Herron Todd White

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Westpac

PROPERTY REPORT

Northern Territory

National overview

Looking back over 2011 it's clear that the Australian property market was – and in early 2012, still is – far from homogenous. Cooler market conditions in many areas have lead to rising yields and more affordable prices, while in regional areas where mining dominates, spectacular price gains have been recorded. In other parts of the nation, structural changes are occurring that will hopefully bear fruit in the future.

Is now a good time to buy?

In a number of state capitals, the current market offers excellent buying opportunities. In Brisbane for example, an oversupply of listings, low demand and a growing volume of forced sales has seen prices of prestige properties fall by up to 30%. Even in outer Brisbane suburban locations, values have dropped by up to 20%. For investors, this is seeing gross rental yields rise to around 6%.

Although Adelaide hasn't seen such spectacular price falls, declining values have underpinned rising yields, with investors now enjoying gross yields as high as 5%.

In Sydney and Canberra, prices have also dropped in many prestige suburbs, and canny buyers are seeking value in alternative suburbs offering similar amenity with more modest price tags. Sydney's inner west Canada Bay for instance, is benefitting from its harbourside location, with prices that remain relatively affordable.

Perth too is offering good buying opportunities, for example, prices have fallen by up to 50% for some prestige beachside apartments. On the other hand, the commencement of the Perth Waterfront project in the CBD, should bring new life to the city and could underpin growth in the inner city apartment market.

Darwin has seen a cooling of values throughout 2011 though several new developments point to a potential upswing in the market. Among them, the recent announcement by US President Barack Obama of a semi-permanent US troop force in Darwin will create employment opportunities and ultimately, boost demand for new housing.

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Growth areas dominated by mining activity

While many capital city markets languished in 2011, regional towns and cities dominated by mining activity bucked the trend. Nowhere is this more apparent than in Queensland where the regional centres of Moranbah, Dysart, Emerald and Gladstone experienced price gains of up to 35%.

Structural change – short term pain for long term gain

In Tasmania, regional areas like Triabunna and Scottsdale have been negatively impacted by the decline of the timber industry. Nonetheless, approval of a $400 million wind farm in Musselroe Bay in the northeast and the development of a $70 million dairy project at Smithton, will create new jobs and provide support for property values.

Proceed with caution

Although Australia has been lucky enough to escape the worst of the global financial crisis, 2012 brings considerable uncertainty regarding the global economy. Until a workable solution is reached for the sovereign debt issues in Europe, the likely path of interest rates is unclear and buyers are advised to be especially cautious in terms of the debt they take on and their expectations for future capital gains.

Brendon Hulcombe
CEO, Herron Todd White

Northern Territory

A number of projects are underway in Darwin, and the Territory more broadly, that make the Top End a market to watch in 2012.

Darwin

Darwin property values have decreased over the last one to two years, and as a result rental yields have risen. However the market peaked at different times depending on location and market segment.

Palmerston properties for instance, appear to have peaked around the beginning of 2010, while prices in the city's northern suburbs reached a high point around the middle of 2010. Prices in prestige CBD units peaked in early 2009.

Investment property yields in Darwin have risen sharply over the past 18 months as investors have exited the market. Those willing to invest in the current declining (price) market have demanded greater rental returns, and anticipated gross yields for residential properties range from around 4.5% to 7% per annum.

Properties at the lower end of the yield range typically comprise larger detached residential dwellings in Darwin's inner suburbs. Many such properties are owner-occupied but sometimes transact as investments due to the large land size and close proximity to the CBD. This reflects investor interest in capital growth rather than a strong rental return.

A typical mid-range yielding property in Darwin would be a recently completed residential unit or a detached dwelling with a long term Defence Housing Authority (DHA) lease in place. These properties are selling with yields of up to 5.8% and offer investors generous depreciation benefits. It is worth noting however that DHA properties have high management fees and new units will generally have Body Corporate fees of around $1,000-plus per quarter.

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Properties with yields of 6% to 7% would mainly comprise entry level units located in Darwin's CBD or with close proximity to large institutions or employer groups such as Darwin Hospital and Charles Darwin University. These properties are generally much older and often in need of repair, and yields rely on strong tenant demand.

Across the board, Darwin yields have increased approximately 0.5% over the last year. This is less than expected considering the lack of investor activity within the residential market. Owner occupiers have been the key driver for the Darwin market for the last four years and in the past 12 months real estate agents have found it increasingly difficult to sell tenanted properties. There is a clear premium in selling a property with vacant possession.

Looking ahead

Several large scale projects are currently stoking interest in Darwin's property market. These developments include the proposed Inpex LNG Plant and Marine Supply Basin, very ably assisted by the recent announcement by US President Barack Obama of a semi-permanent US troop force in Darwin.

The Inpex LNG Plant will provide a significant number of jobs during plant construction. The tender process is currently underway and Inpex have been vocal about attempting to ensure local contractors are provided a fair portion of this work.

Meanwhile, the recent Obama announcement outlined a plan to have an initial 250 US troops living and training in Darwin during the dry season. This number will expand to 2,500 US troops over a five year period.

Future demand in Darwin's residential market is greatly dependent on the city's population growth, which in itself hinges on the aforementioned projects. With the recent announcement of the pre-sale of all LNG from the proposed Inpex project, confidence appears to be returning to the Darwin market.

The past 18 months have seen limited new stock of residential accommodation come onto the market as many proposed developments were shelved until either the market picked up or financing opportunities became available. If demand can reach the point where it exceeds supply, capital growth is likely to be achieved, and as such there are compelling reasons to keep an eye on the Darwin market in 2012.

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Katherine and regional NT

Extensive on-shore natural gas exploration is being undertaken across the Top End, some of which is in close proximity to Katherine. The Katherine market has experienced relatively steady growth over the past several years, and if the exploratory mining activity proves viable, rental demand will be further boosted especially if no on-site accommodation is provided for the mining workforce.

Katherine's local economy has held up well over the past 12 months despite the temporary ceasing of the live cattle trade and fewer international tourists visiting the Northern Territory. Rental yields have generally remained strong at around 6% supported by low vacancy rates.

House and unit yields in Alice Springs have risen slightly as a result of rising rents rather than falling property values. Current yields are in the order of 5% to 6%.

The mining town of Nhulunbuy continues to experience extremely high rents, with yields of up to 11%, and sometimes more. Limited housing options and strong wages are likely to keep yields at this level. The town is unique in that it is situated on leasehold land and it is difficult to obtain any information about sale prices or rents as all transactions are done privately and records are not registered with the Lands Title Office. The high yields are also a reflection of the risks involved. Although the mine has recently renewed its head lease, a closure or scaling back of activity could see the town virtually cease to exist.

Source: Herron Todd White

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