APRA REGULATORY CHANGES FORCE BANKS TO PASS ON COSTS

Westpac's decision to increase home loan interest rates for owner occupiers and property investors, despite the cash rate remaining on hold for a fifth month, is a direct result of the changes to the Australian Prudential Regulation Authority's (APRA) guidelines, according to REIWA.

REIWA President Hayden Groves said APRA's decision in July to increase the amount of capital required for Australian residential mortgage exposures was forcing banks to pass on the costs to home buyers and investors.

"The decision by Westpac is unfortunate, but not surprising. APRA's decision to clamp down on home lending by increasing capital requirements was always going to impact home owners.

"At a time when the Perth property market presents good opportunities for potential buyers, the recent announcement by Westpac, and the expected movements by other banks in this area following the APRA changes, may dampen the current optimism in the WA property market around housing affordability," Mr Groves said.

The move by Westpac will see headline standard variable interest rates increase to 5.68 per cent for owner occupiers and 5.95 per cent for investors from the middle of next month, with other major banks expected to follow suit.

Chief Executive of Westpac's Consumer Bank, George Frazis, said the new APRA banking regulations meant that the amount of capital that needed to be held by banks against mortgages would increase by more than 50 per cent.

"While Westpac is well placed to meet these changes, a significant increase in capital ultimately increases the cost of providing home loans to customers. This is a difficult decision and one that is not taken lightly. We acknowledge that it does impact customers, even in an environment where interest rates remain near historic lows," Mr Frazis said.

Mr Groves said although reiwa.com data showed softer sales volumes recently, there was still a lot of buyer interest in the WA property market.

"Potential buyers should not be put off by the expected increases to interest rates as, despite this, they remain at record lows and there are excellent opportunities for buyers in this market," Mr Groves said.

AN OVERVIEW OF PERTH'S LONG TERM RENTAL YEILDS

Movements in reiwa.com's widely quoted Perth median rent are driven by the demand and supply of rental stock.

Over the past 10 years, Perth has experienced sustained periods of high demand for rental properties due to the strong migration into Western Australia, which has put pressure on rental stock and driven up rents.

Throughout 2009 and 2010 there were periods of little movement in rent prices followed by a drastic increase in rent which peaked in mid-2013 in line with the overseas and interstate migration peak.

Following this peak, the Perth rental market saw a softening demand due to slowing population growth in WA, and as a result, the overall median rent declined from $475 per week in the 2013 June quarter to $410 per week in the 2015 September quarter (based on preliminary figures).

VACANCY RATES

The vacancy rate is the principal measure of tracking rental supply, with a vacancy rate of three per cent widely considered across the industry to be the equilibrium.

When the vacancy rate drops below three per cent, this creates upward pressure on rent prices, while the converse is the case above three per cent.

The decline in WA's population growth since mid-2013 has put pressure on the vacancy rate, which has gradually increased to its current peak of 5.6 per cent in the 2015 September quarter (based on preliminary figures).

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