

WA Property Market – Suburb Profiles, Opportunities, and the Road Ahead

Thursday 23 March 2023

mckinley plowman
partners for life



 **PERFORMANCE**
PROPERTY

Intro & Welcome

Ben Hart

Marketing Manager, McKinley Plowman

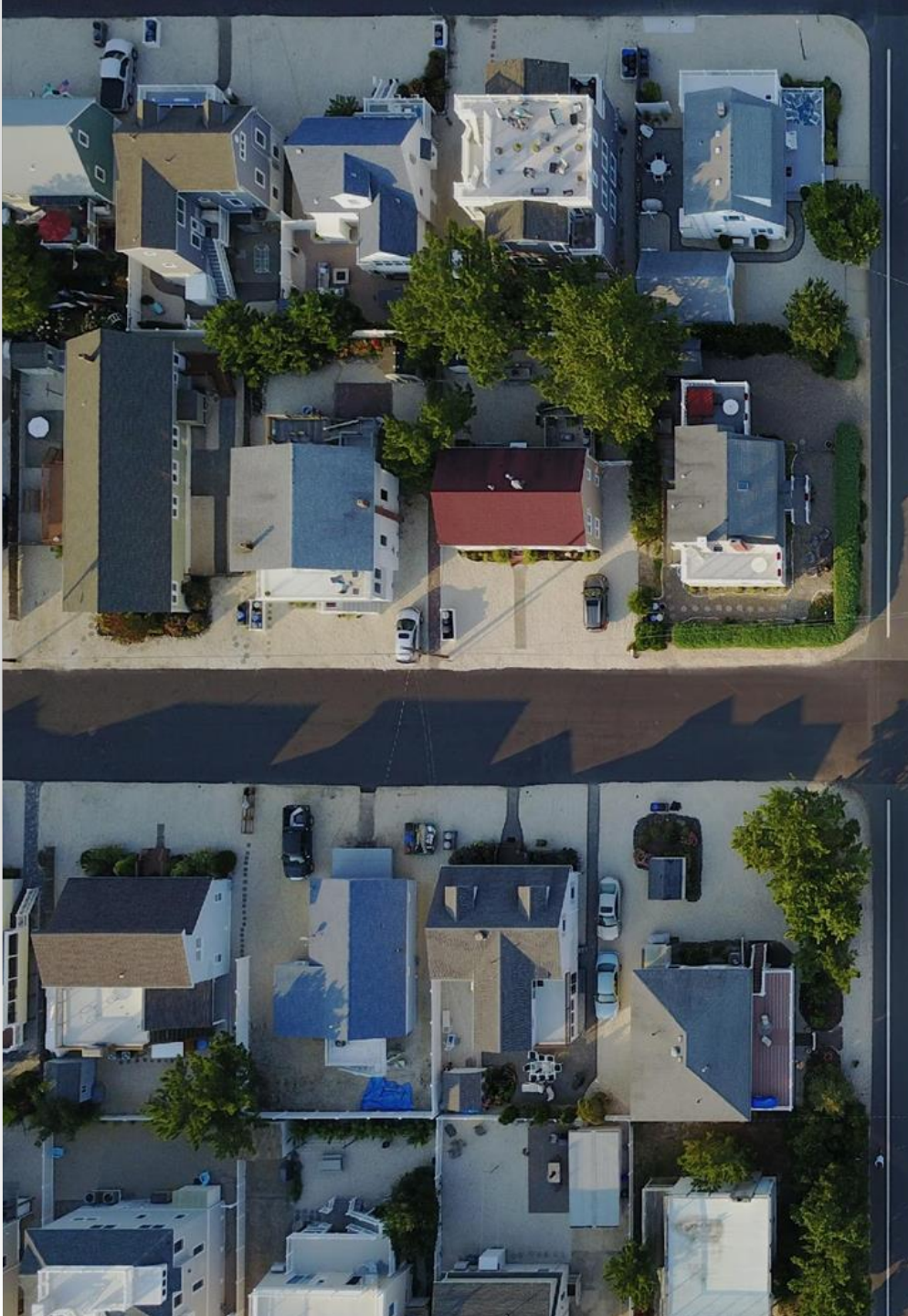


Performance Property

Mar 2023 – McKinley Plowman



Performance Property Agenda



Research

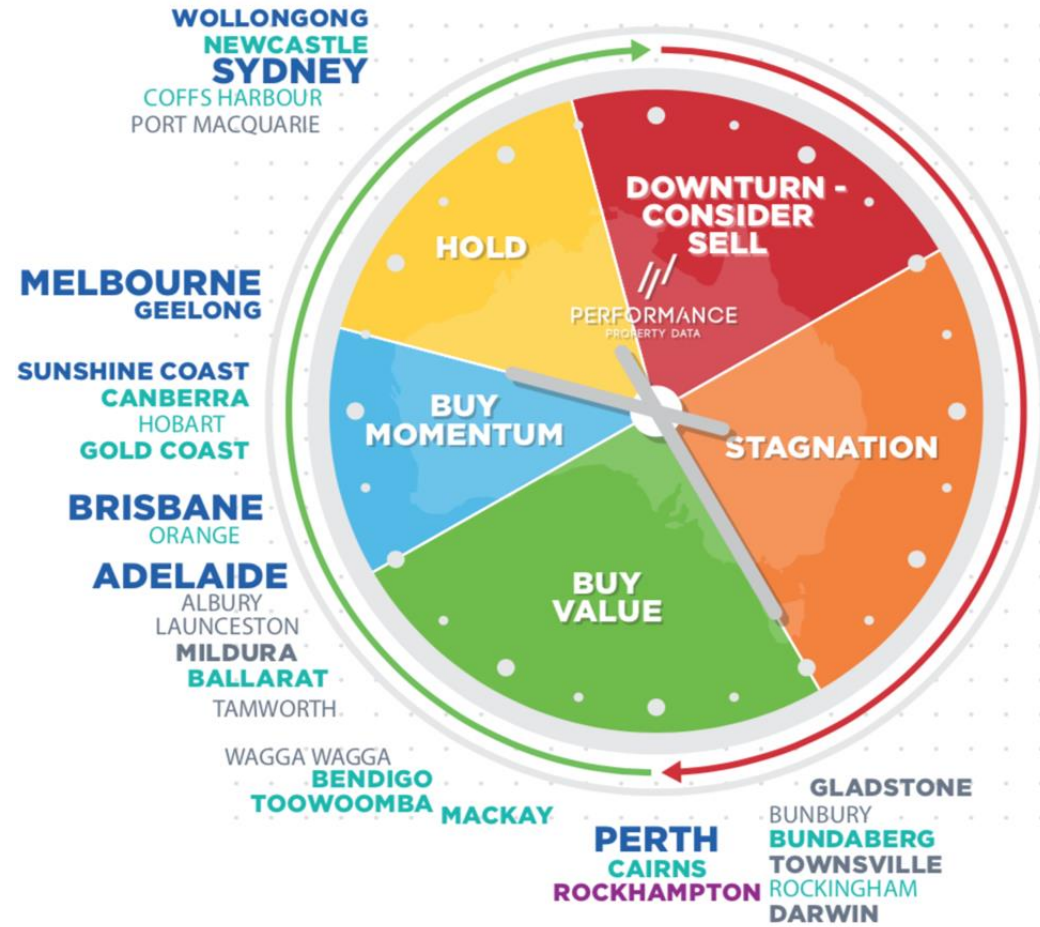
1. Macro Update
2. Perth Property Market Update

Strategy

3. Investment Principles
4. Case Study Examples
5. Western Suburbs Update

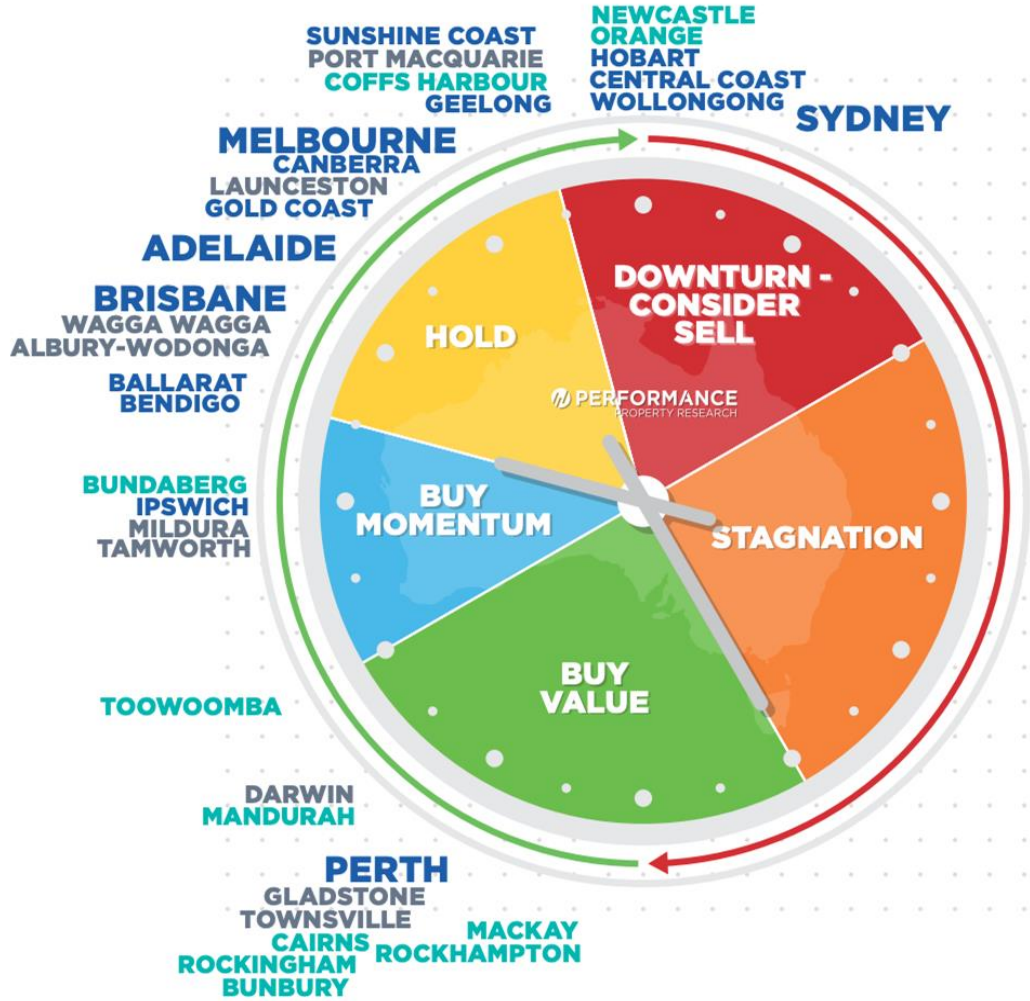
Macro





- LEGEND - CITY COLOUR CODES
- AAA - 7.5% + PA GROWTH
 - BBB - 6.5%-7.4% PA GROWTH
 - CCC - 5.5%-6.4% PA GROWTH
 - DDD - <5.5% PA GROWTH

