Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Tasmania

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

Tasmania

Tasmania's residential property market is likely to experience challenging conditions in 2011 as higher interest rates and a weak labour market erode buyer confidence.

The health of Tasmania's property market is being impacted by a number of key economic challenges. Unemployment currently sits at 5.5% and the State's labour market is expected to contract further during 2011. Over the last two years Tasmania's forestry industry has shed one third of its workforce and this could worsen as the Federal Government refuses to offer the industry financial support.

Retail turnover in Tasmania was down 1.2% in the September 2010 quarter, and the average wage at the end of 2010 was 15.4% below the national average. Adding to the already difficult conditions, the strength of the Australian dollar is impacting Tasmania's tourism market and this will put further pressure on the local economy and small businesses. Any further increases in interest rates will significantly erode buyer confidence and property values.

The bottom line is that 2011 is set to be a slow year for residential property in Tasmania, and the prolonged selling periods seen in 2010 are likely to become more commonplace.

Hobart

Reduced sales volumes are impacting all areas of Hobart's property market in both the CBD and suburban locations. The only bright spot is waterfront properties, which continue to enjoy buyer demand.

The interest rate hikes of 2010 are putting pressure on home owners and the market is likely to see a growing number of mortgagee in possession sales, particularly if rates climb higher or the labour market contracts further.

The increased stock resulting from mortgagee in possession sales is likely to be met by reduced demand, however, for keen buyers there should be a broad choice of 'cheap' or forced sale properties offering excellent value.

"The bottom line is that 2011 is set to be a slow year for residential property in Tasmania, and the prolonged selling periods seen in 2010 are likely to become more commonplace."

Launceston

Launceston is the bright spot in Tasmania's property market. The city is likely to experience steady prices at the bottom end of the market though some weakening may occur in the eastern suburbs featuring housing commission estates.

Mid-range property prices will remain soft, and the top end is set to weaken. Vendors can expect generally longer selling periods. Investors in this region should fare slightly better with rents likely to rise by around 3% in 2011.

To the north east of Launceston, the State's regional forestry-dependent centres such as Scottsdale will see continuing falls in property values over the next 12 months. This will have a knock-on effect on rural lifestyle holdings in surrounding townships, and this segment of the market is expected to remain oversupplied. There is a clear need for these areas to attract new industries, and without this, many regional areas could see a population drift to centres offering employment opportunities.

Northern Tasmania

In the north of Tasmania, encompassing Devonport and Burnie, a number of key employers have shut their doors over the last 12 months. Two paper mills have closed along with the vegetable processing plant in Smithton and a carpet manufacturer at Devonport. This is pushing property prices down across all sectors of the region's residential market.

A number of forced sales took place in this area late 2010, many leaving vendors with significant losses. As a guide, a Penguin property purchased for $184,000 in early 2009 was sold for $135,000 in November 2010. This is likely to be reasonably typical of the market in regional Tasmania across 2011 and while it is bad news for vendors, it provides buyers with a wealth of bargains.

Elsewhere in Tasmania, demand for holiday homes/second dwellings is continuing to fall and the market in many holiday centres is oversupplied.

Source: Herron Todd White

The information in this report has been prepared by Herron Todd White. The information is current as at the publication date only. Westpac Banking Corporation accepts no responsibility for its accuracy or completeness.

The information contained in this report is provided in good faith and has been derived from sources believed to be reliable and accurate. However, the report is not intended to be comprehensive or render advice and neither Herron Todd White nor any persons involved in the preparation of this report, accepts any form of liability for its contents.