Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

NSW / ACT

2011 residential property outlook – national overview

For this edition of our quarterly residential property report, we have sought the opinions of Herron Todd White valuers from around the country on what 2011 has in store for the nation's property markets – and generally, they paint a subdued picture.

As we celebrate the start of a New Year, most major markets have an abundance of properties listed for sale. This is keeping a lid on prices and in some cases forcing values down, a situation likely to continue throughout 2011.

The interest rate hikes of 2010 forced many prospective and existing buyers to rethink their capacity to pay off a home. Recent months have seen rising numbers of forced or mortgagee in possession sales and this could become more commonplace over the next 12 months – especially if interest rates continue to rise.

However, rate hikes are only partly to blame for the current market cooling. In States like Tasmania the closure of key employers has undermined buyer confidence. In other areas, such as Queensland's Gold Coast, population growth is slowing as workers seek employment opportunities elsewhere.

Faced with plenty of competing properties and limited buyer interest, many vendors will be looking at two main choices in 2011 – lowering price expectations or accepting longer selling periods. On the flipside though, 2011 is shaping up as a year that will offer real opportunities for buyers.

Also, there are plenty of locations offering good prospects for longer term capital growth. Many of these enjoy the support of government infrastructure prospects, such as the new Fiona Stanley Hospital in the Perth suburb of Murdoch or the transit-oriented development taking place in the Adelaide suburb of St Clair.

The mining boom continues to support property values in other parts of Australia. Darwin will benefit if the proposed Inpex Gas Project receives approval, and in Queensland, the Gladstone area is the focal point of a number of proposed resource-based developments. In Western Australia, the government-funded Pilbara Cities Program will provide long term support for the State's northern mining centres.

Although 2011 is likely to prove challenging for vendors, it should be a year that gives many buyers – from first timers through to investors – a valuable chance to secure a residential property at a sharper price.

It would be remiss if we didn't mention the destructive floods in January. It's still too early to tell what impact they will have on the economy and prospects of a number of property markets in Queensland, New South Wales, Victoria and Tasmania.

Many of the floods in Queensland, for example, reached levels not seen for over 30 years, and in some instances, set all time records. With the passage of time memories fade, and the differentiation between flood-free and flood-prone property will grow smaller. However, these unfortunate events provide a timely reminder of the damage flooding can cause to property and belongings. As a result, we expect that buyers will be more likely to adopt a somewhat more cautious stance toward flood affected property and areas.

The floods could also have a significant impact across many businesses and sectors of the economy. However, it is likely to create strong demand for building services firms and provide a significant financial injection into local economies – although some regional towns may face capacity constraints.

Brendon Hulcombe
Chief Executive Officer, Herron Todd White

New South Wales

Concerns over the interest rate outlook coupled with a generous supply of sales stock are restraining property price growth in New South Wales and the ACT.

Sydney

The statement "coolest spring on record" doesn't just apply to the Waratah State's weather conditions. The period from August through to October 2010 delivered anything but prime selling conditions as intense speculation over interest rate movements, the hangover from a tight federal election and continued global economic uncertainty pushed Sydney's property market into something of a holding pattern.

While mid-December 2010 saw over 400 properties listed for sale at auction, the last few months of 2010 were characterised by a massive drop in buying activity, and figures from the Australian Bureau of Statistics (ABS) confirm that new financing for home or investment properties is at a 10-year low.

On a positive note, the downward trend in housing market activity appears to have bottomed out. The Sydney market has a history of rebounding quickly from previous lows, and it is likely that by spring 2011 selling volumes could start to return to normal levels.

In the short term this is good news for buyers. A healthy volume of properties will continue to be listed for sale, giving buyers plenty of choice as well as keeping price growth in check.

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Regional NSW

Key population centres of NSW such as Newcastle and Wollongong are experiencing tough labour market conditions, and any further pressure on interest rates will continue to suppress property price growth.

Additional uncertainty lies ahead with the State Government election scheduled for late March. A whole raft of property-based taxes will be up for grabs including stamp duty, land tax, infrastructure levies and first homebuyer incentives. With the incumbent Labor Government desperate to maintain power, anything could happen here.

