Westpac

Tasmania

Property Report – April 2016

HERRON TODD WHITE 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

Tasmania

When it comes to residential property market activity, investors tend to play second fiddle to owner-occupiers. Tasmania however, presents investors with unique opportunities as a result of its stronger real estate affordability compared to other states. Median dwelling values in Hobart, for example, are $341,500, according to the latest data from CoreLogic. By comparison, median dwelling values in Sydney are $730,000, and in Melbourne they're $560,000.

Apart from affordability, investors can benefit from the security of Tasmania's historically lower vacancy rates, which range from 2.8% to 4%. The state's lower vacancy rates are underpinning gross rental returns ranging from 3.9% to more than 8% in some cases. In Melbourne, gross rental returns are just 2.9% for houses and 4.1% for apartments.

NEW FOCUS ON INDUSTRY EXPECTED TO SUSTAIN RESIDENTIAL INVESTMENT

Relatively stable economic conditions and more-buoyant business sentiment are combining to help buttress Tasmanian residential real estate in the long term. A focus on developing the tourist and food production sectors in Tasmania is succeeding and is supporting steady, continuous annual residential property sales volume growth.

While its population growth is much less dramatic than other Australian states', Tasmania is leading the pack in dealing with the contraction of its traditional industries. Growth in the tourism and food sectors is expected to increase long-term demand for accommodation and help underpin longer-term capital growth.

Hobart

LOCATION AND AFFORDABILITY TO DRIVE GROWTH IN SOUTHERN SUBURBS

Investors generally seek suburbs that are popular with tenants and offer good access to large employers, public transport and facilities such as shopping centres, schools and childcare facilities. In Hobart, the southern suburbs are considered appealing to tenants and investors. Other investor hotspots are Bellerive, Howrah, Lindisfarne and Old Beach, on the eastern shore of the Derwent River. These suburbs are a short commute to the Hobart city centre and are popular because of their vicinity to the river.

First home builder activity in these suburbs, along with the affordability of established stock, could also help create the right conditions for long-term capital growth. For example, a modern 2-bedroom, 1-bathroom unit in Bellerive with views of the water, Mount Wellington and Bellerive Cricket Ground sold for a very affordable $371,000. In Howrah, an older-style, renovated 3-bedroom, 1-bathroom home built on less than 700 square metres sold for $345,000. At Old Beach, an older-style, renovated 4-bedroom, 2-bathroom home with mountain and water views sold for $362,000.

Kingston and Blackmans Bay, on the southern outskirts of Hobart in the municipality of Kingborough, are situated between the city and the Huon Valley. While residents have longer commutes to the city, these suburbs are fast growing and well served. Investors should also note that Kingborough Council's main commercial and retail precincts are located in Kingston, while beachside Blackmans Bay offers water frontage.

In Kingston, a 3-bedroom, 2-bathroom home on just under 1,000 square metres can be purchased from around $380,000. In Blackmans Bay, a modern 3-bedroom, 2-bathroom home with water glimpses, on just under 800 square metres of land, recently sold for $550,000.

Launceston

EXCELLENT AFFORDABILITY BUT BEWARE THE POSSIBLE UNIVERSITY CAMPUS RELOCATION

Mowbray and Newnham are located close to the Launceston campus of the University of Tasmania and two large shopping centres. That said, investors considering these suburbs should note that the proposed relocation of the university's campus to Inveresk has the support of state and local government. Upon approval, the relocation is expected to be completed within the next five years.

Recent sales indicate Mowbray and Newnham remain very affordable for investors. In Mowbray, an older-style 2-bedroom, 1-bathroom unit within a short walk to the University of Tasmania campus sold for $140,000. In Newnham, located approximately 2.5 kilometres from the university campus, an older-style, updated, 3-bedroom, 2-bathroom home sold for $285,000.

South Launceston is popular with renters due to its proximity to the Launceston General Hospital, the city's centre and the Charles Street cafe strip. In South Launceston it's possible to secure a modern 4-bedroom, 3-bathroom townhouse with Tamar River and city views for just under $600,000. If you're looking for a character home to invest in, a renovated 5-bedroom, 2-bathroom house sold for $550,000 recently. For those on a tighter budget, a partially renovated 2-bedroom, 1-bathroom entry-level property can be purchased for just under $200,000.

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In Mowbray, an older-style 2-bedroom, 1-bathroom unit a short walk to the University of Tasmania campus sold for $140,000.

Devonport

The North West property market should be approached with caution due to challenging employment conditions.

Devonport, the largest population centre in the North West, is presenting the greatest number of residential property sales opportunities. Recent transactions in Devonport include the sale of an older-style 5-bedroom, 3-bathroom home in original condition on just under 800 square metres of land for $375,000. An older-style 2-bedroom, 1-bathroom unit sold for $153,000.

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