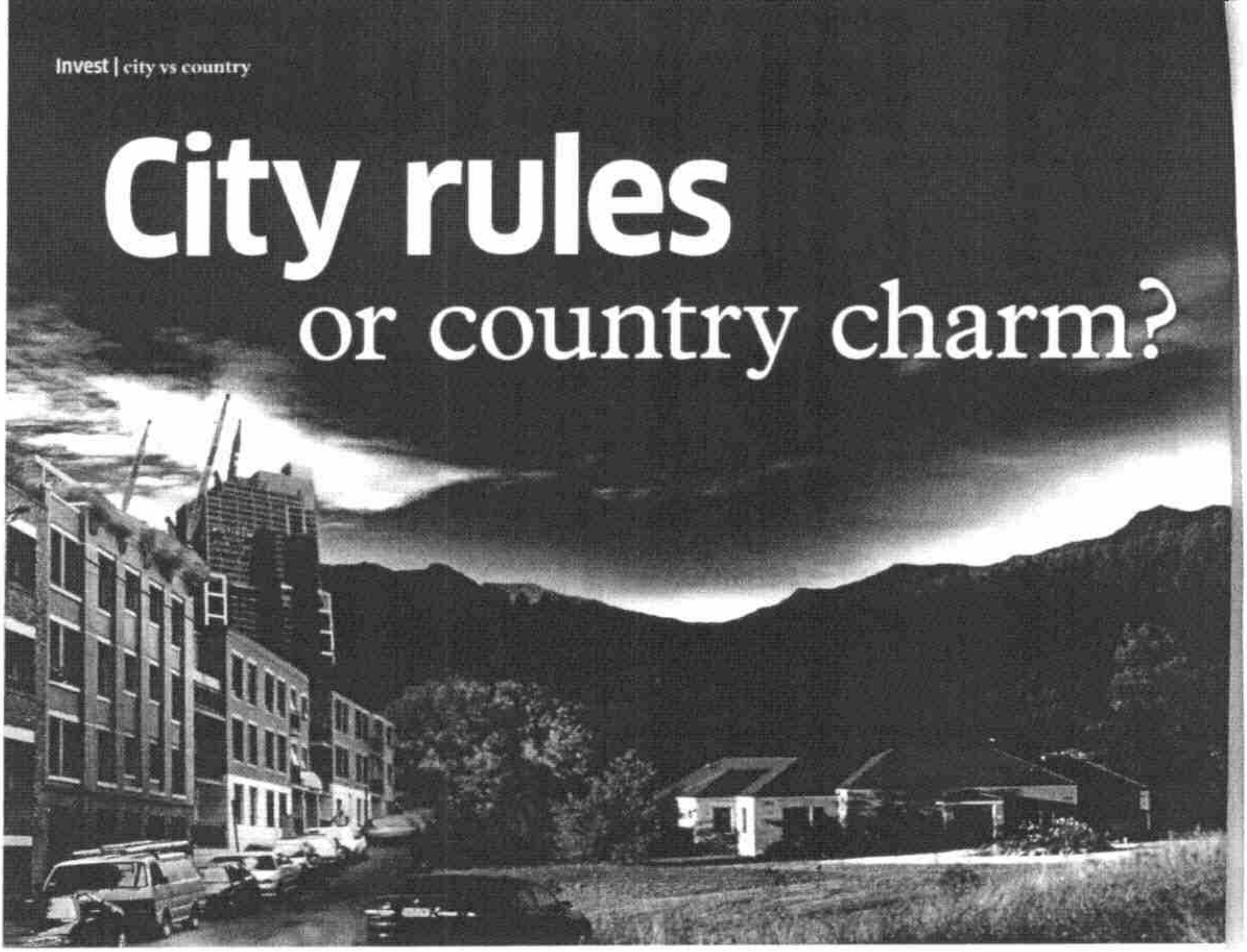
City rules or country charm?



City property versus regional real estate: which is the better investment? It's a much-debated topic, but the real question isn't 'which investment strategy is best?' but 'which strategy is best for you?' *Sarah Megginson* went straight to the experts for information to help you navigate your journey towards financial freedom

The decision to invest in a city pad or a regional retreat must be weighed up by each individual, as there is no definite right or wrong strategy. For some investors, the lower entry prices in a country or regional area will afford them the opportunity to buy their first investment or grow their portfolio at a faster rate; for others, the greater growth possibilities of a capital city property will entice them to buy into a metropolitan market.

