MarketView
Western Australia Residential

Hot Topics

- Western Australia housing starts to rebound but remain below recent peaks
- Perth house and unit sales volumes in 2009 increase by the highest rate of all major markets nationally
- Median house values increase only marginally according to Residex
- Vacancy rate climbs with rents flat
- "Gorgon Effect" is set to have increased impact in 2010

Market Overview

The Australian economy showed surprising resilience over the latter part of 2009. With the threat of a recession, be it technical or otherwise, seemingly passed, the economy heads into 2010 with a much more positive outlook. Government stimulus handouts, the temporary increase in the First Home Owner's Grant and the generational low interest rate setting all helped to support a generally resurgent residential market in 2009. This played a major role in the country avoiding the dreaded recession.

With the effects of the stimulus packages now largely through the system and interest rates climbing towards what is expected to be a neutral setting of between 5.0% and 5.5%, however, 2010 does appear to present a mixed and challenging environment for the residential markets.

The boost to the First Home Owner's Grant did indeed prove significant during 2009, providing support to a recovery in sales volumes, particularly in the sub-$500,000 bracket, and increases in median house and unit values. While the grant has now returned to pre-boost levels, the ripple effects had begun to spread into the $500,000 plus market by the end of the year.

Although first home buyers have begun to retreat – in November 2009 the first home buyer percent of dwellings financed had dropped to 22.1% nationally from their mid-2009 highs of above 28% - there is still solid momentum underway in many states which is likely to continue into the first part of 2010 as investors re-emerge. In many ways, however, it appears that while 2009 was characterized by efforts to re-invigorate the housing market, 2010 may well be marked by efforts to slow down the current pace.

Interestingly, residential markets nationally have acted quite uniformly since the onset of the global financial crisis. Rising interest rates, and the varied pace of recovery in individual states, including impacts on employment, are likely to see greater levels of divergence state-by-state emerge in 2010, driven by local economic conditions.

Sales volumes during 2009 for both houses and units rose significantly, the strongest of any market nationally according to Residex. The number of house sales in the Perth market during 2009 totalled 27,997, a figure 29.7% higher than the 2008 total. Unit sales totalled 4,792. This tally was 41.9% above the 2008 figure.

The market was coming off a cyclical low in terms of sales volume in 2008, however, with the 2009 volume still well below the longer-term average for both houses and units.

The December quarter 2009 median house value for Perth, as reported by Residex, rose only marginally over 2009, by 0.8% to $485,500. Most of this growth came in the December quarter. There was varied performance across precincts, however. The Residex measure of Perth unit values recorded a modest 4.0% increase over 2009 to reach $392,500 at the December quarter.

Much stronger annual increase is reflected in Real Estate Institute of Western Australia data. Based on median house prices as opposed to value, the Perth metropolitan house median price increased by 14.3% in 2009 to $480,000 at the December quarter. Their measure of median unit price rose by 15.3% to $400,000.

The Perth vacancy rate at the September quarter 2009 was 4.8%, according to the Real Estate Institute of Australia. This was by far the highest rate recorded nationally, with Brisbane (at 3.3%) the next highest. Perth's vacancy rate has been climbing steadily since mid-2007.

December quarter data from the Real Estate Institute of Western Australia suggests little improvement. Given the high and rising vacancy rates, rental indicators during 2009 have generally been flat at best, with rental yields generally also flat or declining.

After solid growth in 2008, the median value of Western Australia Country houses fell by 5.1% in 2009, according to Residex. The median value of country houses at the December quarter 2009 was $390,500. Values fell across all three major precincts. Country units recorded a median value of $325,000, with annual growth at 5.1%.

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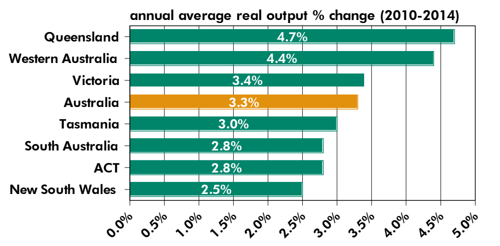
Average Annual Economic Growth
2010-2014

