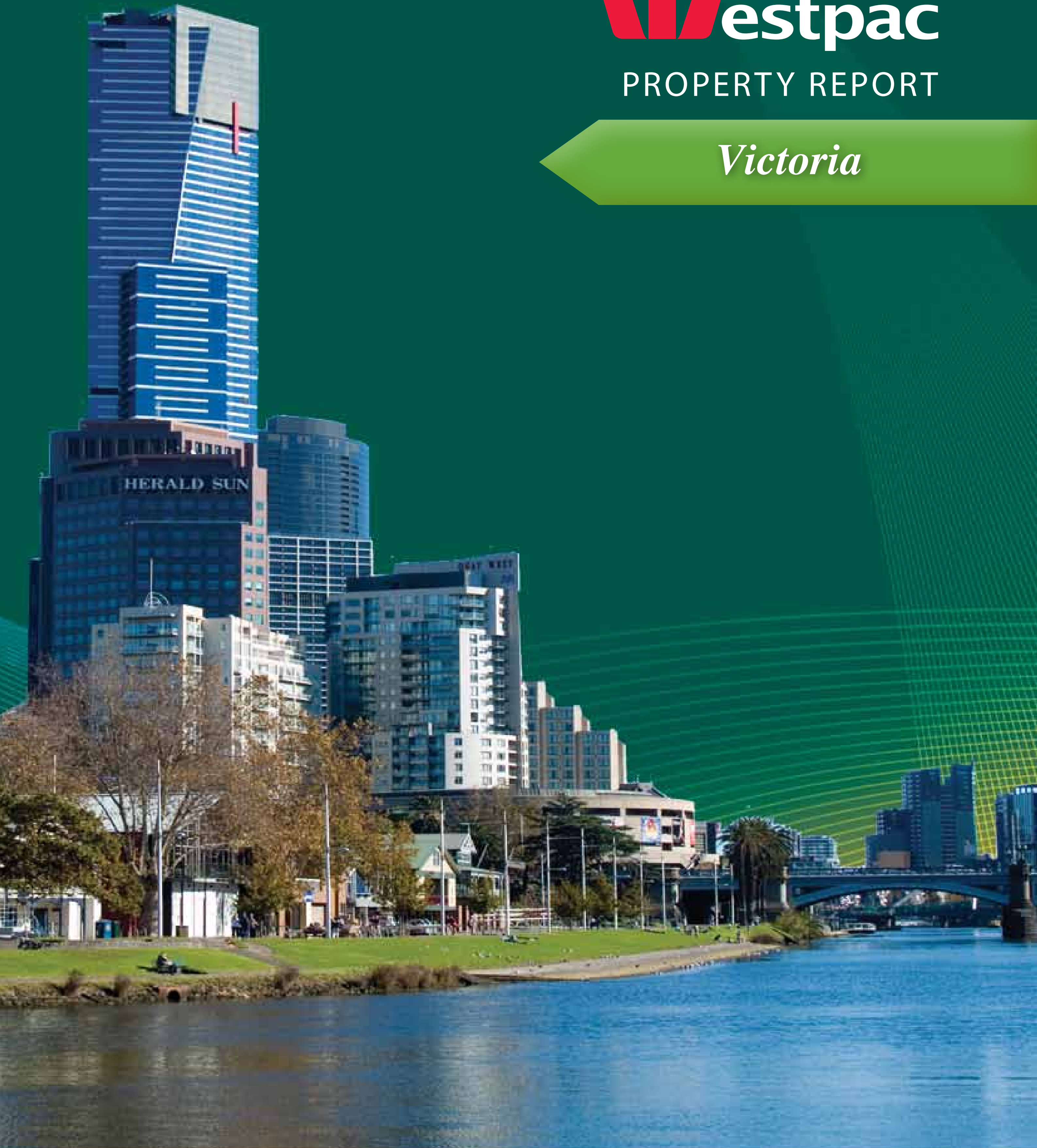
Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Victoria



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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Victoria

Property demand in Victoria has improved marginally in recent months, and the Baillieu government has announced a number of initiatives that will support capital growth over the next five years. On the flipside, the latest State budget announced an end to the state-based bonuses, which gave $13,000 to first home buyers building in metropolitan Melbourne and an extra $19,500 for buyers in regional Victoria. Instead, first home buyers will receive stamp duty concessions worth 20% on homes priced up to $600,000, and together with the Federal government's $7,000 First Home Owner Grant and lower interest rates, the impact on first homebuyer confidence should be minimal.

Melbourne

One of the biggest factors set to impact Melbourne's residential property market over the next few years is the Victorian government's $200 billion Growth Corridor Plan. It features some dramatic initiatives for Melbourne's north, south east and west, with up to 350,000 new homes to be constructed and a substantial overhaul of infrastructure networks and public amenities. First home buyers and investors should consider the impact of this Plan when making a purchase decision.

