REIWA

WA pre-budget submission 2018-19

Six-point plan for a fair, sustainable and prosperous property market.

March 2018

CONTENTS

WHO ARE WE

REIWA is Western Australia's real estate institute, the peak body for the real estate profession in the state. We exist to make the selling, leasing and buying of property as simple as possible for all West Australians.

We are a member-owned organisation representing over 1,100 real estate agencies and over 90 per cent of agents in WA.

We represent the real estate industry in WA and lobby the Australian and Western Australian Governments on issues that impact the property industry.

REIWA exists to help everyone win in WA real estate.

INTRODUCTION

The WA property market is an integral part of the state's economy. It provides a regular source of income for the state through property taxes, but more importantly it provides a basic human need – housing for all West Australians.

The state's economic climate continues to remain challenging. WA is shifting from its reliance on the resources construction phase, to a production economy. This has an impact on major economic and housing variables such as population and house price growth. It will be important to ensure policy settings continue to encourage both investment and owner occupation in WA's residential and commercial property markets.

Entering the property market is still a dream of most West Australians. Ensuring there is enough appropriate, affordable and diverse housing stock for those entering the market is crucial. Housing diversity should be a priority for any state government, so that downsizers, lifestyle seekers or any household can make the right housing decision for them.

Housing affordability impacts both the established residential market and the private rental market. In the current market conditions where prices in both markets have been easing, this represents an opportunity for West Australians to find more affordable housing to meet their needs in the short term.

A softer market, can in some way, help to ease the burden on state provided social housing as the private rental market becomes more accessible. However, this is not a long term solution given the cyclical nature of the property market. REIWA analysis (as at June 2017) using average weekly earnings and median rent prices shows that West Australians are now paying less of their income on rent, moving them out of rental stress. This is a good thing, but we also know that not all West Australians are making this level of earnings.

The September 2017 quarter results of the Adelaide Bank/REIA *Housing Affordability Report* highlighted that housing affordability measures in WA improved. The proportion of income

required to meet loan repayments decreased to 22.4 per cent, a decrease of 1.2 percentage points over the quarter and a decrease of 1.4 percentage points compared to the September 2016 quarter.

Rental affordability in WA also improved during the September 2017 quarter with the proportion of family income required to meet the median rent decreasing to 17.4 per cent, a decrease of 0.7 percentage points over the quarter and a decrease of 1.8 percentage points compared to the year before.

The removal of the $3,000 First Home Owner Grant (FHOG) for established dwellings in the 2015-16 Budget was not well received by REIWA or the established residential market. The FHOG provided additional support for first home buyers who want to buy an existing dwelling. The full impact of the grant removal can now be seen with declining sales trends evident in the established residential market. (See chart 2)

First home buyers play an important role in both the established residential market and the new-build market. REIWA estimated first home buyers represented 24.7 per cent of transactions in the residential market in the three months to January 2018. First home buyers facilitate the turnover of stock as they buy homes that enable others to trade-up. Trade-up buyers represented 62.1 per cent of the market in the three months to January 2018.

Transfer duty revenue is most affected by the trade-up market. Current policy settings allow first home buyers to receive an exemption from transfer duty up to the value of $430,000. This exemption plays a significant role in ensuring the affordability and accessibility of the established residential market for first home buyers and therefore, must remain.

Planning and development policy reform is another area that impacts the residential property market. As the demographic profile of the West Australian population changes to an ageing population, more housing options need to be available for retirees looking to right size and people trying to enter the market. Now more than ever, planning policies that encourage a diversity of lot size and housing typology options through infill and land developments is more important.

REIWA acknowledges the McGowan Government has inherited a fiscally challenging set of accounts. Whilst it is important for the State Government to bring the budget back into surplus and reduce debt levels, this should not be done at the expense of the property industry and the average WA home owner or first home buyer.

The trend in recent times to increase land tax rates and make changes to thresholds is having a significantly detrimental effect on residential property investors and commercial land holders. This is exacerbated at a time when both of these markets are softening in terms of achievable rents, and even though we are in an easing phase of monetary policy.

Property investors are now faced with the difficult decision as to whether they continue to hold their property or sell given the return on investment is in some cases negligible. REIWA encourages the State Government to start a state tax reform discussion with the community.

This will ensure that the state can rely on efficient and sustainable tax revenue streams, the community can be taxed more efficiently and equitably, and investors are encouraged to keep investing in the WA property market.

During this difficult fiscal time, the State Government must balance these policy areas. Keeping state property taxes at current levels and not increasing or meddling with taxes will provide some assurance to investors and owner occupiers, particularly in a market that continues to remain soft.

Ensuring there is suitable affordable housing and keeping the policy goals of the Affordable Housing Strategy and Perth and Peel at 3.5 million will be critical. Of course, all of this needs to be considered within the national policy context where there is a federal tax debate, and specifically the Productivity Commission's review into GST redistribution. REIWA acknowledges the urgent need for GST reform and more importantly the redistribution methodology. REIWA encourages the McGowan Government to continue to advocate at the Federal level for GST reform.

Whilst long term taxation reform remains a priority for REIWA, the current financial climate may prohibit meaningful reform in this budget, however, the focus should be on starting the conversation with the community to be included in the 2019-20 Budget.

This submission to the State Government's 2018-19 budget process focusses on the issues that impact the WA property industry the most. Historical trends and the market outlook for 2017 creates the backdrop to a discussion of the impact this will have on key state property tax revenue streams and the broader need for state tax reform.

At a time of prudent financial management and budget balancing, REIWA looks forward to working with the McGowan Government on a budget that assists all West Australians to win in real estate.

REIWA

Six-point plan
for a fair, sustainable and prosperous **property market**

A FAIRER RESIDENTIAL TRANSFER DUTY SYSTEM

This is no time to meddle with transfer duty rates as a means for improving the budget position.

The WA residential market is finally showing early signs of stabilisation. Any upward adjustments to transfer duty rates will only halt the early signs of confidence and instead cause further adverse effects in the market.

The continuing downward trend in house sales activity since the March 2013 peak has clearly had an impact on the state's transfer duty receipts. Treasury projections have revised transfer duty receipts down further in the December 2016 mid-year review.

REIWA believes that sales volumes in the WA market will continue to remain soft over the remainder of the 2017-18 financial year. However, recent data indicates that the decline in activity levels is not as severe as it was between 2014 and 2016.

If transfer duty rates remain steady going forward, this would maintain the current income levels and limit further losses being accrued.

Any changes to transfer duty rates or thresholds would be received with hostility from both industry and the public and will counteract the State Government's work to improve housing affordability.

Recommendation 1

REIWA strongly recommends that the State Government must not increase transfer duty rates or change thresholds.

