Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Victoria

National overview

In this edition of the Westpac Herron Todd White Residential Property Report, we are putting the spotlight on the opportunities for cashed-up investors and self-managed super funds (SMSFs).

Softer residential property prices around the country are presenting opportunities for aspiring landlords and DIY superfunds, and we'll take a look at some of the stand-out investment real estate markets.

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A buyer's market

With lending still tight and confidence relatively low, competition for quality homes is comparatively thin on the ground, particularly in the entry level markets that are typically popular with investors. While prices are yet to hit bargain basement levels, it's fair to say they have flattened out. This is good news for cashed-up investors and SMSFs looking for long-term capital gains.

Leading the way is the Western Australian market, which has stabilised after a booming period of growth. Similarly, there has been a slight drop in Tasmanian real estate values after 10 years of strong returns. Indeed some markets in and around Hobart, such as Sandy Bay, South Hobart and West Hobart, recorded growth of more than 200% over the last decade.

Property a long term investment

While buyers, particularly first timers, might be taking a wait-and-see approach, rental markets around Australia are still relatively strong. As a result, vacancy rates are low and this is keeping rents steady, which is good news for investor cash flow.

Location, Location, Location

A resounding message from around Australia is that the investment properties with the best prospects of long term growth are located close to city CBDs, regional centres and infrastructure. Melbourne is a case in point. A wave of building activity and apartment development applications continue in suburbs close to the city, defying the national slowdown. It seems it's a classic case of 'build and they will come', as there appears to be strong demand for new apartments in the inner city, and steady sales.

Regarding the impact of infrastructure and employment on housing prices, it is also worth keeping an eye on Australia's resources sector, especially in South Australia and the Northern Territory. In Adelaide, market watchers are anxiously awaiting the announcement about the future of BHP Billiton's multi-billion dollar expansion of Olympic Down, the world's largest known uranium deposit. Likewise in the NT, it seems that Inpex's multi-billion dollar Ichthys LNG Project is getting closer to reality, with the issuing of pipeline licences.

We expect the Adelaide and Darwin real estate markets will experience major boosts when these initiatives come to fruition and the projects start employing workers – both in terms of sales activity and rentals.

Queensland finds its feet

After a rough start to the year, Queensland is slowly getting back on its feet. We are pleased to report that the town of Toowoomba is experiencing slow but steady growth and a stable rental market. About 400 kilometres away in Gladstone, 2011 is also shaping as a very 'robust' year. The rapidly developing coal seam gas industry has fuelled residential development and growth across the board – in terms of real estate values and rents. Vacancy rates have shrunk below 1% and tenant demand appears to be increasing. It is truly pleasing to hear some good news coming out of the Sunshine State.

Brendon Hulcombe
CEO, Herron Todd White

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Melbourne

Winter is traditionally Melbourne's quietest selling period, and could result in a decline in the city's overall volume of sales over the next few months.

The good news is that there are some good opportunities for cashed-up investors and self-managed super funds (SMSFs) who are ready to make a move. The following information outlines some suburbs in Melbourne and regional Victoria that might appeal to investors and SMSFs.

Melbourne house market

Yarraville

Yarraville contains a mix of traditional detached housing of various vintages, as well as townhouses and units. In recent years, renovations and rebuilding have transformed the suburb, and there is more to come. For example, the redevelopment of the 26-hectare Bradmill Textiles will provide 600 houses, 600 apartments, and an activity centre that will house a Coles Supermarket, library and retail shops. Yields range from 4.5% to 5%, while Yarraville's median house price is $652,000.

Burwood

Burwood is an established suburb close to Melbourne, consisting mainly of 1950s and 1960s detached housing. There are also pockets of ex-housing commission homes throughout the suburb.

Like Yarraville, there has been some redevelopment and refurbishment in recent years in Burwood, including a smattering of modern new unit developments. It is home to Deakin University's Burwood campus, which is popular with international and domestic students. As a consequence, investing in existing housing for student accommodation appears to be a good opportunity, and this is supported by rental returns between 4 and 4.5%. Burwood's median house price is $735,000.

