JLL Achieve Ambitions

Perth Residential

Conditions deteriorated over 2018 as the economy weakened

Key Highlights

March 2019

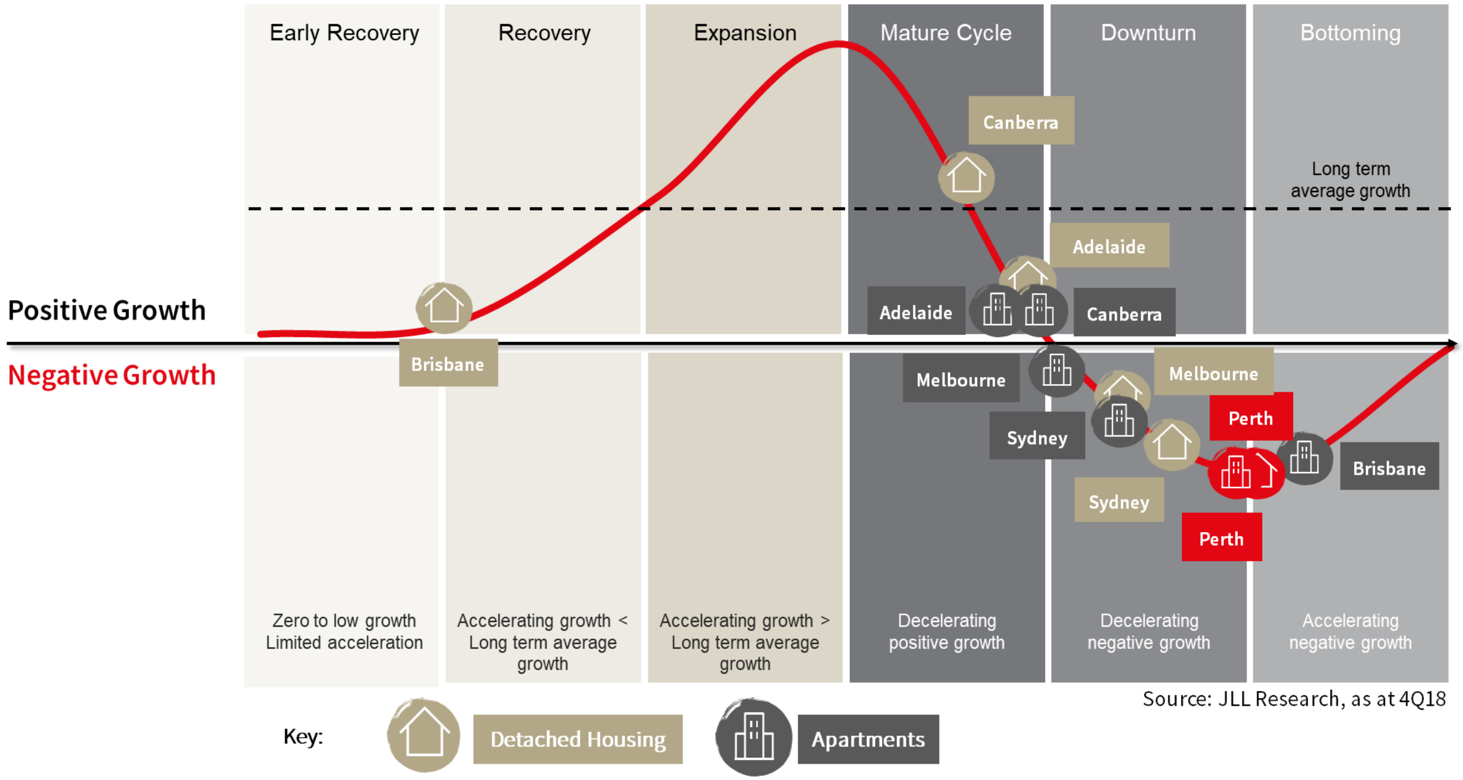
Overview

The Perth residential market remains weak, but should gradually improve over the medium term

Improving economic conditions should steadily create a more favourable economic backdrop for Perth housing market.

