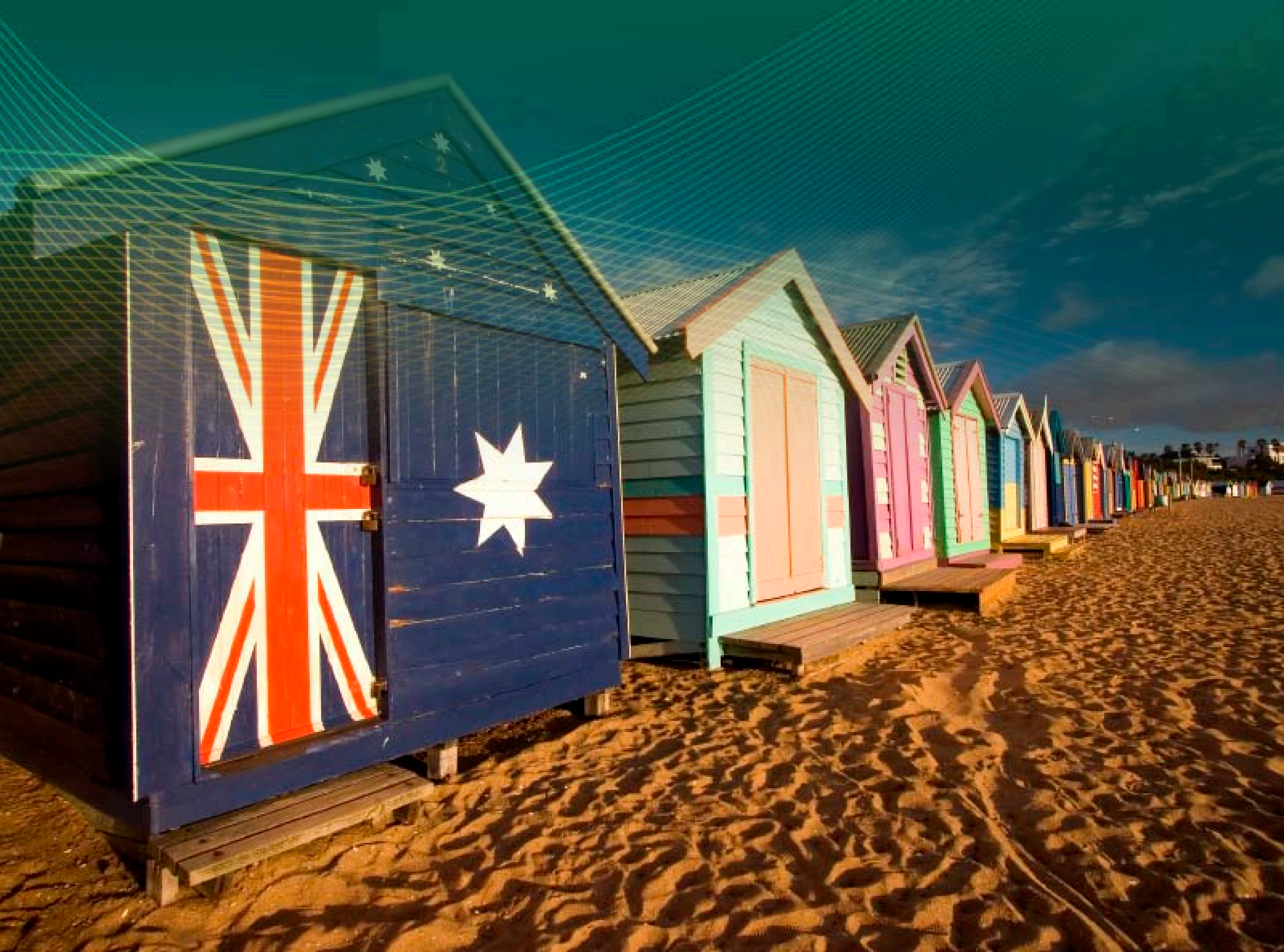
Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Victoria



2011 residential property outlook – national overview

For this edition of our quarterly residential property report, we have sought the opinions of Herron Todd White valuers from around the country on what 2011 has in store for the nation's property markets – and generally, they paint a subdued picture.

As we celebrate the start of a New Year, most major markets have an abundance of properties listed for sale. This is keeping a lid on prices and in some cases forcing values down, a situation likely to continue throughout 2011.

The interest rate hikes of 2010 forced many prospective and existing buyers to rethink their capacity to pay off a home. Recent months have seen rising numbers of forced or mortgagee in possession sales and this could become more commonplace over the next 12 months – especially if interest rates continue to rise.

However, rate hikes are only partly to blame for the current market cooling. In States like Tasmania the closure of key employers has undermined buyer confidence. In other areas, such as Queensland's Gold Coast, population growth is slowing as workers seek employment opportunities elsewhere.