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Melbourne apartment/unit market

Port Melbourne

With its close proximity to Melbourne's CBD and its rapidly improving retail and dining precincts, Port Melbourne is a suburb popular with investors and tenants. The suburb offers an attractive lifestyle for young professionals seeking a first home, and who want close access to the cosmopolitan hub of the Victorian capital. It also has strong appeal for renters for the same reasons. Recent developments include Bayshore and Bayview Apartments, which have enjoyed strong sales thanks to their contemporary living and high quality amenities. Yields for apartments are currently between 4.5% and 5.5%, while Port Melbourne's median unit price is $607,000. This area has experienced strong growth over the past two years and this looks set to continue.

Richmond

The trendy shopping strips, cafes, bars and pubs along Swan Street, Bridge Street, and Victoria Gardens are major attractions for young professionals. But there are other advantages – the Melbourne CBD is only five minutes by train, and the famous sporting precinct that includes the Melbourne Cricket Ground (MCG) and AAMI stadium are also nearby. Richmond is currently experiencing a limited supply of new stock, which has resulted in steady capital values. Richmond's median unit price is $569,500.

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Regional House Market

Gippsland

A low supply of rental housing and high tenant demand has combined to create consistently strong returns in regional Gippsland, especially in Sale, Traralgon and Morwell. Housing in the Sale and Traralgon areas is currently achieving yields between 5.5% and 6%. Morwell is slightly higher, with yields between 7% and 7.5%. The median house price for Sale is $310,000, while Traralgon is $265,500 and Morwell is $158,000.

Mildura

It's been slow and steady in terms of sales volumes and capital growth for the Mildura housing market. Yet demand for rental homes is driving up rents by around $30 per week. As a result, gross yields of over 5.5% are the order of the day, which is encouraging investor activity. The appeal of Mildura is that it's possible to invest in new houses and townhouses for under $260,000 and gain favourable tax depreciation benefits. Indeed, 20 houses and units were sold recently by one Mildura agent, with over 50% of the properties sold to investors.

Bendigo

The housing market in Bendigo has stabilised over the last three months, with demand at good levels and sales ticking over. Buyers vary from upgraders, to owner-occupiers returning to the market and investors taking advantage of a shortage of rental properties. Demand for rents is driven by students from Latrobe University, and as a result, rental returns are currently higher than nearby Echuca and Shepparton. Yields are generally between 5.5% and 7%, while the median house price for the Greater Bendigo area is $255,000.

Likewise, the proposed investment in health infrastructure in Bendigo by the Victorian Government will continue to promote the town as a major regional growth centre, while a land shortage will underpin capital growth. Indeed prices for recent land releases at the brand-new Evergreen Links Estate in the suburb of Eaglehawk are around 25% more expensive than the first tranche of releases.

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Regional apartment/unit market

Gippsland

Once again, the Gippsland region gets our vote as a leading apartment and unit investment market. There is a stronger demand for units and townhouses within and around the Sale and Traralgon areas, and high rental returns of about 6%. Sale's median unit price is $185,000, while Traralgon's is $195,000.

Mildura

Since 2008, major unit developments in Mildura have been limited as developers struggle with the effects of the GFC, cash flow and access to finance. This has resulted in an undersupply of new units/townhouses particularly in favoured areas of the city. As a consequence supply doesn't meet investor demand. With a median unit price of $170,000* the Mildura apartment market is worth monitoring.

Bendigo

Investors should take note that there are a number of townhouse developments under construction and/or proposed for Bendigo. While pre-sales have been solid, it will be interesting to see whether demand meets the significant supply of new apartments.

The Bendigo unit market is quite diverse, with the median price for Bendigo (postcode 3550) $317,000 and $207,000 for the greater Bendigo region – rental yields sit between 5% and 7%.

Underlining the diversity of the apartment market, conventional three bedroom villas in outer suburbs such as Eaglehawk and Kangaroo Flat are selling for between $250,000 and $280,000, with middle suburban areas (such as Golden Square) achieving prices between $280,000 and $350,000.

The inner urban apartment market is also worth watching, with three bedroom luxury apartments in a Mitchell Street development selling off the plan for around $600,000.

Source: Herron Todd White

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