Property Clock Timing – Now



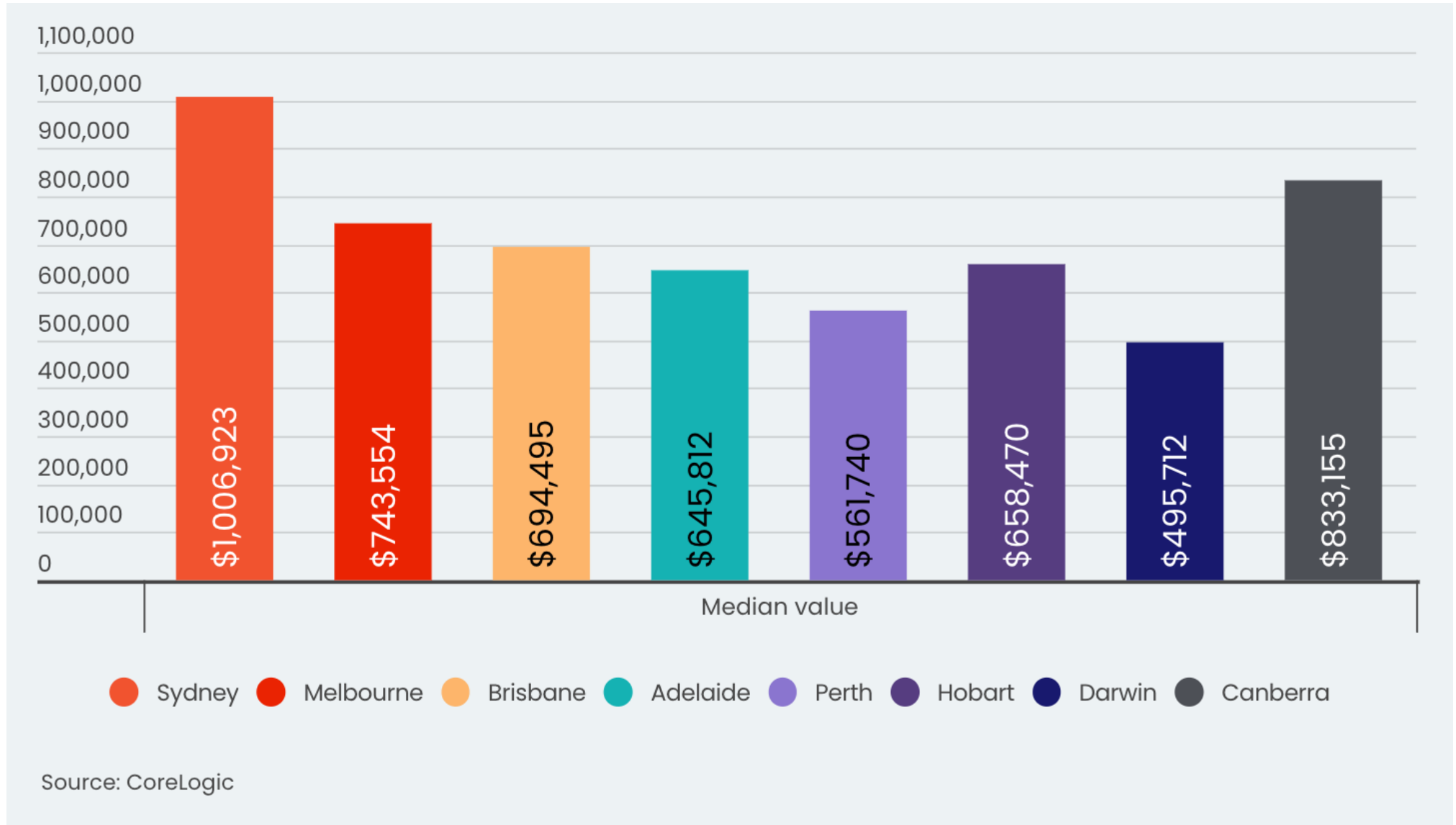
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House Price
Movement
National

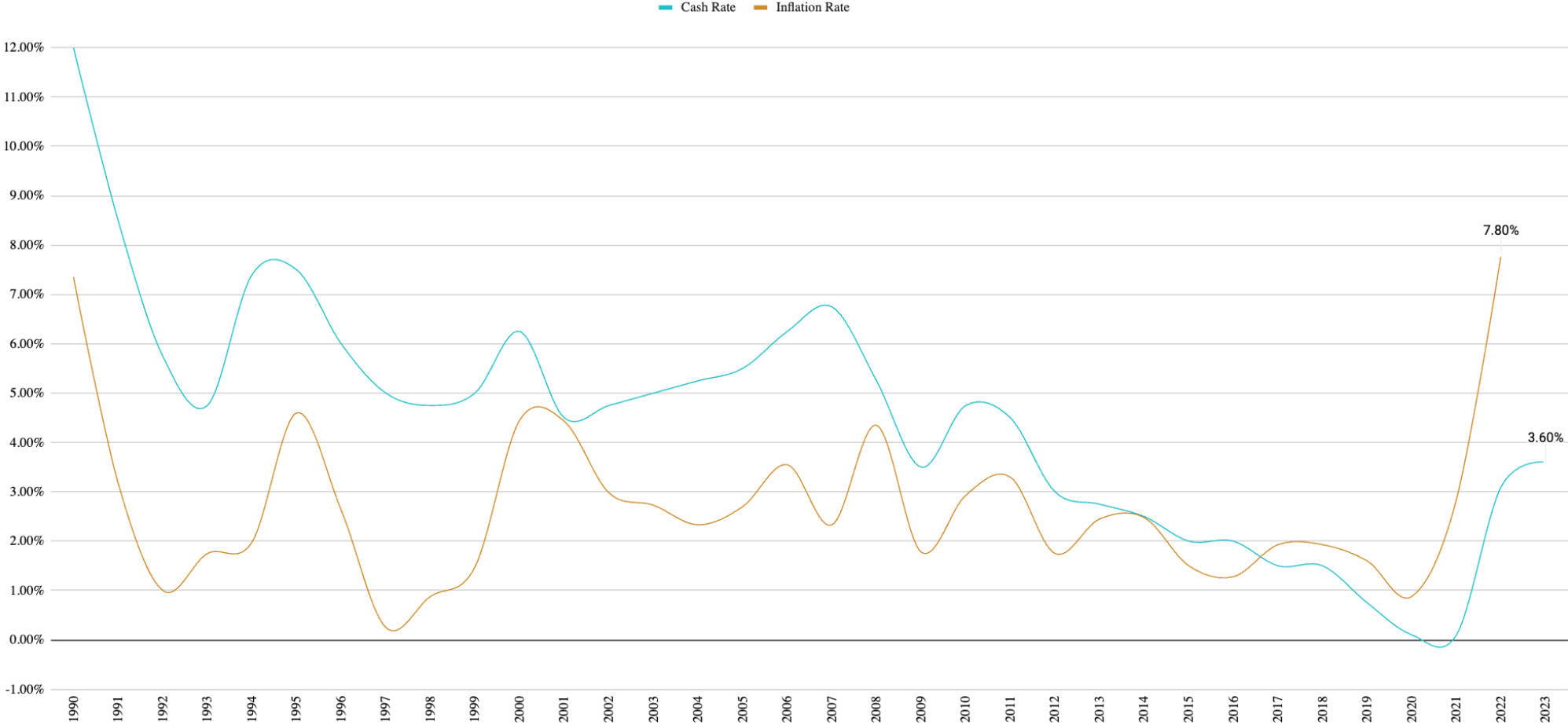
Rolling 90 days House Price Movement from May 2020 to Current

Capital City	R90 - Current (Mar, 2023)	R90 - May, 2020	Difference	% Movement
Adelaide	\$646,000	\$475,000	\$171,000	36%
Brisbane	\$694,000	\$550,000	\$144,000	26%
Canberra	\$833,000	\$705,000	\$128,000	18%
Darwin	\$495,000	\$480,000	\$15,000	3%
Melbourne	\$744,000	\$748,000	-\$4,000	-0.50%
Perth	\$562,000	\$471,500	\$90,500	19%
Sydney	\$1,007,000	\$960,000	\$47,000	5%

Home Value Index – Mar 23



Cash Rate Vs Inflation Rate





Property prices keep tumbling with no end in sight

The Property Tribune

Sydney house prices to fall 20pc: ANZ



Finance > Real Estate > Buying

House prices to plummet by as much as 22.3 per cent by 2023: NAB



house prices falling at fastest pace on record

House prices drop in nearly all Sydney and Melbourne suburbs

The Sydney Morning Herald

OPINION

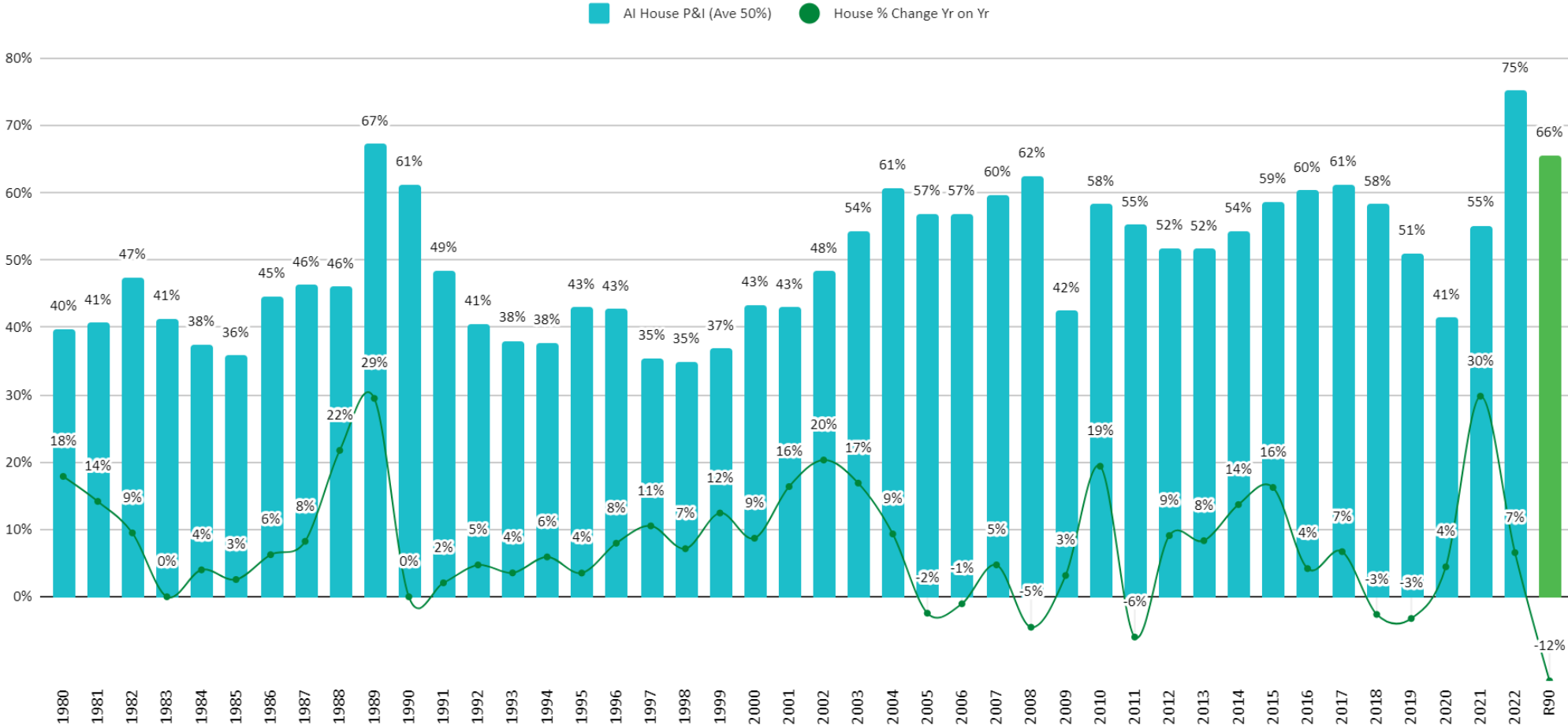
The eye of the storm: House prices still have a long way to fall

