

FAST RISING VALUE \$400,000 PROPERTY

	10% capital growth (\$)	5% rent (\$)
Year 1	440,000	22,000
Year 5	644,204	32,210
Year 10	1,037,497	51,875
Year 15	1,670,899	83,545
Year 20	2,691,000	134,550

15 and counting: Kelvin Bermingham outside his home at Seddon is building a portfolio that blends strong growth properties with high yield real estate.

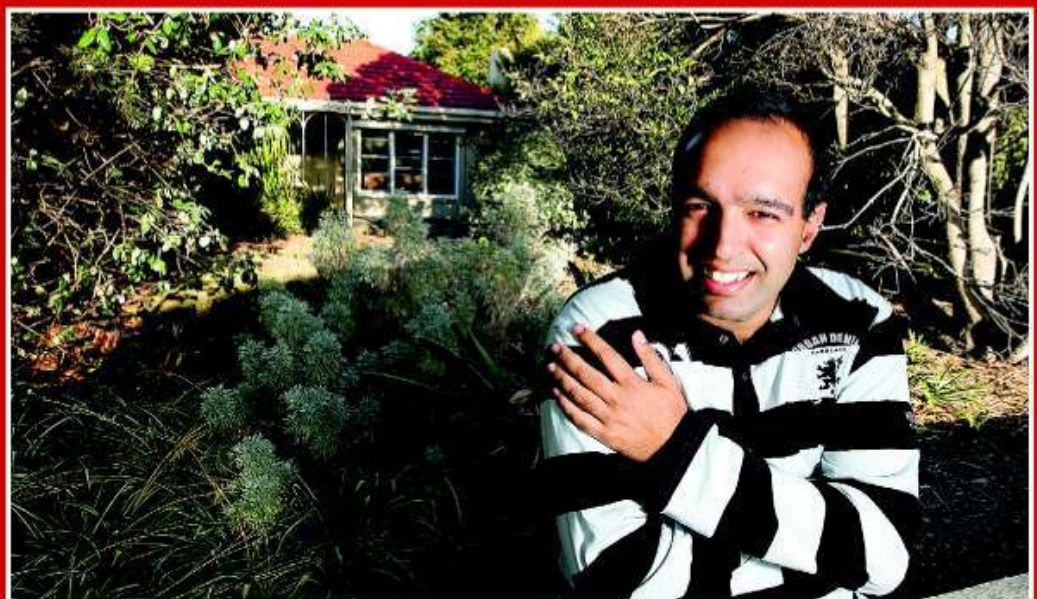
CHOOSING A NEST EGG

HIGH RENT EARNING \$400,000 PROPERTY

	5% capital growth (\$)	10% rent (\$)
Year 1	420,000	42,000
Year 5	510,512	51,051
Year 10	651,558	65,156
Year 15	831,571	83,157
Year 20	1,061,319	106,132

A man with a plan: Rajat Singh hopes that his first investment property, at Seaford, will open doors to others.

Pictures: TIM CARRAFA



Capital gain or rental income?

TONY RINDFLEISCH

Key editor

FIVE years ago, Kelvin Bermingham was planning for retirement and realised he needed a wealth creation strategy.

Today he owns 15 properties in a portfolio valued at \$3.7 million and is set to go on a world holiday with the profits.

Like many in his position, Mr Bermingham, 54, faced a dilemma. Is it best to invest in property that offers high capital growth or strong rental yield?

"You have to have a blend of both, especially with interest rates going up," he said.

"There's no point in having a house in Toorak with huge capital growth if you can't pay for it.

"And it's no good having good cash flow if there is no capital growth."

Mr Bermingham, of Seddon, has split the difference between the rivals in the property investment debate of capital growth versus cash flow.

His success is also eye-opening from the locations where he has invested, including Portland on Victoria's southwest coast, Deniliquin and Hay in rural New South Wales, Kalgoorlie in regional Western Australia and in southeast Queensland.

Some of his investments are negatively geared, but the strong rents from others more than pay for them.

"My portfolio is cashflow positive and interest rates would have to rise to 11 per cent before it became neutral," Mr Bermingham said.

His mentor, property investment guru Margaret Lomas, made a name advocating investors buy only properties that offered positive cash

flow (where rent exceeds total costs).

But Ms Lomas, who owns 35 properties around Australia, said her preferred investment model today were properties that offered a blend of growth and yield.

'The trick is to balance the two equations in line with your personal budget'

CATHERINE CASHMORE

The key to identifying properties was an assessment of what Ms Lomas calls a location's "intrinsic growth factors", such as the strength and diversity of the economy, the level of infrastructure development and population growth.

She cites Mildura as a city that has strong capital growth factors and a base for solid rental returns.

Ms Lomas, who has written property investment books and operates financial and property advisory company Destiny Financial Solutions, rejected the belief city locations were better investments than regional or country towns.

Unfashionable investment areas, such as Melton in Melbourne's west, could become hot spots as prices increased, demographics changed and rents increased as a result, she said.

Footscray, Morningside and Dandenong were also worthy of consideration for buyers with \$200,000 to \$350,000 to spend, Ms Lomas said.

Melbourne property adviser Monique Wakelin believes long-term investors should aim for areas that are expected to double in value every seven to 10 years.

Capital growth ought to be 5 to 8 per cent more than inflation and, while the rental yield would be a more modest 3 to 4.5 per cent, rents would rise as property values increased, Ms Wakelin said.

As a long-term wealth creation strategy, properties of high capital growth built equity faster and enabled greater investment leverage than properties offering high rental yield, she said.

Ms Wakelin cited suburbs such as North Melbourne, Kensington and Ascot Vale as good targets as well as long-term strong performers such as St Kilda, Hawthorn and Kew.

"There has to be a bias towards growth, but you need yield for balance, depending on the wealth of the

individual," Ms Wakelin said.

Using the example of a property

bought for \$400,000, Ms Wakelin said one that offered 10 per cent annual capital growth and 5 per cent rental yield would be a far better investment than one offering 10 per cent yield and 5 per cent growth.

The difference would be hundreds of thousands of dollars over 10 years and more than \$1.6 million over 20 years, she said.

She said her firm bought a house in Prahran for \$236,000 in 1997 that sold for \$437,000 in 2001 and was valued at \$700,000 now.

Buyer advocate Catherine Cashmore, of JPP Buyer Advocates, said capital growth was king for investors.

"An average of 10 per cent capital growth per year is easily achievable from well-located real estate in Melbourne," Ms Cashmore said.

"That means that over five years the property should have increased in value by at least 50 per cent.

"The rental yield of such a property won't rise as fast as the capital growth, but over an extended time frame the yield will grow in line with the increased value of the house.

"Buying a house that doesn't provide a decent degree of capital growth for the sake of a moderate rental income just does not compare.

"The trick is to balance the two equations in line with your personal budget."

One of her clients, Rajat Singh, bought a three-bedroom house in Seaford about 18 months ago and the property has since grown in value by about \$70,000.

Mr Singh, 27, an accountant, rents out the property and is looking to use its capital growth in the future to leverage him into more properties.

"You have to time your purchases every few years and wait for the equity to grow," he said.

"I'm not trying to make big bucks overnight, but over seven to 10 years."

A mortgage broker who specialises in investment property, Graham Jay, of Statewide Assets, advocates capital growth as the best way of maximising return on investment for an acceptable level of risk.

Mr Jay said it was difficult to find properties with a rate of rental yield higher than interest rates.

"Why is a property providing high income? Because it has low growth. And why does it have low growth? Because the demand has not outstripped the supply," Mr Jay said.