



Herron
Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Tasmania



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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Over the last decade, Hobart has notched up strong levels of capital growth overall. However, median prices in Tasmania broadly are still generally lower than in many mainland states. The median price in Hobart for instance is currently \$370,000, and the prestige market for property priced over \$1 million is thin, with little investor demand. For this reason, in this report, we are focusing our consideration on properties offering prospects for long term growth on the under-\$800,000 market.

Hobart

Over the past ten years, some of Hobart's best returns have been generated by inner city suburbs. As a guide, the 1998 median price for Hobart was a mere \$125,000. By 2008 this figure had jumped to \$480,000 – a gain of 284% over the ten year period. Today, Hobart's inner city and city fringe locations offer the best prospects for long term capital gains.

Key suburbs worth considering include South Hobart, West Hobart, New Town and also Moonah. These locations offer the convenience of the nearby CBD coupled with an abundance of local amenities, which should underpin long term growth.

Sandy Bay offers especially strong long term prospects. The University of Tasmania is located within the suburb and rental demand from students offers extra appeal for investors.

Another inner city/fringe suburb with growth potential is South Hobart. The flatter terrain and proximity to the CBD offered by this suburb means that many residents choose to walk rather than commute to work in the city.

For a more affordable alternative, the north western fringe suburb of New Town is worth a look. Or to the city's north west, Moonah, with a median price of \$285,000, offers good affordability coupled with close proximity to the city.

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East Hobart

In the east, Bellerive provides excellent investment opportunities even though it is one of Hobart's more expensive suburbs with a median price of about \$550,000. The suburb offers an abundance of lifestyle facilities, many of which have recently been upgraded including improvements to the foreshore walking tracks and local yacht club.

Bellerive Bluff offers a unique residential character enhanced by nearby facilities including Eastlands shopping centre, a cinema, a new "super" clinic that is under construction, and the Rosny commercial precinct.

Northwest – Burnie and Devonport

The State's northwest is currently moving along steadily despite some difficult economic times and the closure of several major local employers. The long term outlook should remain steady if employment opportunities are developed and jobs remain in the region.

This part of Tasmania offers picturesque locations with sea views and a "small town feel" whilst still providing close proximity to the major centres of Burnie and Devonport.

The Devonport towns of Shearwater, Port Sorell and Hawley Beach have enjoyed good growth and appear to be developing into more permanent residential bases rather than just holiday towns. Burnie suburbs with potential for growth include Park Grove and Romaine.

North – Launceston

The median price for Launceston and surrounding suburbs is currently below \$500,000 and well-positioned central properties will always perform well – particularly those within walking distance to the CBD and the café strip of Charles Street.

Located a short drive from Launceston's CBD, the suburbs of West Launceston, Prospect, Prospect Vale, Summerhill, Riverside, Trevallyn and Newstead offer good growth prospects. These suburbs all have schools (some offering the choice of public or private), and are serviced by either a major supermarket or shopping centre.

Planning restrictions regarding the development of rural land are increasingly restricting the supply of well-located rural residential properties and a steady increase in demand for existing holdings is expected as supply weakens.

Prices are expected to rise over the long term in areas such as Pateena Road and Norwich Drive, Ecclestone Road, Devon Hills, White Hills, Relbia and East and West Tamar (which also enjoy river views). Homes on acreage in these areas now regularly command prices in excess of \$500,000 due to the underlying land value of the larger allotments.

Source: Herron Todd White

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