Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

NSW / ACT

National overview

In this edition of the Westpac Herron Todd White Residential Property Report we take a look at opportunities available for property investors, and owner occupiers, who are prepared to take a long term view.

There appears to be little doubt that the first quarter of 2011 was marked by a generally cooling residential property market. However, it's not the case of "the bubble is bursting", as has been predicted by some pundits. Rather, the market is experiencing a plateauing of values in areas that have seen significant price gains in recent years. For investors and owner occupiers with a long term outlook, this presents a window of opportunity.

Buyers face uncertainties

A number of international and local events have impacted buyer confidence this year. Uncertainty over upheaval in the Middle East and northern Africa, concern over the economic impact of Japan's devastating earthquake/tsunami and worries about lingering sovereign debt woes in Europe are, understandably, prompting some buyers to adopt a "wait and see" approach.

Here in Australia, several local events have also impacted the property market. Bushfires in the Perth Hills and Peel region have impacted demand for lifestyle properties. And of course, many parts of Queensland and Victoria are still recovering from major flooding and the destruction caused by Cyclone Yasi.

When these events are considered together with last year's string of rate hikes and the threat of further rises, it's hardly surprising that the residential property market has cooled from its highs of 2010.

It's not great news for vendors but for long term investors and owner occupiers with a horizon of five years-plus, opportunities do exist.

Opportunities exist

In some parts of the market, especially south east Queensland, many buyers paid a significant premium for properties purchased at the height of the boom. Following last year's interest rate hikes, a growing number of properties are coming onto the market as "distressed sales". This is giving today's buyers an opportunity to secure discounted properties – particularly in areas dominated by first home buyers and investors. A vacuum has emerged in many markets following the withdrawal of the first home buyers boost at the end of 2009 and this continues today.

Long term outlook essential

The key to success in today's market is taking a long range view. Property should always be regarded as a long term asset, but this approach has become essential in the current climate.

The latest data from the Housing Industry Association[1] shows that housing starts are forecast to fall by 15 per cent to just 143,430 new homes in 2011. This will help to provide a base and the falling supply will help to underpin the market.

Inner city living holds enduring appeal

Around the nation, the prime investment "hot spots" are found in inner city areas.

Australians are increasingly seeking out the lifestyle opportunities offered by close proximity to shops, leisure facilities and good transport links, and these are typically found in inner city or city fringe locations.

For buyers taking a long range view, the limited supply of stock in inner city suburbs plus the opportunity to add value through restoration and renovation, further underpin price appreciation in these areas.

Rising fuel costs and growing traffic congestion add further weight to the appeal, and value, of inner city properties.

Infrastructure adds value

In New South Wales the new Liberal Government has made a commitment to improving transport links. This is likely to add long term value to areas in the city's south west including Bankstown and Liverpool, which stand to benefit from improved road and rail links.

Rents remain firm

On a positive note, many rental markets including Perth and Darwin have remained buoyant despite a cooling in property values.

Low vacancy rates are supporting healthy rental yields and this is providing additional incentive for astute buyers.

As a note of caution, investors who anticipate making a "quick profit" in today's market are likely to be disappointed, or worse, may have their fingers burnt. Along with an extended time horizon, it is essential to look for properties in areas offering quality amenities and proximity to transport links. Properties with the potential for investors and owner occupiers to add value through redevelopment or renovation are also likely to outperform over the next five to ten years.

Brendon Hulcombe
CEO, Herron Todd White

[1]HIA Media Release 1 April 2011, Sombre Housing Outlook Demands Urgent Policy Action, says HIA at http://economics.hia.com.au/media/Dec%20Qtr%202010%20National%20Outlook%20media%20release.pdf

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New South Wales

The State's new Liberal Government is putting infrastructure and transport at the top of its priority list. In particular it is committed to creating more express services to the central coast and outer Sydney suburbs of Penrith and Campbelltown. This is likely to create a price premium for properties located along hard rail infrastructure right across the State. Proximity to existing or planned transport links will play a key role in capital growth.

