

Hegney Property Group

# Property News

## Market fundamentals are stronger than the market sentiment

All property markets have their ups and downs reflected in market cycles. So the strategy becomes "buy in gloom, sell in boom". This strategy is the same for all investment markets such as shares, commodities and other forms of investment. So what drives property markets into boom or gloom? The answer to this is two different factors - market fundamentals and market sentiment.

Market fundamentals start a property boom, before sentiment takes over and can often either end a boom prematurely, or supercharge it until house prices become significantly over valued.

Market fundamentals revolve around the age old economic principle of supply and demand. In property, demand is the number of prospective buyers and the amount of money they have to spend. So property market fundamentals include population growth, employment prospects, wages growth, interest rates and the capacity of homebuyers to borrow money.

Market sentiment is an altogether different story.

Sentiment is how the market feels, and is not necessarily related to fundamentals. For example, the fundamentals of the Perth market are stronger today than during our boom in early 2006, however, property market is much slower. Why? Because sentiment has changed.



Sentiment is influenced by media headlines, which research proves is where the majority of homebuyers turn to for information on property. Fear stories sell newspapers and gain high ratings on current affair programs, but may not always be a completely accurate comment on the fundamentals of the market.

People's perception is often that when property is cheap it must go up, and just as if prices rise then they must also come down.

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EXECUTIVE CHAIRMAN  
HEGNEY PROPERTY GROUP



*Welcome to our first e-newsletter. We look forward to bringing you regular comment on the WA property market and hope you find this informative.*

*There are very few people these days who don't have some level of interest in the property market. Most of us have reaped strong returns in the recent boom times and yet now realise that in purchasing property, more care and selective choice of property is critical.*

*In this newsletter, we share with you our explanation on the influence that both sentiment and fundamental factors have on the market and their driving force that dictates market conditions.*

*With increasing rent levels, we also offer information to investors and tenants with some important points to consider in addressing this important issue.*

*We also bring you a good news story in profiling a client who used our advisory service to locate, negotiate and assist them in the purchase of a property for them.*

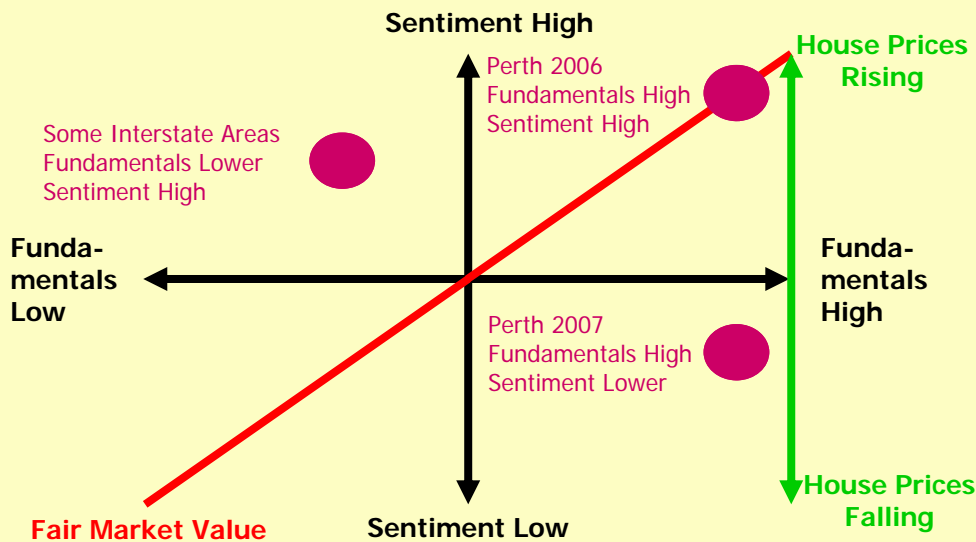
*Enjoy our newsletter and please feel free to provide your feedback. We encourage you to visit our website to access more property information that will guide you in your property investment decisions.*

[www.hegney.com.au](http://www.hegney.com.au)

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However, sometimes sentiment can be a very healthy check in a booming market. Take Perth property in 2006 as an example. Sentiment was running very strong, the market was booming and the fundamentals were very strong. Sentiment changed in June/July and the market has run fairly flat ever since. If sentiment hadn't changed when it did, Perth property would have continued to grow another 15-20%, leaving us significantly over valued with a high likelihood of a significant correction in values. As it happened, sentiment cut short the boom, and now we find ourselves fairly stable with the potential for some more price growth in the medium term.

So how do market fundamentals and market sentiment work together to influence the property cycle? This is best explained using the **Hegney Property Matrix (HPM)**.



The HPM shows graphically, how market sentiment, market fundamentals, house prices and fair market value interact in the market. For example, if house prices rise due to strong sentiment, but fundamentals remain average, then a market becomes overvalued. However if sentiment is low, fundamentals high and house prices static, then this will create an undervalued market.