- The WA economy remains weak at present, but should improve over 2019. Public expenditure and mining investment are expected to increase, business confidence is improving and commodity prices remain elevated.
- Demand remains soft across the Perth housing market. Total housing finance approvals excluding refinancing fell 18.7% over the year to Dec-2018. The decline was more pronounced for investors (-38.4%) than owner-occupiers (-13.5%).
- New dwelling supply has continued to trend downward from the 2014 peak. A total of 13,444 new private sector dwellings were approved in Greater Perth in 2018, down by 18% from the year prior. In Inner Perth, apartment completions will be relatively high in 2019 and 2020.
- Price falls for detached houses (-6.7% year to Feb-2019) and apartments (-7.7%) accelerated further over 2018. Nevertheless, some prestige areas have recorded positive price growth over the past year.
- Rents have fallen across Greater Perth over the past year, albeit the pace of decline has slowed lately. Vacancy rate has fallen sharply over 2018, suggesting that the worst is over for the rental market.
- With a backdrop of improving economy, we expect the residential market to stabilise over the medium term. However, conditions will likely remain tough in the short-term.

Figure 1: Australian Residential Property Market: Capital Value Cycle



Source: JLL Research, as at 4Q18

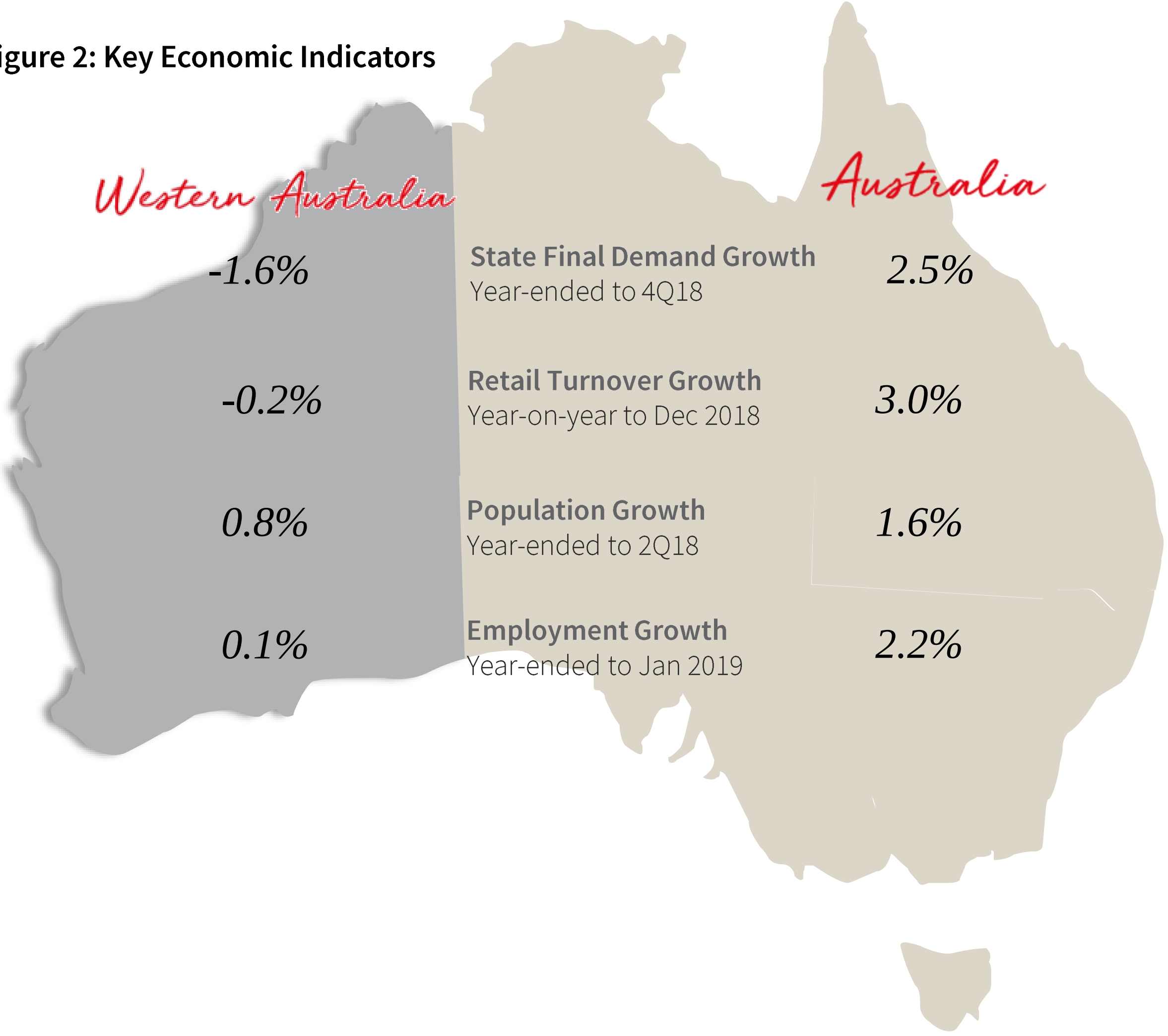
Economic and Regulatory Environment

The WA economy remains weak, but is expected to improve over 2019

Declines in business investment continues to weigh on WA economy. However, the trend is expected to reverse in 2019 as mining investment ramps up

- Economic recovery remains slow in WA. State final demand fell by 0.3% in the December 2018 quarter, to be 1.6% lower over the year. Both the quarterly and annual declines were driven by large falls in business investment, while household consumption and the public sector continued to add positively to growth. However, the level of business investment is expected to reverse as mining companies are ramping up their capital expenditure. DAE forecasts WA SFD to grow by 2.9% in 2019 and 4.1% in 2020.
- Labour market conditions remain tough in WA. Following a period of solid growth, employment growth has slowed in recent months. In the year to Jan-2019, total employment grew by just 0.1%, which is well below the working-age population growth (0.9%). The unemployment rate increased to 6.8% in Jan-2019. However, leading indicators of employment suggest growth should pick back up in the near-term.