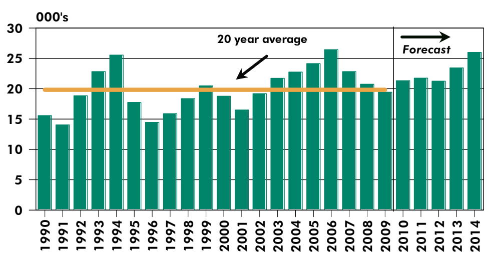


Source: Access Economics (January 2010)

Western Australian economy to lead the way with Queensland

After negotiating a challenging year in 2009, the economy of Western Australia is expected to gather steam throughout 2010. A healthy pipeline of resource and energy projects planned and underway, combined with an increase in business confidence has led to an improved economic outlook for the State. Over the forthcoming five year period, average annual real output growth of 4.4% is expected for Western Australia, with the resources State once again the engine room, and with Queensland, driving the nation's economic growth. The longer term prospects for the State remain extremely positive. According to Access Economics, real output growth of 5.6% is expected during the 2010 calendar year for Western Australia, followed by a further 3.5% in 2010 and 3.5% in 2011.

Housing Starts
Western Australia

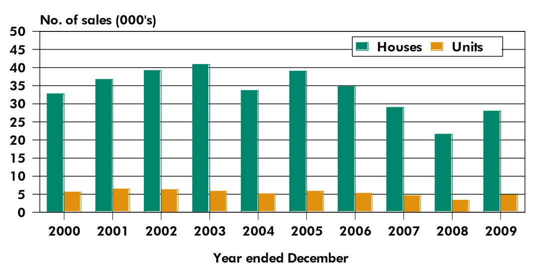


Source: Access Economics - January 2010

Housing starts rebound beginning

Western Australia's housing sector is rebounding, according to Access Economics, with healthy data for new starts building on the earlier recovery in approvals and financing in the State. Perth housing prices are also registering notable increases for the first time since late 2006. Although the supply side of the State's housing construction sector remains wrapped in red tape, and despite an upswing in rental vacancy rates in Perth itself, the next few years are projected to see a substantial increase in the pace of housing construction. That will necessarily flow from good population growth. Despite starts falling by 6.3% in the past year, further good gains in population are expected as resource investment regathers pace in the State. That means that there are good medium term prospects for housing starts. The rebound should begin in 2010 with a 9.7% rise in housing starts, followed by a further gain of 2.0% in 2011 (though starts would still be lower than their 2005 peak in the latter year).

Annual Sales Volume
Houses and Units, Perth

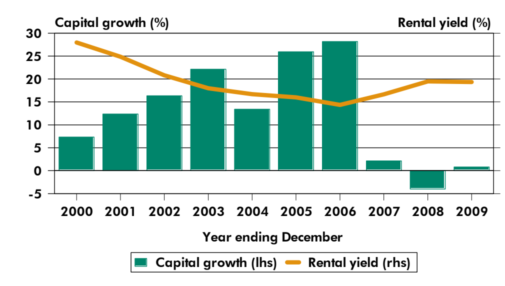


Source : Residex (December Quarter 2009)

Perth sales volume rebound the strongest nationally

The Perth market recorded the highest sales volume rebound in 2009, percentage terms, of all the major markets nationally according to Residex. This comes after a 2008 which saw the lowest volume of house and unit sales in more than a decade. Activity in both years, however, has been well below the levels witnessed over preceding years. The number of houses sold rose by 29.7% from 2008 to tally 27,997, with the increase in sales volume compared with a 16% increase nationally. The tally, however, was still well below the preceding eight years average of almost 36,000 sales per annum. Units recorded an even stronger rebound. Sales volume in 2009 totalled 4,792, a 41.9% increase on the 2008 total. The increase was twice rate of the national increase, at 20.1%. Once again, however, the 2009 sales tally was well below the preceding eight years average of 5,640 per annum.