Sydney

In the lower price range, properties located around university hubs offer healthy long term growth backed by rental demand from students. Macquarie Park and North Ryde are standouts here as the ongoing need for student accommodation is supported by new rail infrastructure.

In the under-$500,000 price range, Bankstown in Sydney's west continues to deliver high yields backed by strong tenant demand. Units with good proximity to the railway line and Bankstown City Centre remain affordable relative to their rent return. Two bedroom units constructed in the 1980s to 1990s are currently selling for between $270,000 and $310,000.

In the Liverpool/Warwick Farm area, units priced from as little as $180,000 are commanding rents of around $260 per week – a gross return of about 7.5%. It's an exceptional result for the Sydney area and one that's likely to encourage further investor demand.

Further out, the Mount Druitt region also combines affordability and high yields. Three bedroom properties in average condition in suburbs such as Tregear, Lethbridge Park and Whalan can be picked up for as little as $190,000 to $240,000, and achieve rental returns between $280 and $310 per week. The value of many such properties could easily be improved through affordable renovation and/or refurbishment.

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Mid-price range

Proximity to transport will play a key role in the growth of values in this price bracket. A number of new transit links are proposed for the north west of Sydney including a new rail link between Rouse Hill and Epping. The Liberal Government is also proposing express trains in the south west through East Hills and Holdsworthy. These areas should outperform neighbouring suburbs that are more reliant on motorways.

In the south west, long term gains are anticipated for Georges Hall, Picnic Point and East Hills, which typically feature older homes on generous allotments.

On the north shore, two bedroom units dating from the 1970s are offering good value, especially in the Lane Cove area.

$1 million-plus market

The top end of Sydney's market was hardest hit by the Global Financial Crisis, and suburbs like Vaucluse and Dover Heights, which fell heavily during the period, may have the most to gain from a long term pick up in values.

Nonetheless demand to live near the CBD will always remain strong, especially as traffic congestion worsens and Sydney's population continues to swell. Not surprisingly, market sentiment throughout Sydney's "inner-ring" suburbs has remained robust following the traditional Christmas lull, and among the best long term prospects in this price range are executive properties in the "classic" suburbs of Elizabeth Bay, Potts Point and Kirribilli.

Newcastle

Newcastle's more affordable fringe suburbs offer relatively low entry prices and they are expected to perform strongly over the long term. Locations such as Wallsend, Beresfield, Teralba, Fassiefern and Pelican/Blacksmiths fall into this category, however if fuel prices continue to rise, escalating costs of commuting could act as a brake on long term growth.

Wollongong

The last of the affordable beachside suburbs within commutable distance from Sydney can be found in the northern suburbs of Wollongong, and one of the major influences on this area is Sydney buyers seeking an upmarket beach house with reasonable proximity to the State's capital.

Bulli, Thirroul, Austinmer, Coledale and Stanwell Park are all attractive for these buyers, and are likely to remain popular based on declining affordability in the Sydney market.

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ACT

Canberra's vacancy rates continue to tighten amid reports that the city's universities have experienced tremendous growth in international enrolments. This is providing investors with continued solid rental returns and healthy prospects of long term growth.

In the under-$500,000 market, apartments in the inner north and inner south are experiencing robust demand from young professionals and students looking for furnished rentals. Properties in Belconnen and Bruce offer especially strong investment prospects.

Two and three bedroom units in Ainslie, Dickson, and Downer provide an easy, ten minute commute to Canberra city, and with prices in the mid-$500,000 range these locations remain affordable for investors.

The suburbs of Scullin (Belconnen) and Weston/Woden and the border town of Queanbeyan are ideal as an owner-occupier investment for young families. Offering three bedroom homes on allotments starting at around 700sqm, these areas are well serviced and close to amenities with travel times as low as 15 to 20 minutes to Canberra City and the Parliamentary Triangle.

Source: Herron Todd White

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