

MARKET PREDICTIONS FOR THE SOUTHWEST

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MY STORY

- **Trained as a Valuer with VGO (1976).**
- **Moved to Margaret River in 1979 and started work with Alan Hillier as a Sales Consultant / Valuer.**
- **Have been involved in the market for about 29 years and have seen a few cycles during that time.**
- **Recently sold my share of the business to my partner, Ken Preston, who then merged the business with De Chiera's from Dunsborough and Downsouth in Cowaramup.**

- **Stocker Preston now has 5 offices including Dunsborough, Vasse, Cowaramup, Margaret River and Augusta.**
- **I therefore get a first hand view of the market place in the Cape to Cape Region.**

OVERVIEW

- **Look at reiwa.com statistics for the South West Region and Perth Metro.**
- **Discuss what the market place looked like during the boom years of 2006 & 2007.**
- **Have a look at what is happening now.**
- **Provide you with my (personal thoughts) on what might happen in the future.**
- **Questions from the floor.**

reiwa.com STATISTICS

- **Before we can look to the future I think we need to review the past and see if there are any trends emerging.**
- **Show:**
 - reiwa.com slides
 - **Acknowledge REIWA & Stewart Darby**
 - **Talk to the slides**
 - **Outline what local Agents are experiencing by way of comparison**

THE BOOM

What were the characteristics of the boom time?

- **Buyers were falling out of trees.**
- **Heavy qualifying of Buyers – didn't want to waste time with "tyre kickers", "show me the money" or "don't bother calling me".**
- **No conjunctionals – "don't bother asking I've got more qualified Buyers than I can deal with".**

THE BOOM

- **Interest rates – the Cash Rate had been between 5% and 6.50% for about 10 years.**
- **Funds freely available and Banks, Brokers etc were throwing money at the Real Estate Market.**
- **Sales Representatives / Agent appraising ahead of the market – if it's not worth it now it will be next week.**
- **Multiple offers on properties and properties often selling above the asking price.**

THE BOOM

- **Days on market were 0 – 14 days or if it was a really hard one, 30 days.**
- **Minimal advertising needed, often just had to work your database.**
- **Buyers camping out and queuing at land sales offices to secure a Lot – many missing out.**
- **Developer's pre-releasing multiple stages with often 12 / 18 / 24 month lead times to Titles.**

THE BOOM

- **First time and new age Investors contracting on a Lot and re-selling prior to settlement at a handsome profit.**
- **Buyers wanting to contract on multiple number of Lots and getting very irate when you wouldn't let them.**
- **New age and less experienced Developer's entering the market and paying premium prices for englobo land suitable for subdivisions, their purchase prices being based on reduced profit margins but quicker turnover and increasing prices for the end product.**

THE BOOM

- **Capacity constraints with:**
 - **Approvals process**
 - **Provision of services**
 - **Securing contractors**
 - **Securing materials**
- **Builders closing off their books because they had too many orders.**
- **Basically not enough land or houses to satisfy demand.**

THE BOOM

- **Building trades people in short supply and prices rising.**
- **Influx of inexperienced and often poorly trained sales people as they saw \$\$\$ to be made.**
- **Positive press about the market place, investing, property and lifestyle.**
- **Everybody was an “instant expert” about investing and making money.**

THE BOOM

- **Resources boom in Western Australia driving demand for goods and services and peoples incomes.**
- **Buoyant Stock Market generating significant profits for Investors, some of whom transferred these funds into property.**

WHATS HAPPENING NOW?

- **Where have all the Buyers gone?**
- **They are no longer falling out of trees, you have to go and shake the tree just to find a prospect.**
- **Too scared to qualify Buyers in case we upset them and scare them away.**
- **Conjunctional's welcomed, in fact we'll email you details of our new listings as soon as we list it just in case you have a Buyer.**

WHATS HAPPENING NOW?

- **Interest rates increase (Cash Rate) of 1.25% in the last 8 months, plus some banks applied their own increase in addition to the Reserve Bank increases.**
- **Banks have tightened lending policy and are more cautious about who they will lend to.**
- **The smart Sales Representatives / Agents are appraising to the market and in some cases below the market in anticipation of prices falling.**

WHATS HAPPENING NOW?