Capital Growth and Rental Yield
Perth Houses

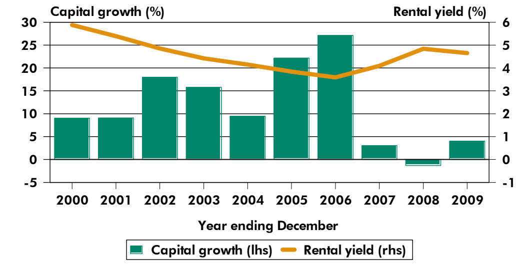


Source : Residex (December Quarter 2009)

Marginal increase in house value

The December quarter 2009 median house value for Perth as reported by Residex grew only marginally, by 0.8% over the year, to reach $485,500. Most of the increase occurred during the December quarter. Perth's annual result was the lowest of all capital city markets during 2009 and follows a 4.0% decline in 2008. Nationally, the median house value increased by 6.8% over the year. Over the past three years, Perth's median house value has actually fallen marginally in net terms, but does follow six years of exceptional growth. Median rent remained unchanged and sat at $360 per week in the December quarter. Given minimal median value and rental movement, rental yield at the December quarter remained almost identical to that of 12-months earlier, at 3.87%. The yield, however, is one percentage point higher than the low of 2.87% recorded in December 2006, at the end of the previous boom-period. A much stronger annual increase is reflected in Real Estate Institute of Western Australia data. Based on median house prices as opposed to value, the Perth metropolitan houses median price rose by 14.3% in 2009 to $480,000 at the December quarter.

Capital Growth and Rental Yield
Perth Units

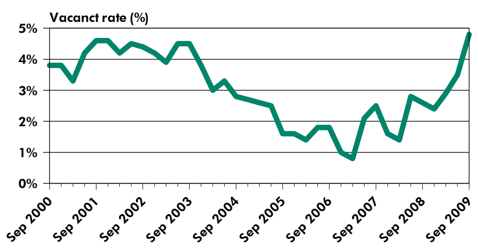


Source : Residex (December Quarter 2009)

Modest increase in unit value

The Residex measure of Perth unit values recorded a modest 4.0% increase over 2009 to reach $392,500 at the December quarter. This compares with the 10-year average growth of 11.3% per annum. As was the case for houses, the 2009 increase was the weakest of all the capital city markets, slightly behind the 4.7% recorded in Brisbane. Nationally, unit values rose by 6.3% in 2009. As for Perth's house market, the past three years have been much more subdued when compared to the growth generated from 2002 to 2006. Unlike houses, however, the negative result from 2008 has still been superseded by the growth in 2007 and 2009. The median weekly rent for a Perth unit was $350 in the December quarter, equal to the national median although unchanged from a year earlier. As a result, rental yield has fallen to 4.65%. Real Estate Institute of Western Australia data, based on median unit price as opposed to value, shows a 15.3% rise in the median unit price $400,000 at the December quarter.

Residential Vacancy Rate
Perth

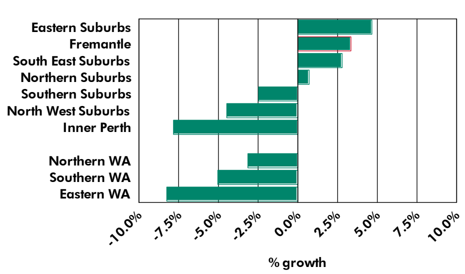


Source : REIA

Residential vacancy rate climbs

The Perth residential vacancy rate at the September Quarter was 4.8%, according to the Real Estate Institute of Australia. This was by far the highest rate recorded nationally, with Brisbane (at 3.3%) the next highest. Perth's vacancy rate has been climbing steadily since mid-2007 and at its September quarter level, had edged higher even than the previous peaks recorded in the period from 2001 to 2003. December quarter data from the Real Estate Institute of Western Australia (REIWA) indicates little changed, with the rental vacancy rate estimated at 4.7%. The rise in vacant stock is reflected in the unchanged median rents, as reported by Residex. Outside Perth, the tightest market at December 2009 was Mandurah-Murray, with a vacancy rate of 2.5% recorded according to the REIWA. Other vacancy rates were Greater Bunbury (3.0%), Albany (3.6%), Geraldton-Greenough (4.2%), Broome (4.8%) and Kalgoorlie-Boulder (5.6%).