Transfer duty trends

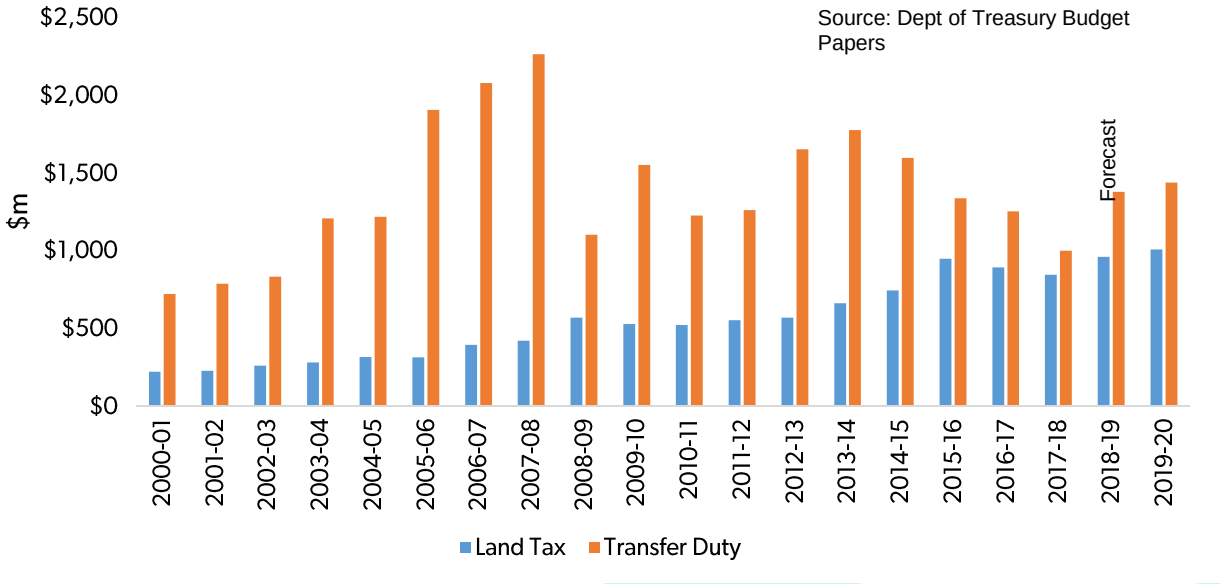
Transfer duty revenue as at the 2016-17 Government Mid-Year Financial Projections Statement makes up 14.7 per cent of the state's tax revenue – almost 50 per cent of the total property tax envelope - a considerable proportion. On the whole, total property taxes equate to 33.6 per cent of the state's total tax revenue base.

In recent years, where there has been no changes to the transfer duty rates or thresholds, the proportion of transfer duty paid on quarterly median house prices has remained within 2.7 – 4.1 per cent of the quarterly median house price. Chart 1 shows the trends of actual and forecasted transfer duty revenue as per state budget papers.

At a time when the established residential market is soft, REIWA cautions the State Government on raising transfer duty rates or changing thresholds as a means to address the shortfall in transfer duty revenue that is expected in 2017-18 and over the forward estimates.

The 2016-17 Government Mid-Year Financial Projections Statement revised downwards the expected transfer duty revenue for the 2016-17 year by $134 million (or 9.6 per cent), and by eight to 10 per cent across the next two forward estimate years.

Chart 1 – Transfer duty and land tax revenue



Whilst the State Government has revised down its transfer duty revenue forecasts, REIWA believes there is further softening of the market which will impact sales volumes to come.

Recommendation 2

REIWA strongly recommends that the State Government maintains the existing transfer duty exemption for first home buyers at $430,000, and re-introduce the $3,000 FHOG grant for the purchase of existing dwellings.

The importance of first home buyers in the WA established residential market

The latest FHOG data from the Department of Treasury and estimates taken from ABS housing finance data indicates first home buyers of established housing continues to trend down, falling 33 per cent over the 12 months to May 2017 in comparison to the 12 months to October 2015 (until the grant was removed). During the month of May 2017, first home buyers of established housing represented just 46 per cent of total first home buyer housing. On the

other hand, grants for new dwellings decreased by only six per cent for the 12 months to May 2017 in comparison to the 12 months to May 2016.

In terms of housing finance commitments excluding refinancing, first home buyers represented 23.8 per cent for the month of May 2017. Using this measure, over the last year, first home buyer activity has remained reasonably constant, ranging from 20 - 23 per cent of housing finance commitments. Chart 2 also demonstrates that the increase in the FHOG to $10,000 in 2013 for new dwellings has had a measurable impact in stimulating new dwelling activity.

Determining whether or not first home buyer activity remains stable over the coming months as a proportion of the established residential market remains to be seen. If however, first home buyer activity declines to levels like it did in 2003-04 and 2006-07 to approximately 14 per cent, such a slowdown could remove almost 7,000 established first home buyers in the market. This would have a significant knock-on impact to transfer duty. Potentially, the State Government would forgo between $160 - $195 million in transfer duty, assuming these trade-up buyers purchased a house with a value range of $600,000 - $700,000.

The overall impact is that the first home buyer established market has suffered at the expense of the new dwelling activity (refer to Chart 2)[1]. This is an important issue, as those first home buyers who are active in the established market have important flow on effects to turnover and any trade-up activity. This means that the effect of lower trade-up activity as a result of fewer first home buyers in the established market will impact the state's future transfer duty receipts. This, coupled with lower sales volumes, should be of concern for the State Government.

[1]Estimated First Home Buyer (FHB) for established dwellings is calculated using ABS Housing Finance data and new FHB dwellings data from the Department of Treasury