Many investors get caught up trying to decide which is the better strategy, but Paul Braddick, head of financial system analysis with ANZ, says neither strategy is necessarily better than the other – and in the current market, he adds, investing in property in either location will reap rewards.

"Australia is facing a critical shortage of housing that could potentially cause an intractable imbalance over the coming decade, forcing rents and house prices to become considerably higher than at present," he says. "By 2010, we project a record housing shortage of nearly 200,000 homes."

Affordability conditions for new homebuyers and renters will deteriorate further, Braddick says, unless appropriate policy action is taken. For property investors, however, this is all good news.

"A dramatic tightening of the housing market will force already soaring house prices and rents up even higher," Braddick says.

This doesn't mean that any property you choose will be a winner; you still need to research the property and location thoroughly and conduct proper due diligence to increase your chances of selecting a high-growth investment.

Whether you invest in a city or country location, however, will depend on how the following pros and cons of each strategy fit with your individual investment criteria.

City investments

Generally, any property located within the broader city limits would be considered a 'capital city' investment – however, there are micro markets to be aware of.

Although some residential markets within Sydney enjoy constant capital growth and rental demand, other suburbs and areas within the city don't have the infrastructure, population growth and investment fundamentals required to foster solid, long-term capital growth.

It's important, therefore, to differentiate between a capital city and a metropolitan market.

A 'capital city' is the broad and expansive region located within the boundaries of a city's limits. In Sydney, for example, this includes the inner city, eastern suburbs, north shore, south Sydney, western suburbs and the northern beaches.

The 'metropolitan' area within a city incorporates the built-up communities and neighbourhoods in close proximity to the CBD. In Sydney, this includes the inner city, inner west, eastern suburbs and lower north shore. It's generally considered to be those suburbs and localities that are located within 10km or so of the city centre.

The benefits

Capital cities as a whole generally experience "continued ongoing demand for rental properties", says Cameron Kusher, research analyst with property research group RP Data.

"The stature of these capital cities, as the largest employment base and the economic centre of the state, mean that they'll continue to attract the greatest share of the population," Kusher says.

"Properties located as close to the CBD as possible will generally outperform the broader market, due to the fact that these properties are in high demand and are in scarce supply."

Patrick Bright, director of buyer's agency EPS Property Search, agrees, saying that he believes it's "broadly better" to invest property located in the inner city. "My view is that the closer you are to the CBD, the better, without being right in the middle of it," he says.

"If you stick to the 3–10km ring, you're more likely to have plenty of tenant demand and more consistent capital growth, as that's where supply and demand is at its strongest."

Bright adds that beachside suburbs within a 30-minute drive of the CBD are "also ideal".

Historically, properties located within capital cities have consistently grown in value at a faster and more substantial rate than their regional counterparts. Rod Cornish, head of property research at Macquarie Bank, says this is because regional property values "come off a low base".

Properties located within capital cities have consistently grown in value at a faster and more substantial rate

This means that an impressive capital growth rate of 20% in a regional town – where the median property price is \$200,000 – amounts to an average gain of \$40,000; while in a capital city property – where the median price is \$600,000 – the same dollar gain can be achieved with a more subdued growth rate of 7%.

"If you look at capital growth in the long term, capital cities have usually done better," says Michael Yardney, director of Metropole Investment Strategists.

"I look for areas that outperform and, in general, these are always close to the CBD or close to the water. This isn't always, but generally it's correct."

The drawbacks

Capital city properties will generally cost more than their regional counterparts. These higher entry costs include more than just the higher purchase price of the property – acquisition expenses such as stamp

The expert opinion

Whether you buy real estate in a capital city or a country locale, there are several key features that all top investment properties should possess. The experts offer their personal tips for a top-performing investment.

Patrick Bright

- Location is number one – you can fix up an ugly duckling, but not the location
- Go for low-maintenance properties, with ready access to transport
- Study the suburb and work out what the demographic is, who lives there or who wants to live there, and what they desire – and then buy that type or style of real estate

Michael Yardney

- Look at areas near the bottom of the cycle. I want both long-term and short-term growth
- Rather than speculate, I look for historical growth
- Buy established properties because you can generally buy them at 15–20% below replacement cost, and you can add value to them by renovation

Robert Dias

- Location is critical – being close to amenities, transport and parking is important to renters
- I prefer to invest in houses rather than apartments, as I believe land appreciates over time while the building depreciates
- Any investment should be based on the fundamentals of that particular market

duty will also be higher, and there are also land tax considerations to be aware of as the value of your property portfolio increases.

