Westpac

Victoria

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 northwestern 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.

In regional NSW, major population centres such as Orange and Albury stand to win from investments in local infrastructure.

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

Victoria

Apartments appeal as an affordable and long term investment option in Melbourne. Contributing to the apartment appeal is the city's net migration of 800 to 1,100 people a week.

Population growth will continue to be a very strong driver of medium and high density apartment development in inner and middle Melbourne. At the same time, investing in Melbourne's 'transport hub' suburbs should deliver less risk and enhanced long term growth patterns.

Melbourne

CBD

The Melbourne CBD is an investor hotspot thanks to its proximity to Melbourne University, RMIT, and Victoria University, which makes it an attractive location for international students.

Residential development is on the menu in the centre of Melbourne, illustrated by March's 'Super Tuesday' when Planning Minister Matthew Guy approved five new tower buildings.

Apart from its proximity to the university belt, the Melbourne CBD also appeals to students and young singles due to its excellent retail shopping precincts including Melbourne Central, Bourke Street Mall, Southbank, Crown and numerous shopping, food and entertainment options.

In the short term we expect the growth in the CBD will be limited due to an oversupply of apartments, with forecasts of significant stock coming online in three to five years. As a result average long term capital growth of 3% to 5% is expected.

The oversupply is also putting downward pressure on yields, which currently sit at around 4.5% to 4.75%. Although these yields remain superior to those of inner city and suburbs they are well down on returns of three to four years ago (5.5% to 6 %).

On the flipside, with apartments in a state of oversupply, investors can 'snag a bargain' by shopping around for existing stock between five and 15 years old. In this category it's possible to secure an entry level 1-bedroom apartment for $300,000 in Melbourne's CBD and $450,000 for a 2-bedroom property.

FOOTSCRAY

The inner city suburb will be a hotspot in 2014 thanks to its proximity to Victoria University, the CBD and Highpoint shopping centre, as well as the upgrade of the railway line and station. There is also significant residential development underway, which underlines that the gentrification of Footscray is in full swing.

The suburb is also affordable for investors with entry-level units starting from $300,000 with houses available for sale from $400,000. We expect limited short term growth but in the medium to long term we expect capital gains to be stronger based on the evidence of the more developed suburbs nearby. It's also fair to expect there will be an investment inflow effect from neighbouring, cosmopolitan Seddon and Kensington. As prices in Seddon and Kensington continue to rise, investors will increasingly look to affordable real estate options in Footscray. As a consequence we expect houses and units in Footscray to grow by between 20% and 25% over the next ten years.

On the flipside, income returns remain modest with houses currently producing gross rental yields of 3.5% to 4% and units 4.25% to 4.5%. Footscray has a strong Vietnamese community that delivers a solid tenant base.

As part of the suburb's gentrification, there will be an influx of medium density apartment complexes of 25 to 50 apartments. Investors can expect to pay off-the-plan sale rates of $7,500 per square metre to $9,000 per square metre.

As prices in Seddon and Kensington continue to rise, investors will increasingly look to affordable real estate options in Footscray.

BOX HILL

Box Hill, which is 14 kilometres east of the Melbourne CBD, has been earmarked by the state government for 'densification'. A transport hub, with active trains, trams and buses servicing the area, Box Hill is well served with health and education facilities. These include Box Hill Hospital, Box Hill TAFE, along with numerous private and public schools. It's also worth noting that residential development is taking place around the hospital precinct.

The suburb is also popular for its parks and sporting grounds, while the Box Hill Centro shopping centre and its strong Asian/Chinese culture mean the commuter hub suburb offers a wide selection of restaurants.

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.

Regional Victoria

BENDIGO

The popular city's hospital precinct is set to be a popular hotspot for investors, who will be attracted by Bendigo's affordability and its relative proximity to Melbourne. Improved rail services are expected to enhance this connection.

Currently townhouses in Bendigo sell for $300,000 and houses for $380,000, while we expect the local property market will grow by 4% over the next five years. That said properties located on the fringes of the CBD are expected to generate greater growth. It's worth noting that houses in Bendigo currently generate gross yields around 4%.

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