Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

South Australia

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

South Australia

The South Australian residential property market has cooled over recent months, potentially heralding a return to a lower, more sustainable, growth pattern.

Spring 2010 saw the traditional increase in properties offered for sale in Adelaide, but low numbers of buyers kept auction clearance rates below long term trends, and stock levels are currently at the highest point for some time.

The final months of 2010 saw an easing in the volume of sales transactions in South Australia. Continued speculation about the health of the economy is believed to be behind the slowdown, and sales volumes are currently tracking at 15% below the State's 10-year average.

In early 2011, the heightened supply and tougher selling conditions are fuelling a buyer's market in South Australia. However, the threat of potential interest rate rises and lower affordability are likely to restrain buyer enthusiasm for the foreseeable future.

The flow-on effect is that vendors may be forced to adjust their price expectations in order to sell their property, and this could see property prices stagnate or even fall during the course of 2011.

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Development opportunities

In this environment, good buying opportunities still exist. Numerous Adelaide suburbs featuring older homes or former SA Housing Trust areas remain ripe for redevelopment. These locations often feature larger blocks suitable for subdivision or for building small, community-titled projects. Such properties also offer affordable prices and are usually located 8 to 15 kilometres from Adelaide's CBD in areas offering established facilities and services.

To the city's south, the suburbs around Westfield Marion Shopping Centre are priced from under $500,000 and Marion Council is looking favourably upon redevelopment and/or sub-division of existing properties. Surrounding suburbs offering growth potential include Park Holme, Oaklands Park, Sturt and Dover Gardens.

In Adelaide's north east, the suburbs of Campbelltown and Paradise offer properties priced below $450,000.

Demand for medium density properties with close proximity to the CBD is expected to continue in 2011 owing to greater affordability, low maintenance lots and established locations. This type of development is also well suited to investors. As an example, 13 townhouses under construction (in December 2010) on Port Road at Woodville sold quickly, and at their asking prices.

Transit-oriented developments are taking place in St Clair and Cheltenham, with land and home packages selling well in both sites. The St Clair site is the largest infill development in Australia in recent times and comprises 22 hectares of open space, wetlands and recreational areas – and 1,200 new homes. Along with a village square and cafés, a new railway station is planned for the suburb in keeping with the State Government's 30-year plan for Greater Adelaide. Demand for homes in St Clair is likely to push up values in adjacent suburbs in 2011 as infrastructure and services associated with the new development benefit the wider community.

Elsewhere in Adelaide, the substantial supply of land made available recently within the areas of Blakeview and Munno Para West may result in prices remaining stagnant for an extended period.

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Rental market remains tight

Adelaide's rental market remains very tight with vacancy rates below 1%. Competition among tenants coupled with tight supply is likely to push rents up. Investors with a long term (five years plus) outlook can select from a number of areas offering growth potential. These include the inner northern and western suburbs, which are more affordable than inner southern/eastern areas. These suburbs also offer good services and proximity to the CBD, both of which enhance tenant appeal.

Adelaide's $2 million-plus prestige market is likely to remain steady throughout 2011.

Regional markets to remain slow

Regional areas of South Australia are likely to struggle during 2011 – the exception being townships close to mining exploration and feasibility activity.

The South Australian market overall is unlikely to see a repeat of the short term gains made at varying times over the last ten years, and home owners may need to rethink their expectations of price growth, at least for the foreseeable future.

Source: Herron Todd White