



Herron
Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Northern Territory



National overview

In this edition of the Westpac Herron Todd White Residential Property Report we take a look at opportunities available for property investors, and owner occupiers, who are prepared to take a long term view.

There appears to be little doubt that the first quarter of 2011 was marked by a generally cooling residential property market. However, it's not the case of "the bubble is bursting", as has been predicted by some pundits. Rather, the market is experiencing a plateauing of values in areas that have seen significant price gains in recent years. For investors and owner occupiers with a long term outlook, this presents a window of opportunity.

Buyers face uncertainties

A number of international and local events have impacted buyer confidence this year. Uncertainty over upheaval in the Middle East and northern Africa, concern over the economic impact of Japan's devastating earthquake/tsunami and worries about lingering sovereign debt woes in Europe are, understandably, prompting some buyers to adopt a "wait and see" approach.

Here in Australia, several local events have also impacted the property market. Bushfires in the Perth Hills and Peel region have impacted demand for lifestyle properties. And of course, many parts of Queensland and Victoria are still recovering from major flooding and the destruction caused by Cyclone Yasi.

When these events are considered together with last year's string of rate hikes and the threat of further rises, it's hardly surprising that the residential property market has cooled from its highs of 2010.

It's not great news for vendors but for long term investors and owner occupiers with a horizon of five years-plus, opportunities do exist.

Opportunities exist

In some parts of the market, especially south east Queensland, many buyers paid a significant premium for properties purchased at the height of the boom. Following last year's interest rate hikes, a growing number of properties are coming onto the market as "distressed sales". This is giving today's buyers an opportunity to secure discounted properties – particularly in areas dominated by first home buyers and investors. A vacuum has emerged in many markets following the withdrawal of the first home buyers boost at the end of 2009 and this continues today.

Long term outlook essential

The key to success in today's market is taking a long range view. Property should always be regarded as a long term asset, but this approach has become essential in the current climate.

The latest data from the Housing Industry Association¹ shows that housing starts are forecast to fall by 15 per cent to just 143,430 new homes in 2011. This will help to provide a base and the falling supply will help to underpin the market.

Inner city living holds enduring appeal

Around the nation, the prime investment "hot spots" are found in inner city areas.

Australians are increasingly seeking out the lifestyle opportunities offered by close proximity to shops, leisure facilities and good transport links, and these are typically found in inner city or city fringe locations.

For buyers taking a long range view, the limited supply of stock in inner city suburbs plus the opportunity to add value through restoration and renovation, further underpin price appreciation in these areas.

Rising fuel costs and growing traffic congestion add further weight to the appeal, and value, of inner city properties.

Infrastructure adds value

In New South Wales the new Liberal Government has made a commitment to improving transport links. This is likely to add long term value to areas in the city's south west including Bankstown and Liverpool, which stand to benefit from improved road and rail links.

Rents remain firm

On a positive note, many rental markets including Perth and Darwin have remained buoyant despite a cooling in property values.

Low vacancy rates are supporting healthy rental yields and this is providing additional incentive for astute buyers.

As a note of caution, investors who anticipate making a "quick profit" in today's market are likely to be disappointed, or worse, may have their fingers burnt. Along with an extended time horizon, it is essential to look for properties in areas offering quality amenities and proximity to transport links. Properties with the potential for investors and owner occupiers to add value through redevelopment or renovation are also likely to outperform over the next five to ten years.

Brendon Hulcombe
CEO, Herron Todd White

¹HIA Media Release 1 April 2011, *Sombre Housing Outlook Demands Urgent Policy Action*, says HIA at <http://economics.hia.com.au/media/Dec%20Qtr%202010%20National%20Outlook%20media%20release.pdf>

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Northern Territory

Residential property typically performs well as a long term investment, and the Darwin market has certainly highlighted the value of taking a long range view, recording exceptional growth over the last decade. A number of Darwin suburbs continue to offer excellent growth prospects over the decade ahead, backed by local gentrification and the proposed new INPEX gas development.

Under-\$500,000 price bracket

Key suburbs to consider in the lower price range include Millner and Coconut Grove. Both locations offer older unit and housing stock, and gentrification of these northern suburbs should underpin rising land values.

Apartments on the Nightcliff foreshore also offer strong potential. With its close proximity to Royal Darwin Hospital and Charles Darwin University this area combines amenity with ocean views – a combination that is always popular among buyers.

\$500,000 to \$1 million price bracket

Over 10,000 sqm of new office space is approved for construction in the Darwin CBD, and this will bring an influx of inner city office workers, creating a younger demographic for the area of singles and young couples. Many of these workers will look for housing offering close proximity to work. This is expected to underpin buyer demand in Darwin's inner suburbs – Larrakeyah, Fannie Bay, Parap and Stuart Park.

Parap in particular is currently undergoing gentrification with the completion of several new commercial buildings and a new serviced apartment complex.

Within these inner suburbs, the properties likely to deliver the highest returns are older style townhouses that have been well maintained. Without the price premium of a new property, investors in older townhouses are likely to enjoy proportionally stronger rent returns albeit at the expense of the higher depreciation claims available on new stock.

A number of larger allotments offering potential for redevelopment are available in suburbs like Stuart Park, Nightcliff and Rapid Creek. However, these are fundamentally speculative investments as success hinges on relaxation of rezoning and redevelopment regulations.

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\$1 million-plus price bracket

In today's market, Darwin's prestige units offer strong potential for long term growth. A number of apartments in some of Darwin's most prestigious complexes have recently sold at significant discounts – several selling for well below their initial \$1 million-plus price tag.

Over the next twelve months further prestige units will come onto the market following completion, and it is likely that many will be sold at an equally discounted price. It is anticipated that when the local Darwin economy regains strength, the prestige unit market will take off and today's buyers will have pocketed excellent value. It is anticipated that the massive INPEX gas development could provide the boost Darwin's economy needs, however this project still has not received the official green light.

The top price bracket also offers long term opportunities for redevelopment of larger allotments. There is a surprising number of older unit blocks comprised of four to ten apartments scattered throughout Darwin's older inner and northern suburbs. As the city's current tight rental market looks set to extend into the future, these unit blocks will provide excellent rental income with significant potential for land appreciation.

Source: Herron Todd White

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APRIL 2011