House prices fall as Sydney owners make loss on resales to escape high interest rates

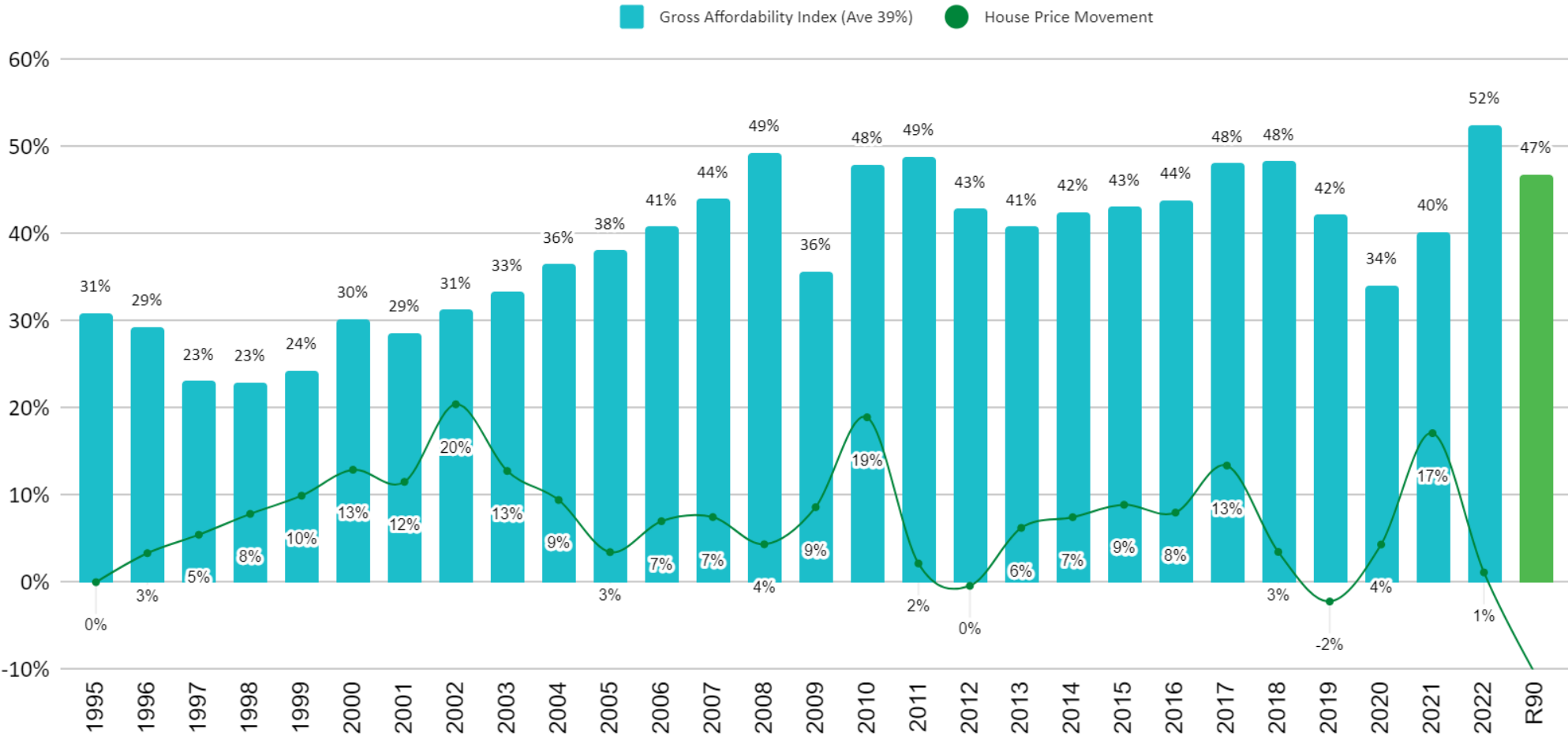
FINANCIAL REVIEW

Property prices to fall by double digits in 2023, report warns

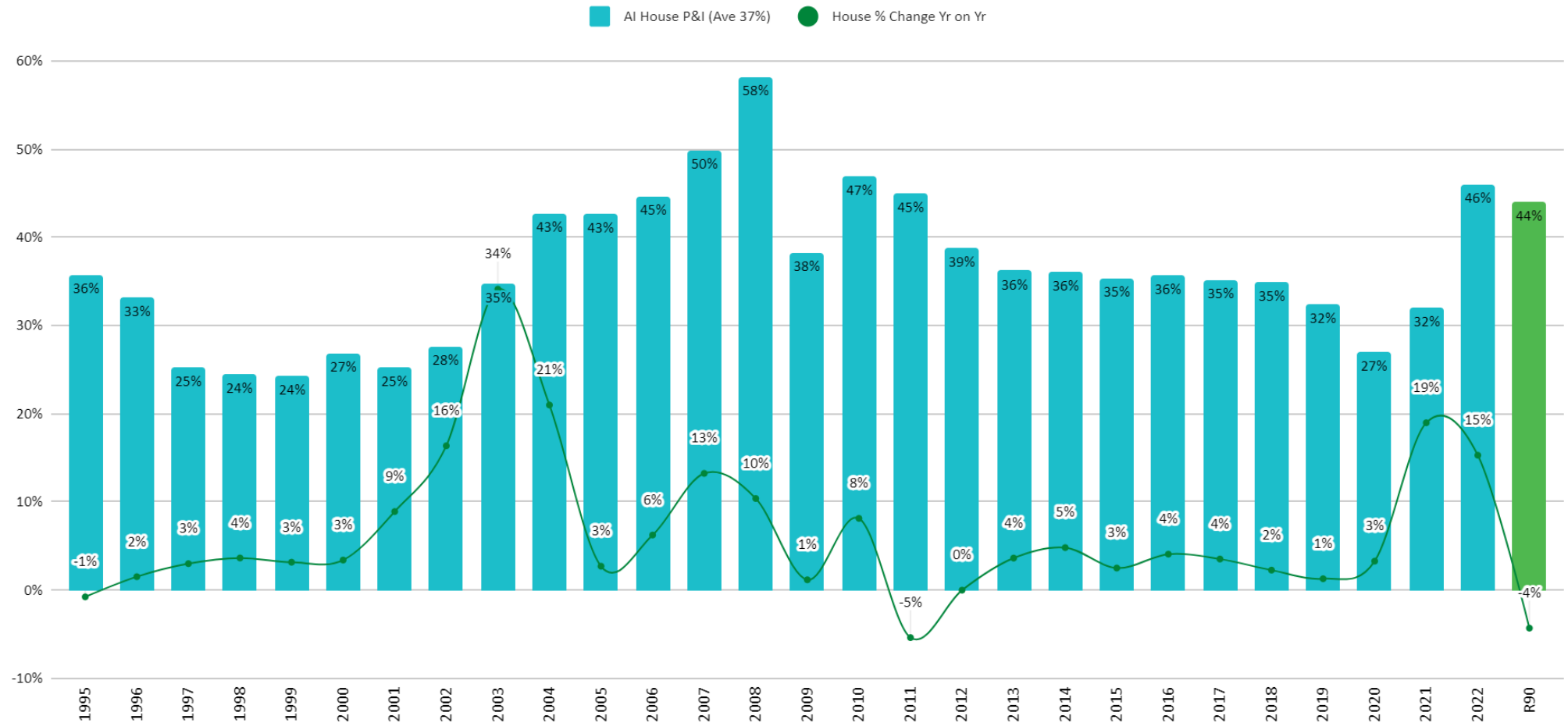
Sydney Affordability Index



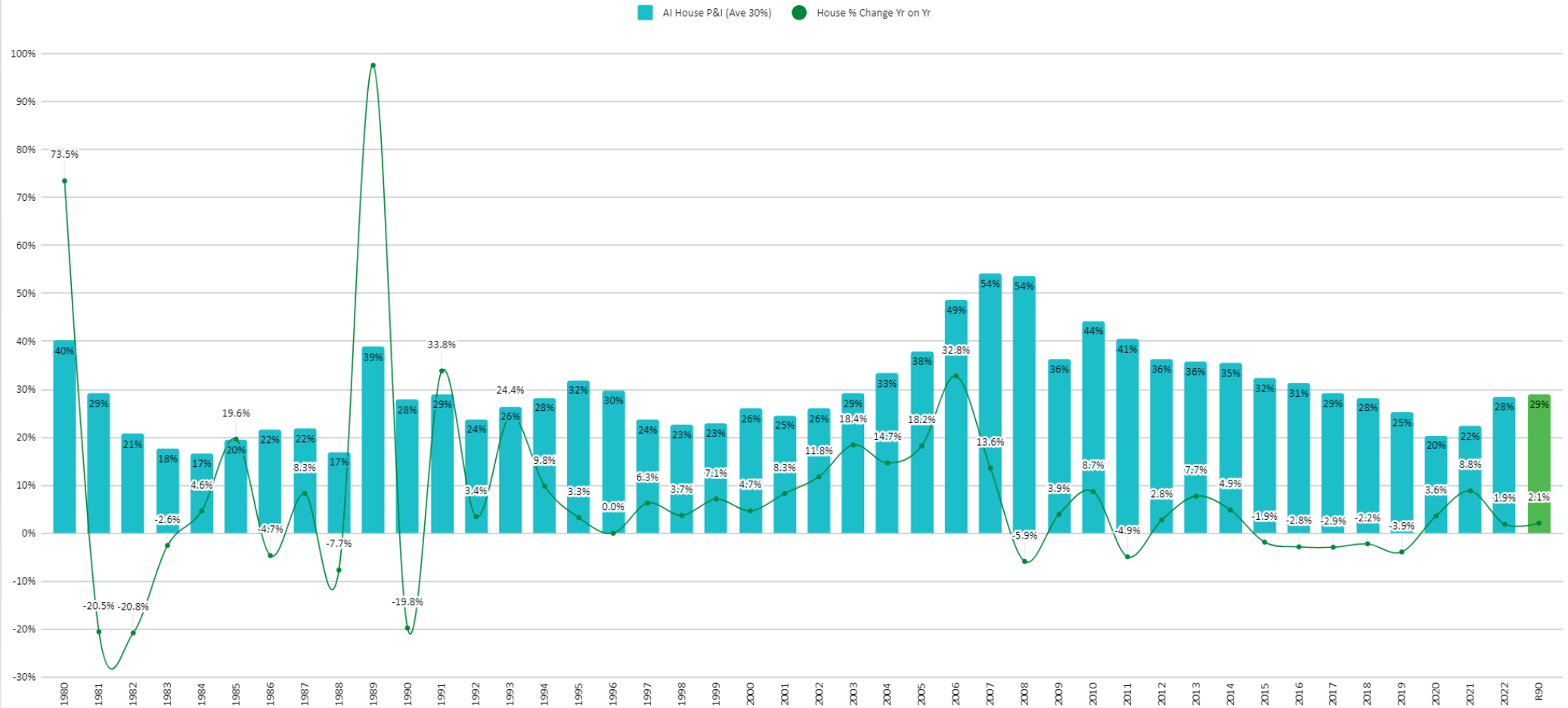
Melbourne Affordability Index



Brisbane Affordability Index



Perth Affordability Index



Perth





Tight rental markets make buying more practical for home seekers in Perth

The West Australian

WA's critical housing supply shortage prompts quest for solutions

FINANCIAL REVIEW

Perth property market standing alone as 2023 growth prospect

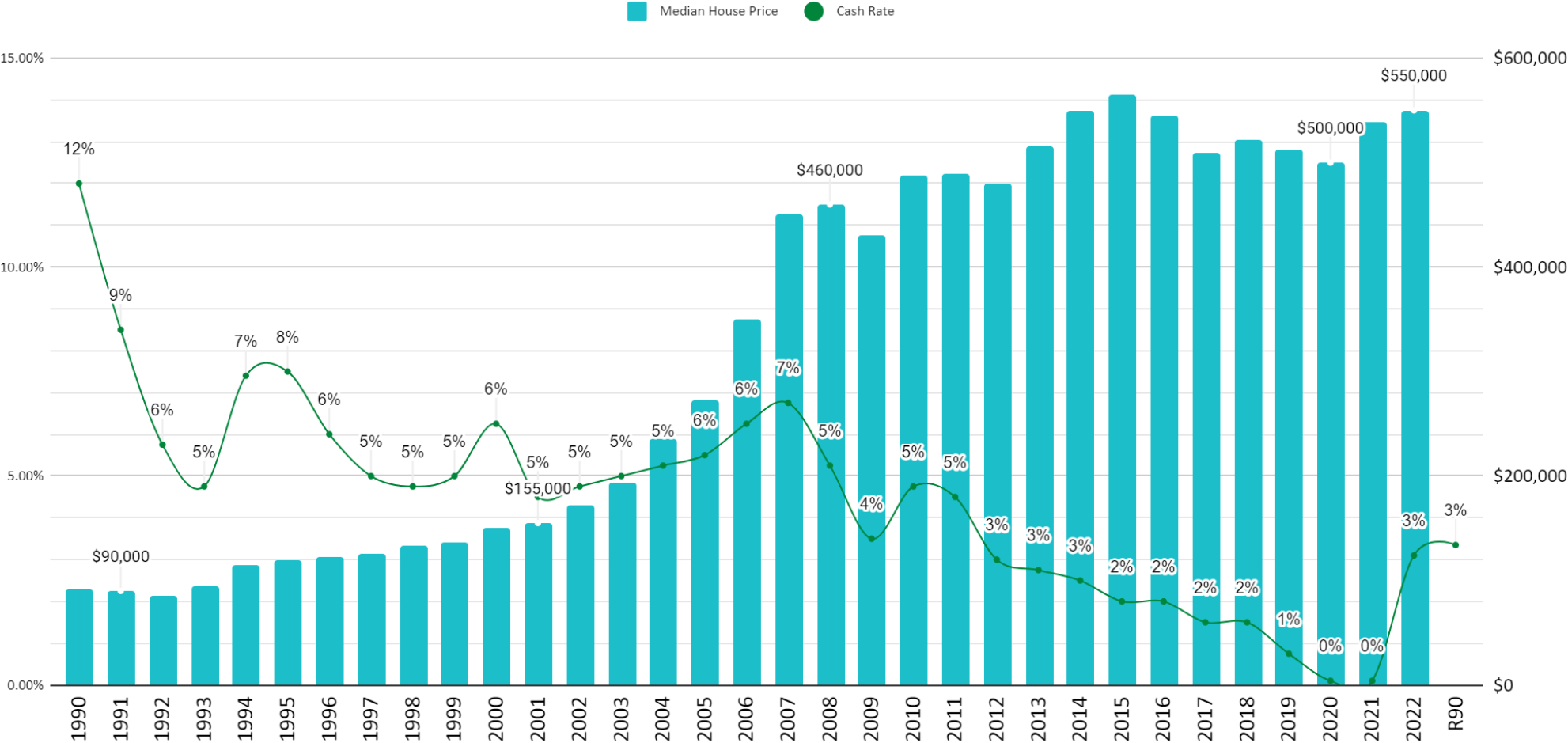


Property market activity picks up in January – PropTrack

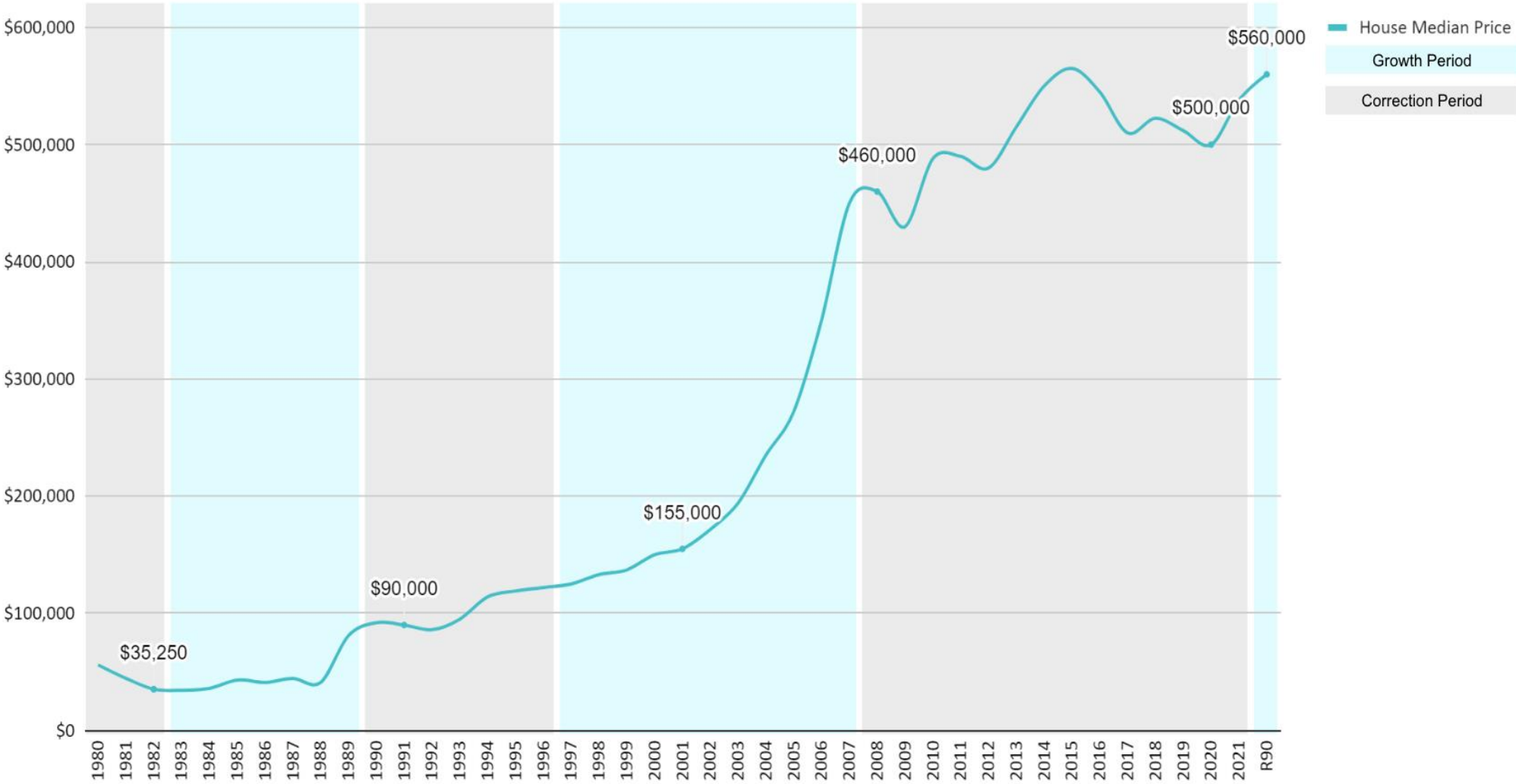
your investment
property

PropTrack report: Perth property bucks trend to record rises in January and February

Cash Rate Vs Perth Median



Perth Median



Summary Perth

KEY MARKET INDICATORS

Positive

Affordability Index HOUSE V. Price Movement.....	08
SA Monthly Housing Finance.....	09
Stock on Market V. Avg Days on Market.....	10
Vacancy Rate V. Median Rent.....	11
