Herron Todd White

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Westpac

PROPERTY REPORT

NSW / ACT

National overview

Looking back over 2011 it's clear that the Australian property market was – and in early 2012, still is – far from homogenous. Cooler market conditions in many areas have lead to rising yields and more affordable prices, while in regional areas where mining dominates, spectacular price gains have been recorded. In other parts of the nation, structural changes are occurring that will hopefully bear fruit in the future.

Is now a good time to buy?

In a number of state capitals, the current market offers excellent buying opportunities. In Brisbane for example, an oversupply of listings, low demand and a growing volume of forced sales has seen prices of prestige properties fall by up to 30%. Even in outer Brisbane suburban locations, values have dropped by up to 20%. For investors, this is seeing gross rental yields rise to around 6%.

Although Adelaide hasn't seen such spectacular price falls, declining values have underpinned rising yields, with investors now enjoying gross yields as high as 5%.

In Sydney and Canberra, prices have also dropped in many prestige suburbs, and canny buyers are seeking value in alternative suburbs offering similar amenity with more modest price tags. Sydney's inner west Canada Bay for instance, is benefitting from its harbourside location, with prices that remain relatively affordable.

Perth too is offering good buying opportunities, for example, prices have fallen by up to 50% for some prestige beachside apartments. On the other hand, the commencement of the Perth Waterfront project in the CBD, should bring new life to the city and could underpin growth in the inner city apartment market.

Darwin has seen a cooling of values throughout 2011 though several new developments point to a potential upswing in the market. Among them, the recent announcement by US President Barack Obama of a semi-permanent US troop force in Darwin will create employment opportunities and ultimately, boost demand for new housing.

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Growth areas dominated by mining activity

While many capital city markets languished in 2011, regional towns and cities dominated by mining activity bucked the trend. Nowhere is this more apparent than in Queensland where the regional centres of Moranbah, Dysart, Emerald and Gladstone experienced price gains of up to 35%.

Structural change – short term pain for long term gain

In Tasmania, regional areas like Triabunna and Scottsdale have been negatively impacted by the decline of the timber industry. Nonetheless, approval of a $400 million wind farm in Musselroe Bay in the northeast and the development of a $70 million dairy project at Smithton, will create new jobs and provide support for property values.

Proceed with caution

Although Australia has been lucky enough to escape the worst of the global financial crisis, 2012 brings considerable uncertainty regarding the global economy. Until a workable solution is reached for the sovereign debt issues in Europe, the likely path of interest rates is unclear and buyers are advised to be especially cautious in terms of the debt they take on and their expectations for future capital gains.

Brendon Hulcombe
CEO, Herron Todd White

New South Wales

The NSW property market is broadly experiencing slow conditions, though there are exceptions. The apartment market in Sydney is experiencing strong demand as buyers seek affordability, and in regional NSW, locations dominated by mining activity are also experiencing strong demand.

Sydney

Sydney's residential property market had a 'mixed bag' of results throughout 2011. Many of the city's inner ring suburbs have been hard hit, often experiencing dramatic price falls. In particular, real estate agents on Sydney's lower north shore describe the current market as one of the worst ever encountered.

However this has provided an impetus for the upper middle market. Cautious buyers, who would normally pitch at the premium end of the market, are looking elsewhere to maximise value. Botany Bay, for example, which is still regarded as 'eastern suburbs', has performed well. Similarly, Canada Bay in the inner west offers harbour frontage homes without the price tags seen in more prestigious waterside suburbs.

Outer ring suburbs such as Bankstown, Fairfield and Blacktown continue to be supported by first home buyers. These areas may be vulnerable to slower buying activity in 2012 following the withdrawal of stamp duty concessions for first home buyers purchasing established homes, effective from 1 January.

As at September 2011, the median dwelling price for inner ring suburbs was $540,000 compared to a median value of $450,000 for middle ring locations and $380,000 for outer ring suburbs. Sydney's overall median value is around $450,000 while the state median is $380,000.

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Apartment market shines

The apartment market was the star performer of Sydney property in 2011. In many locations, apartments outperformed houses in terms of capital growth, often by substantial margins.

The appeal of apartments lies in the combination of greater affordability and growing rental yields. Along with interest from first home buyers, demand for apartments is being boosted by a burgeoning number of empty nesters downsizing from houses. New rules that allow self-managed super funds to borrow for investment purposes is adding further impetus to the apartment market.

It is in the under-$400,000 price range that demand for apartments is particularly heating up, and units located within 10 kilometres of the CBD, or those with access to train lines are especially sought after.

For investors, apartments offer very compelling yields. As a guide, houses in Sydney are currently generating yields ranging from 3.28% in inner ring suburbs to 4% in outer ring suburbs. By contrast, inner ring apartments are offering yields of around 4.79%.

Looking ahead, the rising number of properties listed for sale poses a threat to capital growth in Sydney throughout 2012. That said, as interest rates fall and rents rise, it is possible a growing number of tenants could choose to own rather than rent, which will create buyer demand. Overall, however, the current oversupply of listings suggests it could take up to nine months before noteworthy price gains are seen across the board.

Regional NSW

Mining-dominated areas such as the Hunter Valley continue to experience decent returns and healthy rental yields. In particular, Cessnock and Maitland have achieved strong rental growth. Annual rent increases of around 2.5% were also experienced in the Port Stephens and Newcastle areas.

Elsewhere in NSW, towns and cities that enjoy a diverse range of support from their local economies have performed well. Armidale, Newcastle, Maitland and Orange all have the benefit of universities, tourism and government services to broaden the local labour market. The NSW government's $7,000 Regional Relocation Grant has also offered some support to regional areas.

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ACT

At present the ACT property market is displaying a delicate balance between the supply of medium and high density housing and buyer demand. This is particularly occurring in the 'green field' suburbs that are traditionally the domain of house and land packages. Medium and high density homes are attractively priced at present but will need to be supported by adequate public infrastructure if price appreciation is to be achieved further down the track.

Gungahlin, situated 10 kilometres to the north of Canberra's city centre, has experienced the ACT's strongest growth over the past year with values rising by over 8% to reach a current median price of $530,000. Closer to the CBD, Woden has recorded the ACT's highest growth over a 2-year period, notching up capital gains of almost 23% since 2009. Woden's median home price currently stands at $670,000.

At the other end of the scale, South Canberra, which incorporates the suburbs around Parliament House, experienced the ACT's most lacklustre returns. The median value dropped from $935,000 in 2010 to $893,000 at the end of 2011 – a fall of 4.5%. This drop in values reflects lower demand at the top end of the ACT property market.

The apartment market has generally outperformed houses. During 2011 the median value of Canberra apartments rose by 7.8% to a current median of $415,000. By contrast, the median price of houses rose from $510,000 to $520,000 at the end of 2011 – a modest increase of just 2%.

Yields in the ACT have stabilised over the past year reflecting a plateauing of capital values and limited rent increases following additional supply of rental properties.

Gungahlin – a likely growth area for 2012

Gungahlin is returning gross yields of up to 5.5% and this tends to be typical of the market segment where prices are around 10% above the Canberra median. On higher priced properties, gross yields tend to fall to about 3%.

As we head into 2012, Gungahlin should continue to be a growth area, benefitting from the completion of the Gungahlin Drive Extension. The commencement of the Majura Parkway (due for completion in 2016), will lend further support to Gungahlin values by providing dual carriage access to the eastern side of the district.

Source: Herron Todd White

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