Chart 2 – FHOG established and new dwellings

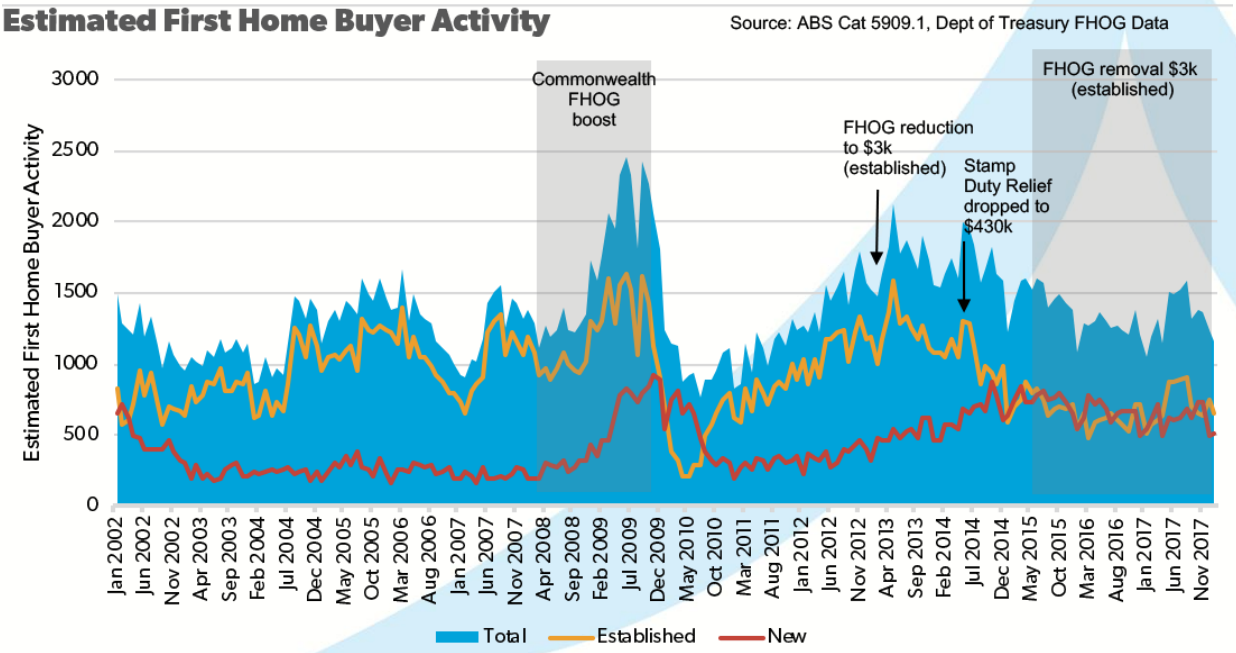


Chart 2 also shows the trade-off that has occurred between the established and new dwelling markets in terms of first home buyer activity. The chart clearly shows dwelling sales turnover continued to decline in the period after the FHOG established dwelling grant was reduced to $3,000 and again when the transfer duty exemption threshold was dropped to $430,000. This is coupled with a general decline in established dwelling activity.

Keeping first home buyers active in the WA property market is crucial. Evidence presented in our previous state budget submissions indicated that first home buyer policy settings have a real impact on the broader property market in WA.

Impact of transfer duty on housing affordability and diversity of housing stock

It is widely understood that most buyers are not in a position to have surplus funds to cover the transfer duty impost upfront. As a consequence, buyers are forced to borrow this amount on top of the loan amount, amortizing the transfer duty cost across the whole life of their mortgage.

For example, if a household earning the average household income of $82, 940 per annum[2], buys a property at the current median house price of $512, 500, the amount of transfer duty would equate to $18, 806.15 or $22.67 per cent of the annual household income leaving household with no choice but to borrow in order to pay transfer duty.

[2]Figures from the 2016 Census. Source: ABS

However, within the bottom of the top-end threshold, a buyer purchasing a $700,000 property would be repaying an additional $148.82 per month. Amortising the cost of transfer duty effectively adds $53,577 (over 30 years) to the dwelling price through principal and interest costs of the $27,723 transfer duty impost.

This simply highlights the inefficient and costly nature of this tax on a housing transaction. Whilst the State Government should be congratulated for their continued support of first home buyers through the accommodative exemption of transfer duty to the value of $430,000, this by no means justifies the existence of such an inefficient tax.

Recommendation 3

REIWA recommends that the State Government introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate 'right sizing'.

Not only is transfer duty a hindrance on affordability, but it also impacts the ability for households to make appropriate housing decisions in accordance with their lifestyle choices, changing needs or economic reasons like employment.

A key policy issue that REIWA consistently advocates for is the need for diversity in our housing stock. We know the current stock of housing does not meet the needs of society now, let alone in the future. Over 70 per cent of listings for sale are for dwellings with three or more bedrooms – this is not ideal.

It is well understood that transfer duty prohibits people from making better housing choices. For example, often older households struggle to raise the upfront cost of the transfer duty in order to allow them to right size into a house that is more appropriate for their needs.

REIWA has in the past recommended to the State Government that those households should be given the opportunity to right size and free-up their existing house by obtaining a rebate or concession on their transfer duty cost. In order to ensure that WA has the right mix of housing options and diversity needed to meet the changing needs of the community, the State Government is encouraged to look at ways in which to reduce the impact of transfer duty on the mobility of housing stock.

NO INCREASES TO LAND TAX TO PROVIDE CERTAINTY TO THE MARKET

Recommendation 4

REIWA recommends that the State Government make no further changes to rates or thresholds for land tax.

Land tax trends

Chart 1 clearly shows the trends in land tax over the last 10 years. In the past three years, the State Government has increased land tax rates and more recently introduced additional thresholds as a means to fixing the revenue shortfall in the budget. REIWA has in the past criticised the State Government for making these changes as they are now proving to have a longer term impact on the decision of property investors to continue to hold property.

REIWA is concerned that the decision to increase land tax in the 2015-16 Budget, is having perverse outcomes on the investment decision and may lead to those investors selling their property holdings. This is particularly exacerbated in the current market as rental prices are soft and securing tenants is difficult.

In addition, this is adversely affecting self-retirees who are funded by their investment properties. This would have a significant impact on the residential rental market as supply would decline, adding pressure to rental prices. This could have flow on effects to the demand for social housing which the State Government provides. With this in mind, REIWA strongly urges the State Government not to increase land tax rates or meddle with thresholds.

THIS IS NO TIME FOR A FOREIGN OWNER DUTY SURCHARGE

Recommendation 5

Revoke/defer the introduction of foreign owner duty surcharge to keep WA property competitive.

Implications of a foreign owner duty surcharge on WA's economy

Currently the WA property market attracts the lowest number of foreign investors of any state, and is second only to the Northern Territory (NT) nationally.

The introduction of a four per cent transfer duty surcharge for foreign owners (due to come into effect on January 1, 2019) will deter much needed investment in the state, while doing nothing to make housing more affordable for West Australians, a common reasoning behind the introduction of a foreign owner duty surcharge.

