

WA recovery: not if but when

Western Australia's strong economy is predicted to fuel rising house prices, but buying activity remains slow

There's certainly plenty of good news coming out of WA, with bold predictions of a bright future for the wild west being the order of the day.

BIS Shrapnel, for example, have forecast that Perth's median house prices will increase by 19% over the next three years. While this only equates to an average annual growth rate over that period of 6.3%, it would certainly be a marked improvement on the city's recent property market struggles.

Angie Zigomanis, BIS Shrapnel's senior manager for residential property, believes that Western Australia's resources sector will underlie this property market resurgence and – while north-western WA is the epicentre of the mining boom – Perth will benefit from the associated growth in job numbers, wages and population.

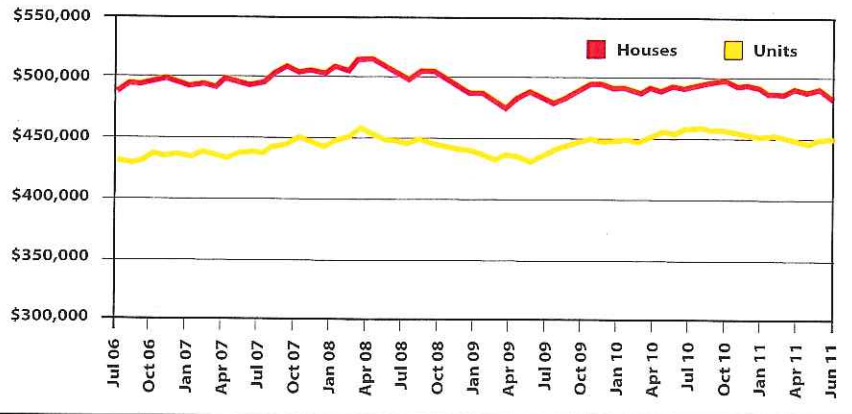
He adds that affordability in Perth has also improved, providing further evidence that buyers will soon return to the market in greater numbers.

"Since the market peaked in 2006 to early 2007, we estimate Perth's median house price has increased by 1% per annum on average – so barely anything – but average weekly earnings have grown by about 6% per annum," he says. "So affordability has improved, and that should set up the scene for a pickup in prices."

Buyers around the corner

Capital 360 WA director Paul McKenzie agrees that, while the end of the financial year and colder weather

Perth property prices – 5-year growth



Source: Residex, June 2011

normally conspire to keep the Perth property market cool at this time of year, wider economic factors indicate that the city isn't far from seeing an increase in buyer activity.

"We are seeing rental vacancies continue to tighten, with market rents showing no signs of slowing their growth. What is becoming more evident is that we are not far from the tipping point where it is more economical to purchase than to rent. This will drive the lower end of the market, which will have a flow through effect to the other sectors of the market," he says.

And this theory seems to be supported by the latest data from the Real Estate Institute of Western Australia (REIWA). "Our preliminary data and that of Landgate, which together represents around 80% of the market, suggest there has been an increase in the proportion of sales in the \$350,000–\$500,000 range, whereas sales in other price segments have declined," says REIWA president Alan Bourke.

Confidence issues

Zigomanis warns, however, that it will take some time for confidence to return

to the market in earnest, pointing to the mining and carbon tax debates as two of the headline grabbing issues that will have spooked Perth's house buying community.

"I think people have been knocked around the head enough with negativity, and until they see it running on the ground ahead of them it will take some time for the market to turn around. But when it does we think it should lead to prices growth picking up."

He adds that with interest rates expected to rise over the next three years, buyers will still be relatively cautious, and Perth's capital growth rates will most likely stay in line with income growth during this period.

"So moderate growth of 5–6% per annum, but better than it has been over the last two years," he says.

And with the REIWA indicating that Perth has now seen five consecutive quarters of median house price falls – recording a 2% fall in the June quarter, according to preliminary data – annual rises in the 5–6% range would certainly be welcome.

Upbeat outlook

Bourke notes that while 15 months of price falls represents a longer period of declining medians than the year-long price drops experienced in 2008, the correction has been far gentler this time around.

"The big difference is that in 2008 the median fell by 12%, whereas the

Area	Type	Median value	Growth over 12 months	Growth three months	Rent return	Rent amount
Perth	H	\$475,000	-2.21%	-2.14%	4.28%	\$390
WA Country	H	\$365,000	4.18%	3.07%	4.65%	\$325
Perth	U	\$396,000	-3.54%	-0.78%	4.87%	\$370
WA Country	U	\$291,500	-6.61%	-2.64%	5.55%	\$310

Source: Residex, June 2011

last 12 months of decline has been half that rate at 6%," he says.

