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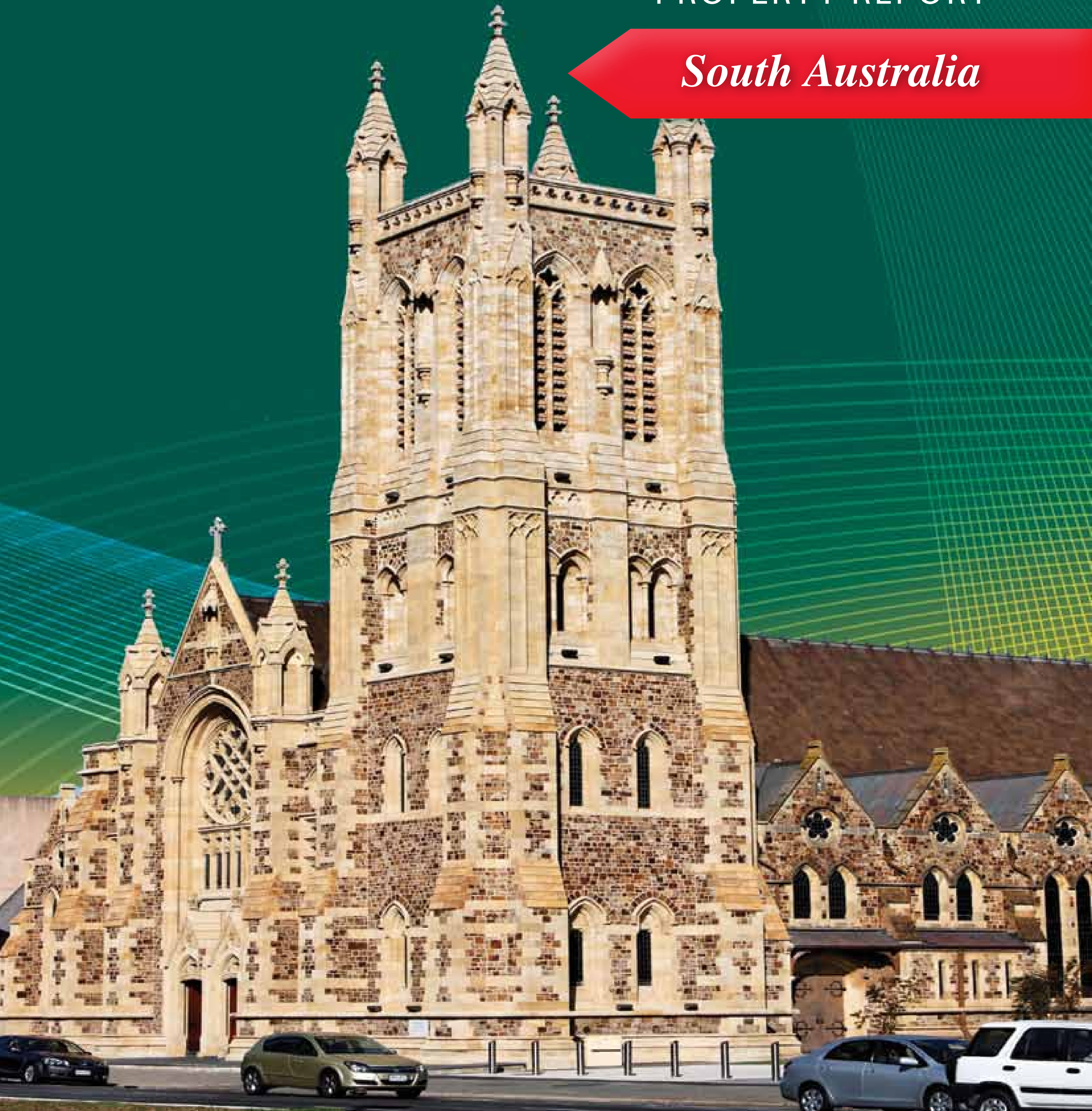
Independent Property Advisors

Westpac

PROPERTY REPORT

South Australia



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

South Australia

Broadly speaking, the South Australian property market has seen quiet conditions characterised by zero growth, rather than the significant price falls witnessed in some states. The exceptions generally occur in resource-rich regions supported by the mining industry.