- Retail conditions remain weak in WA, with 2018 retail turnover being 0.2% lower than 2017. A number of sectors including food, cafes and restaurants, plus footwear retailing continue to grow positively. However, most other sectors, particularly department stores and household goods retailers are experiencing tougher conditions.
- WA's low population growth of 0.8% in the year to Jun-2018 remains well below the national average of 1.6%. However, it should gradually pick up as the economy gains further strength.
- Credit conditions are expected to remain tough in the short-term. However, they should gradually ease over the medium-term as the Banking Royal Commission recommended no further tightening in lending standards.
- The RBA left the cash rate unchanged at 1.5% in March 2019. Due to slowing economic growth, global central banks have paused their monetary tightening cycle for now and the RBA is expected to leave the cash rate unchanged for an extended period. Therefore, mortgage rates should remain low and supportive of housing demand.

Figure 2: Key Economic Indicators



Source: ABS, JLL Research

Demand

Demand remains weak for both houses and apartments

- Overall demand remains weak in Perth. Sales volumes for detached houses in the year to Nov-2018 were 3.5% lower and 5.8% lower for units.
- ABS housing finance commitments also show continued weak demand. Total finance approvals (excluding refinancing) fell 18.7% over the year to Dec-2018. The decline was more pronounced for investors (-38.4%) than owner-occupiers (-13.5%).
- Detached houses remain preferred over apartments in WA. This is reflected in the low 'medians days on market' for houses (46 days), compared to 78 days for apartments. The median vendor discount also remains higher for apartments, -7.2%, compared to -6.5% for houses.
- Both houses and units have been selling much quicker in prestige areas, with weighted average time on market being 30 days for houses compared to 72 for affordable houses. This reflects the still robust demand for prestige properties in Perth.
- In the overall market, houses have been selling much quicker in **Subiaco** (6 days), **Shenton Park** (11 days) and **South Freemantle**, while units sell quicker in **Nedlands** (11 days), **Victoria Park** (27 days) and **Mount Lawley** (29 days).

