Westpac

Queensland

Property Report – April 2016

HERRON
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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.

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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%.

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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

Queensland

BRISBANE

In the Brisbane market, inner-city locations offer the best potential for long-term capital gains. Suburbs such as West End and Highgate Hill are worth a look as both feature a limited number of homes. New developments are scheduled; however, both locations offer proximity to the CBD; quality schools, including Brisbane State High School; and lifestyle facilities such as restaurants and bars, which will drive long-term gains. Median prices in Highgate Hill and West End are around $800,000.

GOLD COAST

Improved infrastructure should improve the capital gains prospects for the Gold Coast region, and the 2018 Commonwealth Games will result in new and upgraded sporting facilities in a number of locations.

The extension of the light rail service to Helensvale will be a significant winner for that suburb and the adjoining neighbourhoods of Pacific Pines and Oxenford. The light rail extension will link with the heavy rail connection between the Gold Coast and Brisbane, thereby significantly improving the accessibility of these western suburbs to the central and beachside suburbs of the Gold Coast.

In the Helensvale area, detached houses can still be purchased in the $400,000 to $500,000 price range, with weekly rents ranging between $425 and $525. Three-bedroom townhouses are popular among investors, and these can cost upwards of $280,000, with weekly rents starting at $350.

Broadbeach and the surrounding suburbs of Broadbeach Waters and Mermaid Waters are expected to benefit from the redevelopment of the Pacific Fair shopping centre, the upgrading of Jupiter's Casino and the increased transport links offered by the light rail system. For the investor, we recommend low- to medium-rise units and townhouses with affordable body corporate fees. These types of property are priced from about $400,000, with rents of around $400 per week.

SUNSHINE COAST

After a period of relatively soft activity, the Sunshine Coast market is picking up again. The median house price increased by 18.9% over the period from December 2011 to December 2015. Sunshine Coast house prices now typically start at about $340,000, rising to about $1 million at the top end of the market.

The best locations for returns continue to be the fringe areas in the hinterland and railway townships from Cooroy in the north through to Beerwah in the south. Within these areas, entry-level dwellings are priced from the high $200,000s to the low $300,000s, with weekly rents in the order of $300 to $350, representing a gross yield as high as 6%.

DARLING DOWNS

The Toowoomba region offers a wide variety of investment options; however, the market has passed its peak. Accordingly, most suburbs are reflecting a slight decline in median prices compared to the same quarter last year.

While short-term capital growth and gross yields are expected to be in negative territory, Toowoomba is set to benefit from large infrastructure projects such as the second range crossing and a proposed intermodal transport hub to the west, at Charlton. These projects will require large workforces and are expected to reignite interest in the region.

Long-term capital growth is still expected in suburbs with good track records such as East Toowoomba, Rangeville, Mount Lofty, Kearneys Spring, Highfields and Westbrook.

HERVEY BAY

A continuous supply of house and land packages in new estates is creating a price ceiling in Hervey Bay. As a result, capital growth is expected to be limited in the short to medium term until the level of supply declines.

There is some potential for capital growth in the older established areas where prices are below $300,000. There is currently a clear price gap between older, conventional brick homes and the new house and land package dwellings. A 3-bedroom older home costing around $280,000 can achieve a gross yield of approximately 5.6%. By contrast, newer dwellings are selling for around $370,000, with a gross yield of 5.05%.

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BUNDABERG

In Bundaberg, the residential market is moving along steadily, with quarterly sales volumes remaining relatively consistent since mid-2013. The median sale price has remained consistent at approximately $270,000. House listings have increased over the past year, indicating that vendor confidence in the market is growing.

A number of major developments are in the pipeline for the area, including a wastewater treatment plant and plasterboard manufacturing plant at the Port of Bundaberg. This should increase employment opportunities and help to underpin longer-term capital gains.

TOWNSVILLE

Many towns in Far North Queensland continue to experience falling values as a result of the slowdown in the resource sector; however, the Townsville property market appears to have reached the bottom of the cycle.

Suburbs with prospects for good capital growth over the medium term are North Ward and Belgian Gardens, which are close to the city centre and The Strand foreshore, making them desirable locations among tenants. Moreover, these inner-city locations are typically the first to experience value increases when the market gathers momentum.

Townsville benefits from a relatively diverse economy, supported by the Lavarack Army Barracks, James Cook University and Townsville Hospital, which will help to underpin longterm value growth.

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Telephone 1300 880 489
admin@htw.com.au
htw.com.au