



Herron
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Independent Property Advisors

Westpac

PROPERTY REPORT

Northern Territory



2011 residential property outlook – national overview

For this edition of our quarterly residential property report, we have sought the opinions of Herron Todd White valuers from around the country on what 2011 has in store for the nation's property markets – and generally, they paint a subdued picture.

As we celebrate the start of a New Year, most major markets have an abundance of properties listed for sale. This is keeping a lid on prices and in some cases forcing values down, a situation likely to continue throughout 2011.

The interest rate hikes of 2010 forced many prospective and existing buyers to rethink their capacity to pay off a home. Recent months have seen rising numbers of forced or mortgagee in possession sales and this could become more commonplace over the next 12 months – especially if interest rates continue to rise.

However, rate hikes are only partly to blame for the current market cooling. In States like Tasmania the closure of key employers has undermined buyer confidence. In other areas, such as Queensland's Gold Coast, population growth is slowing as workers seek employment opportunities elsewhere.

Faced with plenty of competing properties and limited buyer interest, many vendors will be looking at two main choices in 2011 – lowering price expectations or accepting longer selling periods. On the flipside though, 2011 is shaping up as a year that will offer real opportunities for buyers.

Also, there are plenty of locations offering good prospects for longer term capital growth. Many of these enjoy the support of government infrastructure prospects, such as the new Fiona Stanley Hospital in the Perth suburb of Murdoch or the transit-oriented development taking place in the Adelaide suburb of St Clair.

The mining boom continues to support property values in other parts of Australia. Darwin will benefit if the proposed Inpex Gas Project receives approval, and in Queensland, the Gladstone area is the focal point of a number of proposed resource-based developments. In Western Australia, the government-funded Pilbara Cities Program will provide long term support for the State's northern mining centres.

Although 2011 is likely to prove challenging for vendors, it should be a year that gives many buyers – from first timers through to investors – a valuable chance to secure a residential property at a sharper price.

It would be remiss if we didn't mention the destructive floods in January. It's still too early to tell what impact they will have on the economy and prospects of a number of property markets in Queensland, New South Wales, Victoria and Tasmania.

Many of the floods in Queensland, for example, reached levels not seen for over 30 years, and in some instances, set all time records. With the passage of time memories fade, and the differentiation between flood-free and flood-prone property will grow smaller. However, these unfortunate events provide a timely reminder of the damage flooding can cause to property and belongings. As a result, we expect that buyers will be more likely to adopt a somewhat more cautious stance toward flood affected property and areas.

The floods could also have a significant impact across many businesses and sectors of the economy. However, it is likely to create strong demand for building services firms and provide a significant financial injection into local economies – although some regional towns may face capacity constraints.

Brendon Hulcombe

Chief Executive Officer, Herron Todd White

Northern Territory

The outlook for Darwin's property market varies widely in response to availability of both sales stock and buyers. Elsewhere in the Territory, limited supply is shoring up prices.

Darwin

Values in Darwin's detached housing market, primarily Darwin city and fringe suburbs, are expected to remain stable in 2011. Areas such as Fannie Bay, Parap, Stuart Park and Ludmilla offer the appeal of proximity to the CBD and other major attractions such as the Mindil Beach markets, and as such are likely to hold their values.

Units in the low to mid-price range up to \$800,000 began to experience some price contraction in late 2010 as several complexes were completed and marketed. Many of the complexes currently under construction are buildings that were originally targeted toward the prestige sector but have been redesigned following altered market conditions. This is creating a growing risk of oversupply within the low- to mid-price unit market.

The rental market for units within this sector appears to be weakening also. Traditionally, much of the demand for this stock has come from investors, however, lower yields may result in fewer investor sales, further reducing overall demand.

Prestige properties remain strong

The market for prestige, detached dwellings has been one of Darwin's strongest sectors over the last 12 months with several sales in the \$1.5 million to \$3 million price range. This activity is expected to continue owing to the relatively small amount of properties available coupled with a body of buyers unaffected by changed economic circumstances.

Prestige apartments on the other hand are expected to experience price declines as several complexes have been sold off the plan and more properties will come onto the market in the first half of 2011.

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Palmerston

The Palmerston residential property market is slowing as a result of higher interest rates, increasing land supply, softening rental yields and a fresh stream of completed dwellings. There are no major factors in place that will counteract these forces in the short term, and it's likely that Palmerston values could fall in 2011, stabilising at levels just below those seen in late 2009.

