Northern Territory

Property Report – April 2014

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

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DARWIN

Over 800 apartments are expected for completion within the CBD in 2014, with many of these being purchased by local and interstate investors. The demand for these newly constructed properties is being pushed by the heavy accommodation demands from the workers associated with the Ichthys LNG project.

Entry level investment in the CBD for new, 1-bedroom units is $340,000 to $360,000. For new, 2-bedroom units the entry level price is $480,000 to $500,000. (Typically, these would be 2-bedroom, 2-bathroom units in a building of eight to ten storeys).

Existing investment stock kicks off at around $280,000 for a basic 1-bedroom unit. Units are the popular pick as they are low maintenance, easy to rent, and within all walking points of the Darwin CBD including pubs, cafes, restaurants and the waterfront.

Given the volume of construction currently underway we are expecting limited capital growth within the short to medium term, however given that rental demand is still quite good we don't expect an oversupply of new units, which could reduce values.

Investors can expect gross yields in the vicinity of 6% per annum. There are some apartment developments with guaranteed returns from developers being offered at above this rate, however these are only available on periods of around three years. With the introduction of self-managed super funds into the Darwin market, those properties that can produce good solid capital growth and regular cash flow are proving popular.

PALMERSTON

The newer Palmerston suburbs have been most popular for investment in homes; this has simply been driven by where land is commonly being supplied for housing development. On the other hand, land within the inner Darwin suburbs is scarce and limited to a single block in established locations.

Subdivisions in Bellamack, Johnston, and Zuccoli have been very well received by a mix of owner-occupiers and investors. Entry level for these completed dwellings is $600,000, which would provide buyers with a ground level, rendered masonry, 3-bedroom, 2-bathroom dwelling. Upper level prices for homes in these areas are pushing $900,000 plus.

We consider that capital growth for such areas will be steady in the coming years. However as there is less housing supply than say in the CBD, there is greater potential for growth. Gross returns will be in the vicinity of 5% to 5.5% per annum. Capital growth and income returns are equally important to investors in all these locations.

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