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Westpac

PROPERTY REPORT

NSW / ACT



National overview

The Australian residential property market continues to deliver a 'mixed bag' of results. Regions supported by mining activity are experiencing strong property demand and rising rents, while many metropolitan areas are beset by sluggish conditions and poor affordability. Lower interest rates have prompted an uptick in buyer activity, and there is a sense in some areas that we may be at the low point in the residential property cycle. This points to the potential for future capital gains for buyers who choose wisely.

The resource boom, and more particularly the planned Inpex LNG plant, continues to buoy Darwin's property market.

Reshaping outback Queensland

Nowhere is the impact of the resource boom more apparent than in regional Queensland. Investors in Gladstone, Emerald and Rockhampton are earning yields as high as 10%, and Toowoomba is expected to offer reasonable growth prospects, supported by mining activity in the Surat Basin. It's a similar story in South Australia where the Olympic Dam Expansion project could bring significant gains to Whyalla's property market.

The resource boom, and more particularly the planned Inpex LNG plant, continues to buoy Darwin's property market. Prices remain high though first home buyers can find value in outer suburbs like Milner, Stuart Park, Larrakeyah and Rapid Creek. An influx of workers over the next five years will increase rental demand in Darwin however today's high prices make any future capital gains highly speculative.

Western Australia's previously depressed property market appears to be picking up, and low vacancy rates in Perth are pushing rents higher. An oversupply of vacant land in Perth's newer suburbs is giving first home buyers the opportunity to take advantage of valuable developer incentives.

Apartments dominate buyer activity in Sydney

In Sydney, affordability issues are fuelling the under-\$600,000 apartment market. Suburbs such as Crows Nest, Dulwich Hill and Gladesville are proving especially popular among buyers priced out of more expensive neighbouring suburbs, and the wealth of local amenities plus proximity to the CBD should underscore long term gains in these areas.

Apartments are also on the agenda for Canberra investors. Units in near-CBD suburbs like Braddon, Lyneham and Turner are delivering yields up to 5.5%, and long term growth prospects remain strong based on easy access

to the city centre. First home buyers are tending to focus on the more affordable outer suburbs of Gungahlin, Bonner and Casey where prices can be \$120,000 below the Canberra median.

State government initiatives revitalise Victoria's market

Victoria's property market has picked up slightly supported by state government initiatives like the \$200 billion Growth Corridor Plan, which provides for the construction of up to 350,000 new homes in Melbourne plus a substantial overhaul of infrastructure networks. Regional centres will benefit from improved accessibility, and a key beneficiary of the Plan could be Geelong which remains more affordable than Melbourne.

Tasmania's property market remains in the doldrums reflecting the state's weak economy. First home buyers can pay prices as low as \$270,000 for freestanding houses in Launceston, while in Hobart investors can secure rental yields as high as 7%, albeit potentially at the expense of long term capital growth.

Good buying calls for great research

Lower interest rates are always welcomed by investors and first home buyers, however the current market demands thorough research for anyone hoping to make capital gains over the next few years. The important factors to look for include sustainable population growth with proximity to lifestyle features and employment centres. These features may be found in many metropolitan centres but they can be a lot harder to find in regional locations. Even in regions where mining dominates, long term price growth hinges on the prosperity of a single industry sector, and in today's current global financial climate nothing is certain. In such circumstances it pays to keep in mind two time-honoured investment fundamentals, the first being, 'Don't put all your eggs in one basket', the other being, 'The higher the return, the higher the risk'.

Brendon Hulcombe
CEO, Herron Todd White

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New South Wales

Much of the NSW property market continues to experience slow conditions in what can be described as a 'buyers' market. In Sydney, apartments in the under-\$600,000 price bracket are enjoying strong demand, providing a more affordable alternative to freestanding houses especially in suburbs close to the city. Elsewhere in the state, prices remain flat or falling and this gives buyers with a five year timeframe the opportunity to pick up some bargain buys.

Sydney

The Sydney property market continues to experience poor affordability, and as a result, the bulk of buyer activity is being seen in the under-\$600,000 price bracket. The strongest performers tend to be apartments located in the city's inner and middle ring suburbs. These properties enjoy consistently high demand, and moderate increases in supply have helped to maintain values. A number of suburbs including Dulwich Hill, Crows Nest, Cronulla and Gladesville offer especially good prospects for first home buyers and investors with a five year timeframe.

Located in Sydney's perennially popular inner west, Dulwich Hill offers excellent proximity to the CBD coupled with a growing trend of gentrification and value for money. The median apartment price is around \$470,000, or around \$840,000 for houses. The suburb has experienced significant gains in popularity over the past ten years particularly among buyers priced out of neighbouring suburbs like Summer Hill and Marrickville, and strong demand is expected to continue in the future. Investors in Dulwich Hill are earning rental yields of around 4.5%.

A number of suburbs including Dulwich Hill, Crows Nest, Cronulla and Gladesville offer especially good prospects for first home buyers....



Gladesville, another inner west suburb, has also made gains in popularity over the past five years, and it is rapidly becoming a preferred destination for first home buyers priced out of the nearby Balmain and Drummoyne markets. Gladesville offers a selection of character homes, a blend of old and new apartments (some offering water views) and good proximity to the CBD. The median price for units in Gladesville is around \$444,250 so it is an affordable option for first home buyers, and investors can expect yields of about 4%.

On the north shore, the Crows Nest apartment market continues to experience buoyant demand, and several new developments recently sold off the plan within weeks of being released. The median price for units in Crows Nest is around \$525,000 putting the suburb within reach of first home buyers. Close proximity to North Sydney and the CBD, coupled with a thriving local restaurant scene should support capital growth in Crows Nest over the next five years. Investors in the area can expect yields in the order of 4%.

