Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Tasmania

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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Tasmania

The Tasmanian economy is experiencing weak growth, underpinning recent reversals and stagnation in residential prices. Future improvement in housing growth will depend on the local economy picking up and buyer confidence returning to the market.

Tasmania

The debate continues as to whether Tasmania is actually in a recession. Confidence in the property market is reliant on the return of steady economic growth and a fall in unemployment, which is currently the highest in the country at 7.3%.

Housing demand from first home buyers in Tasmania has been less active since the First Home Owner Boost scheme ended on 31 December 2009, which reduced the amount of first home buyer concessions by $7000. However the remaining $7000 Federal government First Home Owner Grant is still an incentive for first home buyers to take the plunge as the bonus is not means tested in Tasmania and applies to new or established homes of any value.

All this taken into account, there are areas in Tasmania which would be at the top of a first home buyer and investor list such as the suburbs located in southern Launceston including Summerhill, Prospect, Kings Meadows, Norwood, St Leonards and Youngtown. In addition, Riverwood in Launceston's north west is another contender for the list. These areas encompass a mix of housing stock such as affordable brick homes below $270,000. In addition, many of these suburbs have good local infrastructure with excellent local schools and shopping.

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Investors

Affordability and low vacancy rates are key factors attracting investors, both from interstate and locally, to the Tasmanian property market. That said, Tasmania's vacancy rate has recently increased to 4.3% which should impact on its investment appeal, and this appeal will increase if the vacancy rate continues to rise, which may be likely in the current economic climate.

We have seen mainland investors continue to play an active role in Tasmania's property market, particularly in the price bracket normally reserved for first home buyers. Both first home buyers and investors are generally looking at dwellings priced around $250,000, which can buy an older, 3- bedroom, 1- bathroom property.

Additionally, housing stock below $350,000 located in stronger, well serviced suburbs surrounding Hobart, have traditionally been more actively sought by both mainland and domestic investors. These areas include Kingston, Lindisfarne and Austins Ferry. Such suburbs are all within 20 minutes of Hobart's CBD and support shops and good schools.

Within many of Hobart's suburban areas gross rental yields for flats are slightly below 7%, while yields for houses are ranging from around 4% in more affluent suburbs up to 5.5% in more traditional suburbs. Higher rental returns can be achieved in the lower socio-economic northern suburbs of Gagebrook and Brighton, as well as in Rokeby in Hobart's east. However the tradeoff for investors in these areas is a likelihood of reduced capital growth.

By comparison, investors may also like to consider Launceston, where gross rental yields for flats have increased slightly to around 7.5%, while the returns on units and houses remain steady at a gross 5.5% to 6.5%.

Do note though, despite the investor demand coming from the mainland, it has not been sufficient to stimulate any real growth in the Tasmanian residential property market.

Source: Herron Todd White