

Buying your second home, first



By Barbara Messer

If you can't afford to buy a house or apartment in a suburb you want to live in, why not keep renting in the city, and buy a holiday home instead?

When Monica Andrews realised she couldn't afford to buy an apartment in the Sydney beachside suburb of Bronte where she was renting, she decided to look outside the city for her first home.

"I'm not willing to live an hour outside the city just because I can't afford to buy an apartment near the city," Andrews says. "So I started to look at areas of regional NSW that have high rental yields and low house prices, so I could buy a house there and keep renting in Bronte."

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Andrews now owns two houses in Armidale, which sits halfway between Sydney and Brisbane, which she purchased for \$550,000 one year ago. For the same price, she could have bought one tiny apartment in inner-city Sydney, which she could rent out for approximately \$350 per week.

Instead, the two houses in Armidale are rented out for a total of \$600 per week, which covers the cost of mortgages, utilities and maintenance costs.

"Rental yields are around 3 percent in inner-city Sydney, compared to 6 percent in Armidale. It means the rent I earn covers my mortgages, so the houses are basically paying for themselves," Andrews says. "You sacrifice capital gains when you buy in regional areas, but within two years I'll have paid off the mortgages and the houses are mine to do what I want with."

Of course, there are many things to consider when you buy your first home in the regional or holiday market. First, you're not eligible for the First Home Owner Grant (FHOG) unless you live in the property for at least six months within one year of purchasing it.

You might be willing to forgo the FHOG in order to purchase an investment property, but you can only claim the tax benefits associated with investment properties if you rent them out year-round, which is why Andrews keeps tenants in both her Armidale properties.

What's more, regional property prices have plummeted since the global financial crisis took hold, especially in areas reliant on primary industries like coal. This means you might snap up a bargain, but don't count on property prices rising any time in the near future.

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Patrick Bright, director of EPS Property Search in Neutral Bay, warns against buying in regional areas just because property prices are lower.

"There are many risks associated with buying property outside capital cities. If you buy in a town with a population of less than 20,000, vacancy rates on the rental market are much higher," Bright says.

"Many banks consider regional property to be a high risk investment, so they'll demand much higher deposits. A holiday home is a nice lifestyle choice, but it's not necessarily a great investment," he says.

"People assume that a \$250,000 house in Broken Hill is less risky than buying a \$800,000 apartment in Sydney. That's not necessarily true — you might have a lot of trouble selling your house in Broken Hill if the market turns or a mine shuts down."

Nonetheless, a growing number of city dwellers are dipping their toes in the regional property market.

Samantha Tannous purchased a farm in Gloucester Tops, a four-hour drive from Sydney, in partnership with three friends. Together, they run the house as a business that generates income from holiday rentals, and when it's not rented out it doubles as a weekend getaway.

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"We all rent out small apartments in Sydney, so the idea of escaping to a farm for the weekend is really attractive," Tannous says. "It's like having the best of both worlds. The flipside is that capital gains are not as high in regional NSW, and it takes a lot more effort getting a house ready for the holiday rental market than you might think."

In fact, Andrews' financial advisor said they'd be better off buying a unit in Potts Point to rent out 52 weeks per year, which would also generate a decent return upon selling.

"For us, owning a farm is more of a lifestyle choice," she says. "When it's not rented out, we have the opportunity to go and maintain the property and get out of the city for a weekend. It's not something we do just to

make money because you'd get much bigger returns from other types of investments. It's a labour of love, really."

If you like the idea of owning a property in a country or coastal town, make sure you do your homework.

"Look at the number of employers in the area, population growth, and employer diversity," EPS Property Search's Bright says. "Talk to the banks to find out which areas they consider to be lowest risk. And conduct detailed research before you sign anything. Make sure you're making an investment decision, not an emotional decision, or you could get caught out."