Real estate prices in city locales can stagnate in the short to medium term. In certain inner-city pockets of Sydney, for instance, property values have experienced no growth for several consecutive years; and in Sydney's west, property prices have even begun to trend backwards.

Investors who'll potentially get stung in this scenario, Yardney explains, are those who bought property near the top of the cycle.

"I look at properties located in states that are near the bottom of the cycle. I don't want just good long-term growth; I want good short-term growth as well," Yardney says.

"Five years ago, if you'd invested in Sydney, that property wouldn't have gone up in value much now, even though it was thought to be a good investment. That's because the market was near the top of the cycle back then. Instead, an investment in Perth at that stage would've been the better option."

Yardney says it's not hard to "beat the averages" and locate suburbs that are nearing or at the bottom of their cycle, using research and resources, and to find the areas that have outperformed in the long term.

Another drawback in built-up locations is the lack of land component, says Robert Dias, director of Smart Planning Mortgages.

"You could potentially be in a situation where there's a sudden dramatic increase in supply, due to completion of a large development," Dias explains.

"Apartments usually have little differentiation from each other within the block, and offer limited opportunities to create unique features within the property to increase value significantly. So when you want to sell it, the price is more or less standard, based on recent sales in the same block."

In saying that, city apartments "will always be in demand", Dias maintains, and they'll always grow in value in the long term.

"Even the [current] downturn caused by oversupply will be adjusted by the market over time," he says. "In the long run, it won't be that bad."

It will generally only become an issue if you have to sell and crystallise the loss; if you can afford to hold the property through the lower ebbs of the market cycle, you'll eventually enjoy a profitable investment.

City hot spots

Michael Yardney from Metropole Property Investment Strategists grilled his team for their top investment picks.

Melbourne: Jack Henderson, director of Metropole Melbourne
- Elwood
- Armadale
- Brighton
- St Kilda West

Sydney: Pino Tedesco, director of Metropole Sydney
- Tamarama
- Stanmore
- Enmore
- Milsons Point

Brisbane: George Kafantaris, director of Metropole Brisbane
- Balmoral
- Alderley
- Westend
- Anerley

Houses: City vs country data

		Growth				Rent			Predictions
Area	Median value	10 years % pa	Last year	Last quarter	Last month	Rate month ending May 2008	Month ending May 2008	Month ending May 2007	5-year % pa
ACT	$472,000	11.62%	12.45%	2.15%	1.20%	4.50%	$410	$410	5%+pa
Adelaide	$376,000	11.42%	18.59%	2.39%	-0.24%	4.03%	$290	$275	3%+pa
SA Country	$240,500	10.17%	11.23%	0.38%	-0.86%	4.78%	$220	$195	3%+pa
Brisbane	$459,500	12.39%	20.23%	3.78%	1.09%	3.75%	$330	$320	3%+pa
Qld Country	$380,000	10.68%	10.62%	1.07%	-0.32%	4.60%	$335	$320	2%+pa
Darwin	$418,000	10.29%	11.58%	3.54%	-0.09%	5.37%	$430	$360	9%+pa
Northern Territory	$377,500	9.33%	10.91%	3.32%	0.23%	5.80%	$420	$350	9%+pa
Hobart	$354,000	12.43%	11.73%	4.59%	1.16%	4.20%	$285	$280	9%+pa
Tas Country	$261,000	12.60%	11.50%	1.14%	1.84%	4.60%	$230	$200	9%+pa
Melbourne	$482,500	10.75%	17.72%	2.90%	1.02%	4.11%	$380	$300	5%+pa
Vic Country	$268,500	10.12%	10.26%	1.25%	0.24%	4.76%	$245	$230	2%+pa
Perth	$513,000	14.12%	3.75%	1.40%	-1.26%	3.56%	$350	$290	9%+pa
WA Country	$407,000	13.76%	19.51%	4.90%	2.22%	3.65%	$285	$230	6%+pa
Sydney	$579,500	7.49%	3.86%	0.32%	-0.43%	4.32%	$480	$400	7%+pa
NSW Country	$319,000	8.87%	2.14%	-1.19%	-1.24%	4.58%	$280	$250	3%+pa

Source: Residex May 2008

Photos: Tourism Queensland

My regional retreat

Property investor Ros L, who owns four rental homes in her hometown of Sydney, decided in 2005 to expand her portfolio. Rather than buy another property in Sydney, Ros looked north and invested in a premium apartment in coastal Mooloolaba.

