Westpac

Queensland

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

Queensland

For investors in residential property, Queensland has an undoubted appeal at the moment. The combination of infrastructure development, capital growth and affordable price entry points has many investors sitting up and taking notice, especially those with an eye for long-term property investments.

BRISBANE

The northern Brisbane suburb of Everton Park and surrounding suburbs such as Stafford, Mitchelton, and McDowall, are benefitting from recent infrastructure, such as the Western Arterial Road from Jindalee, and the Northern Busway. This has seen a boost in the number of local projects, with retail development on the way for the suburb. Investors with a budget around $450,000 can gain entry to the Everton Park house market, while 2-bedroom units will cost in the vicinity of $320,000. Over the next five to ten years, capital growth of between 3% and 5% is tipped for houses in the suburb, while units are likely to grow between 2% and 4%. Investors can expect gross yields of 4.8% to 5% for Everton Park houses, and 5% to 5.3% for units.

South of the Brisbane River, and Coorparoo is a hotspot for investors looking at unit investment. A new busway station is proposed at Coorparoo, slated as part of the redevelopment of the old Myer complex. The site is to be home to a new residential unit complex which will also include retail outlets and restaurants/cafes. As it stands, 2-bedroom units are available for $300,000 and are expected to deliver capital growth of 2% to 4% in the next five to ten years, and gross yields between 5% and 5.5%.

Inner city Woolloongabba is also seeing interest in properties unaffected by the 2011 floods, with investor opportunities from $500,000 and up. These homes should see capital growth of 3% to 5% over the next decade, with investors recouping gross yields of 4.5% to 5%. Infrastructure is also a key player here, with the Woolloongabba Busway station earmarked to form part of the Queensland Government's Cross River Rail project which involves a proposal for the construction of an underground rail and bus tunnel. New residential unit developments have been suggested as well, which will see some of the area's industrial buildings replaced with commercial premises, retail outlets and restaurants/cafes.

The popular inner city riverside suburb of Newstead has also sparked renewed investor interest since the commencement of the Gasworks Plaza project, which involved the development of an upmarket retail hub and the nearby riverfront parkland. A master-planned urban community, Gasworks will feature up to 900 residential apartments, 20,000 square metres of retail space and 60,000 square metres of commercial space. Currently 1-bedroom Newstead units are available for $370,000, with investors expected to see capital growth of between 3% and 5% and gross yields from 5% to 5.5%.

GOLD COAST

The Gold Coast's highly regarded feeder suburb of Ashmore, west of Surfers Paradise, may have been overlooked by investors in the past but is now attracting attention. Much of the area's older housing stock has been modernised, and the suburb now offers a range of housing from $250,000 to over $1 million. With the median rent for a 3-bedroom house sitting at $420 per week, and a median house price of $480,000, investors in Ashmore can achieve 4.55% gross yields. In addition Ashmore's good road system, education facilities, shopping centres and parks should see these properties continue to achieve capital growth of around 3% per annum in the next five to ten years, which has been the norm over the past decade.

Meanwhile, Southport has been declared a priority development area by the Queensland Government in an attempt to revitalise the suburb as the new Gold Coast CBD. Major infrastructure initiatives including 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 is around $200,000 for units in Southport, and around $400,000 for houses. That said, 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%.

Ever-popular Burleigh Heads/Burleigh Waters has become increasingly sought-after in recent times, courtesy of a raft of new restaurants, coffee shops and retail outlets. The entry point for a 1-bedroom unit in Burleigh is around $200,000, while investors with a budget of $400,000 to $450,000 can secure established homes. Over the past 12 months Burleigh has seen price growth of between 5% and 10%, and although this rate of growth is unlikely to be sustained, capital growth of 3% to 5% is a distinct possibility in the next five to ten years. However the high capital growth potential in Burleigh means yields may be lower than suburbs to the west, such as Varsity Lakes and Robina, where rental demand is strong.

