



The PPA Take: Residential Property Market Outlook for 2023 – Perth

The post-COVID landscape from August 2020 to May 2022 saw Perth's first meaningful growth period in almost a decade, with the Perth median house price growing from \$485,000 to \$545,000, adding a modest 12.5%. The catalyst for this was a lack of supply, with properties on-market falling to 8,000, roughly 50% below what is widely considered to be a balanced market in Perth (12,000-13,000).

With increased consumer demand, record low interest rates, supply chain issues, and COVID economic recovery, May 2022 saw the first RBA Cash Rate rise since November 2010, with 8 successive monthly rises totalling 3% in an effort to avoid inflation spiralling out of control.

With capital cities on the Eastern seaboard experiencing between a pull back as a result of affordability issues (Sydney -12% and Melbourne -8%), Perth fared considerably well, with growth only flattening to 4% on a rolling 12 months to December 2022 (Source: CoreLogic).

The 4 main factors likely to dictate the Perth housing market for 2023 are:

- RBA Cash Rate stabilisation
- Continuing lack of supply
- Affordability metrics still positive
- Migration to Perth due to record high job vacancies

Interest Rates

After a painful second half of 2022 for mortgage holders, inflation appears to have reached a peak, stabilising around 7% between June – November 2022 (Source: ABS), still well above the 2-3% target band. The December data is due to be released at the end of January, however it is expected that we should start to see a decline in inflation as the interest rate rises have a lagging effect on mortgage holders' disposable incomes and spending, given banks often take an additional 1-2 months to pass on these rises to households. We expect to see a stabilisation in the RBA Cash Rate by mid/late-year, with most economists predicting a settling around 3.5%. Even at the higher end of 4%, the affordability index of Perth, which is a measure of the proportion of the average wage used to service the mortgage on a median house price purchase, would be relatively low, sitting at around 30% (Perth's historic high is 59% in 2008), which shows the market is still extremely affordable.

Affordability

The affordability of Perth relative to other capital cities in Australia shows further uplift to occur in the current growth cycle. The current affordability index is sitting at 26%, so roughly a quarter of the average income is used to service debt. Historically, all markets have their own historic affordability cap. For Perth, that was in 2008, when it cost 54% of income to service a mortgage.

Supply

The supply side of the equation remains tight, with record low building approvals showing no signs of easing of stock in the near term. WA dwelling approvals were down 17.5% in the 12 months to November 2022.

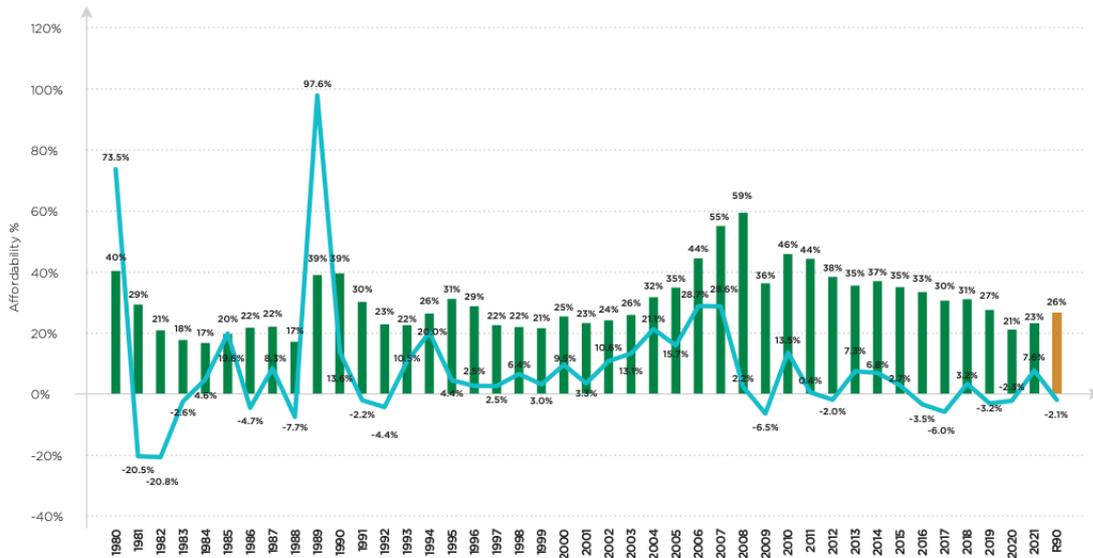
This supply issue is one which feeds on itself as downgraders or upgraders have less choice on-market and will hold back from selling their home to avoid losing exposure in the market as there is no guarantee they will find a suitable replacement home. When demand exceeds supply, and given price to income is not too high, the only way prices can go is up.

While construction costs remain at least 30% higher than pre-COVID, it is unlikely that any meaningful solution is on the horizon, unless we see government intervention in order to incentivise developers to build the stock.





AFFORDABILITY INDEX V. PRICE MOVEMENT - HOUSE



Performance Property Perth Capital City Review, ED.21

By comparison, Sydney's affordability index is currently sitting at 65%, and was already overheated at 57% in 2021, when the cash rate was a record low 0.1%.

There is a misconception that rising interest rates will always result in a drop in property prices. Of course, this was the inevitable case in the 2022 calendar year for the likes of Sydney and Melbourne, where affordability was already stretched. However, with such clear room to afford further interest rate hikes, given Perth has the highest average household income in the country and the second lowest median house price for a capital city (second to Darwin), all metrics on the affordability side show promising signs of growth.

Overseas Immigration & Interstate Migration

Jobs available in WA hit an unprecedented 60,000 vacancies across the combined private and public sectors in March 2022. By comparison, vacancies were hovering between 20,000 and 25,000 from July 2018 to March 2020. This significant demand for workers comes at the same time as the state unemployment rate has decreased to 3.2%, nearing full employment of the labour force. The only way to fill these jobs is via interstate or overseas migration.

Migration holds a key influence on the property market, whether in the rental market or property sales as this is brand new demand (unlike a downgrader for example who will be a net zero result selling and buying in the same market). The rental market is currently in a state of crisis, with the December 2022 vacancy rate at 0.5% (Source: SQM Research). The Perth median rent has increased 25% over the last 2 years from \$485 to \$606 per week for a standalone house, and this trend will continue as migrants introduce competition for whatever rental stock is available.

Thus far, it has been interstate migration that is filling the jobs available with a record high interstate migration to Perth in 2022. It is expected that the influx of intern

Summary

The data sets that Performance Property interprets to determine which macro markets show value indicate to us that Perth has a clear runway for growth in 2023 and beyond. As all the demand metrics continue to outweigh supply and the market runs until the affordability index reaches its affordability cap, there is potential for the Perth market to double its median house price from here over this growth cycle.

Whilst there is no definitive timeframe in 2023, we expect that the first RBA meeting without a cash rate hike will be the trigger for consumer sentiment to pick up.

If you would like to discuss our research, are looking to build one of our flagship property portfolios, or would like a review and advice on your situation, feel free to get in contact with one of our PIPA Qualified Investment Advisors.



Lachlan Delahunty
B. Prop (Prop & Vals) AAPI CPV
Head of Advisory WA
lachlanperformanceproperty.com.au