



Westpac

NSW/ACT

Property Report – April 2016

 **HERRON
TODD WHITE
RESIDENTIAL**

National Overview

The residential property market has defied the pundits by continuing to push on in some parts of Australia, with Melbourne still (and perhaps worryingly) leading the way.

Initiatives introduced by the Australian Prudential Regulatory Authority (APRA) in late 2014 and mid-2015, which were designed to cool investor activity, have taken some of the heat out of the market, especially in Sydney. That's not a bad thing, as it will hopefully lessen the effects of a boom bust which we can see as cycles come to an end. However, for investors, it has taken the focus off speculative activity and forced a return to the fundamentals of what makes an area worth investing in.

This is the focal point of our latest report, and we find there is no single overarching factor across Australia. The factors that determine whether a suburb is worth investing in vary from location to location.

INNER-CITY AREAS HAVE PERFORMED WELL, BUT ARE THERE TOO MANY INVESTOR STOCK UNITS COMING ON-LINE?

In Brisbane and Melbourne, inner-city and city-fringe suburbs have continued to see units come up out of the ground. Melbourne suburbs such as Collingwood, Fitzroy, North Melbourne, South Melbourne and Port Melbourne have recorded steady capital growth over the past few years, and this will likely increase in to the long term as Melbourne continues to become decentralised (care needs to be exercised with units, especially within inner-city Melbourne).

In Sydney, values have cooled, though property prices are still high by national standards, and some of the more affordable buying for investors can be found in what many believe is Sydney's second CBD: Parramatta. The city has a diverse economy and is home to several key government agencies and Western Sydney University, and Westmead Hospital is nearby. The NSW State Government's 20-year plan proposes an expanded role for Parramatta, as evidenced by the proposed relocation of the Powerhouse Museum from Darling Harbour. There are also plans to transform the 'auto alley' car yards that line much of Church Street into residential apartments. This will likely have a flow-on effect on adjoining suburbs such as Westmead, Pendle Hill, Harris Park and Toongabbie. With a median unit value of \$563,000 and strong tenant appeal, Parramatta could be worth a look for investors.

The Brisbane housing market remains one of the most affordable of the capital cities, however the number of units now in the pipeline is cause for some concern given the number of locally generic two-bedroom, two-bathroom units marketed to investors.



In Brisbane and Melbourne, inner-city and city-fringe suburbs have continued to see units come up out of the ground.

REGIONAL AREAS CAN OFFER GOOD PROSPECTS

There is a valid case for investors to cast their net beyond state capitals. In NSW, for instance, the far north coast area around Coffs Harbour offers healthy longer term prospects. The upgrade of the Pacific Highway and the development of a more diverse economy mean the area is less reliant on tourism, and this bodes well for population growth and property price appreciation. Quality homes in beachside suburbs can still be picked up for just under \$300,000.

It's a similar story in Queensland, where the Gold Coast is seeing plenty of buyer activity following a market lull. The 2018 Commonwealth Games is bringing activity to the region, and the associated infrastructure improvements should support price appreciation in local suburbs. The extension of the light rail service to Helensvale, for instance, will be a significant winner for that suburb and adjoining neighbourhoods. Detached houses in Helensvale can be picked for the low \$400,000s.

Heading south to the ACT, proximity to services, schools, shopping and recreational facilities continue to be key drivers of capital growth in the Canberra area. Central suburbs such as Narrabundah and Ainslie, which offer such facilities in abundance, are delivering rental yields of up to 5%.

TASMANIA AND ADELAIDE REMAIN AFFORDABLE

Tasmania is starting to offer real appeal to investors. Vacancy rates tend to be low by mainland standards, and this is helping to underpin relatively robust rental yields. Hobart and its surrounds continue to top the league table of Tassie prospects, especially as a relocation of the Launceston Campus of the University of Tasmania is on the cards within the next five years.

In Adelaide, capital gains in near-city and beachside suburbs have reduced yields, and in the hunt for that elusive combination of growth and yield, investors would do well to look at suburbs located 10-20 kilometres from the CBD. Woodcroft, for example, offers improved commuter access following the completion of the duplication of the Southern Expressway in 2014. Older homes in Woodcroft can sell in the low \$300,000s and yields are averaging 4.8%.

...the Gold Coast is seeing plenty of buyer activity following a market lull.



PERTH AND DARWIN IMPACTED BY A TAPERING OF THE RESOURCE BOOM

The Perth property market has taken a hit since the winding down of the mining boom; however, for the savvy investor, this can spell opportunity. In the northern suburbs, the rezoning of Craigie and Padbury is creating conditions favourable for investors. The rezoning will result in upgrades to existing housing or its replacement with new stock, and it's expected that vacant space will be further developed. House prices in Craigie start at around \$475,000.