Job Creation Index.....	12

SUPPLY & DEMAND - Positive

Does Demand Exceed Supply?

Change in Population.....	13
State Population Movement Type.....	14
Foreign Investment.....	15
Airport Arrivals.....	16
Iron Ore V Median House Price.....	17
Dwelling Approvals V. Population % Change.....	18
Bedrooms V. Population Change.....	19

AFFORDABILITY - Positive

Is Property Affordable?

Affordability Index HOUSE V. Price Movement.....	08
Affordability Index UNITS V. Price Movement.....	20
Price to Income Ratio.....	21
Rent as % of Income V. Affordability Index.....	22
FHBs as % of Population.....	23

Positive

Slightly Positive

Neutral

Slightly Negative

Negative

CONFIDENCE - Positive

Is There Confidence In The Market?

Retail Turnover Growth.....	24
Mortgage Arrears.....	25
Unemployment Rate	26
Underemployment Rate	27
State Job Vacancies	28
Business Investment	29
WA Mineral Exploration Expenditure.....	30

MONEY SUPPLY - Slightly Positive

Will There Be More or Less Money Into The Economy?

State Budget	31
Net Debt as % of GDP.....	32
Gross State Product V. Median Price Movement.....	33

INVESTMENT VALUE - Positive

Is This Market Showing Value?