Adelaide

Adelaide's property market has been in decline since the end of 2010, and over the past year values have contracted by up to 10% in some areas. Adding to the sluggish conditions, large volumes of stock have come onto the market, vendors face extended selling periods and sales volumes are low.

Under these conditions buyers retain the upper hand, and those with available money are in a strong position to capitalise on the slow market - especially in circumstances where vendors face a forced sale.

Given the widespread slowdown across the Adelaide market, it is difficult to pinpoint specific suburbs that have fared worse than others. Overall, outer suburbs have generally experienced greater declines in value due to the high volumes of similar types of properties currently flooding the market. By way of example, in 2011 around 25 houses per month were sold in Morphett Vale, however presently there are just under 200 homes listed for sale in the area.

It's been a slightly more stable situation for investors, with rental returns in Adelaide holding steady over the last year with tight vacancy rates of less than 1% prevailing during much of 2011. More recently however, the vacancy rate has eased and it currently stands at around 3%. This rise reflects two factors. The first is the growing number of young Adelaide residents who are choosing to stay on in their parental home or share a rental property with friends in response to higher living costs. Secondly, there's a rise in the number of available rental properties as owners choose to rent out, rather than sell, their homes while prices remain subdued.

Rental yields across Adelaide currently range from around 3% to 5%. The higher yield tends to be found in outer suburbs that carry slightly higher risk as tenants are more likely to be impacted by cost of living pressures and job security. In the medium to long term these suburbs are also likely to experience lower levels of capital growth compared to locations with better proximity to the city.

Looking ahead, recent interest rate cuts coupled with the reduction in property values may encourage first home buyers to become more active

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in the market during 2012. By the end of 2011 the market was beginning to experience an increase in buyer activity with positive signs for a stabilisation in values or even slight gains across 2012. This is supporting buyer confidence and the New Year may bring some positive momentum to the Adelaide market.

Values in the state's south east have fallen overall during 2011.

Regional South Australia

South East

Values in the state's south east have fallen overall during 2011. House/land sales are significantly down on average and building activity remains subdued. In some areas such as Millicent, Tantanoola and Nangwarry values have dropped by up to 20%.

A key factor impacting the region is the forward sale of harvesting rights of the local timber plantations announced by the state government. The state's south east relies heavily on the timber industry and this has created great uncertainty over the future direction of the local economy and employment. This may have a negative impact on the local property market particularly in regard to demand for housing and consequently property values.

The township of Millicent has recently seen a key employer, Kimberly-Clarke, cut around 200 jobs from the local mill. The local property market has subsequently slowed, pushing down values and creating uncertainty for the future direction of the Millicent market.

Nangwarry has also experienced job cuts within the local timber industry, which is the town's main employer. Demand for dwellings has decreased and there is a current oversupply of properties listed for sale. This is fuelling speculation of a decrease in property values though any positive news in regard to employment or investment in the region could see the market rebound.

Investors in the south east are enjoying reasonable yields. Mount Gambier is achieving yields of 5%, while its basic, semi-detached masionettes priced at around $100,000 are generating yields as high as 8% - though note these properties do tend to carry higher risk as tenant quality can be questionable.

Upper North

The northern regions of South Australia are experiencing very flat conditions. That said, the recent announcement by BHP Billiton that the federal government has approved the company's plans to expand mining activities at nearby Olympic Dam has generated an increase in property enquiries, though these are yet to translate into sales.

As with the rest of South Australia, residential property values in the state's north have contracted over the past 18 months. This has been driven by an oversupply of properties especially around the Upper Spencer Gulf. However, Roxby Downs is bucking this trend, experiencing growth in both capital values and rental returns. This situation was expected to be nearing its expected peak with BHP about to release more rental properties onto the market. The recent decision by the federal government to sell uranium to India may see this trend continue, as Olympic Dam is the single largest known deposit of uranium in the world.

Source: Herron Todd White

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