Figure 3: Demand at a glance – Greater Perth Residential

Houses				Units		
↓			Sales Volumes	↓		
↑			Total Listings	↓		
6.9%			% Stock on Market	6.0%		
Overall[1]	Affordable[2]	Prestige[3]	Weighted Average Time on Market	Overall[1]	Affordable[2]	Prestige[3]
46	72	30		78	83	57
Overall[1] -6.5%			Vendor Discount	Overall[1] -7.2%		

Figure 4: Demand Indicators – Greater Perth

	Hot Suburbs (Median Days on Market) Houses	Hot Suburbs (Median Days on Market) Units
Overall[1]	1. Subiaco (6 Days)	1. Nedlands (11 Days)
	2. Shenton Park (11 Days)	2. Victoria Park (27 Days)
	3. South Fremantle (13 Days)	3. Mount Lawley (29 Days)
	4. Ridgewood (14 Days)	4. Subiaco (32 Days)
	5. Cannington (14 Days)	5. Cottesloe (33 Days)
Affordable[2]	1. Ridgewood (14 Days)	1. Osborne Park (41 Days)
	2. Parmelia (27 Days)	2. Tuart Hill (61 Days)
	3. Lockridge (41 Days)	3. Shoalwater (61 Days)
	4. Mirrabooka (42 Days)	4. Spearwood (63 Days)
	5. Warnbro (46 Days)	5. Balga (65 Days)
Prestige[3]	1. Subiaco (6 Days)	1. Cottesloe (33 Days)
	2. Shenton Park (11 Days)	2. Claremont (36 Days)
	3. Watermans Bay (14 Days)	3. North Fremantle (54 Days)
	4. Nedlands (14 Days)	4. Burswood (70 Days)
	5. Attadale (17 Days)	5. Applecross (98 Days)

Sources: CoreLogic, JLL Research, as at Nov 2018

Supply

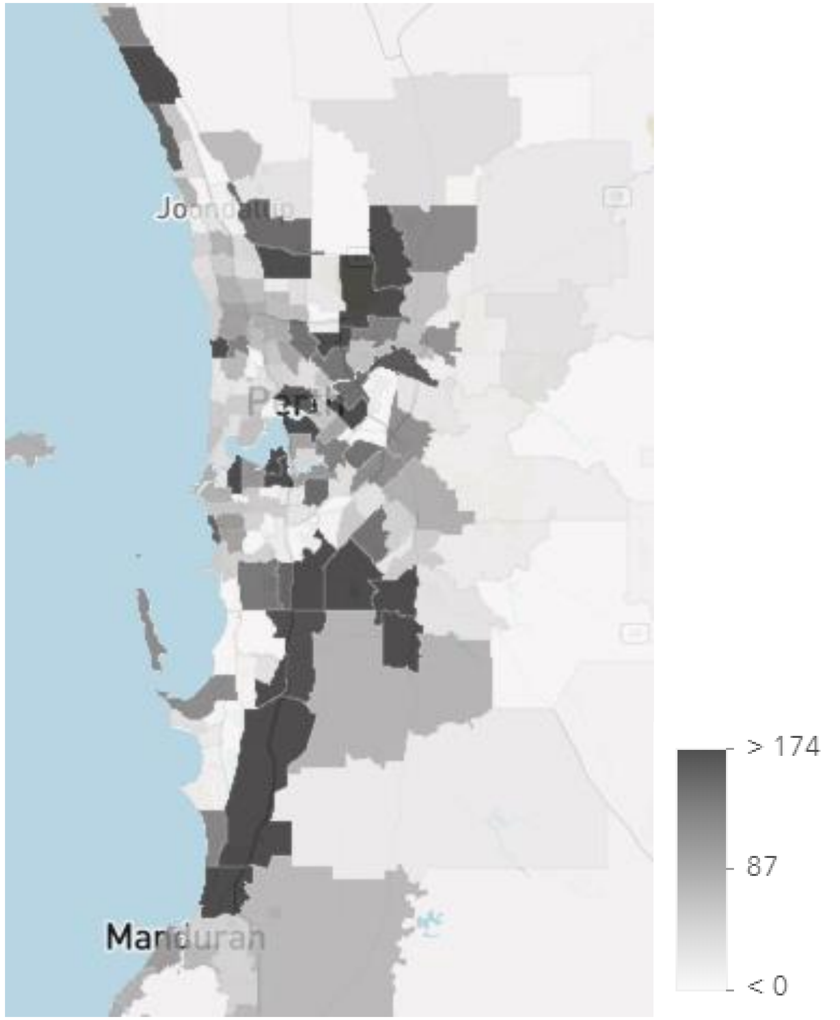
Approvals continue to decline across Greater Perth

