

Perth housing market takes a breather

Price growth is slowing as first-home buyers are being squeezed out, writes **Marsha Jacobs**.

Perth's housing market is coming back to the pack after a year of growth that pushed the median house price up 45 per cent.

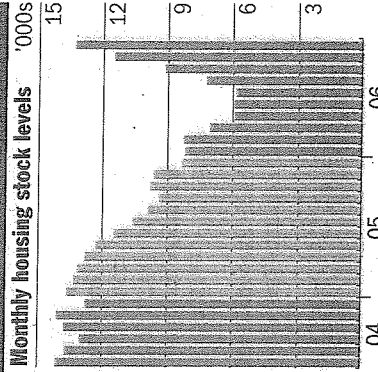
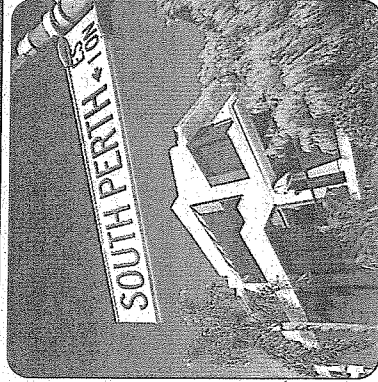
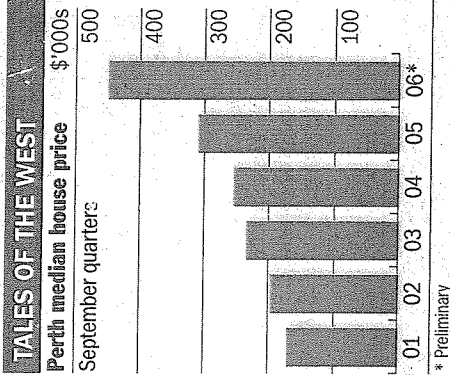
Stock for sale has nearly tripled in the past four months, houses are taking longer to sell, and price growth is flattening.

As Perth's median house price tips the scales at \$450,000, first-home buyers are struggling to gain an entry and the effect is rippling through the market.

The interest rate rise expected next week is likely to affect property markets around Australia. Though Perth has largely shrugged off rate rises this year, one next week is tipped to emphasise the market slowdown. But though the surge in prices is over, the market is far from collapsing — prices aren't going backwards, and commentators almost unanimously agree the market has returned from unsustainable growth to a healthier, more normal state.

And though the 50 per cent-plus price growth of the past year may not be repeated next year, prices will still grow. As in Sydney and Melbourne, the top end of the market is thriving, with wealthy West Australians continually setting records for waterfront properties — and paying cash, of course.

Perth's median house price makes



Source: Real Estate Institute of WA, Hegney Property Group

it the most expensive capital city for housing in Australia after Sydney, and affordability has become a serious issue for first-home buyers and migrants looking to capitalise on WA's labour shortage, which has pushed the unemployment rate down to 3.5 per cent.

BankWest chief economist Alan Langford said he believed the housing boom had ended but this meant different things to different people.

"Yes, the rate of growth has slowed, but price falls aren't likely unless commodity prices fall, which I'm not forecasting until the middle of 2007, and even then, a fall in commodities won't cause Gorgon [gas field] to fall over or have BHP walk away from Ravensthorpe," he said.

"I do think we are on the verge of significant slowing in growth, but the hypermarket isn't healthy for

anyone except the state government, and it is much better to have steady growth. So far this year, we have gone into territory that is out of kilter with fundamentals — we had to play catch-up with the eastern states and further price increases were justified because of the growth in resources, but the affordability issue is really starting to bite, particularly for first-home buyers."

Perth prices were still likely to rise 5 to 8 per cent over the next year, he said.

"If the Reserve Bank raises interest rates, it will impact the Perth market too — Perth brushed off the May and August increases, but it will have a dampening effect this time."

One of the early signs of a turn in the market is an increase in stock levels which, according to the Hegney Property Group, plum-

"First-home buyers have particularly been dropping off in the last month, and they are slowing because of affordability issues. A clear sign of a slowdown in the market is that builders have all begun to advertise free plasma TVs and we've certainly noticed a pick-up in that," Mr Forster said.

The knock-on effect of home buyers leaving the market would take some time. He was still bullish but forecast more stability in prices. "In the year to March 2006, around 20,000 overseas migrants arrived in WA and almost 2500 interstate migrants did likewise. That works out to about 450 people per week arriving in the state," he said. "That is forecast to continue and that is good for the housing and building market."

A recent Citigroup research paper said WA's economy looked set to continue to outperform those of the other states, but tipped a softening as commodity prices come off, skills shortages prevent economic growth and investors view WA as fully valued.

There is little doubt about the correlation between WA's economic growth and its housing boom. The state economy is growing at 14 per cent in 2005-06, well above the rate in the rest of the country.

The WA Chamber of Commerce and Industry believes WA's economy will continue to grow over the next two years, despite continuing capacity constraints. This means at least two more years of growth in the state's housing market.

met to a record low of about 5880 properties for sale in June.

Last week 13,345 properties were listed for sale — higher than the long-term average of 12,000.

The critical shortage of supply earlier in the year effectively locked up the market. However, Hegney executive chairman Gavin Hegney said the increase in stock meant buyers had more choice and could negotiate, and it also meant a decline in price growth.

"I don't see negative price movement, and still think prices will increase because of the population moving into WA and the commodities boom," Mr Hegney said.

The Master Builders Association of Western Australia's director of economics and housing, Gavan Forster, said the upper end of the market was strong but first-home buyers' participation was slowing.