To the south of Sydney, Cronulla is regarded as a premium location within the Sutherland Shire, and the suburb continues to be keenly sought after. Apartment buyers are attracted to the suburb's beachside lifestyle and good public transport links - in particular the train link to the city centre. The median price for units in Cronulla is around \$473,000, and rental yields are around 3%.

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Regional New South Wales

Newcastle

The Newcastle and Lake Macquarie areas both offer an abundance of buying opportunities for first home buyers and investors. Best buys include older housing stock in established areas as well as new dwellings on the fringes of metropolitan centres.

Buyers looking for older homes with the option to add value through renovations could consider the Newcastle suburbs of Cardiff, Mayfield and Lambton. Further afield, the townships of Anna Bay and Medowie offer fewer older homes though these suburbs are rapidly growing and as a result, are worth considering.

First home buyers with a preference for more modern homes are gravitating towards the fringe suburbs of established metropolitan locations. Project homes are available for around \$450,000 in locations such as Gillieston Heights, Aberglasslyn, Fletcher, Cameron Park, Tanilba Bay and Corlette. For this price buyers can secure a 4-bedroom 2-bathroom home with double garage. Corlette and Tanilba Bay are especially appealing in terms of capital growth prospects as the nearby Williamtown Airport and RAAF base are both large employers that underpin residential demand.

Newcastle's established inner city suburbs of Dudley, Redhead, Merewether, The Junction and Bar Beach along with select locations in Soldiers Point, Nelson Bay and Hawks Nest/Tea Gardens have shown robust levels of growth despite the current weak market. Investors need to do their sums as the entry level price in these areas is often too high to generate a worthwhile yield. Indeed, many homes around Hawks Nest and Tea Gardens are used by investors for holiday lettings, and these can experience extended periods of vacancy, generating little if any return for their owners.

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North Coast

The NSW North Coast residential market continues to be soft following weak conditions over the past 12 months. There have been noticeable falls in property values, which have dropped by up to 15% since 2010. Price falls of this magnitude would normally spark investor interest however this will only be the case if the region's rental market remains steady with none of the increased vacancies and reduced rents experienced in 2011.

On the plus side, first home buyers now face excellent buying opportunities on the North Coast, and vendors are becoming considerably more realistic in terms of pricing. Some of the best value can be found within smaller rural townships as well as the larger regional centre of Lismore. As a guide to the affordability buyers can enjoy, homes are available priced below \$300,000 in Lismore City including the suburbs of Goonellabah, Lismore, South Lismore, Girards Hill, East Lismore and Lismore Heights. Further afield, in Casino and Kyogle, it is still possible to find homes listed for less than \$220,000.

Investors targeting more affordable properties in the region are closely monitoring rent returns, and at present a typical yield for an investment property on the North Coast ranges from 2% to 5%. Most investors in the area tend to be more interested in capital growth, and while this may be subdued in the short term, the past few months have seen an increase in buyer enquiries supported by lower interest rates.

The prestige sector of the North Coast investment market is generally located in beachside locations particularly Byron Bay. The majority of these properties are offered as holiday lettings, and weakness in the tourism industry combined with poor weather conditions over the past few summers has resulted in lower returns. As a consequence, many former holiday rental properties are now being sold for under \$500,000. With the potential to achieve a permanent rental of \$500 or more weekly, these properties could deliver a gross yield of around 5.2%.

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Coffs Harbour

In Coffs Harbour, the suburbs of Moonee, Emerald and Woolgoolga appear to be the most likely areas where first home buyers could benefit from a holding horizon of five years. These suburbs will benefit from the completion of 20 kilometres of Pacific Highway by-pass road works, which currently restrict travel and extend trip times. Completion of the dual lane highway will halve travel times and make the drive considerably easier and safer.

There is a lack of stand-out investment properties in the Coffs Harbour region at present and quality income producing property remains tightly held. Less appealing secondary properties are available though the rent returns are often unimpressive. Falls in interest rates should generate more enquiries in this market, especially if the returns on property start to outshine rates on term deposits. Investors in the Coffs Harbour market may want to consider older, basic dwellings on broad sites located east of the highway between the Coffs Harbour CBD and the beachfront. These should deliver yields of around 4% with potential for gains through future development.

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ACT

Historically, the inner northern and inner southern suburbs of Canberra have achieved the steadiest rates of capital growth, and looking ahead over the next five years the greatest gains are likely to be experienced by quality properties in desirable locations close to the city. At present however, buyers are taking the time to wait for good buying opportunities, and vendors need to be realistic with their price expectations to achieve a sale.

First home buyers in Canberra are tending to focus on the more affordable outer suburbs of Gungahlin, Bonner and Casey as well as Dunlop and Macgregor. Part of the appeal lies in affordability. In these areas, freestanding houses are priced from around \$400,000 – well below Canberra's median house price of \$520,000.

New vacant land supply is starting to come online through Gungahlin and Molonglo, and while this will appeal to first home buyers, the capital growth rates in these areas is likely to be below suburbs with greater proximity to the CBD.

Closer to the city centre, Belconnen is also popular among first home buyers, and single bedroom apartments are available for between \$330,000 and \$380,000. This too is below the Canberra median apartment value of \$405,000, making Belconnen an affordable option.

Investors are gravitating to the apartment market around Belconnen and Bruce as well as suburbs close to the CBD including Braddon, Lyneham, Turner and Canberra City. Standard dwellings in these inner suburbs are delivering yields between 3% and 5.5%, and although this is slighter less on the yields in outer suburbs (typically 5% to 6%), the long term capital growth prospects are superior based on better access to the city centre.

Source: Herron Todd White

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