Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

South Australia

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.

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

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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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South Australia

Recent building projects coupled with the government's cash incentives to new buildings are expected to boost the housing market in both Adelaide's CBD and in regional South Australia. A budget below $500,000 can find good buying for the long term for first home buyers and investors.

Adelaide

Since the end of 2010, Adelaide's housing market has experienced a significant residential real estate slowdown with property prices correcting themselves by about 10% over the past two years.

That said, market conditions in Adelaide are expected to improve over the next five years, though it is speculated that the market may correct further before this turnaround occurs. Capital growth is forecast to be up at least 10% in the medium term depending on local and international economic conditions. Furthermore, the local economy, which is highly dependent on the performance of the mining sectors, may well exceed expectations of capital growth if construction projects such as the Olympic Dam Expansion project are approved.

The SA State Government recently announced stamp duty concessions on new, off-the-plan apartments within the Adelaide City Council area. Investors should consider taking advantage of these stamp duty concessions which are available for the next two years on new apartments valued at less than $500,000, providing a saving of up to $21,000.

Residential land releases close to Adelaide's CBD are very rare but generate good buyer interest. Prices on new urban developments are not necessarily within the reach of a first home buyer due to strong competition and demand, however suburbs adjacent to these new improvements and infrastructure projects can provide some excellent opportunities for home buyers and investors to capitalise on the overall upgrading of such areas.

In general, land values and overall property values increase the closer properties are located to Adelaide's CBD. With interest rates expected to decline further over the second half of 2012, and Adelaide's property prices sitting at affordable levels there are a number of Adelaide suburbs, as outlined below, now potentially within arm's reach of first home owners. Some of these suburbs are showing good potential for capital growth over the medium to long term.

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First Home Buyers

For first home buyers, the best buys are currently in Adelaide's western regions surrounding the St Clair, Cheltenham and Bowden transit-oriented developments. These include the suburbs of Woodville North, Athol Park and Woodville Park. Properties in these areas, such as detached character dwellings, are holding their value and popularity with purchasers.

Under current market conditions it is possible for first home buyers to purchase an established 3- bedroom home with 1- or 2- bathrooms on a small to medium allotment for under $400,000. In addition, first home buyers should take note that they may be eligible for the First Home Buyer Grant of $7,000 applicable in South Australia to housing with a value of up to $575,000.

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Investors

The vacancy rate in Adelaide's metro area is currently sitting at around 3.5% and has slowly increased over the last year or so. Reduced house values and potentially, further interest rate cuts, are increasing the current affordability of rental properties.

Inner suburbs, such as Kent Town and Norwood are highly sought after by tenants and remain popular investor locations. Current market conditions have created excellent capital returns in the medium to long term. Location and demand in these areas indicate that they may be the first to show signs of a market recovery.

Overall, rental yields in Adelaide remain around 3% to 5%, however with house values declining rental yields are more likely to be at the upper end of this range.

Regional South Australia

Whyalla and Roxby Downs

Regional centres such as Roxby Downs, Whyalla and some adjacent towns in South Australia have performed well, bucking the state's two year downward trend in residential property prices. The improved market value of these centres has been caused by increased mining and construction activities within the northern areas of South Australia.

While Roxby Downs continues to show solid capital and rental growth, the town's market entry point remains high with a significant proportion of residential property owned and controlled by mining companies. As a result, the high prices in Roxby Downs have led us to conclude that there are currently better opportunities to buy for both investors and first home buyers in South Australia's third most populous regional centre, Whyalla.

First home buyers can take advantage of both Federal and State Government grants totalling $15,000, by purchasing for example, a house-and-land package for a new, 3- bedroom, 2- bathroom dwelling on a small to medium lot in the new Ocean Eyre Estate at a cost of approximately $275,000-$300,000.

For investors, purpose built house-and-land packages are available for either a 2- bedroom maisonette for around $120,000, or a 3- bedroom dwelling for around $280,000. The return on either of these properties would be in the range of 4% to 6%.

In expectation of the Olympic Dam Expansion project progressing, interest in Whyalla has been on the increase over the past six to 12 months. Situated on the coast, Whyalla is around four hours drive from Adelaide and has good road access to the Flinders Ranges and most importantly to Roxby Downs in the north. The town is one of South Australia's largest regional centres with a population of around 23,000.

Due to the enormous size of the Olympic Dam Expansion project, property price growth in Whyalla in the next five to 10 years could be quite significant and as such is not possible to confidently predict. Furthermore, this potential growth carries considerable risk as it is dependent on the project commencing - and in the current global financial climate nothing is certain.

Source: Herron Todd White

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