Median House Value Growth
Western Australia Precincts, 2009

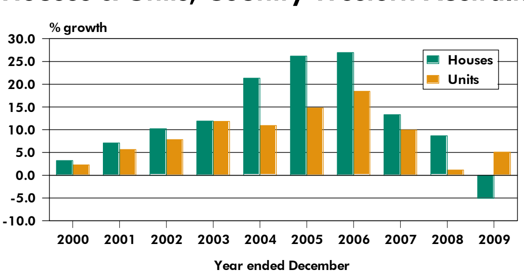


Source : Residex (December Quarter 2009)

Mixed performance across precincts

While the overall Perth median house value rose only marginally in 2009, different precincts within Perth, as defined by Residex, did show varied levels of performance ranging from a modest increase of 4.7% for the Eastern Suburbs (postcodes 6036 to 6060) to a 7.8% decline in Inner Perth (postcodes 6000 to 6020). All precincts did, however, record increased sales volume compared with the 2008 cyclical lows. Inner Perth recorded the highest median value ($968,000), twice the overall Perth median. Rental yield was highest in the South Eastern Suburbs (postcodes 6100 to 6125) at 4.62% and lowest in Inner Perth, at 2.43%. In contrast to the mixed performance in the urban area, all three country precincts recorded declines in median value, most noticeably Eastern Western Australia (postcodes 6300 to 6499) where an 8.3% decline occurred.

Annual Capital Growth
Houses & Units, Country Western Australia



Source : Residex (December Quarter 2009)

Western Australia Country performance mixed

The performance of the key indicators of the Western Australia country house and unit market in 2009 were mixed. The median house value fell by 5.1%, according to Residex, with the December quarter median house value at $390,500. The market was the worst performing of all major markets (capital city and country) nationally. Sales volume did increase solidly, by 15.2%, to 6,170 but was coming off an eight plus-year low from 2008. A $20 per week fall in the median rent, to $300 per week, occurred, with the 4.01% rental yield slightly weaker than a year earlier. Country Western Australia unit value growth was slightly stronger than the Perth market, with a 5.1% increase recorded in 2009. At the December quarter, the median unit value sat at $325,000. In a small market, sales volume increased by 23.1% to tally 458 for the year. The median rent fell by $10 per week to $280 per week with rental yield easing to 4.49%.

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Market Outlook

With the Federal Government's First Home Owner's Grant having returned to its pre-boost levels and three consecutive interest rate rises from October to December 2009, conditions have been set for a mixed and challenging 2010 for the residential sector.

The Reserve Bank of Australia (RBA) surprised most by leaving the official cash rate unchanged at 3.75% at their February 2010 Board meeting, their first of 2010.

In the statement released subsequent to the Board meeting, the RBA highlighted that Australian economic conditions have been stronger than expected. While the effects of the fiscal stimulus on consumer demand has now faded, household finances are being supported by strong labour market conditions and a recovery in net worth. Credit for housing has been expanding at a solid pace and dwelling prices have risen significantly over the past year.

Importantly, the statement identified that interest rates to most borrowers remain lower than average. If economic conditions evolve broadly as expected, it is likely that monetary policy will need to be adjusted further to ensure that inflation remains consistent with the medium term target.

In short, expect further rises to the cash rate in 2010. Most analysts are still suggesting the rate will have returned to a more neutral setting of around 5.00% by the end of 2010.

While 2008 proved to be a very volatile year for Western Australia, with property values falling across the board, 2009 saw gradual increases in sales volume and a stabilisation or modest increase in median values as confidence measures recovered and the economic outlook improved.

The "Gorgon Effect" is set to have increased impact as we move through 2010, with signs of further growth in sales volumes and increasing values. This includes the hard hit prestige end of the market.

While the initial recovery was in the first home buyer segment, around the median house value, which has anecdotally recovered most previous loses, the prestige segment of the market ($1 million plus) was possibly over valued at its peak and has not yet recovered all previous loses. Even so, there is evidence of renewed interest from buyers which has reignited this market.

As employment improves (Western Australia's unemployment rate at January 2010 had already fallen to 5.0%) and salaries strengthen, particularly executive salaries through resources and energy, the positive impacts will flow through to increased demand for prestige property.

At this stage, the interest rate rises are yet to have any tangible effect on the market. Further rises, however, could adversely affect affordability and apply pressure particularly to first home buyers who may have over extended themselves in the low interest rate, stimulus boosted market of 2009.

The average loan size for first home buyers in Western Australia sat below $250,000 in the first half of 2008. It then rose steadily to the $300,000 mark November and December 2009. The first home buyer share of owner occupier dwelling finance commitments in Western Australia increased from a mark around 18% in 2008 to as high 31% at different times in 2009.

Land sales in 2010 are expected to increase with value rising. A lack of available stock will be an issue. It is expected that lenders will re-enter the land market, after effectively a two-year hiatus, as the spectre of land shortfalls looms.

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