Westpac

NSW/ACT

Property Report – April 2014

HERRON TODD WHITE RESIDENTIAL

National Overview

This quarter we look around the nation to identify affordable properties with the potential to deliver healthy long term capital gains and decent rental yields suitable to investors and self-managed super funds.

In many markets around Australia, it appears to be a case of 'build it, and they will come', with improved infrastructure set to be a major driver of investor activity. Wherever new roads, rail links, hospitals, mines and shopping centres are being constructed or upgraded, population growth and job creation will duly follow. Population growth and jobs are generally good news for long-term property returns.

BARANGAROO BREATHES LIFE INTO SYDNEY'S CBD

The development of iconic Barangaroo, located on the north western edge of the CBD, is set to contribute to major improvements in the level of amenities and infrastructure servicing the Sydney CBD, making it an even more desirable place to live. In regards to growth prospects, based on the current cash rate and existing foreign investment incentives, CBD apartments are expected to generate annualised average returns of between 4% and 5% over the next five to ten years.

Infrastructure will play a significant role too in the growth corridor in Sydney's south west. For example, fringe suburbs surrounding the Parramatta CBD such as Pendle Hill, Merrylands and Westmead will benefit from better infrastructure such as railway improvements, enhanced motorway access and bus transit lanes.

In regional NSW, major population centres such as Orange and Albury stand to win from investments in local infrastructure. The new Orange Base Hospital along with expanding mining interests means that Orange has become a significant regional hub. Likewise, the border town of Albury has become a major regional transport and business hub thanks to an ongoing commitment to improved government infrastructure such as the impending extensions to Albury Hospital and improvements to the Hume Highway, which is the major road link between Melbourne and Sydney.

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Infrastructure is a dominant factor in Box Hill, which is 14 kilometres east of the Melbourne CBD. A transport hub, with active trains, trams and buses accessing the area, Box Hill is well-served with health and education facilities such as the Box Hill Hospital, Box Hill TAFE, along with numerous private and public schools. Entry-level apartments in Box Hill start from $350,000 and houses from $700,000 and should provide some growth in the medium term. Investors can expect yields of 3.5% to 4% for houses and 4% to 5% for units.

THE COMMONWEALTH GAMES IS PROVING GOOD FOR BUSINESS

Infrastructure is impacting regions outside Brisbane. Southport for example, has been declared a priority development area by the Queensland Government in an attempt to revitalise it as the new Gold Coast CBD. Major infrastructure initiatives such as the Griffith University Hospital, the Gold Coast Rapid Transit light rail (commencing June), and the Chinatown project (commencing 2014) are leading this revitalisation. The 2018 Commonwealth Games bid has also had a positive influence on business and investor confidence around the Broadwater. For investors, the typical entry point in Southport is around $200,000 for units and $400,000 for houses. Interestingly house values under $500,000 have jumped between 5% and 10% over the past six months, and investors can expect gross yields of between 5% and 7%.

In Brisbane, capital growth and affordable prices coupled with major infrastructure improvements, are sure to pique the interest of long-term investors. The northern Brisbane suburbs of Everton Park, Stafford, Mitchelton, and McDowall are worth some consideration. These suburbs are benefitting from recent infrastructure improvements, such as the Western Arterial Road from Jindalee and the Northern Busway. Investors can buy into the Everton Park house market with $450,000 and over the next five to ten years, should expect capital growth of between 3% and 5%.

SELF-MANAGED FUNDS FLEXING THEIR MUSCLES

The Darwin CBD is the investment hotspot in the Northern Territory at present with demand driven by a rising tide of self-managed super funds, while demand for property from workers attached to the Ichthys LNG project remains a major factor.

Always on the lookout for reasonably priced investments, self-managed super funds and investors are sure to take note of Samson in the City of Fremantle, which is relatively more affordable than nearby Kardinya, Winthrop and Murdoch. The typical entry-point property in Samson is $525,000 which will buy an original 3-bedroom, 1-bathroom home – a 3-bedroom house is $600,000 in Kardinya. For investors looking for units and villas, $350,000 will be enough to buy into the Samson market compared to $370,000 for entry-level units in Kardinya.

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POLITICAL STABILITY IN TASMANIA

The state election in March delivered a majority Liberal Government for the first time in 16 years, which may prove to be a change agent for business sentiment and consequently the state.

The flipside of a less than spectacular economic performance is the unique opportunities available to property market investors. Decent gross rental returns are being achieved thanks to historically low interest rates and lower capital entry levels make Tasmanian property more affordable, when compared to other states. Investors can also choose from an adequate variety of stock.

In South Australia the real estate market appears to have ignored the confusion over the state election result, with the Adelaide residential property market now officially in the early stages of recovery after hitting the bottom of the cycle around 18 months ago. While selling and buying transactions still remain fairly subdued, sales activity improved throughout 2013 and in the past 12 months Adelaide houses have shown capital growth of around 2.5%.

