Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

NSW / ACT

Introduction

The Australian property market is experiencing mixed fortunes, and while 'upgraders' have taken over from first home buyers in many areas, the state of markets around the country is far from uniform.

Buyers in many areas remain hesitant following a string of interest rate rises with the possibility of more to come. Concerns over European debt woes, and the possibility of wider economic fallout also weighs heavily on the market.

In some areas where financial impact of tourism is particularly important, for example coastal Queensland and the south coast of West Australia, property markets remain generally subdued post the Global Financial Crisis.

Friction between the Federal Government and the mining industry had a negative impact on property markets in resource-rich regions, with many buyers adopting a 'wait and see' approach. However, with a more conciliatory new Prime Minister, and a lower rate of mining tax than originally proposed, property markets in mining regions may strengthen.

'Upgraders' fill the gap

One of the key features of today's market is a marked slowdown in first home buyer activity following the cutback in government incentives at the end of 2009. In many parts of Australia, prices at the low end of the market rose steeply throughout 2008/09 reflecting increased activity among first home buyers. In some cases prices rose beyond the value of the additional incentives, however, without continued strong demand from first home buyers, values at the lower end of the market could remain static for some time.

Upgraders are tending to fill the gap left by first timers, buoyed by increased home equity – the result of several years of strong price growth. The challenge for many upgraders may be selling their existing home. This is especially the case for owner occupiers whose properties are in the lower price ranges that traditionally appeal to first home buyers.

Yields rising

One positive outcome of a cooler market is an increase in rental yields through lower prices. This may see investors take the lead as the main market driver in the months ahead, particularly if home affordability worsens as a result of future interest rate rises.

Brendon Hulcombe
Chief Executive Officer, Herron Todd White

New South Wales

Sydney

Different factors are at play, affecting the various segments of Sydney's property market. Continuing volatility in global markets is eroding confidence in the prestige sector though increases in demand may come from overseas purchasers if the Australian dollar weakens further. At the low end of the market, higher interest rates remain a key factor affecting values.

It is in the middle market that upgrader activity is most obvious. Limited supply has seen many properties sell above expected reserves. Sydney's inner west and inner east have shown particularly strong growth as buyers in suburbs such as Annandale, Lilyfield, Balmain and Paddington, Bondi and Surry Hills compete for limited stock. Offshore demand may also support the middle market, particularly in inner city areas experiencing a shortage of sale stock.

At the lower end of the Sydney market, Westmead and Wattle Grove have enjoyed significant growth. In the south west, values rose between 5% and 20% between September 2009 and April 2010 however some areas are now stabilising as a result of higher interest rates.

Sydney's highest rental yields are found in the Liverpool and Cabramatta/Fairfield strata unit market. The lowest rental yields are recorded among Torrens title homes in the Campbelltown region.

Newcastle

Second and subsequent home buyers have become the driving force in the Newcastle region though this has not necessarily equated to meaningful growth in values. Rather, the region appears to be undergoing a period of stability.

Rental yields are still highest in the suburbs with lower socio economic characteristics, where most properties comprise former public housing dwellings. In the suburbs of Gateshead and Windale for example, gross rental yields are around 6% compared to returns of 4% - 4.5% for the Newcastle region generally.

The area's highest valuation was for 'The Hill', a 2-storey, circa 1890 home valued at $2.7m. A beachfront unit at Soldiers Point recently sold for $852,500.

"The Newcastle region appears to be undergoing a period of stability."

Central Coast

With the phasing out of additional first home buyer incentives, upgraders have become extremely active within the Central Coast. Interestingly, investors have also stepped in as purchasers of house and land packages in areas traditionally populated by first home buyers. This suggests ongoing confidence and affordability in these areas, and that returns are sufficient to allow this segment to continue. Rental yields are consistent at around 5% across the region.

The issue of rising sea levels has attracted controversy over the last quarter, generating concern over the likely effects on real estate values. This is an issue that has the potential to significantly affect the medium and long term value of beach, near beach, and lakeside properties.

Wollongong/Illawarra

The Illawarra market is currently dominated by owner-occupiers, predominantly 'mum and dad' buyers looking to secure the second family home in the mid-tier price range. This is coupled with a growing trend to knock down and rebuild/renovate older properties in inner suburban areas.

The benefits of upgrader activity are generally being seen across the region from Helensburgh through to Kiama. This change in market dynamic has meant that vendors are achieving stronger prices, properties are selling quickly and more stock is coming onto the market.

Rental yields of 5% - 6% are found in outer areas where rental demand is still strong. Rental activity remains strong in inner city suburbs but yields fall to as little as 2% in line with higher values.

"This change in the Wollongong/Illawarra market dynamic has meant that vendors are achieving stronger prices, properties are selling quickly and more stock is coming onto the market."

Regional New South Wales

The cutback in first home buyer incentives has impacted markets in regional NSW though to varying degrees. In the Bathurst region upgraders are proving resilient to interest rate increases due to healthy equity in existing properties. Capital growth has been concentrated in the $300,000 to $450,000 bracket where values have risen by around 5% over the past six months.

