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Fundamental market drivers

Ronald Chan
Chief Operations Officer,
Finbar Group Limited

As a number of suburbs in Perth – especially on the fringes – continue to see softening in property values, it is a good time to recall how property finds itself wedded to the economic development cycle and key demographic forces that shape our society.

This tends to see some volatility in values, something that may have been forgotten after we experienced average median price increases of more than six per cent per year for 25 years from 1993, according to an Aussie Home Loans and CoreLogic report released last year.

Property market commentators may talk to a real estate property cycle that lasts a certain number of years, but it is difficult to predict a market that is fundamentally driven by development in the resources sector. This tends to cloud or obscure the usual drivers of property values, namely immigration and household formation – a rather bland term for couples starting a life together and having children.

What this does highlight is the triple negative impact experienced after the mining construction boom, when investment rapidly retreated, immigration plummeted into negative territory and people hesitated to start or grow their families. On the last point, according to the Department of Health, the number of births for the year in Western Australia in 2018 was lower than the previous six years and was seven per cent down on the peak year of 2016.

You might be thinking 'here we go again, another depressingly negative story about Perth', but I want to make clear how the fundamentals are changing.

Firstly, the investment in a range of resource projects in WA is increasing. The Australian Resources and Energy Group lists 30 projects slated to commence over the next five years, worth in excess of $19 billion and set to require more than 10,000 additional workers.

Secondly, the net immigration deficit has reversed and, while immigration is sitting at a modest one per cent, that is a natural increase. We have also seen a decrease of more than 10 per cent in the net overseas migration rate.

Thirdly, birth figures for 2019 are showing positive trends, with the first two quarters for 2019 higher than the final quarter for 2018.

Predicting the peaks and troughs of a property cycle is never easy. It can be forgotten that residential property usually comprises long swings of development due to the time it takes to bring new developments to the market in response to the key drivers outlined above.

Rental returns tend to be a key indicator of a future improving market, as they start to increase before costs of construction start to increase. This lag can then see the market respond with values increasing.

This can potentially be seen in Perth's current rental market, where vacancy rates are decreasing to now less than three per cent, rental listings are 19 per cent lower than 12 months ago and rents have been increasing.