

# Property Market Update

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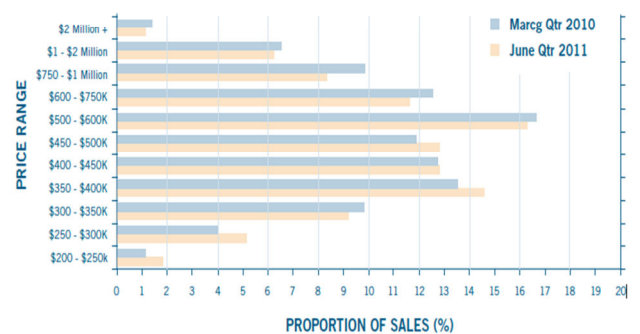
### **Prices steady – but there's less properties to choose from...**

The number of properties on market continues to drop steadily, with 15,190 properties currently on the market (compared to 16,000 in July 2011). While this number has not reached the "balanced market" benchmark of 13,000 properties for sale, supply of properties varies widely between suburbs. Our Buyers' Agents are noticing tightening supply and increased competition from buyers in good locations with some suburbs offering as little as 1.1% of properties on market. At the same time, many sellers continue to discount to sell in suburbs with supply of 5% – 10% on market or higher. It will be some time before this tightening supply affects the Perth-wide median house price statistics, however the "bargains" in quality locations are thinning out and buyer competition for good properties is becoming more commonplace.

Properties at the Perth median price remain more robust than premium priced properties. As the following graph demonstrates, an increasing number of buyers are choosing to purchase in lower price brackets. The Perth median house price reduction of 7% over the last 12 months reflects this change in buying behaviour.

### **HOUSE SALES PRICE DISTRIBUTION**

SOURCE: LANDGATE/REIWA



There are still good opportunities for home buyers seeking to upgrade at a discount to their next family home – a number of our clients have taken up the opportunity to upgrade to river and coastal suburbs at a cheaper price.

### **Rents continue to rise**

With investor purchases limited to just 10% of property transactions in the last 12 months (source: REIWA), supply of rental properties continues to tighten. The Perth rental vacancy rate has reduced to 2.8% (source: REIWA), compared to a high of 4.7% in 2010. REIWA has reported rental growth in the council regions of Joondalup (8.3%), Joondalup South (9.8%), and South Perth – Victoria Park (7.5%) and Stirling West (7.5%), which our Property Managers have seen first-hand with rental increases for the properties we manage. Rental increases vary according to the property's location and features. It's a good time for investors to re-visit their property's rental income to ensure they are not missing out.

## **Planning and Zoning Update: “Directions 2031” and “Public Transport in Perth 2031”**

In 2010, the WA Planning Commission released “Directions 2031”, a state-wide development strategy which called for higher density around local Activity Centres and for higher population density targets for each local council region. In response, several local councils have since updated their Town Planning Schemes. This has offered investors the opportunity to buy residential properties with future rezoning potential, and has also meant that some investors have achieved a higher zoning on their existing residential properties.

Public awareness of the rezoning areas is becoming more widespread and this is starting to affect the purchase price of these properties. Recently a Momentum Wealth Buyer’s Agent attended an auction for a corner “rezoning area” property north of the river, where multiple bidders pushed the final price more than \$40,000 higher than the sellers’ reserve. Needless to say, our Buyer’s Agent withdrew at their buyer’s limit and declined to pay above market value! Not every property in a “rezoning area” is suitable for redevelopment – so careful due diligence is recommended to buyers looking to buy with this strategy.

The Public Transport in Perth 2031 plan, released in July this year, announced plans for increased rail, light rail, and bus rapid transit infrastructure across Perth to make public transport more accessible. International studies have suggested that most of the capital growth associated with increased public transport occurs before the improvements are constructed (source: REIWA News, October 2011) which is good news for investors who already own or are currently buying properties in the affected suburbs.

For more detailed information on either of these policies and how they could affect your property portfolio, contact your Consultant at Momentum Wealth.

## **Finance update – lenders becoming more competitive...**

There’s no doubt that the National Consumer Credit Protection legislation has made lending requirements more stringent. However, lenders are starting to offer more competitive products, with competitive rates, higher LVR (Loan to Value Ratio) loans of 95% and 97% back in the market, and low-documentation loans for business owners becoming more accessible. The November interest rate drop of 0.25% will certainly help with affordability. The market is predicting further rates cuts over the next 12 months.

Finance in Self-Managed Superannuation Funds (SMSF’s) is also becoming more accessible and more affordable, making buying properties in a SMSF an increasingly popular strategy for investors. However, choosing the wrong loan structure in your SMSF could **cut off your access to future borrowings** in your own name, so it’s crucial to get the loan structure right the first time.

## **Market Summary**

The phrase “two-speed economy” is becoming commonplace in our discussions and the Perth property market could accurately be described in the same way. While the overall Perth median house price has reduced by 7% over the last 12 months, some suburbs and properties have grown in the same period and investors are enjoying rental price increases as the rental market tightens.

As always, the statistics don’t tell the whole story but the next 12 months looks promising for investors in quality locations (characterised by growing demand and limited supply). With over \$200 billion dollars of resource investment in Western Australia either in construction or planned, there will be significant flow on effects to the rest of the economy and hence property prices. We expect Perth to be the outperforming market over the next 1, 3 and 10 years in Australia, as the mining boom Mark 2 gets into full swing.