"So, although the fall in median price has been over a longer period, the actual fall in price has been more gradual since the median peaked at \$505,000 in March 2010."

And with Perth medians now approaching their pre-GFC levels, many Perth investors will be asking themselves if the market has bottomed out – meaning now is the time to buy.

"We're yet to call the bottom of the market at this point," says APM senior economist Andrew Wilson.

"You do get market circumstances where confidence flat lines, and therefore you move from the discretionary aspirational buyer more towards forced sales. That tends to look like a downward spike in price growth, but what's happening is people are sitting on their hands, and this is of course exacerbated by the very quiet winter selling season."

Momentum Wealth managing director Damian Collins, however, is more bullish on Perth's prospects, suggesting that – as more and more

mining projects kick off – population growth (from mining executives and fly-in, fly-out workers for example) will fuel capital growth in 2012.

"The stock of properties is dropping slowly and rents are increasing. So we should return to growth of 8 or 9% next year, which after four flat years is a nice return."

REIWA data supports Collins' comments on stock levels, with their figures indicating that the number of properties for sale in Perth has run at around 17,000 for most of the June quarter. And, while this is still considered to be an oversupply, it's well down on the April peak of 18,200.

And while stock levels drop, Collins believes that improving rental yields will attract more and more investors to the Perth market.

"Even now in the winter market, which is normally a quiet leasing time, we're finding that properties are going fairly quickly. Generally we've got them leased before the tenant's moved out," he says.

"So we're in that good phase where yields are rising because prices have

been flat and that's really starting to entice investors."

Choose affordability

Away from the state capital, property academic and author Peter Koulizos has picked Rockingham as one to watch. It's 50km south of Perth, but he believes that its affordability factor will draw in buyers who are willing to make the commute.

"The median house price there is \$390,000, which is about \$100,000 cheaper than Perth's median house price," he says. "It's a fair way from the city, but it's got the relatively new train line, which is five years old now."

He adds that other selling points include its coastal location, good redevelopment opportunities and a large pool of tenants from the nearby university, TAFE and hospital.

"And even though there's a lot of infrastructure that's already happened in Rockingham, they've got even more infrastructure planned for that area," he says.

Derby

Median house price	12-month capital growth	Average annual growth	Gross rental yield
\$495,000	35%	18%	n.a

Source: RP Data April 2011

Recent sales	Type	Price
25 Kurrajong loop	4 Bed, 2 bath, 2 parking space	\$800,000
4 Edgar street	3 Bed, 2 bath	\$750,000
100 Knowsley street	3 Bed, 1 bath, 2 parking space	\$700,000
15 Baobab street	3 Bed, 1 bath, 2 parking space	\$293,000

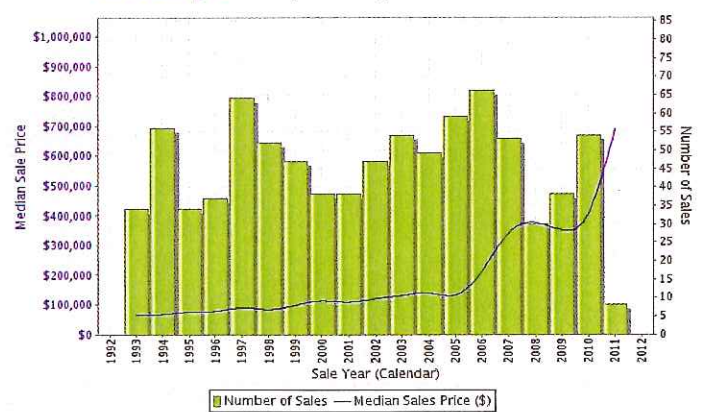
Source: Pricefinder.com.au

While the bulk of Western Australia's recent successes on the property front have been in the Pilbara region, Kimberley has been making a name for itself of late, and Derby is most certainly one to watch there.

What it's got going for it, says Crawford Realty sales consultant Morgan Crawford, is a whole slew of government and resource related projects that are in the pipeline.

"There are quite a few government projects that have been proposed – a new prison for example. And if you have a look at RP Data you'll notice that the rental market has

Derby: 18-year performance



Source: PDS

tightened up hugely, and rental prices have jumped up 10–15% in the last six months," he says.

Fuelling this rental growth is an extremely low vacancy rate. In fact, Derby's vacancy rate has now reached 0% according to SQM Research's June figures.

As well as the construction of the \$150m Derby Regional Prison, Derby's property market is expected to benefit from the Kimberley diamond and iron ore mines on Koolan and Cockatoo Islands, the proposed \$550m Deep Water Port Facility at Point Torment, the proposed Browse Basin Gas Project and resource giant Inpex's \$25bn Ichthys LNG venture.