Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Northern Territory

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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Northern Territory

With the Northern Territory having the lowest unemployment rate in Australia and residential vacancy rates in Darwin averaging less than 2% earlier in 2012, the property market is offering some good returns for investors and quality entry-level buys for first home buyers.

Darwin

Current analysis suggests pressure on Darwin's housing availability is being fuelled by recently approved defence projects and the mining industry, and as a result strong demand for accommodation is likely to encourage further construction within the region.

An increased defence presence in the Top End and the subsequent demand for defence housing is believed to be the underlying driver for construction projects in new suburbs such as Bellamack, located in the Palmerston district of Darwin. As a result, defence housing is expected to yield attractive and guaranteed rental returns over a medium to long term investment period for investors.

Furthermore, the recently announced Inpex LNG project is predicted to create over 20,000 new jobs in the next five years and is expected to put additional stress on Darwin's property vacancy rates. Responding to this situation, the Northern Territory government has confirmed that, as of the 29 May 2012, 2,700 apartments within Darwin's CBD are either under construction or have approval for development. These apartments are expected to house workers and their families attracted to the area by the mining sector.

In addition to the Inpex project, there are numerous other global-scale players who will contribute to Australia's ambitions of becoming the world's largest exporter of LNG by the end of the decade. Construction has already commenced on Darwin's ShoreASCO's $110 million marine supply base which is forecasted to be completed by late 2013. The base, under construction by Macmahon Contractors Pty Ltd on a vacant 8.55ha site near East Arm Wharf, will be used by Shell as a supply and serving depot for the offshore gas rigs for companies such as Inpex and ConocoPhillips.

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Investors

Investors in the Territory will find strong rental returns in the new suburb of Bellamack. Newly constructed, four bedroom homes are selling in the range between $650,000 to $700,000 and are returning high rents between $700 to $900 per week. This equates to a more than 5% gross return on an average dwelling.

Also significant, the Territory's migration numbers are expected to reach into the tens of thousands over the next five or so years and as a result of the demand for housing and low vacancy rates, rental rates are likely to increase.

That said, the capital returns in the Darwin region are increasingly speculative due to the affordability issues in the area. Therefore, it is not possible to confidently predict the level of Darwin's capital returns for the mid to long term future.

First home buyers

Darwin's fringe CBD suburbs of Milner, Stuart Park, Larrakeyah and Rapid Creek appear to represent the optimum entry level market for first home buyers. For example, apartment prices within the centrally located suburb of Larrakeyah provide excellent buying between $400,000 and $450,000.

We believe new dwellings have taken a back seat to older townhouses and apartments in areas such as Karama and Malak. Ex-government housing in these suburbs are ideal buys for first home buyers seeking a landholding, and are exchanging for around $400,000.

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Alice Springs

Housing prices have softened in Alice Springs when compared to the highs of 2010. First home buyers combing the market have an opportunity to buy in the suburbs of East Side, Sadadeen, Braitling and Gillen with entry level prices between $390,000 and $440,000.

For investors, the rental market in Alice Springs remains strong with vacancy levels persisting around 3.1%. Robust yields are present across the residential market with rents for entry level, 3- bedroom properties achieving $440 to $500 per week and providing a gross return in excess of 5.5%.

The Alice Springs market continues to be underpinned by the presence of government departments providing strong employment and expenditure in the region. The contribution from other sectors varies with the trades, mining and associated entities continuing to provide a strong contribution, while the tourism sector remains soft.

Capital returns have historically been strong in Alice Springs, particularly leading up to 2010, however prices have softened since mid- to late-2010.

Given the market's present conditions, it is difficult to provide certainty with regard to capital returns. Notwithstanding this uncertainty, the market's relative undersupply of residential property, supported by government employment and mining expenditure, will continue to help buffer the Alice Springs residential property market against wider downward trends.

Source: Herron Todd White

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