In the Top End, following a massive capital injection in the form of the Inpex Ichthys LNG Project, Darwin's property market is entering a period of consolidation. But that's not to say it doesn't offer appeal to investors – although always exercise caution when buying property directly impacted by local resource led activity. Gross yields of 5.3% – far above what cities such as Sydney and Melbourne typically offer – are expected to continue. Likewise, the introduction of the Real Housing for Growth scheme by the Northern Territory Government will continue to tempt investors with the incentive of guaranteed rental leases. This scheme is aimed at increasing the stock of affordable rental properties for key service industry workers. Apartments continue to be the top choice among tenants in the Top End.

Brendon Hulcombe

CEO - HERRON TODD WHITE



New South Wales



Sydney

Over the past 12 months, Sydney property values have risen 7.4%, taking the median value to \$845,000 for houses and \$645,000 for apartments, according to CoreLogic. This growth brings a fresh challenge for investors in the greater Sydney area: balancing affordability with returns.

Rents have not risen at the same pace as values and in some instances have declined, especially in inner-city high-density suburbs such as Waterloo. While capital gains remain the key attraction for investors over the medium to long term, sluggish rents are putting pressure on investors to fund the gap between loan repayments and rental income.

INFRASTRUCTURE MAY POINT TO GROWTH AREAS

In regards to selecting areas that could deliver strong capital growth along with tenant appeal, it pays to bear in mind the NSW State Government's focus on completing long-overdue infrastructure projects.

Locations that lie within designated infrastructure corridors offer potential for long-term gains. Suburbs likely to benefit include those around the WestConnex extension of the M4 Motorway, the NorthConnex connection of the M2 and M1 motorways, the NorthWest rail link connecting Rouse Hill to Epping via Castle Hill, the light rail through the Inner West and from Surry Hills to Randwick, and the second airport at Badgerys Creek when it is eventually completed.

INNER WEST ANNANDALE SHINES

Annandale has always been a popular Inner West suburb, given its period-style dwellings; proximity to the CBD; access to light rail and bus; and boutique retail, cafes and restaurants. The suburb has enjoyed strong capital growth and very high clearance rates over the past 24 months. We expect steadier market conditions in the short term, though there is great potential for further growth. This will be supported by the proposed redevelopment of the heritage-listed Tramsheds on the northern edge of Harold Park, which will bring additional retail outlets and restaurants to the area.

Longer term, the proposed large-scale development of Blackwattle Bay and Rozelle Bay, at the top end of Annandale, will feature mixed-use developments and restore public access to the foreshore, further driving capital growth and tenant appeal.

Annandale's current median price for apartments is \$725,000 (median weekly rent of \$473 for a yield of 3.4%) and for houses it is \$1.4 million (median weekly rent of \$763 for a yield of 2.8%).

IN THE EAST, BONDI BEACH HOLDS APPEAL

In the Eastern Suburbs, Bondi Beach remains a popular location among tenants due to its proximity to the beach and numerous cafes and restaurants. These qualities are likely to ensure Bondi Beach will continue to record good capital gains over the medium to long term. The median house price in the suburb is currently around \$2.2 million (median weekly rent of \$1,250 for a yield of 3.2%). Apartments have a median price of \$898,000 (median weekly rent of \$670 for a yield of 3.9%).

Tight vacancy rates suggest rental yields in Bondi Beach will increase, especially for units, which are more affordable for investors.

SOUTHERN SUBURBS: BRIGHTON-LE-SANDS HAS POTENTIAL

To the south of the CBD, Brighton-Le-Sands is a well-regarded area with proximity to the city centre and Sydney airport. The Botany Bay foreshore and neighbouring parks are drawcards, as are good restaurants, cafes and shopping precincts.

Bus services provide easy access to Rockdale train station; however, unit values in Brighton-Le-Sands have been held back by a lack of good public transport infrastructure. A possible light rail extension from the Illawarra–Eastern Suburbs train line could provide a solution, as well as the long-awaited F6 freeway extension, which has been earmarked since the 1960s.

The median house price in Brighton-Le-Sands is \$1.34 million (median weekly rent of \$600 for a yield of 2.3%). The median unit value is \$682,500 (median weekly rent of \$450 for a yield of 3.4%).

SYDNEY'S WEST: PARRAMATTA IS A SECOND CBD

To the city's west, Parramatta is widely recognised as a second CBD. The city has a strong government agency presence, hosts a campus of Western Sydney University and also offers proximity to Westmead Hospital as a medical services centre.