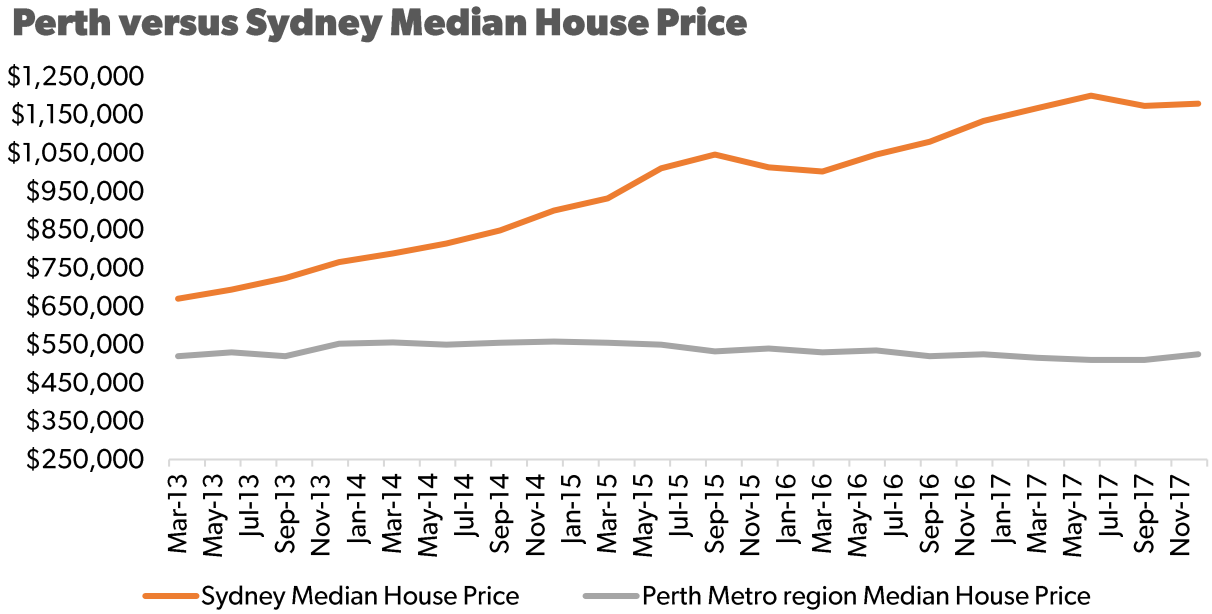
Looking at our eastern-state counterparts that have a foreign owner surcharge, affordability is currently at crisis levels. There is no evidence to suggest that having the surcharge in place mitigates the unsustainable rising house prices in any way (See Chart 3)

While we understand the current financial climate the WA Government is facing, the introduction of a surcharge will ultimately lead to a worsening fiscal outlook. The short-term financial gain of the surcharge would be counteracted by long-term losses as investors seek an alternative place to invest.

When initiated in the 7 September 2017 State Budget, the foreign owner duty was deferred until 1 January 2019, due to the soft market conditions in WA.

REIWA's outlook for 2018 indicates the market will remain soft well into 2019 and the introduction of the surcharge could further dampen activity.

Chart 3 – Perth versus Sydney Median House Price



Foreign investors play a key role in the delivery of off-the-plan projects which create construction jobs for thousands of West Australians. Without foreign investors buying off-the-plan, many of these projects would never get off the ground, increasing the unemployment rate and costing the state what would have been revenue from transfer duty and other property taxes.

Exemptions to the Foreign Owner Duty Surcharge

If the WA Government does implement the Foreign Owner Duty Surcharge on 1 January 1 2019, REIWA believes exemptions must be in place to ensure that WA remains an attractive place for investment, in particular, investment that creates jobs, and boosts the local economy.

Who should be eligible?

The following conditions must all be satisfied for the WA Government to grant relief on a transaction:

- Persons with Permanent Residency Status, if the property is to be their primary residence (with a minimum of 200 days to be spent at the property in the first year of ownership)
- Should ownership be divided between a foreign person(s) and non-foreign person(s) the surcharge should only be applied to the percentage of the property owned by the foreign person(s).

Exemptions should be in place for job-creating residential projects if the development meets all of the following criteria;

- The foreign controlled entity acquiring the property must meet the WA Government's definition of 'Australian-based'.
- The entity and transaction must meet all regulatory requirements, including FIRB requirements.
- A majority of the value paid for goods, services and personnel engaged in the project must be paid to Australian contractors and suppliers.
- The development must be of significant contribution of 10 or more units or of equivalent significance in regional areas.

COMMIT TO LONG-TERM TAX REFORM – TRANSFER DUTY AND LAND TAX

Recommendation 6

REIWA recommends that the State Government undertake a state tax review. This review must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty.

Tax reform must remain a priority issue for the State Government. At a time when debates are being held about GST redistribution, at a national level, it will be important for the State Government to put state tax reform into context and to advocate for a more equal share of the GST.

REIWA supports the Chamber of Commerce and Industry WA's (CCIWA) latest submission to the Productivity Commission which proposes GST be reformed to create greater incentives for states to contribute to national economic growth.

For some time now, REIWA has been advocating for state tax reform. It is acknowledged that reform at a state level may be more difficult to achieve without reform at a federal level and the state's fiscal position is tough, but REIWA still believes that keeping tax reform front and centre is important to ensuring the state remains a competitive environment. In addition, reforming transfer duty and land tax will help to ensure a more sustainable revenue stream for the State Government.

In 2014, the Economic Regulation Authority (ERA) released its final paper and recommendations on the inquiry into Microeconomic Reform and state taxes featured strongly in that discussion. REIWA supports the recommendations that were made in that report and urges the State Government to consider them in earnest.

Whilst it is acknowledged that the Federal Government has undertaken a national taxation review and the GST inquiry in recent times, REIWA is of the view that the WA Government should undertake a state tax review. This review would enable the State Government to seriously look at ways of ensuring future revenue streams are more sustainable and that the well acknowledged inefficient state taxes, like payroll and transfer duty, be reformed.

REIWA supports long term tax reform that aims to abolish transfer duty and move to a broad-based land tax regime. There are a number of flow-on benefits from a land-based tax regime. It would allow for greater housing mobility across the community. Households could locate closer to employment and activity centres, thus reducing congestion, which are presently stymied by the current transfer duty regime.

Removal of transfer duty would also improve housing affordability, as most households currently borrow funds to cover transfer duty which is amortised across the life of the mortgage and increases repayments.

In their final report to the inquiry into Microeconomic Reform in WA, the ERA recommended that the State Government remove all concessions and exemptions on land tax and broaden the base (keeping the progressive scale) and as a result abolish transfer duty on residential property.[3] This is a position that REIWA supports and encourages the State Government to consider reviewing state taxes.

[3]ERA 2014, Fact sheet – Reforming state taxes.

SUMMARY OF RECOMMENDATIONS

1. REIWA strongly recommends that the State Government does not increase transfer duty rates or change thresholds.

2. REIWA strongly recommends that the State Government maintains the existing transfer duty exemption for first home buyers at $430,000 and re-introduce the $3,000 FHOG for the purchase of existing dwellings.

3. REIWA recommends that the State Government introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate 'right sizing'.

4. REIWA recommends that the State Government make no further changes to rates or thresholds for land tax.

5. REIWA recommends that the WA Government defers or revokes the introduction of the Foreign Owner Duty Surcharge

6. REIWA recommends that the State Government undertake a state tax review. This review must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty.

