

Originally published on theadvisor.com.au

Brokers observe a boom in WA property investment

Kate Aubrey

10 October 2023

12 minutes

Brokers have been noticing a surge in property investment in Western Australia while other states and territories experienced declines, except for the ACT.

According to MCG Quantity Surveyors, investor activity in Western Australia has risen to 32 per cent in the first quarter of 2023, up from 9 per cent in the same period in 2022.

This data indicated that Western Australia has attracted investor interest from other regions, with NSW and Queensland witnessing the most significant declines, dropping by 9.91 per cent and 6.26 per cent, respectively, compared to the previous year's quarter.

Additionally, investor activity has decreased in Victoria by 4.14 per cent, followed by Tasmania (-3.79 per cent) and South Australia (-1.18 per cent).

These trends align with the Property Investment Professionals of Australia (PIPA) 2023 [Investor Sentiment Survey](#), which reported that 24.8 per cent of investors sold one or more properties in Melbourne last year, followed closely by Brisbane at 23.3 per cent.

As interest rates have stayed steady at 4.1 per cent and nationwide home values have risen for the eighth consecutive month, [pushing national home values up by 6.6 per cent since the trough in January](#), Western Australia has become an attractive market due to its more affordable market.

While Western Australia has also experienced an 8 per cent increase in house values up to September 2023, property values remained more affordable than in the eastern regions, with a median property price of \$618,363, according to CoreLogic's latest data.

Director at Flawless Financial Services, Mihir Gandhi, has observed an influx in new investors and expects that will continue with lots of new estates expected to be released in 2024.

Mr Gandhi has noticed an influx of investors from the eastern states targeting Western Australia for properties with decent land sizes under \$500,000, with houses in this price range typically selling within nine days or less.

He attributes this trend to the strong job market, anticipated migration, and affordability for investors from the east.

Mr Gandhi mentioned that many clients have witnessed an increase in their property prices, prompting them to leverage their equity through valuations with multiple lenders.

This equity is then used for a deposit on investment properties, covering expenses such as stamp duty and settlement agent fees.

The Reserve Bank of Australia (RBA) has [noted](#) that the “vast majority of borrowers have substantial equity in their properties”, providing a safety net in case of financial difficulties.

Moreover, the data revealed that the average distance between investors’ residences and their investment properties increased to 857 kilometres in the year ended February 2023, up from 559 kilometres in the year ended November 2021 and 294 kilometres before the pandemic in January 2020.

At the same time, government incentives aimed at boosting long-term housing supply may be disincentivising investors, such as [Victoria’s empty house tax](#) and levies on short-term accommodation.

Investor competition

Although Casey Stein, a finance broker at Pascoe Partners, hasn’t observed investors from the eastern states buying properties in Western Australia, he noted strong competition among local investors.

“We’ve definitely seen an uptick in investment interests,” Mr Stein said.

He explained that investment activity has been robust across residential, rural, off-farm investments, and business growth, with competition for land acquisition expected to persist.

“If [investors are] unable to acquire rural property, they are looking to diversify off-farm investments into local property here in Perth,” he noted.

The region has historically relied heavily on farming and mining, with economic cycles typically shifting from the west to the east coast, he said.

Around 2011–13, there was some hesitancy among locals about investing in property in Western Australia. However, there’s renewed interest and confidence in the property market due to a sustained surge in the past year.

He added the competition in the investment space has added challenges for new arrivals to Western Australia with property “being snapped up before they can get it”.

Mr Stein shared an example of a client who took nine months to enter the property market despite having a half a million deposit, because they were temporary visa holders.

He explained many skilled temporary visa holders in mining seek to purchase homes in Western Australia, often with additional clauses, such as Foreign Investment Review Board (FIRB) and finance, in their contracts, which had been a recent setback due to demand.

In addition to residential investments, there has been an increase in cash flow lending for agribusinesses preparing for significant projects, succession planning, and business recapitalisation.

While there has been significant investment and development opportunities in the state, Western Australia – like the rest of Australia – faces labor shortages in construction putting further pressure on the market.

He explained the vicious cycle happening at the moment where there is a need for tradespeople, however, no homes to house the needed workforce.

Rental pressures

The shift in investors exiting the market has contributed to the rising rental costs grappling the nation with the median weekly advertised rent surging by 11.8 per cent in the year to reach \$520 per week, as reported by [PropTrack's Rental Report](#) for the June 2023 quarter.

Chair of PIPA, Nicola McDougall, said this showed that rental stock has diminished on the back of exiting landlords who are not being replaced, putting further pressure on the market.

She estimated that around 217,072 rental properties could have been sold in recent years, with many being purchased by existing home owners rather than other investors, contributing to the shortage of rental properties.

“This would partly explain the dramatic undersupply of rental properties available to tenants around the nation,” she said.