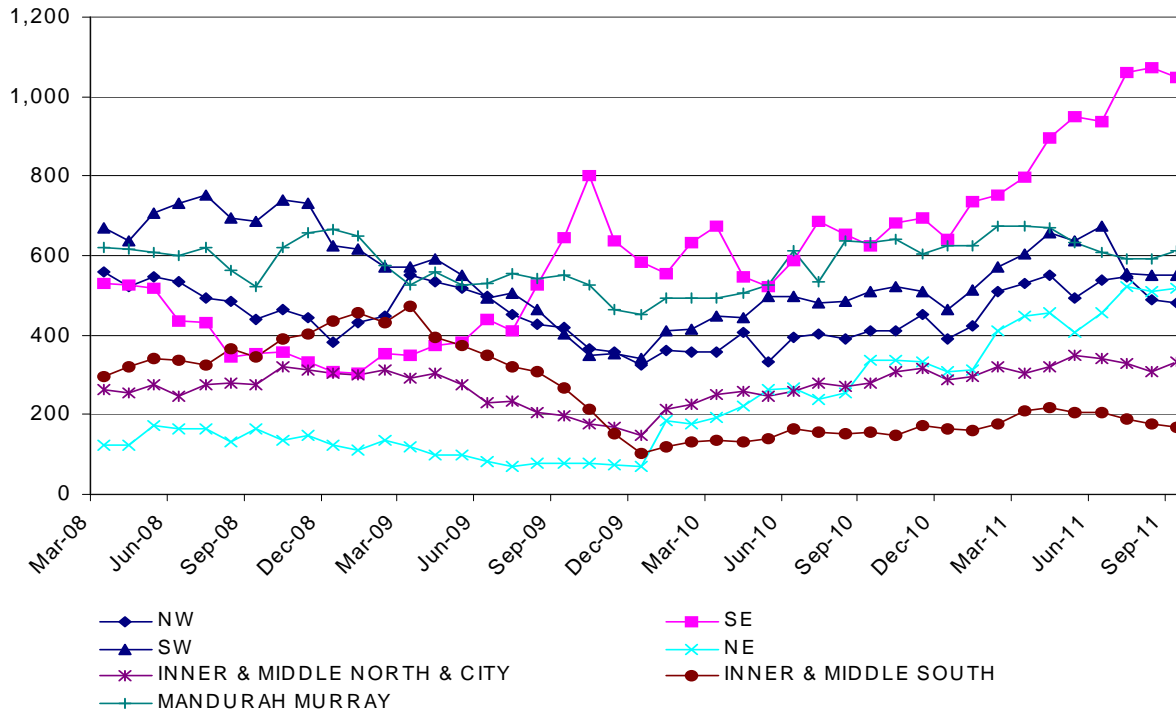
Other dwellings as a percentage of total building approvals varied between 14% and 27% over the period, with a figure of 18% in 2010/11. Perth accounted for 73% of 'other' building approvals in WA in 2010/11, down from 81% in 2008/09 but slightly higher than the figure of 72% in 2009/10.

B3 Perth Metropolitan Region

Figure 19 shows land listings held by REIWA members since March 2008 and the increase in listings since the low point in December 2009.

Figure 19 Land listings by metropolitan region, March 2008-Sept 2011

Source: REIWA



The following table is derived from the UDIA(WA) member survey for the June quarter of 2011 and shows the spread of lots on the market and lot potential from lots not currently on the market and lots under construction and to be released within the next 12 months.

