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 are putting the spotlight on the opportunities for cashed-up investors and self-managed super funds (SMSFs).

Softer residential property prices around the country are presenting opportunities for aspiring landlords and DIY superfunds, and we'll take a look at some of the stand-out investment real estate markets.

A buyer's market

With lending still tight and confidence relatively low, competition for quality homes is comparatively thin on the ground, particularly in the entry level markets that are typically popular with investors. While prices are yet to hit bargain basement levels, it's fair to say they have flattened out. This is good news for cashed-up investors and SMSFs looking for long-term capital gains.

Leading the way is the Western Australian market, which has stabilised after a booming period of growth. Similarly, there has been a slight drop in Tasmanian real estate values after 10 years of strong returns. Indeed some markets in and around Hobart, such as Sandy Bay, South Hobart and West Hobart, recorded growth of more than 200% over the last decade.

Property a long term investment

While buyers, particularly first timers, might be taking a wait-and-see approach, rental markets around Australia are still relatively strong. As a result, vacancy rates are low and this is keeping rents steady, which is good news for investor cash flow.

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Location, Location, Location

A resounding message from around Australia is that the investment properties with the best prospects of long term growth are located close to city CBDs, regional centres and infrastructure. Melbourne is a case in point. A wave of building activity and apartment development applications continue in suburbs close to the city, defying the national slowdown. It seems it's a classic case of 'build and they will come', as there appears to be strong demand for new apartments in the inner city, and steady sales.

Regarding the impact of infrastructure and employment on housing prices, it is also worth keeping an eye on Australia's resources sector, especially in South Australia and the Northern Territory. In Adelaide, market watchers are anxiously awaiting the announcement about the future of BHP Billiton's multi-billion dollar expansion of Olympic Down, the world's largest known uranium deposit. Likewise in the NT, it seems that Inpex's multi-billion dollar Ichthys LNG Project is getting closer to reality, with the issuing of pipeline licences.

We expect the Adelaide and Darwin real estate markets will experience major boosts when these initiatives come to fruition and the projects start employing workers – both in terms of sales activity and rentals.

Queensland finds its feet

After a rough start to the year, Queensland is slowly getting back on its feet. We are pleased to report that the town of Toowoomba is experiencing slow but steady growth and a stable rental market. About 400 kilometres away in Gladstone, 2011 is also shaping as a very 'robust' year. The rapidly developing coal seam gas industry has fuelled residential development and growth across the board – in terms of real estate values and rents. Vacancy rates have shrunk below 1% and tenant demand appears to be increasing. It is truly pleasing to hear some good news coming out of the Sunshine State.

Brendon Hulcombe
CEO, Herron Todd White

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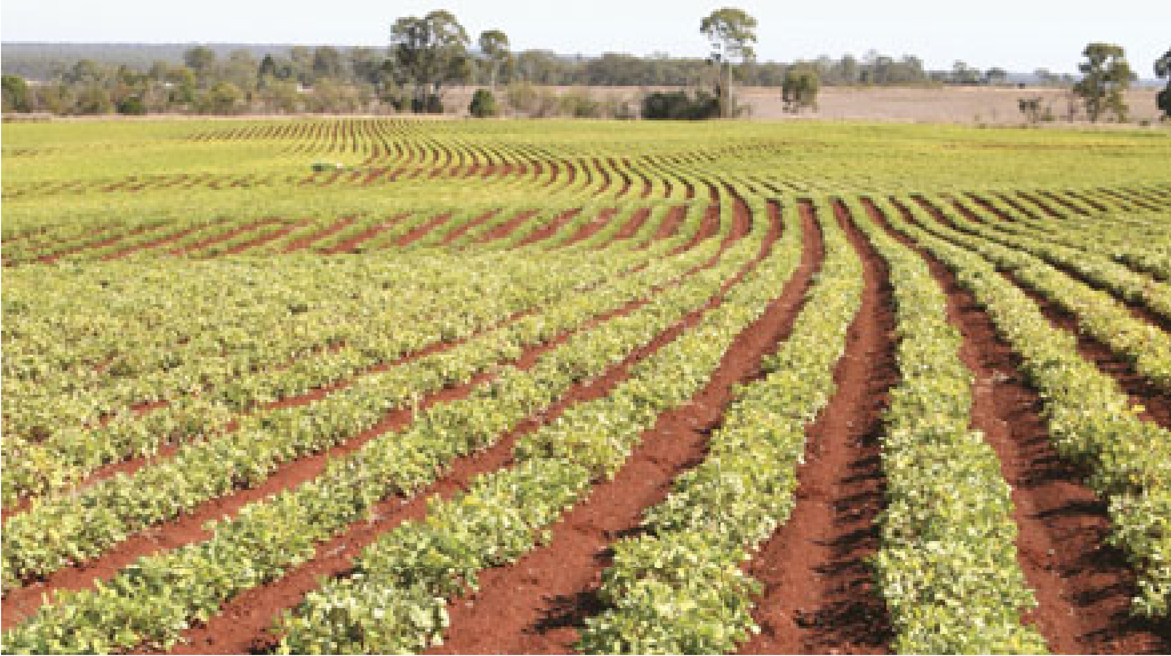


New South Wales

Sydney

When considering an investment home, it is worth determining whether your objective is capital growth or a decent rental yield, or a mix of both. Often generous growth and yield don't go together, so the choice of property and location will depend on your circumstances and investment goals.