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In addition, the suburbs of Broadbeach, Broadbeach Waters, Mermaid Beach and Mermaid Waters are expected to see reasonable capital growth in coming years. This is thanks to significant infrastructure such as the light rail, which will have its southern station at Pacific Fair, the upgrading of Pacific Fair shopping centre, and the proposed upgrading of Jupiters Casino and hotel. This could mean capital growth in the order of 3% to 5% per annum for these suburbs.

TOOWOOMBA

Toowoomba is currently recognised by investors as a hotspot, given its proximity to the mining boom at Surat Basin to the west. Further to this the recent announcement of Government funding for the Toowoomba Range Road Crossing and the construction of the Brisbane West airport at Wellcamp, are seen as the catalysts for long term growth in the region.

Investment activity in the Toowoomba property market is generally in the sub-$500,000 price bracket, with dwellings in the $180,000 to $250,000 price bracket offering the highest returns. Gross yields in the vicinity of 5% to 6.5% are achievable in Newtown, South Toowoomba, North Toowoomba, Mount Lofty, Harristown, Wilsonton and Rockville. However properties in these areas are generally older stock and require ongoing maintenance.

The suburbs of Middle Ridge, Rangeville and Kearneys Spring generally feature 4-bedroom, 2-bathroom brick dwellings which are highly sought-after by investors and continue to be highly attractive to tenants. These homes have demonstrated reasonable capital growth in the past two years.

But it's the multi-unit residential market which is a real highlight, with triplexes and four to six flat buildings offering gross yields up to 7%. Indeed, the unit market in Toowoomba is rapidly expanding with over 500 units currently under assessment or approved for development. This marks a significant increase in development activity, with higher unit densities now permitted since the implementation of the new Toowoomba Regional Council Planning Scheme in July 2012.

The new unit market is heavily influenced by absentee investors. New 2-bedroom units can be purchased for between $285,000 and $340,000, while new 3-bedroom units range in price from $310,000 to $385,000. Gross yields for new units have been firming as the market continues to demonstrate strong rental demand for new units, with yields between 5% and 6% achievable.

TOWNSVILLE

Townsville's desirable inner city suburbs are primed for investors looking for established properties and with a ten year horizon in mind. Investors can secure entry-level homes for $350,000, while older style units are available for prices in the high $100,000s. Properties in these inner city areas are generally the first to experience capital growth when the Townsville market moves into a recovery phase.

Promisingly Townsville has seen an increase in new unit construction over the past 12 months. The amenity and design of new unit stock differs to previous offerings, with a reduction in floor areas and a distinct focus on

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price point for these new units. A high percentage of 'out of town' buyers are investing in the new stock, with new 1-bedroom units in suburban locations available from $260,000 to $340,000 in inner city locations.

Townsville's North Shore is also attracting significant investor interest. This area features the largest residential estate in Townsville, and entry-level 3-bedroom, 1-bathroom homes on 200 to 300 square metre allotments range from $280,000 to $300,000. 4-bedroom, 2-bathroom homes on 400 to 500 square metre lots are priced around $400,000.

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CAIRNS

As the Cairns property market's recovery phase gets underway, and the town's tourist-based economy continues to improve, good investment opportunities are starting to present themselves.

Typically, investors are looking at houses in the $280,000 to $350,000 price bracket, while the unit market also offers a diverse and affordable range of options, although new apartments remain a rare commodity. With a median house price of $370,000 and a median weekly rent of $370, Cairns investors can achieve 5.2% yields. However only modest capital growth is expected over the next year or two, so investors would be better advised to concentrate on yield rather than growth over the short term.

Once approved, the $4.2 billion Aquis Great Barrier Reef Resort is likely to provide a major stimulus to the Cairns market over the next decade, and the impetus provided by this type of development could prove an attractive proposition for investors with an eye on the future.

ROCKHAMPTON

Local investors tend to be investing in the more stable, centrally-located suburbs of north Rockhampton, for example Norman Gardens and Frenchville. Their investor popularity is based firstly on a lack of supply in south Rockhampton. Secondly, North Rockhampton – with Norman Gardens in particular is in the local growth corridor, with new residential estates providing supply and the changing demographics of the locality leading to expansion of major facilities in the area, with neighbourhood shopping precincts, regional shopping centres and education all located north of the Fitzroy River. Furthermore this area provides a short commuting distance to Rockhampton's CBD and hospitals on the south side of town.

