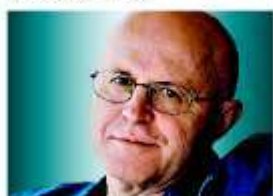


# Fashionable big-city suburbs are the worst for investment

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THE most temperamental markets in Australian real estate are the premium suburbs of Sydney and Melbourne.

Long-term, they have capital growth records that are among the worst in the nation. Even mining towns are less volatile.

The key reason for this is events in those markets.

They're having a feeding frenzy and people who really should know better are paying far too much for prestige homes.

Buyers are piling into the market because they are afraid of missing the boom.

I would have thought it was a reasonable assumption that anyone able to afford the millionaire suburbs acquired their wealth by being sensible.

Apparently not.

Buying into frenetic markets is the antithesis of sensible investing.

Macquarie Bank property research head Rod Cornish says: "That Melbourne market is a little bit too strong at the moment."

Five minutes of internet research would reveal the prestige markets run amok every three or four years.

Usually, this price surge is followed by a sharp decline in values.

The price graph for most of the millionaire suburbs resembles a mountain range.

A peak is followed by a trough, usually quite a deep one. By the time you average out all this volatility, the long-term growth rate is quite poor.

The outer suburbs don't behave like that, nor do solid regional centres that most investors ignore.

Their price graphs tend to be

smooth and the long-term growth averages considerably higher.

It's the property market's version of the hare and the tortoise.

Research tells me there are 46 suburbs in Melbourne with long-term growth rates of 12 per cent or better.

That's the average annual growth rate in median house prices over 10 years.

Only one of these outperforming suburbs — Balwyn — is in the prime inner-city suburbs. The rest are a long distance from the Melbourne CBD.

The Mornington Peninsula is a standout for long-term capital growth and so is Geelong.

The top 10 all have growth rates of 14 per cent and above.

So much for those "professionals" who claim the best — indeed the only — place to buy is the inner-city suburbs.

As I often say, the loudest noise in real estate is the voice of vested interests.

These people do know better but they have businesses to run.

Toorak, the most expensive Melbourne suburb, with a median price well above \$2 million, had a price spike in 2004.

Growth fell away sharply thereafter to a trough in 2006.

There was another price spike in 2007-08, followed by a deep trough, with the median price falling almost 20 per cent last year.

We're now seeing another spike.

The Toorak apartment market is even more schizophrenic, with price surges in 2004, 2008 and this year interspersed with deep troughs in 2006 and last year.

In Middle Park, another million-dollar suburb, peaks in 2002, 2004, 2008 and this year have been mixed with falling values in 2003, 2005 and 2008.

This kind of highly strung market is not conducive to good long-term growth.

In Sydney, few suburbs have a strong growth rate.

All markets have been poor performers over the past 10 years because the Sydney market has been the underperformer among the capital cities since the 2004 peak.

Many of the millionaire suburbs of Sydney have poor growth rates.

Balgowlah 6.8 per cent, Balmain East 7.4, Birchgrove 4.9, Cammeray 6.7, Chatswood 6.2, Coogee 7.6, Cremorne 7.3, East Killara 6.8, Gordon 6.4, Kensington 4.7, Killara 7.5, Lilli Pilli 6.2, Longueville 7.7, Manly 8.8, Mosman 7.1, Neutral Bay 4.4, North Sydney 6.7, Northwood 8.4, Paddington 7.8, Pymble 6.7, Queens Park 5.3, Randwick 8.4, Rose Bay 6.7, Roseville 7.4, Seaford 6.8, Vaucluse 8.9, Warrawee 5.7, Willoughby 7.5, Woollahra 7.6.

These are all suburbs with median house prices above \$1 million.

The worst of them is Burraneer, which according to APM has an average annual growth rate of 1.1 per cent.

A small number of Sydney's million-dollar suburbs have double-digit growth rates, such as Bronte, Darling Point and Double Bay, which are in the 10-11 per cent range.

But this is in an era when virtually every suburb of the greater

Brisbane area has a growth rate higher than that and the best are above 15 per cent. Ditto, Perth and Darwin.

So those joining the orgy of high-stakes buying are likely to be disappointed if they're hoping for a superior capital growth rate.

Real estate author Margaret

Lomas, founder of Destiny Financial Solutions, says the Sydney market periodically becomes over-emotional.

"That's what is going on there now," she says.

"Sydney is emotionally charged at the moment and I think people are being ridiculous.

"It's all about keeping up with the Joneses. It's all about what you can tell your friends that you own. That's a Sydney culture."

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**The millionaire suburbs such as those in Sydney's east have some of the nation's poorest growth rates**