Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Victoria

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 Association[1] 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

[1]HIA 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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Victoria

Melbourne

Over the next ten years several key factors are likely to underpin property price growth in Melbourne. Foremost among these is gentrification of homes and suburban facilities; proximity to the city centre; and, availability of nearby transport links. Here we look at suburbs in three separate price brackets that fit the bill and offer healthy prospects for future capital gains.

Lower price range

In the under-$500,000 market a number of suburbs offer strong long term investment potential, however Boronia Park is a stand-out location.

A far eastern suburb located 30 kilometres from the Melbourne CBD, Boronia Park is nestled in the foothills of the Dandenong Ranges. Housing is comprised chiefly of a range of homes built in the 1960s through to the 1980s with a median price of around $450,000 for homes and $395,000 for units.

With four primary schools, Boronia Park is attracting younger families, and providing a more established alternative to the newer estates being constructed in outer suburbs such as Pakenham and Officer.

With its proximity to the Dandenongs, the suburb has a pleasant, undulating topography and a tree-filled outlook but it remains accessible to the Melbourne CBD via established infrastructure. Taken together, these factors lend strong support to the suburb's long term potential for capital growth.

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Mid-price range

In the $500,000 to $1 million market, Altona – the suburb that Prime Minister Julia Gillard chooses to call home – is a good prospect for investors with a long term view.

Located 13 kilometres from Melbourne's CBD, Altona is characterised by homes from the 1950s to 1970s built on sizeable allotments between 500sqm and 700sqm.

Over the last five years, the suburb has seen the construction of a number of contemporary townhouse developments however it is Altona's larger homes that continue to attract families to the area.

The main shopping village is serviced by a train line, while the West Gate Freeway and Western Ring Road provide good access to city and airport.

With its location close to cosmopolitan Williamstown and Newport, Altona is set to benefit from rising prices in these two adjoining suburbs, where prices have risen by 21% over the last 12 months.

Current median prices in Altona range from $405,000 for units to $593,750 for houses.

$1 million-plus market

In the $1 million-plus price bracket Fitzroy North stands out for long term growth potential.

Located just five kilometres north of Melbourne's CBD, the suburb is characterised by quiet, tree-lined streets with homes that are typically single or double fronted Victorian and Edwardian terraces.

With appeal primarily to young families, Fitzroy North boasts cosmopolitan shopping strips with cafés, bars and pubs extending along St Georges Road and Queens Parade. The suburb is serviced by two tram lines and features a high school plus two primary schools.

The neighbouring suburbs of Carlton North and Northcote are both highly sought after (The Age recently declared Northcote to be Melbourne's "Most Gentrified" suburb), and the rise in values in these locations should support long term values in Fitzroy North.

Houses in Fitzroy North are currently priced at just under $1 million though units are more affordable at $525,500.

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Mildura

While the residential market has generally been patchy over the past 12 months, well-presented homes in the $250,000 to $400,000 price segment have been selling relatively quickly. Demand is mostly coming from local second-home buyers, newcomers to Mildura, and also investors. A combination of comparative affordability and a shortage of rental accommodation is expected to see this segment continue to perform.

Albury/Wodonga region

Now no longer in drought, improved farm outputs will boost the local economy which relies heavily on the rural sector. This, coupled with rising local consumer confidence, should see property sales increase throughout Albury/Wodonga and surrounding regions. At present, there are no obvious dark clouds over the local residential property market.

Source: Herron Todd White

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