LATEST MARKET TRENDS

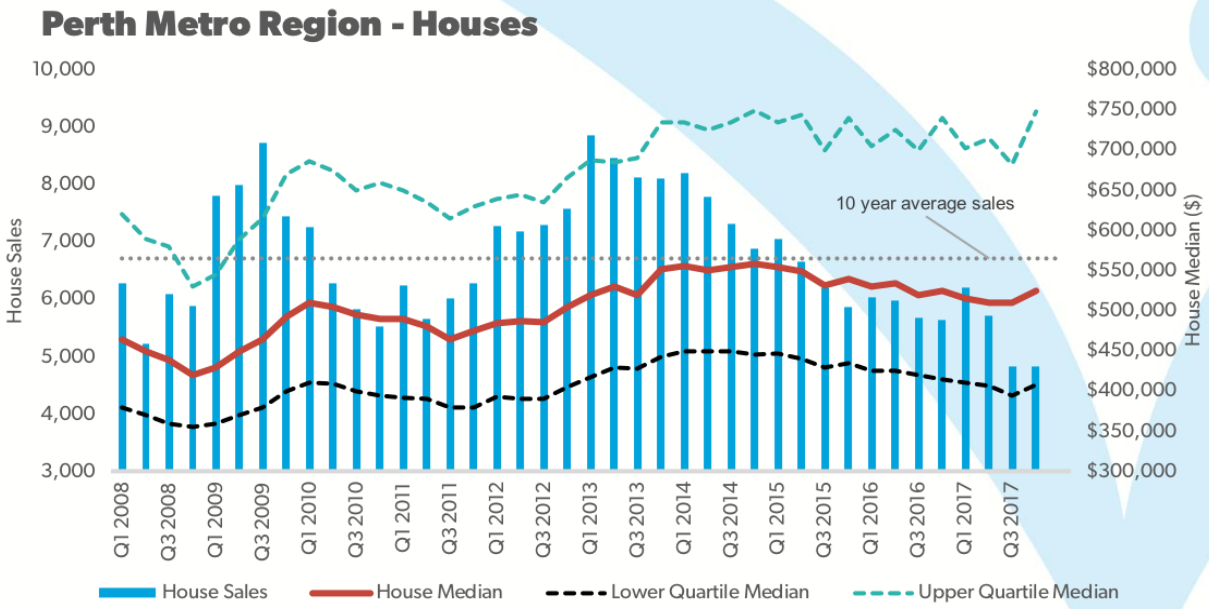
Perth housing market

There has been a continuing downward trend in house sales activity in the Perth Metro Region since the March quarter 2013 peak. Preliminary sales for the December 2017 quarter are 13 per cent below the 10 year average (Chart 4) and are trending below the 2010-11 cyclical low after the FHOG boost in 2009.

The overall Perth Metro region median house price which had continued to retrace after peaking at $558,000 for the quarter ending December 2014 has finally improved over the latest December 2017 quarter. Based on the latest figures, the median house price has improved by 2.9 per cent over the latest quarter, and is now on par with the December 2017 quarterly median. However, the median house price is still 5.9 per cent lower than the peak experienced in December 2014.

Chart 4 shows that the lower quartile median had been trending upwards since early 2012 up until the second quarter of 2015. Since then, a downward shift has been established, with the exception of a marginal lift during the latest December 2017 quarter. The lower quartile median is particularly relevant to first time home buyers looking to enter the residential property market.

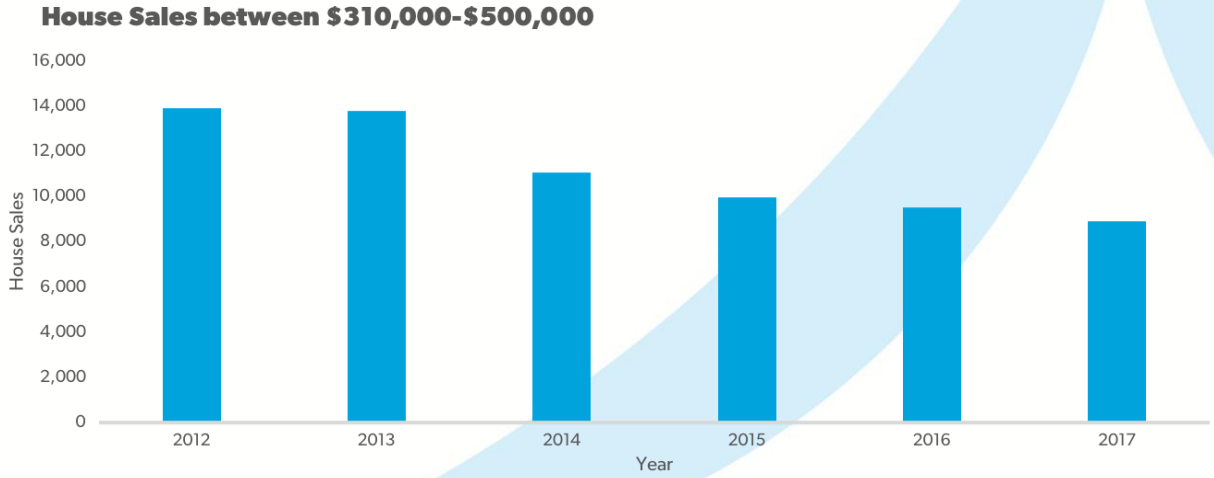
Chart 4 – Perth metro region housing market



Sales activity saw an accelerated downward trend between 2014 and 2016. The first two quarters of 2017 (chart 5) shows that activity levels bucked this trend where a lift in sales was noted. However, this was short-lived with figures for the two most recent quarters recording a decrease in sales once again. The data also indicates that the upper quartile price has seen a

significant uptick over the latest December 2017 quarter, with the upper quartile price up 9.6 per cent over the quarter.

Chart 5 – Perth Metro region house sales ($310,000 - $500,000 price range)



Perth multi-residential market

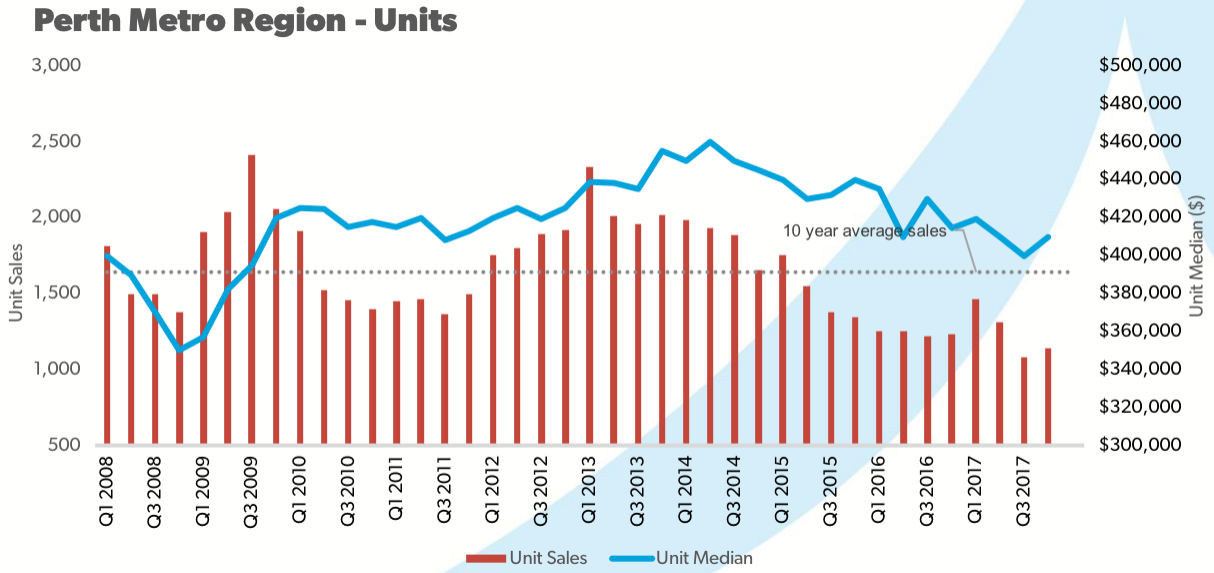
Activity in the multi-residential market has begun to show early signs of optimism, with a marginal increase in sales transactions throughout 2017. A total of 5,005 multi-residential sales transactions have settled so far, representing a 0.9 per cent increase from 2016.

