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Westpac

PROPERTY REPORT

Western Australia

National overview

Looking back over 2011 it's clear that the Australian property market was – and in early 2012, still is – far from homogenous. Cooler market conditions in many areas have lead to rising yields and more affordable prices, while in regional areas where mining dominates, spectacular price gains have been recorded. In other parts of the nation, structural changes are occurring that will hopefully bear fruit in the future.

Is now a good time to buy?

In a number of state capitals, the current market offers excellent buying opportunities. In Brisbane for example, an oversupply of listings, low demand and a growing volume of forced sales has seen prices of prestige properties fall by up to 30%. Even in outer Brisbane suburban locations, values have dropped by up to 20%. For investors, this is seeing gross rental yields rise to around 6%.

Although Adelaide hasn't seen such spectacular price falls, declining values have underpinned rising yields, with investors now enjoying gross yields as high as 5%.

In Sydney and Canberra, prices have also dropped in many prestige suburbs, and canny buyers are seeking value in alternative suburbs offering similar amenity with more modest price tags. Sydney's inner west Canada Bay for instance, is benefitting from its harbourside location, with prices that remain relatively affordable.

Perth too is offering good buying opportunities, for example, prices have fallen by up to 50% for some prestige beachside apartments. On the other hand, the commencement of the Perth Waterfront project in the CBD, should bring new life to the city and could underpin growth in the inner city apartment market.

Darwin has seen a cooling of values throughout 2011 though several new developments point to a potential upswing in the market. Among them, the recent announcement by US President Barack Obama of a semi-permanent US troop force in Darwin will create employment opportunities and ultimately, boost demand for new housing.

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Growth areas dominated by mining activity

While many capital city markets languished in 2011, regional towns and cities dominated by mining activity bucked the trend. Nowhere is this more apparent than in Queensland where the regional centres of Moranbah, Dysart, Emerald and Gladstone experienced price gains of up to 35%.

Structural change – short term pain for long term gain

In Tasmania, regional areas like Triabunna and Scottsdale have been negatively impacted by the decline of the timber industry. Nonetheless, approval of a $400 million wind farm in Musselroe Bay in the northeast and the development of a $70 million dairy project at Smithton, will create new jobs and provide support for property values.

Proceed with caution

Although Australia has been lucky enough to escape the worst of the global financial crisis, 2012 brings considerable uncertainty regarding the global economy. Until a workable solution is reached for the sovereign debt issues in Europe, the likely path of interest rates is unclear and buyers are advised to be especially cautious in terms of the debt they take on and their expectations for future capital gains.

Brendon Hulcombe
CEO, Herron Todd White

Western Australia

The Western Australian property market is believed to be at or near the bottom of the price cycle, and the combination of improved affordability, strong yields and a number of large scale development projects is likely to encourage buyers back to the market.

"Perth's median house price is around $453,000 and median rents are in the order of $395 weekly providing an average yield of about 4.35%."

Perth

The past 12 months have seen encouraging signs of a turnaround in Perth's property market. The supply of homes listed for sale has fallen from around 19,000 properties at the start of 2011 to 15,500 by year's end. This has been accompanied by a rise in sale volumes from 850 properties per week to around 1,000 each week by late 2011. Taken together, these developments suggest a return of confidence to a market that been subdued since February 2010.

Perth's median house price is around $453,000 and median rents are in the order of $395 weekly providing an average yield of about 4.35%. While the market is still regarded as oversupplied by between 2,500 to 3,500 properties, rents are solid and rising across a range of property types making now an ideal time to buy.

Inner city market offers good opportunities

Perth's developing inner city and near city apartment market offers especially compelling opportunities. Vacancy rates are low at around 1%, and falling, and weekly rents are rising above $400 with estate agents predicting further rent hikes to come. With no new large complexes under construction or on the drawing board, the supply of apartments will come under pressure in the future and this will boost values over time.

The same inner city areas are becoming popular with Perth's mining industry workers – the 'fly in/ fly out' labour force as well as white collar engineers and administrative personnel. CBD or near-CBD locations offer good proximity to Perth's emerging plethora of small bars, restaurants, cafes and retailers, and purchase activity for units is strongest in the $400,000 to $800,000 price range. This market segment also appeals to first home buyers as well as investors looking for a good yield with potential for rental growth.

The inner city apartment market will benefit from the construction of three major office buildings all due for completion in the next six months. This will see more people working in the CBD, putting additional pressure on the rental market.

With the 2011 Commonwealth Heads of Government Meeting (CHOGM) behind us, the state government will commence the Perth Waterfront project. With funding of $270 million, the redevelopment will transform Perth's CBD, adding new office and apartment space. When completed in 2014, it is expected to significantly raise Perth's international profile and potentially underpin an upswing in long term property values.

Beachside properties remain sluggish

By contrast, the suburban beachside luxury apartment market has seen significant price falls and buyers can take advantage of some remarkable bargains.

Some apartments that initially sold for $3 million off the plan are currently being snapped up for $1.5 million – a huge discount of 50%. This sort of purchase price reflects a yield in the order of 3% to 4% based on an executive rental of around $1,000 per week.

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South West WA

The past year has shown limited price growth in any of the state's south west regional areas, though real estate agents were reporting an increase in sales activity in November - chiefly properties in the low to mid-price range. This is leading to a steady decrease in stock levels in areas like Bunbury.

Price declines have continued in the upper end of the market. As a guide, a vacant lot in Quindalup, which sold in 2006 for $1.35 million, was recently valued at $950,000. An executive standard residence, which was valued at $2.2 million at the peak of the boom recently sold for $1.315 million.

Port Geographe is experiencing especially low demand and as a result prices are continuing to fall. A vacant lot in the area that sold for $1.1 million in early 2008 recently sold for just $600,000.

The drop in tourist numbers to the south west, largely as a result of the high Australian dollar, has lead to reduced demand for short stay tourist accommodation units and this is also negatively impacting values.

For investors, strong yields can still be found in cottage style small lots in the newer subdivisions such as Vasse, Newtown and Provence. Oceanfront properties featuring older housing are delivering the area's lowest yields.

Overall, first home buyers are being attracted to the improved affordability of the region, and the rental market has tightened, leading to increased investor interest.

Looking ahead in the south west

Further support for the local property market is coming from the expansion of Busselton Airport to an interstate level, and this is likely to increase the number of fly in/fly out workers in the region. There are also a number of downsides to contend with. The recent bushfires for instance, could put downward pressures on the value of rural residential lots, and a number of the region's holiday homes are being put on the market as vendors attempt to reduce debt.

That said, the current downward trend in interest rates will assist values in the south west, and as very little land has been developed in the region recently, an undersupply in the future will also help to support values.

Source: Herron Todd White