

Clouds have a silver lining

Wise investors who can see past short-term negativity will be rewarded. By Amy De Lore

Economic uncertainty may be keeping our housing market in a holding pattern but Sydney is ripe for savvy investors, with forecasters predicting imminent rises in price and rental return.

Residex chief executive John Edwards describes the current market as the most uncertain and difficult he has had to call in his 20-odd years in the business. But he, like most experts, believes a resurgence is due.

Edwards says figures from February, collected after the most recent interest rate rise, show the Sydney market has “taken fright”. Values across the city fell by 1.5 per cent but more significant was the fall in the value of units – traditionally an investor-fuelled market – which was felt across 62 per cent of suburbs.

Metropole director Michael Yardney agrees that the Sydney market is “lacking confidence”, blaming a combination of interest rates rises, the stockmarket slump, the US subprime crisis and commentators talking down the market for slowing a price recovery.

He is confident there will be an upturn, however, quoting historical data that shows that property, after an initial short lag, tends to perform well following stockmarket slumps as investors turn to it as a safer option. He notes also that average property values in capital cities typically double every seven to 10 years.

“Sydney is at the right stage of the property cycle for investing – it is at the bottom,” Yardney says.

Forecasters expect the dire shortage of rental properties to push rent rates up in the short term. This will improve returns to landlords, making property a more viable opportunity for new investors. That should in turn start pushing house prices up.

Margaret Lomas, property adviser at Destiny Financial Solutions, expects the days of investors being able to break even on rental returns and property-related tax deductions – or even positively gear their properties – may return within a year in selected areas.

“I live on the Central Coast, and my son has been trying to get a rental property for three months, and every place he looks at has another

10 applicants,” she says. “What that is telling me is that rentals are set to gallop. If I bought there now I would probably get negative cash flow but that would be short-lived.”

Lomas encourages investors and home-hunters alike to net-surf and look beyond Sydney, citing Adelaide – where she has nine of her 35 investment properties – as Australia’s most undervalued capital city. She also nominates Bakewell and Stuart Park in Darwin, Melton outside Melbourne, and Kallangur north of Brisbane as good growth prospects, explaining that investors should look for areas with low housing prices, good rent returns, a growing population and economic diversity.

“Just because you may be priced out of Sydney doesn’t mean you are out of the market,” she says. “There are good towns where you can get in for as little as \$140,000.”

Forecasters say investors should not be seduced by plummeting prices in Sydney’s outer-west mortgage belt, as the houses were likely to have been overvalued in the first place. Yardney says Sydney’s best bets are inner-west suburbs such as Annandale and Erskineville, which are close to the CBD.

“The biggest population movement is towards the CBD rather than to the outer suburbs, and there are more one- and two-person households these days, so apartments and townhouses will be more in demand,” he says.

“A lot of people are still tied to the concept of land value but I would rather have an apartment in Potts Point or Darling Harbour than 10 acres of land in the western suburbs.”

Edwards says rising fuel prices have made proximity to transport a key factor. He offers Alexandria as an example of a suburb with good growth potential, only two kilometres from Central Station, attractive to singles and couples, with a median unit value of \$390,500 and a median rent of \$445.

Outside Sydney, he sees houses in Ballarat and Mowbray in Launceston as good prospects and predicts that an influx of retiring baby boomers from the mainland will kick up prices in Tasmania.

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MARGARET LOMAS
Destiny Financial
Solutions

BUYING SMART

✘ Look elsewhere if you can't afford Sydney. Rent where you need to live and invest in a property in another capital city or a growing regional centre.

✘ Buying right does not necessarily mean buying cheaply. The capital growth on quality properties in desirable areas will beat a one-off gain on price.

✘ Think apartments

and townhouses.

Demand will increase as ageing Generation X-ers and baby boomers sell off their family homes.

✘ Look for areas that have always outperformed rather than speculating on the next boom postcode.

✘ Rising fuel prices will make rental properties with proximity to transport nodes increasingly attractive.



Photo: Danielle Smith