So where does Perth currently sit on the HPM? There is no doubt that at present sentiment is low. Media headlines are focussing on issues such as 'affordability', and investors are buying 'cheaper' property in the eastern states. So sentiment is low.

Fundamentals, on the other hand are still very strong. Population growth into WA is sitting at around 44,500 people per year, creating demand for at least 15,000 new homes each year.

Also, the employment market in WA is extremely strong. With 27,000 job vacancies, and an average unemployment to job vacancies ratio less than half that of the Australian average, the necessary influx of people to fill these vacancies will place increased pressure on the property market. (See [www.hegney.com.au](http://www.hegney.com.au) for details).

Today, the market fundamentals are strong but sentiment has changed. When you see sentiment lower than the economic fundamentals you know that pressure is building in a market and prices are becoming undervalued. The wider the gap the quicker it occurs. Right now, the longer the market remains stable while the market fundamentals are strong, the more undervalued the market becomes.

2006 saw sentiment run ahead of the fundamentals, a sure sign that the market growth is too high. Everyone was a property investor and a professed expert in 2006 and anyone who owned a property won, however in 2007 to win requires some selectivity and understanding.



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# Perth's Rental Market Tips for Investors and Tenants

Investors are urged to check the rental they are receiving is distinct from what rental could be achieved if their property was vacant and re-let in today's market.

We have seen two examples recently whereby the existing tenancies, being only 9 to 12 months old were already significantly under current market levels.

## **Example 1:**

House 4 x 1 let at \$475 per week in November 2006. Today would rent for \$575 per week. This represents a 21% increase in 9 months.

## **Example 2:**

House 3 x 1 let at \$325 per week 12 months ago. Today would rent at \$425 per week. This represents a 30% increase in 12 months.

In both examples, to obtain the current market rental would probably require new tenants, as this rental level would probably exceed the tenant's ability to sustain such an increase.

## **Important points for investors:**

- ❑ Check your rent, it could be significantly under market level.
- ❑ You may have to change tenants to achieve the market rent.
- ❑ Some property managers appear to be reticent to increase rents due to tenants backlash.
- ❑ Rents are set to continue at similar rates due to low vacancy rates.
- ❑ Higher rents will push tenants into the purchaser market.

## **Important points for tenants:**

- ❑ Seek a 12 month (longer term) lease.
- ❑ Be prepared to pay increases as the option of moving may be more expensive.
- ❑ Expect further increases in rent.
- ❑ You may have to move to a cheaper locality if cash flow does not allow the capacity to pay the higher rent.
- ❑ Look closer at the real cost of rent – to be located nearer to public transport or shopping may be saving you money, to maintain expensive gardens or pools or inefficient climate housing (including hot water costs) may actually make the rent expensive.

The Western Australian economy is strong and this is attracting more people into the State. This trend appears set to continue for some time into the future.

At the same time, the local investors are being attracted to interstate property markets, a strong share market and to superannuation investments.

So whilst the demand increases exceed supply, the price inevitably goes up.

Think about your own position – be it as an investor, home owner, would-be investor/buyer or tenant.

If you need a property professional on your side, contact us and one of our property advisers will be able to assist you in your situation.



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## Buying agent makes property purchase easy

With WA enjoying record levels of people from overseas coming to settle in Perth, buying agent Hegney Property Advisers has been inundated with requests to find and acquire properties for many newcomers, often prior to their arrival.

Hegney adviser Haydn Jackson received a request from Crystal Glennie and her husband, who although originally from Zimbabwe, had spent the last six years living in Dubai. With a young family, they advised Haydn that they were seeking a less hectic pace of lifestyle and required his assistance in locating a property in Perth for them to settle.

Crystal had initially set about searching the internet for her ideal paradise but was well aware of the challenges faced when trying to purchase property whilst still living in another country. This task was made even more frustrating as at the time the Perth property market was booming, with most properties selling as soon as they hit the market and offering no margin for negotiation.

"We gave Haydn quite specific criteria of the type of property we required him to purchase on our behalf and are truly amazed with the result. His thoroughness in researching the market and guiding us in our final decision has allowed us to find just the right property. Haydn handled the negotiation process with such skill that we paid a purchase price exactly within our budget. We couldn't be more thrilled with our new home and the service we received from Hegney's!" said Crystal.

Hegney Property Group Chairman, Gavin Hegney, who established Perth's first buyer's agency, said that banks had always used Hegney's property expertise and market knowledge to guide them in their lending decisions.

"Many people now understand the importance of researching **what to buy** and **where to buy** property rather than just buying anything. Getting this right is critical as this will influence the long term performance of your investment," he said.

If you need a property professional on your side, contact us and one of our property advisers will be able to assist you in your situation.



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**Where should you be buying property now?**

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