Wyndham and Melton, both in the West Melbourne region, are expected to benefit from the Growth Corridor Plan. With a current median house price below $400,000 both suburbs offer affordability with the potential for 5-year capital gains.

Another suburb worth considering is West Footscray. The limited supply of properties coming to the market has seen values in the area hold steady, and with many properties priced below the Melbourne metropolitan median, demand for West Footscray is rising. The suburb's median apartment price is currently $429,500 and any possible future interest rate cuts would make West Footscray even more affordable to first home buyers.

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For investors, West Footscray is one of only a handful of Melbourne suburbs to demonstrate consistent price increases throughout 2011, with apartments achieving capital growth of 28.7% for the 12 months to December 2011. Yields on apartments are also attractive – ranging from 5% to 5.75%. As a guide to the value available, in May 2012 an older, partially renovated 2-bedroom unit in Hartley Avenue, West Footscray sold for $276,000. This unit could command market rent of about $265 per week – a gross yield of 5%

Sitting further along the price spectrum, North Melbourne is another suburb offering strong 5-year growth prospects. The area features a mix of period housing, modern apartments and townhouses together with some commercial and light industrial land usage. Along with the convenience of the Errol Street shopping precinct, North Melbourne provides good proximity to the city centre and the Queen Victoria Market.

Apartments in North Melbourne have a median price of $505,000, and investors can expect yields of 5% to 5.5%. It is possible to buy units below this price, and in April 2012 a new (2011 build) 1-bedroom contemporary medium rise unit with a secure car space was sold for $410,000. Situated within a 32-unit complex, the apartment had no significant views though it featured timber floors, stone bench tops and a living area of 57sqm.

Further out, Wantirna South, located 24 kilometres from the Melbourne CBD, has gained popularity among buyers, and price growth has been supported by the opening of the Eastlink Freeway which joins the Eastern and Monash Freeways. The suburb comprises a mix of brick detached houses and small pockets of new units. Typical of Melbourne's eastern suburbs, many homes have undergone renovation and the location is well serviced by schools, shopping, parks, sports fields and walkways. The local Knox Centre provides extensive shopping and entertainment options.

The median house price in Wantirna South is $556,000 however cheaper properties do come onto the market. In April 2012, for example, a single storey house with four bedrooms and two bathrooms sold for $490,000. Earlier, in March, a 1970s single storey, brick veneer 4-bedroom home sold for $548,500. The property had a site area of 646sqm and featured landscaping, gas heating and evaporative cooling. Investors in Wantirna South can expect yields ranging from 4.5% to 5.5%.

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Regional Victoria

Regional Victoria looks set to benefit from the Baillieu Government's recent announcement that major regional cities will be permitted to build high density developments including high rise towers and skyscrapers.

The idea is to revitalise Geelong, Ballarat and Bendigo as residential and commercial hubs while making the most of existing infrastructure, and the state's Planning Department has already developed proposed maps outlining areas where high density developments could be allowed. It's an initiative that is likely to have a positive impact on property values in regional centres, adding to the supply of housing stock while also creating job opportunities.

Geelong

The State government's Growth Corridor Plan will make Geelong more attractive to first home buyers and investors and support capital growth over the next five years by opening up the city and western region and improving accessibility to Melbourne.

In the short term, concerns have been raised over the relocation of around 80 Australian Defence Force (ADF) personnel from Geelong's Queenscliff fort to Canberra later this year. The issue focuses on the possible flood of rental properties coming onto the market as a consequence, but the opening of the Defence Archives Centre in Geelong in mid-2013 is expected to compensate for the ADF's departure.

Geelong's median house price is $380,500 – down slightly over the last quarter. This has served to make the area more affordable, particularly in relation to Melbourne, and the ongoing gentrification of many Geelong suburbs should offer further support for longer term capital growth.

Adding to the potential for price appreciation, revised plans have been announced for the Rippleside shipyards residential project. The development, which will feature a waterside link for pedestrians, office and retail space, will eventually offer 124 homes – down from the original figure of 178 dwellings, which allows the developer to accommodate a greater number of stand-alone townhouses.

Investors in Geelong can expect to earn rents starting at around $280 per week for a 2-bedroom house or from around $185 for a 1-bedroom apartment.

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Bendigo

Within regional Victoria, Bendigo recorded the strongest property price growth over 2011, and the median house price is currently around $294,000, or about $237,500 for apartments. This makes Bendigo a very affordable option for first home buyers, and investors can take advantage of a very strong rental market with vacancy rates of just 0.5% compared to 0.9% in Geelong and 1.3% in Ballarat.

Rapid population growth is anticipated for Bendigo based on the State government's planning policy. At present, housing supply is keeping pace with demand but an influx of new residents could put further pressure on property prices.

Source: Herron Todd White

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