Westpac

South Australia

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

South Australia

It's pleasing to see the Adelaide residential property market in the early stage 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%.

The fundamentals for investors remain sound. Vacancy and volatility remain low, and rental rates have held steady. Indeed, due to falls in the price of residential property from 2010 to 2012, rental returns have improved in recent times. Another factor benefiting investors is low interest rates – which are expected to remain close to current levels in the short term.

We don't see any big wins for property investors on the immediate horizon, but nor do we see big risks either. Currently we believe investment in Adelaide residential property favours solid returns over the long term.

Adelaide

INGLE FARM

This is an older, established suburb about 15 kilometres north east from the CBD, lying in the foothills of the Mount Lofty Ranges. It's close to a number of shopping centres including the Westfield Tea Tree Plaza and is also close to the new Roma Mitchell Secondary College.

The suburb is serviced by public transport along main roads with park and ride facilities at the O-Bahn Busway interchanges at Tea Tree Plaza and Paradise. Indeed a multi-level car park accommodating 700 parking spaces has just been built adjacent the Tea Tree Plaza O-Bahn interchange.

Ingle Farm is currently undergoing significant gentrification. It is also surrounded by many popular suburbs and is comparatively affordable in comparison to them.

MORPHETT VALE

Morphett Vale is a large, well established southern suburb around 25 kilometres from the city. Situated close to the beach it has good local services, including ready access to the Colonnades, Southgate Plaza and Woodcroft shopping centres. The duplication of the southern expressway is due for completion this year and that will improve travel times to the area. Electrification and extension of the train line has also recently been completed to improve public transport access.

Both Ingle Farm and Morphett Vale are considered to be very affordable. They tend to fit into the traditional first home owners' market. However the first home owner grant of $5,000 for established dwellings is ending on June 30 this year and as a result first home owners may increasingly favour new construction which will continue to have a $15,000 grant available.

This suggests that the second half of this year may see improved opportunity for investors in Ingle Farm and Morphett Vale as first home buyers take less interest in established dwellings.

In both suburbs dwelling prices start in the low $200,000s for older-style, 3-bedroom, 1-bathroom dwellings on allotments of around 600 square metres. While many of these homes are fairly dated, most are suitable to rent out 'as is', with the potential for cosmetic improvements to add appeal or renovations to improve capital worth. Properties in these areas are typically providing current gross rental yields of 5% to 6%.

'HOTSPOTS' INVESTOR OUTLOOK

We are hopeful that the current recovery trend continues, with growth expected to remain at a similar level of improvement of 2% to 3% per annum for the next two years.

If the economic cycle improves beyond its present level, which is difficult to see in the short-term, growth figures stronger than those suggested above could be possible. That said, it's difficult to know when this improvement will occur with South Australia facing numerous economic challenges ahead, specifically in regard to the decline of the state's manufacturing industries and with the closure of Holden forecast for 2017 at the forefront of our concerns.

With rising unemployment levels contributing to negative sentiment, our conservative capital growth predictions for residential property for five years would be around 10% to 15%, and our long term forecast for ten years from now is around 20% to 25% plus.

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