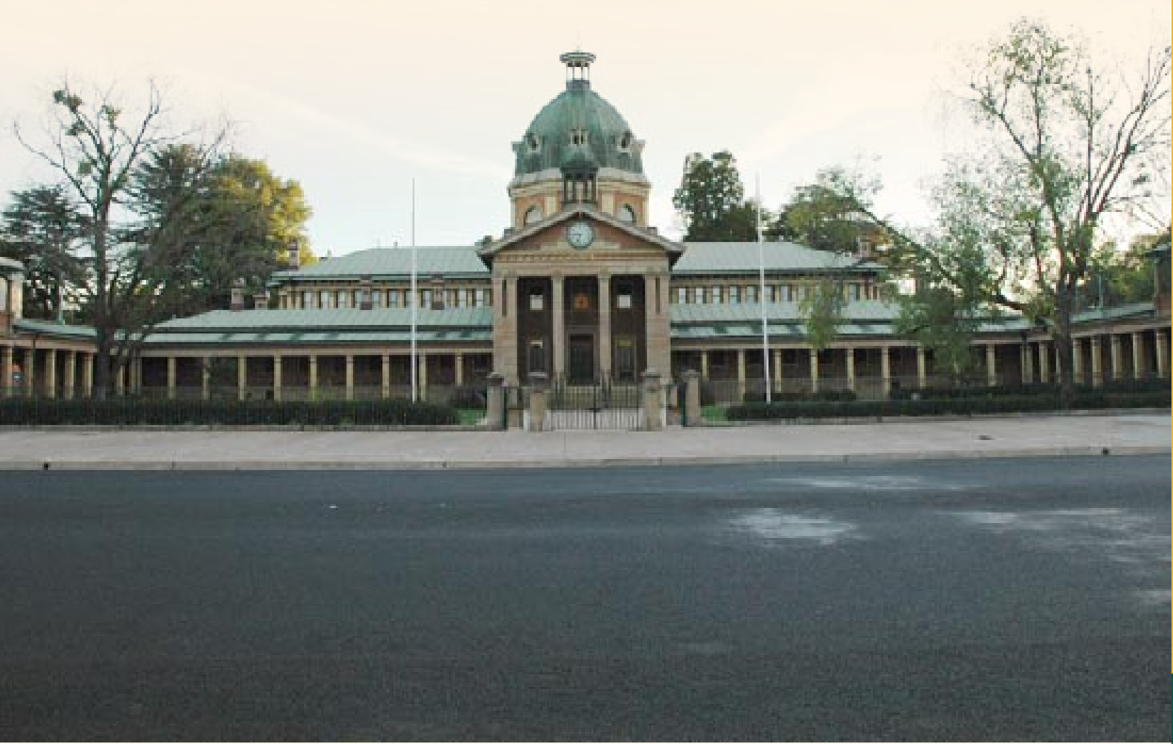
The Orange economy is heavily influenced by the Cadia Mine, currently undertaking a major expansion. This has resulted in a major shortage of rental properties in the city, and investors in new medium to high value dwellings are currently achieving near-positive gearing.

In Mudgee, overall activity has decreased slightly over the quarter, however rents have increased in all sectors of the market. This is being driven by local coal mine developments, and demand for rental properties currently outstrips supply.

The expansion and development of new mines in the Tamworth area has fuelled price growth and rental demand in Gunnedah and Narrabri. Yields of 6% on houses and 8% for units are being achieved, especially in Gunnedah.

In the South West Slopes region capital growth is flat, and values in Young are declining following the closure of the Burrangong Abattoirs. This has also increased the volume of rental stock available.

Also in the south west, rental yields of 5% - 7% are being achieved in Deniliquin.



Australian Capital Territory

Canberra

The Canberra market continues to enjoy the impact of high stable incomes and low unemployment. With the support of public sector employment, the region is proving resilient from many of the issues affecting markets elsewhere in the country including drought or concerns over potential changes to mining tax.

Properties in Canberra are being strongly traded and new supply is due to enter the market in the next few years. Land releases in new suburbs are government controlled and demand from purchasers remains high.

"Capital growth has occurred in all regions of Canberra since the start of 2010."

Upgraders remain active

Upgraders are an active segment of Canberra's current residential market. Equity in current homes and/or investment properties is facilitating the purchase of additional investment properties or homes that are larger, in more desirable locations or offering additional features.

First home buyer activity still exists in the Canberra market especially in Gungahlin where government land releases are keeping demand high and supply controlled. Vacant blocks in the Gungahlin development are priced between $200,000 and $400,000.

New releases of land in the Molonglo Valley in the new suburb of Wright may also attract first home buyers, though high prices may pose an entry barrier. The ballot for the first potential purchases of land has closed and transactions should soon occur to gauge the area's land value.

Capital growth remains strong

Capital growth has occurred in all regions of Canberra since the start of 2010. Growth is strongest in the inner north and southern suburbs where low supply coupled with continuing demand is pushing up prices.

Canberra's median house price is currently $500,000, up from $450,000 in March 2009 – a rise of 11%. The median unit price is currently $385,000 compared to $363,000 12 months ago, an increase of 6%.

Rental yields of 5% - 6% are achievable in outer suburbs where demand is still strong. Yields fall to around 2% - 3.5% in inner city suburbs.

A record house price of $7.3 million was recently achieved for a Red Hill home. In the apartment market, a 2-level 3-bedroom Kingston penthouse unit was recently valued at $2.425 million. Featuring quality inclusions, the property offers extensive northerly views over Canberra and Lake Burley Griffin.

The lowest valuations for the Canberra area included a 1960s Queanbeyan house valued at $330,000. More typically, houses at the low end of the market are valued at around $350,000.

The cheapest apartment was also located in Queanbeyan. Valued at $170,000, the unit was a small 1970s, 1-bedroom property with a single carport. This valuation was well below the average of $250,000 that is more indicative of this end of the market.

Source: Herron Todd White

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