PROPERTY

To maximise potential it's best to buy in capital city suburbs

STORY PAM WALKLEY

WITH AUSTRALIAN residential property prices expected to double every eight to 10 years, it would seem buying a home or an investment property is a no-brainer if you want to double your money. If only it was that easy! But as long-time property expert Michael Yardney explains, this rule of thumb for average growth really only applies to capital city property.

And of course that is the average – many do a lot worse. The secret to success is choosing properties that beat the average.

It's harder to do this in holiday or regional locations, argues Yardney, head of property investment strategy firm Metropole (www.metropole.com.au) and author of several real estate investing books.

These markets are more prone to booms and busts, with prices rising strongly for a limited period and then stagnating or even falling over a longer period. In these markets, it's much easier to get your timing wrong and buy at or near the top of the cycle and then have several years of virtually no growth.

If you want to beat the average it's best to stick with suburbs in capital cities because these have a much broader economic base, providing the jobs and facilities required by a large percentage of the population. Buyers agent Patrick Bright, head of EPS Property Search (www.epspropertysearch.com.au) agrees: "I am not a big fan of buying in the sticks – it's certainly a greater risk."

Yardney advocates a top-down approach to selecting property that will provide outstanding performance. Step one is to select your city. Look for areas where an upturn is beginning or just under way, says Yardney. And do not be driven by fear or greed.

"Those driven by greed may be tempted to hop on board the property boom at the wrong time of the cycle, wanting to achieve what others have already achieved," he says. "The problem is, the fundamentals have shifted and it's too late to buy in that spot. For example, people are still buying in Melbourne and Darwin based on greed."

Conversely, fear may hold you back from buying in an area where prices are flat, such as not buying in Sydney in early 2009 after the market had been flat for six years. "Investors c not see that pent-up demand would move t market forward; instead they were paralys by the fear of a flat market for many years

"Similarly, the relative poor performar of Brisbane over the past few years is ho ing people back from buying because th are scared, but it lags Melbourne and Sydn in the cycle and is due for an upturn. But selective and stick to suburbs four to 8km fr the city and those close to water, as prices a still falling in some areas."

Next choose your suburb. Don't specula Yardney advises, it's hard to go wrong w long-term performers such as:

- Armadale in Melbourne, where apartm values have jumped by 21.4% a year for t past three years compared with the Melbou average of 16.7%.
- Coogee in Sydney, where values of apa ments have risen by 14.2% a year over t past three years, compared with the Sydr average of 10.4%.
- Tarragindi in Brisbane, where house valu have leapt by 22% a year for three years, co pared with the Brisbane average of 11.7%.

You can also look at areas undergoing ge trification such as Marrickville in Sydn which is being hailed as the new Paddingt or Ashwood in Melbourne, formerly a Ho ing Commission suburb. If you are willi to wait a little longer, investigate subu which will enjoy a ripple effect from ar being upgraded.

Prices in Dulwich Hill will eventually b efit from what is happening in Marrickv as will values in Brighton East, a beachs Melbourne suburb benefiting from Brighto strong growth.

Look for areas that will benefit from new planned infrastructure, says Bright, point to the beneficial effect on house prices fr the Chatswood to Epping rail line in Sydr Also favour "land locked" areas, with vir ally no vacant land, such as Sydney's north beaches and eastern suburbs, Bright says

Then turn to the location within the subu

> "The secret to success is choosing properties that **beat the average**"

DOUBLE YOUR MONEY IN 7 YEARS

A two-bedroom apartment in the Melbourne beachside suburb of Elwood, 7km from the CBD, bought earlier this year and renovated for an all-up price of $550,000, will more than double in value in seven years, says Metropole head Michael Yardney. This is based on the suburb repeating the average 9.8%pa growth that it has shown over the past 10 years, according to Residex.

The $50,000 renovation was cosmetic, not structural, says Yardney. It included gutting the kitchen and bathroom and installing new cupboards and appliances and bathroom fittings and tiling both rooms. A new split-system air-conditioner was installed along with new carpets and curtains and the apartment was repainted. And the dining room was converted to a study.

The property, with wider appeal, was leased in mid-June for $470. The previous rental income was $270 a week, set in November 2007. "It was a good buy as it is now valued at $610,000," Yardney says.

YEAR	VALUE	
	UNRENOVATED	RENOVATED
Start	$500,000	$500,000
renov.	-	$550,000
value	-	$610,000
1	$549,000	$669,780
2	$602,802	$735,418
3	$661,877	$807,489
4	$726,741	$886,623
5	$797,961	$973,513
6	$876,161	$1,068,917
7	$962,025	$1,173,671
8	$1,056,304	$1,288,690
9	$1,159,821	$1,414,982
10	$1,273,484	$1,553,650

Source: Metropole, August 2010, using growth for Elwood units of 9.8%pa, estimated over past 10 years by Residex.

Avoid main roads, transport routes and being next door to the railway station. The idea is to be near these facilities but not on top of them. When the market is hot as it was last year in Melbourne, everything, including secondary locations, sold well but, now things have quietened down, this is not the case.

Now to the individual property: look for one that is structurally sound, has a good floor plan and has a broad appeal, particularly if it's an investment property. It's also wise to look for a property with some scarcity value. One reason Yardney does not like buying in CBDs is that there are always new apartments being built in cities.

Bright, who has also written several real estate books, agrees unique property is more likely to grow faster in value. "Look for views, possibly near the beach, flexible floor plan, parking and close to major transport routes."

The property should also appeal to a wide demographic, both tenants and owner-occupiers, as this group comprises 70% of the buyers of residential property, Yardney says. He also advises against buying new or off-the-plan properties as these have lots of costs built in: "like when you drive a new car out of the showroom you can instantly lose a lot of money".

Yardney and Bright agree renovation is a good way to speed up growth in the value of a residential property, but warn it can be quite risky. Both advise sticking to cosmetic rather than structural work, as this takes time to get permits etc and is also usually a lot more costly. "New pipes and wires that people can't see do not add value but new kitchens and bathrooms do," Yardney says.

Keep it simple and the colour scheme neutral, advise the experts: a coat of paint, new floor coverings and window furnishings, perhaps a split-system air-conditioner. And don't forget the garden, says Bright, as money spent well in this area can really pay off.

And keep the money really tight. Yardney's rule of thumb is to spend no more than 10% of the value of the property on renovations. Any more and you risk overcapitalising (see case study of how Metropole helped an investor speed up value growth). Bright's rule is you must double every dollar you spend on a renovation: "If I spend $100,000 I want the property to increase in value by $200,000."

Both he and Yardney say those buying properties to renovate should work backwards. Before buying, work out what the property will be worth when the work is finished and then deduct the total cost to know how much to pay for it. Using an example of a one-bedroom unit in the lower Sydney north shore suburb of Kirribilli that he bought for a client for $515,000, Bright explains that it was estimated that $45,000 spent to fix it up would lift the value by at least double that. The value jumped more, to $620,000, and rental income from $350 to $500 a week.

Yardney, who advocates a buy, renovate and hold wealth creation strategy, says investors buying to renovate should consider how they borrow to fund the investment. You may be able to borrow on a purchase and building contract package where you can borrow 80% of the renovation costs upfront.

JOHN SHAKESPEARE