Current Investment Value - Per Capital City.....	34
Yield V. Interest Rates	35
Long Term Trends	36
House V Unit Price Comparison.....	06
Perth V. Sydney HOUSE Price Movement.....	37

RISK - Slightly Negative

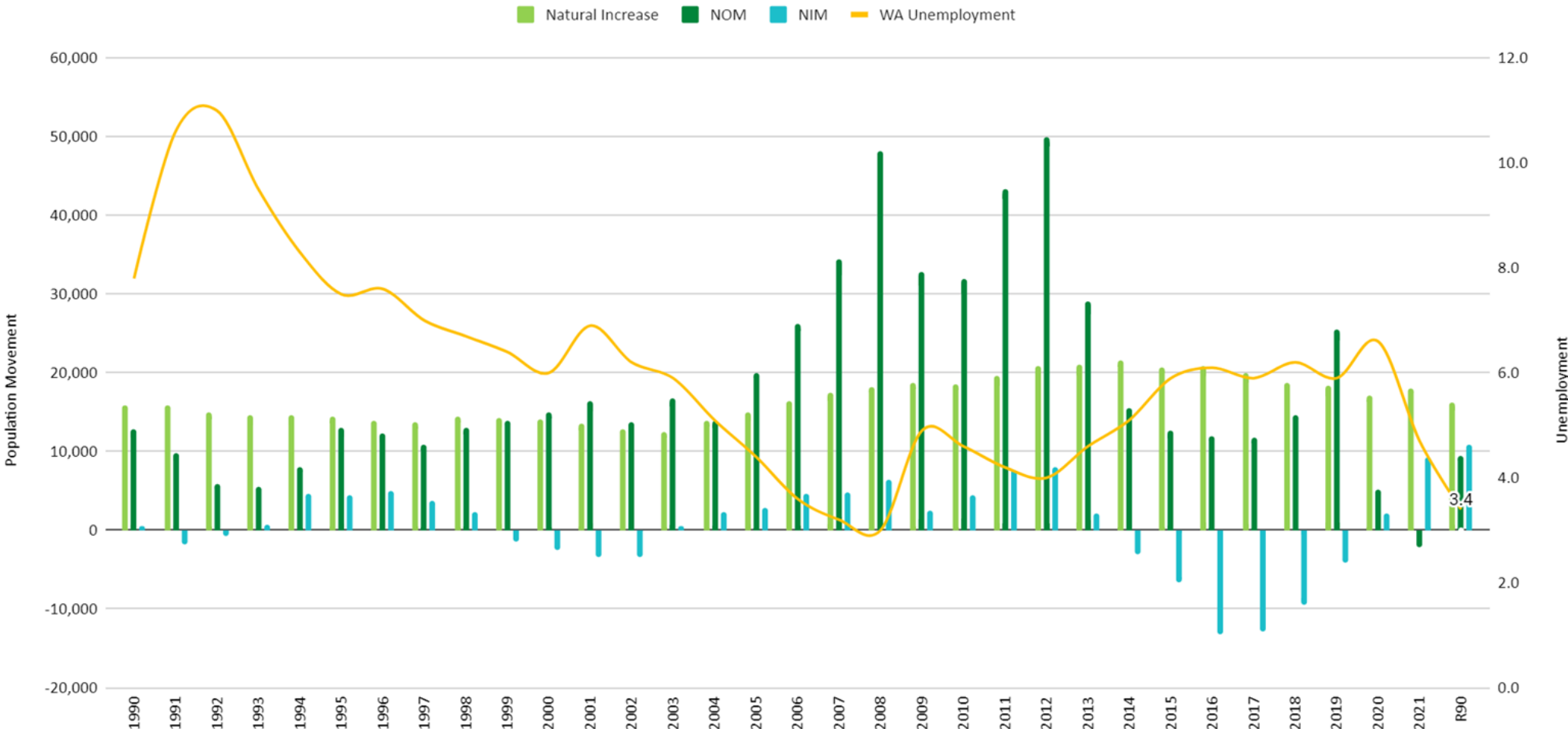
Is There Potentially Downside Volatility?

Affordability Index HOUSE V. Price Movement.....	08
Price to Income Ratio	21
Industry Value Added	38
Population Pyramid.....	39