Sydney and its outer suburbs offer a substantial range of property types from units to houses that we believe meet yield and/or capital growth requirements.

Sydney house and apartment/unit market

If yield is the objective, then it is hard to go past property in Sydney's south-west, in particular St Marys and Mount Druitt. This region is home to some of Sydney's most affordable homes, with average yields of up to 8.5% in some suburbs.

St Marys

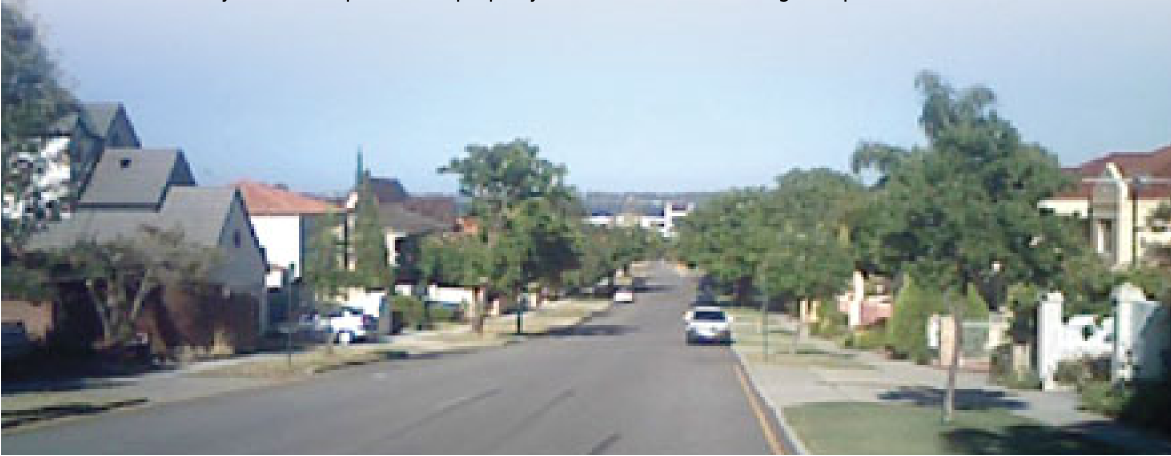
Located about 45km from the Sydney CBD on the eastern side of Penrith, this suburb has good transport links in terms of public transport and access to the M4 Motorway. In addition to being a popular residential market, it also has a significant commercial and industrial presence.

Mount Druitt

This suburb is located about 43km west of the Sydney CBD and also has good transport links by bus, road and rail. The area has a thriving retail hub, Westfield Mt Druitt, and a high percentage of rental properties.

Growth suburbs

Traditional growth regions such as the lower north shore and the eastern suburbs can generate good returns, however buying an investment home isn't a cheap exercise. It's not uncommon to pay more than $1 million for housing in these areas – putting it well beyond the scope of most property investors and self managed super funds.



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Yield and growth

If you are looking for an investment that addresses capital growth and yield, go for a property that is close to the train line and employment. Kogarah and Rockdale on Sydney's south are good examples. Located about 15 minutes from the Sydney CBD, they offer yields around the 6% mark and solid capital growth opportunities.

Regional Markets

The two regional markets that stand out as future growth prospects are Wollongong and Goulburn. Both are close to capital cities – Wollongong is 75 minutes from Sydney and Goulburn is less than an hour from Canberra.

Wollongong

North Wollongong is always a strong performer, especially in terms of the apartment market, which is going from strength to strength. But it is worth looking further north at more affordable areas such as Bellambi and Towradgi, which are close to the railway line and the beaches. Long term capital growth in this region depends on factors such as faster train services and unemployment. Without these considerations, we believe capital growth over the next five years will sit between 5% and 6% per annum.

Goulburn

Goulbourn has had its share of bad luck in recent times. For instance, the town's water supply all but ran dry during the 2007 drought. But real estate prospects appear more positive now the water supply has been secured, thanks to ample rain fall and the installation of an 80km pipeline linking Goulburn with the Sydney Catchment water supply.

That said, long term capital growth will depend heavily on public service employment prospects in Canberra, and while we don't anticipate significant events in the short term, we do expect Goulburn to outperform most regional centres in NSW.