However, in comparison to long term trends, sales activity remains soft at 0.76 times the 10-year average. Some of this may be attributed to weak investor activity, particularly since Australian Prudential Regulation Authority (APRA) changed the capital adequacy requirements for investment lending in July 2015, as well as the impact of more supply hitting the market as off-the-plan strata developments finish construction.

Recent tax measures introduced in the Federal Budget targeting foreign investors will only exacerbate the situation by potentially limiting foreign investment into WA property. Overseas investment comprises of a small proportion of residential sales and any further policy measures that potentially hinder investment would only further dampen the already small market.

In terms of prices, the latest December 2017 quarter median unit price for multi-residential dwellings sits at $410,000 which is 1.1 per cent higher than a year ago.

Chart 6 – Perth metro region multi-residential market



Listings and selling days

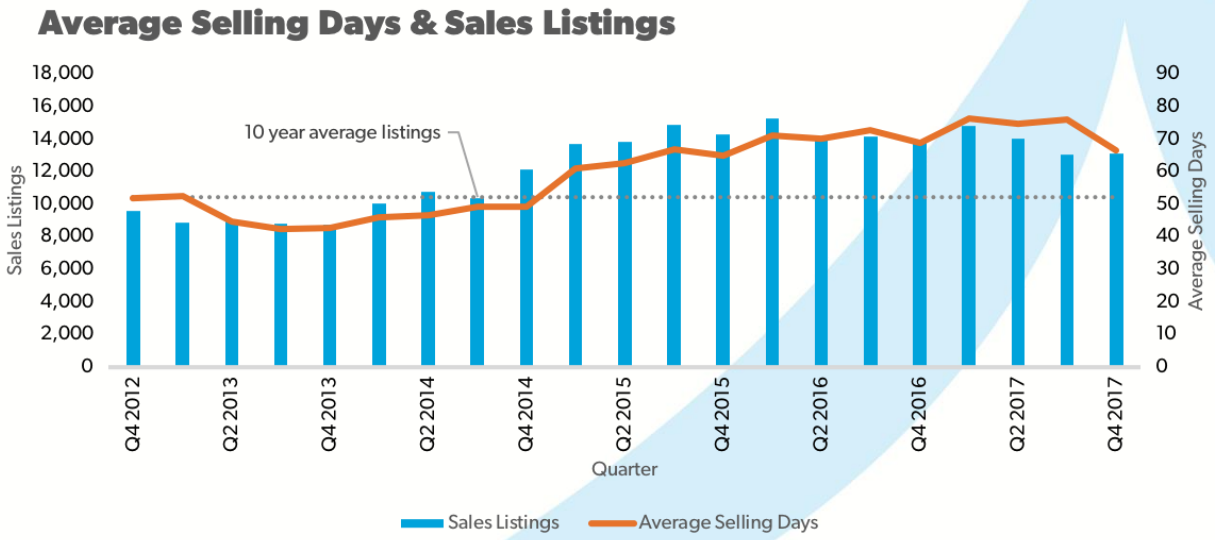
Sales listings have been on a general upward trend since the beginning of 2014 (at the end of the WA migration boom). In October 2015, listings peaked to 16,319 before edging back to near 15,000 during 2016. 2017 saw listings trend lower by 5.7 per cent to 13,079 at the end of December 2017.

Commentary from REIWA members suggests some sellers are hesitant in current market conditions and are withdrawing properties for sale from the market, which would explain the ceiling found in sales listings over the last 12 months. At the same time, new dwelling completions have significantly slowed which has restricted the supply of new listings stock.

In present times where overall sentiment remains weak, encouraging activity in the market, for instance with the aid of policy levers, is crucial in order to ensure the stability of the established residential market.

reiwa.com shows it takes an average of 66 days to sell a dwelling in the Perth Metro region. This is a marginal improvement on 2016 when it took an average of 69 days to sell.

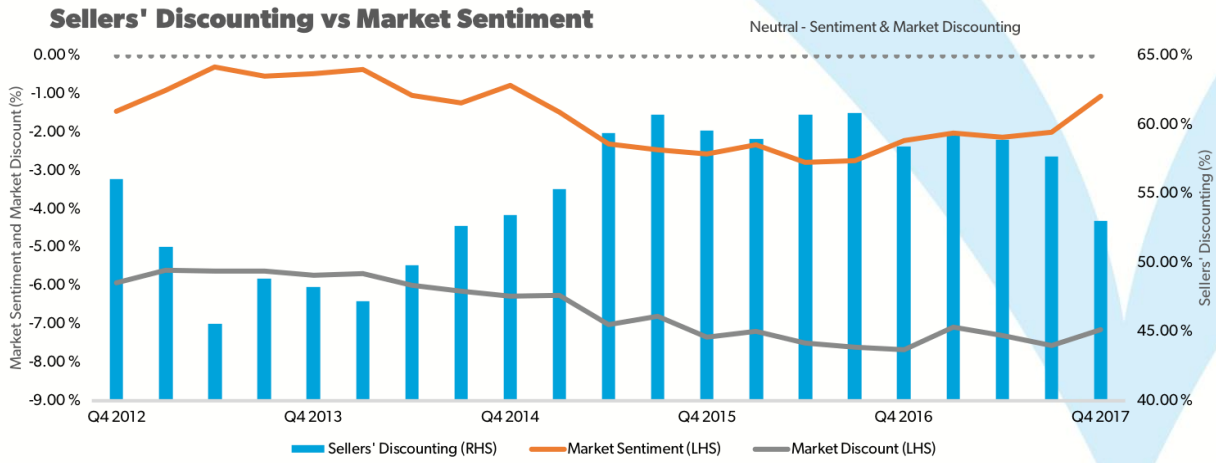
Chart 7 – Perth Metro region listings and selling days



Sellers' discounting and market sentiment

To reflect the current state of the Perth Metro region residential market, chart 8 below shows the proportion of sellers' discounting against the overall market sentiment and average market discounting levels. Market sentiment has continued to remain in negative territory (below zero per cent), despite the optimism noted during the latest December 2017. The proportion of sellers' discounting their dwellings peaked at 60.8 per cent during the third quarter of 2016 and has since dropped off to 53 per cent for the December 2017 quarter. The average discount offered on dwellings sold lies at 7.1 per cent.