- Building approvals across Greater Perth continue to trend downward following their peak in 2014. A total of 13,444 new private sector dwellings were approved in Greater Perth in 2018, down by 18% from the year prior.
- Houses still make a large proportion of dwelling approvals (76%), followed by apartments (16%). In 2018, a total of 10,184 houses (-9.7% yoy), 1,141 semi-detached (-36.9% yoy) and 2,119 apartments (-35.8% yoy) were approved.
- Detached house approvals are scattered throughout Greater Perth, but were greatest in Ellenbrook (660 houses), Forrestdale - Harrisdale - Piara Waters (461), Baldivis (428) and Alkimos –Eglinton (317)
- New apartment approvals have largely been concentrated in Central Perth and the Inner South, with 363 units approved in South Perth – Kensington and 266 in Booragoon.
- JLL's 4Q18 apartment market report shows that apartment supply in Inner Perth will be relatively high in 2019 and 2020. Based on construction time-frames, over 1,100 in 2019 and potentially up to 2,700 in 2020 are expected to complete. In the absence of a material pick up in demand, this could pose further supply risk to an already soft market.
- We expect the level of approvals across Greater Perth to largely stabilise in 2019, as demand gradually improves with a backdrop of strengthening economy.

Figure 5: Building approvals (last 12 months): Greater Perth

	Houses	Semi-detached	Apartments
Building Approvals (Greater Perth)	10,184 (-9.7% yoy)	1,141 (-36.9% yoy)	2,119 (-35.8% yoy)
Hot Suburbs (Building Approvals)	Ellenbrook (660) Forrestdale - Harrisdale-Piara Waters (461) Baldivis (428) Alkimos – Eglinton (317) Armadale-Wungong-Brookdale (285)	Bentley – Wilson - St James (63) Morley (59) Beckanham – Kenwick - Langford (46) Cannington – Queens Park (45) Innaloo – Doubleview (42)	South Perth – Kensington (363) Booragoon (266) Rivervale – Kewdale – Cloverdale (241) Applecross-Ardross (184) Bicton - Palmyra (167)

Figure 6: Greater Perth SA2's Residential Building approvals (last 12 months)



Source: ABS, JLL Research, as at Dec 2018

Pricing

Both detached house and apartment prices continue to fall

Price declines worsened over 2018, but with a backdrop of an improving state economy, we expect prices to largely stabilise in 2019