Mooloolaba is located on the Sunshine Coast, roughly 80 minutes north of Brisbane and 30 minutes south of Noosa. It's home to 7,400 permanent residents and, as a popular tourist destination, attracts hundreds of thousands of holidaymakers each year.

"We originally bought it because we have friends in Mooloolaba, and we used to go up and visit them quite regularly," Ros says.

"One weekend we went up to visit and our friends told us about an open home, so we had a look and were really impressed. We were thinking of buying another property at the time and, even though it was probably a little sooner than we'd expected to buy, we decided we had to have it."

When they first looked at the property, Ros and her husband had several specific criteria in mind: it had to be a penthouse, because they wanted the ocean views; it had to be on the beach side of the road; and it had to have at least two bedrooms.

"It's in the premier street in Mooloolaba, and it's a two-bedroom, two-bathroom penthouse with direct access to the beach. It has its own roof-top terrace that overlooks the ocean," Ros says.

"We knew exactly what we wanted to find, and this property ticked almost all of the boxes – we would have preferred three bedrooms, but we couldn't afford it, so we went with two bedrooms."

The deluxe property, which has onsite management and its own large swimming pool, is rented out on a holiday-let basis to tourists, and has "no trouble whatsoever" attracting a steady supply of tenants.

"If you've got good onsite managers, then it's not a problem; and our managers are great," she says. "We occasionally holiday there ourselves, but to be honest it's so popular that we have to squeeze ourselves in around our rentals."

Investment criteria – city

If your heart is set on buying a property in the big smoke, Kusher says it's important to consider the following location criteria when choosing your potential investment:

- Inner-city properties located within 10km of the CBD – the closer the better
- Quality transport infrastructure (mainly train stations and arterial road networks, and also includes ferries and buses)
- Properties with features that aren't easily replicated, such as waterfront homes, properties adjacent to national parks, properties on larger blocks of land than surrounding properties
- Demolition control areas – these areas are typified by character housing that can't be knocked down, so the potential for new development in the suburb is extremely limited
- Urban renewal areas – urban renewal has a demonstrated stimulatory effect on property prices, and the earlier that you invest in these areas, the greater the growth potential in both rents and values
- Inner-city areas with a large employment base in the suburb or adjacent suburbs, eg, properties located in close proximity to large hospitals
- Properties that are located near colleges or universities, as these institutions provide a large, captured rental market
- Opportunities where prices appear to be undervalued, particularly when compared to surrounding suburbs
- Properties located close to entertainment, dining and sports/recreational precincts

Regional investments

Regional investments are popular with investors who are after more bang for their buck. With median property prices in regional and country areas generally sitting $100,000–150,000 below capital city values, these investments certainly offer value for money.

And while city populations increase at an exponential rate, regional towns are experiencing their fair share of growth, too.

According to the recent *2008 Country Matters: Social Atlas of Rural and Regional Australia* report, more Australian families are moving away from major cities, and into regional and coastal centres. The study revealed that at the time of the 2006 Census, more than 7.5 million Australians lived outside capital cities – an increase of 472,700 since 2001 – with the largest growth occurring in coastal Queensland.

The report also confirmed that people have been leaving smaller rural communities, especially young families, in favour of more significant regional towns. This is where it becomes important to differentiate between country and regional locations.

"A regional centre is a service town centre for a country area, and a country location is rural," explains Dias.

Locations such as Townsville in Queensland or Dubbo in NSW would be considered regional, for example, as they're sizable townships with diversified economies. The population of Townsville and its neighbouring 'twin city' Thuringowa is around 160,000 people and growing.

A town such as Charters Towers, home to around 8,500 people and located roughly 140km west of Townsville, would be considered rural. Charters Towers was once a bustling metropolis after gold was discovered there, back in the 1870s.

