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Westpac

PROPERTY REPORT

Tasmania

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

Tasmania

Challenging economic conditions and the closure of several timber mills have exacerbated an already cooling Tasmanian property market. However investors are benefitting from strong yields and a low vacancy rate, and this could encourage further interest in the state's rental market.

Tasmania's residential property market has not been spared the price falls that have impacted much of mainland Australia throughout 2011. Over the past 12 months the median property price for Tasmania has fallen by 4.8%, pushing the median value down to $295,000.

Each of the state's three main regions (north, north west and south) reported negative growth for the September 2011 quarter – making it the fourth consecutive quarterly fall for the north western region.

Sales volumes are also down, falling by almost 5% though this figure climbs to 9.9% for Hobart and 15.9% for Launceston.

Until mid-2011 Hobart's inner city residential market was performing well, even recording a slight increase in median values. The market cooled in the second half of the year though inner city locations remain best placed to enjoy capital growth once buyer confidence returns to the market.

Lower values are driving firmer rental yields for investors in Tasmania, and former Housing Commission dominated suburbs in both Launceston and Hobart are achieving gross yields of approximately 7.5%. Suburbs such as Bridgewater, located 19 kilometres from the Hobart CBD, and Rocherlea, a northern suburb of Launceston, are typical examples of this. The strong yields, which are far higher than the 5% to 6% seen one to two years ago, are likely to come at the expense of capital growth, which is expected to remain low in these areas.

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Challenging economic conditions

The key driver dampening Tasmania's property market at present is a weakening state economy. The near collapse of the state forestry sector has impacted heavily on many regional areas including Scottsdale in the north east, and Triabunna on the east coast.

Indeed the Triabunna Mill, which was regarded as a significant part of the industry's supply chain, was sold earlier in 2011 with the new owners announcing plans to transform the mill into an eco-tourism site. Triabunna Mill is one of several assets that former owner, timber company Gunns, has earmarked for sale.

In late 2011, BCD Resources announced the impending closure of the infamous Beaconsfield Gold Mine in northern Tasmania, which will result in the loss of more than 150 jobs.

Retail growth across Tasmania has been negative in 18 of the last 19 months and business confidence remains weak.

Despite all this, the unemployment rate in Tasmania mirrors the national average at 5.3% - a level the State Treasury describes as historically low.

New developments will provide jobs

There are bright spots for Tasmania – it's not all gloomy news. The recent approval of a $400 million wind farm in Musselroe Bay in the state's northeast is expected to create 200 new jobs.

In September, Circular Head Council approved a $70 million dairy development for Tasmania's north-west. The project, located on the former Gunns sawmill site at Smithton, will eventually produce powdered milk, giving a major boost to the dairy industry across Tasmania and creating 150 jobs during the plant's construction.

Despite these positive developments, further home price falls are expected during 2012, though a great deal hinges on developments in the international economy and the availability of global funding. In the current environment of falling interest rates and low vacancy rates (of around 2%), it is possible that investors will be attracted back to the Tasmanian market. Lower prices have enhanced affordability, and rising yields have become more appealing, particularly in the light of recent stock market fluctuations and reversals.

Source: Herron Todd White