- According to CoreLogic's data, Perth house and unit prices fell by 6.7% and 7.7% over the year to February 2018. After a period of slowdown, the pace of decline accelerated over 2018, coinciding with slow progress in economic recovery, the persistent tough labour market and credit conditions.
- Some suburbs, mostly in prestige areas, have recorded positive annual price growth including Floreat, Ascot and Mosman Park. For units, positive price growth were recorded for a number of suburbs including East Freemantle, Innaloo and Crawley. It is likely that the positive growth in some of these suburbs are due to the still fairly stable demand for prestige dwellings.
- For houses, some of the suburbs experiencing relatively large price falls include Bullsbrook, Parmelia and Maida Vale, while unit prices fell most in North Coogee and Wembley.
- We expect the Perth market to remain tough in the short term, with the unit market still tested more than the detached housing market. Nevertheless, with a backdrop of improving economic growth, the housing market should stabilise gradually. However, slower progress in economic growth and tight credit conditions remain downside risks.

Figure 7: Annual Capital City Price Growth (as at Feb 2019)

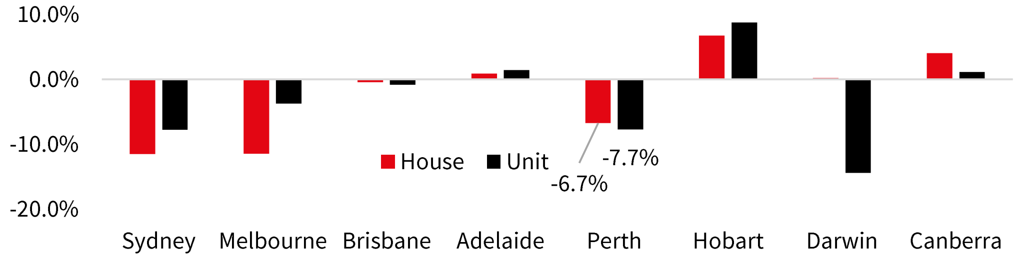


Figure 8: Hot and Cold Suburbs – Greater Perth

	Hot Suburbs (Annual Price Growth)		Cold Suburbs (Annual Price Growth)	
	Houses	Units	Houses	Units
Overall[1]	1. Floreat	1. East Fremantle	1. Bullsbrook	1. North Coogee
	2. Ascot	2. Innaloo	2. Parmelia	2. Wembley
	3. Mosman Park	3. Crawley	3. Maida Vale	3. North Perth
	4. South Fremantle	4. Applecross	4. Wandi	4. Inglewood
	5. Salter Point	5. Claremont	5. Mirrabooka	5. North Fremantle
Affordable[2]	1. Lockridge	1. Queens Park	1. Parmelia	1. Wembley
		2. Willagee	2. Mirrabooka	2. Inglewood
			3. Koondoola	3. East Victoria Park
			4. Girrawheen	4. Cockburn Central
			5. Balga	5. Glendalough
Prestige[3]	1. Floreat	1. Salter Point	1. Claremont	1. North Fremantle
	2. Mosman Park	2. Applecross	2. Dalkeith	2. Floreat
	3. Salter Point	3. Claremont	3. Churchlands	3. Burswood
	4. Subiaco	4. Mount Pleasant	4. Mount Claremont	4. Cottesloe
	5. City Beach		5. Nedlands	

Source: CoreLogic, JLL Research, as at Nov 2018

Rental Market

The rental market in Perth is gradually stabilising

Vacancy is trending lower, while the pace of rental decline has slowed considerably across Perth