The previous undersupply of vacant land in Palmerston has been reversed and the city is now set for an oversupply. Blocks of land previously priced as high as \$250,000, could conceivably come back to around \$180,000 to \$200,000.

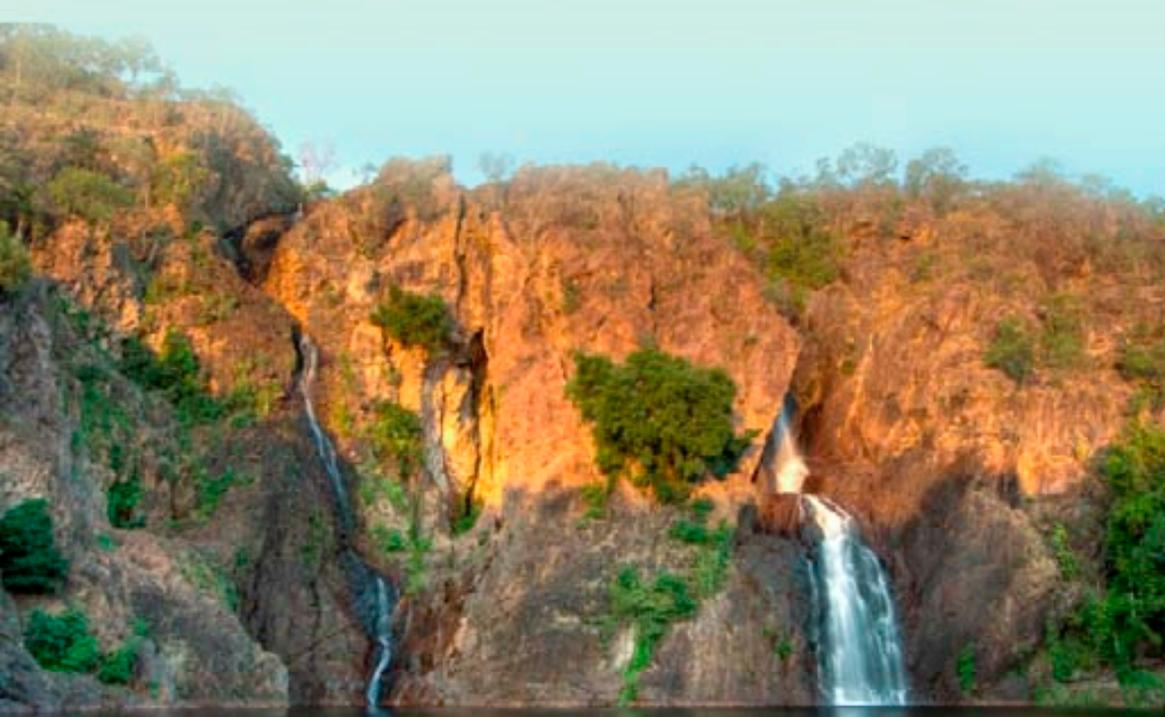
In addition to supply factors, this contraction reflects the growing disparity between the value of completed dwellings and the value of new homes. Premiums of up to \$100,000 are being paid to build a new home in comparison to buying a near identical home which is likely to be only a few years old.

Northern Suburbs

Darwin's northern suburbs have steadied throughout 2010 and a continued level of subdued activity with little capital growth or even price contractions looks likely for 2011.

With less activity among first home buyers, the most vulnerable sector of this market is the entry level stock in less desirable locales. Nonetheless, the northern suburbs have the advantage of relative proximity to the major employment hubs of Casuarina and the CBD. This is likely to give the area some degree of latitude in comparison to Palmerston.

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Inpex Gas Project

It is likely that a funding decision for Darwin's proposed Inpex Gas Project will be made in 2011. Although the project will require a workforce of about 2,000, most of the price growth associated with the proposal was factored into the market when the project was first announced several years ago. If funding is given the green light, the market is more likely to stabilise or receive a slight boost in confidence rather than demonstrating massive capital growth. Higher interest rates and an increasing supply of vacant land are likely to counterbalance the increase in market confidence.

Regional Northern Territory

The Katherine property market has seen solid growth over the past few years, however, the market appears to have steadied. Tight supply and strong rental demand should ensure values hold and even increase slightly in 2011. A planned land release may alleviate some of the demand pressures.

Alice Springs features a tight supply of properties and this has ensured that values hold firm or increase over time. Strong rental demand continues to fuel interest from investors.

Source: Herron Todd White

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