It even claimed the title of the second largest city in Queensland in years gone by. Today, however, it's a laidback country town. The important aspects to investigate in both regional and rural locations, Dias says, are unemployment figures, population growth rates and the local economy, because a growing population indicates an increasing demand for property and low unemployment figures indicate a buoyant economy.

"It's important to investigate the drivers of the local economy. Does it rely on one industry only or does it have diversified industries to support employment and the economy? Is the population increasing at an above-average rate?" Dias says.

The benefits

One of the major drivers of growth in regional locations has been the resources boom.

In towns such as Broken Hill – where you were able to pick up a house for a mere $10,000 just a few years ago – and Mt Isa, investors have done well, especially as the mining boom has lasted longer than expected, due to demand from China and India. That

Country areas can also achieve very strong rental returns, particularly those located near major mining projects

will help maintain property values in remote areas, explains Cornish, who says that the property price growth driven by the resources boom in areas close to mines has created more local employment and housing demand.

The other factor influencing the regional property market is investors who seek better value for their dollar, and are able to buy property in regional areas for far less than they would cost in a capital city.

"The upshot is that they're more affordable, and at boom times they seem to do well because it's a smaller market," says Yardney. "If you choose certain regional areas, there are definitely short bursts of capital growth that will push up regional property values."

Regional real estate can also give greater rental yields, which makes the ongoing financial burden of owning the property less cumbersome.

"Rental returns and capital appreciation can be strong if you pick the right spot early," he says.

"Properties in coastal regions can achieve quite strong rental returns, particularly those in tourist destinations and coastal retreats for mining workers," explains Kusher.

"Country areas can also achieve very strong rental returns, particularly those located near major mining projects. New mines generally see strong yields due to a shortage of housing and very strong demand."

One thing to be wary of is that house construction can quickly catch up, Kusher warns, and prices and returns can drop sharply once supply regulates itself in these areas.

He also adds that a benefit of regional property investment might be that the purchase is "an investment in the buyer's future", as it may be a property that they'd one day like to retire to.

The drawbacks

There are many factors to consider when investing in regional or country real estate.

Because not as many people live in these areas, it can take a long time to sell, warns Kusher. You generally won't have the huge supply of buyers flocking to the area as is often experienced in big cities.

"Markets can be quite volatile, and capital appreciation can slow just as quickly as it accelerates," Kusher says.

"Coastal areas are also heavily reliant on tourism, local and world events, and economic climates can have a significant impact on the tourism industry."

It's also difficult to research investment prospects in regional towns, Kusher says, because the sales figures are small compared to big cities.

For Dias, it's the size – or lack thereof – of the local economy and population base that concerns him.

"A country location can be impacted by one major negative factor, and then may or may not recover for a very long time," he says. "I'm not quite a believer in regional areas, as I believe that it does take a while for the market to grow in these places, unless the population growth is so fast that the region has to be subdivided from rural to rural-residential."

To be sure that a property investment in a regional town will perform well in the long term, investors must ensure that the local economy is diverse and, ideally, undergoing population growth.

"If you do decide to buy in a regional or country location, make sure you target towns with 20,000+ population, and ensure they're dependant on at least three to five major industries to survive," says Bright from EPS Property Search.

"And remember that, if you buy in a town that's dependant on mining and not much else, you're punting on that mining company staying in business for the long term."

> Markets can be quite volatile, and capital appreciation can slow just as quickly as it accelerates

Investment criteria – regional

Considering a property in a regional location? According to Kusher, you should check your potential investment against these criteria to ensure your slice of regional real estate stacks up:

- Look for areas that are largely undersupplied, with few properties and strong demand
- Be aware that the best strategy may be a short-term hold strategy of one to two years, or even shorter in resource-driven 'boom towns'
- Investigate areas with strong growth potential. While they may not get you the highest rental return, capital appreciation might more than make up for this
- Look for the next sea change or tree change hot spot
- If purchasing a coastal short-term accommodation property, look at the Australian Bureau of Statistics (ABS) tourism numbers to find the vacancy rate and the overnight rates

Regional rentals

It's important to consider that maintenance expenses and repair costs, as a percentage of rental income, will be more expensive in regional properties than in their city counterparts, explains Yardney.

"A plumber costs just as much in a regional town as it does in Sydney – sometimes more if there's little competition in the area," he says. "You might have a repair bill of $250 but, as a percentage of the rental income, the impact on the city landlord isn't as bad as it is on a regional investor."

