Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Victoria

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

Victoria

Across Victoria the state of the property market varies tremendously. Strong population growth is continuing to drive the metropolitan Melbourne market while elsewhere in the state the lingering effects of the financial crisis and/or drought are capping property price growth.

Melbourne

Melbourne is currently enjoying a population boom supported by interstate migration along with immigration from Britain, New Zealand, China and India. This has been positive for Melbourne's property market though an oversupply of stock is emerging.

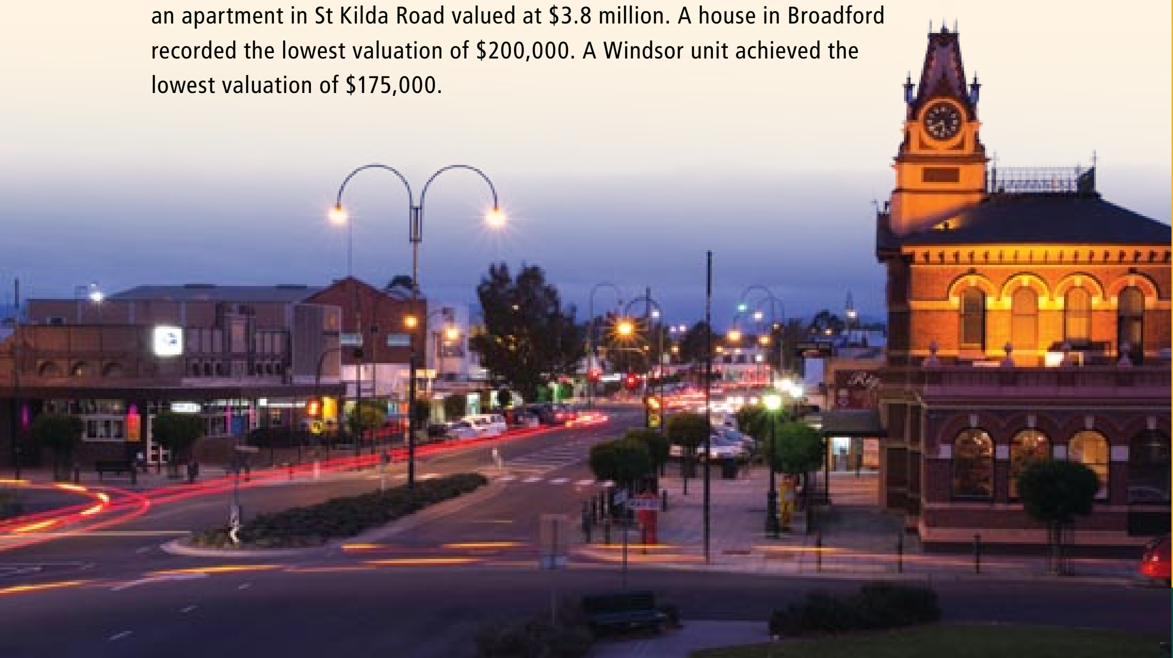
Upgraders have taken over from first home buyers in Melbourne as low interest rates and strong levels of equity give existing home owners an opportunity to trade up. However the market pendulum is currently swinging towards buyers as values recede from the record strength of the previous 12 months.

Auction clearance rates are dropping to about 70% and this could be a consequence of rising supply. As a guide, an estimated 1,000 properties were available for auction in Melbourne in a single weekend in mid-June. For some vendors it may be a case of having 'missed the boat' as winter is bringing record volumes of properties onto the market.

Results from the quarter suggest the Melbourne market as a whole is beginning to plateau. Toorak's $3 million-plus market is stabilising, and although few areas are declining in value, Maribyrnong (located 5 kilometres from the CBD) is an exception, as the median house price has dropped by around $35,000 in the quarter to March 2010. Areas like Point Cook, which saw significant growth last year, are experiencing softer values. Glen Waverley and Mount Waverley remain strong.

Strong rental yields of around 5.5% are still evident in Melbourne's CBD, Docklands and Southbank areas. Weaker yields of 3% - 3.5% are found in traditional blue chip suburbs such as Middle Park and Kew.

Among the quarter's highest valuations were a house in Kew valued at $7.7 million and an apartment in St Kilda Road valued at $3.8 million. A house in Broadford recorded the lowest valuation of $200,000. A Windsor unit achieved the lowest valuation of $175,000.



"Strong population growth is continuing to drive the metropolitan Melbourne market..."

Gippsland

In the Gippsland region, upgraders have become a strong force mainly due to the lack of available land. Prices for vacant land remain strong due to this lack of supply, coupled with an increase in demand. This is especially the case in the Wellington, Latrobe and Baw Baw Shires. In the beach areas of Loch Sport, Golden Beach, Seaspray and surrounding coastal areas, demand remains low and supply is strong.

The Sale/Traralgon region remains stable as a result of strong employment and a healthy local economy supported by construction activity within the oil and gas industries. Additional activity including the construction of a desalination plant at Wonthaggi, the RAAF Base at East Sale and power stations in the Latrobe Valley add further support to the local economy.

Murray Riverina

Sales activity in this market is dominated by upgraders, though overall most segments of the market remain flat. There has been only a minimal change in property values, and in some cases extended marketing periods are required to attract buyers.

Albury Wodonga

The border region of Albury Wodonga is experiencing flat conditions at present. Many of the region's industries are export-based and the lingering effects of the financial crisis have seen cuts in shift hours and some staff lay-offs.

A number of proposed developments are planned for the area including a new shopping centre in the suburb of Thurgoona, and an additional retail centre in Wodonga.

Despite these developments, there is a sense of pessimism relating to prolonged drought conditions, and the cut back in first home owner incentives has cooled this segment of market. This has had a flow-on effect, leaving home owners at the lower end of the market unable to sell their properties. As a result, price growth has stagnated - though a notable exception is West Wodonga, where prices have moved upward by as much as 10% over the June quarter.

Central Albury is showing the highest rental yields of up to 6.5% gross for strata units, falling to 4.5% - 5.5% for homes in sought after locations.

Elsewhere, satellite regions including the Bendigo area are providing higher yields for investors even though opportunities for capital growth appear limited.

Source: Herron Todd White

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