Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Western Australia

National overview

In this edition of the Westpac Herron Todd White Residential Property Report we take a look at opportunities available for property investors, and owner occupiers, who are prepared to take a long term view.

There appears to be little doubt that the first quarter of 2011 was marked by a generally cooling residential property market. However, it's not the case of "the bubble is bursting", as has been predicted by some pundits. Rather, the market is experiencing a plateauing of values in areas that have seen significant price gains in recent years. For investors and owner occupiers with a long term outlook, this presents a window of opportunity.

Buyers face uncertainties

A number of international and local events have impacted buyer confidence this year. Uncertainty over upheaval in the Middle East and northern Africa, concern over the economic impact of Japan's devastating earthquake/tsunami and worries about lingering sovereign debt woes in Europe are, understandably, prompting some buyers to adopt a "wait and see" approach.

Here in Australia, several local events have also impacted the property market. Bushfires in the Perth Hills and Peel region have impacted demand for lifestyle properties. And of course, many parts of Queensland and Victoria are still recovering from major flooding and the destruction caused by Cyclone Yasi.

When these events are considered together with last year's string of rate hikes and the threat of further rises, it's hardly surprising that the residential property market has cooled from its highs of 2010.

It's not great news for vendors but for long term investors and owner occupiers with a horizon of five years-plus, opportunities do exist.

Opportunities exist

In some parts of the market, especially south east Queensland, many buyers paid a significant premium for properties purchased at the height of the boom. Following last year's interest rate hikes, a growing number of properties are coming onto the market as "distressed sales". This is giving today's buyers an opportunity to secure discounted properties – particularly in areas dominated by first home buyers and investors. A vacuum has emerged in many markets following the withdrawal of the first home buyers boost at the end of 2009 and this continues today.

Long term outlook essential

The key to success in today's market is taking a long range view. Property should always be regarded as a long term asset, but this approach has become essential in the current climate.

The latest data from the Housing Industry Association[1] shows that housing starts are forecast to fall by 15 per cent to just 143,430 new homes in 2011. This will help to provide a base and the falling supply will help to underpin the market.

Inner city living holds enduring appeal

Around the nation, the prime investment "hot spots" are found in inner city areas.

Australians are increasingly seeking out the lifestyle opportunities offered by close proximity to shops, leisure facilities and good transport links, and these are typically found in inner city or city fringe locations.

For buyers taking a long range view, the limited supply of stock in inner city suburbs plus the opportunity to add value through restoration and renovation, further underpin price appreciation in these areas.

Rising fuel costs and growing traffic congestion add further weight to the appeal, and value, of inner city properties.

Infrastructure adds value

In New South Wales the new Liberal Government has made a commitment to improving transport links. This is likely to add long term value to areas in the city's south west including Bankstown and Liverpool, which stand to benefit from improved road and rail links.

Rents remain firm

On a positive note, many rental markets including Perth and Darwin have remained buoyant despite a cooling in property values.

Low vacancy rates are supporting healthy rental yields and this is providing additional incentive for astute buyers.

As a note of caution, investors who anticipate making a "quick profit" in today's market are likely to be disappointed, or worse, may have their fingers burnt. Along with an extended time horizon, it is essential to look for properties in areas offering quality amenities and proximity to transport links. Properties with the potential for investors and owner occupiers to add value through redevelopment or renovation are also likely to outperform over the next five to ten years.

Brendon Hulcombe
CEO, Herron Todd White

[1]HIA Media Release 1 April 2011, Sombre Housing Outlook Demands Urgent Policy Action, says HIA at http://economics.hia.com.au/media/Dec%20Qtr%202010%20National%20Outlook%20media%20release.pdf

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Western Australia

Perth

As we head into the autumn of 2011, the Perth residential property market remains sluggish, a by-product of prevailing market uncertainties.

The Real Estate Institute of Western Australia (REIWA) reported a total of 15,260 properties listed for sale across the Perth metropolitan area in the December 2010 quarter. These homes were taking an average of 71 days to sell, a relatively lengthy period that indicates the market remains in oversupply.

Uncertainty over recent international events, including Japan's crises and revolution in the Middle East and northern Africa, continues to stymie optimism for a global economic recovery among investors. In addition, anecdotal evidence from local real estate agents suggests the recent bushfires in the Perth Hills and Peel region have negatively affected demand for previously sought-after lifestyle properties.

Rents remain firm

On a positive note, Perth's rental market has shown marked resilience. REIWA figures reveal unchanged rents throughout the December 2010 quarter across all properties within the metropolitan area.

Strong rent demand backed by vendors who are discovering the true market value of their property through protracted selling times, is creating healthy opportunities for investors.

As the WA State Government continues to pledge its support for the resource sector, it is only a matter of time before the local property market returns to an upward trend. This being the case, there has never been a better time for farsighted investors to enter the Perth metropolitan property market.

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Lower price range

The affordability of the sub-$500,000 category has proven popular among "mum and dad" investors and first time investors. It's a sector of the market that has performed well in recent years and is expected to do so over the long term.

As a guide, units within the near-city suburbs of Crawley and West Perth provided capital growth in excess of 10% per annum between 2005 and 2010. Other suburbs with proximity to the city such as Yokine, Tuart Hill, Joondanna and Bassendean can also be regarded as reasonable investment prospects.

Perth CBD is rapidly expanding and the recently announced foreshore redevelopment is likely to rejuvenate demand for inner city residential accommodation. The suburbs of South Perth and Como with their diverse mix of accommodation types will be a likely beneficiary of the redevelopment project, and both locations are recommended as a medium to long term investment.

Recent density changes within the suburb of Beckenham make this location worth considering also. It offers proximity to the Perth CBD and major transport routes and should offer healthy long term growth.

Mid-price range

In the $500,000 to $1 million price range, development sites within well established suburbs such as Doubleview, Mount Hawthorn, Wembley and Innaloo are worth considering. These suburbs offer proximity to the rapidly expanding Perth CBD, and this should support rising values over the medium to long term.

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$1 million-plus market

The western suburbs of the Perth metropolitan area have long held the charm of being home to some of the city's most prestigious addresses. However, analysis of sales data within many of these suburbs including Floreat and City Beach, reveals that values have yet to recover to the heights achieved during the boom. This suggests these areas offer good buying today as investors will reap enhanced gains once the market recovers.

Development sites within Mount Claremont should also be considered as viable investment options. Local amenities include some of Perth's top schools and the newly opened Claremont Quarter, Perth's premier high end shopping centre, is expected to generate a wave of interest in the area.

South West WA

Overall, the market is seen as being at or near the bottom of the cycle at this time. This is commonly leading to discounting of around $20,000 to $30,000 from vendors' asking prices, with some buyers and investors returning to the market to take advantage of well priced residential opportunities.

Following a generally flat 2011, some commentators are predicting significant residential price rises in 2012, driven by returning confidence on the back of a rising stock market and the rekindling of the mining boom. Speculation that prices will rise could also be self fulfilling, by influencing some purchasers to jump into the market.

Source: Herron Todd White

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