Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

South Australia

National overview

Today's climate of low interest rates coupled with property values that in some regions have fallen by 10% over the past 18 months, are giving first home buyers and entry level investors a welcome opportunity to enter the residential property market. The key is to seek out locations where prices are below the broader market median yet with good prospects for capital growth. This is exactly what we have done in compiling this edition of the Herron Todd White Westpac Quarterly Property Report, which outlines the wide choice of suburbs that give budget conscious buyers a toehold on the property ladder.

Entry level prices vary around the nation

In a market as diverse as Australia 'entry level' property prices vary widely across states, cities and suburbs. In the Tasmanian city of Launceston for instance, first home buyers and investors can secure quality properties priced from around $250,000. This can be around half the price paid for homes in Sydney's newest growth corridor subdivisions where in suburbs like Gregory Hills and Edmondson Park in the south west, or The Ponds and Ropes Crossing in the north, house and land packages are priced at around $500,000.

Units – more affordable but growth prospects may be lower

In many metropolitan areas apartments are more affordable than freestanding houses. This affordability gap can point to differences in the long term growth prospects and location can play a key role in determining whether an entry level house will offer better amenity and long term price appreciation than a unit.

As a guide, north west of the Queensland Gold Coast a budget of $200,000 will buy an older house possibly in need of renovation in Beaudesert, Eagleby or Beenleigh. For around $190,000, buyers can secure a far more central location with a 1-bedroom apartment in Southport or Surfers Paradise. As with any apartment it is essential to consider the volume of units in the area and the availability of local facilities, infrastructure and transport links that will support values over time.

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Incentives for new builds

A number of state and territory governments have boosted the financial incentives available to buyers/builders of new homes as a means of stimulating the construction industry. Together with reduced affordability for inner ring established suburbs, this is seeing many first home buyers opt for outer ring locations in cities like Darwin and Canberra. In Darwin's satellite city of Palmerston, units are priced from the high $200,000s. In Canberra, a number of new suburbs including Casey, Harrison and Bonner offer freestanding homes available for around $400,000.

Infrastructure can underpin growth

For both investors and first home buyers, local infrastructure can improve the amenity of an area and support future price growth. An example of this is the Melbourne suburb of Craigieburn, where a $330 million shopping, entertainment and community precinct – Craigieburn Central, is under construction. Property prices in the area have risen by 18% in recent months, but with a median price of $360,000 it remains an affordable location for first home buyers with further scope for values to rise.

Brendon Hulcombe
CEO, Herron Todd White

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South Australia

Adelaide

Opportunities for first home buyers

For first home buyers with a limited budget, Adelaide provides a number of affordable suburbs including Mitchell Park in the city's south, Northfield (north) Richmond (west) and Felixstow (inner north east).

These locations generally offer older 3-bedroom, 1-bathroom dwellings or newer 3-bedroom, 2-bathroom homes on subdivided allotments.

Median prices generally range from around $370,000 in Northfield to about $400,000 in Mitchell Park. Prices have remained stable across these suburbs over the past 12 months.

Buy the best you can afford

The old adage of buying the worst property in the best street certainly makes sense for first home buyers in the Adelaide market. Opting for a house rather than a unit is likely to provide superior long term capital growth though a unit will still give first home buyers a chance to step onto the property ladder with the possibility of upgrading in the future.

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Opportunities for investors

Anyone considering a first property investment in South Australia should consider the key drivers for their decision – notably whether capital growth is the primary goal or strong rental yields. This decision can have a major impact on the choice of location.

Small townships located outside the metropolitan area can deliver high yields though the flipside tends to be limited opportunities for capital growth. In the township of Callington for example, located around 50 kilometres to the south west of Adelaide, investors can earn rent returns as high as 6.5% but future price appreciation is likely to be modest.

Strong rental yields of around 6% can be achieved in Adelaide's outer suburbs but here too any gains in market value are likely to be less than inner metropolitan areas.

Along with a clear investment goal, it is worth looking for an area with a low volume of rental properties as this can underpin tight vacancy rates and healthy yields. Elizabeth East for instance, features a median house price of $200,000, and investors are earning weekly rents in the order of $230 to deliver a gross rent return of about 6%.

The entry level suburbs we noted as suitable for first home buyers are also appropriate for first time investors. As a guide to likely rent returns, Mitchell Park commands weekly rents of about $300 while in Northfield rents are closer to $250. Both Richmond and Felixstow have rents averaging around $290 per week.

Mitchell Park, Northfield and Richmond are all likely to achieve relatively steady rental growth over the next ten years. Rents in popular suburbs with close proximity to the CBD such as Norwood, are more likely to experience more substantial rent growth but this comes with a higher upfront price tag.

Future growth strongest over the long term

Ongoing uncertainty in the wider global community makes it challenging to predict future capital growth rates for the Adelaide property market. The general view is that after a protracted downturn and with interest rates currently at historical lows, the likely path of home prices is upwards.

Over the short term, Adelaide property values are likely to increase slightly, possibly by around 5%. Growth is expected to be more robust over the medium to long term of five to ten years.

Source: Herron Todd White