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ACT

Canberra

As the nation's capital and political hub, Canberra is in a class of its own compared with other capital cities. The public sector, including the ACT Government and the Commonwealth Government, accounts for nearly half of the city's entire workforce, and this presence brings unique employment and economic stability.

According to the ACT Government, unemployment currently sits at 3.2%, well below the national average of 4.9%, while the average gross household disposable income is 65.3% above the national average. This is good news for median house price growth, however recent budget cuts and concerns for public sector jobs could prove problematic.

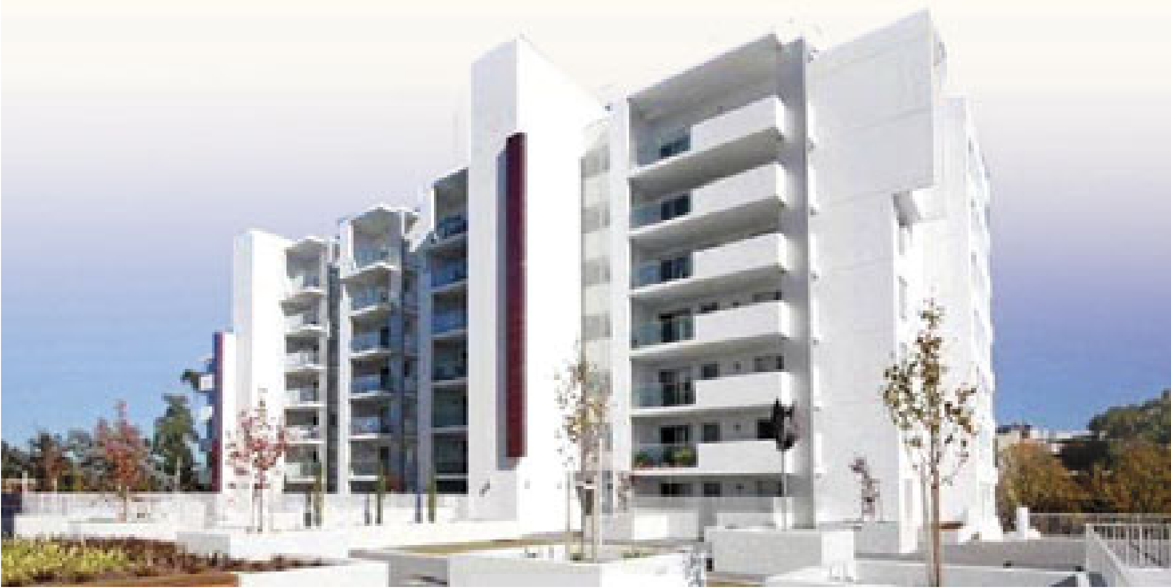
Yet for now, the ACT real estate market is flat, although rental vacancy rates sit at just 2.5%, which is worth taking note of if you're a cashed up investor or member of a self managed super funds (SMSFs).

House Market

A number of suburbs such as Dickson, Downer, Narrabundah and Curtin are generating healthy yields between 4%-4.5% and consistent capital growth. These areas are desirable due to their proximity to major town centres, services, employment centres and transport corridors. Typically homes in these suburbs are built on decent size blocks, with possible subdivision potential.

Dickson

Dickson is close to Parliament House, Capital Hill and a number of other Canberra attractions, and is within walking distance of the business centre in neighbouring Downer. Investors and SMSFs should note that Dickson is also home to the Australian National University (ANU) and the University of Canberra, and a robust student tenant community. Dickson is a suburb of Canberra's inner north district, which currently has a median house price of $665,000.



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Downner

Also an inner northern suburb, Downer is named after Sir John Downer, a former Premier of South Australia and a member of the first Senate in 1901. This suburb is known for its village atmosphere, scenic streetscapes, and proximity to the Canberra political and commercial centre.

Curtin

Curtin is known for its high number of parks which cover more than 10% of the suburb's five square kilometres. The population in this suburb is stable and is predominantly home to young families, due largely to the five schools located there. Curtin is a suburb in the Woden district, near Lake Burley Griffin, which has a median house price of $650,000.

Apartment/Unit Market

Braddon and Bruce are suburbs in Canberra's inner north district, which has generated good yields of 6% and capital growth of 3.45% since March 2010. The median apartment price for this district $450,000. These suburbs are in demand with investors, due to their proximity to universities, major town centres, services, employment centres and transport corridors. In the current soft market, these fundamentals become vital for investors aiming to generate capital growth and decent yields.

Braddon

Braddon is located north of the city and has a high percentage of rental properties. In recent years, traditional housing has made way for apartment buildings that are popular with investors and tenants due to their proximity to the CBD.

Bruce

The start of the 21st Century brought a flurry of residential development to Bruce, which added a range of housing types to the market, from detached homes to three-storey walk-up apartment buildings with commercial components on the ground level. This is a suburb worth monitoring.

Source: Herron Todd White

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