Westpac

Victoria

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).

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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.

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

Victoria

Melbourne

CITY FRINGE AND INNER EAST

The Melbourne city fringe is an area of strong long-term capital growth while remaining appealing to renters. Suburbs such as Collingwood, Fitzroy, North Melbourne, South Melbourne and Port Melbourne have recorded steady capital growth over the past few years, which will likely increase as the decentralisation of Melbourne continues.

Collingwood and Fitzroy, in particular, are identified as good growth prospects because they are close to the city yet retain the character and uniqueness of their industrial backgrounds.

The current median house price in Collingwood is $907,500 and the median unit price is $587,500. For 2015, the median house price was $903,500, up from $730,000 in 2014. Units decreased slightly from $589,000 in 2014 to $582,500 in 2015. The decline is attributable to the increased supply of units in the market, with two large developments completed in the second half of 2015.

In Fitzroy, the median house price is currently $1.065 million while the median unit price is $663,750. For 2015, the median house price was $1.065 million, compared to $955,000 in 2014. The median unit price in Fitzroy rose from $592,000 in 2014 to $634,500 in 2015.

The gross rental yield in Collingwood is 3.5% for a 2-bedroom house, and 3.8% for a 2-bedroom unit. In Fitzroy, the yield is 4.7% for house, and 3.1% for a 2-bedroom unit. Moving forward, returns in Collingwood and Fitzroy are expected to remain steady, with more new apartments in the pipeline and houses in high demand.

In Collingwood and Fitzroy, houses are considered more desirable than apartments because they are easier to sell, there are fewer of them, and they are maintaining steadier values. Boutique apartments and townhouses are also desirable, with modern and contemporary design being paired with rustic and heritage facades. Warehouse conversions, in particular, are popular, due to the individuality of their setting and external presentation.

The fact that Collingwood and Fitzroy are close to the city but still far enough away to retain their personalities will contribute to long-term growth in these suburbs. Public transport, cafes, bars, parks and schools also help make the inner east appealing to investors.

OUTER EASTERN SUBURBS

Affordability is a significant factor driving purchasers and investors to suburbs on Melbourne's eastern fringes such as Kilsyth, Boronia, Mooroolbark and Bayswater North.

The average price for property in Ringwood, Ringwood East, Mitcham and Wantirna in the December 2015 quarter was $858,250, according to the Real Estate Institute of Victoria (REIV). In comparison, the median for the outer eastern suburbs was $596,750. The price difference can be partially explained by the presence of good-quality schools in Ringwood, Ringwood East, Mitcham and Wantirna. However, this doesn't fully explain the price differential, especially given the improvements made to infrastructure and amenities in the outer eastern suburbs. It stands to reason that the eastern fringe offers ample long-term growth prospects for investors, especially as the affordability of the middle-eastern suburbs decreases.

Lilydale, in Melbourne's north-east, is undergoing a transformation, with considerable development near the train station. This has resulted in land prices of approximately $700 to $1,000 per square metre close to the station. Yet the areas surrounding the station precinct remain virtually unaffected, with larger blocks selling for as little as $450 per square metre. Given that the current median price for homes in Lilydale is $550,000 and the suburb currently has a modest annual growth of 3.7%, there is certainly room for capital growth. Current rental yields are 3.5%.

Lilydale investors generally prefer houses to apartments because the suburb is more popular with families, who prefer homes with outdoor spaces. At present, the number of multi-unit developments and subdivisions is limited. However, as capital values for homes increase, it's expected there will be a substantial increase in developments.

Although the outer eastern suburbs may appear to offer good value for money long term, in the short term, growth rates will be sluggish. Bayswater and Boronia, for example, recorded capital growth of only 1.6% and 2.3% respectively in the 12 months to March 2016. By comparison, Ringwood grew by 7.6% and Wantirna South by 9.8% over the same period. However, from an investment point of view, rental demand for properties in the fringe suburbs is high. This has resulted in respectable yields of more than 4%.

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OUTER WEST

A number of factors, including affordability, are encouraging buyers and investors to consider Melbourne's outer western suburbs, such as Tarneit, Wyndham Vale and Melton.

Based on REIV statistics, the median house price for the Melbourne metropolitan area in December 2015 was $718,000 and the median unit price was $537,500. In comparison, the median house price in Tarneit was $415,000. In Wyndham Vale it was a more affordable $365,000 and in Melton it was $257,000. With these results in mind, it is expected that investors will start hunting for affordable properties with capital growth opportunities away from the city.

Note also that outer fringe suburbs are self-sufficient with amenities, schools and transport, although they lag the facilities available to those living in Melbourne's inner and middle metro areas. The Victorian Government has made it a priority to encourage more people to move to Melbourne's fringes, which may result in more infrastructure improvements.

OUTER NORTH

More buyers and investors are looking for more affordable properties in Melbourne's northern fringes, and it's easy to see why. The quarterly median house price in Greenvale is $655,000, for example, and it's even more affordable in Craigieburn at $420,000. In Mernda the median price is $455,000 and it's $480,000 in Doreen.

Some of these outer northern suburbs have experienced high growth. Greenvale, for example, had quarterly growth of 17.8%, and Mernda values grew by 9.7%. Investors need to be aware, however, that Greenvale recorded a handful of high-priced sales in recent times, which skewed the median price.

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On the income front, the average weekly rent for a 3-bedroom house in Craigieburn is $330, with a yield of 4.8%. Weekly rent in Mernda is $333 and the suburb is generating yields of 4.6%. In Doreen, the yield is 4.4% based on a weekly rent of $350. With a significant amount of new housing developments under way, an oversupply of stock in this region will keep prices stable, with some reductions possible in the short term.

The outer north is a long-term proposition for investors. The area will become more favourable as infrastructure such as public transport, schools and town centres is improved.

Regional Victoria

BENDIGO

Bendigo has enjoyed renewed investor interest in the past 12 months. More jobs and better infrastructure, such as the new Bendigo Hospital, have helped to boost growth.

Bendigo has produced impressive capital gains and rental yields for investors. Three-bedroom homes, for example, grew by 16.9% to $397,000, the highest capital growth of any house type in regional Victoria in 2015, according to REIV. In addition, they generated rental yields of around 5.6%. Two-bedroom units reached a median price of $272,000 by the end of last year, and produced an average rental yield of 4.4%.

Houses are the property of choice in Bendigo, due to the extensive land available for development. Houses are more highly sought after by owner-occupiers, who prefer the extra space they offer.

BALLARAT

Ballarat is reaping the rewards of increased property values and rental yields from population growth, more jobs and local infrastructure improvements.

The median price of a 3-bedroom house in Ballarat Central increased by 12.7% to $332,500 by the end of 2015, with an average rental yield of 5.2%. This result ranks Ballarat just behind Bendigo in 2015. A 2-bedroom unit in Ballarat has a median price of $197,000 and a 6.3% rental yield.

The Victorian Government has pledged to implement the Regional Jobs and Infrastructure Fund to support major projects, build stronger regional communities and create jobs within regional areas such as Bendigo and Ballarat. This support includes a financial pledge of $500 million over the next four years.

Furthermore, despite the crackdown by the banks on investment borrowing capabilities in the past year, it appears that the Bendigo and Ballarat real estate markets remain unaffected. Rather, continued government support for regional areas will likely help maintain the growth and strong yields generated by properties in Bendigo and Ballarat.

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