Brendon Hulcombe
CEO - HERRON TODD WHITE

New South Wales

Improvements to infrastructure whether it's a mega-development such as Barangaroo in Sydney, or a new hospital in Orange or Albury will prove key factors in whether an investment property in the premier state generates decent capital growth and rental yields over the next few years.

Sydney

SYDNEY CBD

The potential for strong rental yields and taxation benefits attached to new stock makes the Sydney CBD an investment market to watch over the next half a decade.

The development of iconic Barangaroo located on the north western edge of the CBD, will contribute to major improvements in the level of amenities and infrastructure servicing the city, making it an even more desirable place to live.

In the Sydney CBD, studio apartments are available up to $500,000, while 1-bedroom apartments can be secured for up to $600,000. For entry-level 2-bedroom apartments, investors can expect to pay up to $750,000.

On current available data, apartments valued under $900,000 are generating gross rental yields of between 5.5% and 6.5%. Moving forward investors should note that levy increases will impact net returns in the CBD, while special levies will become more commonplace. The issue of higher levies will become more relevant to buildings constructed in the early 2000s, especially those with extensive common facilities requiring upgrades and/or maintenance.

In regards to growth prospects, based on the current cash rate and existing foreign investment incentives, CBD apartments are expected to generate annualised average returns of between 4% and 5% over the next five to ten years.

PARRAMATTA

Infrastructure will play a significant role in the growth corridor in Sydney's south west. For example, fringe suburbs surrounding the Parramatta CBD such as Pendle Hill, Merrylands and Westmead will benefit from better infrastructure such as railway improvements, enhanced motorway access and bus transit lanes.

Housing stock in this region is still available from the mid $500,000s, while older, entry-level 2-bedroom apartments, with garages, range from the early $300,000s to mid $400,000s, while current yields are in the vicinity of 5% to 6%.

THE HILLS DISTRICT

The Hills District is set to be a major beneficiary of the Northwest train link, as well as a new transport interchange, which includes an express bus to the Sydney CBD. In this region entry level houses start from $750,000, while apartments are available from $600,000, with current yields of between 5% and 7%. Capital appreciation drives interest in this market, along with relatively affordable entry-level prices, especially for established dwellings.

In this region, entry level houses start from $750,000, while apartments are available from $600,000....

Regional NSW

SOUTHERN HIGHLANDS

In the NSW Southern Highlands and Southern Tablelands, the towns of Bowral, Mittagong, Moss Vale, Picton, Wilton and Goulburn are proving to be investment hotspots.

These towns are employment, retail and entertainment hubs which makes them popular with tenants. As a consequence self-managed super funds have recognised the potential of the Southern Highlands and are making their presence felt. Towns such as Goulburn, Bowral and Mittagong also have easy commuter access to the Hume Highway, which links them to Sydney and Canberra, while the beaches of Wollongong are not far away.

In the Southern Highlands the entry-level property market extends from $350,000 to $1million, with gross yields of 4.5% to 5.5% achievable. In the major hub of Goulburn the entry-level market is between $200,000 and $500,000, with rental yields of between 5.5% and 6.5%. Given the region is strongly influenced by Sydney real estate prices, average increases of 10% over the next five years are achievable for property markets in some of the local towns.

ILLAWARRA

The investment hotspots in NSW's popular Illawarra are Towradgi and Fairy Meadow, while Wollongong CBD units are also highly sought after. Towradgi and Fairy Meadow are close to the centre of the city, as well as local beaches and amenities such as Coles, Aldi and Woolworths. These suburbs also have the benefit of being located on the 'Green Bus' route which makes it desirable for University students looking for rentals.

In Towradgi and Fairy Meadow entry-level properties are trading for between $450,000 and $550,000, while older-style, 2-bedroom Wollongong CBD apartments start at $330,000 – $460,000 for newer apartments. Meanwhile modest capital growth prospects are predicted for Towradgi and Fairy Meadow as they are mostly yield plays. That said, the fringe suburbs achieved 5% increases in capital growth over the past 12 months, along with yields of just below 5%. In the Wollongong CBD apartments close to the university will generate slightly stronger yields of between 5% and 5.5%.

NEWCASTLE

In Newcastle, Jesmond and Wallsend are suburbs to watch thanks largely to their close proximity to the University of Newcastle.

The shortage of student accommodation both on and off campus is a significant driver of Wallsend and Jesmond real estate activity, with some older 5-bedroom houses leasing to students for between $625 and $875 a week, based on per room rates of between $125 and $175 per student. This represents gross yields between 7% and 10%.

In contrast, Jesmond or Wallsend properties tenanted on a single entity basis might command weekly rents of between $400 and $500. It should be noted that there is a higher level of risk attached to homes used for student accommodation, and many may not have local council approval.

COFFS HARBOUR

On the NSW North Coast, Coffs Harbour is experiencing an increase in demand for low priced stock between $300,000 and $400,000, particularly from investors targeting higher yields.

The popularity of Coffs Harbour is being driven by its increasing recognition as a major regional town by families and retirees from Sydney and the NSW Central Coast. Its appeal is linked to the growing recognition that the town has a diversified economy, which is not solely reliant on tourism and sea changers. The town also has a growing industrial base, along with expanding health and education sectors. Improved infrastructure such as the Woolgoolga Bypass, the Sapphire to Woolgoolga Highway upgrade and the Urunga Bypass are contributing to demand for entry-level housing in Coffs Harbour.

