



HOT TOPICS

EXPERT ANSWERS

They are the hot property topics as punters review some of the burning issues in their investment strategies. Has the market bottomed? Will spring bring new stimulus? Here, experts deliver their verdicts. **Mara Fox** reports

1 Has the Perth market bottomed and should I buy now or wait?

If a normal cycle prevails, we would either be at the bottom or bouncing on the bottom today. We've got an oversupply of properties on the market, though that's coming down; we've got a rental vacancy rate that is dropping and there is some upward pressure on rents; we have interest rates likely to be on hold; our building activity has been down and our lot production has been down.

We've got increasing wages and strong economic growth in the state and the early to mid-stages of a resources capital expansion that's going to float into our local economy.

The next movement will not be downward, it will more than likely be upward. I'd be confident 2012 will be a very different year from 2011, and recovery will be present from mid-year on. As for buying, I think you've got the rest of 2011 to find the right property, and when the right property is available at the right price, you're in the right buying zone. People shouldn't expect the market to boom next year - property markets as a rule go boom, but but have long, slow growth. We will see unspectacular growth for a number of years.

Gavin Hegney, executive chairman, Hegney Property Group



2 Given the parlous state of some overseas economies, what will be the potential effect, if any, on the Australian, and in particular, the WA property market?

In the event that global economic growth collapses and the Reserve Bank of Australia's much-loved terms-of-trade story does not sustain, the central bank will be forced to cut interest rates, and the housing market as the most rate-sensitive sector of the economy will be the chief beneficiary.

On the other hand, if the global economy recovers robustly, commodity prices continue to rise and the RBA's central case of a medium-term inflation challenge comes to pass, interest rates will head higher and the housing market will struggle to grind out any gains.

I think the housing market is at a critical inflexion point. Mortgage rates are slightly above their long-term averages, but I believe a crucial influence over the housing market in 2011 has been the expectation of consumers that there would be a spate of future rate rises.

This has significantly dampened housing demand.

The RBA has been quite explicit in saying that it is going to have to squash demand in the housing and household sectors and is going to have to constrain consumption in order to make room for Australia's one-in-140-year private investment boom, which is almost exclusively related to the resources sector.

So the housing market was meant to be, is intended to be, the key casualty of Australia's resources boom.

House prices in Perth have not increased since late 2007 so there's been no house price growth in Perth across the overall market for more than three years.

We expect the Perth market to find a base over the next six to 12 months. Forecasters are all saying the next interest rate movement will be down, though we don't think that will happen until the second half of 2012. We don't see Perth prices rising robustly again until the latter half of 2012.

Christopher Joye, joint managing director, Rismark International



3 Under the current market conditions, what is the best type of investment property I can buy for less than \$500K? Will a near-city apartment perform better in the long run than a home farther out?

I believe the best type of investment property to buy at a price below \$500,000, given market conditions, is one that is (or is close to being) positively geared.

An existing two-bedroom apartment close to the city, retail amenities and public transport is the best investment option in Perth.

Not only is an apartment likely to enjoy strong rental demand, but with units recording superior growth in value to that of houses in recent years, it may also outperform (relatively speaking) a house in terms of value growth.

Investors should look for an apartment within a complex with a relatively small number of apartments, and one that has low strata fees and potential for internal renovation so the owner can add some value to the property, potentially increasing its worth.

Cameron Kusher, senior research analyst, RP Data



4 Should I fix my interest rate? Pros and cons?

At RateCity we believe the best approach, on average, is to take the lowest possible variable rate home loan with the highest possible monthly repayments.

But there are times when fixing your home loan might make sense and we may be in such a window, with fixed rates at some of their lowest levels relative to variable rates for many years.

As a general rule, fixing becomes an attractive option when long-term (say three years) fixed rates are less than 1 per cent higher than the variable rate. At the moment many institutions are, in fact, offering fixed rates below variable rates; the average three-year fixed rate at 6.83 per cent is 48 basis points below the current average standard variable rate of 7.31 per cent.