The state government's 20-year plan centres on increasing the importance of Parramatta through the redevelopment of key areas. This includes future medium-density residential buildings planned along the original 'auto alley' car yards on Church Street. These plans could deliver capital growth to Parramatta's adjoining suburbs, especially those with railway stations, such as Westmead, Pendle Hill, Harris Park and Toongabbie. Parramatta's median house price is currently \$1.050 million (median weekly rent of \$500 for a yield of 2.47%). The median unit value is \$563,000 (median weekly rent of \$450).

Bus services provide easy access to Rockdale train station; however, unit values in Brighton-Le-Sands have been held back by a lack of good public transport infrastructure.



Regional NSW

CENTRAL COAST

A recent strong period of growth on the coast suggests a number of suburbs could be exhausted with respect to short-term capital gains. However, some locations, such as Wyoming, are worth a look. Wyoming has a median value of around \$502,500 and yields are in the range of 4% to 6%.

NEWCASTLE

As the Newcastle population continues to grow, many buyers and investors are moving further away from the CBD to capture growth opportunities, often in developments located on brownfield sites. Argenton, with a current median house price of \$415,000, offers proximity to the Newcastle CBD, the Brownfield Cockle Creek redevelopment area and Stockland Glendale shopping centre.

Boolaroo, located 19 kilometres to the west of the CBD, fronts Lake Macquarie, and while the location was formerly home to the Pasmenco Cockle Creek Smelter and Incitec Pivot Fertiliser plant, both sites are undergoing considerable redevelopment. On completion, they will offer low- to medium-density developments, parks and new environmental and Aboriginal conservation areas. This is expected to support local values above Boolaroo's current median house price of \$360,500.

FAR NORTH COAST

In the Lismore area, investor activity is relatively stable. Rental yields in excess of 4% are possible, though generally chiefly in the lower price ranges: under \$350,000 for Lismore, and under \$300,000 for Kyogle and Richmond Valley.

Ballina is experiencing demand for apartments with proximity to popular beaches. The typical price range is \$330,000 to \$400,000 for 2-bedroom units.

In the Lennox Head area, selling agents are reporting significant interest among interstate investors, mainly in the price range of \$500,000 to \$1 million. There is a genuine lack of rental properties available, and rental returns are trending upwards as tenants compete to secure leases.

In the Coffs Harbour area, long-term capital growth is likely to be supported by the growing health and education sectors and improved transport infrastructure as the region becomes less dependent on tourism. Two suburbs with good prospects for long-term growth are Corindi Beach (10 kilometres north of Woolgoolga), where house prices start around \$300,000; and Sandy Beach (2 kilometres south of Woolgoolga), where the medium house price is \$370,000. Both locations have benefited from the highway upgrade and are seen as more affordable beachside localities.

Ballina is experiencing demand for apartments with proximity to popular beaches. The typical price range is \$330,000 to \$400,000 for 2-bedroom units.

THE ILLAWARRA

The Illawarra region has seen reasonable growth over the past 12-18 months, and there is a sense this will continue, particularly in the under-\$600,000 market. It is still possible to acquire property in the Illawarra for less than \$400,000. As evidence of the potential for investors, older homes in the Shellharbour area, which were selling for under \$300,000 just a few years ago, are currently priced at around \$450,000.

CENTRAL WEST

The Central West town of Lithgow remains stubbornly slow to deliver capital growth. It is the region's closest major town to Sydney, and affordability is such that investors can buy two or three properties in Lithgow for the price of a single Sydney property. The median house value is \$237,500 (units \$210,000), and yields can top 5%.

While Lithgow benefits from attractive surrounding areas, it is a former mining town and there are pockets of social disadvantage. Nonetheless, migration outwards from Sydney suggests that at some stage the Lithgow market will 'take off', and we believe that when it happens, it could be in a big way.

NEW ENGLAND

Tamworth offers considerable appeal to investors, who can earn yields of around 5% to 6%, backed up by capital growth trending at about 5% annually. As more new homes are built, rents on older properties are suffering, but homes in the new developments of Calala (median price \$392,000), Hillvue (median price \$360,000) and North Tamworth (median price \$298,000) remain affordable.

ACT

Proximity to services, schools, shopping and recreational facilities are the main drivers of capital growth in the ACT. Central suburbs such as Narrabundah in the inner south (median price \$850,000) and Ainslie in the inner north (median price \$750,000) offer these features. Current rental returns for investors in these locations are between 4% and 5%.



Local expertise.
National strength.
Trusted solutions.

Herron Todd White is Australia's leading property valuation and advisory group. For more than 45 years, we've given our customers peace of mind and the confidence to make good-decisions for their vital property investments. Whether you are buying or selling, expert independent advice is the smartest property investment you can make.

Liability limited by a scheme approved under Professional Standards Legislation. The scheme does not apply within Tasmania.