Demand

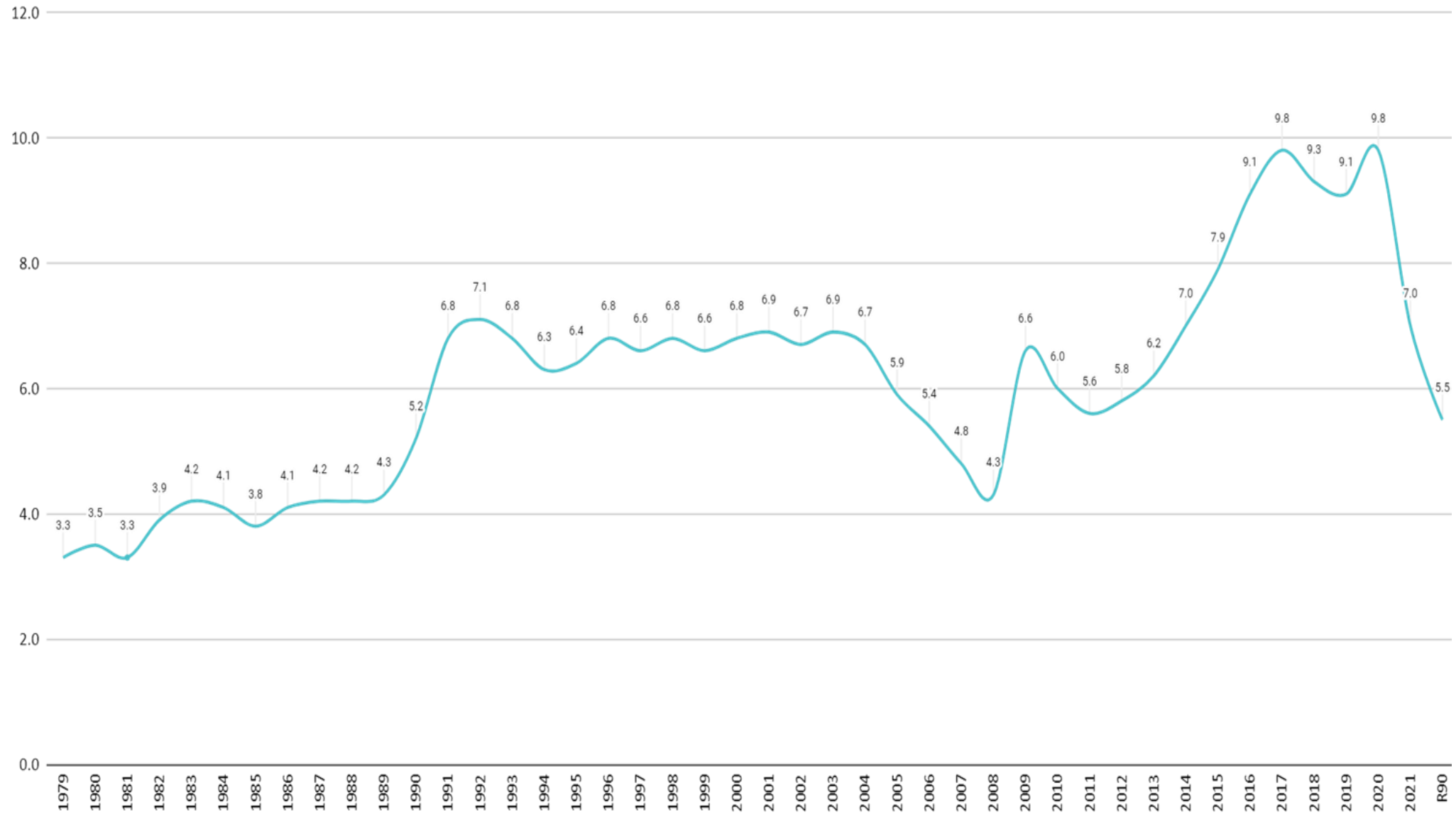


Change in Population

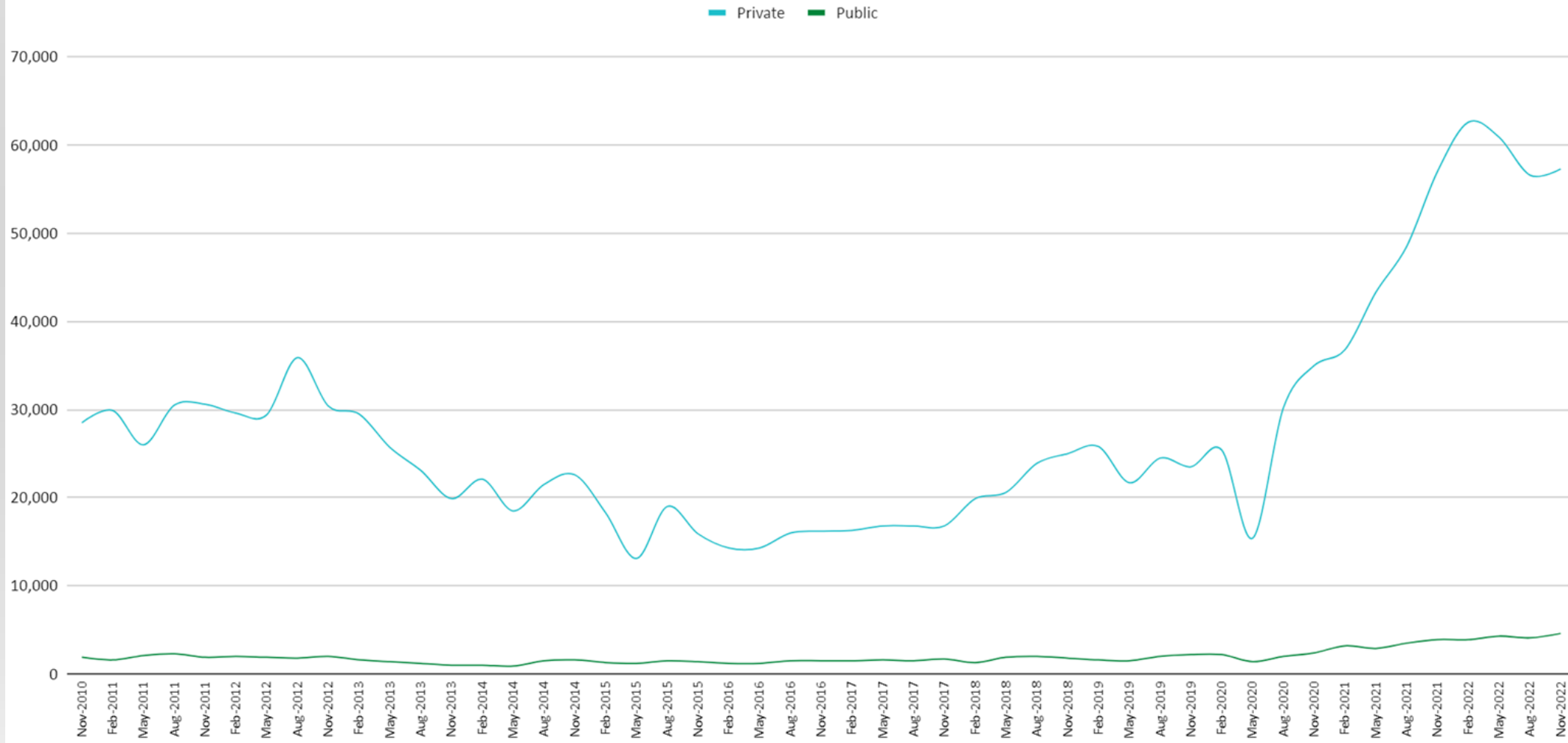


Unemployment WA

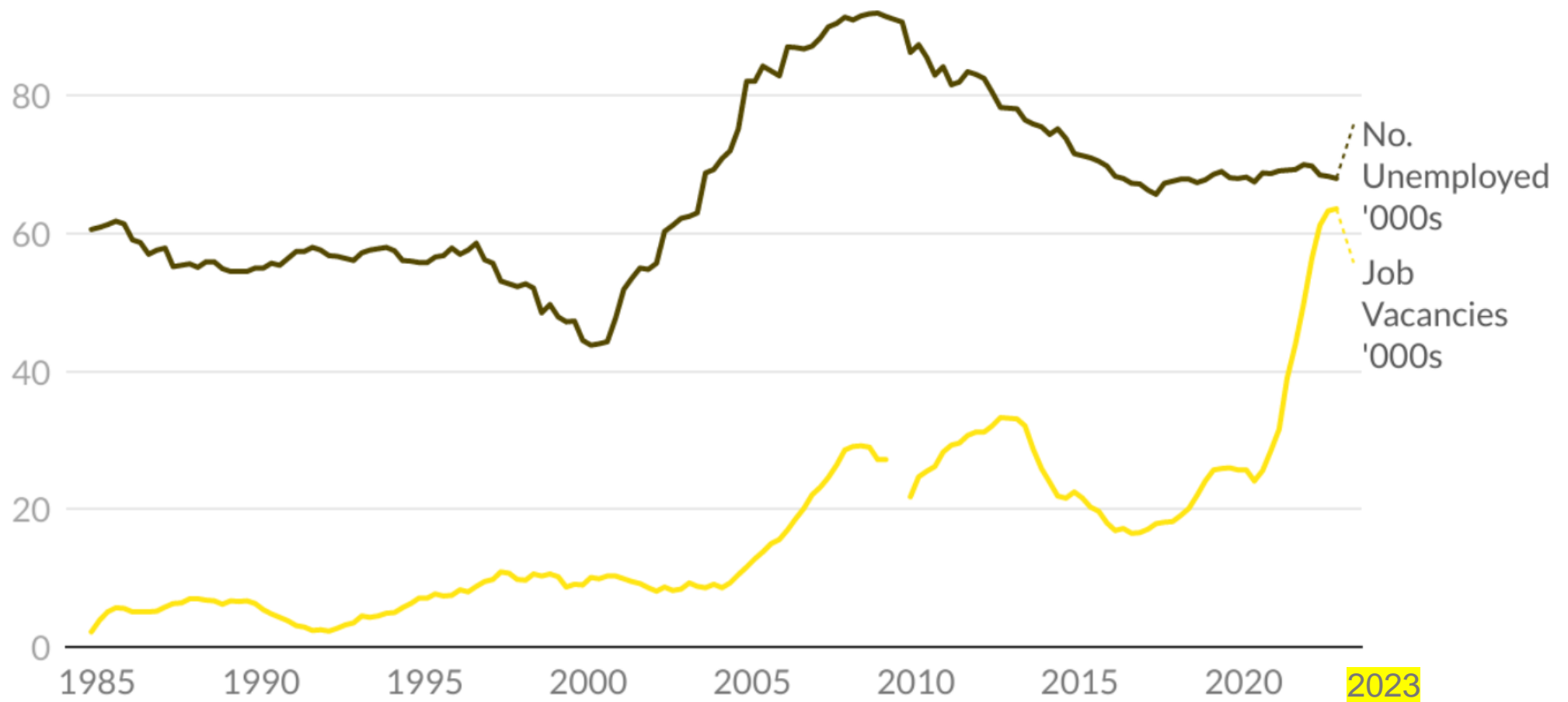


Underemployment
WA

Job Vacancies WA



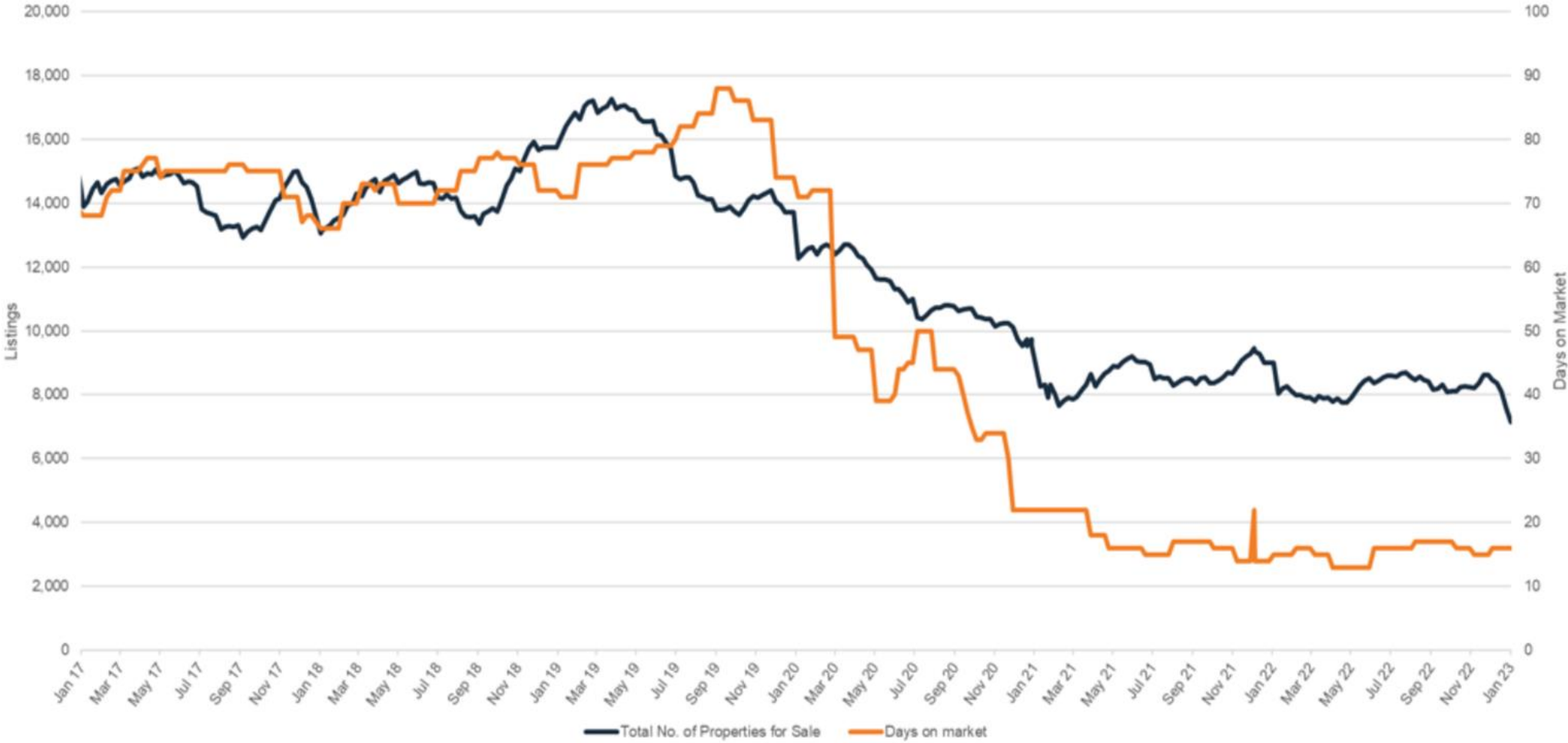
Job Vacancies Vs Unemployed



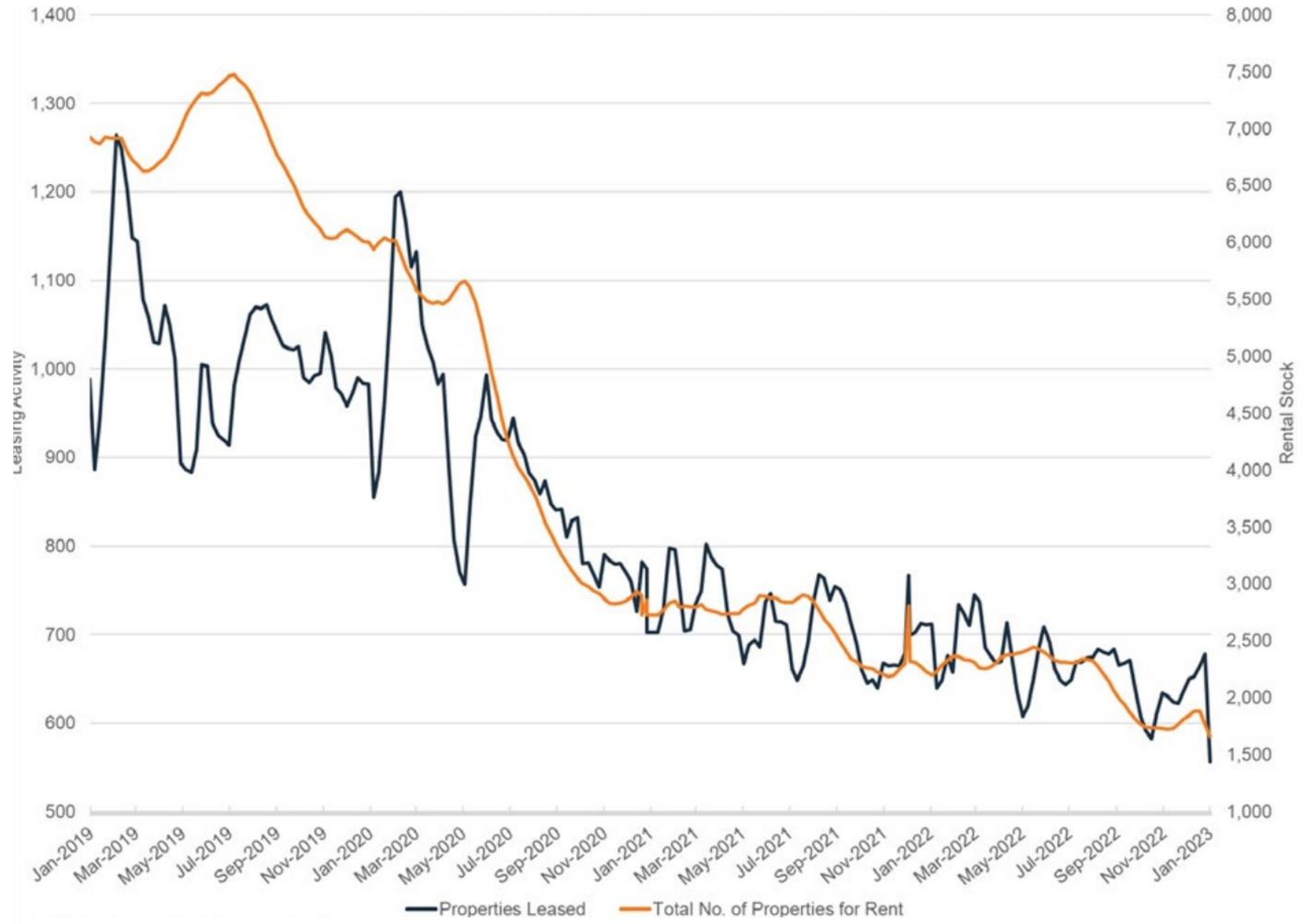
Supply



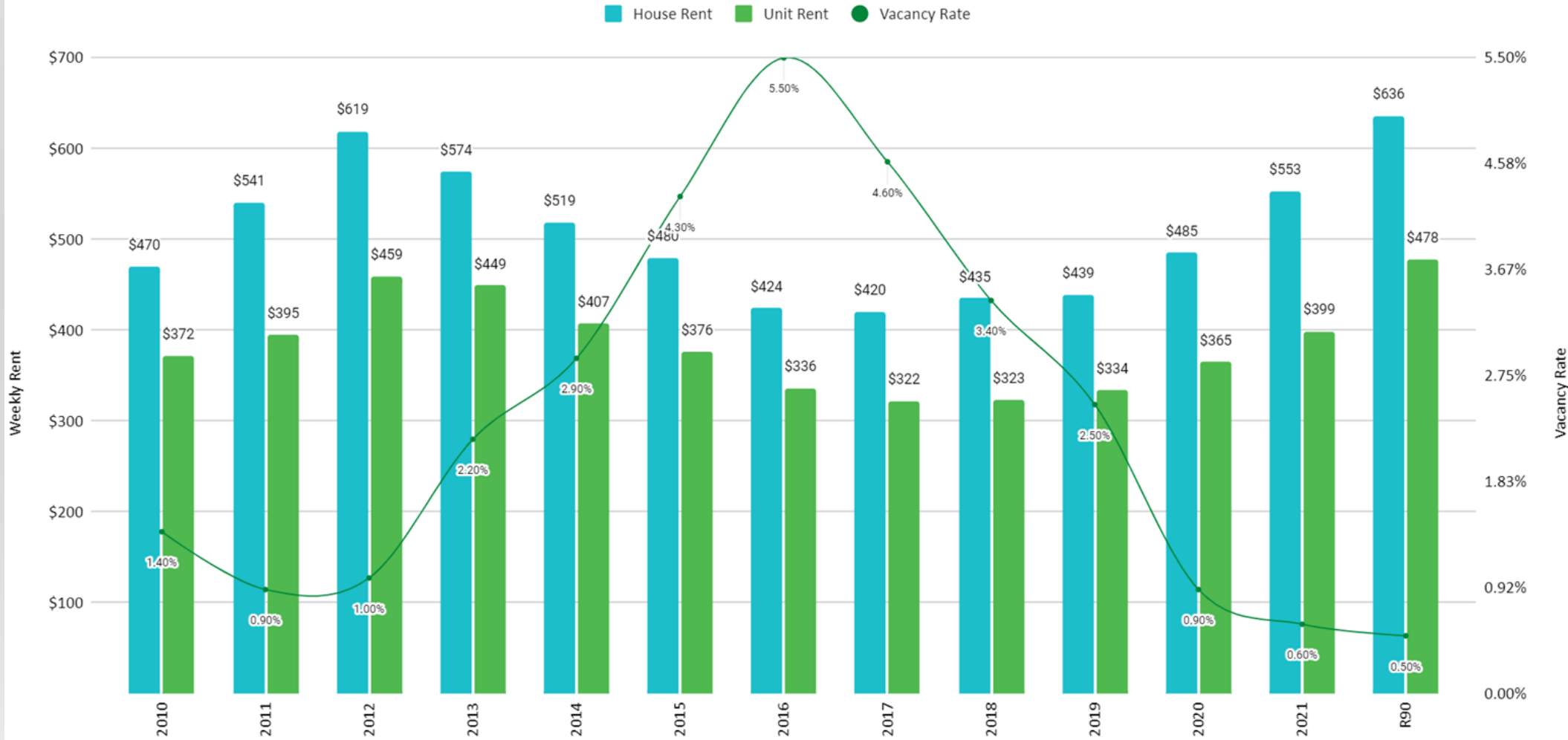
Listings & Days on Market WA



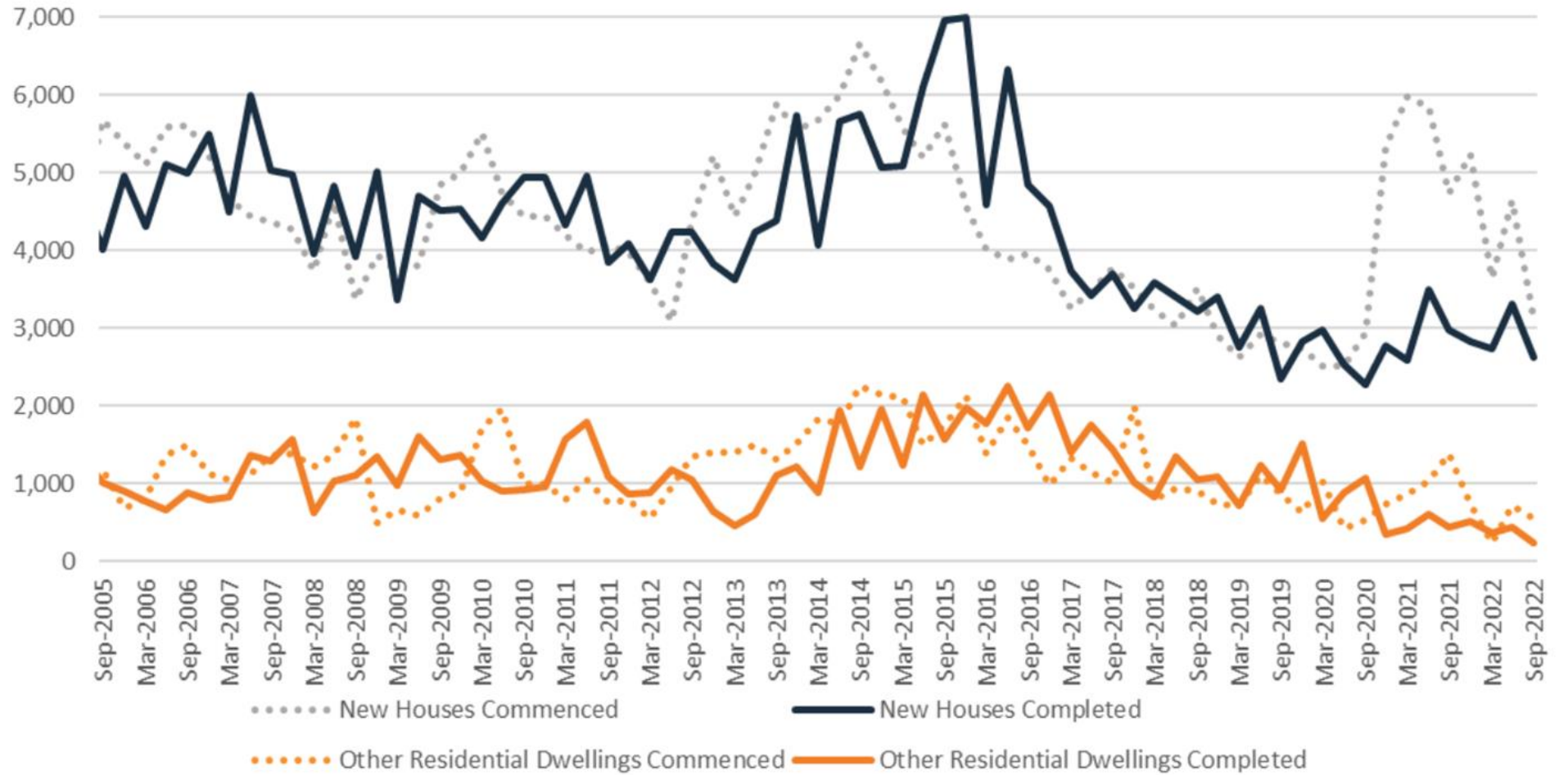
Demand Vs Supply Rental Market



Vacancy Rate Vs Rent

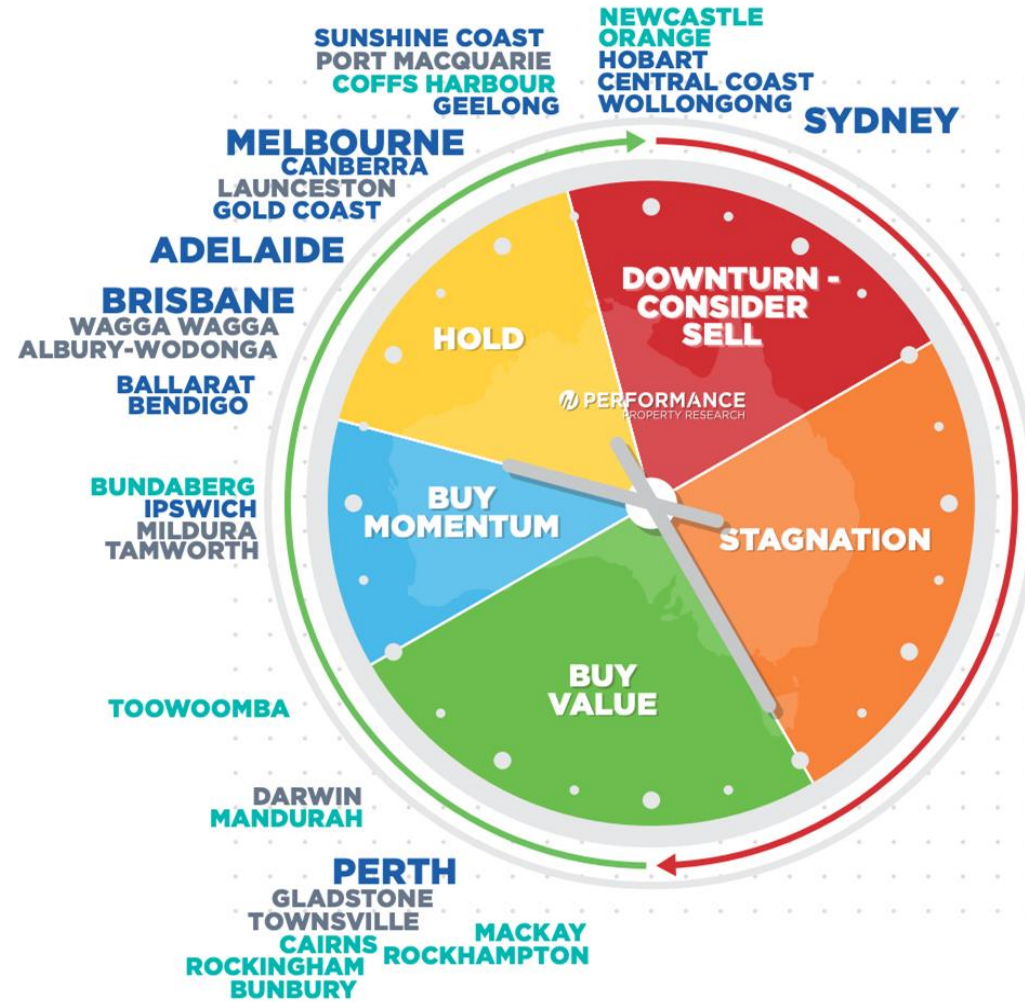


Summary



Source: ABS

Summary



Probabilities

	CURRENT	PRICE FORECAST		
		1	2	3
Current Cash Rate	3.60%			
Assumed Cash Rate		3.00%	4.00%	5.00%
Likely Variable Rate	5.46%	5.25%	6.25%	7.25%
Market		Price Change	Price Change	Price Change
Adelaide	19%	22%	10%	-1%
Brisbane	35%	38%	24%	12%
Canberra	4%	6%	-5%	-14%
Darwin	55%	59%	42%	29%
Melbourne	7%	10%	-1%	-11%
Perth	101%	106%	84%	66%
Sydney	-9%	-7%	-17%	-25%

Investment Principles



AAA – Long Term Growth 6% +

BBB – Long Term Growth 5% - 6%

CCC – Long Term Growth 4% - 5%

DDD – Long Term Growth 4% or less

Where are we Investing?