Irrespective of what happens in Macquarie Street, credit markets remain tight. The implementation of the National Consumer Credit Code and its prescription for responsible lending will place further restrictions on home lenders so the New South Wales housing market certainly won't be awash with cash.

Taken together, these are not the sorts of conditions that will underpin the next property boom, and over the short term, capital gains are unlikely to exceed wages growth. Reflecting this, property prices in Sydney, Newcastle and Wollongong are expected to grow by little more than 2% to 3% in 2011.

ACT

An increasing volume of sale and rental stock is expected to come onto the Canberra market in 2011, creating a buyer's market.

The increase in rental stock will lift the ACT's vacancy rate, and as a result, rents are expected to remain steady or even soften in outer suburban areas and in larger unit developments.

A number of large apartment developments are due for completion in 2011 including 'Oracle' at Belconnen, 'Verve' at Bruce and 'Kingston Place' in Kingston. This increasing supply is likely to limit capital growth.

Value gains are expected to be limited to well located properties providing quality accommodation. Sale volumes in the ACT are already trending downwards and vendors of properties in inferior locations or of a lower standard may need to lower their price expectations or expect prolonged selling times.

Under these conditions, Canberra property prices overall are not expected to grow by more than 5% in 2011.

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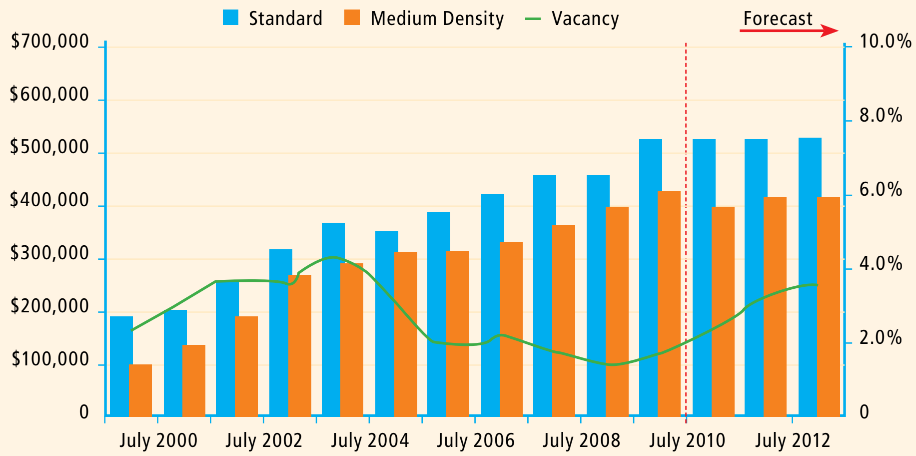
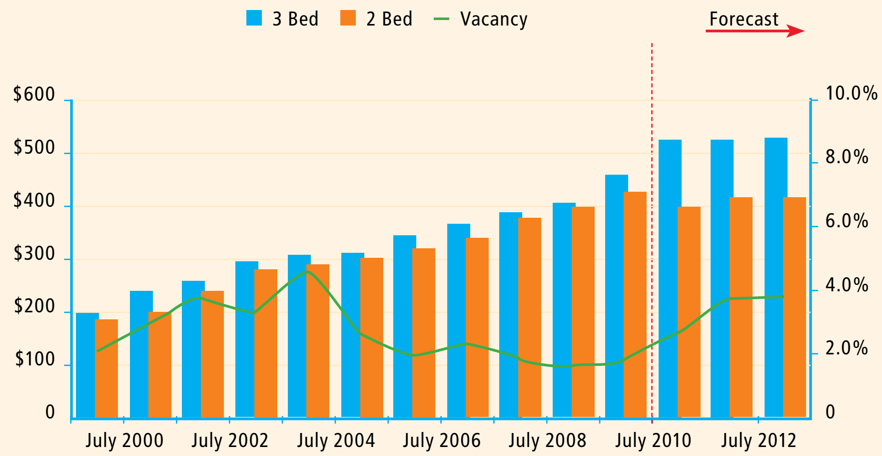
Canberra – Median Prices & Vacancy



Canberra – Median Rents & Vacancy



Source: Herron Todd White

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