Herron Todd White

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Westpac

PROPERTY REPORT

Victoria

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

Victoria

Historically, Melbourne's residential market has outperformed other major cities, however a noticeable decline in sale volumes in 2011 reflects the broader state - and national - trend of cooler market conditions.

Melbourne

Broadly speaking, 2011 delivered minimal capital growth across all Melbourne suburbs. Some inner ring suburbs including Albert Park, Carlton, Hawthorn East and South Yarra have recorded strong gains though these have been driven largely by single, large value sales where the prices were extremely specific to each property and not representative of the norm.

Upward movers

Presently, the western suburb of Footscray, situated six kilometres from the Melbourne CBD, is bucking the trend, and going from strength to strength. The thriving multicultural community attracts young couples and families, which is changing the suburb's demographics. Rental demand is rising due to relatively reasonable rents and desirable period housing. Transport options are plentiful, with numerous buses, trains and trams servicing the area, providing direct access to the Melbourne CBD. The pending $350 million development to transform the Footscray rail station precinct will inevitably rejuvenate the landscape of Footscray if approval is granted.

"Rental demand is rising due to relatively reasonable rents and desirable period housing."

Downward movers

Some suburbs, such as Frankston North located 38 kilometres south of the Melbourne CBD, have not fared so well. The past 12 months has seen a decline in both sales volume and sale prices as buyers opt for suburbs offering growth through redevelopment, improved transport links and plentiful amenities. The suburb's median price has fallen from $300,000 a year ago to $270,000 at the start of 2012.

Ferntree Gully located 29 kilometres from the Melbourne CBD in the Dandenong Ranges has also experienced declining capital values – the median house value falling by 5.8% over 2011 to $425,000. Despite this downward trend, Ferntree Gully still presents as an affordable suburb for first time buyers.

Looking ahead

Under the Victorian Government's $200 billion Growth Corridor Plan, Melbourne's northern, south eastern and western suburbs will be subject to an extensive planning overhaul, with up to 350,000 new homes to be created, providing considerable employment opportunities.

The scale of the proposed plan reflects the 'urban sprawl' currently being experienced in Victoria, creating new housing and transport pressures. The Growth Plan should see some suburbs benefit substantially over the coming years. In particular, Wyndham Vale, Craigieburn, Sunbury, Tarneit, Cranbourne, Werribee, Officer and Clyde offer good opportunities for first time buyers unable to enter the inner Melbourne market due to affordability constraints.

Located 36 kilometres south-west of the Melbourne CBD, Wyndham Vale is a densely populated suburb that has bucked recent price falls. Numerous residential development projects have occurred across former farmland and it is hoped that once the Wyndham Vale railway station and Western ring road are developed, the current congestion pressures on existing transport routes will ease. If this occurs, young couples and families will be attracted to the area, pushing up capital values. Rental yields currently range from 4% to 4.5%, with a median house price of around $350,000, representing year-on-year growth of 9.7%. Affordability remains a key attraction of the area, and it is definitely a suburb to watch in 2012.

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Regional Victoria

Geelong

Geelong is benefitting from a population shift away from Melbourne towards the urban growth boundary. Highway upgrades have reduced commute times, and Geelong combines an efficient rail service with good schools and desirable lifestyle features. A ring road is currently under construction, and planned improvements in the capacity/reliability of the regional rail network servicing the Geelong area will increase the city's popularity. With building activity strengthening, Geelong is viewed as an investment hotspot - it was a solid all-round performer of 2011, and potentially will continue to be in 2012. Yields range from 4.5% to 5%, with a median prices ranging from $290,000 for units to $530,000 for houses. Vacancy rates have fallen to 1.8% highlighting the strength of the local market.

Gippsland

Gippsland got off to a strong start at the beginning of 2011 though sales volumes fell towards the latter part of the year, resulting in a flat market by year's end. Properties priced above $500,000 are experiencing particularly protracted selling periods.

Traralgon and Waragul are the region's best performers based on land prices, and although rental demand remains strong, rents are static as supply continues to outstrip demand.

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Mildura

The strongest price rises in Mildura over 2011 came from vacant residential lots. Despite limited demand and sluggish prices early in the year, two interstate building companies invested in the area offering house/land packages that have driven up housing lot prices. By year's end some 80 blocks were sold, leading to a shortage of serviced lots. Overall, land prices climbed by around 10% during 2011.

Values have also firmed in some segments of Mildura's house market. The $500,000 to $700,000 price bracket can buy spacious, modern, quality houses on rural residential lots (4,000sqm) within seven kilometres of the heart of Mildura. This market segment was hit hard during the 2007/09 drought as significant water restrictions reduced buyer enthusiasm for large gardens, however since mid-2010 the segment has enjoyed strong sales activity.

The low end of Mildura's housing market has remained sluggish, and houses that were sold for around $200,000 in 2007/08 are currently being resold for around $175,000.

Mildura has a tight rental market, where a new, $300,000 brick veneer house should attract a weekly rent of around $330, delivering a gross yield of 5.7%. There is an evident undersupply of new units/townhouses, particularly in favoured areas of the city, however almost no new unit complexes have been built in the last two years as developers struggle with availability of finance and an uncertain global economy. This shortage could underpin long term capital growth in the city's unit market.

Source: Herron Todd White