Property market update: Perth, November 2019

by Bianca Dabu | December 13, 2019

After years of lacklustre performance, the Perth property market is set to see signs of life growing as the effect of the mining boom diminishes. Should investors jump into the Western Australian capital soon?

Patrick Leo's managing director James Nihill said that the Perth – the "wildcard of Australia's housing market" – has ultimately bottomed out and is on the brink of recovery.

Following almost five years of price declines largely brought about by the end of the mining boom, which saw median prices drop by 22 per cent, the Western Australian capital now presents compelling growth opportunities for property investors, supported by boosted affordability, increasing population and record-low interest rates.

According to Mr Nihill, while the 22 per cent drop seems big, the level of house price increase between 2009 and 2014 will allow Perth to withstand another 1 per cent drop and remain on par with pre-boom prices.

"Perth house prices reported a modest drop of 1 per cent for the September quarter to $527,107. However, this drop is the lowest it has shown since mid-2018 and a clear indicator the tide could finally be changing for Perth," he said.

Over the next three years, Perth is expected to recover and show steady growth as national house prices continue to stabilise.

In fact, the capital city's house values are expected to rise by 6 per cent by 2022 and its unit prices are expected to grow by 5.3 per cent.

"This economic bounce back is in line with a recovery in the mining industry set to have a knock-on effect with improvements in employment figures and migration patterns, which together will underpin stronger housing demand and fuel property price growth," Mr Nihill highlighted.

"Now is certainly the time for investors to look to the west as we near the bottom of the cycle in Perth. There are abundant opportunities for savvy investors to reap returns in Perth before the recovery begins and prices begin to creep up again."

Property values

CoreLogic's November Home Value Index found that the value of properties sold across Australia grew by 1.7 per cent, taking the median value of homes to $537,506.

This is the fifth consecutive increase in the national index, with November showing the largest monthly gain in the national index since 2003 and the first positive annual growth since April 2018.

Perth values, in particular, rose by 0.4 per cent in November – the first month-on-month increase for the Western Australian capital since early 2018.

Dwelling values in Perth have been trending lower since mid-2014, down by a cumulative 21.3 per cent through to the end of November. While one month of a positive change does not necessarily mark a trend, CoreLogic's head of research Tim Lawless said that it comes off the back of a slowing rate of decline over the past six months.

Indeed, it looks like the Perth housing market has been trying to level out through the second half of 2019, according to Mr Lawless.

"On top of that, you've also got the fact that housing affordability is now very healthy across that market; values are attracting about the same level as they were in 2006 across Perth, so housing affordability is seeing a lot more people can participate in the market," he said.

"We've also seen some improvements in many of the economic factors across Western Australian. Unemployment is coming down from a high base, jobs growth is rising, population growth is back to the decade average.

"So, all those things are pointing to some improvement in fundamentals of the market, and we should see some urgency coming back to the decision-making process, which has largely been absent from Perth up until recently."

In terms of annual growth, four of Australia's capital cities moved back into positive territory, led by Hobart (4.2 per cent), Canberra (3.0 per cent), Melbourne (2.2 per cent) and Sydney (1.6 per cent), while some took a fall, with the largest declines witnessed by Darwin (-10.9 per cent) and Perth (-7.7 per cent).

Supply and demand

Perth has been attracting more interstate investor than usual, particularly those looking to buy assets under $500,000, according to Ray White Commercial (WA) director of sales and leasing Stephen Harrison.

In the past few months, the Ray White team has managed six sales for buyers from outside Western Australia – all with a combined value of $2.5 million.

"These assets had an average yield of 7.42 per cent and an average WALE of 4.25, and what made them so appealing was stable tenants, affordable prices, location and good yields," he said.

Mr Harrison described the interstate investors attracted to the Perth property market as "quite aggressive" in their approach.

The property expert said: "The general market for investment property seemed to soften in the tail end of 2018, and stayed the same until the second quarter, where we observed an increase in enquiry levels."

"These properties were sold in just the last four to five months only, seemingly in time with the results of elections, and the return of the appetite of banks to lend again."