Faced with plenty of competing properties and limited buyer interest, many vendors will be looking at two main choices in 2011 – lowering price expectations or accepting longer selling periods. On the flipside though, 2011 is shaping up as a year that will offer real opportunities for buyers.

Also, there are plenty of locations offering good prospects for longer term capital growth. Many of these enjoy the support of government infrastructure prospects, such as the new Fiona Stanley Hospital in the Perth suburb of Murdoch or the transit-oriented development taking place in the Adelaide suburb of St Clair.

The mining boom continues to support property values in other parts of Australia. Darwin will benefit if the proposed Inpex Gas Project receives approval, and in Queensland, the Gladstone area is the focal point of a number of proposed resource-based developments. In Western Australia, the government-funded Pilbara Cities Program will provide long term support for the State's northern mining centres.

Although 2011 is likely to prove challenging for vendors, it should be a year that gives many buyers – from first timers through to investors – a valuable chance to secure a residential property at a sharper price.

It would be remiss if we didn't mention the destructive floods in January. It's still too early to tell what impact they will have on the economy and prospects of a number of property markets in Queensland, New South Wales, Victoria and Tasmania.

Many of the floods in Queensland, for example, reached levels not seen for over 30 years, and in some instances, set all time records. With the passage of time memories fade, and the differentiation between flood-free and flood-prone property will grow smaller. However, these unfortunate events provide a timely reminder of the damage flooding can cause to property and belongings. As a result, we expect that buyers will be more likely to adopt a somewhat more cautious stance toward flood affected property and areas.

The floods could also have a significant impact across many businesses and sectors of the economy. However, it is likely to create strong demand for building services firms and provide a significant financial injection into local economies – although some regional towns may face capacity constraints.

Brendon Hulcombe
Chief Executive Officer, Herron Todd White

Victoria

At the start of 2011, the Victorian residential property market is in a state of flux, and this is expected to continue for much of the year.

Melbourne

Stock levels for Melbourne's residential market appear to have stabilised. The number of properties listed for auction is good, and this is expected to remain stable throughout 2011, notwithstanding seasonal fluctuations.

The auction clearance rates of around 60% achieved in the final quarter of 2010 should also hold steady in 2011 though a slight decrease in bidders may be experienced as buyers look to purchase after auction.

Entry-level properties should continue to transact, however, tighter lending practices may reduce credit availability as the National Consumer Credit Code takes effect. Nonetheless, population growth in Melbourne is underpinning new home construction, which is likely to remain healthy – though not at the levels seen in 2009/2010.

The market for suburban homes should remain steady in 2011, however, a slight decrease in demand is possible as buyers actively search for bargains.

Investors are also expected to remain active in Melbourne's property market, and many will be driven by the desire to add well-priced properties to existing portfolios.

A number of medium and high density projects will be completed in Melbourne across 2011. Within these developments demand is expected to be strongest for one bedroom apartments, which offer greater affordability. The market for two bedroom units may soften slightly, particularly in the $600,000-plus price bracket. Resales should also remain steady.

"Most notable among the locations with the potential for capital gains is Croydon, Kilsyth, Oakleigh, Chelsea, Spotswood, Point Cook, Coburg North and Eltham."

Mortgage stress may lead to forced sales

The rate hikes introduced in 2010 may fuel mortgage stress, and while this will affect homeowners across the board, it is expected to be most keenly felt in urban fringe localities such as Melton and Craigieburn. This could see an increase in mortgagee in possession sales particularly in these suburbs.

Melbourne's prestige market is expected to remain relatively weak in 2011 with few properties in excess of $4 million coming onto the market or being sold.

Over the course of 2011 a number of 'non-property' factors may impact the market. These include rising utilities charges, which will command a growing chunk of disposable incomes leaving less cash available for home loan repayments.

A slowdown is expected in off-the-plan sales of apartments and townhouses especially in Melbourne's middle and inner city suburbs. The premium asking prices for these properties will be offset by cautious buyers looking at alternative existing stock, which may provide better value for money.

Opportunities remain

A number of locations provide hot spot opportunities for the year ahead, offering both strong growth and healthy buyer demand. Most notable among the locations with the potential for capital gains is Croydon, Kilsyth, Oakleigh, Chelsea, Spotswood, Point Cook, Coburg North and Eltham.

While many pundits are tipping additional interest rate rises in 2011, rate movements are notoriously hard to predict. What's more apparent to us is that interest rates are having a strong impact on property markets in Victoria. However, we believe that if interest rates were to soften by 0.75% (75 basis points) the market would enter a new cycle of aggressive firming – in effect a new boom.

Source: Herron Todd White