Investors who are highly price sensitive tend to be more active in older, established areas of Depot Hill and Rockhampton City with their older style homes. Price verses rental return is the main determining factor for investors in this market.

Interestingly non-local investors tend to be concentrated in fringe residential suburbs such as Parkhurst and Gracemere. Many of these locations are being developed by non-local developers and marketing is targeted specifically to non-local investors, often with inflated land prices. Out-of-towners – take note.

Rockhampton house prices can be as low as $160,000 in flood-prone Depot Hill. In North Rockhampton entry-level investment houses cost between $300,000 and $350,000, which would purchase a basic, high-set, chamferboard 3-bedroom home, circa 1970 in an established residential area.

Apartments in the region tend to be limited to high rise unit developments on the banks of the Fitzroy River in Rockhampton's CBD. This is a relatively new market sector for Rockhampton, with limited supply. These apartments tend to be for the more experienced investor given the higher prices, with the entry point for this style of investment tending to be $400,000 (Quest) to $550,000 (The Edge).

Regarding expected capital growth from Rockhampton residential property, determinants include the fortunes of the mining and cattle industries, interest rates and future supply of vacant land. We anticipate value levels to remain steady in the short term, with multi-unit dwellings possibly showing a higher rate of return.

In the current market where growth has been limited, rental yield provides some benefit to the Rockhampton investor in the short term. Generally a reasonable gross yield would be around 5% to 7% per annum.

GLADSTONE

The Gladstone real estate market is intrinsically linked to ongoing activity within the major liquid natural gas (LNG) projects being undertaken in the area.

Following the announcement of the LNG projects on Curtis Island in October 2010, a large number of new residential developments commenced in the Gladstone region to meet increased demand for worker accommodation. However since 2012 there has been a general weakening in demand for accommodation as the LNG plant construction approaches its peak construction period. The construction of a large number of new units and housing is also causing oversupply and increasing vacancy rates.

The size of the current workforce in the regional LNG industry is considered to be at its peak. We estimate it will start to decline in mid 2014, with the construction projects predicted to be completed by approximately the end of 2015. The size of the day to day operational workforce for the LNG projects will be considerably lower than the peak construction workforce.

Therefore, as 2014 progresses we believe conditions will continue to be volatile for all property market sectors. There is potential for further downward pressure due to increasing housing supply, decreasing demand

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and the weakened local economy brought about by the peak workforce numbers linked to the construction of LNG projects having been reached.

Given the volatility of the current market conditions, investors should be looking at long term investment only with limited potential for capital growth in the short to medium term.

MACKAY

There are no 'hotspots' in the Mackay residential market for investors at present. The downturn in the coal industry has had a direct flow-on effect to the Mackay residential market. The cancellation of coal expansion projects, the advent of greater FIFO (fly-in-fly-out) workforces and non-renewal of work contracts has been compounded by a vast increase in investor stock becoming available (mainly new houses and units) over the past 12 months. This has seen vacancy rates jump from below 1% to in excess of 7% – and far greater in the northern beaches suburbs.

In the current market, a relatively new 4-bedroom dwelling can be found in these northern beaches suburbs for between $400,000 and $450,000. Rents on these dwellings have been falling over the past 12 months. Current asking rents for these dwellings are around the $400 to $420 per week, giving a gross return of around the 5% mark. These same dwellings 12 to 18 months ago were receiving between $550 to $600 per week or a gross return around 7% mark.

Mackay has one of regional Queensland's highest median house values. Investors were drawn into the market with the lure of high rents achieved on the back of a very strong resource sector. Now that rents have fallen and vacancy rates increased, the prospect of capital growth is seen as limited in the short term future. It is more likely that in the short term there may be some slight property price reductions in line with reduced rents, although at the moment values are holding up fairly well, with only small isolated reductions of up to 5% experienced. Everything hinges on how the resource sector and coal mining activities recover.

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