Westpac

Tasmania

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

Tasmania

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In the wake of the financial crisis, we have continued to advocate the significance of centrally located properties for investors as these have proven best at holding their value. For those seeking stronger rental returns, suburbs that are considered near to the city and are well serviced by a good range of facilities and transportation, usually appeal to renters.

Hobart

For investors with a focus on capital growth the centrally located suburbs of West Hobart and North Hobart have produced the strongest returns for suburbs close to the heart of the Tasmanian capital.

In North Hobart, 3- bedroom, 1-bathroom older style houses can be purchased from around $350,000 with suggested gross returns of 5%. On the apartment front, 2-bedroom units in North Hobart are currently offered for sale from $230,000 with suggested gross returns of 7%.

It's possible to buy 2-to 3-bedroom, 1-bathroom houses in West Hobart from $350,000 and above, with gross returns similar to those for houses in North Hobart. Houses are the dominant property type in these older, established suburbs.

Kingston, a fast growing southern suburb approximately 12 kilometres from central Hobart, has also achieved notable capital growth during the decade. Units in Kingston can be purchased from $250,000 and houses for just under $300,000.

Launceston

Invermay and West Launceston, which are located close to the Launceston city centre, have achieved reasonable capital growth over the past decade. Currently in Invermay 3-bedroom, 1-bathroom, older style houses can be purchased for $165,000, with suggested gross returns of 7%. Older style units with 2-bedrooms are changing hands for $150,000 and are generating suggested gross returns of 7%.

In West Launceston 3-bedroom, 1-bathroom older style homes are available from just over $200,000 and are achieving suggested gross rents of 5% to 7%.

Mowbray and South Launceston are proving popular with tenants thanks largely to the excellent local infrastructure that includes the University of Tasmania, a redeveloped shopping centre and the General Hospital. South Launceston particularly appeals to renters employed at the General Hospital as it is within walking distance of the facility, as well as a popular café strip and the city centre.

Properties that are eligible to be let under the National Rental Assistance Scheme (NRAS) are worth some consideration for aspiring investors. NRAS aims to provide affordable, higher density housing to middle to low income earners in well-serviced suburbs. This scheme may appeal to a highly geared investor as the advantages associated with this scheme are a steady, guaranteed income for ten years with no vacancy rates. Properties are let at rents 20% below market which combined with government tax incentives for NRAS investors achieve an overall above market gross return. These benefits should be weighed against possible capital growth.

Before taking any investment leap investors should consider if their financial needs are best met by returns realised over the life of the investment property or upon its sale. The examination of the benefits of capital gain versus negative gearing may guide an investor to choosing the most suitable locations/properties that meet their personal financial circumstances. For example, a highly geared investor might consider property that offers higher gross yields to offset their financial commitments. However investors with lower debt-to-equity ratios may be drawn to properties with good capital growth prospects.

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