For example, a property in Sydney might achieve a weekly rental of $500, while a similar property in Mackay returns $200 per week. A bill of $250

Regional top performers

State	Suburb	Postcode	Sale count last 3 months	Median value	Median weekly rent	Median rent rate	Capital growth 3 months to April 2008	Capital growth last year	Average growth last 10 years % pa
NSW	BROKEN HILL	2880	129	$139,500	$160	6.07%	6.72%	25.00%	9.71%
Qld	CLONCURRY	4824	15	$241,500	$280	6.07%	8.03%	23.73%	11.69%
Qld	MOUNT ISA	4825	131	$352,000	$335	4.97%	7.77%	28.34%	12.53%
Qld	LISSNER	4820	18	$184,000	$235	6.69%	7.63%	20.53%	9.22%
Vic	YARRAGON	3823	7	$227,000	$205	4.72%	6.42%	6.29%	10.40%
Vic	MOE	3825	56	$146,500	$155	5.54%	6.29%	13.48%	10.57%
WA	NEWMAN	6753	18	$494,000	$260	2.76%	11.66%	23.35%	16.53%
WA	CABLE BEACH	6726	15	$732,000	$315	2.26%	10.01%	29.17%	15.06%
WA	PORT HEDLAND	6721	19	$797,500	$320	2.10%	9.99%	37.83%	16.73%
SA	WHYALLA STUART	5608	47	$156,000	$140	4.74%	7.50%	28.82%	12.71%
SA	PORT AUGUSTA	5700	53	$187,500	$175	4.91%	6.79%	26.42%	12.63%
SA	ROXBY DOWNS	5725	51	$417,500	$240	3.00%	6.55%	23.21%	16.14%

Source: Residex April 2008

wipes out more than a week's rent in Mackay, but only equates to half of the week's rental income in Sydney.

Is city or country better?

Your investment strategy should be based on a number of factors, including your personal financial situation and level of loan serviceability. There's no single right or wrong strategy, as different strategies will suit different investors.

Your investment strategy also largely depends on your appetite for risk, adds Kusher. "For a safe investment, it's generally better to invest in a city location, as the fundamentals of these property markets are more sound, and this creates more certainty.

"But for short-term growth and capital appreciation, which can be a more risky strategy, regional and country locations can provide better opportunities to receive these gains."

Most people live in cities, for obvious reasons, and the populations of larger cities tend to grow faster than that of regional centres. Even a small growth rate of 1% in a metropolitan centre, such as Melbourne, represents an additional 35,000 residents, based on 2006 Census data that puts the population of Melbourne at 3.5 million people.

However, in a regional centre such as Cairns – one of Australia's fastest growing cities, according to ABS figures – a population growth rate of 5% adds just 6,500 people to the total population of around 131,000.

A lower growth rate in a city location translates to a greater actual number of new residents, and the influx of new residents puts pressure on rental accommodation, and thus increases demand for property. "Demand fuels price growth," Kusher says, "so, generally, city investment properties are the best to invest in."

Slice of the CBD

Real life

Empie and Neville McIntyre, who both work in real estate in South Australia, have invested in The Village Centre at Kelvin Grove, Brisbane. Located just 2km from the Brisbane CBD and close to the Queensland University of Technology, The Village Centre is comprised of 213 apartments in four residential buildings, with an onsite pool, gymnasium and leisure facilities.

"In January 2008, we purchased two apartments at The Village Centre. Both units are two-bedroom, two-bathroom with an open-plan kitchen leading to the lounge and dining room," Empie explains.

"We purchased both apartments for $580,000 each, and they provide a rental return of 5.25%."

Empie says they bought the two "upmarket" apartments due to their prime city-side location and capital growth potential.

"The location at Kelvin Grove is perfect for a long-term sustainable investment, especially because of the university," she says.

"The modern design approach of The Village Centre also allows for a well-integrated lifestyle, which is balanced between commercial support and modern day residential living, so we knew we'd always be able to secure tenants."

Empie and Neville plan to hold on to their apartments "for an unlimited period of time" and, although they're happy with their city-based property investments, they admit they'd also consider investing in regional real estate "as long as it fulfilled our investment requirements".

"We think that location is very important, as well as demand, which should be supported by sustainable growing infrastructure," Empie says.