

# Finance shortage to affect prices

■ Dan Wilkie

PERTH'S median house price is expected to break all records in 2010, as last year's shortage of available finance for developers puts the squeeze on metropolitan housing stocks.

Latest statistics from the Real Estate Institute of Western Australia forecast an increase in buyer activity would push Perth's current median house price of \$475,000 through the peak of \$485,000 reached in December 2007.

According to research by Hegney Property Group executive chairman, Gavin Hegney, lending to developers throughout 2009 was down 25 per cent on previous years, leading to fewer lots coming to market and adding to pressure on the median price.

"We know there's been a significant drop-off in developer finance but it hasn't shown up in finance across the board," Mr Hegney told *WA Business News*.

"We've also had a drop-off in investor finance as well.

"With interest rates rising among falling demand for loans, that will force banks to be more competitive again later in 2010, but that gap in lending that we had in 2009 is going to show up in 2010 as a shortfall of stock coming through the market.

"At the start of 2005 we started selling more lots than we were creating, and it took 18 months to fix that, and that caused our boom," Mr Hegney said.

"At that mid-point through 2009 again we started selling more lots than we were creating, so we're already in undersupply mode and that's not something that can be fixed overnight.

Mr Hegney said off-the-plan purchases or those earlier in the buying cycle were exacerbating median price

## PRESSURE

**Developer finance down 25 per cent.**

**Looming stock shortage to increase price pressure.**

pressure from the shortage of available credit.

"A lot of the small developers who are developing townhouses, duplexes and villas, the two- to 10-unit developments in the suburbs that are usually bought by owner-occupiers or people downsizing, a lot of that stock is now starting to sell off the plan, so really what's happening is we're buying tomorrow's stock today," Mr Hegney said.

"We've got a looming shortage already and today's buyers are already buying tomorrow's stock. You can't keep buying tomorrow's stock; at some stage crunch time has got to come."

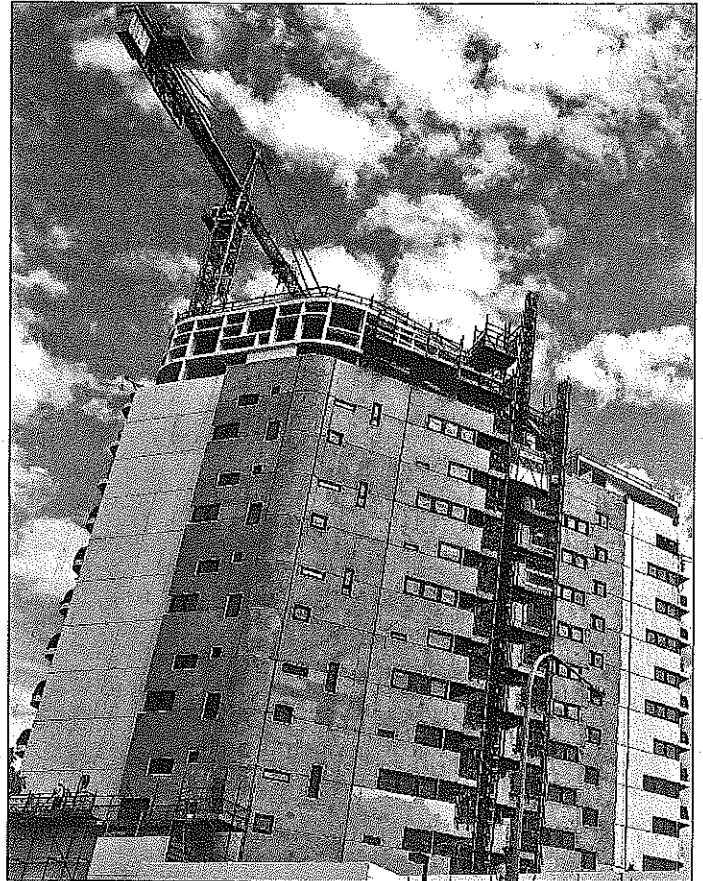
Meanwhile, Claremont-based Profound Property Group has responded to the shortage of available credit by launching its own real estate private equity firm, PREF Capital.

Mr Devenish said there had been a 60 per cent reduction in the number of real estate funders in the WA market throughout the global downturn, from 27 in 2007 to 11 in 2010, which provided the opportunity for PREF Capital.

"In addition to there being a significant reduction in the number of funders in the market they've all significantly increased their conservatism, therefore reducing their exposure to real estate," Mr Devenish said.

"There are less lenders, more conservative lending practises, and banks are less inclined to refinance each other's debt.

"It has really tightened up the



**TIGHT:** The gap between existing housing stock and underlying demand is expected to push Perth house prices up to record median levels. **Photo: Grant Currall**

whole market and in some quarters you'd almost describe it as a gridlock because people just don't have the ability to refinance and move their funding from one lender to another."

Profound Property Group managing director, David Devenish, said PREF Capital would initially be investing \$10 million into various property projects in 2010, growing that to \$25 million within two years.

"We're essentially looking to

spread our risk by investing in multiple projects and investments, we're not just looking for big, large one off opportunities, ideally we might be investing between \$1 million and \$3 million to \$4 million on any one project," he said.

"We're not proposing to be a property developer ourselves; we are purely a funder and an investment manager, therefore seeking to have relationships with developers."