- **Happy to receive any offer on a property just so you can start negotiating and show your seller that you are in fact doing something.**
- **No urgency from buyers; they are taking their time to find the right property at the right price, sometimes up to 6 months to do their research and make a decision.**
- **Days on market are now more like 60 – 90 days and often longer if the property is overpriced.**

WHATS HAPPENING NOW?

- **Advertising budgets have been increased and often “blow out” due to the longer time properties are on the market.**
- **Large discounts, cash rebates, incentive and bonus packages being offered by Developers.**
- **Buyers looking to renege on contracts (as Titles issue and settlement approaches) for Lots sold 12 / 18 months previously.**

WHATS HAPPENING NOW?

- **Build up of re-sale Lots in most land estates, often at lower prices than the current land being offered by the Developer.**
- **Minimal or no traffic through sales offices; slow down in sales activity.**
- **Developer's experiencing a build up of the supply of "Titled Lots" and looking for new ways to encourage Buyers into their Estate.**
- **More englobo parcels of land being offered for sale in the property pages of The West Australian.**

WHATS HAPPENING NOW?

- **Capacity constraints appear to be easing.**
- **Builders looking to do house and land packages with Developers so that they can generate new orders and Developers can generate land sales.**
- **Good building trades people are still hard to find, but I have had some reports of 'tradies' calling builders for work.**

WHATS HAPPENING NOW?

- **Exodus of sales people out of the Industry as the market gets tougher and they have to work harder (and in some cases start working).**
- **Negative press about interest rates, cost of living, negative equity etc.**
- **The “instant experts” are still out there but they are now talking the market down.**

WHATS HAPPENING NOW?

- **The Stock Market is not as buoyant and Investors have been 'hurt' by falling share prices and margin calls on loans. This has affected their ability to take profits and invest in property and in some cases forced more property onto the market because they needed to generate some cash or reduce debt.**
- **Basically the market is now over-supplied and the urgency of Buyers has evaporated.**

THE OUTLOOK

- **The resources boom appears set to continue for some time and Western Australia and the South West will benefit from this through investment and employment.**
- **A search of the Southwest Development Commission website identified plans for significant investment in major projects in the South West including:**

Resource Projects	\$2.8 billion
Tourism Projects	\$180 million
Infrastructure Projects	\$1.67 billion

MAJOR RESOURCE PROJECTS

PROJECT	DATE	INVESTMENT	EMPLOYMENT
Alcoa Alumina Refinery Expansion	Expected 2008	\$1.5 billion	Construction: 1500 Operation: 260
Bluewaters Power Station	Under Construction	Not known	Construction: 850 Operation: 60
Worley Alumina Refinery Expansion	2008	\$900 million	Construction: 500 Operation: 150
Gas Powered Power Station	2008	\$260 million	Not Specified
Jangardup South Minerals Sands Mine	Under Investigation	\$70 million	Construction: 100 Operation: 50
Gwindinup Mineral Sands Mine	2008	\$88 million	Construction: 120 Operation: 35

MAJOR TOURISM PROJECTS

PROJECT	DATE	INVESTMENT	EMPLOYMENT
Hilton ECO Resort & Spa	Under Construction	\$52 million	Not Specified
Bunbury Silo Hotel	Under Construction (completed?)	\$40 million	Not Specified
Cowaramup Bay Resort	Development Application Approved	\$35 million	Not Specified
Faulty Towers Re-development	Under Construction	\$12 million	Not Specified
Resort Development – Augusta	Approved Construction 2009	\$40 million	Not Specified

MAJOR INFRASTRUCTURE PROJECTS

PROJECT	DATE	INVESTMENT	EMPLOYMENT
Bunbury Port Access Road	Late 2008	\$20 million	Not Specified
Perth to Bunbury Highway	Late 2009	\$511 million	Not Specified
Binningup Desalination Plant	Commence 2009	\$640 million + \$315 million to connect to water supply system	Not Specified
Bunbury Outer Ring Road	Planning Under Way	\$190 million	Not Specified

TOURISM & THE WINE INDUSTRY

- **Tourism which is closely connected to the viticulture industry continues to be a major source of investment, expenditure and employment in the South West region.**
- **The Tourism WA website indicates visitor numbers and expenditure in the South West as follows:**

