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Quieter times open up buying opportunities in WA

The impact of the mining sector's slowdown on WA's market can't be ignored. But investors should look beyond the talk of doom and gloom to find the opportunities still present

After the celebration and festivities of any party end, there is always a lull and the return of harsher reality. Such is currently the case in Western Australia.

Now that the exuberance of the resources boom has peaked and the sector is slowing down, so, too, is the rest of the state. For the property market, this is leading to quieter times, coupled with some gloomy reports.

In light of this, the latest CoreLogic RP Data Home Value Index results for Perth might seem surprising, because dwelling values in the city actually rose slightly. They were up by 0.9% over November and by 0.4% over the quarter ending 30 November.

However, tellingly, the year-on-year result showed growth of just 1.4%. This is very moderate and an indication of the softening market.

Real Estate Institute of WA (REIWA) president David Airey has been warning of a downturn in the market for several months. Slowing sales transactions, a growing number of sales listings, and higher vendor discounting are evidence of this.

In his view, WA is going through a reorganisation of its finances as a result of the resources downturn. "While the state economy is very strong, there's less confidence in the marketplace. We've got less investors, less first home buyers."

Some consolidation in the property market is the inevitable result. Airey says this means there will be more choice for

buyers, but sellers will need to be very realistic about their asking price.

Holding pattern to lift off

Property Wizards managing director Liz Sterzel has a more optimistic take on Perth's property market. She believes it has been coasting along in a "wait and see" mode in recent months, but that will change.

"Budget negativity, the cost of living, and the political and economic environment are on the minds of people and have been holding them back from buying and selling."

Property prices in the months ahead will be influenced by people's sentiment and how they feel about their future and their financial position, she continues.

But while concerns about the continued effect of the mining downturn on jobs are ongoing, WA still has the second-best-performing economy* in the country.

Rather than the mining sector, the state's new economic drivers are housing purchases, housing finance, and construction. Agriculture and tourism are also set to be major economic contributors.

Sterzel says more people appear to be in a better financial position, which puts them in a better place to make any property purchases they have been contemplating.

"Where the market goes from here is very much dependent on sentiment. But we are cautiously optimistic about

Western Australia's performance for the next 12 months."

Opportunities still present

There are still plenty of opportunities for investors looking for property in WA.

Sterzel recommends looking for value-adding opportunities, with a focus on subdividing now or holding a property in a proposed rezoning area for later.

"Good add-value properties are a very popular investment strategy, but as prices have risen since last year, buyers are moving further afield in their search. Areas with proposed rezoning especially are growing in popularity."

If going down this path, it is important to target properties further from the city but with strong public transport links and local amenities that will appeal to tenants.

Different rental market

As prices have softened in many parts of Perth, so too has its rental market. According to the latest REIWA data, the median weekly rent for the Perth metropolitan area remained steady (at \$450) in the quarter to November. However, that was a drop of \$20 per week on the same time last year.

Meanwhile, the vacancy rate is sitting at just under 4%, which is slightly down from the June quarter but still 49% higher than a year ago.

Airey says that, while the median rent was steady, the market overall was patchy. There have been price adjustments between houses and units as well as variances in several subregions.

Investment property owners need to understand that the market has changed, he adds. "Listen to the advice of your property managers when setting the asking price. It's not like it was a year ago. Landlords must be realistic."

In Airey's view, Perth rents are likely to soften further this year.

WA price performance

Area	Type	Median value	Growth over 12 months	Growth over three months	Gross rental yield	Rent amount
Perth	H	\$547,500	6.8%	0.5%	4.4%	\$460
WA country	H	\$385,000	2.6%	0.0%	5.1%	\$380
Perth	U	\$438,875	4.5%	-1.4%	5.1%	\$430
WA country	U	\$320,000	1.2%	-4.5%	5.7%	\$350

Source: RP Data, November 2014

*CommSec State of the States report, October 2014.