Table B1: Lots on Market and Lot Potential by Metro Region, June quarter 2011

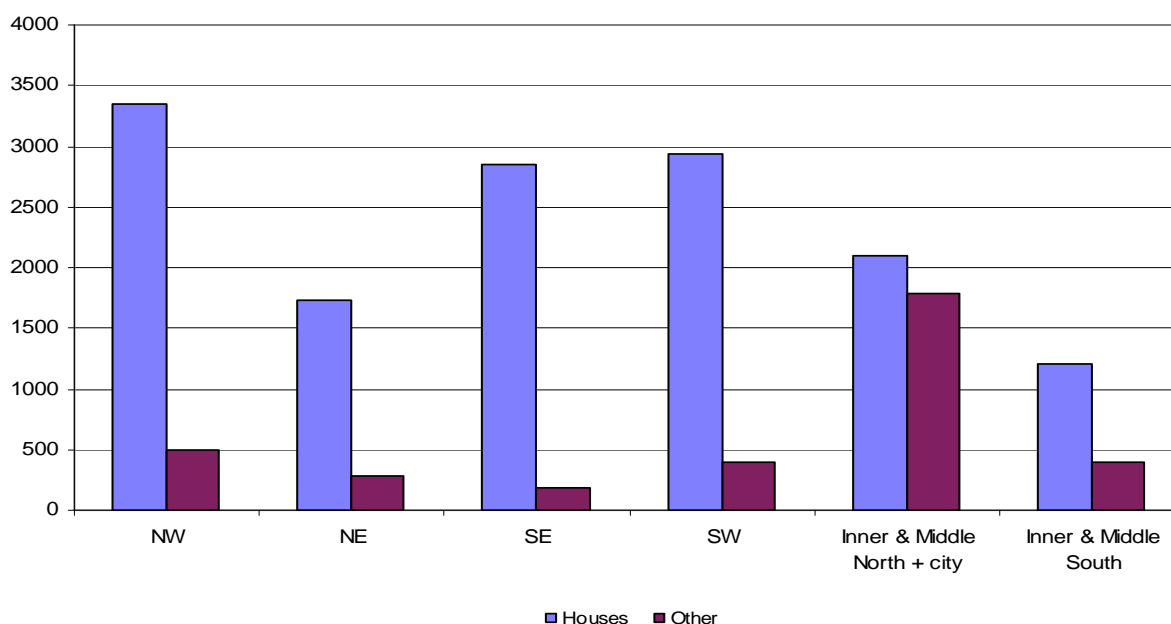
Perth Regional Sectors	Lots on Market	Lots not on market	Lots within 12 months
North West	682	189	1,395
South East	298	137	642
South West	740	228	1,196
North East	317	246	312
Inner and Middle North & City	26	6	2
Inner and Middle South	27	0	116
Total	2,090	806	3,663

Source: Urban Development Index, June Quarter 2011, UDIA(WA)

Building approvals data by Perth regions for 2010/11 are shown in the following chart and continue to show the trends of house approvals in the corridors and other dwelling approvals mainly in the inner and middle suburbs of Perth. While other dwellings represented 20% of total approvals, this proportion reached 46% in the inner and middle North and 25% if Inner and middle south suburbs with the figure reducing to 6% in the southeast corridor of the metropolitan area.

Figure 20 Building approvals by metropolitan region, 2010/11

Source: ABS Cat no. 8731.0



B4 Regional Western Australia – Activity 2009-10

Data on land development from the WA Planning Commission summarised in table B2 indicates that while there are plenty of residential building lots under assessment and with conditional approval there is a low level of lots with final approval. As discussed in section 9.2 above, it can take a considerable time to process the various conditions and if a sudden increase in demand for lots happens then land shortages could eventuate.

Table B2: State Lot Activity, June Quarter 2011

Region	Applications lodged by Developers: proposed lots	Applications under assessment: proposed lots	Conditional approvals: proposed lots	Developers' stock of conditional approvals: proposed lots	Final approvals: lots
Peel	697	1,181	211	5,419	79
South West	715	1,917	291	7,956	151
Great Southern	144	599	199	4,118	32
Mid-West	185	1,143	4	4,739	45
Wheatbelt	19	298	44	2,398	28
Goldfields-Esp	16	21	159	1,049	11
Gascoyne	2	0	5	167	0
Pilbara	607	741	19	1,074	163
Kimberley	6	193	190	1,108	212
Total	2,397	6,137	1,124	28,501	731

Source: State Lot Activity, June Quarter 2011, WAPC

Regional members of the Master Builders Association in the South West and Kalgoorlie/Esperance report flat or slow activity in their respective areas. In the latter, renovation/extension applications are on a par with new construction applications. In the South West, some movement is reported in second homebuyer activity but unusually it is at the lower end of the market rather than in the upgrade or higher specification sector. In the Mid West, building activity is steady with projects flowing on through Royalties for Regions grants.