TOURISM

LOCAL AUTHORITY	AVERAGE ANNUAL VISITORS	TOTAL SPENT
City of Bunbury	1,064,400 nights (49% Intrastate) 295,600 visitors	\$486 million
Shire of Busselton	2,065,400 nights (87% Intrastate) 603,700 visitors	\$298 million
Shire of Augusta - Margaret River	1,519,100 nights (65% Intrastate) 479,100 visitors	\$222 million
Harvey	195,700 nights (85% Intrastate) 56,400 visitors	Information not Available
Nannup	89,000 nights (93% Intrastate) 30,500 visitors	Information not Available

WINE INDUSTRY

- **The Wine Industry Association of Western Australia, together with the Australian Bureau of Statistics provided the following information in regard to the industry in the South West**

WINE INDUSTRY ASSOCIATION OF W.A.

	WESTERN AUSTRALIA	SOUTH WEST
Area of Vines – Total 2007 (bearing fruit)	12,200 hectares	10,407 (85.3%)
Grape Production – 2007	68,250 tonnes	60,210 (88.2%)
Average Yield / Hectare	5.9 tonnes	5.9 tonnes
Wine Production	43,112,000 litres	Estimate: 22,500,000 litres (30 million bottles)
Exports by Volume	12,950,000 litres	Not Available
Exports by Value	\$53,130,000	Not Available
Export Ratio by Volume	30.04%	Not Available
Export Price per Litre	\$4.10	Not Available

Source: Wine Industry Association of WA & ABS.

MARGARET RIVER WINE REGION 2007

Area of Vines	5340 ha (50% of South West Total)
2007 Vintage Crush	33,825 tonne (39% red)
Production	Approximately 30,000,000 bottles
Estimated Value	At \$10 / bottle = \$300 million
Casual Employment	Approximately \$7 million expended by wineries / vineyards on backpacker type employees each year. This is in addition to the 'normal' wages & salaries.

Source: Margaret River Wine Industry Association Inc.

- **So as you can see the tourism & the wine industry are a significant contributor to the South West region both in terms of funds invested, income earned and employment generated.**

Not to mention:

- **The multiplier effect**
- **Housing needs**
- **Population growth**

THE FUTURE

With all this positive information about investment in projects, visitor numbers and employment opportunities in the South West you could be forgiven for asking

“so why the slow down / change in the market?”

In my view it is down to emotion and sentiment. Buyers and Sellers are being bombarded with negative information about the market and economy, namely -

THE FUTURE

- **Increasing interest rates**
- **Over inflated Real Estate prices**
- **Rising Fuel Cost**
- **Cost of living increases**
- **Inflation generally**
- **Increasing rents**
- **Etc. Etc. Etc.**

THE FUTURE

As Gavin Hegney put it recently (Hegney Group Property News – April 2008)

“Today there is fear and uncertainty in the market and people are jumping on bad news”

As I see it, there is likely to be little change in the market in the foreseeable future (6 – 12 months) and possibly longer. In fact if people have to sell, for whatever reason, we are likely to see a fall in price on these transactions.

THE FUTURE

For SELLERS / DEVELOPERS:

you really have two choices:

- **If you have to or want to sell now – reduce your price to meet the market and hopefully generate a sale, but the risk is you could end up chasing the price down, or**
- **Take your property off the market or put your project on hold until the market improves and you can receive the price you want and expect.**

THE FUTURE

For BUYERS:

It doesn't really matter if you are selling and buying in the same market – the price differential is likely to be the same (within reason) and the questions you should consider are:

- **do I like the home / block?**
- **can I afford the loan repayment?**

But sell your existing home first before committing to a new one.

THE FUTURE

For INVESTORS:

I suggest that you watch the market closely, there will be some good buys as some people will have to sell and you may be able to secure a bargain. If you are considering selling, then ask yourself:

- **what other or better use do I have for the funds?**

If you cannot reduce debt or interest or put the funds into a better investment then you may as well stick with the one you have and wait for the market to improve or other opportunities to present themselves.

THE FUTURE

For AGENTS:

Well it's back to the old days of hard work, regular communication, providing exceptional service and keeping your database informed of the current state of the market.

In reality, it doesn't matter if the market is going up or going down as long as people are buying and selling. The skill is to put the two parties together to complete a transaction. That way you will have happy Buyers, happy Sellers and earn yourself a fee.

THANK YOU

QUESTIONS WELCOME