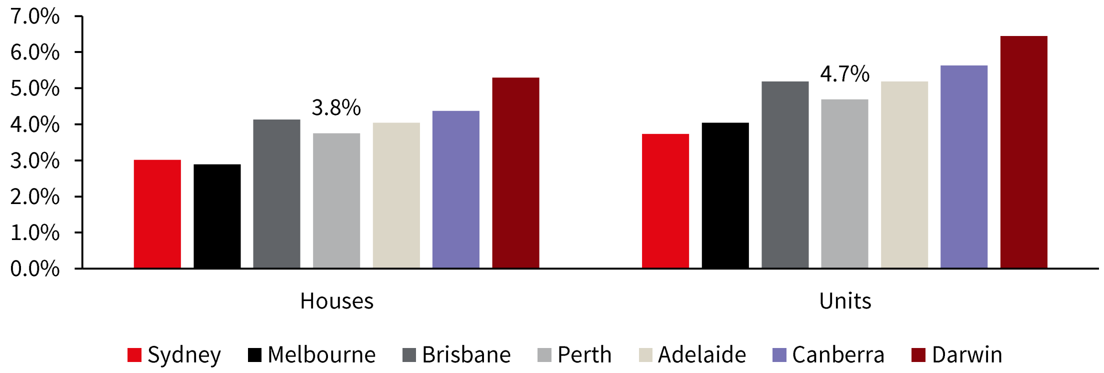
- Greater Perth rental vacancy has improved significantly over 2018, falling from 5.5% in Dec-2017 to 2.8% in Dec-2018.
- The improvements in rental vacancy has been reflected in a slowdown in the pace of rental decline.
- For houses, median asking rents fell 1.3% over the year to Nov-2018 to $380 per week (CoreLogic). REIA rental data shows that over the year to Dec-2018, both median house and unit rents increased modestly across all areas of Perth.
- For units, CoreLogic's median Perth asking rent in the year to Nov-2018 was $340, down 2.9% from a year earlier.
- Some of the suburbs that have recorded positive rental growth for houses over the past year include Woodbridge, Swanbourne and Floreat. However, rents fell most in Waterford and Mosman Park.
- Improvements in rents and further declines in values have led to slight increase in rental yields recently. Perth yields for both houses (3.8%) and units (4.7%) remain higher than the Sydney and Melbourne markets, but lower than others.
- Improvements in WA's economy will likely slow outward interstate migration and possibly attract more skilled workers towards the mining towns. This along with reduction in new supply will mean that the rental market should continue to improve in the year ahead.

Figure 9: Median Weekly Asking Rental Rates and Vacancy (all dwellings)

	Hot Suburbs (Annual Rental Growth)		Cold Suburbs (Annual Rental Growth)	
	Houses	Units	Houses	Units
Overall[1]	1. Woodbridge (28.6%)	1. Stirling (11.5%)	1. Waterford (-33.3%)	1. Sorrento (-22.1%)
	2. Swanbourne (23.2%)	2. Burswood (7.1%)	2. Mosman Park (-14.3%)	2. Safety Bay (-13.8%)
	3. Floreat (20%)	3. Mindarie (7.1%)	3. Tuart Hill (-11.9%)	3. Melville (-12.4%)
	4. Dalkeith (18.8%)	4. Mount Pleasant (5%)	4. Salter Point (-11.5%)	4. Shoalwater (-12%)
	5. White Gum Valley (16.7%)	5. Hillarys (4.7%)	5. Mundaring (-10.5%)	5. Kenwick (-11.9%)
	Greater Perth (-1.3%)	Greater Perth (-2.9%)	Greater Perth (-1.3%)	Greater Perth (-2.9%)

Rental Vacancy (All Dwellings)
Greater Perth
2.8% (Dec-2018)

Figure 10: Capital City Gross Rental Yields



Source: CoreLogic (Nov), REIA (Dec), JLL Research

Outlook

Perth residential market will remain tough in the short-term, but should gradually stabilise over the medium term

A combination of improving economic conditions and population growth, plus low supply should help Perth's residential market to stabilise over the next 12 months

- WA's economy remains weak at present, but should improve over 2019 as the downward trend in business investment reverses and increased infrastructure investment also adds to growth. High commodity prices and lower AUD should help stabilise the economy as well. Leading indicators of employment also point to improvements in the labour market.
- Housing Demand should gradually improve over the medium term, with a backdrop of improving population and employment growth. However, persisting tight credit conditions and slower economic growth could slow any recovery in demand. Nevertheless, we expect steady demand to continue for the prestige market.
- New dwelling supply continues to fall across Greater Perth, providing the market the opportunity to absorb current excess stock. Apartment supply in Inner Perth will be relatively high in 2019 and 2020.
- The rental market should continue to improve. A combination of lower supply, improving population growth and tighter vacancy should see rental values continuing to increase.
- Prices will likely fall further in the short-term, but they should stabilise over the medium-term. Some prestige areas are likely to continue to experience uplift, while the lower end of the market will remain a drag on the market. The relatively lower price point and weakening east coast markets may also get Perth on the radar of some interstate and foreign investors.