Sixty-three lenders now offer three-year fixed rates below that with some as much as 102 basis points lower than the average standard variable rate.

However, it's important to note that most borrowers should be capable of negotiating a lower rate for their variable rate loan than these averages.

Be wary of break fees, revert rates and that if rates were to fall, you may be stuck with a loan that's more expensive.

Damian Smith, chief executive officer, RateCity



5 I have a property with some spare land. Is now the time to develop that land, or should I sell it? What sort of cost-ratio should I be looking at to maximise profit if I do develop?

The absolute measure with regard to developing a property is return on investment.

Many first-time developers fail to complete a thorough feasibility study on their sites to gain insight into the potential return on investment (or lack thereof) given the costs and risks involved.

Development sites can have particular attributes and/or challenges that need to be considered before decisions are made regarding what we refer to as "the highest and best use of the site" that is, sell vacant land or build to add value.

Issues to be considered include the location of the main sewer line, current and proposed zoning changes, any potential retaining costs, WA Planning Commission and local council subdivision conditions and associated costs, building guidelines and requirements, the value-add potential of the property, and the state of the property market and potential buyer profile in that location.

Financial issues to be considered include capital gains tax, access to finance for subdivision and building costs, holding costs and cash-flow analysis to fund the project through to completion, and contingency plans if the property fails to realise the projected return.

I would recommend obtaining independent property advice before undertaking any development.

Daren Schneider, managing director, Herron Todd White Property Advisors



6 It's hard to save up for deposits. Are there any good bank/finance loans going at the moment? What should I look out for?

Good news for all manner of potential purchasers is that, thanks to subdued demand for housing finance, lenders are fighting hard to attract new home loan customers by offering interest rate discounts, fee waiving, loyalty discounts and other incentives.

Further good news is that over the past several months, many lenders have raised their maximum loan to value ratios to 95 per cent for owner-occupier purchases, that is, only a 5 per cent deposit is needed (some allow 97 per cent with lenders mortgage insurance capitalised into the loan).

Kristy Sheppard, head of corporate affairs, Mortgage Choice Limited



7 What was your latest investment? If you were investing now, what would you buy?

My most recent purchase was a property in East Perth. It is dual zoned residential and commercial so it has multiple options as our business continues its growth.

East Perth is a good area for long-term investment if you are buying houses or townhouses. I'd keep clear of most apartments because there is oversupply risk.

If I was buying another property now (and it's exactly where we are buying for our clients), I'd be taking advantage of the future zoning changes occurring in a number of local council areas.

As Perth continues to grow rapidly, there is pressure to increase the densities so that more than one house can be built on a property.

Many buyers aren't aware of what is happening, or of the profit potential on properties that may be rezoned.

We are buying great properties in areas such as Padbury, Craigie and around Belmont. We expect these properties will see a price spike once the rezoning proceeds.

You don't have to develop the properties to reap the rewards. Investors need to be aware that not all properties will be rezoned and significant research needs to be completed to make sure the property is proposed to be rezoned.

Damian Collins, managing director, Momentum Wealth



8 Do you expect spring to bring a property recovery or stimulate the market? What is the usual Perth scenario for this season?

Spring traditionally brings an influx of new listings with the aim of selling and moving before Christmas.

Many owners wait until the gardens look better and flowers start to bud to get away from the barren look of winter.

The best strategy is to get into the market early and try to achieve a sale before more competition arrives and puts pressure on listing prices.

Supply increases over spring but so, too, does demand and buyers start attending home opens.

Agents watch with interest the stock levels (presently 16,100) to see if levels go up or down over this period. Buyers realise that the market has corrected and many are just waiting for the first signs that variable interest rates are on their way down to jump back into the market. The fixed-interest rates have recently come down.

Spring is a more active time for all parties in the real estate market.

Alan Bourke, president, REIWA