Buying Suburbs



Growth Rate



Vacancy Rate



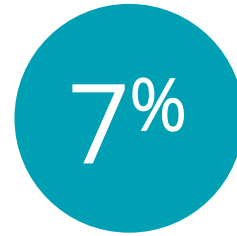
Online Demand



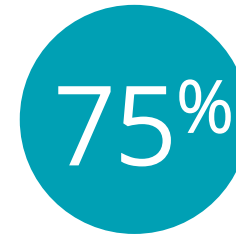
Stock on Market



Days on Market



Total Housing Commission



Established Dwellings



Infrastructure Spending



School Catchment



Zoning Density Changes



Average Incomes

A Grade – Quality House / Land (30/70)

B Grade – Townhouse / Villa Unit / Project Home / Impaired A

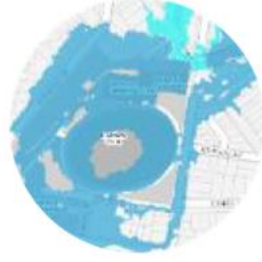
C Grade – Medium Density Unit / Impaired B

D Grade – High Density Unit / Impaired C

Due Diligence



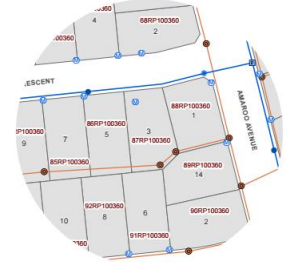
Zoning and Council overlays



Flooding



Housing Commission Check



Easement Review



Legal Check from Independent Solicitor/Lawyer



Adjoining Uses



Noise Check



Sale Frequency



Independent building and Pest Inspection



Site Contamination



Flight Path



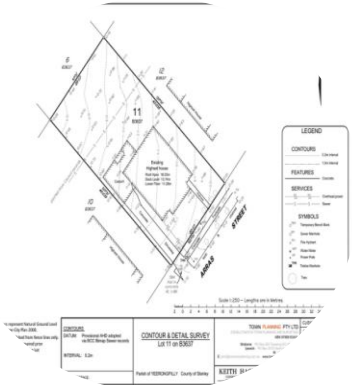
Moisture

Elective Due Diligence

Meth Testing



Survey Plan



Non-Conforming Structure



Electrical Audit



Plumbing Audit



Portfolio Examples



From \$0 to \$5.5 million in 6 years



Portfolio Quality

PORTFOLIO QUALITY RATING: ★★★★★

SUBURB	STATE	ASSET TYPE	PURCHASED	PROPERTY RATING	SUBURB RATING
Auchenflower	QLD	Residential House	2016	A	AAA
Croyden Park	SA	Residential House	2017	A	AAA
Burwood	VIC	Residential House	2020	A	AAA
Mount Hawthorn	WA	Residential House	2021	A	AAA
Warnbro	WA	Residential House	2022	A	BBB

Key Portfolio Stats

Client Annual HH Employment Income	\$390,000
Annual Gross Rental Income	\$147,940
Gross Yield	3.55%
Compound Annual Growth	8.76%
Average Total Annual Return	12.31%
Portfolio Size	5
Total Purchase Price	\$4,171,000
Client Capital Contribution	\$834,200
Current Portfolio Value	\$5,526,802
Equity Generated	\$1,355,802
Return on Capital	162.53%

Portfolio Diversification



Portfolio Quality

PORTFOLIO QUALITY RATING: ★★★★★

SUBURB	STATE	ASSET TYPE	PURCHASED	PROPERTY RATING	SUBURB RATING
Ashgrove	QLD	Residential House	2017	A	AAA
Medindie Gardens	SA	Residential House	2017	A	AAA
Hamlyn Heights	VIC	Residential House	2018	A	AAA
Moonee Ponds	VIC	Residential House	2020	A	AAA

Key Portfolio Stats

Client Annual HH Employment Income	\$500,000
Annual Gross Rental Income	\$137,540
Gross Yield	3.52%
Compound Annual Growth	12.61%
Average Total Annual Return	16.13%
Portfolio Size	4
Total Purchase Price	\$3,907,500
Client Capital Contribution	\$781,500
Current Portfolio Value	\$5,872,284
Equity Generated	\$1,964,784
Return on Capital	251.41%

Portfolio Diversification



Home Buying



GROWTH RATES - WESTERN SUBURBS

Suburb	Growth Rate 1 YR	Growth Rate 5 YR	Growth Rate 10 YR	Vacancy Rates	Median Days on Market	% Renters in Market
West Leederville	4.2% ↑	2.8%	3.5%	0.6%	31	39.8%
Subiaco	12.4% ↑	7%	3.9%	0.5%	22	46%
Swanbourne	10.7% ↑	6.3%	4.5%	2.2%	27	22%
Shenton Park	-5.5% ↓	4.5%	3.6%	1.2%	11	34.9%
Floreat	13.9% ↑	7.8%	5.2%	0.3%	20	12.5%
Mount Claremont	10.8% ↑	5.8%	3.5%	3.5%	15	17.7%
City Beach	17.6% ↑	8.2%	3.6%	4.4%	19	13.1%
Peppermint Grove	-23.8% ↓	-1.5%	0.6%	1.8%	8	24.2%
Cottesloe	9.5% ↑	7.2%	5.6%	0.5%	12	29.5%
Dalkeith	9.7% ↑	5.9%	3.6%	0.8%	12	19.7%
Mosman Park	3.2% ↑	5.4%	3.1%	1.4%	9	35.6%
Nedlands	-6.7% ↓	4.3%	3.7%	1.3%	17	26.7%
Claremont	-1.6% ↓	3.7%	3.4%	2.3%	22	32.8%

Commercial



Australian Commercial property saw a 6.8% total return in 2022, however Q4 in isolation saw negative growth and **transaction volumes down 66%**.

Historically there is a 6 month lag for transaction volumes to begin affecting prices strongly.

- Out of 143 segments of the market studied, 141 showed yield expansion in Q4.

Total returns in Industrial and Healthcare sectors have begun declining, however came from a high base and are still strong performers. The 1YR returns are now sitting below the 3YR and 5YR returns

On the flip side Retail returns have remained steady and started to see an increase, but these came from a low base. The 1Yr returns are now above the 3YR and 5YR returns.

Aus property as a whole, while down, is outperforming other major markets where double digit declines have ensued (UK, US approaching these).

The big question is are we just lagging behind?

- PPOB purchases - market dependant (Perth)
- Passive, defensive income producing assets
- Medium-long term development sites
- Strategic partnerships

About the Speaker



LACHLAN DELAHUNTY

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Lachlan specialises in building \$5m, \$10m and \$20m property portfolios for sophisticated investors. Lachlan began his personal investment journey in his early 20's and believes that being an avid investor himself is paramount in building trust and long-term relationships with his clients.

With over 10 years of experience \$1b worth of transactions. With extensive experience in valuations and advisory in both residential and commercial sectors, Lachlan has worked as a buyer's advocate, property consultant, investment advisor, and is a certified practising valuer for major banks, investors, law firms and high net worth portfolios.

Lachlan is a fully licensed Real Estate Agent and licensee in Western Australia (CPP), Certified Practising property Valuer (CPV) Qualified Property Investment Advisor (QPIA) and most importantly is an active property investor.



Finance & Loans

Paul Moran

Finance Director, McKinley Plowman



Introduction

- MPM Finance is part of the McKinley Plowman group
- We have access to over 35 different lending groups, including major banks, second tier banks and non-conforming lenders.
- We pride ourselves on being your finance solution experts



Agenda

- RBA Cash Rate
- What else has affected borrowers over the last 12 months?
- What you can do to reduce costs
- What we can do to help

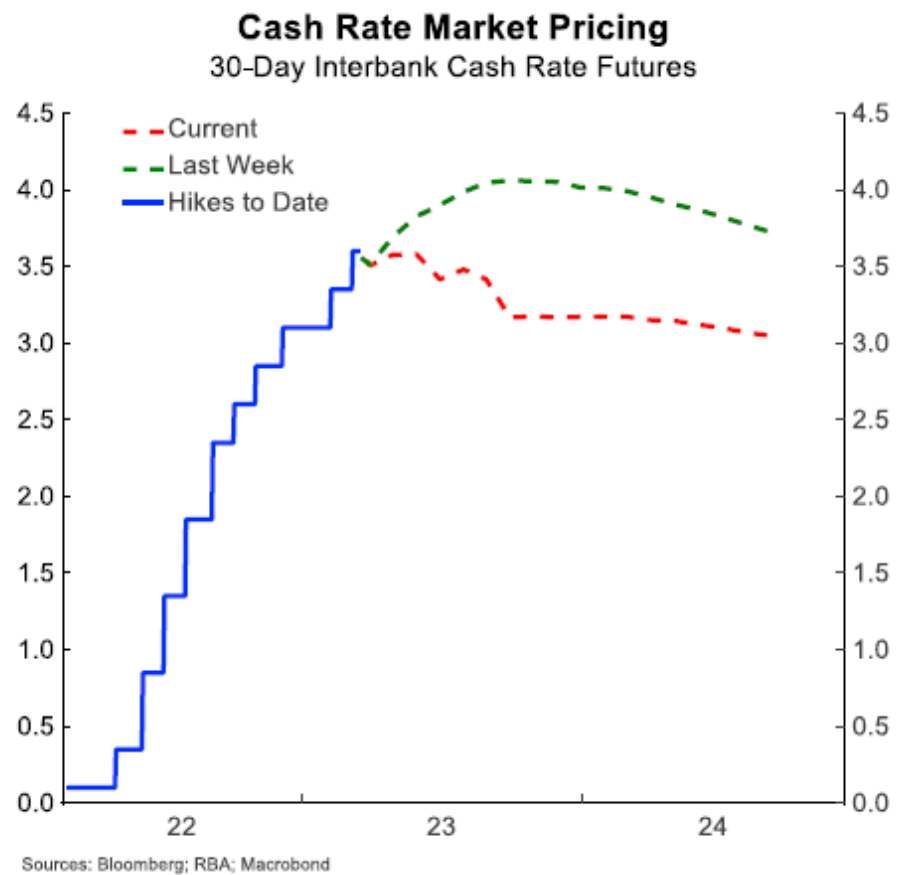


RBA Cash Rate

- RBA has increased the cash to 3.60% current as of March 2023
- Last Time the RBA cash rate was at this level was May/June 2012
- RBA Cash Rate as of April 2022 was 0.10%,
- 3.5 % Increase since April 2022.
- Although economists have a different perspective by all accounts rates still may at least one more rise over the next few months up until June 2023, with an anticipated pause by the RBA in April.
- Financial markets are not pricing in a recession in Australia. But are now fully pricing in rate cuts by the end of this year. As of 16th March, Westpac had rate cuts fully priced in for July 2023. A Week before Westpac did not foresee rate cuts until 2024.



RBA Cash Rate Outlook



What else has affected borrowers?

- Other factors which have reduced borrowers' capacity to service:
 - Lenders have increased the buffer on loans to 3%, where they were previously 2.25%-2.5%
 - Cost of living has forced lenders to increase their living expense parameters. So, married clients with 2 children (depending on income) may have been approx. \$3.7k per month in 2022, now approx. \$4.2k per month to be allowed for (at a minimum).
 - For older clients, an exit strategy is very important, how will you repay/clear the debt by retirement age?



What you can do to reduce your costs

- Reduce monthly outgoings by:-
 - Debt consolidation (including home loan, personal loans, credit cards and tax debt if applicable)
 - However, you need to understand that debt consolidation can reduce your monthly outgoings but will increase the overall interest payable as the other debt (personal loans, credit cards and tax debt) is now over a longer term.
 - Reduce limits on credit cards or cancel them if not used
 - Prepare a budget



What we can do to help

- Negotiate with current lender to reduce rates
- Re-finance to another lender to reduce rates and possibly extend term, however this will increase the overall interest payable given the longer term.
- Rates available now that we can offer–
 - Variable
 - 5.13% lowest,
 - Other smaller lenders between 5.24% - 5.44%.
 - Fixed:
 - 1 Yr: 5.1%
 - 2 Yr: 5.49%
 - 3 Yr: 5.39%
 - 4 Yr: 5.45%
 - 5 Yr: 5.45%
- The above are all owner-occupied loans, below 70% LVR, P&I.
- Depends on LVR, Investment or Owner occupied and either Principal & Interest repayments or Interest only



Q & A