Figure 11: Perth Residential Outlook (next 12 months)

Source: ABS, CoreLogic, JLL Research

Hot topic

What is in stall for 2019 nationally?

2018 was the first year of falling aggregate property prices in Australia since 2011. However, this was undoubtedly driven by falls in the largest two markets of Sydney and Melbourne after a very strong run of growth since 2012. Conditions in other markets vary widely and no other market had the kind of run up in prices Sydney and Melbourne did. These differences in part reflect economic circumstances and the fact that after the resources boom, the flow of both people and capital nationally swung away from other states and back towards Sydney and Melbourne. That tide is now slowly turning again as resources states recover and NSW and Victoria start to lose a little momentum.

Nevertheless, the over-riding impact behind the slowing in 2018 was tighter credit conditions that were driven by regulatory intervention to slow the Sydney and Melbourne markets. APRA have relaxed previous restrictions on investor loans and interest only loans in late-2018, but this is unlikely to make any immediate impact in an environment where sentiment is now low and prices are falling. Further, there is still widespread concerns that the final recommendations of the Hayne Inquiry into misconduct in the Banking and Finance industry will further tighten credit conditions (which is also undoubtedly one of the rationales for APRA to relax previous lending restrictions).

A further domestic uncertainty is a Federal election due by May, where a change of government is quite possible and where one of Labour's key policies is changes to negative gearing and capital gains tax. We believe the risks around this are not so much the policy changes themselves, but more around the timing in market where sentiment is already weak and prices are falling. It is quite possible that a strong negative campaign fought on housing issues could do further significant damage to market sentiment, regardless if it is based in fact or not.

On top of these concerns, global economic and geopolitical risks appear heightened once more over recent months. US/China trade tensions are an ongoing threat, but perhaps more concerning are recent clear signs of slowing in Chinese growth that have prompted stimulus measures. These, plus signs of slowing in some other advanced economies and the ongoing risk of policy mis-steps, have all made financial markets nervous in recent months.

Cutting though all this, we believe that all these risks remain low to moderate at present (below 1 in 5 probability), but need to be watched closely because of the vulnerability of Australian markets with already low sentiment and high levels of household debt. However, in the absence of any of these risks taking hold, we expect 2019 to look a lot like 2018. That is, similar sized price declines in Sydney and Melbourne with a stabilisation later in the year, improvement in Brisbane, Perth and eventually Darwin, with a slight further moderation in Canberra, Adelaide and Hobart.

Data Dictionary

Perth Residential Market

1. Overall – Refers to Greater Perth Residential Market.
2. Affordable – Refers to the bottom 10% of suburbs in Greater Perth as measured by the Median value.
3. Prestige – Refers to the following suburbs:
    - Houses – Applecross, Attadale, Churchlands, City Beach, Claremont, Cottesloe, Dalkeith, East Fremantle, Floreat, Mosman Park , Mount Claremont, Nedlands, Peppermint Grove, Salter Point , Shenton Park, Subiaco , Swanbourne and Watermans Bay.
    - Units – Applecross, Ardross, Burswood, City Beach , Claremont, Cottesloe, Dalkeith, Floreat, Mount Pleasant , North Fremantle, Salter Point , South Fremantle and Swanbourne.
4. AVM – refers to CoreLogic's Automated Valuation model and refers to the median value of all properties across the geography based on the AVM Model.

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