Meanwhile, at the national level, the latest issue of CoreLogic Property Plus revealed that the number of residential properties advertised for sale this spring has been lower than last year across every capital city.

Throughout November, the number of new listings went up by 56 per cent from the winter months. However, compared with previous spring periods, newly advertised stock has not been this low since CoreLogic began tracking listings in 2007 – new and total listings were down compared with the same period a year ago across every capital city.

Additionally, the total number of advertised properties available for sale is also tracking at historic lows, down 12.4 per cent nationally compared with last year. This is the lowest reading for this time of the year since 2009.

"With buyers taking advantage of the lowest mortgage rates since at least the 1950s, along with an improvement in credit availability/borrowing capacity, market activity is rising," Mr Lawless highlighted.

"With such a small pool of stock available for sale, competition among buyers is increasing, adding a sense of urgency to the market, which is another factor supporting price growth at the moment."

Darwin saw the biggest drop in new listings numbers at -40 per cent, followed by Hobart with -23.3 per cent and Perth with -23 per cent.

According to Mr Lawless, the lack of vendor confidence is understandable in markets where housing conditions have been weak, like Darwin and Perth.

"Selling conditions have been tough in these markets since 2014 and prospective home sellers are likely wary of the challenging selling conditions, where homes are taking a long time to sell, discounting rates are high and properties are often selling for a lower amount than what they were purchased for," he said.

Rental market

Propertyology's Simon Pressley said that Perth's rental market "has been in the doldrums for several years" as the capital city witnessed significant population losses to interstate migration, which produced a reduction in rental demand and falling rents during each of the last four years.

"While Perth's residential real estate vacancy rates are still relatively high, they have declined significantly over the past two years. A resources-driven economic recovery is already underway, creating optimism that the start of Perth's next property market growth cycle is on the horizon," he said.

Still, figures from the Real Estate Institute of Western Australia (REIWA) show that the rental vacancy rate fell to 2.5 per cent over the quarter, showing strength in the market, indicated particularly by the growth in rental rates.

According to Domain, rents for Perth houses grew 5.7 per cent over the year to $370 per week, which was the strongest annual growth rate seen in the state since June 2013.

Similarly, Perth units experienced a strong rise in rents year-on-year, at 3.3 per cent to a median of $310 per week.

Stronger population growth and a slowdown in new housing construction have seen vacant properties slowly absorbed by the market, Mr Nihill said.

Perth in 2020

While Perth has yet to witness spectacular growth, the capital city is expected to see green shoots – thanks to significant injections in public and private expenditure. Perth has been showing signs of life as dwelling values grow by 0.4 per cent for the first time in two years now that oversupply from the mining boom has diminished.

Troy Gunasekera, branch manager for Property Club in Western Australia, said: “One of the biggest drags on the Perth property market over the past five years has been a massive oversupply in housing stock due to the building boom from 2011 to 2014. However, there is growing evidence this oversupply issue is coming to an end.”

Over the past month, there were 3,392 newly listed properties added to the Perth market, down 23 per cent from last year and 23.1 per cent below the decade average and the lowest since CoreLogic listing records commenced in 2007. As supply falls, the capital city takes advantage of a larger share of GST funds as well as government projects. In fact, over the coming four years, billions of dollars in new road and rail infrastructure will be spent in Perth, starting from the beginning of 2020.

As of September 2019, Western Australia had resource projects in the pipeline valued at an estimated $108 billion. “For example, there will be six METRONET rail projects under construction in Perth in 2020, creating thousands of local jobs and opportunities for local businesses and transforming Perth’s public transport network,” Mr Gunasekera said.

Apart from new infrastructure, an upswing in resource sector is also expected to help the market recover as it allows it to see billions of new private investment in the state, which is tipped to help the unemployment rate.

“We are expecting renewed interest in the Perth property market by investors throughout Australia driven by higher rental yields and rising prices, but as in all markets, investors need to be selective to achieve the best possible outcomes,” he said.