



Herron
Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

South Australia



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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South Australia

As we move through 2011, the residential property market in South Australia is characterised by selling prices that are more realistic than those seen in 2009/2010. The number of recorded sales is at a ten year low, and the onset of the winter months, often a quieter period for buying activity, is likely to offer good opportunities for investors with a long range view.

Adelaide

Adelaide's normally resilient property market has stalled recently with a possible correction in values thought to be occurring in some areas. Rather than a significant drop in prices, we are seeing a short term plateauing of values, which will benefit the long term potential of well-located properties.

The best opportunities for future capital growth are found within Adelaide's prime inner suburbs, particularly those to the east and south of the city centre.

These areas have a strong history of excellent capital growth underpinned by proximity to the CBD; the availability of established suburbs with good local amenities; and, the presence of family-friendly facilities like schools and parks.

Coastal suburbs also remain popular with Adelaide buyers. Beachside locations such as Glenelg, Grange, Henley Beach, Semaphore and West Beach are worth considering for long term price appreciation. These areas have seen significant urban development over the last decade and this has further improved the local amenities of these towns.

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Under-\$500,000 market

Location remains the key to successful long term investing in the lower end of Adelaide's market. The beachside suburbs noted previously have plenty of tenant appeal with the additional benefit of proximity to shopping centres, entertainment and good public transport links.

In the lower price bracket, apartments tend to perform well over time, though one bedroom units should be avoided. These tend to achieve slower rates of capital growth as they appeal to a narrower range of tenants and future buyers.

Mid-price range

Prices within many of Adelaide's coastal suburbs fall into the \$500,000 to \$1 million price bracket, giving investors a wide selection of properties to consider.

In this price range, it is important to look at detached dwellings offering quality construction and fit-outs. "Character" homes tend to be more popular and therefore are more likely to deliver superior long term returns.

Allotment size is also worth considering as this can provide opportunities to add value through future extensions or redevelopment.

Proximity to schools, local shopping and parks is a must-have in the mid-price market as the type of housing available in this range is more likely to attract families.

\$1 million-plus market

The high end of Adelaide's property market has continued to achieve strong, long term capital growth though again, location is of premium importance.

The inner suburbs adjoining the immediate fringe of the Adelaide CBD offer the best opportunities. Locations worth consideration include North Adelaide, St Peters and Norwood.

Properties enjoying an esplanade position along Adelaide's favourite beaches are also expected to achieve good growth over time.

What to avoid

Even with a long term outlook, new developments and off-the-plan properties are unlikely to fare as well as established homes. Investors considering these types of properties should seek independent advice before committing to a purchase.

Source: Herron Todd White

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PH **1300 880 489**

htw.com.au

admin@htw.com.au