Hotspots to the south of Coffs Harbour include Valla Beach, a popular beachside township between Urunga and Nambucca Heads which has

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limited housing supply. Urunga and Nambucca are also experiencing increased investor activity due to the affordability of entry-level housing and increased rental activity.

After a rough trot thanks to the GFC, the Coffs Harbour property market appears to have bottomed, and given no further adverse economic conditions average annual growth of between 2% and 4% is achievable. Investors can also expect gross yields of between 6% and 9% for sub-$400,000 properties.

LISMORE

In Lismore on the NSW North Coast, and to a lesser degree nearby Casino, there are signs of improved housing construction led by builders Perry Homes and Coral Homes. The increased activity follows changes to local zoning regulations, which has caught the eye of smaller developers.

The Lismore City Council has also indicated a more favourable stance towards 'infill' development within the city's boundaries to help increase the supply of affordable housing, which in turn will help to improve rental supply close to Lismore's centre. The rental market remains relatively stable, with Lismore likely to benefit from increased student numbers at Southern Cross University.

Entry-level housing in Lismore is priced between $200,000 and $300,000, with houses in Casino and Kyogle available for between $150,000 and $250,000. Lismore units start from $130,000. Likewise, more affordable older-style, brick and tile units in Casino and Kyogle range from $100,000 to $150,000. New build units can attract prices in excess of $250,000 if detached.

Also affected by the global financial crisis, the property markets in Lismore, Casino and Kyogle have achieved little growth since 2008. In general, owner-occupiers and investors are still cautious about these markets despite improved fundamentals and as a consequence, modest capital growth of between 2% and 3% annually is expected. Meanwhile, yields of 5% and 6% are achievable for blocks of flats and between 3% and 4% for standalone houses.

PORT MACQUARIE

The major north coast towns of Port Macquarie and Forster-Tuncurry are tipped to be property hotspots in coming years. These towns have good services, along with rising rents and limited vacancies.

Rents range from about $250 per week for entry-level dwellings and up to $500 weekly for quality modern dwellings in the newer estates. Investors in Port Macquarie and Forster-Tuncurry real estate can expect decent growth in coming years.

After a rough trot thanks to the GFC, the Coffs Harbour property market appears to have bottomed, and given no further adverse economic conditions, average annual growth of between 2% and 4% is achievable.

ORANGE

Improved infrastructure including the new Orange Base Hospital and expanding mining interests means that Orange has become a significant regional hub in the NSW Central West for surrounding towns within a 100 kilometre radius. Entry-level houses range from $340,000 to $400,000, while units start from $280,000 to $350,000.

In terms of capital growth, investors can reasonably expect 5% over the next five to ten years based historical trends.

ALBURY

The border town of Albury has become a major regional transport and business hub thanks to an ongoing commitment to improved government infrastructure.

This investment includes the impending extensions to Albury Hospital and improvements to the Hume Highway, the major road link between Melbourne and Sydney. As a consequence of better infrastructure, more multinational companies are using Albury as a major distribution centre and this is creating more jobs in the thriving town.

Entry-level houses in Albury are priced between $220,000 and $250,000, with units trading from $160,000. Given the town's economic growth prospects, house and unit prices are set to grow by up to 4% annually over the next five to ten years. Moreover a current gross yield of 6% to 7% for houses and units is already capturing the attention of income-hungry investors.

Entry-level houses in Albury are priced between $220,000 and $250,000, with units trading from $160,000.

ACT

CANBERRA

Real estate agents in Canberra are reporting increases in sales activity after the traditional Christmas lull. That said, it's still a buyers' market with healthy stock levels providing more choice. However increased sales levels indicate that vendors are more willing to trade and may be starting to reduce expectations.

Overall, caution dominates in Canberra thanks mostly to cuts to public service jobs, while the upcoming Federal Budget is creating additional uncertainty.

In developing Gungahlin, new, entry-level 3-bedroom dwellings are trading hands from the early $400,000s and 4-bedroom, 2-bathroom homes are selling for about $550,000. Although a glut of rental stock seems to be impacting rental returns. As a consequence, investors need to realistically set and review rent levels to avoid vacancy issues.

Supply increases in the Kingston Foreshore and Manhattan in the CBD have subdued the rental markets in Braddon, Lyneham, Kingston and the City. Yet long term, the prospects for these Canberra suburbs remains strong with demand expected to catch current supply levels over the short to medium term. As a result, rental returns are expected to remain around the 5.5% mark.

Curtain, Hughes, Garran, Cook and Aranda will also provide good rental returns of around 4.5% to 5%, as well as some growth potential.

Local regional markets outside the ACT will continue to follow similar trends to those in Canberra. New supply coming online through Bungendore and Murrumbateman will provide buyers and investors with opportunities to secure larger parcels of land, although commuting times into Canberra remains a consideration.

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