Chart 8 – Perth Metro region discounting and market sentiment



Perth rental market

The Perth Metro region calculated an overall median rent of $350 per week (chart 6) for the December 2017 quarter. This is unchanged from the previous September 2017 quarter but down 2.8 per cent to the December 2017 quarter. The quarterly median rent for houses is $355 and $320 for units.

The South East sub-region recorded the greatest increase in quarterly median rents, up 1.5 per cent for the December 2017 quarter. Armadale was the best performing sub-market with a 4.2 per cent increase recorded within the South East sub-region. The Central sub-region also recorded positive growth of 1.3 per cent over the quarter, with Perth City recording the greatest increase in median house rents. Both the North West and South West sub-regions recorded stable median rents during the December 2017 quarter.

Listings for rent (chart 9) had been trending close to all-time high values during the second half of 2016. Since then, rental listings have reduced significantly, to record 8,912 listings as at the end of December 2017. The reduction in listings during this period can be attributed to an uptick in overall leasing activity coupled with a reduction in new dwelling completions.

Perth's vacancy rate (chart 10) has reduced from 6.4 per cent in the December 2016 quarter to 5.7 per cent for the latest December 2017 quarter. The slowdown in listings has helped ease the burden on the vacancy rate in recent times.

Chart 9 – Perth rental listings

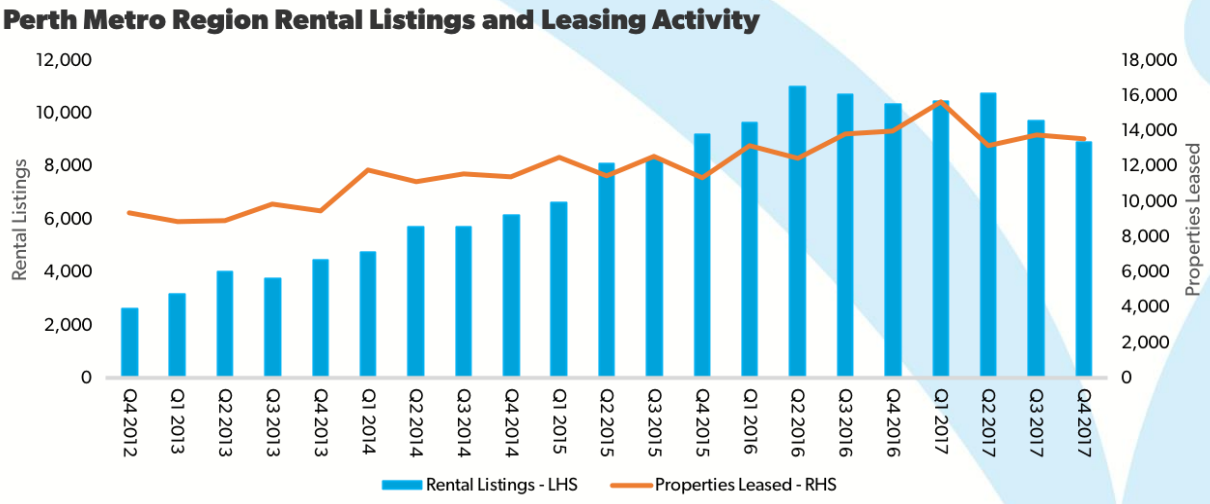
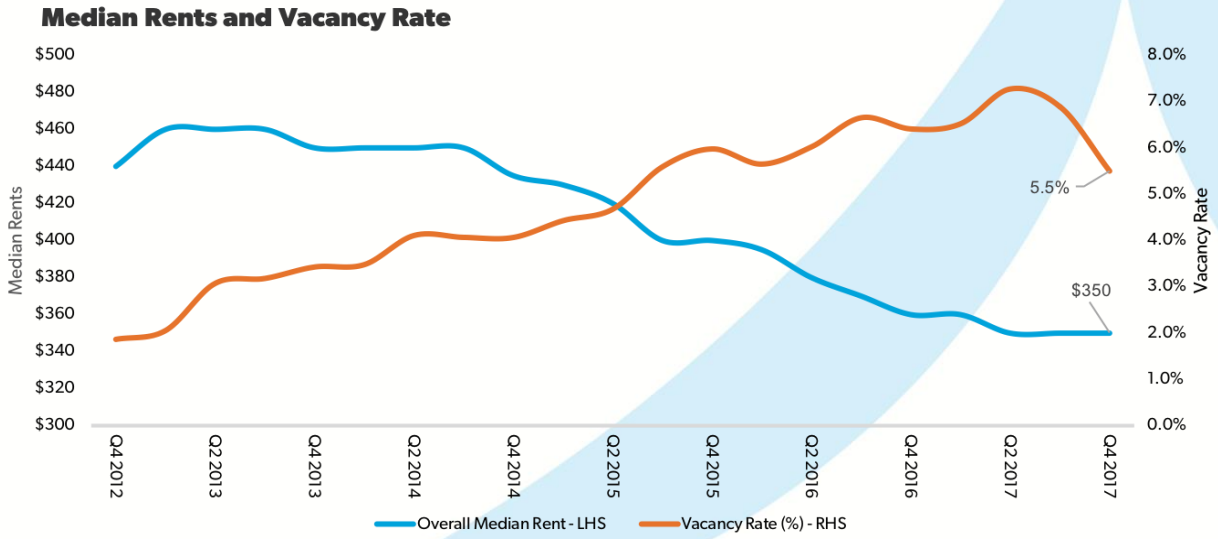
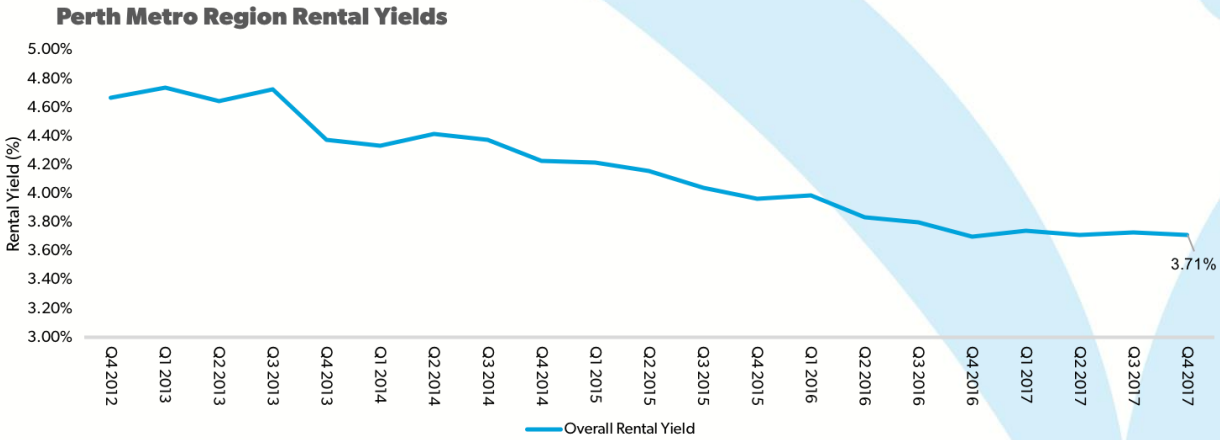


Chart 10 – Perth median rent and vacancy rate



Overall gross rental yields (chart 11) for the Perth Metro region are 3.7 per cent. House yields are currently 3.74 per cent and unit yields are higher, at 4.2 per cent. Although property continues to offer returns greater than deposit savings rates (currently at 1.5 per cent), the downtrend in yields remains a caution for possible future investors looking to invest.