Figure 21 demonstrates the fall in building approvals in 2010/11 in all of the southern regions with the exception of the Wheatbelt, which saw a small growth but at a relatively low level.

Figure 21 Building approvals for four southern regions, 1991/92-2010/11

Source: ABS Cat No. 8731.0



Figure 22 Building approvals for remaining regions, 1991/92-2010/11

Source: ABS Cat No. 8731.0

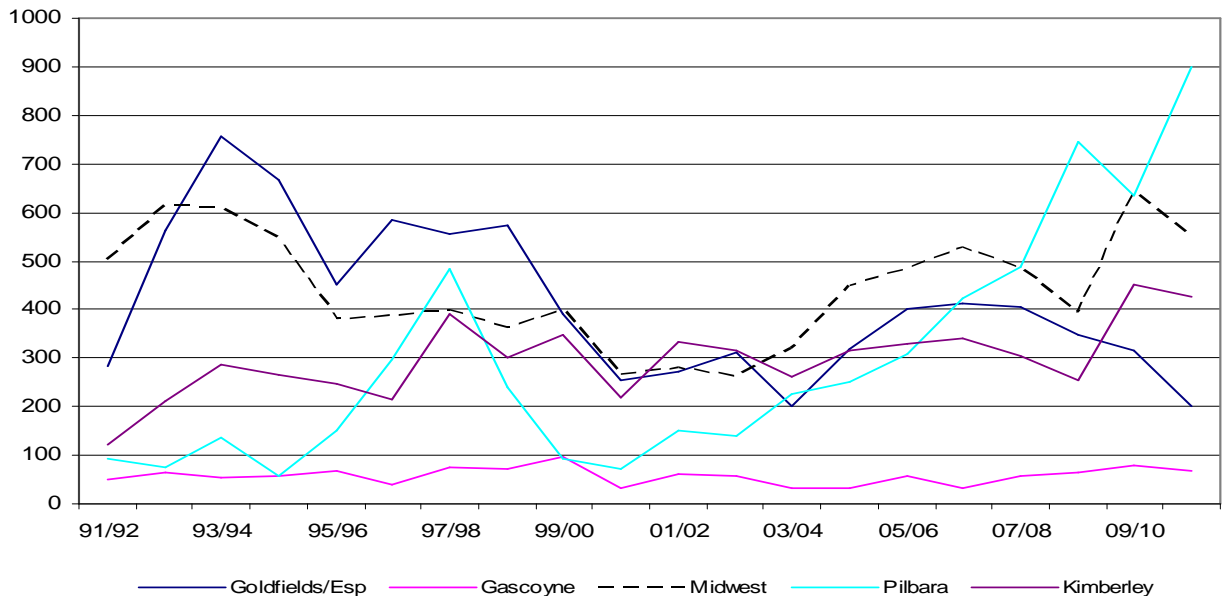


Figure 22 shows the movement in building approvals for the regions other than Perth and the four southern regions. Despite falls in 2010/11 for all regions other than the Pilbara, building approvals remained at a historically high level in the Pilbara region.

Appendix B – Measuring housing affordability

(Steven Rowley who is a member of HIFG and Associate Professor at Curtin University has provided the following notes on defining and measuring housing affordability.)

The trouble with existing debates surrounding housing affordability is the narrow focus on measuring the problem rather than an attempt to understand its wider implications. Existing affordability measures are applied in two ways. Measures such as housing stress seek to quantify the affordability position of those already consuming housing i.e. it ignores those that are homeless, in inappropriate housing or who cannot afford to form a household in an area within their existing community or with access to suitable employment opportunities. Second; price to income ratios establish measures of general affordability at a defined spatial scale; commonly by suburb. These ratios are usually designed to highlight how many multiples of income a median income household would require in order to consume typical housing within a suburb. These measures are headline grabbing because they provide an easy to understand quantification of 'affordability'.