Chart 11 – Overall gross rental yields

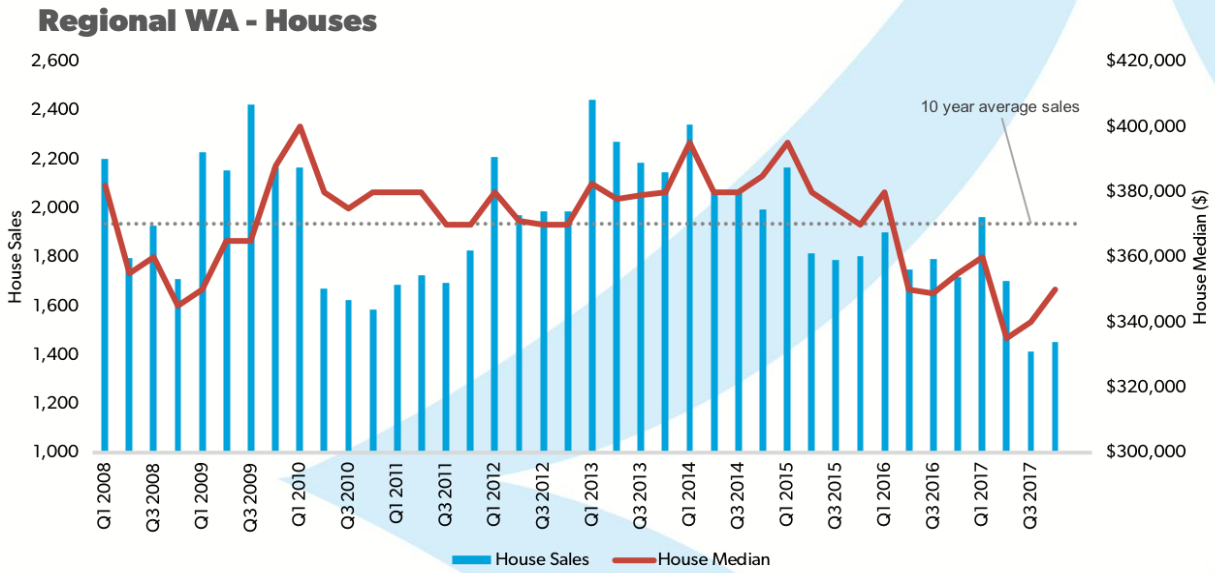


Regional WA housing market

In the WA regional market, we have seen further declining trends in house sales activity during 2017, with the exception of the March 2017 quarter whereby activity levels are boosted due to seasonality factors that typically occur during this period. Sales activity across Regional WA continues to trend around levels last seen during the global financial crisis (GFC) period in 2008.

The Landgate overall median house price for Regional WA is $350,000 for the latest December 2017 quarter, representing a 2.9 per cent improvement in the median price over the quarter.

Chart 12 – Regional WA housing market



2018 OUTLOOK AND BEYOND

Although WA's population growth has lifted marginally to 0.8 per cent for the year to June 2017, population trends remain significantly lower than the peak experienced during 2012. The slow growth in population has continued to cause serious implications on economic growth and the performance of the housing market since the end of the resources construction phase in 2014.

Outlook: Steady trends in population growth

During the year to September 2017, net overseas migration rose by 7.7 per cent to 13,800. Net interstate migration into WA remains a drag on population growth, having lost a net 11,581 persons to other states (26 per cent more than a year ago). The significant loss in interstate migration highlights the impact the mining investment slowdown has had on our resources focused economy. The Department of Treasury forecasts population growth figures will continue to grow at a steady pace over the long term.

Outlook: Rental market trends to find stability

During 2017, overall median rents in the Perth Metro region declined by $10 to $350 per week. However, this decline was recorded during the first quarter of 2017, with rents

remaining stable since this period. The overall Perth Metro region vacancy rate has also seen an improvement, with the vacancy rate falling by 0.9 percentage points annually to record 5.5 per cent for the December 2017 quarter. The stability in overall rents and reduction in vacancy rates has occurred as a result of two factors; lower levels in rental listings and a reduction in average tenure time (length of tenure).

The marginal uptick in expected population will provide much needed support to the rental market moving forward.

Outlook: New supply of stock to bottom out

Based on the latest ABS data and forecasts provided by the Housing Industry Forecasting Group (HIFG), there were 19,702 new dwelling commencements in WA in 2016-17. This is considerably lower than the 32,000 dwellings that were under construction in 2014-15. This slow-down in new dwelling commencements has kept stock levels in the established housing market from increasing further. Future estimates provided by the HIFG show that new dwelling commencements over the next three financial years will begin to trend marginally higher, based on a slight uptick in population growth.

Outlook: Sales activity to remain dampened during 2018

Perth's established residential market experienced a rapid turnaround in listing stock during 2015 as it peaked at just under 17,000 in November 2015 before gradually declining thereafter. As of 21 March 2018, listings for sale tracked at 14,659 listings across houses, units and land in the Perth Metro Region, which is 2.4 per cent lower then figures recorded during the same time last year.

Average selling days trended lower during 2017 to record 66 days to sell a house. The improvement in average selling days can be attributed to lower listings levels in the established market. As fewer options are available in the market, properties are being purchased quicker than they previously were.

However, despite the improvement in average selling days, activity levels in the market remains subdued, with transactions down by 7.7 per cent in 2017 versus the prior year. The slow-down in population growth, coupled with high transactional costs (such as transfer duty), and the removal of the FHOG has continued to stifle demand for established dwellings.

Record low interest rates have done little to stimulate activity over the past 12 months in the WA housing market. Recent rate reductions have done little to lift activity due to the strength of socio-economic forces that are stifling investment and confidence in WA. Recent regulatory changes made by APRA to limit the flow of new interest-only lending for owner occupation and investment loans may only further dampen the residential market as this would potentially limit new investment into property.

REIWA

Population trends steady

Rental market trends to stabilise

New supply of stock to bottom out

House sales to trend close to 2017 levels