The concept of housing affordability is far wider than quantified by these measures. Affordability incorporates housing quality and appropriateness, economic and social participation, and neighbourhood quality. For example, there tend to be clusters of poor quality housing, usually lower in price, leading to concentrations of social disadvantage. Key workers such as nurses, teachers etc. tend to be paid relatively lowly at the beginning of their careers so are forced to live a significant distance from their employment and incur commuting costs that are ignored in traditional affordability debates. The concept of affordable living incorporates commuting costs.

Neighbourhood issues cannot be ignored. If a household is consuming housing at a cost considered 'affordable', to what extent is the quality of that neighbourhood taken into account when assessing the appropriateness of that housing? Just because the house is affordable and a household's physical requirements are met, should the characteristics of the local infrastructure such as schools, healthcare, public transport, employment etc. be ignored when assessing housing affordability? The household may be forced to accept their housing option due to payment constraints and are forced to compromise on neighbourhood quality with an adverse effect on overall wellbeing.

Household composition is generally ignored within traditional ratio based housing affordability measures. Housing costs consuming 30% of income may be far less onerous to a single person than a couple with three children. A price to income ratio of 5:1 is unachievable for a family but affordable to a single person household. Discussions of housing affordability cannot ignore household structure and generalisations based on median incomes and prices are relatively meaningless when assessing affordability for individual households. The residual income measure of housing affordability is designed to overcome household composition issues but, once again, is only a narrow measure of the wider concept of affordability.

Families on low incomes may be forced to under-consume housing i.e. a position of overcrowding. A cost to income ratio would do nothing to identify such households as having an affordability issue. Households may also be forced to locate in areas lacking necessary services, particularly problematic in many areas of regional Australia. Similarly, a family containing a young adult unable to leave the family home would not traditionally be viewed as having an affordability issue. That young adult may not have the income to access appropriate in proximity to employment opportunities. Housing quality can also not be ignored. To what extent do households in accommodation considered affordable under traditional measures, consume poor quality housing due to a lack of alternatives?

Housing size, appropriateness, composition and neighbourhood quality should form part of any analysis of affordability and these issues dislocate the definition from a simple expression of income relative to costs and prices. If housing stress and other measures based on ratios continue to be used by policy makers and the press, there must be a realisation that these are very narrow measures and do not provide a detailed analysis of housing affordability in Australia. The concept of housing need encompasses many of the key issues and it is that need that must be measured in order to set appropriate market and affordable housing supply targets.

Dr Steven Rowley

Associate Professor and Head of Department - Property Studies

Director AHURI WA Research Centre

Director Housing and Urban Research Institute of Western Australia

School of Economics and Finance

Curtin Business School

Curtin University

Appendix C – Housing Industry Forecasting Group

The Group is a joint industry and government body re-established in February 2008 to provide independent commentary on the housing sector in WA. The Department of Planning and the Department of Housing 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 October 2011

Member	Organisation Represented
Stewart Darby (Chair)	Real Estate Institute of WA
Alan Langford	Bankwest
Dana Mason	Chamber of Commerce and Industry WA
John Dastlik	Housing Industry Association
Gavan Forster	Master Builders Association
Damian Callachor	Chamber of Minerals and Energy
Debra Goostrey	Urban Development Institute of Australia (WA)
Graeme Wilson	Department of Housing
Steven Rowley	Housing and Urban Research Institute of WA
Brett Coombes	Water Corporation
Stuart McKnight	Department of Planning
Erwin Swasbrook	Department of Planning
Jacqui Homer	Department of Premier and Cabinet
Simon Zheng	Department of Treasury

Observers

Marion Thompson	Urban Development Coordinator
David Waymouth	Australian Bureau of Statistics

Secretariat

Ian Hafekost

